

**EURO-MEDITERRANEAN REGULATORS GROUP (EMERG)
WORKSHOP ON
IFRS, ACCOUNTING STANDARDS AND PRICE REGULATIONS**

RULE ON COST ACCOUNTING

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Content

- Price regulation in Bosnia and Herzegovina
- Regulatory framework for regulatory accounting
- Rule 88/2018 on accounting separation



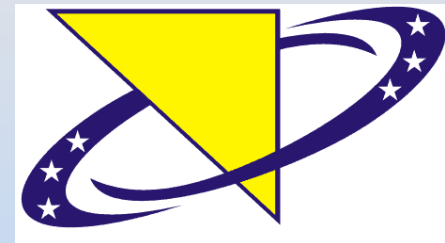
Price regulation

Beanchmarking

- FTR to individual networks– wholesale
- MTR to individual networks – wholesale

Price cup

- Fixed telephony
- Leased Lines



Legal framework for regulatory accounting in Bosnia and Herzegovina

- Communications Law
- Decision on Telecommunications Sector Policy of Bosnia and Herzegovina 2017-2021 and Action Plan for the implementation
- Rule 54/2011 on electronic communications market analysis
- Rule 88/2018 on accounting separation



Communications Law

- Article 21. in line with Article 11 EU Access Directive - Structure separation and separate accounting
- Undertakings with SMP:
 - shall be prohibited from the cross-subsidising the tariffs
 - adequately separate, on the one hand, their activities related to interconnection and, on the other hand, other activities, so as to identify all elements of cost and revenue.



Rule 88/2018 on accounting separation

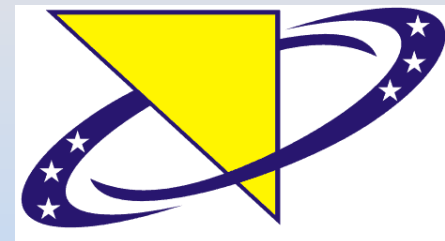
Accounting principles:

- Intelligibility and clarity;
- Causality;
- Objectivity and non-discrimination;
- Consistency;
- Use of regulatory standards;
- Transparency



Allocation

- Allocation of revenue, costs, assets and liabilities
 - Direct
 - Indirect (ABC method; Key method)



Three phases of allocation

Phase 1:

- network-related activities
- network-related assets
- activities that are not network-related
- non-network assets
- activities related to support
- support assets
- directly allocated costs
- costs of working capital
- positions that are not included



Three phases of allocation

Phase 2:

- network elements
- retail functions
- directly allocated costs
- general expenses
- other expenses



Three phases of allocation

Phase 2:

- Routing factor/Routing table (minutes, MB, etc.)
- The average cost of the network element per unit of service (NCAUC)

$$NCAUC = \frac{NCC}{\sum_{i=1}^n ARFi \times SVI}$$

- NCC - total cost of network element
- ARFi - average routing factor for the service and
- SVI - scope of services (minutes, MB, etc.)
- I - the service provided through the relevant network element



Three phases of allocation

Phase 3:

Groups of services subject to the obligation of separate accounting and cost accounting under Rule

- Wholesale services
- Other wholesale services are wholesale services that are not subject to the obligation of separate accounting;
- Retail services;
- Other retail services are retail services that are not subject to the obligation of separate accounting



Historic Cost Accounting - HCA

- **Gross Book Value**
- **Inflation**
- **Statutory financial report**
- **Depreciation**



Historic Cost Accounting - HCA

The cost allocated to the service according to HCA is contained of:

- Operational costs
- Depreciation costs
- Capital costs



Historic Cost Accounting - HCA

- Fully Allocated Costing (FAC)
- Total cost (THC)

$$THC = OPEX + HCD + CoC = OPEX + HCD + (WACC * MCE)$$

- THC - total cost of historical cost accounting
- OPEX - operating costs from the statutory accounting assigned to the service
- HCD - depreciation calculated for the observed period from the statutory accounting
- WACC - weighted average cost of capital
- MCE - the average value of the engaged capital, allocated to the service
- CoC - cost of capital.



