



Suruhanjaya Komunikasi dan Multimedia Malaysia

Malaysian Communications and Multimedia Commission

PUBLIC INQUIRY REPORT

Implementation of Accounting Separation in Malaysia

30 November 2012

This Public Inquiry Report was prepared in fulfilment of Sections 61 and 65 of the Communications and Multimedia Act 1998.

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ABBREVIATIONS AND GLOSSARY

Term	Definition
ABC	Activity Based Costing
AS	Accounting Separation
Attribution	The process of attributing direct and directly attributable costs to services or products
Apportionment	The allocation of unattributable costs in a proportional manner
BU	Bottom-up
CCA	Current Cost Accounting
Celcom	Celcom Axiata Berhad
CMA	Communication and Multimedia Act 1998
DiGi	DiGi Telecommunications Sdn Bhd
DSL	Digital Subscriber Line
EC	European Commission
ERP	Enterprise Resource Planning
EU	European Union
FAR	Fixed Asset Register
FAC	Fully Allocated Cost
FCM	Financial Capital Maintenance
GL	General Ledger
HCA	Historic Cost Accounting
HSBB	High Speed Broadband
HR	Human Resources
IBP	International Best Practise
IFRS	International Financial Reporting Standards
LRIC	Long Run Incremental Cost
MASB	Malaysian Accounting Standards Board
Maxis	Maxis Berhad
MCE	Mean Capital Employed

MCMCA	Malaysian Communications and Multimedia Commission Act 1998
MEA	Modern Equivalent Asset
MFRS	Malaysian Financial Reporting Standard
MIA	Malaysian Institute of Accountants
MVNO	Mobile Virtual Network Operators
NGN	Next Generation Network
NPV	Net Present Value
NRA	National Regulatory Authority
NRV	Net Realisable Value
OCM	Operating Capital Maintenance
PI	Public Inquiry
PSTN	Public Switched Telephone Network
P&L	Profit and Loss
PV	Present Value
P1	Packet One Networks (M) Sdn Bhd
RIA	Regulatory Impact Assessment
RIO	Reference Interconnection Offer
RFS	Regulatory Financial Statements
RONR	Return on Net Revenue
SAP	Systems Applications Programming
SKMM	Malaysian Communication and Multimedia Commission
SMP	Significant Market Power
SMS	Short Messaging Services
TM	Telekom Malaysia Bhd
TIME	TT dotcom, Global Transit Communications and AIMS
U Mobile	U Mobile Sdn Bhd
USP	Universal Service Provision
UK	United Kingdom
VOIP	Voice over Internet Protocol

WACC

Weighted Average Cost of Capital

YTL

YTL Communications Sdn Bhd

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SUMMARY OF SKMM FINAL VIEWS ON IMPLEMENTATION OF ACCOUNTING SEPARATION

In this Public Inquiry (PI), SKMM has undertaken a detailed examination of the framework for implementing accounting separation (AS).

The PI Paper sets out SKMM's preliminary views on a variety of issues and invited comments in response to specific and general questions. Having considered the submissions received in response to the PI Paper, the following table summarises SKMM's reasoning for reaching the final views set out in this PI Report:

Table 1: Summary of SKMM's final views

No.	Issues	SKMM's final view
1.	If accounting separation is implemented on fixed network operators, for which services should there be separate accounts? Is the suggested list appropriate? If not, please explain why.	SKMM proposes to retain the list.
2.	If accounting separation is implemented on mobile network operators, for which services should there be separate accounts? Is the suggested list appropriate? If not, please explain why.	SKMM's has decided to include additional services such as backhaul and RAN sharing to the list of services.
3.	Is it feasible to set up and run the surveys listed in Section 5.5? If not, please explain why.	RFS for 2012 will not be required. Surveys will need to be developed for the year 2013 onwards.
4.	Do the cost categories listed in Appendix C include all the relevant costs? If not, which types of cost are missing?	SKMM will discuss with the working group to finalise the cost classification categories.
5.	Are the suggested cost drivers and attribution methods in Appendix C appropriate? If not, what should be used and why?	To assist this process, together with practicalities of data collection and relevance, SKMM is proposing further discussions in the proposed working group.
6.	When services are offered as a bundle, is it possible to attribute revenue to different services using billing or other data? If not, please explain why.	SKMM believes that as long as these rules are documented and any deviations from standard process explained, the output should provide sufficient level of accuracy for regulatory purposes. Some form of

No.	Issues	SKMM's final view
		periodic review could be performed on the companies' customer data.
7.	Is it necessary to have CCA accounts? If not, please give reasons.	To retain CCA as it will enable SKMM to reach a correct view regarding the existence or absence of excessive prices, undue discrimination and price squeeze.
8.	How could the impact of asset price changes be taken into account in the absence of CCA accounts?	SKMM remains of the view that price changes cannot be taken into account in the absence of CCA.
9.	Are replacement costs the best way to value assets under CCA? If not, what is the best approach and why?	SKMM retains its view that replacement costs are the best way to value assets under CCA.
10.	Do you agree with the process for determining the replacement cost of different types of asset that is summarised in Figure 6 and explained further in Appendix B? If not, what would be more suitable and why?	In SKMM's view, Figure 1 in the PI Report appropriately summarises the process for determining CCA asset values using current replacement costs.
11.	Do you have or could you obtain the data that is necessary in order to revalue assets at replacement cost. If not, please explain why.	AS based on CCA has been implemented in other countries and SKMM retains its view that it should be implemented in Malaysia.
12.	Do you agree that FCM is the appropriate form of capital maintenance to use for CCA? If not, please give reasons.	SKMM remains of the view that FCM should be used in Malaysia.
13.	If transfer charges for internal sales are based on costs, is WACC the appropriate basis for determining the cost of capital? If not, what basis should be used?	SKMM affirms that WACC is the appropriate basis for determining the cost of capital. It supports the use of whole company WACC because techniques for estimating divisional WACC are not yet reliable enough.
14.	When there are external sales, should transfer charges for internal sales be based on market prices or costs including the cost of capital? Please give reasons.	SKMM agrees that where charges for external sales are regulated (e.g. via MSAP) they should also be used for transfer charging purposes.
15.	Is the suggested format of the Regulatory Financial Statements appropriate? If not, please give reasons.	SKMM has decided on a partial exemption from the reporting requirements for operators with threshold of revenue and/or total

No.	Issues	SKMM's final view
		assests below RM3 billion. SKMM maintains its position that the format should be the same for all operators who exceed the threshold as this enables comparability.
16.	Are the reconciliation adjustments set out in Table 6 and Table 7 appropriate? If not, what should they comprise?	<p>SKMM remains of the view that the reconciliation adjustments proposed in the PI paper are appropriate.</p> <p>SKMM has also decided that, for those entities that fall below the "small company" thresholds, the reconciliation statement will be simplified as it will exclude current cost adjustments.</p>
17.	Are the specified levels of the audit opinion appropriate? If not, please explain why.	<p>SKMM has decided the following:</p> <ul style="list-style-type: none"> • With respect to entities that fall below the "small company" threshold self certification signed by a company director will be required. • For companies that do not fall below the "small company" threshold, a Compliance Statement signed by the company auditors will be sufficient for the first two years of implementation of AS. • FPIA to be required from the third year of implementation of AS. • Operators will be free to determine who audits their RFS, so the use of statutory auditors is not precluded.
18.	Is the accounting separation documentation specified in Section 11.2 adequate? If not, what should be added?	SKMM envisages that the documentation would be broadly as specified in the PI Paper. Retention of records would be the same as for current statutory purposes. The working group would confirm the scope and level of detail required.
19.	Are the accounting records specified in Section 11.7 adequate and appropriate? If not, what should be added or changed?	SKMM is of the view that in the first year of preparing results, and possibly beyond, it may be practical to develop the cost apportionment process using a series of spread sheets, with supporting documentation. This may be helpful in terms of the overall learning process, as new methods are being introduced, and would not to be over prescriptive.

No.	Issues	SKMM's final view
20.	Should the Regulatory Financial Statements be published? Please give reasons.	SKMM had decided to not publish the RFS for the time being; instead it will be used for internal purposes only.
21.	Would it be useful to establish a joint working group of the operators and SKMM, which met quarterly to resolve issues and help drive the implementation process forward? If not, what would be a better co-ordination mechanism?	SKMM endorses the setting up of a working group and intends to chair the proceedings and make the necessary arrangements.
22.	Is it appropriate to have a phased approach with HCA Regulatory Financial Statements (RFS) produced first and CCA RFS produced later?	SKMM views it as appropriate to have a phased approach with HCA produced in 2014 based on 2013 accounts and followed by CCA in 2016 based on 2015 accounts.
23.	Is the draft implementation timetable feasible? If not, please explain why.	<p>SKMM proposes the implementation timeline as follows:</p> <ul style="list-style-type: none"> • Retrospective HCA RFS for 2012 are not required • Draft HCA RFS for 2013 will be required by 30 June 2014 and final HCA RFS by 30 September 2014 • No CCA RFS will be required for 2014 • Draft CCA RFS for 2015 will be required by 30 June 2016 and final CCA RFS by 30 September 2016. <p>SKMM also proposes milestones for 2013 covering the production of separated revenue statements, the collection of cost driver information and the determination of cost attribution methodologies.</p> <p>For companies whose year end is not 31 December, final RFS needs to be submitted within 9 months from the financial year end.</p>

1 INTRODUCTION

1.1 Public Inquiry process

In its Public Inquiry Paper on Implementation of Accounting Separation on Telecommunication Operators in Malaysia (**PI Paper**) released on 7 September 2012, SKMM explained that it was of the view that AS is necessary in order to reveal the relationship between prices and costs for different services and thereby help SKMM to monitor and make informed decisions about competition issues in the Malaysian Communications and Multimedia industry.

The purpose of the public inquiry process is to describe what AS involves and to provide the industry and the wider public with the opportunity to comment on SKMM's preliminary proposals regarding the AS framework and the associated implementation plan and timetable.

Given the importance of AS and the need for operators to develop systems and invest time and resources in order to implement it, SKMM adopted for this Public Inquiry the widest possible consultative approach under the legislation. This approach was also designed to promote certainty and transparency in the exercise of SKMM's powers.

The PI Paper set out SKMM's preliminary views on the AS framework and implementation process, inviting comments from interested parties and members of the public.

The PI Paper covered:

- (i) the aims of AS and why it is necessary;
- (ii) the legal background;
- (iii) the different components of AS; and
- (iv) the implementation process.

1.2 Consultation process

SKMM has consulted widely and openly with all interested stakeholders during this Public Inquiry, including:

- (i) Consultations with a broad range of licensees prior to the release of the PI Paper;

- (ii) Publication of the PI Paper on 7 September 2012 and a request for comment, including publicity in relation to the same in the media and on SKMM website;
- (iii) Conducting a clarification session on 27 September 2012 during which SKMM responded to questions raised by stakeholders in relation to the PI Paper.
- (iv) Discussion with the Malaysian Institute of Accountants (MIA) on matters relating to audits.

1.3 Submissions Received

At the close of the public consultation period at 12.00 noon on 31 October 2012, SKMM received written submissions from the following parties:

Table 2: List of submissions received

No.	Submitting party	Documents
1.	Celcom Axiata Berhad (Celcom)	<ul style="list-style-type: none"> • 1 Cover Letter • 1 non-confidential submission (32 pages) • 1 confidential submission(32 pages) • 1 Annex (4 pages)
2.	DiGi Telecommunications Sdn Bhd (DiGi)	<ul style="list-style-type: none"> • 1 Cover Letter • 1 non-confidential submission (32 pages) • 1 Schedule (1 page)
3.	Maxis Berhad (Maxis)	<ul style="list-style-type: none"> • 1 Cover Letter • 1 non-confidential submission (63 pages) • 1 confidential submission(63 pages)
4.	Malaysian Institute of Accountants (MIA)	<ul style="list-style-type: none"> • 1 non-confidential submission (3 pages including cover)
5.	Packet One Networks (Malaysia) Sdn Bhd (P1)	<ul style="list-style-type: none"> • 1 Cover Letter • 1 non-confidential submission (16 pages) • 1 confidential submission(15 pages)
6.	Telekom Malaysia Berhad (TM)	<ul style="list-style-type: none"> • 1 Cover Letter • 1 non-confidential submission (53 pages) • 1 Annex (7 pages)

No.	Submitting party	Documents
7.	TT dotcom, Global Transit Communications and AIMS (TIME)	<ul style="list-style-type: none"> • 1 Cover Letter • 1 non-confidential submission (62 pages)
8.	U Mobile Sdn Bhd (U Mobile)	<ul style="list-style-type: none"> • 1 Cover Letter • 1 non-confidential submission (19 pages) • 1 confidential submission(19 pages)
9.	YTL Communications Sdn Bhd (YTL)	<ul style="list-style-type: none"> • 1 Cover Letter • 1 non-confidential submission (8 pages)

Having thoroughly reviewed and assessed the submissions received on the PI Paper against its own preliminary views, SKMM now presents this PI Report within the 30 day requirement of the closing date of submissions, as stipulated under section 65 of the CMA.

1.4 Structure of this PI Report

The remainder of this PI Report largely follows the structure of the PI Paper. The 23 numbered questions in the PI Paper are duplicated in each section with a summary of the comments received. SKMM then sets out the rationale of its final views on each issue:

- Section 2: Legal background and objectives of accounting separation
- Section 3: Scope and coverage of accounting separation
- Section 4: Accounting separation principles and policies
- Section 5: Cost attribution process
- Section 6: Revenue attribution
- Section 7: Current cost accounting
- Section 8: Transfer pricing
- Section 9: Format of regulatory financial statements
- Section 10: Reconciliation with statutory accounts
- Section 11: Audit and documentation requirements

Section 12: Implementation plan

2 LEGAL BACKGROUND AND OBJECTIVES OF ACCOUNTING SEPARATION

2.1. Overview

SKMM's mission statement requires it, amongst other things, to ensure that consumers enjoy a satisfactory level of services at affordable prices and to provide transparent regulatory processes to facilitate fair competition. At the same time, Section 198 of the CMA requires prices to be fair and not unreasonably discriminatory, cost oriented, and not prejudicial to competition.

Reflecting this, SKMM's objectives include ensuring that:

- (i) Network operators (fixed and mobile) do not unduly discriminate in favour of their own downstream operations (and against downstream competitors) when setting charges for the use of their networks;
- (ii) Prices charged for access to networks (e.g. to copper and fibre access networks) are not excessive, even if there is no discrimination;
- (iii) The charges paid by mobile virtual network operators (MVNOs) for network services are reasonable in relation to costs;
- (iv) Prices for particular retail services are not excessive;
- (v) Vertically integrated operators are not engaging in price or margin squeezes.

As outlined in Section 2.2 of the PI Paper, these types of adverse pricing behaviour can arise in the telecommunications industry, particularly in the presence of vertically integrated operators, and recent years have seen a number of complaints to SKMM from Malaysian operators and consumers about such pricing practices. At present SKMM is not in a position to conduct analyses and judge the merits of such complaints and make appropriate decisions.

In order to be able to do so, SKMM needs access to much more detailed and reliable financial information on the revenues, costs, capital employed, profitability and financial returns of telecommunications products and services within Malaysia (both fixed and mobile). AS will provide SKMM with such information and help it to make informed decisions on these issues, and, crucially, will provide a sound foundation of financial information within a framework that will allow any future complaints to be dealt with in a more rigorous and timely manner.

2.2. Summary of general comments received

2.3. Implementation of Accounting Separation via Licence Condition

DiGi questioned the basis on which SKMM is relying on licence condition to impose AS. They are of the view that 'separate accounting records' does not extend to the preparation of accounts as prescribed by SKMM in the PI Paper but rather relates to the ad hoc preparation of accounting information which is separate from accounting information which is produced as a matter of course such as a company's statutory accounts. Further, they believe that the clause 'as may be required by the Commission from time to time' precludes the option of establishing a new significant enduring requirement of the sort envisaged by AS.

Further, DiGi also stated that since AS would entail substantial development of systems, processes and software and groundwork through surveys, it would impose on the operators' considerable costs, expenses and consequentially affect its rights and obligations in the manner in which the business is conducted. Due to such material consequences and impingement on the operators operationally and financially, operators should have been given the right to be heard to the same extent as the current PI and after the operators were made aware that AS implementation was envisaged by the condition. A condition that would have far reaching consequences needs to unequivocal and clear in terms of wordings and consequences and after allowing the licensee the right to be heard.

TM pointed out that the NFP and NSP licence conditions state that there will be requests for accounting records from "time to time". This implies that the providers are obliged to comply with requests for information on an occasional basis but it does not justify the imposition of permanent and long term AS obligations by SKMM.

TIME is of the view that SKMM cannot rely on the licence condition as the basis for implementing AS. They pointed out that under section 30(2) of the CMA, it is incumbent upon the Minister to declare that "an individual licence granted under this Part be subject to special or additional conditions." Since there has been no Ministerial declaration as such, they believe that the licence condition referred to by SKMM is ultra vires. They believe that s30(4) of the CMA which states that "Notwithstanding subsection (2), all individual licences shall be deemed to include the relevant standard licence conditions specified in the Schedule", further strengthens their argument.

2.4. SKMM's response to comments on implementation of accounting separation via licence condition

SKMM notes the issues and concerns submitted by licensees on the implementation of AS via licence condition. As stated in the PI Paper, SKMM is not merely relying on the special licence condition on accounting records. SKMM is mainly relying on various sections of the CMA and the MCMCA to implement AS. In particular, SKMM has identified Part VI, Chapters 2 and 3 of the CMA and Part VIII, Chapter 4. In addition, there are provisions under MCMCA that provide SKMM with the powers to implement AS. In particular, SKMM would like to highlight section 16 of the MCMCA wherein it has been provided that in addition to the functions SKMM possesses under the CMA, SKMM also has the function of implementing and enforcing the provision of the communications and multimedia law. Further sub-section 16(2) of the MCMCA provides that SKMM shall have such powers as may be necessary for, or in connection with, or reasonably incidental to, the performance of its functions under the communications and multimedia laws.

The special licence condition on accounting records is just another instrument that SKMM can rely on to implement AS. It is SKMM's view that provisions in the CMA, MCMCA alone are sufficient to implement AS.

In response to TM and DiGi's contention regarding the interpretation the licence condition, SKMM's is of the view that the licence condition provides SKMM the power to require the information as when needed and licensees are required to submit regulatory financial statements (RFS) in accordance with the AS framework, including any guideline on AS that SKMM may develop in future.

In terms of TIME's comments on the relevant licence condition not specified in the Schedule and the absence of a Ministerial Declaration, SKMM would like to emphasize that as per requirement under section 30 of the CMA, the grant of individual licences by the Minister is and has always been accompanied with issuance of a special Ministerial Declaration declaring such individual licensee to be subjected to all special or additional conditions contained in the licence. As such, TIME's contention that SKMM is acting *ultra vires* in relying on the special licence condition for implementation of AS due to the same not being accordingly declared as per the requirement under section 30 of the CMA is inaccurate. TIME can obtain a copy of the said Ministerial Declaration from SKMM, if it wishes to inspect the document.

2.5. Accounting Separation to be Implemented Ex-post on Dominant Operators

Celcom believes that in line with ITU's Regulatory Accounting Guide, there must be a Comprehensive Regulatory Framework before implementing AS. They highlighted that there should be minimal intervention, periodic market assessment and analysis and designation of dominance or significant market power (SMP). In addition, Celcom also proposed that the CMA is examined and brought in line with global practices to ensure that SKMM can impose ex-ante obligations on dominant operators.

DiGi proposed that before AS is implemented, a number of conditions should be fulfilled:

- There needs to be a clear identification and precise description of the competition problem;
- AS is determined to be a suitable and efficient remedy for the identified problem;
- Any AS remedy is at the level of the economic market where the competition problem has been identified; and
- There is a rational expectation that the benefits of AS outweigh its costs.

To further strengthen its point, DiGi cited the ITU Regulatory Accounting Guide which states that national regulatory authorities (NRA) must undertake market analysis prior to imposing the obligation of cost accounting and AS. Similarly, the European Union (EU) has recognised that AS is an intrusive remedy which must not be implemented except where it is specifically a remedy for market failure in respect of a market where an operator has been found to have SMP.

