Accounting Separation from regulators' point of view (NBTC)

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The information and views set out in this presentation are those of the presenter and do not necessarily reflect the official opinion of the Office of the National Broadcasting and Telecommunications Commission

Outlines

❑ Steps to deploy accounting separation

❑ Market and regulatory conditions to apply accounting separation in Thailand

❑ An accounting separation case study: sharing experiences from Thailand

❑ Challenges and ways forward

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Steps to deploy accounting separation

Market Definition

Competition assessment
1) Concentration ratio (HHI)
2) Barrier to entry
3) Competition trend

No → **No ex-ante regulation**

Yes → **ex-ante regulation**

SMP designation

Market share:
- < 25%
- 25% – 40%
- > 40%

25% – 40% **+** Qualitative criteria

No → No ex-ante regulation

Qualitative criteria
1) Overall size
2) Control of infrastructure
3) Technological advantages
4) Countervailing buying power
5) Access to capital markets
6) Product diversification
7) Economies of scale/scope
8) Vertical integration
9) Potential competition
10) Barrier to expansion
11) Etc.

Yes

Designate SMP operator(s) Asymmetric Regulatory

Appropriate and proportionate regulations

Remedies
1) Accounting separation
2) Information disclosure
3) Recalculate costs
4) Ceiling prices
5) Open access
6) Unbundle

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Steps to deploy accounting separation

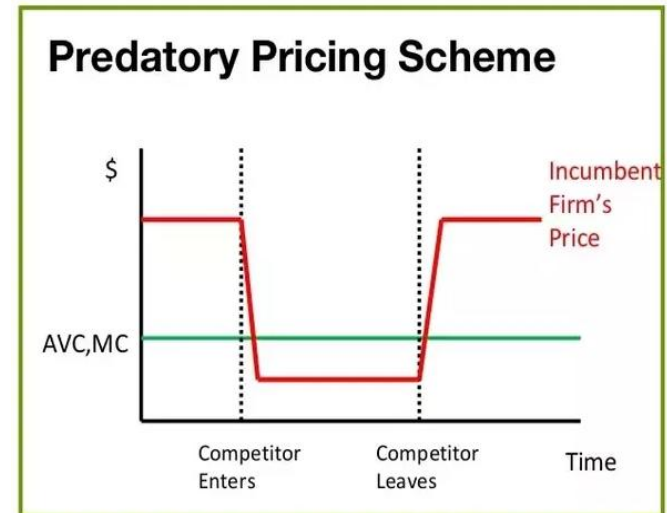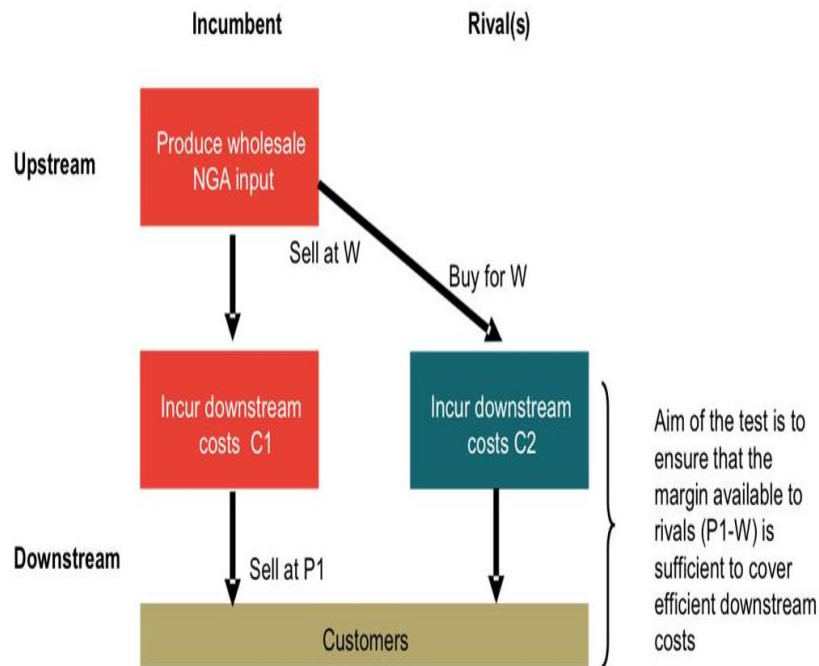Objectives of accounting separation in Thailand

