

Ofcom's Regulatory financial reporting: a review

Submission by BT

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Comments should be addressed to:

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Summary of our position

1. We welcome Ofcom's Consultation on "Regulatory financial reporting: a review", published on 6 September 2012 ("the Consultation").
2. We are currently required to prepare, provide and publish a large volume of regulatory financial information. We welcome the review of our regulatory financial reporting obligations, aimed at making our regulatory reporting more proportionate, relevant, reliable, transparent and clear, thereby increasing Ofcom's and stakeholders' confidence in our reporting, and in our on-going compliance with applicable Significant Market Power ("SMP") conditions.
3. We broadly agree with Ofcom's statement of the purpose of the regulatory financial reporting obligations imposed on SMP providers, i.e. they "*should provide information in order to allow Ofcom to monitor compliance with other SMP conditions (including cost orientation, non-discrimination and charge controls). They should enable timely intervention to ensure that those other SMP obligations continue to effectively address the underlying competition problems identified in our market analysis. They should also ensure Ofcom is provided with relevant and reliable information to support our regulatory decisions, such as the setting of charge controls*" (paragraph 3.1 of the Consultation).
4. We also agree that Ofcom's powers to impose financial regulatory reporting obligations are subject to clear and strict limitations (paragraphs 3.11-3.14 of the Consultation), in particular:
 - a) Obligations imposed must be objectively justifiable, not unduly discriminatory, proportionate and transparent (s.47(2) of the Communications Act 2003 – "the Act").
 - b) Wholesale cost accounting systems conditions may only be imposed where it appears from the market analysis carried out for the purpose of setting the conditions that there is a relevant risk of adverse effects arising from price distortions; and the conditions are appropriate for the purpose of promoting efficiency, sustainable competition and conferring the greatest possible benefits on end-users (s.88(1) of the Act).
5. We therefore agree with Ofcom that in developing their proposals as part of this review, they will need to "*assess whether any changes to the reporting framework are appropriate, effective and necessary to achieve that aim.*" (paragraph 3.1 of the Consultation), taking into account the specific SMP conditions applied following their market reviews.
6. Against this backdrop, we welcome the four attributes for effective regulatory financial reporting identified by Ofcom, i.e. relevance, reliability, transparency and proportionality. We consider it is appropriate to add a fifth attribute clarity - which will result in information being clear, easily understandable and help build confidence in our regulatory reporting.
7. However, while there appears to be a reasonable degree of alignment in terms of defining the high level purpose of regulatory reporting and identifying "what good

looks like” in very broad terms, we are concerned that ultimately Ofcom’s review may result in only limited change and will not provide the fundamental review that is required. We start from a position today where we are required to publish a large volume of granular service level data on volumes, revenues and costs. It is clear that Communication Providers (“CPs”) are resistant to any attempt to reduce this current level of reporting and Ofcom itself appears to have reached a preliminary view that the level of detail published is “broadly right” in terms of what is actually needed.

8. However, our view is that the current level of reporting goes far beyond what is proportionate in light of the defined purpose of regulatory reporting and the identified attributes. Therefore, a full and proper consideration and review of the data and reporting is required. Overall, we consider the detail we publish falls more into the category of data that is “useful and interesting” to CPs rather than data that is necessary to answer an appropriately defined set of regulatory questions.
9. Furthermore, the level of detail published actually works against providing a truly relevant and reliable set of data in a clear way that can inform decision making. The result is that detail that is already published takes on an inferred relevance and importance that then shapes both regulatory decisions and ongoing expectations on what is actually necessary.
10. For instance, in many cases Ofcom requires us to produce separate data on revenues and costs against connections and rentals for the same services. We have to therefore design our systems and establish allocation bases that are capable of fully allocating costs in this way. However, we know that accounting allocations are increasingly subjective at this level of granularity and that such allocations may say very little about the ‘right’ way to structure prices across upfront and recurring charges for a particular service. The concern we have – reflecting recent history – is that the production and availability of the subjective cost data drives the regulatory decision making, rather than clear regulatory assessments of markets and the potential scope for anti-competitive activity driving the requirements to publish specific granular data.
11. Therefore, this Consultation must, at the very least, fundamentally review what is required to meet clearly defined, specific regulatory objectives with sufficient weight given at all times to the need for proportionality. In particular, we would note:
 - **Case-by-case application:** Reporting obligations must reflect Ofcom’s findings following each specific market review, and be justified on the basis of those findings, the imposed SMP conditions and Ofcom’s statutory requirements and duties. For example, where a cost orientation SMP condition is removed, regulatory financial reporting obligations around Long Run Incremental Costs (“LRIC”) and Distributed Stand Alone Cost should clearly be reduced or removed to reflect that. Furthermore, market reviews should allow Ofcom to specifically consider the particular issues that may arise in relation to us showing undue discrimination in the way it structures prices within markets. Reporting should reflect that assessment and not simply require full disclosure of granular information in all cases. A better balance should also be struck between what can be generated by our systems on demand and provided to Ofcom during market reviews, disputes, etc, and what should be provided to Ofcom or published as standard on an annual basis.

- **Data – Materiality of granular service level reporting:** We currently report against 202 separate services or service groupings of which half have revenue of less than £10 million. This level of materiality in reporting is wholly disproportionate to what the reporting requirements are intended to achieve. A significant reduction in the number of these reported services would make the reported results more relevant, reliable, transparent and clearer to users.
 - **Data - Transparency:** The transparency principle as currently defined has actually resulted in us having to produce a voluminous level of explanatory documentation that is actually opaque to the majority of users. It is obviously not fulfilling its purpose. We set out in our response constructive proposals for how the transparency principle should be applied.
 - **Data - Methodologies used for allocations:** Ofcom should refrain from specifying every detailed methodology by which we attribute revenues, costs, assets and liabilities to activities. We accept that there may be advantages in Ofcom reviewing and/or agreeing some of our more material accounting methodologies in that this may give greater certainty that the data we actually publish will be considered relevant in taking regulatory decisions. However, such involvement must be proportionate and can only provide regulatory certainty if Ofcom commits to standing by the allocations when ultimately taking regulatory decisions. Ofcom must also have a clear process of review and agreement of methodologies, and allow sufficient time for us to challenge any of their proposals with which we disagree.
 - **Reports - Commercial confidentiality:** The principle of commercial confidentiality is another limitation to the publication requirement which is intended to protect our legitimate business interests. We consider that some of the information we are currently required to publish should be provided only to Ofcom (the National Regulatory Authority, (“NRA”), as is the case in other EU Member States), and that far greater weight should be given to this issue when balancing the demand for greater detail from CPs.
 - **Systems:** Ofcom’s proposal to intervene in the design and development of our systems is disproportionate. Our systems, their design, implementation and maintenance should be our responsibility, provided they are appropriate to meet our regulatory financial reporting and other SMP obligations. However, to increase Ofcom’s confidence in our systems, we are happy to continue to involve Ofcom in the process of improving our costs accounting systems, as we are already doing at present.
12. The next phase of Ofcom’s work in this area must include a more detailed consideration of the relevant regulatory questions in the context of the specific set of SMP markets in the UK and the specific regulatory concerns that arise. This will enable a more complete assessment of the level of data that is needed to meet the specified attributes of effective regulatory reporting.

Responses to Questions raised in Section 3 of the Consultation

Question 3.1 – Do you agree with the four attributes we have identified for BT’s regulatory financial reporting: relevance, reliability, transparency, and proportionality? Are there any further attributes you would consider?

13. We welcome the identification of the attributes of regulatory financial reporting. These attributes provide a sound basis for the development of detailed requirements.
14. However, it is important that each of the attributes is given adequate weight in developing detailed proposals for regulatory reporting. In particular we emphasise that proportionality should be taken into account in each proposal, i.e. the need to ensure that any proposal does not place a disproportionate burden on us in relation to what it is intended to achieve, and is not balanced by the benefits of the information supplied.
15. We are concerned that certain detailed proposals within this consultation do not meet the proportionality attribute. For example, the requirement for an additional overview document (Ofcom’s proposal 3c) appears to be disproportionate in view of the considerable information already published. Similarly, the general requirement to report at the level of products and services regardless of the applicable SMP condition in the specific market is disproportionate.
16. We note elsewhere in this response that certain requirements currently in existence do not balance the attributes correctly. For example, in our response to question 4.1 below, we note that the current wording of the transparency principle and the associated audit requirements require us to publish a voluminous, detailed and highly technical documentation which is disproportionate and which prevents the users from gaining the level of understanding of the methodologies that they seek.
17. The attributes should not be restricted to the Regulatory Financial Statements (“RFS”), including the unpublished Additional Financial Information (“AFI”), but to all regulatory financial information supplied, i.e. including information supplied in response to information requests under s.135 and s.191 of the Act.
18. It is also appropriate to add a fifth attribute, clarity, to ensure users properly benefit from the information provided. Information that satisfies this attribute should be clear, distinct and easy to understand: this will help to build confidence in the RFS.

Question 3.2 – Have we identified the right questions which BT’s published financial statements should answer? What further questions do these statements need to answer?

19. In discussing the “relevance” attribute, we agree with Ofcom that: *“For information to be relevant it needs to answer the right questions, in an appropriate way and at the appropriate time”* (paragraph 3.43 of the Consultation). However, Ofcom has not clearly identified the specific “right questions” which it believes it needs answering. In particular, in Figure 3 within the consultation Ofcom lists a series of questions which do go into more detail. We comment on those specific questions in our response to question 4.4 and set out below general comments on the points raised in paragraphs 3.42 to 3.66 of the Consultation.

