


---

## **BT Regulatory Financial Reporting**

Proposed regulatory reporting directions covering all regulated fixed telecoms markets

[] Redacted for publication

---

### **CONSULTATION:**

**Publication Date:** 4 December 2018

**Closing Date for Responses:** 18 January 2019

# About this document

---

In this document we consult on a new set of directions relating to BT's regulatory financial reporting obligations. It includes proposals covering BT's reporting obligations which are common across all regulated markets:

- physical infrastructure markets;
- wholesale local access market;
- business connectivity markets;
- narrowband markets; and
- wholesale broadband access market.

The document also includes proposals for market-specific requirements arising out of the recent physical infrastructure<sup>1</sup> and business connectivity market<sup>2</sup> review consultations and the wholesale broadband access market review statement.<sup>3</sup>

We invite responses to this consultation by 18 January 2019. We expect to publish our final statement in spring 2019, together with our statements on the regulation of the physical infrastructure and business connectivity markets.

---

<sup>1</sup> Ofcom, *Physical Infrastructure Market Review: Access to ducts and poles to support investment*, 2 November 2018, [https://www.ofcom.org.uk/data/assets/pdf\\_file/0014/125420/PIMR-consultation.pdf](https://www.ofcom.org.uk/data/assets/pdf_file/0014/125420/PIMR-consultation.pdf), (2018 PIMR Consultation).

<sup>2</sup> Ofcom, *Business Connectivity Market Review*, 2 November 2018, <https://www.ofcom.org.uk/consultations-and-statements/category-1/business-connectivity-market-review>, (2018 BCMR Consultation).

<sup>3</sup> Ofcom, *Wholesale Broadband Access Market Review 2018*, 31 July 2018, <https://www.ofcom.org.uk/consultations-and-statements/category-1/wholesale-broadband-access-market-review>, (2018 WBA Statement).

# Contents

---

## Section

1. Executive summary	1
2. Introduction	5
3. Regulatory financial reporting in relation to all regulated markets	13
4. Regulatory financial reporting in relation to the physical infrastructure markets	30
5. Regulatory financial reporting in relation to the business connectivity markets	41
6. Regulatory financial reporting in relation to the wholesale broadband access markets	55
7. Legal tests	57

## Annex

A1. Responding to this consultation	62
A2. Ofcom's consultation principles	65
A3. Consultation coversheet	66
A4. Consultation questions	67
A5. Draft Directions	68

# 1. Executive summary

- 1.1 BT is currently subject to regulatory financial reporting requirements designed to provide us with the information that we need to make informed regulatory decisions, monitor BT's compliance with regulatory obligations, ensure that obligations address underlying competition issues, and investigate potential breaches of obligations. These requirements should also provide reasonable confidence to stakeholders that BT has complied with its SMP conditions while adding credibility to the regulatory financial reporting regime.
- 1.2 As part of these requirements, each year BT prepares Regulatory Financial Statements (RFS). The RFS are prepared according to a defined framework and methodology and include published statements as well as information that is not published but submitted to Ofcom privately.

## The purpose of this consultation

- 1.3 BT is currently subject to regulatory financial reporting requirements across all of the fixed telecoms markets in which it is regulated, comprising:
- wholesale local access;
  - the business connectivity markets;
  - the narrowband markets; and
  - wholesale broadband access.
- 1.4 These requirements are imposed on BT by way of an SMP condition set in each regulated market and a suite of directions imposed in each market pursuant to the associated SMP condition. The SMP condition sets out our general regulatory financial reporting requirements, including accounting separation and cost accounting. The directions then set out our detailed regulatory financial reporting requirements.
- 1.5 Broadly, the SMP condition and directions are the same across all regulated markets.<sup>4</sup> However, they are implemented separately for each regulated market and we have introduced some detailed requirements that are specific for individual markets.
- 1.6 Our market reviews so far have been mostly consecutive with one market review commencing when another has been completed.<sup>5</sup> Changes to BT's regulatory financial reporting that impact all regulated markets have been first introduced in the market under review and later transposed to all other markets. This has created temporary misalignment in BT's regulatory financial reporting requirements which we aim to address with this consultation.

---

<sup>4</sup> The Consistency with Regulatory Decisions and RAV Direction only applies to the narrowband and wholesale broadband access markets in relation to the requirement that BT prepares the RFS on a RAV basis. The Adjusted Financial Performance Direction does not apply to the narrowband and wholesale broadband access markets.

<sup>5</sup> For example, in 2018 we completed our WLA market review and started our review of the business connectivity markets.

- 1.7 In this consultation we propose some necessary amendments to the directions that impact all regulated markets. These proposals intend to ensure that BT continues to provide up-to-date information to Ofcom and stakeholders as part of its regulatory financial reporting, and to better align the directions in all regulated markets.
- 1.8 We are also currently undertaking our reviews of the physical infrastructure and business connectivity markets. In those market reviews we have proposed SMP remedies to address BT's market power, including SMP conditions setting out our general regulatory financial reporting requirements.<sup>6</sup> In this consultation, we propose giving eight directions to BT in the physical infrastructure and business connectivity markets. We also propose detailed regulatory financial reporting requirements relevant to these markets only.
- 1.9 In addition, as part of our last review of the wholesale broadband access market, we did not impose a direction to BT to implement regulatory financial reporting requirements related to network components. The reasons for this were set out in our 2018 WBA Statement.<sup>7</sup> We now propose to close this gap by imposing a revised list of network components for 2018/19 for the wholesale broadband access market.
- 1.10 We note that we have recently started a wider review of BT's regulatory financial reporting which could lead to a more holistic approach to reporting across all regulated markets from 2021.<sup>8</sup> The regulatory reporting requirements we impose as a result of this wider review are likely to supersede any requirements we may impose as part of the current review. We have taken this into account in designing our proposals which only cover the minimum reporting we consider necessary for the period to 2020/21.

## Proposals

- 1.11 While our proposals cover the period to 2020/21, they are in line with our long-term strategy set out in our Strategic Review of Digital Communications<sup>9</sup> and our July 2018 publication.<sup>10</sup> In particular, we propose an increased focus on Openreach and the reporting of passive services, and a reduction in reporting in other areas.
- 1.12 We summarise our regulatory financial reporting proposals below by reference to the relevant markets in which we propose they will apply.

## Regulatory financial reporting in all regulated markets

- 1.13 We propose to reduce the amount of public and private reporting within the RFS while making it more relevant.

---

<sup>6</sup> See Section 4 of the 2018 PIMR Consultation and Section 11, Volume 1 of the 2018 BCMR Consultation.

<sup>7</sup> 2018 WBA Statement, paragraphs 7.44-7.50.

<sup>8</sup> We held a workshop with industry on 8 October 2018 to discuss future regulatory financial reporting regime on BT.

<sup>9</sup> Ofcom, *Making communications work for everyone: Initial conclusions from the Strategic Review of Digital Communications*, 25 February 2016, [https://www.ofcom.org.uk/data/assets/pdf\\_file/0016/50416/dcr-statement.pdf](https://www.ofcom.org.uk/data/assets/pdf_file/0016/50416/dcr-statement.pdf)

<sup>10</sup> Ofcom, *Regulatory certainty to support investment in full-fibre broadband: Ofcom's approach to future regulation*, 24 July 2018, [https://www.ofcom.org.uk/data/assets/pdf\\_file/0025/116539/investment-full-fibre-broadband.pdf](https://www.ofcom.org.uk/data/assets/pdf_file/0025/116539/investment-full-fibre-broadband.pdf)

- a) Format of the RFS: we propose to reduce some reporting requirements, including LRIC reporting, and increase the prominence of Openreach reporting.
- b) Reconciliation Report: we propose to increase the reporting threshold so that BT publishes less information on insignificant methodology changes and accounting errors as well as removing the requirement to publish duplicate and unnecessary schedules.
- c) Consistency with regulatory decisions: we propose updated directions to reflect regulatory and commercial changes that impact regulatory financial reporting.
- d) Network components: we propose changes to ensure network components remain relevant and up-to-date.

### **Regulatory financial reporting in the physical infrastructure markets**

- 1.14 We propose to reflect the requirements for cost accounting and accounting separation in this new market. The proposed level of reporting is less than what we had directed for PIA in the 2018 WLA Statement which we now consider is no longer required as the reporting is included within the physical infrastructure markets.
- a) Format of the RFS: we propose publication of information of the new physical infrastructure markets as a single national market.
  - b) Consistency with regulatory decisions: we propose directions for the reporting of network adjustments and a requirement for BT to map its physical infrastructure inventory to its financial records.
  - c) Network components: we propose to revoke the ten network components imposed in the 2018 WLA Statement for PIA services and instead require a single network component for all physical infrastructure costs.

### **Regulatory financial reporting in the business connectivity markets**

- 1.15 We set out proposals to reflect the proposed market definitions set out in the 2018 BCMR Consultation with individual service level reporting limited to the new dark fibre and reference services, leading to a large reduction in the level of detail published in the RFS as compared to the current BCMR Temporary Conditions and 2016 BCMR.
- a) Format of the RFS: we propose that BT provides market level information for all the business connectivity markets in which we propose BT has SMP. We propose that BT provides aggregated service level reporting in these markets at the basket and sub-basket level. Service level and FAC network component cost reporting is limited to the new dark fibre services and reference services.
  - b) Consistency with regulatory decisions: we set out proposals for how BT should value its fibre assets, how it should account for Excess Construction Charges and Openreach repayments works, and disallowing EE integration costs.
  - c) Network components: we propose two new dark fibre network components for BT to attribute dark fibre costs to.

## Regulatory financial reporting in the wholesale broadband access markets

- 1.16 We propose to impose the relevant and up-to-date list of network components in relation to the WBA markets.

## Implementation of our proposals

- 1.17 We consider that the simplest way in which to implement the proposals referred to above is to withdraw the relevant directions applicable in each market and impose new updated directions for all regulated markets. This ensures that there is a comprehensive set of regulatory financial reporting directions collected together in one document. However, we have not revoked previous directions specifying the requirements in relation to consistency with regulatory decisions and regulatory asset value. This is because these tend to be point-in-time directions with continuing effect which are not amenable to consolidation.

## Consultation and next steps

- 1.18 We invite comments on the proposals in this document. The deadline for responses is 18 January 2019. Annex 1 provides further details of how to respond.
- 1.19 The proposals set out in this consultation form part of our overall proposals for the physical infrastructure and business connectivity markets. We have not at this stage taken any decisions in relation to other aspects of the proposals set out in our 2018 PIMR Consultation and 2018 BCMR Consultation. We aim to publish our overall conclusions on the physical infrastructure and business connectivity markets in spring 2019. We will publish our final decisions on the proposals set out in this consultation at the same time.

## 2. Introduction

### The purpose of regulatory financial reporting

- 2.1 In the 2014 Regulatory Financial Reporting Statement we explained that BT's "Regulatory Financial Reporting should provide us with the information necessary to:
- make informed regulatory decisions;
  - monitor compliance with SMP conditions;
  - ensure that those SMP conditions continue to address the underlying competition issues; and
  - investigate potential breaches of SMP conditions and anti-competitive practices."<sup>11</sup>
- 2.2 We also said, "Published Regulatory Financial Reporting should provide reasonable confidence to stakeholders that the SMP provider has complied with its SMP conditions and add credibility to the Regulatory Financial Reporting Regime."<sup>12</sup>
- 2.3 We explained in the 2014 Regulatory Financial Reporting Statement that "effective Regulatory Financial Reporting should have the following attributes:
- **Relevance.** The information needs to answer the right questions, in the right way and at the right time.
  - **Reliability.** The underlying data must be reliable, suitable rules for treatment of those data must be chosen and those rules need to be followed.
  - **Transparency.** The basis of preparation should be understood by the users of the reports and the presentation of the data should be clear.
  - **Proportionality.** The reporting requirements should be proportionate to the benefits."<sup>13</sup>
- 2.4 In the 2014 Regulatory Reporting Statement we set out the SMP condition that sought to ensure that the basis of preparation of BT's Regulatory Financial Statements (RFS) and the scope and format of reporting continued to provide the information we need and that it had the attributes of good reporting.
- 2.5 In the 2014 Regulatory Reporting Statement we also set out the Regulatory Accounting Principles.<sup>14</sup> These are fundamental reporting principles with which BT's regulatory financial reporting must comply.
- 2.6 In the 2015 Directions Statement<sup>15</sup> we set out a set of detailed directions, including the Regulatory Accounting Principles Direction, that sought to ensure that the basis of preparation of the RFS and the scope and format of reporting continued to provide the information we needed and that it had the attributes of good reporting.

---

<sup>11</sup> 2014 Regulatory Financial Reporting Statement, paragraph 2.28.

<sup>12</sup> 2014 Regulatory Financial Reporting Statement, paragraph 2.41.

<sup>13</sup> 2014 Regulatory Financial Reporting Statement, paragraph 2.42.

<sup>14</sup> 2014 Regulatory Financial Reporting Statement, Section 3 and Annex 3.

<sup>15</sup> Ofcom, *Directions for Regulatory Financial Reporting: Final Statement*, 30 March 2015, [https://www.ofcom.org.uk/\\_data/assets/pdf\\_file/0018/59112/statement.pdf](https://www.ofcom.org.uk/_data/assets/pdf_file/0018/59112/statement.pdf)



## BT's regulatory financial reporting framework

- 2.7 Following the 2014 Regulatory Reporting Statement, as part of each market review, we have imposed regulatory financial reporting requirements on BT through a common set of SMP condition and directions.<sup>16</sup> This preserves the integrity and consistency of BT's regulatory financial reporting.
- 2.8 We describe below the contents and the purpose of the SMP condition and directions that we typically impose on BT.

### SMP condition

- 2.9 The "Regulatory Financial Reporting" SMP condition we impose on BT in relation to its regulatory financial reporting includes general requirements for accounting separation and cost accounting.<sup>17</sup> The SMP condition also requires BT to produce the RFS and other accounting documents as directed by Ofcom.
- 2.10 The purpose of this SMP condition is to ensure that sufficient and robust information is provided by BT both publicly and privately for Ofcom to enable us to perform our duties and for stakeholders to gain confidence that the SMP provider has complied with its SMP conditions. More specifically, this SMP condition serves as a basis for imposing directions to BT that set out detailed regulatory financial reporting requirements.

---

<sup>16</sup> The latest SMP conditions and directions that impose on BT regulatory financial reporting requirements for each regulated market are set out respectively in the following statements:

- Ofcom, *Wholesale Local Access Market Review: Statement*, 28 March 2018, <https://www.ofcom.org.uk/consultations-and-statements/category-1/wholesale-local-access-market-review>, (2018 WLA Statement);
- Ofcom, *Business Connectivity Market Review: Temporary SMP conditions in relation to business connectivity services*, 23 November 2017, <https://www.ofcom.org.uk/consultations-and-statements/category-1/business-connectivity-market-review-2016>, (2017 BCMR Temporary Conditions Statement); See also Ofcom, *Business Connectivity Market Review*, 28 April 2016, [https://www.ofcom.org.uk/data/assets/pdf\\_file/0015/72303/bcmr-final-statement-volume-one.pdf](https://www.ofcom.org.uk/data/assets/pdf_file/0015/72303/bcmr-final-statement-volume-one.pdf) (2016 BCMR Statement);
- Ofcom, *Narrowband Market Review: Statement*, 30 November 2017, <https://www.ofcom.org.uk/consultations-and-statements/category-1/narrowband-market-review>, (2017 NMR Statement); and
- Ofcom, *Wholesale Broadband Access Market Review 2018*, 31 July 2018, <https://www.ofcom.org.uk/consultations-and-statements/category-1/wholesale-broadband-access-market-review>, (2018 WBA Statement).

<sup>17</sup> See Condition 11 in the 2016 BCMR Statement legal instruments (to the extent still in force), [https://www.ofcom.org.uk/data/assets/pdf\\_file/0023/47840/final-annex-35.pdf](https://www.ofcom.org.uk/data/assets/pdf_file/0023/47840/final-annex-35.pdf); Condition 10 in the 2017 BCMR Temporary Conditions Statement legal instruments, [https://www.ofcom.org.uk/data/assets/pdf\\_file/0020/108137/Annex-1-Legal-instruments.pdf](https://www.ofcom.org.uk/data/assets/pdf_file/0020/108137/Annex-1-Legal-instruments.pdf); Condition 9 in the 2017 NMR Statement legal instruments, [https://www.ofcom.org.uk/data/assets/pdf\\_file/0022/108355/final-statement-narrowband-market-review-annexes-9-10.pdf](https://www.ofcom.org.uk/data/assets/pdf_file/0022/108355/final-statement-narrowband-market-review-annexes-9-10.pdf); Condition 12 in the 2018 WLA Statement legal instruments, [https://www.ofcom.org.uk/data/assets/pdf\\_file/0024/112488/wla-statement-annex-33.pdf](https://www.ofcom.org.uk/data/assets/pdf_file/0024/112488/wla-statement-annex-33.pdf); and Condition 7 in the 2018 WBA legal instruments, [https://www.ofcom.org.uk/data/assets/pdf\\_file/0032/116996/wba-annex-1.pdf](https://www.ofcom.org.uk/data/assets/pdf_file/0032/116996/wba-annex-1.pdf).