- ❑ Regulatory tools for investigating anti-competitive behaviour

- ❑ Regulatory tools for supporting cost-based rate regulation

- ❑ Regulatory tools for supporting study/project which requires any cost-based information
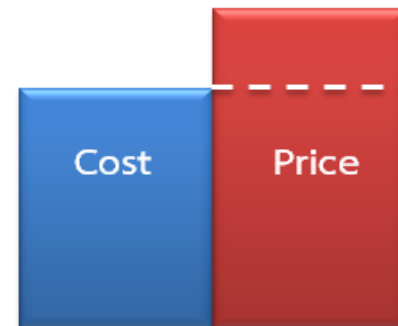
Examples of anti-competitive behaviour
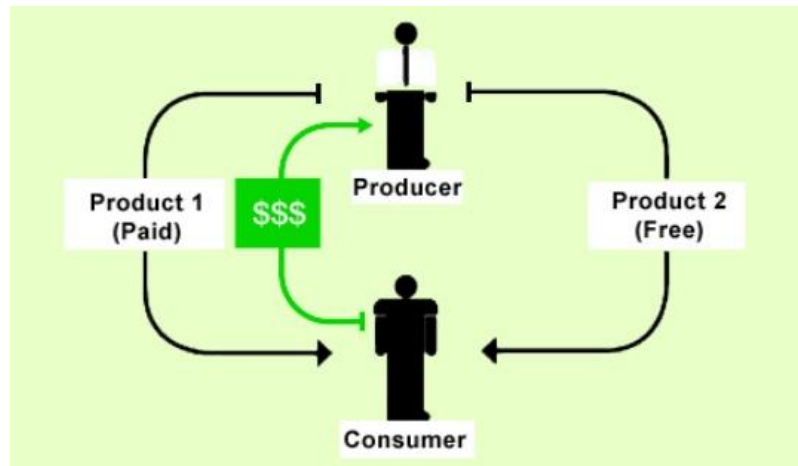
Examples of anti-competitive behaviour (2)

Efficiency or anti-competitive ???

Without accounting separation, it is very difficult to prove any anti-competitive behaviour

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Global trend of cost accounting regulation (Europe)

Country/region	Regulatory requirement
EU	The report should be able to separate direct and indirect costs (CCA or LRIC model is preferred to HCA).
France	The report must provide the quantity of network elements used by each wholesale and retail offer (HCA for all network element, CCA for some specific element required by ARCEP).
Germany	The report should include direct and common cost. Operators can use either top-down or bottom-up approach.
Ireland	Both HCA and CCA accounts are required (using FAC approach). The cost accounting is separated into local access network, core network, retail and other business.
Spain	The report applies top-down approach using HCA and CCA. Since 2011, the LRIC model have been applied in the report instead.
Sweden	Operators submitted outputs using top-down model to consider along side bottom-up model built by the regulator, PTS.
UK	Top-down using LRIC for network component costs within wholesale market. Others using top-down with both HCA and CCA

Source: Deloitte (2012)

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Accounting separation process in the EU

