



FINAL GUIDELINES

ACCOUNTING SEPARATION AND COST ACCOUNTING

***ISSUED TO BAHAMAS TELECOMMUNICATIONS COMPANY
LTD. (BTC)***

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UTILITIES REGULATION & COMPETITION AUTHORITY

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1 Introduction

1.1 Background

Three main pieces of legislation define the regulatory framework for electronic communications in The Bahamas:

- The Communications Act, 2009 ("the Comms Act")
- The Utilities Regulation and Competition Authority Act, 2009 (the "URCA Act")
- The Utilities Appeal Tribunal Act, 2009 (the "UAT Act")

The Utilities Regulation and Competition Authority (URCA) were created under the provisions of the URCA Act.

Under the terms of s. 116(1) and Schedule 4 of the Comms Act, Bahamas Telecommunications Company Ltd. (BTC) is presumed to have significant market power (SMP) in the following markets:

- the provision of fixed voice
- the provision of mobile voice and mobile data services

Under the terms of s. 116(2) of the Comms Act, URCA is empowered to issue regulatory measures specifying the obligations of electronic communications licensees in the Commonwealth of The Bahamas presumed to have SMP.

1.2 Main Objectives

Accounting separation is a widely used tool, employed by regulators worldwide, to address concerns regarding potential abuse of dominant positions (e.g. SMP) by regulated operators. Using this approach, SMP operators are required to provide individual accounts for each separate, regulated business. Accounting separation specifies how financial and other operational information should be collected and reported for each regulated business. It should, however, be noted that accounting separation neither requires nor specifies how the regulated business should be organised or structured.

The main objectives of accounting separation and cost accounting include:

- supporting retail price regulation where it is applied;
- promoting transparency and non-discrimination, especially between an SMP operator's retail business and its downstream competitors;
- supporting any setting or assessing of cost-oriented wholesale charges, such as those required by a Reference Access and Interconnection Offer (RAIO);
- overcoming the information asymmetry between the regulator and regulated entities;

- providing for audit independence and objectivity;
- supporting any *ex-post* assessment under the competition provisions of the Comms Act (e.g., margin squeeze, predatory pricing and excessive pricing); and
- providing information on the revenues and costs associated with universal service provision.

1.3 Scope and structure of these Guidelines

These guidelines detail URCA's current assessment of leading practice in Accounting Separation and Cost Accounting. Their scope covers the regulatory framework and general accounting principles of accounting separation as well as outlining the specific requirements as they apply to BTC.

The guidelines are not designed to provide specific, account-by-account instructions to BTC as to how to prepare and present separated accounts; as with statutory accounts, management will be ultimately responsible for these activities. The guidelines are, however, sufficiently detailed to allow management to determine the reporting formats and requirements.

These guidelines are presented in three main parts:

- Section 2 specifies the general principles of accounting separation and cost accounting methodologies, which those required to prepare separated accounts should follow.
- Section 3 details the business areas that BTC will be required to prepare separated accounts and specifies, for each separate set of accounts, the level of detail that should be provided in the accounting separation reports.
- Section 4 provides a high-level summary of the contents of each individual report required as part of the Accounting Separation and Cost Accounting Guidelines. The guidelines reflect leading practice drawn from a range of international jurisdictions, including a number of territories that are similar in geography and market size to The Bahamas.

Pro forma templates of the various reports are included at Annexes 1 to 4.

2 The Accounting Separation Process

2.1 General Principles

2.1.1 Cost Orientation

Cost orientation requires a clear link between the activity of the business and the costs attached to it. Costs should be linked to activities at as granular a level as possible.

In a similar way, revenues (including transfer charges) and assets and liabilities should be attributed to cost components, services and businesses or disaggregated businesses according to the activities that cause these revenues to be earned or the assets to be acquired or liabilities to be incurred.

This approach is consistent with URCA's Access and Interconnection Guidelines (ECS 14/2010). These Access and Interconnection Guidelines recognise that charges should be cost-oriented, i.e., there should be a clear link between the access and interconnection charges and the cost of providing such services, including any cost of capital. The cost of capital is described further at Section 2.2.5 below.

2.1.2 Transparency

The attribution methods used should be transparent. Costs and revenues, which are allocated to businesses or activities, should be separately distinguished from those that are apportioned.

Costs drivers, together with the systems and processes used to synthesise them into the form of the statements, should also be clearly explained so that their appropriateness can be considered.

2.1.3 Non-discrimination

The information being presented should not be slanted, either to favour the regulated entity as a whole or to favour one of the separated businesses within those entities. It should, for example, be easy to confirm that internal transfer prices charged by a wholesale business to its associated retail business are the same as the prices charged to an independent, third-party retail business.

2.1.4 Cost-effectiveness

Leading practice regulation suggests that the costs of providing any additional information for regulatory purposes should be proportionate to the benefits that it delivers. It is important that additional requests, particularly as they relate to the level of granularity or detail in reporting, are considered in this context.

2.2 Cost Accounting Methodologies

2.2.1 Historical Cost Accounting

Separated accounts should be prepared using Historical Cost Accounting (HCA). This approach complies with Generally Accepted Accounting Principles ("GAAP") and the International Financial Reporting Standards ("IFRS") specified by the International Accounting Standards Board ("IASB"). These standards are already followed by companies in The Bahamas, including BTC.

