

## ERG Response – AS & Cost Accounting

### Introduction

- I1 Accounting Separation is a key part of the regulatory tool box and one that is the necessary and vital underpinning for the successful operation of non-discrimination and cost-orientation remedies. We believe that precise and proportionate remedies on notified operators should serve the interests of the industry as a whole.
- I2 ECTA believes that the effective application and enforcement of proper Accounting Separation (AS) and cost allocation rules is fundamental to the success of many aspects of regulation. Such obligations are properly targeted at operators with market power in carefully defined markets. Without effective accounting separation obligations, many of the key underlying features of the regulatory regime will not be achieved. Despite requirements for AS that have existed within member states there is clear evidence that there is no consistent definition or application of AS, to the detriment of certain operators and the single market.
- I3 Where full implementation of a Accounting Separation and Cost Accounting system is not feasible in the short term, consideration should be given to immediate partial implementation, to be followed by full implementation over the medium term. Guidance on this matter would be a useful addition to the draft opinion.
- I4 Key to any effective AS regime are:
- ❑ transparency of methodology and the underlying data (where appropriate);
  - ❑ a full independent audit; and
  - ❑ a proper, on-going qualitative assessment of the effectiveness of the regime. A simple checklist approach to determining if the regime is complying with EU requirements will not be sufficient. A qualitative assessment is required.
  - ❑ Consultation on and publication of both the outputs of the AS system and the methodologies used to provide the results.

### **Draft ERG Opinion on proposed changes to the Commission Recommendation on cost accounting and accounting separation of 1998**

- Q1 *Do you agree that the proposed changes to the text of the Recommendation as set out in the draft ERG Opinion addresses correctly, in general, the issue of cost accounting and accounting separation obligations, or do you think that there is any part that should be expanded/reduced? If so, please provide details.*
- A1.1 ECTA does not see any scope for reduction in the Recommendation, and recommends that the final version of the Recommendation should devote more attention to the important questions of transparency, consultation and publication. Industry consultation, publication of both results and methodologies, and external

audit are the essential tools for ensuring that any cost accounting and accounting separation measures achieve the regulatory objectives of safeguarding fairness and transparency.

- A1.2 It is clearly desirable that there should be industry consultation on the methodologies used, so that non-SMP operators have the chance to contribute to the provision of input data and offer views on possible treatments. The methodology eventually agreed upon should be open to inspection by all industry players, and open to regular revision and amendment on the basis of comments and feedback. We would like the Opinion to state this specifically.
- A1.3 Publication of the methodologies used to prepare the results of the cost accounting and accounting separation system is necessary to ensure that non-discrimination and transparency obligations are met, and are seen by all interested parties to be met. Publication and industry consultation will provide confidence that an SMP operator's charges are properly cost-oriented, and have been fairly and reasonably derived.
- A1.4 Consideration should also be given to the likely need to have an external audit of the model, assumptions and financial results. Audit provides the reader of the information with comfort that the information is robust and reliable. In addition, consideration should be given to the quality and level of granularity required in both systems and processes to achieve a desired level of audit opinion.

*Examples of the effect of lack of information*

- A1.5 The effects of lack of financial information can be widespread but can be hard to identify in the abstract. For example, a new entrant may suffer particular harm but has no ability to establish the "correct" outcome due to lack of information – as such there will be no publicly available information on the market failure.
- A1.6 The lack of published accounting data in many EU states certainly does not aid the process of transparency. Without publication, interested parties such as new entrant operators have fewer tools for assessing the presence or absence of anti-competitive practices by the SMP operators (such as non-cost-orientation, undue-cross-subsidies, or undue discrimination). This means that the NRA must shoulder the responsibility for assessing these matters. Publication would both assist the NRAs, by enabling benchmarking and other comparisons, and assist new entrants to assess the reasonableness, or otherwise, of charges. This latter work would be of assistance to the NRAs by effectively increasing the resources reviewing this information. The question is, do NRAs have the resources and the information to do so independently? If there are legitimate issues of business confidentiality over information, then the NRA may well be forced into this role alone. However, such allegations of business secrets must be carefully analysed by the NRA to assess their veracity. While there might be legitimate reasons for monetary values of certain costs to be considered business secrets the general methodologies of valuation and apportionment are unlikely to be similarly confidential.

