



**Changes to BT's regulatory  
financial reporting and audit  
requirements**  
Explanatory statement and Notification

**Statement**

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## Section 1

# Summary

### Scope of this document

- 1.1 On 3 May 2006, Ofcom published a consultation document setting out proposals in respect of British Telecommunications plc (“BT”)’s regulatory financial reporting requirements<sup>1</sup> (the “May Consultation”). The aim of this consultation was to consider the objectives of the regulatory reporting regime and take a fresh look at how these objectives can be met most effectively.
- 1.2 The May Consultation document represented the first stage of a two stage consultation process and set out :
  - *Proposals for changes to be reflected in BT’s 2005/06 Regulatory Financial Statements*, including amendments required following publication of the 2004/05 statements and changes to the audit requirements. Responses to these proposals were required by 14 June 2006; and
  - *The framework for a principles-based review of the reporting framework as the first stage of the two stage consultation process*. Responses to these proposals were required by 12 July 2006 and will be taken into account by Ofcom in developing proposals to be set out in a further consultation on its review of the reporting framework before the end of this year.
- 1.3 This statement considers only the proposals for changes to be reflected in BT’s 2005/06 financial statements.
- 1.4 This document sets out Ofcom’s final decision on the modifications to certain of regulatory financial reporting and audit requirements on BT as set out in “The regulatory financial reporting obligations on BT and Kingston Communications” issued in July 2004 (the “July 2004 Statement”)<sup>2</sup>.

### Summary of final decisions

- 1.5 The changes fall into two categories:
  - Formal amendments to the reporting regime and other enhancements; and
  - Changes to the assurance regime

### Amendments to the reporting regime

- 1.6 Ofcom is making a number of amendments to BT’s reporting obligations that primarily result from the ongoing improvement process involving Ofcom, BT and the industry. These can be summarised as follows:
  - An amended list of network components against which BT is required to cost wholesale services.

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<sup>1</sup> [http://www.ofcom.org.uk/consult/condocs/reg\\_bt/](http://www.ofcom.org.uk/consult/condocs/reg_bt/)

<sup>2</sup> [http://www.ofcom.org.uk/consult/condocs/fin\\_reporting/fin\\_report\\_statement/](http://www.ofcom.org.uk/consult/condocs/fin_reporting/fin_report_statement/)

- Minor improvements to the form and content of the published profit and loss account statement to align depreciation categories with the mean capital employed statements.
- A requirement to provide additional valuation information to Ofcom on copper access assets to inform Ofcom's valuation model.
- A provision to allow aggregation of service level data contained in statements showing internal and external charges where these are immaterial to the statement. BT will however be required to provide Ofcom with the detailed line by line analysis of these aggregated amounts.
- A consent to allow BT to publish the Regulatory Financial Statements up to six months after the end of the reporting period to allow for the changes in this Statement to be properly implemented.

1.7 A proposal to remove two reconciliation statements from the published financial statements will not be implemented following concerns from stakeholders that this would seriously affect the transparency and usefulness of the statements as a whole.

### **Changes to the assurance regime**

1.8 The May Consultation included proposals for the introduction of a requirement for the highest level of assurance (i.e. a “fairly presents” opinion) over the financial statements as a whole (instead of the existing requirements for opinions on all market and service statements) plus further opinions on specific financial statements in areas of particular interest or sensitivity, to be identified by Ofcom on an annual basis. BT's reporting obligations have now been amended in line with these proposals.

### **The amendments do not affect Kingston**

1.9 In this first consultation stage, Ofcom did not review the regulatory financial obligations for Kingston Communication Ltd (“KCL”) as no practical or implementation issues have been raised relating to the detailed application of KCL's obligations requiring formal amendments to its financial reporting and audit requirements. KCL's obligations also reflect and are proportional to its size and complexity relative to BT.

### **Conclusion**

1.10 Ofcom has considered all the responses to the May Consultation and, where appropriate has amended its proposals. Ofcom is satisfied that the modifications made in this statement improve and enhance BT's regulatory reporting regime while taking into account BT's concerns relating to the incremental cost burden of regulatory financial reporting. Ofcom will continue to monitor the impact of these changes and will consider further areas for improvement during the second stage of this consultation process.

## Section 2

# Background and consultation

### The regulatory framework

- 2.1 The current regulatory framework for electronic communications networks and services entered into force on 25 July 2003. The framework is designed to create harmonised regulation across Europe and is aimed at reducing entry barriers and fostering an environment for effective competition to the benefit of consumers. The basis for the current regulatory framework is the five EC Communications Directives:
- Directive 2002/21/EC on a common regulatory framework for electronic communications networks and services (the “Framework Directive”);
  - Directive 2002/19/EC on access to, and interconnection of, electronic communications networks and associated facilities (the “Access Directive”);
  - Directive 2002/20/EC on the authorisation of electronic communications networks and services (the “Authorisation Directive”);
  - Directive 2002/22/EC on universal service and users’ rights relating to electronic communications networks and services (the “Universal Service Directive”) and;
  - Directive 2002/58/EC concerning the processing of personal data and the protection of privacy in the electronic communications sector (the “Privacy Directive”).
- 2.2 The Framework Directive provides the overall structure for the current regulatory regime and sets out fundamental rules and objectives which read across all the new directives. The Authorisation Directive establishes a new system whereby any person will be generally authorised to provide electronic communications services and/or networks without prior approval. The general authorisation replaced the former licensing regime. The Universal Service Directive defines a basic set of services that must be provided to end-users. The Access Directive sets out the terms on which providers may access each others’ networks and services with a view to providing publicly available electronic communications services. These four directives were implemented in the UK on 25 July 2003. This was achieved via the Communications Act 2003 (the “Act”). The fifth Directive on Privacy establishes users’ rights with regard to the privacy of their communications. This Directive was adopted slightly later than the other four directives and was implemented by regulations which came into force on 11 December 2003.
- 2.3 The Act provides for functions, powers and duties to be carried out by Ofcom which include, inter alia, functions, powers and duties flowing from the first four EC Communications Directives referred to above.
- 2.4 Section 4 of the July 2004 Statement set out the six directions given to BT under the SMP Services conditions OA1 to OA34, in Schedule 2 to the Notification at Annex A. Ofcom is now modifying Directions 1, 3 and 4 of those SMP services conditions, which will also affect the application of the Directions given under SMP services conditions FA10.2 at Schedule 2 to the Notification set out in Annex 2 of the Review of the wholesale local access market, dated 16 December 2004 (the “Original FA10 Direction”).

## **The need for regulatory financial reporting information**

- 2.5 Regulatory financial information is fundamental to the economic regulation of the electronic communications sector and in particular to many of the decisions of Ofcom.
- 2.6 The need for regulatory financial reporting information was discussed in detail in paragraphs 2.22 to 2.26 of the July 2004 Statement and, in summary, is used mainly to:
- demonstrate compliance with cost-orientation and non-discrimination obligations;
  - support investigations into potential breaches of conditions or potential anti-competitive practices;
  - set and monitor price controls and;
  - inform policy setting and market reviews.
- 2.7 However it is important to stress that such financial information needs to be provided in a timely manner, be of high quality, prepared to high standards and be relevant to the task at hand.
- 2.8 In addition, certain modifications to current obligations (such as the revision of the Network Component List) will improve the quality and transparency available to Ofcom, the industry and stakeholders.

## **Ofcom's powers to impose financial reporting obligations**

- 2.9 The Act identifies three types of regulatory financial reporting obligations that Ofcom can impose on providers with significant market power (SMP). These are:
- wholesale cost accounting;
  - retail cost accounting; and
  - accounting separation.
- 2.10 These obligations are described in some detail in paragraphs 2.16 to 2.19 of the July 2004 Statement and will not be described again here.
- 2.11 It should be noted that the powers to impose these regulatory financial reporting obligations are subject to certain limitations.

## **Communications Act tests**

- 2.12 Section 3 (1) of the Act sets out the principal duty on Ofcom. Ofcom is required by this section to carry out its functions in line with this duty, that is, to further the interests of citizens in relation to communication matters and to further the interests of consumers in relevant markets, where appropriate, by promoting competition.
- 2.13 Section 4 of the Act requires Ofcom to act in accordance with the six European Community requirements of Article 8 of the Framework Directive for regulation. In summary these requirements are to:

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

2.14 Section 49 of the Act requires Ofcom to ensure that any condition it sets or direction it gives is:

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

### **The consultation process**

2.15 As explained in the May Consultation, this consultation is being held in two stages.

2.15.1 Stage one is in respect of specific proposals for changes to be reflected in BT's 2005/06 regulatory Financial Statements, including amendments required following publication of the 2004/05 Regulatory Financial Statements and changes to the audit requirements.

2.15.2 Stage two will be to build on the framework, set out in the May Consultation, for further consultation on the objectives of good regulatory financial reporting in the new regulatory environment.

2.16 The May Consultation document therefore represented the start of the first stage of this process and set out :

- *proposals for changes to be reflected in BT's 2005/06 Regulatory Financial Statements*, including amendments required following publication of the 2004/05 statements and changes to the audit requirements. Responses to these proposals were required by 14 June 2006; and



- *the framework for a principles-based review of the reporting framework as the first stage of the two stage consultation process.* Responses to these proposals were required by 12 July 2006 and will be taken into account.

2.17 This statement considers only the proposals for changes to be reflected in BT's 2005/06 financial statements. Ofcom plans to issue a further consultation on its review of the reporting framework before the end of this year.

## Section 3

# Modifications to Direction 1

## Network components

- 3.1 Direction 1 operates in conjunction with BT's SMP regulatory reporting conditions in so far as they relate to wholesale markets. The Annex to Direction 1 of the July 2004 Statement, subsequently amended in the statement on Changes to BT's Regulatory Reporting Framework, dated 31 August 2005<sup>3</sup> (the "August 2005 Statement"), specified a list of network components, against which BT must report its costs for each of its wholesale markets subject to a regulatory financial reporting remedy.
- 3.2 As a result of an ongoing improvement review process, Ofcom has prepared a revised network component list (as set out in Annex 10 to the May Consultation) which, among other things, incorporates a number of enhancements to and rationalisation of the previously directed list.
- 3.3 Ofcom recognises the importance of maintaining an ongoing update and improvement process in respect of this network component list reflecting, for example, changes in technologies and regulatory obligations. If the current reporting framework is maintained then Ofcom envisages the list to be significantly amended to take account of BT's next generation networks over the next few years. We will continue to work closely with BT this year with the aim of proposing further improvements to the list in advance of the 2006/07 reporting year.

## Responses to the consultation question on Direction 1

*Question 1: Do you agree with Ofcom's proposals to amend the list of Network Components?*

- 3.4 The changes to the network component list are mainly technical in nature. Two respondents agreed with the proposals with the three remaining respondents supportive of the ongoing improvement process but identifying some specific areas of concern.
- 3.5 Cable and Wireless ("C&W") and the UK Competitive Telecommunications Association ("UKCTA") recognise that the list needs to continually evolve but are concerned that year on year changes may add to the difficulties of cost analysis where consistency over time is important. C&W and UKCTA also feel that the list is far from adequate (e.g. where the components do not allow users to compare relative usage by different products) and that a more comprehensive review is required. C&W and UKCTA also believe that there is inadequate justification to delete components that exclusively relate to non-SMP markets.
- 3.6 Scottish and Southern Energy ("SSE") has no objections to Ofcom's proposed amendments to the network component list however SSE refers specifically to the "service provider gateway" component and that the cost of this component is of significant interest to those who pay charges based on these costs.
- 3.7 Another respondent felt that the revised list is more appropriate to the current business environment and therefore supports Ofcom's proposals.