20. We broadly agree with the reasons for regulatory financial reporting publication set out by Ofcom (paragraph 3.46 of the Consultation):
- “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.”*
21. This broadly aligns with our response to the call for inputs,¹ in which we said that the published financial statements should satisfy the following objectives:
- To provide a reliable source of cost information to inform regulatory judgements by Ofcom.
 - To provide a satisfactory level of assurance around such cost information to Ofcom.
 - To provide assurance to Ofcom and to other stakeholders Communication Providers (CPs) that we comply with regulatory rules, via publication of the RFS.
22. However, we would emphasise the importance of Ofcom’s view set out in paragraph 3.48 of the Consultation: *“Just because a stakeholder might find certain information useful or interesting, it does not follow that we should be required to publish that information in the published financial statements. It may be that the information sought does not link to a regulatory objective. We consider stakeholders’ suggested questions below. Even if there is a regulatory benefit, it does not necessarily follow that the information should be published; it is also necessary to consider whether there is an alternative and more appropriate mechanism by which the information could be obtained if necessary, or whether the information should remain confidential. We consider the question of confidentiality later in this section.”*
23. This highlights the need for clarity around the precise level of information that is required to strike the right balance between publication of data required to answer “the right questions” and data which may simply be deemed “useful or interesting”.
24. We believe that certain aspects of our existing obligations in relation to regulatory financial reporting publication do not appropriately strike this balance. To move forward we consider that Ofcom must ensure that requirements relating to our published financial statements proportionately reflect Ofcom’s findings following each

¹ [Ofcom’s Review Of Cost Orientation & Regulatory Reporting Call for inputs Submission by BT 6 December 2011 Q17](#)

market review, and are justified on the basis of those findings, the imposed SMP conditions and Ofcom's statutory requirements and duties. We consider that Ofcom should further consider as part of its second consultation, the specific publication requirements that should apply in relation to each SMP obligation in the respective markets.

25. We address the question of confidentiality in response to question 3.4.

a) Cost orientation (paragraphs 3.49-3.50)

26. We agree with Ofcom that: *"Monitoring compliance with cost orientation is, therefore, an important consideration."* However, pending Ofcom's publication of its separate guidance on cost orientation, it is difficult for us to provide specific comments. Clearly though, where cost orientation obligations are removed, associated reporting and publication requirements must also be removed. We should expect that where cost orientation is removed the needs of stakeholders are met by reporting at the level of the market or, where smaller, the level of the charge control basket. As prices are not set at the level of every service in such instance there is no justification to provide users with information at a higher level of granularity. Our compliance with these controls is measured through our price compliance reporting not through reporting costs of individual services. Where cost orientation obligation is removed from a market the requirement for the publication of LRIC information should also be removed. Such a practice has been followed in the ISDN30 market reporting and should be adopted elsewhere if cost orientation is removed as is proposed for example in the current Business Connectivity Market Review ("BCMR").

b) Charge control modelling and review (paragraphs 3.51-3.55)

27. We agree with Ofcom that: *"regulatory financial reporting is an important source of information when setting charge controls."* We welcome Ofcom's proposal that they *"would not require additional information to support this where that information is not also required for other purposes."* It is clear that when setting charge controls Ofcom can require access to specific sets of data to support its modelling exercise and consider the overall structure and design of basket controls. Such data may be disclosed as part of the consultation process subject to appropriate consideration of confidentiality issues. The use of such data in setting charge controls (where the specific requirements will vary between controls) should not result in the need for such data to be published to all stakeholders on an annual basis. We cover this further in our response to question 4.1.

c) Make or buy decisions (paragraph 3.56)

28. We fully agree with Ofcom's proposal that they *"would not require additional information to support this where that information is not also required for other purposes."* The RFS should not be used for "Make or Buy" decisions but should be used to satisfy the objectives described above.

d) Investigating margin squeeze (paragraphs 3.57-3.58)

29. We fully agree with Ofcom's statements that: *"we do not believe that the published financial statements can ever include all necessary information to identify all possible potential cases of margin squeeze (for example, to allow CPs to monitor BT's margins in some downstream markets, it may be necessary for us to publish cost information for markets where there have been no findings of SMP) and we do not believe that the published financial statements should disclose additional information over and above that required for other purposes."*

e) Non-discrimination / EOI (paragraphs 3.60-3.61)

30. We recognise that Article 11(1) of the Access Directive permits an NRA to impose a requirement on a vertically integrated company to make transparent its wholesale prices and its internal transfer prices inter alia to ensure compliance with non-discrimination obligations – and that a prime focus here is the "vertically integrated company". However, in considering the extent to which, in practice, it is necessary to make use of this in the UK, we believe that regard should be had to (i) the structural separation that currently exists within BT as the vertically integrated operator and (ii) Ofcom's current guidance on undue discrimination by a vertically integrated operator².
31. Taken together, the consequence is that our upstream and downstream divisions are clearly trading separately, transparently, and at arm's length and, with competitors protected by the knowledge that we are subject to regulatory obligations that impose a heavy burden on it to ensure that there is no difference between internal and external transaction conditions. This is a very different environment to that which exists in most other member states where close integration of upstream and downstream operations, with little transparency of internal trading arrangements mean that there may be far greater need to rely on this provision.
32. In addition to that point of principle, we question also the extension of it in the way proposed by Ofcom. In particular, the need, nor the basis on which to require this having regard to Article 11, to publish detailed volume, revenue and cost information for internal and external sales (as opposed to "internal transfer prices" – as referred to in Article 11) is not clear.

f) Other objectives (paragraphs 3.62-3.63)

33. We fully endorse Ofcom's rejection of other objectives and its acknowledgement that: *"the need for financial information is fairly limited and to the extent that it exists would be covered by existing requirements around reporting relating to cost orientation, non-discrimination or charge control obligations."*
34. We agree with Ofcom that: *"the published financial statements will be most useful if they provide data that (as far as possible) have been prepared on a basis that is consistent with the way Ofcom sets, or tests compliance with, the underlying obligations."* (paragraph 3.64 of the Consultation). In this context, we invite Ofcom to increase legal certainty by clearly stating that principles agreed in this review would

² <http://stakeholders.ofcom.org.uk/binaries/consultations/undsmpt/statement/contraventions4.pdf>

form the basis for Ofcom's subsequent investigations and decisions, and that there is due process to challenge any revisions. We comment on this further in our response to question 5.1.

35. We also agree with Ofcom that: *"It is therefore important that compliance information is reported in a timely fashion"* (paragraph 3.66 of the Consultation). This is discussed further in our response to question 5.8.
36. In summary, to ensure relevance, proportionality and commercial confidentiality, Ofcom must limit requirements relating to our published financial statements to what is appropriate, effective and necessary in relation to each specific SMP obligation in respective markets. We await Ofcom's detailed related proposals in its second consultation.

Question 3.3 - Have we identified the right factors to consider, in terms of what the regulatory audit should seek to achieve? If not, please provide your comments and suggestions and support them.

37. We agree that the correct factors have been captured.
38. Any move to a more detailed level of audit e.g. below the market level or an extension of the requirement for a "fairly presents" opinion would be disproportionate to the intended purpose of such requirements, the benefits received and, in certain instances, as has been the case in the past, may be impracticable and lead to qualifications of the auditor's opinions. Technical qualifications such as those in the audit report on the 2010 RFS for the single transit on fixed public narrowband networks market are driven solely by the required level of reporting and not as a result of issues in our costing systems or methodologies.
39. A further significant issue and complexity of Ofcom prescribing methodologies as suggested³ would be that a "fairly presents" audit would require the auditor to consider the appropriateness of these methodologies. In this instance, if Ofcom prescribe methodologies, this review by the auditors would be unnecessary and could lead them to qualify their opinion if they did not agree that those methodologies specified by Ofcom would permit fair presentation.

Question 3.4. - With reference to specific examples, how do you consider we should balance the needs for adequate disclosure with BT's concerns around confidentiality? Where BT has stated that disclosure of information is commercially sensitive, please explain whether you consider this to be a valid concern. Please provide evidence to support your view.

40. The RFS should not enforce the disclosure of commercially sensitive information to competitors. As a business's financial information is generally by nature commercially sensitive, a requirement to publish financial information should be limited to what is necessary to achieve the intended objectives of the regulatory financial reporting and other SMP conditions.

³ Ofcom's regulatory financial reporting: a review published 6 September 2012 (section 5 - increasing Ofcom's involvement in setting the basis of preparation).

41. It is a general characteristic of an effectively competitive market that enterprises are not able to access the commercially sensitive information of their competitors. SMP obligations imposed by Ofcom must be proportionate, objectively justifiable, not unduly discriminatory, and transparent (s.47(2) of the Act). Wholesale cost accounting obligations may only be imposed where it appears there is a relevant risk of adverse effects arising from price distortions; and the conditions are appropriate for the purpose of promoting efficiency, sustainable competition and conferring the greatest possible benefits on end-users (s.88(1) of the Act). Ofcom should be able to demonstrate that these conditions are met wherever we are required to publish commercially sensitive information.
42. A specific example relates to the disclosure of Appendix 1.2. 'FAC based on component costs and usage factors (annex 16)' in the published RFS⁴. The information in the RFS can be used by stakeholders to assess 'Make or Buy' scenarios, which as Ofcom notes⁵ is not the purpose of the statements.
43. This is clearly evidenced in UKCTA's response to the call for inputs: *"the RFS help stakeholders to understand what is driving the price that they pay for key wholesale inputs and whether there are any aspects that they could provide more efficiently themselves...This information acts as a substitute for the range of competitor pricing information that would be accessible in a competitive market"*⁶.
44. If the regulator requires detailed information this should be requested on a case-by-case basis through information requests and AFI, i.e. provided in confidence to Ofcom, rather than via published data.

