



REGULATORY
AUTHORITY

Accounting Separation

Proposed Instructions

Version 1.0

Date: 27 August 2019

About these Instructions

These Instructions from the Regulatory Authority of Bermuda (the “Authority”) are in relation to the Accounting Separation obligation imposed on SMP operators in the electronic communications sector, set forth in [Insert name of GD] on [Date GD was issued].

This document constitutes Version 1.0 of the Accounting Separation Instructions issued via administrative determination. The Authority is intending to revisit these instructions in the future, and if necessary, update it on the basis of market developments as well as consultation with the SMP operators and industry stakeholders.

TABLE OF CONTENTS

Definitions.....	5
1 Introduction.....	11
2 Objectives of Accounting Separation	13
3 Principles of Accounting Separation	15
4 Approach to Accounting Separation	17
4.1 The form and presentation of separated accounts	17
4.2 What should be presented in the separated accounts.....	18
4.3 How costs and revenues should be allocated across regulatory separated accounts	21
4.4 How should assets in the regulatory separated accounts be treated	22
4.4.1 Asset valuation	22
4.4.2 Depreciation	23
ANNEX 1: Example pro forma templates	25
ANNEX 2: Supporting documentation.....	39

Tables and figures

Table A1.1 – Minimum level of disaggregated cost information to be presented in the separated accounts	26
Table A1.2 – Recommended format for the consolidated statement of mean capital employed	28
Table A1.3 – Recommended format for the consolidated profit and loss statement	29
Table A1.4 – Recommended format for the statement of mean capital employed for each Product group	31
Group and Product Bundle Group	32
Table A1.5 – Recommended format for the profit and loss statement for each Product Group and Product Bundle Group	33
Table A1.6 – Recommended format for the breakdown of assets and liabilities by Product Group and Product Bundle Group	34
Table A1.7 – Recommended format for the breakdown of costs by Product Group and Product Bundle Group	36
Table A1.8 – Recommended format for the reconciliation statement between the statutory and separated accounts—P&L	37
Table A1.9 – Recommended format for the reconciliation statement between the statutory and separated accounts—mean capital employed	37
Table A1.10 – Recommended format for the additional information on Product Groups and Product Bundle Groups	38

Definitions

Access Network: Relates to the part of the network that connects directly to customers, from a local aggregation/distribution point.

Accounting Separation: An obligation set forth in [name the final GD] to produce financial statements that report the performance of each Product Group of an SMP operator. Accounting Separation enables the Authority to monitor whether an operator with SMP is compliant with certain price-based obligations, such as to ensure prices are cost orientated.

Activity-based costing (“ABC”): A cost allocation methodology where costs are assigned to the services based on allocation keys presenting a causal link with the costs incurred.

Adjusted equally efficient operator (“adjusted EEO”): One of three possible standards used to identify the retail costs to be recovered; in this case, the costs to be recovered are the retail costs of the SMP provider, adjusted to the scale of an entrant. See also “EEO” and “REO”.

Average avoidable cost (“AAC”): The average of the costs that could have been avoided if the operator had not produced a discrete amount of (extra) output

Average customer lifetime (“ACL”): The average revenue-generation duration for which a customer stays with a particular service provider.

Average revenue per user (“ARPU”): A measurement used to indicate the average monthly revenue earned from a customer who subscribes to a service.

Average variable cost (“AVC”): The average variable cost for a given unit of output.

Bandwidth: The amount of data that can be transmitted within a fixed amount of time, expressed in bits per second (bps) or bytes per second.

Broadband: An Internet service or connection generally defined as being “always on”, providing a bandwidth greater than narrowband.

Bundle: Communications services sold together in a package, in contrast to each service being sold on a stand-alone basis.

Capital expenditure (“CAPEX”): Funds used by a company to acquire, upgrade, and maintain assets such as property, industrial buildings, or equipment.

Common costs: Costs that are shared between multiple services supplied by an entity.

Consumer: Someone who purchases an electronic communications service (i.e. a retail product such as broadband). Consumer can also refer to a wholesale consumer, i.e. a supplier in the value chain who buys a service or product and then supplies it to the final consumer (or end-user).

Contract period: The duration of a fixed-term contract, for example a post-pay mobile tariff may have a contract period of 18 months. See also “Fixed-term contract”.

Core Network: The backbone of a communications network, which carries different services such as voice or data.

Cost causality: The attribution of costs to components, services and business divisions strictly in accordance with the activities that cause those costs to be incurred.

Cost Orientation: An obligation set forth in [name the final GD] to ensure that prices charged for products or services are reflective of the underlying cost of provision.

Current cost accounting (“CCA”): A form of depreciation in which an operator’s asset base is annualized based on the gross replacement cost of the assets.

Customer: Someone who purchases an electronic communications service. Customer and consumer are used interchangeably in this report, but customer usually refers to a customer of a specific service provider (i.e. a OneComm customer).

Customer premises equipment (“CPE”): Electronic equipment that is located in a customer’s premises such as an Internet modem or PayTV set-top box.

Ducts: Existing trenches and pipes in which copper and fiber lines are, or could be, installed.

Discounted cash flow (“DCF”): Approach used to calculate profitability, where revenues and costs are aggregated over time and discounted using an appropriate discount rate.

EBIT: Earnings before interest and taxes; an indicator of a company’s profitability.

ECA: Electronic Communications Act 2011.

Equivalence of inputs (“EOI”): Under the FRAND obligation, the SMP operator must treat all access seekers equally. Under EOI, the downstream access product retailed by the vertically integrated operator with SMP in the wholesale market uses exactly the same physical upstream inputs as the downstream product supplied by competitors. The product development process is therefore the exact equivalent in terms of functionality and price. See also “EEO”.

Equally efficient operator (“EEO”): One of three possible standards used to identify the retail costs to be recovered; in this case, the costs to be recovered are the retail costs of the SMP provider. See also “adjusted EEO” and “REO”.

Equivalence of outputs (“EOO”): Under the FRAND obligation, the SMP operator must treat all access seekers equally. Under EEO, the access products offered by the wholesale SMP operator to alternative operators are comparable to the products that the wholesale SMP operator provides to its retail division in terms of functionality and price, but the products may be provided by different systems and using different processes. See also “EOI”.

Ex ante remedy: A regulatory obligation imposed by the Authority on one or more SMP operators in order to prevent anticompetitive conduct and promote competition.

Financial capital maintenance (“FCM”): An approach under which the financial capital of the company is maintained in current-price terms. Capital is assumed to be maintained if

shareholders' funds at the end of the period are maintained in real terms at the same level as at the beginning of the period. This means that the depreciation charge to the profit and loss account includes holding gains or losses due to changes in asset prices.

Fixed-term contract: A contractual relationship between a provider of (electronic communication) services and a consumer that lasts for a specified period, also known as the "Contract period".

Fully Allocated Costs ("FAC"): An accounting method for attributing all the costs of a company to defined activities such as products and services. Typically, this method will follow the principle of cost causality.

Generally accepted accounting principles ("GAAP"): A collection of commonly followed accounting rules and standards for financial reporting.

General Determination: A statutory instrument made pursuant to section 62 of the Regulatory Authority Act 2011 ("RAA"). The General Determination is applicable to all operators, or to such sub-category of operators as falls within the scope of the statutory instrument.

Gross book value: The original price paid for an asset, without depreciation deductions.

FRAND: Fair, reasonable and non-discriminatory.

Historical cost accounting ("HCA"): An approach to accounting whereby the costs that the operator actually incurs are used in the accounting statement.