*Gradual implementation of Accounting Separation and Cost Accounting.*

- A1.7 An important point not addressed by the draft ERG opinion is the possibility of implementing AS and Cost Accounting gradually. There is a temptation to treat AS and Cost Accounting as an ‘all or nothing’ decision: one waits to implement AS until circumstances permit the simultaneous implementation of every aspect of the AS and cost accounting system. This is unnecessary. Even partial implementation of selected features of the AS and cost accounting system can deliver immense pro-competitive benefits, and waiting needlessly denies the market these benefits.
- A1.8 A company which intends to implement Accounting Separation and Cost Accounting will have to undertake an analysis of the steps which will need to be taken towards full implementation. This analysis is likely to reveal that the company already produces information which can be used as the basis of the system, and can therefore be put to immediate use in a partial implementation. The analysis will also reveal any areas where delays are likely, this will determine the order in which the partial implementation takes place.
- A1.9 All other things being equal, the combination of HCA-FAC and transparent, reasonably-derived transfer charges would constitute good initial steps. The calculation of a forward-looking LRIC + EPMU, as advocated by the ERG, may reasonably be deferred until an HCA FAC approach is well established. However, published LRIC-based cost information should be an essential pre-requisite for an SMP operator to be entitled to price its services below their fully-allocated costs. In the interim FAC will be found to be an effective interim measure in ensuring that the regulatory objective of demonstrating cost orientation are met.

*Intended audience for the document*

A1.10

Q2 *Do you think that the proposed changes to the text of the Recommendation as set out in the draft ERG Opinion provides sufficient practical guidance on how to implement a cost accounting system and accounting separation? If not, please highlight the areas where you would wish to see more guidance provided and why.*

A2.1 The practical guidance provided in the draft ERG opinion is a good and welcome start, but it does not go far enough.

A2.2 As an example the guidance sets out some outline methodologies. These are useful as general concepts but the actual methodologies adopted need to be described in much more detail.

A2.3 Let us take the proposed treatment of the capital and operating costs of motor vehicles as an illustration. Page 21 of the draft text advises that motor vehicles be allocated to “products and network components based on usage”. What is meant by “usage” in this context? The appropriate allocation of motor vehicles will depend on a number of factors. The costs of some vehicles could conceivably be allocated direct to a given product if the cars were used by a sales force that only sold that product, for example. The same would be true for a network component if vehicles were used by highly specialised engineers who only supported one asset type. This

may be the case for cable-laying and pole-raising vehicles but will not apply to most vehicles. Many cases will prove less clear-cut. How should salespeople's cars be allocated between the products they sell? What about engineers' vehicle costs? What about company cars used by central management, what is the correct allocation key for them? Will the allocation be based on revenue, or some time-based measure? It is clear that the guidance given falls far short of the detail that would be needed to describe the allocation of each type of vehicle related cost to the network components and products of a large communications provider.

- A2.4 It is not practical or sensible that the ERG attempts to set out the whole process to this level of detail. Therefore we strongly recommend that the ERG set out a standard to which the methodologies should be published.
- A2.5 In ECTA's opinion the published guidance should be sufficiently detailed to enable a suitably informed readers to come to their own judgement as to the reasonableness of the cost accounting and accounting separation system. Such a standard would assure consistency of treatment and therefore ready comparability for all industry participants, and is therefore of the utmost value in ensuring that transparency and non discrimination objectives are met.
- A2.6 ECTA also recommends that worked examples (drawn, as noted above, from both the fixed and mobile network worlds) be used to illustrate the ERG's recommendations and definitions. ECTA believes that the use of such worked examples would prove effective in clarifying the ERG's intentions, and would assist greatly in removing possible ambiguities of interpretation.
- A2.7 To be useful as a means of verifying compliance for all interested parties, including the notifying party itself, the AS reporting should take place annually and within a reasonable timeframe (which would be a specified number of months) after the closing of the financial books. In our view this should be included amongst the recommendations in the opinion.

