PAKISTAN TELECOMMUNICATION AUTHORITY
NOTIFICATION

Islamabad, the 13th June, 2024

In exercise of powers conferred under clause (o) & (e) of sub-section (2) of section 5 of the Pakistan Telecommunication (Re-organization) Act, 1996, the Authority hereby issues the following regulations, namely:

1. Short Title and Commencement. (1) These regulations shall be called "*Accounting Separation (1st Amendment) Regulations, 2024*"

(2) These regulations shall come into force with effect from the date of gazette notification.

2. Amendment in Regulation 2, S.R.O 675 (I)/2007.- In the Accounting Separation Regulations,2007, at page 2746 of S.R.O 675 (I)/2007 of 2007, after sub-regulation (10) of regulation 2, a new clause (10-a) shall be inserted and read as follows:

(10-a) "Suitably Qualified Auditors" means a firm of accountants and auditors which, by virtue of their professional training, qualifications, experience and scale of operations, qualify to serve as auditors of the cost accounts of the licensee.

3. Amendment in Regulation 4, S.R.O 675 (I)/2007.- In the Accounting Separation Regulations,2007, at page 2963 of S.R.O 675 (I)/2007 of 2007, Regulation 4 shall be substituted and read as follows:

"4. Preparation of Separated Accounts.__ (1) The Licensee shall prepare annual Separated Accounts for the following Business Units as defined in Annex I to these Regulations:

(a) Network pertaining to licensed system;
(b) Retail pertaining to licensed services;
(c) Telecom region-wise,
(d) License-wise; and
(e) Non-licensed activities.

(2) The Licensee(s) holding fixed and mobile licenses shall maintained Separated Accounts for each category of the license.

(3) Provided that for fixed network, account(s) shall be further disaggregated into Access Network and Core Network.

(4) The Licensee is required to prepare a Separated Accounts of its Retails activities pertaining to licensed services. All non-licensed activities may be reported as "Retail -

Remaining Activities”. As an example, the main disaggregated activities under the “Retail” business unit are given in Annex II

(5) For the purpose of providing licensed services *(retail level)* to wholesale licensee (e.g. Mobile Virtual Network Operator), the Licensee providing such services should maintain an underlying Accounting Separation system that is capable of substantiating the levels of costs and those which are avoided by wholesale service provision.

(6) The SMP operators shall maintain appropriate cost accounting systems to achieve this regulatory obligation in accordance with the Guidelines on ‘Cost Accounting Methodologies for Accounting Separation Purposes, 2007’.

(7) The Separated Accounts shall contain a sufficient degree of separation as to allow for costs and revenues of each Licensed Service.

(8) For the purpose of clarity for these Regulations, the Authority or the officer(s) of the Authority may issue directions / clarification or instruction(s) from time to time, including but not limited to the followings:

a) Regulatory accounting principles;
b) Regulatory accounting conventions;
c) Transfer charging; and
d) Costing methodologies for Accounting Separation.”

4. Amendment in Regulation 5, S.R.O 675 (I)/2007.- In the Accounting Separation Regulations,2007, at page 2965 of S.R.O 675 (I)/2007 of 2007, Regulation 5 shall be substituted and read as follows:

“5. Regulatory Accounting Conventions.__ (1) For the purpose of preparation of Separated Accounts for business activities as provided at Regulation 4 above of the these Regulations, the Licensee shall apply the Regulatory Accounting Conventions as under:

a. **Cost Causality:**
   i. The cost causality shall include revenue (*including transfer charges*), costs *(including transfer charges*), assets and liabilities attributed to cost components, services or business units in accordance with the activities which cause the revenues to be earned.
   ii. Where it is not possible to attribute revenue, cost, assets and liabilities in accordance with the preceding paragraph, the attribution shall be such as to present fairly the revenue, costs, assets and liabilities accounted for in the Separated Accounts for each business or activity. In the absence of any justification to the contrary, the Authority would expect this attribution to be equal-proportionate to those costs which can be attributed on the basis of cost causation.

b. **Objectivity:** The objectivity means the basis chosen for attribution shall not intend to benefit the SMP Licensee or any other licensee, ~~product~~ service, component, business unit or disaggregated activity.