DiGi is of the view that in the absence of dominance, an AS remedy does not appear justified. DiGi suggested that before imposing AS or indeed any remedy, SKMM should first determine that the licensee is dominant in the relevant market and satisfy itself that the application of the remedy is appropriate and will address the competition problem.

Similarly, Maxis submits that the imposition of AS should be based on comprehensive regulatory framework that provides clear criteria to assess and decide whether obligations for AS are balanced and suitable. They cited the ITU Regulatory Accounting Guide and pointed out that according to the guide, before imposing AS obligation, NRAs must undertake market analysis to identify operators with SMP (SMP). When regulatory market analysis reveals that effective competition is absent from a given market, then the regulator may deem it necessary to impose remedies, including AS. Maxis believes that where there are no specific competition problems and concerns, such as in

Malaysia's mobile market, SKMM should undertake market analysis first, in line with international best practice (IBP) and to ensure that any regulatory obligations imposed on operators are justified and proportionate.

P1 is also of the opinion that AS should only be made applicable to dominant wholesale providers whose behaviour can result in anti-competitive. As such, they believe that it is critical for SKMM to determine licensees as dominant. They cited countries such as UK, Hong Kong, New Zealand and Japan as examples.

YTL pointed out that besides general statements on the need to regulate anti-competitive behaviour, SKMM has not carried out an assessment on the degree of competition in the communications market. Therefore, they are of the view that imposing AS in Malaysia is akin to providing solutions to problems that have not been ascertained. Due to a lack of identification of problems, YTL questioned whether the information being sought is relevant and material. They surmised that AS will be more relevant and compelling if SKMM had undertaken an assessment of competition in the communications markets to determine the markets and the behaviour that needs to be addressed.

TM drew SKMM's attention to the ITU Regulatory Accounting Guide which proposes that cost accounting and AS are ex-ante obligations imposed on SMP operators. However, TM pointed out that under the CMA, particularly section 139(1) specifies that SKMM may direct a licensee in a communications market to cease anti-competitive conduct. Therefore, SKMM's powers under the CMA are restricted to regulating ex-post and not ex-ante.

According to TM, if SKMM intends to impose ex-ante AS obligations, market analysis will provide guidance as to which markets SKMM must monitor. In addition to ITU, TM also cited the European Commission's (EC) Recommendation on AS and cost accounting systems in 2005 and pointed out that the recommendations illustrate that AS obligations must be balanced against other competing policy interests such as regulating only when necessary, allowing operators to earn a reasonable rate of return, encouraging investment (and thereby innovation) and maintaining low service prices for the benefits of end users.

In addition, TM highlighted a number of countries such as New Zealand, Finland, Ireland, Malta and UK that have restricted AS to dominant operators, including mobile operators and broadcasters. They pointed out that IBP indicate that AS requirements must be

proportionate. To this end, blanket requirements across all telecommunications services would not qualify as proportionate, unless a particular problem has been identified in all markets. TM therefore recommends that SKMM conducts a review and imposes AS requirements only on operators found to be dominant in specific markets for specific services in which there is a competition problem.

TIME opined that the proposal by SKMM to apply AS to all licensees regardless of whether the licensee is dominant or not is clearly inconsistent with the literature on the subject of regulatory intervention. They pointed out that only dominant firms are likely to act anti-competitively because dominant firms are more likely to provide access to infrastructure which is not competitively available. Since the Commission has not determined any party to be dominant since the expiry of the Determination No. 2 of 2004, it indicates that there is no evidence to support finding of dominance and that the market is functioning adequately.

TIME pointed that there are already three regulatory instruments in place to address the anti-competitive practices highlighted by SKMM in the PI Paper, namely undue price discrimination, cross subsidisation and margin squeeze. The access pricing and access agreements provide SKMM with the basis to determine if undue price discrimination is happening. Cross subsidisation can be determined in the same manner due to the fact that SKMM has a significant amount of information that just needs to be collated and analysed. In addition, TIME highlighted that cross subsidisation is “mandated” for the fixed line operators because the retails rates prescribed in the Rate Rules are in fact lower than the termination rates. TIME also believes that information that can be used as a basis to determine margin squeeze is already available to SKMM from a combination of sources, namely access agreements by the licensee who is squeezing, the retail prices that are published or offered by the same licensee and the costing study that has been concluded. In short, TIME is of the view that undue discrimination, cross subsidisation and margin squeeze are seriously mitigated by the existing regulatory requirements, and their occurrence (if any) is due to lack of enforcement.

2.6. SKMM’s response to comments on implementation of accounting on dominant operators

SKMM notes the submissions by Celcom, DiGi, Maxis, P1, TM, TIME and YTL about carrying out market assessments prior to imposing AS on dominant operators. SKMM would like to point out that Section 139 of the CMA provides that the Commission may direct a licensee in a dominant position in a communications market to cease a conduct

in that communications market that has, or may have, the effect of substantially lessening competition in any communications market, and to implement an appropriate remedy. From this provision, it can be seen that SKMM may be able to issue a direction to the licensees who are in a dominant position to cease such conduct, and at the same time implement an appropriate remedy including but not limited to the implementation of AS. From the reading of section 139 of the CMA, it can be inferred that the implementation of such appropriate remedy, including the implementation of AS, takes place only with respect to the licensees who are already in the dominant position. As such, even if SKMM carries out market assessment and declares licensees dominant, SKMM is not in a position to impose AS obligations on those licensees. SKMM can only impose AS under section 139 of the CMA ex-post, if the licensee is found to engage in a conduct that is substantially lessening competition in the communications market.

However, SKMM can use its powers under the CMA and MCMCA to impose ex-ante obligations, including AS on all licensees.

In response to TIME's comments about existing regulatory instruments, SKMM is of the view that instruments such as access agreements and access pricing, provide a starting point but lack the details that are required to assess price related discrimination.

2.7. Accounting Separation and the Desired Goals

TIME drew SKMM's attention to the experience in other countries where AS did not prevent discrimination. Instead of discriminating on the basis of price, operators with SMP took other steps to discriminate against their competitors; by lowering the quality of service or delaying the provision of network connectivity and other technical information. TIME cited examples in other countries such as UK, Singapore, Australia, India, Europe and Malta and concluded that in these countries, the imposition of AS is always on firms that are dominant.

TIME also pointed out that AS failed to prevent anti-competitive behaviour. Experience in UK, EU, Australia and New Zealand shows that it does not affect operator's market behaviour, incentivised the firm to engage in creative accounting and even current cost accounting (CCA) could mask instances of margin squeeze or non-price discrimination.

TIME also believes that AS is not necessary when prices for non-competitive services are controlled. TIME provided examples in other countries such as UK when the then Oftel thought AS is necessary for continuing development of competition and for public confidence that BT is not abusing its dominant position. Often, AS alone is insufficient

for SKMM to make finding of anti-competitive conduct and necessitates undertaking a more detailed investigation and information compilation before it can take action.

According to TIME, other countries such as Australia, Singapore and New Zealand promote an access regime by which an operator publishes reference interconnection offer (RIO) and Malaysia does not require an RIO to be published. Instead, SKMM determines and then set the prices that a provider can charge for access to the services that are listed. They submitted that this approach reduces or eliminates the risk of price discrimination. Therefore, TIME is of the view that AS is not an effective remedy for the problem that SKMM is seeking to address.

TIME believes that SKMM has not given sufficient thought as to what SKMM will do with the RFS, as they believe that SKMM at present is both ill-equipped and ill-prepared to handle the effects of the submission of the RFSs. Instead, they propose that SKMM rely on other alternatives such as access agreements and retail rates of each party for investigation purposes. Failure by SKMM to do so reflects the state of affairs within SKMM – namely it lacks appropriate experience, knowledge and sufficient resources to undertake competition investigation. Apart from that, TIME also questioned whether SKMM will act against licensees whose RFSs are evident of anti-competitive conduct.

2.8. SKMM's response to comments on the desired goal of accounting separation

SKMM concurs with TIME's opinion that AS will not address all forms of discrimination and that licensees could resort to other forms of discrimination such as lowering the quality of service or delaying the provision of network connectivity and other technical information. SKMM has noted in the PI Paper that AS can identify and remove incentives for price discrimination, while non-price discrimination remains a possibility.

SKMM is also mindful AS alone could be insufficient in some circumstances and that SKMM may need to undertake a more detailed investigation and require further information from licensees. Nevertheless, SKMM believes that AS will provide most, if not all information required to investigate price related competition complaints.

As for TIME's comments on RIO, SKMM would like point out that licensees in Malaysia are required to publish reference interconnection offers for the facilities and services in the Access List, which includes prices. SKMM agrees that by determining access prices, it reduces the risk of discrimination. However, it does not eliminate the risk altogether. The access prices determined by SKMM are maximum prices and licensees can negotiate

for lower prices during commercial negotiations. In the future it is possible that there might be floor prices determined for some services, with actual prices ending up higher than these. It is also the case that licensees could set the prices of retail services for which access services are inputs at such a level that, in so doing, they implicitly charge themselves a lower access price than is charged to their competitors.¹ AS allows such situations to be detected. In addition, there are other wholesale services provided by licensees that are not listed on the Access List. As such, SKMM is of the opinion that AS is still an important tool that would assist SKMM to investigate competition complaints.

In terms of TIME's comments on expertise and skills, SKMM would like to assure TIME that it will continue to develop resources and improve its ability to run competition investigations. If need be, SKMM may call upon external experts until it has acquired sufficient skills to implement AS.

2.9. Analysis to support implementation of accounting separation

TM is of the opinion that even if SKMM can lawfully impose AS, a number of competing interests and policy objectives must be taken into account. TM noted that SKMM is proposing to implement AS on all fixed and mobile operators. However, they are of the view that SKMM should take into account section 16(2) of the Malaysian Communications and Multimedia Commission Act 1998 (MCMCA) that obligates SKMM to encourage self-regulation in the industry. In addition, they opined that in line with the MCMCA, SKMM's actions should be subject to reasonable limits and SKMM should exercise a degree of caution in imposing costly and time consuming requirements on the operators.

According to TM, the PI Paper failed to demonstrate strong grounds for AS, which they believe is necessary given the extent of AS that is being proposed by SKMM. Taking into account the high level of competition in the telecommunications industry and SKMM's regular process of carrying out review of Access List and cost modelling, TM believes that AS would be excessive and that the cost of implementing AS will outweigh any potential benefits that can be derived from such a system.

¹ If revenue for the retail service falls short of costs including the cost of inputs priced at the same price as is charged to competitors, then this indicates that either there is price discrimination for the inputs (i.e. the operator is not implicitly charging as much to itself as does to competitors) or it is pricing below cost, which may be an indication of predatory pricing.

TIME submitted that SKMM should have carried out regulatory impact assessment (RIA) to identify the cost of implementing AS to industry and regulator, assess the alternative remedies and approaches and study the issues and challenges faced by industry. TIME believes that adopting RIA will result in a better regulatory outcome that will achieve long term benefits to end users.

TIME is of the view that SKMM has merely gleaned or glossed over the basis for introducing AS. Firstly, there is no consistency in reasons for SKMM to want to impose AS on all operators. Secondly, SKMM has failed to elaborate how the RFS will help SKMM monitor the licensee's obligation. Thirdly, they questioned the regulatory benefit that SKMM will derive, particularly since not all licensees in Malaysia are vertically integrated.

2.10. SKMM's response to comments on analysis to support implementation of accounting separation

In response to TM's comments on promoting self-regulation under section 16(2) of the MCMCA, SKMM has always been promoting self-regulation. This is evident from the designation of four forums under the CMA, namely content, consumer, access and technical standards. However, to date the Access Forum has failed to demonstrate that self-regulation on issues pertaining to economic regulation is feasible.

With regards to TM's comments on exercising caution and reasonable limit, SKMM has exercised caution and its actions are subject to reasonable limits. Otherwise, SKMM would have implemented AS a long time ago. In the current environment, where most countries are moving towards separation based remedies for fibre access network, SKMM has refrained from adopting a similar approach, instead AS is being proposed as it is less onerous and costly to operators.

SKMM disagrees with TM that there is a high level of competition in all telecommunications markets. While some markets are more competitive than others, the fixed market remains uncompetitive. The deployment of high speed fibre network is another area that remains uncompetitive.

On the issue of TIME's comments that SKMM should have carried out RIA to identify the cost of implementing AS, it is difficult for SKMM to identify the cost of implementation for each and every operators, considering the various systems used and the way the financial records are kept. Each operator should carry out an assessment to ascertain the cost that would be incurred.

As for TIME's comments about the benefits of AS, SKMM would like to draw TIME's attention to the PI Paper on Implementation of AS in Malaysia that was released on 7 September 2012.

2.11. Opportunity Cost or Consequences of Accounting Separation

TM submitted that the substantial cost of implementing and maintaining an AS system may hamper investment and innovation and therefore would be a step backward in achieving the policy objective of establishing Malaysia as a global hub for communications/multimedia/content services. In addition, TM is concerned that the industry players who are affected by the high cost of implementing account separation will not be able to sustain the costs in the long run and may end up passing it on to end-users. TM provided examples of the cost incurred by other countries in implementing AS. Among others, TM cited the following examples:

- In 2009, Telecom New Zealand estimated cost between NZD13.0 to NZD26.75 million) over the first two years;
- In 2004, BT in the United Kingdom estimated cost to be more than GBP7 million annually;
- In 2001, SingTel estimated additional cost of SGD7.0 to 10.0 million annually;

Using the above information, TM estimated that it would cost approximately MYR60 to 80 million to implement AS. Given the high cost, TM is concerned that its debt exposure will increase substantially. As such TM is seeking some financial forbearance should SKMM intent to pursue with the AS implementation. TM pointed out that compared to mobile networks, fixed networks are already heavily regulated and AS would further increase the regulatory burden and they foresee that AS would further deter new investment.

TIME highlighted that both regulated firms and regulator have to expand time and resources, which will add more to the regulatory costs than benefits even if AS achieves the regulator's goal of preventing or deterring margin squeeze and discriminatory pricing. For non-dominant firms, AS could lower the incentives to make new investments or even continue with the investments that have been made before. On the other hand, dominant firm may strategically under invest in its infrastructure so as to circumvent AS obligations.

TIME also highlighted that AS will also have consequences on "make or buy" decisions. When investment decisions are complex and involve highly specific and durable assets,

vertical integration is the best way of eliminating harmful effects of market power along a supply chain. Therefore, any form of AS that have the unintended effect of curtailing commercial profit making will reduce the incentive of a vertically integrated firm to invest in facilities for innovative and dynamic services. Also, TIME submitted that regulators should recognise that not all vertically integrated firms are pre-disposed to leveraging its market power through the conduct of price squeeze, only a vertically integrated firm who is dominant in the upstream market is likely to do so. Such conducts are usually proven by imputation tests on the basis of actual commercial data. Finally, TIME pointed out there could be misalignment between the Income Tax (Transfer Pricing) Rules 2012 and RFS and such consequences must be carefully considered by SKMM.

TIME believes that the PI Paper does not address in any depth the costs impact of the proposed introduction of AS on the regulator. They are of the view that SKMM does not have sufficient resources and must recruit the required personnel. They estimated that the cost of personnel to SKMM is RM1.32 million per annum. As for the cost to the industry, TIME pointed out that BT stated that it incurred £7 million annually to produce the financial reporting obligations proposed in the consultation paper issued by Ofcom, using 3 to 5 full time employees. Based on that, TIME provided a first level analysis of the cost to industry in implementing AS. They estimated the annual cost to provide report to SKMM between RM1.176 million to RM4.816 million. In addition, the annual cost incurred in fees payable to accounting firms to verify and certify the RFS is estimated to be RM50,000 per licensee per annum. Finally, the one-off cost of extending or modifying the existing financial management system or acquiring an entirely new system is estimated to be in the region RM800,000 to RM3 million.

TIME proposed alternative approaches to AS such as negative licensing (imposing stringent conditions on parties that act in prohibited manner), imposing AS on dominant operators or dominant operators found to be acting in anti-competitive manner and determining a margin squeeze test.

2.12. SKMM's response to comments on cost of implementing accounting separation

In the PI Paper, SKMM described in qualitative terms the benefits and costs of AS to the industry and the regulator. In addition, SKMM has stated that regulatory intervention must be proportionate. In this regard, SKMM considers AS to be proportionate and to

provide the transparency to enable SKMM to carry out its responsibility for ensuring that there is fair competition and reasonable price levels for consumers.

Furthermore, SKMM notes that the financial and non-financial information produced by AS is in practice not that different from what is required by efficient operators to run their businesses. For example, having financial results by service is important for understanding and running a business, as is information on unit costs and cost drivers.

On the quantitative cost of implementing AS, SKMM notes that the scope of BT's AS is substantially greater than that proposed for Malaysia and hence one would expect BT's implementation costs to be higher than TM's. For example, BT is required to produce top down LRIC costs as well as HCA and CCA accounts. It is also questionable whether the estimate for SingTel from 11 years ago is of great relevance given the integrated IT systems and modern databases which most operators now have for financial and non-financial information. Moreover, it is impossible for SKMM to estimate the implementation cost for each and every operator in Malaysia, considering possible differences in systems and the different ways in which financial records are kept by each operator.

As regards TIME's arguments that AS would deter new investment, SKMM does not find these persuasive enough. It is not aware that, for example, investment in next generation networks (NGNs) has been slower in those countries with AS. Moreover, in the UK, for example, where the more burdensome functional separation of Openreach and the associated requirement to provide full separate accounts for wholesale services were implemented in 2006, the roll out of NGNs has accelerated in recent years.

On TIME comments about misalignment between the Income Tax (Transfer Pricing) Rules 2012 and RFS, SKMM would suggest that TIME seeks professional advice on taxation.

2.13. Applicability of Accounting Separation to Broadcasters

DiGi and TM submitted that AS should not be confined to telecommunications markets. TM pointed out that Finland applies the same rules to broadcasters where there is market dominance. Both operators are of the view that in Malaysia, Astro is a dominant vertically integrated content service provider and should be subject to AS. DiGi and TM provided statistics from Astro's Prospectus for IPO dated 21 September 2012 that indicate that Astro has about 99% market share of residential pay-TV market as at July 2012, while Astro Radio has 52% of share of listenership in Malaysia in April 2012. TM is

of the view that Astro should be subject to AS in four main areas of business, namely pay-TV, radio, publications and digital media. In addition, TM highlighted that Astro also publishes seven print magazines and Astro Digital develops and manages online and mobile portals for providing sports entertainment and other key content to online viewers.

DiGi and TM also highlighted that Astro has exclusive content and broadcasting rights to premium channels such as National Geographic, ESPN, Fox Movies Premium, Discovery Channel, Disney Channel and AXN.

According to TM, the partnership formed between Astro and Maxis in September 2012 to develop and co-market consumer content packages will increase Astro's B.yond IPTV distribution reach to up to approximately 1.3 million homes passed by December 2012.

In view of Astro's stranglehold on the pay-TV market, TM is of the opinion that Astro should be a clear focus for SKMM in its objectives to guard against anti-competitive practices and ensure retail prices are not excessive.

2.14. SKMM's response to comments on applicability off accounting separation to broadcasters

In the PI Paper, SKMM explained that telecommunications networks are typically vertically integrated and they have upstream business providing wholesale services and downstream business providing retail services. While a vertically integrated operator's retail services are bought by consumers, its wholesale services are bought by competitors at wholesale price and its own downstream retail operations at some internal transfer price. In such circumstances, the vertically integrated operator has the opportunity to set prices and conditions of sale to its own downstream business and competitors. In that way, it can discriminate against competitors and in favour of its own operations.

The CMA has adopted a technology neutral and horizontal approach to license service providers. In terms of regulating the communications and multimedia industry, SKMM is minded to adopt a similar approach. However, this has to be balanced with the reality at present. While SKMM acknowledges that Astro has a significant market share in the pay-TV market and is the only broadcaster on the DTH platform, SKMM has not identified any upstream services that are provided by Astro to competitors. At present, therefore, there are no issues associated with vertical integration.

