THE HASHEMITE KINGDOM OF JORDAN

TELECOMMUNICATIONS REGULATORY COMMISSION

Accounting Separation Instructions

Issued by TRC Board Decision No.(1-18/2012) dated (8/11/2012)

Hashemite Kingdom of Jordan

Telecommunications Regulatory Commission

Instructions on Accounting Separation in the Telecommunications Sector

Issued pursuant to Articles 6(a), 6(b), 6(e), 12(a/2) and 12(a/6) of the Telecommunications Law No.(13) of 1995 and its amendments

TRC Board Decision No. <1-18/2012> Date <8/11/2012>

Article (1) Citation

These instructions shall be cited as the ”Instructions on Accounting Separation in the Telecommunications Sector (Accounting Separation Instructions)“ and shall come into force as of the date of their approval by the Board of Commissioners.

Article (2) Definitions

The following terms and expressions wherever stated in the Instructions shall have the meanings designated to as stated hereunder, unless the context indicates otherwise. As for the undefined terms and expressions shall have the meanings designated thereto in the Telecommunication Law and the Regulations issued pursuant thereto.

Accounting Separation: The preparation of separated regulatory accounts by a Licensee in line with the requirements set forth in these instructions, to the different markets identified by TRC, in order to separately identify and fairly[1] allocate associated costs and revenues for each market. .

Consolidated statement: Profit and Loss statements, and aggregative Mean Capital Employed Statement of all business activities of the Dominant Licensee.

[1] FPIA (fairly presents in accordance with).

Current Cost Accounting (CCA): Accounting convention in terms of current values, where assets are depreciated to be valued at their current replacement cost.

Dominant Licensee: A Licensee which has been designated by the TRC to have a dominant position in a relevant market and has been obliged to implement accounting separation.

Fully Allocated Costing (FAC): A costing methodology where the costs are categorized as direct and indirect costs which are split into joint and common costs; then those are divided among a firm's various products and services where the direct costs are directly assigned to the cost-causing service.

Historic Cost Accounting: Accounting convention based on historic values, where assets are valued and depreciated as stated in the statutory accounts.

Long Run Incremental Costs (LRIC): Cost standard as set out in the TRC Decision No (a-b/2009) issued on 27 September 2009.

Licensee: A person who has acquired a License in accordance with the provisions of the Telecommunications Law.

Modern Equivalent Asset (MEA): A valuation method based on what it would cost to replace an old asset with a technically up to date new one with the same service capability, allowing for any differences both in the quality of output and in operating costs. For the replacement cost valuation to be appropriate it is not necessary to expect that the asset will actually be replaced.

Reconciliation statement: A statement indicating that the accounting separation results are consistent with the statutory accounts considering the adjustments made.

Transfer Charge: The applied price by the Dominant Licensee to itself for the provision of service/s by one of its business units to another of its business units

TRC: Telecommunications Regulatory Commission.

Telecommunications Law: The effective Telecommunications Law .

Article (3) Aim and Scope

a) The Accounting Separation system is a comprehensive set of accounting principles, procedures and techniques that are applied to the preparation of financial information.

b) Accounting Separation aims to provide information that can

   1) be used when TRC assesses compliance with non-discrimination obligations,

   2) demonstrate the absence of anti-competitive cross-subsidies,

   3) support decision making of TRC regarding price regulation, and

   4) guarantee transparency for the market participants.

c) The results of Accounting Separation must be auditable and fairly present the financial position and activity of a dominant licensee.

d) The scope of Accounting Separation consists of a systematic disaggregation of costs, revenues and capital employed between disaggregated regulatory entities and services of the Dominant Licensee. Dominant Licensees subject to accounting separation obligation shall also ensure that each financial report includes only costs, revenues and capital employed that are relevant to each of the entities and services.

e) These Instructions are applicable to all designated Dominant Licensees whom are liable to implement Accounting Separation by a regulatory decision of TRC.