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<sup>3</sup> <http://www.ofcom.org.uk/consult/condocs/regfinch/statement/>

## Ofcom's view and decision

- 3.8 Ofcom welcomes the detailed comments on the network component list. These views reinforce Ofcom's view that network components play a fundamental role in the costing of wholesale services and therefore the list must be subject to an ongoing review and improvement process. The ten principles or characteristics to guide the definition and network components set out by Ofcom in its consultation on changes to BT's regulatory financial reporting framework in 2005 ([www.ofcom.org.uk/consult/condocs/regfinch/statement/](http://www.ofcom.org.uk/consult/condocs/regfinch/statement/)) establish a clear and objective framework for this work.
- 3.9 Ofcom recognises that there is still a strong emphasis in the network component list on traditional PSTN telephony components reflecting the origins and early focus of the regulatory accounting regime. These technologies are largely becoming obsolete and the list needs to evolve quickly to take account of the development of next generation networks and other technological advances in regulated markets. Ofcom intends to fully engage all interested parties in this process and, for example, will look to the joint industry/BT regulatory accounting forum as a useful arena for discussing potential future changes to the list.
- 3.10 Therefore, recognising that the process of updating and amending component details is an ongoing one, Ofcom considers the proposed amendments as set out in the May Consultation to be appropriate for BT to prepare its 2005/06 Regulatory Financial Statements, but that Ofcom and BT will commence work on further improvements for the 2006/07 reporting year.

## Legal tests

- 3.11 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Direction 1 as set out in this section are met. This section should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this statement.

## Section 3 and 4 duties

- 3.12 As part of the EU market review process Ofcom imposed wholesale cost accounting and accounting separation obligations (conditions and directions) on BT in specific identified markets as appropriate remedies to its SMP in these markets. The relevant individual market reviews have already assessed whether these regulatory accounting obligations met the tests outlined in Sections 3 and 4 of the Act. The changes to Direction 1 are designed to enable BT to more effectively fulfil the purpose for which these particular obligations were imposed (e.g. demonstrate cost orientation and non-discrimination). In consequence Ofcom believes the modifications to Direction 1 meet the tests in Sections 3 and 4.

## Section 49(2) tests

- 3.13 Ofcom considers that modifying Direction 1 in the manner described in paragraphs 3.13 to 3.15 of the May Consultation meets the tests set out at section 49 of the Act being objectively justifiable, proportionate, transparent and not unduly discriminatory.

Objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates

- 3.14 Ofcom considers that modifying Direction 1 in the manner described in paragraphs 3.13 to 3.15 of the May Consultation is objectively justifiable because these changes will enable Ofcom to more effectively monitor compliance and enforce BT's obligations for non-discrimination, cost orientation, cost recovery and price controls.

Not unduly discriminatory against particular persons or against a particular description of persons

- 3.15 Ofcom considers that the modifying Direction 1 in the manner described in paragraphs 3.13 to 3.15 of the May Consultation is not unduly discriminatory because KCL, the only other communications provider with similar obligations, already has a significantly lighter reporting regime.

Proportionate to what it is intended to achieve

- 3.16 Ofcom considers that modifying Direction 1 in the manner described in paragraphs 3.13 to 3.15 of the May Consultation is proportionate because these changes are no more than is necessary for the list of network components to secure its main purposes. These purposes include:
- Enabling costs to be objectively attributed to regulated wholesale services on a causal basis;
  - Facilitating transparency of that costing process; and
  - Avoiding the risk of cost elements not required by the purchasers being bundled into regulated wholesale services.

Transparent in relation to what it is intended to achieve

- 3.17 Ofcom considers that modifying Direction 1 in the manner described in paragraphs 3.13 to 3.15 of the May Consultation is transparent because Ofcom has explained and consulted on each change and provided background explanatory material where appropriate.

## Section 4

# Modifications to Direction 3

## Audit requirements

- 4.1 An independent audit of the published Regulatory Financial Statements provides important assurance to Ofcom and other stakeholders that the financial statements have been prepared using the agreed principles and policies and that, for certain markets, the results are fairly presented.
- 4.2 This section sets out how the audit requirements will be updated for 2005/06 to provide an appropriate level of assurance in a focused and proportionate way.
- 4.3 In the May Consultation, Ofcom explained that it:
- proposed the introduction of a requirement for the highest level of assurance over the financial statements as a whole instead of the existing requirements for opinions on 26 market statements and approximately 85 service statements;
  - considered that the single opinion will not deliver the appropriate level of assurance in markets of particular interest or sensitivity and therefore proposed that further opinions may be required by Ofcom on selected information;
  - proposed a framework for identifying the information that warrants additional assurance;
  - proposed that the requirement for additional assurance can be set annually by Ofcom outside of the directions; and
  - would support the proposals through more effective use of existing arrangements that already provide for Ofcom to require additional work by BT's auditors on Ofcom's behalf.
- 4.4 On this basis, Ofcom proposed modifications to Direction 3.
- 4.5 As set out below, having taken account of responses to the May Consultation, Ofcom will implement the proposed modification to Direction 3, as described in the May Consultation.
- 4.6 This section considers the responses to the May Consultation and sets out how Ofcom will implement the changes under the new requirements in respect of BT's 2005/06 Regulatory Financial Statements.

## Proposals in May Consultation

- 4.7 The form and meaning of audit opinions relating to regulatory financial statements are subject to Directions, issued by Ofcom in July 2004 under OA2<sup>4</sup>. Direction 5 describes the "Fairly presented in accordance with" ("FPIA") opinion, whereas Direction 6 describes the "Properly prepared in accordance with" ("PPIA") opinion.

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<sup>4</sup> [http://www.ofcom.org.uk/consult/condocs/fin\\_reporting/fin\\_report\\_statement/finance\\_report.pdf](http://www.ofcom.org.uk/consult/condocs/fin_reporting/fin_report_statement/finance_report.pdf)

- 4.8 The preferred option in the May Consultation built on proposals made by BT for a single FPIA opinion covering all the financial statements and provided a process for obtaining additional assurance in the areas where Ofcom considers it is necessary, by setting out a process for determining and obtaining additional assurance.
- 4.9 For statements where a blanket opinion was not considered by Ofcom to provide adequate assurance, it was proposed that statement specific opinions be required, at either FPIA or PPIA level. Such opinions are to be published with the annual regulatory financial report.
- 4.10 There may be instances where Ofcom will require a more detailed understanding of the information underlying BT's Regulatory Financial Statements where Ofcom could benefit from the expertise and experience of an independent auditor, carrying out procedures of an audit nature and to report on factual findings. This work would enable Ofcom (the auditors report would not be published) to draw their own conclusions. This arrangement is formalised in international standards (ISRS 4400) which refers to engagements to perform agreed-upon procedures regarding financial information.
- 4.11 This "agreed upon procedures" arrangement has been in place for two years following the implementation of a tri-partite agreement between BT, Ofcom and PricewaterhouseCoopers ("PwC") based on a technical release issued by the Institute of Chartered Accountants in England and Wales.
- 4.12 This approach would allow work to be tailored to meet specific requirements, although these reports would only be available to Ofcom and BT. As set out in the May Consultation these requirements might include procedures undertaken by the auditors over:
- testing of controls around data sources;
  - long form descriptions of attribution methodologies adopted;
  - review of costing methodologies starting from the general ledger; and
  - testing of key apportionment methodologies.
- 4.13 A decision whether to require formal opinions (whether FPIA or PPIA) or take the "agreed upon procedures" route for specific issues requires an assessment of the assurance offered by published audit opinions and the benefits of greater flexibility and focus offered by agreed upon procedures. Ofcom therefore expects to obtain the necessary assurance through a combination of formal opinions and additional reporting to be determined by Ofcom on an annual basis.

## Responses to May Consultation

*Question 7: How important is the audit opinion to your confidence in the regulatory financial statements and to what extent does this confidence depend on the scope of the audit and format of the opinion?*

- 4.14 In its response, BT stated that the audit opinion made a critical contribution to confidence in the Regulatory Financial Statements but raised the question of whether users of the Regulatory Financial Statements understand or place material weight on the assurance derived from the audit opinion.

- 4.15 BT stated that the value of the audit depends on the nature of the opinion, which drives the scope of the audit work and the approach adopted but considered that the contribution of the audit should be considered within the context of the assurance regime as a whole. Specifically, BT identified a range of factors that it considered provided assurance in addition to that provided by the audit. Other respondents looked at the wider assurance regime and specifically the role stakeholders felt they had to play in providing and obtaining additional assurance through their review and use of the Regulatory Financial Statements.
- 4.16 UKCTA stated that the audit opinion was very important and C&W stated that the audit was a vital part of the assurance regime.
- 4.17 A confidential response explained that the respondent valued the audit opinion to the extent that it provided evidence that secondary checks have been undertaken on the data presented, but did not consider that the audit provided sufficient assurance that the data is correct either in part or full, since the process by which the data is being checked was fundamentally limited. Specifically, the respondent identified the following limitations:
- in contrast to a traditional set of financial accounts that are audited according to a set of formal standards BT's regulatory accounts are audited according to the principles outlined within the Primary and Secondary Accounting Documents; this reduces the confidence in the independence of an audit that checks the allocation of costs according to a 'process manual', written by the customer of the audit;
  - a proper change control procedure for the Accounting Documents does not exist; there is no formal procedure for communicating changes e.g. in allocation principle, to readers of the statements or indeed the auditors;
  - at no point within the 'Report of the Independent Auditors' in the 2005 Financial Statement do the auditors refer to the version of the Accounting Documents used for the audit; and
  - the auditors are not likely to be sufficiently close to the detailed engineering principles, used to attribute costs, to challenge the allocation of costs and therefore audit whether the underlying principles on which the accounts are based are correct.
- 4.18 Ofcom considers that there may be grounds to review the change control procedures and will revisit this issue in the consultation on BT's reporting regime planned for later this year.
- 4.19 However, in light of the other points raised by the respondent, Ofcom considers it helpful to provide some clarity regarding the scope of the audit.
- The Primary Accounting Documents set out the framework for the preparation of the Regulatory Financial Statements, by providing an appropriate basis for the preparation of the Statements. The Secondary Accounting Documents set out more detailed descriptions of the policies, methodologies, systems, processes and procedures for calculating the financial information in the Regulatory Financial Statements. In their report, BT's auditors report whether, in forming their opinion on the statements, having reviewed the Primary and Secondary Accounting Documents, the Secondary Accounting Documents are appropriate to implement the principles contained in the Primary Accounting Documents (as agreed by Ofcom);

- The Regulatory Financial Statements identify the relevant version of the accounting documents. For example, the 2005 Regulatory Financial Statements were prepared in accordance with the Primary Accounting Documents dated 2 September 2005;
  - The auditors would be expected to draw on sufficient expertise, including engineering expertise if considered appropriate, to reach the opinion conclusions expressed in their report.
- 4.20 The role for stakeholders in contributing to the level of scrutiny of the financial information provided by BT was raised as an issue as part of the second stage of the May Consultation. Several stakeholders highlighted the perceived limitations inherent in an audit as grounds for making detailed financial information available to the industry. Ofcom will return to this issue in the Consultation to be published later this year. However, for the purpose of setting the audit requirements, Ofcom considers that the adequacy of the audit needs to be considered on its own merits without regard for additional assurance that industry may be able to obtain or provide based on further procedures of their own.
- 4.21 In the May Consultation, Ofcom noted that the complexity of BT's costing system carried inherent limitations to the level of assurance any audit can provide, which meant that the auditors were unable to provide the required opinions on some of the statements and some of the opinions are provided at a lower level than specified.
- 4.22 C&W noted that the auditors had not been able to provide the required opinions in some areas and stated that this was a cause for concern and suggested that the existing requirements do require a review. However, C&W did not think the length of the report was excessive or a cause for a concern in its own right.
- 4.23 BT argued that the value of the audit is undermined if the scope of the audit work and the approach adopted are not explained to readers and unambiguously understood by them, and if the audit opinion is not appropriately focussed and transparent.
- 4.24 Ofcom considers that the proposals set out in the May Consultation provide additional focus and transparency to the audit.