## **Cost Accounting**

- Q3 *Do you agree with the general rules established to prepare a cost accounting system?*
- A3.1 ECTA agrees with the principles described on page 1 of the draft text.
- Q4 *Do you agree with the definition of directly attributable, indirectly attributable, joint and common costs?*
- A4.1 This section is difficult to interpret. There seems to be some overlap, or possibly confusion between the "indirectly attributable", "unattributable" (b) and c) on page 2) costs on the one hand, and the "common/joint costs" (e) on page 3) on the other hand. If the author intended to draw a distinction between the derivation of

FAC/FDC<sup>1</sup> and Incremental or Marginal Costs in this section, this should be stated explicitly.

- A4.2 The important concept of fixed versus variable costs should be given greater prominence as fixed costs are the ultimate source of economies of scale and scope. In the present version of the text it reads as part of the “indirectly attributable costs”, which is confusing.
- A4.3 The classifications are largely artificial, being the result of the level of detail at which cost data is recorded at and the degree of dis-aggregation of components and products. For example duct is directly linked to fibre, and if there was a single fibre component the costs of duct could be directly attributable to it. If however the components are defined in a different way relating to different types of transmission the duct may become a common cost between those transmission types.
- Q5 *Do you think common and joint costs allocation criteria are set out in a proper way?*
- Q5.1 Here again, ECTA would welcome any improvements in clarity. Section (i) appears to suggest that common cost categories should be allocated “*based on direct analysis of the origin of the costs themselves*”: Section (ii) appears to refer to “indirectly attributable costs” (b) and (iii) to “unattributable costs”. The allocation method described in (iii) is the Equal Proportionate Mark-Up (EPMU) method described in greater detail on page 58 of the Recommendation: it would be helpful to refer the reader to that section for further guidance.
- Q6 *Do you agree with the given definition of transfer charges?*
- Q6.1 ECTA agrees with the description and guidance on transfer charges, with the exception of the statement “*Any change should be transparent and satisfactory to the NRA*”. ECTA feels that changes should be transparent and satisfactory to all industry participants, and that material changes to the definition, treatment or publication of the transfers should be the subject of industry consultation.

## Accounting Separation

- AS1 ECTA welcomes the progress made towards a robust Accounting Separation (“AS”) regime implicit within this guidance. We welcome the recognition that there are a number of parties that will be interested in the results of such separation. The guidance also makes it clear that there are a number of reasons for an AS regime: including the support of non discrimination and cost orientation.
- AS2 In its recent statement “*The regulatory financial reporting obligations on BT and Kingston Communications in markets where SMP has been demonstrated*” Ofcom made the following statements:

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<sup>1</sup> The document is not consistent - sometimes it refers to Fully Distributed Cost, sometimes to Fully Allocated Costs.

*“Ofcom considers that the primary purpose of having financial reporting obligations is that dominant providers should be able to provide reliable information that can be used for network access, nondiscrimination, price control and cost orientation investigations.”*

and

*“Additionally, it is important not to underestimate the value of appropriate, reliable and good-quality financial information for the purpose of monitoring obligations and establishing an environment that helps to dissuade dominant providers from abusing their market power. Regulatory financial information also provides assurance and transparency to other communications providers and, where they believe that there is some problem, allows them to submit well-argued and evidence-based complaints.”*

And

***“Benefits of regulatory financial reporting obligations...”***

*1.21 Ofcom recognises that as one of the primary purposes of regulatory financial reporting obligations is to prevent the occurrence of anti-competitive practices the benefits can be difficult to quantify. However, Ofcom identified the following benefits of having a rigorous and effective regulatory financial reporting regime:*

