



# Fair Trading Commission

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## Consultation Paper

REGULATORY ACCOUNTING GUIDELINES  
FOR CABLE & WIRELESS (BARBADOS) LTD.

Document No.      FTC/CONS2008/03

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## **Purpose of Document**

In accordance with Section 11.3 of the Compliance Rules and Procedures associated with the Price Cap Plan 2008 (PCP2008), this document presents the Fair Trading Commission's (Commission) proposed Regulatory Accounting Guidelines for Cable & Wireless (Barbados) Ltd (C&W).

As a regulator, the Commission is not only concerned about the overall financial position of the company based on its statutory financial statements but is particularly interested in the financial performance and viability of the Company's regulated services as presented in its regulatory statements. These statements form the basis of the Commission's assessment of C&W's compliance with its licence arrangements and the decisions of the Commission. Such statements also assist the Commission in monitoring C&W's performance against the principles underlying the current price cap plan, the Regulatory Accounting Guidelines that are the subject of this consultation set out the requirements which the Company must take into consideration when preparing the regulatory statements

This consultation paper on Regulatory Accounting Guidelines is intended to;

- (a) bring to public attention important issues relating to utility regulation in order to promote public understanding and debate;
- (b) put forward options and/or proposals as to the approach to adopt in dealing with these issues; and
- (c) invite comments from interested parties, including C&W, consumers, service providers, businesses, professionals and academics.

In general with consultation papers, the issues at hand will influence the nature of the document and its content. On some issues, the Commission may simply set out what it regards as the available options and, although there may be some analysis of the pros and cons of the options, it may be that no one option emerges as the favoured or proposed approach. In other consultation papers, the issues are such that the Commission may set out a clear preference for a particular approach and invite comments on this basis. In this case the latter approach has been adopted.

The Commission encourages the widest possible participation in this consultation process. This document is available at the Commission's offices and on the website.

The Consultation period will begin on **October 29 2008** and end on **November 28\*, 2008 at 4.00 p.m.**

### **Summary**

These Regulatory Accounting Guidelines form part of the regulatory framework for the Telecommunications Sector in Barbados. The primary objective of these Guidelines is to provide the basis on which Cable and Wireless (Barbados) Ltd. (the dominant land line services) is required to prepare its regulatory statements for submission to the Commission under Price Cap 2008 (PCP 2008). Additionally, the Regulatory Accounting Guidelines ("The Guidelines") will form the basis on which the Regulatory Statements will be published and will advise on how to prepare separated Regulatory Accounts. Accounting Separation requires the preparation of separate accounts for each of the different businesses ran by the same company and which identify and allocate the costs and revenues associated with each business as well as the dealings between them.

The preparation of separated accounts that are transparent and audited are essential to the development of a truly competitive market for telecommunications services. The regulatory objectives that separated accounts are intended to support include

ensuring non discrimination, identifying unfair cross-subsidies and retail price control.

The Guidelines will be flexible and will be subject to change to take into account developments within the sector and international best practice.

## SECTION 1: BACKGROUND

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### 1.1 Regulatory Framework

The Utilities Regulation Act CAP. 282 (URA) is the primary legislation governing Barbados' telecommunications sector and the Commission has been assigned regulatory responsibility for this sector. The broad objective of the URA is to provide for the regulation of utility services.

It is a provision of the URA that the Commission discharges its duties and responsibilities in a transparent and accountable manner. Some of the duties and functions of the Commission, as defined by the URA in relation to service providers, are to:

- establish principles for arriving at the rates to be charged;
- set the maximum rates to be charged;
- monitor the rates charged to ensure compliance;
- determine the standards of service applicable;
- monitor the standards of service supplied to ensure compliance; and
- carry out periodic reviews of the rates and principles for setting rates and standards of service.

Another legislative instrument, the Telecommunications Act CAP. 282B (TA), requires the Commission to:

- enforce the policies established by the Minister pursuant to this Act;
- exercise regulatory functions in respect of telecommunications in accordance with this Act, the Fair Trading Commission Act and the Utilities Regulation Act;

- be responsible for the regulation of competition between all carriers and service providers in accordance with this Act to ensure that the interests of consumers are protected, and
- establish and administer mechanisms for the regulation of prices in accordance with this Act, the Fair Trading Commission Act and the Utilities Regulation Act.

Since a dominant firm has the ability to distort competition, the TA also provides some general underlying principles regarding interconnection services supplied by dominant carriers.

## **1.2 Need for Regulatory Guidelines and Accounts**

Regulatory accounting guidelines are designed to reflect the development of competition and the importance of monitoring and detecting anti-competitive behaviour such as unfair cross-subsidisation and undue price discrimination. These particular guidelines apply specifically to C&W and were designed to accommodate that company's network configuration, products and services. A more detailed manual will be developed by C&W, in consultation with the Commission, based on these Guidelines.

Regulatory Guidelines will form the basis on which regulatory accounts are prepared. Such regulatory accounts will inform the preparation of regulatory statements which are the main source of financial information about the regulated business for use by the regulator. Without this reporting framework there is the risk that the Commission may lack relevant, reliable, comprehensive and comparable data necessary for analysis of the problem.

### **1.3 Role of Accounting Separation**

Market distortion by a dominant firm may take various forms, including excessive charges for interconnection services, discrimination in pricing, unfair cross-subsidies and predatory pricing. These practices are usually aimed at stifling competition and may even prevent market entry.

Accounting Separation (AS) is an approach used to deal with these anticompetitive concerns. Under this approach, the operator's activities are split for accounting purposes, into separate businesses or services. Accounting separation does not impose on the operator a set of rules about how its activities should be organised, but simply how accounting information is to be collected and reported on the separated businesses/services.

