



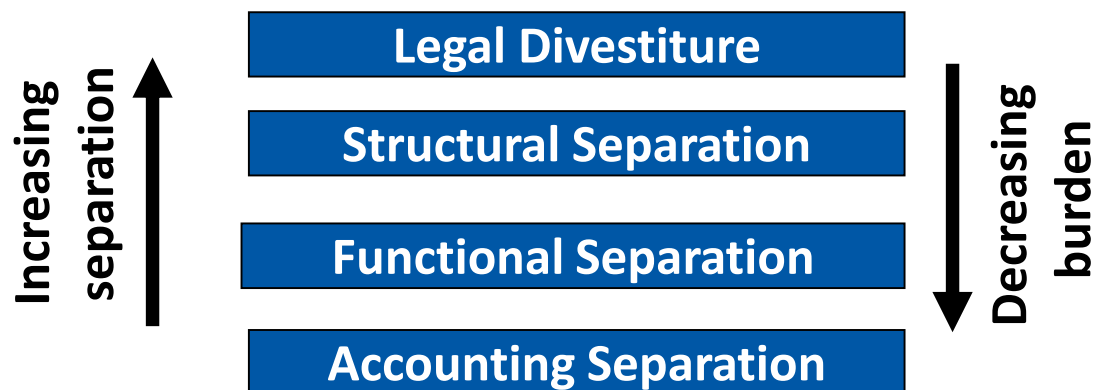
Implementation of Accounting Separation in Malaysia

31 October 2017

Separation-based Remedies



- All separation-based remedies involve some type of disaggregation of an operator's activities



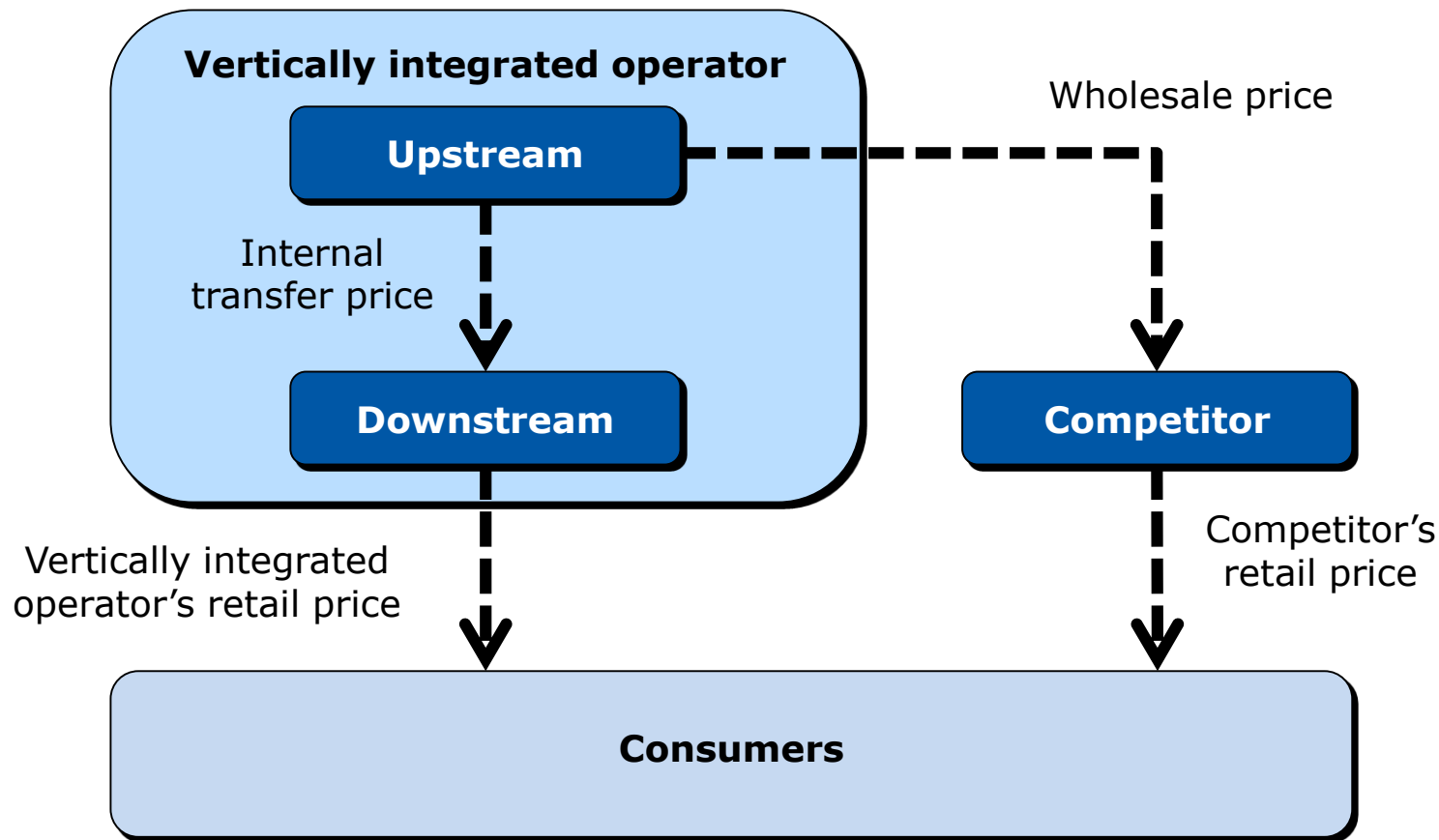
Example			
AT&T 			
Open Net 	NBN Co 	Telecom Corp 	
BT 			

