

# **REGULATIONS ON COSTING METHOD OF TELECOM SERVICES IN VIET NAM- ACTUAL SITUATIONS AND CHALLENGES**

Workshop on Competition and Tariff Regulation

*Hanoi, November 1<sup>st</sup> 2017.*

# Outline

I. Regulation on costing method in telecom sector

II. Actual situations and Challenges

# ACTUAL SITUATION

## REGULATORY

### LAW ON TELECOMMUNICATIONS

- MIC: Direct and guide the implementation of regulations on reporting, accounting and audit in service of management of telecommunications charge rates (Điểm đ Term 1 Article 56)
- Telecom operators: Account expenses and determine costs of telecommunications services, and public notification and posting of telecommunications service charge rates (Điểm c Khoản 2 Article 56)

### DECREE 25/2011/NĐ-CP

- The telecommunication enterprise dominating markets are not allowed to release a rate of telecommunication services lower than its cost(Khoản 4 Điều 38)

### CIRCULAR 16/2012/TT-BTTTT

- Regulation on determination method and report regime for telecommunications service's cost price

# COSTING METHOD

**Actual cost price:** is cost price of the latest fiscal year (year: n) defined on the basis of rational actual cost for accomplishment of a telecommunications service unit

- Actual price shall be defined on the basis of:
- To enterprises with separate accounting for cost of each kind of service: rational and actual cost of each kind of telecommunications service is determined in annual financial statement of Enterprise and production or conversion production
- To enterprises without separate accounting for each kind of service: rational and actual cost, production or conversion production of each kind of telecommunications service shall be defined in accordance with details regulations

**Planned cost price:** is cost price of the posterior year after fiscal year (year: n + 1) defined on the basis of expected cost arising in planned year to finish that telecommunications service unit

- Planned price is built on the background of:
- Actual cost price
- Economic – technical norms
- Expected price fluctuation of input costs
- Expected production of each service for planned year

*For example: If Enterprise submitted financial statement of 2011 in April 2012, actual price cost will be defined on the basis of rational actual cost of 2011 (year: n). Planned cost price shall be price defined on the basis of expected cost arising in 2012 (year: n+1)*

# COSTING METHOD

## Principles for determining cost price of telecommunications service

1. Apply uniformly costing method according to comprehensive expenses distribution measure for all telecommunications services without accounting separation.

*Note: telecom operators except for doing telecom business also doing other businesses*

2. Prohibit cross subsidization among telecommunications services while determining cost price of telecommunications services

*Note: Cross subsidization from other service to telecom service/ from this telecom service to another telecom service*

# ACTUAL SITUATIONS AND CHALLENGES

# ACTUAL SITUATION AND CHALLENGES/ DETERMINATION OF REVENUE

## Regulation

Revenue of telecommunications services will be determined as follows:

$$DT_{VT} = \sum_i^n DT_{VTi}$$

Where:

- A type of telecom service  $i$  which a provider carries on business is defined in detail in Circular No 05/2012/TT-BTTTT dated May 18th 2012 of Ministry of Information and Communications on telecom service classification.
- Revenue arising when the provider doing a telecom service  $i$  ( $DT_{VTi}$ ) is determined by the total rate revenue, applied to telecom service users ( $DT_{NSDi}$ ), revenue difference of rate payment among telecom businesses ( $DT_{DNI}$ ) and revenue difference of international payment between telecom business and foreign partners ( $DT_{QTi}$ ) of telecom service  $i$ :

$$DT_{VTi} = DT_{NSDi} + DT_{DNI} + DT_{QTi}$$

# ACTUAL SITUATION AND CHALLENGES/ DETERMINATION OF REVENUE

## Actual situation

- Revenue to calculate telecom services cost price must be revenue of telecom service. In the fact of pre-paid subscribers buy pre-paid cards for telecom service usage, however value of pre-paid card can be used for many services besides telecom service (For example: content service and application service). Then many businesses refuse to collect their actual telecom revenue and use the revenue of pre-paid cards to calculate for the telecom services cost price.
- In the trend of technology convergence, consumers tend to use bundling service instead of use separated service.

## Challenges

- How to accurately calculate the revenue of telecommunications services?
- How to calculate the revenue of bundling service?