2.2.2 Accounting policies

Separated accounts should include (but not necessarily be limited to) details of the accounting policies adopted in respect of the following items:

- asset valuation (intangible and tangible),
- depreciation methods, dates, and asset lives,
- inventories,
- interest,
- foreign currencies,
- revenue recognition,
- account receivables,
- fixed asset investments,
- redundancy costs,
- pension schemes,
- bad debts, and
- financial instruments.

Consistent with International Accounting Standards, all costs should be reported using the same assessments of materiality and aggregation adopted by BTC in preparing its statutory accounts.

Accounting policies should be consistent with the principles outlined at Section 2.1 above. Publication of the policy does not, by itself, confirm the acceptability of that policy. URCA will review the appropriateness of an operator's policies in respect of each of these items and may view selected accounting policies as inappropriate. Specifically, URCA may determine that a material item does not relate – either wholly or partially – to the regulated product or service. In such cases, the cost of the material item would be excluded from the separated account for the service in question.

2.2.3 Fully Distributed Cost Allocation

The cost of each individual product or service should be calculated using Fully Distributed Costing ("FDC"). FDC requires that revenues and costs of the business are allocated to specific products or services. The allocation of revenues is generally straightforward as the supply of a particular product or service generates a specific charge.

Cost allocation is more complex. Certain costs will be incurred in the production of more than one product or service and the total cost will therefore have to be allocated to more than one product or service. All relevant costs should be allocated to an individual product or service. It is important that the relevance of the cost to the production of the product or service in question can be demonstrated. Costs that are not relevant in this context should be excluded to avoid the risk of a product or service cost being overstated in the separated accounts. Such an overstatement would distort the actual position and would run contrary to the principles of both general financial reporting and accounting separation outlined above.

Allocation of the costs to individual products or services should be undertaken using an Activity Based Costing ("ABC") system. ABC is a widely used approach that allocates costs based on the level of activity required to produce an individual product or service. Although this approach has its drawbacks, it is considered less arbitrary and more relevant than alternative methodologies for cost allocation.

The details of the cost allocation process are described at Section 2.3 below.

2.2.4 Depreciation

Depreciation charges associated with capital items (e.g. switches, routers, cables, towers) should follow the allocation of costs as described in Section 2.2.3 above as well as the more specific breakdown given in Section 3.

There is a range of approaches to the calculation of depreciation which will be familiar to accountants. These include straight-line and reducing balance. The method used will be selected to best reflect the nature of the asset and the way in which it wears out over the course of its useful life. The length of the useful life will also vary from asset to asset. A business is likely to employ more than one approach to calculating depreciation and will also almost certainly use numerous asset lives in these calculations.

Accounting standards used in The Bahamas¹ allow for the adoption of a variety of approaches and these guidelines allow for the various approaches to be followed in preparing accounting separation statements. However, the depreciation charges should also be calculated using the same approach (e.g. straight-line) and asset life as adopted in the statutory financial reports.

Depreciation charges should be consistently applied, using the same allocation basis adopted for the assets to which the depreciation charge relates.

Notwithstanding the above, URCA may, for the purposes of comparison, require that all SMP operators adopt a standard approach to depreciation calculations. This standard will specify the asset categories, depreciation method and the asset lifetime².

2.2.5 Treatment of Capital Costs

As with other financial reports, it is important to report the levels of capital employed in providing any given product or service.

The levels of capital employed to provide a product or service are multiplied by the cost of capital to calculate the cost of capital employed. For each individual product or service, a statement of Mean Capital Employed (MCE) should be produced. A MCE statement follows the format of a balance sheet, but will not include long-term liabilities or shareholders' funds. An example of an MCE statement is included at Annex 2.

The Weighted Average Cost of Capital (WACC) applicable to BTC has been the subject of a separate consultation and determination by URCA.³

The WACC will be applied to the capital employed⁴, as stated in the MCE for the product or service, to calculate the cost to the operator of using that capital in its business (cost of

¹ The Bahamas follows International Financial Reporting Standards, which are set by the International Accounting Standards Board.

² URCA may specify a standard approach that may differ from the approach followed in the statutory accounts of the operator. Operators would not be required to adjust the approach used in their statutory accounts to ensure consistency with the approach required by URCA in the separated accounts.

³ See ECS 23/2009, November 2009

⁴ This is a straightforward multiplication: Cost of MCE = (MCE x WACC)

MCE). This calculation can be likened to the opportunity cost of not using the capital elsewhere.

The cost of the MCE will be shown in the profit and loss statement within the separated accounts.

2.2.6 Migration to Current Cost Accounting

As mentioned in Section 2.2.1 above, BTC should initially base its separated accounts on HCA. However, URCA intends to introduce Current Cost Accounting (CCA) at a later stage.

CCA restates assets and liabilities to their current value. CCA offers the following key advantages over HCA:

- operational inefficiencies which may be hidden by HCA are revealed by CCA; and
- Mean Capital Employed is calculated by reference to current, rather than historical, asset values.

CCA would continue to use the FDC allocation methods, introduced at Section 2.2.3, above, and discussed in more detail in Section 2.3, below.

URCA shall consult with the industry on the process and methodology for CCA at the relevant time in the future.

2.3 Cost Allocation Process

This Section outlines the principles and approaches which BTC should follow in allocating costs, capital employed, and revenues for the purposes of accounting separation.