c. **Materiality:** The use of a specific allocation basis may not be necessary if the effect of allocation is not material to the outcome, either individually or collectively with other cost allocations using the same allocation base. However, it may not be possible to measure the effect without adopting an alternative basis and, in cases of doubt, the most appropriate activity-related cost allocation basis should be used. For the purpose of clarity, materiality is to be considered in its overall impact on the product/service. If the product/service is going to change user's perspective, the cost will be considered material.

d. **Consistency:** The element of consistency will gauge the similar basis of allocation and apportionment used from year to year, unless there are necessary changes. Where there are material changes to the Regulatory Accounting Principles as used in previous years, attribution methods or accounting policies that have a material effect on the information reported in the Separated Accounts of the Businesses, then the previous year's Separated Accounts shall be restated accordingly.

e. **Transparency:** Transparency is the methods and basis used for allocation of revenue, cost, assets and liabilities shall be transparent. Cost and revenues which are allocated shall be separately identified from those that are apportioned"

5. Amendment in Regulation 6, S.R.O 675 (I)/2007.- In the Accounting Separation Regulations,2007, at page 2966 of S.R.O 675 (I)/2007 of 2007, Regulation 6 shall be substituted and read as follows:

"6. Regulatory Accounting Principles.__ (1) The Licensee shall prepare Separated Accounts in accordance with the following principles:

(a) 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. All such transfer charges should be disclosed together with the associated service volumes.

(b) 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.

(c) Details of significant changes that materially affect Separated Accounts along with effects of prior year restatements shall be given.

(d) The Separated Accounts shall be prepared annually and contain similar comparative information of one previous year following the initial period.

(e) 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."

6. Amendment in Regulation 7, S.R.O 675 (I)/2007.- In the Accounting Separation Regulations,2007, at page 2967 of S.R.O 675 (I)/2007 of 2007, Regulation 7 shall be substituted and read as follows:

"7. Reporting requirements.__ (1) For each Business Unit, the Licensee shall report to the Authority regarding the following in the prescribed formats given in Annex III:

a) Profit and Loss statement;
b) Balance Sheet information in a form that is consistent with the measures of capital employed to cover purpose of calculating return on capital employed; and
c) 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. For ease of reconciliation with the Licensee's statutory accounts, the average may be calculated simply from opening and closing balance sheets for the period.

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

a) A statement of the accounting policies applied including cost estimates 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 and

h) Detail of significant changes in accounting policies, if any, with reasons for changes"

7. Amendment in Regulation 8, S.R.O 675 (I)/2007.- In the Accounting Separation Regulations,2007, at page 2967 of S.R.O 675 (I)/2007 of 2007, Regulation 7 shall be substituted and read as follows:

"7.Transfer charges. __ (1) The system of transfer charges shall apply to services and products provided from one business unit (*for example, Access Network, Core Network and Retail*) to another. The transfer charging system shall follow the Regulatory Accounting Conventions provided in these Regulations and in conformity with the following principles:

(a) Transfer charges (*revenues and costs*) shall be attributed to cost components, services and main business units or disaggregated activities, which cause the revenues to be earned, or costs to be incurred;

(b) The attribution shall be objective and not intended to benefit any other business or disaggregated activity;

(c) There shall be consistency of treatment of transfer charges from year to year; In case of departure, details should be disclosed as per IFRS-I.

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

(e) The transfer charges for internal usage shall be determined as the product of usage and prevailing unit charges. The charge for internal usage shall be equivalent to the weighted average charge levied for the equivalent product or service sold externally rather than internally;

(f) The Separated Accounts shall disclose the transfer charges between business units and/or disaggregated activities"

8. Amendment in Regulation 9, S.R.O 675 (I)/2007.- In the Accounting Separation Regulations,2007, at page 2967 of S.R.O 675 (I)/2007 of 2007, Regulation 9 shall be substituted and read as follows:

“9. 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. The Authority may invite the auditors to discuss procedures to be applied by them in performing the audit and/or to discuss the auditors’ findings following performance of the audit. The Authority may also appoint auditors to carry out such further reviews, examinations and audits as it deems necessary, in case the Licensee fail to satisfy the requirements as provided in these Regulations.”

