

The regulatory financial reporting obligations on BT and Kingston Communications in markets where SMP has been demonstrated

Accounting separation and cost accounting: Final notification and explanatory statement

This document seeks your views on the proposed implementation of regulatory financial reporting obligations on BT and Kingston Communications.

The deadline for comments is **10 May 2004**.

Contents

1. Executive summary	5
Background	5
The need for regulatory financial information	5
Views of stakeholders on regulatory financial reporting obligations	6
Impact on dominant providers	7
Powers to impose regulatory financial reporting obligations	9
Summary of proposals	9
Markets covered by this consultation	11
Consultation	12
2. Introduction	13
Scope of this document	13
A new regulatory regime	13
Implementation	13
Market reviews	14
Relationship of this consultation to the market review process	14
Obligation to inform the Commission and other NRAs	15
Regulation pending the completion of market reviews	15
Final steps	16
Outline of this document	16
Notification	16
3. The importance of financial information	17
Characteristics of good-quality financial information	17
Overview of regulatory accounting	17
How regulatory financial information is used	19
Relationship of management accounts and regulatory accounts	20
4. Powers to impose regulatory financial reporting obligations	22
Wholesale cost accounting	22
Retail cost accounting	22
Accounting separation	22
Limitations on imposing regulatory financial reporting obligations	22
5. Structure of the conditions	23
BT's regulatory financial reporting conditions	23
Kingston's regulatory financial reporting conditions	26
6. Generic stakeholder comments	30
Summary of out of scope responses	30
Impact of creation of other entities by the dominant provider	30
Inter and Intra-market margin squeeze	31
Scrutiny of regulatory financial statements and Accounting Documents	31
Need for 'standing consents'	31
Impact on dominant providers in the UK compared to those in other EU countries	32

7. Maintenance of accounting records and systems	33
The Director's proposals	33
Responses to the consultation	35
Summary of proposals	44
8. Preparation, delivery and publication of regulatory financial statements	45
The Director's proposals	45
Responses to the consultation	47
Summary of proposals	52
9. Audit of regulatory financial statements	53
The Director's proposals	53
Responses to the consultation	54
Summary of proposals	57
10. Accounting documentation	58
The Director's proposals	58
Responses to the consultation	60
Summary of proposals	63
11. Amendment of regulatory financial reporting regime	64
The Director's proposals	64
Responses to the consultation	64
Summary of proposals	65
12. Impact on dominant providers	66
Context of regulatory financial reporting	66
Costs on dominant providers	66
Benefits of regulatory financial reporting	68
Conclusion	69
13. Assessment of Communications Act tests	70
Tests that must be met	70
How the tests are met	71
Assessment of detailed proposals for implementation	72
Overall assessment of the regulatory financial reporting obligations	74
Annexes	
A Final notification on BT	75
B Final notification on Kingston Communications	96
C Draft directions for BT	113
SCHEDULE 1	114
SCHEDULE 2	120
Draft Direction 2 for BT: Transparency	120
SCHEDULE 3	123
Draft Direction 3 for BT: Preparation, audit, delivery and publication of Regulatory Financial Statements	123
Annex A to draft direction 3	126
Annex B to draft direction 3	181

Annex C to draft direction 3	200
SCHEDULE 4	220
Draft Direction 4 for BT: Form and content of Regulatory Financial Statements	220
SCHEDULE 5	234
Draft Direction 5 for BT: Form of the 'FPIA' opinion for Regulatory Financial Statements	234
SCHEDULE 6	237
Draft Direction 6 for BT: Form of the 'PPIA' opinion for Financial Statements	237
D Draft directions for Kingston	240
NOTIFICATION UNDER SECTION 49(4) OF THE COMMUNICATIONS ACT 2003	240
SCHEDULE 1	241
Draft Direction 1 for Kingston: Network Components	241
Annex A to draft direction 1	244
List of Network Components	244
SCHEDULE 2	245
Draft Direction 2 for Kingston: Transparency	245
SCHEDULE 3	248
Draft Direction 3 for Kingston: Preparation, audit, delivery and publication of Regulatory Financial Statements	248
Annex A to draft direction 3	251
Wholesale Cost Accounting Financial Statements	251
Annex B to draft direction 3	270
Accounting Separation Financial Statements	270
Annex C to draft direction 3	281
Retail Cost Accounting Financial Statements	281
SCHEDULE 4	285
Draft Direction 4 for Kingston: Form and content of Regulatory Financial Statements	285
SCHEDULE 5	290
Draft Direction 5 for Kingston: Form of the 'FPIA' opinion for Financial Statements	290
SCHEDULE 6	293
Draft Direction 6 for Kingston: Form of the 'PPIA' opinion for Financial Statements	293
E Consultation principles	296

1. Executive summary

Background

1.1 A new regulatory framework for electronic communications networks and services entered into force in the UK on 25 July 2003. The basis for the new regulatory framework is five European Community Communications Directives (the “Directives”) that are designed to create harmonised regulation across the European Union and aimed at reducing entry barriers and fostering prospects for effective competition to the benefit of consumers.

1.2 The Directives require National Regulatory Authorities (“NRAs”), such as Ofcom, to carry out reviews (the “market reviews”) of competition in electronic communications markets, to ensure that regulation remains appropriate in the light of changing market conditions. The majority of the market reviews are now complete.

1.3 On 22 May 2003, the Director General of Telecommunications (the “Director”) published a consultation document *Financial reporting obligations in SMP markets*, which proposed how regulatory financial reporting should work under the Directives.

1.4 The scope of this Final notification and explanatory statement is to address the regulatory financial reporting issues necessary to implement the remedies identified by the market reviews in a proportionate and appropriate manner on British Telecommunications (“BT”) and Kingston Communications (“Kingston”) (i.e. the two dominant providers identified by the market reviews as requiring regulatory financial reporting obligations). In producing this document Ofcom has taken into account the responses received to the consultation of 22 May 2003 and additional work that has been carried out since that consultation.

The need for regulatory financial information

1.5 Regulatory financial information is fundamental to the economic regulation of the electronic communications sector and in particular to many of the decisions of Ofcom.

1.6 There is a range of remedies available to NRAs to encourage competition in the communications sector and to prevent anti-competitive behaviour by dominant providers. These include:

- Obligations to offer cost-orientated charges – so that non-dominant communications providers can purchase necessary services from dominant providers at the amount that it costs the dominant provider;
- Obligations not to discriminate unduly – so that when a vertically integrated dominant provider charges a competing communications provider for a service it is at the same rate that it charges its own downstream business; and
- Obligations to cap prices, i.e. price controls – these are designed to prevent a dominant provider from using its position to increase prices beyond what they would be if the market were competitive. For example, the retail price control prevents BT increasing a basket of prices to residential consumers beyond a reasonable level and the network charge control that ensures that BT does not charge too much for network services to its competitors.

1.7 These obligations are designed to establish and to maintain a competitive communications sector where there is a dominant provider. And where these obligations have been imposed it is essential that they

are monitored and enforced properly. Therefore, it is necessary to have appropriate regulatory financial reporting.

1.8 Examples of where Oftel has required and Ofcom will require good-quality financial information from dominant providers, in order to inform decisions and actions, include:

- the need for a dominant provider to demonstrate its compliance with conditions for cost orientation and non-discrimination;
- investigations into potential breaches of conditions, including potential anti-competitive practices, either based on complaints received or Ofcom's own initiative;
- monitoring obligations to ensure compliance with conditions, including deterring anti-competitive practices; and
- setting and monitoring price controls.

1.9 This information can be required both on an annual basis for ongoing monitoring purposes and on-demand for investigations.

1.10 It is necessary for Ofcom to be able to establish a financial reporting regime that meets its requirements for regulatory financial information that can be used to make economic regulatory decisions and to monitor compliance with other obligations (including the obligations of dominant providers to be able to demonstrate compliance with, for example, cost orientation). Although the purposes of regulatory information are different, many of the systems, processes and outputs will be similar to those used by the companies for normal commercial reasons. However, internal management information has to date not been able to meet the qualitative criteria and form required by Ofcom.

1.11 In considering appropriate financial reporting obligations, Ofcom has taken into account the views of the Accounting Standards Board (ASB) in the document entitled *Statement of Principles for Financial Reporting* (published 1999). The purpose of this publication was to set out the qualitative characteristics that the ASB believed should underlie the preparation and presentation of general purpose financial statements. These were:

- relevance;
- reliability;
- comparability;
- understandability; and
- materiality.

Views of stakeholders on regulatory financial reporting obligations

1.12 There are broadly two views on regulatory financial reporting:

- Communications providers that compete with dominant providers are strongly in favour of detailed and rigorous regulatory financial reporting obligations; and
- The dominant providers themselves – whilst recognising that Ofcom requires regulatory financial information – are concerned with minimising the practical impact and cost to them.

1.13 In particular the concerns of the non-dominant communications providers are:

- BT may not be meeting its obligations properly and that the regulatory financial regime proposed by Ofcom was insufficient in identifying such breaches;
- If BT was meeting its obligations – there was little transparency of this;
- Rigorous transparency and regulatory accounting should help simulate a market in which structural separation has been imposed;
- The regulatory financial reporting obligations should cover all markets, i.e. upstream / downstream markets and SMP / non-SMP markets.
- The absence of regulatory financial information in non-SMP markets would lead to an inability to identify margin squeezes; and
- Network components are insufficiently disaggregated to allow them to identify the cost drivers of services that they purchase from BT.

1.14 BT and Kingston expressed concerns that:

- The proposed regime was too intrusive and costly;
- Too much information would be published under the proposals, including information that should be regarded as commercially confidential; and
- The Directives only allow financial information for SMP markets to be required by Ofcom.

1.15 Ofcom acknowledges both sides of this debate. However, Ofcom believes that where economic regulation has been imposed it is incumbent on Ofcom to ensure that this regulation is meaningful. Rigorous financial reporting obligations should be imposed so that the remedies can be monitored and enforced if necessary. In short, Ofcom believes that implementing regulatory financial information systems is a cost associated with BT and Kingston's dominant position in several markets.

Impact on dominant providers

Context

1.16 Ofcom believes that it is necessary to put the costs to BT and Kingston of having regulatory financial reporting obligations into context. There are 26 markets in which BT has been identified as being dominant and where regulatory financial reporting obligations are being imposed. In the financial year ended 31 March 2003, Ofcom estimates that BT had revenues of approximately £11 billion (including external sales and internal transfer charges) in wholesale markets where regulatory financial reporting obligations are proposed and revenues of approximately £9 billion in retail markets where financial reporting obligations are proposed. There are 13 markets in which Kingston has been identified as being dominant and where regulatory financial reporting obligations are being imposed. Ofcom estimates that in the financial year ended 31 March 2003, Kingston had revenues of approximately £80 million in these markets.

Costs on BT and Kingston

1.17 In its response to the 22 May 2003 consultation BT stated that it had 75 full-time equivalent employees engaged in regulatory accounting processes and that it incurred costs of £7 million annually. BT stated that the proposals in the 22 May 2003 consultation would significantly increase this burden.

1.18 Ofcom is proposing a number of changes to the Director's proposals, that it believes will result in lower costs than the proposals from 22 May 2003. These include: more clearly defining on-demand reporting; reducing the number of statements requiring a fairly presents in accordance with (FPIA) audit opinion; and reducing the level of preparation and publication for retail markets and international wholesale services markets.

1.19 Kingston was also concerned about the potential burden of on-demand reporting, long run incremental cost plus (LRIC+) reporting, the network component list and any extension of the accounting documentation. Ofcom has therefore, clarified that Kingston – because of its smaller size, geographic footprint and impact on the UK communications sector – will not be required to have on-demand reporting; will be able to report on Current Cost Accounting Fully Attributed Cost (CCA FAC) basis rather than LRIC+; will have a shorter and simpler network component list; and will not be required to significantly increase its accounting documentation. Even given this, Ofcom believes that Kingston will still provide financial reporting adequate to demonstrate compliance with its obligations.

1.20 Ofcom continues to be receptive to practical implementation issues raised by BT and Kingston.

Benefits of regulatory financial reporting obligations

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

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

Conclusion

1.22 Ofcom considered that regulatory financial reporting obligations were essential given the current state of competition in the UK. Ofcom also concluded that the proposals contained in this document are objectively justifiable and proportionate.

Powers to impose regulatory financial reporting obligations

1.23 Ofcom's ability to impose regulatory financial reporting obligations on dominant providers is set out in the Act. In particular, the ability to impose regulatory financial reporting obligations as a type of SMP services condition only arises where an organisation has been found to have dominance in a reviewed services market. Once such dominance has been found Ofcom are able to impose the following types of obligation in (broadly) the following circumstance:

Sections of the Act	Obligation	Circumstances
87(9) to 87(11)	Cost accounting for wholesale markets	Price controls Cost-orientation Cost Recovery
91(5) and 91(6)	Cost accounting for retail markets	Regulatory controls on tariffs, e.g. price control
92(2) and 92(3)	Appropriate conditions, including cost accounting	Minimum set of lease lines (as defined by the Universal Service Directive)
87(7) and 87(8)	Accounting separation in wholesale markets	No undue discrimination Preventing unfair cross subsidy
87(6)(b)	Publication of information	Purpose of securing transparency

1.24 Ofcom's ability to impose any type of regulatory obligation, including those for regulatory financial reporting, are further limited by the need to act in accordance with Ofcom's duties set out in sections 3 and 4 of the Act, and the need to comply with the tests set out in sections 45 and 49 of the Act as appropriate. These tests, and Ofcom's views as to how they are met, are explained more fully in chapters 7 to 11, and summarised in chapter 13.

Summary of proposals

Changes to proposals

1.25 Ofcom has considered both the Director's proposals as set out in *Financial reporting obligations in SMP markets* (published 22 May 2003) and the responses made by stakeholders to that consultation. In many areas, Ofcom has decided to propose the implementation of the Director's May 2003 proposals.

1.26 The separate conditions for wholesale cost accounting, retail cost accounting and accounting separation have been merged into a single condition. This makes the condition simpler and removes much of the duplication that previously existed. It should be noted that the obligations are still only being applied where relevant.

1.27 The sections below briefly describe the regulatory financial reporting obligations and identify where Ofcom has made changes to the Director's proposals.

Maintenance of accounting records and systems

1.28 Ofcom is proposing that where there is a financial reporting obligation, BT's accounting records and systems should have the capability of producing financial information on-demand to the quality of good management reporting information.

1.29 Ofcom considers that the primary purpose of having financial reporting obligations is that dominant providers should be able to provide reliable information that can be used for network access, non-discrimination, price control and cost orientation investigations. Therefore, Ofcom considers it essential that financial reporting obligations should be capable of ensuring timely and up to date information. Ofcom has further clarified that on-demand reporting should be interpreted as regulatory financial information provided on-demand within a reasonable timescale (e.g. 10 working days), covering a period of a minimum of a calendar month, and of a quality similar to good quality management information.

1.30 Ofcom has also decided that it would not be proportionate in the current circumstances for Kingston to have an on-demand reporting obligation.

Preparation, delivery and publication

1.31 Ofcom is setting out proposals as to the financial statements that it considers should be produced by the dominant providers, and the level to which these financial statements should be audited and whether or not they should be published.

1.32 Ofcom is proposing that Kingston can meet its obligations to demonstrate cost-orientation by reporting on a CCA FAC basis.

1.33 Ofcom has also proposed that BT should not have to report separately for each of the 108 Category B wholesale international services markets, but can report at the category level. Additionally, Ofcom has proposed a smaller number of retail product groups for which BT should produce regulatory financial statement than proposed by Oftel in the 22 May 2003 consultation.

Audit issues

1.34 Ofcom believes that an assurance as to the reliability of the financial information can only be provided adequately by a rigorous audit. Therefore, Ofcom is proposing that:

- there is greater flexibility in the choice of the level of audit opinion;
- the auditor of the regulatory financial statements should owe a duty of care to the regulator in line with the guidelines produced by the Institute of Chartered Accountants in England and Wales (ICAEW); and
- the regulatory auditor should be satisfactory to Ofcom at all times.

1.35 Rather than have standard and lesser audit opinions as proposed by the Director, Ofcom proposes to direct audit levels at an appropriate level for each financial statement as set out in draft direction 3 in annexes C and D. Initially the two levels of audit opinion Ofcom is proposing to direct are:

- fairly presents in accordance with (FPIA) – which will apply to regulatory financial statements at the market level; and

- properly prepared in accordance with (PPIA) – which will apply to regulatory financial statements below market level, e.g. wholesale services and retail products.

1.36 Further details of each audit level are set out in draft directions 5 and 6 respectively.

1.37 Ofcom considers that the proposal for dominant providers' regulatory auditors to owe a duty of care to Ofcom is necessary. This proposal is consistent with the view of other UK regulators, as it is unsatisfactory that the auditor owes no duty of care to the regulators, i.e. the primary users of such information.

Accounting documentation

1.38 Ofcom considers that sufficient transparency and disclosure of the bases of preparation of the financial statements is essential. Therefore, in draft direction 2 at annexes C and D, Ofcom is proposing a transparency principle for the financial reporting of the dominant providers.

1.39 The references to accounting documentation will refer to the topics to be covered by the documentation not to the name of existing documents, thereby allowing BT and Kingston flexibility in preparing such documentation.

Amendment issues

1.40 Ofcom is proposing that it should be able to direct changes to the financial reporting obligations. Ofcom has clarified that powers to direct amendments or restatement would only be invoked as the result of an investigation. This power is limited by the requirement for Ofcom to consult on a direction and to ensure that the proposals in a direction are consistent with Sections 3, 4 and 49 of the Act.

Markets covered by this consultation

1.41 A number of the market reviews identified the need for and proposed the imposition of financial reporting obligations (i.e. cost accounting and/or accounting separation) on BT and/or Kingston. The full details of the markets in which Ofcom has proposed these obligations is provided in Schedule 3 of the Notifications. The table below provides a summary of these decisions.

Market review	BT		Kingston	
	A/S	C/A	A/S	C/A
Fixed geographic call termination	Yes	Yes	Yes	Yes
Wholesale international services	Yes	No	No	No
Fixed narrowband wholesale exchange line, call origination, conveyance and transit	Yes	Yes	Yes	Yes
Fixed narrowband retail	No	Yes	No	No
Retail leased lines, symmetric broadband and wholesale trunk segments (review not yet complete)	Yes	Yes	Yes	Yes
Wholesale broadband access (review not yet complete)	Yes	No	Yes	No

Accounting Separation (A/S); Cost Accounting (C/A).

This table only reflects those market reviews where some form of regulatory financial reporting was imposed on BT and/or Kingston.

1.42 Full details of the conclusions of the narrowband market reviews can be found here: http://www.ofcom.org.uk/legacy_regulators/oftel/narrowband_mkt_rvw/?a=87101. The latest document published as part of the retail leased lines, symmetric broadband and wholesale trunk segments review can be found here: http://www.ofcom.org.uk/consultations/past/llmr/llmr_review/?a=87101. And the latest document published as part of the wholesale broadband access review can be found here: <http://www.ofcom.org.uk/consultations/past/wbamp/wbam/?a=87101>.

Consultation

1.43 Views and comments on any of the matters raised in this document should be made in writing by 10 May 2004 to:

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 Competition and Markets
 Ofcom
 Riverside House
 2a Southwark Bridge Road
 London SE1 9HA

E-mail: chris.rowsell@ofcom.org.uk
 Telephone: 020 7783 4176
 Fax: 020 7783 4109

1.44 Ofcom is allowing one month for responses. This is shorter than the standard 10 week period set out in Ofcom's consultation principles. This is because these proposals were consulted upon previously for three months in the Oftel document *Financial reporting obligations in SMP markets*. The proposals have also been the subject of extensive debate with the effected dominant providers (i.e. BT and Kingston) and other industry participants.

2. Introduction

Scope of this document

2.1 The scope of this document is to address the regulatory financial reporting issues necessary to implement the remedies identified by the market reviews in a proportionate and appropriate manner.

A new regulatory regime

2.2 A new regulatory framework for electronic communications networks and services entered into force on 25 July 2003. The framework is designed to create harmonised regulation across Europe and is aimed at reducing entry barriers and fostering prospects for effective competition to the benefit of consumers. The basis for the new regulatory framework is five EC Communications Directives:

- Directive 2002/21/EC on a common regulatory framework for electronic communications networks and services (the “Framework Directive”);
- Directive 2002/19/EC on access to, and interconnection of, electronic communications networks and associated facilities (the “Access Directive”);
- Directive 2002/20/EC on the authorisation of electronic communications networks and services (the “Authorisation Directive”);
- Directive 2002/22/EC on universal service and users' rights relating to electronic communications networks and services (the “Universal Service Directive”) and;
- Directive 2002/58/EC concerning the processing of personal data and the protection of privacy in the electronic communications sector (the “Privacy Directive”).

2.3 The Framework Directive provides the overall structure for the new regulatory regime and sets out fundamental rules and objectives which read across all the new directives. Article 8 of the Framework Directive sets out three key policy objectives which have been taken into account in the preparation of this consultation document, namely promotion of competition, development of the internal market and the promotion of the interests of the citizens of the European Union. The Authorisation Directive establishes a new system whereby any person will be generally authorised to provide electronic communications services and/or networks without prior approval. The general authorisation replaces the former licensing regime. The Universal Service Directive defines a basic set of services that must be provided to end-users. The Access and Interconnection Directive sets out the terms on which providers may access each others' networks and services with a view to providing publicly available electronic communications services. These four Directives were implemented in the UK on 25 July 2003. This was achieved via the Communications Act 2003 (“the Act”). The fifth Directive on Privacy establishes users' rights with regard to the privacy of their communications. This Directive was adopted slightly later than the other four Directives and was implemented by regulations which came into force on 11 December 2003.

Implementation

2.4 The Act provides for functions, powers and duties to be carried out by Ofcom which include, inter alia, functions, powers and duties flowing from the first four EC Communications Directives referred to above.

Market reviews

2.5 The Directives require NRAs such as Ofcom to carry out reviews of competition in communications markets to ensure that regulation remains appropriate in the light of changing market conditions.

2.6 More detailed requirements and guidance concerning the conduct of market reviews are provided in the Directives, the Act, and in additional documents issued by the European Commission and Oftel.

Relationship of this consultation to the market review process

2.7 This document addresses how regulatory financial reporting obligations should be implemented in specific markets, not whether these obligations should be imposed on dominant providers. The decision on whether regulatory financial obligations should be imposed on the dominant providers has already been addressed in each of the market reviews.

2.8 Part 1 of Schedule 1 of the Notifications (attached at Annex A and Annex B) provides the full details of the markets in which Ofcom has proposed to impose cost accounting and/or accounting separation obligations on dominant providers. However, to summarise:

- chapter five of the Review of the Fixed Geographic Call Termination Markets (published 28 November 2003) addressed the imposition of cost accounting and accounting separation obligations on BT and Kingston;
- paragraph 2.55 of the Review of the Wholesale International Services Markets (published 18 November 2003) addressed the imposition of accounting separation obligations on BT;
- chapter 11 of the Review of the Fixed Narrowband Wholesale Exchange Line, Call Origination, Conveyance and Transit Markets (published 28 November 2003) addressed the imposition of cost accounting and accounting separation obligations on BT and Kingston;
- paragraphs 4.62 to 4.72 of the Review of the Fixed Narrowband Retail Markets (published 28 November 2003) addressed the imposition of cost accounting obligations on BT;
- chapter 10 of the Review of the Retail Leased Line Symmetric Broadband and Wholesale Trunk Segments Markets (published 18 December 2003) addressed the proposal to impose cost accounting and accounting separation obligations on BT and just cost accounting obligations on Kingston; and
- paragraphs 4.190 to 4.211 of the Review of the Wholesale Broadband Access Market (published 18 December 2003) addressed the proposal to impose accounting separation obligations on BT and Kingston.

2.9 The processes of regulatory financial reporting are complex and cover many issues such as accounting standards and methodologies, audit, transparency, disaggregation, reconciliation and publication of information. These practical issues are distinct from the questions such as the level of regulation in a market and the types of remedies to be employed, which have been addressed in the market reviews. However, these practical processes should be consistent across all markets susceptible to regulation to ensure that there is certainty for the regulator, dominant providers and other players in the market.

2.10 Therefore, the scope of this document is to address the regulatory financial reporting issues necessary to implement the remedies identified by the market reviews in a proportionate and appropriate manner.

2.11 This means that this document has two main purposes:

- to consult on what information is necessary for each market where market reviews have identified the need for financial information; and
- to consult on the practical issues of how financial information should be prepared, verified and presented where it is necessary.

Obligation to inform the Commission and other NRAs

2.12 As required by Article 7 of the Framework Directive and section 50 of the Act, these draft decisions are also being sent to the European Commission and to other NRAs as, in Ofcom's opinion, the proposals may affect trade between Member States. The Commission and other NRAs may make comments within the one month consultation period.

Regulation pending the completion of market reviews

2.13 The Directives also allow Member States to carry forward some existing regulation until the market reviews have been completed and new conditions are put in place. Continuation notices have therefore been issued to BT and Kingston to maintain the effect of certain provisions contained in licence conditions that existed under the Telecommunications Act 1984 prior to 25 July 2003 until, inter alia, the market review process is finished. Further details on this continuation regime can be found at:

http://www.ofcom.org.uk/static/archive/oftel/publications/eu_directives/cont_notices/index.htm.

2.14 Currently, BT and Kingston comply with the following specific obligations in relation to regulatory financial reporting. These are:

- Condition 50: Requirement to have cost accounting systems and accounting separation for interconnection purposes;
- Condition 55: Leased Lines (including cost accounting obligations); and
- for BT only, Condition 78: Separate Accounts.

2.15 These conditions, including any directions made by the Director under these conditions, are currently still in place by way of continuation notices issued to BT and Kingston July 2003, and hence Ofcom expects that the regulatory accounts for the financial year 2003/2004 will be prepared and presented on this 'old' basis. These conditions will remain in place until Ofcom issues a discontinuation notice in respect of them. Ofcom expects that the 'new' basis for the preparation of regulatory financial accounts will be in place in sufficient time for BT and Kingston to align their reporting systems so as to produce the regulatory financial statements required by the new conditions for the 2004/2005 financial year. Forbearance from immediate compliance by BT with relevant requirements relating to the facilitation of on-demand reporting is discussed further at 6.21 below.

Final steps

2.16 Consultation on the proposals in this document closes on **10 May 2004**. When Ofcom has considered any representations made in response to such proposals, including any made by the Commission, it may give effect to the proposals, with or without modifications, by setting conditions. Ofcom will do this by publishing a further Notification/s accompanied by a further Explanatory Statement. Ofcom will, at such time, also give consideration to the discontinuation of current regulation contained in continuation notices as referred to at paragraph 2.15 above. Thereafter, the new regulatory remedies which have been imposed will be reviewed at appropriate intervals.

Outline of this document

2.17 The rest of the document is structured as follows:

- The importance of financial information;
- Powers to impose regulatory financial reporting obligations;
- Structure of the conditions;
- Generic stakeholder comments;
- Maintenance of accounting records and systems;
- Preparation, delivery and publication of regulatory financial statements;
- Audit of regulatory financial statements;
- Accounting documentation;
- Amendment of regulatory financial reporting regime;
- Impact on dominant providers; and
- Assessment of Communications Act tests.

Notification

2.18 Annexes A and B contain the formal notification of the proposals made by Ofcom and the conditions proposed as a result of the market analysis for BT and Kingston respectively.

2.19 Annexes C and D contain the formal notification of proposals to give certain directions to BT and Kingston respectively under the proposed conditions.

2.20 This document, including the formal notifications in the annexes, has been sent to the European Commission and to the Regulatory authorities in other Member States in accordance with the scheme of the Directives.

3. The importance of financial information

3.1 Financial reporting is an essential part of regulation. As an economic regulator, Ofcom will frequently require good-quality financial information from regulated companies. This is because certain obligations placed on regulated companies require rigorous and effective monitoring in order to ensure compliance and, in the case of non-compliance, allow Ofcom to take appropriate action.

Characteristics of good-quality financial information

3.2 Before discussing regulatory financial reporting in detail, it is worth considering the accepted qualitative characteristics that distinguish good quality financial information. Ofcom believes that these should form the foundation for sector specific, regulatory obligations.

3.3 In 1999, the Accounting Standards Board (“ASB”) issued *Statement of Principles for Financial Reporting*. The purpose of this publication was to set out the characteristics that the ASB believes should underlie the preparation and presentation of general purpose financial statements. Ofcom believes these characteristics can be equally applied to regulatory financial statements and they are:

- relevance;
- reliability;
- comparability;
- understandability; and
- materiality.

3.4 Of these, the ASB highlighted relevance and reliability as the primary characteristics. Relevant information is defined as that which has the ability to “influence the economic decisions of users and is provided in time to influence those decisions”. Information is reliable if:

- a) it can be depended upon by users to represent faithfully what it either purports to represent or could reasonably be expected to represent;
- b) it is free from deliberate or systematic bias (i.e. it is neutral);
- c) it is free from material error;
- d) it is complete within the bounds of materiality; and
- e) in its preparation under conditions of uncertainty, a degree of caution (i.e. prudence) has been applied in exercising judgement and making the necessary estimates.

3.5 Ofcom believes that these characteristics must form the foundation of any regulatory financial reporting obligations imposed under the Directives. This document will refer back to these basic characteristics.

Overview of regulatory accounting

3.6 This section provides an overview of regulatory accounting, including:

- why it is necessary;

- how it works; and
- its outputs.

3.7 Ofcom requires regulatory financial information in order to monitor and enforce various obligations that are placed on dominant providers in markets where they have been found to have SMP. These obligations are intended to support competition and prevent dominant providers from abusing their position in the market to the detriment of non-dominant competitors and end-users. Regulatory financial information is necessary where dominant providers:

- have obligations to ensure prices are cost oriented;
- have price control obligations;
- have obligations regarding cost recovery;
- have obligations not to discriminate unduly; and/or
- may make unfair cross-subsidies, for example the means by which a margin squeeze may be funded.

3.8 There are some important differences between regulatory financial reporting and the financial reporting required to meet statutory requirements. An important aspect of regulatory accounting is that the bases of preparation can differ from standard accounting practices. That is, regulatory accounting covers the preparation and presentation of financial information in a regulatory environment including the attribution of costs, revenues, assets and liabilities to regulatory 'objects'. These objects could be products, services, markets, activities or cost components and are defined by the need to comply fully with the obligations placed on a dominant provider. For the purposes of this document, 'products' refer to things sold to end-users and 'services' refer to things sold to Communications providers in order to offer products. For example, BT Together is a bundle of products that is sold to end-users, whereas "call origination" is a service sold to communications providers so that they can also offer local calls.

3.9 For Ofcom's purposes the two main ways in which regulatory accounting differs from standard accounting are that:

- regulatory accounting must be capable of producing information on a Current Cost Accounting (CCA) basis, whereas most standard accounting uses modified Historical Cost Accounting (HCA); and
- regulatory accounting must be capable of producing information on a long run incremental cost (LRIC) basis in addition to fully attributed cost (FAC) and stand-alone cost (SAC) bases.

3.10 Ofcom can require dominant providers to ensure that certain prices are derived from costs. Ofcom can impose price controls that force dominant providers to cap or reduce prices. In both cases it is essential – if these obligations are to be meaningful – that there is a clear and comprehensive understanding of the costs of the dominant provider and how these are attributed to different parts of the dominant provider's activities. In order to accomplish this, a regulatory accounting system must capture all relevant financial, operational and other information necessary to prepare and present financial information (including source data capture, the attribution of costs, revenues, assets and liabilities to regulatory objects and valuation of capital employed). In the language of the Directives this process would be called "cost accounting".

3.11 Additionally, Ofcom can require a vertically integrated dominant provider to make transparent wholesale prices and internal transfer prices. In practice this means that the dominant provider has to produce regulatory financial statements for each market where it has reporting obligations. These regulatory financial statements are designed to reflect the performance of these markets as though they were separate businesses. In particular, transactions across the boundaries of these markets should be treated and identified as if the transactions were between separate companies. These are called transfer charges. One purpose of this is to enable Ofcom to monitor and ensure compliance with any non-discrimination obligation in wholesale markets imposed on the dominant provider. In the language of the Directives this process is called “accounting separation”.

3.12 Although the Directives refer to “cost accounting” and “accounting separation” as separate remedies in reality they are only different outputs of regulatory accounting. That is, some of the regulatory financial statements, such as statements of internal transfer charges and statements of external charges, are required only to monitor non-discrimination, and therefore are “accounting separation” financial statements. Conversely, other regulatory financial statements, such as statements of cost on an incremental basis, are required only to monitor cost-orientation, and therefore are “cost accounting” financial statements. There are also several types of financial statement common to both purposes, e.g. profit and loss statements, statements of mean capital employed, etc. These common financial statements provide both standard but necessary financial information on each market and/or service/product and are the way in which the specific statements (such as statements of costs or statements of internal transfer charges) are reconciled to the higher-level financial statements, and eventually to the statutory accounts.

3.13 It should be noted, however, that the obligations to report regulatory financial information are applied on a market by market basis, dependent both on whether the provider has SMP in the market and what remedies have been imposed as a result of the finding of SMP. That is, regulatory reporting will apply only in markets where a provider is dominant and where cost-orientation, non-discrimination, cost recovery, retail tariff regulation and/or price control remedies have been imposed. Additionally, “accounting separation” reporting will only apply in those markets where non-discrimination obligations have been imposed or where there is a reasonable concern that the dominant provider will use its position to cross-subsidise unfairly; and “cost accounting” reporting will only apply where cost-orientation, cost recovery, retail tariff regulation or price control remedies have been imposed.

How regulatory financial information is used

3.14 In order to meet the needs outlined at 3.7 above, the regulatory financial information can be used for a wide range of purposes and subjected to a variety of types of analysis, for example:

- enabling an understanding of the underlying business;
- providing real data rather than estimates to enable financial modelling to provide more meaningful analysis;
- allowing trend analysis (where comparative data is presented in a consistent format) to inform decision-making;
- supporting profitability analysis – using actual rather than estimated returns on products and services;

- enabling a better understanding the cost drivers implicit when the financial information is provided; and
- allowing Ofcom to take a view on the materiality of issues and therefore the proportionality of potential regulatory interventions

3.15 This information can take the form of:

- annual financial statements that enable ongoing monitoring to be carried out; or
- on-demand financial statements that are prepared and delivered in response to a particular regulatory interest, for example an investigation.

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

Relationship of management accounts and regulatory accounts

3.17 The purposes for which regulatory financial information is used are not the same as those used for managing a company. This section discusses why neither statutory nor management accounts alone can be used for regulatory purposes in many circumstances, and why therefore it is necessary to have a regulatory financial reporting regime.

3.18 Statutory accounts are prepared at a high level, e.g. BT's consolidated group statutory accounts are only prepared for the group as a whole, with limited analysis presented on a disaggregated basis for five separate business units. These accounts are prepared and published to meet the requirements of the Companies Act. They are not designed primarily for making business decisions for running the company or making regulatory decisions.

3.19 Management accounting information is prepared in order to help management run their business and often focuses upon the particular issues most relevant to them. Therefore, management accounts tend to reflect the operating structure of the company and will be prepared on a basis designed to provide information for management decisions. Although management accounts typically provide greater granularity than statutory accounts and are produced on a more frequent basis than statutory accounts, it is unlikely that the management accounts would be disaggregated on the same lines as required by economic market-by-market analysis.

3.20 In addition to financial statements, companies also produce a wide range of other information for management purposes. For example, operational data such as volumes, etc; and forward looking information such as business plans. This type of information can be necessary in investigating potential breaches and is also essential to regulatory financial reporting, e.g. cost-volume relationships.

3.21 Also, economic regulation uses concepts that are not typically reflected in management accounts, e.g. LRIC and CCA. Additionally, economic regulation is based on market definitions which often do not match the operating units identified by the management accounts of the dominant provider.

3.22 It is therefore necessary for Ofcom to be able to establish a regulatory financial reporting regime that meets its requirements for regulatory financial information that can be used to make economic

regulatory decisions and to monitor compliance with other obligations, for example, the setting and reviewing of price controls, cost orientation and undue discrimination. However, although the purposes are different, many of the systems, processes and outputs will be similar to those used by the companies for normal commercial reasons.

3.23 However, management information is still an appropriate and important source of information for Ofcom when carrying out investigations. For example, for immature markets and/or products, the necessary regulatory financial information may not be available. In cases such as this, Ofcom would rely on its general information gathering powers to demand management information, for example, business plans, budgets, monthly management accounts, operational data, process descriptions, descriptions of network or other activities, and analyses of costs and revenues. Management information can also be used in a variety of other ways, e.g. to drill down further into the regulatory information, provide information necessary for a specific investigation that relates to a market in which the dominant provider does not have SMP. Therefore, although it is necessary for Ofcom to have regulatory financial information, it should be recognised that the relationship between management and regulatory financial information is complementary.

4. Powers to impose regulatory financial reporting obligations

4.1 The Act identifies three types of regulatory financial reporting obligations that Ofcom can impose on dominant providers. These are:

- wholesale cost accounting;
- retail cost accounting; and
- accounting separation.

4.2 Section 87(6)(b) of the Act allows Ofcom to require the dominant provider to publish, in such manner as Ofcom may direct, all such information as it may direct for the purpose of securing transparency.

Wholesale cost accounting

4.3 Under Sections 87(9) to 87(11) of the Act, appropriate cost accounting obligations may be imposed on dominant providers in respect of the provision of network access, the use of the relevant network and the availability of relevant facilities. Appropriate cost accounting rules may be imposed in relation to price, obligations for the recovery of costs and cost-orientation.

Retail cost accounting

4.4 Under Section 91(5) and 91(6) of the Act, appropriate cost accounting obligations shall be applied in relation to services for end-users where SMP exists and where Ofcom imposes regulatory controls on tariffs or other matters to which costs are relevant. Such obligations include the requirement to have the use of such regulatory cost accounting systems audited annually by a qualified auditor and the requirement to publish an annual statement of compliance.

4.5 Section 92(2) and 92(3) of the Act allows Ofcom to impose appropriate conditions – including cost accounting – for the minimum set of leased lines where there is a dominant provider.

Accounting separation

4.6 Under Sections 87(7) and 87(8) of the Act, appropriate accounting separation obligations may be imposed on dominant providers in respect of the provision of network access, the use of the relevant network and the availability of relevant facilities. Accounting separation rules may be made, for example, in order to monitor that there is no undue discrimination.

Limitations on imposing regulatory financial reporting obligations

4.7 It should be noted that the powers to impose regulatory financial reporting obligations (discussed above) are subject to certain limitations. Chapter 13 describes these limitations and discusses how Ofcom believes that these limitations and tests have been addressed in developing the proposals for the regulatory financial reporting obligations.

5. Structure of the conditions

5.1 In the light of views expressed during the consultation process, in particular the view that there was significant and unnecessary duplication in the separate conditions and directions, Ofcom is proposing a single set of conditions for regulatory financial reporting, covering wholesale and retail cost accounting and accounting separation, supported by six proposed directions which cover elements of the proposed regulatory regime in more detail.

5.2 The conditions will deal with issues of general principle and procedures. However, in certain areas there is a need for the obligation to be more flexible. Therefore, Ofcom is proposing that it should have the power to direct, for example, the lists of which financial statements should be published and which delivered to Ofcom so as to allow for any changes over time, such as the introduction of new products or services. Additionally, the directions enable Ofcom to ensure that the appropriate obligations (i.e. wholesale and retail cost accounting and accounting separation) are only applied in the appropriate markets. For example, draft direction 3 sets out what regulatory financial statements should be prepared for which services in different markets, and also whether these statements should be published and the level of audit opinion that should be secured for each statement. Furthermore, draft direction 4 sets out the form and content of each financial statement directed by draft direction 3; and draft directions 5 and 6 set out the audit opinions for the levels of audit opinion identified in draft direction 3.

5.3 The subsequent sections describe in detail the structure of BT and Kingston's regulatory financial reporting obligations. It should be noted that new headings have been inserted in the conditions (although the headings have no legal standing) and the numbering of the conditions has changed from the draft conditions published on 22 May 2003. These changes have been made to improve the structure and readability of the conditions.

BT's regulatory financial reporting conditions

General requirements

5.4 Condition OA1 of the condition states that BT must act in the manner set out in the condition.

5.5 Condition OA2 gives Ofcom the power to make directions under this condition.

5.6 Condition OA3 obliges BT to comply with any direction made by Ofcom under the Condition above.

5.7 Condition OA4 describes what is meant by publication under the condition.

Preparation, audit, delivery and publication of the regulatory financial statements

5.8 Condition OA5 requires BT to prepare regulatory financial statements, secure an audit opinion on them, deliver the regulatory financial statements to Ofcom (along with audit opinions and a report detailing any changes leading to a 5 per cent change) and publish the regulatory financial statements.

5.9 Condition OA6 requires BT to deliver copies of the regulatory financial statements to Ofcom at least two weeks before publication and publish these financial statements together with any written statement made by Ofcom.

5.10 Condition OA7 requires BT to make necessary changes to the form and content of the regulatory financial statements and to inform Ofcom of such changes upon delivery of these financial statements to Ofcom.

5.11 Condition OA8 requires BT to the regulatory financial statements on a CCA basis.

5.12 Condition OA9 requires BT to ensure that accounting policies are applied consistently within the same regulatory financial statements, between regulatory financial statements for the same financial year and from one year to the next. It also requires BT to include prior year comparatives prepared on the same basis as the current year in each regulatory financial statement.

5.13 Condition OA10 requires BT to ensure that sufficient checks, controls and meaningful reconciliations are performed on the figures in the regulatory financial statements.

5.14 Condition OA11 requires BT to preserve accounting records that can explain each regulatory financial statement for a period of six years following delivery to Ofcom.

Audit of the regulatory financial statements

5.15 Condition OA12 states that the Regulatory Auditor appointed by BT must be satisfactory to Ofcom at all times.

5.16 Condition OA13 allows Ofcom to require BT to appoint an Alternative Regulatory Auditor if – in the opinion of Ofcom – the existing Regulatory Auditor is unsatisfactory.

5.17 Condition OA14 requires BT to extend reasonable assistance and co-operation to the Alternative Regulatory Auditor.

5.18 Condition OA15 requires BT's letter of engagement appointing the Regulatory Auditor to include provisions acknowledging duties and responsibilities to Ofcom in line with the guidance issued by the Institute of Chartered Accountants in England and Wales (ICAEW).

5.19 Condition OA16 requires BT to use its best endeavours to obtain any further explanation and clarification needed from the Regulatory Auditor regarding audit opinions they have given.

Primary and Secondary accounting documents

5.20 Condition OA17 requires BT to review its Primary Accounting Documents and – within four months of the condition coming into force – make any changes necessary to make them compliant with the condition.

5.21 Condition OA18 requires BT – following the review of the Primary Accounting Documents - to prepare the Secondary Accounting Documents in accordance with the Primary Accounting Documents and the condition, within at least eight months of the condition coming into force.

5.22 Condition OA19 requires BT to publish the Primary Accounting Documents within four months of the condition coming into force and publish the Secondary Accounting Documents on or prior to the date of the publication of the financial statements. This condition also requires BT to publish and deliver to Ofcom any amendments subsequently made to these documents.

5.23 Condition OA20 sets out the hierarchy of the Primary Accounting Documents for the circumstance where they may conflict.

Up-dating systems, accounting documents and form and content

5.24 Condition OA21 requires BT to make necessary amendments to the regulatory accounting system, the accounting documentation and the form and content of the regulatory financial statements to ensure they are consistent with any changes to any of the SMP conditions, any formal undertakings given by BT and/or any directions, enforcement notifications, consents and/or determinations given or made by Ofcom.

Deficiencies in the regulatory financial statements and the accounting documents

5.25 Condition OA22 requires BT to amend accounting documentation and/or restate, have reaudited and republish Cost Accounting regulatory financial statements where Ofcom believes them to be deficient.

Maintenance of sufficient accounting records

5.26 Condition OA23 requires BT to keep accounting records – on both a Current Cost basis and Historical Cost basis – that enables markets, wholesale segments, wholesale services, wholesale activities, network services and network activities to be separately identified.

5.27 Condition OA24 requires BT to maintain the accounting records in accordance with the Accounting Documents and the condition; sufficient to allow for an audit opinion to be expressed; and sufficient to demonstrate non-discrimination.

On-demand reporting

5.28 Condition OA25 requires BT to ensure that its accounting and reporting arrangements are sufficient to enable it to provide regulatory financial statements at all times.

Preparation and maintenance of a Wholesale Catalogue

5.29 Condition OA26 requires BT to identify and describe wholesale services, wholesale activities and network services in a Wholesale Catalogue.

5.30 Condition OA27 requires BT to deliver the Wholesale Catalogue to Ofcom as soon as possible after the condition coming into force, or at the latest four months after that date.

5.31 Condition OA28 requires BT to ensure that the Wholesale Catalogue is kept current and amended as necessary.

Preparation and maintenance of a Retail Catalogue

5.32 Condition OA29 requires BT to identify and describe retail activities, retail products and retail support activities in a Retail Catalogue.

5.33 Condition OA30 requires BT to deliver the Retail Catalogue to Ofcom as soon as possible after the condition coming into force, or at the latest four months after that date.

5.34 Condition OA31 requires BT to ensure that the Retail Catalogue is kept current and amended as necessary.

Further accounting separation requirements

5.35 Condition OA32 requires BT to maintain a separation for accounting purposes of the Accounting Separation Market Activities from other activities and of Accounting Separation Activities from other activities.

Demonstration of non-discrimination

5.36 Condition OA33 requires BT to be able to demonstrate – at any time – that transfer charges are non-discriminatory in respect of wholesale services.

5.37 Condition OA34 requires BT to be able to demonstrate – at any time – that transfer charges are non-discriminatory in respect of retail services.

Implementing directions

5.38 Draft direction 1 sets out a list of network components that BT must report on under the regulatory financial reporting obligation and in its reference offers as set out by SMP services conditions AA1 to AA12, BA1 to BA6, G1 to G9, GG1 to GG9, H1 to H8 and HH1 to HH8.

5.39 Draft direction 2 imposes a transparency principle on BT in relation to the accounting documentation.

5.40 Draft direction 3 sets out the regulatory financial statements that should be prepared, delivered to Ofcom and published, and the level of audit opinion that should be secured for each statement.

5.41 Draft direction 4 sets out the form and content of regulatory financial statements.

5.42 Draft direction 5 sets out the form of the Fairly Presents in Accordance with (FPIA) audit opinion.

5.43 Draft direction 6 sets out the form of the Properly Prepared in Accordance with (PPIA) audit opinion.

Kingston's regulatory financial reporting conditions

General requirements

5.44 Condition OB1 of the condition states that Kingston must act in the manner set out in the condition.

5.45 Condition OB2 gives Ofcom the power to make directions under this condition.

5.46 Condition OB3 obliges Kingston to comply with any direction made by Ofcom under the Condition above.

5.47 Condition OB4 describes what is meant by publication under the condition.

Preparation, audit, delivery and publication of the regulatory financial statements

5.48 Condition OB5 requires Kingston to prepare regulatory financial statements, secure an audit opinion on them, deliver the regulatory financial statements to Ofcom (along with audit opinions and a report detailing any changes leading to a 5 per cent change) and publish the regulatory financial statements.