This contrasts with the situation in Finland, which was mentioned by TM, where AS has been implemented in broadcasting. There the dominant digital terrestrial broadcaster, Digita Oy, has the only nationwide digital transmission network on which it sells capacity to third parties. Therefore, unlike in Malaysia, there is a vertical integration issue.

SKMM intends to keep the situation in broadcasting under review and, should it become necessary in the future, will impose AS obligations.

2.15. Accounting Separation in an IP world

TM cautioned the changing technological paradigm where PSTN voices are increasingly replaced by voice over internet protocol (VoIP) with the introduction of next generation networks (NGN) will have implications for AS. Unlike PSTN, NGN network component costs are not well understood. Also, IP networks are dynamically shared between a wide range of services and imposing AS in this environment will be problematic given the difficulties in attributing and assessing IP network costs.

TIME also believes that AS is likely to be made obsolete by the new fibre network and service technologies. Unlike the old regulatory focus on open access, the new objective of regulation should be to encourage investments in the roll-out of NGN and innovation in downstream applications. These effects must be considered by SKMM as it may have an adverse implication on the overall economy of the country if it proceeds to implement AS. TIME cautioned that the regulatory risks of enforcing an out-dated regime in an industry where the pace of technological change is rapid and on-going is not only superfluous; it will distort the incentives for investment.

2.16. SKMM's response to comments on implementing accounting separation in an IP world

While SKMM acknowledges the complexity of implementing AS in an NGN environment, there is also a concern that a dominant operator in the copper environment can leverage its market power from copper to fibre. Therefore, many regulators have imposed structural separation requirement for fibre networks. Some examples include Singapore, New Zealand and Australia. It is SKMM's view that while AS could be different in some respects in an NGN environment, it is still a necessary requirement for SKMM to assess anti-competitive conduct, if any.

3. SCOPE AND COVERAGE OF ACCOUNTING SEPARATION

3.1. Overview

Taking account of SKMM's objectives, the types of pricing practice which there have been complaints and the purposes of AS, SKMM has proposed that:

- (i) Both fixed and wireless operators should be required to implement AS;
- (ii) AS obligations would only relate to activities carried out in Malaysia;
- (iii) RFS should be prepared for specified services at both the wholesale and retail level; and
- (iv) The services to be separated will be kept under review and revisited as circumstances change (e.g. following the emergence of new services).

3.2. Fixed Network

For fixed operators ten wholesale and eight retail services have been identified, along with an "other" category for any remaining activities. The fixed services table set out in Table 4 of the PI Paper is reproduced in Table 3 below. Definitions of these services were provided in Section 3.3.1 of the PI Paper.

Table 3: Fixed network services

Market	Services
Wholesale	Wholesale exchange lines
	Wholesale local access - copper
	Wholesale local access - fibre
	Wholesale broadband access
	Wholesale leased lines
	Backhaul services
	Call origination
	Call termination
	Transit services
	Interconnection circuits
Other	

Market	Services
Retail	Retail exchange lines - business
	Retail exchange lines - residential
	Local calls
	National calls
	International calls
	Calls to mobiles
	Leased lines
	Broadband
	Other
Other	n/a

Those wishing to respond to the PI Paper were asked to address the following questions:

Q1. If accounting separation is implemented on fixed network operators, for which services should there be separate accounts? Is the suggested list appropriate? If not, please explain why.

3.3. Summary of comments received on fixed services

Celcom believes that AS should only be considered upon the development of a comprehensive regulatory framework which incorporates minimal regulatory intervention, periodic market assessment and analysis, and dominance and SMP designation is applied. Celcom opines that fixed operators found to be dominant should be subjected to AS for wholesale services such as wholesale access to fiber, leased line, backhaul and HSBB. In terms of retail services, Celcom had identified the exchange lines for residential and business. The other services listed in Table 3 can be excluded if SKMM has set regulated prices via SKMM’s Access Pricing work.

DiGi opines that AS should be applied to dominant operators and markets that have failed and amenable to remedy. However, AS should only be applied if no existing (such as regulated access pricing) or alternative remedy is more effective with regards to the expected benefits and costs of the remedy. According to DiGi, it is important to consider the scale of dominance whereby the cost of implementing AS is proportionate to the size of the operator. If AS is implemented, the levels of market for which separate account are prepared should be limited to those where the licensee is dominant. There should not be any separation for competitive markets.

Maxis views competition in the fixed market in Malaysia is limited and AS should be imposed only on fixed incumbent operators. AS should not be imposed on smaller sized fixed business operators as it would not have any positive effects on the competitive dynamics in the markets and the results would not be representative. At present there is absence of properly regulated prices for local loop unbundling and fibre access. Additionally, although fixed and mobile rates are symmetric, fixed termination rates have historically remained higher than in other markets and does not reflect the cost dynamics in the mobile and PSTN networks.

With regards to the services in Table 3, Maxis opines that all services currently offered by TM on a retail basis must have a corresponding wholesale service. Table 3 omitted most of the services Maxis and other operators are buying from TM which includes HSBB, wholesale local access fibre, wholesale DSL, dedicated point-to-point digital circuit, dedicated point-to-point digital circuit Ethernet private line, dedicated point-to-point digital circuit with end-to-end connectivity narrowband bandwidth, directory services and emergency services. In most of the above listed services, Maxis is unable to compete on a profitable basis. Maxis cited some IBP of disaggregation of fixed services by Telecom Italia, BT and Telefonica and concluded that the list of services and customer segment for TM fixed business that should be separated for AS purposes should be more detailed that the disaggregation outlined in the PI paper.

P1 submits that AS should be based on services types, for instance Fixed Services and it may not be practical and feasible to go to the levels of Fixed Network Origination and Termination. P1 opines that it is not practical and is deemed unnecessary for AS to be prepared on services that are currently regulated via Mandatory Standard on Access Pricing. This is because detail analysis has been performed to gauge the real cost to set regulated prices. Hence separate accounts for these services are deemed unnecessary.

TM submits that the appropriate services that should be subjected to AS are those identified to have market failure and where the operators are dominant. Based on IBP, the imposition of AS requires identification of markets in which operators have market dominance and TM does not have market dominance in many of the markets listed. TM does not believe that Table 3 is appropriate as it appears that the list attempts to encompass all of TM's retail and wholesale services. TM request that SKMM follows IBP and identify the markets or services that are of significant concern to SKMM in terms of the level of competition and in which TM has been established to have dominance and if

such requirements are warranted given the existence of SKMM's regulatory regimes for setting prices for access list services.

TIME is of the view that AS should only be implemented to those licensees who have been determined as dominant and where market failures exist. Non dominant operators are less likely to discriminate or attempt to squeeze margins because their retailers can buy substitute services from other service providers. As such, there is no basis for imposing AS on all licensees.

In Malaysia, these failures do not exist because a dominant player cannot abuse its dominance by price discrimination as interconnection pricing is already set by SKMM. Fixed services that are already subjected to some form of regulatory control via access price regulation, the likelihood of price discrimination is substantially reduced if not eliminated. TIME further added that the Commission should apply AS on services that benefit end users and on those that will significantly contribute to the future of telecommunication services.

According to TIME, the fixed services subjected to AS in Table 3 failed to take into account the existence of alternative controls that are already in place by the Commission i.e. price regulation, mandatory standard on access, access list together with registration of access agreements which are in their view already sufficient. The list of fixed services subjected to AS is too long and unnecessary as price cap regulation based on LRIC has been developed and applied by the Commission. The services that should be subjected to AS are those that meet the criterion of non-competitive infrastructure and non-competitive services, outside the scope of access list items.

U Mobile states that AS is relevant to uplift competition in the fixed transmission market and will help SKMM to understand the cost structures, especially since some of the projects are with government financial support. For fixed network, U Mobile proposes that AS is imposed on wholesale exchange lines, wholesale local access on copper and fibre, wholesale broadband access, wholesale leased line, backhaul services, interconnect circuits, retail exchange lines for residential and business as well as leased line and broadband for retail.

YTL is of the view that AS should be subjected to wholesale products only in the fixed services. These include wholesale broadband access, wholesale leased lines, backhaul services, transit services and interconnection services. According to YTL there are not many providers for these services thus service providers may be able to set prices that

are discriminatory and not related to cost. However, an assessment of competition in the market is necessary to identify such players so that they can be regulated accordingly.

3.4. SKMM's response to comments on Fixed Services

In the responses received, there appear to be mixed reactions as to the services in the fixed network that should be subjected to AS. The concerns raised were related to the need to impose AS on services that are already under price control regulations. SKMM acknowledges that some of the services are regulated but it is only at the wholesale level. Moreover, regulated prices are only a starting point but lack the details required to assess anti-competitive conducts.

The imposition of AS in vertically integrated operators covers both retail and wholesale services and covers services that are regulated as well as services that are not regulated. SKMM believes that AS will provide detailed information that is not available to SKMM currently. For example, SKMM does not have any information on transfer pricing. As noted in Section 2.8 above, it is still possible for operators to price discriminate in favour of their own downstream operations even when there is regulation of those prices. AS will shed light on whether this is happening.

The services listed in Table 3 are proposed by SKMM as a starting point based on the information that has been gathered from licensees. In a dynamic industry such as telecommunications, the services provided are likely to evolve frequently and SKMM intends to review the services from time to time. However, to begin with, we are of the view that the above services are sufficient to gauge any anti-competitive conduct.

3.5. Mobile Network

For mobile operators five wholesale and five retail services have been identified, along with an "other" category. The mobile services set out in Table 5 of the PI Paper are reproduced in Table 4 below. Definitions of these services can be found in Section 3.3.2 of the PI Paper.

<p>Q2. If accounting separation is implemented on mobile network operators, for which services should there be separate accounts? Is the suggested list appropriate? If not, please explain why.</p>
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Table 4: Mobile network services

Market	Services
Wholesale	Call origination
	Call termination
	MVNO access
	National roaming
	International Roaming
	Other
Retail	Connections and subscription
	Voice
	SMS
	Data
	International roaming
	Other
Other	n/a

3.6. Summary of comments received on Mobile Services

In general, most of the operators who have responded to this question, except TM, TIME and YTL, are of the view that AS should not be implemented for the mobile market because the mobile market is competitive with no dominant player or SMP. TM highlights that if AS is imposed on TM, it should also be imposed on the mobile operators since there is evidence of fixed-mobile substitution in Malaysia. However, TM adds that AS should be implemented on the mobile operators only if there is a compelling reason to do so.

Celcom suggests that AS should only be implemented upon the development of a comprehensive Regulatory Framework which incorporates elements such as principle of minimal intervention, periodic market assessment to assess state of competition and applicable to operators who are of dominant/SMP designation. Celcom opines that the Malaysian mobile market is competitive and does not suffer any anti-competition issues as barriers to entry is low enough to attract new mobile operators, MVNOs, healthy mobile number portability volumes, occurrence of mobile retail rates wars and negligible formal cases of anti-competitive behaviour warranting regulatory intervention. Celcom also highlights that the EC Recommendation issued in 2007 identified only one mobile network service which may warrant some form of ex-ante regulatory intervention and that is Wholesale Mobile Call Termination.

Celcom proposes other solutions besides AS as being sufficient such as supporting the Government programs to have affordable services targeted at certain segments, using the BU-LRIC model (which is more cost effective and less time consuming to implement) to analyse issues requiring regulatory intervention and using the existing provisions in the CMA which allows SKMM to request information from the operators.

Celcom highlights that the implementation of AS as proposed in the PI would be onerous and costly. In terms of revenue, it can only group by services (i.e. Voice, SMS, MMS, Data, others) and unable to split the costs by services as all assets are considered as one single unit could not operate independently.

Similar to fixed services, DiGi is of the view that there is no regulatory rationale for imposing AS on mobile operators because the mobile market is competitive with no dominant player in the market. According to DiGi, this was borne out by SKMM's market and dominance assessment in 2004 and confirmed in 2008 during the access pricing PI. DiGi states that SKMM's dominance concerns are strictly limited to mobile termination and to a lesser extent mobile origination, and this has been remedied via imposition of LRIC based regulated pricing under the MSAP.

Maxis believes that implementing AS on mobile operators is not justified. Maxis expresses its concern on mandating AS in the mobile market as it is competitive and the resources used to implement AS can be more efficiently used to solve specific issues should any arise, by providing directly relevant information to SKMM. AS is time consuming, resource incentive and costly, hence the benefits need to be carefully considered to outweigh cost of implementation on mobile operators. In addition, SKMM already has a LRIC model to set wholesale Mobile Termination Rates.

Maxis finds that the list of retail services in Table 4 is reasonable but the list for wholesale services is inappropriate and overly detailed. Maxis is agreeable to the breakdown of wholesale services for call origination and call termination but is not agreeable to the breakdown for MVNO access, national and international roaming. Maxis reminded that MVNO and national roaming are not regulated services and only represent small share of total traffic on a network, thus requesting service separation for these services is inappropriate for FAC models. Furthermore, MVNOs are successfully increasing their market share with rates agreed upon using retail-minus approach. Similarly, mobile operators have effectively been using commercially agreed national roaming rates.

Maxis highlighted that AS is the wrong mechanism to protect end-user interests in relation to outbound international roaming as the prices charged to Malaysians roaming abroad is not reflected in the accounts of the home mobile network operator in Malaysia. Malaysians will not benefit in proportion if the Malaysian operators are regulated while the many roaming counterparts do not have AS for roaming. Maxis believes that the service breakdown proposed for mobile wholesale services is not appropriate because it risks the AS model producing unreasonable results.

Similar to fixed services, P1 opines that is not practical and feasible to categorize the mobile service into further extended details and that it is sufficient to just categorize by service type i.e. Mobile Services. P1 is of the view that mobile services that are currently being regulated under mandatory standard of access pricing should not be subjected to separate accounts because detailed costing had already been submitted by the operators to SKMM to determine the prices for interconnection. SKMM together with its consultant have the advantage to compare and analyse the cost declared by each of the licensees to determine the regulated interconnect prices.

TM is of the view that if AS is to be imposed on TM, it would be equitable to impose similar requirements on the mobile operators as there is a single voice services market, given that fixed-mobile substitution effects are evident in Malaysia. Imposing AS on TM only, would place TM at a competitive disadvantage given the onerous and costly reporting requirements which will divert resources from productive business. TM highlighted that AS requirements should only be implemented on mobile operators where there is a compelling reason to do so i.e. identified market failure or competition problems.

TIME suggests that the list of services proposed by SKMM are those classified as traditional or common services. Today's mobile operators provide other wholesale services that may not fall within the ambit of "non-competitive infrastructure". TIME proposed that the list of mobile services in Table 4 should be expanded to include towers, backhaul, RAN and other form of spectrum sharing, in light of the arrangements made with the award of 2.6GHz spectrum. Services which are subjected to mandatory access pricing regime should be excluded from AS requirement as those cost reflective prices are determined by SKMM and not the operator.

TIME also questioned the scope of services provided by mobile operators which include investing in fibre. According to TIME, mobile operators may argue about preparing RFS

for these services as the scope of mobile does not include wholesale leased lines or wholesale local access – fibre. It must be made clear that the categorisation is for convenience and that if a mobile operators provides fixed services, they should be subjected to AS.

U Mobile suggests exclusion of mobile services from AS. It is of the view that call origination and call termination are essential interconnection services which are ancillary to the retail telecommunication services. The rates are regulated by the Access Pricing agreement under the purview of SMMM. International roaming rates are self- adjusting since the market is competitive and the operators are able to partner freely with any international operators.

YTL suggests that AS is implemented on operators who have significant market share and are able to set prices independently, although this has yet to happen in the Malaysian market. YTL proposes that licensees having 20-25% market share in terms of number of directly connected subscribers are classified as having SMP. YTL highlighted that small licensees like themselves are unable to offer any wholesale services other than interconnect termination services due to the stage of maturity of network roll out. YTL recommends excluding the requirement for smaller licensees such as itself as the additional costs will burden new players and thus, not contribute to competition in the relevant market. All the operators bring up the issue of high cost involved in the implementation of AS and are of the view that the costs do not justify the need. They also believe that implementing AS does not benefit the mobile market.

3.7. SKMM’s response to comments on Mobile Services

SKMM notes that many of the mobile operators are of the view that AS should not be implemented on mobile services as the market is already competitive. However, SKMM have been receiving informal complaint and is not in a position to verify and assess the situation. SKMM acknowledges that it has powers under the CMA to request for additional information, however, this approach is time consuming and the data may not be kept in the manner required.

Similar to fixed services, although some of the services are regulated, it is only at the wholesale level. The imposition of AS in vertically integrated operators covers both retail and wholesale services and includes services that are regulated as well as services that are not regulated. SKMM believes that AS will provide detailed information that is not available to SKMM currently.

SKMM notes Maxis' comment to exclude MVNO access, national and international roaming and U Mobile's comment that international roaming rates are competitive. However, SKMM has received informal complaints and as such, needs to monitor these services closely.

P1's suggestion of lumping the revenues of all the mobile services into one category is not reasonable as it is not in line with the purpose of having AS, which is to prepare separate accounts for certain activities in a manner which reflects, as closely as possible, the performance of those activities if they had been operated as separate businesses.

TIME has suggested that towers, backhaul, RAN and other form of spectrum sharing should be included in Table 4. SKMM agrees that backhaul services and RAN sharing should be included. As for towers, SKMM does not believe these should be included. This is because companies providing towers are not vertically integrated and in future their prices may be regulated and since they only provide towers, excessive profitability will be evident from their statutory accounts. As for TIME's concern on the scope of services subjected to AS, we wish to inform that all operators are subjected to AS however, if their revenue and/or total assets fall below RM3 billion, they will only be required to provide abbreviated RFS.

4. ACCOUNTING SEPARATION PRINCIPLES AND POLICIES

4.1. Overview

The starting point for AS is the same as for an operator's statutory accounts. This means that the RFS will also need to comply with: the Malaysian Companies Act and the applicable accounting standards; fundamental accounting concepts and principles; the accounting policies of the company; and the format and content of certain financial statements.

The fundamental principles of financial information reporting are relevance, reliability, comparability (over time and across reporting entities), intelligibility, materiality, and consistency (of treatment over time). In the case of AS there is also the need for transparency, causality and objectivity in the attribution of revenues, costs, assets and liabilities to different services.

When producing RFS, operators should use accounting policies that are consistent with their statutory accounting policies. These accounting policies should follow closely the Financial Reporting Standards required by the Malaysian Accounting Standards Board (MASB) in terms of recognition and disclosure of material transactions and balances, and their effect on the Income Statement and Mean Capital Employed.

RFS should be reconciled to the companies' group statutory accounts, which consolidate, on a historic cost basis, the financial statements of the holding company and all subsidiary undertakings. Where a subsidiary company's accounting policies do not conform to the group's policies, these should be adjusted on consolidation in order to present the financial information on a consistent basis.

Appendix D of the PI Paper described the most significant and relevant accounting policies for the purposes of producing RFS. When the first set of RFS is produced for 2013, the accounting policies should match those in the operators' 2013 statutory accounts.

5. COST ATTRIBUTION

5.1. Overview

Within a company's general ledger, costs are categorised by type and then by cost centre. A large proportion of these costs can be directly or indirectly attributed to the activities or plant groups (types of equipment) that give rise to them. Once costs have been attributed to activities or plant groups they can then be further attributed to products and services. Some types of cost are unattributable and have to be apportioned on a reasonable basis. Ultimately all costs can be attributed or apportioned, i.e. there is fully allocated costing.

The attribution of costs can be undertaken for all types of telecommunication network, both fixed and mobile, although there will be some specific aspects and features of network design and operation in each type of network.

The identification of cost drivers is a precondition for developing an appropriate cost attribution method. The term cost driver is used to describe any factor that causes a change in the cost of an activity or plant group. For example, the provision of services causes the need for (and hence drives the cost of) network plant assets (capital costs). The latter give rise to the need for maintenance engineers and network planners and so on. Maintenance engineers in turn require transport and accommodation.

The process of deriving fully allocated costs essentially involves reversing the direction of cost causation and using the cost drivers to attribute the different types of cost to the services that directly or indirectly give rise to them. For example, plant capital costs are attributed to services according to the extent to which each service uses the equipment concerned.

