

Telecommunications Regulatory Affairs Advisory Committee

Proposal to Streamline the Reporting Requirements For Regulatory Accounting

PURPOSE

This paper seeks Members' views on the proposal to streamline the reporting requirements under the accounting practices specified by the Communications Authority ("CA") for unified carrier licensees.

BACKGROUND

2. Provision of business and financial information in accordance with specified accounting practices is an important channel for the regulator to monitor the operation of licensees in the telecommunications market. Section 7H of the Telecommunications Ordinance ("TO") provides that "*[a] licensee shall adopt the accounting practices, consistent with accounting principles generally accepted, that the [Communications] Authority specifies*". Special condition ("SC") 5.1 of the unified carrier licence ("UCL") further provides that "*[w]here directed by the [Communications] Authority in writing, the licensee shall implement such accounting practices as specified by the Authority. Such accounting practices are to be consistent with generally accepted accounting practices, where applicable, and may include (but are not limited to) accounting practices which allow for the identification of the costs and charges for different services or types or kinds of services*".

3. Since 1995, a set of accounting manual ("AM") has been issued by the CA setting out the requirements on accounting practices, including the types of financial and non-financial information needed to be recorded, report format, general accounting principles and accounting separation principles, that should be complied with by relevant licensees for preparing regulatory accounting reports to the CA. Currently, 12 UCL licensees (including seven major fixed network operators ("FNOs") and five mobile network operators ("MNOs")) are required to submit reports in accordance with the AM ("Reporting Parties") as directed by the CA under SC 5 of UCL. On the

other hand, other UCL licensees are not directed to submit reports according to the AM but they are required to submit audited Statutory Accounts on an annual basis.

4. The objective of adopting the AM is to provide a structured regulatory reporting framework enabling the CA to perform its regulatory functions, including the followings:

- to monitor business operation in accordance with the accounting practices and determine whether the Reporting Parties are engaging in fair and competitive practices;
- to determine the cost base for calculations of universal service contributions (“USC”);
- to determine the spectrum utilisation fee (“SUF”) of certain spectrum based on network turnover¹;
- to determine the cost base for interconnection;
- to assist any investigation on competition related matters; and
- to assess the impact of telecommunications policy of the CA on development of telecommunications markets.

5. As the telecommunications market continues to develop, the Office of the Communications Authority (“OFCA”) has received requests from operators to review and streamline the reporting requirement under the AM from time to time. In November 2018, the Government conducted a public consultation to solicit views and comments of the industry and other interested parties on its review and legislative proposals pertaining to the improvement of the telecommunications regulatory framework under the TO to keep pace with the advancement in telecommunications technologies. Apart from responding to the Government’s proposals, stakeholders also submitted their views on other aspects of the telecommunications regulatory framework, including the streamlining of the current reporting requirement under the AM.

6. Following the expiry of the previous assignments of 3G and 2G Frequency in 2016 and 2021 respectively, no more SUF is determined by the

¹ SUF of 2G Frequency (i.e. 900/1800 MHz bands under the previous assignment that expired in 2021) and 3G Frequency (i.e. 1.9 – 2.2 GHz bands under the previous assignment that expired in 2016) payable by individual licensee are based on network turnover of the licensee.

CA based on a spectrum assignee’s network turnover. Accordingly, one of the main purposes that the AM is set to serve, as mentioned in paragraph 4 above, no longer exists. OFCA considers that it is opportune to conduct a review on the reporting requirements under the AM, with a view to streamlining the requirements and reducing the compliance cost of the licensees without compromising the performance of the regulatory functions by the CA.

THE PROPOSAL

7. There are four types of regulatory reports specified in the AM (“Regulatory Reports”). Table 1 sets out the nature of the Regulatory Reports, what the reports cover, and the proposed streamlined arrangements. The reasons for the proposal are elaborated in paragraphs 8 to 13 below.

Table 1: Proposed Streamlined Arrangements for the AM

Type of Reports	Content	Existing Arrangement	Proposed Arrangement
1. Entity Reports	Financial information of Corporate Entity, Licensed and Unlicensed Entity.	All Reporting Parties are required to submit unaudited semi-annual reports and audited annual reports .	Requirement to submit unaudited semi-annual report to be removed.
2. Segment Reports	Financial information of different segments, costs incurred by 2G/3G mobile network business and capital base for calculation of cost of capital.	Those MNOs who made use of the 2G Frequency and/or 3G Frequency for provision of telecommunications services and the FNO who is the universal service provider (“USP”) are	For the MNOs concerned, requirement to submit Segment Reports will be removed. For the USP, requirement to