## Directions

2.11 Typically, we impose on BT a set of eight directions in order to implement our detailed regulatory financial reporting requirements. There are exceptions in some of the markets where certain of the directions are not relevant. We discuss these in turn below.

### Regulatory Accounting Principles Direction

2.12 The Regulatory Accounting Principles (RAP) are guiding principles with which BT's Regulatory Financial Reporting must comply. The principles and the order in which they apply are:

- i) Completeness;
- ii) Accuracy;
- iii) Objectivity;
- iv) Consistency with regulatory decisions;
- v) Causality;
- vi) Compliance with the statutory accounting standards; and
- vii) Consistency of the RFS as a whole and from one period to another.<sup>18</sup>

2.13 The RAP establish the basic attributes for BT's regulatory financial reporting and provide a necessary reference point in the absence of more specific guidance. To preserve the integrity and consistency of the RFS we consider that the RAP should be implemented across all regulated markets as there are significant advantages to BT and other stakeholders of BT applying one set of principles across all markets.

### Consistency with Regulatory Decisions and Regulatory Asset Value Direction

2.14 This direction is based on principle four of the RAP which requires that regulatory financial reporting is consistent with our regulatory decisions.<sup>19</sup> The direction specifies which regulatory decisions should be reflected in the RFS. In general, we would expect regulatory decisions to be reflected in the RFS unless there were good reasons not to.

2.15 We do not consider that the requirement for consistency means that all regulatory decisions must be reflected in the RFS. For example, when we set prices, we may include adjustments to cost calculations that do not strictly reflect BT's costs (for reasons that we disclose and consult upon). Also, attempting to model the impact of some adjustments, such as steady state valuation adjustments, and how they might uplift costs in later years,

---

<sup>18</sup> 2014 Regulatory Financial Reporting Statement, Section 3 and Annex 3.

<sup>19</sup> In the 2014 Regulatory Financial Reporting Statement and the 2015 Directions Statement we explained why Regulatory Financial Reporting should, as far as possible, be consistent with our regulatory decisions as set out in Regulatory Accounting Principle number four. See 2014 Regulatory Financial Reporting Statement, Annex 3, available at [https://www.ofcom.org.uk/\\_data/assets/pdf\\_file/0025/78460/financial-reporting-statement-may14.pdf](https://www.ofcom.org.uk/_data/assets/pdf_file/0025/78460/financial-reporting-statement-may14.pdf) and 2015 Directions Statement, Section 3, [https://www.ofcom.org.uk/\\_data/assets/pdf\\_file/0018/59112/statement.pdf](https://www.ofcom.org.uk/_data/assets/pdf_file/0018/59112/statement.pdf)

would require BT to make difficult judgements about how we might approach these costs on an ongoing basis.

- 2.16 This direction also encompasses the RFS being prepared on a Regulatory Asset Value (RAV) basis. The RAV was implemented in 2005 to ensure that there is no over recovery of costs of BT's copper access network assets that existed before 1 August 1997. The value of RAV is based on the historical cost accounting value for the pre-1997 assets, indexed each year in line with the Retail Price Index. Over time the RAV will gradually disappear as the pre-1997 assets are gradually replaced with new ones. It now only affects Access Duct as the pre-1997 copper assets, which have an accounting life of 20 years, are all fully depreciated.<sup>20</sup>
- 2.17 The direction ensures that regulatory financial reporting continues to provide the information necessary for us to make informed regulatory decisions.

### Transparency Direction

- 2.18 This direction requires BT to ensure that any information, material or explanatory document it prepares in respect of the RFS is sufficiently transparent, such that a suitably informed reader can gain a clear understanding of the information presented.
- 2.19 The direction provides confidence to stakeholders that BT has complied with its SMP conditions and adds credibility to the regulatory financial reporting regime. It allows stakeholders to better contribute to the regulatory regime, for example by providing more informed inputs during consultation periods.

### Audit of the RFS Direction

- 2.20 This direction sets out the standard of audit review that BT is required to obtain for the financial information contained in the RFS.
- 2.21 Audit of the RFS gives confidence that the RFS provides a fair reflection of BT's financial performance, is free from material error and has been prepared following the accounting methodology statements published by BT and relevant directions issued by Ofcom.<sup>21</sup>
- 2.22 The direction ensures that regulatory financial reporting gives confidence to stakeholders that BT has complied with its SMP conditions and adds credibility to the regulatory financial reporting regime.

### Reconciliation Report Direction

- 2.23 This direction requires BT to publish a reconciliation report which sets out the impact of all material changes and errors discovered in the RFS with an accompanying assurance report from their regulatory auditors.

---

<sup>20</sup> For further details see 2014 Regulatory Financial Reporting Statement, paragraphs 3.87-3.91 and Section 6.2.5 of BT's 2015/16 Accounting Methodology Document.

<sup>21</sup> 2014 Regulatory Financial Reporting Statement, Section 5.

- 2.24 The reconciliation report provides stakeholders with transparency of changes that BT makes to the RFS. It aids the understanding of and promotes confidence in regulatory financial reporting and allows stakeholders to contribute to the regulatory regime.

### **Adjusted Financial Performance Direction**

- 2.25 In the 2015 Directions Statement, we said that if not all regulatory decisions were reflected in the RFS, differences could arise between the reported view of BT's financial performance and the view we took when making regulatory decisions.<sup>22</sup> We therefore decided that BT must prepare the Adjusted Financial Performance Schedule to show the impact of certain regulatory decisions not reflected in the RFS.
- 2.26 The direction ensures that regulatory financial reporting continues to provide the information necessary for us to make informed regulatory decisions. It allows stakeholders to better contribute to the regulatory regime, for example by providing more informed inputs during consultation periods.

### **Preparation, Delivery, Publication, Form and Content of the RFS Direction**

- 2.27 This direction sets out what financial information BT is required to provide for each regulated market in the published RFS and in private to Ofcom.<sup>23</sup> Some elements of this financial information relate to all markets, while others relate only to specific markets.<sup>24</sup>
- 2.28 This direction plays an important role in ensuring that the RFS provides relevant information to stakeholders. It ensures that that regulatory financial reporting gives confidence to stakeholders. The direction also ensures that information is provided to us in the published RFS and in private that is needed for monitoring of compliance with proposed remedies (for example verifying volume weights used in compliance basket submissions).

### **Network Components Direction**

- 2.29 This direction specifies all network components used by BT to prepare the RFS. Network components are used by BT to attribute costs to services in regulated markets.
- 2.30 This direction ensures that regulatory financial reporting continues to provide information necessary for us to make informed regulatory decisions (for example we use network component inputs in our top down cost modelling in relation to charge controls). The direction also ensures that we obtain information to monitor compliance with proposed remedies (for example on non-discrimination, checking the attribution rules on network components allows us to see how costs are attributed to internal as well as external services).

---

<sup>22</sup> 2015 Directions Statement, paragraph 3.36.

<sup>23</sup> Private information provided to Ofcom under this direction includes Additional Financial Information (AFI) schedules and Compliance schedule.

<sup>24</sup> For example, the reconciliation of the RFS to BT Group's statutory accounts.

## Summary of proposed directions

2.31 We summarise our proposals in all regulated markets in Table 2.1 below.

**Table 2.1: Summary of proposed directions for all regulated markets**

	Directions in place			Directions not in place <sup>25</sup>	
	WLA 18	NB 17	WBA 18	PI	BC
Regulatory Accounting Principles	No change	No change	No change	New	New
Consistency with Regulatory Decisions and RAV	General changes	General changes <sup>26</sup>	General changes <sup>27</sup>	New	New & Specific rules
Transparency	No change	No change	No change	New	New
Audit of the RFS	No change	No change	No change	New	New
Reconciliation Report	General changes	General changes	General changes	New	New
Adjusted Financial Performance	No change	No change <sup>28</sup>	No change <sup>29</sup>	New	New
Preparation, Delivery, Publication, Form and Content of the RFS	General changes	General changes	General changes	New & Specific rules	New & Specific rules
Network Components	General changes	General changes	New <sup>30</sup>	New & Specific rules	New & Specific rules

- **New:** A new direction is proposed because the direction does not exist in this market or will soon expire.
- **General changes:** Proposed changes to general reporting requirements.
- **Specific rules:** Market specific reporting requirements have been proposed.
- **No change:** Current requirements continue with no changes.

Source: Ofcom.

<sup>25</sup> In respect of the physical infrastructure markets, there are no directions currently in place as this is a newly identified market. In respect of business connectivity markets, while there are currently directions in place, these will expire on 31 March 2019, prior to the time we intend to publish our final decisions in respect of this consultation

<sup>26</sup> The Consistency with Regulatory Decisions Direction and RAV only applies to the narrowband markets in relation to the requirement that BT prepares the RFS on a RAV basis. This is because in the 2017 NMR Statement we did not make any regulatory decisions that needed to be reflected in the additional financial performance schedule.

<sup>27</sup> The Consistency with Regulatory Decisions Direction and RAV only applies to the wholesale broadband access markets in relation to the requirement that BT prepares the RFS on a RAV basis. This is because in the 2018 WBA Statement we did not impose any charge controls for these markets.

<sup>28</sup> The Adjusted Financial Performance Direction does not apply to any of the narrowband markets. This is because in the 2017 NMR Statement we did not make any regulatory decisions that needed to be reflected in the additional financial performance schedule.

<sup>29</sup> The Adjusted Financial Performance Direction does not apply to the wholesale broadband access markets. This is because in the 2018 WBA Statement we did not impose any charge controls in these markets.

<sup>30</sup> In the 2018 WBA Statement we decided to delay the imposition of the Network Components Direction because we needed to further review the list of network components.

## Regulatory framework

- 2.32 The regulatory framework for market reviews is set out in UK legislation and is transposed from five EU Directives. These Directives impose several obligations on relevant regulatory authorities, such as Ofcom, one of which is to carry out periodic reviews of certain electronic communications markets.
- 2.33 We set out the relevant regulatory framework in our statements for each market review, including our 2018 WLA Statement, the 2017 NMR Statement, and the 2018 WBA Statement. We also set out the relevant regulatory framework in our 2018 PIMR Consultation and 2018 BCMR Consultation. Reference should be made to those documents for further detail.

## Impact assessment and equality impact assessment

### Impact assessment

- 2.34 The analysis presented in this document constitutes an impact assessment as defined in section 7 of the Act.
- 2.35 Impact assessments provide a valuable way of assessing the options for regulation and showing why the chosen option was preferred. They form part of best practice policy-making. This is reflected in section 7 of the Act, which means that, generally, we have to carry out impact assessments in cases where our conclusions would be likely to have a significant effect on businesses or the general public, or where there is a major change in Ofcom's activities. However, as a matter of policy Ofcom is committed to carrying out impact assessments in relation to the great majority of our policy decisions.

### Equality impact assessment

- 2.36 Annex 6 of the 2018 PIMR Consultation sets out our EIA for the Physical Infrastructure Market Review, and Annex 6 of the 2018 BCMR Consultation sets out our EIA for the Business Connectivity Market Review. Ofcom is required by statute to assess the potential impact of all our functions, policies, projects and practices on equality. EIAs also assist us in making sure that we are meeting our principal duty of furthering the interests of citizens and consumers regardless of their background or identity.
- 2.37 It is not apparent to us that the outcome of our reviews (including the proposals set out in this consultation) is likely to have any particular impact on any particular equality group. More generally, we do not envisage the impact of any outcome to be to the detriment of any group of society. Nor do we consider it necessary to carry out separate EIAs in relation to equality schemes under the Northern Ireland and Disability Equality Schemes.

## Scope of this document

- 2.38 The focus of this consultation is on:

- a short list of amendments to the regulatory financial reporting in all regulated markets;
- imposing the regulatory financial reporting requirements common for all regulated markets in the physical infrastructure and business connectivity markets;
- specific regulatory financial reporting requirements for the physical infrastructure markets;
- specific regulatory financial reporting requirements for the business connectivity markets; and
- regulatory financial reporting requirement in relation to network components in 2018/19 for the wholesale broadband access market.

2.39 We do not repeat, in this document, our description or reasoning relating to the full set of decisions in the 2018 WLA Statement, the 2017 NMR Statement, and the 2018 WBA Statement. Nor do we repeat our description or reasoning relating to the full set of proposals in the 2018 PIMR Consultation and the 2018 BCMR Consultation.

## Implementation of our proposals

2.40 We consider that the simplest way in which to implement the proposals referred to above is to withdraw the relevant directions applicable in each market and impose new updated directions for all regulated markets. This ensures that there is a comprehensive set of regulatory financial reporting directions collected together in one document. However, we have not revoked all previous directions specifying the requirements in relation to consistency with regulatory decisions and regulatory asset value. This is because these tend to be point-in-time directions with continuing effect which are not amenable to consolidation.

## 3. Regulatory financial reporting in relation to all regulated markets

3.1 In this section, we propose changes to BT's regulatory financial reporting obligations which have an impact on all regulated markets. The markets in which these obligations have previously been imposed are:

- wholesale local access market;<sup>31</sup>
- business connectivity markets;<sup>32</sup>
- narrowband markets;<sup>33</sup> and
- wholesale broadband access market.<sup>34 35</sup>

3.2 We propose changes to four of the eight directions imposed on BT across regulated markets:

- Consistency with Regulatory Decisions and Regulatory Asset Value Direction;
- Reconciliation Report Direction;
- Preparation, Delivery, Publication, Form and Content of the RFS Direction; and
- Network Components Direction.

### Implementation of our proposals

3.3 As mentioned in Section 2, we consider that the simplest way in which to implement our proposals is to revoke the relevant directions applicable in each market and impose new directions for all regulated markets.<sup>36</sup> We therefore propose to revoke the existing

---

<sup>31</sup> In Section 4 of the 2018 WLA Statement we found that BT has SMP in the supply of wholesale local access at a fixed location in the UK excluding the Hull Area.

<sup>32</sup> In Section 2 of the 2017 BCMR Temporary Conditions Statement we found that BT has SMP in a market comprising Lower Bandwidth CISBO services in the London Periphery; in markets comprising Lower Bandwidth CISBO services in the Central Business Districts of Bristol and Manchester; and in a market comprising Lower Bandwidth CISBO services in the Rest of UK excluding five Central Business Districts. In addition, in Section 5 of the 2016 BCMR Statement we found that BT has SMP in a market comprising TISBO services in the UK excluding the Hull Area.

<sup>33</sup> In Section 6 of the 2017 NMR Statement we found that BT has SMP in four markets in the UK excluding the Hull Area: Wholesale Fixed Analogue Exchange Lines, Wholesale Call Origination, Wholesale ISDN30 and Wholesale ISDN2. In Section 12 of the same statement we found that BT also has SMP in the market for call termination to geographic numbers in the area it serves.

<sup>34</sup> In Section 5 of the 2018 WBA Statement we found that BT has SMP in the provision of Wholesale Broadband Services in Market A, comprising areas in the UK (excluding the Hull Area) where there is limited or no competition in WBA (i.e. exchange areas which are BT-only or BT + 1 Principal Operator).

<sup>35</sup> The Adjusted Financial Performance Direction was not previously applied to the WBA market (Market A). Also, the Consistency with Regulatory Decisions and RAV Direction only applied to the WBA market (Market A) in relation to the requirement that BT prepares the RFS on a RAV basis. This is because in the 2018 WBA Statement we did not impose any charge controls for this market.

<sup>36</sup> However, as noted above, we have not revoked all previous directions specifying the requirements in relation to consistency with regulatory decisions and regulatory asset value. This is because these tend to be point-in-time directions with continuing effect which are not amenable to consolidation.



regulatory financial reporting directions in force in the WLA,<sup>37</sup> Narrowband and WBA markets<sup>38</sup> and replace them with a common set of directions. In doing so, we are proposing to make specific amendments to four of the directions, as described below.

- 3.4 In Sections 4 and 5 we explain that we are proposing to set the same eight directions (subject to some additional market-specific requirements) in the physical infrastructure and business connectivity markets covered by our 2018 consultations.
- 3.5 The proposals set out in this section will take effect from spring 2019 (with the exception of our proposal in relation to Cumulo rates). They will therefore impact the preparation of the 2018/19 RFS, to be delivered in July 2019. The 2017 BCMR Temporary Conditions also set out requirements for the preparation of the 2018/19 RFS. While our proposals contained in this consultation may introduce inconsistencies with the 2017 BCMR Temporary Conditions in relation to the preparation of the 2018/19 RFS, we do not consider it proportionate to amend the 2017 BCMR Temporary Conditions, given that they expire on 31 March 2019.

## Consistency with Regulatory Decisions and Regulatory Asset Value Direction

- 3.6 We propose two new schedules to the Consistency with Regulatory Decisions and Regulatory Asset Value Direction in relation to:
- a) Cumulo rates; and
  - b) the allocation of general overheads.

