

# **Implementation of Cost Based Accounting Systems and Accounting Separation – Mobisle Communications Ltd.**

## **Decision Notice**

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**April 2004**

**Malta Communications Authority**

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## **1 Introduction**

### **1.1 Background**

In July 2002 the Malta Communications Authority (“MCA”) published its Report on Consultation and Decision regarding the implementation by DMP operators of cost-based accounting systems within their operating environments<sup>1</sup>. The Decision mandated all operators having a Dominant Market Position to prepare separated accounts based on an FAC (Historic) cost accounting methodology.

In October 2002 the MCA published its Decision regarding Accounting Separation and the Publication of Financial Information by telecommunications operators having a Dominant Market Position. The Decision set out the methodology and format to be followed in the preparation and submission of regulatory financial information<sup>2</sup>.

In the update of August 2003 to the DMP register, the MCA designated Mobisile Communications Limited (Go Mobile) as having a DMP in the Mobile Telephony and TTP markets. This document addresses the ensuing obligations of Go Mobile to implement cost-based accounting systems and accounting separation as directed by the MCA in its previous Decisions.

### **1.2 Related Obligations**

The obligations applicable to operators designated as having a DMP vary in accordance with the respective Regulations, but include an obligation to:

- Interconnect promptly, publish a Reference Interconnection Offer (RIO) and ensure that charges for access / services are cost-oriented, transparent, unbundled and independent of the application to which they are put; and
- Operate a cost accounting system, which is suitable for implementation of the tariff requirements imposed on DMP operators and the calculation of charges for network elements used to provide interconnection.

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<sup>1</sup> “Implementation of Cost Based Accounting Systems for the Telecommunications Sector – Report on Consultation and Decision”, MCA, July 2002.

<sup>2</sup> “Accounting Separation and Publication of Financial Information for Telecommunications Operators - Report on Consultation and Decision”, MCA, October 2002.

With the inclusion of Go Mobile in the 2003 DMP register, there are currently four market players which have been designated by the MCA as having a DMP in the following markets:

- Maltacom plc in the Fixed Telephony and TTP Markets;
- Melita Cable plc in the Cable TV and Radio Services and TTP Markets;
- Vodafone (Malta) Limited in the Mobile Telephony and TTP Markets;
- Go Mobile in the Mobile Telephony and TTP Markets.

### **1.3 Legal Background**

Article 38 of the Telecommunications (Regulation) Act provides that regulations may be made, requiring authorised providers to adopt cost accounting systems as may be prescribed and to keep such operational, accounting, financial, statistical and technical records as may be specified in the regulations, and to furnish to the Authority such statements, returns and other information.

Regulation 13 of the Telecommunications Services (General) Regulations provides that an operator with a Dominant Market Position shall develop an accounting system to calculate charges for interconnections based on cost accounting methods to be defined by the Regulator.

Regulation 45 of the same Regulations provides that an operator shall furnish to the regulator, accounts which show separately the annual turnover per service category and accounts which show annual costs using cost accounting methods to be defined by the Regulator, for network services provided to other operators and for services provided under the universal services obligations. This latter requirement is also contained in Regulation 25 of the Cable Systems (General) Regulations.

## **2 Cost Based Accounting Systems**

### **2.1 Costing Methodology**

In its Decision regarding Cost Based Accounting Systems, the MCA mandated operators with a Dominant Market Position to adopt a Fully Allocated Cost accounting methodology on a historic cost basis (“FAC (Historic)”) for the preparation of regulatory accounts. The MCA further stated that the transition to a Current Cost Accounting methodology would not take place before 2005.

#### **Decision 2.1:**

**The MCA mandates the use of Fully Allocated Costs (on a Historic Cost Basis) for the production of cost-based accounting systems by Go Mobile.**

As set out in the July 2002 Decision, the principles of cost causality, objectivity, consistency and transparency should be followed for the purposes of cost orientation.

### **3 Accounting Separation and Publication of Financial Information**

#### **3.1 Level of Accounting Separation**

The MCA requires separated accounts from Go Mobile as follows:

1. Core Network
2. Local Access Network
3. Retail Activities
4. Other Business

A definition for each of the above business areas was set out in Appendix I to the Decision on Accounting Separation and Publication of Financial Information.

For the initial set of separated Regulatory Accounts no further disaggregation is required. This position may be reviewed in the future and the further disaggregation of “Retail Activities” may be requested when deemed necessary by the MCA. The definitions for the disaggregated activities of “Retail” and “Other” are set out in Appendix II to the October 2002 Decision.

Go Mobile is encouraged to consider the further development of Accounting Separation requirements in the design of its accounting systems and to make provision for the capture and reporting of information at a lower level of detail.

#### **3.2 Format of the Accounting Separation Financial Statements**

The MCA has determined that Go Mobile should follow the provisions included in the October 2002 Decision as follows:

- The formats to be followed in the preparation of separated accounts of mobile operators as included in Appendix III.
- The regulatory accounting concepts included in Appendix IV,
- The regulatory Accounting Principles in Appendix V,
- The Transfer Charging Principles included as Appendix VI.

**The MCA mandates Go Mobile to follow the Accounting Separation formats included in Appendix III to the Decision, which may not be departed from without prior approval of the MCA.**

### **3.3 Other Requirements**

Go Mobile shall become subject to all other reporting requirements established by the decision notice published in October 2002 and the amendment thereto published in July 2003

## **4 Timetable for the Preparation of a Reference Interconnection Offer and Accounting Separation**

In the Decisions published in July and October 2002, the MCA had set out detailed timetables for the preparation by the DMP fixed, mobile and cable operators of cost based separated accounts and reference interconnection offer as appropriate.

As a result of the 2003 DMP register update, Go Mobile is obliged to produce separated accounts and a cost based Reference Interconnection Offer (RIO) comprising both the technical, operational and financial terms.

### **Separated Accounts**

Go Mobile is required to furnish the MCA with an interim set of Regulatory Accounts for the period January to December 2003 by not later than 31 December 2004. The first full set of Regulatory Accounts will cover the year ending 31 December 2004 and should be submitted to the MCA by not later than 30 September 2005.

For the first set of regulatory accounts, comparative information will not be available in a suitable format and will therefore not be required. The accounts for the period Jan to Dec 2003 will be used as the comparatives for the first full set of regulatory accounts for the twelve-month period ending 31 December 2004.

Thereafter, the separated regulatory accounts will be provided to the MCA annually and within five months from the year-end to which they relate.

### **Reference Interconnection Offer**

The next RIO review for all DMP operators should take place during the third quarter of 2004 so that revised rates will be introduced (and replacing the existing ones) by 1 October 2004. To this effect, Go Mobile is required to produce a RIO document by not later than 30 September 2004 for the MCA's evaluation and approval.

The MCA will grant a temporary approval in lieu of a proper review of the cost accounting model and the methodology used in establishing the RIO rates. Any adjustments to the RIO rates that may be requested by the MCA, would be effected retroactively from 1 October 2004. The RIO is to be based on a FAC (Historic) basis and fully cost justified, and the MCA will also examine the RIO and supporting documentation for conformity with best practice and consistency with EU guidelines and rates.



## **5 Conclusion**

A key issue of importance to the telecommunications sector is that of facilitating and sustaining effective competition.

The implementation of accounting separation and cost-based accounting systems serves to ensure that the charges of a DMP operator are cost-based, transparent and non-discriminatory. This is instrumental in facilitating and sustaining effective competition.

The designation of Go Mobile as having a DMP carries the obligation to implement the decisions relating to authorised providers having such status in the telecommunications sector.

**Joseph V Tabone**

**Chairman**

**27 April 2004**