- non-dominant communications providers have assurance that Ofcom has information to monitor and if necessary enforce obligations for non-discrimination, cost-orientation, etc;*
- non-dominant communications providers have greater assurance that prices charged to them by dominant providers are cost-oriented and/or non-discriminatory enabling them to produce business plans and compete more effectively;*
- disputes and investigations will be resolved more quickly, efficiently and on the basis of more reliable information; and*
- competition in the UK communications sector is protected and supported providing benefits for the UK economy as a whole.”*

AS3 If Ofcom as a regulator place such emphasis on this information and the publication of data and methodologies we would expect a similar view to be taken by the ERG and other NRAs. The need for consistency is clear.

Q7 *Do you think that the accounting separation requirements contained in the document allow to properly provide the regulator, the industry, customers and other stakeholders with detailed information on the regulated services?*

A7.1 ECTA would welcome clarification to the disclosure being proposed. In ECTA’s view three key outputs are needed to facilitate cost-orientation, transparency and non-discrimination. They are:

- A Statement of Network Costs
- A Statement of Unit Charges for Network Services

- A Statement of Transfer Charges between the Wholesale Business and the Retail Business.

A7.2 The **Statement of Network Costs** for both Core and Access should cover

- All the key network components and other cost activities that are involved in providing regulated (i.e. RIO) interconnect services and wholesale facilities (i.e. including Local Loop Unbundling and Co-location)
- The operating costs, depreciation and capital employed for those components
- The applicable regulatory allowable return on capital employed for those components
- The usage volumes (and the volume definition) for each component
- The total unit costs of each component (operating costs + cost of capital)

A7.3 The **Statement of Unit Charges** for Network Services should cover

- Identification of all the key network components (elements, or activities) their unit charges, and how the unit charges compare with the unit costs
- A clear statement of how the unit network charges for each of the interconnect/wholesale services are derived from the underlying network components, showing clearly the component usage factors (such as route factors) for each activity, the component unit charges, and the calculation of total unit charges
- A clear statement of how the unit network charges for each of the SMP operator's Retail business activities are derived from the underlying network components, showing clearly the component usage factors (such as route factors) for each activity, the component unit charges, and the calculation of total unit charges.

A7.4 This would constitute a transparent demonstration of cost-orientation and non-discrimination, since the same network unit charges would be applied to both interconnection/wholesale services and to retail services.

A7.5 The **Statement of Transfer Charges** between the Wholesale Business and the Retail Business should show the full derivation of the total transfer charges between the network and retail businesses, as distinct from the Statement of Unit Charges, which presents the derivation of network unit charges for interconnect and retail activities. This Statement should cover

- The retail activities where there is SMP
- The relevant volume measures of those activities, for the relevant accounting period (e.g. total call minutes, or total calls, total lines etc.)
- The network unit charges
- The product of the unit charges and the volumes, in order to identify total network charge for the activity.

A7.6 It is not clear if the above requirements are intended to be addressed by Tables A1) (page 6), B1) (page 7) and D1) (page 8). ECTA therefore requests that these draft tables are amended to increase their clarity, and, if the above are not anticipated as being covered, to include this detail.

A7.7 In addition, the other reports that were outlined in the EC Guidance should continue to be reported, namely:

- Profit and loss accounts and balance sheets for the Core and Access SMP Businesses,
- matrix summarising the inter-business transfer charges;
- A clear statement of reconciliation to published Statutory Accounts. This may need to show the movement between incremental costs, fully allocated costs, current and historic cost accounting etc. to move from the regulatory accounts to published company's accounts.
- In the case of Retail SMP markets there needs to be some demonstration that there is no *prima facie* evidence of margin squeeze for the key activities within that business;

A7.8 The statements should also make clear the extent to which costs are adjusted for regulatory reasons, such as :

- Cost Exclusions, perhaps because they have been dis-allowed for regulatory reasons;
- Other adjustments (e.g. on the basis of efficiency assessments, or valuation changes, or allocation methodology changes)
- Where significant, "exceptional items" should be identified separately from normal costs.