Amongst other benefits, accounting separation

- ensures that transfer charges from one business to another can be explicitly identified, allowing non-discrimination to be enforced,
- enables the profitability of particular businesses or services to be monitored, allowing cross-subsidies to be identified;
- provides a systematic division of costs and revenues between retail and wholesale, thereby ensuring that the cost base for interconnection charges and charges for other services and products include only relevant costs;
- provides the foundation for an integrated platform for internal product reporting requirements and pricing; and,
- provides a useful technique for investigating allegations about anti-competitive behaviour by dominant firms.



The Commission is also aware of the need for cost information that can stand up to scrutiny for future price cap purposes as well as for setting or assessing interconnection charges and believes that the preparation of separated accounts that are transparent and audited is essential to the development of truly competitive markets for telecommunications services.

#### **1.4 Transfer Charges**

It is important to establish not only that the transfer charges from one of the incumbent's businesses to another are calculated in a non-discriminatory manner, but also that these are treated by the dominant carrier/service provider as 'hard' charges and not simply paper accounting transactions. In other words, when the incumbent sets the prices for the retail business that purchases network services, it must treat the transfer charges as real costs that need to be recovered.

#### **1.5 International Practice**

These Guidelines attempt to follow international best practice. In particular, the Guidelines reflect developments within the European Community as well as within the region an example being Jamaica. More importantly, the Guidelines reflect the domestic conditions and the specific conditions of C&W. These Guidelines are subject to change and the Commission will continue to monitor international and domestic developments and, where it is deems necessary, propose further changes in an effort to remain consistent with international best practice and local conditions.

## SECTION 2: REGULATORY ACCOUNTING PRINCIPLES

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The underlying statutory accounts from which the regulatory accounts are prepared are usually prepared in accordance with International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB). This section provides a set of rules in certain specific areas to be used in the preparation of regulatory accounts for reporting purposes. These regulatory guidelines are intended to be consistent with the IFRS's.

**The Commission is of the view that once Statutory Accounts are prepared in accordance with IFRS requirements the Regulatory Accounts and associated reports should conform with the proposed guidelines.**

### **2.1 Cost Attribution, Cost Allocation and Transfer Pricing**

Principles that should be followed in order to allocate costs, capital employed, and revenues for the purposes of cost accounting and accounting separation are outlined below. The relevant accounting principles include priority, definition, causality, transparency, objectivity, consistency and sampling.

#### *Priority*

Within these Regulatory Accounting Principles, insofar as there is conflict amongst the requirements of any or all of these Principles, the Principles should to be applied in the same order of priority in which they appear in this document.

#### *Definitions*

Any word or expression used in the Accounting Documents shall, unless the context otherwise requires, have the same meaning as it has in the URA and Telecommunications Act.

### *Causality*

Revenue (including transfer charges), costs (including transfer charges), assets and liabilities shall be attributed to cost components, services and businesses or disaggregated businesses in accordance with the activities that cause the revenues to be earned or costs to be incurred or the assets to be acquired or liabilities to be incurred.

### *Transparency*

The Attribution Methods used should be transparent. Costs and revenues, which are allocated to Businesses and activities, shall be separately distinguished from those that cannot be directly allocated.

### *Objectivity*

The attribution of revenue, costs, assets and liabilities shall be objective and not intended to benefit the dominant carrier or service provider or any other carrier, product, service, component, business or disaggregated business.

### *Consistency*

There shall be consistency of treatment from year to year. Where there are material changes to the Regulatory Accounting Principles, the Attribution Methods, or the Accounting Policies that have a material effect on the information reported in the Statutory Financial Statements, the information affected in the Regulatory Statements by the changes shall be restated.

### *Sampling*

Any sample constructed should meet the following principles:

- (i) be unbiased/objective
- (ii) the sample size should be statistically significant and be representative of the entire population and made via random selection
- (iii) not be skewed by seasonal or other factors

- (iv) be based on either generally accepted statistical techniques or other methods which should result in the accurate attribution, and
- (vi) be updated annually.

Whilst all of the principles described above are important, causality in relation to cost, is generally more complex and is pivotal in determining cost allocation methodologies and systems. Hence, where possible, costs should be allocated on the basis of direct cost drivers such as number of phones installed, traffic volumes or floor space.

## **2.2 Cost Base**

Generally, assets and goods used in a business may be valued at their actual price (historical cost accounting) or the estimated current market value or replacement cost (current cost accounting). Studies from the European Union however, indicate that current cost accounting (CCA) appears to be the preferred cost base in the fixed market and whilst long run incremental cost (LRIC) is extensively used in the mobile market. CCA is also increasingly being used in this market (Schedule 9 provided a discussion of HCA and CCA for information only.)

The historical basis on which C&W prepares its Regulatory Accounts will continue until such time that it is reviewed.

## **2.3 Accounting Framework Documents**

Regulatory statements should be prepared for each of C&W's main businesses as per schedule 2. Accounting Documents detailing the general principles and methods used in the preparation of the regulatory statements should also be prepared and submitted to the Commission. This would allow the Commission and interested parties to check for reasonableness and consistency in the preparation of the regulatory statements. The key components of the Accounting Documents are:

- (a) Regulatory principles;
- (b) Attribution methods;
- (c) Transfer charging principle; and
- (d) Accounting policies

Where there is conflict amongst some or all of these components the priority should follow the order in the above list.