The accounting separation should be underpinned by the principle of causation: costs and revenues should be allocated to those services or products that cause those costs or revenues to arise. This requires the implementation of appropriate, detailed cost allocation methodologies. BTC should be able to:

- review each item of revenue, cost and capital employed;
- determine the drivers that cause each item to arise; and
- using the driver, allocate each item to an individual business.

Each item should be allocated to a product or service provided by BTC and most, if not all, revenues should be able to be allocated directly to the products or services to which they relate. However, costs present a more difficult allocation because many costs will be shared between different products and services.

Figure 1 below illustrates a typical cost allocation process. The starting point for this process is information and data captured by the general ledger or other costing systems operated by the company. Costing information held in the systems may be divided between operating and capital costs, together with other accounting entries such as depreciation or provisions.

In a first stage, costs should be allocated to one of three cost pools (either directly or through the use of cost drivers):

- services
- network components
- common cost pool(s)

In a second stage, common cost and network component costs are attributed to services with the use of a mark-up scheme (e.g. equal-proportionate mark-up, EPMU) or by routing factors.

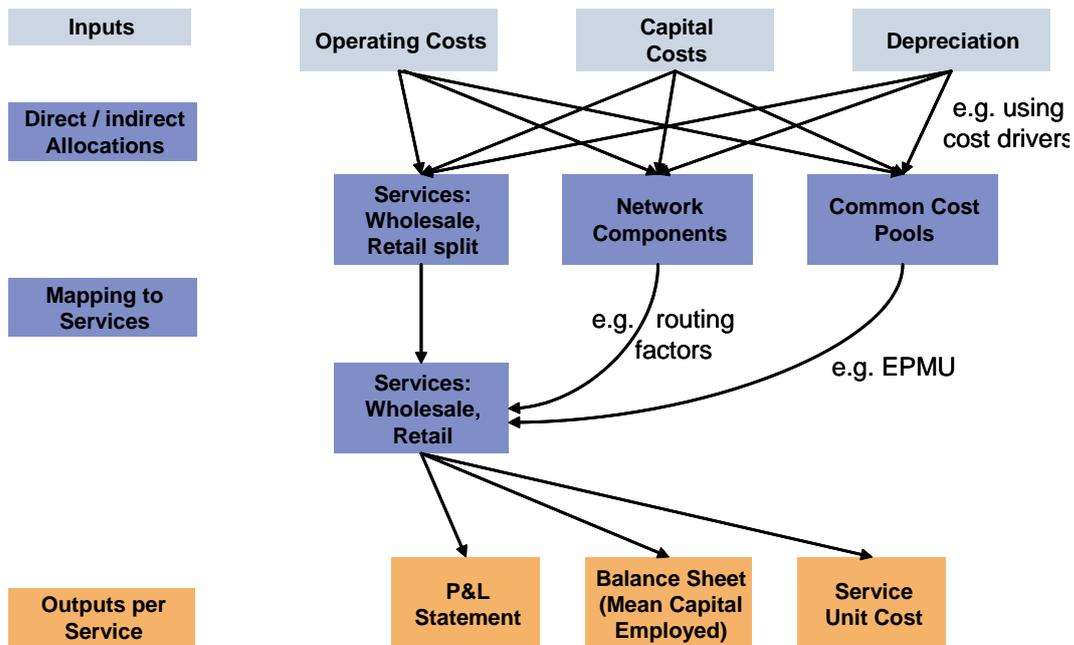


Figure 1: Typical cost allocation process

2.4 Types of Costs

Costs can be allocated to one of the following categories:

- Direct costs
- Indirect or shared costs
- Common costs

Direct costs can be directly and unambiguously attributed to the production of specific products or services. Where costs cannot be directly attributed they are usually allocated to individual products or services on a measured and objective basis.

Both direct and indirect costs fall into one of the following categories:

- fixed costs, which do not vary in the short-term with the levels of output; or
- variable costs, which rise and fall with changes in the level of output. Even where these costs are shared with more than one product or service it is possible to

measure the impact of changes in the level of output with reference to changes in the level of cost.

Regarding common costs, the most commonly used allocation method⁵ is the application of Equal Proportionate Mark-Ups ("EPMUs"). This method allocates the common costs in proportion to the attributable costs of products and services.

Common Costs and their allocation have to be reported separately for review by URCA. Based on the nature and level of common costs, URCA may propose different allocation mechanisms and reserves the right to separately review each common cost item.

2.5 Allocation of Operating Costs

The cost allocation process outlined in Section 2.3 above applies to both capital and operating costs. An illustrative list of operating costs is shown below. The list is intended to provide high-level guidance only and BTC will need to develop cost allocation procedures specific to the way that they currently capture and record costs. These procedures should be periodically reviewed and amended as necessary.

Illustrative list of operating cost items:

- depreciation,
- provision, installation and maintenance costs,
- network planning and development costs,
- network operating costs (incl. network management costs),
- marketing and sales costs,
- billing and collection costs, spilt into wholesale and retail,
- bad debt,
- customer service and value added service costs,
- directory services costs (if applicable),
- payments to other operators (may be reported under Cost of Goods Sold (CoGS)), and
- support costs.

