DRAFT GUIDELINES

ACCOUNTING SEPARATION AND COST ACCOUNTING

ISSUED TO CABLE BAHAMAS LTD. (CBL)

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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) has been created under provisions of the Utilities Regulation and Competition Authority Act, 2009. Under the terms of the Communications Act, 2009 (“the Comms Act”) URCA is empowered to adopt regulatory measures specifying the obligations of electronic communications licensees in the Commonwealth of The Bahamas.

Under the terms of s. 116 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

and Cable Bahamas Ltd. (CBL) is presumed to have significant market power (SMP) in the following markets:

- the provision of pay TV services
- provision of high-speed data services and connectivity.

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:

- monitoring actual performance against current price control assumptions;
- informing future price control decisions;

- estimating access and interconnection charges, such as those required by a Reference Access and Interconnection Offer (RAIO). Where these are done on cost oriented charges, the separated accounts will allow for a clear assessment of the costs. If benchmarked or retail-minus charges are adopted, then these can be compared against the results of accounting separation; and

- assisting regulatory decisions regarding the presence or absence of certain anti-competitive behaviour (e.g. unfair cross subsidisation, price discrimination).

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 CBL.

The guidelines are not designed to provide specific, account-by-account instructions to CBL as to how separated accounts are to be prepared and presented; 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 should be followed by those required to prepare separated accounts.

- Section 3 details the business areas which 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 which are similar in geography and market size to The Bahamas.

Pro formas of the various reports are included at annexes 1 to 6.

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 in accordance with the activities which cause these revenues to be earned or the assets to be acquired or liabilities to be incurred.

This approach is consistent with the core access and interconnection principles about which URCA recently consulted. These access and interconnection principles recognise that charges should be cost-oriented i.e. there is a clear link between the access and interconnection activity and the cost, including any cost of capital, discussed 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 these 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 the 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 CBL.

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
- financial instruments

In line with International Accounting Standards, all costs should be reported using the same assessments of materiality and aggregation adopted by CBL 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, of itself, confirm the acceptability of that policy. URCA will review the appropriateness of operators' 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 accounts.

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 which 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 be a distortion of 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, which allocates costs based on the level of activity that is required to produce an individual product or service. Although this approach has its drawbacks, it is considered to be less arbitrary and more relevant than alternative methodologies for cost allocation.

The detail of the cost allocation process is described at Section 2.3 below.

2.2.4 **Depreciation**

Depreciation charges associated with capital items (e.g. switches, routers, cables, towers) 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 useful life will vary from asset to asset too. A business is likely to employ more than one approach to the calculation of depreciation and will also almost certainly use numerous asset lives in these calculations.

Accounting standards used in The Bahamas[1] allow for the adoption of a variety of approaches and these guidelines allow for the various approaches to be followed in the preparation of 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 lifetime[2].

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 a MCE statement is included at Annex 2.

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

[2] URCA may specify such 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.

The Weighted Average Cost of Capital applicable to BTC and CBL is the subject of a separate consultation and determination by URCA.

WACC will be applied to the capital employed[3], 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 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 URCA proposes using HCA for the first round of accounting separation, but 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
- 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.

Although the process of introducing a full CCA system can be more complex and costly, the application of simple indexation to individual categories of assets and liabilities provides a cost-effective and speedy solution to this problem. URCA would be satisfied if SMP operators adopted such an approach for the initial implementation of CCA, however URCA reserves the right to ask for a more detailed approach to the calculation of CCA to be adopted in future.

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 a SMP operator should follow in allocating costs, capital employed, and revenues for the purposes of accounting separation.

The accounting separation should be underpinned by the principal 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. Each SMP operator should be able to:

- review each item of revenue, cost and capital employed;

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[3] This is a straightforward multiplication: Cost of MCE = (MCE x WACC)

- determine the drivers which 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 the operator and most, if not all, revenues should be able to be allocated directly to 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.