Q8 *Do you think that the given examples for accounting separation are useful to understand how to allocate the cost components to each service? Are you aware of any other relevant example that could be useful in this context.?*

A8.1 ECTA does not think that the given examples are adequate for the reasons given in the response to question 2 above. The question of an appropriate level of guidance has been a subject of debate within the countries which have long experience of Accounting Separation, such as the United Kingdom and the Republic of Ireland. It would be a sound policy to examine the framework surrounding the allocation procedures in these countries and use any common features as the basis of future guidance.

Q9 *Do you think that accounting separation could be effectively implemented using any of the cost bases indicated in the text (HCA and CCA)?*

A9.1 The strong preference should be for CCA. CCA allows assessment of costs on a basis that is common to all operators by reducing the impact of the relative age of their networks. It is more pro-competitive in that it minimises historically-derived incumbent benefits, placing all participants on an equal footing.

A9.2 It follows that historic costs are less relevant than current or forward looking costs to the ongoing cost-analysis. Nevertheless HCA data is better than no data. For many modern networks in the case of core network elements linked to electronics and those with relatively short asset lives the historic and current cost valuations may not be significantly different.

A9.3 The same is not true of Access, typically, due to longer asset lives and the significant role of labour costs, both for maintenance and development in the cost of Access. Hence, if AS were implemented gradually it might be acceptable to focus the CCA efforts in Access rather than attempt a full current cost valuation of the entire network and activities *ab initio*. However, a mature, fully functioning Accounting Separation system should be based on CCA. HCA should only be used as an interim measure while CCA is being developed.

## **Principles of cost causality, driver definition and attribution methodologies.**

*Q10 Do you agree with the principles for cost causality, driver definition and attribution methodologies set out in the text?*

A10.1 ECTA finds itself in broad agreement with the principles of cost causality, driver definition and attribution methodologies set out in the text, but would welcome clarification of what is meant by “justify” in section 2.1 (“*Review and justify each item of cost, capital employed and revenue*”). If “justify” is taken to mean “establish the extent to which the cost has been efficiently incurred”, then further guidance is needed as how any efficiency adjustments are to be calculated and implemented, and how inefficiently incurred costs are to be treated.

A10.2 ECTA would recommend that the ERG add a principle that requires that methodologies and processes should be objective, that is, they should not aim to benefit either the SMP operator or any other operator, product, service, component, business or activity.

*Q11 Do you agree on the fact that all cost allocation methods, hence a detailed list of cost drivers, should be reviewed by NRAs for assessment before financial statement preparation?*

A11.1 ECTA agrees with this principle, and believes that the review should not only involve the NRA and the SMP operator, but all other interested industry participants as well. Wherever possible there should be public consultation on the major principles of costing methodologies, including cost allocation. Almost all cost allocation methodologies in network industries involve a considerable number of choices between competing assumptions, principles and definition, and it is not appropriate for new entrant operators to be denied the chance to contribute to open public debate on the major tenets of these issues.

A11.2 There should be publication of key regulatory decisions (e.g. methodologies disallowed costs, other cost adjustments to incumbents accounts, efficiency analysis, etc.). The basis for any regulatory decisions should be clear, and this process too should be open to public debate.

A11.3 ECTA accepts that there is concern about the confidentiality of the monetary values attached to assets and activities. However there is no business secret attached to the knowledge that an SMP operator will own assets such as duct, fibre,

exchanges, routes, motor vehicles or incur costs in relation to pay of engineers or salespersons, marketing and sales, finance and billing, and general management. The open discussion of an objective and causal attribution of these costs is a reasonable and proportionate response to the importance of these costs to SMP activities.