Historic Cost Accounting - HCA

The Average Value of Engaged Capital – MCE

$$MCE = NBV_{avg} + WC_{avg} = \frac{NBV_{t-1} + NBV_t}{2} + \left(\frac{\sum_{i=1}^{12} CA}{12} - \frac{\sum_{i=1}^{12} CL}{12} \right)$$

NBV_{avg} - the average value of the net book value of the fixed asset

WC_{avg}- the average value of working capital associated with an individual service

NBV_{t-1} - the net book value of fixed assets (allocated to an individual service) at the beginning of the accounting period

NBV_t - the net book value of fixed assets (allocated to an individual service) at the end of the accounting period

CA - the value of working capital (allocated to an individual service) at the end of each calendar month

CL - the value of short-term liabilities (allocated to an individual service) at the end of each calendar month

I - the calendar month.



Current Cost Accounting- CCA

- Current market value

The cost allocated to the service according to CCA is contained of:

- Operational costs
- Depreciation costs
- Residual depreciation
- Gross profit or loss of revalorization
- Capital costs



Current Cost Accounting- CCA

Fully Allocated Costing (FAC)

- Total cost of current accounting (THC)

$$\begin{aligned} TCC &= OPEX + CCD + BD + GHG/L + CCoC \\ &= OPEX + CCD + BD + GHG/L + (WACC * MCCE) \end{aligned}$$

- OPEX - operating costs from the statutory accounting, assigned to the service
- CCD - depreciation current cost accounting calculated for the observed period from the statutory accounting
- BD – residual depreciation
- GHG/L – gross profit or loss of revaluation of fixed assets
- CCoC – cost of capital
- WACC - weighted average cost of capital
- MCCE - the average value of the engaged capital, allocated to the service



Current Cost Accounting- CCA

Gross Replacement Cost (GRC)

Methods

- Historic costs
- Indexation
- Absolute Valuation
- Modern Equivalent Asset (MEA)



Current Cost Accounting- CCA

Gross Holding gains/losses – GHG/L

$$GHG/L = GRC_t - GRC_{t-1}$$



Current Cost Accounting- CCA

Depreciation

$$CCD = \frac{GRC}{L}$$

- CCD – depreciation by CCA
- GRC – gross replacement cost
- L – life span of the asset



Current Cost Accounting- CCA

Net Replacement Cost – NRC

$$\mathbf{NRC = GRC - AccCCD}$$

- GRC – Gross Replacement Cost
- AccCCD – accumulated depreciation by the CCA



Current Cost Accounting- CCA

The average value of the engaged capital - MCCE

$$MCCE = NRC_{avg} + WC_{avg} = \frac{NRC_{t-1} + NRC_t}{2} + \left(\frac{\sum_{i=1}^{12} CA}{12} - \frac{\sum_{i=1}^{12} CL}{12} \right)$$

- NRCavg – Average Net Replacement Cost
- WCavg – the average working capital associated to a single service



Current Cost Accounting- CCA

Weighted Average Cost of Capital - WACC

$$WACC = \frac{re \times E}{(D + E)} + \frac{rd \times D \times (1 - T)}{(D + E)}$$

- re – cost of equity in percentage
- E – total equity market value
- D – total market value of liabilities with interests
- rd – cost of debt in percentage
- T – profit tax rate



Regulatory documentation

Regulatory Accounting Documentation - **RAD**

- Main **RAD**
- Additional **RAD**



Regulatory documentation

Regulatory Financial Reports- RFR

- Profit and loss statement
- Report on average capital employed
- Reconciliation Report
- Report on transfer fees
- Report on annual unit costs for retail services
- Report on annual unit costs for wholesale services
- Report on unit costs of network elements
- Report on routing factors of network elements for allocation of unit costs of network elements for retail and wholesale services
- Statement of Compliance with this Rule and all relevant regulations of the Agency



Services subject to the AS

- a) Fixed retail voice services;
- b) Fixed retail data transfer services;
- c) Leased lines and equivalent services;
- d) Other fixed retail services;
- e) Mobile retail voice services;
- f) Mobile retail data transfer services;
- g) Other Mobile Retail Services;
- h) Audiovisual media services and media services of radio - retail level
- i) Other retail services;
- (j) Fixed wholesale voice services;
- k) Access services to the local loop / loop;
- l) Wholesale Broadband (bitstream) access services at a fixed location;
- m) Wholesale leased lines and equivalent services;
- n) Other fixed wholesale services;
- o) Mobile Wholesale Services;
- p) Other wholesale services,
- q) Other activities (services not related to the provision of telecommunications services),
- r) Other service groups (markets) identified by the Agency



Submission of the RD and RFR

HCA – 6 month after Rule entry into force

CCA – 12 month after Rule entry into force



Thank you for your
attention!