## Regulation

Volume of telecommunications service (hereafter referred to as “Volume”) means number of units of telecommunications services arisen when customers use these services. Volume of telecommunications service composes of:

- Volume of on-net voice calls/SMS are arisen among final terminations or among connection points of the same telecommunications network;
- Volume of off-net voice calls/SMS are arisen among final terminations or among connection points of different telecommunications networks with each other. Different telecommunications networks are defined or as range of telecommunications network under different type but belonging to the same enterprise or belonging to other separate telecommunications companies.

# ACTUAL SITUATION AND CHALLENGES/ DETERMINATION OF REVENUE

## Actual situation

- Company A invested a new 4G system in the end of 2016. With the new system which can maximum offer a volume of 1 thousand billions MB in 2017, then the planed cost price for data service will be calculated based on a volume of 1 thousand billions MB.

## Challenges

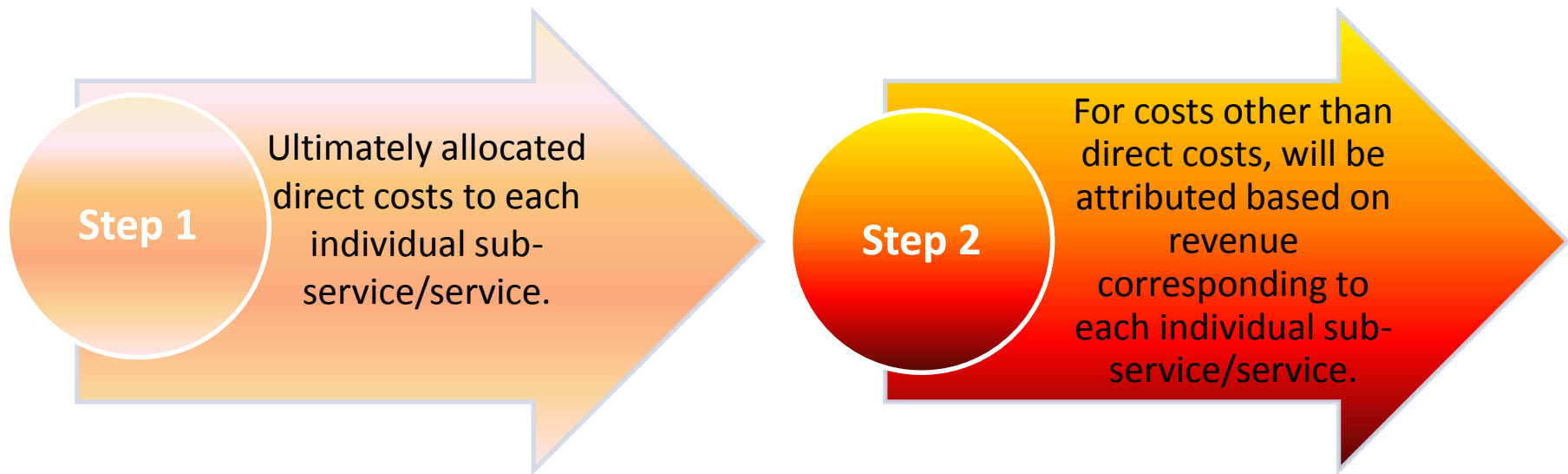
- Is design capacity used as volume to calculate planed cost price?

# ACTUAL SITUATION AND CHALLENGES/ METHOD FOR COST DISTRIBUTION AND DETERMINATION

## Regulation

Method for cost distribution and determination to enterprise trading only telecommunications service or different services which is based on the two following steps:

1. For costs other than direct costs, will be attributed based on revenue corresponding to each individual sub-service/service.



# ACTUAL SITUATION AND CHALLENGES/ METHOD FOR COST DISTRIBUTION AND DETERMINATION

## Actual situation

- Difference structure of businesses: mono-service businesses, multi-service businesses.
- Some of businesses ignore to allocate direct costs to each individual sub-service/service, fully distributed costs by revenue.
- Fully distributed costs by revenue leads to deviation in service cost as cost and revenue are not always proportional.