- Use of such remedies are widespread in telecommunications regulation

Purpose of Accounting Separation



- Telecommunications operators are vertically integrated businesses



Benefits of Accounting Separation



To SKMM and Malaysian consumers	To operators
Transparency, reduction in information asymmetry	Strategic benefits to understanding the unit costs and profitability of different services
Demonstration of cost-orientation and non-discrimination	Understanding of cost drivers
Facilitate the detection of cross-subsidies and potential abuses of market power such as margin squeeze	Understanding of the impact of technological change on profitability (when current costs are used)
Full visibility of market profitability and rebalancing	

Why Implement Accounting Separation



No discrimination in favour of their own downstream operations

Charges not excessive, even if not discriminatory

Charges paid by MVNOs are reasonable

Analyzing if retail prices are excessive

Analyzing if margin squeeze is happening

Long term, tool to replace setting of interconnection charges

International Experience: Services Subject to Accounting Separation



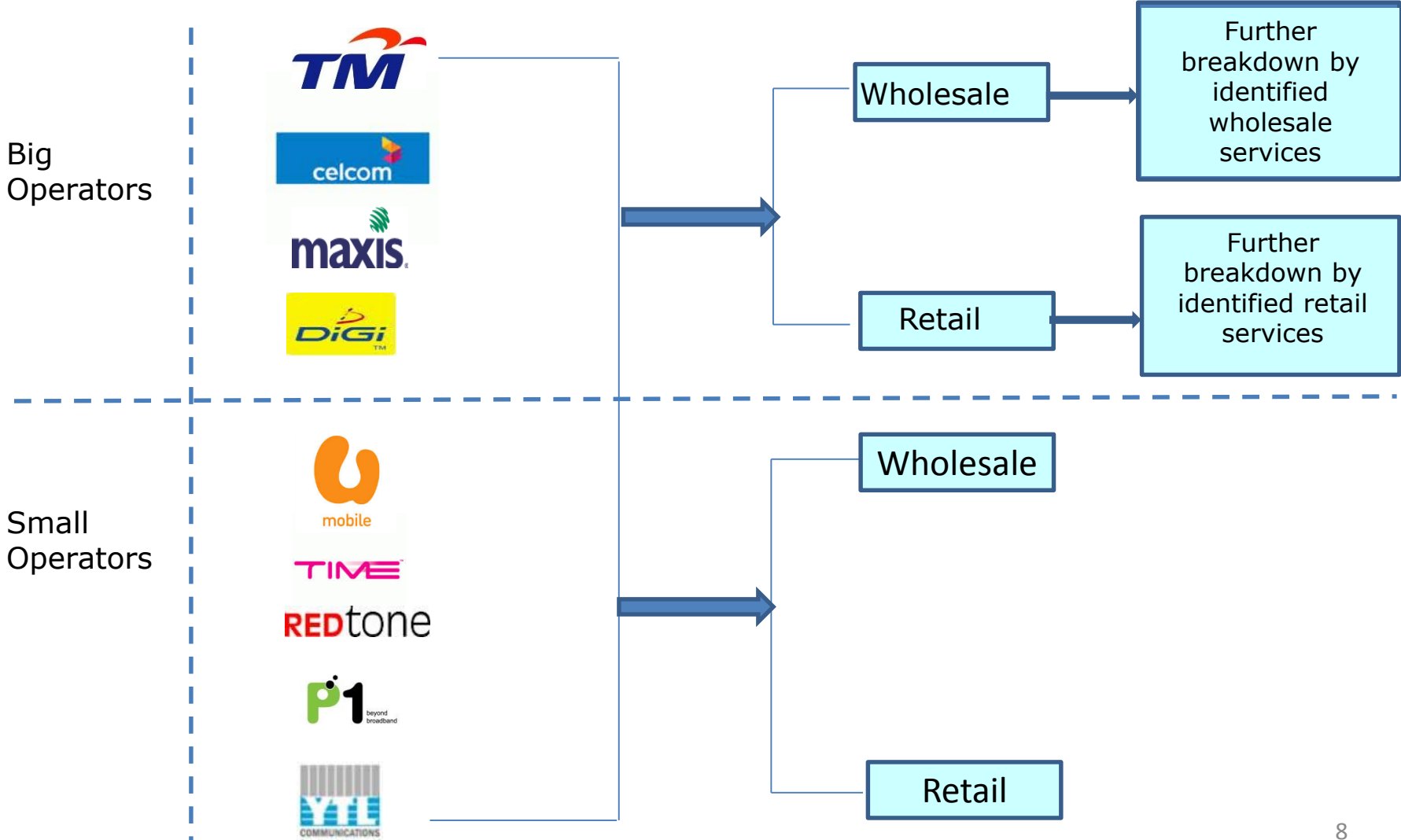
Country	Fixed Network	Mobile Network
UK	✓	x
France	✓	✓
Spain	✓	✓
Portugal	✓	✓
Germany	✓	x
Italy	✓	✓
Sweden	✓	✓
Finland	✓	✓
Malta	✓	✓
Norway	✓	✓
Cyprus	✓	✓
Romania	✓	✓
Singapore	✓	x
Oman	✓	x
Pakistan	✓	✓
Hong Kong	✓	x
New Zealand	✓	x
Australia	✓	x

Implementation of Accounting Separation: Which Operators?



- Accounting Separation should be proportionate regulatory intervention
- The cost of implementing Accounting Separation on small operators are likely to be disproportionately high relative to the benefits
- However, in Malaysia, access and competition provisions are symmetric
- In line with access and competition provisions, Accounting Separation should be symmetric
- To ensure proportionality, a tiered approach can be considered

Implementation of Accounting Separation: Which Operators?



Obligations on “Big” and “Small” Operators



Operators whose revenue and total assets in Malaysia above RM3 billion
(Big)

- To submit reports based on services identified by SKMM
- Audit requirements - PPIA for 2013 to 2014, FPIA from 2015 onwards
- Regulatory financial statements based on historic cost accounting from 2013 to 2014, current cost accounting from 2015 onwards

Operators whose revenue or total assets in Malaysia below RM3 billion
(Small)

- To submit reports for wholesale and retails services only
- No audit requirements, self certification only
- Regulatory financial statements are based on historical cost only

Implementation of Accounting Separation: Which Services?