*Question 8: Stating your reasons, do you consider that a single opinion on the financial statements as a whole can provide adequate assurance on individual statements?*

- 4.25 BT believes that a single opinion can provide adequate assurance on individual statements.
- 4.26 However, Ofcom considers that BT's supporting assertion that, "*one opinion on this underlying accounting "engine", that produces the market-by-market accounting separation information, is entirely consistent with the way in which the market statements are produced from the accounting system*" does not accurately reflect the nature of the assurance that a single opinion would provide. Specifically, a single audit opinion only comments on the outputs from the costing systems and processes, not on whether those systems and processes are fit for purpose or is capable of delivering robust outputs. This is a potentially significant distinction when it comes to determining whether a single opinion on the statements as a whole is sufficient.
- 4.27 In support of its preference for a single opinion that covers the entire financial statements, rather than be a granular level of opinion on individual markets, BT



argues that the level of materiality for a user of the accounts should be one that fundamentally affects his view over those financial statements.

- 4.28 Ofcom considers that there are crucial differences between the statutory financial statements, where the level of materiality might reasonably be considered in the context of the statements as a whole, and the Regulatory Financial Statements, where users may be more interested in the reliability of the information relating to a specific service than across the financial statements as a whole.
- 4.29 Specifically, whereas statutory financial statements are intended to provide a picture of the financial position of the company as a whole (and the application of a materiality can be determined on that basis), the Regulatory Financial Statements are a collation of individual statements each required under separate obligations and materiality for audit purposes will need to be assessed in relation to each market.
- 4.30 The users of the statements are therefore likely to be interested in individual services or markets as well as the Regulatory Financial Statements as a whole. Consequently, a materiality level set with regard to the statements as a whole is likely to provide little assurance to the user of statements for a market that might be significant for various reasons yet, in the context of the financial statements as a whole, considered to immaterial because of its size.
- 4.31 Ofcom is therefore not currently satisfied that a single opinion by itself is capable of providing the necessary level of assurance for each statement.
- 4.32 In its response, BT refers to the fact that KCL did not publish separate opinions in 2005. As explained in the May Consultation, Ofcom considers that the reporting obligations imposed on both companies are proportionate.

*Question 9: Do you agree with Ofcom's proposal to amend the audit obligations to move to a regime based on a single audit opinion on the financial statements, plus additional opinions on key statements?*

- 4.33 The responses indicated that there was general agreement with Ofcom's proposal to re-focus the audit effort, although some concerns were expressed regarding the implementation of the proposals. UKCTA stated that,
- “UKCTA recognises the benefits of reducing audit activity that results in little useful output. If this option is implemented correctly, the value of the main audit opinion will not be undermined in any way and a great deal of extra value should be gained by targeting audit work on areas of special significance or concern”.
- 4.34 SSE noted that,
- “We also agree with Ofcom's approach to getting value for money from the audit work that is carried out. As the market develops, it does appear appropriate to consider whether the current approach of separate defined opinions on each of a large range of financial statements could be tailored to provide more useful audit output.”
- 4.35 C&W, stated that

“We agree with Ofcom that the best approach to the audit is to target the audit resources on the areas that are most important and where they can add the most value.”

- 4.36 BT welcomed the proposal to adopt a single over-arching opinion on the financial statements but expressed concern that the additional opinions on key statements are likely to require a level of audit work that will do little to reduce the regulatory burden. Specifically, BT suggests that individual opinions add little value for a considerable increase in audit resource.
- 4.37 As explained above in connection with Question 8, Ofcom considers that individual opinions provide necessary additional assurance for certain statements. Ofcom does not accept that individual opinions add little value, particularly in respect markets that may currently be fairly small in the context of BT’s activities as a whole but could have strategic significance.
- 4.38 Ofcom’s primary focus of its review of BT’s audit requirements is not about reducing BT’s regulatory burden. Ofcom recognises that the audit represents a significant cost to BT, but does not consider it to be disproportionate and considers that the priority for this review was to ensure that the audit effort is deployed to provide the appropriate level of assurance as effectively as possible. It is possible that the changes outlined in this review might result in a reduction in the cost of providing this necessary level of assurance, but, as noted, this is not the primary aim of Ofcom’s review.
- 4.39 In its response, C&W stated that,
- “...of paramount importance is that the audit is sufficient to provide confidence in the statements and ensures that the resultant information is robust enough for the stakeholders to use. This requires that sufficient resources are made available to achieve it.
- This means that the issue is two-fold; how much audit resource is needed to provide the required assurance and how best to target that resource. Cable and Wireless do not believe that either of these issues has been adequately explored in this consultation”
- 4.40 Ofcom would describe the issue somewhat differently. Specifically, Ofcom considers that the two key issues are a) what is the appropriate level of assurance and b) how can that assurance be provided most effectively.
- 4.41 Ofcom considers that there are some basic principles to consider in respect of both the scope and the level of assurance.
- 4.42 In respect of the scope of the audit, the ERG common position paper on Accounting Separation and Cost Accounting, provides useful guidance on the implementation of Commission recommendation C (2005) 3480 and includes the following sections relevant to audit scope, providing guidance that the audit should consider all aspects of the entity’s costing model:
- “The main elements to be covered by the audit are the following: a) the scope of costs included in the model and the scope of costs allocated to individual regulated products (where appropriate); b) the reconciliation between the cost model and statutory accounts; c) correctness of figures, including operational data: volumes,

technological parameters; d) methodologies used regarding amortization, cost capitalization, allocation and for the evaluation of the assets (e.g. current costs); e) transfer charges in separated accounts; f) reconciliation between the cost model and the separated accounts; g) Cost Volume Relationship and accounting system information.”

- 4.43 In respect of the level of assurance, the May Consultation explained that an audit can only ever provide reasonable, not absolute, assurance over the relevant financial statements.
- 4.44 An audit requires the application of judgement and the use of sampling techniques to reach conclusions. Whilst an audit could theoretically be scoped to cover each element of financial statements separately, the provision of absolute assurance would require comprehensive testing of all transactions. This would result in disproportionate costs and unacceptable delays in the reporting cycle. The audit must therefore be scoped in light of the tension between a wish for the maximum level of assurance possible and the recognition that the audit requirements must be proportionate.
- 4.45 Ofcom does not consider the audit requirements on BT to be disproportionate. However, as explained in the May Consultation, Ofcom considers that the requirements may result in some of the audit effort being focussed on work that provides little additional assurance. Ofcom considers that some of this effort would be better directed elsewhere, provided that a minimum level of assurance can be obtained across the financial statements as a whole. As explained in the May Consultation, Ofcom considers that the requirement for an FPIA opinion of the financial statements as a whole plus additional opinions on specific statements meets this objective
- 4.46 Specifically, Ofcom understands that the procurement of a single FPIA opinion would provide some assurance over the financial statements as a whole as it would,
- require audit work to be performed across all aspects of BT's costing system;
  - cover the financial statements in their entirety; and
  - include the application of judgement relating to the appropriateness of methodologies.
- 4.47 However, as explained in the May Consultation, Ofcom is not yet convinced that a single opinion on the financial statements based on a materiality level set by reference to the statements as a whole can provide the necessary level of assurance in respect of more granular information in certain key areas and additional opinions on certain statements will still be necessary.
- 4.48 C&W suggested that an alternative approach would be to group statements into markets with similar characteristics (e.g. all ISDN exchange lines) and require a single opinion on the combination rather than each of the separate markets. Ofcom considers that there may be some merit in this proposal although consolidating markets into larger reporting entities does not seem to be consistent with the obligations placed on BT, but that it is better addressed as part of the ongoing review of the presentation of the Regulatory Financial Statements. Ofcom will therefore return to this issue in the next consultation later this year.

4.49 C&W also stated that;

“The proposal made by Ofcom appears to significantly reduce the audit requirements for the published statements. It is also likely that it will lead to opinions being considered as ‘extra’ when in fact they are a basic requirement for usable financial statements.

Instead we propose that Ofcom continue with the approach from last year for the 2005/6 statements but waive or relax the requirements on some of the smaller or less important markets and services. This solution would enable Ofcom to focus effort on the areas of most importance while allowing more time to consider more significant changes, which could be done in parallel with the planned work on the longer term reporting requirements”.

4.50 Ofcom does not agree that the proposal will lead to opinions being considered as “extra”. To the extent Ofcom considers that they are necessary to provide the necessary level of assurance they will be required as part of the annual audit.

4.51 Further, in practical terms, it is not clear how the proposal to waive some but not all of the requirements provides more assurance than Ofcom’s proposal. Under C&W’s proposal, Ofcom would still need to apply its judgement to determine which of the requirements could be relaxed yet it would be more difficult to add opinions back to the requirements if they subsequently become necessary without the need for modifications to the Direction.

4.52 Ofcom therefore considers that the modification to the Direction proposed in the May Consultation provides the greatest scope for a flexible and focussed approach to the audit while retaining Ofcom’s ability to obtain assurance in the areas it is required.

*Question 10: What criteria do you believe should be taken into account when determining which additional opinions are required, and why?*

4.53 BT stated that if Ofcom decides that additional opinions are required:

“we believe that these should be kept to a minimum and be focussed on those markets that are critical to the development of effective and sustainable competition, and in particular on what are known as “enduring bottlenecks”.

In BT’s view Ofcom’s proposal to seek for an audit opinion on each of 19 individual markets (out of a total of 25 markets where BT is deemed to have SMP) is inconsistent with the benefits of a single over-arching audit opinion”.

4.54 As set out above, Ofcom is currently not convinced of the potential benefits of the single opinion as the sole source of assurance. Specifically, it is not yet clear to Ofcom that a single opinion provides the required level of assurance at the individual statement level, including for example:

- *Markets subject to price controls*, where data must be robust to inform price control decisions and compliance;

- *Markets subject to market review*, where the review process will be reliant on access to reliable data;
  - *Strategic or emerging markets and investments*, such as Next Generation Networks (“NGN”) and Local Loop Unbundling (“LLU”), which may warrant closer scrutiny of the financial data; and
  - *Specific investigations*, where concerns may exist following from recent work that need to be addressed and possibly resolved, such as Partial Private Circuits (“PPCs”).
- 4.55 Respondents also suggested the following criteria to be taken into account when determining the requirements for further opinions:
- Products that form the basic underlying economic bottlenecks (e.g. Wholesale Extension Services (“WES”));
  - Products that are not subject to equivalence of inputs (e.g. PPCs);
  - Economic value;
  - Strategic importance (such as identified bottlenecks) for competition;
  - Likelihood of significant benefits derived from additional opinion;
  - Opportunity to establish best practice (e.g. In attribution methodologies) for other product areas; and
  - Randomness – in order to maintain discipline and rigour in all areas regulatory accounting.
- 4.56 As explained in the May Consultation, the requirement for specific opinions will be reassessed each year to take account of the regulatory environment at the time and the materiality of the markets in question. Ofcom agrees that the criteria suggested by respondents should be considered alongside other issues when exercising its judgement regarding the requirement for additional opinions, and annual requirements on specific statements may be rotated.
- 4.57 BT also proposed that, “Ofcom should specify objective criteria for the withdrawal of both audit opinion and publication, so that further withdrawal can be implemented as a matter of course, rather than being subject to consultation or debate”.
- 4.58 As explained below, the decision regarding the appropriate level of assurance will be made by Ofcom, informed, but not directed, by industry views. It may be that ongoing review leads to further withdrawal of specific requirements based on Ofcom’s assessment of the issues at the time.
- 4.59 Ofcom expects to discuss and agree the audit requirements with BT’s regulatory auditors during the annual tri-partite planning meetings.