### Cumulo rates

- 3.7 Cumulo rates are the non-domestic rates that BT pays on its rateable network assets (primarily passive assets such as duct, fibre, copper and exchange buildings) in the UK. It is called a 'cumulo' assessment because all the rateable assets are valued together. Within the RFS BT attributes its cumulo rates costs across services in accordance with our directions.<sup>39</sup> When setting charge controls we generally include recovery of an appropriate share of BT's forward looking cumulo costs.
- 3.8 However, in our 2018 PIMR Consultation we proposed new physical infrastructure markets and Physical Infrastructure Access (PIA) remedy, and in our 2018 BCMR Consultation we proposed a dark fibre remedy for inter-exchange connectivity. If implemented, these

---

<sup>37</sup> There is an additional direction for regulatory financial reporting of electricity charges in the WLA market.

<sup>38</sup> It is not necessary to revoke the directions currently applicable in business connectivity markets set out in the 2017 BCMR Temporary Conditions Statement, because they expire on 31 March 2019.

<sup>39</sup> The most recent requirements on BT in relation to attribution of cumulo rates are set out in the 2018 WLA Statement, Annex 33.

proposals will have implications for how BT's cumulo rates are attributed in 2019/20 and 2020/21.

- 3.9 PIA prices and dark fibre prices do not include any contribution to BT's cumulo rates costs. With respect to duct and other PIA assets, it is the occupation of those assets (by for example lighting fibre, or by connecting equipment to copper lines) that triggers the rating liability, not the existence of the asset. With respect to dark fibre, rating precedent has determined that as a general principle, the person who lights the fibre is considered to be in rateable occupation.<sup>40</sup> However, under our current directions BT is required to attribute cumulo costs across all the rateable assets including duct, manholes, junction boxes and poles, and across all fibre.
- 3.10 We therefore propose two changes to the current cumulo attribution requirement from 2019/20:
- a) First, BT's cumulo costs should be attributed across those rateable assets that have not been included within the physical infrastructure markets.
  - b) Secondly, BT's cumulo costs should not be attributed to dark fibre services provided to telecoms providers other than BT.<sup>41</sup>

## Allocation of general overheads

- 3.11 In the 2016 BCMR Statement and, later, the 2017 BCMR Temporary Conditions Statement, we directed BT to allocate general overheads within five distinct cost categories, that were previously attributed under the Pay and Return on Assets (ROA) methodology, to instead be attributed using a Previously Allocated Cost (PAC) attribution.<sup>42</sup> We also said that the PAC rule should only include costs relevant to the line of business associated with the cost category. For all costs related to BT Wholesale, we required BT to introduce the attribution 'BT Wholesale PAC'.
- 3.12 In April 2018 BT created a new unit called BT Enterprise which brought the Business and Public Sector and Wholesale and Ventures units into one team.<sup>43</sup> This requires the above direction to be updated in order to reflect accurately the units within BT. We therefore propose to reflect this change in our directions by changing all references to BT Wholesale<sup>44</sup> to BT Enterprise.

---

<sup>40</sup> 2018 BCMR Consultation, paragraph A20.72, and paragraph 5.2 of Section 871 of the VOA's 2017 Rating Manual: <https://www.gov.uk/guidance/rating-manual-section-6-part-3-valuation-of-all-property-classes/section-871-telecommunications-fibre-optic-networks>.

<sup>41</sup> Dark fibre services consumed by other parts of BT should receive an attribution of BT's cumulo rates costs.

<sup>42</sup> 2016 BCMR Statement, Annex 28. For the definition of a PAC attribution see paragraphs 2.85-2.107 of Annex 28 of the 2016 BCMR Statement.

<sup>43</sup> See BT, *BT forms new business unit BT Enterprise*, 18 April 2018, <https://www.btplc.com/News/#/pressreleases/bt-forms-new-business-unit-bt-enterprise-2480484>.

<sup>44</sup> Current regulatory reporting requirements do not refer to Business and Public Sector.

## The Reconciliation Report Direction

3.13 We propose a number of changes to the Reconciliation Report Direction that impact all regulated markets. These arise from a recent letter by BT requesting that we simplify and clarify reporting within the RFS.<sup>45</sup> In particular, BT requested two specific changes to the reconciliation report which we discuss in turn below:

- the materiality threshold; and
- the removal of schedules included in the RFS that were previously in the reconciliation report annex, including the removal of the % change tables.

### The materiality threshold

3.14 The current direction relating to the materiality threshold requires disclosure within the reconciliation report of all “material errors” or “material changes” of any figure within the Regulatory Financial Statements. Material errors and material changes are defined as those exceeding the higher of £1m or 5%. Errors and changes below the threshold are also disclosed, but are aggregated into a single figure.

3.15 In its letter to Ofcom, BT proposed that this materiality threshold be increased to the higher of £5m or 5% of any figure within the RFS. Table 3.1 below sets out the errors and changes in the last three financial years which were separately disclosed and those which would have not been separately disclosed had this higher materiality threshold been in place from the first introduction of the direction.

**Table 3.1 Impact of changing the absolute value materiality threshold from £1m to £5m<sup>46</sup>**

Year	Reported number of material errors	Reportable material errors applying the proposed higher threshold	Reported number of material changes	Reportable material changes applying the proposed higher threshold
2017/18	8	4	12	10
2016/17	8	4	9	6
2015/16	5	3	22	7

Source: Ofcom analysis; letter from [BT] (BT) to [Ofcom] (Ofcom), dated 28 September 2018.

<sup>45</sup> Letter from [BT] (BT) to [Ofcom] (Ofcom), dated 28 September 2018, entitled ‘BT Regulatory Financial Statement simplification proposals’.

<sup>46</sup> Table 3.1 is generated assuming that our proposals in relation to the Preparation, Delivery, Publication, Form and Content of the RFS Direction are imposed.

3.16 Table 3.2 below sets out all errors and changes in the last three years which would not have been separately disclosed had the higher materiality threshold been in place and their impact on BT's revenue, operating cost and MCE.

**Table 3.2: Magnitude of errors and changes proposed not to be separately disclosed**

	Type	Description	Revenue £m	Opex £m	MCE £m
2017/18	Errors <sup>47</sup>	Ofcom Administration Fee	-	-	-
		EE Volumes	-	-	-
		Interconnect Revenue	-	-	-
		Residual WBA Volumes	-	-	-
	Methodology Changes <sup>48</sup>	Remote Testing Platform	-	c.£12m	c.£1m
		Working Capital	-	c.£-1m	c.£-182m
2016/17	Errors <sup>49</sup>	Ofcom Administration Fee	-	c.£-3m	c.£1m
		Revenue driving EBD allocations	-	c.£-4m	-
		MNS Revenue	-	-	-
		Revenue Receivables	-	-	-
	Methodology Changes <sup>50</sup>	TRCs	-	c.£-1m	c.£-4m
		WS Residual WBA	-	-	-
		WS Residual Calls	-	-	-
2015/16	Errors <sup>51</sup>	WLR Sim Provides	-	-	-
		CCA Other Adjustment	-	-	-
	Methodology Changes <sup>52</sup>	Openreach Software	-	c.£1m	c.£3m
		Group Property	-	c.£31m	-
		Access Fibre	-	c.£-2m	c.£-3m
		Service Management Centres	-	c.£13m	-
		Copper Cancellations	-	-	-
		Ethernet Revenues	-	-	c.£-1m
		CPE Switch	-	c.£31m	c.£-1m
		Amendments	-	0	0
		BT Sport MCE	-	0	c.£29m
		TRC Direct CoWs	-	c.£-3m	0
		PPC Factors	-	c.£1m	c.£3m

<sup>47</sup> Descriptions are on page 131 of the 2017/18 RFS. All £m impacts below are as reported on the total SMP markets.

<sup>48</sup> Descriptions are on page 113 the 2017/18 RFS.

<sup>49</sup> Descriptions are on pages 40-47 of the 2016/17 Reconciliation Report (separately published).

<sup>50</sup> Descriptions are on pages 21-30 of the 2016/17 Reconciliation Report (separately published).

<sup>51</sup> Descriptions are pages 52-56 of the 2015/16 Reconciliation Report (separately published). The impact of revenue was not required to be reported in this year.

<sup>52</sup> Descriptions are on page 19-46 of the 2015/16 Reconciliation Report (separately published). The impact of revenue was not required to be reported in this year.

	Type	Description	Revenue £m	Opex £m	MCE £m
		Fibre Resilience Option	-	0	c.£2m
		POLO	-	0	0
		WBC Market B Rentals	-	c.£-2m	c.£-1m
		Wholesale Residual cost and revenue matching	-	0	0

Source: Ofcom.

- 3.17 We believe that the errors or methodology changes that would not have been separately disclosed, had the higher materiality threshold been in place, would not have been of significant interest to stakeholders. We note that the methodology change “Working Capital” in 2017/18 had a net impact of c.£-182m on MCE in all regulated markets. However, the impact of this change in FAC terms was only £-18m on BT’s returns across all regulated markets. This adjustment arose out of BT aligning its treatment of residual revenue receivables with revenue receivables for regulated services.
- 3.18 Setting the materiality threshold at the higher of 5% or £1m was intended to ensure insignificant amounts were not captured.<sup>53</sup> We also note that all methodology changes, no matter the magnitude, are included within BT’s Change Control Notifications (CCNs).
- 3.19 Based on the impact of the errors and changes in Table 3.2 above, and the fact that all methodology changes of all magnitudes are already captured by the CCNs, we consider that the threshold should be revised to ensure insignificant amounts are not captured while still highlighting those errors and methodology changes that are significant to stakeholders. We propose to increase the absolute materiality threshold used in the Reconciliation Report from £1m to £5m.
- 3.20 We will be able to monitor the size of the aggregated errors and methodology changes that fall below our new proposed materiality threshold separately by observing their aggregate volume and magnitude. We would consider revising the materiality threshold again if these aggregated amounts were to increase significantly.

### Removal of schedules included in the RFS that were previously in the reconciliation report appendix including the removal of the % change tables

- 3.21 In its letter to Ofcom, BT requested the removal of several schedules from the reconciliation report that it considers to be obsolete.
- 3.22 The first set of schedules are those which show the impact of changes in percentages.<sup>54</sup> These schedules do not provide information to the users of the RFS which they could not

<sup>53</sup> 2014 Regulatory Financial Reporting Statement, paragraph 3.194.

<sup>54</sup> These schedules can currently be found on pages 117, 119, 121, 124, 127 and 130 in the 2017/18 RFS.

calculate for themselves<sup>55</sup> but add additional complexity to the report. We propose that BT no longer be required to produce these schedules.

3.23 The other schedules BT asked us to remove are those which cover the performance summary by market, attribution of wholesale current costs and attribution of MCE, all prepared on the basis that methodology changes do not have effect (i.e. are “reversed”).<sup>56</sup> We have reviewed these schedules and consider that they duplicate information presented within other schedules that BT is required to include within the reconciliation report section listed below. We propose that BT no longer be required to produce these schedules.

3.24 The schedules that will remain in the reconciliation report appendix are:

- Reconciliation Report: Impact of Methodology Changes and Errors (Introduction, description of methodology changes and description of errors)<sup>57</sup>
- Reconciliation Report: Impact of Methodology Changes (restating the current year using the old methodologies),<sup>58</sup> and
- Reconciliation Report: Impact of Methodology Changes on Revenue (restating the prior year for methodology changes and errors arising in the current year).<sup>59</sup>

## The Preparation, Delivery, Publication, Form and Content of the RFS Direction

3.25 We propose a number of changes to the Preparation, Delivery, Publication, Form and Content of the RFS Direction that impact all regulated markets. These relate to BT’s requirements for public and private reporting.

### Proposed requirements relating to public information in the RFS

3.26 This is information that we consider should be published in BT’s RFS on the basis that it would give stakeholders reasonable confidence that BT has complied with its SMP conditions, allow them to contribute to the regulatory regime and is consistent with the other remedies imposed. For example, if the remedy is in the form of a charge control on individual services or baskets of services, information should be published relating to those services or baskets of services.<sup>60</sup>

---

<sup>55</sup> The absolute values of the changes can be found in the changes on pages 116, 117 And 118 of the 2017/18 RFS. These can be used to manually calculate the percentage changes if required.

<sup>56</sup> These schedules can currently be found on pages p122, 123, 125, 126, 128, and 129 in the 2017/18 RFS.

<sup>57</sup> Currently found on pages p109, 113 to 115 and 131 in the 2017/18 RFS.

<sup>58</sup> Currently found on pages p116, 118 and 120 in the 2017/18 RFS. These are used to disclose the changes to Regulatory Accounting Methodology.

<sup>59</sup> Currently found on pages p110, 111 and 112 in the 2017/18 RFS. These are used to disclose the methodology changes and errors corrected in the prior year comparatives.

<sup>60</sup> In certain circumstances, we may decide that BT needs to publish regulatory financial data that goes beyond the level of the remedy to give stakeholders reasonable confidence that BT has complied with its SMP conditions and allow them to contribute to the regulatory regime. For example, in the 2016 BCMR Statement, given the broad baskets used in that

3.27 In the published RFS, financial information on regulated markets broadly falls into four categories: BT level information, market level information, service level information and cost components for reported services. In this section we only consider BT level information as it has an impact on all regulated markets. We set out proposals in relation to the other categories of financial information in Sections 4 and 5 as they are specific for the markets discussed in these sections.

### BT level information

3.28 BT level information shows how regulated markets fit within the BT business and reconciliations to the statutory accounts and Openreach information.

3.29 In its letter to Ofcom, BT requested changes to the form and content within certain BT wide schedules. These relate to:

- a) a formatting change to the “Performance Summary by Market”, “Attribution of Wholesale Current Costs” and “Attribution of Wholesale Current Cost Mean Capital Employed” schedules;
- b) combining certain cost categories in the “Attribution of Wholesale Current Costs” and “Attribution of Wholesale Current Cost Mean Capital Employed” schedules;
- c) the removal of inter-market revenues and costs from the “BT Reconciliation Statement – Consolidated Profit and Loss Account” and inclusion within the “Summary of Market Performance” schedule;
- d) changes to the schedules that reconcile the RFS to BT’s plc financial statements; and
- e) how to reflect IFRS 15 within the RFS.

3.30 Below we set out details of each suggestion and where appropriate set out proposals.

#### *Formatting changes to the “Performance Summary by Market”, “Attribution of Wholesale Current Costs” and “Attribution of Wholesale Current Cost Mean Capital Employed” schedules*

3.31 Within the “Performance Summary by Market”,<sup>61</sup> “Attribution of Wholesale Current Costs”<sup>62</sup> and “Attribution of Wholesale Current Cost Mean Capital Employed”<sup>63</sup> schedules, BT suggested that the market review headings and market sub headings be pivoted and re-ordered to show which markets reside in Openreach and which reside in the rest of BT. BT suggested that this will highlight to the users of the RFS the increased focus on the results of the Openreach markets. BT proposed that the schedules be presented together at the

---

charge control, we decided that BT must publish financial information on certain individual services (see paragraphs 16.44 - 16.46 and 16.52 – 16.61). For the WBA Market A, we consider that all the information we propose that BT should publish is consistent with the level of the remedy.

<sup>61</sup> Set out on page 22 of the 2017/18 RFS.

<sup>62</sup> Set out on page 88 of the 2017/18 RFS.

<sup>63</sup> Set out on page 91 of the 2017/18 RFS.

front of the published RFS, which would increase the prominence of Openreach. Duplicate Openreach information, currently in Section 6<sup>64</sup> would now longer be required.

- 3.32 The impact of the request, other than a reordering of the markets to sit under the relevant Openreach/BT area, would be that 'Openreach Residual' will now be separately published while the remainder of what is now 'Wholesale Residual' and 'Retail Residual' will be combined as 'Rest of BT Residual'. The Openreach income statement and MCE statement<sup>65</sup> will no longer be published as the information in these will be obtainable in the proposed Performance Summary by Market, Attribution of Wholesale Current Costs and Mean Capital Employed schedules.
- 3.33 We consider that the above changes will simplify the RFS and make it easier for stakeholders to analyse it without reducing the transparency of BT's regulatory financial reporting. We therefore propose that these formatting changes are included within the 2018/19 RFS.

*Combining certain cost categories in the "Attribution of Wholesale Current Costs" and "Attribution of Wholesale Current Cost Mean Capital Employed" schedules*

- 3.34 Within the "Attribution of Wholesale Current Costs" schedule,<sup>66</sup> BT suggested combining the 'Bad Debts' and 'Finance and Billing' cost categories within the 'Other' cost category.<sup>67</sup>
- 3.35 Within the "Attribution of Wholesale Mean Capital Employed" schedule,<sup>68</sup> BT suggested aggregating 'Current Assets' into one asset category while maintaining the internal/external split.<sup>69</sup>
- 3.36 We agree with both of BT's requests, to combine the 'Bad Debts' and 'Finance and Billing' cost categories within the 'Other' cost category, and also to aggregate the 'Current Assets' into one asset category. Due to the minimal size of cost separately recorded in each of these categories we do not believe that combining them would significantly reduce the information within the RFS.

*Removing inter-market revenues and costs from the "BT Reconciliation Statement – Consolidated Profit and Loss Account" schedule*

- 3.37 BT requested that we amend the direction to recognise that inter-market revenue and costs have been recorded under the 'Eliminations' line within the 'Summary of Market

---

<sup>64</sup> Set out in pages 26 to 29 of the 2017/18 RFS

<sup>65</sup> Set out on pages 26-29 of the 2017/18 RFS.

<sup>66</sup> Set out on page 88 of the 2017/18 RFS.