NRA EXERCISES CONTROL MECHANISMS THROUGHOUT THE APPROVAL PROCESS
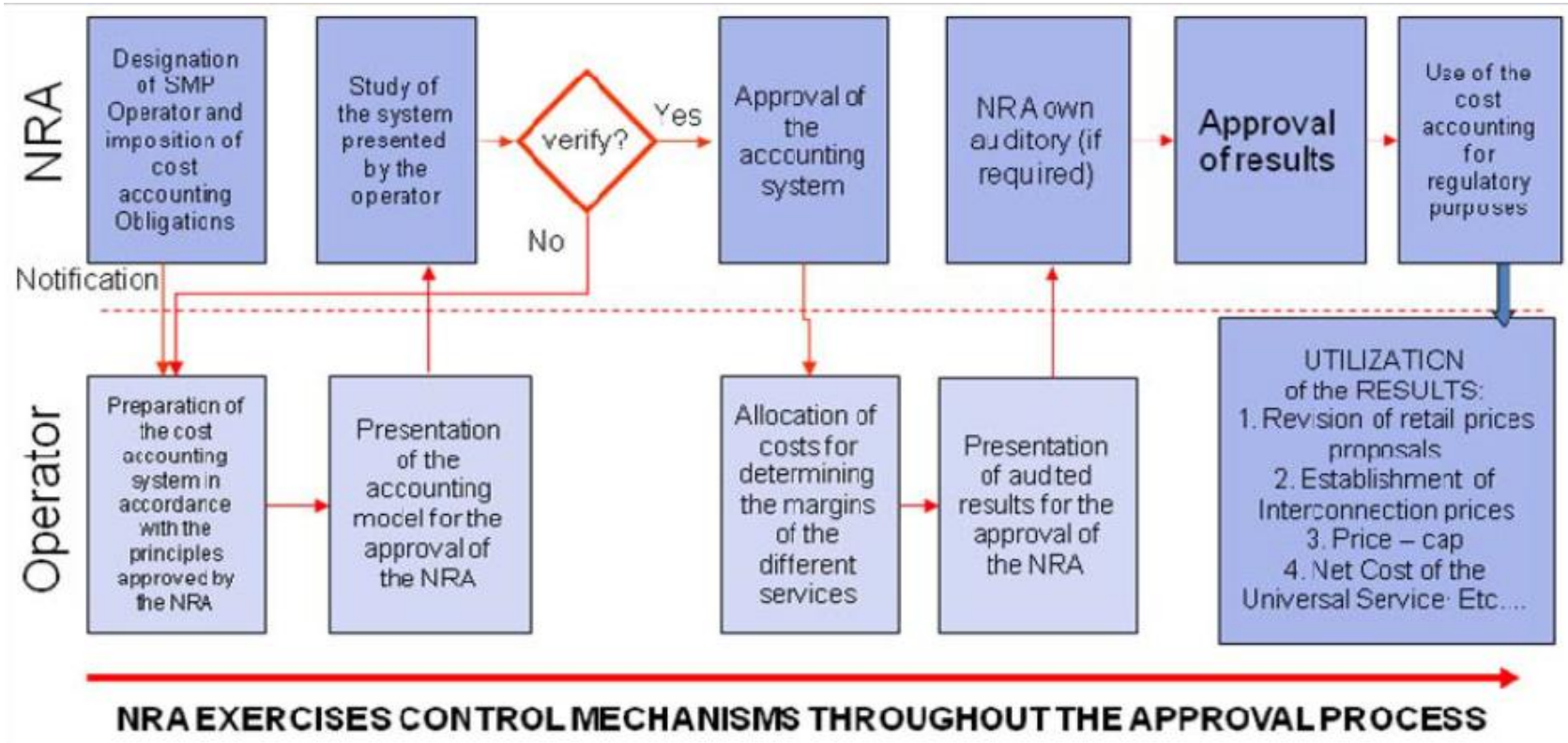
Source: ITU (2009)

Global trend of cost accounting regulation (Others)