Holding gains and losses: Annual changes in the value of an asset.

Individual Products: An individual service, product or tariff offered by an operator. Examples include a specific pre-pay mobile tariff, a 150 Mbps fiber broadband, or a specific PayTV package.

Individual Product Bundles: A specific bundled product made up of a two or more Individual Products. Examples include a bundle of 150 Mbps fiber broadband and a specific PayTV package; or a triple-play bundle of 150 Mbps fiber broadband, a specific PayTV package and a specific pre-pay mobile tariff.

International financial reporting standards ("IFRS"): A collection of commonly followed accounting rules and standards for financial reporting.

Integrated Communications Operating Licence ("ICOL"): A licence granting the licensee the right to establish, construct and operate one or more electronic communications networks and to provide electronic communications services, on an integrated basis, within the territorial limits of Bermuda, and between Bermuda and other countries.

Internal rate of return ("IRR"): The rate of return for an investment project that sets the net present value ("NPV") of all cash flows (both positive and negative) from the investment equal to zero.

Key performance indicator ("KPI"): A measurable value that demonstrates how effectively a company is achieving its key business objectives.

Leased line: A transmission facility that is leased by a customer from a public carrier and which is dedicated to that customer's traffic.

Long-run incremental costs ("LRIC"): The average of all the (variable and fixed) costs that an operator incurs to produce a particular product.

Margin squeeze test: An assessment of the margin that exists between the wholesale and retail prices set by an entity, in order to understand whether the prices are set such that an efficient entity purchasing the wholesale product would be unable to earn a reasonable return.

Mean capital employed: Total assets less current liabilities, excluding corporate taxes, dividends payable and long-term liabilities, with the mean computed from the start and end values for the financial year.

Mobile virtual network operator ("MVNO"): A provider of mobile telephony services, who does not have an allocation of spectrum or its own wireless network.

Modern equivalent asset ("MEA"): An approach to deriving asset values based on assessing the most efficient available technology that performs the function of the asset in question.

Net present value ("NPV"): The value of all future cash flows (positive and negative) over the lifetime of an investment discounted to the present.

Non-SMP Product Groups: Products that are within a market that is not subject to *ex ante* regulation, i.e. the market is not covered by an SMP determination. Non-SMP Product Groups include subscription television, high speed leased lines (inside of Hamilton), low speed leased lines (inside and outside of Hamilton), and submarine capacity/off-island connectivity.

Office of Communications ("Ofcom"): UK regulator responsible for the regulation of the electronic communications sector.

Office of Fair Trading ("OFT"): (former) UK regulator responsible for ensuring fair trading, and now part of the UK competition authority.

Operating expenditure ("OPEX"): The costs of the day-to-day operation of a company, such as staff costs, repairs and maintenance expenditure, and overheads.

PayTV: Subscription-based television services.

Pure long-run incremental cost ("Pure LRIC"): A cost standard approach that assesses the variable cost to provide service for one additional customer.

Product Bundle Groups: Any combination of two or more Product Groups sold together in a package, i.e. as a bundle. Examples include broadband and PayTV bundles; and broadband and mobile bundles.

Product Groups: Major groups of products offered by an operator, and which include broadband, mobile, fixed voice, subscription television, business connectivity (i.e. leased lines) and off-island

connectivity (i.e. submarine capacity). A further distinction is made between SMP Product Groups and non-SMP Product Groups.

Profit and loss statement (“P&L”): A financial statement showing a firm’s financial performance in terms of revenues and expenses.

RAA: Regulatory Authority Act 2011.

REO: Reasonably efficient operator—one of three possible standards used to identify the retail costs to be recovered; in this case, the costs to be recovered are the retail costs of an entrant (with less scale than the SMP operator). See also “adjusted EEO” and “EEO”.

Regulatory asset value (“RAV”): The value ascribed by the Authority to the capital employed in the SMP operator’s regulated business.

Return on capital employed (“ROCE”): A measure of how efficiently capital is being used. It is calculated as accounting profit divided by the capital employed.

Second Consultation: The document published by the Authority in February 2019, titled the “Market review of the electronic communications sector”. The document set out the Authority’s provisional view, at that time, on relevant economic markets, significant market power and requisite remedies.

Service level agreements, or guarantees (“SLAs”, “SLGs”): Commercial agreements under which the SMP operator is obliged to provide access to wholesale services with a specified level of quality.

Significant market power (“SMP”): A position of economic strength in the relevant market or markets that affords an entity, either individually or jointly with others, the power to behave to an appreciable extent independently of competitors and consumers, which may provide a basis for the imposition of *ex ante* remedies.

SMP Product Groups: Groups of products for which the operator has been found to have SMP. The SMP Product Groups have been found to be broadband and mobile services (OneComm and Digicel Group), and fixed voice and high speed leased lines (outside of Hamilton) (Digicel Group).

Sub-groups of Products: A group of Individual Products within a Product Group. Examples of Sub-groups of Products include all pre-pay mobile services; or all fiber broadband products above a certain speed.

The Authority: The Regulatory Authority of Bermuda, or “RA”.

Time preference of money: In economics, the principle that people place a greater value on receiving a good or service earlier rather than later.

Virtual unbundled local access (“VULA”): A broadband access remedy that requires a network operator to provide access to its superfast broadband network. VULA provides a connection from the nearest “local” aggregation point to a customer’s premises.

Weighted Average Cost of Capital (“WACC”): The rate that a company is expected to pay on average to all its security holders to finance the company’s assets.

1 INTRODUCTION

1. Section 12 of the Regulatory Authority Act 2011 (“RAA”), sets out the principal functions of the Regulatory Authority of Bermuda (the “Authority”). These include ensuring that the regulation of the electronic communications sector promotes competition, the interests of residents and consumers in Bermuda, the development of the Bermudian economy, Bermudian employment and Bermudian ownership.
2. Separately, the Electronic Communications Act 2011 (“ECA”) requires the Authority to complete a market review process in order to determine what, if any, *ex ante* regulatory remedies are required to address significant market power (“SMP”) in the supply of electronic communications services.
3. In the most recent market review (completed in 2019), the Authority identified SMP in a number of markets in the electronic communications sector. As a result of this finding of SMP, the Authority imposed remedies to address the competition concerns. For a full list of remedies, see [\[insert link to GD\]](#).
4. A number of SMP remedies are new to the electronic communications sector in Bermuda and span several markets. Specifically, these remedies are the obligations to:
 - i) comply with Accounting Separation;
 - ii) ensure Cost Orientation of prices;
 - iii) require SMP operators to provide wholesale access on fair, reasonable and non-discriminatory (FRAND) terms, including by not engaging in a margin squeeze;
 - iv) provide key performance indicators and timely information on market data; and
 - v) ensure that consumers do not experience unnecessary difficulties when switching providers.
5. The Authority has decided to provide explicit guidance on these five key remedies, in order to:
 - provide more clarity and certainty on how the Authority will expect the SMP operators to act in order to ensure they are compliant with their regulatory obligations;
 - provide greater clarity and certainty to the SMP operators on how the Authority will investigate compliance with these obligations;
 - assist interested stakeholders contemplating making a complaint to the Authority in relation to non-compliance with these obligations in understanding the evidential threshold that needs to be met and the information that the Authority will require; and