Article (4) Financial Reporting and Accounting Principles

a) The cost accounting and Accounting Separation systems of Dominant Licensees must be capable of reporting regulatory financial information to TRC in order to demonstrate full compliance with regulatory obligations, in particular non-discrimination and transparency.

b) Capability is measured against the qualitative criteria of relevance, reliability, comparability, materiality, causality, objectivity, transparency, and auditability.

c) The Accounting Separation documents provided must be complete, i.e. include all documents as set out in Article 8, and traceable to the auditor and to TRC and there shall be no offsetting.

Article (5) Cost Accounting Principles

Profit and Loss Statements and Mean Capital employed of the Accounting Separation shall be prepared by the Dominant Licensee based on the following:

a) Fully Allocated Costs (FAC) as cost standard,

b) Historic Cost Accounting (HCA) and Current Cost Accounting (CCA) as cost base with valuation of the assets according to statutory accounts for HCA and based on indexation, absolute valuation, MEA or book value according to the assets topology for CCA.

c) In case Modern Equivalent Assets (MEA) is applied, the valuation of the Dominant Licensee's capital shall be according to Financial Capital Maintenance (FCM). The main adjustments to be made under FCM are:

   1) Revaluation of fixed assets: The gross book value of assets is valued to take account of specific price changes in the prices of assets and changes in technology.

   2) Supplementary depreciation: The depreciation charge for the period is calculated on the basis of the current asset valuations. Supplementary depreciation is the difference between the historical cost depreciation and the current cost depreciation charge.

   3) Holding gains/losses: Treatment in terms of profit and loss needs to be further adjusted to take account of holding gains or losses that arise due to the effect of asset-specific price changes on the current cost value of assets and the effect of general inflation on shareholders' funds.

d) The profit and loss statements and mean capital employed statements shall comprise all business units of the Dominant Licensee, which are presented in the same statutory accounts, including markets in which the Licensee has been designated as dominant and markets where the Licensee has not been designated as dominant.

Article (6) Cost and Revenue Causality

a) Dominant Licensees shall prepare the regulatory accounts in accordance to the Activity Based Costing (ABC) as a methodology to allocate costs, capital employed and revenue.

   1) Costs and revenues shall be allocated to services or products on the basis of those activities that cause those costs or revenues to arise.

   2) All costs, assets and liabilities shall be allocated to separate markets (revenues can be directly associated to services). Allocations should be on a causal and reasonable basis drawing on ABC principles, whereby fixed common and joint costs should also be allocated.

b) When applying the principle of cost causation, Dominant Licensees shall use appropriate and detailed cost allocation methodologies in their cost accounting system. This requires the Dominant Licensee to:

   1) review each item of cost, capital employed and revenue,

   2) establish the driver that caused each item to arise,

   3) use the driver to allocate each item, and

   4) pool costs that cannot be related on a causation basis to activities and allocating on a predetermined basis.

c) When preparing the costs based on Activity Based Costing, the costs shall fall into, and be presented according to one or more of the following categories:

   1) direct and directly attributable costs,

   2) indirectly attributable costs, or

   3) un-attributable costs.

   Revenue shall be allocated according to the markets as set out in Article 8.

Article (7) Transfer Charges

Dominant Licensees shall apply the following requirements for applying Transfer Charges to be used when they provide Accounting Separation:

1) Transfer charges shall be attributed to cost components, services and main business areas or disaggregated businesses in accordance with the activities, which cause the revenues to be earned, or costs to be incurred. Thereby the transfer charges implemented must be aligned with the level of detail with which the Accounting Separation is provided.

2) The attribution shall be objective and not intended to benefit any business or disaggregated business.

3) There shall be consistency of treatment of transfer charges from year to year, under consideration that reasonable and justified improvements are made over time.

4) The transfer charging methods used shall be transparent. There shall be a clear rationale for the transfer charges used and each charge shall be supportable.

5) The transfer charges for internal usage shall be determined as the product of usage and unit charges.

6) The charge for internal usage shall be equivalent to the charge that would be levied if the product or service were sold externally rather than internally.