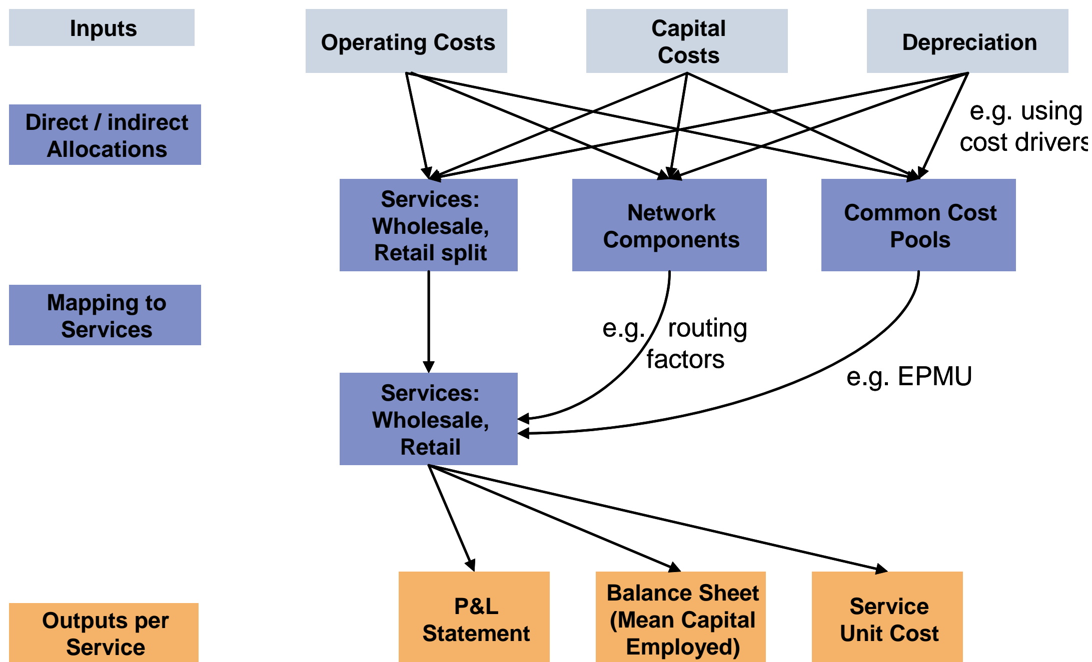

Figure 1: *Typical cost allocation process*

2.4 Types of Costs

Operating 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
- 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 method[4] 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 nature and level of common costs, URCA may propose different allocation mechanisms. In addition, common costs are to be kept to a minimum, i.e. less than 10% of total costs. URCA 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 each operator will need to develop cost allocation procedures specific to the way which 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),

[4] 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.

- marketing and sales costs,
- billing and collection costs, spilt in 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 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 regulated business. The statement will show capital employed in supplying a 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 (2008), reporting a simple average of capital employed will be acceptable. Calculating MCE based on an average avoids the problems which 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
- 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:

Total Cost = (Operating costs + depreciation + (WACC *x* 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 MBit, cost per text message, etc.

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 the provision of electronic communications and broadcasting products and services can be directly allocated to the products and services to which it relates 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, a bundle of TV services and Internet access includes an access line component, a TV service component and an Internet component. Revenues should be split in proportion to the costs of providing each component.

2.10 Principle 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 charged 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 cost orientation 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 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 CBL

This Section provides specific instructions to CBL 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 CBL's main business areas into different wholesale and retail businesses. While CBL may not be organised in 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 cross subsidisation between CBL's different activities.

Section 3.2 goes into more detail on the requirements regarding the breakdown of CBL's network infrastructure and network elements. This includes all network elements as well as the content systems and platforms.

Section 3.3 lists all reporting requirements for CBL's electronic communications services.

3.1 High-level Breakdown of Main Business Areas

This Section defines the level of disaggregation that is required for CBL's separated accounts. It is important to note that CBL's obligations extend to include its affiliates[5].

CBL should prepare separate accounting information for the following main business areas:

- Wholesale Businesses:
    - Core Network
    - Local Access Network
    - Content Sources
- Retail Business (for all services)
- Other Activities

While these main business areas are briefly defined in the remainder of this Section, the subsequent sections also provide further detail and guidance on the detailed breakdown required for CBL's network.

[5] Under the terms of section 116 (2) of the Comms Act, URCA must consider what obligations are to be imposed on operators which are presumed to have SMP. In accordance with Schedule 4 of the Comms Act, the presumed SMP operators include "any affiliates". In the case of CBL, therefore, the presumption of SMP extends to other affiliates, including Caribbean Crossings Ltd. (CCL).