*(a) Regulatory Principles*

These constitute the rules to be used in the preparation of the regulatory statements, as it relates to the application of the attribution methods, allocation methods, the transfer charging system, the accounting policies and rulings from regulatory hearings.

*(b) Attribution Methods*

The methods for attributing revenue (including transfer charges), costs (including transfer charges), assets and liabilities to each main business, network elements, and service categories comprising each business should be in accordance with the regulatory principles.

*(c) Transfer Charges*

As part of its accounting information C&W should provide a detailed description (as per the detailed manual which will be developed by C&W) of the process and methods used for deriving internal transfer charges between its fixed network business (fixed) and its other businesses or service categories. The objective is to provide transparency for all intra C&W activities. (Schedule 8 outlines the attendant principles on which the system proposed will be based).

*(d) Accounting Policies*

Accounting policies are used in the preparation of statutory financial statements to ensure that they are understandable and comparable. The minimum list of items on which detailed documentation should be provided is:

- (a) principles of asset valuation (intangible and tangible);
- (b) depreciation method, rates and asset lives;
- (c) inventories;
- (d) account receivables;
- (e) fixed asset investments;
- (f) redundancy costs; and
- (g) bad debts.

The Commission considers the above principles should form the basis for the attribution, allocation and transfer charging and the preparation of regulatory statements.

**2.4 Data Comparability, Reliability and Retention**

**In order that the regulatory reports properly reflect the position of the Company, data contained in all of the reports must not only be transparent but should also be comparable and reliable. A suitable audit trail of information must also be maintained to ensure the integrity of the data over a period of time.**

*Comparability*

Policies and other methodologies used to prepare regulatory financial statements are critical to transparency, since a change in policy or methodology could significantly impact the comparability of data. Thus, material changes in any policy or methodology should lead to a restatement of previous years' results in order to maintain comparability. Any such material change would require approval from the Commission.

### *Reliability*

All stakeholders must be able to rely on the information from the regulatory statements<sup>1</sup>. The information is deemed reliable if it:

- truly represents what it purports to represent;
- is free from deliberate or systematic bias;
- does not contain material error;
- is complete (subject to materiality tests); and
- provides estimates which are prudently determined.

Such reliability can be demonstrated by having a senior representative of C&W formally endorse the regulatory statements.

### *Data Retention*

It must be demonstrated that any data used for regulatory statements is data originally presented in C&W's information systems, starting with the statutory statements and accompanying reconciliation required as part of the PCP 2008 Compliance Rules and Procedures. Such data must be available electronically or on paper to enable the auditor to perform tests and verification.

**The Commission is of the view that in accordance with statutory requirements, C&W shall retain for a minimum of seven (7) years, all raw data, financial and other statements and regulatory accounting reports in a standard electronic format. Also, electronic copies of all principles, methodologies and other documents used in the preparation of each Regulatory Financial Statement shall be maintained for the same period.**

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<sup>1</sup> Due to confidentiality constraints all stakeholders may not not have access to all of the information

## **2.5 Review of the Regulatory Accounts**

Consistent with the Price Cap Plan 2008 Compliance Rules and Procedures as well as international best practice, C&W's Regulatory statements will be subject to a Regulatory Compliance Review which will ensure *inter alia* that:

- **the company's rates for services regulated under PCP2008 are set in accordance with the regulatory guidelines and PCP2008 Compliance Rules**
- **the regulatory statements reconcile to the audited statutory statements**
- **the regulatory statements were prepared in accordance with the guidelines and manual established in accordance with rule 11.3 of the PCP2008 Compliance Rules and procedures, and**
- **by extension the Company is operating consistent with the decisions and rules laid out by the Fair Trading Commission in pursuance of its objectives as a regulator.**

This list may be adjusted over time to reflect changes in the regulatory framework and in particular, changes in the level of assurance required. Such a Regulatory Compliance review may be based on sampling techniques where appropriate and should highlight whether the Regulatory Statements as presented in all material respects comply with the regulatory guidelines and manual.

The manual referred to above is expected to be developed by the Company in consultation with the Commission and will set out in detail among other things, the agreed methodology, drivers, allocators and exclusions to be applied to the regulatory statements.



## SECTION 3: LEVEL OF ACCOUNTING SEPARATION IN REGULATORY ACCOUNTS

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This section sets out the level of disaggregation that C&W is required to undertake in its Regulatory Accounts. In addition to the consideration of best practice, the Commission considers that given the size of C&W and the characteristics of the Barbados telecommunications market it is important for C&W to prepare separate regulatory accounting information.

For purposes of accounting separation, the Commission has previously determined that C&W should split its activities into the main business areas listed below. (These are referred to as Service baskets and are detailed in Schedule 1.)

- Basket 1 - Residential Fixed Line Access and Installation
- Basket 2 - Domestic Voice Telecommunications Services
- Basket 3 - International Telecommunications Services and other Retail Telecommunications Services
- Non regulated Activities

Accounting separation is recognised as an extremely useful ex-ante regulatory tool especially in a newly liberalised regime like Barbados. It serves the following purposes:-

- prevention of unfair predatory pricing and cross-subsidisation,
- ease of comparison between operators,
- promotion of understanding of the relationship between the dominant carrier's charges and costs,
- detection of discriminatory behaviour on prices charged internally versus those charged to competing operators and
- Ease in analysing regulatory and statutory statements on a comparative basis.

The Commission is mindful of striking a balance between transparency and the cost of compliance and as such recognises that there will be additional costs involved in developing a robust and transparent system of regulatory accounting. In this regard, wherever possible the Commission will seek to minimise costs as it pertains to:

- tracking costs and the cost of maintaining the system of accounts,
- fees for compliance review by independent consultants
- costs of publishing reports, and
- costs in terms of manpower necessary for review, reporting and data collection.