2.6 Mean Capital Employed

A statement of mean capital employed should be prepared as part of the separated accounts for each separate business and service (as listed in Sections 3.2 to 3.4). The

⁵ According to economic theory, Ramsey Pricing is the most appropriate methodology for attribution of common costs; however, due to the difficulty of measuring appropriate elasticities, it will not be considered in the context of these Guidelines.

statement will show capital employed in supplying the product or service and should be the average of capital employed for the year. Ideally, it should be calculated using a weighted average methodology, although for the initial year (2009), reporting a simple average of capital employed will be acceptable. Calculating MCE based on an average avoids the problems that arise from using the year-end balance sheet figures, which provide only a "snapshot" of the amount of capital employed at that point in time.

An example of an MCE Statement is included at Annex 2, below.

2.6.1 Treatment of Working Capital

It is not normally possible to allocate working capital to an individual regulated product or service. Current assets and liabilities therefore need to be allocated across all products and services on a reasonable and measurable basis. Two key principles should be followed in the treatment of working capital in MCE statements:

- assets and their associated costs and revenue should be treated consistently; and
- consideration should be given to the impact on WACC of the inclusion or exclusion of specific items of working capital.

2.7 Unit cost

Having allocated all of the operating costs to a particular product or service, the total cost of that service will be calculated as follows:

$$\text{Total Cost} = (\text{Operating costs} + \text{depreciation} + (\text{WACC} \times \text{Mean Capital Employed}))$$

The unit cost of the product or service will be calculated as follows:

$$\frac{\text{Total cost}}{\text{Total volume}}$$

The specific unit will depend on the product or service itself (e.g., cost per call minutes, cost per text message, etc).

BTC must further provide unit cost information for all conveyance and ancillary services that are included in its RAIO. This information should be provided according to the templates included in Annex 3 of these guidelines.

2.8 Reporting of Non-financial Inputs

To assist URCA in the review of separated accounts, additional non-financial information has to be provided. Some of this information, such as accounting policies, will be familiar to users of statutory financial reports. Others such as cost allocation methodologies, market definitions, subscriber numbers and transfer charges will be specific to the business' separated accounts. Details of this non-financial information, required in the separated accounts, are at Section 4.2 below.

2.9 Revenue Allocation Process

Generally, the revenues from providing electronic communications and broadcasting products and services can be directly allocated to the products and services to which they relate, based on accounting records and billing system information.

In those instances where direct allocation based on the above is not possible (e.g. a bundle of two or more services), revenues should be attributed on the basis of causation. For example, in the case of fixed telephony access and local calling, where fixed telephony access also includes free local calls, causation would result in the revenue being split between the access and local calls according to the costs of providing the access line and the costs in the core network of carrying phone calls. In other instances, revenues may be apportioned to individual services based on the price of the standalone products.

2.10 Principles of Transfer Charging

A coherent system of transfer charging is important to maintain the principles of non-discrimination and transparency. A transfer charging system should apply to products and services that are provided by one business (e.g. core network) to another (e.g. retail). The principles to be applied in the development of a transfer charging system are set out below:

- Activities causing revenues to be earned and costs incurred will form the basis of attribution. Charges will be attributed to cost reporting services and business areas in accordance with this attribution.
- Attributions will be transparent and non-discriminatory in accordance with the principles set out in Section 3.1. The basis of each charge should be clear and supportable and the charges should be designed so that no one product or service benefits from them unfairly.
- Transfer charges should be treated consistently from year to year.
- Transfer charges will be the product of unit charges and the amount of each unit consumed.
- Transfer charges for internal use should be the same as the price that would be charged for the product and service if it were being sold to a third party.
- Separated accounts should show the transfer charges between each individual business. The transfer charge from the wholesale to the retail business will represent revenue to the wholesale business which has supplied the service that has caused the transfer charge to be raised. Conversely, the transfer charge will be a cost of goods sold in the accounts of the retail business, as it has purchased the service which caused the charge to be made by the wholesale business (see also next Section).

2.11 Wholesale – Retail Split

Even though operators may not have organised their business and accounting structures to distinguish between wholesale and retail services, such a split is required for accounting separation. Network and supporting systems are considered an “engine” for the production and delivery of wholesale services. All services produced by the operator will, initially, be considered wholesale services. The costs of these services are established applying the principles of causation as explained in the sections above.

To comply with the principles of transparency and non-discrimination, these wholesale services are then sold (i.e., by way of internal transfer charge) to the operator’s own retail business and/or to other operators and service providers. The principle of non-

discrimination requires that internal sales be made at the same price and under the same terms and conditions as external sales. A wholesale business will therefore have two sources of revenues: transfer charges to the operator's own retail business (see also Section 2.10 above) and revenues from other operators and service providers.

3 Network and Service Breakdown for BTC

This Section provides specific instructions to BTC on the granularity and level of detail expected regarding the development of separated accounts. The following Sections give a minimum set of network elements and services which need to be considered in the preparation of separated accounts.

Section 3.1 presents a high-level breakdown of BTC's main business areas into different wholesale and retail businesses. While BTC may not be organised into distinct wholesale and retail businesses, this distinction – as explained in Section 2.11 – is important to URCA as it will enable transparency to demonstrate that there is no unfair cross subsidisation between BTC's different activities.

Section 3.2 goes into more detail on the requirements regarding the breakdown of the fixed network infrastructure and network elements. This includes the fixed core and transmission network, the local access network as well as the directory services platforms.

Section 3.3 shows the requirements and minimum level of breakdown for the mobile network.

Section 3.4 lists all reporting requirements for BTC's electronic communications services.