9. Amendment in S.R.O 675 (I)/2007.- In the Accounting Separation Regulations,2007, at page 2967 of S.R.O 675 (I)/2007 of 2007, a new Regulation 10 shall be inserted and read as follows:

“10. 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 Licensee(s), once the first version of the Separated Accounts is produced by all the concerned Licensee(s).”

10. Amendment in S.R.O 675 (I)/2007.- In the Accounting Separation Regulations,2007, at page 2967 of S.R.O 675 (I)/2007 of 2007, a new Regulation 11 shall be inserted and read as follows:

“11. Timing of separated accounts.__ (1) The first set of audited Separated Accounts shall be submitted to the Authority by the Licensee(s) not later than twelve (12) months following either the relevant determination of SMP by the Authority or the publication of these Regulations guidelines (where applicable).

(2) The Licensee shall submit its audited Separated Accounts to the Authority not later than six (06) months after the close of the Licensee’s financial year”

11. Amendment in S.R.O 675 (I)/2007.- In the Accounting Separation Regulations,2007, at page 2967 of S.R.O 675 (I)/2007 of 2007, a new Regulation 12 along with Annex-I to Annex-III shall be inserted and read as follows:

“12. Format of separated accounts.___ (1) The Licensee(s) shall submit Separated Accounts in the prescribed formats as per Annex-III to the Regulations or any of other format as laid down by the Authority from time to time.

Annex "I"

Main Business Units

1. Network:

a. The Network business unit comprises all physical infrastructure used to provide telecommunications services to end users. It comprises transmission, switching and call control functions. In a fixed network, the Network business will be sub-divided into Access and Core Network business units.

b. The accounts for the Network business will include the costs, revenues and capital employed associated with the provision of network services. The revenues of the Network business will derive principally from the sale of interconnection services to the Retail business (via internal transfer charges) and to other operators.

2. Access Network:

2.1 The Access Network business will include:

a) The customer-dedicated components of the network;

b) Line cards and ports located at concentrators and/or exchanges.

c) Costs, revenues and capital employed associated with the provision of access services. Customer line rental will be a service provided by the Retail business.

d) The revenue from line rental provided to end-users recorded against Retail Activities.

e) Line rental revenue from unbundled local loops, where these are made available to other market players, will be assigned to Access Network.

f) The cost of providing customer lines will initially be recorded against the Access Network business and there will need to be a transfer of costs to Retail in order to match revenues with their associated costs.

g) The costs transferred to Retail should be net of any possible local access revenue such as line rental revenue from other market players.

2.1 Fixed-line Licensee(s) revenue of the Access Network shall include

a) Transfer charges from the Core Network regarding Access Promotion Contribution (APC) on international incoming calls.

b) The APC shall accordingly be reflected in the operating costs of Core Network as transfer charge to Access Network.

3. Core network:

a. The Core Network business provides a range of interconnection services internally and externally in order to allow the customer of one operator to communicate with customers of the same or another operator, or to access services provided by another operator. These services include the i) **switching**; and ii) **conveyance** of intelligence.

b. The accounts for the Core Network business will include:

i. Costs, revenues and capital employed associated with the provision of these services.

ii. Sale of interconnection services to the Retail business and to other Licensee.

4. Retail

a) The Retail business includes all activities involving the selling of licensed services to end-users.

b) For fixed operators the principal retail services are:

i. line rental,
ii. calls,
iii. payphones,
iv. leased lines; and
v. data services.

c) For mobile operators the principal retail services are:

i. subscriptions,
ii. calls,
iii. messaging; and
iv. data services.

d) The accounts for the Retail business will include the i) **costs**, ii) **revenues**; and iii) **capital** employed associated with the provision of these services to end-users.

e) The costs allocated to Retail will include transfer charges related to the use of network resources or services provided by the Network business and the marketing and billing costs associated with the provision of end user services.

f) Separate Accounts should be prepared for each activity within Retail that is subject to Regulation.

3. Other Activities

3.1 This may include:

i. rental,
ii. Repair; and
iii maintenance of customer equipment.