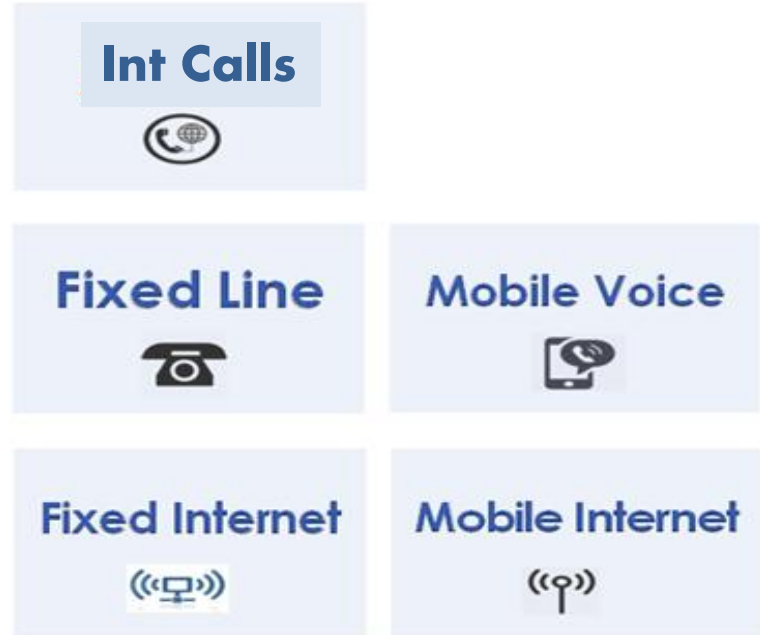| Country/region	Regulatory requirement
Ecuador	Accounting separation is not required. Only audited financial statements are needed to be submitted.
Mexico	There are two models, one for fixed and one for mobile network. The operators obliged to keep separate accounts for each service for regulatory purposes. These cost information have been used to solve interconnection issues and disputes.
New Zealand	The report is required to disclose financial information and services at an aggregate level. For regulated services, they should disclose at service level and facilitate "first order" tests of competition.
Thailand	The report must provide the revenues and costs of each offered service according to the accounting separation Notification (using HCA and FDC methodologies).

Source: Comcom (2009), ITU (2009) and NBTC (2012)

Market conditions to apply accounting separation in Thailand

## Market and SMP in Thailand (11 markets, 3 markets have SMP)

5 Retail markets

- **Int Calls**
- **Fixed Line**
- **Mobile Voice**
- **Fixed Internet**
- **Mobile Internet**

6 Wholesale markets

- **IDD**
- **IIG**
- **Fixed Termination**
- **Mobile Termination**
- **Broadband Access**
- **Leased Line**

- - - - - have SMP

SMP in Thailand (those who have either fixed, mobile or broadband network infrastructure) ➡️ Required to hand-in accounting separation
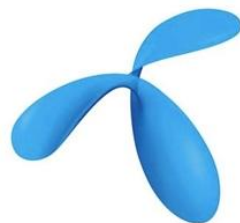
What type of information SMP operators required to hand-in?