Q12 *Is there any further principle, in addition to those set out in the text that you wish to propose? If so, please justify it/them?*

A12.1 ECTA believes that the following principles of Regulatory Accounting should be followed in any decision or consultation on cost causality, driver definition and attribution methodologies:

- **Cost Causality.** Revenue (including transfer charges), costs (including transfer charges) assets and liabilities shall be attributed to cost components, services and businesses in accordance with the activities which cause the revenues to be earned or the costs to be incurred or the assets to be acquired or the liabilities to be incurred.
- **Objectivity.** The attribution shall be objective and not intended to benefit any product, service, component or , Business of either the SMP operator or any other operator,.
- **Consistency of Treatment.** There shall be consistency of treatment from year to year. Where there are material changes that have a material effect on the information reported, the operator shall be required to disclose the impact of the change and or restate the parts of the previous year's statements affected by the changes.
- **Transparency..** The documentation of the methodology should provide a transparent description of the accounting and other methods used in the preparation of the Statements such that a suitably informed reader can easily
  - gain a clear understanding of the overall structure of the SMP operator's financial and information systems from which regulatory accounting data is derived and in particular the sequence of the processing and 'cascade' effect of the intermediate cost centres;
  - gain a detailed understanding of all the material, methodologies and drivers (e.g. systems, processes and procedures) applied in the preparation of regulatory accounting data;
  - come to their own judgement as to the reasonableness of these methodologies and driver data and any changes to them.
- **Sampling.** Where sampling is used to derive the attribution of costs, revenue etc. it shall be based either upon generally accepted statistical techniques or other methods which should result in the accurate attribution of revenue (including transfer charges), costs (including transfer charges), assets and liabilities.

## **Guidelines for CCA implementation**

Q13 *Given the key role played by network asset revaluation in the application of a current cost accounting methodology, in your opinion should network assets subject to valuation be jointly identified by the NRAs and the operators?*

A13.1 ECTA believes that the proper role of the NRA is, in consultation with interested parties including the industry, to set at the framework within which the revaluation of assets can be carried out. For example the NRA should set guidance as to the use of OCM or FCM (subject to the points below), the approaches to be used such as general or specific indexation, absolute valuation etc. ECTA would also suggest that the guidance should include an assessment of relevant matters, such as scorched earth versus scorched node.

A13.2 Within that framework the SMP operator or incumbent is best placed to carry out the detailed work on network asset revaluation in accordance with this guidance. The SMP operator has the best understanding of his own network, including the relevant trends, and this depth of understanding is not easily reproduced in either the other operators or the NRA.

A13.3 Furthermore section 3.1 states:

*“In order to keep data manageable, the larger data set that typifies electronic communications network operators, could be regrouped under relatively few homogeneous cost (asset) categories”*

A13.4 ECTA would advise extreme caution in applying this principle. The revaluation should take place according to asset group, but assets groups should only comprise assets of manifestly the same type and cost profile. Dissimilar assets should not be grouped together and revalued in aggregate, as doing so would compromise the principle of objectivity and may affect the fair and accurate presentation of the financial data.

Q14 *Do you agree that NRAs should illustrate and submit to public consultation the parameters and factors chosen for current cost accounting modelling?*

A14.1 Yes, for the reasons given earlier in this document.

Q15 *Do you think the definition of net replacement cost, deprival value and economic value given in the text are correct?*

A15.1 ECTA agrees with these definitions.

Q16 *Do you agree with the given definitions of CCA capital maintenance methodologies, namely operating capital maintenance (OCM) and financial capital maintenance (FCM)?*

A16.1 ECTA agrees with the definitions of the capital maintenance methodologies.

A16.2 ECTA observes that it will necessary to hold an industry consultation on which methodology (OSM or FCM) is adopted as, as noted in 3.6, the choice of capital maintenance concept affects the required revenue and therefore the pricing headroom available to all industry participants.