5.49 Condition OB6 requires Kingston to deliver copies of the regulatory financial statements to Ofcom at least two weeks before publication and publish these financial statements together with any written statement made by Ofcom.

5.50 Condition OB7 requires Kingston to make necessary changes to the form and content of the regulatory financial statements and to inform Ofcom of such changes upon delivery of these financial statements to Ofcom.

5.51 Condition OB8 requires Kingston to the regulatory financial statements on a CCA basis.

5.52 Condition OB9 requires Kingston to ensure that accounting policies are applied consistently within the same regulatory financial statements, between regulatory financial statements for the same financial year and from one year to the next. It also requires Kingston to include prior year comparatives prepared on the same basis as the current year in each regulatory financial statement.

5.53 Condition OB10 requires Kingston to ensure that sufficient checks, controls and meaningful reconciliations are performed on the figures in the regulatory financial statements.

5.54 Condition OB11 requires Kingston to preserve accounting records that can explain each regulatory financial statement for a period of six years following delivery to Ofcom.

Audit of the regulatory financial statements

5.55 Condition OB12 states that the Regulatory Auditor appointed by Kingston must be satisfactory to Ofcom at all times.

5.56 Condition OB13 allows Ofcom to require Kingston to appoint an Alternative Regulatory Auditor if the existing Regulatory Auditor is in the opinion of Ofcom unsatisfactory.

5.57 Condition OB14 requires Kingston to extend reasonable assistance and co-operation to the Alternative Regulatory Auditor.

5.58 Condition OB15 requires Kingston's letter of engagement appointing the Regulatory Auditor to include provisions acknowledging duties and responsibilities to Ofcom in line with the guidance issued by the Institute of Chartered Accountants in England and Wales (ICAEW).

5.59 Condition OB16 requires Kingston to use its best endeavours to obtain any further explanation and clarification needed from the Regulatory Auditor regarding audit opinions they have given.

Primary and Secondary accounting documents

5.60 Condition OB17 requires Kingston to review its Primary Accounting Documents and – within four months of the condition coming into force – make any changes necessary to make them compliant with the condition.

5.61 Condition OB18 requires Kingston – following the review of the Primary Accounting Documents - to prepare the Secondary Accounting Documents in accordance with the Primary Accounting Documents and the condition, within at least eight months of the condition coming into force.

5.62 Condition OB19 requires Kingston to publish the Primary Accounting Documents within four months of the condition coming into force and publish the Secondary Accounting Documents on or prior to

the date of the publication of the financial statements. This condition also requires Kingston to publish and deliver to Ofcom any amendments subsequently made to these documents.

5.63 Condition OB20 sets out the hierarchy of the Primary Accounting Documents for the circumstance where they may conflict.

Up-dating systems, accounting documents and form and content

5.64 Condition OB21 requires Kingston to make necessary amendments to the regulatory accounting system, the Accounting Documents and the form and content of the regulatory financial statements to ensure they are consistent with any changes to any of the SMP conditions, any formal undertakings given by Kingston and/or any directions, enforcement notifications, consents and/or determinations given or made by Ofcom.

Deficiencies in the regulatory financial statements and the accounting documents

5.65 Condition OB22 requires Kingston to amend accounting documentation and/or restate, have reaudited and republish regulatory financial statements where Ofcom believes them to be deficient.

Maintenance of sufficient accounting records

5.66 Condition OB23 requires Kingston to keep accounting records – on both a Current Cost basis and Historical Cost basis – that enables markets, wholesale segments, wholesale services, wholesale activities, network services and network activities to be separately identified.

5.67 Condition OB24 requires Kingston to maintain the accounting records in accordance with the Accounting Documents and the condition; sufficient to allow for an audit opinion to be expressed; and sufficient to demonstrate non-discrimination.

Preparation and maintenance of a Wholesale Catalogue

5.68 Condition OB25 requires Kingston to identify and describe wholesale services, wholesale activities and network services in a Wholesale Catalogue.

5.69 Condition OB26 requires Kingston to deliver the Wholesale Catalogue to Ofcom as soon as possible after the condition coming into force, or at the latest four months after that date.

5.70 Condition OB27 requires Kingston to ensure that the Wholesale Catalogue is kept current and amended as necessary.

Preparation and maintenance of a Retail Catalogue

5.71 Condition OB28 requires Kingston to identify and describe retail activities, retail products and retail support activities in a Retail Catalogue.

5.72 Condition OB29 requires Kingston to deliver the Retail Catalogue to Ofcom as soon as possible after the condition coming into force, or at the latest four months after that date.

5.73 Condition OB30 requires Kingston to ensure that the Retail Catalogue is kept current and amended as necessary.

Further accounting separation requirements

5.74 Condition OB31 requires Kingston to maintain a separation for accounting purposes of the Accounting Separation Market Activities from other activities and of Accounting Separation Activities from other activities.

Demonstration of non-discrimination

5.75 Condition OB32 requires Kingston to be able to demonstrate – at any time – that transfer charges are non-discriminatory in respect of wholesale services.

5.76 Condition OB33 requires Kingston to be able to demonstrate – at any time – that transfer charges are non-discriminatory in respect of retail services.

Implementing directions

5.77 Draft direction 1 sets out a list of network components that Kingston must report on under the regulatory financial reporting obligation and in its reference offers as set out by SMP services conditions AB1 to AB6, BB1 to BB5, G1 to G5, GG1 to GG5 and H1 to H5.

5.78 Draft direction 2 imposes a transparency principle on Kingston in relation to the accounting documentation.

5.79 Draft direction 3 sets out the regulatory financial statements that should be prepared, delivered to Ofcom and published, and the level of audit opinion that should be secured for each statement.

5.80 Draft direction 4 sets out the form and content of regulatory financial statements.

5.81 Draft direction 5 sets out the form of the Fairly Presents in Accordance with (FPIA) audit opinion.

5.82 Draft direction 6 sets out the form of the Properly Prepared in Accordance with (PPIA) audit opinion.

6. Generic stakeholder comments

6.1 This section addresses responses to the proposals published on 22 May 2003 in *Financial reporting obligations in SMP markets* that were not in scope of the consultation or do not refer to the specifics addressed in following chapters.

Summary of out of scope responses

6.2 The scope of the May 2003 consultation was to examine the implementation of regulatory financial reporting systems and processes within the context of the decisions of the market reviews. However, a number of respondents' comments were outside this scope. These comments are addressed here.

6.3 Cable & Wireless (C&W) suggested that the Director should use Article 14(3) of the Framework Directive to impose SMP on BT in additional markets on the basis of leverage of dominance.

6.4 C&W also suggested that the Director should impose financial reporting obligations and/or price publication obligations in downstream markets so that margin squeezes could be identified.

6.5 C&W and the UK Competitive Telecommunications Association (UKCTA) suggested that an explicit price squeeze test ('imputation test') should be introduced, noting that this would improve certainty as to whether particular pricing proposals are acceptable.

6.6 The Association of Communications Service Providers (ACSP), Centrica, Energis and UKCTA suggested that accounting separation is not, by itself, capable of ensuring that BT complies with an obligation not to discriminate unduly and proposed that structural separation, including physical separation and managerial ring fencing of operations, would be more appropriate.

6.7 Centrica, C&W, Energis and UKCTA expressed concern that the proposed framework does not enable the financial information on non-SMP downstream markets to be collected readily. In particular, Energis noted that there was inadequate costing of a particular wholesale service – DataStream.

Ofcom's view

6.8 Ofcom considers that *Financial reporting obligations in SMP markets* (published 22 May 2003) clearly set out the scope of the consultation, i.e. to consult on how financial reporting obligations should be implemented where the need was identified by the market reviews. The scope was not to readdress those issues that were discussed in the market review documents.

6.9 Some of the issues raised by stakeholders will be more appropriately addressed in the context of the consultation process of the Strategic Review of the Telecommunications sector.

Impact of creation of other entities by the dominant provider

6.10 UKCTA expressed concern that there is scope for a dominant provider, in particular BT, to shift costs between businesses and between other entities in the wider group, moving costs to businesses where they will ultimately be borne by other communications providers.

Ofcom's view

6.11 Ofcom believes that the proposals (particularly the breadth of the proposed definition of BT and Kingston in the conditions and directions) will prevent dominant providers from the actions that concern

UKCTA. Additionally, Ofcom has no evidence that BT or Kingston has every attempted such tactics. If this were to become a real concern, Ofcom would rapidly revisit this issue.

Inter and Intra-market margin squeeze

6.12 C&W expressed concern about the ability of the accounting separation framework to address margin squeeze between differing charges in SMP markets, for example in relation to bundled tariffs offered by BT (such as BT Together).

Ofcom's view

6.13 These regulatory accounting proposals recognise that disaggregation of the financial information below that at market level is essential for there to be an adequate demonstration of compliance with non-discrimination obligations and to monitor margin squeezes. Hence the concept of wholesale, network and retail activities that established cost objects at a level that assists the disclosure of transfer charges and cost attributions within wholesale markets and to retail activities. It is also acknowledged that the regulatory financial statements will not disclose in sufficient detail all aspects that may be of interest to other communications providers. Further analysis and investigations will be required where anti-competitive behaviour is alleged.

Scrutiny of regulatory financial statements and Accounting Documents

6.14 Energis noted that the assistance of the industry may be necessary to scrutinise the financial reporting information (in particular the Primary and Secondary Accounting Documents prepared by a dominant provider).

6.15 C&W, Energis and Centrica expressed concern that Oftel may not have sufficient dedicated regulatory accounting resource to enable the proper monitoring and on going review of dominant provider's regulatory financial statements and associated Accounting Documents.

Ofcom's view

6.16 Ofcom recognises that the regulatory financial statements are important to the competitors of the dominant providers and also that the industry has an important role in scrutinising the regulatory financial statements. Ofcom also agrees it is necessary for the dominant provider's competitors to be able fully to understand and interpret published information. Therefore, Ofcom is proposing that the accounting documentation is published, in addition to some of the regulatory financial statements. These issues are dealt with more fully in the sections on publication and accounting documentation. Ofcom continually assesses the resources allocated to its activities within the context of its priorities.

Need for 'standing consents'

6.17 BT states that "it is not reassured by the promise of flexibility that Oftel seems to believe is inherent in the proposal that Oftel can consent to changes to the requirements". BT also adds that it "would expect to request a very significant number of consents if the obligations were enacted as currently proposed". In particular BT cites the level of detail to be reported, the audit scopes and opinions and the publication requirements.

Ofcom's view

6.18 Ofcom believes that this issue may be the result of a misunderstanding. Ofcom does not believe that a significant number of consents will be required in order for BT to comply with the proposed obligations.

6.19 The consent process is a formal process set out by Section 49 of the Act. A formal consent requires Ofcom to consult publicly for one month prior to a consent coming into force.

6.20 Ofcom believes that there is sufficient flexibility built into the condition to remove the need for consents for minor issues. For example, conditions OA21 and OB21 allow BT and Kingston, respectively, to make such changes as are necessary. This mechanism should allow for most of the issues BT envisages without the need for a formal consent. It should be noted that draft direction 4 is explicitly subject to BT and Kingston making such necessary amendments.

6.21 However, Ofcom is aware that there will probably be a need for a period between the conditions coming into force and the reasonable implementation of the measures by the dominant providers, in particular the obligation on BT to have an on-demand reporting functionality. During this period, Ofcom intends to issue a consent to the dominant providers on the basis of an agreed implementation schedule that will ensure full compliance in a timely manner.

Impact on dominant providers in the UK compared to those in other EU countries

6.22 BT noted that “only 3 member states (including the UK) comply with the Commission’s recommendation that separated accounts be prepared using a current cost base” and observes that “other European NRAs should be raising their standards in the direction of the UK’s present (condition 78) position”.

6.23 However, BT states that its contention is that Ofcom’s proposals for implementation of its requirement “go beyond what is required ... and exacerbate existing inconsistency”.

Ofcom's view

6.24 As BT itself notes, Ofcom was one of the few NRAs to have fully implemented the previous regulatory accounting framework. In its recent review of the regulatory regime, the European Commission’s Eighth Implementation Report stated “UK can be regarded as best practice in the EU”.

6.25 Ofcom considered the obligations necessary to implement the EC Framework in light of its considerable experience implementing the previous regime and Ofcom does not consider its proposals go beyond those necessary to implement the EC requirements.

7. Maintenance of accounting records and systems

7.1 This section applies to the following proposed conditions and directions:

- for BT, conditions OA23, OA24 and OA25 and draft direction 1; and
- for Kingston, conditions OB23 and OB24 and draft direction 1.

The Director's proposals

Maintenance of accounting records and systems

7.2 In the consultation published on 22 May 2003, the Director proposed that the accounting records and systems must be sufficient to provide information on a HCA basis and on a CCA basis. The accounting records should also be able to identify the costs, revenues, assets and liabilities of each market where the conditions apply and also for each service or activity within such markets.

7.3 The Director proposed that these accounting records should be:

- maintained in accordance with the accounting documentation;
- maintained so that they are in compliance with the relevant condition (i.e. wholesale cost accounting, retail cost accounting or accounting separation condition);
- capable of ensuring that any financial statements produced by the dominant provider are capable of being verified (generally by way of audit);
- capable of demonstrating fair and reasonable and not unduly discriminatory charges for Network Access; and
- capable of providing a complete justification for the dominant providers' charges for Network Access.

7.4 The Director proposed that records supporting financial statements are retained for a period of six years after the delivery of the financial statements to the Director.

7.5 The Director defined types of activity on which the accounting systems and records should be based.

7.6 In the wholesale cost accounting condition, the Director defined the following types of activity:

- wholesale services – these are services related to network access used by or offered to any communications provider;
- wholesale segments – these are groups of wholesale services as agreed between the Director and the dominant provider and/or as directed by the Director from time to time;
- wholesale activities – these are any activities used solely for the purpose of providing wholesale services or any activities used solely in the course of such activities;
- network activities – these are any activities related to network access used directly or indirectly in the provision of wholesale services and any activities used in the course of such activities, except for those that are wholesale activities;

- network services – these are groups of network activities used directly in the course of supplying wholesale services; and
- network components – these are specified at Appendix 1 to the schedule of the condition.

7.7 In the retail cost accounting condition, the Director defined the following types of activity:

- retail products – these are any services used by or offered to any end-users (including the dominant provider);
- retail segments – these are groups of retail products as agreed between the Director and the dominant provider and/or as directed by the Director from time to time;
- retail activities – these are any activities used solely for the purpose of providing retail products or any activities used solely in the course of such activities; and
- retail support activities – these are any activities used directly or indirectly in the provision of retail products and any activities used in the course of such activities, except for those that are retail activities or wholesale services.

7.8 In the accounting separation condition, the Director defined the following types of activity:

- accounting separation market activity – these are all of the wholesale services supplied in the market and all the wholesale activities, network services and network activities used directly or indirectly in the course of supplying those wholesale services.
- accounting separation activity – these are wholesale services and those wholesale activities, network services and network activities used directly or indirectly for the supply of wholesale services;
- wholesale services – these are services related to network access used by or offered to any communications provider;
- internal wholesale service – services equivalent to the External wholesale services which in the absence of horizontal or vertical integration would be supplied within the dominant provider;
- external wholesale service – services supplied or offered to any Communications Provider other than the dominant provider; and
- network service - these are groups of network activities used directly in the course of supplying wholesale services.

On-demand reporting

7.9 The Director proposed that BT should maintain accounting records that are capable of producing financial statements for any period. This is so that the accounting systems are sufficient to demonstrate – at any time – compliance with the appropriate obligation, e.g. cost orientation, cost recovery, price control obligations, non-discrimination, etc.

Responses to the consultation

Appropriateness of reporting obligation

7.10 BT noted that the only tariff control that Oftel proposed in Retail Markets other than 8Mbit leased lines is the retail price control (RPC), an 'RPI-X' tariff control, and that Article 17 of the Universal Service Directive requires that "the necessary and appropriate cost accounting systems are implemented". BT suggested that limited financial reporting arrangements are required to fulfil this requirement and that, even in principle, the proposed retail obligations are unnecessary and disproportionate.

Ofcom's view

7.11 Ofcom does not believe that the imposition of a cost accounting obligation in retail markets is disproportionate or unnecessary. First, Article 17 of the USD mandates that a cost accounting system is established where a retail price control is imposed. Second, cost accounting is essential to the setting and reviewing of price controls for the reasons set out below.

7.12 That is, although it is true that the effect of a price control on the prices of a dominant provider could be monitored solely by tracking at the dominant provider's prices, cost accounting is essential to setting the price control in the first place and reviewing its impact on the dominant provider.

Granularity

7.13 BT suggested that some of the granularity proposed by the conditions is not currently captured by its systems. By way of example it suggested that training programs may be required in order to ensure that engineers appropriately code transactions. In addition, BT also suggested that there is a risk of spurious accuracy if the level of granularity of which the financial systems and processes are capable is exceeded.

7.14 Notwithstanding its view that the retail cost accounting proposals are unnecessary and disproportionate BT stated that financial reporting in retail markets at 'product' level (known as 'product group level' under the current reporting arrangements) is unnecessary and disproportionate.

7.15 BT also had four comments regarding the list of Network Components. These were that:

- the list should be revised to exclude those components that are not used in the course of supplying services in SMP wholesale markets with financial reporting obligations;
- the proposed list was not technologically neutral;
- the list was flawed in that all Network Components should have a single cost driver; and
- Network components are also defined by reference to the ultimate types of services to which their costs are attributed.

7.16 In its response, Kingston noted that several elements of the Network Component list in the consultation document appeared to relate to BT's network and where not relevant to Kingston's network.

7.17 Cable & Wireless (C&W) noted in its response that whilst "Oftel wishes to adopt an activity based analysis much work needs to be carried out in this area". In particular C&W noted that the current list of components includes items which are, in part, sub-components of other items on the list and does not include items corresponding to the charging system for partial private circuits (PPCs).

Ofcom's view

7.18 Specifying the right level of granularity is a key aspect of all accounting systems, whether their output is used for regulatory or commercial purposes. It describes the level of detail at which relevant, reliable and transparently understandable information can be obtained from the accounting system. Financial information systems often capture data at a very detailed level but turning this into meaningful information can be challenging. If one attempts to obtain information beyond a financial system's granularity, the information obtained may not faithfully represent the results or financial resources employed by the particular activities one is trying to look at (i.e. be irrelevant), may not do so faithfully (i.e. be unreliable) or may not be capable of being shown to do so (i.e. not be transparently understandable). The key difficulty associated with the granularity of accounting systems is that when the inherent granularity is exceeded, this is not necessarily apparent to the user of the financial information – the financial information can still be compiled, it may be 'spuriously accurate', appearing to provide useful information whilst, in fact, its output may be irrelevant and/or unreliable.

7.19 Ofcom has defined different types of activity against which the cost accounting and accounting separation systems and records of dominant providers should be capable of reporting to be able to demonstrate compliance with various regulatory obligations. These outputs are not intended to constrain the dominant providers' detailed systems approach to capturing, identifying, processing and reporting regulatory financial information. Indeed it is important that the dominant provider can design and operate efficient regulatory systems and processes, utilising existing corporate financial systems where possible, to minimise any regulatory burden. However, at the output level, it is essential that the conditions are clear and the related directions are fully understood and interpreted correctly by the dominant provider.

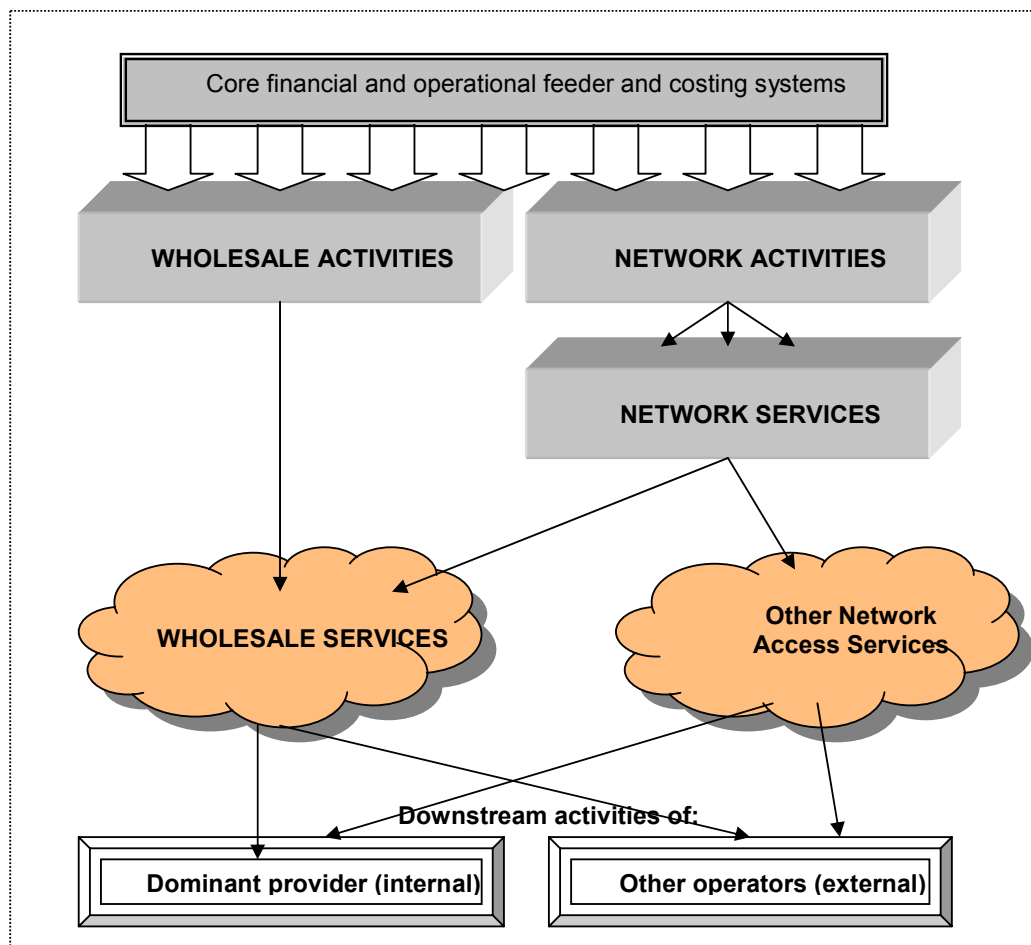
7.20 The following paragraphs take the definitions of these activities (see 7.6 to 7.8) and explain more fully their inter-relationship and role in the regulatory accounting process. Generally these activities lie at two different but linked levels in the structure of the reporting framework: the primary level (shown as the rectangles in the diagrams below) and the secondary level (shown as clouds in the diagrams).

7.21 The primary level is the most basic level of analysis for regulatory reporting purposes and is likely to utilise corporate systems and processes and have the capability to directly trace back to core data capture and feeder systems. This level also should provide transparency of the various activities (or "unbundling" of parts) that make up the provision of products or services.

7.22 The secondary level is the level that will enable the financial performance of services and products (for wholesale and retail activities) to be reported in the markets where the dominant provider has regulatory financial reporting obligations. These services and products will be grouped into the relevant markets for high level reporting.

7.23 The dominant provider will be required to provide adequate explanation and statements to demonstrate that the regulatory financial statements reconcile with statutory financial reports. The following diagrams illustrate the importance of these reconciliations in that the activities captured at the "primary" level (for wholesale or retail activities) will not necessarily capture all of the activities undertaken by the dominant provider. Therefore any costs falling outside of these definitions will be expected to form the substantive balancing items in any reconciliation and also demonstrate no direct or indirect relationship with "regulated" activities.

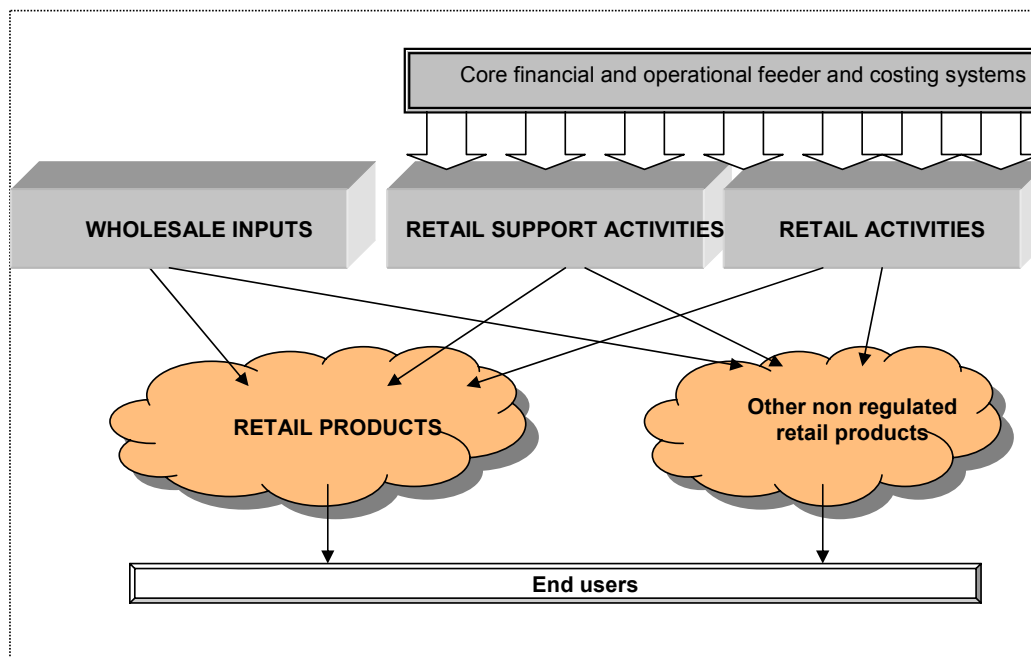
7.24 For wholesale cost accounting, the activities can be diagrammatically represented as follows:



7.25 As further explanation to the simplified diagram above, it is important to add that:

- The arrows between the boxes represent either a cost attribution process or transfer charge. It is essential that these transfers are carried out in a transparent, objective and non-discriminatory way. For example, Ofcom will wish to ensure that network services provided to wholesale services are provided on the same basis to non-network access services (i.e. that inputs common to regulated services as well as non-regulated services are treated in the accounting system in the same way).
- Network components are a subset of wholesale activities and network services and may include more than one activity or service.
- A wholesale segment is simply a group of specific wholesale services. It is expected that a market will be made up of a number of wholesale segments.

7.26 For retail cost accounting the diagram is similar:



7.27 As for the wholesale cost accounting system, it is important that the costing process is objective and non-discriminatory in the attribution of costs to retail products. Also, a retail segment is simple a grouping of retail products. These segments may also be grouped for reporting purposes at market level.

7.28 The definitions required for reporting under accounting separation obligations are the same as those used for wholesale cost accounting and explained above. Indeed, this aspect reinforces the notion that, where the dominant provider has a significant range of wholesale, retail and accounting separation financial reporting obligations, then a single integrated but comprehensive financial costing and reporting process can be established to meet all these obligations. It is not expected, therefore, for a dominant provider to devise alternative costing processes to meet its accounting separation obligations.

7.29 Ofcom believes that the activities set out in conditions OA5 and OB5 (and in the definitions to the conditions) are the correct level of granularity in a wholesale market because:

- it is not sufficient for information to be held solely at the market level because individual services are required to be cost-oriented;
- costs and prices in a market may lie within the acceptable ranges at an aggregate level whilst failing to do so on a service by service level; and
- it is not sufficient for information to be held solely at the service level because it would not be sufficient to demonstrate that the inputs to these services had been appropriately costed.

7.30 Product-by-product granularity is required for setting and reviewing retail price controls information because if financial information were not available product by product in markets having a retail cost accounting obligation:

- Ofcom could have no understanding of the level of economic returns being generated by BT within the price controls, as the necessary financial information would not be generated;

- as a result of making price control decisions on poor information, Ofcom would risk causing detriment to BT on some products by inadvertently forcing the price for those products below the economic cost of their provision and, simultaneously, detriment to other communications providers which would not be able to compete on those products other than by being 'super-efficient' – or the reverse, i.e. a price control set too loosely; and
- Ofcom would then impair competition by its own actions, in likely breach of its duty to promote competition and protect end users.

7.31 Accordingly, Ofcom is satisfied that the existing proposals for the dominant provider's cost accounting arrangements require the capture of information at a level of granularity that is both necessary and appropriate in markets where retail cost accounting obligations are imposed.

7.32 In summary, the level of granularity proposed by Ofcom – in conditions OA5 and OB5, the definitions to the conditions, and as implemented by draft directions 3 in annexes C and D – is no more than it considers necessary for informing the review of price controls and assessing whether the dominant provider is meeting its non-discrimination, cost-orientation and/or cost recovery obligations.

7.33 In annexes C and D of this document, draft direction 1 sets out new lists of network components for BT and Kingston. Ofcom has had considerable discussions with BT, Kingston and other communications providers about the content of this list. As a first step in addressing the content of BT's list, Ofcom has made amendments including the removal of all components that are not used in markets where BT has SMP. Ofcom notes that some of the components are still referred to by their technology. Ofcom does not consider this to conflict with the concept of technological neutrality, as technological neutrality is intended to stop discrimination purely on technological grounds, whereas Ofcom is using it to define different network components that have different costs or uses, e.g. SDH multiplexers and PDH multiplexers.

7.34 Kingston's list of network components is considerably simpler and smaller than the list of BT's network components. This is a reflection of Kingston's network being considerably smaller and simpler than BT's.

7.35 As a result of the discussions held with BT, Kingston and other communications providers, Ofcom believes that it is necessary to carry out a rigorous review of network components. Therefore, Ofcom has established a separate workstream to address these issues. This work will involve further discussions with BT, Kingston and other communications providers. Following this work Ofcom will – if necessary – direct changes to the network component list.

Transfer charging

7.36 UKCTA observed that there is significant scope to distort competition through the nature of the transfer charges made (the 'price' at which services are deemed to be supplied between upstream wholesale markets and downstream markets (either wholesale or retail)). UKCTA further suggested that the relevant transfer charges should be 'market tested' specifically by reference to detailed economic analysis.

Ofcom's view

7.37 Ofcom considers that the proposed conditions provide safeguards against the principal means by which distortion may be introduced.

7.38 Firstly, Ofcom has proposed that transfer charges be required to be cost causal and objective, in particular that

- transfer charges for Internal Wholesale Services and External Wholesale Services ought to include identical amounts in relation to the performance of identical activities;
- the transfer charges making use of a particular activities should be identical whenever the same set of activities is used (whether the activities are used for an internal service or for an external service);

7.39 Ofcom therefore considers that the proposed conditions enable it to ensure that transfer charges do not lead to attribution of cost between markets in an unobjective manner – downstream markets must be treated equivalently.

7.40 Secondly, Ofcom has also proposed that costs associated with each transfer charge must comprise the *current* costs of carrying of the activities underlying the supply of the Wholesale Service (unless the activities concerned are subject to accounting separation). This ensures that the net economic return generated by Wholesale Services can be assessed wherever a provider has SMP and accounting separation can be imposed.

7.41 The third means by which distortions could be introduced would be through the use of an inappropriate transfer charge. This possibility is intended to be addressed not by the Financial Reporting obligations themselves but by other conditions imposed on markets where a provider has SMP, namely the requirement that a dominant provider must not discriminate unduly:

- between different wholesale customers (i.e. other competing providers);
- in favour of its own downstream operations.

7.42 Accordingly, the total transfer charge recorded by a dominant provider for a given service in a given wholesale market would be expected to be the sum of:

- the charges made to competing providers (which are market based or price controlled or subject to a cost orientation obligation and which are therefore verifiable); and
- similar charges made to its own downstream operations for the use of equivalent services (the appropriateness of which ought to be testable by reference to the charges for other providers).

7.43 As a result, the only circumstance in which the transfer charge for wholesale services distorts the financial performance reported by a wholesale market in which a provider has SMP ought to be where the regulated price (set by a price control or cost orientation obligation) is inappropriate.

7.44 Ofcom recognises UKCTA's concern that information upon which the transfer prices are ultimately based is only 'as good as the information on which they are based' i.e. they are only as good as the cost attributions used. Accordingly, Ofcom has proposed that the accounting documentation should be published and Ofcom would welcome at any time detailed comments from the industry regarding the transparency provided by dominant provider's accounting documentation.

Non-discrimination

7.45 Centrica has expressed concern that the systems and processes used when it interfaces with BT's network (and for which it is charged) may not be equivalent to those used by BT when it provides services in

retails markets. In particular, it expresses concern that it is required to pay for transaction charges for customers transferring to it from BT Retail whereas BT Retail does not pay such charges when customers return to them.

7.46 C&W have expressed concern in relation to BT's Datastream product and PPCs, suggesting that there is a lack of clearly defined equivalent services available to other providers. C&W also note that the Retail Catalogue could be used to provide requisite information.

Ofcom's view

7.47 Although the circumstances described by Centrica on the face of it appear to raise issues relevant to regulatory financial reporting, these matters are not necessarily questions for this document. This is because, if all of the services supplied from wholesale SMP markets to other communications providers (or used by BT in the course of supplying retail services) have been identified and included in the individual Financial Statements at an appropriate transfer charge amount, the Financial Statements appropriately present BT's activities.

7.48 When the accounting documentation is received, one of the issues which Ofcom will consider is whether costs arising from the supply of Wholesale Services have been appropriately attributed to Wholesale Markets and whether downstream costs arising from the supply of Retail Services are completely excluded from those Wholesale Markets.

7.49 However, there is a further issue – whether BT is discriminating by not requiring its downstream retail operations to use wholesale services in a manner which does not systematically discriminate between 'BT retail' and other communications providers. This issue and discussion of what remedies, if any, are appropriate to address it is a question for the Wholesale Call Origination Market Review or potentially an investigation into whether such remedies are being complied with.

7.50 To address C&W's point Ofcom wish to emphasise that, under the current proposals, all services provided from upstream wholesale SMP markets having a financial reporting obligation are required to be included in the Wholesale Catalogue (irrespective of whether they are used downstream by BT or by another communications provider). The entry in the Wholesale Catalogue requires a detailed description of the service provided and the manner of its provision.

7.51 Accordingly, the precise nature of all services supplied to BT from upstream wholesale SMP markets having a financial reporting obligation should be clearly set out. For the purpose of financial reporting, and even if there are no equivalent wholesale services available to other communications providers, Ofcom will consider whether costs arising from the supply of Wholesale Services have been appropriately attributed to Wholesale Markets. Similarly it will also consider whether downstream costs arising from the supply of Retail Services are completely excluded from those Wholesale Markets.

7.52 However, the question of whether an appropriate set of unbundled services is available to other communications providers in a given Wholesale Market is a question for the individual market review – or a specific investigation – rather than a regulatory financial reporting issue. This is because decisions on appropriate remedies, for example a requirement that particular services be unbundled or provided, are matters for the market review in light of the circumstances of each market.

On-demand reporting

7.53 BT raised a number of concerns regarding on-demand reporting of financial information. In particular, BT stated that there is no established regulatory need for periodic financial reporting. BT characterised the proposals as a requirement “routinely to make available an extensive volume of information which would otherwise only be available under the Competition Act”. It therefore suggested that the proposed obligation is wholly disproportionate.

7.54 BT also expressed concern that “on-demand” could refer to some form of real time reporting capability that would require it to be able to report a monthly, weekly or even hourly view.

7.55 BT noted that, in addition to recent past financial information, Oftel had often used prospective financial information. Therefore, it suggested that periodic financial reporting of historical activity was unnecessary. BT also noted that Oftel requested financial information on points of detail not addressed by ‘routinely available’ ex ante financial information.

7.56 BT noted that, as cost-orientation would usually be assessed on a LRIC basis which by definition is long run, periodic financial information is unnecessary.

7.57 Finally, BT claimed that “it has been able to respond with appropriate financial information to the requests made to it as part of investigations”.

7.58 Kingston argued that they should not be obliged to provide on-demand reporting because of their significantly smaller scale and scope compared to BT and because no Oftel investigation had required this type of information in the past.

Ofcom’s view

7.59 The proposed condition OA25 on BT states that the regulatory financial reporting systems must be capable of producing information for any period. Ofcom proposes that – in practice – the outputs of the cost accounting system will be required:

- on an annual basis for all the SMP markets and the specified activities, as directed and in the form of an annual financial statement; and
- on-demand for specific sets of information.

7.60 The annual regulatory financial statements will be required for informing ongoing review of price controls and also the ongoing monitoring of the dominant provider’s compliance with its non-discrimination, cost-orientation and/or cost recovery obligations and to provide the information for the setting and reviewing of price controls. The obligations supporting these statements will require, amongst other things, an established basis of preparation, an agreed form of presentation and external audit opinion.

7.61 Any on-demand reporting would be required for investigating specific cases or potential breaches of obligations. This is necessary because a case requiring financial information could be opened at any time during the year and Ofcom considers that in order to investigate such cases it is essential that it is able to require timely regulatory financial information. A dominant provider’s compliance with obligations such cost-orientation does not end with the latest set of financial statements (which could be 18 to 30 months old). The on-demand reporting obligation (with the consequential need for adequate systems and processes) should strengthen a culture of compliance on those organisations with market power. While prospective information has been used in the past – and will continue to be useful in the future – Ofcom considers that it is not

always the most appropriate type of information and therefore is proposing that on-demand financial information is necessary.

7.62 In proposing the obligation to facilitate on-demand reporting of regulatory financial information Ofcom has taken into account the significant time-lag in BT's publication of regulatory financial annual statements to Ofcom in the past. As can be seen below, over the past four years the earliest that the regulatory financial statements have been published is over five months since the end of the financial year and the latest is over nine months since the end of the financial year. That is:

- for the financial year ended 31 March 2000, the regulatory financial statements were published on 25 September 2000;
- for the financial year ended 31 March 2001, the regulatory financial statements were published on 19 December 2001;
- for the financial year ended 31 March 2002, the regulatory financial statements were published on 16 December 2002; and
- for the financial year ended 31 March 2003, the regulatory financial statements were published on 19 September 2003.

7.63 Therefore, Ofcom believes that both types of reporting are necessary in order for cost-orientation, cost recovery and price control obligations to be monitored and enforced effectively on an ongoing basis. The purpose of the on-demand reporting obligation is not to oblige dominant providers routinely or periodically to provide large amounts of financial information. Rather it is to ensure that if financial information is required for the purposes of an investigation then the appropriate information can be provided in a timely manner.

7.64 However, Ofcom accepts certain of BT's concerns, in particular that it may not be possible to provide interim information that is of the same quality as annual financial statements. Ofcom's view is that the on-demand information should be comparable to good quality management reporting information. Ofcom would not expect such information to be audited, but would expect the bases of preparation of this information to be transparent and as closely aligned with the regulatory financial accounting documentation as possible.

7.65 Ofcom also accepts that the proposed condition could be interpreted as requiring "real time reporting capability". This was not the intention and also does not take into account Ofcom's duty to be proportionate and reasonable in imposing obligations. Ofcom considers that the minimum time period for which financial information would be required is one calendar month, and that BT would have a reasonable period in which to supply the information, e.g. 10 working days depending on the nature of the information requested. Although the wording of the proposed condition remains the same, it should be interpreted as being bounded by the requirements of proportionality and reasonableness, and by how these have been described here.

7.66 Ofcom also considered Kingston's argument that an on-demand reporting obligation would represent a disproportionate burden due to its small size and the historical lack of cases brought against it requiring this type of information. Ofcom considers that given these circumstances Kingston should not be obliged to have an on-demand reporting system.

Summary of proposals

7.67 In formulating its proposals, Ofcom has considered both the Director's proposals for as set out in *Financial reporting obligations in SMP markets* (published 22 May 2003) and the responses made by stakeholders to that consultation. Except in the cases identified below, Ofcom has decided – for BT in conditions OA23, OA24 and OA25 and for Kingston in conditions OA23 and OA24 – to propose the implementation of the Director's proposals as consulted upon in the consultation document of 22 May 2003.

7.68 The following proposals by Ofcom differ from the proposals made by the Director:

- with regard to condition OA25, Ofcom proposes that on-demand reporting should be interpreted as regulatory financial information provided on demand within a reasonable timescale (e.g. 10 working days depending on the nature of the information request), covering a period of a minimum of a calendar month, and of a quality similar to good quality management information;
- Ofcom has decided that it would not be proportionate – given the current circumstances – for Kingston to have an on-demand reporting obligation; and
- as a result of the responses, Ofcom has proposed to direct a new list of network components, found at draft direction 1 in annexes C and D.

8. Preparation, delivery and publication of regulatory financial statements

8.1 This section applies to the following proposed conditions and draft directions:

- for BT, conditions OA4 to OA11 and draft directions 3 and 4; and
- for Kingston, conditions OB4 to OB11 and draft directions 3 and 4.

The Director's proposals

Preparation and delivery of financial statements

8.2 In the consultation document published on 22 May 2003, the Director proposed that he should be able to make directions that he considers appropriate to the dominant provider's regulatory financial reporting system and its obligations under the condition. These directions included the regulatory financial statements to be prepared and delivered, the form and content of the regulatory financial statements, the standard and lesser audit opinions and the transparency of accounting documentation.

8.3 The Director proposed that regulatory financial statements should be produced on a current cost basis, and be meaningfully reconcilable to the statutory accounts prepared on a historical cost basis. Additionally, the cost accounting system should be capable of producing these financial statements for any period subsequent to the conditions coming into force.

8.4 The Director also proposed that regulatory financial statements should be prepared – as directed by him from time to time – for:

- markets;
- wholesale segments;
- wholesale services (both internal and external);
- wholesale activities;
- network services;
- network activities;
- retail products;
- retail segments;
- retail activities; and
- retail support activities.

8.5 These regulatory financial statements must be prepared in accordance with the Accounting Documents. The Director also proposed that the dominant provider should secure an audit opinion on the regulatory financial statements as directed by him from time to time.

8.6 The Director proposed that the dominant provider – where directed – should deliver the regulatory financial statements and corresponding audit opinion to him.

8.7 Additionally, the Director proposed that the dominant provider must ensure that any regulatory financial statements and corresponding audit opinion were fit for purpose.

8.8 The Director proposed that the dominant provider record any change in the Accounting Documents, any process and any other methodology that had caused any figure in a financial statement to change by 5 per cent or more compared to the figure had the change not been made. The dominant provider should then provide a report to the Director explaining the change in methodology or process that led to the material change.

8.9 The Director also proposed that the dominant provider should make such amendments to the form and content of the regulatory financial statements as were necessary to meet the requirements of the condition. Additionally, where it did so, the dominant provider should provide the Director with the particulars of that change, the reasons for it and its effect.

Publication of financial statements

8.10 The Director proposed that where directed the dominant provider should publish the regulatory financial statements and corresponding audit opinions.

8.11 The Director also proposed that the dominant provider should deliver copies of the regulatory financial statements and any corresponding audit opinion to the Director at least two weeks before they are required to be published. Also, he proposed that these statements and audit opinions should be published within four months of the end of the period to which they relate. And it was proposed that when publishing the regulatory financial statements, the dominant provider should also publish a written statement made by the Director in which he may comment on the data, the notes or the presentation of any of the financial statements, the accounting documents or any of these.

8.12 The Director proposed that publications should be effected by placing a copy on any relevant website operated or controlled by the dominant provider and sending a copy of this information to any person that requests it.

Types of financial statement

8.13 In order to specify the initial set of information that should be provided under the wholesale cost accounting, retail cost accounting and accounting separation conditions, the Director proposed to direct:

- the financial statements that are required to be prepared and delivered to the Director;
- the financial statements that in addition are required to be published; and
- the level of audit opinion that should be provided for the financial statements.

8.14 The wholesale Cost Accounting Financial Statements proposed by the Director were:

- profit and loss statements and mean capital employed statements, both prepared on a current cost basis;
- reconciliation statements;
- statements of costs and charges for wholesale services;

- statements of activity costs on a current fully attributed cost basis and statements of activity costs on an incremental and a standalone basis; and
- additional information by way of notes.

8.15 The retail Cost Accounting Financial Statements proposed by the Director were:

- profit and loss statements and mean capital employed statements, both prepared on a current cost basis;
- reconciliation statements;
- statements of costs and charges for retail products;
- statements of activity costs on a current fully attributed cost basis; and
- additional information by way of notes.

8.16 The Accounting Separation Financial Statements proposed by the Director were:

- current cost turnover statements;
- sufficiency of separation statement;
- current cost inter-market turnover;
- profit and loss statements and mean capital employed statements, both prepared on a current cost basis;
- reconciliation statements; and
- additional information by way of notes.

Form and content of financial statements

8.17 The Director proposed to direct the form and content of the regulatory financial statements. The proposed directions provided an exemplification of the regulatory financial statements. That is, they set out the layout and contents required for each of the regulatory financial statements.

8.18 The Director also proposed in these draft directions that dominant providers should prepare, consistent with normal accounting practice, prior year comparatives on a consistent basis to the current year figures. Additionally, the Director proposed that where there are no specific regulatory principles the dominant provider should follow Accounting Standards applied in the preparation of statutory financial statements.

Responses to the consultation

Preparation of financial statements

8.19 Energis noted its support for the proposal that, when changes in the underlying Accounting Documents of the dominant provider causes any figure in the financial statements to change by 5 per cent or more, an explanation of that change must be sent to Oftel. However, it stated that it is not clear why 5 per cent was picked as the trigger point.

8.20 UKCTA suggested that dominant providers should be required to disclose any circumstance where the regulatory financial statements have departed from Generally Accepted Accounting Practice (GAAP).

8.21 BT asked that Ofcom clarify whether costs in retail markets should be determined on a LRIC basis.

8.22 Kingston suggested that current cost FAC based measurement provides information equivalent to LRIC based measurement. They therefore suggested that they should report on an FAC-basis as a proxy for LRIC.

Ofcom's view

8.23 It is obviously necessary for Ofcom to be able to see financial statements in order to monitor and enforce the dominant provider's obligations for non-discrimination, cost-orientation, cost recovery or price controls. Therefore, Ofcom considers that it is necessary that it is able to direct BT and Kingston to prepare and deliver to Ofcom regulatory financial statements (see conditions OA5 and OB6 of BT and Kingston's obligations respectively).

8.24 Ofcom accepts that at times it will be necessary for the Dominant Provider to make changes to its systems, processes, methodologies or the form and content of the financial statements keep up-to-date with developments and therefore to maintain compliance with obligations. In these cases, Ofcom is proposing that the dominant provider has to inform it of these changes where they have a material impact on the financial statements (see conditions OA5 and OB5 of BT and Kingston's obligations respectively).

8.25 The "5 per cent" rule was established in the previous regulatory accounting regime and was judged by Ofcom to establish a level which would in general capture material changes but not place an onerous burden on the communications provider concerned. Ofcom believes that the continued application of this rule is necessary to ensure any significant change made to the regulatory cost accounting systems is acceptable. Ofcom accepts that there may be changes that could have a significant impact but are not caught by the "5 per cent" rule.

8.26 As can be seen in draft directions 3 and 4 in Annex C, the proposals do not require BT to provide LRIC statements in the retail markets covered by the Retail Price Control. This is because there are no cost orientation obligations in these markets.