### **3.1 Publication of Information**

Regulatory statements are sometimes made public. However, given that there are usually additional costs associated with publication, the Commission considers that the electronic media can be used to some extent. The benefits of publication include:

- ensuring that all charges are appropriately derived and that C&W is not unduly favouring its retail business;
- allowing consumers to understand the relationship between revenues and costs for different services of the provider;
- giving other operators confidence that the interconnection arrangements are equitable, that is, there is no under or over recovery of network costs and
- raising the confidence of stakeholders that there are no unfair cross subsidies.

**The Commission considers that regulatory statements are to be made public but is mindful that C&W operates in a competitive environment and will make allowance for commercially sensitive information to be accorded the appropriate level of commercial confidentiality.**

### **3.2 Publication of Related Information and Notes**

Explanatory notes detailing any material changes or issues which impact on the regulatory statements for a given period and on comparative figures for the previous period should be provided along with the Regulatory statements and the accompanying Accounting Documents. Such notes detailing the methodologies used in preparing separate accounts are usually published.

The publication of the Accounting Documents along with explanatory notes would allow interested parties to check for reasonableness and consistency in the preparation of regulatory accounts, as well as to promote transparency in the preparation of regulatory statements. The Commission and members of the public, upon review of these statements, should be able to come to a full understanding of the information contained within these accounts.

**The Commission is of the view that on publication of the regulatory statements C&W should also include the Explanatory notes and Accounting Documents detailing the methodologies used in preparing regulatory accounts.**

### **3.3 Timeframe for Publication**

Regulatory accounts should be published on a timely basis. Undue delays in publication would render the accounts useless as this would serve to negate the positive effects of reviewing the information in separated accounts.

The Commission proposes that C&W submit regulatory accounts to the Commission and make copies available to interested parties within three (3) months after publishing its statutory financial statements. In other words, if C&W publishes its statutory accounts in June, then it would have until the end of September in each year to publish its regulatory statements.

**The Commission considers that regulatory accounts should be published no later than six (6) months following the financial period to which they relate.**

## SECTION 4      REGULATORY STATEMENTS

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### 4.1      Format and Content of Regulatory Statements

As is the case presently C&W shall continue to split its operation into Main Business Activities. For each Main Business C&W would be required to prepare statements of profit and loss, and mean capital employed. These statements would be reconciled with the annual statutory accounts and reports of the Company. (The main business activities for which C&W would be required to prepare these statements are outlined in Schedule 2.)

**The Commission proposes that C&W should prepare the statements outlined below for its regulated businesses. The principles and methodologies to be used in the preparation of the regulated statements should be as set out in the Accounting Document and the formats would be as suggested.**

### 4.2      Statement of Profit & Loss

**The Statement of Profit & Loss should detail the operating result and return on capital employed per Business. Return (profit/loss) would be calculated on the same basis as the cost of capital. For example, if returns are on a pre-tax basis, the weighted average cost of capital in the accounts would be before tax. (The pro-forma profit and loss statement is set out in Schedule 3.)**

### 4.3      Statement of Mean Capital Employed

A statement of mean capital employed provides one of the inputs into the formula that is used to calculate the Return on Mean Capital Employed ratio (RoMCE). The other input being the Earnings before interest and tax. This ROMCE ratio tells us how much profit is earned from the investments that stakeholders have made in a

company, in other words it is used as a measurement of the performance of a company.

In accounting there are different interpretations of RoMCE depending on different situations. The Commission has decided to adopt the definition utilised in the Price CAP Review and this is as follows:

$$\frac{\text{EBIT}}{\text{Mean Capital Employed}}$$

*where*

EBIT is Earnings Before Interest and Tax , and

Mean Capital Employed is Fixed assets + Net Current Assets.

It should be noted that the definition of capital employed does not subtract long term borrowings from the Mean capital Employed (MCE) calculation.

The Commission is of the view that the figures reported in this statement are to be the average values (i.e. arithmetic mean) for the period to which the statement relates. This average should ideally be a weighted average value, although a simple average value of opening and closing balances may be used in the initial year of reporting. However, if an opening balance is not available in the initial year, the closing balance should be used. (The statement of mean capital employed is set out in Schedule 4.)

**The Statement of Mean Capital Employed is expected to show the capital employed by the Company for supplying each Main Business or each disaggregated service categories within the Main Business.**

#### **4.4 Statements of Reconciliation**

The Commission is of the opinion that the statements of profit and loss and mean capital employed of all the main businesses should be reconciled with the annual statutory report and accounts of the Company. Where the accounting principles used in preparing these statements differ from the statutory accounting principles the effects should be disclosed in this statement and notes explaining the differences should be provided. (The format for the reconciliation statements for profit and loss and mean capital employed are set out at Schedules 5 and 6 respectively.)

#### **4.5 Explanatory Notes to Regulatory Financial Statements**

The Commission and members of the public, upon review of these financial statements, should be able to have a full understanding of the information contained within these accounts. For this reason, it is important that the accounts be accompanied by explanatory notes.

The Commission is of the view that the explanatory notes accompanying the regulatory statements should include, but are not limited to, the following:

- (i) a detailed statement of the regulatory accounting principles used in the preparation of the accounts.
- (ii) definitions of the main businesses and where applicable the disaggregated service categories of each main business.
- (iii) detailed statements of the transfer charging system used in the preparation of the accounts (Schedule 7) and,
- (iv) details of material changes which impact on the financial statements for a given period and on comparative figures for the previous period.