Fixed Network		Mobile Network	
Wholesale Services	Retail Services	Wholesale Services	Retail Services
Wholesale access lines	Retail exchange lines	Call origination	Connections and subscription
Wholesale local access	Local calls	Call termination	Voice
Wholesale leased lines	National calls	Mobile Virtual Network Operator (MVNO) access	Short Messaging Services (SMS)
Backhaul services	International calls	Roaming	Data
Wholesale broadband access	Calls to mobiles	Others	International roaming
Call origination and termination	Leased lines		Others
Transit services	Broadband		
Interconnection circuits	Others		
Others			

Current versus Historical Cost



	Historical Cost Accounting	Current Cost Accounting
Valuation	<ul style="list-style-type: none"> At purchase price 	<ul style="list-style-type: none"> At present price based on most efficient technology
Depreciation cost	<ul style="list-style-type: none"> From accounting books Based on Gross Book Value and asset life 	<ul style="list-style-type: none"> From valuation methodology Based on Gross Replacement Cost and economic life
Strengths	<ul style="list-style-type: none"> Relatively simple Easy to produce Transparent and reconcilable 	<ul style="list-style-type: none"> Reflects impact of new technology on operations Provides cost of competitive market Supports economic efficient decisions
Weakness	<ul style="list-style-type: none"> Focuses on the past Embeds cost of inefficient technology and does not incorporate the impact of technology-evolution Mis-states real profit 	<ul style="list-style-type: none"> Involves a lot of work Requires knowledge and skills of appropriate revaluation methods

Costing Methodology Adopted by Various Countries



Country	Fixed Network	Mobile Network	CCA/HCA
UK	✓	✗	CCA
Italy	✓	✓	CCA & HCA (Copper Distribution Network)
Malta	✓	✓	HCA
Cyprus	✓	✓	CCA
Singapore	✓	✗	HCA
Oman	✓	✗	CCA
Pakistan	✓	✓	CCA
Australia	✓	✗	CCA
Trinidad and Tobago	✓	✓	CCA
India	✓	✓	HCA yearly & CCA every second year
Bahrain	✓	✗	CCA

Audit Options for Regulatory Financial Statements



		Audit Opinion	In accordance with agreed process	Fair representation of performance and financial position
Integrity of RFS 	AUP	X	X	X
	Readiness Review	X	√	X
	PPIA	√	√	X
	FPIA	√	√	√

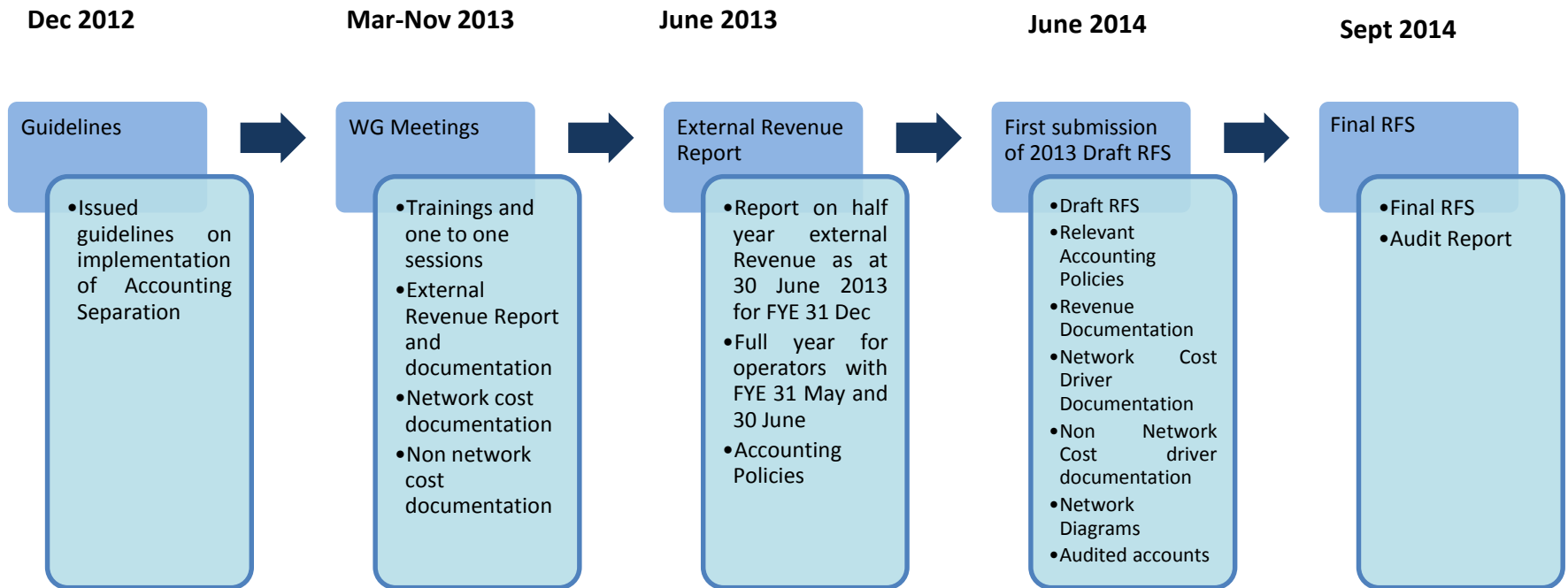
*Note:

AUP – Agreed Upon Procedure

PPIA – Properly Prepared in Accordance with

FPIA – Fairly Presented in Accordance with

Implementation Timelines in Malaysia



Regulatory Financial Statements



- For both fixed and mobile operators will be required to produce the following regulatory financial statements (RFS):-
 - Income statement for each wholesale and retail service
 - A consolidated income statement showing aggregate results for retail services, wholesale services and other services
 - Statement showing average revenue per unit and average unit cost for each wholesale and retail service
 - Mean capital employed statement showing mean capital employed for each wholesale service and for each retail service
 - A consolidated mean capital employed statement
 - Statement showing the unit cost of each network element used to provide services
 - Statement showing the unit cost of each service which is derived from network element costs and usage
 - Statement showing how the income statement and mean capital employed statements reconcile to the operator's statutory accounts
- All RFS to be audited and can use the same auditor to the one which audits the statutory accounts

Format of Wholesale & Retail Service Income Statement



Wholesale Statement		Current year (RM)	Prior year (RM)
Income	External charges to other operators	x	x
	Internal charges to retail	x	x
	Internal charges to other business	x	x
	Total wholesale income	x	x
Operating Costs	Operating costs	x	x
	Depreciation	x	x
	Transfer charges from retail	x	x
	Holding (gain)/loss	x/(x)	x/(x)
	Supplementary depreciation	x	x
	Other adjustments	x	x
	Total operating CCA costs		
Operating return	x	x	
Mean capital employed	x		
% return on Mean Capital Employed	%	%	
% return on turnover	%	%	

Retail Statement		Current year (RM)	Prior year (RM)
Income	External charges	x	x
	Internal charges to wholesale	x	x
	Other	x	x
	Total income	x	x
Operating Costs	Operating costs	x	x
	Depreciation charges	x	x
	Transfer charges from wholesale	x	x
	Holding (gain)/loss	x/(x)	x/(x)
	Supplementary depreciation	x	x
	Other adjustments	x	x
	Total operating CCA costs		
Operating return	x	x	
Mean capital employed	x		
% return on Mean Capital Employed	%	%	
% return on turnover	%	%	

Format of Retail Service Mean Capital Employed Statement



	Exchange lines residential	Exchange lines business	Total exchange lines	Local calls	National calls	International calls	Calls to mobiles	Leased lines	Broadband	Other
Non-current assets										
Tangible fixed assets										
Land & Buildings										
Access-Copper										
Access-Fibre										
Access-Duct										
Switching										
Transmission										
Other										
Investments										
Total Non-current Assets										
Current Assets										
Stocks										
Debtors										
- Internal										
- External										
Total Current Assets										
Liabilities falling due within one year										
- Internal										
- External										
Total Liabilities falling due within one year										
Net Current Assets/Liabilities										
Total Assets less Current Liabilities										
Provisions for liabilities and charges										
Rounding										
Mean capital employed										



THANK YOU