In order to attribute costs reliably operators will need to identify and measure a variety of cost drivers. Amongst other things, this will require:

- (i) A system of employee time recording (such as used in an ABC type system);
- (ii) Activity surveys in cases where employees spread their time over a number of different activities or services;
- (iii) Information on pay costs;
- (iv) Details of the use of different network plant groups and components by different services;

- (v) Surveys for fixed networks of where duct is used by the core network, where it is used by the access network and where it is shared by both networks;
- (vi) Sample surveys to identify the volumes and routings of different types of traffic;
- (vii) Comprehensive billing system information;
- (viii) Engineering input on cost drivers for different network components;
- (ix) Surveys of the use of network buildings by different types of equipment;
- (x) Surveys of the use non-network building costs by different departments; and
- (xi) Surveys of use of general computing and IT equipment.

5.2. Feasibility of Surveys

Q3. Is it feasible to set up and run the surveys listed in Section 5.5 of the PI Paper? If not, please explain why.

5.2.1. Summary of comments received

Most operators do not conduct surveys for any service for costing purpose, although TM and Maxis do surveys for internal operating purposes such as traffic measurement. The overall response was that operators believe that it is feasible to undertake surveys but the work will be onerous, take considerable time and will be costly. Surveys undertaken on a systematic basis would also be a challenge.

A particular concern was the prospect of introducing employee time recording and analysing payroll costs to activities. Operators do have payroll data, typically analysed by department (cost centre) and sometimes by function, for example marketing. Staff numbers (headcount) are also available from the HR function in the company.

Celcom said that time sheet recording is not common for telecoms operators and introducing this will take enormous effort and discipline. Activity based costing (ABC) was not common either as network personnel are involved in multiple tasks and they are unable to differentiate the task by services. Information on payroll cost is attributed in totality and not by network elements, attribution by network plant group to different services was not practiced, billing system only captures revenue billed by services, and the other suggested surveys are not done in practice due to its complexity as most of the element and equipment are shared. However, Celcom stated it is possible to track

for busy-hour traffic information. However, it would need guidance on the best network elements basis to use. As for routing information, it is possible to leverage on the routing tables developed for LRIC+ models. Routing assumptions should be revisited every three years or upon introduction of new services.

A specific problem mentioned by DiGi and TM was the need to try to carry out a retrospective survey for the year 2012 now that the year was nearly over. According to DiGi, retrospective surveys lack accuracy, subjective, difficult to verify and time consuming.

DiGi said surveys were technically feasible but would incur significant costs. The scale of costs will depend on the granularity of survey information, extent of quality assurance requirement, automatic survey process and time and effort to gather the information from all areas of business. Operators may face resistance and delay when requesting information for cost allocations and attribution methods. Even if surveys can be automated, there are still difficulties as there are annual charges in cost centre, organisation structure, staff and activities within the departments. DiGi suggested alternative ways of gathering data but the granularity and accuracy will vary. Example, instead of time recording they mentioned an alternative approach of survey estimates by managers of engineering team based on workload.

Maxis presently conducts surveys to calculate busy-hour traffic and timesheet system for corporate support function to allocate corporate support function costs across the entities within Maxis Group. However, this is not a robust timesheet system.

Maxis also conducted surveys whose results may be suitable to allocate revenues and costs until a model is developed, although that is subject to confirmation. Due to the complexity of AS, it will be necessary to conduct new surveys to calculate some of the required cost drivers. The nature of these surveys will have to be guided by practicality and feasibility constraints. Although Maxis is currently conducting some surveys, it will be necessary to conduct additional surveys to calculate some of the required cost drivers, however, at this stage, it is difficult to know exactly which surveys will be necessary.

P1 said that the proposal for surveys is acceptable provided ample and clear guidelines are established ahead of time to minimise ambiguity and to reflect the actual cost incurred in provisioning of identified service. However, PI opines that this exercise is very subjective and time consuming as it involves a lot of resources, not only from

finance but also from other functions that contribute to the provision of the service at the wholesale and retail level.

TM stated it was feasible to undertake such surveys and indeed already engages in surveys on an "as and when" basis – but there was no systematic sampling and surveying across the organisation. TM would need to undertake assessments of what surveys would be required to support AS and added this is a non-trivial undertaking. TM does not have the required information to support production of separated accounts for 2012.

TIME highlighted that this is not a question about feasibility but rather cost. As such, TIME's response focussed on the administrative cost burden of surveys, providing an estimate of costs between RM4.415 million to RM13.246 million per annum for a typical operator using a standard cost model. TIME does not think it is justified considering the annual administrative cost burden that would be incurred if such surveys are undertaken.

U Mobile did not think it was feasible to set up surveys on an on-going basis as setting up additional sub-system to attribute revenue and cost to both network and non-network elements and henceforth integrating this with their SAP system will be challenging due to the work and investment that would be required. U Mobile estimates this would take 2.5 years. Secondly their array of equipment and systems are dynamically utilised for multi-facet services and the actual usage profile varies from month to month due to changes in subscriber usage patterns. This dynamic behaviour requires sophisticated sub-system to track, assess and transpose its pattern of usage and consumption into cost. Thirdly, U Mobile will require a separate system for time recording, to attribute the time spent by engineers and technicians. This has yet to be established as their network deployment is less sophisticated than other established operators like TM, Maxis, Celcom and DiGi. Finally, non-network costs are treated as common costs and attributing it to specific services is challenging and overly subjective. As such, allocating significant resources to set up and run surveys will not be feasible as surveys would not generate objective and reliable information.

YTL said surveys were tedious. Since employees are expected to multitask it is difficult to spread their time over a number of activities performed over time. Record keeping will become expensive, time consuming and counter-productive.

Surveys of building occupancy are generally not undertaken by operators.

5.2.2. SKMM's response to comments

Operators generally accept that it is feasible to undertake surveys but are concerned at the additional work and resources involved.

One issue raised is the need, based on the proposals in the PI Paper, for retrospective information for the year ended 2012 and the difficulty in obtaining it. SKMM has considered this and accepts that such information may not be easily obtained. As a result, production of RFS for 2012 will not now be required.

Surveys will, however, need to be developed for the year 2013 onwards and SKMM anticipates that they would normally be undertaken on an annual basis.

A number of costs can be directly allocated to services, products and importantly to network plant activities. Furthermore all operators use some form of allocation to cost centres and functions as part of their general ledger process. Some also allocate or charge out in some way other costs to user departments.

Wherever costs do not map directly on to services, products or network plant activities, an appropriate basis or method of apportionment is needed. This involves identifying and measuring cost drivers, which are typically non-financial. SKMM notes that surveys are a recognised method of collecting such data. While operators will require resources and incur costs in conducting surveys, the use of cost drivers to understand cost behaviour and to measure unit costs has existed in business (and in telecoms companies) for many years, not just for service costing but as an integral part of management accounting processes.

SKMM finds it somewhat surprising that operators currently have little or no activity information, whether or not for costing purposes, as it is normal business practice to measure how resources are being planned and used. A number have mentioned that they have powerful ERP systems and it is surprising that resources do not seem to be tracked by activity measures.

Employee costs are a significant element of costs and SKMM believes that it is important to analyse such costs. SKMM would expect that some form of survey should be undertaken in order to allocate employee costs (e.g. time recording) and that this could be used in conjunction with cost centre details and headcount data.

As is evident from inputs as part of the LRIC modelling process, other information such as busy hour measures and other traffic and dimensioning rules can be developed from current data systems.

In short, many operators already have a significant amount of information on cost drivers in various systems. SKMM recognises that the necessary data needs to be carefully specified, identified and developed in a structured and consistent manner. It will also be necessary to devise the most practical and cost effective methods of collecting the data. Ways in which this could be done could be further considered in the proposed joint working group.

5.3. Cost categories and attribution methods and drivers

Detailed guidance on the relevant categories of operating costs and assets, and their attribution methods was contained in Appendix C of the PI Paper. The tables in Appendix C of the PI Paper also contain details of appropriate cost drivers.

- Q4. Do the cost categories listed in Appendix C of the PI Paper include all the relevant costs? If not, which types of cost are missing?
- Q5. Are the suggested cost drivers and attribution methods in Appendix C of the PI Paper appropriate? If not, what should be used and why?

5.3.1. Summary of comments received on cost categories

Celcom suggested the allocation be deliberated in the proposed working group and TM also made a similar point.

As to whether the cost classification included all relevant costs, DiGi was of the opinion they appeared to be relatively standard for fixed and mobile operators.

Maxis thought the list of headings was not complete and importantly should be aligned with the internal data of each company, noting that an FAC attribution method would need to be categorised with items in the general ledger, namely by type (e.g. payroll) and by cost centre (e.g. marketing). The starting point of AS model would be the company's GL, which will or will not match the categories included in Appendix C. Furthermore, the steps in any AS model would need to be clearly defined in terms of the

stage at which different categories would be allocated. Determining the cost categories is not a trivial task, as many issues will need to be taken into account.

P1 said the list at Appendix C included most, if not all, of the relevant costs and U Mobile had no further additions to Appendix C.

TM stated that the categories should be sufficient. However, TM suggested it may be prudent to include an "other" category for capital and operating cost. TM requested that SKMM produce detailed description of each cost category especially those open to subjective interpretation such as maintenance and repair cost, network management cost, operator services costs, support cost and support plant.

TIME did not agree that the cost categories include all relevant costs and proposed additional cost categories be included such as commission, outsourcing, program and project management, shared infrastructure payments, R&D, payments for access to infrastructure, disaster recovery and finance charges.

5.3.2. SKMM's response to comments on cost categories

In general the cost categories in Appendix C of the PI Paper were seen as relevant. In practice SKMM would expect all costs to be included, as well as the additional cost categories proposed by TIME.

SKMM agrees with the point made by Maxis about starting with and aligning to the general ledger, cost centre and account types of a company. This is a fundamental step in developing any cost allocation process.

SKMM believes therefore that Appendix C is appropriate as a broad classification of costs and that individual general ledger account codes would need to be mapped on to the Appendix C cost categories.

A number of operators have indicated that the working group could be involved in finalising the cost classification categories (and hence also their definitions) and SKMM regards this as a useful suggestion.

5.3.3. Summary of comments received on cost drivers

Responses from operators varied. Some thought the Appendix C examples were detailed while others thought these were too high level or too general and others gave examples of additional cost drivers.

Celcom suggested the issues associated with allocation be deliberated in the working group.

DiGi stated that the cost driver and attribution methods include relevant drivers and methods though in many cases they are highly general, simplified and do not fully reflect the practicalities, thus making the implementation of AS look simpler. Much greater specificity is required. DiGi gives some examples of media gateways, spectrum fees, fixed and common costs and network busy hour dimensioning and noted that sourcing of data in a quality assured manner to support the allocation necessary requires extensive backend system re-engineering and the creation of new processes and systems to capture the relevant data. DiGi emphasises the complexity of the attribution task, the data required to support it and the effort needed to create and sustain the necessary processes.

Maxis agrees with the principle of attribution but states that the criteria needed are in many cases difficult to determine. While Appendix C of the PI Paper gives guidance, there are items which do not correspond to the causation factors such as marketing and sales, billing and collection, payroll, HR, IT cost and MSC plant and concludes that some of the drivers do not seem clear, causal or realistic but without further explanation. Maxis believes that once AS is developed, operators will be in a better position to provide an opinion on the drivers to be used to allocate costs and revenues to each account. The industry working group will be useful for resolving issues and helping drive the implementation process forward.

P1 is of the opinion that the cost drivers and attribution methods in Appendix C are appropriate.

TM said that a very detailed suggested list of cost drivers and attribution methods had been provided in Appendix C. The list highlighted the extensive work to be undertaken, in particular ABC and surveys. In general the suggested drivers and attribution methods appear reasonable but flexibility and pragmatism may be necessary to implement and further clarification/guidance from SKMM may be required.

TIME said the cost drivers were not appropriate, without providing further detail, but then cross referenced this to their more general response that AS is not appropriate.

U Mobile said that some the cost drivers in Appendix C are irrelevant, primarily on the grounds that the data, such as time records, customer dynamic behaviour, traffic to

attribute network equipment capex to different services and building/vehicle/furniture that are treated as common cost are not available, hence the complexity to manage and translate it into cost on a month to month basis would be tremendously challenging and would not yield reliable data for attribution purposes.

Again, some operators pointed to the potential role of the working group as a forum to provide specialist opinion on the cost drivers and to resolve issues.

5.3.4. SKMM's response to comments on cost drivers

Understanding how costs behave in relation to different drivers will require effort, time and resources. However, what is being proposed is nothing out of the ordinary; cost drivers and attribution methods have been in use in organisations including telecoms companies for many years. New technologies emerge and these may require some new attribution methods. However, the same broad causation principles will apply.

SKMM also notes that the LRIC models developed in Malaysia for setting interconnection prices require some cost driver information and there should be some scope for using the same or similar cost drivers for AS, particularly for network plant.

Furthermore, SKMM regards the cost drivers in Appendix C as examples of what are commonly used but the list is not definitive. The treatment of common costs and the additional cost examples as proposed by DiGi and Maxis, which appear reasonable, need to be considered further. Ultimately each operator is responsible for its own costs and business operations and thus the cost drivers to be used.

To assist this process SKMM would, as suggested by some operators, expect cost drivers, together with the practicalities of data collection and materiality/relevance, to be discussed as part of the activities of the proposed working group.

6. REVENUE RECOGNITION AND ATTRIBUTION

6.1. Overview

For the purposes of preparing RFS, operators should apply the same accounting policies for revenue recognition that they use in their statutory accounts.

Revenues should be recognised when it is probable that the economic benefits associated with the transaction will flow to the operator and the amount of the revenue can be measured reliably.

The majority of revenues can be directly identified to the services and products specified in Table 1 and 4 above. In any instances where revenues cannot be attributed directly, they should instead be attributed using billing data.

During the preparation of the PI Paper, SKMM was informed by the operators that their billing records are sufficiently detailed to allow the attribution of revenues between different elements of bundled services.

Where revenues are earned from non-telephony services they should be attributed to the relevant activities on the basis of causation.

Q6. When services are offered as a bundle, is it possible to attribute revenue to different services using billing or other data? If not, please explain why.

6.2. Summary of comments received

All the fixed and mobile operators confirmed that their systems are capable of attributing revenue to different services, but pointed to the subjectivity of the allocation process.

Celcom confirmed that it is able to split the revenue from bundled packages into separate services, but emphasized that this process will require back-end allocation and be confusing to customers.

DiGi felt that it is possible to derive a rule based approach for this task as such rules exist for financial reporting purposes, however, the attribution of bundled services to individual services within the bundle is inevitably subjective as there is no economic rationale to such rules and revenues split should not be considered directly comparable

to service revenues generated outside the bundle. U Mobile highlighted that while it is possible to attribute revenue to different services using the traffic data profile, it may not generate comparable data as the traffic can be skewed as a result of promotions and marketing focus on certain services. As such attributing revenue may not derive objective information for comparison purposes.

Maxis confirmed that currently it is not offering bundles that combine fixed and mobile services and, due to the fact that its fixed business is relatively small, its systems are unable to split revenue between fixed and mobile services. However, Maxis does offer bundles for fixed and mobile services separately. Maxis confirms that it is not possible for them to attribute revenue to different fixed services, and for mobile services, the task is very challenging, in some cases making accurate estimations almost impossible.

PI provided a clear affirmative response confirming that their systems are able to allocate revenue to specific services even if they are bundled.

TM confirmed that its billing system is not able to attribute revenue to services automatically, and some system enhancements would need to be implemented for this task. It also argued that this task is rendered more complex due to the fact that bundling of services is based on customers' willingness to pay, and not on the cost structure of the services.

TIME was the only operator who, having explained the merit of offering services in a bundle, stated that it was unable to attribute revenues to different services in a bundle. According to TIME, price offering to customers on a bundled basis are for customers to enjoy aggregated pricing as compared to individually priced items. Bundling is a pricing and differentiator strategy to provide higher perceived value and innovative offering, as such attributing revenue to a bundle of services acts to disincentive firms from offering customers bundles. TIME does not think it is a feasible approach to attribute revenue of a bundle as well-constructed bundles deliver the right value to the right customer at an appropriate price and this may be lost when firms have to attribute revenue to specific items in bundles.

YTL suggested it is possible to attribute revenue however, this is not a simple and straight forward extraction and involves judgements. Besides, it is also time consuming, tedious and involve detailed record keeping that may not be productive.

6.3. SKMM's response to comments

In discussion with the operators, SKMM was advised that their billing systems were able to attribute revenues between different services.

The difficulties identified by the operators relate to the accuracy of the attribution process and the level of subjectivity involved in setting the rules for attribution.

SKMM believes that, as long as these rules are documented and any deviations from standard processes explained, the resulting output should provide a sufficient level of accuracy for regulatory purposes. Some form of periodic review could also be performed on the companies' customer data.

SKMM does not agree with TM that the process of attributing revenue to bundles has a direct relation to the cost structure of the bundle, nor does SKMM agree with TM that it will cause confusion to customers, as "unbundled " data will be visible only to SKMM. In addition, SKMM does not see why the need to attribute revenue to different services will, as suggested by TIME, prevent the right value being delivered to the right customer at an appropriate price. Customer pricing is not the same as revenue attribution.

7. CURRENT COST ACCOUNTING METHODOLOGY

7.1. Overview of asset valuation methods

The main ways of calculating the value of a company's assets for accounting purposes are:

- (i) Historic Cost Accounting (HCA): is used by companies for statutory accounting purposes. Assets are valued at their historical acquisition cost and provisions are made for any diminution in value due to use or obsolescence; and
- (ii) Current Cost Accounting (CCA): involves revaluing assets at their current value and is used by most regulatory authorities.

Where there is one or more of:

- (i) Significant general price inflation;
- (ii) Substantial changes in the real prices of assets; and/or
- (iii) Rapid technological progress;

the CCA method will provide a more accurate and up-to-date valuation of the assets used to provide a service. This in turn leads to service prices that reflect the true cost of the resources involved and hence provide correct information on which to base decisions as to whether to continue operating or cease production and whether to invest in infrastructure or buy the use of another operator's facilities.

Q7. Is it necessary to have CCA accounts? If not, please give reasons?

Q8. How could the impact of asset price changes be taken into account in the absence of CCA accounts?

7.2. Summary of comments received on the necessity of CCA accounts

The majority of operators do not believe that it is necessary to have CCA accounts. While, a substantial proportion of respondents regarded CCA as being superior from a theoretical point of view, most of them felt that this was more than offset by the

subjectivity of CCA asset valuations and the substantial costs that would be associated with the implementation of CCA. This view was particularly prevalent amongst mobile operators.

Celcom regards the management of CCA as being cumbersome and time consuming. It is also of the opinion that CCA asset valuation via replacement cost is subjective and can lead to poor investment decisions. If, due to a drop in equipment prices, an investment's return is low or its recovery is uncertain, management may tend to hold/reject the proposal.

DiGi believes that CCA has certain theoretical advantages over HCA and that, where the asset base is subject to lower levels of technological obsolescence, asset price changes or long lived assets, gross replacement costs provide a better assessment of economic value than historically incurred costs. However, these characteristics tend to be with less innovative operators with larger and older infrastructure compared to mobile operators. DiGi states CCA valuation process is highly subjective since it necessarily requires an evolving view of what is the replacement asset. In addition, the CCA RFS for the fixed networks of BT and eircom, indicate that there can be very large year on year movements in the size and direction of CCA adjustments and hence volatility in the results. Notwithstanding these measurement and interpretation difficulties, CCA are generally not well understood.

In addition, the application of CCA to AS is unlikely to improve comparability with the prices set in the MSAP. MSAP is based on LRIC and used to set mobile termination rate. While these models included investments valued on a forward looking basis (MEA), depreciation and hence net replacement cost values are estimated using tilted annuity on the presumption of new assets, hence the results will not be the same.

DiGi also refers to there being substantial costs associated with the preparation of CCA valuations as it requires preparation of asset inventory detailing equipment types, capacity and performance attributes which are not available currently. DiGi cited a statement by the Australian Competition and Consumer Commission in 2000 recommending the use of HCA since moving to CCA would involve significant investments in time and effort to both the operator and regulator. DiGi also notes that Infocomm Development Authority in Singapore in 2001 echoed the same concerns about the use of CCA and decided to stay with HCA as the cost accounting base.