*Question 11: When determining the need for additional assurance (via formal opinions or additional reporting), to what extent should Ofcom take account of stakeholder views?*

4.60 One respondent proposed that there should be full consultation on the areas to be audited in detail. Others stressed the importance of informal consultation with stakeholders.

4.61 In this respect Ofcom agrees with the response from BT, that:

“Ofcom should take account of the need to provide assurance to stakeholders to build and maintain confidence in regulatory financial statements. However, the primary focus of the audit opinion is as a report to Ofcom itself, in compliance with obligations placed on BT by the regulator... Ofcom is best placed, with the advice from the independent auditors, to judge the appropriate level of assurance required to demonstrate to it BT's compliance.”

4.62 To inform its judgement, Ofcom will take account of stakeholder views but does not consider that a formal consultation process would be either useful or practicable.

4.63 In order to collate stakeholder views, Ofcom has set up an email address (regulatory.audit@ofcom.org.uk) to which stakeholders can post suggestions for areas of focus for the annual audit. Ofcom will consider these suggestions when discussing the planned scope of the audit with BT's auditors. However, the scope of the audit is ultimately a matter for Ofcom to determine.

*Question 12: Do you have any comments on the proposed requirements for additional opinions, in respect of the statements selected, those not selected and the number selected?*

4.64 For the 2005/06 Regulatory Financial Statements, it was proposed that opinions would be required as summarised below.

4.65 A FPIA opinion will be required on the key areas of regulatory focus at the time. For example, for 2005/06, these include:

- *Material access wholesale markets to be controlled by Openreach.* These bottleneck markets were identified as key markets in the Telecommunications Strategic Review (“TSR”)<sup>5</sup> and financial data that is subject to the highest level of external audit will make an important contribution to the creation of Openreach and stakeholders confidence in access pricing; and
- *Material markets important to the development of broadband services.* These markets (including those relating to partial private circuits) are or have recently been subject to important investigations or policy reviews.

4.66 A PPIA opinion will be required for

- *Material wholesale markets covered by the new network charge controls.* Charge controls have just been agreed and it is these markets that will mainly reflect any cost structure and level changes resulting from the implementation of BT's proposed next generation network; and
- *Material retail markets where reporting is still required.* This data will be important to inform market reviews planned for 2007.

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<sup>5</sup> [http://www.ofcom.org.uk/consult/condocs/statement\\_tsr/#content](http://www.ofcom.org.uk/consult/condocs/statement_tsr/#content)

4.67 The specific opinions that will be required for 2006/07 are listed in Annex 7.

4.68 In its response, BT stated that:

“if Ofcom was to decide that additional opinions are necessary it seems reasonable to focus attention on those markets that are key to the development of effective competition and to the ongoing deregulatory agenda. The criteria set out by Ofcom in paragraphs 4.64 and 4.65 essentially cover all markets other than those already being considered for material deregulation (i.e. Wholesale IDD and the markets subject to the Retail Price Control), so the real reduction in regulatory burden is likely to be very limited in practice”.

4.69 C&W stated that:

“We believe that the PPIA opinion at the product level is important and that the requirement should not be removed without a full explanation as to why it won't materially impact the reliability of the statements”.

4.70 A PPIA opinion provides reasonable assurance that a statement, taken as a whole, has been prepared, in all material respects, in accordance with the detailed procedures described in the Accounting Documents.

4.71 Ofcom considers that PPIA opinions can provide useful assurance. However, as explained in the May Consultation, the structure of BT's costing models is such that a small number of attribution bases accounts for relatively large values with a very long “tail” of smaller less significant bases. The basis of sampling described above results in the auditor testing large numbers of the attribution bases within this tail.

4.72 The proposed move away from a requirement for PPIA opinions at a product level is intended to reduce the level of testing of relatively small attribution bases in markets where such testing delivered little additional coverage and direct the audit effort towards the key areas requiring additional attention.

4.73 It would be possible to require BT to continue to obtain the current level and number of audit opinions, including PPIA opinions at a market level and additionally provide its auditors to provide additional assurance on specific matters, as directed by Ofcom. However, Ofcom does not currently consider that this approach would be proportionate or necessary in order to provide an appropriate level of assurance.

4.74 Turning to the specific requirements, C&W noted that:

“We also note that at the market level three markets are identified as immaterial and, as a result, no opinion is required. One of these markets is wholesale local access; LLU is one of Ofcom's key strategic priorities, it is not immaterial. In fact none of these markets are immaterial and all should be subject to an audit opinion.”

4.75 As noted above, there will be a degree of rotation in the markets selected each year for audit. Although no specific opinion is required in respect of the wholesale local access market this year, it does not follow that the market will not be selected in future years. Further, as the charge ceiling has now been set for LLU and the cost of copper was reviewed last year, in the short term it is unlikely that the outcome of

additional audit of the statement would impact on the regulatory decision. Therefore, for 2005/06, Ofcom does not intend to require an additional opinion on this statement. However, ahead of the next wholesale local access market review, expected in late 2007, Ofcom may consider that an additional opinion is required on the 2006/07 statement.

4.76 UKCTA commented that:

“UKCTA welcomes an approach that aligns with the TSR’s targeting of enduring economic bottlenecks in access and material markets important in the development of broadband.

However, it remains unclear how these opinions will work in conjunction with Ofcom’s general monitoring of compliance with the Undertakings”.

4.77 The 2006/07 Regulatory Financial Statements will separately present the financial results of Openreach and the scope of the regulatory financial audit and the audit opinions will reflect this. However, while the results of the regulatory financial audit will inform any assessment of BT’s compliance with the Undertakings, monitoring compliance with the Undertakings is primarily a matter for the Equality of Access Board (the “EAB”) and the EAB’s annual review of compliance will be subject to a separate audit by external auditors.

4.78 As explained in the May Consultation, there may also be other aspects of BT’s financial information, at a more granular level than the published statements, for which no specific assurance has historically been provided where Ofcom could nevertheless benefit from the expertise and experience of an independent accountant to obtain additional information, yet where a formal opinion on a financial statement is not necessarily appropriate.

4.79 In these cases, useful additional assurance might take the form of agreed upon procedures undertaken by the auditors over:

- testing of controls around data sources;
- long form descriptions of attribution methodologies adopted;
- review of costing methodologies starting from the general ledger; and
- testing of key apportionment methodologies.

4.80 Ofcom proposes to address the need for further factual information using audit approaches through more effective use of contractual arrangements that are already in place between Ofcom and PwC providing for additional work to be undertaken by the auditor in order to report on specific issues or areas of BT’s costing processes. This arrangement has been in place for two years following the implementation of a tri-partite agreement between BT, Ofcom and PwC based on a technical release issued by the Institute of Chartered Accountants in England and Wales and the.

4.81 To date, the audit requirements have separately addressed each published financial statement and no additional audit reporting has been requested by Ofcom. However, these provisions for additional work potentially allow for more in depth analysis of individual services or cost attribution processes than is provided by the current



assurance requirements and therefore offers Ofcom a more targeted approach to its assessment and review of BT's costing system.

4.82 In respect of the proposed requirements, BT have stated that:

“...there would, however, need to be strong reasons for Ofcom to require this extra assurance to be imposed on BT and it should not be as a “matter of course” when Ofcom asks for information. This would be a large additional regulatory burden, and as such it must only be imposed as a “point of last resort”, as it will add a great deal of cost and delay to the production of information to Ofcom.

If Ofcom wishes additional work to be done by the auditors outside the annual review cycle, for example in support of an Ofcom investigation, such work should be paid for by Ofcom itself, in the same way that services from any other independent consultant would be. It would be wholly inappropriate for the costs of work not related to the independent audit of the regulatory financial statements to be borne by BT.”

- 4.83 The approach to gaining the necessary level of assurance from a proportionate level of audit effort might be considered to sit at some point on a spectrum between, at one extreme, a high level of assurance on a narrow range of issues and, at the other, somewhat less assurance on a wider range of issues.
- 4.84 The proposals set out in the May Consultation were designed to move the focus of the audit to the areas where assurance was needed most. In some cases, Ofcom considers that it is likely that the information it requires can be provided most effectively outside of the formal audit opinions, through the use of agreed upon procedures.
- 4.85 Further, Ofcom anticipates that, in the longer term, the ability to procure agreed upon procedures to provide additional information on key issues as and when required may facilitate a move further away from the current regime of requiring high levels of assurance on a wide range of issues.
- 4.86 Ofcom therefore considers that the proposed amendments and the specific audit requirements for 2005/06 as set out in Annex 7 of the May Consultation (and summarised in Annex 6 of this Statement) to be appropriate.

### **Impact of changes in regulatory reporting regime**

- 4.87 The changes proposed above may need to be modified in 2006/07 in light of any significant changes in the reporting regime that may follow as a result of the longer term elements of this consultation.
- 4.88 For example, an opinion provided on a set of financial statements provides only limited assurance in respect of the same financial data analysed elsewhere. In the event that future audited statements provide more summarised information than they do at present, the value of the audit opinion on those statements, in terms of the assurance it provides regarding more detailed analysis provided by BT to Ofcom, will have to be revisited.

## Implementation of proposals

- 4.89 The requirement for an audit opinion is set out in Condition OA5 of BT's regulatory financial reporting obligations, which states that:

"BT shall in respect of the Market, Technical Areas and the Disaggregated Activities (as applicable) for each Financial Year:

a. prepare such Regulatory Financial Statements as directed by Ofcom from time to time in accordance with the Accounting Documents (the relevant Accounting Documents to be identified in the Regulatory Financial Statements by reference to their date);

b. secure the expression of an audit opinion upon the Regulatory Financial Statements as directed by Ofcom from time to time;"

- 4.90 Direction 3 to BT's regulatory financial reporting obligations directs:

"BT shall, for the purposes of Condition OA5 and as appropriate, prepare, secure an appropriate audit opinion of, deliver to Ofcom and publish the Regulatory Financial Statements in accordance with Annexes A, B and C to this Direction."

- 4.91 Annexes A, B and C to Direction 3 specify the audit requirements for each statement.

- 4.92 In order to move to a single FPIA opinion, it will therefore be necessary to update Direction 3.

- 4.93 If the current audit requirements set out in Annexes A, B and C to Direction 3 were replaced with the specific opinions that will be required for 2005/06 the Direction would need to be updated each year in light of the ongoing assessment process described above and these changes would necessarily be subject to consultation as required by section 49(4) of the Act.

- 4.94 While the legal weight of the Directions provide certainty that BT will procure the necessary opinions, having to modify Direction 3 on a regular basis to accommodate changes in the focus of assurance would introduce a significant administrative burden for Ofcom and limit the responsiveness of the regime to changes in circumstances.

- 4.95 Ofcom therefore proposes that Direction 3 will be updated to require a single FPIA opinion on the financial statements as a whole and provide for further opinions on selected statements as specified by Ofcom from time to time.

- 4.96 As noted above, the need for additional assurance on specific issues will be secured under the terms of the existing contractual arrangements in place between Ofcom and PwC.

## Legal tests

- 4.97 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Direction 3 as proposed in this section are met. This section should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this consultation document.

## Relevant tests

- 4.98 Ofcom is required to be satisfied that the modification of directions is in accordance with the requirements of section 49(2) of the Act. Ofcom also has to consider and act in accordance with its general duties in section 3 of the Act and the six Community requirements in section 4 of the Act.

## Section 3 and 4 – general duties & the six Community requirements

- 4.99 Section 3 of the Act sets out the duties of Ofcom in carrying out its functions, in particular that it furthers the interests of citizens in relation to communications and furthers the interests of consumers in relevant markets.
- 4.100 Section 4 of the Act requires that Ofcom acts in accordance with the six Community requirements concerning: the promotion of competition; the development of the European internal market; the promotion of the interests of all EU citizens; non-discrimination; promoting efficiency and sustainable competition and the maximum benefit for consumers; and facilitating service interoperability and securing freedom of choice for consumers.
- 4.101 As part of the EU market review process, Ofcom imposed wholesale and retail cost accounting and accounting separation obligations (conditions and directions) on BT in specific markets; as appropriate remedies to its SMP in these markets. The individual market reviews have already assessed whether these obligations meet the tests outlined in sections 3 and 4 of the Communications Act.
- 4.102 Ofcom considers that the modifications contained within this section are consistent with the SMP obligations flowing from these markets reviews and, therefore, also meet the tests set out in sections 3 and 4 of the Act.