⁴ See Current Cost Financial Statements 2012, appendix 1.2 pages 101 to 114.

⁵ Ofcom's Regulatory financial reporting: a review 6 September 2012 paragraph 3.48.

⁶ UKCTA response to call for inputs question 17.

Responses to Questions raised in Section 4 of the Consultation

Question 4.1 – Do you consider that we have correctly identified and described the main issues in relation to BT's data? If you consider that there are additional issues, please provide evidence of them where possible.

46. We agree the main issues have been identified by Ofcom and provide comments below.

Transparency

47. We agree with Ofcom and other CPs that the current requirements encourage volume of publication rather than its clarity. As stated in the Deloitte report: *"The requirements of BT's annual regulatory financial submissions are among the most detailed and onerous in Europe"*⁷.
48. We welcome Ofcom's proposal to review the current transparency requirement. We have previously discussed this with Ofcom and set out below the reasons preventing us from producing clearer, more meaningful information.
49. Concerns over the documentation are justified. It is not our aim to confuse users of the financial statements by the production of excessive documentation. However, we must publish such documentation in order to comply with the transparency principle which, as currently worded, requires the description of all cost attribution methodologies which have a material impact on any market. It is this requirement for "completeness", combined with the necessary scale of our accounting records which drives the scale and complexity of the Detailed Attribution Methods ("DAM"). Ofcom requires our auditors to consider the compliance of the DAM and other Secondary Accounting Documents with the transparency principle and as a result we would receive a qualified audit report if we did not prepare these documents in this comprehensive form.
50. The wording of the transparency principle and the associated audit requirement has proved to be counterproductive. The volume and detail of data that this has required us to provide has in practice obscured key messages and through its complexity prevented users from gaining the understanding of our methodologies that they seek. This has thus reduced the confidence of stakeholders in our RFS rather than promoting it.
51. As we outline in our response to question 3.1 we believe it is appropriate that clarity should be included as an attribute. Clarifying the transparency principle, along with a revision to the audit requirements, would allow us to provide clarity rather than volume. KCOM does not have a separate audit requirement of the transparency principle. This means that they can provide transparent and easily understood Secondary Accounting Documents.

⁷ <http://stakeholders.ofcom.org.uk/binaries/consultations/reg-financial-report/annexes/deloitte.pdf> (section 3.4 page 11).

52. We welcome Ofcom's comments and hope that clarification of the transparency principle and the removal of the separate audit requirement will provide the reader with documentation that is clear and concise.

Comparability

53. The current requirement to report methodology changes which impact a market by 5%, which is also typically used as a trigger for a restatement of the prior year financial data, is proportionate in certain instances only.
54. There is a need for some appropriate trigger in markets of low value, as small changes within these markets produce large movements above the current trigger point for restatements.
55. For example, during 2011-12 we reviewed the attribution of costs in the Technical Areas (Interconnect Circuits) market which resulted in £6m of costs moving into a different market. In the context of BT £6m is not material but as the interconnect market is small, this triggered a restatement.
56. Restatement also goes against clarity, which is an important attribute if credibility is to be enhanced. The principle should be reworded to allow consideration on a case by case basis and to increase the threshold where appropriate.

Granularity

57. We note Ofcom's comment that: *"We understand BT's concerns but do not believe that greater granularity necessarily leads to less accuracy, provided that the cost driver or attribution base can be identified at that level"*⁸.
58. We reiterate that, all other factors being equal, a greater level of disaggregation, does not necessarily entail more accuracy, clarity or transparency of the reported figures, and is disproportionate to what it is intended to achieve.
59. We should expect that where cost orientation is removed, the needs of stakeholders are met by reporting at the level of the market or, where smaller, the level of the charge control basket. As prices are not controlled at the level of every service in such instance, there is no justification to provide users with information at a higher level of granularity. Our compliance with these controls is measured through our price compliance reporting, not through reporting costs of individual services. The requirement for the publication of LRIC information would also be unnecessary and should be removed in this instance.
60. Even where cost orientation remains, the current level of granularity is excessive and disproportionate. To illustrate this, in the 2011-12 statements, we were required to publish details of 202 services, of which 120 have revenue of less than £10m. The publication of low revenue services is not proportionate to the aim of demonstrating compliance with cost orientation. We suggest that where cost orientation is retained

⁸Ofcom's regulatory financial reporting: a review published 6 September 2012 (paragraph 4.153).

we should not be required to disaggregate services where the combined annual revenue of similar services exceeds £10m.

61. Indeed, we note in Ofcom's statement "changes to BT's 2007/08 regulatory financial statements"⁹:

3.14 Services "with low revenue and operating costs (typically below £10m pa) can be merged within similar product families. For example, connection services may be merged with rental services for the same 'low value' product set."

3.15 This de minimis limit is there to "simplify the preparation process, reduce the audit burden and help avoid undue emphasis or excessive analysis effort on immaterial activities. BT will however retain data at service level and make this available to Ofcom.....". This limit "only applies, therefore, to the presentation of the regulatory Financial Statements themselves and BT's cost attribution processes will retain the capability to generate information for all services and product groups".

Audit

62. There needs to be careful consideration in respect of what and how audit opinions are sought. There are two basic forms of audit opinion in place under the current framework:

- Properly Prepared In Accordance ("PPIA") opinion, which is based on a detailed preparation framework and considers whether the detailed rules are followed; and
- Fairly Presents In Accordance ("FPIA") opinion, which is based on a higher level principles framework and considers whether in following the detailed preparation framework the reporting principles have been appropriately applied.

63. Our auditors currently provide a mixture of both forms of opinions on individual markets and in forming these opinions must consider the accounting separation system (ASPIRE) used to prepare the financial statements. If the system was not able to correctly process data to implement the costing methodologies this would result in significant practical issues for the conduct of the audit. Therefore, a separate systems audit would be unnecessary and inappropriate.

Current Cost Accounting (CCA)

64. The revaluation and resulting volatility of asset valuations is a function of the application of our CCA methodology which requires that assets are re-valued each year. Revaluations take into account both changes in asset prices and the availability of new and improved data.
65. Such issues are a function of the methodology adopted, not of intrinsic problems with our data, and we would welcome discussions with Ofcom concerning alternative methodologies that may address these issues.

⁹Ofcom's changes to BT's 2007/08 regulatory financial statements 26 June 2008 (paragraph 3.13 and 3.14).

LRIC Information

66. We welcome a discussion concerning our published LRIC data.
67. Where cost orientation obligation is removed from a market, the requirement for the publication of LRIC information should also be removed. Such a practice has been followed in the ISDN30 market reporting and should be adopted elsewhere if cost orientation is removed as is proposed in the current BCMR.
68. The publication of LRIC data is irrelevant to indicating compliance and furthermore is disproportionate and distracts from clarity.
69. Where the cost orientation condition remains, we would expect to continue to provide LRIC information but the current level of granularity is inappropriate and disproportionate.

Flat file

70. In Ofcom's final statement of 2005, Ofcom placed a new obligation on us to provide the 'flat file' as AFI¹⁰.
71. Ofcom's introduction of the 'flat file' as AFI was intended to reduce our regulatory burden, by reducing the number of Additional Financial Statements and AFIs and also supporting the reduction in audit requirements in respect of individual market financial statements.
72. We are required by AFI 15 to provide a *"data file in electronic format containing all records from BT's UK cost attribution system. Format of file to allow for identification of sources of data, data flows (from the input sources at F8 code level through to products and services) and attribution bases"*¹¹.
73. The 'flat file' consists of a number of large files in total in excess of two gigabits of capacity. These files contain over a million items of data that identify for example, the monetary values associated with each F8 code and a further break out into specific sectors and lines of business.
74. The provision of this information is neither relevant nor proportionate to what the regulatory financing reporting SMP condition is intended to achieve. We should expect that Ofcom only request data where its relevance can be demonstrated either to meet the purposes of the annual financial statements or in respect of specific investigations or charge controls.
75. We also provide a substantial amount of the same information under AFI and information requests (under s.135 and s.191 of the Act).
76. The requirement to provide all records from our cost attribution system to Ofcom is disproportionate to the aims of regulatory reporting.

¹⁰Changes to BT's regulatory financial reporting framework 31 August 2005 (paragraphs 3.2 – 3.5 pages 10 and 11).

¹¹Changes to BT's regulatory financial reporting framework 31 August 2005, Annex B.

77. Under the Act, SMP conditions can be imposed only if they meet the following limitations:
- a) Obligations imposed must be objectively justifiable, not unduly discriminatory, proportionate and transparent (s.47(2) of the Act).
 - b) Wholesale cost accounting obligations may only be imposed where it appears there is a relevant risk of adverse effects arising from price distortions; and the conditions are appropriate for the purpose of promoting efficiency, sustainable competition and conferring the greatest possible benefits on end-users (s.88(1) of the Act).
78. The provision of the 'flat file' allows Ofcom to extract data in relation to any service at any level of detail that the system allows, without the requirement to state under which powers this data is being extracted, and regardless of any applicable SMP conditions. We also have concerns that Ofcom is unable to produce reliable reports from the 'flat file' given its complexity, size and the difficulty in interpreting the data correctly.
79. Instead, Ofcom would gain more assurance and more confidence if we provided the information on a targeted basis. This would allow Ofcom to review information without the necessity of using the data extract tool and would allow this information to be relevant, reliable, transparent, clear and proportionate.
80. This review gives Ofcom an opportunity to revise the condition and if necessary to explain which specific information would be required as a substitute.

Question 4.2 – Do you consider that we have correctly identified and described the main issues in relation to BT's systems? Please provide evidence where possible.