3.1 High-level Breakdown of Main Business Areas

This Section defines the level of disaggregation that is required for BTC's separated accounts.

BTC has to prepare separate accounting information for the following main business areas:

- Wholesale Businesses:
 - Fixed Core Network
 - Local Access Network
 - Directory Services
 - Mobile Network
- Retail Businesses:
 - Fixed retail voice and data services
 - Mobile retail voice and data services
- Other Activities.

While these main business areas are briefly defined in the remainder of this Section, the subsequent subsections of this Section provide further detail and guidance on how each of

these businesses will need to be further disaggregated into specific network elements. In particular, further guidance on the minimum required disaggregation of BTC's fixed and mobile networks is provided in Section 3.2 and Section 3.3, respectively. This is followed by a list of fixed and mobile wholesale and retail services for which separated accounts need to be prepared, at a minimum, in Section 3.4.

Fixed Core Network

The Fixed Core Network business provides a range of wholesale services internally to BTC and externally to other operators. Interconnection services allow the customers of one operator to communicate with customers of the same or another operator, or to access services provided by another operator. These services include the switching and conveyance of calls. In addition, the Fixed Core Network business may provide other services to operators, such as engineering services related to the development and maintenance of private networks.

The accounts for the Fixed Core Network business should include the costs, revenues and capital employed associated with providing these services. The revenues of the Core Network business derive from transfer charges to the Retail business and the sale of interconnection services to other operators. Regarding the wholesale provision of transmission circuits, the associated revenues should be allocated to the Core Network business.

The minimum required disaggregation of BTC's Fixed Core Networks is set out in Section 3.2.

Local Access Network

The Local Access Network provides connections to the core network. The accounts for the Local Access Network business include the costs and capital employed associated with providing and maintaining these connections. For accounting separation, the Local Access Network business includes all the customer dedicated components of the network (e.g., all types of access lines and wires), as well as the line cards and ports located at concentrators and/or exchanges.

Retail local access will be a service provided by the Retail business. The revenue from line rental provided to end users will therefore be recorded against Retail. However, the cost of providing customer lines is initially recorded against the Local Access Network business. The retail business will then need to pay a transfer charge to the Local Access Network business to account for its use of the network to provide the retail access service. This transfer charge will appear as a cost to the Retail business and revenue to the Local Access Network business.

Currently, BTC bundles local access with unlimited local calls. For the purpose of accounting separation, these revenues will need to be disaggregated, based on the principle of causation. A first approach to this disaggregation could be a proportionate split based on the service cost. The resulting net revenue stream for line rental will then be allocated to the Retail business (local access service) and the resulting net revenue stream for local calls will be allocated to the Retail business (local call service). The retail business will then pay transfer charges to the Local Access Network and Core Network businesses, respectively.

The minimum required disaggregation of BTC's Local Access Network is set out in Section 3.2.

Directory Wholesale Services

BTC provides directory services, which can broadly be divided into two categories:

- Directory inquiries
- Directory entries and management

BTC is required to identify all costs, revenues and capital employed for these service categories and reports them in separate account statements. Revenues for the Directory Wholesale Services business derive from the sale of these services to other operators and from transfer charges to BTC's retail business.

The minimum set of Directory Wholesale Services for which separated accounts are required are set out in Section 3.4.

Mobile Network

The Mobile Network wholesale business includes all those activities involving the provision of mobile communications services. The accounts for the Mobile business will include the costs, revenues and capital employed associated with the provision of these services to end-users, as well as the costs of network provision.

As long as BTC does not operate its mobile activities as a fully separate entity it is important for BTC to prepare separated accounts for this particular business. Section 3.3 below gives more detailed guidance on the required level of network breakdown and accounting separation for BTC's mobile business.

The minimum required break down (i.e., disaggregation) of BTC's Mobile Network is specified in Section 3.3.

Retail

The Retail business includes all those activities involving the selling of electronic communications services to end-users, including fixed telephony access services, leased lines services, call services, payphones, the provision of directory information and other value-added services, as well as the provision of mobile communications services.

The accounts for the Retail business must include the costs, revenues and capital employed associated with the provision of these services to end-users. The costs allocated to Retail must also include transfer charges related to the use of network resources or services provided by the wholesale businesses (Fixed Core, Local Access, Mobile and Directory Wholesale), and the marketing and billing costs associated with the provision of end user services.

The minimum set of fixed and mobile retail services for which separated accounts are required are set out in Section 3.4.

Other activities

BTC may provide a wide range of other services including the sale, rental, repair and maintenance of customer equipment. In addition, BTC may have interests in other non-communications activities. For the purposes of accounting separation, the costs, revenues and capital employed associated with activities not included in the main business areas will need to be separately identified.

3.2 Breakdown of Fixed Network (Core, Access and Directory)

In order to provide a sufficiently detailed level of granularity for the preparation of separate accounts for all fixed network services as described in Section 3.4, BTC's network should be broken down (i.e., disaggregated) into the following minimum set of categories:

- Access Network, at this stage, broken down into:
 - Subscriber driven switch components split into
 - Remote Subscriber Units (RSU), and
 - Local Exchanges (LE)
 - Network Terminating Equipment
 - Access lines, split into
 - the copper-wire plant,
 - any other access technology related to the provision of access services (e.g. fibre)
 - DSL equipment (e.g. MSANs or DSLAMs)
 - Payphones
- Core Network, broken down into:
 - Core Network (i.e., traffic sensitive) switch components, split into
 - RSUs,
 - LEs and
 - National Tandem Switches (NT)
 - International Switching Centre (ITSC)
 - Transmission systems and lines, split into the links between Core Network Switches, e.g.:
 - RSU – LE links,
 - LE – LE links,
 - LE – NT links,
 - NT – ITSC links,
 - LE – GSM network links and
 - NT – GSM network links.
 - Interconnection Links
 - Directory Services Platforms and Systems
 - Support Systems, such as Billing system (part of which may be allocated to retail services), VAS Platforms, etc.