<sup>67</sup> Total Wholesale Markets Finance and Billing costs amounted to £19m in 2017/18 and £21m in 2016/17. Bad Debt costs for the Total Wholesale Markets amounted to £3m in both 2017/18 and 2016/17.

<sup>68</sup> Set out on page 91 of the 2017/18 RFS.

<sup>69</sup> Currently Current Assets is split into Inventories and Receivables.



Performance'<sup>70</sup> schedule rather than as a reconciling item within the 'BT Reconciliation Statement – Consolidated Profit and Loss Account'<sup>71</sup> since 2015.

- 3.38 We agree that the most transparent place to include the inter-market revenue and costs is within the 'Eliminations' line and propose to update the direction to make it clear that inter-market revenue and costs should be recorded under the 'Eliminations' line within the 'Summary of Market Performance' schedule.

*Changes to the schedules that reconcile the RFS to BT's plc financial statements*

- 3.39 Currently BT is required to perform two separate profit and loss reconciliations, the 'Reconciliation of Openreach Income Statements'<sup>72</sup> and the 'BT Reconciliation Statement – Consolidated Profit and Loss Account'.<sup>73</sup> BT suggested combining these two reconciliations into one table. Under this new schedule BT suggested that inter-market revenue and costs are included as 'Eliminations' in the 'Performance Summary by Market' and not as a reconciling item in the profit and loss reconciliations.
- 3.40 For the "BT Reconciliation Statement – Consolidated Mean Capital Employed" schedule,<sup>74</sup> BT also requested that the MCE definition within the direction is updated as currently it is 'overly complicated'.
- 3.41 We consider that combining the two reconciliations will be consistent with the new market performance and cost attribution schedules. Combining the two reconciliations should also provide greater transparency for the users of the RFS. We therefore propose that the two profit and loss reconciliations which reconcile from BT's annual accounts to the RFS be combined into one single reconciliation covering both BT and Openreach with inter-market revenues and costs to be removed from the requirement to be included as a reconciling item.
- 3.42 In relation to the definition of MCE, we note that there is no definition of MCE within the Preparation, Delivery, Publication, Form and Content of the RFS Direction. For the purpose of clarity, we have modified the RFS template so that the starting point of the MCE reconciliation is MCE as BT defines in the Annual report and Firm 20F.

*BT's request on the disclosure of IFRS 15*

- 3.43 Current charge controls were set without reference to International Financial Reporting Standards 15 (IFRS 15), and in the hierarchy of the RAP, the requirement for the RFS to be

---

<sup>70</sup> Set out on page 22 of the 2017/18 RFS.

<sup>71</sup> Set out on page 94 of the 2017/18 RFS

<sup>72</sup> Set out on page 30 of the 2017/18 RFS

<sup>73</sup> Set out on page 94 of the 2017/18 RFS

<sup>74</sup> Set out on page 95 of the 2017/18 RFS.

consistent with how charge controls are set ranks above consistency with the statutory accounts or GAAP.<sup>75</sup>

- 3.44 BT proposed to produce the RFS consistent with IFRS 15<sup>76</sup> (with comparatives to be restated) from the 2018/19 RFS, to ensure the RFS remained consistent with BT's statutory financial statements which are required to comply with the IFRS. To maintain actual in-year revenue, average prices and FAC within the individual market performance schedules consistent with the charge controls as set, BT proposed to present service level information for services impacted by IFRS consistent with the charge control, but include an additional line 'IFRS deferred revenue' within the Market Summary to reconcile revenue consistent with the charge control back to the revenue recorded under IFRS 15.
- 3.45 Further, consistent with the new accounting standard, SLG payments will be recognised as a credit to revenue rather than an operating cost. SLG costs will still appear in the total FAC costs for each relevant service but again there will be an addition line added to the bottom of the market split by service which will show the total credit against revenue for all relevant services and a credit against the total cost.
- 3.46 We agree that BT should prepare the RFS on this basis and propose this format as set out in the relevant template in the proposed direction.

### **Proposed requirements for private information to be provided to Ofcom**

- 3.47 We also require BT to provide some information to Ofcom that is not published. We require this information in order to, for example, make informed regulatory decisions, monitor compliance with SMP conditions, ensure that those SMP conditions continue to address the underlying competition issues, and investigate potential breaches of SMP conditions and anti-competitive practices.
- 3.48 BT currently provides private information to Ofcom in the form of Additional Financial Information (AFI) schedules, including a 'Data File'.<sup>77</sup> The Data File provides detailed information on all the revenues, volumes, costs and cost categories that support the published RFS.

### **Information on incremental costs**

- 3.49 As a result of the proposed new physical infrastructure markets (Regulatory Financial Reporting proposals for this market is set out in Section 4) BT will no longer be able to report LRIC, DLRIC and DSAC data to us in the same format as it has historically without considerable redevelopment and restructuring of its LRIC model. The production of LRIC, DSAC and DLRIC data by service in particular would require significant development, as the duct and other physical infrastructure costs (manholes, junction boxes and poles) will now

---

<sup>75</sup> Generally accepted accounting principles.

<sup>76</sup> See IFRS 15 Revenue from Contracts with Customers, <https://www.ifrs.org/issued-standards/list-of-standards/ifrs-15-revenue-from-contracts-with-customers/>. This impacts services where the contractual agreements are typically longer than 12 months.

<sup>77</sup> BT provides the Data File as part of AFI 12.

form their own single increment rather than being part of the incremental costs of components and hence of services.

- 3.50 At a stakeholder workshop we held on 8 October 2018 on the future of BT regulatory financial reporting we noted that we were reviewing the requirement for BT to continue to provide us with LRIC data post 2020/21. We intend to consult on our proposals for the future reporting of incremental costs next year.
- 3.51 While we are considering the long term requirements relating to LRIC reporting, we do not consider it proportionate to require BT to fully develop its LRIC model in the short term. Further, given the limitations described above, we do not consider that BT can generate the appropriate LRIC information we require from the current model. We therefore propose in the short term and without that LRIC model redevelopment that BT does not be provide us with LRIC, DLRIC and DSAC data by service. We therefore propose to remove this requirement in 2019/20 and 2020/21.
- 3.52 However, we do consider that there is merit in BT continuing to provide us with some LRIC information to inform our future modelling work. We believe that in 2019/20 and 2020/21 BT can produce with relatively little development component LRIC and FAC data, excluding PIMR costs that may also include any attributed overheads. The FAC costs by component excluding physical infrastructure costs will be an output from BT’s FAC RFS system.
- 3.53 We therefore propose to modify the requirement for BT to provide us with LRIC data by component in those years so that the component costs exclude any of those that have been attributed to the physical infrastructure markets. We set out these proposals in Table 3.3 and Table 3.4 below.

**Table 3.3 Removal of requirement to provide information under both a separate AFI and the Data File**

Additional Financial Information	Summary Description
Provision of FAC, LRIC, DLRIC and DSAC data per service.	Provide FAC, LRIC, DLIC, and DSAC information for each regulated service.

Source: Ofcom.

Table 3.4: Amendments to information provided under a separate AFI and as part of the Data File

Reference	Additional Financial Information	Summary Description
5(a)(i)	<p>Cost category (as used within regulatory LRIC model) analysis for network components, increments and relevant layers of common cost, <u>for all costs that are not part of the physical infrastructure markets</u></p> <p>(LRIC, <del>DLRIC</del> and DSAC basis)</p>	<ol style="list-style-type: none"> <li>1. ensure the LRIC model reconciles to BT group's total cost and asset and liability base <u>excluding the fully allocated costs of the physical infrastructure markets</u>;</li> <li>2. review the outputs of BT's LRIC model for the whole BT group by cost category and components, increments and layers of common costs;</li> <li>3. identify all relevant layers of common costs separately within BT group;</li> <li>4. enable trend analysis of this breakdown to be undertaken;</li> <li>5. enable assessment of cost-volume relationships;</li> <li>6. provide input into network price control reviews.</li> </ol>
5(a)(ii)	<p>Summarised activity analysis for network components and increments <u>for all costs that are not part of the Physical Infrastructure Market</u></p> <p>(LRIC, <del>DLRIC</del> and DSAC basis)</p>	<ol style="list-style-type: none"> <li>1. review the outputs of BT's LRIC model by activity analysis for network components, increments and the layers of common costs;</li> <li>2. identify all relevant layers of common costs separately for network activities;</li> <li>3. enable trend analysis of this breakdown to be undertaken;</li> <li>4. provide input into network price control reviews;</li> <li>5. ensure LRIC model reconciles to the total cost and asset and liability base for BT's network activities <u>excluding the fully allocated costs of the PIMR market</u>.</li> </ol>

Source: Ofcom

### Duplicated additional financial information

3.54 Consistent with our view in the 2018 WLA Statement, we do not consider it necessary to direct BT to provide separate AFIs where the same information can be provided to us in an appropriate format as part of the Data File. However, this would not apply to:

- information that we do not get as part of the Data File;<sup>78</sup>
- where obtaining the information from the Data File would not be straightforward and/or the information from the Data File is different to that which would have been included in the AFI; or
- where the AFI is used as a control total for information obtained from the Data File.<sup>79</sup>

3.55 We have reviewed the current AFIs and identified information which BT currently provides both under a separate AFI and as part of the Data File. Based on that we propose to remove certain requirements on BT to provide information under a separate AFI where this information is contained in the Data File. We set our proposals in Table 3.5 below.

**Table 3.5 Removal of requirement to provide information under a separate AFI where contained in the Data File**

Additional Financial Information	Summary Description
<p>Analysis, by asset category and network activities, of the depreciation charge for the year and impact of CCA valuation adjustments on costs for the year for example:</p> <ul style="list-style-type: none"> <li>-HCA depreciation</li> <li>-CCA supplementary depreciation</li> <li>-Other CCA adjustments</li> </ul>	<ol style="list-style-type: none"> <li>1. provide impact on profit and loss cost base of the application of CCA methodologies;</li> <li>2. enable trend analysis of this breakdown to be undertaken;</li> <li>3. provide sub-analysis (for the cost/gain line items left) of the asset movement statement in relation to network components;</li> <li>4. provide input into network price control reviews.</li> </ol>
<p>Total mean capital employed and detailed activity analysis for all network components</p>	<ol style="list-style-type: none"> <li>1. review network component costs;</li> <li>2. enable trend analysis of these breakdowns to be undertaken;</li> <li>3. provide input into price control reviews;</li> <li>4. assist in dealing with investigations;</li> <li>5. ensure summarised activity analysis presented elsewhere reconciles to BT's network activities cost base.</li> </ol>

<sup>78</sup> Currently LRIC and DSAC information, going forward only LRIC data.

<sup>79</sup> For example AFIs 1-4.

Additional Financial Information	Summary Description
Detailed network activity analysis of mean capital employed for all network components	<ol style="list-style-type: none"> <li>1. enable trend analysis of these breakdowns to be undertaken;</li> <li>2. ensure summarised activity analysis reconciles to BT's network activity mean capital employed.</li> </ol>
Total operating costs and mean capital employed costs (and associated volumes) for each plant group and their individual exhaustion, including the disclosure of relevant usage factors, onto each network activity and/or (sub) component	<ol style="list-style-type: none"> <li>1. review the breakdown of costs to all the different components and sub-components within BT's network activities;</li> <li>2. enable trend analysis of this breakdown to be undertaken;</li> <li>3. provide input into network price control reviews;</li> <li>4. ensure total plant group costs reconcile to the cost base for BT's network activities.</li> </ol>
BT Network Services Reconciliation	Provide a breakdown of FAC into BT services and components and reconcile both categories to the total FAC for the year.
Comprehensive analysis of transfer charges	<ol style="list-style-type: none"> <li>1. Allows Ofcom to check that material items have been separately disclosed in the published Regulatory Financial Statements;</li> <li>2. Allows BT to demonstrate compliance with its non-discrimination obligations.</li> </ol>

Source: Ofcom.

## The Network Components Direction

- 3.56 We propose changes to the Network Components Direction that impact all regulated markets. In particular, we propose the following new network components:
- a) New Duct and Pole infrastructure components (see Section 4);
  - a) New dark fibre components (see Section 5); and
  - b) Other network component changes (see below).<sup>80</sup>

<sup>80</sup> To cover the costs of the patch panel.

## Other network component changes

3.57 We have reviewed the network component list in the most recent direction imposed on BT in the 2018 WLA Statement against the network components used within BT's 2017/18 RFS. As a result of this review, we have identified the following inconsistencies between the network components list and the RFS that we propose to resolve by adding or removing components as listed below:

a) Components to be added:

- Ethernet Monitoring Platform;
- NGA Visit Assure;
- OR project services
- EAD Electronics Capital
- Ethernet Electronics Current
- Optical Ethernet Electronics Capital
- Ethernet Excess Construction Capex
- Broadband MSAN access
- MSAN Access – SFBB

b) Components to be removed:

- Nominated In Span I/Connect cct (ISI) transmission;
- In Span Interconnect circuits (ISI) transmission;
- Customer Sited Interconnect cct (CSI) 2 Mbit/s link;
- Customer Sited Interconnect (CSI) 2 Mbit/s per km;<sup>81</sup>
- Ethernet Electronics;<sup>82</sup>
- EES and MSAN Access – Broadband;<sup>83</sup> and
- GEA Fibre Voice Access Rental<sup>84</sup>
- GEA Fibre Voice Access Connection<sup>85</sup>

3.58 We propose to make the above changes to the network components list. This will ensure consistency between the network components list and BT's RFS.

---

<sup>81</sup> These first four components have been removed as Tandem Layer is no longer regulated.

<sup>82</sup> This has been replaced with the three new electronics components introduced above.

<sup>83</sup> This has been replaced with the two components, 'Broadband MSAN access' and 'MSAN access -SFBB' introduced above.

<sup>84</sup> These components were introduced in the 2018 WLA Statement (see paragraph A8.290) to facilitate reporting of an Openreach provided VOIP service for FTTP. Since then, Openreach has informed us that it will be withdrawing this service (email from [redacted] (BT) to [redacted] (Ofcom) dated 23 November 2018). Total fully allocated costs to date that would have been attributed to these two components are [redacted]. We therefore do not think that it is proportionate to require BT to continue to work on creating these new network components.

<sup>85</sup> These components were introduced in the 2018 WLA Statement (see paragraph A8.290) to facilitate reporting of an Openreach provided VoIP service for FTTP. Since then, Openreach has informed us that it will be withdrawing this service (email from [redacted] (BT) to [redacted] (Ofcom) dated 23 November 2018). Total fully allocated costs to date that would have been attributed to these two components are [redacted]. We therefore do not think that it is proportionate to require BT to continue to work on creating these new network components.

- 3.59 In respect of all the proposed new network components, we believe that it is for BT to determine how network components are constructed and to ensure that the attributions to them are in accordance with the RAP.

## Implementation

- 3.60 We propose to change BT's regulatory financial reporting obligations by way of new directions made under the SMP conditions in the respective regulated markets. The draft directions we propose are included in Annex 5.

## Consultation question

**Question 3.1:** Do you agree with our proposals in respect of BT's regulatory financial reporting requirements in relation to all regulated markets? Please set out your reasons and supporting evidence for your response.



## 4. Regulatory financial reporting in relation to the physical infrastructure markets

- 4.1 In the 2018 PIMR Consultation we proposed to set on BT an SMP condition in relation to regulatory financial reporting which includes general requirements for accounting separation and cost accounting in the physical infrastructure market.<sup>86</sup> In this section, we set out the specific regulatory financial reporting requirements that we propose by way of directions made under those cost accounting and accounting separation obligations.
- 4.2 We first set out our proposals to give the eight directions which are common to all regulated markets, in relation to the physical infrastructure markets.<sup>87</sup> We then set out proposals for specific regulatory financial reporting obligations that relate to the physical infrastructure markets and form part of the following directions:
- Consistency with Regulatory Decisions and Regulatory Asset Value Direction;
  - Preparation, Delivery, Publication, Form and Content of the RFS Direction; and
  - The Network Components Direction.

### Proposal to set the eight directions common to all regulated markets in the physical infrastructure markets

- 4.3 In Section 2, we note that we typically give eight directions to BT in relation to regulatory financial reporting for each regulated market. This preserves the integrity and consistency of BT's regulatory financial reporting. We also described the reasons why we impose each of these directions.
- 4.4 For the same reasons as identified in Section 2, we propose giving all eight directions to BT in relation to the physical infrastructure markets. In particular:
- **Regulatory Accounting Principles Direction:** we consider that the RAP should be implemented in the physical infrastructure markets to preserve the integrity and consistency of the RFS across all regulated markets;
  - **Consistency with Regulatory Decisions and Regulatory Asset Value Direction:** this direction is needed in order to ensure that BT's reporting in the physical infrastructure markets reflects our regulatory decisions and provides us with necessary information to support our future regulation. The direction is particularly important given that these markets are new and we intend to review them again by 2021;
  - **Transparency Direction:** this direction is of particular importance for stakeholders interested in the PIA remedy. Given that these markets are new, we expect

---

<sup>86</sup> See section 4 of the 2018 PIMR Consultation.