DiGi concludes that CCA is not to be preferred to HCA because of its highly subjective valuations, highly volatile results and excessive preparation costs.

Maxis is of the view that fixed network assets should be valued on both a CCA and HCA basis for AS purposes, unless they form part of the access network, in which case they should only be valued on a HCA basis. Copper assets have already been depreciated heavily over time and, because TM's copper access network is not effectively competitive, valuing these assets using CCA could potentially lead to excessive profits. Fibre assets have only recently been deployed and hence HCA and CCA will yield similar results. Maxis goes on to argue that using HCA for valuation of access network assets is considered to be IBP and quotes the examples of the UK, where BT's pre-1997 copper access network assets are not valued on a CCA basis, and Spain.

Maxis regards the situation for mobile networks as being completely different to that for fixed networks. The HCA and CCA values of assets are very similar because there has been a lot of recent investment and modernisation of networks. Consequently, Maxis' view is that it is not necessary to mandate AS based on CCA for mobile operators. It cites Spain and Malta as examples where HCA is used for mobile AS.

Maxis agrees with the PI Paper that the focus of regulatory policy is on the economic value of assets and companies' pricing decisions. Therefore CCA is more relevant than HCA for AS purposes. However, factors apart from price changes and technological progress also need to be taken into account when deciding whether CCA is appropriate.

P1 views that accounting methodology used should be consistent, contain high level of objectivity and certainty. A method open to subjective speculation is easy to manipulate and would not be able to elude anti-competitive behaviour. Therefore, P1 regards HCA as being more reliable than CCA for monitoring anti-competitive behaviour because HCA is verifiable and supported with actual purchase documents and, because it depicts actual costs, is free from manipulation. Also, financial audited statements are audited under internationally recognised standards and HCA is currently used by all licensees, making comparisons more objective. In contrast, CCA is very subjective and open to manipulation and is not verifiable. CCA also involves tedious data collection and represents an administrative burden, and the costs of implementation could be substantial for non-dominant licensees.

In TM's view whether or not it is necessary to have CCA accounts depends on how SKMM is proposing to use the RFS. Typically, current costs are more relevant than historic costs

for many pricing and investment decisions. It would be inappropriate for SKMM to use information solely from HCA accounts when drawing conclusions about the appropriateness of TM's wholesale prices.

CCA and HCA both have their strengths and weaknesses. CCA is forward-looking but involves subjective assumptions regarding asset values. HCA is about past performance which can be a very dangerous basis for decision making. Decisions about product prices are never made on the basis of HCA reports because these do not reflect actual costs or the replacement value of assets.

TM also notes that successful implementation of CCA requires new processes and systems, staff training and substantial investment in time and resources. Careful consideration therefore needs to be given to whether CCA is necessary or HCA would suffice.

TIME is of the opinion that HCA is a better basis than CCA for measuring asset values. Although CCA takes into account the impact of technological change and inflation on asset values, significant assumptions are required to revalue assets. TIME quoted KPMG in saying NPV involves management's estimation on the future cash flows projections attributable to the assets, expected forecast growth and the useful lives of assets, which are based on strategic operating models and business decision. Discounts rates used to represent the value fo cash flow is also dependent on the expected return on capital of each company. TIME also points out telecommunication networks related assets are very specific to the business and it would be near impossible to obtain the NRV in determining the current sale price. Also NRV should not be the method of asset valuation for on going businesses that decide to continue the usage of the asset for strategic purposes. TIME estimates annual revaluation on all assets would cost each operator RM3.1 million for 50,000 list of assets in a company. In the light of the difficulties involved in computing the NPV and NRV of assets as well as the significant administrative cost that AS will impose on the industry, TIME strongly feels that any AS should be based on HCA.

In U Mobile's view it is not advisable to have RFS based on CCA because the latter adds confusion to existing HCA accounts. In addition, CCA will require extensive customisation of the company's SAP system and complicate the existing accounting system, thereby leading to errors in basic operations such as procurement, payments, receipts and bookkeeping. The result could have an adverse impact to business operation. U Mobile

emphasised that CCA accounts in unnecessary and it is too complicated and onerous without yielding much benefit.

YTL is of the opinion that CCA is too subjective to be used. This is because in most cases the replacement value may not be available and hence a great deal of judgement is required. For equipments with no second hand market, the equipment cannot be replaced with an identical asset, the discretion of current cost is then left to the managers. Also the choice of the next incoming technology will not be revealed by corporate entities. For asset with no market price available, appraisal, calculation of reproduction costs and indices are necessary. Hence it is difficult to determine the exact current value. YTL questions on how the application of CCA will enable a corporate entity to separate the impact of inflation to show the real cost and the cost of inflation.

7.3. SKMM's response to comments on necessity of CCA accounts

SKMM remains of the opinion that, while it may not always be the case, CCA generally leads to a more accurate and up to date valuation of assets than HCA in the presence of substantial asset price changes and rapid technological progress, both of which are characteristics of the telecommunications industry. Reflecting this, the adoption of CCA will enable SKMM to reach a correct view regarding the existence or absence of excessive prices, undue discrimination and price squeeze.

SKMM is not alone in holding this view. For example, European regulators, when drawing up guidelines on how to implement the EC Recommendation on AS and Cost Accounting Systems², noted that historical cost information may provide unsatisfactory indicators for regulatory decision making and that, to recognise the effect of changing prices, a revaluation of the asset base at current replacement cost should be performed.³ Similarly, the Regulatory Accounting Guide produced by the International Telecommunications Union (ITU) argues for the use of CCA when there are substantial

² Commission Recommendation on accounting separation and cost accounting systems under the regulatory framework for electronic communications C(2005) 3480

³ ERG Common Position: Guidelines for implementing the Commission Recommendation C (2005) 3480 on Accounting Separation & Cost Accounting Systems under the regulatory framework for electronic communications, ERG (05) 29, page 10

asset price changes and evolving technologies and concludes that CCA is the most accurate model for setting wholesale charges.⁴

The reasons advanced by respondents to the PI Paper for not requiring the implementation of CCA fall into a number of categories: CCA provides the wrong signals for investment decisions (Celcom); the CCA valuation process is subjective (TM,⁵ TIME, Celcom, DiGi, YTL and P1); CCA produces volatile results (DiGi); HCA and CCA asset values are very similar when there has been a lot of recent investment and modernisation of networks (Maxis); CCA is not appropriate for fixed copper access networks (Maxis); and the implementation of CCA involves a lot of staff time and resources and substantial investment in new systems, processes and staff training (TM⁶, TIME, Celcom, DiGi, U Mobile and P1).

With regards to CCA providing incorrect signals for investment, SKMM does not agree with Celcom's position. If, to take Celcom's example, there is a fall in equipment prices and taking this into account through the use of CCA means that an investment's return is low or its recovery is uncertain, then it may well be appropriate to hold/reject the proposal. Thus, rather than leading to poor investment decisions, CCA helps to prevent them.

SKMM agrees that there may be some subjectivity in the CCA valuation process. However, there is a substantial amount of information on asset prices available to operators from recent purchase contracts and other sources. While there may be some gaps that need to be filled, SKMM is unconvinced that the overall CCA valuations will be greatly distorted or indeed that they would not generally lead to more accurate and reliable valuations than those produced by HCA.

Turning to the question of volatility, DiGi has provided charts for BT and eircom showing the size of the total CCA adjustments in each year over an 8 year period. In the case of

⁴ ITU, Regulatory Accounting Guide, Telecommunication Development Bureau, March 2009, pages 24-25 and 54

⁵ TM does not conclude against the use of CCA but, when assessing the pros and cons of CCA, mentions the subjectivity of CCA asset valuations.

⁶ TM does not conclude against the use of CCA but asks SKMM to give careful consideration as to whether CCA is necessary given the substantial investment in time and resources that is required.

BT, Figure 6 in DiGi's submission is distorted by the impact of large exceptional (i.e. one off) revaluation adjustments in 2010 and 2011 associated with a change in the way that BT valued duct. This change was not subjective as it was introduced because new and better data became available and it was a one off, i.e. it was exceptional and not something that happened every year. If the effect of this exceptional change in valuation methodology were removed, the CCA adjustments in 2010 and 2011 would be of similar magnitude to those in other years and the apparent volatility would be removed. In the case of eircom, it was not possible to ascertain the reason for the unusually large CCA adjustment in 2009 and whether or not it represented an exceptional change.

As to Maxis's argument that there is no need for CCA when there has been a lot of recent network investment, since HCA and CCA will give similar asset values, SKMM doubts that any of the existing operators' networks are completely new. Moreover, even with new investment, there will be holding gains and losses stemming from asset price changes. These need to be taken into account but will not be because they are not recognised under HCA.

Furthermore, the advent of 4G will have a substantial effect on the current value of assets in existing 3G and 2G networks. HCA will not pick up the impact of these developments, whereas CCA does.

Maxis has also argued that CCA should not be applied to TM's copper access network. It refers to the example of BT, in the UK, where pre-1997 copper network assets are not valued on a CCA basis. SKMM notes that CCA is used for the remainder of BT's copper access network. With older copper network assets, there can be an issue because assets that are fully depreciated will count in the CCA asset base but not in the HCA base. SKMM wonders, however, whether the impact of fully depreciated copper assets would be significant in Malaysia given that TM's copper access network is on average likely to be younger than that of BT, as a result of later roll out and faster subscriber growth. SKMM is not presently persuaded by Maxis's argument but, in order to be certain, will need to obtain information from TM regarding the age structure of its copper access network and the extent to which assets have been fully written down.

A majority of the operators has pointed to the cost burden of implementing CCA. SKMM accepts that there will be a cost associated with introducing CCA. However, this has to

be seen against the benefits to consumers from SKMM having information that will enable it to identify any excessive pricing or adverse competitive practices.

7.4. Summary of comments received on how asset price changes be taken into account in the absence of CCA accounts

Not all the respondents answered this question. From those who did there were a mixture of responses.

Celcom undertakes an annual exercise to review the book value of its assets as part of its financial year end audit. For those assets where there is a change in the expected pattern of consumption of future benefits or where replacement is planned, changes are made to the residual value of the asset and subsequent accounting estimates and shown as impairment and accelerated depreciation in the annual audited financial statements.

According to Maxis, the requirement for a revaluation of assets at current costs depends on the type of network, the network equipment deployed, its age and useful life. Maxis's view is that mobile operators are continuously making significant investments and improvements to their networks. As a result changes in technology and asset prices are already reflected in their (HCA) fixed asset registers. This is not the case for fixed networks where network replacements and improvements affect a smaller proportion of the asset base and hence asset prices are not taken into account in the absence of CCA accounts.

P1 views that if HCA is applied to all on the same basis, there is no necessity to burden licensee with CCA requirements. Hence, the concern of changes in assets price will not be an issue anymore.

TM is of the opinion that CCA accounts would be necessary to capture the impact of asset price changes. However, the level of subjectivity in asset revaluation will be very high due to scarce resources in this area.

TIME believes that current accounting standards used for statutory accounts provide SKMM with sufficient information to deduce the current value of assets. As per MFRS 139, financial instruments are measured at fair value, while loan and receivable and held-to-maturity financial instruments are measured at amortised cost. Under MFRS 136, all property, plant and equipment is subject to impairment testing and the computation of impairment is similar to CCA asset revaluation. Also per MFRS 116,

specific categories of property plant and equipment can be revalued provided that the fair value can be measured.

U Mobile says that asset price changes can be reflected through general ledger adjustments in the absence of CCA. The adjusted set of books is considered as separate accounting report that requires additional resources to be allocated.

YTL makes the point that if a non-financial asset's recoverable value is reduced by asset price reductions this shows up as an impairment loss that is charged through the profit and loss account. If, on the other hand, the price of a non-financial asset increases this is accounted for when revaluation exercises are carried out. Hence the impact of reduction in price for non-current asset is reflected in the audit financial statements with impairment test, whereas the impact of increase in price for non-current assets can be accounted for when regular revaluation exercise is carried out.

7.5. SKMM's response to comments on how asset price changes be taken into account in the absence of CCA accounts

SKMM remains of the view that the impact of asset price changes cannot be properly taken into account in the absence of CCA.

Contrary to what Maxis says, changes in asset prices and technology are not fully reflected in mobile operators' fixed asset registers. This is because not all their assets are new. Moreover, HCA takes no account of holding gains and losses associated with asset price changes.

SKMM is also not in agreement with the argument put forward by TIME, Celcom, U Mobile and YTL that asset price changes can be taken care of via adjustments for impairment and asset revaluation under HCA. In the case of impairment losses put through the profit and loss account, this bears some resemblance to the treatment of holding losses under CCA but there is nothing equivalent to supplementary depreciation since the asset register and hence depreciation is left unchanged. At the same time, when assets are revalued upwards under HCA, the revaluation surplus is not put through the profit and loss account. This contrasts with the treatment of holding gains under

CCA.⁷ It is also the case that impairment and revaluation normally do not occur on an annual basis and there is no requirement in the accounting legislation in Malaysia for that to happen.

7.6. Overview of revaluation of assets under CCA

In theory there are a number of ways in which assets could be revalued for the purposes of CCA.

- (i) Current replacement cost of an asset is what it would currently cost to purchase an identical asset (or one with similar productive capacity or service potential);
- (ii) Net realisable value (or exit value) is the current sale price of the asset, net of any costs associated with the sale; and
- (iii) Present value (PV) is the current estimate of the future net receipts attributable to the asset, appropriately discounted.

Under the “value to the owner convention”, the current cost of an asset is defined as the lesser of the replacement cost and the recoverable value of the asset, where the recoverable value is the greater of the net realisable value (NRV) and PV.

For the reasons given in Section 7.2 of the PI Paper, one would normally expect PV to exceed NRV. The recoverable value of an asset in current use is therefore typically equal to PV.

Similarly, as explained in Section 7.2 of the PI Paper, one would expect replacement cost and PV to be similar. Replacement costs are, however, easier to calculate, and easier for other parties to check than calculations of present values. In view of this, replacement costs are generally used in the preparation of CCA accounts.

Q9. Are replacement costs the best way to value assets under CCA? If not, what is the best approach and why?

⁷ SKMM also notes that under CCA there are no adjustments relating to financial assets and hence adjustments under MFRS 139, which are mentioned by TIME, are not relevant or appropriate.

7.7. Summary of comments received on whether replacement costs are the best way to revalue assets under CCA

Celcom's view is that rapid evolution of technology may result in inaccurate estimates for asset replacement costs. This is because asset might be replace with non-identical assets with higher specifications or adjusted downwards. Where assets have a relatively low value or short life, there is unlikely to be a significant difference between the cost of the asset when purchased and its current gross replacement cost. Also, given the size of the asset register, it may not be practical to revalue assets on a yearly basis. U Mobile is of the opinion that replacement cost is a better approach than NRV or PV. However, there are practical difficulties in determining current equipment prices.

Maxis emphasised that there are still many complications when revaluing assets using replacement costs and that SKMM should bear this in mind when considering whether to introduce a requirement to produce CCA accounts.

Maxis highlighted that there are two methods to value assets under CCA i.e. the deprival value method and replacement cost. However, in practice, it is very complex process to determine the the economic value and realisable value of an asset because the cash flows generated by an individual asset can't be generated and there is no secondary market to calculate its net realisable value. Calculating asset based on replacement value is a more practical approach as use can be made of a company's asset purchasing budgets or suppliers. Maxis cited statements by ACCC and the NZ regulator in support of the use of replacement costs

P1 did not directly answer this question, however opines that if there is a reduction in replacement cost, the offering by the dominant provider to the access seeker should be revised accordingly. SKMM should consider using information currently available and not to change practises that require unnecessary cost to be incurred. Increasing regulatory obligation will increase cost especilly for non dominant operators, hence they will be unable to compete effectively. Where possible the cost of regulatory obligations should be kept minimal.

TM notes that evidence from other jurisdictions indicates that replacement costs are a common approach to valuing assets under CCA.

TIME argues against the use of NPV and NRV, however did not submit their views with regards to the use of replacement costs were CCA to be implemented as they believe that AS should be implemented on HCA.

YTL says that, if it were forced to implement CCA, then replacement costs are the best asset revaluation method.

7.8. SKMM's response to comments on whether replacement costs are the best way to revalue assets under CCA

Of those respondents who answered this question, none argued against the use of replacement costs to revalue assets given the implementation of CCA. TIME argues against the use of NPV and NRV, which implies that it would support the use of replacement costs were CCA to be implemented.

SKMM agrees that replacement costs are the best way value assets under CCA.

Celcom points to the need for adjustments when an asset has been superseded by a model with higher specifications. SKMM agrees that such adjustments are required and they were discussed in Appendix B.3.1 of the PI Paper.

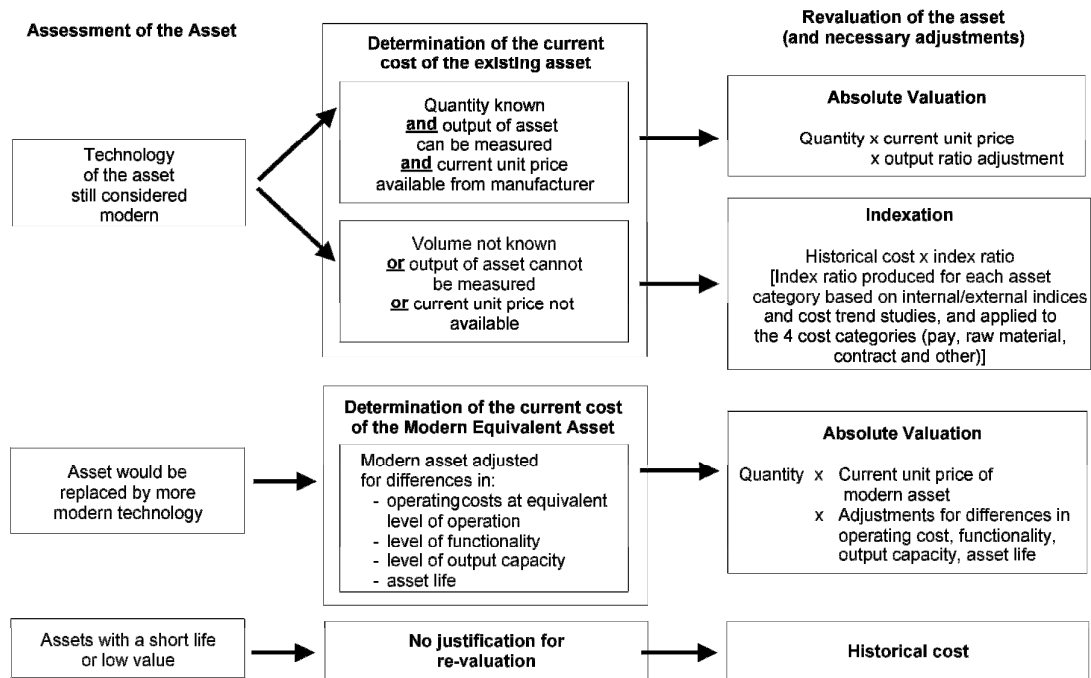
Celcom also says that for low value or short lived assets it is not necessary to use replacement costs. SKMM agrees and this is in line with what was said in the PI Paper (see Figure 6).

On comment of it not being practical to revalue assets on a yearly basis, SKMM disagrees and is of the view that once an appropriate system has been developed for producing CCA valuations and accounts, this should be capable of being implemented each year.

7.9. Overview of replacement cost methodology

When current costs are revalued on a replacement cost basis, this must be done in a consistent and transparent way. Figure 1 below, which is reproduced from Figure 6 of the PI Paper summarises the approach to be followed in order to determine the replacement cost of each type of asset.

Figure 1: Choice of Replacement Cost Revaluation Methodology



Q10. Do you agree with the process for determining the replacement cost of different types of asset that is summarised in Figure 6 and explained further in Appendix B? If not, what would be more suitable and why?

Q11. Do you have or could you obtain the data that is necessary in order to revalue assets at replacement cost. If not, please explain why.

7.10. Summary of comments received on replacement cost methodology

None of the operators who responded to this question had any major disagreement with the process for determining the replacement cost of different types of assets that was set out in the PI Paper and reproduced in Figure 1 above.