3.3 Breakdown of Mobile Network

The mobile network part should be broken down at least into the following systems and activities, to support the calculation of separated accounts for each of the services as listed in Section 3.4:

- Network systems and activities:
 - radio access network, including base-stations, Node Bs, radio links or other backhaul systems, base-station and/or radio network controllers,
 - switching network and systems, broken down into:
 - Mobile switches (MSCs),
 - Home and Visitor location registers (HLR, VLR),
 - SMS and MMS platforms (SMSC, MMSC),
 - Other systems such as IN platforms
 - transmission network: broken down by the type of links employed in the Mobile Network, e.g.
 - GSM BTC - GSM BSC Transmission link
 - GSM BSC - GSM MSC Transmission link
 - 3G BTC - RNC Transmission link
 - RNC - MSC Transmission link
 - MSC - Media Gateway Transmission link
 - GSM MSC - ITSC Transmission link
 - GSM MSC - CDMA GSM Transmission link
 - CDMA BSC - MSC Transmission link
 - CDMA BTC - BSC Transmission links
- Common systems and activities.

3.4 Reporting Requirements for Separated Accounts

All electronic communications service broadly fall into two categories: wholesale services generated by the network systems are sold to other operators, service providers, or the company-internal retail organisation; retail services are sold to business or residential users.

To provide a sufficient level of transparency in the cost allocation, wholesale and retail services need to be reported separately. It is important to note that, for each business area, a so-called “remainder of services” needs to be reported: This remainder should include all services, which are provided by BTC in the corresponding business area and for which BTC is not presumed or designated to have SMP. The reporting of these remainders of services is important for the reconciliation of separated accounts with the statutory accounts (see next chapter for more detailed reporting requirements).

The following list shows a **minimum set of wholesale services** for which separated accounts need to be reported:

Fixed Network Wholesale Services:

- Call transit
 - domestic

- international⁶
- Call termination services
 - Intra island call termination
 - Inter island call termination
 - calls to directory enquiry
 - calls to freephone numbers
 - ancillary call termination services⁷
- Wholesale national leased lines
- Remainder of Fixed Network Wholesale Services (not captured in the above categories)

Mobile Network Wholesale Services:

- Mobile voice call termination⁸
- Mobile voice call origination
- Mobile call transit
- Remainder of Mobile Network Wholesale Services (not captured in the above categories)

The **minimum set of retail services** for which separate accounts should be prepared has to include:

Fixed retail voice and data services business:

- Fixed telephony access
- Fixed line installation
- Local calling - fixed to fixed
- Fixed to mobile calling
- DLD fixed calling and domestic fixed calls to rated numbers⁹
- International Long Distance (ILD) fixed calling
- Calls to internet (dial-up)
- Broadband Internet access
- National leased lines
- Payphones
 - Payphones – CPE
 - Calls from payphones

⁶ This needs to report call transit cost to the international gateway and international settlement rates, separately.

⁷ This includes termination of emergency calls to the police, termination of automated ancillary services, termination of calls to freephone numbers, and termination of calls to operator assistance facilities.

⁸ This should include termination incoming international calls and terminating domestic calls, reflecting mobile network costs only

⁹ These are non-geographic numbers for which there is a call charge.

- Remainder of Fixed Network Services (not captured in the above categories)

Mobile retail voice and data services business:

- Mobile access
 - Prepaid connection
 - Postpaid connection
 - Postpaid rental
- Mobile calls to BTC mobile
 - Local calling
 - DLD Long distance
- Mobile calls to BTC fixed
 - Local calling
 - DLD Long distance
- ILD mobile calling
- SMS services
- Mobile data
- Remainder of mobile retail services (not captured in the above categories)

The details for the reporting formats as well as additional reporting requirements, e.g. for non-financial information, are specified in the following Section.

4 Reporting Format of Separated Accounts

Annexes 1 to 4 of these guidelines contain examples of the reporting formats of the various financial reports required by URCA. Separate reports must be prepared for each regulated product or service.

This Section provides a high-level summary of the contents of each of the reports required.

4.1 Financial Reports and Information

As part of its submission, BTC shall provide the following statements.

- For each Business Area listed in Section 3.1 and service listed in Section 3.4, BTC shall provide the following statements:
 - Profit and Loss statement, in the format set out in Annex 1; and
 - Statement of Mean Capital Employed, in the format set out in Annex 2.
- For each service listed in Section 3.4 and all conveyance services which are included in its RAIO, BTC must further provide:
 - Network component and unit service cost information (including the route factor information used to derive these unit costs), in the format set out in Annex 3.
- For each network component listed in Section 3.2 and Section 3.3, BTC must provide unit cost information.

4.1.1 Timetable for preparation of Financial Reports and Information

For the initial reporting under these guidelines, BTC must submit 2009's separated accounts by 31 May 2010.