81. We do not consider that Ofcom has correctly identified and described the main issues in relation to our systems.
82. It is our responsibility to specify, design, implement and run systems that fully meet the reporting requirements imposed by regulation. Provided that we meet these requirements - which in turn meet the attributes of relevance, reliability, proportionality, transparency and clarity - stakeholders will have confidence in the regulatory reporting, regardless of the system used to meet these requirements.
83. Our regulatory accounting system was implemented circa 15 years ago and has been modified as the regulatory reporting requirements have evolved and expanded.
84. Our regulatory reporting system attributes costs, revenues, assets and liabilities to the relevant services within a defined market. The attribution is driven by a strict set of costing principles to make sure the methodologies used are cost causal, objective and transparent. Our response to Ofcom on 14 May 2012¹² puts the current process into context:

¹²Email from BT to Ofcom dated 14 May 2012.

“Our regulatory process is complex and one which feeds into a multi-layered ABC system (ASPIRE) that performs 1.4 million separate calculations.

There are a number of issues that add to the complexity of this process, for example many of the circa 200 offline cost attribution models are interlinked and any changes made within one model would affect others. Furthermore, each change would then require processing through the 10 stages of ASPIRE.

Similarly, each time a new published service has been defined in certain cases; new or modified methodologies may also be required and built into the necessary cost models. The reference data and rules in ASPIRE would also need to be adapted to allow the appropriate costs to flow through the 10 stages of allocations to a newly created service.”

85. Although the regulatory reporting system is complex, it produces the required functionality to meet the current obligations imposed on us. We have no reason to suppose that it is not “fit for purpose” as suggested by TTG¹³, nor has Ofcom suggested this to us at any time. Indeed, if it were not fit for purpose, our auditors would be unable to provide unqualified audit opinions.
86. For example, restatements in the RFS, in 2010-11 and 2011-12, were driven by changes in methodology or new data sources rather than issues with our regulatory reporting system.

Geographic de-averaging

87. Our current regulatory reporting system does not comprehensively support geographic de-averaging. Any geographic de-averaging is dependent on the accuracy of the source data feeding our regulatory reporting system. Our source data is fed from a number of systems providing a varying degree of information e.g. revenues, and network inventory.
88. We commented in our Leased Line Charge Control response¹⁴ that our billing systems are currently unable to provide geographic revenues and that, where future developments are designed, these will only be at exchange level in line with how our network is organised.
89. Geographic de-averaging on a significant scale is relatively new. This requires the processing of high volumes of data and while users expect that we shall need to develop systems accordingly, proportionality must be taken into account.

Question 4.3 – Do you consider that we have correctly identified and described the main issues in relation to BT’s reports? Please provide evidence where possible.

90. We do not consider that Ofcom has identified and described the main issues in relation to our reports.

¹³Talk Talk Call for inputs response (paragraph 33).

¹⁴BT’s response to Ofcom’s consultation document “Leased Line Charge Control proposal for a new charge control framework for certain leased lines services” 14 September 2012 (Question 10 paragraph 19).

91. Ofcom should give additional weight to the limitation of the publication requirement by reason of the information being confidential and commercially sensitive to us, and therefore the disclosure to any third party or publication of which may harm our legitimate business interests. Some of the data that we are currently required to produce and publish may be commercially sensitive and, therefore, we should not be required to publish the information, thereby making it available to our competitors. We cover this further in our response to question 3.4.
92. As noted in the Deloitte report, the redaction of such commercially sensitive information is common in other European jurisdictions.¹⁵

Question 4.4 – Do you agree with our analysis, as summarised in Figure 3, concluding that, in terms of scope, the published financial statements broadly answer the right questions?

93. We are concerned that, in terms of the key attributes Ofcom has identified, the analysis summarised in Figure 3 both (a) overstates the “right questions” that the published financial statements should seek to answer and (b) overstates the level of detail that actually needs to be published to answer those questions.

Ofcom has overstated the “right questions”

We would question the relevance of the following questions in Figure 3:

“Has BT complied with its Equivalence and Equivalence of Inputs requirements?”

94. We question the implied linkage in Figure 3 between what is necessary under the regulatory SMP regime (where, by imposing publication requirements Ofcom is exercising its powers so as to fulfil its duties under the Communications Act 2003) and how Ofcom fulfils its duties under the Enterprise Act 2002 to monitor our compliance with the Undertakings given under that Act. It may be the case that Ofcom has found that the information in the RFS has aided it to form a view in relation to Enterprise Act compliance, but given the clear separation between the regulatory regime under the Communications Act 2003 and the competition regime set up under the Enterprise Act 2002, it is inappropriate (and indeed, we would argue, beyond the limit of Ofcom’s powers under the Communications Act 2003) for Ofcom to see it as a necessary function of the RFS that they enable Ofcom to monitor Enterprise Act compliance.

“What are the returns and costs of key wholesale inputs purchased by CPs?”

95. We are concerned that this question is asked in addition to the specific set of questions listed in Figure 3 which ask about our compliance with SMP remedies – i.e. cost orientation, non-discrimination and charge controls. The suggestion must either be that:

¹⁵ <http://stakeholders.ofcom.org.uk/binaries/consultations/reg-financial-report/annexes/deloitte.pdf>

- this question will always be relevant *even if none of the other SMP remedies actually apply* to the inputs in question; or that
 - even if compliance with those other remedies could be shown by reference to other information, it would still be relevant to also show returns and costs.
96. We do not understand how it would be proportionate to take such an approach in all cases and the “proportionality” and “relevance” of this data is, at best, justified by the simple posing of this question. We would, in fact, suggest that this question merely falls into the category where the information “may be of interest” to CPs, but not where there is a clear proportionate requirement for us to publish. We note that Ofcom lists the question within Figure 3 under the column heading “questions which CPs would like the RFS to answer”. This seems different to identifying the “right questions” which is the subject heading of this subsection in the Consultation. Ofcom should clarify the weight it is actually attaching to this question. Overall, we would highlight that more general information of this nature is likely to be made available as part of the periodic market review process which itself informs the decision on which SMP remedies to impose in a market.

Questions about the capabilities of BT’s systems

97. We acknowledge the general need to provide assurance and confidence to stakeholders about the capability of our systems to generate robust data upon which regulatory judgements may be based. However, it is not clear to us that the specific set of questions listed by Ofcom in Figure 3 are *all* relevant to what needs to be shown in the annual publication of regulatory financial information.

Ofcom has overstated what needs to be published to answer the questions.

98. Notwithstanding our points above, Figure 3 then appears to simply check where the questions identified as “right” are broadly answered within the current detail of the RFS. This supports the overall finding from Ofcom’s analysis that the scope of the RFS is “broadly right”. It is not clear to us that Ofcom has, however, considered what the minimum necessary information is that would answer the “right questions” and therefore whether the current level of detail could actually be reduced whilst still answering those questions. As such, the analysis in Figure 3 does not take forward a key issue for this review which is to more fundamentally consider what is actually required from the RFS to ensure they conform with the stated attributes.
99. For instance, in relation to whether we have been compliant with non-discrimination requirements, we would question whether this, in itself, requires the publication of detailed and granular service level information on volumes, revenues, costs and returns for internal and external sales set out in Sections 7 and 8 of the RFS. As noted, our call for inputs response argued that all the RFS could really show in terms of compliance with non-discrimination requirements was whether the prices charged to internal and external customers were the same.
100. We note that in this Consultation Ofcom cites other CPs as suggesting that additional information, for example relative volumes and relative returns earned on different services, may also be relevant in assessing compliance with non-discrimination

remedies. However, even on this line of argument, we are not convinced that full publication of all the detail currently provided on an annual basis is proportionate. Any assessment of whether we were “unduly discriminating” in its pricing of particular service would involve consideration of a range of issues specific to the nature of the service in question and centred on the effect on competition in the market of, for instance, setting relative prices of services within a market in particular way. The RFS will never be able to provide the full details that will allow such an assessment to be made and compliance to be definitively “demonstrated”.

101. The danger is that CPs will nevertheless demand that a wide range of information be made available to them on the basis that it might prove broadly relevant in considering such issues. But such speculative rationale to support publication cannot be consistent with the need to ensure publication requirements are “proportionate” and we would urge Ofcom to consider this issue in much more detail at the next stage of this policy review. Ofcom might, for example, consider that providing a percentage split of sales by external versus internal for certain services meeting an overall material level of annual sales value would provide a more helpful view of whether discrimination issues might even arise (e.g. was there any clear imbalance between the relative volumes of internal/external sales across services).
102. In terms of the questions asked about the capabilities of our systems to generate data required for certain purposes, we do not agree with Ofcom including the ‘flat file’ under “Does BT have the systems to generate information for Ofcom to conduct investigations?” The ‘flat file’ is only a data source and does not provide assurance over systems. We outline our concerns over the use and proportionality of the ‘flat file’ in response to question 4.1 above.

Question 4.5 – Do you consider that we have correctly identified and described the main issues in relation to controls around the data and systems? Please provide evidence where possible.

103. We do not consider that Ofcom has correctly identified and described the main issues in relation to controls around our data and systems.
104. As we note in our response to questions 4.1 and 4.2 above, the detailed requirements placed on us including, among other things, very complex methodology, the wording of the transparency principle requiring excessive documentation and the 5% threshold for reporting methodology changes, mean that it is not possible to produce clear (that is transparent and proportionate) statements and hence the confidence of stakeholders has become eroded.
105. This in turn undermines the stakeholders’ confidence in the value that the audit provides beyond the inherent limitations of any audit.