- provide better outcomes for consumers by giving them greater ability to purchase the services that best meet their needs, subsequently driving competition, lower prices and higher quality.
6. These instructions set out guidance in relation to the **Accounting Separation** obligation.¹ Accounting Separation is an important remedy because it will enable the Authority to gather relevant financial and operational information, in a format that can be usefully employed for the assessment of compliance with a number of key regulatory obligations. Such obligations include Cost Orientation and the provision of wholesale access on FRAND terms (including by not engaging in a margin squeeze), as well as obligations under competition rules in accordance with sections 84(1)(a), 85 and 86 of the RAA. As such, the Authority considers Accounting Separation to be a core building block of the regulatory regime.
 7. These instructions relate to the regulatory obligation for Accounting Separation put in place following an SMP designation pursuant to Part 4 of the ECA and is without prejudice to the application of ex post competition rules, requirements or obligations established by the Authority in accordance with sections 84(1)(a), 85 and 86 of the RAA. However, in the event that the Authority were to investigate allegations of margin squeeze under competition rules, the Authority expects to make use of the principles and concepts similar to those outlined in these Instructions.
 8. In these instructions, the Authority provides information on what the SMP operators will need to do to ensure compliance with the **Accounting Separation** obligation. The Note is structured as follows:
 - **section 2** explains the objectives of the **Accounting Separation** obligation;
 - **section 3** sets out the principles that underpin the **Accounting Separation** obligation;
 - **section 4** provides guidance to SMP operators on how they can ensure compliance with the **Accounting Separation** obligation;
 - **Annex 1** provides some example templates for how the SMP operators may wish to present their separated accounts; and
 - **Annex 2** details the information that the SMP operators will need to include in the documentation that must accompany their separated accounts.

¹ Separate Guidance notes on Cost Orientation and FRAND are available on the Authority's website.

2 OBJECTIVES OF ACCOUNTING SEPARATION

9. Regulatory separated accounts are required in order to provide informative financial information about a regulated company for use by the Authority, the industry, consumers and other stakeholders.
10. The **Accounting Separation** obligation seeks to achieve three main objectives:
 - i. **to monitor compliance with SMP obligations.** The regulatory separated accounts will provide transparency on the SMP operator's cost base and revenues, thereby allowing the Authority to monitor compliance with SMP obligations—most notably, the Cost Orientation and the obligation not to engage in a margin squeeze when providing wholesale access on FRAND terms;
 - ii. **to inform market analysis and set SMP obligations.** Information from the regulatory separated accounts can be used in market analysis to monitor the evolution of markets, evaluate the behavior of firms operating in those markets and enable the Authority to decide on appropriate remedies in such markets (if necessary). For example, if the information provided in the separate accounts reveals a persistent breach of (or full compliance with) the SMP operator's obligations, this evidence will directly inform the Authority's assessment and decisions in future market reviews. It may also result in the Authority revising the published guidance on existing remedies, or introducing new remedies altogether during the relevant market review; and
 - iii. **to undertake ex post competition investigations and resolve disputes.** The requirement to produce regulatory separated accounts can be useful for ensuring that the Authority has relevant up-to-date information to undertake ex post competition investigations and/or resolve disputes.
11. As set out in these Instructions, the SMP operator will be required to submit certain information to the Authority and make this publicly available as part of its **Accounting Separation** obligation.
12. However, the Authority reserves the right to request additional data from the SMP operator on an ad hoc basis. This is because at this stage it is not possible to anticipate every piece of information that the Authority may need for regulatory decision-making purposes. Requiring the SMP operator to produce a wide range of information that may not be used would be disproportionate. Instead, the **Accounting Separation** obligation will require the SMP operator to ensure that its accounting system has the flexibility to produce more detail on costs, revenues and services than is required to produce the standard outputs described in these Instructions.
13. This means that there are two main outputs of the Accounting Separation process. First, the regulatory separated accounts and supporting documents described in these Instructions. Second, underlying the production of these accounts should be a robust and audited accounting system that will allow the SMP operator to respond efficiently to more detailed data requests. Having consistency between the system used to produce the regulatory separated accounts and that used to respond to detailed data requests will

increase confidence in the accuracy and consistency of the data provided by the SMP operators.

14. The Authority highlights that these Instructions set out that SMP operators will need to provide information and regulatory separated accounts for all Product Groups² and Product Bundle Groups³ for which the SMP operator offers services, not just those services where the operator has been deemed to have SMP. This is because, in many cases, costs and revenues are shared across SMP and non-SMP markets—for example, in the case of bundles of products, or costs that are common to a number of different services. As a result, the accounting system required to meet the **Accounting Separation** obligation will need to have a wider scope than the SMP markets alone.
15. The Authority will ensure that the regulatory separated accounts are available to other stakeholders by requiring the SMP operator to publish the accounts on the operator's website. This will allow industry stakeholders to assess the accounts for themselves. The stakeholders will then be able to make evidence-based representations to the Authority regarding any practices that the stakeholders suspect might be in breach of the SMP obligations or competition rules in sections 84(1)(a), 85 and 86 of the RAA.
16. Based on the representations that the Authority receives from stakeholders, or on the Authority's own initiative, the Authority may launch in-depth investigations into the compliance with SMP obligations and/or under the competition rules. In launching an investigation, the Authority is likely to require the SMP operator to provide the Authority with more detailed accounting information, in order to inform the Authority's assessment.

² Product Groups relate to major groups of products, and include broadband, mobile, fixed voice, subscription television, business connectivity (i.e. leased lines) and off-island connectivity (i.e. submarine capacity). A further distinction is made between SMP Product Groups and non-SMP Product Groups.

³ Product Bundle Groups relate to any combination of two or more Product Groups sold together in a package, i.e. as a bundle. Examples include broadband and PayTV bundles; and broadband and mobile bundles.

3 PRINCIPLES OF ACCOUNTING SEPARATION

17. The regulatory separated accounts shall be established in accordance with the general principles set out below.
- i. **Objectivity:** The accounts shall present a fair view of the SMP operator's business; shall be based on objective evidence as far as possible; and shall not contain any systematic biases. The basis chosen for attributing costs and revenues shall be objective. The attribution shall not be done in a way that is intended to benefit the licensee itself or any other licensee, relevant market or individual service.
 - ii. **Transparency:** The SMP operators shall provide a clear and transparent description of the methodologies used to prepare the separated accounts. The SMP operators shall clearly identify the data and information on which the regulatory separated accounts rely. The methods and basis used for allocation of costs, revenues, assets and liabilities shall be transparent. The activity that caused the cost to be incurred (the "cost driver") or the revenue to be earned, together with the systems and processes used to synthesize them into the form of the statements, shall be clearly explained so that the appropriateness of the drivers can be considered.
 - iii. **Causality:** Costs, revenues, assets and liabilities shall be attributed based on causation where possible. This shall be done in accordance with the activities having a causal link to the costs, revenues, assets and liabilities recorded in the SMP operators' accounts. As such, each cost or revenue item shall be reviewed, and the cost driver shall be identified. The cost or revenue item shall then be attributed to the service in which the activity is undertaken. As a result, only costs relevant to the activities in question should be included—for example, activities unrelated to electronic communications should not be included in the separated accounts. For clarity, costs of unregulated electronic communications activities should be included in the separated accounts, but they should be clearly identifiable from costs related to regulated activities.
 - iv. **Internal consistency:** The SMP operator shall ensure that the assumptions and allocation rules used to prepare the regulatory separated accounts are consistent across all of the separated accounts.
 - v. **Materiality:** The SMP operator shall adapt the rigor and level of detail of the approach to the materiality of the costs, revenues, assets and liabilities in question. Costs, revenues, assets and liabilities that have significant causal impact on all or part of the regulatory separated accounts shall be apportioned following an accordingly rigorous methodology. The evidence provided to support these material items shall be accordingly detailed.
 - vi. **Consistency over time:** The regulatory separated accounts shall be consistent and comparable from one year to another. The same basis of allocation and apportionment shall be used from year to year, unless there are justifiable reasons for changes. Where there are material changes to the accounting methodology in a given year—such as attribution methods that have a material effect on the

information reported in the separated accounts—then the previous year's regulatory separated accounts shall be restated accordingly.