Celcom does not practice CCA, however, if required to undertake this approach, Celcom would require 3 years to understand the implementation methodology, system upgrade, staff training and to stabilize the new processes.

Maxis agrees in general with the process outlined in Figure 6 of the PI Paper but regards it as being highly theoretical. Assets that have been deployed recently or are already fully depreciated should be presented in historic costs. Also vehicles are low value items and hence, contrary to what is said in the PI, they should be valued using historic costs. SKMM should strike a balance between the amount of work required and the expected benefits.

In P1's view Figure 6 does not take into account additional assets that are required in order to keep abreast of new technology. This could be one area to be improvised as in many cases, only software upgrades are required.

In TM's view the description in Figure 6 of PI Paper of the process for determining the replacement cost of different type of asset is consistent with what is used in other jurisdictions. With respect to the indexation method, TM notes SKMM's requests that each operator constructs an internal asset specific index based on the prices that it has paid for equipment rather than using an external index which would not capture factors specific to the operators such as discounts. If it is not possible to construct an internal index more general price inflation indices could be used. While TM agrees that an asset specific index would be ideal, it will be necessary to adopt a workable approach.

U Mobile disagrees with the process in Figure 6 and Appendix B. They do not believe that NRV and PV are suitable in determining replacement cost. For on-going business, the replacement cost should be determined by current cost required to purchase an asset. NRV is not relevant because it only measures the amount expected to be realised from selling the assets which will not be the same as the amount required to purchase the same asset. The use of PV is not suitable because PV computation requires numerous assumptions about discount rate, future quantum and timing of cash flows which will invariably increase the probability of inaccuracy built into the PV.

YTL agrees with the process summarised in Figure 6.

7.11. SKMM's response to comments on replacement cost methodology

In SKMM's view Figure 1 above appropriately summarises the process for determining CCA asset values using current replacement costs.

If Maxis believes that vehicles are low value items, then it would be appropriate to value them at historic cost (as set out in Figure 1 above).

SKMM disagrees with P1 that Figure 6 of the PI Paper (Figure 1 above) does not take into account additional assets that are required in order to keep abreast of new technology. On the contrary, this is covered by valuation based on the modern equivalent asset (MEA).

TM requests that, with respect to the indexation method, each operator should aim to construct internal asset specific indices based on the prices that they have paid for equipment. SKMM agrees that this is appropriate.

7.12. Summary of comments received on the practicality of obtaining data that is required to revalue assets at replacement cost

There was a mixed response to this question from the mobile operators.

Celcom reiterated that it does not practice CCA and say it will take three years to implement.

DiGi refers to the problems posed by the fact that equipment vendors, particularly when providing integrated network solutions, may not provide prices for individual types of equipment but rather on a bundled approach. At the same time, replacement prices quoted by different vendors vary greatly which would result in adjustments not due to economic use but vendor's pricing policies and equipment that may be collapsed into a single equipment with different routing and functionalities. Consequently it may be very difficult to identify replacement costs at the individual asset level.

Maxis believes it will be a near impossible task and non-practical to obtain the required data necessary for revaluing Maxis network. It draws attention to the difficulty of assigning values when equipment is purchased in bundles and because of the way prices are negotiated with different vendors and the difficulties to match invoice with assets. Furthermore the level of detail at which assets should be revalued is unclear. CCA revaluation will necessarily be subjective and expensive and time consuming to implement as there is incredible amount of work depending on the categories in the FAR, thus making it prone to error and could result in misrepresentation of the actual cost.

TM confirmed that it is possible to obtain the data to revalue assets at replacement cost and, indeed, this has been done for the purposes of LRIC modelling exercises. However,

the practical difficulties of gathering the requisite data and the subjectivity involved are highlighted by TM. In particular, it is necessary to have extensive and time consuming searches for MEA prices in recent contracts. In addition, the scope of revaluation for AS purposes is such that there is a very large list of assets that needs to be revalued and not all of these have been purchased recently. The level of detail, the availability of information and the subjectivity of judgement makes revaluation of assets impractical, without specialist professional valuation team.

U Mobile is also of the view that it is not possible to obtain the data necessary to revalue assets. This is because equipment purchases are usually in the form of bundles, for which individual equipment prices are often not available, and there may be discounts that come into play given further purchases. Due to this unique nature of bundle purchase, actual current cost data is difficult to come by.

Although YTL said it will be a great challenge, both YTL and PI agrees that the information could be collected.

7.13. SKMM's response to comments on the practicality of obtaining data that is required to revalue assets at replacement cost

SKMM agrees with DiGi, Maxis, TM and U Mobile that collecting the data required to revalue assets may be a difficult and time consuming process. However, it notes that, as pointed out by TM, such an exercise has been carried out for the purposes of LRIC cost modelling for both fixed and mobile networks, albeit at a lower level of detail.

Particularly in the case of bundled contracts, it may be necessary to make judgements. However, SKMM does not believe that the subjectivity of the assumptions that need to be made is necessarily any greater than those that are used in the preparation of statutory accounts, for example in the case of asset impairment reviews. Furthermore, as long as the assumptions made are documented in a transparent way, the reader of the RFS, the reader will be able to evaluate their materiality and significance.

As regards the level of detail, this will partly be determined by the information that is available. SKMM recognises this and believes that operators, if necessary with the help of their advisers, will be able to determine a level of detail that is practical. In addition, this is one of the areas that can be addressed during the joint working group meetings that were proposed in Section 12.1 of the PI Paper.

SKMM agrees with P1, TM, and YTL that it is possible to obtain the data required for revaluing assets on a CCA basis. AS based on CCA has been implemented in other countries and SKMM is not aware of circumstances in Malaysia which mean that, while operators elsewhere can obtain the necessary data, it cannot be done here.

7.14. Overview of concepts of capital maintenance

Once assets have been revalued, the next step is to determine the annual capital charge that is required under CCA. In order to do so, it is necessary to decide on the appropriate concept of capital maintenance.

Two different capital maintenance concepts exist:

- (i) Capital can be maintained in physical terms, which is known as operating capital maintenance (OCM). Under this approach profits are measured after provision has been made to maintain a company's physical capital stock.
- (ii) The capital of a business is viewed as a fund attributable to shareholders and profit is the difference between the value of the fund at the start and end of the period over which profit is being measured. This is known as financial capital maintenance (FCM).

Under OCM adjustments are made to reflect the current cost of the assets, both fixed and current, "consumed" during the year. In order to maintain fixed asset operating capital in the face of changing asset prices, it is necessary to charge against revenue the current cost of the fixed assets "consumed". This involves making a supplementary depreciation charge in addition to historic cost depreciation.

FCM also requires supplementary depreciation. In addition, any unrealised changes in the value of assets as a result of changes in asset prices during the accounting year (holding gains or losses) need to be taken into account. It is therefore necessary to estimate the holding gains or losses and adjust profits accordingly.

Q12. Do you agree that FCM is the appropriate form of capital maintenance to use for CCA? If not, please give reasons.

7.15. Summary of comments received on capital maintenance

Celcom reiterated that it does not practice CCA and say it will take three years to implement.

DiGi agrees that, at the conceptual level, the FCM methodology is to be preferred to OCM because under FCM capital costs are charged through the income statement and represent the full return of capital required by a rational investor. These charges, plus the return on capital, represent the risk adjusted economic cost associated with the asset.

According to Maxis, the choice between OCM and FCM can affect the results of AS exercise using CCA data on reported cost and profit level presented in the P&L statement. Maxis reviewed the different arguments for and against each of the two capital maintenance concept in which capital can be viewed in operational or financial terms and highlighted that the difference is most clear when accounting for the effects of price changes and particularly in the treatment of "holding gains or losses". It concludes that, because of the complexity of these arguments, it is not in a position to provide an opinion regarding whether FCM is appropriate to use for CCA.

P1 also supports the use of FCM.

TM is of the view that FCM is the appropriate form of capital maintenance to be adopted for revaluation purposes within the communication sector, quoting BT, Telekom New Zealand and Telstra.

7.16. SKMM's response to comments on capital maintenance

As noted by TM, FCM is widely used in the preparation of RFS in other countries. SKMM remains of the view that it should be used in Malaysia.

Of those operators who offered an opinion, none have argued in favour of OCM, while Maxis is not currently in a position to reach a view.

To reiterate the reasons for choosing FCM, in order to measure the change in the value of assets over time it is necessary to take account of both wear and tear through the use or deterioration of assets as time passes (i.e depreciation) and holding gains and losses that result from changes in asset prices. Within the profit and loss account, FCM takes account of both of these, whereas OCM only deals with depreciation. Backlog

depreciation and unrealised holding gains or losses are shown as reserve movements under OCM.

8. TRANSFER CHARGES

8.1. Use of market prices or costs

Under AS, operators must account for each transaction between their business units as if it were with an external party. This is done using transfer charges.

Transfer charging requires, for example, a business unit providing a particular retail service to record the purchase of a wholesale service from another business unit that is jointly controlled, as if it were purchased from an external party. Disclosing the details of internal and external transactions involving the same services or products allows the identification of potential competition problems, such as undue discrimination, cross subsidy and margin squeeze.

Transfer charges could potentially be determined in two ways, depending on the circumstances of the transaction:

- (i) Calculating the cost of the service provided (including the cost of capital);
- (ii) Using market prices.

Where a particular wholesale service is only supplied to an operator's own retail business unit and is not provided to an external party, there is no market price and the transfer charge has to be set equal to the cost of providing the wholesale service.

8.2. Use of WACC to determine cost of capital

Q13. If transfer charges are based on costs, is WACC the appropriate basis for determining the cost of capital? If not, what basis should be used?

8.2.1. Summary of comments received

All respondents, with the possible exception of Celcom and TIME, agreed that WACC should be used as the basis for determining the cost of capital.

In Celcom's opinion transfer charges should be premised on the basis that each recipient receives a margin commensurate to the functions and activities carried out by each party within the supply chain. If WACC is used as a proxy for margin then it may have merits, but Celcom would need to evaluate this in more detail.

DiGi is of the view that, if there is no external or regulated price for the service concerned, it may be appropriate to base transfer prices on cost. If so, a return on capital should be included and WACC is an appropriate and standard basis for doing this. In principle a WACC specific to the service concerned is to be preferred, although DiGi recognises that there may be significant problems in estimating a specific rate.

Maxis considers that, due to the burden that AS will place on mobile operators in Malaysia, it is not necessary to calculate transfer charges. Maxis believes that in line with IBP, the calculation of transfer charges is not an integral or inherent element of AS, and is not required to ensure non-discrimination and avoid cross-subsidies, but gives no reason for its opinion. However, in case transfer charges do need to be calculated based on costs, it agrees that WACC is the appropriate method for determining the cost of capital, but it should include the risk to the company of providing all services, and not just wholesale services.

Both PI and YTL support the use of WACC.

TM is of the view that, while WACC is the appropriate basis for the calculation of the cost of capital, its preference is for the use of internally generated WACC in the case of unregulated services. Applying company calculated WACC across the board would ignore the different levels of risk associated with different lines of business, generating inappropriate and misleading cost signals. In support of its position, TM quotes the opinion of the European Regulators Group.

According to TIME, cost plus cost of capital may not be the appropriate basis in determining the deemed market price in view that WACC rate is not consistent for each network operators due to factors such as costs of debts, costs of equity and capital structure. TIME quoted Axiata Group, Maxis, DiGi, TM and themselves and noted that WACC rate varies from 6.6% to 17.8%. TIME further stated that information on WACC is

not readily available for operators not listed in Bursa Malaysia. Although the formula to calculate pre-tax WACC is provided in the PI Paper, TIME notes that there are many assumptions used in the computation of WACC, such as the value of beta, and these will cause differences in the transfer charges used by different operators.

U Mobile opines that where there are no observable external sales market, the transfer charges for internal sales should be based on cost plus WACC.

8.2.2. SKMM's response to comments

SKMM supports the view of the majority of respondents to the PI Paper that, when costs, rather than external or regulated prices are used for transfer charging purposes, WACC is the appropriate basis for determining the cost of capital.

SKMM is grateful for the points raised by DiGi, Maxis and TM regarding whether a company-wide or individual division (or business unit) WACC should be used.

Although different parts of a business carry different levels of risks, SKMM notes that there are practical difficulties in the identification and measurement of the level of risk for individual divisions or business units. For example, the equity beta used to compute WACC is normally calculated from historical data which apply to the company as a whole. Attempts to derive divisional betas require the use of appropriate market comparators, which are typically difficult to find, or modelling techniques, the reliability of which is open to question.

Given the difficulties and uncertainties that the calculation of divisional WACC would entail, SKMM is of the opinion that at the present time, for the purposes of AS, the use of WACC for the company as a whole is more appropriate. However, the position could be revisited in the future if the techniques for determining divisional WACC become more reliable.

8.3. Use of market prices or costs

Where there are external sales, a choice exists between using market prices or costs including the cost of capital. In deciding between the two methods it is important to bear in mind that market prices might not be cost-based. SKMM's view is that the latter should only be used if it can be substantiated that they are cost-based.

Q14. When there are external sales, should transfer charges for internal sales be based on market prices or costs including the cost of capital? Please give reasons.

8.3.1. Summary of comments received

The views submitted by respondents varied, with some operators expressing a preference for the use of market prices and others favouring cost plus the cost of capital for transfer pricing purposes.

Celcom maintains that transfer charges be set on the basis that each recipient receives a margin commensurate to its functions and activities in the supply chain. Whether market price or cost should be used would depend on the situation. Celcom illustrated that arrangements with different MVNO will vary depending on support services supplied and strategic market positioning which may not be directly comparable to internal sales.

DiGi believes it may be appropriate to base transfer charges on cost where there is no external or regulated price for the service in question. Although not explicitly stated, this implies that its view is that the external or regulated price should be used as the transfer charge where it exists.

Maxis is of the view that, if transfer charges need to be demonstrated, then it would be easier to calculate them based on costs, including the cost of capital. This is because not all wholesale services purchased by business units serving retail markets are sold externally. While it may be possible to use market price for some services and products, for some others, the market price may not be cost based.

PI believes that market price should be used as a tool to set transfer charges instead of cost including the cost of capital, as the latter may vary between companies and businesses.

TM maintains that transfer charges should be based on market prices in instances where there are external sales, or on a cost basis, including cost of capital, in cases where there are only internal sales. It quotes Jersey Telekom as an example of this practice.

TIME disagrees that internal sales should be based on cost plus cost of capital when there is price cap regulation via MSAP for the service concerned. This is to ensure that internal revenue earned from sales to its retail arm is also based on the access prices

charged to external parties, as can be gleaned from the access agreements submitted to SKMM. Transfer charges based on cost (plus the cost of capital) are only appropriate in instances where price cap regulation does not apply.

U Mobile considers that transfer charges should be based on market prices so as to reflect the charges that would be levied between independent businesses.

YTL argues, for reasons of consistency, transfer charges should be based on cost plus the cost of capital in the case of both internal and external sales, so that it is comparable.

8.3.2. SKMM's response to comments

SKMM notes the different views put forward by the operators.

It agrees that where charges for external sales are regulated (e.g. via MSAP) they should also be used for transfer charging purposes. In addition, SKMM believes that the methodologies adopted should conform to the following three principles:

1. In instances where regulated rates are mandated for external sales, the transfer charges should be posted at regulated rates.
2. Where non-regulated external sales exist and the prices used are cost justified, the market rate is the preferred method. Otherwise cost plus the cost of capital should be used.
- 3 In the case of internal transactions for which comparable third party sales do not exist, cost plus cost of capital should be used.

9. FORMAT OF REGULATORY FINANCIAL STATEMENTS

9.1. Overview

The proposed format and content of the RFS are described in Appendix A of the PI Paper.

The RFS for fixed network operators comprise:

- (i) Income Statements at the level of individual wholesale and retail services and other services;
- (ii) Statements of average unit cost and revenues at the level of individual wholesale and retail services;
- (iii) Income Statements consolidated at the level of wholesale and retail showing aggregate wholesale and retail and other results;
- (iv) A Statement of Mean Capital Employed for individual services at the retail and wholesale levels;
- (v) A consolidated Mean Capital Employed statement;
- (vi) Statements of network unit costs by service;
- (vii) Network Activity Statements; and
- (viii) Reconciliation Statements to the statutory accounts.

The RFS for mobile network operators comprise:

- (i) Income Statements at the level of individual wholesale and retail services;
- (ii) Statements of average unit cost and revenues at the level of individual wholesale and retail services;
- (iii) A Consolidated Income Statement showing wholesale, retail, other and total;
- (iv) A Statement of Mean Capital Employed for individual services at the retail and wholesale levels;
- (v) A consolidated Mean Capital Employed statement;
- (vi) Statements of network unit costs by service;
- (vii) Network Activity Statements; and
- (viii) Reconciliation Statements to the statutory accounts.

Q15. Is the suggested format of the Regulatory Financial Statements appropriate? If not, please give reasons.

9.2. Summary of comments received

On the whole operators agreed that the suggested formats are appropriate, but expressed their preference for a less detailed format.

Celcom suggests that for income statement, revenue be broken down by type of services but cost be retained at aggregated level and for balance sheet, all assets be considered as one single cash generating unit which cannot be operated independently.

For DiGi the suggested format appears standard for RFS.

Maxis argues that the presentation, format and content of the RFS need to reflect the purpose of AS. Maxis's highlighted that their complex entity structure and business set up, would make it extremely difficult to split network vendor creditors accounts between fixed and mobile, and even worse by service, to derive the mean capital employed.

Maxis opines the purposes of AS for mobile network operators must be significantly different from those for the fixed incumbent given the current competition in the market. Reflecting this, the RFS for mobile operators should be less detailed than those for the fixed incumbent.

P1 regards the format of the RFS as being appropriate but only for dominant licensees.

TM provided a comparison of the suggested formats of the RFS with a sample of other countries (Singapore, Oman, and New Zealand) and noted that none of the benchmarked countries require production of average unit revenue and cost statements, and therefore TM would like this requirement to be removed.

TIME suggest that the licensee be given sufficient time to try the proposed format and allow changes to be made, as neither SKMM nor the licensees are in a position to agree or disagree on the appropriateness of the formats proposed. TIME proposes that the Commission gives due consideration to network size and degree of influence an operator has in the market (in terms of price changes, etc) and reduce the level of

reporting details required for smaller operators. TIME recommends that there should not be one format for all operators.

YTL is of the view the suggested format appears to be appropriate, however, this can only be determined upon the commencement of the extraction process.

9.3. SKMM's response to comments

SKMM continues to take the view that there is a need for reports from those operators that cover the key information needs for products and services.

SKMM does not believe that the formats of individual statements should be aggregated to the levels proposed by Celcom. In particular, SKMM does not agree with Celcom that individual assets should be treated as a single unit, as this represents a significant deviation from the very purpose of AS.

SKMM also does not agree with TM regarding its request to eliminate the average unit revenue and cost statement, as it is this level of granularity that SKMM will require in order to be able to understand an entity's performance and profitability.

SKMM maintains its position that the format should be the same for all operators who exceed the thresholds of RM3 billion in revenue and total assets respectively as this enables comparability.

Requirements for small operators

Companies that submitted responses to the PI Paper argued that the proposed AS requirements are unduly burdensome.

After due consideration of all the views expressed that the cost of the full regulatory financial reporting proposal being too high for the smaller operators, SKMM has decided to provide a partial exemption for companies whose revenue arising in Malaysia or total assets or both fall below a RM3 billion threshold. These "small operators" will, however, be required to produce abbreviated RFS, that is to say RFS showing income and net assets at a less granular level. In particular, these entities will be required to produce:

- (i) Regulated income statements at the Wholesale, Retail and Total level only, on an HCA basis
- (ii) Net asset statements at the company year-end date at the Wholesale, Retail and Total level only, on an HCA basis

- (iii) Reconciliation statement to the audited consolidated group financial statements (with no CCA adjustments required)
- (iv) A statement signed by a company director (i.e. self certification) confirming that the RFS are properly prepared in accordance with the submitted documentation and comply with regulatory obligations.
- (v) Accounting documentation specifying accounting policies and attribution methods adopted.

In developing these proposals, SKMM has taken into account the size and simplicity of operations of the small operators.