8.27 In considering the necessity of Kingston reporting on a LRIC basis, Ofcom assessed the relative impact of Kingston and BT in the UK communications sector. BT has an obligation to orient its costs on a LRIC+ basis in several markets where it has SMP. These markets are significant both in terms of revenues and the potential impact on competitors and indirectly end-users. Therefore, Ofcom considers that BT must report on a LRIC+ basis as it is the most appropriate form of reporting. However, as the markets in which Kingston has SMP are less significant in comparison, and as Kingston is significantly smaller in scale and scope than BT, Ofcom considers that – as an exception – it is willing to accept Kingston reporting its cost-orientation obligations on a Current Cost Accounting Fully Attributed Cost (CCA FAC) basis as a reasonable proxy. This has been implemented through draft direction 3 (on the preparation, publication and audit of regulatory financial statements) and draft direction 4 (on the form and content of regulatory financial statements) in Annex D.

Types of financial statement

8.28 Energis suggested that the Director should state in his report whether he is fully satisfied by the regulatory financial statements received and to comment upon the effectiveness of the ex ante Financial Reporting Framework in the light of complaints and investigations received during the preceding year.

8.29 BT expressed concern that the Director proposed to replace or add to Standard Service statements by a current cost profit and loss account and balance sheet. It requested Ofcom to justify this change.

Ofcom's view

8.30 Ofcom believes that the purpose of the Director General's statement (now the Ofcom statement) is to comment on that year's financial statements. This could well include comments on the overall framework. However, it should be recognised that Ofcom will have less than two weeks to review the regulatory financial statements and prepare its written statements. This is not sufficient time in which to fully review and assess the regulatory financial statements. The alternative would be to delay publication of the regulatory financial statements for a number of months while Ofcom carried out a formal review. Therefore, Ofcom is proposing conditions OA6 and OB6 for BT and Kingston respectively.

8.31 Typically, if necessary, a written statement could highlight issues of concern or interest that have arisen during the year. The written statement could also set a framework for a more detailed review of the regulatory financial statements following publication.

8.32 In developing the proposals Ofcom considered the usability and understandability of the financial statements. This has led to some changes in the financial statements, including changes to the standard service statement. It should also be noted that the concept of standard services no longer exists under the new regulatory regime.

Publication of financial statements

8.33 Notwithstanding its view that the retail cost accounting proposals are unnecessary and disproportionate, BT stated that financial reporting in retail markets is commercially sensitive and that these regulatory financial statements should not be published.

8.34 BT also noted that the proposed financial reporting obligations included an obligation to disclose information on a number of 'category B' IDD routes. It regarded this as disproportionate.

8.35 Energis suggested that regulatory financial statements provided by dominant provider should be published to the fullest extent possible.

Ofcom's view

8.36 Ofcom considers that it is necessary that it is able to direct BT and Kingston to publish some of the regulatory financial statements that it provides to Ofcom. This is because the publication of regulatory financial statements demonstrating compliance with price controls, cost-orientation and no undue discrimination obligations:

- provides assurance to other communications providers that the services they are buying from dominant providers are genuinely cost-oriented and non-discriminatory;
- provides assurance to other communications providers that Ofcom has sufficient information to

monitor and – if necessary – enforce these obligations; and

- enables other communications providers to reach their own judgements on whether they are, for example, being discriminated against by a dominant provider, and if necessary provide them with information to make an evidence-based and well-argued complaint to Ofcom.

8.37 It is worth noting that dominant providers have an obligation to demonstrate compliance with cost-orientation and no undue discrimination obligations in an open and transparent way, whether or not any cases arise.

8.38 Ofcom considers that there is a balance to be reached between the appropriate publication of financial information (that promotes competition and supports confidence in the regulatory framework) and the commercial sensitivity of certain financial information. Ofcom considers that the level of published information required to achieve this regulatory certainty is less than the level of information that Ofcom requires to be delivered to it in order to make decisions and monitor compliance with conditions. Therefore, Ofcom is not proposing to direct that all the regulatory financial statements that are delivered to Ofcom are also published. The only regulatory financial statements that Ofcom is requiring to be published are those explicitly identified in draft direction 3 in annexes C and D, under conditions OA5 and OB5 for BT and Kingston respectively.

8.39 In making this assessment, Ofcom has taken into account:

- the value of the revenues and costs of the products and/or services in question;
- the importance of these product and/or services to regulatory objectives and/or initiatives;
- the potential commercial confidentiality of the information; and
- the potential impact on non-dominant providers of the products and/or services.

8.40 Ofcom considers that the regulatory financial statements it proposes should be published are necessary and proportionate for this purpose. In this regard Ofcom notes that none of the responses raise concerns specifically in relation to the level of publication proposed for any given market with the exception of BT's concerns regarding the retail and international wholesale services markets.

8.41 Ofcom considers that publication at the product level or product group level in retail markets is necessary. However, Ofcom acknowledges that certain product groups have revenues and/or costs that make their automatic preparation and publication disproportionate. Therefore, in draft direction 3, Ofcom has identified the material products and product groups it believes should be reported on and published. This is more limited than proposed by the Director; however, Ofcom believes that this will be sufficient given its ability to request regulatory financial information on those smaller products and product groups if necessary for a specific case.

8.42 As suggested in Chapter Five of *Wholesale International Services Markets* (published 26 August 2003), the issue of reporting of 'category B' international routes has been reconsidered. Ofcom believes that it is not necessary for BT to report for each international route on which it has been found to have SMP because individually many of these routes have relatively small revenues and it would therefore be disproportionate to have regulatory financial statements for each and every route. This applies to both the retail and wholesale markets. Therefore, Ofcom is proposing – in draft direction 3 at Annex C – that that financial statements are prepared for:

- the sum of “category B” routes at the wholesale level;
- the sum of “category A” routes at the retail level; and
- the sum of “category B” routes at the retail level.

Form and content of financial statements

8.43 C&W and UKCTA suggested that depreciation charges for fixed assets ought to be analysed separately from other operating costs and separately disclosed within the current cost primary statements. The proposed analysis is principally relevant to the analysis of wholesale costs because fixed asset depreciation charges can form a significant cost item in the regulatory financial statements of wholesale markets and their associated services.

8.44 C&W suggested that direct costs, indirect costs and overheads ought to be analysed separately from other operating costs and separately disclosed within the current cost primary statements.

8.45 C&W also suggested that analysis of the activity based cost elements of operating costs ought to be provided for each activity based element of the relevant cost greater than or equal to 5 per cent of the total. Ofcom had proposed that analysis be provided for each activity based element greater than or equal to 10 per cent of the relevant costs.

8.46 BT noted that it considered such analysis to be commercially sensitive, even where proposed for each activity based element greater than or equal to 10 per cent of the relevant costs.

Ofcom’s view

8.47 In draft direction 4 under OA5 and OB5 for BT and Kingston respectively, Ofcom is proposing to direct the initial form and content of the financial statements that the dominant provider should prepare and deliver in accordance with condition 5 and draft direction 3. This is necessary to ensure the consistent and comparable preparation of the financial statements. It should be noted that the form and content set out in draft direction 4 may be diverged from where appropriate due to conditions OA7 and OA21 for BT and OB7 and OB21 for Kingston.

8.48 Ofcom is proposing that the main regulatory financial statements (primarily the profit and loss account and the mean capital employed statement) disclose an analysis of the most significant cost, revenue, asset and liability elements using a “10 per cent” threshold test. Ofcom believes that this will ensure appropriate disclosure of depreciation and other cost categories where they are material in the appropriate financial statements. Ofcom also believes that the 10 per cent level provides a reasonable level of disclosure taking account of BT’s concerns about commercial confidentiality and other users’ concerns about the usefulness of the information.

8.49 However, Ofcom is not prescribing or specifying the detailed costing systems and methods to be used in preparing the financial statements. The use of activity based costing (ABC) techniques is consistent with the principle of cost causality and acceptable to Ofcom. But this does not imply that costs fall into the categories suggested by C&W or indeed, given the complexity of the costing process, if the form of analysis suggested by C&W is of value. Ofcom will be reviewing the cost elements disclose in these statements to ensure they are meaningful and provide users with a relevant analysis of costs.

Summary of proposals

8.50 Ofcom has considered both the Director's proposals for as set out in *Financial reporting obligations in SMP markets* (published 22 May 2003) and the responses made by stakeholders to that consultation. Except in the cases identified below, Ofcom has decided – for BT in conditions OA5 to OA11 and draft directions 3 and 4; and for Kingston in conditions OB5 to OB11 and draft directions 3 and 4 – to propose the implementation of the Director's proposals as consulted upon in the consultation document of 22 May 2003.

8.51 The following proposals by Ofcom differ from the proposals made by the Director:

- with regard to draft direction 3 in annex D, Ofcom has proposed that Kingston can meet its obligations to demonstrate cost-orientation by reporting on a CCA FAC basis for the reasons set out at 8.27;
- with regard to retail product group reporting as set out in draft direction 3 in annex C, Ofcom has proposed a more limited set of retail product group reporting for BT for the reasons set out at 8.41; and
- with regard to international reporting as set out in draft direction 3 in annex C, Ofcom has proposed that BT should not have to report separately for each Category B wholesale international services market, but can report at the category level, for the reasons set out at 8.42.

9. Audit of regulatory financial statements

9.1 This section applies to the following proposed conditions and draft directions:

- for BT, conditions OA5(b), OA10, OA12 to OA16 and draft directions 3, 5, and 6;
- for Kingston, conditions OB5(b), OB10, OB12 to OB16 and draft directions 3, 5 and 6.

The Director's proposals

The auditor

9.2 The Director proposed that the dominant provider would have to ensure that the auditor it appoints to audit its regulatory financial statements, i.e. the Regulatory Auditor, is satisfactory to the Director. If the Director was of the view that the Regulatory Auditor was not satisfactory, the dominant provider would have to appoint an alternative Regulatory Auditor that was satisfactory to the Director. Additionally, the Director proposed that the dominant provider should provide the same level of assistance and co-operation to an alternative Regulatory Auditor that it would give to its Statutory Auditor, its original Regulatory Auditor or both.

9.3 The Director also proposed that the dominant provider's letter of engagement appointing the Regulatory Auditor should include an express obligation that the Regulatory Auditor owes a duty of care to the Director. This duty of care should acknowledge the Director's interest in line with the Contracts (Rights of Third Parties) Act 1999.

Facilitation of the audit by the dominant provider

9.4 The Director proposed that the dominant provider would be obliged to ensure that the systems and processes employed are sufficient to ensure that:

- the Regulatory Auditor and the Director can – in their opinion – conclude that the cost accounting and accounting separation systems complies with the Accounting Documents; and
- enable the Financial Statements to be audited and audit opinion be expressed on them.

9.5 Since this is achieved in part by ensuring that sufficient checks, controls and meaningful reconciliations are implemented, the Director made a proposal to that effect.

9.6 The Director proposed that for each of the regulatory financial statements he should be provided with the necessary assurance that the information with which he is provided is relevant, reliable and of a good-quality. The Director proposed that the most appropriate manner by which this assurance can be provided is for the dominant provider to secure an audit opinion by the Regulatory Auditor. This would either be:

- the standard audit opinion; or
- where the Director consented or directed, a lesser audit opinion.

9.7 In addition, the Director proposed that the dominant provider should, where required, use its best endeavours to obtain from the Regulatory Auditor any further explanation and clarification of the audit report.

Audit opinions

9.8 The Director proposed – in the form of draft directions – that for those financial statements identified as requiring a standard audit opinion, the dominant provider should secure an audit opinion that states that the financial statements are fairly presented in accordance with (FPIA) with the Primary Accounting Documents. FPIA was proposed as the default audit opinion.

9.9 The Director also proposed that for those financial statements identified as requiring a lesser audit opinion, the dominant provider should secure an audit opinion that states that the financial statements are properly prepared in accordance with (PPIA) with the Primary Accounting Documents.

Responses to the consultation

The Auditor

9.10 BT noted that the Universal Service Directive states that “Compliance with the cost accounting system shall be verified by a qualified independent body” and suggested that Ofcom does not have the power to require regulatory financial statements in connection with retail markets to be audited.

9.11 BT noted that guidance on the duty of care owed by auditors to regulators was being considered by the Institute of Chartered Accounts in England and Wales (ICAEW). Additionally, BT requested further clarification and guidance on the circumstances in which a Regulatory Auditor may be deemed to be unsatisfactory.

9.12 Energis suggested that the ‘bi-partite’ approach that the Director proposed is inadequate. In particular Energis suggested that the Regulatory Auditor would be obliged to inform the regulator of any potential breach of the accounting separation or cost accounting requirements or of any indication that the dominant provider had acted to obscure anti-competitive activities.

9.13 C&W suggested that the Regulatory Auditor should owe a duty of care to the wider telecoms industry.

Ofcom’s view

9.14 Ofcom disagrees with BT’s suggestion that Ofcom does not have the power to require financial statements relating to retail markets to be audited. Ofcom considers that Section 91(6) of the Act is sufficiently widely drawn to include the expression of an audit opinion on the financial statements and that this is consistent with Article 17 of the USD. Therefore, proposed conditions OA12 to OA16 will apply to the regulatory financial statements prepared in respect of retail markets, as set out in paragraph 4 of the notification.

9.15 In October 2003, the Institute of Chartered Accountants in England and Wales (ICAEW) published a technical release called Reporting to Regulators of Regulated Entities. This document was the product of discussions in the accounting profession between auditors and regulatory accountants. Ofcom was involved in these discussions. This document provides for either tri-partite or bi-partite arrangements including the establishment of a duty of care to the regulator.

9.16 In conditions OA15 and OB15, Ofcom is proposing the adoption of these guidelines and has considered how a bi-partite arrangement would work in practice. Some of the benefits of this more formal relationship appear to be:

- the acknowledgement of a duty of care to Ofcom;
- the ability to oblige the auditor to attend meetings with Ofcom;
- the ability of Ofcom to specify, with supporting reasons, particular factors that they consider material in the context of the regulatory financial statements and;
- the ability of Ofcom to specify other specific factors to be reported upon that may require the performance of an agreed list of procedures.

9.17 The confidence of Ofcom in the work of the Regulatory Auditor is important to the operation of regulatory financial reporting obligations. With regard to conditions OA13, OA14, OB13 and OB14, Ofcom does not believe it is possible to provide comprehensive guidance on the circumstances in which it could decide that a regulatory auditor was unsatisfactory. However, Ofcom considers that this power would only be used in extreme circumstances, for example:

- findings that contradict assurances, information or explanations previously provided by the Regulatory Auditor;
- evidence of material errors and omissions in the work of the Regulatory Auditor; or
- the failure of the Regulatory Auditor to carry out work required under the conditions.

9.18 The proposed audit opinions specifically require the auditor to confirm whether the regulatory financial statements have been prepared in accordance with the relevant cost accounting and accounting separation framework.

9.19 Ofcom does not believe that it would be reasonable or practicable to impose on the regulatory auditor a duty of care to the telecoms industry. This approach would also be inconsistent with the advice recently issued by the ICAEW to its members. Also, Ofcom is of the view that it is highly unlikely that any auditor capable of carrying out the work to a sufficiently high standard would agree to such a duty of care.

Audit opinions

9.20 BT suggested that it is not possible for all of its regulatory financial statements to achieve FPIA audit opinions. In addition, BT suggested that the regulatory financial statements described as “Additional Financial Information”, which Oftel proposed should be accompanied by a PPIA audit opinion, should be subject to audit by exception and should in general be unaudited. BT noted that audit requirements appear to apply to the Operational Financial Report (OFR) and suggested that this regulatory financial statement should be unaudited.

9.21 Energis considered that there ought to be more analysis of the relative merits of the two possible types of audit opinion and justification of the types of audit opinion proposed for particular financial statements.

9.22 Centrica suggested that there is a need for sample testing of the information included in the regulatory financial statements as the audit opinion for BT’s financial statements currently states that no further testing or verification work is carried out, beyond that required for the purpose of the statutory companies act audit.

Ofcom's view

9.23 As noted in Section Two, the Accounting Standards Board has identified “reliability” as one of the key characteristics of good quality financial information. Ofcom considers that an effective and rigorous external audit is necessary for raising confidence in the robustness of regulatory financial information. Additionally, an unqualified audit opinion will provide Ofcom with a degree of reassurance about the reliability of the regulatory financial information when making decisions based on it. Ofcom also considers it essential that it is fully satisfied with the performance of the regulatory auditor, because it is one of the principal users of the regulatory financial information.

9.24 Having considered the responses, Ofcom is proposing two main changes regarding audit opinions and their implementation.

9.25 First, Ofcom considers that the audit requirements should have greater flexibility than proposed by the Director. Therefore, Ofcom proposes that – rather than refer to standard and lesser audit opinions – conditions OA5(b) and OB5(b) have been amended to refer to Ofcom directing the audit opinions from time to time. Therefore, although FPIA and PPIA audit levels are likely to make up the majority of the audit opinions required, there will be discretion for Ofcom to direct other levels of audit opinion if necessary to ensure proportionality.

9.26 Second, on the implementation of the audit levels, in draft direction 3 in annexes C and D Ofcom is proposing as a starting position that FPIA audit opinions should be required for financial statements at market level and above, with PPIA audit opinions for all other financial statements, for example for product groups or wholesale services. No audit would be required for on-demand financial information.

9.27 It is important to understand that an FPIA audit opinion gives a different level of assurance from a PPIA audit opinion. The FPIA audit opinion provides a high level of assurance and, in the context of regulatory financial reporting, is broadly equivalent to the “true and fair” opinion seen in statutory financial statements. It is a level of opinion therefore that is more appropriate to use at corporate or trading entity level and is therefore being proposed as the appropriate opinion for regulatory financial information for the defined SMP markets. A FPIA audit opinion requires the auditor to perform extensive audit work and the wide-ranging application of professional judgement which in turn means this level of opinion is normally the most expensive to obtain. Both the expense and the increased complexity in applying professional expertise to opine against the “fairly presents” test mean that this is usually not an appropriate level of opinion to apply to financial statements at a more granular level (i.e. for product or service results). Ofcom is directing the FPIA audit opinion in draft direction 5 of annexes C and D

9.28 By contrast, PPIA only provides assurance that the figures contained in the financial statements have been properly prepared in accordance with an agreed process without any assurance that the overall impression which they convey represents the underlying performance and financial position in a 'fair' manner. Therefore, the assurance provided by a PPIA audit opinion is dependent largely on the quality and transparency of the bases of preparation. As a consequence of the lower assurance which a PPIA audit opinion provides, it is less costly to obtain than an FPIA opinion. This makes it more suitable for providing assurance on financial statements at a more disaggregated level, e.g. product group or service level, providing that the supporting documentation is adequate. Ofcom is directing the PPIA audit opinion in draft direction 6 of annexes C and D

Summary of proposals

9.29 Ofcom has considered both the Director's proposals for as set out in *Financial reporting obligations in SMP markets* (published 22 May 2003) and the responses made by stakeholders to that consultation. Except in the cases identified below, Ofcom has decided – for BT in conditions OA10, OA12, OA13, OA14 and OA16 and for Kingston in conditions OB10, OB12, OB13, OB14 and OB16 – to propose the implementation of the Director's proposals as consulted upon in the consultation document of 22 May 2003.

9.30 The following proposals by Ofcom differ from the proposals made by the Director:

- Ofcom has changed conditions OA15 and OB15 relating to the regulatory auditor's duty of care to Ofcom. This was to take into account the guidance published by the ICAEW in October 2003;
- rather than setting the default standard and lesser audit opinions, Ofcom's proposed conditions OA5(b) and OB5(b) allow Ofcom to direct the level of audit from time to time. Ofcom is doing this in draft directions 5 and 6, for FPIA and PPIA respectively, in annexes C and D; and
- in draft direction 3 in annexes C and D, Ofcom is directing that regulatory financial statements at market level and above are audited to FPIA standard and regulatory financial statements below that level are audited to PPIA standard.

10. Accounting documentation

10.1 This section applies to the following proposed conditions and draft directions:

- for BT, conditions OA17 to OA20 and draft direction 2; and
- for Kingston, conditions OB17 and OB20 and draft direction 2.

The Director's proposals

Accounting documentation

10.2 The Director proposed that the cost accounting and accounting separation systems are maintained and financial statements are prepared in line with the Accounting Documents.

10.3 The Director proposed that where there is any inconsistency between the Primary Accounting Documents (PADs), they shall have the following order of priority:

- the Regulatory Accounting Principles;
- the Attribution Methods;
- the Transfer Charge System Methodology;
- the Accounting Policies; and
- the Long Run Incremental Cost Methodology.

10.4 The Director also proposed that where he has reasonable grounds to believe that any or all of the regulatory financial statements and/or the Accounting Documents are deficient (or where a dominant provider has been in breach of one of its SMP conditions) the dominant provider shall where directed:

- amend the Accounting Documents in order to remedy the deficiencies;
- restate the financial statements and secure a new audit opinion, in order to remedy deficiencies;
- deliver to the Director the restated financial statements; and
- publish the restated financial statements.

10.5 The Director proposed that the Primary Accounting Documents are reviewed by the dominant provider to comply with this condition. The Director also proposed that the dominant provider must deliver a report of the necessary changes and the amended documents to the Director within four months of the condition coming into force.

10.6 The Director proposed that the dominant provider prepare the Secondary Accounting Documents in accordance with the Primary Accounting Documents and deliver them to the Director on or before 30 March 2004 or eight months after the condition coming into force, whichever is the latest. The Secondary Accounting Documents are defined in the definitions to the condition as:

- the Detailed Attribution Methods;
- the Detailed Valuation Methodology;

- the Long Run Incremental Cost Model: Relationship and Parameters; and
- the Wholesale and Retail Catalogues.

10.7 The Director also proposed that the dominant provider should publish the Primary Accounting Documents within four months of the condition coming into force and the Secondary Accounting Documents prior to the publication of the first Cost Accounting Financial Statements published under this condition. Additionally, the Director proposed that the dominant provider publish and deliver to him details of any amendment made to the Accounting Documents as soon as practicable and within 28 days of the incorporation of such an amendment into the Accounting Documents, with no such amendments taking effect until the date on which they are delivered to the Director.

Wholesale and Retail Catalogues

10.8 The Director proposed the establishment of a Wholesale Catalogue and a Retail Catalogue. These catalogues would be prepared by the dominant provider and would contain the information set out below for each SMP market in which financial reporting obligations were imposed.

10.9 The Wholesale Catalogue would contain:

- all internal wholesale services;
- all external wholesale services; and
- an accurate description of all internal wholesale services, external wholesale services, wholesale activities and network services used in the provision of wholesale services.

10.10 The Retail Catalogue would contain:

- all retail products;
- all retail activities;
- all retail support activities; and
- an accurate description of all retail products, retail activities and retail support activities used in the provision of services to end-users.

10.11 The Director proposed that the dominant provider should deliver this catalogue to him within four months of the condition coming into force at the latest or earlier if practicable.

10.12 The Director also proposed that the dominant provider should be under an obligation to update the catalogues, for example as new services/products are introduced or existing services discontinued.

Transparency principle

10.13 The Director proposed to direct a transparency principle to ensure that any data, information, description, material or explanatory document prepared for the cost accounting system is sufficiently transparent so that a suitably informed reader can easily gain a clear understanding of such documentation. Additionally, the Director proposed that the transparency is sufficient so that a suitably informed reader can understand the overall structure of the dominant provider's financial and information systems from which regulatory accounting data is derived.

Responses to the consultation

Accounting documentation

10.14 Centrica, C&W and UKCTA suggested that a systematic review of the cost attribution methodologies, set out in the Accounting Documents, should be periodically carried out by Of tel.

10.15 Kingston noted that their accounting documentation did not have the same structure or titles as BT's. Therefore, an obligation to have the same range of Accounting Documents as BT would be disproportionate and unreasonable.

Ofcom's view

10.16 Ofcom agrees that there should be an ongoing review of the regulatory financial reporting systems and methodologies, so as to ensure that the current systems and methodologies are fulfilling their intended purpose and to ensure that they keep up-to-date with developments that may occur.

10.17 Ofcom is proposing to require the continuing preparation of accounting documentation that sets out in detail the principles and processes that the dominant providers follow in preparing their financial information and the detailed manner in which they apply these principles and processes. This accounting documentation is also necessary to enable there to be clarity about the meaning of the audit opinion.

10.18 Ofcom acknowledges that the way in which the original proposed condition was structured could be read as requiring Kingston to replicate BT's range of accounting documentation. This was the result of Of tel using the names of the documents that BT produces as a proxy for identifying the areas that should be covered by the accounting documentation.

10.19 To address this issue, Ofcom is clarifying in the conditions – and in particular the definitions of the primary and secondary accounting documents – that the obligation is for dominant providers to have accounting documentation covering certain topics, rather than documents with particular titles.

10.20 Therefore, according to OA17 and OB18, the Primary Accounting Documents are intended to provide a high-level overview of the processes and principles used in the regulatory financial reporting systems, and should cover:

- the principles used for regulatory accounting;
- the attribution methods used in producing the regulatory financial statements;
- the methodology for the transfer charging system;
- the accounting policies; and
- the methodology for calculating LRIC (for BT only).

10.21 And, according to OA18 and OB18, the Secondary Accounting Documents are intended to provide a detailed explanation of how the regulatory financial reporting systems work, and should cover:

- the attribution methods in detail;
- the valuation methods in detail; and
- the LRIC methodologies (for BT only).

10.22 Therefore, although the same principles of transparency and comprehensiveness apply to Kingston's accounting documentation as BT's accounting documentation, it is likely that the far smaller scale of Kingston compared to BT will be reflected in a smaller and simpler set of accounting documentation and due to the absence of LRIC reporting no incremental costing methodologies.

10.23 The principal amendments required to BT and Kingston's documents would be expected to be their revision to reflect a move from 'Regulatory Businesses' to 'markets subject to financial reporting conditions' and a modification of the Transfer Charge System Methodology to reflect this change.

Transparency principle

10.24 BT stated that it considered the documentation now allows "the reader to make their own judgements as to the reasonableness of cost attributions" and expressed concern that the proposed Financial Reporting framework does not adequately give credit for that fact.

10.25 C&W expressed concern that the Accounting Documents are currently "incomprehensible".

10.26 Centrica noted that "the allocation of common costs between markets will inevitably entail a level of judgement" on the part of the dominant provider and expresses concern that, in the absence of structural (physical) separation, there may be significant problems in adequately verifying the financial data submitted to OfTel.

Ofcom's view

10.27 It should be noted that in their responses BT and C&W were referring to different sets of Accounting Documents. BT was referring to the Accounting Documents that were published with the 2002/3 Regulatory Financial Statements on 19 September 2003. C&W were referring to the set of Accounting Documents available at the time of their response, i.e. the 2001/2002 Accounting Documents.

10.28 Ofcom considers that the transparency principle is an effective test of the transparency of BT and Kingston's accounting documentation. Transparency of the accounting documentation is essential as without a clear understanding of the bases of preparation, Ofcom will not be able to take a reasonable view on, for example, the relevance and/or comparability of the regulatory financial information.

10.29 Ofcom believes that BT has made improvements to the transparency of the Accounting Documents since the transparency principle was first imposed by the Director in November 2002. However, Ofcom believes that it would be premature to conclude whether the Accounting Documents prepared for 2002/03 by BT are sufficiently transparent (or 'fit for purpose' when examining BT's cost attribution process and/or valuation methodologies in detail in support of a specific complaint). A review process will be undertaken to assess, from Ofcom's perspective, the adequacy of this documentation and its compliance with the transparency principle.

10.30 It is worth noting that C&W have provided further views on the transparency of the accounting documentation on the basis of a review they have carried out. To summarise, C&W consider that the transparency of the accounting documentation has improved but that they still have significant concerns in several areas. These will be taken into account in Ofcom's review of the accounting documentation.

10.31 Ofcom considers that one of the ways of identifying whether the transparency principle is effective is whether the accounting documentation can be used to identify and/or address the issues on cost attribution raised by Centrica.

Wholesale and Retail Catalogues

10.32 UKCTA and Energis both questioned the extent to which the proposed financial reporting obligations allow the inputs to new services to be identified.

10.33 UKCTA, Energis and Centrica all suggested additions to the Wholesale and/or Retail Catalogues. In summary these suggestions were that:

- the Wholesale Catalogue should include price and volume information, amongst other things the average price and total volumes at which both internal and external services are sold;
- the Wholesale Catalogue should include details (including cost and utilisation) of the network components used in the course of supplying each Wholesale Service;
- where services are dependent on a particular type or set of technologies, information on these dependencies should be included;
- the Wholesale Catalogue should include details of the material cost categories relevant to each Wholesale Service;
- the Wholesale Catalogue should include details of the basis of attribution of costs relevant to each Wholesale Service;
- the Retail Catalogue should include the internal transfer prices between upstream SMP markets and downstream non-SMP markets (in the absence of a price notification requirement for the input Wholesale Service);
- the Retail Catalogue should include a description of the Wholesale Services underlying the Retail Services;
- the Retail Catalogue should include details of the basis of attribution of costs relevant to each Retail Service; and
- the Retail Catalogue should include details of the material cost categories relevant to each Retail Service.

Ofcom's view

10.34 The Wholesale Catalogue is a new addition to the accounting documentation, although some detail on services and products is currently included in BT's Detailed Attribution Methodology document. Ofcom believes that the Wholesale Catalogue is necessary to ensure that, when a given 'service' is supplied, it is clear what is actually being supplied (and what activities are carried out in the course providing the service), to ensure that there is no ambiguity in relation to similar services or services having similar names, to establish what has (and has not) been included within the ambit of particular services or particular markets and to assess whether those inclusions (and exclusions) are appropriate.

10.35 Ofcom considers that the proposed obligations require dominant providers to set out – in either the Wholesale or Retail Catalogues – details of services and/or products supplied in markets where they have been designated as having SMP. These catalogues must be kept up to date and therefore will capture new products and/or services.

10.36 Ofcom does not consider the suggested additions to the catalogues to be appropriate. In the case of information on price, volume, cost and utilisation of services, products and/or network components, this is because the information is captured on the face of the relevant financial statements or in the reference offers, as appropriate. Additionally, the financial statements are audited and reconciled to the overall results.

10.37 Similarly, Ofcom does not consider that the information on the attribution of costs and material cost categories should be included in the catalogues. The appropriate place for that information is in the accounting documentation.

10.38 The purpose of the catalogues is to set out the services and/or products supplied in SMP markets where cost accounting and/or accounting separation obligations have been imposed and to describe their nature. This will aid users to understand which economic markets the dominant provider is mapping its products/services to and allows for other useful cross-referencing, for example, to published price lists.

10.39 Some of the suggestions are already catered for in the conditions. For example, the proposals provide for the catalogues to include details of Network Services used in the course of supplying wholesale services. The required details of the Network Services used would be expected at least to include those groups of activities collectively referred to as 'Network Components' (as set out in draft direction 1). To the extent the Network Components are insufficient fully to describe the activities necessary to supply the Wholesale Service, the other activities carried out in the course of supplying the Wholesale Service would be captured by the requirement fully to set out details of the Network Services used.

10.40 Also, Ofcom considers that the underlying networks and activities used in the course of supplying particular Wholesale Services ought to be evident in any event from the identification of the activities carried out in the course of its supply.

10.41 Ofcom notes that financial reporting obligations cannot be imposed in downstream markets where no provider has SMP. Accordingly, if a downstream market is not SMP designated or cost accounting obligations have not been imposed, neither the inputs to services supplied in the downstream market nor the internal transfer prices of those inputs can be required to be provided.

Summary of proposals

10.42 Ofcom has considered both the Director's proposals for as set out in *Financial reporting obligations in SMP markets* (published 22 May 2003) and the responses made by stakeholders to that consultation. Except in the cases identified below, Ofcom has decided – for BT in conditions OA19 and OA20 and draft direction 2 and for Kingston in conditions OB19 and OB20 and draft direction 2 – to propose the implementation of the Director's proposals as consulted upon in the consultation document of 22 May 2003.

10.43 Unlike the Director's proposals, Ofcom is proposing that the Primary Accounting Documents and Secondary Accounting Documents are defined by their content and purpose rather than by their title. Therefore, in OA17 and OA18 for BT and OB17 and OB18 for Kingston and the definitions to the conditions, the documentation is described rather than defined by the titles of existing documents.

11. Amendment of regulatory financial reporting regime

11.1 This section applies to the following proposed conditions:

- for BT, conditions OA2, OA3, OA7 and OA21; and
- for Kingston, condition ON2, OB3, OB7 and OB21.

The Director's proposals

11.2 The Director proposed that he could make directions from time to time under the conditions. The Director also proposed that the dominant provider must comply with any direction made by the Director. The Director specified in particular that the dominant provider should make changes to the network component list as he may from time to time direct.

11.3 In addition, the Director proposed the circumstances in which the dominant provider shall make amendments. Specifically, the Director proposed that the Cost Accounting System, the Accounting Documents and the form and content of the Cost Accounting Financial Statements should be amended by the dominant provider to ensure they are fully consistent with:

- any modification of any of the SMP conditions;
- any formal undertakings given by the dominant provider to the Director following investigations regarding the SMP conditions or Act;
- any enforcement notifications, directions, consents and determinations given or made by the Director under any of the SMP conditions or the Act.

11.4 It was proposed that these amendments should be made, and the Director notified in writing, within three months of any of the above.

Responses to the consultation

11.5 BT notes that the proposed power to issue directions remedying deficiencies in the Financial Reporting and/or Accounting Documents does not appear to be a consequence of an investigation (as previously set out in condition 78 of BT's licence).

Ofcom's view

11.6 The communications market is not static and any financial reporting system, such as regulatory accounting systems, must be adaptable enough to reflect any changes. Therefore, Ofcom proposes that the dominant providers should be under an obligation to keep their accounting systems, Accounting Documents and form and content of the financial statements up to date. Although it is the dominant provider that has primary responsibility for keeping the accounting systems up to date (under conditions OA7 and OA21), Ofcom proposes that it has the power to amend the accounting systems, by direction, as and when necessary under conditions OA2 and OA3.

11.7 Ofcom believes that these proposals on amendments to the regulatory accounting system are objectively justified and proportionate as they ensure that non-discrimination, cost-orientation, cost recovery and price control obligations can be effectively monitored in the long term, by allowing the cost accounting system to be adapted to meet changing situations.

11.8 For the accounting system to be meaningful in monitoring these obligations it is essential that it reflects the ongoing operations of the dominant provider, in terms of the services offered and the cost components used. Ofcom believes that having adequate amendment powers is essential to ensuring this aim.

11.9 However, Ofcom does not expect to use the proposed power to issue directions in the absence of information and/or explanations received from the dominant provider or its Regulatory Auditor that give rise to a justifiable need to act. Ofcom envisages that:

- it may receive information indicating deficiencies in the Financial Reporting and/or Accounting Documentation during the course of investigating a complaint or considering any matter connected to the dominant provider's financial reporting obligations;
- Ofcom would investigate its concerns in relation to the Financial Reporting and/or Accounting Documentation by asking the dominant provider and/or its Regulatory Auditor to provide appropriate information and/or explanations within a reasonable set time period; and
- only if Ofcom's concerns were not allayed by the information and/or explanations provided by either the dominant provider or its Regulatory Auditor would Ofcom then propose such directions as may appear to be necessary to it to remedy deficiencies.

11.10 To make a direction under conditions OA2 or OB2, Ofcom will have to publish a notification setting out the proposal, its effect and the reasons for it. Ofcom will usually have to allow one month for consultation on the draft direction and take into account responses received before issuing a final direction. Also, Ofcom has to ensure that any direction is objectively justifiable, non-discriminatory, proportionate and transparent.

Summary of proposals

11.11 Ofcom has considered both the Director's proposals for as set out in *Financial reporting obligations in SMP markets* (published 22 May 2003) and the responses made by stakeholders to that consultation. Ofcom has decided to propose the implementation of the Director's proposals as consulted upon in the consultation document of 22 May 2003.

11.12 However, although Ofcom has not changed the purpose of the conditions, it has clarified the process by which amendments can be directed. That is, Ofcom has stated that changes will be directed under conditions OA2 and OB2 only following an investigation into a specific issue and where that investigation has identified problems that can be resolved only by directing changes to the regulatory accounting system, accounting documentation and/or the regulatory financial statements.

12. Impact on dominant providers

12.1 This section analyses the impact of the proposed regulatory financial reporting obligations on BT and Kingston. It addresses:

- the context in which the regulatory financial reporting obligations should be seen;
- the cost on dominant providers of complying with the proposed regulatory financial reporting obligations;
- the issues that may mitigate these costs for dominant providers;
- the benefits of the proposed regulatory financial reporting obligations for non-dominant communications providers; and
- the benefits of the proposed regulatory financial reporting obligations for the UK economy in general and the communications sector in particular.

Context of regulatory financial reporting

12.2 In order to put the costs to BT and Kingston into context it is important to look at the real scope of the obligations that regulatory financial reporting is intended to monitor and in the case of price controls, provide information to allow their setting and reviewing.

12.3 The regulatory financial reporting obligations for BT and Kingston cover a wide range of markets. Ofcom has identified 26 markets where BT has SMP and Ofcom has imposed cost-orientation, non-discrimination, cost recovery and/or price control obligations. (This includes the treatment of the 108 “Category B” international route markets where BT has SMP as a single category for reporting purposes rather than individual markets.) Ofcom has identified 13 markets where Kingston has SMP and Ofcom has imposed cost-orientation, non-discrimination, cost recovery and/or price control obligations.

12.4 Ofcom estimates that in wholesale markets where regulatory financial reporting obligations are proposed BT’s revenues (including external sales and internal transfer charges) were approximately £11 billion in the financial year ending 31 March 2003. For the same period, Ofcom estimates that BT’s revenues in retail markets where regulatory financial reporting obligations are proposed were approximately £9 billion.

12.5 Ofcom estimates that in those markets where regulatory financial reporting obligations are proposed Kingston’s revenues are approximately £80 million per year. This represents the vast majority of Kingston’s revenues within the Hull area.

Costs on dominant providers

Costs on BT

12.6 In its response to the 22 May 2003 consultation on regulatory financial reporting, BT stated that 75 full-time equivalent employees were engaged in BT’s regulatory accounting processes and that it incurred in excess of £7 million annually, in running its regulatory accounting processes. BT also estimated that the proposals in the 22 May 2003 consultation document would significantly increase this “burden”. BT did not provide further details of how significant it estimated the increase in costs or personnel would be.

12.7 Ofcom notes that under the Directives and the Act the onus is on BT to demonstrate that it is complying with its obligations for cost orientation, non-discrimination, etc. Therefore, it is Ofcom's opinion that even in the absence of a specific regulatory financial reporting obligation BT would need accounting and reporting systems capable of meeting this requirement.

12.8 Additionally, Ofcom is aware that BT is developing internal management accounting systems that will be more closely aligned to the type of reporting required for regulatory purposes. If this system can provide information that meets the requirements set out in this document, Ofcom will consider allowing BT to report some of its information through this system. This would reduce the running costs of regulatory financial reporting to BT.

12.9 Ofcom has also taken into account BT's response to Oftel's consultation *Financial reporting obligations in SMP markets*. In particular, Ofcom's proposals include changes that have the effect of reducing the cost to BT when compared to Oftel's May 2003 proposals. These changes include:

- defining on-demand reporting as for periods of calendar months, typically delivered within 10 working days and of a quality similar to good quality management accounting information (see 7.64 to 7.65);
- reducing the number of retail product groups to be reported for reasons of materiality, proportionality and commercial confidentiality (see 8.41);
- requiring preparation and publication of regulatory financial statements for international wholesale services at the "category level" rather than on a route-by-route basis (see 8.42); and
- requiring FPIA audit opinions only on regulatory financial statements at market level and above, with PPIA audit opinions for regulatory financial statements below that level (see 9.26).

Costs on Kingston

12.10 Kingston is a far smaller company than BT, with both a smaller product portfolio and simpler network structure. Therefore, its regulatory financial reporting obligations have – in the past – been significantly simpler and therefore cheaper than BT's.

12.11 Ofcom has taken into account Kingston's response to Oftel's May 2003 proposals. Although Kingston did not quantify the costs it incurred in complying with regulatory financial reporting, it was concerned that – given its relative size – the proposals for on-demand reporting, LRIC+ reporting, the network component list and the extension of the accounting documentation would be costly and disproportionate. Therefore, Ofcom has proposed the following changes to Oftel's May 2003 proposals:

- Ofcom is proposing to direct a different network component list for Kingston as reflection of Kingston's smaller and simpler network (see 7.34);
- Kingston will not be obliged to have an on-demand reporting capability (see 7.66);
- Ofcom will allow Kingston to report on a CCA FAC basis rather than LRIC+ (see 8.27) to demonstrate cost-orientation; and
- the changes to conditions OB17 to OB20 should clarify that Ofcom's intention is that the accounting documentation should be appropriate to the task, not that Kingston is expected to replicate BT's accounting documentation (see 10.18 to 10.22).

Benefits of regulatory financial reporting

12.12 As regulatory financial reporting is *ex ante* regulation its benefits include the prevention of abuses that could be highly detrimental – and therefore costly – to groups of or specific non-dominant communications providers, end-users, competition in the communications sector, and more generally to the UK economy. These benefits are more difficult to quantify as they involve identifying costs that would have been incurred if Ofcom did not take a particular course of action. That is, if regulatory financial reporting is fulfilling its purpose (i.e. preventing abuse of a dominant position) it is difficult to identify with any certainty the costs that would be caused in its absence. This section attempts to examine these costs which are avoided as well as the other more traditional positive benefits.

Benefits for non-dominant communications providers

12.13 There are several benefits for non-dominant communications providers in there being fit-for-purpose regulatory financial reporting. These include:

- assurance that Ofcom has information to monitor and – if necessary – enforce obligations for non-discrimination, cost-orientation, etc;
- greater assurance that prices charged to them by dominant providers for services essential to their business are cost-oriented, enabling them to better produce business plans and compete effectively;
- greater assurance that prices are non-discriminatory; and
- disputes/investigations relying on regulatory financial information will be resolved more quickly, efficiently and on the basis of more reliable information.

12.14 The greatest benefit to non-dominant communications providers is that rigorous and detailed regulatory financial reporting lessens the likelihood of a dominant provider acting in an anti-competitive manner. In the absence of any regulatory financial reporting it would be far easier for a dominant provider to damage the viability of its competitors.

Benefits for dominant providers

12.15 Ofcom believes that there are benefits for dominant providers as well as costs. Given that the onus is on BT and Kingston to demonstrate that they are compliant with obligations for cost-orientation and to not discriminate unduly, the proposed regulatory financial reporting obligations provide BT and Kingston with a degree of predictability about the sort of financial information that Ofcom is likely to ask for as a matter of course to demonstrate compliance.

12.16 Furthermore, BT and Kingston could derive some benefits to the extent that a rigorous and effective regulatory financial reporting system might prevent and/or deter vexatious complaints. That is, the fact that Ofcom can use the information to resolve complaints more quickly would include complaints against BT or Kingston which are not valid. Indeed Ofcom would also use regulatory financial information to identify complaints that do not have any sound basis.

Benefits for Ofcom

12.17 Ofcom will also accrue benefits from the proposals. On-demand reporting will lead to quicker access to more reliable and relevant regulatory financial information will allow Ofcom to resolve cases more

efficiently, potentially more quickly and on the basis of more reliable information. As a minimum this will reduce Ofcom's costs in staff time.

More general benefits

12.18 Ofcom considers that regulatory financial reporting is essential to the effective regulation of BT and Kingston where economic regulatory remedies such as price controls, cost-orientation and non-discrimination have been imposed. In the absence of effective regulatory financial reporting obligations, Ofcom would be left without any effective way of monitoring and enforcing these remedies.

12.19 With effective regulatory financial reporting, potentially damaging anti-competitive practice can be stopped earlier and quicker, or even prevented from occurring at all. This, therefore, protects competition in the communications sector, and as a consequence consumers in the UK.

12.20 A vibrant and competitive communications market is important to the UK economy as a whole. If competition in the communications sector was significantly damaged this could have an impact on the UK economy of many millions or billions of pounds.

Conclusion

12.21 Ofcom considers that whilst BT and Kingston are still dominant in substantial sections of the communications sector, it will have regulatory obligations preventing it from leveraging that power to the detriment of competition. Therefore, given the importance of regulatory financial reporting to competition in the communications sector, Ofcom considers that the costs on BT and Kingston are appropriate and proportionate.

13. Assessment of Communications Act tests

13.1 The powers to impose regulatory financial reporting obligations were discussed in chapter four. It should be noted that these powers are subject to certain limitations. This chapter sets out these limitations and discusses how Ofcom believes that these limitations and tests have been addressed in developing the proposals for the regulatory financial reporting obligations.

Tests that must be met

13.2 Section 3 of the Act sets out the general duties of Ofcom. Ofcom is required by this section to carry out its functions in line with these duties.

13.3 Section 4 of the Act requires Ofcom to act in accordance with the six European Community requirements for regulation. In summary these requirements are to:

- promote competition in the provision of electronic communications networks and services, associated facilities and the supply of directories;
- contribute to the development of the European internal market;
- promote the interests of all persons who are citizens of the European Union;
- not favour one form of or means of providing electronic communications networks or services, i.e. to be technologically neutral;
- to encourage the provision of network access and service interoperability for the purpose of securing:
 - efficient and sustainable competition; and
 - the maximum benefit for customers of communications providers;
- encourage compliance with certain standards in order to facilitate service interoperability and secure freedom of choice for the customers of communications providers.

13.4 Respectively, Sections 47 and 49 of the Act require Ofcom to ensure that any condition it sets or direction it gives is:

- objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
- not unduly discriminatory against particular persons or against a particular description of persons;
- proportionate to what it is intended to achieve; and
- transparent in relation to what it is intended to achieve.

13.5 According to Section 88 of the Act, conditions derived from Section 87(9) (i.e. relating to price controls and cost accounting in wholesale markets) may not be imposed except where:

- it appears from the market analysis that there is a relevant risk of adverse effects arising from price distortion; and

- it also appears that the condition is appropriate for the purposes of:
 - promoting efficiency;
 - promoting sustainable competition; and
 - conferring the greatest possible benefit on the end-users of public electronic communications services.

13.6 Section 91(2) states that Ofcom may only impose conditions on dominant providers in markets for end-users if it is unable to perform its duties by imposing obligations in wholesale markets.

How the tests are met

13.7 As part of the EU market review process, Ofcom proposed the imposition of wholesale and retail cost accounting and accounting separation obligations on BT and Kingston in specific identified markets. Therefore, the market reviews have already assessed whether the proposals to impose:

- wholesale cost accounting meet the tests outlined in Sections 4 and 88 of the Act and the tests in Section 47(2)(a) and (b);
- retail cost accounting meet the tests outlined in Sections 4, 91 and 92 of the Act and the tests in Section 47(2)(a) and (b); and
- accounting separation meet the tests outlined in Sections 4, 87(7) and 87(8) of the Act and the tests in Section 47(2)(a) and (b).

13.8 The justification of the imposition of regulatory financial reporting obligations on dominant providers in the light of these tests is set out in detail in each of the market reviews. Ofcom considers that the tests have been met for each market where retail cost accounting, wholesale cost accounting and/or accounting separation obligations have been proposed.

13.9 In particular, Section 4 is met by the imposition of regulatory financial reporting obligations because the obligations of cost orientation, cost recovery, price controls and non-discrimination are important in ensuring that dominant providers do not abuse their power in markets. The regulatory financial reporting obligations assist Ofcom in monitoring and enforcing cost orientation, cost recovery and non-discrimination obligations; and inform the review of price controls. Therefore, the regulatory financial reporting obligations assist in the promotion of competition by restraining the market power of dominant providers. Additionally, reliable cost-orientation, price controls and non-discrimination assist in encouraging network access for the purpose of securing efficient and sustainable competition and the maximum benefit for customers of communications providers.