Core Network

The Core Network business can provide a range of wholesale services either internally to CBL or externally to other operators. Other operators may use these services to supply their own customers or those of another operator, or to access services provided by another operator.

These services include the distribution of Cable TV content or the backhaul of internet services. In addition, the 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 Core Network business should include the costs, revenues and capital employed associated with the provision of these services. The revenues of the Core Network business derive from transfer charges to the Retail business and the sale of wholesale services to other operators. With respect to the wholesale provision of backbone capacity, the associated revenues should be allocated to the Core Network business.

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 including, for example, all types of Cable TV drops (underground or aerial cables), as well as Internet installations. On some islands, CBL provides basic TV access through TV transmitter stations, which should be reported as a separate item of the Local Access Network.

Currently, CBL bundles the local line access with a basic TV package – and in case of Internet access, the bundle includes Internet services as well. 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 access will then be allocated to the Local Access Network, the resulting net revenue streams for content access and for Internet access will be allocated to Content Sources and Core Network respectively.

Content Sources

CBL provides a large variety of content types – ranging from basic local and international TV channels, to add-on packages of additional programmes, up to premium-level seasonal sports packages. All content has to be bought, aggregated, transmitted and distributed throughout CBL’s network. The accounts for the Content Sources business have to include the costs, revenues and capital employed associated with the acquisition of TV content and channel rights as well as the systems necessary to aggregate and manage the different content sources.

The revenues of the Content wholesale business derive from transfer charges to the Retail business and (if applicable) the sale of content to other distributors.

Retail

The Retail business includes all those activities involving the selling of Cable TV (with different options for content) and Internet services to end-users, including the various Cable TV packages, Internet packages or leased lines to businesses or other operators. The accounts for the Retail business should include the costs, revenues and capital employed associated with the provision of these services to end users.

The costs allocated to Retail also have to include transfer charges related to the use of network resources or services provided by Local Access Network, the Core Network and the Content Sources businesses, and the marketing and billing costs associated with the provision of end user services.

Other activities

CBL may provide a wide range of other services including the sale, rental, repair and maintenance of customer equipment. In addition, CBL 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 CBL's Network

In order to provide a sufficiently detailed level of granularity for the preparation of separate accounts for all wholesale and retail services as described in Section 3.3, CBL's network should be broken down into the following minimum set of categories:

Core Network:

- Forward Path Facilities, including head-end equipment and network management facilities
- Return path facilities
- CMTS (Cable Modem Termination System)
- Backbone Network, split into:
    - Intra-Island
    - Inter-Island
    - International
- Satellite systems

Access Network:

- Cable TV drops,
- TV Transmitters,
- CPE – Customer Premises Equipment (such as set-top boxes, cable modems, etc.),
- Installation Services,
- Cable Internet installations.

Content Sources:

- Systems and platform-related costs

- Content costs split by package groups

Retail:

- Sales and marketing
- Customer service
- Billing and collection

3.3 **Reporting Requirements for Separated Accounts**

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 CBL in the corresponding business area and for which CBL 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 Section for more detailed reporting requirements).

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

- Bitstream access for content distribution
- Bitstream access for Broadband Internet
- Remainder of access services (services not captured in Internet and content distribution services above)
- National and international backhaul
- Wholesale access to the SuperBasic and/or Digital Packages
- National leased lines
- International leased lines
- Remainder of wholesale transmission services (services not captured in backhaul or leased line reports above)

The **retail services** should be broken down into the following **minimum set of categories** (as a guidance, current retail names are mentioned in the following list; CBL needs to assure, that all retail services are captured and allocated to at least one of these categories):

- Basic Cable TV package (currently called SuperBasic Package)
- Digital Packages (all add-on packages, such as Oceans Sport/ Movies/ Complete, premium add-ons, such as NFL Sunday Ticket, NBA Season Pass, etc.)
- Remainder of TV services (all TV services not captured in the above categories, such as free-to-air broadcast TV, HDTV, and pay-per-view, etc.)
- National leased lines
- International leased lines
- Broadband Internet
- Remainder of retail business (any services not captured above)

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 3 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

Each SMP operator should provide reports for each separate business and service. The following statements must be included in these reports:

- Profit and loss statement
- Statement of Mean Capital Employed
- Unit Cost

Annexes 1, 2 and 3 of these guidelines provide details of the format of these statements.