- vii. **Compliance with best-practice accounting standards:** Except for areas where the Accounting Separation guidance specifies otherwise, the regulatory separated accounts should be consistent with the accounting standards used in the SMP operator's statutory accounts and should be reconciled with the SMP operator's statutory accounts. If the SMP operator does not have statutory accounts, then compliance should be ensured by applying widely accepted accounting standards, such as International Financial Reporting Standards ("IFRS"), Canadian, CPA Canada Standards or US generally accepted accounting principles ("US GAAP").

4 APPROACH TO ACCOUNTING SEPARATION

18. This section provides guidance on the approach that the SMP operator shall follow in preparing regulatory separated accounts in order to ensure compliance with the **Accounting Separation** obligation. The issues on which guidance is provided, and which provide the structure for this section, are as follows:
- **section 4.1:** the form and presentation of separated accounts;
 - **section 4.2:** what should be presented in the separated accounts;
 - **section 4.3:** how costs and revenues should be allocated across separated accounts; and
 - **section 4.4:** how assets in the regulatory separated accounts should be treated.

4.1 The form and presentation of separated accounts

19. The SMP operators shall be responsible for ensuring compliance with the **Accounting Separation** obligation. This includes developing pro forma templates that the Authority will review and approve ahead of the preparation of the first set of separated accounting information. Examples of the expected format for the pro-formas are provided in Annex 1 of these instructions.
20. Regulatory separated accounts must be produced twice per year (bi-annually). The first set of regulatory separated accounts must be submitted to the Authority within six months of the date of the SMP operators start of its fiscal year, unless the Authority agrees to an extension, which shall be no longer than 12 months after the date of the General Determination.
21. Although the Authority is requesting regulatory separated accounts to be submitted bi-annually, the SMP operators would only be required to reconcile the accounts to audited financial statements annually. Therefore, one of the submissions would be reconciled to unaudited accounts, while the other would be reconciled to the annual statutory audited accounts.
22. The following shall be included as part of the regulatory separated accounts:
- accompanying documentation describing the methodology used to produce the separated accounts. Guidance on what this documentation should contain is given in Annex 2 of these instructions; and
 - a confirmation signed by the Chief Executive Officer and Chief Financial Officer of the SMP operator, stating that the accounts represent an accurate reflection of the SMP operator's electronic communications activities.
23. The regulatory separated accounts shall be externally audited, as well as reconciled with the statutory accounts (if relevant), at the SMP operator's expense, at least once every 12 months. The external audit shall give confidence that the accounts:

- i) provide a fair reflection of the SMP operator's financial performance;
 - ii) are free from material error; and
 - iii) have been prepared in accordance with the relevant guidance and General Determination on the SMP remedies issued by the Authority.
- 24. The SMP operator shall be required to provide the Auditor's report to the Authority within four weeks of receiving the Auditor's report.
- 25. In order to comply with the **Accounting Separation** obligation, the SMP operator is required to provide the following:
 - a statement of mean capital employed;⁴
 - a consolidated profit and loss (P&L) statement;
 - a statement of mean capital employed for each Product Group and Product Bundle Group;
 - a P&L statement for each Product Group and Product Bundle Group;
 - a breakdown of assets and liabilities by Product Group and Product Bundle Group;
 - a breakdown of costs by Product Group and Product Bundle Group;
 - a reconciliation statement between the regulatory separated accounts and the statutory accounts; and
 - additional information on Product Groups and Product Bundle Groups, such as volumes, average revenue per user ("ARPU") and fully allocated cost for each unit sold ("unit FAC").
- 26. More guidance on what these statements should contain, along with suggested templates, is provided in Annex 1 of these Instructions.

4.2 What should be presented in the separated accounts

- 27. The regulatory separated accounts shall be provided for each Product Group and Product Bundle Group offered by the SMP operator; this covers both SMP and non-SMP markets. As such the SMP operator shall provide regulatory separated accounts for:⁵
 - **SMP Product Groups:** to cover the groups of products for which the SMP operator has been found to have SMP. The SMP Product Groups are broadband

⁴ Mean capital employed is a measure of total assets less current liabilities, excluding corporate taxes, dividends payable and long-term liabilities, with the mean computed from the start and end values for the financial year.

⁵ In all cases a Product Group covers the full end-to-end service, and thereby includes all elements of the value chain, including wholesale and retail.

and mobile services for both OneComm and Digicel Group, and fixed voice and high speed leased lines (outside of Hamilton) for Digicel Group alone;

- **Non-SMP Product Groups:** to cover the groups of products that are not in SMP markets. Non-SMP Product Groups include subscription television, high speed leased lines (inside of Hamilton), low speed leased lines (inside and outside of Hamilton) and submarine capacity/off-island connectivity; and
 - **Product Bundle Groups:** to cover any combination of services from two or more Product Groups that are sold as a bundle. Examples include broadband and PayTV bundles; and broadband and mobile bundles.
28. In this regard, the Authority notes that whereas SMP remedies apply, by definition, to SMP products only, monitoring compliance with SMP remedies requires financial information to be collected on non-SMP products as well. This requirement applies in particular to Cost Orientation and the provision of wholesale access on FRAND terms, for two main reasons.
- i. SMP products may be sold in bundles with non-SMP products, and the Cost Orientation and FRAND obligations will also apply to such bundles. It is therefore necessary for the Authority to know the relevant information for the Non-SMP Product Groups; and
 - ii. some of the Non-SMP Product Groups (e.g. submarine capacity) are inputs into the SMP Product Groups (e.g. mobile and broadband), and some cost items are common across the SMP Product Groups and Non-SMP Product Groups. As such, information on the Non-SMP Product Groups is required in order to ensure consistency in the allocation of costs throughout the value chain and across different products and services.
29. The Authority is not proposing to require the preparation of separate P&L accounts for wholesale products within each Product Group (e.g. wholesale fixed broadband, wholesale mobile access, wholesale leased lines). The Authority considers that, at this stage, such a requirement would be disproportionate. Nevertheless, as explained below, the Authority is requesting cost information to be provided at a sufficient level of detail to allow the Authority and stakeholders to estimate different retail and wholesale costs.
30. In addition, the Authority recognizes that it could also require SMP operators to provide more detailed information—for example, a breakdown of Product Groups into sub-groups (e.g. retail and wholesale products); services (e.g. rental and connection charges); and tariffs (e.g. 50Mbps broadband, 100Mbps broadband, or business vs residential tariffs). However, the Authority is not minded to mandate this level of detail for the purposes of the separated accounts. This is predominantly because of the administrative burden that this requirement would place on the SMP operator. The Authority acknowledges that preparing regular accounts broken down by the SMP operator's many different products and services, and the associated cost and revenue allocations, would be a significant task.
31. Notwithstanding this, the Authority notes that it may in future request more detailed data from the SMP operator than is currently required to be presented in the separated

accounts—for example, data for specific Sub-Groups of Products,⁶ or Individual Products, and/or breaking down network costs between the Access Network and the Core Network.⁷ The Authority therefore notes that the SMP operator shall ensure that such information is available, and can be provided quickly if requested by the Authority, for example if and when the Authority is minded to launch a formal investigation regarding compliance with other SMP obligations, such as Cost Orientation and FRAND.