Responses to Questions raised in Section 5 of the Consultation

Question 5.1 - Do you consider our proposals relating to Ofcom's role in setting basis of preparation to be effective and proportionate? Please provide explanations and evidence to support your views.

107. We understand Ofcom's and stakeholders' concerns in respect of the uncertainty of allocation bases. It should however be put into context that our business has many functioning business units within a multi-layered organisation. There is no one better placed than us to develop and understand the rules for attribution of the 31,000 general ledger codes that are used in such a complex business.

108. However, we recognise that there is value in Ofcom having greater (albeit, proportionate) involvement in setting methodologies in advance of the publication of the statements as such involvement would provide greater regulatory certainty for us and other stakeholders.

Proposal 1a: Primary responsibility for ensuring that the basis of preparation is consistent with the Regulatory Accounting Principles should remain with BT.

109. We agree with Ofcom's proposal that we should have prime responsibility for preparing the RFS and therefore responsibility for ensuring consistency with the regulatory accounting principles.

Proposal 1c: Ofcom should identify and review the most significant allocation bases.

110. There is merit in Ofcom identifying and reviewing the most significant allocation bases. Such a process would provide regulatory certainty for us and other stakeholders in advance of charge controls and investigations, as it would be clear to the parties which methodologies would be used in such instances.

111. Ofcom should refrain from specifying every detailed methodology by which we attribute revenues, costs, assets and liabilities to activities. We accept that there may be advantages in Ofcom's reviewing and/or agreeing some of our more material accounting methodologies in that this may give greater certainty that the data we actually publishes will be considered relevant in taking regulatory decisions. However, Ofcom must consider and set out very clear processes for the review and agreement of methodologies. There are a number of practical difficulties that would need to be addressed, such as:

- Any increased involvement by Ofcom in identifying and reviewing the most significant allocation basis must be proportionate to what it is intended to achieve. It therefore should not involve specifying insignificant allocation bases.
- A clear definition of "most significant" should be made. We propose that this should be 5% of market costs or revenues (a trigger currently used for restatement), modified to a more appropriate figure for smaller markets.
- Ofcom would need to make clear its intention to use such methodologies in its regulatory decision making, and that any future deviation from allocation bases it

has required are used would be clearly reasoned. Without such commitment there would be little value in Ofcom giving approval or requiring changes to our methodologies.

- A clear appeal process would need to be specified for us to challenge any adjustments Ofcom requires. At present, where methodologies are disputed in the context of charge controls and disputes there is an appeal process through the Competition Appeals Tribunal and, where relevant, higher courts. This due process must not be lost if Ofcom were to pre-approve or require changes to methodologies.
- Where an appeal is pending it will need to be clear which methodology should be used pending resolution of the appeal.
- In reaching certain regulatory decisions, for example in its consideration of electronics costs in the Ethernet dispute,¹⁶ Ofcom has required a change to the methodology used by us that differs from that adopted in our statutory financial reports. Such changes would conflict with the principle on the compliance with applicable law and International Accounting Standards (“IAS”) and if material is likely to lead to qualified audit opinions.
- The impact of timing of methodology changes imposed by Ofcom on regulatory reporting deadlines should be made clear. We would propose that Ofcom should impose any methodology changes no later than the third quarter of the reporting year, if the 31 July publication deadline is to be met.
- The impact on the audit opinion should be considered. Where a fairly presents opinion is required, the auditors will be implicitly required to express an opinion on the methodology proposed by the regulator and to qualify their report if they do not believe it results in a fair presentation of the RFS in accordance with the principles such as cost causality and compliance with applicable law and IAS. In addition, where a methodology change requires the collection of new supporting data the timing of the change would need to take into account the need for appropriate controls over source data to be implemented for the full reporting period. Qualifications of the auditors opinions undermine confidence in the RFS such that Ofcom should consider requesting a modified form of audit opinion such as PPIA.

Proposal 1d: BT should notify Ofcom in advance of proposed changes to accounting methodologies, sufficiently far in advance to allow a review of the proposals.

112. We already discuss methodology changes with Ofcom but agree that this could be done earlier in the process. One approach would be to take Ofcom through all significant methodology and attribution changes that we propose in the year well in advance of publication and, where relevant, present Ofcom with the formal papers

¹⁶<http://stakeholders.ofcom.org.uk/binaries/consultations/ethernet-services/summary/Ethernet-services.pdf>
http://stakeholders.ofcom.org.uk/binaries/consultations/prov-deter-cw-bt-ethernet/summary/amended_010312.pdf
http://stakeholders.ofcom.org.uk/binaries/consultations/dispute-verizon-bt-wes/summary/WES_Dispute.pdf

that we ourselves review and agree internally. This approach would enable Ofcom to have greater insight into the methodological changes, whilst understanding and assessing the impact of the proposed changes and how these align to the regulatory principles.

113. However, such discussions should be proportionate. As noted above we seek further precision over which changes should be notified to Ofcom. We propose that this should be 5% of market costs or revenues of a reported market, modified to a more appropriate figure for smaller markets.

114. Moreover, by the same token, should Ofcom not agree with our proposal and would want to propose a revised methodology, we should have sufficient time and an appropriate process to challenge such proposals, on proportionality or other grounds.

Proposal 1e: BT can illustrate the effects of areas of disagreement with Ofcom.

115. As noted above, Ofcom's proposed involvement in setting the rules for attribution bases may, on occasion, be the cause of disagreement between us and Ofcom.

116. Although we could illustrate the effects of our differences in the RFS in the form of a note, this will inevitably lead to two sets of accounts.

117. Such a situation would further undermine the confidence of stakeholders in the RFS as it would be unclear which results were the appropriate ones and/or which would ultimately be used in charge controls or disputes (as we may appeal Ofcom's methodology in these contexts).

118. Furthermore, such a solution would cause further problems with understanding the audit report where the auditors are required to consider the fairness of methodologies and would therefore need to consider the merits of multiple methodologies. In these circumstances a PPIA form of audit opinion would be more appropriate.

Question 5.2 - Do you have any comments on the status and detail of the Regulatory Accounting Principles and their role in determining the appropriate basis of preparation for the RFS?

Proposal 1b: Ofcom should review and, if necessary revise the Regulatory Accounting Principles to ensure that they provide the appropriate framework for determining the appropriate basis of preparation.

119. We agree that Ofcom should review the Regulatory Accounting Principles to ensure that these principles correctly confirm that the financial statements are relevant, reliable, proportionate, transparent and provide clarity.

120. We include the current principles and our initial comments on them below.

Principle 1 – Priority

121. We agree that Priority should be the first principle. There would need to be clarity where principles conflict.

Principle 2 – Definitions

122. We agree with this principle and do not propose changes. It is appropriate that definitions in our Primary Accounting Documents have the same meaning as the SMP conditions.

Principle 3 – Cost Causality

123. We agree with this principle. However, we would expect this to be interpreted in the context of proportionality to prevent cost attribution methodologies becoming unduly complex.

Principle 4 – Objectivity

124. We agree with this principle and do not propose changes.

Principle 5 – Consistency of Treatment

125. Although we agree the principle, its application needs to be considered in the context of our response on trigger points in questions 4.1 and Ofcom's involvement in setting the methodological rules in question 5.1. As noted above, the changes that require restatement should be material. We do not believe that restatements required to smaller markets in recent years have in fact been material in the context of BT.

Principle 6 – Compliance with applicable law and IAS

126. We agree with this principle as this is the foundation for preparing our statutory accounts. As we note in our response to question 5.1, any proposal to require us to adopt methodologies that would differ from those in our statutory accounts would conflict with this principle.

Principle 7 – Transparency

127. The wording of the transparency principle has proved to be counterproductive. The volume and detail data that this has required us to provide has in practice obscured key messages and through its complexity prevented users from gaining the understanding of our methodologies that they seek. This has reduced the confidence of stakeholders in our RFS rather than promoting it. We cover this point further, in our response to question 4.1 above.

Principle 8 – Sampling

128. Sampling is not a principle but rather a technique for gathering data to attribute costs and therefore should be removed as one of the principles as it is covered by principle 3.

Question 5.3 - Do you consider our proposals to align the RFS more closely to regulatory decisions to be appropriate, effective and proportionate? Please provide explanations and evidence to support your views.

Proposal 2a: Apply an overarching consistency requirement.

129. As noted in our response to question 5.1 above, there is merit in requiring consistency with regulatory decisions. Such a treatment could provide greater regulatory certainty and confidence around the perceived relevance of reported numbers moving forward.
130. However there are number of practical difficulties which any detailed proposals would need to address:
- A distinction needs to be drawn between (a) regulatory decisions which conclude that particular costs should either not be apportioned at all to particular services or apportioned on a different basis to that defined in the regulatory accounts and (b) regulatory decisions which adjust reported costs for a broader set of policy and/or economic efficiency reasons when determining current or future price levels. In the latter category, Ofcom may, for instance, reinflate depreciated assets or change the profile of cost recovery in order to ensure prices incentivise investment or take-up. We would not expect to make changes of this nature in the RFS.
 - Regulatory decisions to exclude costs or change the attribution basis are often challenged in the courts. Where an appeal is in progress it will need to be clear which methodology should be used. We should not be required to prejudice our positions in any appeal by being required to adopt a methodology pending resolution of the appeal.
 - A decision to exclude or change the basis of allocation for a regulatory decision relating to a particular service and/or market which may not clearly state how the relevant excluded/reallocated cost should be treated in other services/markets. Ofcom would need to be absolutely clear on its position moving forward.

Proposal 2b: Specify necessary changes to align the RFS more closely to regulatory decisions.