SKMM believes that this framework will provide a proportionate and less costly outcome for the small operators in the communications industry. These provisions will apply if at least one of the two threshold criteria is met.

10. RECONCILIATION

10.1. Overview

In order to ensure the reliability of the RFS, and their consistency with the operators' statutory accounts, Reconciliation Statements are required. These Reconciliation Statements will need to be prepared by the operators to consolidate and reconcile all of the RFS for the individual products and services to the appropriate statutory accounts.

The proposed format of the Reconciliation Statements was set out in Tables 6 and 7 in the PI Paper and is reproduced in Table and Table below. The adjustments represent items that are included in one set of accounts and not the other. They were described and explained in Sections 10.1 and 10.2 of the PI Paper.

Table 5: Reconciliation of Consolidated Income Statements

	Revenue (RM)	Operating costs (RM)	Operating profit (RM)
As in the Annual Report	x	x	x
Adjustments			
Inter-market revenues and costs	x	x	x
Other operating income	x	x	x
Profit on disposal of property (if CCA basis)	x	x	x
Other gains	x	x	x
Total in RFS on HCA basis	x	x	x
CCA Holding gains/losses		x	x
CCA Supplementary depreciation		x	x
Other CCA adjustments		x	x
Total in RFS on CCA basis	x	x	x

Table 6: Reconciliation of Consolidated Mean Capital Employed

	Current Year (RM)	Prior Year (RM)
Shareholders' funds as in the Annual Report	xx	xx
CCA adjustments (if applicable)	xx	xx
Adjustments		
Other long term liabilities	xx	xx
Short term borrowings	xx	xx
Taxation	xx	xx
Assets held for speculative purposes	xx	xx
Available for sale investments	xx	xx
Derivative financial instruments	xx	xx
Deferred tax assets/liability	xx	xx
Financial assets at fair value	xx	xx
Other as appropriate	xx	xx
Closing capital employed at 31 December	xx	xx
Opening capital employed at 1 January	xx	xx
Average capital employed	xx	xx
Total Mean Capital Employed	xx	xx

Q16. Are the reconciliation adjustments set out in Table 6 and Table 7 (of the PI Paper) appropriate? If not, what should they comprise?

10.2. Summary of comments received

All the operators who responded except Maxis agree that there needs to be reconciliation between their statutory accounts and the RFS.

Celcom reiterated that it does not practice CCA and say it will take three years to implement.

DiGi, P1 and YTL consider the format appropriate, but introduce some qualifications. DiGi suggests the reconciliations could be considered as guidelines as in the final reconciliation adjustments that will depend on dominant operators that are required to produce separated financial statements and whether CCA adjustments are made. P1

would like to see each of the line items in the reconciliation tables supported with details where applicable for ease of understanding and reference and YTL will need to see how it works in practise.

Maxis believes that it is appropriate to do reconciliation adjustments between the statutory accounts and the inputs to the AS model, but that the reconciliation process and statements outlined by SKMM are not required. Instead, it would be enough to present the difference between the P&L and balance sheet in the statutory account and the input data included in the AS. The reconciliation should be done between Maxis Group's statutory accounts and the input used for the AS model. Furthermore, Maxis states that it is not necessary to do a reconciliation exercise at the level of consolidated mean capital employed or income statements, in view of the simpler formats it has proposed.

TM states that the proposed reconciliation statement appears similar to those applied in other countries.

10.3. SKMM's response to comments

SKMM remains of the view that the reconciliation adjustments proposed in the PI paper are appropriate.

The reconciliation process represents a fundamental step in enabling transparency of how the RFS outputs are aligned to the audited statutory accounts. Consequently, all the items that are disclosed in the statutory accounts, but not in the regulated accounts, require a separate disclosure. Reconciliation adjustments represents the least costly way of providing such a disclosure.

For those entities that fall below the "small company" thresholds, the reconciliation statement will be simplified as it will exclude current cost adjustments (see Section 9.0).

11. AUDIT AND DOCUMENTATION REQUIREMENTS

The responsibility for preparing RFS rests with the operators. In addition it will be necessary for the information to be audited and thoroughly documented.

11.1. Overview of audit opinion

The audit opinion should cover whether the RFS:

- (i) Fairly present information in accordance with the Accounting Separation guidelines which state the Principles of Accounting Separation, the attribution method and accounting policies in arriving at Income and Mean Capital Employed of each market and product;
- (ii) Complies with the regulatory obligations in place;
- (iii) Contains all the information and documents specified as to be submitted by the regulatory obligations;
- (iv) Are properly prepared in accordance with the relevant guidelines and procedures, as defined in the detailed documentation; and
- (v) The restated and re-presented prior year Income and Mean Capital Employed Statements are fairly presented in accordance with this document.

Q17. Are the specified levels of the audit opinion appropriate? If not, please explain why.

11.2. Summary of comments received on audit opinion

While the views of the industry varied, the predominant issue was the significant cost of the proposed level of audit opinion, which would have to be borne by the operators.

Celcom does not directly address the question but states that implementation of AS would be difficult and require several cycles of reporting before the process stabilizes enough for the information to be of any use. Celcom proposes self-regulation for 3 to 5 years, continual implementation guidance from NRA and finally operators seek to formalise the AS implementation via audit opinion once the process is stabilized and the information is sufficiently accurate.

DiGi notes that the regulator is the principal reader of the RFS and is a body that is competent and qualified to test their veracity, to seek clarifications and engage advisors to review if deemed necessary. Therefore, it feels that the onerous proposed audit requirement is unjustified, particularly given the costs and additional burden it will impose on the regulated entities. It suggests as an alternative and more proportionate option either self-certification or an independent review and Agreed Upon Procedures report. If an audit is imposed, it does not think the high level of audit standard (Fairly Presents) as proposed by SKMM is proportionate. It suggests instead that a Properly Prepared opinion would still provide significant independent assurance, and provides examples of countries where this is used.

The development of AS model is complex and resource consuming task. In order to minimise cost and streamline AS implementation process, Maxis proposes self-certification by the Chief Financial Officer for the first few years of audit requirement. After which Maxis views it most appropriate to adopt a "compliance framework" opinion by auditors which would entail "Agreed Upon Procedures". Maxis believe this audit opinion will provide the assurance required. It concludes by arguing that the audit requirement be waived for AS, at least for the first few years of its implementation.

Maxis added that the requirement of a different auditor to the one which audits the statutory accounts will add further burden to the company in terms of management, cost and time. It will be more efficient to leverage on existing auditor's work and knowledge for AS audit. The proposed requirement is inconsistent with other mandatory submissions to SKMM where there has been no restriction of using the same auditor. Maxis in their discussion with MIA, wish to inform SKMM that an approved auditor in Malaysia is required to comply with ethical code governed under MIA-by-laws which is based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Therefore, their auditors are of the view that the engagement of auditors for RFS should be left to the operators as there are sufficient processes to ensure transparency and independence of the audit profession.

MIA in their submission highlighted the various levels of assurance can be provided on RFS through different types of engagements. "Audit" provides "Reasonable" level of assurance, "Review" provides "Limited" level of assurance, "Other Assurance" provides "Reasonable or Limited" level of assurance and "Agreed Upon Procedure" does not provide any level of assurance. Financial reporting framework can be either a "fair

presentation framework" i.e. presents fairly in all material respect or a "compliance framework" i.e. prepared in all material respect. Hence assessment should be performed and mapped to SKMM's required level of assurance. MIA further added that an audit can be performed on a complete set of financial statements, a single financial statement or specific elements, accounts or items of a financial statement. Under MFRS, a complete set of financial statement comprise of statements of financial position, comprehensive income, changes in equity, cash flow and its related notes. A single financial statement may refer to statements of financial position and its related notes while specific element, account or item of a financial statement can be a schedule of net tangible assets and its related notes. Based on the PI Paper in Section 9, a complete set of financial statement refers to all the elements stated. A single financial statement may refer to one of the elements stated, for instance the income statement, while specific element, account or item of a financial statement can be tangible fixed assets by service. The complexity and corresponding costs of assurance exercise would increase in tandem with the level of assurance and granularity of assurance required by SKMM.

As suggested in the PI Paper, MIA also expressed their views on the regulatory audit to be performed by a different auditor to the one which audits statutory accounts. MIA pointed out that an approved auditor in Malaysia is required to comply with an ethical code governed under the MIA By-Laws which is based on the fundamental principles of integrity, objectivity (including independence), professional competence and due care, confidentiality and professional behaviour. Further, MASA (Malaysian Approved Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements) requires approved auditor to establish and maintain a system of internal control to provide reasonable assurance that the auditor and its personnel comply with professional standards and applicable legal and regulatory requirements and the reports issued by the auditors are appropriate in the circumstances. In Malaysia, Audit Oversight Board and MIA Practice Review ensure auditors' compliance with the auditing and ethical standards for public-interest and private entities respectively. As such, MIA is of the view that engagement of an auditor for RFS should be left to the operators as there are sufficient processes to ensure transparency and independence of the audit profession.

P1 thinks it important that the AS Guideline is developed and used as a standard across the industry. The auditors opinion will then be based on the compliance of the report prepared by dominant providers using the AS guidelines to ensure consistency and facilitate equilibrium comparison. However, it considers that having different auditors for RFS and the yearly Financial Audited Statement is not necessary.

TM highlights the fact that the level of audit assurance will bear directly on the implementation and ongoing cost of AS. It also points out the proposal, as stated in the PI Paper, spans across two form of assurance: ` "Fairly Present" opinion and "Properly Prepared" audit assurance. TM goes on to compare the estimated audit cost associated with regulatory reporting in the case of Telecom New Zealand (source Pricewaterhouse Coopers) given (a) Properly Prepared audit assurance and (b) Fairly Prepared audit opinion. These figures indicated an approximate 49% increase in the cost if a "Fairly Present" were required rather than "Properly Prepared".

TM also expressed concerns over the clarity of is the level of audit opinion required and stated that the main focus of audit opinion should be on those services that are of particular interest to SKMM ("that is those with probable competitive problems in which TM has dominance"). TM suggest the level of audit should be proportionate and appropriate i.e. "properly prepared" principle would be sufficient.

Finally, TM stated that the audit fee will be further increased due to the recommendation that a separate auditor be used for the regulatory statements from the one that conducted the statutory audit. TM quoted evidence from other jurisdictions namely TNZ, BT and Telstra in which the same auditors were used for both statutory and separated accounts. TM concluded that, in Malaysia, the operator should be permitted to select the auditor for the separated accounts and that may, or may not, be the same as the auditor of the statutory accounts.

TIME did not directly answer the question but argued on the use of an independent auditor different from the one that audits the statutory accounts as there are no additional benefits to the operators in engaging in two separate external auditors. According to TIME, statutory auditor will have better understanding on the business entity and operation of the operators which provide for more effective and efficient audit for AS. Currently licensee incur audit cost for it statutory accounts and returns on net revenue submitted to the Commission. Imposing a third audit fee is neither fair nor reasonable since the RFS is for the Commission's own use to reduce information asymmetry. Hence, that the audit fee should be borne by SKMM since the RFS are for the latter's benefit.

YTL believes that the proposed levels of audit opinion are appropriate, whereas U Mobile takes the opposite view because auditing AS requisite for revenue and cost attributions requires additional complexity to auditors and licensees and the proper audit framework

of undertaking such exercise is non-existence in Malaysia. In addition, according to U Mobile, the audit of RFS would require substantial commitment and resources and the extent of the work embarked upon will have the same complexity as statutory audit process. This will lead to wastage of resources due to duplication of work. U Mobile seeks SKMM's clarification on the requisite for different auditors in performing statutory and AS audit.

11.3. SKMM's response to comments on audit opinion

Whilst it recognises that the cost of an audit process can be significant, SKMM will need to be satisfied that the RFS are free from material errors and misrepresentations. In order to be able to have that comfort level, SKMM requires an audit opinion and this implies a duty of care to the regulator.

Given the issues raised by TM with respect to the clarity of the level of audit opinion, as well as the arguments of DiGi, Maxis and U Mobile regarding the inappropriateness of the level of opinion proposed in the PI Paper, SKMM sets out below the basic principles upon which the two different levels of audit opinion are based.

FPIA (Fairly Presents in Accordance with) provides comfort that the overall impression created by the financial statements "fairly presents" the underlying performance and financial position of the entity concerned. This level of audit opinion is the industry standard and is equivalent to what is required for statutory accounts.

On the other hand, PPIA (Properly Prepared in Accordance with) only provides assurance that the figures contained in the financial statements have been properly prepared in accordance with an agreed process, without any assurance that the overall impression which they convey represents the underlying performance and financial position in a "fair" manner. Therefore, it is usually only permitted where it would not be possible to implement FPIA or it would be disproportionate to do so. Reflecting this, the lower assurance, which a PPIA audit opinion provides, is less costly to obtain than a FPIA.

It is possible that in the initial stages of AS, the auditors will not be able to provide a full FPIA opinion. Furthermore, it is anticipated that the two levels of opinion may be required for some time, with PPIA being provided on statements where FPIA would be disproportionate.

SKMM has also conducted further discussion with the MIA and, while it is likely that these discussions will continue, there is a good understanding by both parties as to the

level of assurance required by the regulator and the potential difficulties that can arise in obtaining a standard audit opinion (FPIA).

Having considered all the views expressed, SKMM has decided that:

- With respect to entities that fall below the “small company” threshold self certification signed by a company director will be required.
- For companies that do not fall below the “small company” threshold, a Compliance Statement signed by the company auditors will be sufficient for the first two years of implementation of AS.
- FPIA opinion will be required as standard from in the third year of implementation of AS and a Compliance Statement will only be used when the auditors are unable to provide a standard opinion or where standard opinion would clearly be disproportionate. The use of a Compliance Statement for a particular report will need to be agreed with the Regulator.
- Operators will be free to determine who audits their RFS, so the use of statutory auditors is not precluded.

11.4. Overview of documentation

Alongside the RFS themselves, it will be necessary for the operators to provide a full documentary record of the framework and methods used in their preparation. This documentation should comprise:

- (i) A statement of the Accounting Separation Principles followed, which should be in accordance with the principles set out in Section 4.2 of the PI Paper.
- (ii) A statement of the Accounting Policies used, in accordance with Section 4.4 above, and noting, where necessary, any changes in the policies over time.
- (iii) An explanation of the cost attribution methods used and the principal cost drivers, following the guidance set out in Section 5 and Appendix C of the PI Paper.
- (iv) An explanation of the nature and calculation of the transfer charges, in accordance with what is described in Section 8 of the PI paper.
- (v) A full list of all codes and definitions used for:
 - Products and services;

- Account codes;
- Activity codes;
- Cost centres and functions; and
- Data sources.

(vi) In future years details of the methodologies used for revaluation, in accordance with Section 7 of the PI Paper.

Q18. Is the accounting separation documentation specified in Section 11.2 (of the PI Paper) adequate? If not, what should be added?

11.5. Summary of comments received on documentation

In general the documentation specified was considered reasonable but there was a concern that it should not to be too voluminous.

Celcom commented that the scope, form and depth of the documentation should be developed and standardized by the working group and NRA.

DiGi agrees that a methodology document will assist SKMM understand them as it provides a record of the methodologies and processes used, calculations performed and data relied upon. However, DiGi commented on the public documentation of BT's methodology for its regulatory accounts, that it was voluminous, not very understandable, costly to produce and maintain and this detailed approach would be excessive in the extreme for Malaysia. DiGi suggested the working group consider the scope, form and dept of the documentation and record keeping requirements to accompany the imposition of AS.

Maxis agrees that a manual explaining the AS approach and preparaiton of RFS will be required. Although, the information outlined seems appropriate, Maxis was not able to comment in detail as the required documentation will depend on the specifications actually implemented in the AS model which can only be finalised in the working group discussion.

P1 and YTL stated that the documentation specified was adequate.

TM thought the details were more than adequate and entail comprehensive documentation but would appreciate further guidance on the level of details that is required particularly on cost attribution, asset revaluation and transfer charging.

U Mobile said that the documentation specified was too detailed and granular to give value to the users. Instead, it should suffice for operators to describe the framework and methodology used in preparation of the RFS, explanation of the key revenue, cost and asset elements and the drivers used to allocate those elements. The extent of disclosure should be set at a higher level, similar to the descriptions of accounting policies in current statutory financial statements

11.6. SKMM's response to comments on documentation

Documentation supporting the RFS needs to be of good quality.

The necessary level of documentation is also linked to the audit requirements, with aspects of the costing process having to be reviewed "in accordance with the documentation".

SKMM envisages that the documentation would be broadly as specified in the PI Paper. Retention of records would be the same as for current statutory purposes. The working group would confirm the scope and level of detail required.

11.7. Overview of maintenance of accounting records and responsibilities

In addition to the required documentation, it is essential that the operators maintain appropriate accounting records. The accounting and non-financial records have to be sufficient to provide relevant, comparable and reliable information, and key requirements include:

- (i) A sufficient level of detail to allow verification of the RFS;
- (ii) Sources of information, particularly non-financial data used in cost attribution;
- (iii) Definitions of all services and products;
- (iv) The "mapping of services" onto network plant groups and components, demonstrating how the services use the network;
- (v) Network engineering information used for developing cost drivers;
- (vi) The on-going availability of staff and information to support queries from SKMM;
- (vii) The appropriate retention of information.

Ultimate responsibility for the keeping of proper records, the preparation of the RFS and the reliability of the information contained in them should lie with the directors of the relevant companies.

Q19. Are the accounting records specified in Section 11.3 (of the PI Paper) adequate and appropriate? If not, what should be added or changed?
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11.8. Summary of comments received on maintaining accounting records

The majority of operators believe the proposed requirements for accounting records are too cumbersome and time consuming to meet. These operators believe the accounting records must achieve a balance between containing sufficient detail and being inexpensive to produce. The exceptions are P1, TM and YTL, who believe the accounting records to be adequate.

Celcom and TM both raise issues relating to the accounting recording process. Celcom suggests that this recording format should be developed and standardised by the working group and NRAs whilst TM believes that it would require a recording process specified by SKMM to provide appropriate accounting records.

DiGi argues that the accounting records must maintain a balance between the level of detail at which documentation is prepared, records are kept and practicality of preparing and maintaining its usability. It acknowledges that some of the key requirements proposed in Section 11.3 of the PI Paper are necessary, but believe there may be a need to compromise on the volume of detail.

Maxis agrees that accounting records should be retained. Maxis believes that some of the requirements such as cost attribution and service mapping must allow for practical limitations. Although there is a need for representative samples, circumstances may arise where shorter timeframes than the full year provide realistic and feasible samples. It also notes that the data retained in the accounting records will depend on the information used for the preparation of the AS model.

Whilst U Mobile understands the importance of maintaining appropriate accounting records, the key requisites detailed in the PI Paper is too complicated and impractical.

11.9. SKMM's response to comments on maintaining accounting records

The principal accounting recording system will normally be the operator's general ledger. SKMM takes the view that it will be possible for operators, in due course, to develop additional management accounting features, such as cost allocation and ABC, which would provide many of the tools for AS processing and record keeping.

Within the general ledger the core feature is the accounts code or chart of accounts which typically contains two key dimensions, namely the type of account, or natural expense, such as payroll and the cost centre. The latter normally relates to a broad

function activity such as marketing. SKMM envisages that a matrix of cost types and costs by function would form the basic financial building block for cost analysis purposes.

The main accounting record for premises and network plant would be the Fixed Asset Register and, from discussions with operators, it would seem that most companies hold a significant level of detail for fixed asset values and for calculating depreciation.

In a number of cases, operators appear to use Enterprise Resource Planning (ERP) systems which contain modules such as Financial Accounting or Controlling. The financial modules can typically work in conjunction with other modules such as Human Resources or Customer Relationship Management.

Given that these ERP modules or systems bring together financial and non financial information, both for internal and external purposes, SKMM believes that, in due course, these modules could contain many of the necessary records for non financial information for the costing process and that a more integrated approach to data collection and use would be possible and beneficial.

In the first year of preparing results, and possibly beyond, it may be practical to develop the cost apportionment process using a series of spreadsheets, with supporting documentation. This may be helpful in terms of the overall learning process, as new methods are being introduced, and would not to be over prescriptive.