<sup>87</sup> In Section 3 of the 2018 PIMR Consultation we propose to define a single product market for provision of wholesale access to telecoms physical infrastructure for deploying a telecoms network which is split in four geographic markets: 1) BT only areas; 2) BT and Virgin Media areas; 3) High Network Reach areas (excluding the Central London Area); and 4) The Central London Area.

stakeholders to have an increased focus on BT's information with respect to physical infrastructure markets. We therefore consider it is necessary to require BT to ensure that this information is transparent such that readers can gain a clear understanding;

- **Audit of the RFS Direction:** as with the Transparency Direction, this direction is important for providing confidence to stakeholders in the new regulatory regime in these markets;
- **Reconciliation Report Direction:** this direction will ensure transparent and consistent reporting in BT's future RFS in these markets. As with the Transparency Direction and Audit of the RFS Direction, this direction is particularly relevant to stakeholders that are interested in the PIA remedy and BT's compliance with the new regulation. It is therefore essential that errors and methodological changes be identified;
- **Adjusted Financial Performance Direction:** as with the Reconciliation Report Direction, this direction will ensure transparent and consistent reporting in BT's future RFS in these markets. It will require BT to show the impact of regulatory decisions not reflected in the RFS;
- **Preparation, Delivery, Publication, Form and Content of the RFS Direction:** this direction will ensure that relevant information is provided to stakeholders and that the RFS serves as a reference point for our future regulation. It is particularly important given that these markets are new; and
- **Network Components Direction:** this direction ensures that regulatory financial reporting continues to provide consistent information across all regulated markets that is necessary for us to make informed regulatory decisions and monitor compliance with proposed remedies. It also ensures that BT only reports as much information as necessary in the newly created markets.

4.5 All of the above directions are subject to our proposed changes in this consultation.

## The Consistency with Regulatory Decisions and Regulatory Asset Value Direction

4.6 In this section we propose specific regulatory financial reporting requirements related to network adjustments<sup>88</sup> carried out by Openreach (above and below the financial limit<sup>89</sup>). The purpose of these requirements is to allow Ofcom and stakeholders to monitor BT's compliance with our proposals for how network adjustments costs should be recovered, and the proposed requirement for no-undue discrimination, as set out in the 2018 PIMR Consultation.<sup>90</sup>

---

<sup>88</sup> In Section 5 of the 2018 PIMR Consultation, we explain that the network access obligation should include a requirement on Openreach to make certain adjustments to its network. These adjustments are those necessary to make Openreach's physical infrastructure network available to telecoms providers for the purpose of deploying their own networks.

<sup>89</sup> In Section 7 of the 2018 PIMR we proposed that the costs of network adjustments should be recovered from all users of the infrastructure up to a financial limit.

<sup>90</sup> See 2018 PIMR Consultation, paragraphs 4.22-4.39 and 6.4-6.24.

4.7 For the avoidance of doubt, the no-undue discrimination requirement proposed in the 2018 PIMR Consultation applies to all network adjustments carried out to support BT's own downstream services, irrespective of whether they relate to the fibre or copper networks.<sup>91</sup> Therefore, network adjustment costs incurred to support any of BT's downstream services should be recovered in the same way as network adjustments requested by other telecoms providers, unless BT can demonstrate that a different approach can be justified. Our proposed financial reporting requirements reflect this.<sup>92</sup>

## Network adjustments above the financial limit

4.8 In the 2018 PIMR Consultation, we proposed that any network adjustment costs incurred above the financial limit should be recovered directly from the telecoms provider requesting the network adjustment, through ancillary charges.<sup>93</sup>

4.9 Consistent with decisions in the 2018 WLA Statement,<sup>94</sup> we propose that all costs relating to network adjustments above the financial limit should be identified and recorded separately from other infrastructure costs and treated as an operating expense within the PIMR. This also applies to the costs of network adjustments undertaken to support BT's own downstream services.<sup>95</sup>

4.10 Our proposals ensure that:

- a) where BT incurs network adjustment costs above the financial limit which are requested and paid for by other telecoms providers, these costs are not recovered again through SMP network access services in future; and
- b) where BT incurs network adjustment costs above the financial limit to support its own downstream services, these costs are not recovered from other SMP network access services in future. BT may recover these costs from any SMP network access services that the network adjustment was undertaken to support.

4.11 We are aware that expensing costs in the RFS that BT capitalises in the statutory accounts, such as network adjustment costs above the limit, results in a divergence of accounting policies between the RFS and BT's statutory accounts. However, as we set out in the 2018 WLA Statement,<sup>96</sup> the RAP is applied in order of priority, and the principle of ensuring the RFS is consistent with our regulatory decisions has a priority over the principle that the RFS

---

<sup>91</sup> The no-undue discrimination requirement imposed in the 2018 WLA Statement similarly applies to all network adjustments carried out to support BT's own downstream services which fall within the WLA market, irrespective of whether they relate to the fibre or copper networks. Therefore, in the WLA market network adjustment costs incurred to support any of BT's downstream services should also be recovered in the same way as network adjustments requested by other telecoms providers, unless BT can demonstrate that a different approach can be justified.

<sup>92</sup> Were BT to demonstrate that a different treatment for some network adjustments is justified (in either the WLA or physical infrastructure markets), the reporting requirements would need to reflect this.

<sup>93</sup> 2018 PIMR Consultation, paragraphs 6.13-6.16.

<sup>94</sup> 2018 WLA Statement, paragraphs A8.108 – A8.116.

<sup>95</sup> In terms of the accounting treatment for network adjustments above the limit for BT's downstream services, i.e the internal sale from PIMR to regulated and unregulated services, so long as the treatment was transparent and in accordance with the RAP, BT could choose to separately capitalise the transfer charges within the relevant markets and attribute to services.

<sup>96</sup> 2018 PIMR Consultation, paragraphs A8.112-A8.116.

are consistent with any statutory reporting requirements. The rationale behind our reporting proposal to expense these costs is to ensure the treatment of network adjustment costs above the limit matches the proposed regulatory decision, which is that costs should match the upfront revenue.

- 4.12 Whilst we require BT to expense these costs, we recognise that network adjustment costs above the limit, like those below the limit, are improvements and additions to assets with long economic lives. We propose that BT provides some private reporting on them (see below).

### Network adjustments below the financial limit

- 4.13 In the 2018 PIMR Consultation, we also proposed that any network adjustment costs incurred below the financial limit should be recovered over all users of the physical infrastructure.<sup>97</sup>
- 4.14 Consistent with our decisions in the 2018 WLA Statement, we propose that network adjustments below the financial limit should be identified and recorded in BT’s RFS separately from other infrastructure costs. BT should ensure that the network adjustment costs below the financial limit are appropriately capitalised and recovered over network services (including those in relation to supporting BT’s own downstream services) which use BT’s physical infrastructure.
- 4.15 While we appreciate that network adjustment costs in total are unlikely to be significant in 2019/20, our assumption is that they will grow to £[<]m in capital terms in the next two years. We consider that it is therefore proportionate for BT to separately record these costs on an FAC basis in advance of them becoming material.

**Table 4.1: Proposed requirements to be included in BT’s RFS**

	Proposed requirements on treatment in the RFS
Network adjustment costs above the financial limit	<ul style="list-style-type: none"> <li>• BT should identify and record network adjustment costs above the financial limit separately from other infrastructure costs.</li> <li>• BT should ensure that network adjustments above the financial limit are treated as an operating cost.</li> <li>• The costs should be recovered separately from the telecoms provider (including BT) requiring the adjustment.</li> </ul>
Network adjustment costs below the financial limit	<ul style="list-style-type: none"> <li>• BT should identify and record network adjustment costs below the financial limit separately from other infrastructure costs.</li> <li>• BT should ensure any costs incurred for network adjustments below the financial limit are appropriately capitalised and attributed to all network access services that use the physical infrastructure.</li> </ul>

<sup>97</sup> 2018 PIMR Consultation, paragraphs 6.7-6.12.

- BT should ensure that costs it incurs on its own network adjustments below the financial limit are capitalised and attributed to all network access services that use the physical infrastructure.

---

Source: Ofcom

## The Preparation, Delivery, Publication, Form and Content of the RFS Direction

4.16 In Section 2 we provide an overview of the reporting requirements on BT, including the Preparation, Delivery, Publication, Form and Content of the RFS Direction. In Section 3 we propose changes to this direction that impact all regulated markets. In this section we propose additional reporting requirements in relation to the physical infrastructure markets. We first look at public reporting, which is included in the published RFS, and then private reporting, which is provided to Ofcom only.

### Proposed requirements relating to public information in the RFS

4.17 As noted in Section 3, in the published RFS, financial information on regulated markets broadly falls into four categories: BT level information, market level information, service level information and cost components for reported services. We consider BT level information in Section 3 as it has an impact on all regulated markets. Here we set out proposals in relation to the other categories of financial information as they are of specific relevance to the physical infrastructure markets.

#### Market level information

4.18 We propose that BT must publish the revenue, operating costs, mean capital employed and returns for the physical infrastructure markets. Although in the 2018 PIMR Consultation we propose four geographic markets, in view of the expected low take up in this review period, we propose that this reporting is done on a national basis at this stage. In practice, this would mean that the physical infrastructure markets would be included in the sections “Summary of Market Performance” and “Attribution of Wholesale Current Costs and Mean Capital Employed” in the RFS.

4.19 Trends in market level financial performance are informative in the context of considering the impact and effectiveness of the remedies imposed in the physical infrastructure market. Market level cost information also provides transparency regarding how BT has allocated costs between regulated markets (and between regulated and unregulated markets). We see this as facilitating stakeholder confidence that such costs have been allocated consistently and appropriately. It also mitigates the risk that costs might be unreasonably loaded onto particular services or markets. We propose to require BT to publish this information to demonstrate to stakeholders the overall reliability and robustness of the RFS.

4.20 In respect of network adjustments below the financial limit, BT must disclose the MCE attributed to each downstream market as an appendix to the RFS. The proposed appendix

will disclose internal and external MCE (where this is over £5m), total network adjustments below the financial limit attributed to each downstream market. The proposed appendix will provide stakeholders with some information on relative internal and external distribution of network adjustments below the financial limit.

### Service level information

- 4.21 We propose to require BT to publish a separate section called “Review of Physical Infrastructure Markets”. This section will incorporate information in relation to PIA services in the physical infrastructure markets and is consistent with BT’s reporting requirements on all other regulated markets.
- 4.22 We also propose that WLA PIA service information is reported in the physical infrastructure markets rather than the WLA market. We consider this to be appropriate because the PIA remedies in both markets are almost identical and we expect relatively low take up compared to other services in the review period. Consequently, we propose to remove the 2018 WLA Statement requirement for WLA PIA service information to be included in the WLA market. We propose a new Preparation, Delivery, Publication, Form and Content of the RFS Direction for the WLA market in Annex 5.
- 4.23 We propose to require BT to include revenues, volume, average price and FAC for all PIA services, split between internal and external customers, at the level that they are regulated. Publishing this information can demonstrate the impact and effectiveness of the remedies we have imposed in the physical infrastructure markets and provides transparency about the relative usage of the services in the market by BT and external telecoms providers. We set out below the full list of services that BT is required to publish information for.
- 4.24 We consider that the disclosure of average prices and volumes in respect of any PIA rentals or PIA ancillary charges, where the individual services within the aggregated disclosure have different units of measurement, is not practicable and we do not propose that this is required.
- 4.25 As noted in the 2018 WLA Statement,<sup>98</sup> we do not expect BT to be able to account for duct and pole services on an FAC basis until 2020/21. Therefore, we only propose this for 2020/21.
- 4.26 We propose that prices and volumes for disaggregated individual services where revenues are less than £5m but exceed £1m are not published but instead provided privately as part of the additional financial information, as set out below.

### Network components information

- 4.27 In respect of component level information, considering our proposed single PI network component (see below) we consider that providing a cost breakdown by network component would not provide any additional information to stakeholders in this review

---

<sup>98</sup> 2018 WLA Statement, Annex 8 Paragraph 291.

period. We therefore make no proposals for the publication of additional network cost component information.

## Proposed requirements for private information to be provided to Ofcom

- 4.28 As noted in Section 3, BT currently provides us with additional financial information (AFI) schedules in addition to the published RFS. This includes a Data File<sup>99</sup> which contains detailed information on all the revenues, volumes, costs and cost categories that support the published RFS.
- 4.29 In this sub-section we discuss our proposals in relation to additional reporting for services in the physical infrastructure markets.
- 4.30 Consistent with our decision for PIA services in the 2018 WLA Statement<sup>100</sup> and the 2016 BCMR Statement,<sup>101</sup> we propose to require BT to provide additional information to us in private in relation to the physical infrastructure markets. In particular, we propose that BT provides three AFIs in relation to the physical infrastructure markets.

### Additional Detailed Service Reporting for PIMR Services

- 4.31 We propose that BT provides an AFI named “Additional Detailed Service Reporting for PIMR Services” which includes individual internal and external revenue and volume information for every disaggregated service within each specified PIMR group of services where the annual revenues for that service exceeds £1m. The AFI should include two elements.
- a) **Detailed physical infrastructure markets service information:** This should set out the revenues, volumes and FAC on a CCA<sup>102</sup> basis of any physical infrastructure market service not publicly disclosed in the RFS where the revenue from this service is above £1m. The revenues and costs should, in total, be reconciled to the revenues and costs included within the publicly reported totals for the physical infrastructure markets in the RFS. This information will ensure that we have sufficient information to identify services that account for a considerable proportion of PIMR revenues and costs. Where BT cannot demonstrate this information meets the Data File requirements, this information should be supplied as a separate AFI.
  - b) **Detailed physical infrastructure markets service FAC disaggregated costs information:** This should set out the calculation of FAC and usage factors on a service by service level reported under the first requirement. The totals should reconcile to the first requirement in a) above. As with the first requirement, this schedule would ensure that we have sufficient information to identify services that account for a considerable

---

<sup>99</sup> The Data File is part of the 12 AFI.

<sup>100</sup> 2018 WLA Statement, A8.261-A8.263.

<sup>101</sup> 2016 BCMR Statement, Volume 1, paragraphs 16.77-16.85.

<sup>102</sup> Current Cost Accounting (CCA): An accounting convention, where assets are valued and depreciated according to their current replacement cost whilst maintaining the operating or financial capital of the business entity.

proportion of physical infrastructure costs. Where BT cannot demonstrate this information meets the Data File requirements, this information should be supplied as a separate AFI.

- 4.32 We do not propose that BT supplies this AFI for 2019/20. Whilst this information would be useful for the forthcoming Access Review, we appreciate it would be a resource intensive exercise to produce before 2020/21 when we expect FAC cost information to be available. We are working with BT to obtain the information we need for the Access Review informally and at this stage do not propose it is supplied before 2020/21. For 2020/21 we propose BT should supply all the required information as set out in Annex 5.

#### Updated Inputs for Calculation of the Maximum PIA Rental Charges

- 4.33 We propose that BT be required to provide an AFI named “Updated Inputs for Calculation of the Maximum PIA Rental Charges” which includes updated information related to the inputs we use to populate our PIA pricing model. We need this information to design any future PIA price controls.<sup>103</sup>

#### Network Adjustments

- 4.34 We propose that BT provides an AFI named “Network Adjustments”. This should set out, on an accumulated MCE basis, internal and external network adjustments below and above the limit across all downstream markets. This is based on the need for comparability of internal and external network adjustments both below and above the financial limit to check for non-discrimination.
- 4.35 In respect of network adjustment costs below the financial limit, these should be disaggregated on a service basis, where the accumulated MCE is greater than £1m. This information should reconcile to the PIMR appendix on MCE published in the RFS (see paragraph 4.20 above).
- 4.36 In respect of network adjustments above the financial limit, both internally and externally, for each downstream market, we propose to require BT to set out the costs they have appropriately capitalised within the downstream markets.

#### Summary

- 4.37 We summarise the PIMR-specific proposed regulatory financial reporting requirements on BT in relation to the Preparation, Delivery, Publication, Form and Content of the RFS Direction in Table 4.2 below.

---

<sup>103</sup> For more information on the inputs we use in our PIA price controls, see Section 5, Volume 3 of the 2018 WLA Statement.



**Table 4.2: Summary of proposed requirements in relation to the Preparation, Delivery, Publication, Form and Content of the RFS Direction**

	Proposed requirements to be included in BT's RFS	Implementation
<b>Public information</b>	<p>BT must publish revenue, volume, average price and cost information for the following services:</p> <ul style="list-style-type: none"> <li>• Internal Physical Infrastructure Rentals for Active Services;<sup>104</sup></li> <li>• PIA rentals;<sup>105</sup></li> <li>• PIA ancillary charges;<sup>106</sup></li> <li>• network adjustments above the financial limit of £4,750 per km for fibre;</li> <li>• other PIA charges;<sup>107</sup> and</li> <li>• an appendix to the RFS disclosing the MCE of PIA network adjustments (internal and external) attributed to each downstream market.</li> </ul>	For 2019/20 RFS, BT to report more aggregated information.
<b>Private information</b>	<p>BT must report privately to Ofcom two AFIs in relation to the physical infrastructure market:</p> <ul style="list-style-type: none"> <li>• Additional Detailed Service Reporting for PIMR Services;</li> <li>• Updated Inputs for Calculation of the Maximum PIA Rental Charges; and</li> <li>• Network adjustments</li> </ul>	<ul style="list-style-type: none"> <li>• Not provided for 2019/20.</li> <li>• Provided both years.</li> <li>• Provided both years.</li> </ul>

Source: Ofcom

## The Network Components Direction

4.38 We propose changes to the Network Components Direction that impact all regulated markets in this consultation as follows:

- a) New Duct and Pole infrastructure component (see below);
- b) New dark fibre components (see Section 5); and
- c) Other network component changes (see Section 3).