## Section 49(2) tests

- 4.103 Ofcom has the ability to modify a direction that gives effect to an SMP obligation under section 49 of the Act but only where it is satisfied that the tests under section 49(2) has been met. The tests are that the modification of the direction is:
- (a) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
  - (b) not unduly discriminatory against particular persons or against a particular description of persons;
  - (c) proportionate to what it is intended to achieve; and
  - (d) transparent in relation to what it is intended to achieve.

### Objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates

- 4.104 Ofcom considers that modifying Direction 3 in the manner described in paragraph 4.76 of the May Consultation is objectively justifiable as it allows Ofcom to direct higher level of assurance on financial statements for particular markets and services where it feels that more detailed level of scrutiny is necessary, as well as reducing unnecessary regulatory burdens on BT and reducing the costs that are incurred by BT in satisfying regulatory financial reporting obligations.

- 4.105 Ofcom does not consider that the proposal significantly reduces the impact on the assurance provided by the audit on the financial statements as a whole, as it feels the current arrangements require the production of audit opinions for financial statements over a large number of markets and services, some of which are of only minor importance and value.
- 4.106 Further, as Ofcom retains the ability to nominate particular markets and services for which it desires a more detailed audit opinion, it is open to Ofcom replicate the current assurance regime should circumstances require it to do so.

#### Not unduly discriminatory against particular persons or against a particular description of persons

- 4.107 Ofcom considers that modifying Direction 3 in the manner described in paragraph 4.76 of the May Consultation is not unduly discriminatory.
- 4.108 BT and KCL are the only communications providers in the fixed communications market to have SMP in multiple markets and therefore can be treated as a class of communications provider. As a consequence of having SMP in multiple markets they are the only providers in respect of which Ofcom imposes reporting obligations and are therefore the only providers with audit requirements.
- 4.109 Ofcom is not currently reviewing KCL's audit regime as the scale and scope of current requirements on KCL are less extensive than for BT. Ofcom therefore does not consider its review of the requirements for the audit of BT's regulatory financial information only is unduly discriminatory against either BT or KCL.

#### Proportionate to what it is intended to achieve

- 4.110 Ofcom considers that modifying Direction 3 in the manner described in paragraph 4.76 of the May Consultation is proportionate in that it does not introduce any additional regulatory or financial burden on BT but rather has the potential to decrease such burdens without affecting the integrity of the assurance regime.

#### Transparent in relation to what it is intended to achieve

- 4.111 Ofcom considers that modifying Direction 3 in the manner described in paragraph 4.76 of the May Consultation is transparent in that its effect is clearly set out in this document and the draft modification of Direction 3 is set out at Annex 11.

## Section 5

# Modifications to Direction 4, consent to amend publication date and removal of two published statements

## Changes to the form and content of published financial statements

- 5.1 The May Consultation proposed some minor modifications to the pro-forma profit and loss account statement in respect of the analysis of depreciation so that the descriptions align with the asset descriptions in the mean capital employed statement at a sub-total level. This will allow users to see better the main asset types that drive the depreciation charge.

## Responses to the proposed changes to the form and content of published financial statements

*Question 2: Do you agree with Ofcom's proposals to modify the form and content of the pro-forma profit and loss account?*

- 5.2 All respondents agreed that this minor modification would improve the form and content of the statements.

## Additional financial information ("AFI"): regulatory asset value of copper access network assets

- 5.3 The May Consultation proposed that BT be required to provide Ofcom with the asset data necessary to maintain and update the valuation model used to calculate an asset specific regulatory asset value for copper access assets. This model was used to recalculate the cost of copper access network assets that form significant inputs to access products such as wholesale line rental. The annual updates of the data will allow Ofcom to maintain the model for future reference.

## Responses to the proposed AFI in respect of the regulatory asset value of copper access network assets

*Question 3: Do you agree with Ofcom's proposals to require BT to provide access asset valuation information?*

- 5.4 All respondents agreed with Ofcom's proposal.

## Additional financial information: details of transfer charges

- 5.5 BT's published financial statements contain schedules that set out in detail internal and external sales (including related volumes) from SMP wholesale markets and purchase by BT's SMP retail markets. The primary purpose of these statements is to demonstrate compliance with non-discrimination obligations. To avoid long lists of transfer charges which would detract from the overall purpose of the statements, Ofcom propose that where an individual charging line is immaterial to the market then this can be aggregated into one line in the published statements. However, it is

also proposed that BT provide Ofcom with the detailed transfer charge data included in any aggregated lines.

## Responses to the proposed additional financial information: details of transfer charges

*Question 4: Do you agree with Ofcom's proposals for modifying the transfer charging statements?*

- 5.6 BT, UKCTA, SSE and another respondent broadly agree with Ofcom's proposal. Some respondents asked for clarity regarding the assessment of materiality where transfer charges are aggregated. Ofcom's view is that it is not possible to quantify explicitly the materiality thresholds but as a rule of thumb it would not normally expect the total value of aggregated services in any one market to exceed 10% of the internal turnover of that market. The line by line details behind any aggregated line would of course be provided to Ofcom.
- 5.7 C&W believe that these transfer charging statements are a vital part of the regulatory accounting regime particularly in demonstrating BT's compliance with its non-discrimination obligations. C&W also believe that compliance cannot be effective unless information on the downstream markets (SMP and non-SMP) is available. There may also be differences in BT's supply of services internally and externally where C&W believe stakeholder scrutiny is important to ensure there is no discriminatory behaviour. In the context of these ongoing concerns, C&W is broadly supportive of Ofcom's proposal.
- 5.8 Another respondent asked for further clarification of Ofcom's comment that the presentation of the statements will be enhanced so that the basis of charging and volumes would be made clearer. The same respondent also referred to the potential difficulties of tracking year on year changes where services may be aggregated in one year but disaggregated in another. This refers to further work Ofcom has carried with BT to ensure that the disclosure unambiguously sets out the volume measure used as well as the charge for each service.

## Ofcom's view and decision

### Changes to the form and content of published financial statements

- 5.9 Ofcom welcomes the broad support from respondents for this change and confirm that these changes will be implemented as originally proposed.

### Additional financial information ("AFI"): regulatory asset value of copper access network assets

- 5.10 Ofcom welcomes the broad support from respondents for this change and confirm that these changes will be implemented as originally proposed.

### Additional financial information: details of transfer charges

- 5.11 Although the majority of respondents were broadly supportive of the proposals to amend the presentation of the transfer charges from BT's SMP wholesale markets, Ofcom recognises that effective compliance monitoring of BT's non-discrimination obligations is of fundamental importance to remedying aspects of BT's SMP in designated markets. In this context, Ofcom will look at concerns expressed by respondents relating to the scope (e.g. information required from downstream

products) and detail of internal transactions in the next stages of this consultation. In the meantime, Ofcom will implement to proposed changes in respect of BT's 2005/06 Regulatory Financial Statements. .

### Legal tests

- 5.12 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for the modification of Direction 4 as set out in this Section are met. This Section should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this statement.

### Section 3 and 4 duties

- 5.13 As part of the EU market review process Ofcom imposed wholesale cost accounting and accounting separation obligations (conditions and directions) on BT in specific identified markets as appropriate remedies to its SMP in these markets. The relevant individual market reviews have already assessed whether these regulatory accounting obligations met the tests outlined in Sections 3 and 4 of the Communications Act. The changes to Direction 4 are designed to enable BT to more effectively fulfil the purpose for which these particular obligations were imposed (e.g. demonstrate cost orientation and non-discrimination). In consequence Ofcom believes the modifications to Direction 4 meet the tests in sections 3 and 4.

### Section 49(2) tests

- 5.14 Ofcom considers that modifying Direction 4 in the manner described in paragraphs 3.31 to 3.35 of the May Consultation meets the tests set out at section 49 of the Act being objectively justifiable, proportionate, transparent and not unduly discriminatory.

#### Objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates

- 5.15 Ofcom considers that modifying Direction 4 in the manner described in paragraphs 3.31 to 3.35 of the May Consultation is objectively justifiable because these changes will improve understanding of the published statements, provide Ofcom with data to effectively monitor copper access network asset values and allow for transfer charges to be disclosed in a reasonable but not extensive level of detail.

#### Not unduly discriminatory against particular persons or against a particular description of persons

- 5.16 Ofcom considers that the modifying Direction 4 in the manner described in paragraphs 3.31 to 3.35 of the May Consultation is not unduly discriminatory because KCL, the only other communications provider with similar obligations, already has a significantly lighter reporting regime.

#### Proportionate to what it is intended to achieve

- 5.17 Ofcom considers that modifying Direction 4 in the manner described in paragraphs 3.31 to 3.35 of the May Consultation is proportionate because they are no more than is necessary to secure important improvements to the disclosure of regulatory accounting information.

## Transparent in relation to what it is intended to achieve

- 5.18 Ofcom considers that modifying Direction 4 in the manner described in paragraphs 3.31 to 3.35 of the May Consultation is transparent because Ofcom has explained and consulted on each change and provided background explanatory material where appropriate.

## **Amendment to the publication date of BT's Regulatory Financial Statements**

- 5.19 BT is required under condition OA6 (b) to publish the Regulatory Financial Statements and any corresponding audit opinions within 4 months after the period to which they relate. Due to the changes outlined in this document and other related work, Ofcom proposed to amend this publication timetable by consenting for the publication of the Regulatory Financial Statements to be no later than six months after the period end (that is, no later than 29 September 2006 in respect of the 2005/06 reporting period).

## **Responses to the proposed consent to amend the publication date of BT's Regulatory Financial Statements**

*Question 5: Do you agree with Ofcom's proposals to extend the period in which BT can publish its regulatory financial statements for 2005/06?*

- 5.20 BT agreed with Ofcom's proposed consent but indicated that earlier publication in future years would only be feasible if there was a substantial reduction in the amount of detail either required to be published and/or provided to Ofcom, or in the level of audit assurance required.
- 5.21 C&W, UKCTA and SSE agree with Ofcom's proposed consent. C&W stressed the importance of early publication in order to maintain the value and relevance of the information.
- 5.22 Another respondent did not agree with the proposed consent and suggested that the financial statements in their original form be published within the four month period followed later by a set of financial statement incorporating the changes required by this statement.

## **Ofcom's view and decision**

- 5.23 Ofcom welcomes the majority of the respondents agreement that a small delay in the publication date is reasonable in the circumstances and intends to issue a consent to BT allowing the publication date to be no later than six months after the reporting period.
- 5.24 Ofcom also believes that the current obligation to publish within 4 months of the reporting period end is justifiable and proportionate given the importance of prompt and effective compliance monitoring. Ofcom does not accept BT's view that the level of detail prepared constrains the publication timetable.
- 5.25 Ofcom believes that the preparation of two sets of financial statements as suggested by one respondent would place a disproportionate burden on BT, lead to some confusion over which set was the prime set of financial statements and complicate the audit process whilst adding little value to the process.



## Legal tests

- 5.26 The section below sets out Ofcom's reasons why it considers that the relevant legal tests under the Act for granting the Consent as attached (Annex 4) are met. This Section should be read in the light of relevant considerations and Ofcom's conclusions as set out above in this statement.