11.10. Overview of publication of results

The information that will be contained in the operators' RFS is likely to be of interest to a wide range of parties. In addition to SKMM, competitors (whether actual or potential), investors (whether actual or potential) and consumers will have legitimate interests in the results of the RFS and understanding the manner in which they have been prepared.

Publishing the full RFS and accompanying documentation would help increase transparency because it allows the various parties mentioned above to verify for themselves that there is, for example, no discrimination and that there is an absence of margin squeeze and excessive pricing.

However, in practice the publication of confidential information could harm the operators' businesses, and the benefits of publication therefore need to be weighed against the need for commercial confidentiality. Alternatives to full publication are either that the RFS and accompanying documentation are not published, or that a higher level of

information is published. In both cases all the detailed information would still be provided to the regulator.

Q20. Should the Regulatory Financial Statements be published? Please give reasons.

11.11. Summary of comments received on publication

The submissions received by the Commission were largely in disagreement with the publication of RFS due to confidentiality issues.

Celcom opposed publication of RFS as they viewed that the publication of such accounts would be damaging as it contains commercially sensitive information that will facilitate tacit collusion between other operators. Instead Celcom is of the view that information shared with the public should be of the same as provided to Bursa and ROC.

According to DiGi, Section 80(3) of the CMA provides clear protection against publishing commercial sensitive information that may harm an operators business and result in competitive distortions. DiGi is of the view that that the scope and form of 'a higher level of information' that had been proposed in the AS PI paper should be clearly defined. As such it would be difficult to comment on the scope without clarity. Notwithstanding the aforesaid proposal, the operator reiterates its stand that it would not be appropriate to publish information of a confidential character irrespective of how high level it may be. DiGi opines that publication of any information provided by any licensee relating to a market in which it has not been found to be dominant as unreasonable and disproportionate.

Maxis notes that RFS is highly confidential and contains sensitive information and should not be published. Maxis expressed caution with respect to the publication of RFS of the operators who are publicly listed. They are of the view that SKMM should be mindful of certain restrictions on operators who are publicly listed. On the other hand, the private limited companies and unlisted public limited companies would also treat commercial confidentiality cautiously as they have no statutory duty to publish their accounts. In this regard, Maxis cited a few international regulators' approach and suggested that SKMM adopts similar approach to avoid unnecessary publication/ disclosure of RFS.

Maxis contended that the publication of the RFS would not necessarily contribute to increased transparency and not raise industry confidence that there are no anti-

competitive practices. They further stated that it is not necessary that competitors know in every detail each single item contained in the cost accounting of regulated operators in order to ensure confidence and to increase transparency.

P1 agrees that RFS should not be published as it might have adverse implication to the business operations and commercial confidentiality. However, it is important that licensees have some purview to this information to ensure non dominant operators are not being discriminated. Similarly, U Mobile believes the requirement to publish RFS should apply to dominant licensees with vertical integrated operations such as TM, Maxis, Celcom and DiGi.

TM opposed any form of publication of the RFS whether high level or otherwise. TM is of the view that the purpose of the detailed information is to assist the regulator in its deliberations, therefore it should be confidential to the regulator as the separate accounts will contain information of highly sensitive commercial nature which should not be available to TM's competitors. Besides, disclosing high level separated accounts could be misinterpreted and misunderstood when placed alongside the statutory accounts. TM cited international regulators that guarantees the confidentiality of the submitted accounts and limits the disclosure for internal use or specific purposes.

YTL is of the view that the Commission should not publish the RFS as they are highly confidential. Due to the sensitivity of the numbers, the Commission should only extract and summarise figures from the RFS submitted by service providers and publish these summarized figures which can be then used as an indicator for the industry.

11.12.SKMM's response to comments on publication

Gauging from the submissions, it appears that many of the concerns are associated with confidentiality of the AS information. As stated in the PI Paper, SKMM's proposal to publish higher level information, without any details is mainly to ensure that confidential information would not harm operators' businesses.

Nevertheless, SKMM takes notes of the concerns expressed by licensees and has decided not to require publication of higher level information. Rather, SKMM would retain the information and would use the information to assess competition issues.

12. IMPLEMENTATION PLAN

12.1. Overview

In considering an implementation plan for AS it is important to take into account:

- (i) The timing of SKMM's final decision on AS;
- (ii) The present state of the operators' accounting systems and expertise;
- (iii) The need for the operators to purchase new software if and where necessary; and
- (iv) The need for the operators to build their own expertise.

The proposed implementation plan, which was set out in Table 8 of the PI Paper, was intended as a draft plan, subject to change following further discussions with the operators as to what are reasonable timescales.

In implementing AS it is necessary to strike a balance between requiring each operator to use exactly the same set of prescribed account codes, and allowing them the flexibility to develop their own systems. Given the different starting positions of the operators, SKMM believes it would be better to avoid an overly prescriptive approach. However, in order to ensure that the same AS principles are applied in a consistent manner, one option would be the establishment of a joint working group, meeting on a regular basis.

12.2. Joint working group

Q21. Would it be useful to establish a joint working group of the operators and SKMM, which met quarterly to resolve issues and help drive the implementation process forward? If not, what would be a better co-ordination mechanism?

12.2.1. Summary of comments received on joint working group

Virtually all the operators support the establishment of a joint working group to enable a smooth implementation process. Two of the licensees, Celcom and Maxis, find it not only useful, but necessary for a transparent and successful implementation process. TM is the only exception and favours SKMM forming its own expert working group.

DiGi believes the creation of a joint working group is sensible and will enable a smooth implementation of AS. It views it as an iterative process that will develop over time as licensees and the Commission understand requirements and capabilities better.

However, it also argues that only dominant licensees subject to AS should be involved, and non-dominant licensees should not be allowed to participate in these discussions.

Maxis is of the opinion that a joint working group would be useful for a transparent and successful AS implementation. It is essential to ensure all the operators have a common understanding of the AS standards. This would prevent operators delivering inconsistently derived pricing that does not allow for transparent comparison. Maxis points out that an industry working group was set up for mobile number portability and this was vital in delivering a successful implementation.

P1 supports SKMM's view to establish a joint working group comprising of operators and SKMM to table the issues and concerns and determine the best way forward for the betterment of the industry as a whole.

TM is the only operator which does not support a joint working group. Its preference is for SKMM to set up its own expert working group combining internal and external experts on AS. This group would provide advice to licensees relating to implementation. TM believes this would be in line with common practice amongst regulators requiring AS.

TIME supports the creation of a joint working group in order to discuss issues and obtain guidance in ensuring smooth implementation of RFS. It would also allow licensees to discuss problems relating to any processes or systems and formulate alternatives. TIME suggest that the Commission submits for discussion the terms of reference (TOR) of the joint working group.

U-Mobile supports the establishment of a joint working group but takes an opposing stance to DiGi on which licensees should be involved. It believes that all operators and SKMM should have the opportunity to discuss common industry issues as well as issues relating to AS. These discussions should then be incorporated as changes to the proposed AS framework before deciding the RFS implementation date.

YTL suggests that besides having a joint working group to standardize the processes, SKMM should create a helpdesk, so that all queries are addressed in a timely manner and to be a hub to publish all queries and answers for the benefit of all.

12.2.2. SKMM's response to comments on joint working group

SKMM endorses the setting up of a working group and intends to chair the proceedings and make the necessary arrangements. Its view is that the working group will increase transparency and provide the forum for resolving particular issues.

SKMM believes that representatives from every operator that fall within the same RFS reporting requirement should be invited to attend, as this is the most transparent approach and operators can also benefit from each other's experience.

SKMM believes that it may be appropriate for an operator to take the lead on each particular topic or issue, such as transfer charges or network cost drivers.

Meeting frequency was not mentioned by any operator. SKMM believes that, while meetings on a quarterly basis may be appropriate, it may be necessary to hold them more frequently. This will be confirmed when the terms of reference and scope of the work of the group are defined by SKMM. A timetable will also need to be established.

12.3. Implementation timescale

Q22. Is it appropriate to have a phased approach with HCA Regulatory Financial Statements (RFS) produced first and CCA RFS produced later?

Q23. Is the draft implementation timetable feasible? If not, please explain why.

12.3.1. Summary of comments received on timescale

Most operators are in favour of a phased approach to producing RFS. However, they all believe a lengthening of the process is required to allow licensees to develop knowledge about the new processes and maintain information quality. There are some operators who are not in favour of CCA and therefore believe a discussion on phasing to be unnecessary. In addition, many of the operators are of the view that the draft implementation timetable is not feasible. All operators, including both fixed and mobile, argue for a more gradual implementation plan.

As AS is difficult and requires several cycles of reporting before the process stabilizes, Celcom supports a similar phasing process between initial AS implementation based on HCA and implementation of CCA. For HCA implementation, Celcom believes it would

require a minimum of 1 year to upgrade systems and put internal processes in place to produce separated accounts and this can only be achieved by the first half of 2014. Thus, they can only capture the required information for full financial year 2015. Celcom proposes that once HCA has stabilized, NRAs and dominant operators to explore the feasibility of implementing CCA.

A few of the operators do not favour a CCA approach and thus regard a phasing approach from HCA to CCA to be irrelevant. DiGi and P1 are two of these operators.

DiGi is of the view that CCA should not be implemented. DiGi believes the draft timetable proposed is impractical and not achievable. DiGi states that operators will require time to set up a project plan for implementation and establishment of a working group also the existing costing capability of dominant licensee. DiGi also highlights the necessity to upgrade systems and internal processes, which is a time and cost-intensive process. It provides examples of operators in other countries namely eircom, BT and Telecom New Zealand, which had better costing systems in preparation to implement AS, yet required a longer time period than is currently being proposed by the Commission. For example, BT in the UK required 3 years after the requirement for AS was announced to submit separated regulatory accounts. This was despite BT having already produced some forms of separated accounts from 1984. DiGi thus suggests 18-24 months for implementation after the initial directive is issued. Prior to implementing of AS on dominant operators, DiGi proposed that SKMM have a coherent and robust regulatory road map to address telecommunications competition issues.

P1 argues that HCA is a better approach because it is verifiable, audited under a standardised system and is currently used by all licensees thereby making it easily comparable. CCA is argued to be subjective, easy manipulated, non verifiable, time intensive, pose administrative burden and lead to increase in cost which could be substantial for non dominant licensees.

According to P1, the draft implementation is too ambitious and the industry will require more time even if only dominant operators are mandated to provide RFS. P1 supports the implementation of AS but propose that SKMM review the requirement to limit AS to only dominant providers as the regulatory cost of implementing and maintaining AS can be burdensome to small players, which are not capable of predatory or anti-competitive acts. Any accounting segment measures directed at parties without this ability would be

of no positive us and may possibly stifle their business expansion plans with the increase in cost.

Maxis also favours the use of HCA rather than CCA. However, it does recognise that, if CCA is adopted, a phasing approach is necessary. It provides examples of countries including Spain, Oman, India and Singapore, where there was a long gap between the implementation of HCA and CCA. Maxis suggests that SKMM should wait until after the HCA implementation is stabilised before deciding on CCA via a separate public inquiry.

Maxis argues that the draft implementation plan is too rushed. It provides the example of Spain, where the two dominant mobile operators were only able to submit their first AS models to the regulator 3 years after the initial principles were set out. Maxis provides its own 24 month implementation plan for HCA-based accounts and a further 12 months for CCA-based accounts. This will account for updating internal processes, reviewing the systems, setting up hardware, and CCA project planning and implementation.

TM believes a 2 to 5 year time period is reasonable for impementation of AS based on CCA. This would allow it time to create processes and systems to obtain the necessary information. Besides, TM is currently investing it resources in NGN upgrade and HSBB deployment. It highlights the case of Jersey, which it feels has similarities to Malaysia in terms of the upgrading of its NGN infrastructure. Accordingly to TM, Jersey adopted CCA after 5 years as their regulators implicitly acknowledged that the actual benefits of technological progress delivered to end users would outweigh potential benefits from having immediate access to separate accounting information. TM believes further consultations between licensees and SKMM may be necessary to discuss industry issues relevant for the implementation.

TM provides country case studies to show the draft timescale for AS implementation is not feasible. For example, in New Zealand, the operators issued their first set of separated accounts three years after legislation for AS was introduced, and even then, the regulator believed the set of accounts was unreliable. This was the case despite the fact that operators in New Zealand already used ABC, which Malaysian operators do not currently have. TM also cites the case of Ireland, where the regulator set the deadline for the production of CCA accounts at 6 months after the end of the financial period. However, eircom was unable to meet this deadline and repeatedly asked for extensions in order to develop new reporting structures.

TM is of the opinion that these country case studies are relevant to Malaysia. TM would be required to develop new accounting methodologies and documentation relevant to AS. In order to achieve a high quality of documentation and develop internal systems and processes to achieve it, TM asks for a longer time period before its RFS are produced.

TM proposes that draft HCA-based separated accounts for 2013 be produced by October 2014, with the final version available by December 2014. For CCA-based separated accounts, they suggest that a draft set of accounts for the financial year 2016 is produced by December 2017, with final accounts for 2016 available by March 2018. TM claims that these deadlines will enable it to build the expertise and system capabilities to deliver high quality regulated accounts. TM estimates that it would take 5 years, cost MYR60-80 million with 43 fulltime equivalent staff to implement AS fully in the format specified in the PI paper.

TIME favours phased approach from HCA RFS to CCA RFS as licensees, regulators and relevant personnel will undergo steep learning curve. However, the practicality of time period for each phase should be considered as it will be pointless to impose information providing obligation at sacrificed quality. Since CCA is unpopular in Malaysia, operators require time to gather data, resources, knowledge and skills required. AS being exceptionally new, it requires in depth studies, thus a phased approach will allow operators to focus on the AS mechanism in the first stage and CCA revaluation at a later stage. TIME proposes a period of 24 months for HCA RFS to be adopted and a further 24 months learning period for the transfer to CCA RFS. It regards a shorter phasing period as being impractical since CCA is not currently used in Malaysia. Licensees will have to train staff to produce RFS, and this will be a time consuming and cost-intensive process. Separating the HCA and CCA implementations allows operators to adjust to the AS process first, after which they can concentrate on CCA.

Furthermore, TIME argues that the draft implementation timetable is unrealistic, impractical and not feasible. This is because AS requires gathering lots of information and this requires additional staff, given the difficulty in recruiting staff with the necessary expertise as skilled staff is not widely available in Malaysia. Even with new staff, they require two to three months to learn and deliver the output. In addition, the current system, configuration, process and reporting structure are not able to produce the information as required. More knowledge will be required to upgrade systems and reporting structures to deliver separated accounts. TIME has other reporting obligation

and may not be able to deliver AS reports in a timely manner. This is because statutory audits begins in January, operators are to submit quarterly announcement to Bursa in February and May, USP RONR in April, annual report and audited financial statements in June, hence resources and attention are lacking. The proposed timeline also failed to take into account the quiet months due to school holidays and Chinese New Year period. With this, even if clarifications are sought, the Commission may not be in a position to provide timely response. TIME also believes that an appropriate documentation manual must be developed by SKMM and discussed so that licensees can fully understand and comply with the requirements to reduce the risk of chaos within the industry.

U Mobile agrees with a phased approach which focuses on HCA to consistently apply the framework and methodology across the industry. However, before the implementation of CCA RFS, there should be further consultations between the operators and SKMM to once again identify and discuss common industry issues for proceeding further.

U Mobile disagrees with the implementation timetable as being not feasible especially for late entrant/small operators as established operators have sophisticated system with more than 18 years of continued enhancements. U Mobile believes a period of 2.5 years will be needed to implement AS, with one year for consultation between licensee, auditors and SKMM, another year for documentation and preparation period to design the model and capture the necessary input for RFS and lastly another 6 months for operators to start preparing the draft RFS accounts based on HCA.

YTL favours phased approach but does not think that the implementation timetable is feasible as it involves lots of system enhancement, information gathering, employing, setting up and training team members.

12.3.2. SKMM's response to comments on timescale

Overall, licensees are in favour of a longer draft implementation period to accommodate system and process upgrades. This will then enable both fixed and mobile operators to provide reliable separated accounts.

SKMM recognises that operators are concerned about the draft implementation timetable. Given the views put forward, SKMM proposes the following main changes to the timetable in the PI Paper:

- Retrospective HCA RFS accounts for 2012 will not be required;

- The time to produce final HCA RFS for 2013 is extended by 3 months. This means that draft HCA RFS for 2013 will be required by 30 June 2014 and final HCA RFS by 30 September 2014;⁸
- For companies whose year end is not 31 December, final RFS needs to be submitted within 9 months from the financial year end;
- No CCA RFS will be required for 2013 or 2014. This means that operators will have an additional 15 months before having to submit their first set of final CCA RFS. Draft CCA RFS for 2015 will be required by 30 June 2016 and final CCA RFS by 30 September 2016.⁹

To help phase the implementation workload during 2013 relating to the production of HCA RFS, SKMM proposes the following milestones:

- Production of six monthly separated revenue reports starting in June 2013;
- Network cost driver information to be collected and attribution methodology determined by 30 September 2013;
- Non-network cost cost driver information to be collected and attribution methodology determined by 31 December 2013.

SKMM notes that a number of country examples of lengthy timetables have been submitted by operators. However it believes that:

- Many of the country examples relate to some years ago and the process is now much better known and understood – it had become a well trodden path by 2012;
- A working group collaborative approach, with SKMM guidance, will bring out the best that Malaysia's telecoms industry and finance community can offer and will provide a forum for resolving key issues;

⁸ For companies whose financial year ends at 31 March the filing dates will be 3 months later than those shown and for those whose financial year ends at 30 June the filing dates will be 6 months later than those shown.

⁹ See previous footnote

- The work, particularly in 2013, will need to be broken into practical modules, to be tackled during the year, such as for cost drivers or documentation, so that by year end all major issues are resolved;
- The guidelines in the PI Paper provide a sound foundation for the costing approach;
- The revised audit requirement, in the first two years, will also help speed up the process.

A revised timetable for AS implementation is set out below in Table 7.

Table 7: Revised Implementation Timescale

Date	Actions	
	SKMM	Operator
Nov 2012	Issue decision on AS finalising requirements and setting out final timescale	
Dec 2012	Prepare AS Guidelines and send out letters to operators to Implement AS	
Dec 2012		Begin the on-going task of data gathering. Note that operators are advised to begin work on AS as early as possible
Feb 2013	Monitor progress by reviewing the implementation plan, and advising the operators of any shortcomings	Submit documentation explaining the operator's own implementation plan
Jun 2013	Monitor progress by reviewing the revenue reports and documentation in comparison to the contents of the PI Paper, and advising the operators of any shortcomings	Produce first set of 6 monthly separated revenue reports together with documentation explaining the principles and details of methodology used
Sep 2013	Monitor progress by reviewing the documentation in comparison to the contents of the PI Paper, and advising the operators of any shortcomings	Complete collection of data on network cost drivers and submit document summarising the cost drivers used and explaining attribution methodology for network costs.
Dec 2013	Monitor progress by reviewing the documentation in comparison to the contents of the PI Paper, and advising the operators of any shortcomings	Complete collection of data on non-network cost drivers and submit document summarising the cost drivers used and explaining attribution methodology for non-network costs.
Jun 2014	Monitor progress by reviewing RFS	Submit 2013 draft HCA RFS
Sep 2014	Monitor progress by reviewing RFS	Formally submit 2013 final HCA RFS
Dec 2014		Begin the on-going task of data gathering for CCA asset revaluation
Mar 2015	Monitor progress by reviewing the CCA documentation in comparison to the contents of the PI Paper, and advising the operators of any shortcomings	Submit documentation explaining the operator's implementation plan for CCA RFS and the principles and the details of the methodologies to be used to revalue assets and calculate depreciation and holding gains/losses
Jun 2015	Monitor progress by reviewing RFS	Submit 2014 draft HCA RFS
Sep 2015	Monitor progress by reviewing RFS	Formally Submit 2014 final HCA RFS
Jun 2016	Monitor progress by reviewing RFS	Submit draft 2015 CCA RFS
Sep 2016	Monitor progress by reviewing RFS	Formally submit 2015 final CCA RFS

It is anticipated that an industry working group will meet at regular intervals throughout 2013 and in 2014 to discuss and resolve issues.