13.10 The following list identifies these documents and the sections relating to regulatory financial reporting:

- chapter five of the Review of the Fixed Geographic Call Termination Markets (published 28 November 2003) addressed the imposition of cost accounting and accounting separation obligations on BT and Kingston;
- paragraph 2.55 of the Review of the Wholesale International Services Markets (published 18 November 2003) addressed the imposition of accounting separation obligations on BT;

- chapter 11 of the Review of the Fixed Narrowband Wholesale Exchange Line, Call Origination, Conveyance and Transit Markets (published 28 November 2003) addressed the imposition of cost accounting and accounting separation obligations on BT and Kingston;
- paragraphs 4.62 to 4.72 of the Review of the Fixed Narrowband Retail Markets (published 28 November 2003) addressed the imposition of cost accounting obligations on BT;
- chapter 10 of the Review of the Retail Leased Line Symmetric Broadband and Wholesale Trunk Segments Markets (published 18 December 2003) addressed the proposal to impose cost accounting and accounting separation obligations on BT and just cost accounting obligations on Kingston; and
- paragraphs 4.190 to 4.211 of the Review of the Wholesale Broadband Access Market (published 18 December 2003) addressed the proposal to impose accounting separation obligations on BT and Kingston.

Assessment of detailed proposals for implementation

13.11 Ofcom believes that all the proposals set out in this document meet the tests included in Sections 47 and 49 of the Act of being transparent and not unduly discriminatory because:

- these proposals have been consulted upon widely, responses to this consultation have been transparently taken into account and addressed in this document, and that these proposals in this document are being put forward for a further period of consultation; and
- these proposals apply to both BT and Kingston, except where it would be disproportionate and/or not justifiable for the proposals to be the same, e.g. on-demand reporting (see 7.66). Furthermore, BT and Kingston are the only communications providers in the fixed communications market to have SMP in multiple markets and therefore can be treated as a class of communications provider.

13.12 Therefore, the sub-sections below address the tests of objective justification and proportionality set out in Sections 47 and 49 of the Act.

Maintenance of accounting records and systems

13.13 Ofcom believes that the proposals set out in section seven of this document meet the test of being objectively justifiable because the maintenance of accounting records and systems is fundamental to Ofcom's ability to effectively monitor and enforce compliance of BT and Kingston's obligations for non-discrimination, cost-orientation, cost recovery and price controls. Without the imposition of specific accounting records and systems Ofcom would not have access to information that would allow these obligations to be monitored and – if necessary – enforced.

13.14 Furthermore, Ofcom believes that these proposals are proportionate because they are no more than it considers necessary for the purpose of monitoring and enforcing these obligations. That is, Ofcom has not imposed any regulatory financial reporting obligations for the maintenance of accounting records and systems in any area where they are not necessary and has only imposed systems that are necessary to provide the level of information needed for monitoring and enforcement.

Preparation, delivery and publication of regulatory financial statements

13.15 Ofcom believes that the proposals set out in section eight of this document meet the test of being objectively justifiable because the preparation and delivery of regulatory financial statements are fundamental to Ofcom's ability to effectively monitor and enforce compliance of BT and Kingston's obligations for non-discrimination, cost-orientation, cost recovery and price controls. Without sight of regulatory financial statements Ofcom would not have the information necessary for monitoring and – if necessary – enforcing these obligations. The proposals for publication are objectively justifiable because publication will make transparent the process for monitoring and enforcing and therefore provide greater certainty to non-dominant communications providers that rely on services from BT and/or Kingston.

13.16 Furthermore, Ofcom believes that these proposals are proportionate because the level of information is no more than Ofcom considers necessary for this purpose. That is, Ofcom has only proposed the preparation, delivery and publication of regulatory financial statements that are necessary for monitoring and enforcement.

Accounting documentation

13.17 Ofcom believes that the proposals set out in section nine of this document meet the test of being objectively justifiable because they are necessary to ensure that the regulatory financial statements referred to above are prepared on a consistent and comparable basis and that the bases of preparation are adequately disclosed. Without this, Ofcom would not be able to rely on the regulatory financial statements in the monitoring and enforcement of BT and Kingston's obligations for non-discrimination, cost-orientation, cost recovery and price controls.

13.18 Furthermore, Ofcom believes that these proposals are proportionate because the level of accounting documentation is no more than Ofcom considers necessary for the purpose of ensuring the consistent and comparable preparation of regulatory financial statements and the adequate disclosure of the bases of preparation of these.

Amendment of the regulatory financial reporting regime

13.19 Ofcom believes that the proposals set out in section 10 of this document meet the test of being objectively justifiable because the ability to amend the regulatory financial reporting regime is necessary to keep the regulatory accounting records and systems and its outputs relevant and up-to-date for the purpose of effectively monitoring and enforcing compliance with the dominant providers' obligations for non-discrimination, cost-orientation, cost recovery and price controls. Without these powers of amendment the regulatory financial reporting regime could be become outdated and inadequate for its purposes.

13.20 Furthermore, Ofcom believes that these proposals are proportionate because they are no more than it considers necessary for keeping the regulatory financial reporting regime relevant and up-to-date.

Audit of regulatory financial statements

13.21 Ofcom believes that the proposals set out in section 11 of this document meet the test of being objectively justifiable because the provisions for audit are necessary to provide assurance as to the reliability of the regulatory financial information. Without such assurance Ofcom would not be able to confidently use the regulatory financial information to effectively monitor and enforce compliance of BT and Kingston's obligations for non-discrimination, cost-orientation, cost recovery and price controls.

13.22 Furthermore, Ofcom believes that these proposals are proportionate because they are no more than it considers necessary for the ensuring that an appropriate level of assurance is provided. That is, Ofcom has proposed a flexible level of audit opinion and is following industry practice with regards to its relationship with the regulatory auditor.

Overall assessment of the regulatory financial reporting obligations

13.23 Ofcom believes that the discussion in the previous chapter and the sub-sections above justifies the overall impact of setting conditions for regulatory financial reporting. That is, in general, the setting of a regulatory financial reporting obligation for BT and Kingston meets the tests in Section 47 and Section 49 of the Act as the proposals are objectively justifiable because they are necessary for Ofcom to effectively monitor and enforce compliance of BT and Kingston's obligations for non-discrimination, cost-orientation, cost recovery and price controls.

13.24 Furthermore, Ofcom believes that the proposals are proportionate because they are no more than is necessary for securing these objectives.

A Final notification on BT

NOTIFICATION UNDER SECTIONS 48(2) AND 86(1) OF THE COMMUNICATIONS ACT 2003

Proposals for the setting of further SMP services conditions in relation to BT

1. OFCOM, in accordance with sections 48(2) and 86(1) of the Act, hereby make the following proposals for the setting of further SMP services conditions by reference to market power determinations proposed or made in relation to markets in which OFCOM are satisfied there has been no material change since those determinations were proposed or made.
2. The proposals contained in this Notification are further to the market power determinations proposed or made in the Notifications made under sections 80 or 79 (as appropriate) by the Director as set out in Schedule 1 to this Notification.
3. By virtue of the Transitional Provisions, the market power determinations proposed or made by the Director set out in Schedule 1 to this Notification are to have effect as if proposed or made by OFCOM.
4. OFCOM are proposing to set further SMP services conditions on BT as follows:
 - (a) in respect of the wholesale markets:
 - (i) numbered 1 to 4, 6 to 10, and 14 to 17 set out in Part 1 of Schedule 1 to this Notification, the SMP services conditions as set out in Schedule 2 to this Notification, excluding conditions OA29 to OA31 and OA34;
 - (ii) numbered 5, 11, 12 and 13 set out in Part 1 of Schedule 1 to this Notification, the SMP services condition as set out in Schedule 2 to this Notification, excluding subparagraphs (a) to (c) and (f) of condition OA23, conditions OA26 to OA31, and condition OA34; and
 - (b) in respect of the retail markets set out in Part 2 of Schedule 1 to this Notification, the SMP services conditions as set out in Schedule 2 to this Notification, excluding subparagraphs (b), (d) and (e) of condition OA23, conditions OA26 to OA28 and condition OA34.
5. The effect of, and OFCOM's reasons for making, the proposals referred to in paragraph 4 above are set out at Chapters 7 to 13 respectively of the explanatory statement published with this Notification.
6. OFCOM consider that the proposed SMP services conditions referred to in paragraph 4 above comply with the requirements of sections 45 to 50 and sections 78 to 92 of the Act, as appropriate and relevant to each such SMP services condition.
7. In making the proposals set out in this Notification, OFCOM have considered and acted in accordance with their general duties in section 3 of the Act and the six Community requirements in section 4 of the Act.
8. Representations may be made to OFCOM about the proposals set out in this Notification and the accompanying explanatory statement by 10 May 2004.
9. Copies of this Notification and the accompanying explanatory statement have been sent to the Secretary of State in accordance with section 50(1)(a), the European Commission and to the regulatory authorities of every other Member State in accordance with section 50(3) of the Act.

10. In this Notification (not including the Schedules) -

(a) 'the Act' means the Communications Act 2003;

(b) 'BT' means British Telecommunications plc, whose registered company number is 1800000, and any British Telecommunications plc subsidiary or holding company, or any subsidiary of that holding company, all as defined by Section 736 of the Companies Act 1985 as amended by the Companies Act 1989;

(c) 'the Director' means the Director-General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;

(d) 'OFCOM' means the Office of Communications;

(e) 'Transitional Provisions' means sections 408 and 411 of the Act, the Communications Act 2003 (Commencement No.1) Order 2003 and the Office of Communications Act 2002 (Commencement No.3) Order 2003 and Communications Act 2003 (Commencement No 2) Order 2003; and

(f) except as otherwise defined in this Notification, words or expressions used shall have the same meaning as in the Act.

DAVID K S THOMAS

DIRECTOR OF REGULATORY FINANCE

A person authorised under paragraph 18 of the Schedule to the Office of Communications Act 2002

8 April 2004

SCHEDULE 1

Market Power Determinations made by the Director General of Telecommunications in respect of BT to which the further SMP services conditions apply in accordance with the Notification

In this Schedule:

- (a) 'the Act' means the Communications Act 2003;
- (b) 'BT' means British Telecommunications plc, whose registered company number is 1800000, and any British Telecommunications plc subsidiary or holding company, or any subsidiary of that holding company, all as defined by Section 736 of the Companies Act 1985 as amended by the Companies Act 1989;
- (c) 'Category A calls' and 'Category B calls' mean calls to the international destinations as are set out respectively in Part 3 of this Schedule;
- (d) 'Hull Area' means the area defined as the 'Licensed Area' in the licence granted on 30 November 1987 by the Secretary of State under section 7 of the Telecommunications Act 1984 to Kingston upon Hull City Council and Kingston Communications (Hull) plc;
- (e) 'UK' means the United Kingdom as defined in the Interpretation Act 1973.

Part 1: Wholesale Markets

Market identified and in which BT found to have SMP in previous Notification	s. 80 or s. 79 of the Act	Date
1. Wholesale residential analogue exchange line services in the UK excluding the Hull Area	s. 79 (final)	27.11.03
2. Wholesale residential ISDN2 exchange line services in the UK excluding the Hull Area	As above	As above
3. Wholesale business analogue exchange line services in the UK excluding the Hull Area	As above	As above
4. Wholesale business ISDN2 exchange line services in the UK excluding the Hull Area	As above	As above
5. Wholesale ISDN30 exchange line services in the UK excluding the Hull Area	As above	As above
6. Call origination on fixed public narrowband networks in the UK excluding the Hull Area	As above	As above
7. Local-tandem conveyance and transit on fixed public telephone networks in the UK excluding the Hull Area	As above	As above

Market identified and in which BT found to have SMP in previous Notification	s. 80 or s. 79 of the Act	Date
8. Inter-tandem conveyance and transit on fixed public telephone networks in the UK excluding the Hull Area	As above	As above
9. Single transit on fixed public narrowband networks in the UK excluding the Hull Area	As above	As above
10. Fixed geographic call termination provided by BT	s. 79 (final)	28.11.03
11. Wholesale international call conveyance from the United Kingdom to each of the countries, territories or satellite services set out in Category B at Part 3 of this Schedule on a route by route basis such that each route from the United Kingdom to one of those countries, territories or satellite services constitutes a separate market	s. 79 (final)	18.11.03
12. Asymmetric broadband origination in the UK excluding the Hull Area	s. 80 (proposal)	16.12.03
13. Broadband conveyance in the UK	As above	As above
14. Provision of traditional interface symmetric broadband origination with a bandwidth capacity up to and including eight megabits per second within the UK but not including the Hull Area	s. 80 (proposal)	18.12.03
15. Provision of traditional interface symmetric broadband origination with a bandwidth capacity above eight megabits per second and up to and including one hundred and fifty five megabits per second within the UK but not including the Hull Area	As above	As above
16. Provision of alternative interface symmetric broadband origination at all bandwidths within the UK but not including the Hull Area	As above	As above
17. Provision of wholesale trunk segments at all bandwidths within the UK	As above	As above

Part 2: Retail Markets

Market identified and in which BT found to have SMP in previous Notification	s. 80 or s. 79 of the Act	Date
18. Residential analogue exchange line services in the UK excluding the Hull Area	s. 79 (final)	28.11.03
19. Residential ISDN2 exchange line services in the UK excluding the Hull Area	As above	As above
20. Residential local calls in the UK excluding the Hull Area	As above	As

Market identified and in which BT found to have SMP in previous Notification	s. 80 or s. 79 of the Act	Date
		above
21. Residential national calls in the UK excluding the Hull Area	As above	As above
22. Residential calls to mobiles in the UK excluding the Hull Area	As above	As above
23. Residential operator assisted calls in the UK excluding the Hull Area	As above	As above
24. Residential IDD Category A calls in the UK excluding the Hull Area	As above	As above
25. Residential IDD Category B calls (on a route by route basis) in the UK excluding the Hull Area	As above	As above
26. Provision of traditional interface retail leased lines up to and including a bandwidth capacity of eight megabits per second within the UK but not including the Hull Area	s. 80 (proposal)	18.12.03

Part 3: International routes

Category A

Andorra	Bolivia	Denmark
Antigua and Barbuda	Botswana	Dominica
Argentina	Brazil	Dominican Republic
Australia	Brunei Darussalam	Ecuador
Austria	Bulgaria	Egypt
Azerbaijan	Canada	El Salvador
Bahamas	Cayman Islands	Estonia
Bahrain	Chile	Falkland Islands
Bangladesh	China	Finland
Barbados	Colombia	France
Belarus	Costa Rica	French Guiana
Belgium	Croatia	Gambia
Belize	Cyprus	Germany
Bermuda	Czech Republic	Ghana

Gibraltar	Malta	Saudi Arabia
Greece	Martinique	Singapore
Grenada	Mexico	Slovak Republic
Guadeloupe	Monaco	Slovenia
Guatemala	Mongolia	South Africa
Guyana	Morocco	Spain
Hong Kong	Nepal	Sri Lanka
Hungary	Netherlands	Sweden
Iceland	Netherlands Antilles	Switzerland
India	New Zealand	Syria
Indonesia	Nicaragua	Taiwan
Iran	Nigeria	Tanzania
Ireland	Norway	Thailand
Israel	Oman	Tunisia
Italy	Pakistan	Turkey
Jamaica	Panama	Ukraine
Japan	Paraguay	United Arab Emirates
Jordan	Peru	Uruguay
Kazakhstan	Philippines	USA
Kenya	Poland	Venezuela
Korea (South)	Portugal	Vietnam
Kuwait	Qatar	Virgin Islands (UK)
Laos	Reunion	Yemen
Latvia	Russian Federation	Yugoslavia
Luxembourg	Saint Helena	Zambia
Macau	Saint Lucia	Zimbabwe
Malaysia	Saint Vincent & the Grenadines	
Maldives		

Category B

Afghanistan	East Timor	Malawi
Albania	Equatorial Guinea	Mali
Algeria	Eritrea	Marshall Islands
American Samoa	Ethiopia	Mauritania
Angola	Faroe Islands	Mauritius
Anguilla	Fiji	Mayotte
Antarctica Australian Territory	French Polynesia	Micronesia
Armenia	Gabon	Midway Islands
Aruba	Georgia	Moldova
Benin	Greenland	Mozambique
Bhutan	Guam	Myanmar
Bosnia and Herzegovina	Guinea	Namibia
Burkina Faso	Guinea Bissau	Nauru
Burundi	Haiti	New Caledonia
Cambodia	Honduras	Niger
Cameroon	Iraq	Niue
Cape Verde	Kiribati	Norfolk Island
Central African Republic	Korea, PDR	Northern Marianas
Chad	Kirgizstan	Palau
Comoros	Lebanon	Papua New Guinea
Congo	Lesotho	Puerto Rico
Congo, DR	Liberia	Rodriguez Islands
Cook Islands	Libya	Romania
Côte d'Ivoire	Liechtenstein	Rwanda
Cuba	Lithuania	Saint Kitts & Nevis
Djibouti	Macedonia	Saint Pierre & Miquelon
	Madagascar	Samoa

San Marino
Sao Tome and Principe
Senegal
Seychelles
Sierra Leone
Solomon Islands
Somalia
Sudan
Suriname
Swaziland
Tajikistan
Togo
Tokelau
Tonga
Trinidad & Tobago
Tristan Da Cunha
Turkmenistan
Tuvalu
Uganda
Uzbekistan
Vanuatu
Virgin Islands (US)
Wake Island
Wallis & Futuna

Emsat
Inmarsat
Iridium
Thuraya

SCHEDULE 2

The further conditions proposed to be imposed on BT under sections 45 and 87 of the Communications Act 2003

Part 1: Definitions and Interpretation of these conditions

1. These conditions shall apply to the markets as described in Schedule 1 of this notification, in accordance with paragraph 4 of this notification, under sections 45 and 87 of the Communications Act 2003 and to the following technical areas: Interconnection Circuits and Interconnection Services.

2. For the purpose of interpreting these conditions the following definitions shall apply:

‘Accounting Documents’ means together the Primary Accounting Documents, the Secondary Accounting Documents, and either the Wholesale Catalogue or the Retail Catalogue as appropriate, all as amended from time to time in accordance with these conditions;

‘Accounting Policies’ means the manner in which the requirements of the Companies Act 1985 as amended by the Companies Act 1989, the Accounting Standards and the accounting policies whenever not superseded by the Regulatory Accounting Principles, are applied by BT in each of the Regulatory Financial Statements;

‘Accounting Separation Activities’ means Wholesale Services and those Wholesale Activities, Network Services and Network Activities used directly or indirectly in the course of supplying Wholesale Services;

‘Accounting Separation Attribution’ means the totality of all apparatus, data, procedures and activities which BT uses or holds for use to determine the costs, revenues, assets and liabilities to be attributed to an activity, either based upon data recorded by an Accounting Separation Measuring System or otherwise;

‘Accounting Separation Market Activities’ means all of the Wholesale Services supplied in the Market or Technical Area (as applicable) and all of the Wholesale Activities, Network Services and Network Activities used directly or indirectly in the course of supplying those Wholesale Services;

‘Accounting Separation Measuring System’ means the totality of all apparatus, systems, data, procedures and activities which BT uses or holds for use to determine the extent to which costs, revenues, assets and liabilities are to be attributed to activities related to Network Access;

‘Accounting Separation System’ means the Accounting Separation Attribution and Accounting Separation Measuring System taken together;

‘Accounting Standards’ means the accounting standards by reference to which BT are required to prepare the Statutory Financial Statements;

‘Act’ means the Communications Act 2003;

‘Alternative Regulatory Auditor’ means any Auditor not for the time being appointed as BT’s Regulatory Auditor;

'Attribution Methods' means the practices used by BT to attribute revenue (including appropriate Transfer Charges), costs (including appropriate Transfer Charges), assets and liabilities to activities or, insofar as those activities have been aggregated into Wholesale Segments or Retail Segments in a given Market or Technical Area (as applicable), to each Wholesale Segment or Retail Segment;

'Auditing Standards' means the standards required to be applied by the Statutory Auditor for the purpose of auditing the Statutory Financial Statements;

'Auditor' means any auditor which could be appointed as BT's auditor in accordance with the requirements of the Companies Act 1985 as amended by the Companies Act 1989;

'BT' means British Telecommunications plc, whose registered company number is 1800000, and any British Telecommunications plc subsidiary or holding company, or any subsidiary of that holding company, all as defined by Section 736 of the Companies Act 1985 as amended by the Companies Act 1989;

'Cost Accounting Attribution' means the totality of all apparatus, data, procedures and activities which BT uses or holds for use to determine the costs, revenues, assets and liabilities to be attributed to an activity, either based upon data recorded by a Cost Accounting Measuring System or otherwise;

'Cost Accounting Measuring System' means the totality of all apparatus, systems, data, procedures and activities which BT uses or holds for use to determine the extent to which costs, revenues, assets and liabilities are to be attributed to an activity related to Network Access or the provision of services to End-Users (as appropriate);

'Cost Accounting System' means Cost Accounting Attribution and Cost Accounting Measuring System taken together;

'Current Year Figures' means, in relation to any set of Financial Statements, the amounts relating to the Financial Year to which the accounts relate;

'Disaggregated Activities' means, in respect of a Market or Technical Area, the Wholesale Segments, Wholesale Services, Wholesale Activities, Network Services, Network Activities, Retail Segments, Retail Products, Retail Activities and/or Retail Support Activities used or carried out in the Market or Technical Area, as appropriate;

'External Wholesale Services' means services supplied or offered to any Communications Provider other than BT;

'External Wholesale Services List' means the list of External Wholesale Services prepared under condition OA26 as amended from time to time under condition OA28;

'Financial Year' means a financial year of BT in respect of which annual statutory accounts are required to be (or to have been) prepared and audited in accordance with the requirements of the Companies Act 1985 as amended by the Companies Act 1989;

'GAAP' (Generally Accepted Accounting Practice(s)) means United Kingdom conventions, rules and procedures that define currently accepted accounting practice (including, for the

avoidance of doubt, not only broad guidelines of general application but also any detailed practices and procedures);

'ICAEW Guidance' means the technical release titled "Reporting to Regulators of Regulated Entities: Audit 05/03" issued by the Audit and Assurance Faculty of the Institute of Chartered Accountants in England & Wales in October 2003;

'Interconnection Circuits' shall have the meaning attributed to it for the purposes of SMP services conditions AA1 to AA12 set out in the notification pursuant to sections 48(1) and 79 of the Act made by the Director General of Telecommunications on 27 November 2003;

'Interconnection Services' mean In-Span Handover ("ISH"), Customer-Sited Handover ("CSH"), ISH extension circuits, Synchronous Transfer Mode-1/ISH handover, and Synchronous Transfer Mode-1/CSH handover;

'Internal Wholesale Services' means services equivalent to the External Wholesale Services which, in the absence of horizontal or vertical integration, could be supplied within BT;

'Internal Wholesale Services List' means the list of Internal Wholesale Services prepared under condition OA26 as amended from time to time under condition OA28;

'Long Run Incremental Cost Methodology' means the long run incremental cost principles, procedures and processes which form the framework under which long run incremental costs are determined by BT;

'Market' means the market to which these conditions apply in accordance with paragraph 4 of this notification;

'Network Activities' means any activities related to Network Access used directly or indirectly (or which in the absence of horizontal or vertical integration would be used directly or indirectly) in the course of supplying Wholesale Services and any activities used in the course of such activities, excluding those activities which are Wholesale Activities;

'Network Component' means, to the extent they are used in the Market or Technical Area (as applicable), the network components specified in any direction given by Ofcom from time to time for the purposes of these conditions;

'Network Services' means those groups of Network Activities used directly (or which in the absence of horizontal or vertical integration would be used directly) in the course of supplying Wholesale Services;

'Primary Accounting Documents' means documentation setting out the Accounting Policies, the Attribution Methods, the Regulatory Accounting Principles, the Transfer Charge System Methodology and the Long Run Incremental Cost Methodology;

'Prior Year Comparatives' means, in relation to any set of Financial Statements, the amounts relating to the Financial Year immediately preceding the Financial Year to which the accounts relate, re-evaluated if necessary to ensure that such figures are comparable to the Current Year Figures;

'Process' means the series of inter-related activities or actions to obtain, record or hold data or information or to carry out any operation or set of operations on the data or information, including:

- (i) organisation, storage, adaptation, or alteration of the data or information;
- (ii) retrieval, consultation, computation or use of the data or information;
- (iii) disclosure of the data or information by transmission, dissemination, or otherwise making available; or
- (iv) alignment, combination, blocking, erasing or destruction of the data or information;

'Regulatory Accounting Principles' means the principles applied or used by BT in the preparation of the Regulatory Financial Statements;

'Regulatory Auditor' means the Auditor for the time being appointed by BT in accordance with these conditions;

'Regulatory Financial Statement' means any financial statement prepared or required to be prepared by BT in accordance with these conditions;

'Relevant Financial Year' means the Financial Year in relation to which any given set of Regulatory Financial Statements are required;

'Retail Activities' means any activities wholly and exclusively carried out (or which in the absence of horizontal or vertical integration would wholly and exclusively be carried out) in the course of supplying Retail Products and any activities wholly and exclusively carried out in the course of such activities, excluding those activities which are Wholesale Services;

'Retail Catalogue' means the documentation required to be produced by BT under condition OA29 as amended from time to time in accordance with condition OA31;

'Retail Products' means services used by or offered to any End Users (including BT);

'Retail Segments' means groups of Retail Products;

'Retail Support Activities' means any activities carried out directly or indirectly (or which in the absence of horizontal or vertical integration would be carried out directly or indirectly) in the course of supplying Retail Products and any activities directly or indirectly carried out in the course of such activities, excluding those activities which are Retail Activities or Wholesale Services;

'Secondary Accounting Documents' means documentation setting out details of the policies, methodologies, systems, processes and procedures for deriving or calculating the costs, revenues, assets and liabilities (including detailed attribution methods, detailed valuation methodology and details of long run incremental cost models) used by BT in addition to the Primary Accounting Documents, the Wholesale Catalogue and the Retail Catalogue to prepare the Regulatory Financial Statements;

'Statutory Auditor' means the Auditor for the time being appointed by BT in accordance with the requirements of the Companies Act 1985 as amended by the Companies Act 1989;

'Statutory Financial Statements' means any annual account required to be prepared by BT in accordance with the requirements of the Companies Act 1985 as amended by the Companies Act 1989;

'Technical Areas' means either Interconnection Circuits or Interconnection Services which are subject to SMP Conditions by virtue of a market power determination in an identified services market;

'Transfer Charge' means the charge or price that is applied, or deemed to be applied, by BT to itself for the use or provision of an activity or group of activities. For the avoidance of doubt, such activities or group of activities include, amongst other things, products and services provided from, to or within the Market or Technical Area (as applicable) and the use of Network Components in the Market or Technical Area (as applicable);

'Transfer Charge System Methodology' means the methodology of the system employed by BT which enables an activity to use a service or good from another activity and to account for it as though it had purchased that service or good from an unrelated party (including accounting for it at an appropriate amount);

'Usage Factor' means the average usage by any Communications Provider (including BT itself) of each Network Component in using or providing a particular product or service or carrying out a particular activity;

'Wholesale Activities' means any activities wholly and exclusively carried out (or which in the absence of horizontal or vertical integration would wholly and exclusively be carried out) in the course of supplying Wholesale Services and any activities wholly and exclusively carried out in the course of such activities;

'Wholesale Catalogue' means the documentation required to be produced by BT under condition OA26 as amended from time to time in accordance with condition OA29;

'Wholesale Segments' means groups of Wholesale Services;

'Wholesale Services' means services related to Network Access used by or offered to any Communications Provider (including BT).

3. Except insofar as the context otherwise requires, words or expressions shall have the meaning assigned to them and otherwise any word or expression shall have the same meaning as it has in the Act.
4. The Interpretation Act 1978 shall apply as if each of the conditions were an Act of Parliament.
5. Headings and titles shall be disregarded.

Part 2: The Conditions – Requirements to have cost accounting systems and accounting separation

General requirements

OA1 Except in so far as Ofcom may consent otherwise in writing, BT shall act in the manner set out in these conditions.

OA2 Ofcom may from time to time make such directions as they consider appropriate in relation to BT's Cost Accounting System, Accounting Separation System and its obligations under these conditions.

OA3 BT shall comply with any direction Ofcom may make from time to time under these conditions.

OA4 For the purpose of these conditions, publication shall be effected by

- (a) placing a copy of the relevant information on any relevant website operated or controlled by BT; and
- (b) sending a copy of the relevant information to any person at that person's written request.

Requirements relating to the preparation, audit, delivery and publication of the Regulatory Financial Statements

OA5 BT shall in respect of the Market, Technical Areas and the Disaggregated Activities (as applicable):

- (a) prepare such Regulatory Financial Statements as directed by Ofcom from time to time in accordance with the Accounting Documents (the relevant Accounting Documents to be identified in the Regulatory Financial Statements by reference to their date);
- (b) secure the expression of an audit opinion upon the Regulatory Financial Statements as directed by Ofcom from time to time;
- (c) deliver to Ofcom the Regulatory Financial Statements and corresponding audit opinion identified as directed by Ofcom from time to time and in accordance with condition OA6(a);
- (d) publish the Regulatory Financial Statements and corresponding audit opinion as directed by Ofcom from time to time and in accordance with condition OA6(b) and (c);
- (e) ensure that any Regulatory Financial Statement and corresponding audit opinion that it delivers to Ofcom and/or publishes are fit for such purpose (or purposes), if any, as notified by Ofcom in writing; and
- (f) deliver to Ofcom a report detailing any changes in the Accounting Documents, any Process and any other methodology which caused any figure presented on any one of the Regulatory Financial Statements to change by more than 5% from the figure that would have been presented had such a change not been made. Any such report shall include details sufficient to render transparent such changes in accordance with any relevant direction Ofcom may make from time to time.

OA6 BT shall:

(a) deliver to Ofcom copies of the Regulatory Financial Statements and any corresponding audit opinion, each and all of which shall be in the form in which they are ultimately to be published, at least two weeks before they are required to be published;

(b) publish the Regulatory Financial Statements and any corresponding audit opinions within 4 months after the end of the period to which they relate; and

(c) publish with the Regulatory Financial Statements any written statement made by Ofcom and provided to BT commenting on the data in, the notes to or the presentation of any or all of the Regulatory Financial Statements and/or the Accounting Documents.

OA7 BT shall make such amendments to the form and content of the Regulatory Financial Statements as are necessary to give effect fully to the requirements of these conditions. BT shall provide to Ofcom particulars of any such amendment, the reasons for it and its effect, when it delivers the Regulatory Financial Statements to Ofcom.

OA8 BT shall prepare all Regulatory Financial Statements, explanations or other information required by virtue of these conditions on a current cost basis and shall be capable of doing so in relation to any period. Such Regulatory Financial Statements, explanations or other information shall be, in the opinion of Ofcom, meaningfully reconcilable to the Statutory Financial Statements.

OA9 BT shall ensure that Accounting Policies shall be applied consistently within the same Regulatory Financial Statements, between Regulatory Financial Statements for the same Financial Year and from one Financial Year to the next. Each Regulatory Financial Statement shall include Prior Year Comparatives which shall be prepared on a basis consistent with Current Year Figures. BT may depart from this requirement in preparing the Regulatory Financial Statements for a Financial Year if there are reasons for doing so provided that the particulars of the departure, the reasons for it and its effect are stated in a note in the Regulatory Financial Statements in accordance with Accounting Standards and GAAP.

OA10 BT shall secure that sufficient checks, controls and meaningful reconciliations are performed between figures contained in the Regulatory Financial Statements and the accounting records (or between figures supplied by either the Cost Accounting System or the Accounting Separation System upon which the Regulatory Financial Statements rely and (i) other figures supplied by either the Cost Accounting System or the Accounting Separation System and/or (ii) the accounting records) to:

(a) enable the Regulatory Auditor to conclude that, in its opinion, both the Cost Accounting System and the Accounting Separation System complies with the Accounting Documents; and

(b) enable the Regulatory Financial Statements to be audited and an audit opinion expressed upon them in accordance with any relevant direction of Ofcom under these conditions.

OA11 BT shall preserve records sufficient to provide an adequate explanation of each Regulatory Financial Statement for a period of six years from the date on which each Regulatory Financial Statement is delivered to Ofcom.

Requirements relating to audit of the Regulatory Financial Statements

OA12 The Regulatory Auditor that BT from time to time appoints shall at all times be satisfactory to Ofcom having regard to such matters as Ofcom consider appropriate. BT shall notify Ofcom in writing of

the Auditor appointed to secure compliance with these conditions before the Auditor carries out any work for that purpose. BT shall notify Ofcom of any proposed change of Regulatory Auditor 28 days before effect is given to that change.

OA13 In the event that the Regulatory Auditor is in the opinion of Ofcom unsatisfactory, BT shall appoint and instruct an Alternative Regulatory Auditor that is at all times satisfactory to Ofcom having regard to such matters as Ofcom consider appropriate. BT shall ensure that the Alternative Regulatory Auditor:

(a) carries out such on going duties as are required to secure compliance with these conditions;

(b) carries out work or further work, in addition to that performed by the Statutory Auditor and/or by the former Regulatory Auditor, in relation to such matters connected to compliance with these conditions as are of concern to Ofcom and notified to BT in writing; and/or

(c) re-performs work previously performed by the Statutory Auditor and/or by the former Regulatory Auditor in relation to such matters connected to compliance with this Condition as are of concern to Ofcom and notified to BT in writing.

OA14 BT shall extend to the Alternative Regulatory Auditor such assistance and co-operation as would be extended to the Statutory Auditor and/or to the Regulatory Auditor and, to the extent similar assistance and co-operation may be required from the Statutory Auditor and/or from the former Regulatory Auditor, BT shall use its best endeavours to secure such assistance and co-operation.

OA15 BT's letter of engagement appointing the Regulatory Auditor shall include such provisions acknowledging the acceptance by the Regulatory Auditor of duties and responsibilities to Ofcom in respect of its audit work, audit report and audit opinion as are consistent with the ICAEW Guidance.

OA16 BT shall use its best endeavours to obtain from the Regulatory Auditor any further explanation and clarification of any audit opinion required under these conditions and any other information in respect of the matters which are the subject of that audit opinion as Ofcom shall require.

Requirements relating to the Primary and Secondary Accounting Documents

OA17 BT shall review the Primary Accounting Documents as they exist before the coming into force of these conditions, and to the extent these documents do not comply with these conditions, BT shall by four months after the date on which these conditions come into force make changes to the Primary Accounting Documents to render them compliant. Such changes shall be delivered to Ofcom on or before four months after the date on which these conditions comes into force together with a copy of the Primary Accounting Documents marked up to show the effect of such changes. All such changes shall take effect on the date on which they are delivered to Ofcom.

OA18 Following the review of the Primary Accounting Documents in accordance with condition OA17, BT shall prepare the Secondary Accounting Documents in accordance with the Primary Accounting Documents and the requirements of these conditions. The Secondary Accounting Documents shall be delivered to Ofcom eight months after the date on which these conditions come into force.

OA19 BT shall,

- (a) publish the Primary Accounting Documents on or by four months after the date on which these conditions come into force following their first review in accordance with condition OA17;
- (b) publish the Secondary Accounting Documents following their first review in accordance with condition OA18 on or prior to the date of publication of the Regulatory Financial Statements in accordance with conditions OA5 and OA6; and
- (c) thereafter publish, and deliver to Ofcom, details of any amendment to the Accounting Documents as soon as practicable, and in any event within 28 days of the incorporation of such an amendment into the Accounting Documents. Such amendments shall take effect when delivered to Ofcom.

OA20 Insofar as there is any inconsistency between any or all of the Primary Accounting Documents, the Primary Accounting Documents shall have the following order of priority:

- (a) the Regulatory Accounting Principles;
- (b) the Attribution Methods;
- (c) the Transfer Charge System Methodology;
- (d) the Accounting Policies;
- (e) the Long Run Incremental Cost Methodology.

Requirements relating to the up-dating of systems, Accounting Documents and form and content

OA21 BT shall make such amendments as are from time to time required to:

- (a) the Cost Accounting System and the Accounting Separation System;
- (b) the Accounting Documents; and
- (c) the form and content of the Financial Statements,

in order to ensure that they are consistent with, and give effect fully to:

- (i) any modifications of any SMP conditions;
- (ii) any formal undertakings given by BT to Ofcom following investigations by them into possible contraventions by BT of any SMP conditions or any provisions of the Act and following any dispute considered by Ofcom under the Act; and
- (iii) any enforcement notifications, directions, consents and determinations given or made by Ofcom from time to time under any SMP condition or under the Act or in relation to any dispute considered by Ofcom under the Act,

and BT shall make such amendments, and notify Ofcom in writing of such amendments, within three months of the modifications, formal undertakings, enforcement notifications, directions, consents and determinations having been made, provided that the requirements of this paragraph shall be suspended pending the final disposal of any proceedings seeking to have any such modifications, enforcement notifications, directions, consents, or determinations, quashed, set aside, modified or varied.

Requirements relating to deficiencies in the Regulatory Financial Statements and the Accounting Documents

OA22 Where Ofcom have reasonable grounds to believe that any or all of the Regulatory Financial Statements and/or Accounting Documents are deficient, BT shall, where directed by Ofcom:

- (a) amend the Accounting Documents in order to remedy the deficiencies identified by Ofcom;
- (b) restate the Regulatory Financial Statements identified by Ofcom as requiring restatement in accordance with the Accounting Documents which have, where necessary, been amended pursuant to subparagraph (a);
- (c) secure in accordance with any relevant direction of Ofcom under this Condition the expression of an audit opinion on the restated Regulatory Financial Statements;
- (d) deliver to Ofcom the restated Regulatory Financial Statements and corresponding audit opinion; and
- (e) publish the restated Regulatory Financial Statements and corresponding audit opinion.

Requirements relating to the maintenance of sufficient accounting records

OA23 BT shall maintain accounting records in a form which, on a historical cost basis and on a current cost basis:

- (a) enables the Market, Technical Areas, and the Disaggregated Activities (as applicable) to be separately identified; and the costs, revenues, assets and liabilities of the Market, Technical Areas and the Disaggregated Activities (as applicable) to be separately attributable;
- (b) enables the Network Services, and, insofar as they have been disaggregated in terms of Network Activities, each of the Network Activities, to be separately identified; and the costs, revenues, assets and liabilities of the Network Services, and, insofar as they have been disaggregated in terms of Network Activities, each of the Network Activities, to be separately attributable;
- (c) shows and explains the transactions of each of the Market, Technical Areas, and Disaggregated Activities (as applicable); and
- (d) enables the Accounting Separation Market Activities and, insofar as these comprise or use Accounting Separation Activities, each of the Accounting Separation Activities, to be separately identified; and the revenues, costs, assets and liabilities of the Accounting Separation Market Activities and, insofar as these comprise or use Accounting Separation Activities, the revenues, costs, assets and liabilities of each of those Accounting Separation Activities, to be separately attributable;
- (e) shows and explains the transactions of the Accounting Separation Market Activities and, insofar as these comprise or use Accounting Separation Activities, the transactions of each of the Accounting Separation Activities; and
- (f) enables BT to prepare Regulatory Financial Statements (including any disaggregation inherent therein) which comply with the requirements of these conditions both on a historical cost basis and on a current cost basis.

OA24 The accounting records referred to in condition OA23 and all associated documentation shall be, as appropriate:

- (a) maintained in accordance with the Accounting Documents;
- (b) maintained in order to ensure compliance with these conditions;
- (c) sufficient to enable the Regulatory Financial Statements to have expressed upon them any relevant audit opinion required under these conditions;
- (d) sufficient to ensure that charges for Network Access can be shown to be fair and reasonable and not to be unduly discriminatory; and
- (e) sufficient to provide a complete justification of BT's charges for Network Access; and
- (f) sufficient to provide a complete justification of BT's charges for the provision of services to End Users.

Requirement to facilitate on-demand reporting

OA25 BT shall ensure that its accounting and reporting arrangements (including Processes and Cost Accounting System) are sufficient to enable BT, at all times, to be capable of preparing in relation to any period a financial statement in accordance with the Accounting Documents.

Requirements relating to the preparation and maintenance of a Wholesale Catalogue

OA26 BT shall ensure that by three months after the date on which these conditions come into force,

- (a) all of its Wholesale Services as at the date on which these conditions come into force are identified as either External Wholesale Services and placed on the External Wholesale Services List or Internal Wholesale Services and placed on the Internal Wholesale Services List or, where appropriate, are identified as being both External Wholesale Services and Internal Wholesale Services and placed on both the External Wholesale Services List and the Internal Wholesale Services List;
- (b) an accurate description is prepared of all BT's Internal Wholesale Services, External Wholesale Services and Wholesale Activities as at the date these conditions come into force sufficient in the opinion of Ofcom to enable them to determine whether these activities have been appropriately identified and sufficiently described; and
- (c) an accurate description is prepared of all of BT's Network Services and the extent to which these activities are used in the course of supplying Wholesale Services as at the date these conditions come into force sufficient in the opinion of Ofcom to enable them to determine whether these activities and their use have been appropriately identified and adequately described.

OA27 The Wholesale Catalogue shall be delivered to Ofcom as soon as practicable after the date on which these conditions come into force and in any event by four months after that date.

OA28 BT shall ensure that when from time to time Wholesale Activities and Network Activities used in the course of supplying Wholesale Services vary from those as at the date on which these conditions

come into force (including, amongst other changes, new activities and the cessation of former activities) it shall within 28 days of such variation:

- (a) amend the Wholesale Catalogue to reflect such variation; and
- (b) deliver to Ofcom the amended version of the Wholesale Catalogue marked up to show those amendments.

The revised version of the Wholesale Catalogue shall be sufficient to enable Ofcom to determine whether such activities have been identified appropriately and their use categorised correctly.

Requirements relating to the preparation and maintenance of a Retail Catalogue

OA29 BT shall ensure that by three months after the date on which these conditions come into force,

- (a) all of its Retail Activities, Retail Products and Retail Support Activities as at the date on which these conditions come into force are identified as Retail Products, Retail Activities and Retail Support Activities;
- (b) an accurate description is prepared of all of BT's Retail Activities and Retail Products as at the date on which these conditions come into force sufficient in the opinion of Ofcom to enable them to determine whether these activities have been appropriately identified and sufficiently described; and
- (c) an accurate description is prepared of all BT's Retail Support Activities and the extent to which these activities are used in the course of supplying Retail Products as at the date on which these conditions come into force, sufficient in the opinion of Ofcom to enable them to determine whether these activities and their use have been appropriately identified and adequately described.

OA30 The Retail Catalogue shall be delivered to Ofcom as soon as practicable after the date on which these conditions come into force and in any event by four months after that date.

OA31 BT shall ensure that when from time to time Retail Activities, Retail Products or Retail Support Activities vary from those as at the date on which these conditions come into force (including, amongst other changes, new activities and the cessation of former activities) it shall within 28 days of such variation:

- (a) amend the Retail Catalogue to reflect such variation; and
- (b) deliver to Ofcom the amended version of the Retail Catalogue marked up to show those amendments.

The revised version of the Retail Catalogue shall be sufficient to enable Ofcom to determine whether such activities have been identified appropriately and their use attributed accurately.

Further accounting separation requirements

OA32 BT shall maintain a separation for accounting purposes of the Accounting Separation Market Activities from other activities and of Accounting Separation Activities from other activities, so as to:

(a) identify all elements of revenue, cost, assets and liabilities, with the basis of their calculation and the detailed attribution methods used, related to the Accounting Separation Market Activities and Accounting Separation Activities including an itemised breakdown of fixed assets; and

(b) ensure that Accounting Separation Market Activities and Accounting Separation Activities are identified and are recorded at an appropriate amount in accordance with the Accounting Documents.

Requirements relating to the demonstration of non-discrimination

OA33 BT shall ensure it is able to demonstrate that at any point in time:

(a) where a Network Service or combination of Network Services is used by BT in providing Internal Wholesale Services, the amount applied and incorporated in the Transfer Charge for the Internal Wholesale Service in respect of the use of the Network Services is equivalent to the amount applied and incorporated for the use of the Network Services or combination of Network Services in the charge payable for an equivalent External Wholesale Service;

(b) the same amount as applied and incorporated in the Transfer Charge for the Internal Wholesale Service in subparagraph (a) in respect of the use of the Network Services is applied to the Network Service or combination of Network Services whenever it is used by BT in providing an Internal Wholesale Service; and

(c) the same amount as applied and incorporated in the Transfer Charge for the equivalent External Wholesale Service in subparagraph (a) in respect of the use of the Network Services is applied to the Network Service or combination of Network Services whenever it is used by BT in providing an External Wholesale Service;

(d) the amount applied and incorporated in the Transfer Charge for the Internal Wholesale Service in subparagraph (a) in respect of the use of the Network Services shall be the cost of those Network Services unless the Network Service concerned is one of the Accounting Separation Activities.

OA34 BT shall ensure it is able to demonstrate that at any point in time:

(a) where a Retail Support Activity or combination of Retail Support Activities is used by BT in providing Retail Products, the same amount is applied and incorporated in the charge for the Retail Products whenever the Retail Support Activity or combination of Retail Support Activities is used by BT in the course of supplying Retail Products;

(b) where a Wholesale Service or combination of Wholesale Services is used by BT in providing Retail Products, the same amount is applied and incorporated in the charge for the Retail Products whenever the Wholesale Service or combination of Wholesale Services is used by BT in the course of supplying Retail Products; and

(c) the amount applied and incorporated in the charge for Retail Products in respect of the use of Wholesale Services shall be the Transfer Charge of those Wholesale Services unless no Transfer Charge exists in which event it shall be the cost of those Wholesale Services.

B Final notification on Kingston Communications

NOTIFICATION UNDER SECTIONS 48(2) AND 86(1) OF THE COMMUNICATIONS ACT 2003

Proposals for the setting of further SMP services conditions in relation to Kingston Communications (Hull) plc

1. OFCOM, in accordance with sections 48(2) and 86(1) of the Act, hereby make the following proposals for the setting of further SMP services conditions by reference to market power determinations proposed or made in relation to markets in which OFCOM are satisfied there has been no material change since those determinations were proposed or made.

2. The proposals contained in this Notification are further to the market power determinations proposed or made in the Notifications made under sections 80 or 79 (as appropriate) by the Director as set out in Schedule 1 to this Notification.

3. By virtue of the Transitional Provisions, the market power determinations proposed or made by the Director set out in Schedule 1 to this Notification are to have effect as if proposed or made by OFCOM.

4. OFCOM are proposing to set further SMP services conditions on Kingston as follows:

(a) in respect of the wholesale markets set out in Part 1 of Schedule 1 to this Notification, the SMP services conditions as set out in Schedule 2 to this Notification, excluding conditions OB28 to OB30 and condition OB33; and

(b) in respect of the retail markets set out in Part 2 of Schedule 1 to this Notification, the SMP services conditions as set out in Schedule 2 to this Notification, excluding conditions OB25 to OB27 and condition OB32.

5. The effect of, and OFCOM's reasons for making, the proposals referred to in paragraph 4 above are set out at Chapters 7 to 13 respectively of the explanatory statement published with this Notification.