7) In cases where wholesale services are not currently on offer (i.e. no wholesale tariffs exist) the transfer charges for the network part of retail services shall be calculated on the same basis and methodology, and using the same network element costs, as the wholesale services.

8) The separated accounts shall disclose the transfer charges between businesses or services.

9) Dominant Licensees are required to document how each of the transfer charges were generated between the various services within the accounting documents.

Article (8) Documentation

a) The Dominant Licensee shall prepare the following Accounting Separation documents on an annual basis:

1) financial statements, comprising a profit and loss statement and a mean capital employed statement for each of the relevant markets,

2) consolidation of profit and loss statement and mean capital employed statement and a reconciliation with statutory accounts or other source of costing information,

3) a detailed attribution methodology description including the costing methodologies, including reference to cost base and standards, routing factors, allocation and valuation of the assets methodologies, identification and treatment of indirect costs,

4) non-discrimination notes (detailed transfer charges),

5) a description of methodological differences between the current and the previous reporting year, if any,

6) an audit trail which allows the cost accounting information to be traced and reconciled between (both to and from) the source data and the final financial reports of the Dominant Licensee,

7) the statutory accounts of the relevant accounting year, and

8) the asset register including assets in use, not in use, valuation of the assets, annual and accumulated depreciation as well as a definition on the network elements.

b) TRC has the authority to require Dominant Licensees to answer questions on the delivered Accounting Separation documents, to provide access to all relevant accounting documents or to prepare additional supporting documents, whenever this is necessary to examine compliance with regulatory obligations.

c) The Dominant Licensee shall prepare Accounting Separation documents to show the revenues, costs, capital employed and transfer charges separately for each of the markets in which the Dominant Licensee has been obliged to implement Accounting Separation by a market review decision of TRC. The Dominant Licensee shall also prepare Accounting Separation documents to show the revenues, costs, capital employed and transfer charges for all remaining business activities which are included in the statutory accounts of the Dominant Licensee, in order to allow reconciliation of Accounting Separation information and the statutory accounts.

d) The Annex of these Instructions contains templates for the preparation of selected Accounting Separation documents, which may be altered as appropriate by the Dominant Licensee.

Article (9) Auditing

a) Dominant Licensees shall support the submission of Accounting Separation with an audit opinion of an independent auditor that the accounts are fairly presented according to the rules set out in these Instructions and the common accounting standards in Jordan.

b) The Dominant Licensee shall notify TRC when it appoints or changes the independent auditor. In addition to the auditor appointed by the Dominant Licensee, TRC has the right to appoint its own auditor. In this case, a re-audit is required to be conducted by the auditor appointed by TRC.

c) The costs of the independent auditor(s) and the costs of the Dominant Licensee for the audit and the eventually required re-audit shall be at the expense of the Dominant Licensee.

d) The elements to be covered by the audit include, but are not limited to:

   1) the scope of costs included in the Accounting Separation documents and the scope of costs allocated to each of the markets for which the Accounting Separation is provided,

   2) the reconciliation between the cost model and statutory accounts,

3) correctness of figures, including operational data, volumes, technological parameters,

4) methodologies used regarding amortization, cost capitalization, allocation and for the evaluation of the assets,

5) transfer charges in separated accounts, and

6) cost volume relationship (as applicable) and accounting system information.

Article (10) Deadlines and additional ad-hoc reports

a) Dominant Licensees shall provide the documentation according to article 8 point a) and the audit statement according to article 9 point a) of these instructions within six months after the end of each previous fiscal accounting year. For the first provision, the documentation according to article 8 point a) and the audit statement according to article 9 point a) of these instructions shall be provided for the fiscal accounting year of 2012 not later than June 2013.

b) TRC has the authority to oblige Dominant Licensees to provide Accounting Separation documents for a different reporting period or based on LRIC, if this is necessary to examine the compliance with regulatory obligations. If TRC obliges Dominant Licensees to provide such additional documents, it shall specify the scope and level of detail as necessary and proportionate in the light of the question to be examined. Dominant Licensees shall provide the requested additional documents within two months' time.

c) If TRC obliges Dominant Licensees to provide Accounting Separation documents based on LRIC – in addition to those based on FAC according to article 5 of these Instructions – the additional Accounting Separation documents shall comprise only those business activities that are subject to an obligation to charge cost oriented prices based on LRIC. For preparing the additional profit and loss statements and mean capital employed statements, the Dominant Licensee shall apply the cost accounting principles and methodologies as imposed by the relevant instructions and decisions of TRC.