131. We set out our comments on this proposal above and in our response to question 5.1.

Question 5.4 - Do you agree that the basis for valuing BT's assets should be determined by BT? If not, how would you propose that the assets be valued?

Proposal 2c: The RFS should continue to be prepared on a CCA basis, but with reconciliation to equivalent numbers prepared on a RAV basis.

132. We believe that the published RFS should continue to be prepared on a CCA basis as set out in the European Commission recommendations¹⁷. We are best placed to provide

¹⁷Commission Recommendation of 19 September 2005 on accounting separation and cost accounting systems under the regulatory framework for electronic communications.

the valuation of assets given our in-depth knowledge of our networks, our organisational structure and the technical design of specific products and how assets traverse them.

133. We recognise that Ofcom has set prices for WLR and LLU services on the basis of the “RAV adjustment” to CCA asset values and that Ofcom is proposing to extend this approach in setting leased line charge controls. Reconciling CCA values in the RFS to those prepared under the RAV adjustment may therefore help improve the relevance of published data. However, we are currently challenging Ofcom’s application of the RAV adjustment and arguing that CCA values should be used without adjustment. We suggest that Ofcom’s proposals are reconsidered in light of the outcome of our appeal.

Question 5.5 – Do you consider our above proposals to improve transparency to be effective and proportionate? Please provide explanations and evidence to support your views.

Proposal 3a: We will review the current transparency obligations to ensure that BT can publish accounting documents that are more accessible to the users and simpler to produce for BT.

134. We set out our comments on this proposal in our response to question 4.1 above.

Proposal 3b: BT to publish revised accounting documents that are more accessible to users of the financial statements.

135. We set out our comments on this proposal in our response to question 4.1 above.

Proposal 3c: BT should be required to publish an additional overview document.

136. We should be willing to discuss this further with Ofcom, but this should be considered in light of any changes to the transparency principle. We note that certain sections of the Primary Accounting Documents already include an overview of the more detailed Secondary Accounting Documents.

Proposal 3d: The requirement to publish schedules showing the attribution of Wholesale Current Cost and Mean Capital Employed should be removed.

137. We welcome Ofcom’s proposal to remove the schedules showing the attribution of Wholesale Current Costs and Mean Capital Employed as this holds little value to the reader and should be removed in line with the principles of ‘relevance’ and ‘proportionality’.

Question 5.6 – Do you believe that, in relation to transparency, there is a tension between the objectives of stakeholders and the need for detailed rules to allow auditors to reach an opinion, as discussed above? If applicable, do you have suggestions for resolving this tension?

138. We set out our comments on this point to in our response to question 4.1 above.

Question 5.7 – Do you consider our above proposals to ensure that the RFS provide relevant information to be effective and proportionate? Please provide explanations and evidence to support your views.

Proposal 4a: Reporting on charge control compliance should be formalised and extended.

139. We agree that charge control compliance should be formalised. However, the proposed level of disclosure is contradictory to the agreement in Ofcom's regulatory reporting final statement 2010-11¹⁸.
140. In the years to 2009-10, we published considerable additional detail in respect on charge control compliance in our RFS.
141. In the 2010-11 consultation both we and CPs responded in agreement to Ofcom's proposal on the format of the Price Control Statements¹⁹.
142. If Ofcom proposes to change the current Price Control Statements to a more granular level, this should be considered in context with what we currently publish²⁰ and the reason why this format was agreed in 2010-11.

Proposal 4b: Reconciliation to statutory accounts financial statements should still be published.

143. We agree with Ofcom's proposal that we should continue to provide a reconciliation between the RFS and our statutory accounts. One of our general principles in preparing the published RFS is to remain as consistent as possible with the treatments in our statutory accounts.
144. As Ofcom notes, moving to reconciliation with our management accounts would cause problems in that our management accounts are prepared for different purposes to the statutory accounts. Furthermore, our management accounts are unaudited. Finally, the European Commission provide clear guidelines that: *"A reconciliation of the separate regulatory accounts to the statutory accounts of the operator is also required. These statements should be subject to an independent audit opinion or a national regulatory authority compliance audit (subject to the availability of suitably qualified staff)"*²¹.
145. As noted in our response, to question 5.1 in certain instances, for example in its consideration of electronics cost in the Ethernet dispute,²² Ofcom has required a change to the methodology that differs from that adopted in our statutory financial reports. Although such amounts could be detailed in the reconciliation, such changes

¹⁸ Changes to BT and KCOM's regulatory and financial reporting 2010/11, update Explanatory statement and notification, (Question 4).

¹⁹ Changes to BT and KCOM's regulatory and financial reporting 2010/11, update Explanatory statement and notification, (Question 4).

²⁰ See Current Cost Financial Statements 2012 (section 7.2.2 and 8.2.2 and appendix 2.1).

²¹ Commission Recommendation of 19 September 2005 on accounting separation and cost accounting systems under the regulatory framework for electronic communications.

²² <http://stakeholders.ofcom.org.uk/binaries/consultations/ethernet-services/summary/Ethernet-services.pdf>

http://stakeholders.ofcom.org.uk/binaries/consultations/prov-deter-cw-bt-ethernet/summary/amended_010312.pdf

http://stakeholders.ofcom.org.uk/binaries/consultations/dispute-verizon-bt-wes/summary/WES_Dispute.pdf

would conflict with the principle on the use of IAS and could give rise to a qualified audit opinion.

Question 5.8 – To inform our assessment of the appropriate response to delays in the publication of the published financial statements, please explain if and how your organisation has been affected by such delays in the past.

Proposal 4c: Reporting deadlines should be not be changed.

146. We agree with Ofcom's proposal that we should continue to publish our RFS four months after our financial year end.
147. However, the appropriateness of this deadline is subject to Ofcom providing us with sufficient notice and detail of any regulatory reporting changes in the year or changes in our audit requirements, as well as due process to appeal such proposed changes. It is important that the annual consultation on the format of the statements is completed well in advance of the year end. In this context, we note that some changes are of a minor nature and it may not be proportionate to consult on these.
148. For example, in Ofcom's "Changes to BT and KCOM's regulatory and financial reporting 2011/12 update" we were required to amalgamate Wholesale Extension Service connections in the Ethernet Market. This was a minor change that should have been agreed without the need for a consultation.

Question 5.9 – Do you consider that there is scope to change the focus of the published financial statements? Please explain the impact this would have on the current approach to the published financial statements, including for example what information would need to be added and what requirements might no longer be necessary as a result. Please explain why you consider your proposals would allow stakeholders to monitor BT's compliance with its regulatory obligations.

149. There is not just scope for change but a need for fundamental change. We are concerned that ultimately Ofcom's review may result in only limited change and will not provide the fundamental review that is required. We start from a position today where we are required to publish a large volume of granular service level data on volumes, revenues and costs. It is clear that CPs are resistant to any moves to reduce this current level of reporting and Ofcom itself appears to have reached a preliminary view that the level of detail published is "broadly right" in terms of what is actually needed.
150. However, our view is that the current level of reporting goes far beyond what is proportionate in light of the defined purpose of regulatory reporting and the identified attributes. Therefore, a full and proper consideration and review of the data and reporting is required. Overall, we consider the detail we publish falls more into the category of data that is "useful and interesting" to CPs rather than necessary to answer an appropriately defined set of regulatory questions.
151. Furthermore, the level of detail published actually works against providing a truly relevant and reliable set of data in a clear way that can inform decision making. The result is that detail that is already published takes on an inferred relevance and

importance that then shapes both regulatory decisions and ongoing expectations on what is actually necessary.

152. We believe there is considerable scope to change the focus and reduce the overall detail of reporting within the RFS. Our reporting obligations need to more closely capture the specific findings Ofcom makes within each different market review – i.e. the nature of concerns and the choice of remedies adopted and the ongoing scope for behavioural concerns to arise. As we have detailed, our concern is that despite Ofcom’s stated intentions there is limited change in the volume of data we have to publish as a result of this review and that this data will be seen as of more “general interest” to certain CPs rather than specifically relevant for considering compliance. This presents a clear risk that disproportionate publication requirements persist.
153. In this context, we would again emphasise the fact that for compliance purposes:
- charge control compliance can be readily demonstrated through simple year-on-year revenue change statements at the level of baskets and sub-baskets;
 - the relevance of cost orientation compliance issues is driven by the approach Ofcom takes to this issue in the BCMR and subsequent market reviews; and
 - non-discrimination requirements need to be considered in more detail on a case by case (market by market) basis to ensure we are not simply required to disproportionately publish a broad range of granular level data that might be of interest to the CP in considering whether we might be showing undue discrimination in the structure of charges it adopts within markets. The ultimate decision on what is required should at least reflect specific concerns with behaviour in particular markets.
154. Beyond these compliance issues, Ofcom needs to more generally use this review to more fundamentally reconsider the appropriate balance between requiring us to have the capability of generating data to inform and support Ofcom’s decision making in regulatory policy (including specific charge controls) and requiring us to publish data to all stakeholders on an annual basis. Again, such a rethink must be conducted in the relevant market contexts rather than at a more conceptual level so that proportionality and relevance can be properly considered. At the current time, we consider that much of the data we publish should be viewed as simply of “general interest” to CPs rather than meeting the attributes that Ofcom has identified. As noted throughout this response, we believe that streamlining the level of detail in the RFS will itself help improve perceived accuracy and understanding.
155. We would also note that the current level of granularity of reporting is excessive and disproportionate from a pure “materiality” standpoint. To illustrate this, in the 2011-12 RFS, we were required to publish details of 202 services, of which 120 have revenue of less than £10m. The publication of low revenue services is not proportionate.

Question 5.10 – Do you consider that our proposals regarding the level of detail to be published are effective and proportionate? Please provide explanations and evidence to support your views.