<sup>104</sup> These will be imputed figures, the costs being the physical infrastructure consumed by active services based on current attributions methods, the revenue being the FAC plus the Openreach Copper WACC. Average prices and volumes will not be applicable.

<sup>105</sup> Costs, average prices and volumes will not be applicable until disaggregated.

<sup>106</sup> Average prices and volumes will not be applicable until disaggregated.

<sup>107</sup> Costs, average prices and volumes will not be applicable until disaggregated.

## New Duct and Pole network component

4.39 In the 2018 WLA Statement, as part of our long-term reporting requirements for Duct and Pole infrastructure costs, we specified ten new network components for BT to use in order to capture the capital and maintenance costs of ducts and poles within its physical infrastructure. These new network components were:

- Duct Spine capital;
- Duct Spine maintenance;
- Junction Boxes Capital;
- Junction Boxes maintenance;
- Manhole capital costs;
- Manhole maintenance costs;
- Pole capital costs;
- Pole maintenance costs;
- Lead-in duct capital costs; and
- Lead-in maintenance costs

4.40 We decided the new network components would not appear in the public version of the RFS until July 2020/21 and we also said we would consult separately on how duct and pole costs would be reported publicly in the RFS and what, if any, additional confidential information we would require.

4.41 As noted above, we propose that all services in the physical infrastructure markets (including WLA PIA services) should be reported in the proposed new Review of Physical Infrastructure Markets section.

4.42 In addition, our regulatory financial reporting proposals will have two impacts on how physical infrastructure costs should be reported using network components:

- a) First, we propose to require cost reporting on an aggregate level in relation to Internal Physical Infrastructure Rentals for Active Services. We propose to require BT to report this from 2019/20 which was not envisaged in the 2018 WLA Statement. This cost reporting will need any new physical infrastructure components to be in place a year earlier than BT had expected. It would not be proportionate to expect BT to be able to have ten new network components in place in 2019/20.
- b) Second, from 2020/21, in relation to Internal Physical Infrastructure Rentals for Active Services, we now propose service level reporting. This will provide additional information on no undue discrimination which was not envisaged at the time of the 2018 WLA Statement.

4.43 As a result of these changes, we now propose that instead of ten network components, BT should report against a single component "PI cost". This information will allow stakeholders to see the aggregate level of PI costs within active services and make comparison between different types of active services and the PI services themselves. We believe that the proposal for a new single component will allow BT to start to report PI costs in 2019/20. The proposed service level reporting for Internal Physical Infrastructure

Rentals for Active Services from 2020/21 also reduces the need for more detailed public network component reporting. While we will still need similar information for regulatory purposes, we now propose to obtain this through the first AFI discussed above.

- 4.44 To preserve the integrity and consistency of BT's RFS it is important that there is a single list of network components used to attribute costs to services in regulated markets. We therefore propose that the new network component (PI cost) applies to services in all regulated markets in the 2019/20 RFS.

## Implementation

- 4.45 We propose that the directions set out in Annex 5 should also apply to the physical infrastructure markets provisionally identified in the 2018 PIMR Consultation. In respect of the physical infrastructure markets, we propose new requirements in respect of the Preparation, Delivery, Publication, Form and Content of the RFS Direction, and the Network Components Direction in order to reflect differences in the proposed requirements for 2019/20 and 20120/2021. These are included in the draft directions we propose in Annex 5.

## Consultation question

**Question 4.1:** Do you agree with our proposals in respect of BT's regulatory financial reporting requirements in relation to the physical infrastructure markets? Please set out your reasons and supporting evidence for your response.

## 5. Regulatory financial reporting in relation to the business connectivity markets

- 5.1 In the 2018 BCMR Consultation we proposed to impose on BT an SMP condition in relation to regulatory financial reporting which includes general requirements for accounting separation and cost accounting in the business connectivity markets.<sup>108</sup> In this section, we set out the specific regulatory financial reporting requirements that we propose to impose on BT under those cost accounting and accounting separation obligations by way of directions made under the SMP condition.
- 5.2 We first set out our proposal to impose the eight directions on BT which are common for all regulated markets, in the business connectivity markets that we have provisionally identified.<sup>109</sup> We then set out proposals for specific regulatory financial reporting obligations that relate only to the business connectivity markets and form part of the following directions:
- Consistency with Regulatory Decisions and Regulatory Asset Value Direction;
  - Preparation, Delivery, Publication, Form and Content of the RFS Direction; and
  - The Network Components Direction

### Proposal to set the eight directions common to all regulated markets in the business connectivity markets

- 5.3 In Section 2, we note that we typically impose eight directions to BT in relation to regulatory financial reporting for each regulated market. This preserves the integrity and consistency of BT's regulatory financial reporting. We also described the reasons why we impose each of these directions.
- 5.4 For the same reasons as identified in Section 2, we propose giving all eight directions to BT in relation to the business connectivity markets. In particular:
- **Regulatory Accounting Principles Direction:** we consider that the RAP should apply in respect of the business connectivity markets to preserve the integrity and consistency of the RFS across all regulated markets;
  - **Consistency with Regulatory Decisions and Regulatory Asset Value Direction:** this direction is needed in order to ensure that BT's reporting in the business connectivity markets reflects our regulatory decisions and provides us with necessary information to

---

<sup>108</sup> See Section 11 of the 2018 BCMR Consultation.

<sup>109</sup> In Sections 4-8 of the 2018 BCMR consultation we propose to define a single product market for provision of Contemporary Interface (CI) Access services, split into five geographic markets excluding the Hull Area: 1) BT Only areas; 2) BT+1 areas; and 3) the Central London Area; 4) High Network Reach (HNR) areas of each of Birmingham, Bristol, Edinburgh, Glasgow, Leeds and Manchester; and 5) all other HNR areas (taken together). We also propose to define a single product market for CI Inter-exchange connectivity where each BT exchange is its own geographic market. Finally, we propose to define a national market for provision of legacy Traditional Interface (TI) leased lines.

support our future regulation. Again, it is important to preserve the integrity and consistency of the RFS across all markets;

- **Transparency Direction:** this direction ensures that stakeholders can get a clear understanding of BT's RFS and its compliance with the its SMP conditions. This is important for example in markets and technical areas where we propose to relax the SMP conditions or where we propose a dark fibre access remedy;
- **Audit of the RFS Direction:** as with the Transparency Direction, this direction is important for providing confidence to stakeholders in the regulatory regime in these markets;
- **Reconciliation Report Direction:** this direction will ensure transparent and consistent reporting in BT's RFS in these markets. We consider that stakeholders should be able to identify and understand errors and methodological changes from BT's previous RFS;
- **Adjusted Financial Performance Direction:** as with the Reconciliation Report Direction, this direction will ensure transparent and consistent reporting in BT's RFS in these markets. It will require BT to show the impact of regulatory decisions not reflected in the RFS. We discuss these proposed regulatory decisions below;
- **Preparation, Delivery, Publication, Form and Content of the RFS Direction:** this direction will ensure that relevant information is provided to stakeholders and that the RFS serves as a reference point for our future regulation; and
- **Network Components Direction:** this direction ensures that regulatory financial reporting continues to provide consistent information across all regulated markets that is necessary for us to make informed regulatory decisions and monitor compliance with proposed remedies.

5.5 All of the above directions are subject to our proposed changes in Section 3.

## Consistency with Regulatory Decisions and Regulatory Asset Value Direction and Adjusted Financial Performance Schedule

5.6 We propose specific consistency with regulatory decisions and adjusted financial performance schedule requirements for the business connectivity markets. Our analysis is structured as follows:

- proposed adjustments to BT's cost information for the purpose of our analysis to inform our price control proposals;
- characteristics of those adjustments and whether they should be reflected in the RFS or the Adjusted Performance Schedule; and, if so,
- how the adjustments should be reflected in the RFS or the Adjusted Performance Schedule.

### Proposed adjustments to BT's cost information for the purpose of analysis

5.7 To inform our proposals on the charge controls, in Volume 2 of the 2018 BCMR Consultation we proposed various adjustments to the cost information reported in BT's

2016/17 RFS,<sup>110</sup> which we used as our base year. We also made several other adjustments in respect of costs calculations that do not strictly reflect BT's actual costs. These adjustments are summarised in Table 5.1. below.

**Table 5.1 List of all proposed adjustments made within the 2018 BCMR Consultation to BT's cost information**

Proposed adjustment	Description
a) BT CCN adjustments	BT proposed several changes in its 2018 Change Control Notification. <sup>111</sup> These changes were subsequently made in the 2017/18 RFS and will be present in our base data when we update our analysis for the forthcoming BCMR statement.
b) Fibre indexation	<p>One of the 2018 CCN methodology changes that BT proposed was to calculate the CCA valuation of the Access – Fibre Cable based on the CPI index. BT has subsequently reflected this valuation in the 2017/18 RFS.</p> <p>Based on the analysis we have undertaken we believe that a CCA valuation based flat nominal indexation provides a more appropriate measure of the CCA valuation. We have adjusted the valuation on the fibre assets to reflect this.</p>
c) EE integration costs	Integration costs in relation to acquisition of EE have been removed.
d) Excess Construction Charges (ECC)	We have removed historical and in-year capitalised ECC costs together with any associated in-year depreciation and replaced them with an on operating expense equal to the actual in-year capital expenditure.
e) Openreach Repayment Works	The revenue for Openreach repayment works are recognised within its residual markets. However, any repayment work assets that are capitalised are capitalised within regulated markets. We have removed the capitalised repayment costs and associated depreciation.

<sup>110</sup> These adjustments are described in detail in Annex 19 of the 2018 BCMR Consultation.

<sup>111</sup> <https://www.btplc.com/Thegroup/Policyandregulation/Governance/Financialstatements/2018/ChangeControlNotification2017-18.pdf>

Proposed adjustment	Description
f) Include restructuring charges and property provision costs	Consistent with our approach in the 2018 WLA Statement, we propose to smooth these volatile costs over a three-year period.
g) Cumulo costs	Consistent with the approach in the 2018 WLA Statement, we forecast cumulo costs separately to reflect the significant increases in these costs.
h) Increase pensions service costs	We have increased the pensions costs to take account of the new pension agreements in place from 2018.
i) SLG Payments	We forecast SLG costs separately to reflect the significant increases in these costs in recent years

5.8 We explained in the 2015 Directions Statement that the identification of proposed adjustments that should or should not be reflected within either BT's regulatory financial reporting or the Adjusted Financial Performance Schedules is a matter for our judgement and should be considered on a case by case basis.

### Characteristics of proposed adjustments

5.9 We explained in the 2015 Directions Statement that the starting point for our analysis is that we would expect to see a cost adjustment made by us in our regulatory decisions to be reflected in the RFS if it relates to the way BT's actual or incurred costs should be treated.

5.10 We also said that "we would not expect to see an adjustment arising from a regulatory decision reflected in the [RFS] if:

- the adjustment has the effect of replacing BT's incurred costs with an alternative estimate of cost. In such case, we would expect to see the adjustment reflected in the Adjusted Financial Performance schedules.
- the adjustment has the effect of replacing BT's incurred costs with a value that is not based on BT's network (whether actual or estimated). In addition, we would not expect such an adjustment to be reflected in the Adjusted Financial Performance schedules."<sup>112</sup>

<sup>112</sup> 2015 Directions Statement, paragraph 3.35.

- 5.11 Finally, we noted that we would not expect to see a cost adjustment to be reflected in the RFS or the Adjusted Financial Performance schedules if the adjustment has the effect of replacing BT’s incurred costs with a value that is not based on BT’s network and it is only made for forecasting purposes.
- 5.12 To determine whether the adjustments listed in Table 5.1 should be reflected in BT’s RFS or Adjusted Financial Performance schedules we have applied the approach set out above. We present our analysis in Table 5.2 below.

**Table 5.2 Analysis of all proposed adjustments**

Proposed adjustment	(a) Does the adjustment have the effect of replacing BT’s incurred costs with an alternative estimate of cost?	(b) Does the adjustment have the effect of replacing BT’s incurred costs with a value that is not based on BT’s network?
a) BT CCN adjustments <sup>113</sup>		
b) Fibre valuation		
c) EE integration costs	No	No
d) Excess Construction Charges		
e) Openreach repayment works		
f) Include restructuring charges and property provision costs	Yes	No
g) Remove cumulo costs		
h) Increase pensions services costs	No	Yes
i) SLG Payments		

### **Adjustments to be reflected within the proposed Consistency with Regulatory Decisions and Regulatory Asset Value Direction**

- 5.13 In line with the approach set out above, we consider that adjustments a) to e) should be reflected within the 2019/20 RFS. We therefore propose that the RFS should include these adjustments.

<sup>113</sup> Excluding fibre CCA methodology change at CPI.



Table 5.3 Proposed adjustments to be reflected in the RFS

Proposed adjustment	Proposed requirements on treatment in the RFS
a) BT CCN adjustments <sup>114</sup>	These changes have already been reflected in the 2017/18 RFS on the same basis as set out within BT's 2018 CCN.
b) Fibre valuation	The CCA valuation at CPI of the fibre asset within the RFS should be revised to instead use a flat nominal indexation, which we believe is currently the best measure of the CCA valuation. Fibre assets should then be indexed forward at a flat nominal rate. <sup>115</sup>
c) EE integration costs	Any costs relating to the EE acquisition should not be attributed to regulated markets. We propose that BT should reflect this adjustment within the RFS on the same basis.
d) Excess Construction Charges	ECC costs should not be capitalised and instead these costs should be treated as an operating expense in the year that they are incurred.
e) Openreach Repayment Works	In Annex 19 of the 2018 BCMR Consultation, we set out how we calculated the adjustments we made to BT's 2016/17 RFS base year data to correct the Openreach repayment works cost error and we propose that BT should reflect the adjustments in its RFS on a similar basis. However, where we made an assumption for costs pre-2012/13, BT should use actuals.

### Adjustments to be reflected within the proposed Adjusted Financial Performance Direction

- 5.14 In the 2015 Directions Statement, we noted that if not all regulatory decisions were reflected in the RFS, differences could arise between the reported view of BT's financial performance and the view we took when making regulatory decisions.<sup>116</sup> We therefore decided that BT must prepare the Adjusted Financial Performance schedules as part of its regulatory financial reporting to show the impact of certain regulatory decisions not reflected in the RFS.<sup>117</sup>
- 5.15 In line with the approach set out above, we consider that adjustment f) in Table 5.2 should be included in BTs Adjusted Financial Performance schedule.

<sup>114</sup> Excluding fibre CCA methodology change at CPI.

<sup>115</sup> Resulting in the same valuation as HCA.

<sup>116</sup> 2015 Directions Statement, paragraph 3.36.

<sup>117</sup> Each market review level is composed of individual SMP markets. The market review levels and the component SMP markets for which BT has regulatory financial reporting requirements are set out each year in Section 1 of BT's RFS.

**Table 5.4 Proposed adjustments to be made in BT's Adjusted Financial Performance schedule**

Proposed adjustment	Proposed treatment in the Adjusted Financial Performance schedule
f) Include restructuring charges and property provision costs	Show the impact of removing the actual movement on Restructuring costs and the Property Rationalisation provision and replacing it with one calculated based on a three year average.

### Adjustments not reflected within the RFS or the Adjusted Financial Performance schedule

5.16 In the 2015 Directions Statement,<sup>118</sup> we also said that some regulatory decisions should not be reflected in either the RFS or the Adjusted Financial Performance schedules. As part of this consultation we have considered that we would not expect to see a cost adjustment to be reflected in the RFS or the Adjusted Financial Performance schedules if the adjustment has the effect of replacing BT's incurred costs with a value that is not based on BT's network and it is only made for forecasting purposes.

5.17 In line with our approach set out above, we do not propose that the adjustments g) to i) should be reflected in either the RFS or the Adjusted Financial Performance schedules. We set out our reasons in Table 5.5 below.

**Table 5.5 Proposed adjustments not to be made in BT's RFS or the Adjusted Financial Performance schedules**

Proposed adjustment	Justification for non-inclusion
g) Remove Cumulo costs	This adjustment is based on our model that reflects our view of what these costs could be going forward. This adjustment does not reflect BT's actual costs and should not be reflected in the RFS. Going forward, BT's actual costs will be reflected in the RFS rather than the costs we have modelled. It is therefore not appropriate for BT to prepare and include adjustments in respect of Cumulo.
h) Increase pensions service costs	BT's 2017/18 RFS will reflect the actual increase in pension service costs.

<sup>118</sup> 2015 Directions Statement, paragraph 3.23.

Proposed adjustment	Justification for non-inclusion
i) SLG Payments	This adjustment in our model reflects our view of what these costs will be going forward. This adjustment does not reflect BT's actual costs and should not be reflected in the RFS. Going forward, BT's actual costs will be reflected in the RFS rather than the costs we have modelled. It is therefore not appropriate for BT to prepare and include adjustments in respect of SLG payments.