## SECTION 5 - CONSULTATION PROCESS

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### 5.1 Background

The Fair Trading Commission (“the Commission”) established by the Fair Trading Commission Act, CAP 326B, is the regulator of international and domestic telecommunications services and electricity services.

In carrying out its duties as an regulator, the Commission must operate in a transparent, accountable and non-discriminatory manner. Consultative documents and the public consultation process are the main ways in which the Commission discharges its responsibilities relating to transparency and accountability.

In addition, the Commission is specifically charged under the Fair Trading Commission Act CAP 326B to consult with interested persons when it is discharging certain functions.

Section 4(4) of the *Fair Trading Commission Act, CAP. 326B* states:

*“The Commission shall, in performing its functions under subsection (3)(a), (b), (d) and (f)<sup>2</sup>, consult with the service providers, representatives of consumer interest groups and other parties that have an interest in the matter before it.”*

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<sup>2</sup> Section 4(3) of the Act states:

*The Commission shall, in the performance of its functions and in pursuance of the objectives set out in subsections (1) and (2):*

- (a) establish the principles for arriving at the rates to be charged by service providers;*
- (b) set the maximum rates to be charged by service providers;. . .*
- (d) determine the standards of service applicable to service providers;. . .*
- (f) carry out periodic review of the rates and principles for setting rates and standards of service of service providers.*



## **5.2 Consultative Documents**

On important issues that arise in the regulation of the utility industries, the Commission may issue a consultative document (a public discussion paper), in which the Commission:

- (a) brings to public attention important issues relating to utility regulation in order to promote public understanding and debate;
- (b) puts forward options and/or proposals as to the approach to adopt in dealing with these issues, to seek to resolve them in the best interests of the consumer, the service provider and the society at large; and
- (c) invites comments from interested parties, such as consumers, service providers, businesses, professionals and academics.

In general with consultation papers, the issues at hand will influence the nature of the document and its content. On some issues, the Commission may simply set out what it regards as the available options and, although there may be some analysis of the pros and cons of the options, it may be that no one option emerges as the favoured or proposed approach. In other consultation papers, the issues are such that the Commission may set out a clear preference for a particular approach and invite comments on this basis. In this case the latter has been adopted.

The views and analysis set out by the Commission in a consultative document are intended to invite comments which may cause the Commission to revise its views.

## **5.3 Responding to this Consultation Paper**

The Commission invites and encourages written responses in the form of views or comments on the matters discussed in the Paper from all interested parties including C&W, other licensed operators and consumer representatives.

The Consultation period will begin on **October 29<sup>th</sup>** and end on **November 28<sup>th</sup> at 4.00 p.m.** All written submissions should be submitted by this deadline. The Commission is under no obligation to consider comments received after 4:00 p.m. on **November 28, 2008.**

Copies of this Consultation Paper can be collected between the hours of 9.00 a.m. to 4.00p.m, Mondays to Fridays during the consultation period, from the Commission's offices at the following address:

Fair Trading Commission  
Good Hope  
Green Hill  
St. Michael  
BARBADOS

The Consultation Paper can also be downloaded from the Commission's website at <http://www.ftc.gov.bb>

Respondents to the Consultation may submit responses in electronic format to: info@ftc.gov.bb. The Commission would prefer that email responses be prepared as Word documents and attached to an email cover letter .

Responses can be faxed to the Commission using fax number (246) 424-0300. Mailed or hand delivered responses should be addressed to the Chief Executive Officer at the above mailing address.

#### **5.4 Confidentiality**

The Commission is of the view that this consultation is largely of a general nature. The Commission expects to receive views from a wide cross section of stakeholders and believes that views and comments received should be shared as widely as possible with all respondents.

**Respondents should therefore ensure that they indicate clearly to the Commission any response or part of a response that they consider contains confidential or proprietary information.**

## **5.5 Analysis of Responses**

The Commission expects, in most consultations, to receive a range of conflicting views. In such circumstances, it would be impossible for the Commission to agree with all respondents. Through its documents the Commission will seek to explain the basis for its judgments and where it deems appropriate give the reasons why it agrees with certain opinions and disagrees with others. Sometimes analysis of new evidence presented to the Commission will cause it to modify its view. In the interests of transparency and accountability, the reasons for such modifications will be set out and, where the Commission disagrees with major responses or points that were commonly made, it will in most circumstances, explain why.

# Schedules

## Schedule 1: Details on Service Baskets

### LIST OF SERVICES

<u>Basket</u>	<u>Price Cap Service Name</u>	<u>Detailed Description</u>	<u>Rate Element</u>
1	Residential fixed-line access	Residence Exchange Line	MRC
1	Residential fixed line installation	Installation	NRC
2	Non-residential fixed-line access	Business Exch. Line	MRC
			NRC
2	Non-residential fixed-line access	Business Exch. Only	MRC
			NRC
2	Non-residential fixed-line access	Business Exch. Stepping	MRC
			NRC
2	Non-residential fixed-line access	DEL Line ( Direct Exchange Line )	MRC
			NRC
2	Non-residential fixed-line access	DEL Line ( Direct Exchange Line ) ( Business )	MRC
			NRC
2	Non-residential fixed-line access	Business Automatic Universal Line	MRC
			NRC
2	Non-residential fixed-line access	112 Emergency Lines	MRC
			NRC
2	Non-residential fixed-line access	Smart Ring Line Only-Business	MRC
			NRC
2	Non-residential fixed-line access	Smart Ring Line Only-Residence	MRC
			NRC
2	Non-residential fixed-line access	800 Service Line	MRC
			NRC
2	Non-residential fixed-line access	800 Service Pilot	MRC
			NRC
2	Non-residential fixed-line access	800 Service Stepping	MRC
			NRC
2	Non-residential fixed-line access	Charity Exchange Line	MRC
			NRC
2	Non-residential fixed-line access	Directory Number Hunt Exchange Line	MRC
			NRC
2	Non-residential fixed-line access	Direct Inward Dialing Channel via T1	MRC
			NRC
2	Non-residential fixed-line access	Voice Channel Stepping via T1	MRC
			NRC
2	Non-residential fixed-line access	Voice Channel via T1	MRC
			NRC
2	Non-residential fixed-line access	Line Residence Exchange (Installation)	NRC
2	Non-residential fixed-line access	Line Residence Stepping (Installation)	NRC
2	Non-residential fixed-line access	Public Pay Station (Sub-owned)	MRC
2	Non-residential fixed-line access	Business Extension	MRC
2			NRC
2	Non-residential fixed-line access	Direct Exchange Line Company	MRC
2	Non-residential fixed-line access	Facsimile Line	MRC
			NRC