156. Ofcom states that its *“final proposals on the appropriate level of detail will be informed by our consultation on cost orientation. However, our current proposals are that: ...”* (paragraph 5.141 of the Consultation).

157. As stated above, we consider that the detailed proposals must be applied on a case-by-case basis, proportionately and effectively reflecting our SMP obligations in specific markets. We await Ofcom’s second consultation on such detailed proposals. Below, we set out our comments on Ofcom’s current proposals.

Proposal 5a: Consider alternative approaches to providing stakeholders with information they need (paragraphs 5.142–5.145 of the Consultation).

158. We welcome Ofcom’s statement that: *“... at this stage we do not rule out the possibility of alternative options that might provide stakeholders with the necessary assurance that BT has complied with its regulatory obligations in an accessible manner i.e. through the provision of different (rather than additional) information to that described later in this section.”* Indeed, we consider that this Consultation provides an opportunity for Ofcom to undertake a fundamental review of our regulatory financial reporting obligations, by proposing a significant streamlining and focus of our reporting requirements, to reflect our SMP obligations in respective regulated markets.

159. We agree with Ofcom that: *“... some stakeholders might consider that publication and explanation of long term cost trends at a market level are more instructive than detailed cost breakdowns at a service level while others might consider that the published financial statements should focus on a few material (or timely) issues rather than try to deal with all issues to the same level of detail each year.”*

160. We believe that the current format of separate schedules and annexes in the published RFS is unhelpful to stakeholders and somewhat confusing. An alternative approach would be, for example, a more logical ordering of the information supplied or the ability to download the RFS in a spread sheet format. We would be happy to explore such and other alternative approaches with Ofcom.

Proposal 5b: Continue to require BT to report at the level of products and services (paragraphs 5.146–5.153).

161. We consider that reporting at market level provides an effective and proportionate means to achieve the purpose underlying our regulatory financial reporting obligations. We do not consider proportionate the general requirement on us to report at the level of products and services, regardless of the SMP conditions applicable in a given market.

162. The European Commission’s recommendation provides that: *“It is recommended that national regulatory authorities make relevant accounting information from notified operators available to interested parties at a sufficient level of detail. The detail of information provided should serve to ensure that there has been no undue discrimination between the provision of services internally and those provided*

externally and allow identification of the average cost of services and the method by which costs have been calculated. In providing information for these purposes, national regulatory authorities should have due regard for commercial confidentiality”²³.

163. As we note in our response to question 5.9 above, reporting at market level provides such an assurance. Detailed products and services information is provided to the regulator at the time of the market review and in the context of investigations in response to information requests. We consider that applying a general requirement for reporting at market level, with potential for requiring more detailed reporting at the level of products and services where there is an SMP costs orientation obligation in a given market, would ensure that our regulatory financial reporting obligations remain effective, proportionate and have due regard to our commercial confidentiality.
164. Only where there is a cost orientation obligation in a specific market, would we expect to provide additional granularity ensuring proportionality is taken account of. In this instance, provision of cost and volumes by appropriately grouped services would be appropriate. We consider that a £10m annual revenue threshold would be a proportionate level of materiality for the minimum size of such a group.
165. Specifically, the current level of detail in the published RFS, i.e. disclosure of each service is unnecessary. Instead, Ofcom should consider an alternative approach where services can be aggregated. This would still provide Ofcom and stakeholders sufficient detail to test compliance but will also align to how our products are actually sold.
166. In addition, there are a number of published services within the published RFS that are at a disproportionate level of disclosure and serve little purpose to the reader, primarily because: the services comprise a number of individual prices; the services comprise a number of individual volumes; and revenue for services are less than £1m and hence shown within rounding.

Proposal 5c: Service level information should continue to include internal and external volume data (paragraphs 5.154-5.158 of the Consultation).

167. As we have explained above, we remain of the view that it is both inappropriate and unnecessary for us to publish separate internal and external numbers costs, volumes and prices as these are unnecessary to actually demonstrate non-discrimination given (a) that the current structural and trading arrangements within BT provide clear comfort that the same prices are faced downstream; and (b) the fact that for relevant services subject to non-discrimination, regulatory reporting can only ever provide a simple statement that prices faced are identical. Furthermore, Article 11, which refers to internal transfer prices, does not require full disclosure of relative volumes. Finally, we do not consider it appropriate for such information to be published as it should be treated as commercially confidential.

²³ [Commission Recommendation of 19 September 2005 on accounting separation and cost accounting systems under the regulatory.](#)

Proposal 5d: It is not necessary to report at price list level, based on current obligations.

Proposal 5e: Where reporting is not provided at price list level, sufficient information should be provided to enable users of the financial statements to understand how services have been aggregated. (paragraphs 5.159-5.164 of the Consultation)

168. We agree that it would not be necessary or desirable to report at price list level. Our price list has thousands of entries. Reporting at such a level would be wholly disproportionate and would require a significant expansion in resource and systems capacity.
169. For example, we consider that it is neither effective nor proportionate to require reporting connections and rentals separately, e.g. not EAD 100Mbit/s connections and 100Mbit/s EAD rental as separate lines, but rather 100Mbit/s EAD as a service (subject to our submission in relation to reporting at market level - see Proposal 5b above).
170. We agree that sufficient information on aggregation of services at a proportionate level should be provided to users of the statements. However, the proposals to provide a mapping of published services in the current published financial statements to our price list are unnecessary. This information is already disclosed in the Wholesale Catalogue which is published as a Secondary Accounting Document²⁴.

Proposal 5f: The requirement to publish the calculation of FAC based on component costs should remain, at least for the time being.

Proposal 5g: The requirement to publish some other statements should be removed. (paragraphs 5.165-5.173 of the Consultation)

171. We responded to Ofcom's Proposal 5f in our response to question 3.4 above. In summary, information in relation to FAC based on component costs, can be misused by stakeholders to assess 'Make or Buy' scenarios, which as Ofcom has noted²⁵ is not the purpose of the statements. This is clearly evidenced in UKCTA's response to the call for inputs:

"the RFS help stakeholders to understand what is driving the price that they pay for key wholesale inputs and whether there are any aspects that they could provide more efficiently themselves...This information acts as a substitute for the range of competitor pricing information that would be accessible in a competitive market"²⁶.

172. Such information should be provided as AFI or in response to information requests, i.e. provided in confidence to Ofcom, rather than via published data.
173. We welcome Ofcom's proposal to remove the requirement to publish some other statements, in particular, the following three annexes from the published RFS:

²⁴ http://www.btplc.com/Thegroup/RegulatoryandPublicaffairs/Financialstatements/2012/WholesaleCatalogue_2012.pdf

²⁵ Ofcom's Regulatory financial reporting: a review 6 September 2012 paragraph 3.48.

²⁶ UKCTA response to call for inputs question 17.

- The Network Activity Statements
- The Network Services Reconciliation
- The Attribution of Wholesale Current Costs and Mean Capital Employed

We see little benefit for stakeholders in publishing these schedules as in most cases this information can be obtained from other parts of the published RFS.

174. As we set out above, the volume and complexity of the information that we are required to publish obscures and prevents the users from an understanding of the statements. As set out elsewhere in this response, we would expect this principle to be extended to other parts of the RFS and the Secondary Accounting Documents. For example, as Ofcom notes, sections 7 and 8 of the statements hold most interest for stakeholders. Sections 7 and 8 should be reduced in size as we propose in our responses to question 5.9 and in relation to Proposal 5b above.

Question 5.11 – How do you consider we should take account of the findings set out in the Deloitte report in determining the appropriate reporting requirements for BT? Please be as specific as possible.

175. Deloitte’s report highlights how the European Commission’s rules have been adopted by the relevant NRAs. Deloitte found that the: *“The requirements of BT’s annual regulatory financial submissions are among the most detailed and onerous in Europe”*²⁷. Furthermore, the report also highlights how other incumbent operators redact commercially sensitive information from the public domain but provide such information separately to their respective NRAs.
176. The report also highlights that: *“recent regulatory trends in Europe indicate movement toward reductions in reporting requirements”*²⁸ with more streamlined cost reports and documentation.

Question 5.12 - Do you consider our proposals to improve the presentation of RFS to be effective and proportionate? Please provide explanations and evidence to support your views.

Proposal 6a: Greater visibility of long term movements.

177. As currently presented, we are not convinced that proposals to provide cost trends over time add any benefit to the published RFS and would question how this could be achieved in practice. There needs to be a balance between the proposals on relevant and proportionate information and the proposals for further detailed information.
178. Such information may also not be relevant to users. The attributes of markets change over time within the communications industry due to factors such as rapid technological evolution and thus our attribution methodologies will also change. For

²⁷ <http://stakeholders.ofcom.org.uk/binaries/consultations/reg-financial-report/annexes/deloitte.pdf> (section 3.4 page 11).

²⁸ <http://stakeholders.ofcom.org.uk/binaries/consultations/reg-financial-report/annexes/deloitte.pdf> (section 3 page 5).

example, in 2007-08 we introduced 21st Century Networks as part of a network evolution into ASPIRE.

Proposal 6b: Additional disclosure to illustrate the impacts of one-off changes.

179. We agree with Ofcom that one-off changes such as CCA holding gains and losses distort the underlying performance and makes it difficult for Ofcom and stakeholders to understand the cause and effect of year on year movements. However, we have incorporated this proposal and provided explanations to one-off events within the most recent RFS²⁹.
180. Ofcom should have addressed the principle of holding gains and losses e.g. the treatment of CCA in this consultation, instead of choosing to delay it. We have set out our initial thoughts in question 4.1 and intend to discuss this further with Ofcom.
181. We have set out our views on the trigger point for restatements in our response to question 4.1 above; to reiterate, the current threshold is proportionate in many cases, but more appropriate thresholds are needed in low value markets.