For the purposes of accounting separation, the costs, revenues and capital employed associated with these activities will be separately identified.

Annex II

Example of disaggregated activities under Retail business unit

1. FOR FIXED-LINE NETWORKS

(i) Retail – Access: The business relating to the supply of customer line rental and its associated cost.

(ii) Retail - Local Calls: Local dialed calls originating from fixed networks and terminating on fixed networks.

(iii) Retail - NWD Calls: NWD calls originating from fixed networks and terminating on fixed networks in Pakistan.

(iv) Retail - International Calls: International calls originating from fixed networks in Pakistan and terminating on networks outside Pakistan.

(v) Retail - Public Payphones: Local, national and international dialed calls, originating from public payphones.

(vi) Retail - Leased Lines: Rental, maintenance, connection and change of local and international leased lines beyond customers' premises.

(vii) Retail - Calls to Mobile: Dialed calls, including local and national, originating from fixed networks that terminate on a mobile network.

(viii) Retail - Supplemental Services: The Business relating to the supply of certain data and value added services.

(ix) Retail - Remaining Activities: All other telecommunications services that are within the Retail Business.

2. FOR MOBILE NETWORKS

(i) Retail – Subscriptions: Connection and rental services provided to mobile subscribers.

(ii) Retail - Voice Calls: Local, national and international dialed calls from mobile subscribers connected to the network for the transport of real-time speech.

(iii) Retail - SMS/Data: Transport of SMS and other data signals other than in the form of real-time speech.

(iv) Retail – Roaming: The provision of the capability to subscribe to voice calls and SMS/Data services by virtue of roaming agreements concluded with other mobile network operators.

(v) Retail - Remaining Activities: All other telecommunications services that are within the Retail Business.

Annex III

Formats of Separated Accounts

1. ACCOUNTS OF FIXED-LINE NETWORK

1.1. Access Network

(a) Profit and Loss Account

	Current Year	Prior Year
Revenue:		
Other Operators (including APC)		
Transfer charges from Retail Business		
Transfer charges from Core Network (APC)		
Total Revenue		
Operating costs:		
HCA operating costs		
CCA adjustments*		
Total Operating costs		
Profit/(Loss)		

*Applicable for FAC CCA and LRIC CCA accounts

(b) Balance Sheet Information

	Current Year	Prior Year
Fixed assets:		
Tangible fixed assets		
Intangible fixed assets		
Investments		
Total fixed assets		
Current assets:		
Stocks		
Debtors		
Investments		
Cash and bank		
Total current assets		
Current liabilities:		
Creditors		
Provision of liabilities		
Total current liabilities		

Mean capital employed		

(c) Return on capital employed

	Current Year	**Prior Y ear**
Profit/(Loss)		
Mean capital employed		
Return on capital employed (%)		

1.2. Core Network

(a) Profit and Loss Account

	Current Year	**Prior Year**
Revenue:		
Other Operators		
Transfer charges from Retail Business		
Total Revenue		
Operating costs:		
Operating costs specific to Core Network		
Transfer charges to Access Network (APC)		
Total HCA operating costs		
CCA adjustments*		
Total Operating costs		
Profit/(Loss)		

*Applicable for FAC CCA and LRIC CCA accounts

(b) Balance Sheet Information

	Current Year	**Prior Year**
Fixed assets:		
Tangible fixed assets		
Intangible fixed assets		
Investments		
Total fixed assets		
Current assets:		
Stocks		
Debtors		
Investments		
Cash and bank		
Total current assets		
Current liabilities:		

Creditors		
Provision of liabilities		
Total current liabilities		
Mean capital employed		

(c) Return on capital employed

	Current Year	**Prior Y ear**
Profit/(Loss)		
Mean capital employed		
Return on capital employed (%)		

1.3. Retail

(a) Profit and Loss Account

	Current Year	**Prior Year**
Revenue:		
Connection charges		
Line Rental		
Call charges		
Others		
Total Revenue		
Operating costs:		
Operating costs specific to Retail		
Transfer charges to Access Network		
Transfer charges to Core Network		
Total HCA operating costs		
CCA adjustments*		
Total operating cost		
Profit/(Loss)		