4.1.1 Timetable for preparation of Financial Reports and Information

For the initial reporting under these guidelines, CBL must submit separated accounts for 2008 within three months of the publication of the Final Determination. These accounts may be unaudited and unpublished so as to allow CBL an opportunity to have a "test" year to practice.

For 2009 and each subsequent year, CBL 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 specified 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.

- Accounting policies and principles. This will include for example policies covering revenue and cost recognition, depreciation, and asset valuation;
- Definitions of services and service breakdowns;
- Cost Accounting Method (e.g. ABC), explaining how costs are identified and applied to each cost driver and how the costs of those drivers have then been calculated;

- Cost Allocation Methodologies, showing for each item of revenue, cost and capital employed and what drivers have caused the item to arise and how that driver has been used to allocate each item to an individual business;

- Operational Data, such as manpower allocated to certain services;

- Routing Factors, showing which network element(s) are involved in the delivery of a certain service; and

- Wholesale-Retail Mapping, showing the relation of retail and wholesale services (each retail service is composed out of one or more wholesale services).

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 the SMP operator.

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.

Where an operator has more than one regulated business, requiring more than one set of separated accounts, the requirement is for only one reconciliation statement. The statement will show how the individual revenues, costs and capital employed by each business reconcile to the total reported in the statutory accounts. Where there are elements of the operator’s business that do not require separated accounts, these elements will appear simply as a reconciling item (such as “remainder of the business”) between the statutory accounts and individual reports of each regulated business.

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 operators using their statutory independent auditor to conduct the audit of separated accounts, provided that auditor is licensed by The Bahamas Institute of Chartered Accountants. Should an operator 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.

The initial requirement will be for the 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 "fairly presented" by the operator.

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

4.5 Public and Confidential Information

Following the audit of the separated accounts and prior to their publication, each SMP operator should provide URCA with a complete copy of those accounts (both the confidential and non-confidential versions) for its review. This review will not take the form of an audit. Following the review, URCA will prepare a statement to be included for publication with the non-confidential separated accounts. This statement will include comments based on URCA's review, indicating any areas of the separated accounts which URCA may wish to examine in greater detail during the course of the year.

URCA recognises that the level of disclosure required in separated accounts will in places be much greater than the level of disclosure provided in statutory accounts and annual reports. Although recognising the importance of transparency and the ability of users to interpret and analyse the separated accounts, URCA is sensitive to the need for operators to keep certain information confidential.

URCA therefore intends that the information provided in accounting separation reports is classified as non-confidential (which will be published on the operator's website) and as confidential as follows:

- Non-confidential:
    - separated accounts
    - reconciliation statements
    - statements of accounting principles and policies
    - wholesale-retail mapping matrix
    - Audit report
- Confidential
    - cost attribution methodology (explaining details of cost drivers, attributions and ABC modelling)
    - cost drivers and other operational data
    - routing matrix
    - unit costs

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	Operating costs	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**

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	Operating costs specific to Retail	X	X
	Transfer charges from Wholesale	X	X
	Total operating costs	**X**	**X**
Exceptional items		X	X
Return		**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 Reporting Format

The reporting of service unit costs 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**
Usage factors / Service Volumes	x	x	x	x	x	x	x	x	x	x	x	**x**
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**
Service 3	x	x	x	x	x	x	x	x	x	x	x	**x**
…	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**
Service 3	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 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**

ANNEX 5: Wholesale – Retail Mapping

The wholesale retail mapping matrix should have the following format:

		Retail Services						
		Retail Service 1	Retail Service 2	Retail Service 3	Retail Service 4	Retail Service 5	…	…
Wholesale Services	Wholesale Service 1			x	x	x		
	Wholesale Service 2			x	x	x		
	Wholesale Service 3			x		x		
	Wholesale Service 4		x					
	Wholesale Service 5	x						
	…							
	…							

Notes:

The mapping dots in the above matrix are for illustration purposes only.

The list of wholesale and retail services should follow the requirements presented in Section 3.

ANNEX 6: Routing Matrix

The routing matrix should be presented in the following format:

Wholesale Services:	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	…
Service 1											
Service 2											
Service 3											
…											

Note:

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