6. OFCOM consider that the proposed SMP services conditions referred to in paragraph 4 above comply with the requirements of sections 45 to 50 and sections 78 to 92 of the Act, as appropriate and relevant to each such SMP services condition.

7. In making the proposals set out in this Notification, OFCOM have considered and acted in accordance with their general duties in section 3 of the Act and the six Community requirements in section 4 of the Act.

8. Representations may be made to OFCOM about the proposals set out in this Notification and the accompanying explanatory statement by 10 May 2004.

9. Copies of this Notification and the accompanying explanatory statement have been sent to the Secretary of State in accordance with section 50(1)(a), the European Commission and to the regulatory authorities of every other Member State in accordance with section 50(3) of the Act.

10. In this Notification (not including the Schedules) -

(a) 'the Act' means the Communications Act 2003;

(b) 'Kingston' means Kingston Communications (Hull) plc, whose registered company number is 2150618, and any Kingston Communications (Hull) plc subsidiary or holding company, or

any subsidiary of that holding company, all as defined by Section 736 of the Companies Act 1985 as amended by the Companies Act 1989;

(c) 'the Director' means the Director-General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;

(d) 'OFCOM' means the Office of Communications;

(e) 'Transitional Provisions' means sections 408 and 411 of the Act, the Communications Act 2003 (Commencement No.1) Order 2003 and the Office of Communications Act 2002 (Commencement No.3) Order 2003 and Communications Act 2003 (Commencement No 2) Order 2003; and

(f) except as otherwise defined in this Notification, words or expressions used shall have the same meaning as in the Act.

DAVID K S THOMAS

DIRECTOR OF REGULATORY FINANCE

A person authorised under paragraph 18 of the Schedule to the Office of Communications Act 2002

8 April 2004

SCHEDULE 1

Market Power Determinations made by the Director General of Telecommunications in respect of Kingston Communications (Hull) plc to which the further SMP services conditions apply in accordance with the Notification

In this Schedule:

- (a) 'the Act' means the Communications Act 2003;
- (b) 'Category A calls' and 'Category B calls' mean calls to the international destinations as are set out respectively in Part 3 of this Schedule;
- (c) 'Hull Area' means the area defined as the 'Licensed Area' in the licence granted on 30 November 1987 by the Secretary of State under section 7 of the Telecommunications Act 1984 to Kingston upon Hull City Council and Kingston Communications (Hull) plc;
- (d) 'Kingston' means Kingston Communications (Hull) plc, whose registered company number is 2150618, and any Kingston Communications (Hull) plc subsidiary or holding company, or any subsidiary of that holding company, all as defined by Section 736 of the Companies Act 1985 as amended by the Companies Act 1989;
- (e) 'UK' means the United Kingdom as defined in the Interpretation Act 1973.

Part 1: Wholesale Markets

Market identified and in which Kingston found to have SMP in previous Notification	s. 80 or s. 79 of the Act	Date
1. Wholesale residential analogue exchange line services in the Hull Area	s. 79 (final)	27.11.03
2. Wholesale residential ISDN2 exchange line services in the Hull Area	As above	As above
3. Wholesale business analogue exchange line services in the Hull Area	As above	As above
4. Wholesale business ISDN2 exchange line services in the Hull Area	As above	As above
5. Wholesale ISDN30 exchange line services in the Hull Area	As above	As above
6. Call origination on fixed public narrowband networks in the Hull Area	As above	As above
7. Fixed geographic call termination provided by Kingston	s. 79 (final)	28.11.03
8. Wholesale unmetered narrowband Internet termination for Internet traffic originating in the Hull Area	s. 79 (final)	27.11.03
9. Asymmetric broadband origination in the Hull Area	s. 80 (proposal)	16.12.03
10. Provision of traditional interface symmetric broadband origination with a bandwidth capacity up to and including eight megabits per second within	s. 80 (proposal)	18.12.03

Market identified and in which Kingston found to have SMP in previous Notification	s. 80 or s. 79 of the Act	Date
the Hull Area		
11. Provision of traditional interface symmetric broadband origination with a bandwidth capacity above eight megabits per second and up to and including one hundred and fifty five megabits per second within the Hull Area	As above	As above
12. Provision of alternative interface symmetric broadband origination at all bandwidths within the Hull Area	As above	As above

Part 2: Retail Markets

Market identified and in which Kingston found to have SMP in previous Notification	s. 80 or s. 79 of the Act	Date
13. Provision of traditional interface retail leased lines up to and including a bandwidth capacity of eight megabits per second within the Hull Area	s. 80 (proposal)	18.12.03

SCHEDULE 2

The further conditions proposed to be imposed on Kingston under sections 45 and 87 of the Communications Act 2003

Part 1: Definitions and Interpretation of these conditions

1. These conditions shall apply to the markets as described in Schedule 1 of this notification, in accordance with paragraph 4 of this notification, under sections 45 and 87 of the Communications Act 2003 and to the following technical areas: in-span Interconnection links and Interconnection Services.

2. For the purpose of interpreting these conditions the following definitions shall apply:

‘Accounting Documents’ means together the Primary Accounting Documents, the Secondary Accounting Documents, and either the Wholesale Catalogue or the Retail Catalogue as appropriate, all as amended from time to time in accordance with these conditions;

‘Accounting Policies’ means the manner in which the requirements of the Companies Act 1985 as amended by the Companies Act 1989, the Accounting Standards and the accounting policies whenever not superseded by the Regulatory Accounting Principles, are applied by Kingston in each of the Regulatory Financial Statements;

‘Accounting Separation Activities’ means Wholesale Services and those Wholesale Activities, Network Services and Network Activities used directly or indirectly in the course of supplying Wholesale Services;

‘Accounting Separation Attribution’ means the totality of all apparatus, data, procedures and activities which Kingston uses or holds for use to determine the costs, revenues, assets and liabilities to be attributed to an activity, either based upon data recorded by an Accounting Separation Measuring System or otherwise;

‘Accounting Separation Market Activities’ means all of the Wholesale Services supplied in the Market or Technical Area (as applicable) and all of the Wholesale Activities, Network Services and Network Activities used directly or indirectly in the course of supplying those Wholesale Services;

‘Accounting Separation Measuring System’ means the totality of all apparatus, systems, data, procedures and activities which Kingston uses or holds for use to determine the extent to which costs, revenues, assets and liabilities are to be attributed to activities related to Network Access;

‘Accounting Separation System’ means the Accounting Separation Attribution and Accounting Separation Measuring System taken together;

‘Accounting Standards’ means the accounting standards by reference to which Kingston are required to prepare the Statutory Financial Statements;

‘Act’ means the Communications Act 2003;

‘Alternative Regulatory Auditor’ means any Auditor not for the time being appointed as Kingston’s Regulatory Auditor;

'Attribution Methods' means the practices used by Kingston to attribute revenue (including appropriate Transfer Charges), costs (including appropriate Transfer Charges), assets and liabilities to activities or, insofar as those activities have been aggregated into Wholesale Segments or Retail Segments in a given Market or Technical Area (as applicable), to each Wholesale Segment or Retail Segment;

'Auditing Standards' means the standards required to be applied by the Statutory Auditor for the purpose of auditing the Statutory Financial Statements;

'Auditor' means any auditor which could be appointed as Kingston's auditor in accordance with the requirements of the Companies Act 1985 as amended by the Companies Act 1989;

'Cost Accounting Attribution' means the totality of all apparatus, data, procedures and activities which Kingston uses or holds for use to determine the costs, revenues, assets and liabilities to be attributed to an activity, either based upon data recorded by a Cost Accounting Measuring System or otherwise;

'Cost Accounting Measuring System' means the totality of all apparatus, systems, data, procedures and activities which Kingston uses or holds for use to determine the extent to which costs, revenues, assets and liabilities are to be attributed to an activity related to Network Access or the provision of services to End-Users (as appropriate);

'Cost Accounting System' means Cost Accounting Attribution and Cost Accounting Measuring System taken together;

'Current Year Figures' means, in relation to any set of Financial Statements, the amounts relating to the Financial Year to which the accounts relate;

'Disaggregated Activities' means, in respect of a Market or Technical Area, the Wholesale Segments, Wholesale Services, Wholesale Activities, Network Services, Network Activities, Retail Segments, Retail Products, Retail Activities and/or Retail Support Activities used or carried out in the Market or Technical Area, as appropriate;

'External Wholesale Services' means services supplied or offered to any Communications Provider other than Kingston;

'External Wholesale Services List' means the list of External Wholesale Services prepared under condition OB25 as amended from time to time under condition OB27;

'Financial Year' means a financial year of Kingston in respect of which annual statutory accounts are required to be (or to have been) prepared and audited in accordance with the requirements of the Companies Act 1985 as amended by the Companies Act 1989;

'GAAP' (Generally Accepted Accounting Practice(s)) means United Kingdom conventions, rules and procedures that define currently accepted accounting practice (including, for the avoidance of doubt, not only broad guidelines of general application but also any detailed practices and procedures);

'ICAEW Guidance' means the technical release titled "Reporting to Regulators of Regulated Entities: Audit 05/03" issued by the Audit and Assurance Faculty of the Institute of Chartered Accountants in England & Wales in October 2003;

'Interconnection Services' means In-Span Handover ("ISH"), Customer-Sited Handover ("CSH"), ISH extension circuits, Synchronous Transfer Mode-1/ISH handover, and Synchronous Transfer Mode-1/CSH handover;

'Internal Wholesale Services' means services equivalent to the External Wholesale Services which, in the absence of horizontal or vertical integration, could be supplied within Kingston;

'Internal Wholesale Services List' means the list of Internal Wholesale Services prepared under condition OB25 as amended from time to time under condition OB27;

'Kingston' means Kingston Communications (Hull) plc, whose registered company number is 2150618, and any Kingston Communications (Hull) plc subsidiary or holding company, or any subsidiary of that holding company, all as defined by Section 736 of the Companies Act 1985 as amended by the Companies Act 1989;

'Market' means the market to which these conditions apply in accordance with paragraph 4 of this notification;

'Network Activities' means any activities related to Network Access used directly or indirectly (or which in the absence of horizontal or vertical integration would be used directly or indirectly) in the course of supplying Wholesale Services and any activities used in the course of such activities, excluding those activities which are Wholesale Activities;

'Network Component' means, to the extent they are used in the Market or Technical Area (as applicable), the network components specified in any direction given by Ofcom from time to time for the purposes of these conditions;

'Network Services' means those groups of Network Activities used directly (or which in the absence of horizontal or vertical integration would be used directly) in the course of supplying Wholesale Services;

'Primary Accounting Documents' means documentation setting out the Accounting Policies, the Attribution Methods, the Regulatory Accounting Principles, and the Transfer Charge System Methodology;

'Prior Year Comparatives' means, in relation to any set of Financial Statements, the amounts relating to the Financial Year immediately preceding the Financial Year to which the accounts relate, re-evaluated if necessary to ensure that such figures are comparable to the Current Year Figures;

'Process' means the series of inter-related activities or actions to obtain, record or hold data or information or to carry out any operation or set of operations on the data or information, including:

- (i) organisation, storage, adaptation, or alteration of the data or information;
- (ii) retrieval, consultation, computation or use of the data or information;
- (iii) disclosure of the data or information by transmission, dissemination, or otherwise making available; or

- (iv) alignment, combination, blocking, erasing or destruction of the data or information;

'Regulatory Accounting Principles' means the principles applied or used by Kingston in the preparation of the Regulatory Financial Statements;

'Regulatory Auditor' means the Auditor for the time being appointed by Kingston in accordance with these conditions;

'Regulatory Financial Statement' means any financial statement prepared, or required to be prepared by Kingston in accordance with these conditions;

'Relevant Financial Year' means the Financial Year in relation to which any given set of Regulatory Financial Statements are required;

'Retail Activities' means any activities wholly and exclusively carried out (or which in the absence of horizontal or vertical integration would wholly and exclusively be carried out) in the course of supplying Retail Products and any activities wholly and exclusively carried out in the course of such activities, excluding those activities which are Wholesale Services;

'Retail Catalogue' means the documentation required to be produced by Kingston under condition OB28 as amended from time to time in accordance with condition OB30;

'Retail Products' means services used by or offered to any End Users (including Kingston);

'Retail Segments' means groups of Retail Products;

'Retail Support Activities' means any activities carried out directly or indirectly (or which in the absence of horizontal or vertical integration would be carried out directly or indirectly) in the course of supplying Retail Products and any activities directly or indirectly carried out in the course of such activities, excluding those activities which are Retail Activities or Wholesale Services;

'Secondary Accounting Documents' means documentation setting out details of the policies, methodologies, systems, processes and procedures for deriving or calculating the costs, revenues, assets and liabilities (including detailed attribution methods and detailed valuation methodology) used by Kingston in addition to the Primary Accounting Documents, the Wholesale Catalogue and the Retail Catalogue to prepare the Regulatory Financial Statements;

'Statutory Auditor' means the Auditor for the time being appointed by Kingston in accordance with the requirements of the Companies Act 1985 as amended by the Companies Act 1989;

'Statutory Financial Statements' means any annual report required to be prepared by Kingston in accordance with the requirements of the Companies Act 1985 as amended by the Companies Act 1989;

'Technical Areas' means either in-span Interconnection links or Interconnection Services which are subject to SMP Conditions by virtue of a market power determination in an identified services market;

'Transfer Charge' means the charge or price that is applied, or deemed to be applied, by Kingston to itself for the use or provision of an activity or group of activities. For the avoidance of doubt, such activities or group of activities include, amongst other things, products and services provided from, to or within the Market or Technical Area (as applicable) and the use of Network Components in the Market or Technical Area (as applicable);

'Transfer Charge System Methodology' means the methodology of the system employed by Kingston which enables an activity to use a service or good from another activity and to account for it as though it had purchased that service or good from an unrelated party (including accounting for it at an appropriate amount);

'Usage Factor' means the average usage by any Communications Provider (including Kingston itself) of each Network Component in using or providing a particular product or service or carrying out a particular activity;

'Wholesale Activities' means any activities wholly and exclusively carried out (or which in the absence of horizontal or vertical integration would wholly and exclusively be carried out) in the course of supplying Wholesale Services and any activities wholly and exclusively carried out in the course of such activities;

'Wholesale Catalogue' means the documentation required to be produced by Kingston under condition OB25 as amended from time to time in accordance with condition OB27;

'Wholesale Segments' means groups of Wholesale Services;

'Wholesale Services' means services related to Network Access used by or offered to any Communications Provider (including Kingston).

3. Except insofar as the context otherwise requires, words or expressions shall have the meaning assigned to them and otherwise any word or expression shall have the same meaning as it has in the Act.

4. The Interpretation Act 1978 shall apply as if each of the conditions were an Act of Parliament.

5. Headings and titles shall be disregarded.

Part 2: The Conditions – Requirements to have cost accounting systems and accounting separation

General requirements

OB1 Except in so far as Ofcom may consent otherwise in writing, Kingston shall act in the manner set out in these conditions.

OB2 Ofcom may from time to time make such directions as they consider appropriate in relation to Kingston's Cost Accounting System, Accounting Separation System and its obligations under these conditions.

OB3 Kingston shall comply with any direction Ofcom may make from time to time under these conditions.

OB4 For the purpose of these conditions, publication shall be effected by

- (a) placing a copy of the relevant information on any relevant website operated or controlled by Kingston; and
- (b) sending a copy of the relevant information to any person at that person's written request.

Requirements relating to the preparation, audit, delivery and publication of the Regulatory Financial Statements

OB5 Kingston shall in respect of the Market, Technical Areas and the Disaggregated Activities (as applicable)

- (a) prepare such Regulatory Financial Statements as directed by Ofcom from time to time in accordance with the Accounting Documents (the relevant Accounting Documents to be identified in the Regulatory Financial Statements by reference to their date);
- (b) secure the expression of an audit opinion upon the Regulatory Financial Statements as directed by Ofcom from time to time;
- (c) deliver to Ofcom the Regulatory Financial Statements and corresponding audit opinion identified as directed by Ofcom from time to time and in accordance with condition OB6(a);
- (d) publish the Regulatory Financial Statements and corresponding audit opinion as directed by Ofcom from time to time and in accordance with condition OB6(b) and (c);
- (e) ensure that any Regulatory Financial Statements and corresponding audit opinion that it delivers to Ofcom and/or publishes are fit for such purpose (or purposes), if any, as notified by Ofcom in writing; and
- (f) deliver to Ofcom a report detailing any changes in the Accounting Documents, any Process and any other methodology which caused any figure presented on any one of the Regulatory Financial Statements to change by more than 5% from the figure that would have been presented had such a change not been made. Any such report shall include details sufficient to render transparent such changes in accordance with any relevant direction Ofcom may make from time to time.

OB6 Kingston shall:

- (a) deliver to Ofcom copies of the Regulatory Financial Statements and any corresponding audit opinion, each and all of which shall be in the form in which they are ultimately to be published, at least two weeks before they are required to be published;
- (b) publish the Regulatory Financial Statements and any corresponding audit opinions within 4 months after the end of the period to which they relate; and
- (c) publish with the Regulatory Financial Statements any written statement made by Ofcom and provided to Kingston commenting on the data in, the notes to or the presentation of any or all of the Regulatory Financial Statements and/or the Accounting Documents.

OB7 Kingston shall make such amendments to the form and content of the Regulatory Financial Statements as are necessary to give effect fully to the requirements of these conditions. Kingston shall provide to Ofcom particulars of any such amendment, the reasons for it and its effect, when it delivers the Regulatory Financial Statements to Ofcom.

OB8 Kingston shall prepare all Regulatory Financial Statements, explanations or other information required by virtue of these conditions on a current cost basis and shall be capable of doing so in relation to any period. Such Financial Statements, explanations or other information shall be, in the opinion of Ofcom, meaningfully reconcilable to the Statutory Financial Statements.

OB9 Kingston shall ensure that Accounting Policies shall be applied consistently within the same Regulatory Financial Statements, between Regulatory Financial Statements for the same Financial Year and from one Financial Year to the next. Each Regulatory Financial Statement shall include Prior Year Comparatives which shall be prepared on a basis consistent with Current Year Figures. Kingston may depart from this requirement in preparing the Regulatory Financial Statements for a Financial Year if there are reasons for doing so provided that the particulars of the departure, the reasons for it and its effect are stated in a note in the Regulatory Financial Statements in accordance with Accounting Standards and GAAP.

OB10 Kingston shall secure that sufficient checks, controls and meaningful reconciliations are performed between figures contained in the Regulatory Financial Statements and the accounting records (or between figures supplied by either the Cost Accounting System or the Accounting Separation System upon which the Regulatory Financial Statements rely and (i) other figures supplied by either the Cost Accounting System or the Accounting Separation System and/or (ii) the accounting records) to:

- (a) enable the Regulatory Auditor to conclude that, in its opinion, both the Cost Accounting System and the Accounting Separation System complies with the Accounting Documents; and
- (b) enable the Regulatory Financial Statements to be audited and an audit opinion expressed upon them in accordance with any relevant direction of Ofcom under these conditions.

OB11 Kingston shall preserve records sufficient to provide an adequate explanation of each Regulatory Financial Statement for a period of six years from the date on which each Regulatory Financial Statement is delivered to Ofcom.

Requirements relating to audit of the Regulatory Financial Statements

OB12 The Regulatory Auditor that Kingston from time to time appoints shall at all times be satisfactory to Ofcom having regard to such matters as Ofcom consider appropriate. Kingston shall notify Ofcom in writing of the Auditor appointed to secure compliance with these conditions before the Auditor carries out any work for that purpose. Kingston shall notify Ofcom of any proposed change of Regulatory Auditor 28 days before effect is given to that change.

OB13 In the event that the Regulatory Auditor is in the opinion of Ofcom unsatisfactory, Kingston shall appoint and instruct an Alternative Regulatory Auditor that is at all times satisfactory to Ofcom having regard to such matters as Ofcom consider appropriate. Kingston shall ensure that the Alternative Regulatory Auditor:

- (a) carries out such on going duties as are required to secure compliance with these conditions;
- (b) carries out work or further work, in addition to that performed by the Statutory Auditor and/or by the former Regulatory Auditor, in relation to such matters connected to compliance with these conditions as are of concern to Ofcom and notified to Kingston in writing; and/or

(c) re-performs work previously performed by the Statutory Auditor and/or by the former Regulatory Auditor in relation to such matters connected to compliance with this Condition as are of concern to Ofcom and notified to Kingston in writing.

OB14 Kingston shall extend to the Alternative Regulatory Auditor such assistance and co-operation as would be extended to the Statutory Auditor and/or to the Regulatory Auditor and, to the extent similar assistance and co-operation may be required from the Statutory Auditor and/or from the former Regulatory Auditor, Kingston shall use its best endeavours to secure such assistance and co-operation.

OB15 Kingston's letter of engagement appointing the Regulatory Auditor shall include such provisions acknowledging the acceptance by the Regulatory Auditor of duties and responsibilities to Ofcom in respect of its audit work, audit report and audit opinion as are consistent with the ICAEW Guidance.

OB16 Kingston shall use its best endeavours to obtain from the Regulatory Auditor any further explanation and clarification of any audit opinion required under these conditions and any other information in respect of the matters which are the subject of that audit opinion as Ofcom shall require.

Requirements relating to the Primary and Secondary Accounting Documents

OB17 Kingston shall review the Primary Accounting Documents as they exist before the coming into force of these conditions, and to the extent these documents do not comply with these conditions, Kingston shall by four months after the date on which these conditions come into force make changes to the Primary Accounting Documents to render them compliant. Such changes shall be delivered to Ofcom on or before four months after the date on which these conditions comes into force together with a copy of the Primary Accounting Documents marked up to show the effect of such changes. All such changes shall take effect on the date on which they are delivered to Ofcom.

OB18 Following the review of the Primary Accounting Documents in accordance with condition OB17, Kingston shall prepare the Secondary Accounting Documents in accordance with the Primary Accounting Documents and the requirements of these conditions. The Secondary Accounting Documents shall be delivered to Ofcom eight months after the date on which these conditions come into force.

OB19 Kingston shall,

(a) publish the Primary Accounting Documents on or by four months after the date on which these conditions come into force following their first review in accordance with condition OB17;

(b) publish the Secondary Accounting Documents following their first review in accordance with condition OB18 on or prior to the date of publication of the Regulatory Financial Statements in accordance with conditions OB5 and OB6; and

(c) thereafter publish, and deliver to Ofcom, details of any amendment to the Accounting Documents as soon as practicable, and in any event within 28 days of the incorporation of such an amendment into the Accounting Documents. Such amendments shall take effect when delivered to Ofcom.

OB20 Insofar as there is any inconsistency between any or all of the Primary Accounting Documents, the Primary Accounting Documents shall have the following order of priority:

(a) the Regulatory Accounting Principles;

- (b) the Attribution Methods;
- (c) the Transfer Charge System Methodology;
- (d) the Accounting Policies.

Requirements relating to the up-dating of systems, Accounting Documents and form and content

OB21 Kingston shall make such amendments as are from time to time required to:

- (a) the Cost Accounting System and the Accounting Separation System;
- (b) the Accounting Documents; and
- (c) the form and content of the Financial Statements,

in order to ensure that they are consistent with, and give effect fully to:

- (i) any modifications of any SMP conditions;
- (ii) any formal undertakings given by Kingston to Ofcom following investigations by them into possible contraventions by Kingston of any SMP conditions or any provisions of the Act and following any dispute considered by Ofcom under the Act; and
- (iii) any enforcement notifications, directions, consents and determinations given or made by Ofcom from time to time under any SMP condition or under the Act or in relation to any dispute considered by Ofcom under the Act,

and Kingston shall make such amendments, and notify Ofcom in writing of such amendments, within three months of the modifications, formal undertakings, enforcement notifications, directions, consents and determinations having been made, provided that the requirements of this paragraph shall be suspended pending the final disposal of any proceedings seeking to have any such modifications, enforcement notifications, directions, consents, or determinations, quashed, set aside, modified or varied.

Requirements relating to deficiencies in the Regulatory Financial Statements and the Accounting Documents

OB22 Where Ofcom have reasonable grounds to believe that any or all of the Regulatory Financial Statements and/or Accounting Documents are deficient, Kingston shall, where directed by Ofcom,

- (a) amend the Accounting Documents in order to remedy the deficiencies identified by Ofcom;
- (b) restate the Regulatory Financial Statements identified by Ofcom as requiring restatement in accordance with the Accounting Documents which have, where necessary, been amended pursuant to subparagraph (a);
- (c) secure in accordance with any relevant direction of Ofcom under this Condition the expression of an audit opinion on the restated Regulatory Financial Statements;
- (d) deliver to Ofcom the restated Regulatory Financial Statements and corresponding audit opinion; and

(e) publish the restated Regulatory Financial Statements and corresponding audit opinion.

Requirements relating to the maintenance of sufficient accounting records

OB23 Kingston shall maintain accounting records in a form which, on a historical cost basis and on a current cost basis:

(a) enables the Market, Technical Areas, and the Disaggregated Activities (as applicable) to be separately identified; and the costs, revenues, assets and liabilities of the Market, Technical Areas and the Disaggregated Activities (as applicable) to be separately attributable;

(b) enables the Network Services, and, insofar as they have been disaggregated in terms of Network Activities, each of the Network Activities, to be separately identified; and the costs, revenues, assets and liabilities of the Network Services, and, insofar as they have been disaggregated in terms of Network Activities, each of the Network Activities, to be separately attributable;

(c) shows and explains the transactions of each of the Market, Technical Areas, Network Services and Disaggregated Activities (as applicable); and

(d) enables the Accounting Separation Market Activities and, insofar as these comprise or use Accounting Separation Activities, each of the Accounting Separation Activities, to be separately identified; and the revenues, costs, assets and liabilities of the Accounting Separation Market Activities and, insofar as these comprise or use Accounting Separation Activities, the revenues, costs, assets and liabilities of each of those Accounting Separation Activities, to be separately attributable;

(e) shows and explains the transactions of the Accounting Separation Market Activities and, insofar as these comprise or use Accounting Separation Activities, the transactions of each of the Accounting Separation Activities; and

(f) enables Kingston to prepare Regulatory Financial Statements (including any disaggregation inherent therein) which comply with the requirements of these conditions both on a historical cost basis and on a current cost basis.

OB24 The accounting records referred to in condition OB23 and all associated documentation shall be, as appropriate:

(a) maintained in accordance with the Accounting Documents;

(b) maintained in order to ensure compliance with these conditions;

(c) sufficient to enable the Regulatory Financial Statements to have expressed upon them any relevant audit opinion required under these conditions;

(d) sufficient to ensure that charges for Network Access can be shown to be fair and reasonable and not to be unduly discriminatory; and

(e) sufficient to provide a complete justification of Kingston's charges for Network Access; and

(f) sufficient, to provide a complete justification of Kingston's charges for the provision of services to End Users.

Requirements relating to the preparation and maintenance of a Wholesale Catalogue

OB25 Kingston shall ensure that by three months after the date on which these conditions come into force,

(a) all of its Wholesale Services as at the date on which these conditions come into force are identified as either External Wholesale Services and placed on the External Wholesale Services List or Internal Wholesale Services and placed on the Internal Wholesale Services List or, where appropriate, are identified as being both External Wholesale Services and Internal Wholesale Services and placed on both the External Wholesale Services List and the Internal Wholesale Services List;

(b) an accurate description is prepared of all Kingston's Internal Wholesale Services, External Wholesale Services and Wholesale Activities as at the date these conditions come into force sufficient in the opinion of Ofcom to enable them to determine whether these activities have been appropriately identified and sufficiently described; and

(c) an accurate description is prepared of all of Kingston's Network Services and the extent to which these activities are used in the course of supplying Wholesale Services as at the date these conditions come into force sufficient in the opinion of Ofcom to enable them to determine whether these activities and their use have been appropriately identified and adequately described.

OB26 The Wholesale Catalogue shall be delivered to Ofcom as soon as practicable after the date on which these conditions come into force and in any event by four months after that date.

OB27 Kingston shall ensure that when from time to time Wholesale Activities and Network Activities used in the course of supplying Wholesale Services vary from those as at the date on which these conditions come into force (including, amongst other changes, new activities and the cessation of former activities) it shall within 28 days of such variation:

(a) amend the Wholesale Catalogue to reflect such variation; and

(b) deliver to Ofcom the amended version of the Wholesale Catalogue marked up to show those amendments.

The revised version of the Wholesale Catalogue shall be sufficient to enable Ofcom to determine whether such activities have been identified appropriately and their use categorised correctly.

Requirements relating to the preparation and maintenance of a Retail Catalogue

OB28 Kingston shall ensure that by three months after the date on which these conditions come into force,

(a) all of its Retail Activities, Retail Products and Retail Support Activities as at the date on which these conditions come into force are identified as Retail Products, Retail Activities and Retail Support Activities;

(b) an accurate description is prepared of all of Kingston's Retail Activities and Retail Products as at the date on which these conditions come into force sufficient in the opinion of Ofcom to

enable them to determine whether these activities have been appropriately identified and sufficiently described; and

(c) an accurate description is prepared of all Kingston's Retail Support Activities and the extent to which these activities are used in the course of supplying Retail Products as at the date on which these conditions come into force, sufficient in the opinion of Ofcom to enable them to determine whether these activities and their use have been appropriately identified and adequately described.

OB29 The Retail Catalogue shall be delivered to Ofcom as soon as practicable after the date on which these conditions come into force and in any event by four months after that date.

OB30 Kingston shall ensure that when from time to time Retail Activities, Retail Products or Retail Support Activities vary from those as at the date on which these conditions come into force (including, amongst other changes, new activities and the cessation of former activities) it shall within 28 days of such variation:

(a) amend the Retail Catalogue to reflect such variation; and

(b) deliver to Ofcom the amended version of the Retail Catalogue marked up to show those amendments.

The revised version of the Retail Catalogue shall be sufficient to enable Ofcom to determine whether such activities have been identified appropriately and their use attributed accurately.

Further accounting separation requirements

OB31 Kingston shall maintain a separation for accounting purposes of the Accounting Separation Market Activities from other activities and of Accounting Separation Activities from other activities, so as to:

(a) identify all elements of revenue, cost, assets and liabilities, with the basis of their calculation and the detailed attribution methods used, related to the Accounting Separation Market Activities and Accounting Separation Activities including an itemised breakdown of fixed assets; and

(b) ensure that Accounting Separation Market Activities and Accounting Separation Activities are identified and are recorded at an appropriate amount in accordance with the Accounting Documents.

Requirements relating to the demonstration of non-discrimination

OB32 Kingston shall ensure it is able to demonstrate that at any point in time:

(a) where a Network Service or combination of Network Services is used by Kingston in providing Internal Wholesale Services, the amount applied and incorporated in the Transfer Charge for the Internal Wholesale Service in respect of the use of the Network Services is equivalent to the amount applied and incorporated for the use of the Network Services or combination of Network Services in the charge payable for an equivalent External Wholesale Service;

(b) the same amount as applied and incorporated in the Transfer Charge for the Internal Wholesale Service in subparagraph (a) in respect of the use of the Network Services is applied to the Network Service or combination of Network Services whenever it is used by Kingston in providing an Internal Wholesale Service; and

(c) the same amount as applied and incorporated in the Transfer Charge for the equivalent External Wholesale Service in subparagraph (a) in respect of the use of the Network Services is applied to the Network Service or combination of Network Services whenever it is used by Kingston in providing an External Wholesale Service;

(d) the amount applied and incorporated in the Transfer Charge for the Internal Wholesale Service in subparagraph (a) in respect of the use of the Network Services shall be the cost of those Network Services unless the Network Service concerned is one of the Accounting Separation Activities.

OB33 Kingston shall ensure it is able to demonstrate that at any point in time:

(a) where a Retail Support Activity or combination of Retail Support Activities is used by Kingston in providing Retail Products, the same amount is applied and incorporated in the charge for the Retail Products whenever the Retail Support Activity or combination of Retail Support Activities is used by Kingston in the course of supplying Retail Products;

(b) where a Wholesale Service or combination of Wholesale Services is used by Kingston in providing Retail Products, the same amount is applied and incorporated in the charge for the Retail Products whenever the Wholesale Service or combination of Wholesale Services is used by Kingston in the course of supplying Retail Products; and

(c) the amount applied and incorporated in the charge for Retail Products in respect of the use of Wholesale Services shall be the Transfer Charge of those Wholesale Services unless no Transfer Charge exists in which event it shall be the cost of those Wholesale Services.

C Draft directions for BT

NOTIFICATION UNDER SECTION 49(4) OF THE COMMUNICATIONS ACT 2003

Proposals for the giving of directions to BT under proposed SMP Services Conditions OA1 to OA34 which affect the operation of those SMP Services Conditions

1. OFCOM, in accordance with section 49(4) of the Act, hereby make the following proposals for six Directions to be given to BT under proposed SMP Services Conditions OA1 to OA34 in Schedule 2 to the Notification at Annex A to the accompanying explanatory statement hereto.
2. The six draft Directions are set out in Schedules 1 to 6 to this notification.
3. The effect of the draft Directions, and the reasons for making the proposals, are set out in Chapters 7 to 13 of the accompanying explanatory statement hereto.
4. In making the proposals set out in this Notification, OFCOM have considered and acted in accordance with their general duties in section 3 of the Act and the six Community requirements in section 4 of the Act.
5. Representations may be made to OFCOM about the proposals set out in this Notification and the accompanying explanatory statement by 10 May 2004.
6. Copies of this Notification and the accompanying explanatory statement have been sent to the Secretary of State in accordance with section 50(1)(b), the European Commission and to the regulatory authorities of every other Member State in accordance with section 50(4) of the Act.
7. In this Notification (not including the Schedules) -
 - (a) 'the Act' means the Communications Act 2003;
 - (b) 'BT' means British Telecommunications plc, whose registered company number is 1800000, and any British Telecommunications plc subsidiary or holding company, or any subsidiary of that holding company, all as defined by Section 736 of the Companies Act 1985 as amended by the Companies Act 1989;
 - (c) 'OFCOM' means the Office of Communications;
 - (d) except as otherwise defined in this Notification, words or expressions used shall have the same meaning as in the Act.

DAVID K S THOMAS

DIRECTOR OF REGULATORY FINANCE

A person authorised under paragraph 18 of the Schedule to the Office of Communications Act 2002

8 APRIL 2004

SCHEDULE 1

Draft Direction 1 for BT: Network Components

[Draft] Direction under SMP Services Condition OA2 specifying network components for the purposes of SMP Services Conditions OA1 to OA34, AA1 to AA12, BA1 to BA6, G1 to G9, GG1 to GG9, H1 to H8 and HH1 to HH8.

WHEREAS-

A. As a result of various market analyses carried out by the Director and OFCOM in accordance with section 79 of the Act, BT has been designated as having SMP in respect of certain identified markets in accordance with section 79 of the Act;

B. As a result of such SMP designations, BT has been subjected to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act, including:

(a) conditions OA1 to OA34, imposing obligations on BT in respect of wholesale cost accounting, retail cost accounting and accounting separation in relation to BT's activities in those markets where BT has been designated as having SMP; and

(b) conditions AA1 to AA12; BA1 to BA6; G1 to G9; GG1 to GG9; H1 to H8 and HH1 to HH8 imposing, amongst other things, obligations on BT in respect of the publication of reference offers and the notification of prices in relation to BT's activities in those markets where BT has been designated as having SMP;

C. In the SMP services conditions referred to in paragraph B above, 'Network Components' are defined to mean the network components specified in any direction given by the Director or OFCOM (as appropriate) from time to time for the purpose of those conditions;

D. By virtue of the Transitional Provisions, references to the Director in any of those SMP services conditions should be read as references to OFCOM;

E. Condition OA2 includes, in accordance with section 45(10) of the Act, the ability for OFCOM to make such directions as they consider appropriate from time to time in relation to BT's obligations under conditions OA1 to OA34;

F. This Direction relates to BT's obligations under SMP services conditions OA1 to OA34, in that it specifies the network components which apply for the purposes of those conditions;

G. This Direction also serves to specify the network components which apply for the purposes of other SMP services conditions set out at paragraph B(b) above;

H. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that this Direction is:

(a) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;

(b) not such as to discriminate unduly against particular persons or against a particular description of persons;

(c) proportionate to what it is intended to achieve; and

(d) in relation to what it is intended to achieve, transparent;

I. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that they acted in accordance with the relevant duties set out in Sections 3 and 4 of the Act in giving this Direction;

J. A notification of a proposal to give this Direction was given under section 49(4) of the Act on [xx April 2004] (the 'Notification');

K. A copy of the Notification was sent to the Secretary of State in accordance with section 50(1)(b) of the Act;

L. In the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 10 May 2004;

M. By virtue of section 49(9) of the Act, OFCOM may give effect to the proposal set out in the Notification, with or without modification, only if-

(a) they have considered every representation about the proposal that is made to them within the period specified in the notification; and

(b) they have had regard to every international obligation of the United Kingdom (if any) which has been notified to them for this purpose by the Secretary of State;

N. OFCOM received responses to the Notification and have considered every such representation made to them within the period specified in the Notification and accompanying explanatory statement and these representations are discussed in [Chapter X of the Statement accompanying this Direction]; and the Secretary of State has not notified OFCOM of any international obligation of the United Kingdom for this purpose;

NOW, THEREFORE, PURSUANT TO CONDITION OA2, OFCOM HEREBY DIRECT THAT-

1. The network components which apply for the time being for the purposes of SMP services conditions OA1 to OA34, AA1 to AA12, BA1 to BA6, G1 to G9, GG1 to GG9, H1 to H8 and HH1 to HH8 are those specified at Annex A to this Direction.

2. In this Direction-

(a) 'the Act' means the Communications Act 2003;

(b) 'BT' means British Telecommunications plc, whose registered company number is 1800000, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 736 of the Companies Act 1985, as amended by the Companies Act 1989;

(c) 'the Director' means the Director-General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;

(d) 'OFCOM' means the Office of Communications;

(e) 'Transitional Provisions' means sections 408 and 411 of the Act, the Communications Act 2003 (Commencement No.1) Order 2003, and the Office of Communications Act 2002 (Commencement No.3) and Communications Act 2003 (Commencement No 2) Order 2003.

3. Except where otherwise defined or in so far as the context otherwise requires, any word or expression shall have the same meaning as it has in the Act.

4. The Interpretation Act 1978 shall apply as if this Direction were an Act of Parliament.

5. Headings and titles shall be disregarded.

DAVID K S THOMAS

A person authorised under paragraph 18 of the Schedule to the Office of Communications Act 2002

Annex A to draft direction 1

List of Network Components

1. Local exchange concentrator
2. Local exchange call set up
3. Local exchange call duration
4. Main exchange call set up
5. Main exchange call duration
6. Remote-local transmission link
7. Remote-local transmission length
8. Local-tandem transmission link
9. Local-tandem transmission length
10. Inter-tandem transmission link
11. Inter-tandem transmission length
12. Product management, policy & planning for narrowband call services
13. National operator assistance
14. International operator assistance
15. Outpayments: geographic calls
16. Outpayments: non geographic calls
17. Outpayments: calls to mobile
18. Outpayments: international
19. Outpayments: other
20. International network
21. Copper access lines
22. Fibre access lines
23. Network terminating equipment (not elsewhere identified) for copper lines
24. CWSS network terminating equipment & serving exchange equipment
25. DWSS network terminating equipment & serving exchange equipment
26. PDH multiplexors at third party site
27. SDH multiplexors at third party site
28. SDH (MSH) multiplexors at third party site
29. PDH multiplexors

30. SDH multiplexors
31. SDH cross connection/grooming equipment
32. Tributary card for SDH network by size
33. SDH (MSH) multiplexors
34. SDH (MSH) cross connection/grooming equipment
35. Tributary card for SDH (MSH) network by size
36. Transmission links over fibre
37. Transmission links over radio
38. In-building links
39. ATM switches
40. Third party facing ATM tributary cards by size
41. Network facing ATM tributary cards by size
42. Signalling links
43. Network research and development
44. Guarantee schemes
45. Infrastructure returns
46. PSTN (analogue) specific
47. Passive optical network
48. ISDN 2 specific
49. ISDN 30 specific
50. Carrier Pre Selection System Set-Up
51. Carrier Pre Selection Operator Set-Up
52. Carrier Pre Selection Customer Set-Up
53. Carrier Pre Selection in life management
54. IN platform
55. Copper loop line information & testing
56. Copper cabling within exchange buildings
57. Copper cabling from within exchange buildings to outside
58. Operational buildings– electricity
59. Operational buildings - space
60. Operational buildings - other
61. Operational buildings – modifications (including for co-location)

62. Bespoke network build - copper
63. Bespoke network rearrangement - copper
64. Product management, policy & planning for narrowband access services
65. Private circuit specific
66. Product management, policy & planning for partial private circuits
67. Alternative interface symmetric broadband origination specific
68. xDSL specific
69. Product management, policy & planning for xDSL interconnect services
70. Wholesale bad debts

SCHEDULE 2

Draft Direction 2 for BT: Transparency

[Draft] Direction under SMP Services Condition OA2 specifying the transparency requirements for the purposes of preparing and maintaining the accounting records, Accounting Documents, and Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting

WHEREAS-

A. As a result of various market analyses carried out by the Director and OFCOM in accordance with section 79 of the Act, BT has been designated as having SMP in respect of certain identified markets in accordance with section 79 of the Act;

B. As a result of such SMP designations, BT has been subjected to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act, including conditions OA1 to OA34 imposing obligations on BT in respect of wholesale cost accounting, accounting separation and retail cost accounting in relation to BT's activities in those markets where BT has been designated as having SMP;

C. In complying with the SMP services conditions referred to in paragraph B above, BT is required to prepare and maintain various documentation, including accounting records, Accounting Documents and Regulatory Financial Statements;

D. Condition OA2 includes, in accordance with section 45(10) of the Act, the ability for OFCOM to make such directions as they consider appropriate from time to time in relation to BT's obligations under condition OA1 to OA34;

E. This Direction relates to BT's obligations under SMP services conditions OA1 to OA34, in that it specifies the level of transparency required to be met by BT in preparing and maintaining the various documentation required by those conditions;

F. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that this Direction is:

(a) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;

(b) not such as to discriminate unduly against particular persons or against a particular description of persons;

(c) proportionate to what it is intended to achieve; and

(d) in relation to what it is intended to achieve, transparent;

G. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that they acted in accordance with the relevant duties set out in Sections 3 and 4 of the Act in giving this Direction;

H. A notification of a proposal to give this Direction was given under section 49(4) of the Act on 8 April 2004 (the 'Notification');

I. A copy of the Notification was sent to the Secretary of State in accordance with section 50(1)(b) of the Act;

J. In the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 10 May 2004;

K. By virtue of section 49(9) of the Act, OFCOM may give effect to the proposal set out in the Notification, with or without modification, only if-

(a) they have considered every representation about the proposal that is made to them within the period specified in the notification; and

(b) they have had regard to every international obligation of the United Kingdom (if any) which has been notified to them for this purpose by the Secretary of State;

L. OFCOM received responses to the Notification and have considered every such representation made to them within the period specified in the Notification and accompanying explanatory statement and these representations are discussed in [Chapter X of the Statement accompanying this Direction]; and the Secretary of State has not notified OFCOM of any international obligation of the United Kingdom for this purpose;

NOW, THEREFORE, PURSUANT TO CONDITION OA2, OFCOM HEREBY DIRECT THAT-

1. BT shall ensure that any data, information, description, material or explanatory document prepared under Conditions OA1 to OA34 in respect of accounting and other methods used in the preparation of the accounting records and Regulatory Financial Statements shall be sufficiently transparent and prepared such that a suitably informed reader can gain a clear understanding of such data, information, description, material or explanatory document, and, if necessary, the overall structure of BT's financial and information systems from which regulatory accounting data is derived and in particular the sequence of the processing and 'cascade' effect of the intermediate cost centres; gain a detailed understanding of all the material, methodologies and drivers (e.g. systems, Processes and procedures) applied in the preparation of regulatory accounting data; and make their own judgement as to the reasonableness of these methodologies and driver data and any changes to them.

2. In this Direction-

(a) 'Accounting Documents' shall have the meaning ascribed to it in Conditions OA1 to OA34;

(b) 'the Act' means the Communications Act 2003;

(c) 'BT' means British Telecommunications plc, whose registered company number is 1800000, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 736 of the Companies Act 1985, as amended by the Companies Act 1989;

(d) 'the Director' means the Director-General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;

(e) 'OFCOM' means the Office of Communications; and

(f) 'Process' shall have the meaning ascribed to it in Conditions OA1 to OA34;

(g) 'Regulatory Financial Statement' shall have the meaning ascribed to it in Conditions OA1 to OA34.

3. Except where otherwise defined or in so far as the context otherwise requires, any word or expression shall have the same meaning as it has in the Act.
4. The Interpretation Act 1978 shall apply as if this Direction were an Act of Parliament.
5. Headings and titles shall be disregarded.

DAVID K S THOMAS

A person authorised under paragraph 18 of the Schedule to the Office of Communications Act 2002

SCHEDULE 3

Draft Direction 3 for BT: Preparation, audit, delivery and publication of Regulatory Financial Statements

[Draft] Direction under SMP Services Condition OA2 specifying requirements for the preparation, audit and delivery of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting

WHEREAS-

A. As a result of various market analyses carried out by the Director and OFCOM in accordance with section 79 of the Act, BT has been designated as having SMP in respect of certain identified markets in accordance with section 79 of the Act;

B. As a result of such SMP designations, BT has been subjected to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act, including conditions OA1 to OA34 imposing obligations on BT in respect of wholesale cost accounting, accounting separation and retail cost accounting in relation to BT's activities in those markets where BT has been designated as having SMP;

C. In complying with the SMP services conditions referred to in paragraph B above, and in particular condition OA5, BT is required to:

- (a) prepare;
- (b) secure an audit opinion in respect of;
- (c) deliver to OFCOM (with the corresponding audit opinion); and
- (d) publish (with the corresponding audit opinion)

the Regulatory Financial Statements as directed by OFCOM from time to time;

D. Condition OA2 includes, in accordance with section 45(10) of the Act, the ability for OFCOM to make such directions as they consider appropriate from time to time in relation to BT's obligations under conditions OA1 to OA34;

E. This Direction relates to BT's obligations under SMP services conditions OA1 to OA34, in that it sets out the Regulatory Financial Statements which are required to be prepared, audited (including the level of audit), delivered to OFCOM and/or published by BT under condition OA5;

F. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that this Direction is:

- (a) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
- (b) not such as to discriminate unduly against particular persons or against a particular description of persons;
- (c) proportionate to what it is intended to achieve; and
- (d) in relation to what it is intended to achieve, transparent;

G. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that they acted in accordance with the relevant duties set out in Sections 3 and 4 of the Act in giving this Direction;

H. A notification of a proposal to give this Direction was given under section 49(4) of the Act on 8 April 2004 (the 'Notification');

I. A copy of the Notification was sent to the Secretary of State in accordance with section 50(1)(b) of the Act;

J. In the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 10 May 2004;

K. By virtue of section 49(9) of the Act, OFCOM may give effect to the proposal set out in the Notification, with or without modification, only if-

(a) they have considered every representation about the proposal that is made to them within the period specified in the notification; and

(b) they have had regard to every international obligation of the United Kingdom (if any) which has been notified to them for this purpose by the Secretary of State;

L. OFCOM received responses to the Notification and have considered every such representation made to them within the period specified in the Notification and accompanying explanatory statement and these representations are discussed in [Chapter X of the Statement accompanying this Direction]; and the Secretary of State has not notified OFCOM of any international obligation of the United Kingdom for this purpose;

NOW, THEREFORE, PURSUANT TO CONDITION OA2, OFCOM HEREBY DIRECT THAT-

1. BT shall, for the purposes of condition OA5 and as appropriate, prepare, secure an appropriate audit opinion in respect of, deliver to OFCOM and publish the Regulatory Financial Statements in accordance with Annexes A, B and C to this Direction.

