

PAKISTAN TELECOMMUNICATION AUTHORITY

Islamabad, the 26th June, 2007

S. R. O. 675(I)/2007.—In exercise of the powers conferred by clauses (e) and (o) of sub-section (2) of Section 5, of the Pakistan Telecommunication (Reorganization) Act, 1996 (XVII of 1996).

The Pakistan Telecommunication Authority is pleased to make the following regulations:

1. **Short title and commencement.**—(1) These Regulations may be called “Accounting Separation Regulations, 2007”.

(2) They shall come into force at once.

2. **Definitions.**—The words and expressions used in these Regulations but not defined shall have the same meaning as are respectively assigned to them in the Act, the Rules, the Regulations and Guidelines. In these Regulations, unless there is anything repugnant in the subject or context, the following terms shall have the meanings as below:

- (1) “Act” means the Pakistan Telecommunication (Re-organization) Act 1996.
- (2) “Authority” means the Pakistan Telecommunication Authority established under section 3 of the Pakistan Telecommunication (Re-organization) Act 1996;
- (3) “Accounting Separation” means the preparation of Separated Accounts for different Business Units and Disaggregated Activities of the same Licensee, so that their costs and revenues can be separately identified and properly allocated;
- (4) ‘Business Unit’ means a sub-division or segment of the Licensee’s business for the purpose of these Regulations and Guidelines;
- (5) “Disaggregated Activity” means a sub-service within a Business Unit which is treated as separate accounting segment for the purpose of these Regulations and Guidelines;
- (6) “Financial Year” means a financial year of the Licensee in respect of which statutory accounts are required to be prepared and audited in accordance with the requirements of the Companies Ordinance 1984;

- (7) "Guidelines" means the guidelines issued by the Authority from time to time for the purpose of these Regulations;
- (8) "Licensee" means any person authorized through a license issued by the Authority to establish, maintain and operate a telecommunication system, on whom these Regulations apply;
- (9) "Retail market" means a market for services to end-user consumers which are not themselves providers of telecommunications services;
- (10) "Separated Accounts" means such restatement and disaggregation of a Licensee's accounts as may be required by the Authority for regulatory purposes and as stipulated in these Regulations;
- (11) "Transfer charge" means charge or price that is applied, or deemed to be applied by the Licensee to itself for the provision of service(s) by one of its Business Unit or Disaggregated Activity to its another Business Unit or Disaggregated Activity; and
- (12) "Wholesale market" means a market for services to other service providers who then provide service to end-user consumers.
- (13)

3. **Scope.**—(1) These Regulations shall apply to all Licensees that have been declared by the Authority to hold a position of Significant Market Power in the national Wholesale (including but not limited to interconnection) Market, or in two or more Retail Markets.

(2) The Authority may extend the scope of these Regulations to any other Licensee or class of Licensees as deemed appropriate for the purpose of carrying out its functions as given under the Act.

4. **Preparation of separated accounts.**—(1) The Licensee shall prepare annual Separated Accounts for the following business units:—

- (a) Network;
- (b) Retail; and
- (c) Other activities.

(2) The Licensee shall maintain, if holding both fixed and mobile licenses, Separated Accounts for each. Whereas for the fixed network, Network Account shall be further disaggregated into Access Network and Core Network.

(3) The Separated Accounts shall contain a sufficient degree of separation as to allow for the costs and revenues for each regulated service to be identified.

(4) The Authority may issue guidelines from time to time on the issues, including but not limited to the following, for the purpose of these Regulations:—

- (a) Regulatory accounting principles.
- (b) Regulatory accounting conventions.
- (c) Transfer charging.
- (d) Costing methodologies for Accounting Separation.
- (e) Content and format of Separated Accounts.

(5) The Licensee shall prepare Separated Accounts in accordance with the following guiding principles:—

- (a) The Separated Accounts shall be prepared in accordance with the Guidelines on Accounting Separation issued by the Authority, which set out the general rules for preparing Accounts.
- (b) The Separated Accounts shall include transfer charges between the main business units for services the Licensee provides to itself and also disclose the equivalent transactions with competing Licensees.
- (c) The Separated Accounts shall be prepared in accordance with International Accounting Standards, in so far as they are relevant, unless superseded by the regulatory accounting principles.
- (d) Details of significant changes that materially affect the Separated Accounts along with prior year restatements shall be given.
- (e) The Separated Accounts shall be prepared annually, and contain comparative information following the initial period.
- (f) The Separated Accounts shall disclose any differences between costs allocated to different activities by the Licensee, and the costs that the Authority allows for the purpose of determining charges.