Proposal 6c: Making the information more user-friendly.

182. Regarding Ofcom's proposal on providing user-friendly information in a format that is easy to access, interpret and use, we agree that the published financial statements could also be presented in spreadsheet format. We currently do this for our Annual Report & Form 20-F, which would allow stakeholders to identify and analyse data more efficiently. We are currently investigating the practicalities of doing this for the current year publications.
183. We should be happy to meet Ofcom and discuss the published financial statements shortly after publication with stakeholders and indeed regularly do so already.

Question 5.13 - Do you consider our above proposals regarding the review of the RFS to be effective and proportionate? Please provide explanations and evidence to support your views.

Proposal 7a: Stakeholders should be given a better understanding of the current audit arrangements.

184. In accordance with generally accepted practice and the guidance issued by the Institute of Chartered Accountants in England and Wales the auditors address their opinions jointly to us and Ofcom. A tri-partite contractual relationship is in place governing this audit appointment which addresses the basis of communications between the parties.
185. Under the current arrangements the auditors do not owe a duty of care to any other party and they have advised us that it would not be appropriate for them to discuss their audit report, audit approach or findings with any other party.

²⁹ http://www.btplc.com/Thegroup/RegulatoryandPublicaffairs/Financialstatements/2012/RFS_2012.pdf (section 1.3, page 7).

Proposal 7b: No change to the current rules regarding the appointment of auditors.

186. We welcome Ofcom's proposal to continue to have the same independent auditors reviewing both the statutory and the regulatory accounts. We do not see the benefits in replacing the current auditors with a new set of auditors who purely focus on our regulatory accounts. We believe that separation of the audit roles would be likely to lead to inefficiencies in the audit process, particularly where an FPIA form of audit opinion is required.

Proposal 7c: Audit opinions will be required at the market level.

187. We welcome Ofcom's proposal on both the continued approach to market level audit opinions and the requirements of FPIA and PPIA.
188. However, as noted above, Ofcom needs to address the current trigger point for restatements as this is a factor in the lack of stakeholder confidence. The current 5% trigger at market level for a restatement of the prior year financial data is proportionate in certain instances only. We discuss this in more detail in our response to question 4.1.

Proposal 7d: The specific requirements for FPIA and PPIA opinions will continue to be determined annually by Ofcom.

189. We agree with these proposals subject to Ofcom notifying us of the opinions required in sufficient time for us to plan accordingly.

Question 5.14 - Do you have any further comments or evidence to inform our assessment of other issues identified in connection with the review of the RFS including a) the arguments for and against a requirement for a BT Director to sign the RFS and b) the cause and/or effect of errors in the RFS?

Proposal 7e: More work to be done to decide whether it would be appropriate to require the published financial statements to be signed by a director.

190. We note Ofcom's proposal on the implications of changing signatories on the RFS. However, our existing practice of signature by non-directors has not led to any problems and we follow strict internal processes in preparing and reviewing the financial statements prior to signature.

Proposal 7f: We need a better understanding of the cause and effect of errors in the RFS.

191. We outlined our initial view on complexity of producing the RFS to Ofcom in our call for inputs response, which is also included in this consultation:

"Our regulatory process is complex and one which feeds into a multi-layered ABC system (ASPIRE) that performs 1.4 million separate calculations. There are a number of issues that add to the complexity of this process, for example many of the circa 200 off-line cost attribution models are interlinked and any changes made within one model would affect others. Furthermore, each change would then require processing through the ten stages of ASPIRE; similarly, each time a new published service has

*been defined; in certain cases, new or modified methodologies may also be required and built into the necessary cost models. The reference data and rules in ASPIRE would also need to be adapted to allow the appropriate costs to flow through the ten stages of allocations to a newly created service*³⁰.

192. There are varying reasons by which errors could potentially occur. For example, we have circa 200 offline models that are complex and interlinked, and any one change would be required to filter through all other interlinking models. It could also be the integration of our feeder systems (those outside of our regulatory process and owned by other lines of business) that can cause problems. Our work to improve our current systems intends to address such problems.

Question 5.15 - Do you agree with Ofcom's proposed approach regarding potential improvements to BT's regulatory reporting systems?

193. Ofcom's proposal to intervene in the design and development of our systems is disproportionate. Our systems, their design, implementation and maintenance should be our responsibility, provided they are appropriate to meet our regulatory financial reporting and other SMP obligations. However, to increase Ofcom's confidence in our systems, we are happy to involve Ofcom in the process of improving our costs accounting systems, as we are already doing at present. We have been in preliminary discussions with Ofcom regarding an improvement to our current regulatory reporting system. We have also outlined to Ofcom the complexity of the current system and our processes in producing the published financial statements³¹.
194. We see the improvement of our regulatory reporting systems as a key point in improving the transparency of the information that we provide.
195. It is our intention that in improving our regulatory reporting systems our focus is purely on a change of hardware and software package. Any new system, will at the point of transition, incorporate the same methodologies in the same amount of stages delivering as a starting point identical results as the previous system. Where results are different we would provide a detailed explanation and reconciliations to the previous system.

Proposal 8a: The objective of this consultation is best served by a more collaborative approach.

196. Our regulatory reporting system aids the production of the results that form the published RFS. These results along with the methodologies and supporting documentation are audited by an independent body to assess whether we have met each of our obligations, thus confirming that the current system remains fit for purpose.
197. We agree that a collaborative approach would help drive confidence in regulatory reporting and are happy to consult with and inform Ofcom of changes to our systems.

³⁰ Ofcom's regulatory financial reporting: a review 6 September 2012, paragraph 4.111.

³¹ Email from BT to Ofcom dated 24 August 2012.

198. However, although we understand that Ofcom has a legitimate role in setting our methodologies, the obligation imposed must be objectively justifiable, not unduly discriminatory, proportionate and transparent (s.47(2) of the Act). Furthermore, wholesale cost accounting obligations may only be imposed where it appears there is a relevant risk of adverse effects arising from price distortions; and conditions are appropriate for the purpose of promoting efficiency, sustainable completion and conferring the greatest possible benefits on the end user (s88(1) of the Act).

199. Therefore, detailed intervention into our system development would be disproportionate, provided that our underlying systems are appropriate for ensuring our compliance with the regulatory financial reporting and other SMP obligations.

Proposal 8b: We will require some assurances that these improvements will be delivered within an appropriate timescale.

200. Any new system development will require time to implement but due to the complexity and size of our business, there is no short term fix. In our preliminary discussions with Ofcom we set out a timetable that outlined the phases over the next three years. Of course the transition period between new and old systems is of primary importance. We set out further details in our response to question 5.16.

Proposal 8c: Stakeholders will want to understand the nature and effect of the changes.

201. We find Ofcom's proposal to ensure stakeholders understand the nature and effects of changes disproportionate. We have to date been open with Ofcom in discussing our plans for developing a new regulatory reporting system.

202. At the planning stage we are willing to provide Ofcom with progress updates and to consult with them and indeed are engaging with Ofcom on this basis.

203. However, we should not be willing to share with Ofcom or other stakeholders detailed documentation, system specification or any other information relating to our system development.

204. At the implementation stage, we would be willing to share progress updates with Ofcom.

205. We see no role for stakeholders in assessing and contributing to model developments, assumption or the underlying structures. Furthermore, we do not see a role for stakeholders in discussing the appropriate level of specification in any published documentation.

Question 5.16 – Do you have any comments on the suggested timing and implications of a transition to a new system?

Proposal 8d: BT will expect clarity on how the data extracted from the new system might be used.

206. We welcome Ofcom's proposal on dealing with transitional change. It is important to have agreement that the starting point for any regulatory decision is the current audited RFS. Once a new system is capable of generating a set of audited published RFS, this would then become the default starting position.
207. We covered issues in respect to systems audit in our response to question 4.1. However, we reiterate that the transition period would be covered by the audit process: for example, our auditors would, in the normal course of their work, conduct testing over controls and re-perform, on a sample basis, system calculations. In order to form their opinions, any material weaknesses in the system would need to be addressed through additional manual processes and related audit testing.

Question 5.17 – Do you agree that there may be scope to reduce the level of published information if BT's regulatory reporting systems are improved in the way described above?

208. Changes to reduce the level of published information could be made prior to the introduction of any new system. The detail within the Primary and Secondary Accounting Documents relates to the attribution methodologies and changes to these methodologies are independent of the system adopted.
209. As noted in our response to question 4.1, there is already considerable scope to reduce the level of published information, for example, changing the wording and audit requirements of the transparency principle.

Question 5.18 – Are there any specific changes which you would propose to KCOM's regulatory reporting requirements?

210. We do not have specific proposals but would expect that any changes should be proportionate to the size and nature of KCOM's operations.

Glossary of terms

- the Act – The Communication Act 2003
- AFI – Additional Financial Information
- BCMR – Business Connectivity Market Review
- CCA – Current Cost Accounting
- the Consultation – Ofcom’s Regulatory financial reporting: a review published 6 September 2012
- CPs – Communication Providers
- DAM – Detailed Attribution Methods
- EoI - Equivalents of Input
- FAC – Fully Allocated Cost
- FPIA – Fairly Presents In Accordance
- IAS – International Accounting Standards
- LRIC – Long Run Incremental Costs
- NRA – National Regulatory Authorities
- PPIA – Properly Prepared In Accordance
- RAV – Regulated Asset Value
- RFS – Regulatory Financial Statements
- SMP – Significant Market Power