## The Preparation, Delivery, Publication, Form and Content of the RFS Direction

5.18 We propose changes to the Preparation, Delivery, Publication, Form and Content of the RFS Direction which are specific to the business connectivity markets. These relate to BT's requirements for public and private reporting.

### Proposed requirements relating to public information in the RFS

5.19 As noted in Section 3, in the published RFS, financial information on regulated markets broadly falls into four categories: BT level information, market level information, service level information and cost components for reported services. We discussed BT level information in Section 3 as our proposals there impact all regulated markets. In this section we set out proposals in relation to the other categories of financial information that are specific for the business connectivity markets.

#### Market level information

5.20 Market level information includes information on the revenues, operating costs, capital employed and returns on MCE for a specific market. It is presented in the sections "Summary of Market Performance" and "Attribution of Wholesale Current Costs and Mean Capital Employed" of the RFS. In the 2017/18 RFS, this information is set out in the schedules on pages 22, 88 and 91 for the 2017/18 financial year. For example, in 2017/18, these schedules show that revenue in the BCMR markets was £766m and the return on MCE was 10.3%. The schedules also show a breakdown of operating costs and capital employed.<sup>119</sup>

5.21 We set out our proposed market definitions and our rationale behind them in Sections 4, 5 and 7 of the 2018 BCMR Consultation. We proposed to identify two product markets, CI Access services at all bandwidths and CI Inter-exchange connectivity services.

<sup>119</sup> Operating cost and capital employed are broken down by what BT calls 'sectors' on pages 88 and 91 of the 2017/18 RFS. These sectors provide a high-level view of the types of operating costs and assets associated with the relevant market.

- 5.22 In the CI Access services market we proposed a number of geographic markets as follows:
- BT Only areas;
  - BT+1 areas;
  - the Central London Area;<sup>120</sup>
  - High Network Reach (HNR) areas of each of Birmingham, Bristol, Edinburgh, Glasgow, Leeds and Manchester (Metro Areas); and
  - all other HNR areas.<sup>121</sup>
- 5.23 In the CI Inter-exchange connectivity services market, we proposed that each BT exchange is in its own geographic market. We proposed that all BT exchanges fall into one of three categories, based on the number of Principal Core Operators (PCOs) present:
- BT Only;
  - BT+1; and
  - BT+2 or more.
- 5.24 We proposed to aggregate these into two broad markets for the purpose of imposing regulation:
- a) The market for CI Inter-exchange connectivity between BT+2 or more exchanges (in which we propose to find that BT does not have SMP). This is referred to in the legal instrument annexed to our 2018 BCMR Consultation as the “Wholesale market for CI Inter-exchange Connectivity Services along Competitive IEC Routes”; and
  - b) The market for CI Inter-exchange connectivity in the rest of the of the UK (in which we propose to find that BT has SMP). This is referred to in the legal instrument annexed to our 2018 BCMR Consultation as the “Wholesale market for CI Inter-exchange Connectivity Services along Non-competitive IEC Routes”.
- 5.25 For the purposes of regulatory financial reporting, given our proposal that regulated dark fibre access services are only available on circuit routes originating from BT only exchanges, we propose that reporting for the Wholesale market for CI Inter-exchange Connectivity Services along Non-competitive IEC Routes is split into two technical areas:
- a) Technical Area - Inter-exchange Connectivity (Dark Fibre Circuits); and
  - b) Technical Area – Inter-exchange Connectivity (Non-Dark Fibre Circuits).
- 5.26 We propose that BT must publish the revenue, operating costs, capital employed and returns for each of the business connectivity markets<sup>122</sup> and technical areas that we propose to make a significant market power finding as set out above. In practice this means that business connectivity markets and technical areas will continue to be included in the “Summary of Market Performance” the “Attribution of Wholesale Current Costs and Mean Capital Employed” sections in the RFS.<sup>123</sup> Trends in market level financial

---

<sup>120</sup> In the 2018 BCMR Consultation we proposed to find that BT has no SMP in this market.

<sup>121</sup> We also proposed that the Hull Area constitutes a geographic market.

<sup>122</sup> We propose that all High Network Reach Areas be combined.

<sup>123</sup> See pages 21, 25 and 28 of the 2015/16 RFS.

performance are informative in the context of considering the impact and effectiveness of the remedies we propose in the 2018 BCMR Consultation. Market level cost information also provides transparency regarding how BT has allocated costs between regulated markets (and between regulated and unregulated markets).

- 5.27 We see this as facilitating stakeholder confidence that such costs have been allocated consistently and appropriately. It also mitigates against the risk of double recovery of costs or that costs might be unreasonably loaded onto services or markets. We consider it is proportionate to require BT to publish this information to understand and demonstrate the overall reliability and robustness of the RFS.

### Service level information

- 5.28 BT currently publishes information on BCMR services split by different geographical and product markets,<sup>124</sup> and key services defined by Ofcom in the 2017 BCMR Temporary Conditions Statement and 2016 BCMR Statement. For these markets and products, BT currently reports on the internal and external revenues, volumes, prices and costs. For example, in relation to the “CISBO Combined Geographic” market, page 49 & 50 of the 2017/18 RFS gives this information for 24 BCMR services and sub baskets provided in that market.
- 5.29 We are not proposing a cost-based charge control on BT in the BCMR markets, apart from in respect of dark fibre access from BT Only exchanges to other BT exchanges (i.e. a subset of the Wholesale market for CI Inter-exchange Connectivity Services along Non-competitive IEC Routes). For services in other markets and technical areas, given prices will not be set based on costs, we propose to not require BT to disclose revenue, volume, average price and total FAC information for individual services apart from those specifically identified reference services below. We propose that within each market BT discloses aggregate rentals, connections and ‘Other’ for each basket and sub basket.
- 5.30 In view of our proposed dark fibre remedy for inter-exchange connectivity markets, we propose service level requirements. In particular, for each new dark fibre service<sup>125</sup> and the dark fibre reference services,<sup>126</sup> we propose that BT should disclose:
- the revenue, volume, average price and FAC; and
  - the calculation of FAC based on network component costs and usage factors.
- 5.31 Whilst we have proposed a charge control for dark fibre services (i.e. in the “Technical Area - Inter-exchange Connectivity (Dark Fibre Circuits)”), our draft charges were set using 2016/17 financial data from the RFS for the Low Bandwidth CISBO rest of UK market (and we plan to update these with similar information from the 2016/17 RFS for our final statement) as information in relation to BT Only exchanges was not available. The data for the current Low Bandwidth CISBO rest of UK market most closely aligns to the proposed

---

<sup>124</sup> Current reported markets comprise: “CISBO Rest of UK”, “CISBO Combined Geographic” and “TISBO Low Bandwidth”.

<sup>125</sup> These are: dark fibre connection, dark fibre rental, dark fibre main link, dark fibre cessation charges, dark fibre right when tested charge and dark fibre TRCs. See Section 4 of Volume 2 of the 2018 BCMR Consultation.

<sup>126</sup> EAD 1GB Connections, EAD 1GB Rentals and EAD Main Link rentals.

“Technical Area – Inter-exchange Connectivity (Non-Dark Fibre Circuits)”. Therefore, to allow stakeholders to assess the effectiveness of our proposed dark fibre services charge control against both the dark fibre and reference products costs, we believe they require service level information for both the proposed technical areas.

- 5.32 Consistent with our approach in the 2016 BCMR Statement, we consider that it is important that telecoms providers and Ofcom are provided with this additional information to ensure transparency of the pricing of regulated dark fibre services in the CI Inter-exchange connectivity services markets.

### **Reported cost on components for reported services**

- 5.33 In BT’s cost attribution system, costs are ultimately attributed to cost components, which in turn are attributed to services. BT publishes a list of how the service level FAC information is broken down by cost component. For example, in relation to the CISBO Rest of UK market, page 48-52 of the 2016/17 RFS shows which cost components are used by each reported CISBO Rest of UK service.
- 5.34 We propose that FAC component cost information at the service level, for business connectivity services, are no longer published in the RFS except for dark fibre services and dark fibre reference services in the inter-exchange markets and technical areas. This is because we are not proposing a FAC-based charge control on BT in the business connectivity markets, and we consider that it would therefore not be appropriate for BT to publish this level of detailed FAC information. However, as explained below, we propose this information be provided to Ofcom as part of the private information contained in the RFS.

## **Proposed requirements for private information to be provided to Ofcom**

### **Removal of AFI information**

- 5.35 Following our proposal to no longer regulate the Low bandwidth TISBO markets, we propose that the AFI “Analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue” which relates solely to TISBO services is no longer required.
- 5.36 We therefore propose to remove the requirement for BT to provide this AFI. We set out the proposals in Table 5.6.

Table 5.6: Removal of requirement to provide additional TISBO information

Additional Financial Information	Summary Description
Analysis for the markets covered by the replicability review to explain the differences between ledgered revenue and calculated service revenue;	<ol style="list-style-type: none"> <li>1. explain the difference between the revenue by market reported in the Regulatory Financial Statements compared to the revenue recognised in BT’s general ledger;</li> <li>2. differences to be identified in the following categories: provisions, other immaterial unidentified services, impact of differences between calculated and ledgered volumes and other. This is the minimum disclosure requirement and other types of differences should be identified where applicable;</li> <li>3. the format must be similar to the Market/Technical Area Summary and the Market/Technical Area Calculation of FAC based on component costs and usage factors in the Regulatory Financial Statements with the additional lines added</li> </ol>

#### Inclusion of additional AFI information

- 5.37 We explained above that we are proposing to no longer require BT to:
- publish information on revenue, volumes and prices at the business connectivity service level at the same level of granularity as currently;<sup>127</sup> or
  - publish FAC cost component information in relation to individual business connectivity services.<sup>128</sup>
- 5.38 However, we remain of the view that it is important that we still receive this information for our own internal purposes, as we still need it in order to monitor the effectiveness of our remedies and understand the individual volume and pricing trends in the business connectivity markets. We therefore propose to require BT to provide this information privately to enable us to do this.
- 5.39 We propose that BT provides additional information privately in relation to detailed business connectivity service information and business connectivity service component FACs. We set out the requirements and our reasoning for them below.
- 5.40 The first proposed requirement is for detailed business connectivity service information pursuant to which BT would set out the revenues, volumes and total FAC on a CCA basis of any business connectivity service provided. The revenues and costs should, in total, be reconciled to the revenues and costs included within the publicly reported totals for each

<sup>127</sup> This information is set out in multiple schedules within section 7 of the 2016/17 RFS for each geographic market e.g. pages 46 and 47 for CISBO Rest of UK.

<sup>128</sup> This information is set out in multiple schedules within section 7 of the 2016/17 RFS for each geographic market e.g. pages 48-51 for CISBO Rest of UK.

of the disclosed proposed business connectivity markets and technical areas. This information will ensure that we have sufficient data to identify services that account for a significant proportion of business connectivity revenues and costs which will allow us to monitor the effectiveness of our regulation and to enable our timely intervention to ensure that the SMP obligations within the business connectivity markets address the underlying competitions concerns identified in our market analysis.

- 5.41 The second requirement is for detailed business connectivity service network component FACs pursuant to which BT would set out the calculation of FAC based on component costs and usage factors for all services reported in the Detailed BCMR Service information schedule. The FAC service unit costs should reconcile to those given in the first requirement. As with the Detailed BCMR Service information, this schedule will ensure that we have sufficient cost component information for the services that account for a significant proportion of costs in the business connectivity markets.
- 5.42 As with schedules provided publicly, these schedules will ensure Ofcom has sufficient information to monitor movements of revenues and costs within the market and conduct initial analysis where there appear to be unusual movements.
- 5.43 We propose to require BT to provide us this information as part of the 'Data File'.
- 5.44 We propose to introduce a new AFI schedule entitled 'Dark Fibre Services Revenues and Costs' which must set out how the charge for inter-exchange dark fibre services connectivity has been calculated.

## The Network Components Direction

- 5.45 We propose changes to the Network Components Direction that impact all regulated markets. In this consultation we propose new network component as follows:
- a) New Duct and Pole infrastructure components (see Section 4);
  - b) New dark fibre components (see below); and
  - c) Other network component changes (see Section 2).

### New Dark Fibre network components

- 5.46 In the 2018 BCMR Consultation, we proposed to require BT to provide dark fibre access from BT Only exchanges. In order to ensure that we and stakeholders can monitor how BT attributes costs to these new services in a transparent way, we propose to amend the list of network components to ensure the list remains relevant for these new services.
- 5.47 We propose to include the new dark fibre components below in the 2019/20 RFS to allow the costs specific to dark fibre services to be appropriately captured:



- Dark fibre Specific Connection costs;<sup>129</sup> and
- Dark fibre specific rental costs.<sup>130</sup>

## Implementation

5.48 We propose that the directions set out in Annex 5 should also apply to the business connectivity markets provisionally identified in the 2018 BCMR Consultation. In respect of the proposed business connectivity markets and technical areas, we propose new requirements in respect of the Consistency with Regulatory Decisions and Regulatory Asset Value Direction, the Preparation, Delivery, Publication, Form and Content of the RFS Direction, and the Network Components Direction in order to reflect differences in the proposed requirements for 2019/20 and 20120/2021. These are included in the draft directions we propose in Annex 5.

## Consultation question

**Question 5.1:** Do you agree with our proposals in respect of BT’s regulatory financial reporting requirements in relation to the business connectivity markets and technical areas? Please set out your reasons and supporting evidence for your response.

---

<sup>129</sup> To cover “birth certificate” process costs. The dark fibre “birth certificate” will be provided by Openreach when handing the circuit over to the access seeker and will display the actual performance characteristics of the dark fibre circuit.

<sup>130</sup> To cover the costs of the patch panel.

## 6. Regulatory financial reporting in relation to the wholesale broadband access markets

- 6.1 In the 2018 WBA Statement we decided to impose on BT an SMP condition in relation to regulatory financial reporting which includes general requirements for accounting separation and cost accounting in the wholesale broadband access market. We also decided to impose specific regulatory financial reporting requirements under those cost accounting and accounting separation obligations by way of directions made under the SMP conditions.<sup>131</sup>
- 6.2 In this section we set out proposals for specific regulatory financial reporting obligations that relate only to the wholesale broadband access market and form part of the Network Components Direction.

### Network Components Direction

- 6.3 In the 2018 WBA Statement we decided to delay the imposition of the Network Components Direction. This was because we needed to further review the list of network components. We explain in detail the reasons for our decision in paragraphs 7.44-7.50 of the 2018 WBA Statement.
- 6.4 In Section 2, we note that we typically impose eight directions to BT in relation to regulatory financial reporting for each regulated market, including the Network Components Direction. This preserves the integrity and consistency of BT's regulatory financial reporting. We also described the reasons why we impose the Network Components Direction.
- 6.5 For the same reasons as identified in Section 2, we propose to impose the Network Components Direction in relation to the wholesale broadband market. In particular, this direction ensures that regulatory financial reporting continues to provide consistent information across all regulated markets that is necessary for us to make informed regulatory decisions and monitor compliance with proposed remedies.
- 6.6 The direction is subject to our proposed changes in Section 3.

### Implementation

- 6.7 We propose that the directions set out in Annex 5 should also apply to the wholesale broadband access market identified in the 2018 WBA Statement. These are included in the draft directions we propose in Annex 5.

---

<sup>131</sup> See Section 7 of the 2018 WBA Statement.

## Consultation question(s)

**Question 6.1:** Do you agree with our proposals in respect of BT's regulatory financial reporting requirements in relation to the wholesale broadband access markets? Please set out your reasons and supporting evidence for your response.

## 7. Legal tests

- 7.1 Under the “Regulatory Financial Reporting” SMP condition we have imposed on BT in each regulated market (or that we are proposing, in the case of the physical infrastructure and business connectivity markets), Ofcom may from time to time make such directions as they consider appropriate in relation to BT’s reporting obligations.<sup>132</sup>
- 7.2 To give effect to our proposals we intend to give directions under section 49 of the Act and the “Regulatory Financial Reporting” SMP condition in each regulated market. We set out our proposed directions in relation to regulatory financial reporting at Annex 5.
- 7.3 In each case we consider that the proposed direction would fulfil our general duties under section 3 of the Act and meet the Community requirements set out in section 4 of the Act. In particular, they ensure that the RFS is aligned with Ofcom’s regulatory decisions. They ensure that the presentation and usability of the RFS is improved, thereby increasing transparency. Overall, they ensure that stakeholders have sufficient information about the products and services they purchase to provide them with reasonable confidence about BT’s compliance with its SMP conditions and that we have sufficient information necessary to carry out our functions. Ultimately, this helps to ensure that BT cannot leverage its market power in a way which could distort or restrict competition.
- 7.4 In giving the directions, we have taken due account of all applicable recommendations issued by the European Commission under Article 19(1) of the Framework Directive, in particular the 2005 EC Recommendation.<sup>133</sup>
- 7.5 Section 49(2) of the Act further requires that Ofcom must be satisfied that any direction satisfies the test in that section, which requires directions to be objectively justifiable, non-discriminatory, proportionate and transparent.