*Applicable for FAC CCA and LRIC CCA accounts

(b) Balance Sheet Information

	Current Year	**Prior Y ear**
Fixed assets		
Tangible fixed assets		
Intangible fixed assets		
Investments		
Total fixed assets		
Current assets		

Stocks		
Debtors		
Investments		
Cash and bank		
Total current assets		
Current liabilities		
Creditors		
Provision of liabilities		
Total current liabilities		
Mean capital employed		

(c) Return on capital employed

	Current Year	**Prior Year**
Profit/(Loss)		
Mean capital employed		
Return on capital employed (%)		

1.4. Other Activities

(a) Profit and Loss Account

	Current Year	**Prior Year**
Revenue		
Operating costs:		
Total HCA operating costs		
CCA adjustments*		
Total operating cost		
Profit/(Loss)		

*Applicable for FAC CCA and LRIC CCA accounts

(b) Balance Sheet Information

	Current Year	**Prior Year**
Fixed assets		
Tangible fixed assets		
Intangible fixed assets		
Investments		
Total fixed assets		
Current assets		
Stocks		
Debtors		

Investments		
Cash and bank		
Total current assets		
Current liabilities		
Creditors		
Provision of liabilities		
Total current liabilities		
Mean capital employed		

(c) Return on capital employed

	Current Year	Prior Year
Profit/(Loss)		
Mean capital employed		
Return on capital employed (%)		

2. ACCOUNTS OF A MOBILE NETWORK

2.1. Network

(a) Profit and Loss Account

	Current Year	Prior Year
Revenue:		
Other Operators		
Transfer charges from Retail Business		
Total Revenue		
Operating costs:		
HCA operating costs		
CCA adjustments*		
Total Operating costs		
Profit/(Loss)		

*Applicable for FAC CCA and LRIC CCA accounts

(b) Balance Sheet Information

	Current Year	Prior Year
Fixed assets:		
Tangible fixed assets		
Intangible fixed assets		
Investments		
Total fixed assets		

Current assets:		
Stocks		
Debtors		
Investments		
Cash and bank		
Total current assets		
Current liabilities:		
Creditors		
Provision of liabilities		
Total current liabilities		
Mean capital employed		

(c) Return on capital employed

	Current Year	**Prior Y ear**
Profit/(Loss)		
Mean capital employed		
Return on capital employed (%)		

2.2. Retail

(a) Profit and Loss Account

	Current Year	**Prior Year**
Revenue:		
Subscription charges		
Call charges		
Others		
Total Revenue		
Operating costs:		
Operating costs specific to Retail		
Transfer charges to Network		
Total HCA operating costs		
CCA adjustments*		
Total operating cost		
Profit/(Loss)		

*Applicable for FAC CCA and LRIC CCA accounts

(b) Balance Sheet Information

	Current Year	**Prior Y ear**
Fixed assets		

Tangible fixed assets		
Intangible fixed assets		
Investments		
Total fixed assets		
Current assets		
Stocks		
Debtors		
Investments		
Cash and bank		
Total current assets		
Current liabilities		
Creditors		
Provision of liabilities		
Total current liabilities		
Mean capital employed		

(c) Return on capital employed

	Current Year	Prior Year
Profit/(Loss)		
Mean capital employed		
Return on capital employed (%)		

2.3. Other Activities

(a) Profit and Loss Account

	Current Year	Prior Year
Revenue		
Operating costs:		
HCA operating costs		
CCA adjustments*		
Total operating cost		
Profit/(Loss)		

*Applicable for FAC CCA and LRIC CCA accounts

(b) Balance Sheet Information

	Current Year	Prior Year
Fixed assets		
Tangible fixed assets		
Intangible fixed assets		

Investments		
Total fixed assets		
Current assets		
Stocks		
Debtors		
Investments		
Cash and bank		
Total current assets		
Current liabilities		
Creditors		
Provision of liabilities		
Total current liabilities		
Mean capital employed		

(c) Return on capital employed

	Current Year	Prior Year
Profit/(Loss)		
Mean capital employed		
Return on capital employed (%)		