1. Profit and loss statements

2. Capital employed statements

3. Reconciliation statement

4. Internal transfer charges/volume/rates

5. Service unit cost

6. Volume report

> SMP operators are required to hand-in accounting separation
>
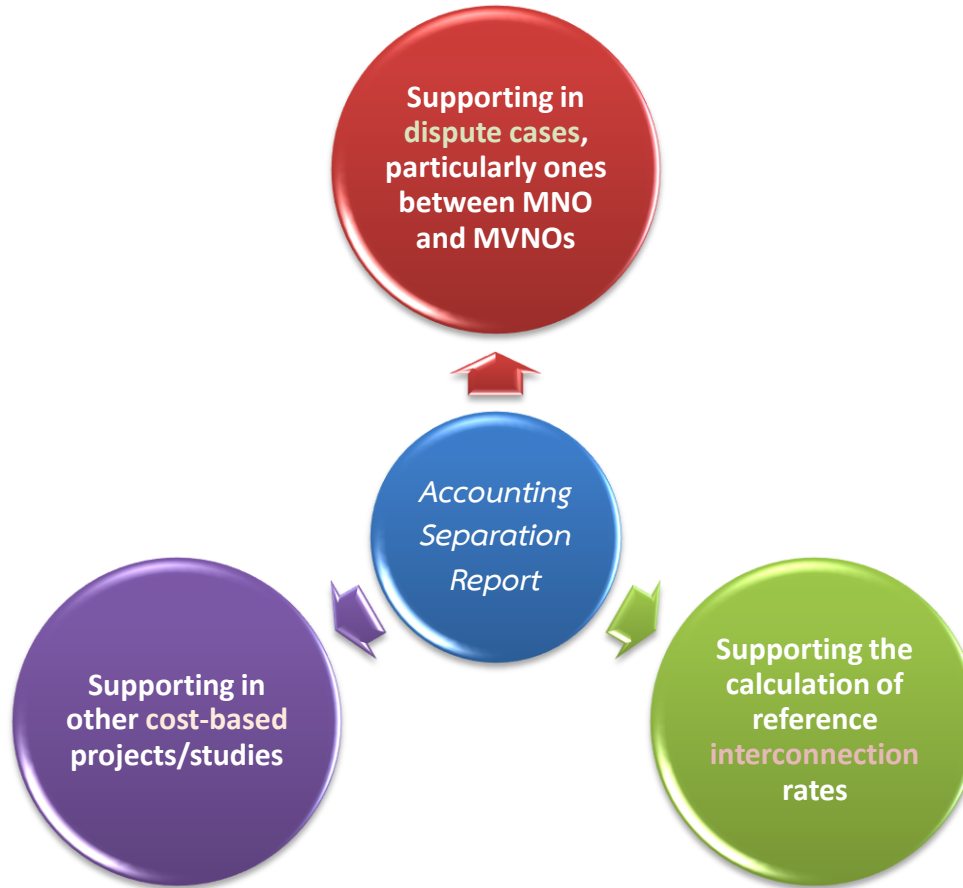> within 150 days after the end of the previous year

Outlines

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Utilisation: What we have done so far...

Examples of the Utilisation of accounting separation (1)

1. Dispute cases: Providing, analysing and comparing cost information of an MNO, their wholesale price selling to MVNOs and MNO retail prices

NBTC asked both MNO and MVNO to negotiate after the study of cost and related information
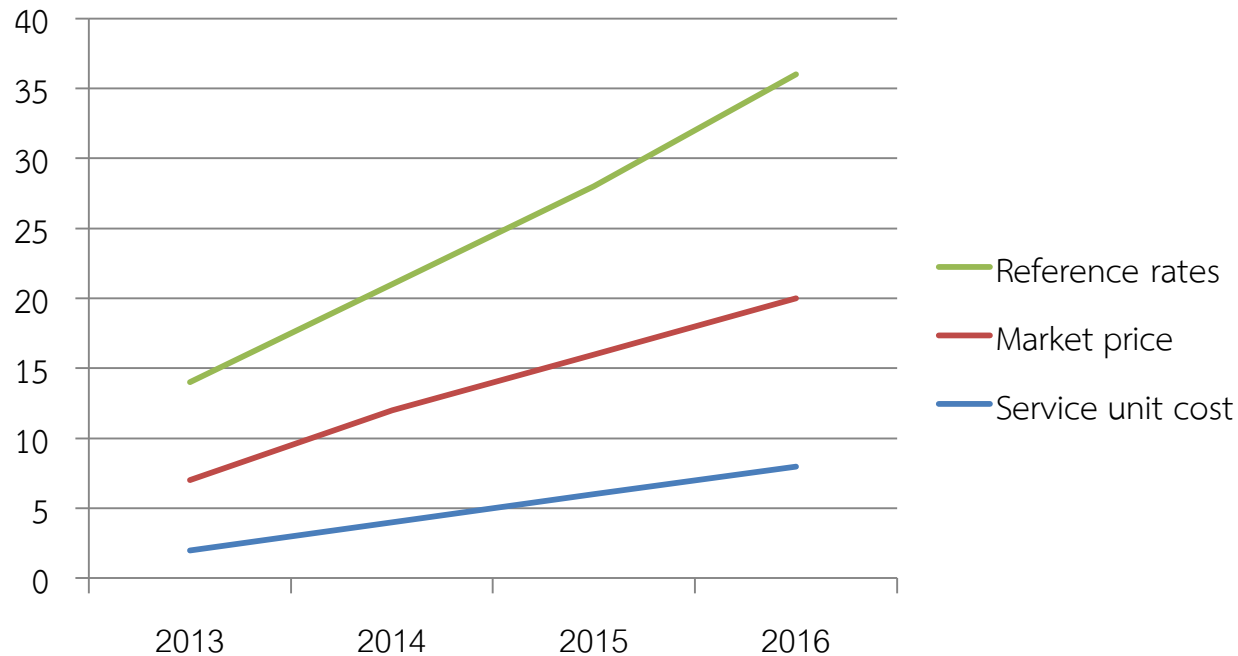
Examples of the Utilisation of accounting separation (2)

