



PAKISTAN TELECOMMUNICATION AUTHORITY

Headquarters, F-5/1 Islamabad

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Draft Accounting Separation Regulations, 2007

Consultation Draft

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In exercise of the powers conferred by clauses (e) and (o) of sub-section (2) of Section 5, and sub-section (1) of Section 25 of the Pakistan Telecommunication (Reorganization) Act, 1996 (XVII of 1996), the Pakistan Telecommunication Authority is pleased to make the following regulation:

1. Short title and commencement.

- 1) These Regulations may be called the Accounting Separation Regulations, 2007.
- 2) It comes into force with immediate effect.

2. Definitions. In this Regulation, unless there is anything repugnant in the subject or context:

- 1) "Authority" means the Pakistan Telecommunication Authority
- 2) "Separated Accounts" means such restatement of a Licensee's accounts as may be required by the Authority for regulatory purposes and as stipulated in this Regulation.
- 3) "Accounting Separation" means the process by which Separated Accounts are produced.

3. Scope.

- 1) This Regulation applies to licensees that have been declared by the Authority to hold a position of Significant Market Power in either the national interconnection market, or in two or more retail markets. The Authority may extend the requirements of this Regulation to any operator which holds a position of Significant Market Power in any market.

4. Preparation of separated accounts.

- 1) All licensees within the scope of this Regulation shall prepare annual Separated Accounts for the following business units:
 - ? Network;
 - ? Retail; and
 - ? Other Activities.

If a licensee has both fixed and mobile operations, separate accounts shall be maintained for each. In the case of the fixed network, the Network account shall be further disaggregated into:

- ? Access Network
 - ? Core Network.
- 2) The accounts will contain a sufficient degree of separation as to allow for the costs and revenues for each regulated service to be identified.
 - 3) The Separated Accounts shall be produced and maintained in accordance with such guidelines as the Authority may, from time to time, issue. In particular, licensees shall follow any guidelines the Authority may, from time to time, issue on:
 - a. Regulatory accounting principles
 - b. Regulatory accounting conventions
 - c. Transfer charging
 - d. Costing methodologies for Accounting Separation
 - e. Content and format of Separated Accounts.
 - 4) The preparation of the Separated Accounts shall follow the following guiding principles:

- (a) The Separated Accounts shall be prepared in accordance with the Regulatory Accounting Conventions issued by the Authority, which set out the general rules by which the Accounts are to be prepared.
- (b) The Separated Accounts shall include transfer charges between the main business units and the disaggregated activities for services the operator provides to itself. They shall also disclose the equivalent transactions with competing operators.
- (c) The Separated Accounts shall be prepared in accordance with International Accounting Standards, insofar as they are relevant.
- (d) Details of significant changes that materially affect the Separated Accounts along with prior year restatements shall be given.
- (e) Separated Accounts shall be prepared annually and contain comparative information following the initial period.
- (f) The Separated Accounts shall disclose any differences between costs allocated to different activities by the operator, and the costs that the Authority allows for the purpose of determining charges.

5. Reporting requirements

- 1) For each business unit the following information shall be reported in such formats as the Authority may from time to time prescribe:
 - (a) Profit and Loss statement;
 - (b) Balance Sheet information in a form that is consistent with the measures of capital employed;
 - (c) Return on Capital Employed; and
 - (d) Supporting Notes.
- 2) The Profit and Loss statement shall disclose Revenues and Operating Costs from each business activity. The profit under each account shall be stated before interest and tax. All accounts shall show any transfer charges to or from other business units.
- 3) The Balance Sheet shall provide the breakdown of Fixed Assets, Current Assets and Current Liabilities. The Balance Sheet figures should be the average values for the period to which the Balance Sheet relates.
- 4) The operators shall provide following additional information along with their Separated Accounts:
 - a) A statement of the accounting policies applied, including cost conventions;
 - b) Definition of main business units and their disaggregated activities;
 - c) A statement of the basis of allocation and apportionment of revenue, operating costs and capital employed;
 - d) A summary of transfer charges made amongst the separated business units and disaggregated activities;
 - e) A statement of costs disallowed, if any, by the Authority for various regulatory purposes along with reconciliation between results calculated apportioning all costs and those apportioning only relevant costs
 - f) A reconciliation of the Separated Accounts to the audited statutory accounts of the operator.

- g) A statement, in appropriate form, by the auditors that certifies the representation of the Separated Accounts as true and fair.
- h) Detail of significant changes in accounting policies, if any, with reasons for changes.

6. Audit of separated accounts

- 1) The Separated Accounts shall be subject to an independent audit.
- 2) The licensee shall appoint auditors to carry out the audit of the Separated Accounts and shall notify the Authority of the appointment.
- 3) The Authority may also appoint auditors to carry out such further reviews, examinations and audits as it deems necessary should the licensee or its auditors fail to provide the degree of assurance required by the Authority.
- 4) All audit work carried out on the Separated Accounts, whether by auditors selected and appointed by the operators or by the auditors selected and appointed by the Authority, shall be at the expense of the operator.
- 5) The auditors shall plan and carry out such work as will enable them to certify the representation of the Separated Accounts as true and fair.
- 6) The auditors shall report whether or not any matter has come to their attention, which causes them to believe that the Separated Accounts do not in all material respects:
 - a. Present fairly in accordance with the accounting methodologies that are to be attached to the Separated Accounts, the results, mean capital employed and costs incurred by each of the business units and activities disclosed in the Separated Accounts;
 - b. Comply with any relevant regulation, decision or determination issued by the Authority; or
 - c. Contain the information specified by these regulations, decisions or determinations as required to be published in the Accounts.
- 7) Where any such matters have come to the auditors' attention, these matters shall be clearly described in their report together with, where reasonably possible, the potential monetary impact on the results, mean capital employed or costs incurred by each of the businesses and activities disclosed in the Accounts, or a statement that the estimation of the potential monetary impact is not reasonably possible to establish.
- 8) The auditors shall address their report to the licensee and this report will be attached to, but will not form part of, the Separated Accounts submitted to the Authority by the licensee from time to time.
- 9) The auditors' report shall clearly set out the respective responsibilities of the auditor and the licensee and the basis on which the audit has been carried out and the opinion arrived at.

7. Publication of separated accounts.

- 1) The Authority may require the publication of the audited Separated Accounts, subject to the consideration of commercial confidentiality.

8. Timing of separated accounts.

- 1) The first set of audited Separated Accounts shall be submitted to the Authority by the licensee not later than twelve (12) months following either the relevant determination of

SMP by the Authority or the publication of this Regulation and supporting guidelines on the costing methodology to be used in accounting separation, whichever is the later.

- 2) Thereafter, the audited Separated Accounts shall be submitted to the Authority not later than six months after the close of the licensee's financial year.