For 2010 and each subsequent year, BTC must submit audited, separated accounts within six months of the end of their financial year.

4.2 Reporting of Non-financial Information

As mentioned at Section 2.8 above in addition to the financial reports and information mentioned at 4.1 above, the following non-financial information is also required. While some of this will be familiar to accountants already used to providing information on accounting policies (for example, when presenting statutory accounts), some of this information goes beyond the level that would normally be disclosed in statutory accounts. BTC's documentation should contain, at the minimum:¹⁰

¹⁰ For 2010 and each subsequent year, BTC should further provide an outline of significant changes it has made relative to the previous year's approach.

- a description of accounting principles and accounting policies used to prepare its separated accounts (as set out in Section 2.2.2). This will include, for example, policies covering revenue and cost recognition, depreciation, and asset valuation;
- a description of each main business areas, network elements and services contained in its separated accounts, as specified in Section 3 (for any other services provided by BTC, but not contained in Section 3, BTC needs to provide a mapping to any of the reported services);
- a summary description of revenue, operating costs and capital employed attribution methodologies for key services and cost items, including source data, cost centres, cost centre classifications, cost drivers, and an overview of the cost allocation processes;
- a summary of the method used to determine any transfer charges between each of BTC's main business areas (as set out in Section 2.10);
- a Detailed Allocation Methodology document. This should be sufficiently detailed to enable URCA to develop a complete process map of all the allocations in BTC's cost accounting system. As such, it should include, at minimum, a description of
 - (i) all costs that are inputted from BTC's General Ledger and Fixed Asset Register into the accounting separation model,
 - (ii) all cost centres, cost types and cost accounts contained in its accounting separation model, and
 - (iii) the allocations from cost centres to activities and from activities to main business areas and/or services, including a description of all allocation keys, the data sources used by BTC to determine the allocation keys, and
 - (iv) the cost driver values used during the allocation process.
- Operational Data, such as manpower allocated to certain services; and
- Route Factors, showing which network element(s) are involved in the delivery of a certain service.

4.2.1 Timetable for preparation of non-financial Information

For the initial reporting under these guidelines, BTC must submit all accompanying documentation (as set out in Section 4.2) alongside its separated accounts.

For all subsequent years, BTC must submit a document describing any planned, material changes it plans to make relative to the previous year's approach within the first four weeks of the financial year. URCA will, within a month of receiving this document, notify BTC of whether it agrees with all the proposed changes set out in the submitted document.

URCA may, during the process of reviewing this information, give written notice to BTC that it is suspending the review period, in order to request additional information or clarifications on the proposed changes. Following receipt of the requested additional information, the review period will resume from the point at which it was suspended.

Notwithstanding the above, should URCA not respond to BTC within a month of receiving the document outlining the planned changes in methodology, URCA shall be presumed to have approved the proposed changes.

Following URCA's approval, the separated accounting statements should then be submitted alongside a revised documentation set and reflecting URCA's required amendments, consistent with the timeframe set out in Section 4.1.1 above.

4.3 Reconciliation Statements

Consistent with the principle of transparency is a requirement to link the information presented in the individual separated accounts with the overall financial reports of BTC.

Reconciliation statements allow the user of the separated accounts to see the adjustments required to move from the position shown in the statutory accounts to those of the individual regulated businesses.

The statement will show how the individual revenues, costs and capital employed by each business reconcile to the total reported in the statutory accounts.

Annex 4 of these guidelines shows the reporting format of the reconciliation statements.

4.4 Auditing of Separated Accounts

Following the principles of transparency and non-discrimination, there will be a requirement for separated accounts to be independently audited. It is common practice for an operator's independent financial auditors to audit the separated accounts in addition to their audit of the operator's statutory accounts. The audit of the operator's statutory accounts should be completed before the audit of the accounting separation statements.

URCA has no objection to BTC using its statutory independent auditor to conduct the audit of separated accounts, provided that auditor is licensed by The Bahamas Institute of Chartered Accountants and has not been involved in preparing the statements. Should BTC wish to have its separated accounts audited by another auditor, then provided that auditor is independent and properly licensed, URCA would have no objection to their appointment. For the avoidance of doubt, however, the auditor of BTC's accounting separation statements should not also be involved in preparing the statements.

In view of the potential time required for an audit, and given the links between the regulatory accounts and other regulatory requirements, URCA has decided to waive the audit requirement for the initial set of separated accounts. However, for the 2010 accounts onwards, there will be a requirement for an auditor to provide an opinion as to whether the separated accounts (which would include the financial statements specified at Section 4.1 above and the non-financial information specified at Section 4.2 above) are "properly prepared in accordance with" (PPIA) these guidelines and its accounting separation methodology documentation.

BTC shall also include a CFO responsibility statement alongside each submission of separated accounts to URCA. Within this statement BTC's chief financial officer (CFO) should confirm that the submitted separated financial statements have been prepared in accordance with the licensee's obligations, these guidelines and the provided accounting separation methodology documentation.

URCA will review the audit requirements periodically in the context of developing requirements for separated accounts.

4.5 Public and Confidential Information

URCA is in the process of reviewing its position on the general issue of confidential treatment of information and will publicly consult on this matter in due course. In light of this, BTC will not be required to publish its initial set of separated accounts and accompanying documentation. Pending the results of this consultation, URCA reserves the right to require publication of subsequent separated accounts.