## Section 3 and 4 duties

- 5.27 As part of the EU market review process Ofcom imposed wholesale cost accounting and accounting separation obligations (conditions and directions) on BT in specific identified markets as appropriate remedies to its SMP in these markets. The relevant individual market reviews have already assessed whether these regulatory accounting obligations met the tests outlined in Sections 3 and 4 of the Communications Act. The changes to Direction 4 are designed to enable BT to more effectively fulfil the purpose for which these particular obligations were imposed (e.g. demonstrate cost orientation and non-discrimination). In consequence Ofcom believes the modifications to Direction 4 meet the tests in Sections 3 and 4.

## Section 49(2) tests

- 5.28 Ofcom considers that granting a Consent in the manner described in paragraph 3.43 of the May Consultation meets the tests set out at section 49 of the Act being objectively justifiable, proportionate, transparent and not unduly discriminatory.

### Objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates

- 5.29 Ofcom considers that granting the Consent as described in paragraph X.X is objectively justifiable because it allows BT sufficient time in which to prepare an important set of financial statements for compliance purposes recognising implementation issues caused primarily by the changes required by this statement.

### Not unduly discriminatory against particular persons or against a particular description of persons

- 5.30 Ofcom considers that granting the Consent in the manner described in 3.43 of the May Consultation is not unduly discriminatory because KCL (the only other operator with a similar condition) does not have such extensive or detailed reporting requirements and is not subject to any change contained in this statement.

### Proportionate to what it is intended to achieve

- 5.31 Ofcom considers that granting the Consent in the manner described in 3.43 of the May Consultation is proportionate because it recognises the additional resource necessary to implement the changes to the reporting regime contained in this statement.

### Transparent in relation to what it is intended to achieve

- 5.32 Ofcom considers that granting the Consent in the manner described in 3.43 of the May Consultation is transparent because Ofcom has explained and consulted on the Consent and provided background explanatory material where appropriate.

## Reconciliation statements - transfers to "additional financial information" and "additional financial statements"

- 5.33 Ofcom proposed that two reconciliation statements be removed from the published Regulatory Financial Statements and supplied, in the same form, to Ofcom. These statements are the BT inter-market turnover reconciliation (BT note 15a in the 2004/05 Regulatory Financial Statements) and the BT wholesale markets reconciliation (BT note 11 in the 2004/05 Regulatory Financial Statements). Ofcom consider these statements to be an important check on the integrity of the accounts but that their compliance function may not be as strong as other statements and therefore, on balance, proposed that the obligation to publish be removed.

## Responses to: "Reconciliation statements - transfers to 'additional financial information' and 'additional financial statements'

*Question 6: Do you agree with Ofcom's proposals to add the inter-market turnover reconciliation and the wholesale markets reconciliation to the list of additional financial information or statements provided to Ofcom and delete the requirement to publish these statements?*

- 5.34 BT and SSE agree with Ofcom's proposal to remove these statements from the published Regulatory Financial Statements but still require their preparation and provision to Ofcom.
- 5.35 C&W strongly rejected Ofcom's proposal. C&W indicated that the wholesale markets reconciliation provides a quick and easy way to understand where particular components are used and how much is used by non-SMP services. C&W also suggest that the inter-market turnover reconciliation proved helpful in understanding transactions between markets.
- 5.36 UKCTA does not indicate one way or another if it agrees with Ofcom's proposal but recognises that the format of the statements could be greatly improved. UKCTA also wish to see some form of additional reconciliation assurance if the statements are no longer published.
- 5.37 Another respondent disagrees with Ofcom's proposal on the basis that the information in these statements is unique and cannot be derived from other data. The respondent believes that Ofcom has provided insufficient justification to remove these statements from the published document.

## Ofcom's view and decision

- 5.38 Ofcom notes that BT's main competing network operators all find these statements useful in interpreting the data in respect of BT's cost orientation and non-discrimination obligations although their main purpose is to provide assurance that the individual market statements reconcile in total.
- 5.39 These statements provide a useful insight into key features of the regulatory accounting system. For example the wholesale markets reconciliation provides an overview of the attribution (using fully attributed costing methodologies) of network component costs across all markets which can be a useful indicator of the level and spread of significant common costs. On the other hand, the inter-market turnover reconciliation statement shows the affects of the transfer charging arrangements between markets providing users of the accounts with an appreciation of the

materiality of these transfers in the defined markets. This in turn provides information important to the monitoring of BT's non-discrimination obligations.

- 5.40 Ofcom also notes that the presentation of these statements could be improved by rationalising some of the line and column headings. This would aid clarity and understanding but retain the reconciling totals.
- 5.41 Ofcom is therefore withdrawing this proposed change and will maintain the publication obligation on BT. Ofcom will also discuss with BT improvements to the form and content of these two statements to aid user understanding.

## Annex 1

# Notification of Modification to Direction 1

### NOTIFICATION UNDER SECTION 49 OF THE COMMUNICATIONS ACT 2003

**Direction modifying Directions under section 49 of the Communications Act 2003 and SMP Services Condition OA2 and FA10.2 specifying network components for the purposes of SMP Services Conditions OA1 to OA34, AA1 to AA12, BA1 to BA6, EA1 to EA7, FA1 to FA10, G1 to G9, GG1 to GG9, H1 to H8, HH1 to HH8, KA1 to KA4 and PA1.**

#### WHEREAS:

(A) as a result of a market analysis carried out by the Director General of Telecommunications (the 'Director') and OFCOM in accordance with section 79 of the Act, BT has been designated as having SMP in respect of certain identified markets in accordance with section 79 of the Act;

(B) as a result of such SMP designations, BT has been subjected to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act, including:

- a) conditions OA1 to OA34 and FA10, imposing obligations on BT in respect of wholesale cost accounting, retail cost accounting and accounting separation in relation to BT's activities in those markets where BT has been designated as having SMP; and
- b) conditions AA1 to AA12; BA1 to BA6; EA1 to EA7, FA1 to FA10, G1 to G9; GG1 to GG9; H1 to H8, HH1 to HH8, KA1 to KA4 and PA1 imposing, amongst other things, obligations on BT in respect of the publication of reference offers and the notification of prices in relation to BT's activities in those markets where BT has been designated as having SMP;

(C) in the SMP services conditions referred to in paragraph B above, 'Network Components' are defined to mean the network components specified in any direction given by the Director or Ofcom (as appropriate) from time to time for the purpose of those conditions;

(D) by virtue of the Transitional Provisions, references to the Director in any of those SMP services conditions should be read as references to OFCOM;

(E) conditions OA2 and FA10 include, in accordance with section 45(10) of the Act, the ability for OFCOM to make such directions as they consider appropriate from time to time in relation to BT's obligations under conditions OA1 to OA34 and FA10, respectively;

(F) this Direction modifies:

- i. Direction 1 given under SMP Services Condition OA2 at Annex 4 of The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004 (the "Original Direction 1"), which relates to BT's obligations under SMP services conditions OA1 to OA34, in that it specifies the network components which apply for the purposes of those conditions; and

- ii. a Direction given under SMP Services Condition FA10.2 at Schedule 2 to the Notification set out in Annex 2 of the Review of the wholesale local access market, dated 16 December 2004 (the “Original FA10 Direction”), which relates to BT's obligations under SMP services condition FA10, in that it specifies the network components which apply for the purposes of that condition.

(G) this modified Direction also serves to specify the network components which apply for the purposes of other SMP services conditions set out at paragraph B(b) above;

(H) for the reasons set out in the explanatory statement accompanying this modified Direction, OFCOM are satisfied that, in accordance with section 49(2) of the Act, this Direction is:

- (i) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
- (ii) not such as to discriminate unduly against particular persons or against a particular description of persons;
- (iii) proportionate to what it is intended to achieve; and
- (iv) in relation to what it is intended to achieve, transparent;

(I) for the reasons set out in the explanatory statement accompanying this modified Direction, Ofcom have considered and acted in accordance with the six Community requirements set out in section 4 of the Act and their duties in section 3 of the Act;

(J) on 3 May 2006, Ofcom published a notification of the proposed modified Direction in accordance with section 49 of the Act (the “First Notification”);

(K) a copy of the First Notification was sent to the Secretary of State, the European Commission and the regulatory authorities at every other Member State in accordance with section 50 of the Act;

(L) in the First Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 14 June 2006;

(M) by virtue of section 49(9) of the Act, OFCOM may give effect to the proposal set out in the First Notification, with or without modification, only if:

- a) they have considered every representation about the proposal that is made to them within the period specified in the Notification; and
- b) they have had regard to every international obligation of the United Kingdom (if any) which has been notified to them for this purpose by the Secretary of State;

(N) Ofcom has considered every representation about the proposed modified Direction duly made to them and these representations are discussed in the statement accompanying this modified Direction; and the Secretary of State has not notified OFCOM of any international obligation of the United Kingdom for this purpose;

**NOW, therefore, pursuant to section 49 of the Act and Conditions OA2 and FA10, OFCOM hereby gives the following modification to the Original Direction 1 and the Original Direction FA10:**

1. The network components which apply for the time being for the purposes of SMP services conditions OA1 to OA34, AA1 to AA12, BA1 to BA6, EA1 to EA7, FA1 to FA10, G1 to G9, GG1 to GG9, H1 to H8, HH1 to HH8, KA1 to KA4 and PA1 are those specified at Annex A to this modified Direction.

2. For the purpose of interpreting this modified Direction, the following definitions shall apply:

- a) "Act" means the Communications Act 2003 (c. 21);
- b) "BT" means British Telecommunications plc, whose registered company number is 1800000, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 736 of the Companies Act 1985, as amended by the Companies Act 1989;
- c) "Director" means the Director General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
- d) 'OFCOM' means the Office of Telecommunications;
- e) "Notification" means the Notifications which set in place the obligations on BT referred to in recital (B) of this modified Direction above; and
- f) 'Transitional Provisions' means sections 408 and 411 of the Act, the Communications Act 2003 (Commencement No.1) Order 2003, and the Office of Communications Act 2002 (Commencement No. 3) and Communications Act 2003 (Commencement No. 2) Order 2003.

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

4. For the purpose of interpreting this modified Direction:

- a) headings and titles shall be disregarded; and
- b) the Interpretation Act 1978 (c. 30) shall apply as if this Direction were an Act of Parliament.