Article (11) Publication and Confidentiality

a) Cost Accounting information, particularly numerical data of costs, revenues, capital employed, and other undisclosed business issues are subject to confidentiality by TRC .

b) With regard to descriptive documents about the applied methodologies and principles, Dominant Licensees shall inform TRC whether such documents contain information that shall be treated as confidential. In such cases, the Dominant Licensee shall also provide a version without confidential information that is suitable for publication.

c) After TRC has examined the Accounting Separation documents and audit statements as submitted according to articles 8 and 9 of these instructions, TRC publishes a statement informing market players that the Dominant Licensee has submitted Accounting Separation documents and audit statements. TRC also publishes descriptive documents without confidential information as far as necessary to inform market players about the applied principles and methodologies. Documents referred to as descriptive are those listed in article 8 point a) number 3 to 5 of these instructions and eventually other descriptive documents provided by the Dominant Licensee.

d) In exception of the principle of confidentiality set out in point a) of this article, TRC may publish transfer charges, profit margins and general costing data directly related to services and products for which the Dominant Licensee is obliged to charge cost-based prices. When TRC applies this exception, it has to take into account the economic and legal interests of the Dominant Licensee versus the interests of other market players and the public interest to ensure fair competition.

Article (12) Records

Dominant Licensees shall preserve sufficient records to provide an adequate explanation of all Accounting Separation documents as submitted according to article 8 of these instructions for a period of six years from the date on which the documents have been submitted to TRC. The records can be kept in electronic or in paper form as adequate.

Annex

Example formats and templates for the provision of Accounting Separation:

Profit and loss statement

	Service a)	Service b)	Service c)	...	Service n)
Revenue					
Internal revenue				...	
External revenue				...	
Total revenue				...	
Costs					
Direct costs				...	
Indirect costs				...	
Un-attributable costs				...	
Total operational costs				...	
Depreciation				...	
Profit/Loss				...	
Mean Capital Employed				...	
Profit/Loss as a % of Mean Capital Employed				...	

Statement of Mean Capital Employed

	Service a)		**Service b)**		**Service c)**		**…**	**Service n)**	
	current year	End of prior year	End of current year	End of prior year	End of current year	End of prior year	…	End of current year	prior year
Non current assets									
Property, plant and Equipment							…		
Intangible Assets									
Other							…		
Total non current assets							…		
Current assets									
Inventories							…		
Trade and other receivables							…		
Cash and cash equivalents							…		
Other							…		
Total current assets							…		
Total assets							…		
Liabilities									
Trade and other payables							…		
Interest bearing loans and borrowings									
Provisions for liabilities and charges							…		
Other									
Total liabilities							…		
Net capital employed for the year							…		
Mean Capital Employed							…		

Reconciliation statement

	Service a)		Service b)		Service c)		...	Service n)		Adjustment between regulatory and statutory financial statements		Total as per statutory accounts	
	End of current year	End of prior year	End of current year	End of prior year	End of current year	End of prior year	...	End of current year	End of prior year	End of current year	End of prior year	End of current year	End of prior year
Non current assets													
Network assets: *Access* *Switching* *Backbone* *Intelligent Network*													
Property, plant and Equipment							...						
Intangible Assets													
Other							...						
Total non current assets							...						
Current assets													
Inventories							...						
Trade and other receivables							...						
Cash and cash equivalents							...						
Other							...						
Cost of element n							...						
Total current assets							...						
Total assets							...						

Liabilities													
Trade and other payables							…						
Interest bearing loans and borrowings													
Provisions for liabilities and charges							…						
Other													
Total liabilities							…						
Net capital employed for the year							…						
Mean Capital Employed							…						