32. The SMP operator shall distinguish and present separately in its regulatory separated accounts the following types of cost, at a minimum (a recommended format for presenting this information is illustrated in Annex 1 of These Instructions).

Operating costs

- Customer costs and sales
 - *Customer acquisition and retention*
 - *Customer care*
 - *Marketing and advertising*
 - *Billing*
 - *Sales personnel salary/Sales commission*
- Network costs
 - *Network planning and development*
 - *Network management*
 - *Provision installation and maintenance costs*
- Bad debt
- Payment to other operators
- Support costs
- Other operating costs (i.e. not captured above).

Capital employed and depreciation (depreciation for capital costs in the specific year)⁸

- Customer premises equipment
 - *Broadband equipment (e.g. modem/router)*
 - *Mobile devices (e.g. handsets)*
 - *Fixed voice (e.g. phones)*
 - *PayTV (e.g. set-top boxes)*

⁶ A Sub-group of Products refers to a group of Individual Products within a Product Group. Examples of Sub-groups of Products include all pre-pay mobile services; or all fiber broadband products above a certain speed.

⁷ The Access Network relates to the part of the network that connects directly to customers, from a local aggregation/distribution point. The Core Network refers to the backbone of a communications network, which carries different services such as voice or data.

⁸ Fully depreciated assets should still be presented in the statement of mean capital employed as relevant, given that all assets that are used for providing products or services should appear in the accounts.

- *Other*
- Physical infrastructure
 - *Ducts and poles*
 - *Mobile masts and towers*
 - *Other*
- Active/electronic equipment
 - *Broadband (e.g. IP switching)*
 - *Mobile (e.g. antennas, radio access network)*
 - *Fixed voice (e.g. voice cards)*
 - *PayTV (e.g. distribution)*
 - *Other*
- Cabling
 - *Fiber*
 - *Copper*
- Land and buildings
- International connectivity (including submarine cable costs)
- Mobile spectrum
- Media content (rights)
- Other depreciation costs (i.e. not captured above).

33. Each cost item identified in the regulatory separated accounts will need to be mapped to the various Product Groups and Product Bundle Groups. Guidance on how the SMP operator should approach cost allocations is discussed in section 4.3 (below).

4.3 How costs and revenues should be allocated across regulatory separated accounts

34. The SMP operator shall allocate costs to the different product groups in the regulatory separated accounts using an activity-based costing (“ABC”) approach. ABC views the services and products as a series of activities, each of which uses resources and therefore incurs costs. This approach, based on the cause of costs (i.e. the cost driver), traces and allocates costs through the activities performed, establishing a clear cause-and-effect relationship between activities, their associated costs and the resulting output from those activities.
35. When allocating costs to services and products, the SMP operator shall use the following approach:

- costs shall be directly allocated where possible and based upon an analysis of the cost driver; and
 - common or shared costs that cannot be directly assigned shall be attributed to services and products based on an appropriate direct or indirect cost driver.
36. The revenues from providing the product or service shall be allocated directly to the product or service bought by the customer.
37. In the case of bundles, revenues and costs should be allocated to each Product Bundle Group in a similar way to standalone Product Groups. Given this approach, the Authority would expect that the unit cost of any given product sold on a standalone basis or in a bundle should be the same. Therefore, the unit cost of a bundle should be equal to the sum of unit costs of each of its constituent products. The only exception is where small divergences are due to the different composition of standalone and bundled sales—for example, if broadband sold in bundles was predominantly faster than standalone broadband, and this drove a higher allocation of capacity costs.

4.4 How should assets in the regulatory separated accounts be treated

38. When determining how to treat assets in the separated accounts, two key considerations are: i) how the assets should be valued, and ii) how they should be depreciated. Below, the Authority provides guidance on these issues.

4.4.1 Asset valuation

39. The Authority recognizes that there are two main ways to value assets:
- **historical cost accounting (“HCA”)**: the costs that the operator actually incurs are used in the accounting statements; and
 - **current cost accounting (“CCA”)**: the operator’s asset base is valued based on the gross replacement cost of the assets.
40. Approaches using CCA aim to capture the costs of replacing assets at their current value. Hence, this approach provides a better reflection of the costs that a new (and efficient) entrant would have to incur in rolling out a network equivalent to that being provided by the existing operators. As a result, CCA can provide more accurate market signals (such as for efficient entry) than HCA and is therefore the preferred approach to asset valuation by regulators of electronic communications across the world.⁹
41. Notwithstanding the above, the Authority is mindful of the effort required by the SMP operator to value assets on a CCA basis, especially if this were to be done on a modern equivalent asset (“MEA”) basis. MEA valuation requires an estimate of the costs to replace an old asset with a technically up-to-date new one with the same service capability,

⁹ The prevalence of CCA was noted in a 2018 study by the Body of European Regulators for Electronic Communications (“BEREC”) on regulatory accounting practices in the electronic communications markets across Europe. BEREC. (2018) Regulatory Accounting in Practice 2018, page 25 [\[Link\]](#).

allowing for differences in the quality of output and in operating costs. Therefore, the Authority will discuss with the SMP operators the time horizon over which this could be achieved.¹⁰

42. In moving from HCA to CCA, the Authority recognizes the risks of windfall gains or losses, depending on the path of cost recovery on the previous basis compared with the path under a CCA approach.
43. If the basis for setting prices is HCA, and that approach is used consistently through time, complete cost recovery will result. Similarly, if a CCA approach is followed throughout an asset's life, cost recovery will also be achieved. However, if there is a switch from one approach to the other (from HCA to CCA), then under- or over-recovery could take place. In assessing a move from HCA to CCA valuation, the Authority will look to establish whether the risk of under- or over-recovery is material. If the Authority finds that this risk is material, the Authority will discuss with the SMP operators whether to introduce a Regulatory Asset Value ("RAV") for all assets. This approach could start with the book value of assets as they are currently recorded in the accounts and apply some form of CCA indexation in order to estimate the gross replacement cost of the RAV over time.

4.4.2 Depreciation

44. The approach to depreciation will determine how much of an asset's costs should be recoverable in a given year. Approaches to depreciation could include:
 - **straight-line depreciation**, in which the costs of an asset are reduced uniformly over the life of the asset; or
 - **economic depreciation**, which matches the costs of equipment to the actual and forecast use of that equipment over the long term. Consequently, there is relatively little depreciation in years when utilization is low and relatively high depreciation in years of full, or almost full, equipment utilization.
45. The Authority is mindful that there are advantages and disadvantages to each approach. The Authority notes that, when compared to economic depreciation, straight-line depreciation has the particular drawback that the accounting value of an asset can diverge from the economic value of the asset. This divergence could arise for several reasons, including because the accounting lives are different from the actual asset lives, or because the volumes of services provided by the asset are unevenly split over the lifetime of that asset.

¹⁰ The Authority considers that CCA accounts should be based on the financial capital maintenance ("FCM") version of CCA accounting. Two of the objectives set out above were that the firm should have the opportunity to recover its costs, and that the process of competition is not distorted by (excessively low) prices set by the SMP operator. The FCM version of CCA is designed to ensure that prices set on this basis lead to costs being recovered. Thus, both objectives would be satisfied if prices were set on this basis. One problem with the FCM version of CCA is that costs reported on that basis can be quite volatile from year to year if there are changes in asset values that are not broadly similar from one year to another. Holding gains and losses can in those circumstances be quite unstable and lead to large swings in the costs assessed on this basis. For both of this reason and in order to maintain a degree of simplicity in the approach, the Authority would expect to implement a version of CCA based primarily on indexation rather than a full asset revaluation in each year.