## Cost of capital and capital employed

Q17 *Do you agree that WACC is the correct way to calculate the cost of capital?*

A17.1 The traditional formulation of the Weighted Average Cost of Capital calculation is appropriate for determining the cost of capital for regulatory purposes. It is important, of course, that the calculation is done using appropriate values - that is to say the parameters used, and hence the overall cost of capital, should be forward-looking, determining the cost of capital that the incumbent. The determination of the cost of capital to be used for regulatory purposes should take into account the range of plausible values for each parameter, and therefore the overall cost of capital, recognising that there is no single "right" answer.

Q18 *Do you agree with the way CAPM is proposed to be applied for regulatory purposes? In particular, do you agree with the definitions of the input parameters?*

A18.1 In broad terms the proposals for the use of CAPM are appropriate. However, it is important to recognise the extent of uncertainty and subjectivity relating to more or less all parameters used in the calculation of a firm's cost of capital.

Q19 *Do you agree with the fact that, besides CAPM, other methodologies could be correctly utilised to determine the cost of equity?*

A19.1 There are a number of other alternatives to the CAPM approach such as the Dividend Growth Model or Arbitrage Pricing Theory ("APT"). While they might be useful as additional evidence as to the costs of capital at this stage in their development they have too many uncertainties and subjectivities to be used on their own. Additionally consistency over time is important, and moving from CAPM to an alternative might, without care being taken, result in a step change that is inappropriate or a "shock" to the incentive characteristics of the regulatory regime. ECTA therefore suggests that for the present the CAPM model is adopted by the ERG as their recommended solution.

## Qualitative characteristics of accounting information

Q20 *In your opinion, in the absence of regulatory accounting guidelines, should NRAs require the notified operators to apply IAS (International Accounting Standards) for regulatory financial statements assessment? If not, what accounting principles should be applied?*

A20.1 ECTA believes that any internationally recognised accounting standard – IAS, or the GAAP (Generally Accepted Accounting Principles) accepted by a major stock exchange – should be used as the basis of the assessment of the regulatory financial statements. The local preferences of the individual member states may well influence the choice of which of these standards are used. ECTA support the inference that local accounting standards that do not conform to generally accepted GAAP would not permit comparisons country by country.

Q21 *In order to guarantee comparability and consistency over time, do you agree on the fact that changes to the regulatory aggregates and sub-aggregates in the financial statements should take place only if previously approved by the NRAs.*

A21.1 ECTA supports this principle for material matter as it is important that comparisons can be made over time as well as between companies. If there are proposed changes to the levels of disclosure or the basics of valuation or allocation it is as important that these are discussed by all interested parties as was the case when the regime was introduced in each country. It is as important however that this does not fossilise the results and that technological developments, organisational changes etc are reflected promptly in the processes. Only minor changes below a given threshold should be permissible without debate.

Q22 *Do you think that the two concepts of “materiality” given in the text are consistent?*

A22.1 The materiality is defined either in relation to total costs or asset base. However ECTA believes that materiality should be defined, as in the norm in accounting, in relation to the object in question. It can not be limited to these two rules but must be assessed in relation to the matter in hand.

## **Other comments**

Q23 *Please provide a concise description of any other issues that you believe the document should address or a critique of any other aspects of the document that you consider relevant. In doing so please refer to actual or potential problems encountered in electronic communications markets, as well as to any relevant case law and/or other precedents.*

### *Gradual Implementation of Accounting Separation and Cost Accounting.*

A23.1 ECTA accepts that the full development of AS and cost accounting will take time, although how long will depend on the starting point, the pressure applied by the NRA, the willingness of the SMP operator to comply and other factors. No operator can go from no cost information to a fully developed LRIC-based cost accounting system in one step. However this does not mean that the industry should be denied the benefits of AS and cost accounting until they can be implemented in full. Many of the key elements of AS do not require full implementation to achieve at least part of their purposes, and it is possible to define a number of transitional steps that can fulfil some of the aims of AS on a temporary basis. Gradual implementation can deliver at least partial benefits, and can do so relatively quickly.