Type of Reports	Content	Existing Arrangement	Proposed Arrangement
		required to submit unaudited semi-annual reports and audited annual reports .	submit unaudited semi-annual Segment Report will be removed, and requirement to submit audited annual Segment Report will be maintained.
3. Statement of Network Turnover	Network turnover, SUF and network tariff of 2G and 3G Frequency.	Those MNOs who made use of the 2G Frequency and/or 3G Frequency for provision of telecommunications services are required to submit unaudited semi-annual reports and audited annual reports .	Requirement to submit Statement of Network Turnover will be removed.
4. (a) Audited Statutory Accounts; and (b) audited Reconciliation Report	(a) Audited Statutory Accounts refers to the annual accounts prepared in accordance with the Companies Ordinance (Cap. 622); and (b) audited Reconciliation Report refers to the reconciliation between audited Statutory Accounts and audited Regulatory Reports.	All Reporting Parties are required to submit audited annual reports for (a) and (b) .	Status quo to be maintained.

Entity Reports

8. The Entity Reports provide information at an entity level² of the Reporting Party (i.e. unconsolidated report) with financial information disaggregated into licensed business and unlicensed business. The Reporting Parties are required to report affiliate transactions in the Entity Reports, so as to enable the CA to assess and ensure that all business transactions with the affiliates and the unlicensed entity, in which a benefit is provided or received by the licensed entity are identified and disclosed properly, and the cost of shared services and jointly used assets be allocated in a fair and appropriate manner.

9. As each Reporting Party has its own categorisation of financial information, a common approach for categorisation of financial data is required in order to ensure that the financial information obtained among the Reporting Parties is comparable, consistent and accurate. The information in the Entity Reports provides the CA with the same categorisation of financial information among the Reporting Parties and enables the CA to monitor the performance of different Reporting Parties and the variation of individual Reporting Parties' performance over time.

10. As the information obtained from the Entity Reports would enable the CA to monitor the business operation of the Reporting Parties in the respective telecommunications markets, as well as assess the impact of telecommunications regulation on the development of telecommunications markets, it is considered that the requirement to submit Entity Reports should be maintained. However, there is room to streamline the frequency of submission by requiring the Reporting Parties to submit only the audited Entity Reports annually, with the requirement to submit unaudited semi-annual Entity Reports removed.

² As defined in the AM, a corporate entity which holds a telecommunications licence concerned may comprise two or more segments: namely the segment(s) that provide licensed services and grouped under the licensed entity, and the segment that provides only unlicensed services and grouped under the unlicensed entity.

Segment Reports submitted by USP

11. Under the existing arrangement, the USP is required to submit Segment Reports for the CA to determine the cost base for the calculation of USC. For USC calculation purpose, financial information on different segment/business is required. Further, to ensure that the cost and revenue of USP are classified and categorised accurately, a mapping of the general ledger's accounts to the chart of accounts prescribed by the CA is necessary. As such, it is considered that the requirement for the USP to submit Segment Reports should be maintained. However, there is room to streamline the frequency of submission by requiring the USP to submit only the audited Segment Reports annually, with the requirement to submit unaudited semi-annual Segment Reports removed.

Segment Reports and Statement of Network Turnover submitted by MNOs

12. As for the MNOs, they are required to submit Segment Reports and Statement of Network Turnover for the CA to determine the SUF payable for the 2G Frequency and 3G Frequency under previous assignments. Since the previous assignments of 2G Frequency and 3G Frequency already expired in 2021 and 2016 respectively, the collection of information on network turnover by frequency band or by segment for the determination of SUF is no longer necessary. It is therefore proposed to remove the requirement for the MNOs to submit the Segment Reports and the Statement of Network Turnover.

Audited Statutory Accounts and audited Reconciliation Report

13. The audited Statutory Accounts are prepared by the Reporting Parties in accordance with the Companies Ordinance (Cap. 622) and submission of such financial reports provide the CA with useful reference on the business operation of a licensee at no or negligible additional costs to the Reporting Parties. On the other hand, the audited Reconciliation Report set out the variances between information stated in the audited Statutory Accounts and information reported in the audited Regulatory Reports. In order for the CA to perform its regulatory functions effectively and meet the objectives stated in paragraph 4 above, it is considered that the requirement to submit

audited Statutory Accounts and Reconciliation Report by the Reporting Parties on an annual basis should be maintained. This will also ensure that the Regulatory Reports submitted by the Reporting Parties are prepared in a consistent manner and reconcilable with the overall company accounts.

WAY FORWARD

14. OFCA will take into consideration all the views and comments received from Members and prepare the revised draft AM to all the Reporting Parties for consideration before finalising the streamlined reporting requirements under the AM. OFCA will also review from time to time whether individual UCL licensee should be directed to comply with the reporting requirements under the revised AM for decision by the CA.

VIEWS SOUGHT

15. Members are invited to give their views and comments on the proposal given in this paper.

**Office of the Communications Authority
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