<u>Basket</u>	<u>Price Cap Service Name</u>	<u>Detailed Description</u>	<u>Rate Element</u>
2	Non-residential fixed-line access	Facsimile Line Stepping	MRC
2			NRC
	Non-residential fixed-line access	Change Number Advisory (Business)	MRC
2		Change Number Advisory (Business)	NRC
	Non-residential fixed-line access	Change Number Advisory (Residence)	MRC
2		Change Number Advisory (Residence)	NRC
	Non-residential fixed-line access	Additional Directory Listing	MRC
2	Non-residential fixed-line access	Change of Address	MRC
			NRC
2	Non-residential fixed-line access	Unlisted Number	MRC
2	Non-residential fixed-line access	Fixed Call forwarding (Business)	MRC
2			NRC
	Non-residential fixed-line access	Fixed Call forwarding (Residence)	MRC
2			NRC
2	Non-residential fixed-line access	Change Unlisted to Listed	NRC
2	Non-residential fixed-line access	Callback Service Overseas per Line	MRC
			NRC
2	Non-residential fixed-line access	Debar Overseas Calls per Line	MRC
2	Value Added Service	Cancel Call Waiting	NRC
2	Non-residential fixed-line access	Tracing Nuisance Calls	NRC
2	Non-residential fixed line installation	Other Telecoms -Reconnection	NRC
2	Non-residential fixed line installation	Temporary Disconnection	MRC
2	Domestic payphone	Coin Phone Calls	Per minute
2			
2	Domestic payphone	Pay and Card Phones Calls	Per minute
2	Value Added Services	Micro Telemax ( Business )	MRC
			NRC
2	Value Added Services	Micro Telemax ( Residence )	MRC
			NRC
	Value Added Services	Call Name, Number (Business )	MRC
2			NRC
2	Value Added Services	Call Name, Number ( Residence )	MRC
			NRC
	Value Added Services	Magic Touch Silver Max ( Business/Residence )	MRC
			NRC
2	Value Added Services	Magic Touch Platinum Max ( Business/Residence )	MRC
2			NRC
2	Value Added Services	Magic Touch Gold Max ( Business/ Residence )	MRC
2			NRC
2	Value Added Services	Anonymous Call Rejection ( Business )	MRC
2			NRC
2	Value Added Services	Anonymous Call Rejection (Residence)	MRC
2			NRC
2	Value Added Services	Distinctive Ring Call Waiting (Business)	MRC
2			NRC
2	Value Added Services	Distinctive Ring Call Waiting ( Residential )	MRC

<u>Basket</u>	<u>Price Cap Service Name</u>	<u>Detailed Description</u>	<u>Rate Element</u>
2			NRC
2	Value Added Services	Selective Call Acceptance (Business)	MRC
2	Value added services		NRC
2	Value Added Services	Selective Call Acceptance (Residence)	MRC
			NRC
2	Value Added Services	Selective Call Rejection (Business)	MRC
			NRC
2	Value Added Services	Selective Call Rejection (Residence)	MRC
			NRC
2	Value Added Services	Auto Busy Call Back ( Business )	MRC
2	Value Added Services	Auto Busy Call Back ( Residence )	MRC
			NRC
2	Value Added Services	Auto Recall ( Business )	MRC
			NRC
2	Value Added Services	Auto Recall ( Residence )	MRC
			NRC
2	Value Added Services	Selective Call Forwarding ( Business )	MRC
			NRC
2	Value Added Services	Selective Call Forwarding ( Residential )	MRC
			NRC
2	Value Added Services	Vanity Name ( Business )	MRC
			NRC
2	Value Added Services	Vanity Name ( Residential )	MRC
			NRC
2	Value Added Services	Call Wait,Forward,3way,Speed,3Smart Ring	MRC
			NRC
2	Value Added Services	Call Wait,Forward,3way,Speed,2Smart Ring	MRC
			NRC
2	Value Added Services	Call Wait,Forward,3way,Speed,1Smart Ring	MRC
			NRC
2	Value Added Services	Call Wait, Forward, 3-Way, 3 Smart Ring	MRC
			NRC
2	Value Added Services	Call Wait, Forward, 3-Way, 2 smart Ring	MRC
			NRC
2	Value Added Services	Call Wait, Speed Call, 1 Smart Ring	MRC
			NRC
2	Value Added Services	Call Wait, Forward, 3 Smart Ring	MRC
			NRC
2	Value Added Services	Call Wait, Forward, 2 Smart Ring	MRC
2			NRC
2	Value Added Services	Call Wait, Forward 1 smart Ring	MRC
2			NRC
	Value Added Services	Call Wait, 3-Way, 3 Smart Ring	MRC
2			NRC
	Value Added Services	Call Wait, 3-Way, 2 Smart Ring	MRC