5. Reporting requirements.—(1) For each Business Unit, the Licensee shall report to the Authority regarding the following:—

- (a) Profit and Loss statement;
- (b) Balance Sheet information in a form that is consistent with the measures of capital employed;
- (c) Return on Capital Employed; and
- (d) Supporting Notes.

(2) The Profit and Loss statement shall disclose revenues and operating costs from each business activity. The profit under each account shall be stated before interest and tax. All accounts shall show any transfer charges to or from other business units.

(3) The Balance Sheet shall provide the breakdown of fixed assets, current assets and current liabilities. The Balance Sheet figures should be the average values for the period to which the Balance Sheet relates.

(4) The Licensee shall provide following additional information along with its Separated Accounts:—

- (a) A statement of the accounting policies applied, including cost conventions;
- (b) Definition of main business units and their disaggregated activities;
- (c) A statement of the basis of allocation and apportionment of revenue, operating costs and capital employed;
- (d) A summary of transfer charges made amongst the separated business units and disaggregated activities;
- (e) A statement of costs disallowed by the Authority, if any, along with reconciliation between results calculated apportioning all costs and those apportioning only relevant costs;
- (f) A reconciliation of the Separated Accounts to the audited statutory accounts of the Licensee. Reconciliation shall be made at the aggregated level for both Balance Sheet information and Profit and Loss statement with any material reconciling item identified separately.

- (g) A statement, in appropriate form, by the auditors that certifies the representation of the Separated Accounts as true and fair.
- (h) Detail of significant changes in accounting policies, if any, with reasons for changes.

6. **Audit of separated accounts.**—(1) The Separated Accounts shall be subject to an independent audit. The Licensee shall appoint auditors to carry out the audit of the Separated Accounts and shall notify to the Authority of such fact within seven days of such appointment.

(2) All audit work carried out on the Separated Accounts, whether by auditors selected and appointed by the Licensee or by the auditors selected and appointed by the Authority under regulation 6 sub-regulation 8, as the case may be, shall be at the expense of the Licensee.

(3) The auditors shall plan and carry out such work as will enable them to certify the representation of the Separated Accounts as true and fair.

(4) The auditors shall report whether or not any matter has come to their attention, which causes them to believe that the Separated Accounts do not in all material respects:—

- (a) Present fairly in accordance with the accounting methodologies that are to be attached to the Separated Accounts, the results, mean capital employed and costs incurred by each of the business units and activities disclosed in the Separated Accounts;
- (b) Comply with the Act, the Rules, the Regulations, directives/decisions and determinations issued by the Authority; or
- (c) Contain the information specified in the Guidelines, as required to be published in the Accounts.

(5) Where any such matters have come to the auditors' attention, these matters shall be clearly described in their report together with, where reasonably possible, the potential monetary impact on the results, mean capital employed or costs incurred by each of the businesses and activities disclosed in the Accounts, or a statement that the estimation of the potential monetary impact is not reasonably possible to establish.

(6) The auditors shall address their report to the Licensee and this report will be attached to, but will not form part of, the Separated Accounts submitted to the Authority by the Licensee.

(7) The auditors' report shall clearly set out the respective responsibilities of the auditor and the Licensee and the basis on which the audit has been carried out and the opinion arrived at.

(8) The Authority may also appoint auditors to carry out such further reviews, examinations and audits as it deems necessary, in case the Licensee or its auditors fail to satisfy the requirements mentioned under sub-regulations (1) to (7) above.

7. Publication of separated accounts.—(1) The Authority may require the publication of the audited Separated Accounts, subject to the consideration of commercial confidentiality. The Authority shall consult with a Licensee before publishing its Separated Accounts, or any information contained within those accounts, so as to ensure that appropriate levels of commercial confidentiality are maintained.

(2) The Authority shall not require the publication of the first set of Separated Accounts. This position shall be reviewed in consultation with the Licensees, once the first version of the Separated Accounts is produced by all concerned Licensees.

8. Timing of separated accounts.—(1) The first set of audited Separated Accounts shall be submitted to the Authority by the Licensee not later than twelve (12) months following either the relevant determination of SMP by the Authority or the publication of these Regulations and supporting guidelines, whichever is the later

(2) Thereafter, the Licensee shall submit its audited Separated Accounts to the Authority not later than six (6) months after the close of the Licensee's financial year.

9. Format of separated accounts.—(1) The Licensee shall submit its Separated Accounts in the prescribed formats as laid down by the Authority from time to time for the purpose of these Regulations.

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