46. If asset lives are different from accounting lives, an asset will be depreciated too quickly or too slowly. In an extreme case, this could leave the SMP operator with an asset that is nearly fully depreciated but still has many years of useful life ahead of it.

ANNEX 1: EXAMPLE PRO FORMA TEMPLATES

A1 Introduction

47. The Authority set out in section 5 of these instructions that the SMP operator is required to provide the following information in order to comply with the **Accounting Separation** obligation:
- a statement of mean capital employed;¹¹
 - a consolidated P&L statement;
 - a statement of mean capital employed for each Product Group and Product Bundle Group;
 - a P&L statement for each Product Group and Product Bundle Group;
 - a breakdown of assets and liabilities by Product Group and Product Bundle Group;
 - a breakdown of costs by Product Group and Product Bundle Group;
 - a reconciliation statement between the regulatory separated accounts and the statutory accounts; and
 - additional information on Product Groups and Product Bundle Groups, such as volumes, average revenue per user ("ARPU")¹² and unit fully allocated cost ("FAC").¹³
48. Furthermore, the Authority clarified in section 5 that separate accounts should be provided for each Product Group and Product Bundle Group offered by the SMP operator; this covers both SMP and non-SMP markets. As such, the SMP operator should provide regulatory separated accounts for:¹⁴
- **SMP Product Groups:** to cover groups of products for which the SMP operator has been found to have SMP. The SMP Product Groups are broadband and mobile services for both OneComm and Digicel Group, and fixed voice and high speed leased lines (outside of Hamilton) for Digicel Group alone;
 - **Non-SMP Product Groups:** to cover groups of products that are not in SMP markets. Non-SMP Product Groups include subscription television, high speed

¹¹ Mean capital employed is a measure of total assets less current liabilities, excluding corporate taxes, dividends payable and long-term liabilities, with the mean computed from the start and end values for the financial year

¹² ARPU is a measurement used to indicate the average monthly revenue earned from a customer who subscribes to a service.

¹³ FAC is an accounting method for attributing all the costs of a company to defined activities such as products and services. Typically this method will follow the principle of cost causality.

¹⁴ In all cases a Product Group covers the full end-to-end service and thereby includes all elements of the value chain, including wholesale and retail.

leased lines (inside of Hamilton), low speed leased lines (inside and outside of Hamilton) and submarine capacity/off-island connectivity; and

- **Product Bundle Groups:** to cover any combination of services from two or more Product Groups that are sold as a bundle. Examples include broadband and PayTV bundles; and broadband and mobile bundles.

49. Finally, the Authority clarified in section 5 that the SMP operator should, at a minimum, distinguish between and present the following cost items in its separated accounts:

Table A1.1 – Minimum level of disaggregated cost information to be presented in the separated accounts

	Cost Group	Cost Item
Operating costs	Customer costs and sales	Customer acquisition and retention
		Customer care
		Marketing and advertising
		Billing
		Sales personnel salary/Sales commission
	Network	Network planning and development
		Network management
		Provision installation and maintenance costs
	Bad debt	Bad debt
	Payment to other operators	Payment to other operators
	Support costs	Support costs
	Other operating costs	Other operating costs
Capital employed/depreciation	Customer premises equipment	Broadband equipment (e.g. modem/router)
		Mobile devices (e.g. handsets)
		Fixed voice (e.g. phones)
		PayTV (e.g. set-top boxes)
		Other
	Physical infrastructure	Ducts and poles
		Mobile masts and towers
		Other
	Active/electronic equipment	Broadband (e.g. IP switching)
		Mobile (e.g. antennas, radio access network)
		Fixed voice (e.g. voice cards)
		PayTV (e.g. distribution)
		Other
	Cabling	Fiber
		Copper
	Land and buildings	Land and buildings
	International connectivity	International connectivity (including submarine cable costs)
	Mobile spectrum	Mobile spectrum
	Media content (rights)	Media content (rights)
	Other depreciation costs	Other depreciation costs

50. In the remainder of this Annex, the Authority provides guidance on how the SMP operator could present this information.

A2 Consolidated statement of mean capital employed

51. The SMP operator is required to provide a consolidated mean capital employed statement for the SMP operator's electronic communications activities, showing:
- current assets (such as cash, stock and receivables);
 - non-current assets (based on the capital employed cost groups set out in Table A1.1);¹⁵ and
 - current liabilities (such as accounts payable, short-term debt and provisions for liabilities).
52. The following table shows a structure that the SMP operator could use to present this information.

¹⁵ For the purposes of the statement of mean capital employed, it is not necessary to provide a breakdown of each individual cost item. Instead, the SMP operator shall provide a summary of the major groups of costs.

Table A1.2 – Recommended format for the consolidated statement of mean capital employed

Consolidated statement of mean capital employed as at [date]	Year N	Year N-1
Assets		
Current assets		
Cash	x	x
Stock	x	x
Receivables	x	x
Others	x	x
Total current assets	[A]	[A]
Non-current assets		
Customer premises equipment	x	x
Physical infrastructure	x	x
Active/electronic equipment	x	x
Cabling	x	x
Land and buildings	x	x
International connectivity	x	x
Mobile spectrum	x	x
Media content	x	x
Others	x	x
Total non-current assets	[B]	[B]
Total assets	[C]=A+B	[C]=A+B
Current liabilities		
Accounts payable	x	x
Short-term debt	x	x
Provisions for liabilities	x	x
Others	x	x
Total current liabilities	[D]	[D]
Total liabilities to be considered	[D]	[D]
Capital employed	[E]=C - D	[F]=C - D
Mean capital employed	(E + F) / 2	

A3 Consolidated profit and loss statement

53. The SMP operator is required to provide a consolidated P&L statement for the SMP operator's electronic communications activities. The statement shall present the following information:

- revenues (broken down by internal and external);
- HCA costs;¹⁶
- CCA adjustments;
- total CCA costs (based on applying the CCA adjustments to the HCA costs);

¹⁶ It would not be necessary to provide a breakdown of each individual cost item. Instead the SMP operator should provide a summary of the major groups of costs.

- the returns (revenues less total CCA costs);
 - the mean capital employed; and
 - the return on capital employed.
54. The following table shows a structure that the SMP operator could use for presenting this information.

Table A1.3 – Recommended format for the consolidated profit and loss statement

Consolidated profit and loss statement for financial year X	
Revenues	
External revenues	\$X
Internal revenues	\$X
Total revenues	\$X
<i>[Insert a row for each cost type]</i>	
Operating costs	
• Customer costs and sales	\$X
• Networks costs	\$X
• Bad debt	\$X
• Payment to other operators	\$X
• Support costs	\$X
• Other operating costs (i.e. not captured above).	\$X
HCA Depreciation	
• Customer premises equipment	\$X
• Physical infrastructure	\$X
• Active/electronic equipment	\$X
• Cabling	\$X
• Land and buildings	\$X
• International connectivity (including submarine cable costs)	\$X
• Mobile spectrum	\$X
• Media content (rights)	\$X
• Other depreciation costs (i.e. not captured above)	\$X
Total HCA operating costs	\$X
CCA adjustments:	
<i>[Insert a row for each adjustment]</i>	
Total CAA operating costs	\$X
Return (total revenues – total CCA operating costs)	\$X
Mean capital employed	\$X
Return on capital employed	%

A4 Statement of mean capital employed for each Product Group and Product Bundle Group

55. For each separate account (i.e. Product Group and Product Bundle Group), the SMP operator shall provide the mean capital employed. This should include data on:
- current assets (such as cash, stock and receivables);
 - non-current assets (based on the Capital Employed cost groups set out in Table A1.1); and
 - current liabilities (such as accounts payable, short-term debt and provisions for liabilities).