<u>Basket</u>	<u>Price Cap Service Name</u>	<u>Detailed Description</u>	<u>Rate Element</u>
2			NRC
2	Value Added Services	Call Wait, 3-Way, 1 Smart Ring	MRC
2			NRC
2	Value Added Services	Call Forward, 1 Smart Ring	MRC
2			NRC
2	Value Added Services	3-Way Calling, 1 Smart Ring	MRC
2			NRC
2	Value Added Services	Call Wait, 3 Smart Ring	MRC
2			NRC
2	Value Added Services	Call Wait, 2 Smart Ring	MRC
2			NRC
2	Value Added Services	Call Wait, 1 Smart Ring	MRC
2			NRC
2	Value Added Services	Smart Ring 3	MRC
2			NRC
2	Value Added Services	Smart Ring 2	MRC
2			NRC
2	Value Added Services	Smart Ring	MRC
2			NRC
2	Value Added Services	Call Wait, Forward, 3-Way, Speed Call	MRC
2			NRC
2	Value Added Services	Call Wait, Call Forwarding	MRC
2			NRC
2	Value Added Services	Call Wait, Speed Calling	MRC
2			NRC
2	Value Added Services	Speed Call, 2 Smart Ring	MRC
2			NRC
2	Value Added Services	Speed Call	MRC
2			NRC
2	Value Added Services	3-Way Calling	MRC
2			NRC
2	Value Added Services	Call Forward	MRC
2			NRC
2	Value Added Services	Call Waiting	MRC
2			NRC
2	Value Added Services	Speed Call, 2 Smart Ring	MRC
2			NRC
2	Value Added Services	Call Wait, 3-Way Calling	MRC
2			NRC
2	Value Added Services	SmartChoice Plan A	MRC
2			NRC
2	Value Added Services	SmartChoice Plan B	MRC
2			NRC
2	Value Added Services	SmartChoice Plan C	MRC

<u>Basket</u>	<u>Price Cap Service Name</u>	<u>Detailed Description</u>	<u>Rate Element</u>
2			
2	Voicemail	Customer Mail Box	
2	Voicemail	Voice Mail, Call Forward Don't Answer (CFDA), With Number	
2	Voicemail	Voicemail Express Message (Residence)	
2	Voicemail	Voicemail Access Directory Number	
2	Voicemail	Voice Call Forward Busy	
2	Voicemail	Voice Menu	
2	Voicemail	Voice Announcement	
2	Voicemail	Voice Call Forwarding Don't Answer	
2	Domestic private leased circuits	National Leased Circuit	
2	Domestic private leased circuits	All Private Wire	

Uncapped - Basket 3 :

<u>Basket</u>	<u>Price Cap Service Name</u>	<u>Detailed Description</u>	<u>Rate Element</u>
3	Fixed outgoing international	Residential Fixed Line International Direct Dial (IDD) Call Revenue	Day Evening Weekend
3	Fixed outgoing international	Inmarsat	Day Evening Weekend
3	Fixed outgoing international	IDD 1010335	Day Evening Weekend
3	Fixed outgoing international	International Direct Dial (IDD) Credit Card	Set-up 3 Minute Min. Add. Min.,Day Add. Min.,Evening Add. Min., Weekend
3	Fixed outgoing international	International Prepaid Card	
3		Payphone International-Standard Rates	
3		IDD Smart Choice Residence Discount	
3		IDD Talkaway discounts	
3		Call Centre IDD	
3		International 1-800	
3		Corporate Choice	
3		PSTN International Station to Station & Person to Person	



<u>Basket</u>	<u>Price Cap Service Name</u>	<u>Detailed Description</u>
	International Private Leased Lines	International Private Leased Circuits
3	Operator Assistance-Domestic Voice Calling	Operator Service
3	Emergency-Domestic Voice Calling	Emergency Service
3	Business internal voice network service	Comnet Band 1
3	Business internal voice network service	Comnet Band 2
3	Business internal voice network service	Comnet Band 3
3	Business internal voice network service	Comnet Band 4
3	Business internal voice network service	Line - Comnet Band 1 Stepping
3	Business internal voice network service	Line - Comnet Band 2 Stepping
3	Business internal voice network service	Line - Comnet Band 3 Stepping
3	Business internal voice network service	Line - Comnet Band 4 Stepping
3	Business internal voice network service	Centrex
3	Business internal voice network service	Pabx Trunk Line via T1
3	Business internal voice network service	Pabx Ext - Via T1
3	Business internal voice network service	DID PABX Ext
3	Business internal voice network service	Line - Key System Stepping via T1
3	Business internal voice network service	Sub-Owned Trunk Lines
3	Business internal voice network service	Pabx Trunk Line
3	Business internal voice network service	Direct Inward Dialling Trunk (PBX)
3	Business internal voice network service	Business Exchange Line Conn to Pabx
3	Non-residential fixed-line access	Install Authorisation Code
3	Non-residential and residential fixed line installation	PBX/Key Systems Line Installation
3	Fixed outgoing international	International Operator Assistance

## **Schedule 2: Main Business & Disaggregated Service Categories**

Fixed Access - Non residential

Fixed Access - Residential

Fixed Network - Residential

Domestic Voice

Fixed Cellular

Value Added Services

Leased circuits

Fixed International Outgoing Calls

Fixed International Incoming Calls

Directory Enquiries (DQ)