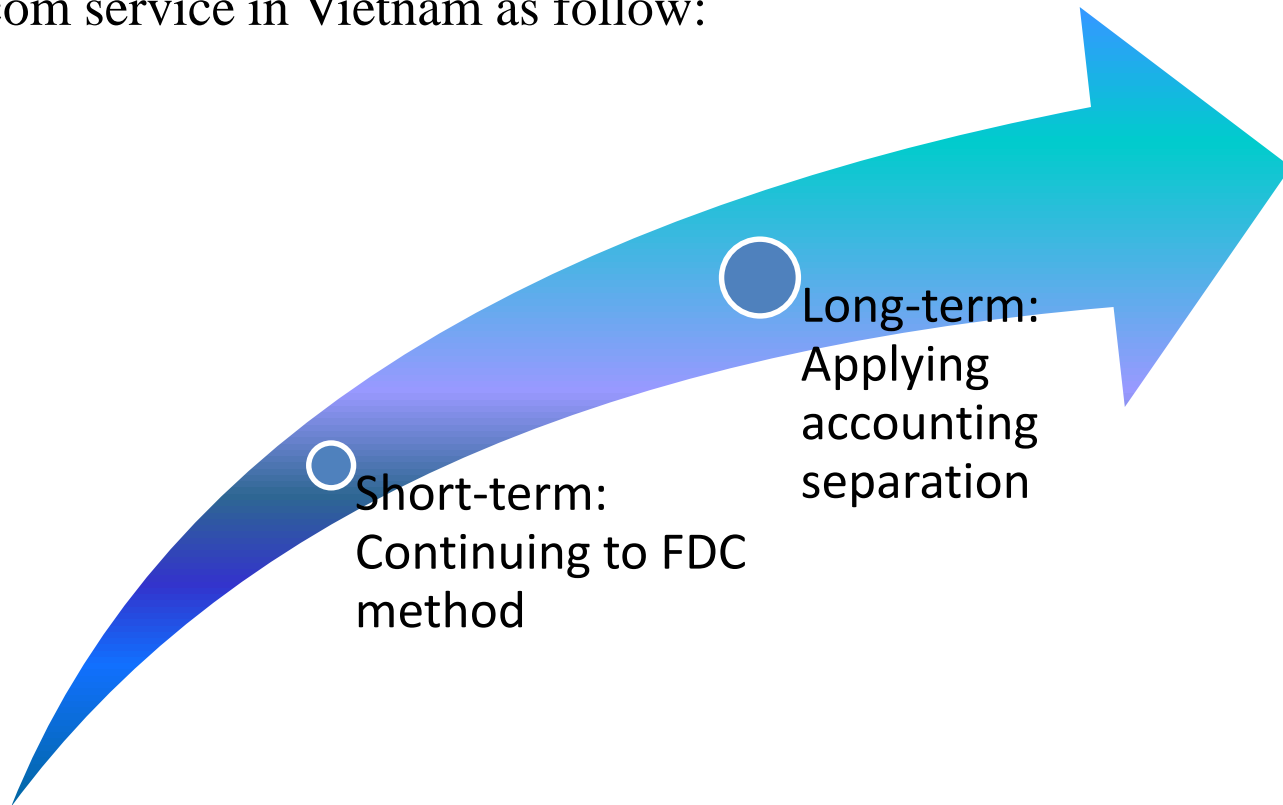
# ACTUAL SITUATION AND CHALLENGES/ METHOD FOR COST DISTRIBUTION AND DETERMINATION

## Challenges

- How to ultimately allocated direct costs to each individual sub-service/service?
- What are appropriated distribution criteria except for revenue criteria? What are the priority of these criteria?
- For cost associated to networks, how to determine a common conversion factor for all services?

# FUTURE APPROACH REVIEW AND CHALLENGES

In the future, we are reviewing two approaches of costing methods for telecom service in Vietnam as follow:



# ACTUAL SITUATION AND CHALLENGES/ METHOD FOR COST DISTRIBUTION AND DETERMINATION

## Challenges

- What are steps to be prepared to move from FDC method to accounting separation?
- What are the advantages of accounting separation for telecom businesses?
- What are the documents/Proforma needs to be prepared/set up to gather revenue/cost for doing accounting separation?

**THANK YOU**