2. In this Direction-

(a) 'the Act' means the Communications Act 2003;

(b) 'BT' means British Telecommunications plc, whose registered company number is 1800000, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 736 of the Companies Act 1985, as amended by the Companies Act 1989;

(c) 'the Director' means the Director-General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;

(d) 'OFCOM' means the Office of Communications;

(e) 'Regulatory Financial Statement' shall have the meaning ascribed to it in Conditions OA1 to OA34.

3. Except where otherwise defined or in so far as the context otherwise requires, any word or expression shall have the same meaning as it has in the Act.

4. The Interpretation Act 1978 shall apply as if this Direction were an Act of Parliament.

5. Headings and titles shall be disregarded.

DAVID K S THOMAS

A person authorised under paragraph 18 of the Schedule to the Office of Communications Act 2002

Annex A to draft direction 3

Wholesale Cost Accounting Financial Statements

For the purposes of this annex the following abbreviations are used, the scope of these statements is set out in the matrix of obligations that follows; references to annexes are to the form and content direction attached at Schedule 4 to the Notification dated 8 April 2004. In the table below, X means that the financial statement set out at the head of the column is required for the market or service on that row.

Please note, the separation of the tables into Parts A to F is purely for presentational purposes.

- CCPS = 'current cost primary statements', current cost profit and loss statement (CC P&L) and statement of current cost mean capital employed (CC MCE), as set out in Annexes 13 & 14 in relation to wholesale services, Annexes 11 & 12 in relation to wholesale segments (when designated), Annexes 9 & 10 in relation to individual wholesale markets;
- RTW = 'reconciliation to wholesale', reconciliation of CC P&L and CC MCE to wholesale level - consolidation across group of markets covered by review (as set out in Annexes 7 & 8 for wholesale markets), followed by consolidation of these consolidations, to give consolidated CC P&L and CC MCE for wholesale markets subject to cost accounting (as set out in Annexes 5 & 6);
- RTSA = 'reconciliation to statutory accounts', reconciliation of consolidated CC P&L and CC MCE for wholesale markets subject to cost accounting to the profit and loss account and balance sheet of the operator shown in their statutory financial statements (as set out in annexes 27 & 28, supported by annexes 29, 30, 31 & 32)
- SoCC Ext = statement of costs and charges for wholesale service supplied in the market, other than those which are only Internal Wholesale Services (as set out in annex 34);
- SoCC Int = statement of costs and charges for wholesale service supplied in the market, which are only Internal Wholesale Services (as set out in annex 35);
- SoAC FA = statement of activity costs on a current fully allocated cost basis for the market (as set out in Annexes 38), supported by consolidated statement of activity costs on a current fully allocated cost basis (as set out in Annexes 37),
- NCR FA = attribution of activity costs on a current fully allocated cost basis for the market (as set out in annex 40), supported by consolidated attribution of activity costs on a current fully allocated cost basis (as set out in annex 39),
- SoAC IC = consolidated statement of activity costs on a incremental and standalone cost basis (as set out in Annex 41)
- RFR – regulatory financial review, as set out in annex 2;
- SDR – statement of responsibility, as set out in annex 3
- FPIA – Audit Opinion required for statements, for inclusion in audit report as set out in annex 4
- PPIA – Audit opinion required for statements, for inclusion in audit report as set out in annex 4
- Notes – notes to the financial statements, as set out in annex 23
- RMP – retail markets purchase statement, as set out in annex 26
- SPS – summary, for reconciliation purposes, of profitability by wholesale service (as set out in annex 36);
- AFI (a) – cost category analysis AI-1 and summarised activity analysis AI-3 (as set out in annex 42)
- AFI (b) – cost category analysis AI-4 and summarised activity analysis AI-2 (as set out in annex 42)
- AFI (c) – analysis of depreciation charge and CCA adjustments AI-5 and CCA fixed asset movement statement AI – 6 (as set out in annex 42)
- AFI (d) – operator assistance combinatorial tests AI-7 (as set out in annex 42)

- AFI (e) – mean capital employed and summarised activity analysis for all network components AI – 8 and network activity analysis of mean capital employed for all network components AI –10 (as set out in annex 42)
- AFI (f) – analysis of outpayments AI – 9 (as set out in annex 42)
- AFI (g) – revenue analysis by tariff option AI-11 and revenue analysis by customer option AI-12 (as set out in annex 42)
- AFI (h) – indices applied for CCA revaluation AI-13 (as set out in annex 42)
- AFI (i) – assets valuation and useful economic life analysis AI-14 (as set out in annex 42)
- AFI (j) – marketing expenditure analysis AI-15 (as set out in annex 42)
- AFI (k) – operating cost and mean capital employed by plant group AI-16 (as set out in annex 42)
- AFI (l) – fixed fee revenues by tariff AFI 17 (as set out in annex 42)
- AFI (m) – analysis of asset transfers AI-18 (as set out in annex 42))
- AFI (n) – CPS set up costs AI-19 (as set out in annex 42)

Part A

Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation

	Financial statements					Audit		Published
	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
Wholesale market and illustrative services								
Wholesale residential analogue exchange line services	X	X	X			X		X
- wholesale service A	X			X			X	
- wholesale service B ...	X				X		X	
Wholesale business analogue exchange line services	X	X	X			X		X
- wholesale service A	X			X			X	
- wholesale service B ...	X				X		X	
Wholesale business ISDN2 exchange line services	X	X	X			X		X
- wholesale service A	X			X			X	
- wholesale service B	X				X		X	

	Financial statements					Audit		Published
	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
Wholesale market and illustrative services								
Call origination on fixed public narrowband networks	X	X	X			X		X
- WS Call originating local exchange segment	X			X			X	
- WS Call originating local exchange segment (incl Operator Assistance)	X			X			X	
- WS Call originating local exchange segment (ISDN)	X			X			X	
- WS Call originating local exchange segment (ISDN) (incl Operator Assistance)	X			X			X	
- WS Call origination local exchange Stick	X				X		X	
- WS Call origination local exchange Stick (ISDN)	X				X		X	
- WS Local exchange call origination circuit excluding FRIACO port	X			X			X	
- WS FRIACO port at the local exchange	X			X			X	
- WS PPP for FRIACO	X			X			X	
- NTS retailing services	X			X			X	
Inter-tandem conveyance and transit on fixed public narrowband networks	X	X	X			X		X
- WS Inter-tandem conveyance short	X			X			X	

	Financial statements					Audit		Published
	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
Wholesale market and illustrative services								
- WS Inter-tandem conveyance medium	X			X			X	
- WS Inter-tandem conveyance long	X			X			X	
- WS Inter-tandem conveyance short (ISDN)	X			X			X	
- WS Inter-tandem conveyance medium (ISDN)	X			X			X	
- WS Inter-tandem conveyance long (ISDN)	X			X			X	
- WS Inter-tandem conveyance for IDD	X			X			X	
- WS Inter-tandem transmission for IDD	X			X			X	
- WS Inter-tandem conveyance for IDD (ISDN)	X			X			X	
- WS Inter-tandem transmission for IDD (ISDN)	X			X			X	
- WS Inter-tandem transit short	X			X			X	
- WS Inter-tandem transit medium	X			X			X	
- WS Inter-tandem transit long	X			X			X	
Local-tandem conveyance and transit on fixed public narrowband networks	X	X	X			X		X

	Financial statements					Audit		Published
	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
Wholesale market and illustrative services								
- WS Local-tandem conveyance segment	X			X			X	
- WS Local-tandem conveyance segment (ISDN)	X			X			X	
- WS LTT Stick	X				X		X	
- WS LTT Stick (ISDN)	X				X		X	
- WS Local-tandem circuit excluding FRIACO port at tandem exchange	X			X			X	
- WS FRIACO port at the tandem exchange	X			X			X	
Single transit on fixed public narrowband networks	X	X	X			X		X
- WS Single transit segment	X			X			X	
- WS Single transit segment (ISDN)	X			X			X	
Technical areas	X	X	X			X		X
- WS standard CSI connection	X			X			X	
- WS standard CSI rental - fixed	X			X			X	

	Financial statements					Audit		Published
	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
Wholesale market and illustrative services								
- WS standard CSI rental per km	X			X			X	
- WS high performance CSI connection	X			X			X	
- WS high performance CSI rental - fixed	X			X			X	
- WS high performance CSI rental per km	X			X			X	
- WS ISI connection	X			X			X	
- WS ISI rental per 100m	X			X			X	
- WS IEC connection	X			X			X	
- WS IEC rental - fixed	X			X			X	
- WS IEC rental – per km	X			X			X	
- WS intra-building circuits connection	X			X			X	
- WS intra-building circuits rental	X			X			X	
- WS rearrangements	X			X			X	
- WS path protection connection per 34 Mbits/s	X			X			X	
- WS path protection connection per 140 Mbits/s	X			X			X	

	Financial statements					Audit		Published
	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
Wholesale market and illustrative services								
- WS path protection rental per 34 Mbits/s	X			X			X	
- WS path protection rental per 140 Mbits/s	X			X			X	

Review of the fixed geographic call termination markets

	Financial statements					Audit		Published
	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
Wholesale market and illustrative services								
Fixed geographic call termination	X	X	X			X		X
- WS Call termination local exchange segment	X			X			X	
- WS Call termination local exchange segment (ISDN)	X			X			X	
- WS Call termination local exchange stick	X				X		X	
- WS Call termination local exchange stick (ISDN)	X				X		X	

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
Wholesale markets and illustrative services								
Traditional interface symmetric broadband origination (up to and including 8Mbit/s);	X	X	X			X		X
- WS service A	X			X			X	
- WS service B	X				X		X	
Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);	X	X	X			X		X
- WS service A	X			X			X	
- WS service B	X				X		X	
Alternative interface symmetric broadband origination (all bandwidths)	X	X	X			X		X
- WS service A	X			X			X	
- WS service B	X				X		X	
Wholesale trunk segments (including Kingston upon Hull)	X	X	X			X		X

	Financial statements					Audit		Published
	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
Wholesale markets and illustrative services								
- WS service A	X			X			X	
- WS service B	X				X		X	
Technical areas (as necessary, including fixed and per km variants)	X	X	X			X		X
- In Span Handover ("ISH")	X			X			X	
- Customer Sited Handover ("CSH");	X			X			X	
- ISH extension circuits	X			X			X	
- Synchronous Transfer Mode ("STM")-1 ISH and CSH handover	X			X			X	

Part B

Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
Wholesale market and illustrative services								
Wholesale residential analogue exchange line services	X	X	X	X	X	X		X
- wholesale service A					X		X	
- wholesale service B ...					X		X	
Wholesale business analogue exchange line services	X	X	X	X	X	X		X
- wholesale service A					X		X	
- wholesale service B ...					X		X	
Wholesale business ISDN2 exchange line services	X	X	X	X	X	X		X
- wholesale service A					X		X	
- wholesale service B					X		X	

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
Wholesale market and illustrative services								
Call origination on fixed public narrowband networks	X	X	X	X	X	X		X
- WS Call originating local exchange segment					X		X	
- WS Call originating local exchange segment (incl Operator Assistance)					X		X	
- WS Call originating local exchange segment (ISDN)					X		X	
- WS Call originating local exchange segment (ISDN) (incl Operator Assistance)					X		X	
- WS Call origination local exchange Stick					X		X	
- WS Call origination local exchange Stick (ISDN)					X		X	
- WS Local exchange call origination circuit excluding FRIACO port					X		X	
- WS FRIACO port at the local exchange					X		X	
- WS PPP for FRIACO					X		X	
- NTS retailing services					X		X	
Inter-tandem conveyance and transit on fixed public narrowband networks	X	X	X	X	X	X		X
- WS Inter-tandem conveyance short					X		X	

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
Wholesale market and illustrative services								
- WS Inter-tandem conveyance medium					X		X	
- WS Inter-tandem conveyance long					X		X	
- WS Inter-tandem conveyance short (ISDN)					X		X	
- WS Inter-tandem conveyance medium (ISDN)					X		X	
- WS Inter-tandem conveyance long (ISDN)					X		X	
- WS Inter-tandem conveyance for IDD					X		X	
- WS Inter-tandem transmission for IDD					X		X	
- WS Inter-tandem conveyance for IDD (ISDN)					X		X	
- WS Inter-tandem transmission for IDD (ISDN)					X		X	
- WS Inter-tandem transit short					X		X	
- WS Inter-tandem transit medium					X		X	
- WS Inter-tandem transit long					X		X	
Local-tandem conveyance and transit on fixed public narrowband networks	X	X	X	X	X	X		X

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
Wholesale market and illustrative services								
- WS Local-tandem conveyance segment					X		X	
- WS Local-tandem conveyance segment (ISDN)					X		X	
- WS LTT Stick					X		X	
- WS LTT Stick (ISDN)					X		X	
- WS Local-tandem circuit excluding port at tandem exchange					X		X	
- WS FRIACO port at the tandem exchange					X		X	
Single transit on fixed public narrowband networks	X	X	X	X	X	X		X
- WS Single transit segment					X		X	
- WS Single transit segment (ISDN)					X		X	
Technical areas	X	X	X	X	X	X		X
- WS standard CSI connection					X		X	
- WS standard CSI rental - fixed					X		X	

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
Wholesale market and illustrative services								
- WS standard CSI rental per km					X		X	
- WS high performance CSI connection					X		X	
- WS high performance CSI rental - fixed					X		X	
- WS high performance CSI rental per km					X		X	
- WS ISI connection					X		X	
- WS ISI rental per 100m					X		X	
- WS IEC connection					X		X	
- WS IEC rental - fixed					X		X	
- WS IEC rental – per km					X		X	
- WS intra-building circuits connection					X		X	
- WS intra-building circuits rental					X		X	
- WS rearrangements					X		X	
- WS path protection connection per 34 Mbits/s					X		X	
- WS path protection connection per 140 Mbits/s					X		X	

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
Wholesale market and illustrative services								
- WS path protection rental per 34 Mbits/s					X		X	
- WS path protection rental per 140 Mbits/s					X		X	

Review of the fixed geographic call termination markets

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
Wholesale market and illustrative services								
Fixed geographic call termination	X	X	X	X	X	X		X
- WS Call termination local exchange segment					X		X	
- WS Call termination local exchange segment (ISDN)					X		X	
- WS Call termination local exchange stick					X		X	
- WS Call termination local exchange stick (ISDN)					X		X	

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
Wholesale markets and illustrative services								
Traditional interface symmetric broadband origination (up to and including 8Mbit/s);	X	X	X	X	X	X		X
- WS service A					X		X	
- WS service B					X		X	
Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);	X	X	X	X	X	X		X
- WS service A					X		X	
- WS service B					X		X	
Alternative interface symmetric broadband origination (all bandwidths);	X	X	X	X	X	X		X
- WS service A					X		X	
- WS service B					X		X	

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
Wholesale markets and illustrative services								
Wholesale trunk segments (including Kingston upon Hull)	X	X	X	X	X	X		X
- WS service A					X		X	
- WS service B					X		X	
Technical areas (as necessary, including fixed and per km variants)	X	X	X	X	X	X		X
- In Span Handover ("ISH")					X		X	
- Customer Sited Handover ("CSH");					X		X	
- ISH extension circuits					X		X	
- Synchronous Transfer Mode ("STM")-1 ISH and CSH handover					X		X	

Part C

Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
Wholesale market and illustrative services								
Wholesale residential analogue exchange line services	X		X			X		X
- wholesale service A	X						X	
- wholesale service B ...	X						X	
Wholesale business analogue exchange line services	X		X			X		X
- wholesale service A	X						X	
- wholesale service B ...	X						X	
Wholesale business ISDN2 exchange line services	X		X			X		X
- wholesale service A	X						X	
- wholesale service B	X						X	
Call origination on fixed public narrowband networks	X		X			X		X

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
Wholesale market and illustrative services								
- WS Call originating local exchange segment	X						X	
- WS Call originating local exchange segment (incl Operator Assistance)	X						X	
- WS Call originating local exchange segment (ISDN)	X						X	
- WS Call originating local exchange segment (ISDN) (incl Operator Assistance)	X						X	
- WS Call origination local exchange Stick	X						X	
- WS Call origination local exchange Stick (ISDN)	X						X	
- WS Local exchange call origination circuit excluding FRIACO port	X						X	
- WS FRIACO port at the local exchange	X						X	
- WS PPP for FRIACO	X						X	
- NTS retailing services	X						X	
Inter-tandem conveyance and transit on fixed public narrowband networks	X		X			X		X
- WS Inter-tandem conveyance short	X						X	
- WS Inter-tandem conveyance medium	X						X	
- WS Inter-tandem conveyance long	X						X	

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
Wholesale market and illustrative services								
- WS Inter-tandem conveyance short (ISDN)	X						X	
- WS Inter-tandem conveyance medium (ISDN)	X						X	
- WS Inter-tandem conveyance long (ISDN)	X						X	
- WS Inter-tandem conveyance for IDD	X						X	
- WS Inter-tandem transmission for IDD	X						X	
- WS Inter-tandem conveyance for IDD (ISDN)	X						X	
- WS Inter-tandem transmission for IDD (ISDN)	X						X	
- WS Inter-tandem transit short	X						X	
- WS Inter-tandem transit medium	X						X	
- WS Inter-tandem transit long	X						X	
Local-tandem conveyance and transit on fixed public narrowband networks	X		X			X		X
- WS Local-tandem conveyance segment	X						X	
- WS Local-tandem conveyance segment (ISDN)	X						X	
- WS LTT Stick	X						X	

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
Wholesale market and illustrative services								
- WS LTT Stick (ISDN)	X						X	
- WS Local-tandem circuit excluding FRIACO port at tandem exchange	X						X	
- WS FRIACO port at the tandem exchange	X						X	
Single transit on fixed public narrowband networks	X		X			X		X
- WS Single transit segment	X						X	
- WS Single transit segment (ISDN)	X						X	
Technical areas	X		X			X		X
- WS standard CSI connection	X						X	
- WS standard CSI rental - fixed	X						X	
- WS standard CSI rental per km	X						X	
- WS high performance CSI connection	X						X	
- WS high performance CSI rental - fixed	X						X	
- WS high performance CSI rental per km	X						X	

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
Wholesale market and illustrative services								
- WS ISI connection	X						X	
- WS ISI rental per 100m	X						X	
- WS IEC connection	X						X	
- WS IEC rental - fixed	X						X	
- WS IEC rental – per km	X						X	
- WS intra-building circuits connection	X						X	
- WS intra-building circuits rental	X						X	
- WS rearrangements	X						X	
- WS path protection connection per 34 Mbits/s	X						X	
- WS path protection connection per 140 Mbits/s	X						X	
- WS path protection rental per 34 Mbits/s	X						X	
- WS path protection rental per 140 Mbits/s	X						X	

Review of the fixed geographic call termination markets

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
Wholesale market and illustrative services								
Fixed geographic call termination	X		X			X		X
- WS Call termination local exchange segment	X						X	
- WS Call termination local exchange segment (ISDN)	X						X	
- WS Call termination local exchange stick	X						X	
- WS Call termination local exchange stick (ISDN)	X						X	

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
Wholesale markets and illustrative services								
Traditional interface symmetric broadband origination (up to and including 8Mbit/s);	X		X			X		X
- WS service A	X						X	
- WS service B	X						X	
Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);	X		X			X		X
- WS service A	X						X	
- WS service B	X						X	
Alternative interface symmetric broadband origination (all bandwidths);	X		X			X		X
- WS service A	X						X	
- WS service B	X						X	
Wholesale trunk segments (including Kingston upon Hull)	X		X			X		X

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
Wholesale markets and illustrative services								
- WS service A	X						X	
- WS service B	X						X	
Technical areas (as necessary, including fixed and per km variants)	X		X			X		X
- In Span Handover ("ISH")	X						X	
- Customer Sited Handover ("CSH");	X						X	
- ISH extension circuits	X						X	
- Synchronous Transfer Mode ("STM")-1 ISH and CSH handover	X						X	

Part D

Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation

	Financial statements					Audit		Published
	AFI (a)	AFI (b)	AFI (c)	AFI (d)	AFI (e)	FPIA	PPIA	
Wholesale market and illustrative services								
Wholesale residential analogue exchange line services								
- wholesale service A	X	X	X	X	X		X	
- wholesale service B ...	X	X	X	X	X		X	
Wholesale business analogue exchange line services								
- wholesale service A	X	X	X	X	X		X	
- wholesale service B ...	X	X	X	X	X		X	
Wholesale business ISDN2 exchange line services								
- wholesale service A	X	X	X	X	X		X	
- wholesale service B	X	X	X	X	X		X	

	Financial statements					Audit		Published
	AFI (a)	AFI (b)	AFI (c)	AFI (d)	AFI (e)	FPIA	PPIA	
Wholesale market and illustrative services								
Call origination on fixed public narrowband networks								
- WS Call originating local exchange segment	X	X	X	X	X		X	
- WS Call originating local exchange segment (incl Operator Assistance)	X	X	X	X	X		X	
- WS Call originating local exchange segment (ISDN)	X	X	X	X	X		X	
- WS Call originating local exchange segment (ISDN) (incl Operator Assistance)	X	X	X	X	X		X	
- WS Call origination local exchange Stick	X	X	X	X	X		X	
- WS Call origination local exchange Stick (ISDN)	X	X	X	X	X		X	
- WS Local exchange call origination circuit excluding FRIACO port	X	X	X	X	X		X	
- WS FRIACO port at the local exchange	X	X	X	X	X		X	
- WS PPP for FRIACO	X	X	X	X	X		X	
- NTS retailing services	X	X	X	X	X		X	
Inter-tandem conveyance and transit on fixed public narrowband networks								
- WS Inter-tandem conveyance short	X	X	X	X	X		X	

	Financial statements					Audit		Published
	AFI (a)	AFI (b)	AFI (c)	AFI (d)	AFI (e)	FPIA	PPIA	
Wholesale market and illustrative services								
- WS Inter-tandem conveyance medium	X	X	X	X	X		X	
- WS Inter-tandem conveyance long	X	X	X	X	X		X	
- WS Inter-tandem conveyance short (ISDN)	X	X	X	X	X		X	
- WS Inter-tandem conveyance medium (ISDN)	X	X	X	X	X		X	
- WS Inter-tandem conveyance long (ISDN)	X	X	X	X	X		X	
- WS Inter-tandem conveyance for IDD	X	X	X	X	X		X	
- WS Inter-tandem transmission for IDD	X	X	X	X	X		X	
- WS Inter-tandem conveyance for IDD (ISDN)	X	X	X	X	X		X	
- WS Inter-tandem transmission for IDD (ISDN)	X	X	X	X	X		X	
- WS Inter-tandem transit short	X	X	X	X	X		X	
- WS Inter-tandem transit medium	X	X	X	X	X		X	
- WS Inter-tandem transit long	X	X	X	X	X		X	
Local-tandem conveyance and transit on fixed public narrowband networks								

	Financial statements					Audit		Published
	AFI (a)	AFI (b)	AFI (c)	AFI (d)	AFI (e)	FPIA	PPIA	
Wholesale market and illustrative services								
- WS Local-tandem conveyance segment	X	X	X	X	X		X	
- WS Local-tandem conveyance segment (ISDN)	X	X	X	X	X		X	
- WS LTT Stick	X	X	X	X	X		X	
- WS LTT Stick (ISDN)	X	X	X	X	X		X	
- WS Local-tandem circuit excluding FRIACO port at tandem exchange	X	X	X	X	X		X	
- WS FRIACO port at the tandem exchange	X	X	X	X	X		X	
Single transit on fixed public narrowband networks								
- WS Single transit segment	X	X	X	X	X		X	
- WS Single transit segment (ISDN)	X	X	X	X	X		X	
Technical areas								
- WS standard CSI connection	X	X	X	X	X		X	
- WS standard CSI rental - fixed	X	X	X	X	X		X	

	Financial statements					Audit		Published
	AFI (a)	AFI (b)	AFI (c)	AFI (d)	AFI (e)	FPIA	PPIA	
Wholesale market and illustrative services								
- WS standard CSI rental per km	X	X	X	X	X		X	
- WS high performance CSI connection	X	X	X	X	X		X	
- WS high performance CSI rental - fixed	X	X	X	X	X		X	
- WS high performance CSI rental per km	X	X	X	X	X		X	
- WS ISI connection	X	X	X	X	X		X	
- WS ISI rental per 100m	X	X	X	X	X		X	
- WS IEC connection	X	X	X	X	X		X	
- WS IEC rental - fixed	X	X	X	X	X		X	
- WS IEC rental – per km	X	X	X	X	X		X	
- WS intra-building circuits connection	X	X	X	X	X		X	
- WS intra-building circuits rental	X	X	X	X	X		X	
- WS rearrangements	X	X	X	X	X		X	
- WS path protection connection per 34 Mbits/s	X	X	X	X	X		X	
- WS path protection connection per 140 Mbits/s	X	X	X	X	X		X	

	Financial statements					Audit		Published
	AFI (a)	AFI (b)	AFI (c)	AFI (d)	AFI (e)	FPIA	PPIA	
Wholesale market and illustrative services								
- WS path protection rental per 34 Mbits/s	X	X	X	X	X		X	
- WS path protection rental per 140 Mbits/s	X	X	X	X	X		X	

Review of the fixed geographic call termination markets

	Financial statements					Audit		Published
	AFI (a)	AFI (b)	AFI (c)	AFI (d)	AFI (e)	FPIA	PPIA	
Wholesale market and illustrative services								
Fixed geographic call termination								
- WS Call termination local exchange segment	X	X	X	X	X		X	
- WS Call termination local exchange segment (ISDN)	X	X	X	X	X		X	
- WS Call termination local exchange stick	X	X	X	X	X		X	
- WS Call termination local exchange stick (ISDN)	X	X	X	X	X		X	

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	AFI (a)	AFI (b)	AFI (c)	AFI (d)	AFI (e)	FPIA	PPIA	
Wholesale markets and illustrative services								
Traditional interface symmetric broadband origination (up to and including 8Mbit/s);								
- WS service A	X	X	X	X	X		X	
- WS service B	X	X	X	X	X		X	
Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);								
- WS service A	X	X	X	X	X		X	
- WS service B	X	X	X	X	X		X	
Alternative interface symmetric broadband origination (all bandwidths);								
- WS service A	X	X	X	X	X		X	
- WS service B	X	X	X	X	X		X	
Wholesale trunk segments (including Kingston upon Hull)								

	Financial statements					Audit		Published
	AFI (a)	AFI (b)	AFI (c)	AFI (d)	AFI (e)	FPIA	PPIA	
Wholesale markets and illustrative services								
- WS service A	X	X	X	X	X		X	
- WS service B	X	X	X	X	X		X	
Technical areas (as necessary, including fixed and per km variants)								
- In Span Handover ("ISH")	X	X	X	X	X		X	
- Customer Sited Handover ("CSH");	X	X	X	X	X		X	
- ISH extension circuits	X	X	X	X	X		X	
- Synchronous Transfer Mode ("STM")-1 ISH and CSH handover	X	X	X	X	X		X	

Part E

Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation

	Financial statements					Audit		Published
	AFI (f)	AFI (g)	AFI (h)	AFI (i)	AFI (j)	FPIA	PPIA	
Wholesale market and illustrative services								
Wholesale residential analogue exchange line services			X	X			X	
- wholesale service A								
- wholesale service B ...								
Wholesale business analogue exchange line services			X	X			X	
- wholesale service A								
- wholesale service B ...								
Wholesale business ISDN2 exchange line services			X	X			X	
- wholesale service A								
- wholesale service B								

	Financial statements					Audit		Published
	AFI (f)	AFI (g)	AFI (h)	AFI (i)	AFI (j)	FPIA	PPIA	
Wholesale market and illustrative services								
Call origination on fixed public narrowband networks			X	X			X	
- WS Call originating local exchange segment								
- WS Call originating local exchange segment (incl Operator Assistance)								
- WS Call originating local exchange segment (ISDN)								
- WS Call originating local exchange segment (ISDN) (incl Operator Assistance)								
- WS Call origination local exchange Stick								
- WS Call origination local exchange Stick (ISDN)								
- WS Local exchange call origination circuit excluding FRIACO port								
- WS FRIACO port at the local exchange								
- WS PPP for FRIACO								
- NTS retailing services								
Inter-tandem conveyance and transit on fixed public narrowband networks			X	X			X	
- WS Inter-tandem conveyance short								

	Financial statements					Audit		Published
	AFI (f)	AFI (g)	AFI (h)	AFI (i)	AFI (j)	FPIA	PPIA	
Wholesale market and illustrative services								
- WS Inter-tandem conveyance medium								
- WS Inter-tandem conveyance long								
- WS Inter-tandem conveyance short (ISDN)								
- WS Inter-tandem conveyance medium (ISDN)								
- WS Inter-tandem conveyance long (ISDN)								
- WS Inter-tandem conveyance for IDD								
- WS Inter-tandem transmission for IDD								
- WS Inter-tandem conveyance for IDD (ISDN)								
- WS Inter-tandem transmission for IDD (ISDN)								
- WS Inter-tandem transit short								
- WS Inter-tandem transit medium								
- WS Inter-tandem transit long								
Local-tandem conveyance and transit on fixed public narrowband networks			X	X			X	

	Financial statements					Audit		Published
	AFI (f)	AFI (g)	AFI (h)	AFI (i)	AFI (j)	FPIA	PPIA	
Wholesale market and illustrative services								
- WS Local-tandem conveyance segment								
- WS Local-tandem conveyance segment (ISDN)								
- WS LTT Stick								
- WS LTT Stick (ISDN)								
- WS Local-tandem circuit excluding FRIACO port at tandem exchange								
- WS FRIACO port at the tandem exchange								
Single transit on fixed public narrowband networks			X	X			X	
- WS Single transit segment								
- WS Single transit segment (ISDN)								
Technical areas			X	X			X	
- WS standard CSI connection								
- WS standard CSI rental – fixed								

	Financial statements					Audit		Published
	AFI (f)	AFI (g)	AFI (h)	AFI (i)	AFI (j)	FPIA	PPIA	
Wholesale market and illustrative services								
- WS standard CSI rental per km								
- WS high performance CSI connection								
- WS high performance CSI rental – fixed								
- WS high performance CSI rental per km								
- WS ISI connection								
- WS ISI rental per 100m								
- WS IEC connection								
- WS IEC rental – fixed								
- WS IEC rental – per km								
- WS intra-building circuits connection								
- WS intra-building circuits rental								
- WS rearrangements								
- WS path protection connection per 34 Mbits/s								
- WS path protection connection per 140 Mbits/s								

	Financial statements					Audit		Published
	AFI (f)	AFI (g)	AFI (h)	AFI (i)	AFI (j)	FPIA	PPIA	
Wholesale market and illustrative services								
- WS path protection rental per 34 Mbits/s								
- WS path protection rental per 140 Mbits/s								

Review of the fixed geographic call termination markets

	Financial statements					Audit		Published
	AFI (f)	AFI (g)	AFI (h)	AFI (i)	AFI (j)	FPIA	PPIA	
Wholesale market and illustrative services								
Fixed geographic call termination			X	X			X	
- WS Call termination local exchange segment								
- WS Call termination local exchange segment (ISDN)								
- WS Call termination local exchange stick								
- WS Call termination local exchange stick (ISDN)								

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	AFI (f)	AFI (g)	AFI (h)	AFI (i)	AFI (j)	FPIA	PPIA	
Wholesale markets and illustrative services								
Traditional interface symmetric broadband origination (up to and including 8Mbit/s);			X	X			X	
- WS service A								
- WS service B								
Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);			X	X			X	
- WS service A								
- WS service B								
Alternative interface symmetric broadband origination (all bandwidths);			X	X			X	
- WS service A								
- WS service B								
Wholesale trunk segments (including Kingston upon Hull)			X	X			X	

	Financial statements					Audit		Published
	AFI (f)	AFI (g)	AFI (h)	AFI (i)	AFI (j)	FPIA	PPIA	
Wholesale markets and illustrative services								
- WS service A								
- WS service B								
Technical areas (as necessary, including fixed and per km variants)			X	X			X	
- In Span Handover ("ISH")								
- Customer Sited Handover ("CSH");								
- ISH extension circuits								
- Synchronous Transfer Mode ("STM")-1 ISH and CSH handover								

Part F

Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation

	Financial statements					Audit		Published
	AFI (k)	AFI (l)	AFI (m)	AFI (n)		FPIA	PPIA	
Wholesale market and illustrative services								
Wholesale residential analogue exchange line services	X	X	X				X	
- wholesale service A	X						X	
- wholesale service B ...	X						X	
Wholesale business analogue exchange line services	X		X				X	
- wholesale service A	X						X	
- wholesale service B ...	X						X	
Wholesale business ISDN2 exchange line services	X		X				X	
- wholesale service A	X						X	
- wholesale service B	X						X	

	Financial statements					Audit		Published
	AFI (k)	AFI (l)	AFI (m)	AFI (n)		FPIA	PPIA	
Wholesale market and illustrative services								
Call origination on fixed public narrowband networks	X		X	X			X	
- WS Call originating local exchange segment	X			X			X	
- WS Call originating local exchange segment (incl Operator Assistance)	X			X			X	
- WS Call originating local exchange segment (ISDN)	X			X			X	
- WS Call originating local exchange segment (ISDN) (incl Operator Assistance)	X			X			X	
- WS Call origination local exchange Stick	X			X			X	
- WS Call origination local exchange Stick (ISDN)	X			X			X	
- WS Local exchange call origination circuit excluding FRIACO port	X						X	
- WS FRIACO port at the local exchange	X						X	
- WS PPP for FRIACO	X						X	
- NTS retailing services	X						X	
Inter-tandem conveyance and transit on fixed public narrowband networks	X		X				X	
- WS Inter-tandem conveyance short	X						X	

	Financial statements					Audit		Published
	AFI (k)	AFI (l)	AFI (m)	AFI (n)		FPIA	PPIA	
Wholesale market and illustrative services								
- WS Inter-tandem conveyance medium	X						X	
- WS Inter-tandem conveyance long	X						X	
- WS Inter-tandem conveyance short (ISDN)	X						X	
- WS Inter-tandem conveyance medium (ISDN)	X						X	
- WS Inter-tandem conveyance long (ISDN)	X						X	
- WS Inter-tandem conveyance for IDD	X						X	
- WS Inter-tandem transmission for IDD	X						X	
- WS Inter-tandem conveyance for IDD (ISDN)	X						X	
- WS Inter-tandem transmission for IDD (ISDN)	X						X	
- WS Inter-tandem transit short	X						X	
- WS Inter-tandem transit medium	X						X	
- WS Inter-tandem transit long	X						X	
Local-tandem conveyance and transit on fixed public narrowband networks	X		X				X	

	Financial statements					Audit		Published
	AFI (k)	AFI (l)	AFI (m)	AFI (n)		FPIA	PPIA	
Wholesale market and illustrative services								
- WS Local-tandem conveyance segment	X						X	
- WS Local-tandem conveyance segment (ISDN)	X						X	
- WS LTT Stick	X						X	
- WS LTT Stick (ISDN)	X						X	
- WS Local-tandem circuit excluding FRIACO port at tandem exchange	X						X	
- WS FRIACO port at the tandem exchange	X						X	
Single transit on fixed public narrowband networks	X		X				X	
- WS Single transit segment	X						X	
- WS Single transit segment (ISDN)	X							
							X	
Technical areas	X		X				X	
- WS standard CSI connection	X						X	
- WS standard CSI rental - fixed	X						X	

	Financial statements					Audit		Published
	AFI (k)	AFI (l)	AFI (m)	AFI (n)		FPIA	PPIA	
Wholesale market and illustrative services								
- WS standard CSI rental per km	X						X	
- WS high performance CSI connection	X						X	
- WS high performance CSI rental - fixed	X						X	
- WS high performance CSI rental per km	X						X	
- WS ISI connection	X						X	
- WS ISI rental per 100m	X						X	
- WS IEC connection	X						X	
- WS IEC rental - fixed	X						X	
- WS IEC rental – per km	X						X	
- WS intra-building circuits connection	X						X	
- WS intra-building circuits rental	X						X	
- WS rearrangements	X						X	
- WS path protection connection per 34 Mbits/s	X						X	
- WS path protection connection per 140 Mbits/s	X						X	

	Financial statements					Audit		Published
	AFI (k)	AFI (l)	AFI (m)	AFI (n)		FPIA	PPIA	
Wholesale market and illustrative services								
- WS path protection rental per 34 Mbits/s	X						X	
- WS path protection rental per 140 Mbits/s	X						X	

Review of the fixed geographic call termination markets

	Financial statements					Audit		Published
	AFI (k)	AFI (l)	AFI (m)	AFI (n)		FPIA	PPIA	
Wholesale market and illustrative services								
Fixed geographic call termination	X		X				X	
- WS Call termination local exchange segment	X						X	
- WS Call termination local exchange segment (ISDN)	X						X	
- WS Call termination local exchange stick	X						X	
- WS Call termination local exchange stick (ISDN)	X						X	

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	AFI (k)	AFI (l)	AFI (m)	AFI (n)		FPIA	PPIA	
Wholesale markets and illustrative services								
Traditional interface symmetric broadband origination (up to and including 8Mbit/s);	X		X				X	
- WS service A	X						X	
- WS service B	X						X	
Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);	X		X				X	
- WS service A	X						X	
- WS service B	X						X	
Alternative interface symmetric broadband origination (all bandwidths);	X		X				X	
- WS service A	X						X	
- WS service B	X						X	
Wholesale trunk segments (including Kingston upon Hull)	X		X				X	

	Financial statements					Audit		Published
	AFI (k)	AFI (l)	AFI (m)	AFI (n)		FPIA	PPIA	
Wholesale markets and illustrative services								
- WS service A	X						X	
- WS service B	X						X	
Technical areas (as necessary, including fixed and per km variants)	X		X				X	
- In Span Handover ("ISH")	X						X	
- Customer Sited Handover ("CSH");	X						X	
- ISH extension circuits	X						X	
- Synchronous Transfer Mode ("STM")-1 ISH and CSH handover	X						X	

Annex B to draft direction 3

Accounting Separation Financial Statements

For the purposes of this annex the following abbreviations are used, the scope of these statements is set out in the matrix of obligations that follows; references to annexes are to the form and content direction attached at Schedule 4 to the Notification dated 8 April 2004. In the table below, X means that the financial statement set out at the head of the column is required for the market or service on that row.

Please note, the separation of the tables into Parts A to B is purely for presentational purposes.

- TS - turnover statements: sales of External Wholesale Services (as set out in annex 24) and sales of Internal Wholesale Services (as set out in annex 25)
- SOS – notes to the financial statements (as set out in annex 23) in relation to sufficiency of separation, in particular assurance that activities to which accounting separation applies have been sufficiently separated from each other and from activities to which separation does not apply;
- IMT – Inter-market turnover, reconciliation of the source and destination of inter market turnover, to verify that transfer charges are self cancelling overall (as set out in annex 33)
- RFR – regulatory financial review, as set out in annex 2;
- SDR – statement of responsibility, as set out in annex 3
- FPIA – Audit Opinion required for required statements, for inclusion in audit report as set out in annex 4
- PPIA – Audit opinion required for required statements, for inclusion in audit report as set out in annex 4
- CCPS = ‘current cost primary statements’, to demonstrate sufficiency of separation where CCPS not required for cost accounting purposes – current cost profit and loss statement and statement of current cost mean capital employed, as set out in Annexes 13 & 14 in relation to wholesale services, Annexes 11 & 12 in relation to wholesale segments (when designated), Annexes 9 & 10 in relation to individual wholesale markets;
- RTW = ‘reconciliation to wholesale’, reconciliation of CC P&L and CC MCE to wholesale level, to demonstrate sufficiency of separation where for cost accounting purposes RTW not required – consolidation across group of markets covered by review (as set out in Annexes 7 & 8 for wholesale markets), followed by consolidation of these consolidations, to give consolidated CC P&L and CC MCE for wholesale markets subject to accounting separation (as set out in annex 5 & 6)
- RTSA = ‘reconciliation to statutory accounts’, reconciliation of consolidated CC P&L and CC MCE for wholesale markets subject to accounting separation to the profit and loss account and balance sheet of the operator shown in their statutory financial statements (as set out in annexes 27 & 28, supported by annexes 29, 30, 31 & 32), to demonstrate sufficiency of separation where RTSA not already required for cost accounting purposes

Part A

Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation

	Financial statements			Audit		Published
	TS	SOS	IMT	FPIA	PPIA	
Wholesale market and illustrative services						
Wholesale residential analogue exchange line services	X	X	X	X		X
- wholesale service A		X			X	
- wholesale service B ...		X			X	
Wholesale business analogue exchange line services	X	X	X	X		X
- wholesale service A		X			X	
- wholesale service B ...		X			X	
Wholesale business ISDN2 exchange line services	X	X	X	X		X
- wholesale service A		X			X	
- wholesale service B		X			X	
Wholesale business ISDN30 exchange line services	X	X	X	X		X

	Financial statements			Audit		Published
	TS	SOS	IMT	FPIA	PPIA	
Wholesale market and illustrative services						
- wholesale service A		X			X	
Call origination on fixed public narrowband networks	X	X	X	X		X
- WS Call originating local exchange segment		X			X	
- WS Call originating local exchange segment (incl Operator Assistance)		X			X	
- WS Call originating local exchange segment (ISDN)		X			X	
- WS Call originating local exchange segment (ISDN) (incl Operator Assistance)		X			X	
- WS Call origination local exchange Stick		X			X	
- WS Call origination local exchange Stick (ISDN)		X			X	
- WS Local exchange call origination circuit excluding FRIACO port		X			X	
- WS FRIACO port at the local exchange		X			X	
- WS PPP for FRIACO		X			X	
- NTS retailing services		X			X	
Local-tandem conveyance and transit on fixed public narrowband networks	X	X	X	X		X

	Financial statements			Audit		Published
	TS	SOS	IMT	FPIA	PPIA	
Wholesale market and illustrative services						
- WS Local-tandem conveyance segment		X			X	
- WS Local-tandem conveyance segment (ISDN)		X			X	
- WS LTT Stick		X			X	
- WS LTT Stick (ISDN)		X			X	
- WS Local-tandem circuit excluding FRIACO port at tandem exchange		X			X	
- WS FRIACO port at the tandem exchange		X			X	
Inter-tandem conveyance and transit on fixed public narrowband networks	X	X	X	X		X
- WS Inter-tandem conveyance short		X			X	
- WS Inter-tandem conveyance medium		X			X	
- WS Inter-tandem conveyance long		X			X	
- WS Inter-tandem conveyance short (ISDN)		X			X	
- WS Inter-tandem conveyance medium (ISDN)		X			X	
- WS Inter-tandem conveyance long (ISDN)		X			X	

	Financial statements			Audit		Published
	TS	SOS	IMT	FPIA	PPIA	
Wholesale market and illustrative services						
Single transit on fixed public narrowband networks	X	X	X	X		X
- WS Single transit segment		X			X	
- WS Single transit segment (ISDN)		X			X	
Interconnection	X	X	X	X		X
- WS Connection (£ per 2Mbit/s per year)		X			X	
- WS Rental – fixed (£ per 2Mbit/s per year)		X			X	
- WS Rental – per km (£ per 2Mbit/s per year)		X			X	
- WS Re-arrangements (£ per occasion)		X			X	

Review of the fixed geographic call termination markets

	Financial statements			Audit		Published
	TS	SOS	IMT	FPIA	PPIA	
Wholesale market and illustrative services						
Fixed geographic call termination	X	X	X	X		X
- WS Call termination local exchange segment		X			X	
- WS Call termination local exchange segment (ISDN)		X			X	
- WS Call termination local exchange stick		X			X	
- WS Call termination local exchange stick (ISDN)		X			X	

Review of International Wholesale Services

	Financial statements			Audit		Published
	TS	SOS	IMT	FPIA	PPIA	
Wholesale market and illustrative services						
Wholesale IDD to category B (per attached list)	X	X	X	X		X

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements			Audit		Published
	TS	SOS	IMT	FPIA	PPIA	
Wholesale markets and illustrative services						
Traditional interface symmetric broadband origination (up to and including 8Mbit/s);	X	X	X	X		X
- WS service A		X			X	
- WS service B		X			X	
Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);	X	X	X	X		X
- WS service A		X			X	
- WS service B		X			X	
Alternative interface symmetric broadband origination (all bandwidths);	X	X	X	X		X
- WS service A		X			X	
- WS service B		X			X	
Wholesale trunk segments (including Kingston upon Hull)	X	X	X	X		X

- WS service A		X			X	
- WS service B		X			X	
Technical areas (as necessary, including fixed and per km variants)	X	X	X	X		X
- In Span Handover ("ISH")		X			X	
- Customer Sited Handover ("CSH");		X			X	
- ISH extension circuits		X			X	
- Synchronous Transfer Mode ("STM")-1 ISH and CSH handover		X			X	

Review of the wholesale broadband access market

	Financial statements			Audit		Published
	TS	SOS	IMT	FPIA	PPIA	
Wholesale markets and illustrative services						
Asymmetric broadband origination in the UK excluding the Hull area	X	X	X	X		X
Broadband conveyance in the UK	X	X	X	X		X
- WS ATM Interconnection		X			X	

Part B

Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation

	Financial statements			Audit		Published
	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
Wholesale market and illustrative services						
Wholesale residential analogue exchange line services	X	X	X	X		X
- wholesale service A		X			X	
- wholesale service B ...		X			X	
Wholesale business analogue exchange line services	X	X	X	X		X
- wholesale service A		X			X	
- wholesale service B ...		X			X	
Wholesale business ISDN2 exchange line services	X	X	X	X		X
- wholesale service A		X			X	
- wholesale service B		X			X	

	Financial statements			Audit		Published
	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
Wholesale market and illustrative services						
Wholesale business ISDN30 exchange line services	X	X	X	X		X
- wholesale service A		X			X	
Call origination on fixed public narrowband networks	X	X	X	X		X
- WS Call originating local exchange segment		X			X	
- WS Call originating local exchange segment (incl Operator Assistance)		X			X	
- WS Call originating local exchange segment (ISDN)		X			X	
- WS Call originating local exchange segment (ISDN) (incl Operator Assistance)		X			X	
- WS Call origination local exchange Stick		X			X	
- WS Call origination local exchange Stick (ISDN)		X			X	
- WS Local exchange call origination circuit excluding FRIACO port		X			X	
- WS FRIACO port at the local exchange		X			X	
- WS PPP for FRIACO		X			X	
- NTS retailing services		X			X	

	Financial statements			Audit		Published
	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
Wholesale market and illustrative services						
Local-tandem conveyance and transit on fixed public narrowband networks	X	X	X	X		X
- WS Local-tandem conveyance segment		X			X	
- WS Local-tandem conveyance segment (ISDN)		X			X	
- WS LTT Stick		X			X	
- WS LTT Stick (ISDN)		X			X	
- WS Local-tandem circuit excluding FRIACO port at tandem exchange		X			X	
- WS FRIACO port at the tandem exchange		X			X	
Inter-tandem conveyance and transit on fixed public narrowband networks	X	X	X	X		X
- WS Inter-tandem conveyance short		X			X	
- WS Inter-tandem conveyance medium		X			X	
- WS Inter-tandem conveyance long		X			X	
- WS Inter-tandem conveyance short (ISDN)		X			X	

	Financial statements			Audit		Published
	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
Wholesale market and illustrative services						
- WS Inter-tandem conveyance medium (ISDN)		X			X	
- WS Inter-tandem conveyance long (ISDN)		X			X	
Single transit on fixed public narrowband networks	X	X	X	X		X
- WS Single transit segment		X			X	
- WS Single transit segment (ISDN)		X			X	
Interconnection	X	X	X	X		X
- WS Connection (£ per 2Mbit/s per year)		X			X	
- WS Rental – fixed (£ per 2Mbit/s per year)		X			X	
- WS Rental – per km (£ per 2Mbit/s per year)		X			X	
- WS Re-arrangements (£ per occasion)		X			X	

Review of the fixed geographic call termination markets

	Financial statements			Audit		Published
	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
Wholesale market and illustrative services						
Fixed geographic call termination	X	X	X	X		X
- WS Call termination local exchange segment		X			X	
- WS Call termination local exchange segment (ISDN)		X			X	
- WS Call termination local exchange stick		X			X	
- WS Call termination local exchange stick (ISDN)		X			X	

Review of International Wholesale Services

	Financial statements			Audit		Published
	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
Wholesale market and illustrative services						
Wholesale IDD to category B (per attached list)	X	X	X	X		X

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements			Audit		Published
	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
Wholesale markets and illustrative services						
Traditional interface symmetric broadband origination (up to and including 8Mbit/s);	X	X	X	X		X
- WS service A		X			X	
- WS service B		X			X	
Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);	X	X	X	X		X
- WS service A		X			X	
- WS service B		X			X	
Alternative interface symmetric broadband origination (all bandwidths);	X	X	X	X		X
- WS service A		X			X	
- WS service B		X			X	

Wholesale trunk segments (including Kingston upon Hull)	X	X	X	X		X
- WS service A		X			X	
- WS service B		X			X	
Technical areas (as necessary, including fixed and per km variants)	X	X	X	X		X
- In Span Handover ("ISH")		X			X	
- Customer Sited Handover ("CSH");		X			X	
- ISH extension circuits		X			X	
- Synchronous Transfer Mode ("STM")-1 ISH and CSH handover		X			X	

Review of the wholesale broadband access market

	Financial statements			Audit		Published
	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
Wholesale markets and illustrative services						
Asymmetric broadband origination in the UK excluding the Hull area	X	X	X	X		X
Broadband conveyance in the UK	X	X	x	X		X
- WS ATM Interconnection		X			X	

Annex C to draft direction 3

Retail Cost Accounting Financial Statements

For the purposes of this annex the following abbreviations are used, the scope of these statements is set out in the matrix of obligations that follows; references to annexes are to the form and content direction attached at Schedule 4 to the Notification dated 8 April 2004. In the table below, X means that the financial statement set out at the head of the column is required for the market or service on that row.