### Regulatory Accounting Principles Direction

- 7.6 We consider that the proposed Regulatory Accounting Principles Direction meets the tests set out in section 49(2) of the Act in that it is:

---

<sup>132</sup> See Condition 9.4 in the 2017 NMR Statement legal instruments, [https://www.ofcom.org.uk/\\_data/assets/pdf\\_file/0022/108355/final-statement-narrowband-market-review-annexes-9-10.pdf](https://www.ofcom.org.uk/_data/assets/pdf_file/0022/108355/final-statement-narrowband-market-review-annexes-9-10.pdf); Condition 12.4 in the 2018 WLA Statement legal instruments, [https://www.ofcom.org.uk/\\_data/assets/pdf\\_file/0024/112488/wla-statement-annex-33.pdf](https://www.ofcom.org.uk/_data/assets/pdf_file/0024/112488/wla-statement-annex-33.pdf); Condition 7.4 in the 2018 WBA Statement legal instruments, [https://www.ofcom.org.uk/\\_data/assets/pdf\\_file/0032/116996/wba-annex-1.pdf](https://www.ofcom.org.uk/_data/assets/pdf_file/0032/116996/wba-annex-1.pdf); Condition 11.4 in the 2018 PIMR Consultation legal instruments, [https://www.ofcom.org.uk/\\_data/assets/pdf\\_file/0014/125420/PIMR-consultation.pdf](https://www.ofcom.org.uk/_data/assets/pdf_file/0014/125420/PIMR-consultation.pdf); Condition 11.4 in the 2018 BCMR Consultation, [https://www.ofcom.org.uk/\\_data/assets/pdf\\_file/0018/124731/bcmr-annex-23-draft-legal-instruments.pdf](https://www.ofcom.org.uk/_data/assets/pdf_file/0018/124731/bcmr-annex-23-draft-legal-instruments.pdf).

<sup>133</sup> European Commission, *Commission Recommendation of 19 September 2005 on accounting separation and cost accounting systems under the regulatory framework for electronic communications*, <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32005H0698&from=EN>

- a) objectively justifiable because by specifying the Regulatory Accounting Principles we will establish the attributes for BT's regulatory financial reporting;
- b) not unduly discriminatory because it reflects BT's market position in the UK excluding the Hull Area;
- c) proportionate because our direction requires no more than what is required to ensure an absence of bias and consistency with regulatory decisions. While we have established the Regulatory Accounting Principles, BT retains an important role in determining the basis of preparation of the RFS, and can continue to put through methodology changes where this is in line with the RAP and such changes have been notified to Ofcom; and
- d) transparent because the intention of our direction is to ensure we take a greater role in the basis of preparation of the RFS to ensure an absence of bias and consistency with regulatory decisions.

## Consistency with Regulatory Decisions and Regulatory Asset Value Direction

7.7 We consider that the proposed Consistency with Regulatory Decisions and Regulatory Asset Value Direction meets the tests set out in section 49(2) of the Act in that it is:

- a) objectively justifiable because it is necessary for us to give a direction which specifies the accounting treatment of various costs across the physical infrastructure, business connectivity and all other markets. For example, in the physical infrastructure markets we need to specify the accounting treatment of the physical infrastructure costs so that the RFS is consistent with our regulatory proposal to set maximum charges on PIA; in the business connectivity markets we need to specify the accounting treatment of dark fibre costs so that the RFS is consistent with our regulatory proposal to set prices for dark fibre at cost; in other markets where we have already imposed some form of price regulation it is necessary to specify the accounting treatment of the various costs in order to ensure consistency with our regulatory decision to set price controls. Furthermore, the direction is objectively justifiable in that the requirements specifying the RAV methodology establish further detail and provide BT with clarity as to the requirements which BT will need to follow to ensure that the RFS are prepared on the RAV basis;
- e) not unduly discriminatory because it reflects BT's market position in the UK excluding the Hull Area;
- f) proportionate because our proposal is no more than would be required to ensure consistency with our decisions. Further, BT retains a key role in determining the basis of preparation of the RFS; and
- g) transparent because it is clear that the intention of our proposal is to ensure that BT's RFS are consistent with our decisions in relation to the price controls proposed in the physical infrastructure and business connectivity markets, and the wider pricing obligations in other markets.

## Transparency Direction

- 7.8 We consider that the proposed Transparency Direction meets the tests set out in section 49(2) in that it is:
- a) objectively justifiable because we are identifying new markets for physical infrastructure and therefore it is important to ensure visibility of BT's behaviour; because in the business connectivity markets we propose to relax the regulation in some markets and to impose a dark fibre remedy for inter-exchange connectivity; and because we need to maintain the comprehensiveness and clarity of the RFS in all other markets;
  - h) not unduly discriminatory because it reflects BT's market position in the UK excluding the Hull Area;
  - i) proportionate because the changes are no more than is required to ensure that the presentation of the basis of preparation of the RFS is clear for users; and
  - j) transparent because the intention of our changes is to ensure that presentation of the basis of preparation is clear for users.

## Audit of the RFS Direction

- 7.9 We consider that the proposed Audit of the RFS Direction meets the tests set out in section 49(2) of the Act in that it is:
- a) objectively justifiable because it is important for both stakeholders and Ofcom that an appropriate level of assurance is provided on the RFS both in new markets as proposed in our 2018 consultations and for existing ones;
  - k) not unduly discriminatory because it reflects BT's market position in the UK excluding the Hull Area;
  - l) proportionate because the audit requirements are no more than is necessary to ensure that an appropriate level of assurance is provided on the RFS; and
  - m) transparent because the intention of our changes is to ensure that an appropriate level of assurance is provided on the RFS.

## Reconciliation Report Direction

- 7.10 We consider that the proposed Reconciliation Reporting Direction meets the tests set out in section 49(2) of the Act in that it is:
- a) objectively justifiable because in all markets it is necessary that there is visibility in relation to errors methodology changes made in the Regulatory Financial Statements, both for us and for other stakeholders, and it is therefore necessary for us to specify the requirements in relation to the content of the reconciliation report and the accompanying audit opinion;

- n) not unduly discriminatory because it reflects BT's market position in the UK excluding the Hull Area;
- o) proportionate because our proposals are no more than is required to provide visibility in relation to changes and errors both for us and for other stakeholders. We are also reducing the burden on BT by removing the requirement to publish certain schedules; and
- p) transparent because our proposals seek to provide visibility in relation to changes and errors both for us and for other stakeholders and to provide BT with clarity about the requirements specifying the content of the reconciliation report and the accompanying audit opinion.

## Adjusted Financial Performance Direction

7.11 We consider that the Adjusted Financial Performance Direction meets the tests set out in section 49(2) of the Act in that it is:

- a) objectively justifiable because our proposal for disclosure of BT's financial performance from a regulatory perspective is necessary to disclose the impact of our regulatory decisions on BT's financial performance. The proposal in relation to the calculation of the impact of the smoothing restructuring and property provision costs, residual copper proceeds and the steady state adjustments specifies the detail which should enable BT to produce the additional statement. Our proposal for the Adjusted Financial Performance schedules to be provided in private seeks to enable us to understand the way in which BT has calculated the impact of the smoothing restructuring and property provision costs, residual copper proceeds and the steady state adjustments in the published Adjusted Financial Performance schedule.
- c) not unduly discriminatory because it reflects BT's market position in the UK excluding the Hull Area.
- d) proportionate because our proposal in relation to the Adjusted Financial Performance Schedules is no more than is required to provide stakeholders with a better understanding of BT's financial performance from a regulatory perspective and to enable us to understand the way in which BT has prepared the published Adjusted Financial Performance Schedule.
- e) transparent because the intention of our proposal is to ensure that stakeholders can gain a better understanding of BT's financial performance from a regulatory perspective and that we can understand the way in which BT has prepared the published Adjusted Financial Performance Schedule.

## Preparation, Delivery, Publication, Form and Content of the RFS Direction

7.12 We consider that the Preparation, Delivery, Publication, Form and Content of the RFS Direction meets the tests set out in section 49(2) of the Act in that it is:

- b) objectively justifiable because the information to be provided, both in public and in private, seeks to ensure that stakeholders have sufficient information about the products and services they purchase to provide them with reasonable confidence about BT's compliance with its SMP conditions and that we have sufficient information necessary to carry out our functions. This direction will also ensure visibility of newly-identified physical infrastructure markets and the dark fibre remedy in the context of business connectivity markets;
- q) not unduly discriminatory because it reflects BT's market position in the UK excluding the Hull Area. We have explained in this document the reasons for requiring relevant additional information from BT both publicly and privately;
- r) proportionate because the direction will be no more than is required to ensure the effectiveness of our decisions in recent market reviews and will ensure that Ofcom and stakeholders are provided with a sufficient level of information, and does not extend beyond these; and
- s) transparent because the intention of the direction is to make sure that the RFS remain fit for purpose and that Ofcom and stakeholders are provided with a sufficient level of information.

## Network Components Direction

- 7.13 We consider that the Network Components Direction meets the tests set out in section 49(2) of the Act in that it is:
- c) objectively justifiable because it is necessary to make the reporting of services in the physical infrastructure, business connectivity, and wholesale broadband access market consistent with our regulatory requirements in all other markets; and to reflect new remedies in the business connectivity and physical infrastructure markets;
  - t) not unduly discriminatory because it reflects BT's market position in the UK excluding the Hull Area;
  - u) proportionate because our proposal is no more than is required to specify network components relevant to the charge controls that we have decided to impose and to resolve inconsistencies between our requirements and BT's RFS; and
  - v) transparent because it is clear that our decision seeks to specify relevant network components in the light of our charge controls and to ensure that these network components remain fit for purpose.



# A1. Responding to this consultation

## How to respond

A1.2 Ofcom would like to receive views and comments on the issues raised in this document, by 5pm on 18 January 2019.

A1.3 You can download a response form from <https://www.ofcom.org.uk/consultations-and-statements/category-1/bt-regulatory-financial-reporting>. You can return this by email or post to the address provided in the response form.

A1.4 If your response is a large file, or has supporting charts, tables or other data, please email it to [reporting@ofcom.org.uk](mailto:reporting@ofcom.org.uk), as an attachment in Microsoft Word format, together with the cover sheet (<https://www.ofcom.org.uk/consultations-and-statements/consultation-response-coversheet>). This email address is for this consultation only, and will not be valid after 18 January 2019.

A1.5 Responses may alternatively be posted to the address below, marked with the title of the consultation:

Regulatory Financial Reporting Team  
Ofcom  
Riverside House  
2A Southwark Bridge Road  
London SE1 9HA

A1.6 We welcome responses in formats other than print, for example an audio recording or a British Sign Language video. To respond in BSL:

- Send us a recording of you signing your response. This should be no longer than 5 minutes. Suitable file formats are DVDs, wmv or QuickTime files. Or
- Upload a video of you signing your response directly to YouTube (or another hosting site) and send us the link.

A1.7 We will publish a transcript of any audio or video responses we receive (unless your response is confidential)

A1.8 We do not need a paper copy of your response as well as an electronic version. We will acknowledge receipt if your response is submitted via the online web form, but not otherwise.

A1.9 You do not have to answer all the questions in the consultation if you do not have a view; a short response on just one point is fine. We also welcome joint responses.

A1.10 It would be helpful if your response could include direct answers to the questions asked in the consultation document. The questions are listed at Annex 4. It would also help if you could explain why you hold your views, and what you think the effect of Ofcom's proposals would be.

- A1.11 If you want to discuss the issues and questions raised in this consultation, please contact [reporting@ofcom.org.uk](mailto:reporting@ofcom.org.uk).

## Confidentiality

- A1.12 Consultations are more effective if we publish the responses before the consultation period closes. In particular, this can help people and organisations with limited resources or familiarity with the issues to respond in a more informed way. So, in the interests of transparency and good regulatory practice, and because we believe it is important that everyone who is interested in an issue can see other respondents' views, we usually publish all responses on our website, [www.ofcom.org.uk](http://www.ofcom.org.uk), as soon as we receive them.
- A1.13 If you think your response should be kept confidential, please specify which part(s) this applies to, and explain why. Please send any confidential sections as a separate annex. If you want your name, address, other contact details or job title to remain confidential, please provide them only in the cover sheet, so that we don't have to edit your response.
- A1.14 If someone asks us to keep part or all of a response confidential, we will treat this request seriously and try to respect it. But sometimes we will need to publish all responses, including those that are marked as confidential, in order to meet legal obligations.
- A1.15 Please also note that copyright and all other intellectual property in responses will be assumed to be licensed to Ofcom to use. Ofcom's intellectual property rights are explained further at <https://www.ofcom.org.uk/about-ofcom/website/terms-of-use>.

## Next steps

- A1.16 Following this consultation period, Ofcom plans to publish a statement in spring 2019.
- A1.17 If you wish, you can register to receive mail updates alerting you to new Ofcom publications; for more details please see <https://www.ofcom.org.uk/about-ofcom/latest/email-updates>

## Ofcom's consultation processes

- A1.18 Ofcom aims to make responding to a consultation as easy as possible. For more information, please see our consultation principles in Annex x.
- A1.19 If you have any comments or suggestions on how we manage our consultations, please email us at [consult@ofcom.org.uk](mailto:consult@ofcom.org.uk). We particularly welcome ideas on how Ofcom could more effectively seek the views of groups or individuals, such as small businesses and residential consumers, who are less likely to give their opinions through a formal consultation.
- A1.20 If you would like to discuss these issues, or Ofcom's consultation processes more generally, please contact the corporation secretary:

Corporation Secretary  
Ofcom  
Riverside House  
2a Southwark Bridge Road  
London SE1 9HA  
Email: [corporationsecretary@ofcom.org.uk](mailto:corporationsecretary@ofcom.org.uk)

## A2. Ofcom's consultation principles

### Ofcom has seven principles that it follows for every public written consultation:

#### Before the consultation

- A2.1 Wherever possible, we will hold informal talks with people and organisations before announcing a big consultation, to find out whether we are thinking along the right lines. If we do not have enough time to do this, we will hold an open meeting to explain our proposals, shortly after announcing the consultation.

#### During the consultation

- A2.2 We will be clear about whom we are consulting, why, on what questions and for how long.
- A2.3 We will make the consultation document as short and simple as possible, with a summary of no more than two pages. We will try to make it as easy as possible for people to give us a written response. If the consultation is complicated, we may provide a short Plain English / Cymraeg Clir guide, to help smaller organisations or individuals who would not otherwise be able to spare the time to share their views.
- A2.4 We will consult for up to ten weeks, depending on the potential impact of our proposals.
- A2.5 A person within Ofcom will be in charge of making sure we follow our own guidelines and aim to reach the largest possible number of people and organisations who may be interested in the outcome of our decisions. Ofcom's Consultation Champion is the main person to contact if you have views on the way we run our consultations.
- A2.6 If we are not able to follow any of these seven principles, we will explain why.

#### After the consultation

- A2.7 We think it is important that everyone who is interested in an issue can see other people's views, so we usually publish all the responses on our website as soon as we receive them. After the consultation we will make our decisions and publish a statement explaining what we are going to do, and why, showing how respondents' views helped to shape these decisions.

## A3. Consultation coversheet

### BASIC DETAILS

Consultation title:

To (Ofcom contact):

Name of respondent:

Representing (self or organisation/s):

Address (if not received by email):

### CONFIDENTIALITY

Please tick below what part of your response you consider is confidential, giving your reasons why

Nothing

Name/contact details/job title

Whole response

Organisation

Part of the response

If there is no separate annex, which parts? \_\_\_\_\_

---

If you want part of your response, your name or your organisation not to be published, can Ofcom still publish a reference to the contents of your response (including, for any confidential parts, a general summary that does not disclose the specific information or enable you to be identified)?

### DECLARATION

I confirm that the correspondence supplied with this cover sheet is a formal consultation response that Ofcom can publish. However, in supplying this response, I understand that Ofcom may need to publish all responses, including those which are marked as confidential, in order to meet legal obligations. If I have sent my response by email, Ofcom can disregard any standard e-mail text about not disclosing email contents and attachments.

Ofcom seeks to publish responses on receipt. If your response is non-confidential (in whole or in part), and you would prefer us to publish your response only once the consultation has ended, please tick here.

Name

Signed (if hard copy)

## A4. Consultation questions

**Question 3.1:** Do you agree with our proposals in respect of BT's regulatory financial reporting requirements in relation to all regulated markets? Please set out your reasons and supporting evidence for your response.

**Question 4.1:** Do you agree with our proposals in respect of BT's regulatory financial reporting requirements in relation to the physical infrastructure markets? Please set out your reasons and supporting evidence for your response.

**Question 5.1:** Do you agree with our proposals in respect of BT's regulatory financial reporting requirements in relation to the business connectivity markets? Please set out your reasons and supporting evidence for your response.

**Question 6.1:** Do you agree with our proposals in respect of BT's regulatory financial reporting requirements in relation to the wholesale broadband access markets? Please set out your reasons and supporting evidence for your response.

## A5. Draft Directions

The draft directions can be accessed at the following link:

<https://www.ofcom.org.uk/resources/documents/consultations/category-1/128551-bt-regulatory-financial-reporting/associated-documents/annex-5-draft-directions.pdf>