56. The following table shows a structure that the SMP operator could use for presenting this information:

Table A1.4 – Recommended format for the statement of mean capital employed for each Product group

Consolidated statement of mean capital employed as at [date]	Product Group 1 (e.g. broadband)	Product Group 2 (e.g. mobile)	...	Product Bundle Group 1 (e.g. broadband and mobile)	...	Total
Assets						
Current assets						
Cash	x	x		x		x
Stock	x	x		x		x
Receivables	x	x		x		x
Others	x	x		x		x
Total current assets	[A]	[A]		[A]		[A]
Non-current assets						
Customer premises equipment	x	x		x		x
Physical infrastructure	x	x		x		x
Active/electronic equipment	x	x		x		x
Cabling	x	x		x		x
Land and buildings	x	x		x		x
International connectivity	x	x		x		x
Mobile spectrum	x	x		x		x
Media content (rights)	x	x		x		x
Others	x	x		x		x
Total non-current assets	[B]	[B]		[B]		[B]
Total assets	[C]=A+B	[C]=A+B		[C]=A+B		[C]=A+B
Current liabilities						
Accounts payable	x	x		x		x
Short-term debt	x	x		x		x
Provisions for liabilities	x	x		x		x
Others	x	x		x		x
Total current liabilities	[D]	[D]		[D]		[D]
Total liabilities to be considered	[D]	[D]		[D]		[D]
Mean capital employed	C - D	C - D		C - D		C - D

Group and Product Bundle Group

A5 Profit and loss statement for each Product Group and Product Bundle Group

57. For each separate account (i.e. Product Group and Product Bundle Group), the SMP operator shall provide a separate P&L. Each P&L shall include data on:
- revenues (broken down by internal and external);¹⁷
 - HCA costs¹⁸ (the costs as allocated across all Product Groups and Product Bundle Groups should sum up to the total costs presented in the consolidated P&L);
 - CCA adjustments;
 - total CCA costs (based on applying the CCA adjustments to the HCA costs);
 - the returns (revenues less total CCA costs);
 - the mean capital employed; and
 - the return on capital employed.
58. The following table shows a structure that the SMP operator could use for the P&L information. The “Total revenues”, “Costs”, “Returns” and “Mean capital employed” should be consistent with the data shown in the consolidated P&L and mean capital employed statements.

¹⁷ External revenues relate to revenues from the sale of wholesale access services, i.e. revenues from access seekers who supply services to consumers that do not have a direct relationship with the wholesale access provider. Internal revenues relate to revenues from internal sales, self-supply and sales to final consumers who do have a direct relationship with the wholesale access provider.

¹⁸ It is not necessary to provide a breakdown of each individual cost item. Instead, the SMP operator shall provide a summary of the major groups of costs.

**Table A1.5 – Recommended format for the profit and loss statement
for each Product Group and Product Bundle Group**

	<u>Product Group 1</u> (e.g. broadband)	<u>Product Group 2</u> (e.g. mobile)	...	<u>Product Bundle Group 1 (e.g. broadband and mobile)</u>	...	<u>Total</u>
Revenues						
External revenues						\$X
Internal revenues						\$X
Total revenues						\$X
Costs						
Operating costs						\$X
<ul style="list-style-type: none"> • Customer costs and sales • Network costs • Bad debt • Payments to other operators • Support costs • Other operating costs (i.e. not captured above) 						
HCA depreciation						\$X
<ul style="list-style-type: none"> • Customer premises equipment • Physical infrastructure • Active/electronic equipment • Cabling • Land and buildings • International connectivity (including submarine cable costs) • Mobile spectrum • Media content (rights) • Other depreciation costs (i.e. not captured above) 						
• Total HCA operating costs						\$X
CCA adjustments:						
<i>[Insert a row for each adjustment]</i>						
Total CAA operating costs						\$X
Return (Total revenues – total CCA operating costs)						\$X
Mean capital employed						\$X
Return on capital employed						%

A6 Breakdown of assets and liabilities by Product Group and Product Bundle Group

59. The SMP operator will need to provide a breakdown of assets and liabilities for Product Groups and Product Bundle Groups. The following table shows a possible structure that the SMP operator could use.

Table A1.6 – Recommended format for the breakdown of assets and liabilities by Product Group and Product Bundle Group

		<u>Product Group 1 (e.g. broadband)</u>	<u>Product Group 2 (e.g. mobile)</u>	<u>...</u>	<u>Product Bundle Group 1 (e.g. broadband and mobile)</u>	<u>...</u>	<u>Total</u>
Liabilities	Accounts payable	\$X	\$X		\$X		\$X
	Short-term debt	\$X	\$X		\$X		\$X
	Provisions for liabilities	\$X	\$X		\$X		\$X
	Other	\$X	\$X		\$X		\$X
Current assets	Cash	\$X	\$X		\$X		\$X
	Stock	\$X	\$X		\$X		\$X
	Receivables	\$X	\$X		\$X		\$X
	Other	\$X	\$X		\$X		\$X
Non-current assets	Customer premises equipment	Broadband equipment (e.g. modem/router)	\$X	\$X	\$X		\$X
		Mobile devices (e.g. handsets)	\$X	\$X	\$X		\$X
		Fixed voice (e.g. phones)	\$X	\$X	\$X		\$X
		PayTV (e.g. set-top boxes)	\$X	\$X	\$X		\$X
		Other	\$X	\$X	\$X		\$X
	Physical infrastructure	Ducts and poles	\$X	\$X	\$X		\$X
		Mobile masts and towers	\$X	\$X	\$X		\$X
		Other	\$X	\$X	\$X		\$X
	Active/electronic equipment	Broadband (e.g. IP switching)	\$X	\$X	\$X		\$X
		Mobile (e.g. antennas, radio access network)	\$X	\$X	\$X		\$X
		Fixed voice (e.g. voice cards)	\$X	\$X	\$X		\$X
		PayTV (e.g. distribution)	\$X	\$X	\$X		\$X
		Other	\$X	\$X	\$X		\$X
	Cabling	Fiber	\$X	\$X	\$X		\$X
		Copper	\$X	\$X	\$X		\$X
	Land and buildings	Land and buildings	\$X	\$X	\$X		\$X
	International connectivity	International connectivity including submarine cable costs	\$X	\$X	\$X		\$X
	Mobile spectrum	Mobile spectrum	\$X	\$X	\$X		\$X
	Media content (rights)	Media content (rights)	\$X	\$X	\$X		\$X
	Other depreciation costs	Other depreciation costs	\$X	\$X	\$X		\$X
	Mean capital employed		\$X	\$X	\$X		\$X

A7 Breakdown of costs by Product Group and Product Bundle Group

60. The SMP operator will need to provide a breakdown of how costs map onto Product Group and Product Bundle Groups.
61. This information shall contain sufficiently disaggregated cost detail, and at a minimum include all individual cost items set out in Table A1.1.
62. The following table shows a possible structure that the SMP operator could use.