Please note, the separation of the tables into Parts A to F is purely for presentational purposes.

- CCPS = 'current cost primary statements', current cost profit and loss statement (CC P&L) and statement of current cost mean capital employed (CC MCE), as set out in Annexes 21 & 22 in relation to retail product segments, Annexes 19 & 20 in relation to individual retail markets;
 - RTR = 'reconciliation to retail', reconciliation of CC P&L and CC MCE to retail level - consolidation across group of markets covered by review (as set out in annexes 17 & 18 for retail markets), followed by consolidation of these consolidations, to give consolidated CC P&L and CC MCE for retail markets subject to cost accounting (as set out in annexes 15 & 16)
 - RTSA = 'reconciliation to statutory accounts', reconciliation of consolidated CC P&L and CC MCE for retail markets subject to cost accounting to the profit and loss account and balance sheet of the operator shown in their statutory financial statements (as set out in annexes 27 & 28, supported by annexes 29, 30, 31 & 32)
 - SoCC Ext = statement of costs and charges for wholesale service supplied in the market, other than those which are only Internal Wholesale Services (as set out in annex 34);
 - SoCC Int = statement of costs and charges for wholesale service supplied in the market, which are only Internal Wholesale Services (as set out in annex 35);
 - SoAC FA = statement of activity costs on a current fully allocated cost basis for the market (as set out in Annexes 38), supported by consolidated statement of activity costs on a current fully allocated cost basis (as set out in Annexes 37),
 - NCR FA = attribution of activity costs on a current fully allocated cost basis for the market (as set out in annex 40), supported by consolidated attribution of activity costs on a current fully allocated cost basis (as set out in annex 39),
 - SoAC IC = consolidated statement of activity costs on a incremental and standalone cost basis (as set out in Annex 41)
-
- RFR – regulatory financial review, as set out in annex 2;
 - SDR – statement of responsibility, as set out in annex 3
 - FPIA – Audit Opinion required for required statements, for inclusion in audit report as set out in annex 4
 - PPIA – Audit opinion required for required statements, for inclusion in audit report as set out in annex 4
 - Notes – notes to the financial statements, as set out in annex 23
 - RMP – retail markets purchase statement, as set out in annex 26
 - SPS – summary, for reconciliation purposes, of profitability by wholesale service (as set out in annex 36);

- AFI (a) – cost category analysis AI-1 and summarised activity analysis AI-3 (as set out in annex 42)
- AFI (b) – cost category analysis AI-4 and summarised activity analysis AI-2 (as set out in annex 42)
- AFI (c) – analysis of depreciation charge and CCA adjustments AI-5 and CCA fixed asset movement statement AI – 6 (as set out in annex 42)
- AFI (d) – operator assistance combinatorial tests AI-7 (as set out in annex 42)
- AFI (e) – mean capital employed and summarised activity analysis for all network components AI – 8 and network activity analysis of mean capital employed for all network components AI –10 (as set out in annex 42)
- AFI (f) – analysis of outpayments AI – 9 (as set out in annex 42)
- AFI (g) – revenue analysis by tariff option AI-11 and revenue analysis by customer option AI-12 (as set out in annex 42)
- AFI (h) – indices applied for CCA revaluation AI-13 (as set out in annex 42)
- AFI (i) – assets valuation and useful economic life analysis AI-14 (as set out in annex 42)
- AFI (j) – marketing expenditure analysis AI-15 (as set out in annex 42)
- AFI (k) – operating cost and mean capital employed by plant group AI-16 (as set out in annex 42)
- AFI (l) – fixed fee revenues by tariff AFI 17 (as set out in annex 42)
- AFI (m) – analysis of asset transfers AI-18 (as set out in annex 42))
- AFI (n) – CPS set up costs AI-19 (as set out in annex 42)

Part A

Review of Fixed Narrowband Retail markets

	Financial statements					Audit		Published
	CCPS	RTR	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
Retail markets and illustrative retail product segments								
Residential analogue exchange line services in the UK excluding the Hull area	X	X	X			X		X
- PSTN Res Connections (Std)	X						X	
- Res Tele Line Rentals	X						X	
Residential local calls in the UK excluding the Hull area	X	X	X			X		X
- PSTN Local calls: Res	X						X	
Residential national calls in the UK excluding the Hull area	X	X	X			X		X
- PSTN National calls: Res	X						X	
Residential IDD calls category A routes (retail IDD routes which are competitive at WS) in the UK excluding the Hull area	X	X	X			X		X

	Financial statements					Audit		Published
	CCPS	RTR	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
Retail markets and illustrative retail product segments								
- IDD Calls to O'seas Fixed Res	X						X	
- IDD Calls to O'seas Mobile Res	X						X	
Residential IDD calls to category B routes (retail IDD routes which are not competitive at WS) in the UK excluding the Hull area	X	X	X			X		X
- IDD Calls to O'seas Fixed Res	X						X	
- IDD Calls to O'seas Mobile Res	X						X	
Residential calls to mobiles in the UK excluding the Hull area	X	X	X			X		X
- Inland Calls to Mob Res	X						X	
Residential operator assisted calls in the UK excluding the Hull area	X	X	X			X		X
- Retail segments ...	X						X	

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	CCPS	RTR	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
Retail markets and illustrative retail product segments								
Traditional interface retail leased lines (up to and including 8Mbit/s);	X	X	X			X		X
- Speech/Keyline Connexions	X						X	
- Speech/Keylines Rent	X						X	

Part B

Review of Fixed Narrowband Retail markets

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
Retail markets and illustrative retail product segments								
Residential analogue exchange line services in the UK excluding the Hull area				X	X	X		X
- PSTN Res Connections (Std)					X		X	
- Res Tele Line Rentals					X		X	
Residential local calls in the UK excluding the Hull area				X	X	X		X
- PSTN Local Calls: Res					X		X	
Residential national calls in the UK excluding the Hull area				X	X	X		X
- PSTN National Calls: Res					X		X	
Retail IDD calls category A routes (retail IDD routes which are competitive at WS) in the UK excluding the Hull area				X	X	X		X

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
Retail markets and illustrative retail product segments								
- IDD Calls to O'seas Fixed Res					X		X	
- IDD Calls to O'seas Mob Res					X		X	
Retail IDD calls to category B routes (retail IDD routes which are not competitive at WS) in the UK excluding the Hull area				X	X	X		X
- IDD Calls to O'seas Fixed Res					X		X	
- IDD Calls to O'seas Mob Res					X		X	
Residential calls to mobiles in the UK excluding the Hull area				X	X	X		X
- Inland Calls to Mob Res					X		X	
Residential operator assisted calls in the UK excluding the Hull area				X	X	X		X
- Retail segments ...					X		X	

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
Retail markets and illustrative retail product segments								
Traditional interface retail leased lines (up to and including 8Mbit/s);				X	X	X		X
- Speech/Keyline Connexions					X		X	
- Speech/Keyline Rent					X		X	

Part C

Review of Fixed Narrowband Retail markets

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
Retail markets and illustrative retail product segments								
Residential analogue exchange line services in the UK excluding the Hull area	X	X				X		X
- PSTN Res Connections (Std)	X						X	
- Res Tele Line Rentals	X						X	
Residential local calls in the UK excluding the Hull area	X	X				X		X
- PSTN Local Calls: Res	X						X	
Residential national calls in the UK excluding the Hull area	X	X				X		X
- PSTN National Calls: Res	X						X	
Residential IDD calls category A routes (retail IDD routes which are competitive at WS) in the UK excluding the Hull area	X	X				X		X
- IDD Calls to O'seas Fixed Res	X						X	

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
Retail markets and illustrative retail product segments								
- IDD Calls to O'seas Mob Res	X						X	
Residential IDD calls to category B routes (retail IDD routes which are not competitive at WS) in the UK excluding the Hull area	X	X				X		X
- IDD Calls to O'seas Fixed Res	X						X	
- IDD Calls to O'seas Mob Res	X						X	
Residential calls to mobiles in the UK excluding the Hull area	X	X				X		X
- Inland Calls to Mob Res	X						X	
Residential operator assisted calls in the UK excluding the Hull area	X	X				X		X
- Retail segments ...	X					X		

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
Retail markets and illustrative retail product segments								
Traditional interface retail leased lines (up to and including 8Mbit/s);	X	X				X		X
- Speech/Keyline Connexions	X						X	
- Speech/Keyline Rent	X						X	

Part D

Review of Fixed Narrowband Retail markets

	Financial statements					Audit		Published
	AFI (a)	AFI (b)	AFI (c)	AFI (d)	AFI (e)	FPIA	PPIA	
Retail markets and illustrative retail product segments								
Residential analogue exchange line services in the UK excluding the Hull area								
- Retail segments ...								
Residential local calls in the UK excluding the Hull area								
- Retail segments ...								
Residential national calls in the UK excluding the Hull area								
- Retail segments ...								
Residential IDD calls category A routes (retail IDD routes which are competitive at WS) in the UK excluding the Hull area								
- Retail segments ...								

	Financial statements					Audit		Published
	AFI (a)	AFI (b)	AFI (c)	AFI (d)	AFI (e)	FPIA	PPIA	
Retail markets and illustrative retail product segments								
Retail IDD calls to category B routes (retail IDD routes which are not competitive at WS) in the UK excluding the Hull area								
- Retail segments ...								
Residential calls to mobiles in the UK excluding the Hull area								
- Retail segments ...								
Residential operator assisted calls in the UK excluding the Hull area								
- Retail segments ...								

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	AFI (a)	AFI (b)	AFI (c)	AFI (d)	AFI (e)	FPIA	PPIA	
Retail markets and illustrative retail product segments								
Traditional interface retail leased lines (up to and including 8Mbit/s);								
- Retail segment A ...								
- Retail segment B ...								

Part E

Review of Fixed Narrowband Retail markets

	Financial statements					Audit		Published
	AFI (f)	AFI (g)	AFI (h)	AFI (i)	AFI (j)	FPIA	PPIA	
Retail markets and illustrative retail product segments								
Residential analogue exchange line services in the UK excluding the Hull area	X	X	X	X	X		X	
- PSTN Res Connections (Std)	X	X			X		X	
Residential local calls in the UK excluding the Hull area	X	X	X	X	X		X	
- PSTN Local Calls: Res		X			X		X	
Residential national calls in the UK excluding the Hull area	X	X	X	X	X		X	
- PSTN National Calls: Res		X			X		X	
Residential IDD calls category A routes (retail IDD routes which are competitive at WS) in the UK excluding the Hull area	X	X	X	X	X		X	
- IDD Calls to O'seas Fixed Res		X			X		X	
- IDD Calls to O'seas Mob Res		X			X		X	

	Financial statements					Audit		Published
	AFI (f)	AFI (g)	AFI (h)	AFI (i)	AFI (j)	FPIA	PPIA	
Retail markets and illustrative retail product segments								
Residential IDD calls to category B routes (retail IDD routes which are not competitive at WS) in the UK excluding the Hull area	X	X	X	X	X		X	
- IDD Calls to O'seas Fixed Res		X			X		X	
- IDD Calls to O'seas Mob Res		X			X		X	
Residential calls to mobiles in the UK excluding the Hull area	X	X	X	X	X		X	
- Inland Calls to Mob Res	X	X			X		X	
Residential operator assisted calls in the UK excluding the Hull area	X	X	X	X	X		X	
- Retail segments ...	X	X			X		X	

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	AFI (f)	AFI (g)	AFI (h)	AFI (i)	AFI (j)	FPIA	PPIA	
Retail markets and illustrative retail product segments								
Traditional interface retail leased lines (up to and including 8Mbit/s);	X	X	X	X	X		X	
- Speech/Keyline Connexions	X	X			X		X	
- Speech/Keyline Rent	X	X			X		X	

Part F

Review of Fixed Narrowband Retail markets

	Financial statements					Audit		Published
	AFI (k)	AFI (l)	AFI (m)	AFI (n)		FPIA	PPIA	
Retail markets and illustrative retail product segments								
Residential analogue exchange line services in the UK excluding the Hull area		X	X				X	
- PSTN Res Connections (Std)		X					X	
- Res Tele Line Rentals		X					X	
Residential local calls in the UK excluding the Hull area		X	X	X			X	
- PSTN Local Calls: Res		X					X	
Residential national calls in the UK excluding the Hull area		X	X	X			X	
- PSTN National Calls: Res		X					X	
Residential IDD calls category A routes (retail IDD routes which are competitive at WS) in the UK excluding the Hull area		X	X				X	
- IDD Calls to O'seas Fixed Res		X					X	

	Financial statements					Audit		Published
	AFI (k)	AFI (l)	AFI (m)	AFI (n)		FPIA	PPIA	
Retail markets and illustrative retail product segments								
- IDD Calls to O'seas Mob Res		X					X	
Residential IDD calls to category B routes (retail IDD routes which are not competitive at WS) in the UK excluding the Hull area		X	X				X	
- IDD Calls to O'seas Fixed Res		X					X	
- IDD Calls to O'seas Mob Res		X					X	
Residential calls to mobiles in the UK excluding the Hull area		X	X				X	
- Inland Calls to Mob		X					X	
Residential operator assisted calls in the UK excluding the Hull area		X	X				X	
- Retail segments ...		X					X	

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	AFI (k)	AFI (l)	AFI (m)	AFI (n)		FPIA	PPIA	
Retail markets and illustrative retail product segments								
Traditional interface retail leased lines (up to and including 8Mbit/s);		X	X				X	
- Speech/Keyline Connexions		X					X	
- Speech/Keyline Rent		X					X	

SCHEDULE 4

Draft Direction 4 for BT: Form and content of Regulatory Financial Statements

[Draft] Direction under SMP Services Condition OA2 specifying requirements for the form and content of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting

WHEREAS-

A. As a result of various market analyses carried out by the Director and OFCOM in accordance with section 79 of the Act, BT has been designated as having SMP in respect of certain identified markets in accordance with section 79 of the Act;

B. As a result of such SMP designations, BT has been subjected to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act, including conditions OA1 to OA34 imposing obligations on BT in respect of wholesale cost accounting, accounting separation and retail cost accounting in relation to BT's activities in those markets where BT has been designated as having SMP;

C. In complying with the SMP services conditions referred to in paragraph B above, and in particular condition OA5, BT is required to prepare such Regulatory Financial Statements as directed by OFCOM from time to time;

D. Condition OA2 includes, in accordance with section 45(10) of the Act, the ability for OFCOM to make such directions as they consider appropriate from time to time in relation to BT's obligations under conditions OA1 to OA34;

E. OFCOM have, on xx/xx/xx, made a direction under condition OA2 specifying requirements for the preparation the Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting ('Direction 3');

F. This Direction further relates to BT's obligations under SMP services conditions OA1 to OA34, in that it sets out the form and content to be applied by BT in preparing certain Regulatory Financial Statements required by virtue of condition OA5 and Draft Direction 3;

G. BT is entitled to depart from the form and content set out in this Direction in certain circumstances in accordance with conditions OA7 and OA21;

H. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that this Direction is:

- (a) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
- (b) not such as to discriminate unduly against particular persons or against a particular description of persons;
- (c) proportionate to what it is intended to achieve; and
- (d) in relation to what it is intended to achieve, transparent;

I. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that they acted in accordance with the relevant duties set out in Sections 3 and 4 of the Act in giving this Direction;

J. A notification of a proposal to give this Direction was given under section 49(4) of the Act on 8 April 2004 (the 'Notification');

K. A copy of the Notification was sent to the Secretary of State in accordance with section 50(1)(b) of the Act;

L. In the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 10 May 2004;

M. By virtue of section 49(9) of the Act, OFCOM may give effect to the proposal set out in the Notification, with or without modification, only if-

(a) they have considered every representation about the proposal that is made to them within the period specified in the notification; and

(b) they have had regard to every international obligation of the United Kingdom (if any) which has been notified to them for this purpose by the Secretary of State;

N. OFCOM received responses to the Notification and have considered every such representation made to them within the period specified in the Notification and accompanying explanatory statement and these representations are discussed in [Chapter X of the Statement accompanying this Direction]; and the Secretary of State has not notified OFCOM of any international obligation of the United Kingdom for this purpose;

NOW, THEREFORE, PURSUANT TO CONDITION OA2, OFCOM HEREBY DIRECT THAT-

1. Except where BT is entitled to amend the form and content of the Regulatory Financial Statements in accordance with conditions OA7 and OA21, BT shall ensure that the Regulatory Financial Statements required by condition OA5 and Direction 3 shall be prepared, as appropriate, as to form and content in the manner set out in the Annexes to this Direction.

2. In this Direction-

(a) 'the Act' means the Communications Act 2003;

(b) 'BT' means British Telecommunications plc, whose registered company number is 1800000, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 736 of the Companies Act 1985, as amended by the Companies Act 1989;

(c) 'the Director' means the Director-General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;

(d) 'OFCOM' means the Office of Communications;

(e) 'Regulatory Financial Statement' shall have the meaning ascribed to it in conditions OA1 to OA34.

3. Except where otherwise defined or in so far as the context otherwise requires, any word or expression shall have the same meaning as it has in the Act.

4. The Interpretation Act 1978 shall apply as if this Direction were an Act of Parliament.

5. Headings and titles shall be disregarded.

DAVID K S THOMAS

A person authorised under paragraph 18 of the Schedule to the Office of Communications Act 2002

Annexes to draft direction 4

Of the 42 annexes to *Draft Direction 4 for BT: Form and content of Regulatory Financial Statements* (see below for an index to these form and content annexes), 41 are contained in a Microsoft Excel file. Therefore, they are not published here, but can be obtained by emailing chris.rowsell@ofcom.org.uk. Annex 42 to draft direction 4 can be found below following the index to the annexes.

Index of form and content annexes for BT

Annex 1 – Statement by Ofcom

Annex 2 – Regulatory financial review

Annex 3 – Statement of responsibility

Annex 4 – Report of the Regulatory Auditors

Annex 5 – Wholesale Markets Consolidation Profit and Loss (P&L) Statement

Annex 6 – Wholesale Markets Consolidation Mean Capital Employed (MCE) Statement

Annex 7 – Wholesale Summary narrowband P&L statement

Annex 8 – Wholesale Summary narrowband MCE statement

Annex 9 – Wholesale market P&L loss statement

Annex 10 – Wholesale market MCE statement

Annex 11 – Wholesale segment P&L statement

Annex 12 – Wholesale segment MCE statement

Annex 13 – Wholesale service P&L statement

Annex 14 – Wholesale service MCE statement

Annex 15 – Retail Markets Consolidation P&L Statement

Annex 16 – Retail Markets Consolidation MCE Statement

Annex 17 – Retail summary narrowband P&L statement

Annex 18 – Retail summary narrowband MCE statement

Annex 19 – Retail market P&L loss statement

Annex 20 – Retail market MCE statement

Annex 21 – Retail product group P&L statement

Annex 22 – Retail product group MCE statement

Annex 23 – Notes to financial statements

Annex 24 – Wholesale sales by market statement, external sales

Annex 25 – Wholesale sales by market statement, internal sales

Annex 26 – Retail markets purchase statement

Annex 27 – Reconciliation statement, P&L

Annex 28 – Reconciliation statement, MCE

Annex 29 – Wholesale residual activities statement, P&L

Annex 30 – Wholesale residual activities statement, MCE

Annex 31 – Retail residual activities statement, P&L

Annex 32 – Retail residual activities statement, MCE

Annex 33 – Inter-market turnover (reconciliation)

Annex 34 – Statements of costs and charges for internal and external wholesale services

Annex 35 – Statements of costs and charges for internal only wholesale services

Annex 36 – Consolidated profitability and MCE statement by wholesale service

Annex 37 – Consolidated statement of costs on a current cost basis, network activity statement

Annex 38 – Market statement of costs on a current cost basis, network activity statement

Annex 39 – Consolidated network services reconciliation statement

Annex 40 – Market network services reconciliation statement

Annex 41 – Network component statement on incremental cost basis (reconciliation)

Annex 42 – Additional information by way of notes

Annex 42 to draft direction 4

Reference	Additional Financial Information	Description	Purpose (AS, CA or Reconciliation)
	<p>Cost category (as used within regulatory LRIC model) analysis for network components, increments and relevant layers of common cost (LRIC basis)</p>	<ul style="list-style-type: none"> • to ensure the LRIC model reconciles to BT group's total cost and asset & liability base • review the outputs of BT's LRIC model for the whole BT group by cost category and components, increments and layers of common costs • identify all relevant layers of common costs separately within BT group • enable trend analysis of this breakdown to be undertaken • enable assessment of cost-volume relationships • provide input into network price control reviews 	<p>CA & R</p>

Reference	Additional Financial Information	Description	Purpose (AS, CA or Reconciliation)
	Summarised activity analysis of components for network activities, increments and the relevant layers of common cost (LRIC basis)	<ul style="list-style-type: none"> • review the outputs of BT's LRIC model by activity analysis for network components, increments and the layers of common costs • identify all relevant layers of common costs separately for network activities • enable trend analysis of this breakdown to be undertaken • provide input into network price control reviews • ensure LRIC model reconciles to the total cost and asset & liability base for BT's network activities 	CA & R
	Cost category (as used within regulatory LRIC model) analysis for network components and increments	<ul style="list-style-type: none"> • similar to AI-1 but on a fully allocated cost basis 	CA & R
	Summarised activity analysis for network components and increments	<ul style="list-style-type: none"> • similar to AI-2 but on a fully allocated cost basis 	CA & R

Reference	Additional Financial Information	Description	Purpose (AS, CA or Reconciliation)
	<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: -</p> <p>e.g.</p> <p>HCA depreciation</p> <p>CCA supplementary depreciation</p> <p>Holding gain</p> <p>Other CCA adjustments</p>	<ul style="list-style-type: none"> • impact on profit and loss cost base of the application of CCA methodologies • enable trend analysis of this breakdown to be undertaken • provides sub-analysis (for the cost/gain line items left) of the asset movement statement in relation to network components • provide input into network price control reviews 	<p>CA & R</p>

Reference	Additional Financial Information	Description	Purpose (AS, CA or Reconciliation)
	<p>CCA fixed asset movement statement</p> <p>a) gross replacement costs brought forward, additions/disposals/transfers, holdings gains/(loss), gross replacement costs carried forward and</p> <p>b) gross depreciation brought forward, HCA depreciation charge, supplementary CCA depreciation, disposals/transfers/other movements, holding gains/(loss), gross depreciation carried forward)</p> <p>by asset category for BT Group</p> <p>plus reconciliation to HCA fixed assets movement statement in the group statutory accounts</p>	<ul style="list-style-type: none"> • review the breakdown of asset costs between principal asset categories and how such CCA asset values have moved in the year • enable trend analysis of CCA asset values to be undertaken • provide input into network price control reviews 	<p>CA & R</p>
	<p>Operator assistance combinatorial test (i.e. costs and revenues for 5 regions of the world)</p> <p>(LRIC basis)</p>	<ul style="list-style-type: none"> • enable the testing of whether national and international operator assistance transfer charges cover the LRIC costs plus related common costs of providing these services 	<p>CA</p>

Reference	Additional Financial Information	Description	Purpose (AS, CA or Reconciliation)
	Total mean capital employed and detailed activity analysis for all network components	<ul style="list-style-type: none"> • review network component costs • enable trend analysis of these breakdowns to be undertaken • provide input into price control reviews • assist in dealing with investigations • ensure summarised activity analysis presented elsewhere reconciles to BT's network activities cost base 	CA
	Analysis by type of product segment and by type of OLO of costs, mean capital employed and transfer charges to disaggregated activities (and associated volumes) in relation to outpayments to other licensed operators (OLOs)	<ul style="list-style-type: none"> • review how outpayments are accounted for • review fast growing segment of wholesale call market • review the impact of outpayments on BT's network cost base, for example, for different call types • enable trend analysis of outpayment costs and volume breakdowns to be undertaken • assist in dealing with investigations 	CA & R

Reference	Additional Financial Information	Description	Purpose (AS, CA or Reconciliation)
	Detailed Network activity analysis of mean capital employed for all network components	<ul style="list-style-type: none"> • enable trend analysis of these breakdowns to be undertaken • ensure summarised activity analysis reconciles to BT's network activity mean capital employed 	CA & R
	Gross call revenues, discounts & option fees by tariff option for each segment containing call revenues	<ul style="list-style-type: none"> • provide a reconciliation to revenues figures appearing in the CCA Financial Statements • review the impact of discount schemes on net telephony revenues, including inclusive call allowances and accounting issues arising therefrom • enable trend analysis of discounts to be undertaken • provide input into retail price control reviews • provide input into NTS discount rate determinations • assist in dealing with investigations 	CA
	Gross revenues, discounts & option fees by customer option for each segment in respect of non-call revenues where discount scheme(s) apply	<ul style="list-style-type: none"> • as per AI-18 but in respect of services other than telephony (e.g. leased lines and other data services) 	CA

Reference	Additional Financial Information	Description	Purpose (AS, CA or Reconciliation)
	<p>Graphs over time of the various raw indices, index weightings & composite indices used by BT to revalue assets onto a current cost basis</p>	<ul style="list-style-type: none"> • evaluate the price trends for composite elements of BT's asset revaluation indices • evaluate the weightings within individual asset revaluation indices • evaluate the trend of individual asset revaluation indices • provide input into price control reviews and determinations 	<p>CA</p>
	<p>Estimated economic useful lives, valuation and depreciation basis, survey used for valuation or index used to revalue , historical cost accounting (HCA) & current cost accounting (CCA) depreciation, gross book values (GBV) by year of acquisition, gross replacement costs (GRC) & net replacement costs (NRC) across asset categories</p>	<ul style="list-style-type: none"> • review the nature and relative distribution of BT's asset base • evaluate BT's chosen asset lives for individual asset categories • review the relationship between gross HCA and CCA valuations • evaluate the appropriateness of the CCA valuation basis for each asset category • evaluate the appropriateness of the CCA depreciation methodology for each asset category • review the impact of CCA accounting on the cost base • enable trend analysis of CCA costs to be undertaken • provide input into network price control reviews 	<p>CA & R</p>

Reference	Additional Financial Information	Description	Purpose (AS, CA or Reconciliation)
	Marketing expenditure analysis of the top 10 campaigns in the financial year, including advertising copy, video and audio tape of the advertising campaigns.	<ul style="list-style-type: none"> • enable a review to be undertaken of the attribution to disaggregated activities of the most significant campaigns • enable trend analysis to be undertaken • assist in dealing with investigations • provide input into retail price control reviews • provide input into NTS retail uplift determinations 	CA
	Total operating costs & 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	<ul style="list-style-type: none"> • review the breakdown of costs to all the different components and sub-components within BT's network activities • enable trend analysis of this breakdown to be undertaken • provide input into network price control reviews • ensure total plant group costs reconcile to the cost base for BT's network activities 	CA & R

Reference	Additional Financial Information	Description	Purpose (AS, CA or Reconciliation)
	Fixed fee revenues (including line rental) by tariff package & associated network costs	<ul style="list-style-type: none"> • review how tariffs are accounted for • review recent tariff developments within telephony market • check for the possible mismatch of costs & revenues • provide input into retail price control reviews • assist in dealing with investigations 	CA
	Analysis of profits/(losses) on asset transfers plus analysis of such assets transferred	<ul style="list-style-type: none"> • assess the profitability of such transactions and the implications they have for BT's regulatory cost base 	AS & CA
	CPS set up costs and their recovery over time on a discounted cash flow basis	<ul style="list-style-type: none"> • ascertain the extent of these costs • enable Ofel to review the recovery of these costs over time • provide a reconciliation between the costs disclosed in the CCA Financial Statements and the cash flows used to determine cost recovery 	CA

SCHEDULE 5

Draft Direction 5 for BT: Form of the 'FPIA' opinion for Regulatory Financial Statements

[Draft] Direction under SMP Service Condition OA2 specifying requirements for the 'FPIA' audit of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting

WHEREAS-

A. As a result of various market analyses carried out by the Director and OFCOM in accordance with section 79 of the Act, BT has been designated as having SMP in respect of certain identified markets in accordance with section 79 of the Act;

B. As a result of such SMP designations, BT has been subjected to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act, including conditions OA1 to OA34 imposing obligations on BT in respect of wholesale cost accounting, accounting separation and retail cost accounting in relation to BT's activities in those markets where BT has been designated as having SMP;

C. In complying with the SMP services conditions referred to in paragraph B above, and in particular condition OA5, BT is required to secure the expression of an audit opinion upon the Regulatory Financial Statements as directed by OFCOM from time to time;

D. Condition OA2 includes, in accordance with section 45(10) of the Act, the ability for OFCOM to make such directions as they consider appropriate from time to time in relation to BT's obligations under those conditions;

E. OFCOM have, on xx/xx/xx, made a direction under condition OA2 specifying requirements for the preparation, audit and delivery of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting ('Direction 3');

F. Direction 3 requires, in respect of certain Regulatory Financial Statements, BT to secure an audit opinion of those Regulatory Financial Statements to 'fairly presents in accordance with' ('FPIA') standards;

G. This Direction further relates to BT's obligations under SMP services conditions OA1 to OA34, in that it details the level of audit which must be secured by BT in obtaining an audit to FPIA standards;

H. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that this Direction is:

- (a) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
- (b) not such as to discriminate unduly against particular persons or against a particular description of persons;
- (c) proportionate to what it is intended to achieve; and
- (d) in relation to what it is intended to achieve, transparent;

I. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that they acted in accordance with the relevant duties set out in Sections 3 and 4 of the Act in giving this Direction;

J. A notification of a proposal to give this Direction was given under section 49(4) of the Act on 8 April 2004 (the 'Notification');

K. A copy of the Notification was sent to the Secretary of State in accordance with section 50(1)(b) of the Act;

L. In the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 10 May 2004;

M. By virtue of section 49(9) of the Act, OFCOM may give effect to the proposal set out in the Notification, with or without modification, only if-

(a) they have considered every representation about the proposal that is made to them within the period specified in the notification; and

(b) they have had regard to every international obligation of the United Kingdom (if any) which has been notified to them for this purpose by the Secretary of State;

N. OFCOM received responses to the Notification and have considered every such representation made to them within the period specified in the Notification and accompanying explanatory statement and these representations are discussed in [Chapter X of the Statement accompanying this Direction]; and the Secretary of State has not notified OFCOM of any international obligation of the United Kingdom for this purpose;

NOW, THEREFORE, PURSUANT TO CONDITIONS OA2, OFCOM HEREBY DIRECT THAT-

1. Where BT is required by any direction of OFCOM to secure the expression of an audit opinion to FPIA standards upon any Regulatory Financial Statement, BT shall ensure that the Regulatory Auditor shall state whether in his opinion:

(a) each Regulatory Financial Statement complies with the requirements of condition OA5;

(b) each Regulatory Financial Statement fairly presents in accordance with the Primary Accounting Documents:

(i) in the case of the profit and loss account and profit and loss reconciliation statements, the results in the relevant Market, Disaggregated Activities and/or Accounting Separation Activities (as appropriate) for the Relevant Financial Year and Prior Year Comparatives;

(ii) in the case of the statement of mean capital employed and mean capital employed reconciliation statements, the mean capital employed in the relevant Market, Disaggregated Activities and/or Accounting Separation Activities (as appropriate) for the Relevant Financial Year and Prior Year Comparatives; and

(iii) in the case of the other statements of revenues, costs, assets, liabilities and other quantities, the revenues, costs, assets, liabilities and other quantities incurred or employed in the relevant Market, Disaggregated Activities and/or Accounting Separation Activities (as appropriate) for the Relevant Financial Year and Prior Year Comparatives;

(c) the Secondary Accounting Documents at the date of the audit opinion are appropriate to implement the Primary Accounting Documents.

2. In this Direction-

(a) 'Accounting Separation Activities' shall have the meaning ascribed to it in conditions OA1 to OA34;

(b) 'the Act' means the Communications Act 2003;

(c) 'BT' means British Telecommunications plc, whose registered company number is 1800000, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 736 of the Companies Act 1985, as amended by the Companies Act 1989;

(d) 'the Director' means the Director-General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;

(e) 'Disaggregated Activities' shall have the meaning ascribed to it in conditions OA1 to OA34;

(f) 'Market' shall have the meaning ascribed to it in conditions OA1 to OA34;

(g) 'OFCOM' means the Office of Communications;

(h) 'Primary Accounting Documents' shall have the meaning ascribed to it in conditions OA1 to OA34;

(i) 'Prior Year Comparatives' shall have the meaning ascribed to it in conditions OA1 to OA34;

(j) 'Regulatory Auditor' shall have the meaning ascribed to it in conditions OA1 to OA34;

(k) 'Regulatory Financial Statement' shall have the meaning ascribed to it in conditions OA1 to OA34;

(l) 'Relevant Financial Year' shall have the meaning ascribed to it in conditions OA1 to OA34.

4. Except where otherwise defined or in so far as the context otherwise requires, any word or expression shall have the same meaning as it has in the Act.

5. The Interpretation Act 1978 shall apply as if this Direction were an Act of Parliament.

6. Headings and titles shall be disregarded.

DAVID K S THOMAS

A person authorised under paragraph 18 of the Schedule to the Office of Communications Act 2002

SCHEDULE 6

Draft Direction 6 for BT: Form of the 'PPIA' opinion for Financial Statements

[Draft] Direction under SMP Services Condition OA2 specifying requirements for the 'PPIA' audit of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting

WHEREAS-

A. As a result of various market analyses carried out by the Director and OFCOM in accordance with section 79 of the Act, BT has been designated as having SMP in respect of certain identified markets in accordance with section 79 of the Act;

B. As a result of such SMP designations, BT has been subjected to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act, including conditions OA1 to OA34 imposing obligations on BT in respect of wholesale cost accounting, accounting separation and retail cost accounting in relation to BT's activities in those markets where BT has been designated as having SMP;

C. In complying with the SMP services conditions referred to in paragraph B above, and in particular condition OB5, BT is required to secure the expression of an audit opinion upon the Regulatory Financial Statements as directed by OFCOM from time to time;

D. Condition OA2 includes, in accordance with section 45(10) of the Act, the ability for OFCOM to make such directions as they consider appropriate from time to time in relation to BT's obligations under those conditions;

E. OFCOM have, on xx/xx/xx, made a direction under condition OB2 specifying requirements for the preparation, audit and delivery of Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting ('Direction 3');

F. Direction 3 requires, in respect of certain Regulatory Financial Statements, BT to secure an audit opinion of those Regulatory Financial Statements to 'properly prepared in accordance with' ('PPIA') standards;

G. This Direction further relates to BT's obligations under SMP services conditions OA1 to OA34, in that it details the level of audit which must be secured by BT in obtaining an audit to PPIA standards;

H. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that this Direction is:

- (a) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
- (b) not such as to discriminate unduly against particular persons or against a particular description of persons;
- (c) proportionate to what it is intended to achieve; and
- (d) in relation to what it is intended to achieve, transparent;

I. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that they acted in accordance with the relevant duties set out in Sections 3 and 4 of the Act in giving this Direction;

J. A notification of a proposal to give this Direction was given under section 49(4) of the Act on 8 April 2004 (the 'Notification');

K. A copy of the Notification was sent to the Secretary of State in accordance with section 50(1)(b) of the Act;

L. In the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 10 May 2004;

M. By virtue of section 49(9) of the Act, OFCOM may give effect to the proposal set out in the Notification, with or without modification, only if-

(a) they have considered every representation about the proposal that is made to them within the period specified in the notification; and

(b) they have had regard to every international obligation of the United Kingdom (if any) which has been notified to them for this purpose by the Secretary of State;

N. OFCOM received responses to the Notification and have considered every such representation made to them within the period specified in the Notification and accompanying explanatory statement and these representations are discussed in [Chapter X of the Statement accompanying this Direction]; and the Secretary of State has not notified OFCOM of any international obligation of the United Kingdom for this purpose;

NOW, THEREFORE, PURSUANT TO CONDITION OB2, OFCOM HEREBY DIRECT THAT-

1. Where BT is required by any direction of OFCOM to secure the expression of an audit opinion to PPIA standards upon any Regulatory Financial Statements, BT shall ensure that the Regulatory Auditor shall state whether in his opinion:

(a) each Regulatory Financial Statement complies with the requirements of condition OA5;

(b) each Regulatory Financial Statement has been properly prepared in accordance with the Accounting Documents, including the Prior Year Comparatives;

(c) having reviewed the Accounting Documents in forming his opinion under (b) above, anything has come to his attention that would lead him to conclude that the Accounting Documents have not been properly applied in the preparation of the relevant Regulatory Financial Statement, disclosing where practicable any adjustments he considers to be required in respect of any such matter; and

(d) having reviewed the Accounting Documents, nothing has come to his attention that would lead him to conclude that the Secondary Accounting Documents are unreasonable in the context of the Primary Accounting Documents.

2. In this Direction-

(a) 'Accounting Documents' shall have the meaning ascribed to it in conditions OA1 to OA34;

(b) 'the Act' means the Communications Act 2003;

(c) 'BT' means British Telecommunications plc, whose registered company number is 1800000, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies,

all as defined by section 736 of the Companies Act 1985, as amended by the Companies Act 1989;

(e) 'the Director' means the Director-General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;

(h) 'OFCOM' means the Office of Communications;

(i) 'Primary Accounting Documents' shall have the meaning ascribed to it in conditions OA1 to OA34;

(j) 'Prior Year Comparatives' shall have the meaning ascribed to it in conditions OA1 to OA34;

(k) 'Regulatory Financial Statement' shall have the meaning ascribed to it in conditions OA1 to OA34;

(l) 'Secondary Accounting Documents' shall have the meaning ascribed to it in conditions OA1 to OA34.

4. Except where otherwise defined or in so far as the context otherwise requires, any word or expression shall have the same meaning as it has in the Act.

5. The Interpretation Act 1978 shall apply as if this Direction were an Act of Parliament.

6. Headings and titles shall be disregarded.

DAVID K S THOMAS

A person authorised under paragraph 18 of the Schedule to the Office of Communications Act 2002

D Draft directions for Kingston

NOTIFICATION UNDER SECTION 49(4) OF THE COMMUNICATIONS ACT 2003

Proposals for the giving of directions to Kingston under proposed SMP Services Conditions OB1 to OB33 which affect the operation of those SMP Services Conditions

1. OFCOM, in accordance with section 49(4) of the Act, hereby make the following proposals for six Directions to be given to Kingston under proposed SMP Services Conditions OB1 to OB33 in Schedule 2 to the Notification at Annex B to the accompanying explanatory statement hereto.
2. The six draft Directions are set out in Schedules 1 to 6 to this notification.
3. The effect of the draft Directions, and the reasons for making the proposals, are set out in Chapters 7 to 13 of the accompanying explanatory statement hereto.
4. In making the proposals set out in this Notification, OFCOM have considered and acted in accordance with their general duties in section 3 of the Act and the six Community requirements in section 4 of the Act.
5. Representations may be made to OFCOM about the proposals set out in this Notification and the accompanying explanatory statement by 10 May 2004.
6. Copies of this Notification and the accompanying explanatory statement have been sent to the Secretary of State in accordance with section 50(1)(b), the European Commission and to the regulatory authorities of every other Member State in accordance with section 50(4) of the Act.
7. In this Notification (not including the Schedules) -
 - (a) 'the Act' means the Communications Act 2003;
 - (b) 'Kingston' means Kingston Communications (Hull) plc, whose registered company number is 2150618, and any Kingston Communications (Hull) plc subsidiary or holding company, or any subsidiary of that holding company, all as defined by Section 736 of the Companies Act 1985 as amended by the Companies Act 1989;
 - (c) 'OFCOM' means the Office of Communications;
 - (d) except as otherwise defined in this Notification, words or expressions used shall have the same meaning as in the Act.

DAVID K S THOMAS

DIRECTOR OF REGULATORY FINANCE

A person authorised under paragraph 18 of the Schedule to the Office of Communications Act 2002

8 APRIL 2004

SCHEDULE 1

Draft Direction 1 for Kingston: Network Components

[Draft] Direction under SMP Services Condition OB2 specifying network components for the purposes of SMP Services Conditions OB1 to OB33, AB1 to AB6; BB1 to BB5, G1 to G5, GG1 to GG5 and H1 to H5.

WHEREAS-

A. As a result of various market analyses carried out by the Director and OFCOM in accordance with section 79 of the Act, Kingston has been designated as having SMP in respect of certain identified markets in accordance with section 79 of the Act;

B. As a result of such SMP designations, Kingston has been subjected to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act, including:

(a) conditions OB1 to OB33, imposing obligations on Kingston in respect of wholesale cost accounting, retail cost accounting and accounting separation in relation to Kingston's activities in those markets where Kingston has been designated as having SMP; and

(b) conditions AB1 to AB6, BB1 to BB5, G1 to G5, GG1 to GG5 and H1 to H5 imposing, amongst other things, obligations on Kingston in respect of the publication of reference offers and the notification of prices in relation to Kingston's activities in those markets where Kingston has been designated as having SMP;

C. In the SMP services conditions referred to in paragraph B above, 'Network Components' are defined to mean the network components specified in any direction given by the Director or OFCOM (as appropriate) from time to time for the purpose of those conditions;

D. By virtue of the Transitional Provisions, references to the Director in any of those SMP services conditions should be read as references to OfCOM;

E. Condition OB2 includes, in accordance with section 45(10) of the Act, the ability for OFCOM to make such directions as they consider appropriate from time to time in relation to Kingston's obligations under conditions OB1 to OB33;

F. This Direction relates to Kingston's obligations under SMP services conditions OB1 to OB33, in that it specifies the network components which apply for the purposes of those conditions;

G. This Direction also serves to specify the network components which apply for the purposes of other SMP services conditions set out at paragraph B(b) above;

H. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that this Direction is:

(a) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;

(b) not such as to discriminate unduly against particular persons or against a particular description of persons;

(c) proportionate to what it is intended to achieve; and

(d) in relation to what it is intended to achieve, transparent;

I. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that they acted in accordance with the relevant duties set out in Sections 3 and 4 of the Act in giving this Direction;

J. A notification of a proposal to give this Direction was given under section 49(4) of the Act on 8 April 2004 (the 'Notification');

K. A copy of the Notification was sent to the Secretary of State in accordance with section 50(1)(b) of the Act;

L. In the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 10 May 2004;

M. By virtue of section 49(9) of the Act, OFCOM may give effect to the proposal set out in the Notification, with or without modification, only if-

(a) they have considered every representation about the proposal that is made to them within the period specified in the notification; and

(b) they have had regard to every international obligation of the United Kingdom (if any) which has been notified to them for this purpose by the Secretary of State;

N. OFCOM received responses to the Notification and have considered every such representation made to them within the period specified in the Notification and accompanying explanatory statement and these representations are discussed in [Chapter X of the Statement accompanying this Direction]; and the Secretary of State has not notified OFCOM of any international obligation of the United Kingdom for this purpose;

NOW, THEREFORE, PURSUANT CONDITION OB2, OFCOM HEREBY DIRECT THAT-

1. The network components which apply for the time being for the purposes of SMP services conditions OB1 to OB32, AB1 to AB6, BB1 to BB5, G1 to G5, GG1 to GG5 and H1 to H5 are those specified at Annex A to this Direction.

2. In this Direction-

(a) 'the Act' means the Communications Act 2003;

(b) 'Kingston' means Kingston Communications (Hull) plc, whose registered company number is 2150618, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 736 of the Companies Act 1985, as amended by the Companies Act 1989;

(c) 'the Director' means the Director-General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;

(d) 'OFCOM' means the Office of Communications;

(e) 'Transitional Provisions' means sections 408 and 411 of the Act, the Communications Act 2003 (Commencement No.1) Order 2003, and the Office of Communications Act 2002 (Commencement No.3) and Communications Act 2003 (Commencement No 2) Order 2003.

3. Except where otherwise defined or in so far as the context otherwise requires, any word or expression shall have the same meaning as it has in the Act.