2. Cost related studies/projects/calculation: Supporting cost information to several studies and projects for NBTC such as IC reference rates calculation, X-factor, spectrum evaluation, the cost trends of telecom industry and, recently, the retail price regulation in one standard

Providing related information to the particular projects

Examples of the Utilisation of accounting separation (3)

Due to the confidentiality of costing data, this graph is only made from mock-up data to illustrate the utilisation of accounting separation, and does not represent any real price or cost information in Thailand

Problems

➤ The difficulties of accounting separation utilisation and implementation for both regulator and operators sides

➤ In the first few years (2012 - 2013), there were some resistance from operators to not hand-in accounting separation reports

➤ The changes of technology and market -> SMP changes -> Services in accounting separation reports need to be changed

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❑ **Challenges and ways forward**

Challenges and ways forward

Challenges

✓ New services

✓ New types of bundle services

✓ New services/products which overlap between sectors (for example, financial and telecommunications sectors)
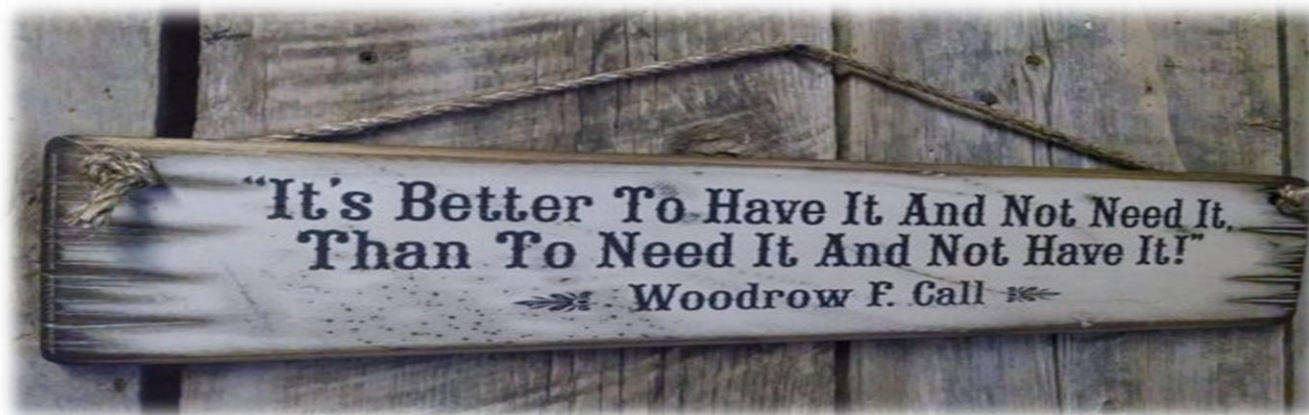
Challenges and ways forward

What's next for NBTC?

- ✓ Adjusting services in accounting separation to fit with new market environment and technologies (in progress)

- ✓ More utilisation of the data from accounting separation

- ✓ Sharing experience/knowledge to staff as well as SMP operators for better understanding of accounting separation and its utilisation

Question Time

THANK YOU
FOR YOUR ATTENTION