5. This Direction shall take effect on the day it is published.

6. The Schedule to this modified Direction shall form part of this modified Direction.

**Andrew Heaney**

**Competition Policy Director, Ofcom**

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

**16 August 2006**

## ANNEX A

Annex A to the Original Direction 1 and the Original Direction FA10 are amended to reflect the additions and deletions of the list of network components as highlighted below:

Local exchange concentrator	1
Local exchange call set up	2
Local exchange call duration	3
Main exchange call set up	4
Main exchange call duration	5
Remote-local transmission link	6
Remote-local transmission length	7
Local-tandem transmission link	8
Local-tandem transmission length	9
Inter-tandem transmission link	10
Inter-tandem transmission length	11
Product management, policy & planning for narrowband call services	12
National operator assistance	13
Fibre access lines	21
CWSS network terminating equipment & serving exchange equipment	22
DWSS network terminating equipment & serving exchange equipment	23
PDH multiplexors at third party site	24
SDH multiplexors at third party site	25
SDH (MSH) multiplexors at third party site	26
PDH multiplexors	27
SDH mutliplexors	28
SDH cross connection/grooming equipment	29
Tributary card for SDH network by size	30
SDH (MSH) mutliplexors	31
SDH (MSH) cross connection/grooming equipment	32
Tributary card for SDH (MSH) network by size	33
Transmission links over fibre	34
Transmission links over radio	35
Network research and development	38
Carrier Pre Selection System Set-Up	41
Carrier Pre Selection Operator Set-Up	42
Carrier Pre Selection Customer Set-Up	43
Carrier Pre Selection in life management	44
Private circuit specific	46
E-side copper (capital)	49
D-side copper (capital)	51
D-side copper (current)	52
Local exchange general frames (capital)	53
Local exchange general frames (current)	54
Dropwire (capital) including PSTN NTE	55
Business PSTN drop maintenance	56
Residential PSTN drop maintenance	57
Pair gain	58
PSTN line test equipment	59
Test access management system (TAMS)	60



PSTN line cards	61
ISDN2 line cards	62
ISDN2 NTE / other	63
ISDN2 drop (maintenance)	64
ISDN 30 (line cards / maintenance)	65
DSLAM (capital / maintenance)	66
External WLR SG & A	68
Internal WLR SG & A	69
Local loop unbundling room build activities	72
Local loop unbundling hostel activities	73
Local loop unbundling tie cables	74
Shared local loop unbundling (SMPF) connection activities	75
FRIACO Ports	76
ATM customer interface 2mb	77
ATM customer interface 34mb	78
ATM customer interface > 155mb	79
ATM network interface	80
ATM network switching	81
Internal PPC SG & A	82
External PPC SG & A	83
ISDN30 connections	86
ADSL connection activities	89
SDSL connection activities	90
ISDN30 takeovers	99
External ISDN30 connection activities	100
External ISDN30 transfer activities	101

### **New components on the list**

<u>Customer Sited Interconnect circuits (CSI) 2Mbit link</u>	102
<u>Customer Sited Interconnect circuits (CSI) 2Mbit per km</u>	103
<u>E side copper current</u>	50
<u>Emergency operator assistance (999)</u>	104
<u>Intra Building Circuit (IBC) connection</u>	105
<u>Intra Building Circuit (IBC) rental</u>	106
<u>SG &amp; A Access (excl. Wholesale &amp; Retail)</u>	107
<u>SG &amp; A private circuits</u>	108
<u>LAN &amp; Wholesale extension services</u>	109
<u>Backhaul extension services</u>	110
<u>Routing &amp; records</u>	111
<u>MDF hardware jumpering</u>	112
<u>Software jumpering</u>	113
<u>Call centre costs</u>	114
<u>Point of Handover electronics</u>	115
<u>Wholesale Access specific</u>	116

### **Deletions from previous list**

<del>Wholesale bad debts</del>	48
<del>Signalling links</del>	37
<del>Service provider gateway (capital / maintenance)</del>	96
<del>Outpayments: other</del>	19

Outpayments: non-geographic calls	16
Outpayments: international	18
Outpayments: geographic calls	15
Outpayments: calls to mobile	17
International operator assistance	14
International network	20
Internal PSTN takeovers activities	94
Internal PSTN residential connection activities	85
Internal PSTN business connection activities	84
Internal ISDN2 takeover activities	95
Internal ISDN2 residential connection activities	88
Internal ISDN2 business connection activities	87
Infrastructure returns	40
In-building links	36
IN platform	45
Guarantee schemes	39
External PSTN transfer activities	93
External PSTN connection activities	92
External ISDN2 transfer activities	98
External ISDN2 conversion activities	91
External ISDN2 connection activities	97
Alternative interface symmetric broadband origination specific	47
Other SG & A	67
Local loop unbundling system set up	70
Local loop unbundling connection activities	71

## Annex 2

# Notification of Modification to Direction 3

### NOTIFICATION UNDER SECTION 49 OF THE COMMUNICATIONS ACT 2003

#### **Direction modifying Directions under section 49 of the Communications Act 2003 and SMP Services Conditions OA2 FA10.2 specifying requirements for the preparation, audit and delivery of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting**

#### **WHEREAS:**

(A) as a result of a market analysis carried out by the Director General of Telecommunications (the 'Director') and OFCOM in accordance with section 79 of the Act, BT has been designated as having SMP in respect of certain identified markets in accordance with section 79 of the Act;

(B) as a result of such SMP designations, BT has been subjected to various SMP Services Conditions in accordance with sections 45 and 86 to 92 of the Act, including conditions OA1 to OA34 and FA10 imposing obligations on BT in respect of wholesale cost accounting, accounting separation and retail cost accounting in relation to BT's activities in those markets where BT has been designated as having SMP;

(C) in complying with the SMP services conditions referred to in paragraph B above, and in particular conditions OA5 and FA10.5, BT is required to, amongst other things:

- a) prepare;
- b) secure an audit opinion in respect of;
- c) deliver to OFCOM (with the corresponding audit opinion); and
- d) publish (with the corresponding audit opinion)

the Regulatory Financial Statements as directed by OFCOM from time to time.

(D) by virtue of the Transitional Provisions, references to the Director in any of those SMP services conditions should be read as references to OFCOM;

(E) on 18 August 2005, Ofcom published a document entitled "Review of BT's network charge controls – Explanatory Statement and Notification of decisions on BT's SMP status and charge controls in narrowband wholesale markets" in which it determined that, among other things, BT did not, either individually or jointly with others, have significant market power in the market for Inter-tandem conveyance and transit on fixed public telephone networks in the UK excluding the Hull Area;

(F) a consequence of the determination referred to in (E), the SMP services conditions imposed on BT as they apply to the market for Inter-tandem conveyance and transit on fixed public telephone networks in the UK excluding the Hull Area should no longer apply;

(G) condition OA2 and FA10 include, in accordance with section 45(10) of the Act, the ability for OFCOM to make such directions as they consider appropriate from time to time in relation to BT's obligations under conditions OA1 to OA34 and FA10;

(H) this Direction modifies:

- i. Direction 3 given under SMP Services Condition OA2 at Annex 4 of The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004 (“the Original Direction 3”), which relates to BT’s obligations under SMP services conditions OA1 to OA34, in that it sets out an amendment to the Regulatory Financial Statements which are required to be prepared, audited (including the level of audit), delivered to OFCOM and/or published by BT under condition OA5; and
- ii. a Direction given under SMP Services Condition FA10.2 at Schedule 4 to the Notification set out in Annex 2 of the Review of the wholesale local access market, dated 16 December 2004 (the “Original FA10 Direction”), which relates to BT’s obligations under SMP services condition FA10, in that it sets out an amendment to the Regulatory Financial Statements which are required to be prepared, audited (including the level of audit), delivered to OFCOM and/or published by BT under condition FA10.5;

(I) for the reasons set out in the explanatory statement accompanying this modified Direction, OFCOM are satisfied that, in accordance with section 49(2) of the Act, this Direction is:

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

(J) for the reasons set out in the explanatory statement accompanying this modified Direction, Ofcom have considered and acted in accordance with the six Community requirements set out in section 4 of the Act and their duties in section 3 of the Act;

(K) on 3 May 2006, Ofcom published a notification of the proposed modified Direction in accordance with section 49 of the Act (the “First Notification”);

(L) a copy of the First Notification was sent to the Secretary of State, the European Commission and the regulatory authorities at every other Member State in accordance with section 50 of the Act;

(M) in the First Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 14 June 2006;

(N) by virtue of section 49(9) of the Act, OFCOM may give effect to the proposal set out in the First Notification, with or without modification, only if:

- a) they have considered every representation about the proposal that is made to them within the period specified in the Notification; and
- b) they have had regard to every international obligation of the United Kingdom (if any) which has been notified to them for this purpose by the Secretary of State;

(O) Ofcom has considered every representation about the proposed modified Direction duly made to them and these representations are discussed in the statement accompanying this

modified Direction; and the Secretary of State has not notified OFCOM of any international obligation of the United Kingdom for this purpose;

**NOW, therefore, pursuant to section 49 of the Act and Conditions OA2 and FA10, OFCOM hereby gives the following modification to the Original Direction 3 and the Original FA10 Direction:**

1. The original Direction 3 and the Original FA10 Direction shall be modified as set out in annexes A, B C and D to this modified Direction.
2. For the purpose of interpreting this modified Direction, the following definitions shall apply:
  - a) "Act" means the Communications Act 2003 (c. 21);
  - b) "BT" means British Telecommunications plc, whose registered company number is 1800000, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 736 of the Companies Act 1985, as amended by the Companies Act 1989;
  - c) "Director" means the Director General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
  - d) "OFCOM" means the Office of Telecommunications;
  - e) "Notification" means the Notifications which set in place the obligations on BT referred to in recital (B) of this modified Direction above; and
  - f) "Transitional Provisions" means sections 408 and 411 of the Act, the Communications Act 2003 (Commencement No.1) Order 2003, and the Office of Communications Act 2002 (Commencement No. 3) and Communications Act 2003 (Commencement No. 2) Order 2003.
3. Except insofar as the context otherwise requires, words or expressions shall have the meaning assigned to them in this notification and otherwise any word or expression shall have the same meaning as it has in the Notification and otherwise any word or expression shall have the same meaning as it has in the Act.
4. For the purpose of interpreting this modified Direction:
  - a) headings and titles shall be disregarded; and
  - b) the Interpretation Act 1978 (c. 30) shall apply as if this Direction were an Act of Parliament.
5. This Direction shall take effect on the day it is published.
6. The Schedule to this modified Direction shall form part of this modified Direction.

**Andrew Heaney**

**Competition Policy Director, Ofcom**

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

**16 August 2006**

## **ANNEX A**

### **The Original Direction 3 is hereby amended as follows:**

1. The words “secure an appropriate audit opinion in respect of” are deleted in paragraph 1.
2. The following paragraphs are inserted after paragraph 1:

” 1A. BT shall, for the purposes of condition OA5 secure an appropriate audit opinion on an FPIA basis in respect of the published Regulatory Financial Statements as a whole.

1B. BT shall, for the purposes of condition OA5 secure an appropriate audit opinion in respect of each Regulatory Financial Statement, either on an FPIA or PPIA basis as shall be notified in writing to BT from time to time by Ofcom.”

## **ANNEX B**

### **The Original FA10 Direction is amended as follows:**

1. The words “secure an appropriate audit opinion in respect of” are deleted in paragraph 1.
2. The following paragraphs are inserted after paragraph 1:

” 1A. BT shall, for the purposes of condition FA10.5 secure an appropriate audit opinion on an FPIA basis in respect of the published Regulatory Financial Statements as a whole.

1B. BT shall, for the purposes of condition FA10.5 secure an appropriate audit opinion in respect of each Regulatory Financial Statement, either on an FPIA or PPIA basis as shall be notified in writing to BT from time to time by Ofcom.”

## **ANNEX C**

**Annexes A, B and C of the Original Direction 3 are hereby amended in that the words, symbols and columns struck through below are deleted from the annexes and the words and symbols underlined below are inserted in the annexes.**



## Annex A to Direction 3

### Wholesale Cost Accounting Financial Statements

For the purposes of this annex the following abbreviations are used, the scope of these statements is set out in the matrix of obligations that follows; references to annexes are to the form and content direction attached at Schedule 4 to the Notification dated 8 April 2004. In the table below, X means that the financial statement set out at the head of the column is required for the market or service on that row.

Please note, the separation of the tables into Parts A to F is purely for presentational purposes.