4. The Interpretation Act 1978 shall apply as if this Direction were an Act of Parliament.

5. Headings and titles shall be disregarded.

DAVID K S THOMAS

A person authorised under paragraph 18 of the Schedule to the Office of Communications Act 2002

Annex A to draft direction 1

List of Network Components

1. Exchange concentrator
2. Exchange processor
3. Remote to exchange transmission link
4. Remote to exchange transmission length
5. Exchange to exchange transmission link
6. Exchange to exchange transmission length
7. National Operator Assistance
8. Emergency Operator Assistance
9. Product management, policy and planning for narrowband call services

SCHEDULE 2

Draft Direction 2 for Kingston: Transparency

[Draft] Direction under SMP Services Condition OB2 specifying the transparency requirements for the purposes of preparing and maintaining the accounting records, Accounting Documents, and Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting

WHEREAS-

A. As a result of various market analyses carried out by the Director and OFCOM in accordance with section 79 of the Act, Kingston has been designated as having SMP in respect of certain identified markets in accordance with section 79 of the Act;

B. As a result of such SMP designations, Kingston has been subjected to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act, including conditions OB1 to OB33 imposing obligations on Kingston in respect of wholesale cost accounting, accounting separation and retail cost accounting in relation to Kingston's activities in those markets where Kingston has been designated as having SMP;

C. In complying with the SMP services conditions referred to in paragraph B above, Kingston is required to prepare and maintain various documentation, including accounting records, Accounting Documents and Regulatory Financial Statements;

D. Condition OB2 includes, in accordance with section 45(10) of the Act, the ability for OFCOM to make such directions as they consider appropriate from time to time in relation to Kingston's obligations under conditions OB1 to OB33;

E. This Direction relates to Kingston's obligations under SMP services conditions OB1 to OB33, in that it specifies the level of transparency required to be met by Kingston in preparing and maintaining the various documentation required by those conditions;

F. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that this Direction is:

(a) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;

(b) not such as to discriminate unduly against particular persons or against a particular description of persons;

(c) proportionate to what it is intended to achieve; and

(d) in relation to what it is intended to achieve, transparent;

G. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that they acted in accordance with the relevant duties set out in Sections 3 and 4 of the Act in giving this Direction;

H. A notification of a proposal to give this Direction was given under section 49(4) of the Act on 8 April 2004 (the 'Notification');

I. A copy of the Notification was sent to the Secretary of State in accordance with section 50(1)(b) of the Act;

J. In the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 10 May 2004;

K. By virtue of section 49(9) of the Act, OFCOM may give effect to the proposal set out in the Notification, with or without modification, only if-

(a) they have considered every representation about the proposal that is made to them within the period specified in the notification; and

(b) they have had regard to every international obligation of the United Kingdom (if any) which has been notified to them for this purpose by the Secretary of State;

L. OFCOM received responses to the Notification and have considered every such representation made to them within the period specified in the Notification and accompanying explanatory statement and these representations are discussed in [Chapter X of the Statement accompanying this Direction]; and the Secretary of State has not notified OFCOM of any international obligation of the United Kingdom for this purpose;

NOW, THEREFORE, PURSUANT TO CONDITION OB2, OFCOM HEREBY DIRECT THAT-

1. Kingston shall ensure that any data, information, description, material or explanatory document prepared under Conditions OB1 to OB33 in respect of accounting and other methods used in the preparation of the accounting records and Regulatory Financial Statements shall be sufficiently transparent and prepared such that a suitably informed reader can gain a clear understanding of such data, information, description, material or explanatory document, and, if necessary, the overall structure of Kingston's financial and information systems from which regulatory accounting data is derived and in particular the sequence of the processing and 'cascade' effect of the intermediate cost centres; gain a detailed understanding of all the material, methodologies and drivers (e.g. systems, Processes and procedures) applied in the preparation of regulatory accounting data; and make their own judgement as to the reasonableness of these methodologies and driver data and any changes to them.

2. In this Direction-

(a) 'Accounting Documents' shall have the meaning ascribed to it in Conditions OB1 to OB33;

(b) 'the Act' means the Communications Act 2003;

(c) 'Kingston' means Kingston Communications (Hull) plc, whose registered company number is 2150618, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 736 of the Companies Act 1985, as amended by the Companies Act 1989;

(d) 'the Director' means the Director-General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;

(e) 'OFCOM' means the Office of Communications; and

(f) 'Process' shall have the meaning ascribed to it in Conditions OB1 to OB33;

(g) 'Regulatory Financial Statement' shall have the meaning ascribed to it in Conditions OB1 to OB33.

3. Except where otherwise defined or in so far as the context otherwise requires, any word or expression shall have the same meaning as it has in the Act.
4. The Interpretation Act 1978 shall apply as if this Direction were an Act of Parliament.
5. Headings and titles shall be disregarded.

DAVID K S THOMAS

A person authorised under paragraph 18 of the Schedule to the Office of Communications Act 2002

SCHEDULE 3

Draft Direction 3 for Kingston: Preparation, audit, delivery and publication of Regulatory Financial Statements

[Draft] Direction under SMP Services Condition OB2 specifying requirements for the preparation, audit and delivery of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting

WHEREAS-

A. As a result of various market analyses carried out by the Director and OFCOM in accordance with section 79 of the Act, Kingston has been designated as having SMP in respect of certain identified markets in accordance with section 79 of the Act;

B. As a result of such SMP designations, Kingston has been subjected to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act, including conditions OB1 to OB33 imposing obligations on Kingston in respect of wholesale cost accounting, accounting separation and retail cost accounting in relation to Kingston's activities in those markets where Kingston has been designated as having SMP;

C. In complying with the SMP services conditions referred to in paragraph B above, and in particular condition OB5, Kingston is required to:

- (a) prepare;
- (b) secure an audit opinion in respect of;
- (c) deliver to OFCOM (with the corresponding audit opinion); and
- (d) publish (with the corresponding audit opinion)

the Regulatory Financial Statements as directed by OFCOM from time to time;

D. Condition OB2 includes, in accordance with section 45(10) of the Act, the ability for OFCOM to make such directions as they consider appropriate from time to time in relation to Kingston's obligations under conditions OB1 to OB33;

E. This Direction relates to Kingston's obligations under SMP services conditions OB1 to OB33, in that it sets out the Regulatory Financial Statements which are required to be prepared, audited (including the level of audit), delivered to OFCOM and/or published by Kingston under condition OB5;

F. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that this Direction is:

- (a) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
- (b) not such as to discriminate unduly against particular persons or against a particular description of persons;
- (c) proportionate to what it is intended to achieve; and
- (d) in relation to what it is intended to achieve, transparent;

G. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that they acted in accordance with the relevant duties set out in Sections 3 and 4 of the Act in giving this Direction;

H. A notification of a proposal to give this Direction was given under section 49(4) of the Act on 8 April 2004 (the 'Notification');

I. A copy of the Notification was sent to the Secretary of State in accordance with section 50(1)(b) of the Act;

J. In the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 10 May 2004;

K. By virtue of section 49(9) of the Act, OFCOM may give effect to the proposal set out in the Notification, with or without modification, only if-

(a) they have considered every representation about the proposal that is made to them within the period specified in the notification; and

(b) they have had regard to every international obligation of the United Kingdom (if any) which has been notified to them for this purpose by the Secretary of State;

L. OFCOM received responses to the Notification and have considered every such representation made to them within the period specified in the Notification and accompanying explanatory statement and these representations are discussed in [Chapter X of the Statement accompanying this Direction]; and the Secretary of State has not notified OFCOM of any international obligation of the United Kingdom for this purpose;

NOW, THEREFORE, PURSUANT TO CONDITION OB2, OFCOM HEREBY DIRECT THAT-

1. Kingston shall, for the purposes of condition OB5 and as appropriate, prepare, secure an appropriate audit opinion in respect of, deliver to OFCOM and publish the Regulatory Financial Statements in accordance with Annexes A, B and C to this Direction.

2. In this Direction-

(a) 'the Act' means the Communications Act 2003;

(b) 'Kingston' means Kingston Communications (Hull) plc, whose registered company number is 2150618, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 736 of the Companies Act 1985, as amended by the Companies Act 1989;

(c) 'the Director' means the Director-General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;

(d) 'OFCOM' means the Office of Communications;

(e) 'Regulatory Financial Statement' shall have the meaning ascribed to it in Conditions OB1 to OB33.

3. Except where otherwise defined or in so far as the context otherwise requires, any word or expression shall have the same meaning as it has in the Act.

4. The Interpretation Act 1978 shall apply as if this Direction were an Act of Parliament.

5. Headings and titles shall be disregarded.

DAVID K S THOMAS

A person authorised under paragraph 18 of the Schedule to the Office of Communications Act 2002

Annex A to draft direction 3

Wholesale Cost Accounting Financial Statements

For the purposes of this annex the following abbreviations are used, the scope of these statements is set out in the matrix of obligations that follows; references to annexes are to the form and content direction attached at Schedule 4 to the Notification dated 8 April 2004. In the table below, X means that the financial statement set out at the head of the column is required for the market or service on that row.

Please note, the separation of the tables into Parts A to C is purely for presentational purposes.

- CCPS = 'current cost primary statements', current cost profit and loss statement (CC P&L) and statement of current cost mean capital employed (CC MCE), as set out in Annexes 13 & 14 in relation to wholesale services, Annexes 11 & 12 in relation to wholesale segments (when designated) and Annexes 9 & 10 in relation to individual wholesale markets;
- RTW = 'reconciliation to wholesale', reconciliation of CC P&L and CC MCE to wholesale level - consolidation across group of markets covered by review (as set out in Annexes 7 & 8 for wholesale markets), followed by consolidation of these consolidations, to give consolidated CC P&L and CC MCE for wholesale markets subject to cost accounting (as set out in annex 5 & 6);
- RTSA = 'reconciliation to statutory accounts', reconciliation of consolidated CC P&L and CC MCE for wholesale markets subject to cost accounting to the profit and loss account and balance sheet of the operator shown in their statutory financial statements (as set out in annexes 23 & 24, supported by annexes 25, 26, 27 & 28)
- SoCC Ext = statement of costs and charges for wholesale service supplied in the market, other than those which are only Internal Wholesale Services (as set out in annex 30);
- SoCC Int = statement of costs and charges for wholesale service supplied in the market, which are only Internal Wholesale Services (as set out in annex 31);
- SoAC FA = statement of activity costs on a current fully allocated cost basis for the market (as set out in Annexes 34), supported by consolidated statement of activity costs on a current fully allocated cost basis (as set out in Annexes 33),
- NCR FA = attribution of activity costs on a current fully allocated cost basis for the market (as set out in annex 36), supported by consolidated attribution of activity costs on a current fully allocated cost basis (as set out in annex 35),
- RFR – regulatory financial review, as set out in annex 2;
- SDR – statement of responsibility, as set out in annex 3
- FPIA – Audit Opinion required for required statements, for inclusion in audit report as set out in annex 4
- PPIA – Audit opinion required for required statements, for inclusion in audit report as set out in annex 4
- Notes – notes to the financial statements, as set out in annex 19
- RMP – retail markets purchase statement, as set out in annex 22
- SPS – summary, for reconciliation purposes, of profitability by wholesale service (as set out in annex 32);

Part A

Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation

	Financial statements					Audit		Published
	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
Wholesale market and illustrative services								
Wholesale residential analogue exchange line services	X	X	X			X		X
- wholesale service A	X			X			X	
- wholesale service B ...	X				X		X	
Wholesale business analogue exchange line services	X	X	X			X		X
- wholesale service A	X			X			X	
- wholesale service B ...	X				X		X	
Wholesale business ISDN2 exchange line services	X	X	X			X		X
- wholesale service A	X			X			X	
- wholesale service B	X				X		X	

	Financial statements					Audit		Published
	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
Wholesale market and illustrative services								
Call origination on fixed public narrowband networks	X	X	X			X		X
- WS Call originating local exchange segment	X			X			X	
- WS Call originating local exchange segment (incl Operator Assistance)	X			X			X	
- WS Call originating local exchange segment (ISDN)	X			X			X	
- WS Call originating local exchange segment (ISDN) (incl Operator Assistance)	X			X			X	
- WS Call origination local exchange Stick	X				X		X	
- WS Call origination local exchange Stick (ISDN)	X				X		X	
Technical areas (as necessary, for example)	X	X	X			X		X
- WS standard CSI connection	X			X			X	
- WS standard CSI rental - fixed	X			X			X	
- WS standard CSI rental per km	X			X			X	
- WS high performance CSI connection	X			X			X	
- WS high performance CSI rental - fixed	X			X			X	

	Financial statements					Audit		Published
	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
Wholesale market and illustrative services								
- WS high performance CSI rental per km	X			X			X	
- WS ISI connection	X			X			X	
- WS ISI rental per 100m	X			X			X	
- WS IEC connection	X			X			X	
- WS IEC rental - fixed	X			X			X	
- WS IEC rental – per km	X			X			X	
- WS intra-building circuits connection	X			X			X	
- WS intra-building circuits rental	X			X			X	
- WS rearrangements	X			X			X	
- WS path protection connection per 34 Mbits/s	X			X			X	
- WS path protection connection per 140 Mbits/s	X			X			X	
- WS path protection rental per 34 Mbits/s	X			X			X	
- WS path protection rental per 140 Mbits/s	X			X			X	

Review of the fixed geographic call termination markets

	Financial statements					Audit		Published
	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
Wholesale market and illustrative services								
Fixed geographic call termination	X	X	X			X		X
- WS Call termination local exchange segment	X			X			X	
- WS Call termination local exchange segment (ISDN)	X			X			X	
- WS Call termination local exchange stick	X				X		X	
- WS Call termination local exchange stick (ISDN)	X				X		X	

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
Wholesale markets and illustrative services								
Traditional interface symmetric broadband origination (up to and including 8Mbit/s);	X	X	X			X		X
- WS service A	X			X			X	
- WS service B	X			X			X	
Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);	X	X	X			X		X
- WS service A	X			X			X	
- WS service B	X			X			X	
Alternative interface symmetric broadband origination (all bandwidths);	X	X	X			X		X
- WS service A	X			X			X	
- WS service B	X			X			X	
Technical areas (as necessary)	X	X	X			X		X

- In Span Handover ("ISH")	X			X			X	
- Customer Sited Handover ("CSH");	X			X			X	
- ISH extension circuits	X			X			X	
- Synchronous Transfer Mode ("STM")-1 ISH and CSH handover	X			X			X	

Part B

Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
Wholesale market and illustrative services								
Wholesale residential analogue exchange line services	X	X	X	X	X	X		X
- wholesale service A					X		X	
- wholesale service B ...					X		X	
Wholesale business analogue exchange line services	X	X	X	X	X	X		X
- wholesale service A					X		X	
- wholesale service B ...					X		X	
Wholesale business ISDN2 exchange line services	X	X	X	X	X	X		X
- wholesale service A					X		X	
- wholesale service B					X		X	

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
Wholesale market and illustrative services								
Call origination on fixed public narrowband networks	X	X	X	X	X	X		X
- WS Call originating local exchange segment					X		X	
- WS Call originating local exchange segment (incl Operator Assistance)					X		X	
- WS Call originating local exchange segment (ISDN)					X		X	
- WS Call originating local exchange segment (ISDN) (incl Operator Assistance)					X		X	
- WS Call origination local exchange Stick					X		X	
- WS Call origination local exchange Stick (ISDN)					X		X	
Technical areas (as necessary, for example)	X	X	X	X	X	X		X
- WS standard CSI connection					X		X	
- WS standard CSI rental - fixed					X		X	
- WS standard CSI rental per km					X		X	
- WS high performance CSI connection					X		X	
- WS high performance CSI rental - fixed					X		X	

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
Wholesale market and illustrative services								
- WS high performance CSI rental per km					X		X	
- WS ISI connection					X		X	
- WS ISI rental per 100m					X		X	
- WS IEC connection					X		X	
- WS IEC rental - fixed					X		X	
- WS IEC rental – per km					X		X	
- WS intra-building circuits connection					X		X	
- WS intra-building circuits rental					X		X	
- WS rearrangements					X		X	
- WS path protection connection per 34 Mbits/s					X		X	
- WS path protection connection per 140 Mbits/s					X		X	
- WS path protection rental per 34 Mbits/s					X		X	
- WS path protection rental per 140 Mbits/s					X		X	

Review of the fixed geographic call termination markets

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
Wholesale market and illustrative services								
Fixed geographic call termination	X	X	X	X	X	X		X
- WS Call termination local exchange segment					X		X	
- WS Call termination local exchange segment (ISDN)					X		X	
- WS Call termination local exchange stick					X		X	
- WS Call termination local exchange stick (ISDN)					X		X	

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
Wholesale markets and illustrative services								
Traditional interface symmetric broadband origination (up to and including 8Mbit/s);	X	X	X	X	X	X		X
- WS service A					X		X	
- WS service B					X		X	
Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);	X	X	X	X	X	X		X
- WS service A					X		X	
- WS service B					X		X	
Alternative interface symmetric broadband origination (all bandwidths);	X	X	X	X	X	X		X
- WS service A					X		X	
- WS service B					X		X	

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
Wholesale markets and illustrative services								
Technical areas (as necessary)	X	X	X	X	X	X		X
- In Span Handover ("ISH")					X		X	
- Customer Sited Handover ("CSH");					X		X	
- ISH extension circuits					X		X	
- Synchronous Transfer Mode ("STM")-1 ISH and CSH handover					X		X	

Part C

Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
Wholesale market and illustrative services								
Wholesale residential analogue exchange line services	X		X			X		X
- wholesale service A	X	-					X	
- wholesale service B ...	X	-					X	
Wholesale business analogue exchange line services	X		X			X		X
- wholesale service A	X	-					X	
- wholesale service B ...	X	-					X	
Wholesale business ISDN2 exchange line services	X		X			X		X
- wholesale service A	X	-					X	
- wholesale service B	X	-					X	
Call origination on fixed public narrowband networks	X		X			X		X

- WS Call originating local exchange segment	X	-					X	
- WS Call originating local exchange segment (incl Operator Assistance)	X	-					X	
- WS Call originating local exchange segment (ISDN)	X	-					X	
- WS Call originating local exchange segment (ISDN) (incl Operator Assistance)	X	-					X	
- WS Call origination local exchange Stick	X	-					X	
- WS Call origination local exchange Stick (ISDN)	X	-					X	
Technical areas (as necessary, for example)	X		X				X	X
- WS standard CSI connection	X	-					X	
- WS standard CSI rental - fixed	X	-					X	
- WS standard CSI rental per km	X	-					X	
- WS high performance CSI connection	X	-					X	
- WS high performance CSI rental - fixed	X	-					X	
- WS high performance CSI rental per km	X	-					X	
- WS ISI connection	X	-					X	
- WS ISI rental per 100m	X	-					X	
- WS IEC connection	X	-					X	
- WS IEC rental - fixed	X	-					X	

- WS IEC rental – per km	X	-					X	
- WS intra-building circuits connection	X	-					X	
- WS intra-building circuits rental	X	-					X	
- WS rearrangements	X	-					X	
- WS path protection connection per 34 Mbits/s	X	-					X	
- WS path protection connection per 140 Mbits/s	X	-					X	
- WS path protection rental per 34 Mbits/s	X	-					X	
- WS path protection rental per 140 Mbits/s	X	-					X	

Review of the fixed geographic call termination markets

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
Wholesale market and illustrative services								
Fixed geographic call termination	X	-	X			X		X
- WS Call termination local exchange segment	X	-					X	
- WS Call termination local exchange segment (ISDN)	X	-					X	
- WS Call termination local exchange stick	X	-					X	
- WS Call termination local exchange stick (ISDN)	X	-					X	

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
Wholesale markets and illustrative services								
Traditional interface symmetric broadband origination (up to and including 8Mbit/s);	X		X			X		X
- WS service A	X						X	
- WS service B	X						X	
Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);	X		X			X		X
- WS service A	X						X	
- WS service B	X						X	
Alternative interface symmetric broadband origination (all bandwidths);	X		X			X		X
- WS service A	X						X	
- WS service B	X						X	
Technical areas (as necessary)	X		X			X		X

- In Span Handover ("ISH")	X	-					X	
- Customer Sited Handover ("CSH");	X	-					X	
- ISH extension circuits	X	-					X	
- Synchronous Transfer Mode ("STM")-1 ISH and CSH handover	X	-					X	

Annex B to draft direction 3

Accounting Separation Financial Statements

For the purposes of this annex the following abbreviations are used, the scope of these statements is set out in the matrix of obligations that follows; references to annexes are to the form and content direction attached at Schedule 4 to the Notification dated 8 April 2004. In the table below, X means that the financial statement set out at the head of the column is required for the market or service on that row.

Please note, the separation of the tables into Parts A to B is purely for presentational purposes.

- TS - turnover statements: sales of External Wholesale Services (as set out in annex 20) and sales of Internal Wholesale Services (as set out in annex 21)
- SOS – notes to the financial statements (as set out in annex 19) in relation to sufficiency of separation, in particular assurance that activities to which accounting separation applies have been sufficiently separated from each other and from activities to which separation does not apply;
- IMT - Inter-market turnover, reconciliation of the source and destination of inter market turnover, to verify that transfer charges are self cancelling overall (as set out in annex 29)
- RFR – regulatory financial review, as set out in annex 2;
- SDR – statement of responsibility, as set out in annex 3
- FPIA – Audit Opinion required for required statements, for inclusion in audit report as set out in annex 4
- PPIA – Audit opinion required for required statements, for inclusion in audit report as set out in annex 4
- CCPS = ‘current cost primary statements’, to demonstrate sufficiency of separation where CCPS not required for cost accounting purposes - current cost profit and loss statement and statement of current cost mean capital employed, as set out in Annexes 13 & 14 in relation to wholesale services, Annexes 11 & 12 in relation to wholesale segments (when designated) and Annexes 9 & 10 in relation to individual wholesale markets;
- RTW = ‘reconciliation to wholesale’, reconciliation of CC P&L and CC MCE to wholesale level, to demonstrate sufficiency of separation where RTW not required for cost accounting purposes - consolidation across group of markets covered by review (as set out in Annexes 7 & 8 for wholesale markets), followed by consolidation of these consolidations, to give consolidated CC P&L and CC MCE for wholesale markets subject to cost accounting (as set out in annex 5 & 6)
- RTSA = ‘reconciliation to statutory accounts’, reconciliation of consolidated CC P&L and CC MCE for wholesale markets subject to accounting separation to the profit and loss account and balance sheet of the operator shown in their statutory financial statements (as set out in annexes 23 & 24 supported by annexes 25, 26, 27 & 28), to demonstrate sufficiency of separation where RTSA not required for cost accounting purposes

Part A

Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation

	Financial statements			Audit		Published
	TS	SOS	IMT	FPIA	PPIA	
Wholesale market and illustrative services						
Wholesale residential analogue exchange line services	X	X	X	X		X
- wholesale service A		X			X	
- wholesale service B ...		X			X	
Wholesale residential 128kbit/s capable digital access services	X	X	X	X		X
Wholesale business analogue exchange line services	X	X	X	X		X
- wholesale service A		X			X	
- wholesale service B ...		X			X	
Wholesale business ISDN2 exchange line services	X	X	X	X		X
- wholesale service A		X			X	
- wholesale service B		X			X	

	Financial statements			Audit		Published
	TS	SOS	IMT	FPIA	PPIA	
Wholesale market and illustrative services						
Wholesale business ISDN30 exchange line services	X	X	X	X		X
- wholesale service A		X			X	
Call origination on fixed public narrowband networks	X	X	X	X		X
- WS Call originating local exchange segment		X			X	
- WS Call originating local exchange segment (incl Operator Assistance)		X			X	
- WS Call originating local exchange segment (ISDN)		X			X	
- WS Call originating local exchange segment (ISDN) (incl Operator Assistance)		X			X	
- WS Call origination local exchange Stick		X			X	
- WS Call origination local exchange Stick (ISDN)		X			X	
- NTS retailing services		X			X	
Technical areas – interconnection (illustrative)	X	X	X	X		X
- WS Connection (£ per 2Mbit/s per year)		X			X	

	Financial statements			Audit		Published
	TS	SOS	IMT	FPIA	PPIA	
Wholesale market and illustrative services						
- WS Rental – fixed (£ per 2Mbit/s per year)		X			X	
- WS Rental – per km (£ per 2Mbit/s per year)		X			X	
- WS Re-arrangements (£ per occasion)		X			X	

Review of the fixed geographic call termination markets

	Financial statements			Audit		Published
	TS	SOS	IMT	FPIA	PPIA	
Wholesale market and illustrative services						
Fixed geographic call termination	X	X	X	X		X
- WS Call termination local exchange segment		X			X	
- WS Call termination local exchange segment (ISDN)		X			X	
- WS Call termination local exchange stick		X			X	
- WS Call termination local exchange stick (ISDN)		X			X	

Review of the wholesale broadband access market

	Financial statements			Audit		Published
	TS	SOS	IMT	FPIA	PPIA	
Wholesale markets and illustrative services						
Asymmetric broadband origination in the Hull area	X	X	X	X		X

Part B

Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation

	Financial statements			Audit		Published
	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
Wholesale market and illustrative services						
Wholesale residential analogue exchange line services	X	X	X	X		X
- wholesale service A		X			X	
- wholesale service B ...		X			X	
Wholesale residential 128kbit/s capable digital access services	X	X	X	X		X
Wholesale business analogue exchange line services	X	X		X		X
- wholesale service A		X			X	
- wholesale service B ...		X			X	
Wholesale business ISDN2 exchange line services	X	X	X	X		X
- wholesale service A		X			X	

- wholesale service B		X			X	
Wholesale business ISDN30 exchange line services	X	X	X	X		X
- wholesale service A		X			X	
Call origination on fixed public narrowband networks	X	X	X	X		X
- WS Call originating local exchange segment		X			X	
- WS Call originating local exchange segment (incl Operator Assistance)		X			X	
- WS Call originating local exchange segment (ISDN)		X			X	
- WS Call originating local exchange segment (ISDN) (incl Operator Assistance)		X			X	
- WS Call origination local exchange Stick		X			X	
- WS Call origination local exchange Stick (ISDN)		X			X	
- NTS retailing services		X			X	
Technical areas – interconnection (illustrative)	X	X	X	X		X
- WS Connection (£ per 2Mbit/s per year)		X			X	
- WS Rental – fixed (£ per 2Mbit/s per year)		X			X	
- WS Rental – per km (£ per 2Mbit/s per year)		X			X	

- WS Re-arrangements (£ per occasion)		X			X	
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Review of the fixed geographic call termination markets

	Financial statements			Audit		Published
	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
Wholesale market and illustrative services						
Fixed geographic call termination	X	X	X	X		X
- WS Call termination local exchange segment		X			X	
- WS Call termination local exchange segment (ISDN)		X			X	
- WS Call termination local exchange stick		X			X	
- WS Call termination local exchange stick (ISDN)		X			X	

Review of the wholesale broadband access market

	Financial statements			Audit		Published
	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
Wholesale markets and illustrative services						
Asymmetric broadband origination in the Hull area	X	X	X	X		X

Annex C to draft direction 3

Retail Cost Accounting Financial Statements

For the purposes of this annex the following abbreviations are used, the scope of these statements is set out in the matrix of obligations that follows; references to annexes are to the form and content direction attached at Schedule 4 to the Notification dated 8 April 2004. In the table below, X means that the financial statement set out at the head of the column is required for the market or service on that row.

Please note, the separation of the tables into Parts A to C is purely for presentational purposes.

- CCPS = 'current cost primary statements', current cost profit and loss statement (CC P&L) and statement of current cost mean capital employed (CC MCE), as set out in Annexes 17 & 18 in relation to retail product segments, Annexes 15 & 16 in relation to individual retail markets;
- RTR = 'reconciliation to retail', reconciliation of CC P&L and CC MCE to wholesale or retail level – not required as there is only one retail market that has cost accounting obligations proposed;
- RTSA = 'reconciliation to statutory accounts', reconciliation of consolidated CC P&L and CC MCE for retail markets subject to cost accounting to the profit and loss account and balance sheet of the operator shown in their statutory financial statements (as set out in annexes 23 & 24, supported by annexes 25, 26, 27, & 28)
- SoCC Ext = statement of costs and charges for wholesale service supplied in the market, other than those which are only Internal Wholesale Services (as set out in annex 30);
- SoCC Int = statement of costs and charges for wholesale service supplied in the market, which are only Internal Wholesale Services (as set out in annex 31);
- SoAC FA = statement of activity costs on a current fully allocated cost basis for the market (as set out in Annexes 34), supported by consolidated statement of activity costs on a current fully allocated cost basis (as set out in Annexes 33),
- NCR FA = attribution of activity costs on a current fully allocated cost basis for the market (as set out in annex 36), supported by consolidated attribution of activity costs on a current fully allocated cost basis (as set out in annex 35),
- RFR – regulatory financial review, as set out in annex 2;
- SDR – statement of responsibility, as set out in annex 3
- FPIA – Audit Opinion required for required statements, for inclusion in audit report as set out in annex 4
- PPIA – Audit opinion required for required statements, for inclusion in audit report as set out in annex 4
- Notes – notes to the financial statements, as set out in annex 19
- RMP – retail markets purchase statement, as set out in annex 22
- SPS – summary, for reconciliation purposes, of profitability by wholesale service (as set out in annex 32);

Part A

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	CCPS	RTR	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
Retail market and illustrative services								
Traditional interface retail leased lines (up to and including 8Mbit/s);	X	X	X			X		X
- Retail product segment A ...	X						X	
- Retail product segment B ...	X						X	

Part B

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
Wholesale markets, retail market and illustrative services								
Traditional interface retail leased lines (up to and including 8Mbit/s);				X	X	X		X
- Retail product segment A ...					X		X	
- Retail product segment B ...					X		X	

Part C

Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
Wholesale markets, retail market and illustrative services								
Traditional interface retail leased lines (up to and including 8Mbit/s);	X					X		X
- Retail product segment A ...	X	X					X	
- Retail product segment B ...	X	X					X	

SCHEDULE 4

Draft Direction 4 for Kingston: Form and content of Regulatory Financial Statements

[Draft] Direction under SMP Services Condition OB2 specifying requirements for the form and content of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting

WHEREAS-

A. As a result of various market analyses carried out by the Director and OFCOM in accordance with section 79 of the Act, Kingston has been designated as having SMP in respect of certain identified markets in accordance with section 79 of the Act;

B. As a result of such SMP designations, Kingston has been subjected to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act, including conditions OB1 to OB33 imposing obligations on Kingston in respect of wholesale cost accounting, accounting separation and retail cost accounting in relation to Kingston's activities in those markets where Kingston has been designated as having SMP;

C. In complying with the SMP services conditions referred to in paragraph B above, and in particular condition OB5, Kingston is required to prepare such Regulatory Financial Statements as directed by OFCOM from time to time;

D. Condition OB2 includes, in accordance with section 45(10) of the Act, the ability for OFCOM to make such directions as they consider appropriate from time to time in relation to Kingston's obligations under conditions OB1 to OB33;

E. OFCOM have, on xx/xx/xx, made a direction under condition OB2 specifying requirements for the preparation the Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting ('Direction 3');

F. This Direction further relates to Kingston's obligations under SMP services conditions OB1 to OB33, in that it sets out the form and content to be applied by BT in preparing certain Regulatory Financial Statements required by virtue of condition OB5 and Direction 3;

G. Kingston is entitled to depart from the form and content set out in this Direction in certain circumstances in accordance with conditions OB7 and OB20;

I. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that this Direction is:

- (a) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
- (b) not such as to discriminate unduly against particular persons or against a particular description of persons;
- (c) proportionate to what it is intended to achieve; and
- (d) in relation to what it is intended to achieve, transparent;

J. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that they acted in accordance with the relevant duties set out in Sections 3 and 4 of the Act in giving this Direction;

K. A notification of a proposal to give this Direction was given under section 49(4) of the Act on 8 April 2004 (the 'Notification');

L. A copy of the Notification was sent to the Secretary of State in accordance with section 50(1)(b) of the Act;

M. In the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 10 May 2004;

N. By virtue of section 49(9) of the Act, OFCOM may give effect to the proposal set out in the Notification, with or without modification, only if-

(a) they have considered every representation about the proposal that is made to them within the period specified in the notification; and

(b) they have had regard to every international obligation of the United Kingdom (if any) which has been notified to them for this purpose by the Secretary of State;

O. OFCOM received responses to the Notification and have considered every such representation made to them within the period specified in the Notification and accompanying explanatory statement and these representations are discussed in [Chapter X of the Statement accompanying this Direction]; and the Secretary of State has not notified OFCOM of any international obligation of the United Kingdom for this purpose;

NOW, THEREFORE, PURSUANT TO CONDITION OB2, OFCOM HEREBY DIRECT THAT-

1. Except where Kingston is entitled to amend the form and content of the Regulatory Financial Statements in accordance with conditions OB7 and OB20, Kingston shall ensure that the Regulatory Financial Statements required by condition OB5 and Direction 3 shall be prepared, as appropriate, as to form and content in the manner set out in the Annex to this Direction.

2. In this Direction-

(a) 'the Act' means the Communications Act 2003;

(b) 'Kingston' means Kingston Communications (Hull) plc, whose registered company number is 2150618, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 736 of the Companies Act 1985, as amended by the Companies Act 1989;

(c) 'the Director' means the Director-General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;

(d) 'OFCOM' means the Office of Communications; and

(e) 'Regulatory Financial Statement' shall have the meaning ascribed to it in conditions OB1 to OB33.

4. Except where otherwise defined or in so far as the context otherwise requires, any word or expression shall have the same meaning as it has in the Act.

5. The Interpretation Act 1978 shall apply as if this Direction were an Act of Parliament.

6. Headings and titles shall be disregarded.

DAVID K S THOMAS

A person authorised under paragraph 18 of the Schedule to the Office of Communications Act 2002

Annexes to draft direction 4

The 36 annexes to *Draft Direction 4 for Kingston: Form and content of Regulatory Financial Statements* are contained in a Microsoft Excel file. Therefore, they are not published here, but can be obtained by emailing chris.rowsell@ofcom.org.uk. (See below for an index to these form and content annexes.)

Index of form and content annexes for Kingston

Annex 1 – Statement by Ofcom

Annex 2 – Regulatory financial review

Annex 3 – Statement of responsibility

Annex 4 – Report of the Regulatory Auditors

Annex 5 – Wholesale Markets Consolidation Profit and Loss (P&L) Statement

Annex 6 – Wholesale Markets Consolidation Mean Capital Employed (MCE) Statement

Annex 7 – Wholesale Summary narrowband P&L statement

Annex 8 – Wholesale Summary narrowband MCE statement

Annex 9 – Wholesale market P&L loss statement

Annex 10 – Wholesale market MCE statement

Annex 11 – Wholesale segment P&L statement

Annex 12 – Wholesale segment MCE statement

Annex 13 – Wholesale service P&L statement

Annex 14 – Wholesale service MCE statement

Annex 15 – Retail market P&L loss statement

Annex 16 – Retail market MCE statement

Annex 17– Retail product group P&L statement

Annex 18 – Retail product group MCE statement

Annex 19 – Notes to financial statements

Annex 20 – Wholesale sales by market statement, external sales

Annex 21 – Wholesale sales by market statement, internal sales

Annex 22 – Retail markets purchase statement

Annex 23 – Reconciliation statement, P&L

Annex 24 – Reconciliation statement, MCE

Annex 25 – Wholesale residual activities statement, P&L

Annex 26 – Wholesale residual activities statement, MCE

Annex 27 – Retail residual activities statement, P&L

Annex 28 – Retail residual activities statement, MCE

Annex 29 – Inter-market turnover (reconciliation)

Annex 30 – Statements of costs and charges for internal and external wholesale services

Annex 31 – Statements of costs and charges for internal only wholesale services

Annex 32 – Consolidated profitability and MCE statement by wholesale service

Annex 33 – Consolidated statement of costs on a current cost basis, network activity statement

Annex 34 – Market statement of costs on a current cost basis, network activity statement

Annex 35 – Consolidated network services reconciliation statement

Annex 36 – Market network services reconciliation statement

SCHEDULE 5

Draft Direction 5 for Kingston: Form of the 'FPIA' opinion for Financial Statements

[Draft] Direction under SMP Service Condition OB2 specifying requirements for the 'FPIA' audit of Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting

WHEREAS-

A. As a result of various market analyses carried out by the Director and OFCOM in accordance with section 79 of the Act, Kingston has been designated as having SMP in respect of certain identified markets in accordance with section 79 of the Act;

B. As a result of such SMP designations, Kingston has been subjected to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act, including conditions OB1 to OB33 imposing obligations on Kingston in respect of wholesale cost accounting, accounting separation and retail cost accounting in relation to Kingston's activities in those markets where Kingston has been designated as having SMP;

C. In complying with the SMP services conditions referred to in paragraph B above, and in particular condition OB5, Kingston is required to secure the expression of an audit opinion upon the Regulatory Financial Statements as directed by OFCOM from time to time;

D. Condition OB2 includes, in accordance with section 45(10) of the Act, the ability for OFCOM to make such directions as they consider appropriate from time to time in relation to Kingston's obligations under those conditions;

E. OFCOM have, on xx/xx/xx, made a direction under condition OB2 specifying requirements for the preparation, audit and delivery of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting ('Direction 3');

F. Direction 3 requires, in respect of certain Regulatory Financial Statements, Kingston to secure an audit opinion on those Regulatory Financial Statements to 'fairly presents in accordance with' ('FPIA') standards;

G. This Direction further relates to Kingston's obligations under SMP services conditions OB1 to OB33, in that it details the level of audit which must be secured by Kingston in obtaining an audit to FPIA standards;

H. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that this Direction is:

(a) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;

(b) not such as to discriminate unduly against particular persons or against a particular description of persons;

(c) proportionate to what it is intended to achieve; and

(d) in relation to what it is intended to achieve, transparent;

I. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that they acted in accordance with the relevant duties set out in Sections 3 and 4 of the Act in giving this Direction;

J. A notification of a proposal to give this Direction was given under section 49(4) of the Act on 8 April 2004 (the 'Notification');

K. A copy of the Notification was sent to the Secretary of State in accordance with section 50(1)(b) of the Act;

L. In the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 10 May 2004;

M. By virtue of section 49(9) of the Act, OFCOM may give effect to the proposal set out in the Notification, with or without modification, only if-

(a) they have considered every representation about the proposal that is made to them within the period specified in the notification; and

(b) they have had regard to every international obligation of the United Kingdom (if any) which has been notified to them for this purpose by the Secretary of State;

N. OFCOM received responses to the Notification and have considered every such representation made to them within the period specified in the Notification and accompanying explanatory statement and these representations are discussed in [Chapter X of the Statement accompanying this Direction]; and the Secretary of State has not notified OFCOM of any international obligation of the United Kingdom for this purpose;

NOW, THEREFORE, PURSUANT TO CONDITION OB2, OFCOM HEREBY DIRECT THAT-

1. Where Kingston is required by any direction of OFCOM to secure the expression of an audit opinion to FPIA standards upon any Regulatory Financial Statement, Kingston shall ensure that the Regulatory Auditor shall state whether in his opinion:

(a) each Regulatory Financial Statement complies with the requirements of condition OB5;

(b) each Regulatory Financial Statement fairly presents in accordance with the Primary Accounting Documents:

(i) in the case of the profit and loss account and profit and loss reconciliation statements, the results in the relevant Market, Disaggregated Activities and/or Accounting Separation Activities (as appropriate) for the Relevant Financial Year and Prior Year Comparatives;

(ii) in the case of the statement of mean capital employed and mean capital employed reconciliation statements, the mean capital employed in the relevant Market, Disaggregated Activities and/or Accounting Separation Activities (as appropriate) for the Relevant Financial Year and Prior Year Comparatives; and

(iii) in the case of the other statements of revenues, costs, assets, liabilities and other quantities, the revenues, costs, assets, liabilities and other quantities incurred or employed in the relevant Market, Disaggregated Activities and/or Accounting Separation Activities (as appropriate) for the Relevant Financial Year and Prior Year Comparatives;

(c) the Secondary Accounting Documents at the date of the audit opinion are appropriate to implement the Primary Accounting Documents.

2. In this Direction-

(a) 'Accounting Separation Activities' shall have the meaning ascribed to it in conditions OB1 to OB33;

(b) 'the Act' means the Communications Act 2003;

(c) 'Kingston' means Kingston Communications (Hull) plc, whose registered company number is 2150618, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 736 of the Companies Act 1985, as amended by the Companies Act 1989;

(d) 'the Director' means the Director-General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;

(e) 'Disaggregated Activities' shall have the meaning ascribed to it in conditions OB1 to OB33;

(f) 'Market' shall have the meaning ascribed to it in conditions OB1 to OB33;

(g) 'OFCOM' means the Office of Communications;

(h) 'Primary Accounting Documents' shall have the meaning ascribed to it in conditions OB1 to OB33;

(i) 'Prior Year Comparatives' shall have the meaning ascribed to it in conditions OB1 to OB33;

(j) 'Regulatory Auditor' shall have the meaning ascribed to it in conditions OB1 to OB33;

(k) 'Regulatory Financial Statement' shall have the meaning ascribed to it in conditions OB1 to OB33;

(l) 'Relevant Financial Year' shall have the meaning ascribed to it in conditions OB1 to OB33.

4. Except where otherwise defined or in so far as the context otherwise requires, any word or expression shall have the same meaning as it has in the Act.

5. The Interpretation Act 1978 shall apply as if this Direction were an Act of Parliament.

6. Headings and titles shall be disregarded.

DAVID K S THOMAS

A person authorised under paragraph 18 of the Schedule to the Office of Communications Act 2002

SCHEDULE 6

Draft Direction 6 for Kingston: Form of the 'PPIA' opinion for Financial Statements

[Draft] Direction under SMP Service Condition OB2 specifying requirements for the 'PPIA' audit of Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting

WHEREAS-

A. As a result of various market analyses carried out by the Director and OFCOM in accordance with section 79 of the Act, Kingston has been designated as having SMP in respect of certain identified markets in accordance with section 79 of the Act;

B. As a result of such SMP designations, Kingston has been subjected to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act, including conditions OB1 to OB33 imposing obligations on Kingston in respect of wholesale cost accounting, accounting separation and retail cost accounting in relation to Kingston's activities in those markets where Kingston has been designated as having SMP;

C. In complying with the SMP services conditions referred to in paragraph B above, and in particular condition OB5, Kingston is required to secure the expression of an audit opinion upon the Regulatory Financial Statements as directed by OFCOM from time to time;

D. Condition OB2 includes, in accordance with section 45(10) of the Act, the ability for OFCOM to make such directions as they consider appropriate from time to time in relation to Kingston's obligations under conditions OB1 to OB33;

E. OFCOM have, on xx/xx/xx, made a direction under condition OB2 specifying requirements for the preparation, audit and delivery of Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting ('Direction 3');

F. Direction 3 requires, in respect of certain Regulatory Financial Statements, Kingston to secure an audit opinion of those Financial Statements to 'properly prepared in accordance with' ('PPIA') standards;

G. This Direction further relates to Kingston's obligations under SMP services conditions OB1 to OB33, in that it details the level of audit which must be secured by Kingston in obtaining an audit to PPIA standards;

H. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that this Direction is:

- (a) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
- (b) not such as to discriminate unduly against particular persons or against a particular description of persons;
- (c) proportionate to what it is intended to achieve; and
- (d) in relation to what it is intended to achieve, transparent;

I. For the reasons set out in the Statement accompanying this Direction OFCOM are satisfied that they acted in accordance with the relevant duties set out in Sections 3 and 4 of the Act in giving this Direction;

J. A notification of a proposal to give this Direction was given under section 49(4) of the Act on 8 April 2004 (the 'Notification');

K. A copy of the Notification was sent to the Secretary of State in accordance with section 50(1)(b) of the Act;

L. In the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 10 May 2004];

M. By virtue of section 49(9) of the Act, OFCOM may give effect to the proposal set out in the Notification, with or without modification, only if-

(a) they have considered every representation about the proposal that is made to them within the period specified in the notification; and

(b) they have had regard to every international obligation of the United Kingdom (if any) which has been notified to them for this purpose by the Secretary of State;

N. OFCOM received responses to the Notification and have considered every such representation made to them within the period specified in the Notification and accompanying explanatory statement and these representations are discussed in [Chapter X of the Statement accompanying this Direction]; and the Secretary of State has not notified OFCOM of any international obligation of the United Kingdom for this purpose;

NOW, THEREFORE, PURSUANT TO CONDITION OB2, OFCOM HEREBY DIRECT THAT-

1. Where Kingston is required by any direction of OFCOM to secure the expression of an audit opinion to PPIA standards upon any Regulatory Financial Statements, Kingston shall ensure that the Regulatory Auditor shall state whether in his opinion:

(a) each Regulatory Financial Statement complies with the requirements of condition OB5;

(b) each Regulatory Financial Statement has been properly prepared in accordance with the Accounting Documents, including the Prior Year Comparatives;

(c) having reviewed the Accounting Documents in forming his opinion under (b) above, anything has come to his attention that would lead him to conclude that the Accounting Documents have not been properly applied in the preparation of the relevant Regulatory Financial Statement, disclosing where practicable any adjustments he considers to be required in respect of any such matter; and

(d) having reviewed the Accounting Documents, nothing has come to his attention that would lead him to conclude that the Secondary Accounting Documents are unreasonable in the context of the Primary Accounting Documents.

2. In this Direction-

(a) 'Accounting Documents' shall have the meaning ascribed to it in conditions OB1 to OB33;

(b) 'the Act' means the Communications Act 2003;

(c) 'Kingston' means Kingston Communications (Hull) plc, whose registered company number is 2150618, and any of its subsidiaries or holding companies, or any subsidiary of such holding

companies, all as defined by section 736 of the Companies Act 1985, as amended by the Companies Act 1989;

(d) 'the Director' means the Director-General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;

(e) 'OFCOM' means the Office of Communications;

(f) 'Primary Accounting Documents' shall have the meaning ascribed to it in conditions OB1 to OB33;

(g) 'Prior Year Comparatives' shall have the meaning ascribed to it in conditions OB1 to OB33;

(h) 'Regulatory Financial Statement' shall have the meaning ascribed to it in conditions OB1 to OB33;

(i) 'Secondary Accounting Documents' shall have the meaning ascribed to it in conditions OB1 to OB33.

4. Except where otherwise defined or in so far as the context otherwise requires, any word or expression shall have the same meaning as it has in the Act.

5. The Interpretation Act 1978 shall apply as if this Direction were an Act of Parliament.

6. Headings and titles shall be disregarded.

DAVID K S THOMAS

A person authorised under paragraph 18 of the Schedule to the Office of Communications Act 2002

E Consultation principles

Ofcom has committed to meeting the seven tests for consultations set out below:

1. Hold discussions with stakeholders before issuing a major consultation document – so that Ofcom’s thinking is subject to an early sense-test. If this is not possible, an open meeting to explain the proposals will be held soon after publication.
2. Be clear about who is being consulted, why, on what questions and for how long.
3. Make the document as simple and concise as possible – with a summary of no more than two pages - and make it easy to respond to. This may involve issuing a shorter version aimed at hard-to-reach groups, like SMEs.
4. Allow ten weeks for responses, other than on dispute resolution.
5. Analyse responses with care and an open mind. This involves giving reasons for subsequent decisions, and an account of the views expressed.
6. Monitor and evaluate consultations, and designate a consultation champion – an evangelist within Ofcom for better consultation and reach out, and a contact point for comments on our process.
7. Explain why Ofcom is departing from any of these tests if it has to – for example, because of urgency or confidentiality. If a shorter period is required, Ofcom will draw this to the attention of stakeholders, as a red flag item.