**Table A1.7 – Recommended format for the breakdown of costs by
Product Group and Product Bundle Group**

		<u>Product Group 1 (e.g. broadband)</u>	<u>Product Group 2 (e.g. mobile)</u>	<u>....</u>	<u>Product Bundle Group 1 (e.g. broadband and mobile)</u>	<u>...</u>	<u>Total</u>
<u>Cost Group</u>	<u>Cost Item</u>						
Operating costs	Customer costs and sales	Customer acquisition and retention	\$X	\$X	\$X		\$X
		Customer care	\$X	\$X	\$X		\$X
		Marketing and advertising	\$X	\$X	\$X		\$X
		Billing	\$X	\$X	\$X		\$X
		Sales personnel salary/Sales commission	\$X	\$X	\$X		\$X
	Networks costs	Network planning and development	\$X	\$X	\$X		\$X
		Network management	\$X	\$X	\$X		\$X
		Provision Installation and maintenance costs	\$X	\$X	\$X		\$X
	Bad debt	Bad debt	\$X	\$X	\$X		\$X
	Payment to other operators	Payment to other operators	\$X	\$X	\$X		\$X
	Support costs	Support costs	\$X	\$X	\$X		\$X
	Other operating costs (i.e. not captured above)	Other operating costs	\$X	\$X	\$X		\$X
HCA Depreciation	Customer premises equipment	Broadband equipment (e.g. modem/router)	\$X	\$X	\$X		\$X
		Mobile devices (e.g. handsets)	\$X	\$X	\$X		\$X
		Fixed voice (e.g. phones)	\$X	\$X	\$X		\$X
		PayTV (e.g. set-top boxes)	\$X	\$X	\$X		\$X
		Other	\$X	\$X	\$X		\$X
	Physical Infrastructure	Ducts and poles	\$X	\$X	\$X		\$X
		Mobile masts and towers	\$X	\$X	\$X		\$X
		Other	\$X	\$X	\$X		\$X
	Active/ electronic equipment	Broadband (e.g. IP switching)	\$X	\$X	\$X		\$X
		Mobile (e.g. antennas, radio access network)	\$X	\$X	\$X		\$X
		Fixed voice (e.g. voice cards)	\$X	\$X	\$X		\$X
		PayTV (e.g. distribution)	\$X	\$X	\$X		\$X
		Other	\$X	\$X	\$X		\$X
	Cabling	Fiber	\$X	\$X	\$X		\$X
		Copper	\$X	\$X	\$X		\$X
	Land and buildings	Land and buildings	\$X	\$X	\$X		\$X

A8 Reconciliation statement between statutory and separated accounts

63. The SMP operator shall reconcile the revenues, costs and returns presented in the regulatory separated accounts with those in the SMP operator's statutory accounts. Where there is any divergence between these two sets of accounts, the SMP operator shall set out clearly all the adjustments that are required to explain the divergence. Such

adjustments could include, for example, interest, holding gains/losses, supplementary depreciation, and rounding.

64. The following tables shows a possible structure that the SMP operator could use for demonstrating reconciliation with both the P&L and the mean capital employed.

Table A1.8 – Recommended format for the reconciliation statement between the statutory and separated accounts—P&L

	Revenue	Operating costs	Return
As in the statutory accounts	X	X	X
Adjustments			
<i>[Insert a row for each adjustment]</i>	X	X	X
...	X	X	X
...	X	X	X
As in the regulatory separated accounts (i.e. consolidated P&L)	X	X	X

Table A1.9 – Recommended format for the reconciliation statement between the statutory and separated accounts—mean capital employed

	\$
Reported statutory capital employed	X
Adjustments	
<i>[Insert a row for each adjustment]</i>	X
<i>[e.g. Tax liabilities]</i>	X
<i>[e.g. Tax assets]</i>	X
<i>[e.g. Loans and borrowings]</i>	
....	
Mean capital employed in SMP markets	X
Residual (i.e. non-SMP) activities	X
Total mean capital employed	X

A9 Additional information on Product Groups and Product Bundle Groups

65. For each Product Group and Product Bundle Group offered by the SMP operator, the SMP operator shall show:
- total revenues (internal plus external revenues);
 - volumes;
 - ARPU;

- FAC;¹⁹ and
- FAC per unit.

66. The following table shows a possible structure that the SMP operator could use.

Table A1.10 – Recommended format for the additional information on Product Groups and Product Bundle Groups

	<u>Total revenue</u>	<u>Volumes</u>	<u>ARPU</u>	<u>FAC</u>	<u>FAC per unit</u>
Product Group 1 [e.g. broadband]	X	X	X	X	X
Product Group 2 [e.g. mobile]	X	X	X	X	X
Product Group 3 [e.g. PayTV]	X	X	X	X	X
<i>[Add a row for each additional Product Group]</i>	X	X	X	X	X
....	X	X	X	X	X
Product Bundle Group 1 (e.g. broadband and mobile)	X	X	X	X	X
Product Bundle Group 2 (e.g. broadband and PayTV)	X	X	X	X	X
Product Bundle Group 3 (e.g. mobile and PayTV)	X	X	X	X	X
<i>[Add a row for each additional Product Bundle Group]</i>	X	X	X	X	X
....	X	X	X	X	X

¹⁹ The FAC is the total cost allocated in the P&L. It excludes a return on capital.

ANNEX 2: SUPPORTING DOCUMENTATION

67. The SMP operator shall produce supporting documentation for the regulatory accounts that describe the approach that the SMP operator has used in producing its separated accounts. The requirement enables an independent audit of the accounts, to ensure the reliability of the accounts, and to provide transparency on how the accounts have been prepared, for the benefit of the Authority and industry stakeholders.
68. The SMP operator's supporting accounting documentation shall at a minimum cover the following.
- **A description of the SMP operator's business:** This shall explain how the SMP operator's electronic communications activities fit into the overall structure of its business. The explanation shall be complemented by a diagram showing the structure of the business, and the electronic communications business divisions within it.
 - **Basis of preparation:** A description of how the SMP operator has prepared the accounts shall be provided, together with confirmation that the SMP operator has adhered to the principles set out in section 2 of these Instructions. This is to ensure transparency.
 - **An overview of which products and services are contained within each Product Group:** The SMP operator does not need to list every single product and service. However, the SMP operator shall provide information on the different types of product and service offered within each Product Group.
 - **An overview of any significant changes in the approach compared to the previous year and the justification for changing the approach:** For example, if the SMP operator has changed one of the price indices used for asset valuation, or has changed one of the cost drivers used for cost allocation, the SMP operator shall explain what has changed and the justification for the change. This aim is to ensure that the Authority is able to understand the consistency of the regulatory accounts from one period to another.
 - **A description of the source of information for the SMP operator's regulatory separated accounts and the underlying accounting system:** This shall include a description of whether the SMP operator uses different accounting systems for its wholesale and retail activities. If the SMP operator does use a different system for each of these areas of its activity, the SMP operator shall explain how these systems interrelate.
 - **A description of internal safeguards that the SMP operator has used to ensure that its accounts are accurate and complete:** This shall include a description of any cross-checks performed by the SMP operator.
 - **A description of the SMP operator's approach to cost allocation:** This shall include a description of:

- the main cost categories that can be directly allocated to network elements or services;
 - the approach used to identify the appropriate cost drivers to allocate shared or common costs; and
 - any sampling or other techniques used.
- **A description of the SMP operator's approach to asset valuation:** This shall include the description of how the assets have been valued.
 - **A description of the SMP operator's approach to depreciation, including the asset lives used.**
 - **An overview of new services added since the previous reporting year and their impact:** If the new services have replaced legacy services, the SMP operator shall explain this.
 - **A reconciliation statement between the regulatory separated accounts and the statutory accounts.**