Total Non- Regulated Services

**Schedule 3: Statement of Profit & Loss for Year Ended .....**

<b>Business/Service Category Notes</b>	<b>Current Year</b>	<b>Previous Year*</b>
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**Revenue**

Transfer charges to other C&W business

From other operators

Other Revenue

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Total Revenue

---

Less: Outpayments

Less: Cost of Sales

Less: Government Royalty

---

Net Revenue

---

**Operating Costs**

Transfer charges to other C&W business

Payments to other operators

Other operating expenditure

Depreciation –Retail assets

Depreciation – Network assets

Total operating costs

Overheads

---

Total Costs

---

Profit (Loss) by Service

---

Mean Capital Employed (Mce)

---

Return on Mean Capital Employed (Romce)

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\* Previous year information should be presented wherever possible

**Schedule 4: Statement of Mean Capital Employed for year ended.....**

<b>Business/Service Category</b>	<b>Notes</b>	<b>Current Year</b>	<b>Previous Year*</b>
<b>Fixed assets</b>			
Tangible fixed assets			
Intangible fixed assets			
<b>Total Fixed Assets</b>		<b>X</b>	<b>X</b>
<b>Current assets</b>			
Stocks			
Debtors			
Cash at bank & in hand			
<b>Total current Assets</b>		<b>X</b>	<b>X</b>
<b>Creditors</b>			
Other liabilities & charges		(X)	(X)
<b>Mean Capital Employed</b>		<b>X</b>	<b>X</b>

**Schedule 5: Reconciliation – Statement of Profit & Loss for year ended.....**

	Revenue	Operating Costs	Return %
<b>Main Business Service Baskets</b>			
Residential fixed line access and installation			
Domestic voice telecommunications services			
International telecommunications services and other retail telecommunications services			
<u>Total Regulatory Accounts</u>	<u>X</u>	<u>X</u>	<u>X</u>
Reconciling items & Adjustments			
“			
“			
“			
	<u>X</u>	<u>X</u>	
Total Non-regulated services	X	X	
<u>As in the Annual Report &amp; Statutory Accounts</u>	<u>X</u>	<u>X</u>	<u>X</u>

**Schedule 6: Reconciliation - Statement of Mean Capital Employed for year ended....**

	Current Year	Previous Year
<b><u>Mean Capital Employed of the Businesses</u></b>		
Residential fixed line access and installation		
Domestic voice telecommunications services		
International telecommunications services and other retail telecommunications services		
<b><u>Total Regulatory Account</u></b>	<b>X</b>	<b>X</b>
<b>Reconciling items &amp; Adjustments</b>		
"		
"		
"		
	<b>X</b>	<b>X</b>
<b><u>Total Non-Regulatory Accounts</u></b>	<b>X</b>	<b>X</b>
<b><u>Total as in Annual Statutory Accounts</u></b>	<b>X</b>	<b>X</b>

**Schedule 7: Statement of Transfer Charges (costs)**

Costs/Services	<i>Fixed Retail Services</i>	Domestic calls	Calls to Mobile	Directory Enquiry	International Outgoing Call	International Incoming Call	Leased circuits
Fixed Access							
Network Services							
Total							

## **Schedule 8: Transfer Charging Principles**

The system of transfer charges would apply to transactions between a main business area and a subsidiary activity. For example the transfer charges for internal use and to other operators may be determined using the usage and unit charge for the relevant product.

The following principles may be used in determining relevant transfer charges:

- (i) Transfer charges (revenues and costs) shall be attributed to cost components, services and main business areas or subsidiary business activity in accordance with the activities which cause the revenues to be earned or costs to be incurred.
- (ii) The attribution shall be objective and not intended to benefit any business or subsidiary activity.
- (iii) There shall be consistency of treatment of transfer charges from year to year.
- (iv) The transfer charging methods used should be transparent. There should be a clear rationale for the transfer charges used and each charge should be supportable.
- (v) The transfer charges for internal usage should be determined as the product of usage and unit charges.
- (vi) The charge for internal usage should be equivalent to the charge that would be levied if the product or service were sold externally rather than internally.
- (vii) The separated accounts shall disclose the transfer charges between businesses and subsidiary activity.



## Schedule 9: Cost Base

This schedule provides information which is a general guide in relation to the development of Current Cost Accounting (CCA) and Historical Cost Accounting (HCA)

The two approaches commonly used in the fixed market for preparing regulatory accounts are (i) Historical Cost Accounting, and (ii) Current Cost Accounting. Under the Historical Cost Accounting method (“HCA”), gross assets are valued at their original cost and net assets are valued at original cost less accumulated depreciation. With Current Cost Accounting (“CCA”), gross assets and accumulated depreciation are revalued each year, and are both increased or decreased by the same proportion to reflect yearly valuation of assets. As a result of yearly revaluation, net plant, which is the difference between revalued gross plant and revalued accumulated depreciation, increases or decreases by the same proportion. Depreciation expense on a forward-going basis also increases or decreases in this same proportion.

Also, under CCA, asset revaluations do not result in any reported change in operating profits or net income (at the time of the revaluation). In general, the assets of a company are considered beneficial to its stockholders and according to the CCA perspective, the amount of that benefit is related to the *real* value of the assets—not the nominal value. With CCA, the amount of the revaluation is posted to a revaluation reserve. Such an accounting entry is needed to offset the change in asset values resulting from revaluation. Otherwise, the revaluation would lead to a change in the reported value of retained earnings on the balance sheet. The term “holding gains” or “holding losses” is sometimes used for this entry, depending on whether assets have been revalued upward or downward.