ANNEX 1: Profit and Loss Reporting Formats

For each wholesale service, the profit and loss statement should have the following format:

		Current year	Prior year
		\$	\$
Turnover	Transfer charges to retail	X	X
	Charges to other operators	X	X
	Total turnover	X	X
Operating Costs	Cost of sales	X	X
	Other operating costs	X	X
	Depreciation charges	X	X
	Transfer charges from Retail	X	X
	Total operating costs	X	X
Return		X	X
Mean Capital Employed		X	X
% return on Mean Capital Employed		X	X
% return on turnover		X	X

For each retail service, the profit and loss statement should have the following format:

		Current year	Prior year
		\$	\$
Turnover	One-off charges	X	X
	Monthly charges	X	X
	Usage-related charges	X	X
	Other turnover	X	X
	Total turnover	X	X
Operating costs	Cost of sales	X	X
	Other operating costs specific to Retail	X	X
	Depreciation charges		
	Transfer charges from Wholesale	X	X
	Total operating costs	X	X
Exceptional items		X	X
Return		X	X
Mean Capital Employed		X	X
% return on Mean Capital Employed		X	X
% return on turnover		X	X

ANNEX 2: Mean Capital Employed Reporting Format

The Mean Capital Employed Statement should have the following format:

		Current year	Prior year
Assets		\$	\$
Current Assets	Cash at bank and in hand	X	X
	Accounts receivable	X	X
	Inventory	X	X
	Total current assets	X	X
Non-current Assets	Investments	X	X
	Property, plant & equipment	X	X
	Intangible assets	X	X
	Total non-current assets	X	X
Liabilities			
Current liabilities	Accounts payable and accruals	X	X
	Loans payable	X	X
	Deferred income	X	X
	Total current liabilities	X	X
Non-current liabilities	Accounts payable	X	X
	Provisions	X	X
	Total non-current liabilities	X	X
Mean Capital Employed		X	X

Notes:

Long term borrowings and any tax liabilities and standard provisions generally included in the operator's Balance Sheet that relate to the business as a whole, should be excluded from the mean capital employed calculations, because these items relate to the business as a whole and not to individual segments.

Unallocated items should be included as reconciling items in the Reconciliation of Consolidated Statement of Mean Capital Employed.

ANNEX 3: Unit Cost and Route Factor Reporting Format

The reporting of service unit costs and route factors should have the following format:

	Network Element / System 1	Network Element / System 2	Network Element / System 3	Network Element / System 4	Network Element / System 5	Network Element / System 6	Network Element / System 7	Network Element / System 8	Network Element / System 9	Network Element / System 10	...	TOTAL COST
Total Element / System Costs	X	X	x	X	x	x	x	X	X	x	x	x
Total operating costs (excl. depreciation)	X	X	x	X	x	x	x	X	X	x	x	x
Depreciation charges	X	X	x	X	x	x	x	X	X	x	x	x
Mean Capital Employed	X	X	x	X	x	x	x	X	X	x	x	x
Return on Mean Capital employed	X	X	x	X	x	x	x	X	X	x	x	x
Usage factors / Service Volumes	X	X	x	X	x	x	x	X	X	x	x	
<u>Route Factors</u>												
Wholesale Services												
Service 1	X	X	x	X	x	x	x	X	X	x	x	
Service 2	X	X	x	X	x	x	x	X	X	x	x	
...												
Retail Services												
Service 1	X	X	x	X	x	x	x	X	X	x	x	
Service 2	X	X	x	X	x	x	x	X	X	x	x	
...	X	X	x	X	x	x	x	X	X	x	x	
<u>Network component unit cost</u>												
Wholesale Services												
Service 1	X	X	x	X	x	x	x	X	X	x	x	x
Service 2	X	X	x	X	x	x	x	X	X	x	x	x
...												
Retail Services												
Service 1	X	X	x	X	x	x	x	X	X	x	x	x
Service 2	X	X	x	X	x	x	x	X	X	x	x	x
...	X	X	x	X	x	x	x	X	X	x	x	x

Note:

The list of wholesale and retail services as well as the list of Network elements and systems should follow the requirements presented in Section 3.

ANNEX 4: Reconciliation Statements

The reconciliation statement for the Profit and Loss statement should look as follows:

		Operating Revenue	Operating Cost
Market 1	Service 1	X	X
	Service 2	X	X
	Service 3	X	X
	...		
	TOTAL Market 1	X	X
Market 2	Service 1	X	X
	Service 2	X	X
	Service 3	X	X
	...		
	TOTAL Market 2	X	X
OTHER	X	X	
TOTAL SEPARATED ACCOUNTS		X	X
ADJUSTMENTS		X	X
STATUTORY ACCOUNTS		X	X

The main adjustments made should then be documented and explained separately.

The reconciliation statement for mean capital employed should look as follows:

		MEAN CAPITAL EMPLOYED
Market 1	Service 1	X
	Service 2	X
	Service 3	X
	...	
	TOTAL Market 1	X
Market 2	Service 1	X
	Service 2	X
	Service 3	X
	...	
	TOTAL Market 2	X
OTHER BUSINESS	Other Retail	X
	Other Equipment	X
	Other Residual	X
TOTAL SEPARATED ACCOUNTS		X
ADJUSTMENTS		X
STATUTORY ACCOUNTS		X

The main adjustments made should then be documented and explained separately.