- CCPS = 'current cost primary statements', current cost profit and loss statement (CC P&L) and statement of current cost mean capital employed (CC MCE), as set out in Annexes 13 & 14 in relation to wholesale services, Annexes 11 & 12 in relation to wholesale segments (when designated), Annexes 9 & 10 in relation to individual wholesale markets;
- RTW = 'reconciliation to wholesale', reconciliation of CC P&L and CC MCE to wholesale level - consolidation across group of markets covered by review, followed by consolidation of these consolidations, to give consolidated CC P&L and CC MCE for wholesale markets subject to cost accounting (as set out in Annexes 5 & 6);
- RTSA = 'reconciliation to statutory accounts', reconciliation of consolidated CC P&L and CC MCE for wholesale markets subject to cost accounting to the profit and loss account and balance sheet of the operator shown in their statutory financial statements (as set out in annexes 27 & 28, supported by annexes 29, 30, 31 & 32)
- SoCC Ext = statement of costs and charges for wholesale service supplied in the market, other than those which are only Internal Wholesale Services (as set out in annex 34);
- SoCC Int = statement of costs and charges for wholesale service supplied in the market, which are only Internal Wholesale Services (as set out in annex 35);
- SoAC FA = statement of activity costs on a current fully allocated cost basis for the market (as set out in Annexes 38), supported by consolidated statement of activity costs on a current fully allocated cost basis (as set out in Annexes 37),
- NCR FA = attribution of activity costs on a current fully allocated cost basis for the market (as set out in annex 40), supported by consolidated attribution of activity costs on a current fully allocated cost basis (as set out in annex 39),
- SoAC IC = consolidated statement of activity costs on a incremental and standalone cost basis (as set out in Annex 41)
- RFR – regulatory financial review, as set out in annex 2;
- SDR – statement of responsibility, as set out in annex 3
- FPIA – Audit Opinion required for statements, for inclusion in audit report as set out in annex 4
- PPIA – Audit opinion required for statements, for inclusion in audit report as set out in annex 4
- Notes – notes to the financial statements, as set out in annex 23
- RMP – retail markets purchase statement, as set out in annex 26
- SPS – summary, for reconciliation purposes, of profitability by wholesale service (as set out in annex 36);
- AFI (a) – cost category analysis AI-1 (LRIC) and AI-3 (FAC) (as set out in annex 42)
- AFI (b) – summarised activity analysis AI-4 (FAC) and AI-2 (LRIC) (as set out in annex 42)

- AFI (c) – analysis of depreciation charge and CCA adjustments AI-5 and CCA fixed asset movement statement AI – 6 (as set out in annex 42)
- AFI (d) – mean capital employed and summarised activity analysis for all network components AI – 7 and network activity analysis of mean capital employed for all network components AI –9 (as set out in annex 42)
- AFI (e) – analysis of outpayments AI – 8 (as set out in annex 42)
- AFI (f) – indices applied for CCA revaluation AI-10 (as set out in annex 42)
- AFI (g) – assets valuation and useful economic life analysis AI-11 (as set out in annex 42)
- AFI (h) – marketing expenditure analysis AI-12 (as set out in annex 42)
- AFI (i) – operating cost and mean capital employed by plant group AI- 13 (as set out in annex 42)
- AFI (j) – CPS set up costs AI- 14 (as set out in annex 42)

## Part A

### Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation

	Financial statements					Audit		Published
	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>								
<b>Wholesale residential analogue exchange line services</b>	X	X	X			✗		X
- wholesale service A	X			X			✗	
- wholesale service B ...	X				X		✗	
<b>Wholesale business analogue exchange line services</b>	X	X	X			✗		X
- wholesale service A	X			X			✗	
- wholesale service B ...	X				X		✗	
<b>Wholesale business ISDN2 exchange line services</b>	X	X	X			✗		X
- wholesale service A	X			X			✗	
- wholesale service B	X				X		✗	
<b>Call origination on fixed public narrowband networks</b>	X	X	X			✗		X
- WS Call originating local exchange segment <u>PSTN and ISDN (excluding Operator Assistance)</u>	X			X			✗	
- WS Call originating local exchange segment (incl Operator Assistance)	X			X			✗	
- WS Call originating local exchange segment ISDN (including Operator Assistance)	X			X			✗	
- WS Call origination local exchange Stick	X				X		✗	
- WS Call origination local exchange Stick (ISDN)	X				X		✗	
- WS Local exchange call origination circuit excluding FRIACO port	X			X			✗	

	Financial statements					Audit		Published
	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>								
- WS FRIACO port at the local exchange	X			X			X	
- WS PPP for FRIACO	X			X			X	
- NTS retailing services	X			X			X	
<b>Inter-tandem conveyance and transit on fixed public narrowband networks</b>	X	X	X			X		X
- WS Inter-tandem conveyance short	X			X			X	
- WS Inter-tandem conveyance medium	X			X			X	
- WS Inter-tandem conveyance long	X			X			X	
- WS Inter-tandem conveyance short (ISDN)	X			X			X	
- WS Inter-tandem conveyance medium (ISDN)	X			X			X	
- WS Inter-tandem conveyance long (ISDN)	X			X			X	
- WS Inter-tandem conveyance for IDD	X			X			X	
- WS Inter-tandem transmission for IDD	X			X			X	
- WS Inter-tandem conveyance for IDD (ISDN)	X			X			X	
- WS Inter-tandem transmission for IDD (ISDN)	X			X			X	
- WS Inter-tandem transit short	X			X			X	
- WS Inter-tandem transit medium	X			X			X	
- WS Inter-tandem transit long	X			X			X	
<b>Local-tandem conveyance and transit on fixed public narrowband networks</b>	X	X	X			X		X
- WS Local-tandem conveyance segment	X			X			X	
- WS Local-tandem conveyance segment (ISDN)	X			X			X	
- WS LTT Stick	X				X		X	
- WS LTT Stick (ISDN)	X				X		X	
- WS Local-tandem circuit excluding FRIACO port at tandem exchange	X			X			X	
- WS FRIACO port at the tandem exchange	X			X			X	

	Financial statements					Audit		Published
	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>								
<b>Single transit on fixed public narrowband networks</b>	X	X	X			X		X
- WS Single transit segment	X			X			X	
- WS Single transit segment <u>PSTN and ISDN</u>	X			X			X	
<b>Technical areas</b>	X	X	X			X		X
- WS standard CSI connection	X			X			X	
- WS standard CSI rental - fixed	X			X			X	
- WS standard CSI rental per km	X			X			X	
- WS high performance CSI connection	X			X			X	
- WS high performance CSI rental - fixed	X			X			X	
- WS high performance CSI rental per km	X			X			X	
- WS ISI connection	X			X			X	
- WS ISI rental per 100m	X			X			X	
- WS IEC connection	X			X			X	
- WS IEC rental - fixed	X			X			X	
- WS IEC rental – per km	X			X			X	
- WS intra-building circuits connection	X			X			X	
- WS intra-building circuits rental	X			X			X	
- WS rearrangements	X			X			X	
- WS path protection connection per 34 Mbits/s	X			X			X	
- WS path protection connection per 140 Mbits/s	X			X			X	
- WS path protection rental per 34 Mbits/s	X			X			X	
- WS path protection rental per 140 Mbits/s	X			X			X	

### Review of the fixed geographic call termination markets

	Financial statements					Audit		Published
	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>								
<b>Fixed geographic call termination</b>	X	X	X			✗		X
- WS Call termination local exchange segment	X			X			✗	
- WS Call termination local exchange segment (ISDN)	X			X			✗	
- WS Call termination local exchange stick	X				X		✗	
- WS Call termination local exchange stick (ISDN)	X				X		✗	

## Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
<b>Wholesale markets and illustrative services</b>								
<b>Traditional interface symmetric broadband origination (up to and including 8Mbit/s);</b>	X	X	X			X		X
- WS service A	X			X			X	
- WS service B	X				X		X	
- <u>Partial and Private Circuits 64kbit/s - connection</u>				X				
- <u>Partial and Private Circuits 64kbit/s - link</u>				X				
- <u>Partial and Private Circuits 64kbit/s - transmission</u>				X				
- <u>Partial and Private Circuits 64kbit/s – local end</u>				X				
- <u>Partial and Private Circuits 2mbit/s - connection</u>				X				
- <u>Partial and Private Circuits 2mbit/s - link</u>				X				
- <u>Partial and Private Circuits 2mbit/s - distribution</u>				X				
- <u>Partial and Private Circuits 2mbit/s - local end</u>				X				
- <u>RBS Backhaul sub 2mb rental</u>				X				
- <u>RBS Backhaul sub 2mb connection</u>				X				
- <u>RBS Backhaul 2mb rental</u>				X				
- <u>RBS Backhaul 2mb connection</u>				X				
- <u>SDSL</u>				X				
<b>Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);</b>	X	X	X			X		X
- WS service A	X			X			X	
- WS service B	X				X		X	
- <u>Partial and Private Circuits 34/45mbit/s - link</u>				X				
- <u>Partial and Private Circuits 34/45mbit/s - distribution</u>				X				
- <u>Partial and Private Circuits 34/45mbit/s -local end</u>				X				

	Financial statements					Audit		Published
	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
<b>Wholesale markets and illustrative services</b>								
- <u>Partial and Private Circuits 140/155mbit/s - link</u>				X				
- <u>Partial and Private Circuits 140/155mbit/s - distribution</u>				X				
- <u>Partial and Private Circuits 140/155mbit/s - local end</u>				X				
<b>Alternative interface symmetric broadband origination (all bandwidths)</b>	X	X	X			X		X
- WS service A	X			X			X	
- WS service B	X				X		X	
- <u>WES/LES</u>	X			X				
- <u>BES</u>	X			X				
<b>Wholesale trunk segments (including Kingston upon Hull)</b>	X	X	X			X		X
- WS service A	X			X			X	
- WS service B	X				X		X	
- <u>Partial and Private circuits 2mbit/s - trunk</u>				X				
- <u>Partial and Private circuits 34/45mbit/s - trunk</u>				X				
- <u>Partial and Private circuits 140/155mbit/s - trunk</u>				X				
- <u>Partial and Private circuits 622mbit/s - trunk</u>				X				
<b>Technical areas (as necessary, including fixed and per km variants)</b>	X	X	X			X		X
- <u>In Span Handover ("ISH")</u>	X			X			X	
- <u>Customer Sited Handover ("CSH");</u>	X			X			X	
- <u>ISH extension circuits</u>	X			X			X	
- <u>Synchronous Transfer Mode ("STM")-1 ISH and CSH handover</u>	X			X			X	
- <u>Point of Handover ("PoH")</u>	X			X				



## Part B

### Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>								
<b>Wholesale residential analogue exchange line services</b>	X	X	X	X	X	✗		X (except NCRFA)
- wholesale service A					X		✗	
- wholesale service B ...					X		✗	
<b>Wholesale business analogue exchange line services</b>	X	X	X	X	X	✗		X (except NCRFA)
- wholesale service A					X		✗	
- wholesale service B ...					X		✗	
<b>Wholesale business ISDN2 exchange line services</b>	X	X	X	X	X	✗		X (except NCRFA)
- wholesale service A					X		✗	
- wholesale service B					X		✗	
<b>Call origination on fixed public narrowband networks</b>	X	X	X	X	X	✗		X (except NCRFA)
- WS Call originating local exchange segment <u>PSTN and ISDN</u> (excluding Operator Assistance)					X		✗	
- WS Call originating local exchange segment (incl Operator Assistance)					X		✗	
- WS Call originating local exchange segment ISDN(incl Operator Assistance)					X		✗	

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>								
- WS Call origination local exchange Stick					X		X	
- WS Call origination local exchange Stick (ISDN)					X		X	
- WS Local exchange call origination circuit excluding FRIACO port					X		X	
- WS FRIACO port at the local exchange					X		X	
- WS PPP for FRIACO					X		X	
- NTS retailing services					X		X	
<b>Inter-tandem conveyance and transit on fixed public narrowband networks</b>	X	X	X	X	X	X		X
<del>- WS Inter-tandem conveyance short</del>					X		X	
<del>- WS Inter-tandem conveyance medium</del>					X		X	
<del>- WS Inter-tandem conveyance long</del>					X		X	
<del>- WS Inter-tandem conveyance short (ISDN)</del>					X		X	
<del>- WS Inter-tandem conveyance medium (ISDN)</del>					X		X	
<del>- WS Inter-tandem conveyance long (ISDN)</del>					X		X	
<del>- WS Inter-tandem conveyance for IDD</del>					X		X	
<del>- WS Inter-tandem transmission for IDD</del>					X		X	
<del>- WS Inter-tandem conveyance for IDD (ISDN)</del>					X		X	
<del>- WS Inter-tandem transmission for IDD (ISDN)</del>					X		X	
<del>- WS Inter-tandem transit short</del>					X		X	
<del>- WS Inter-tandem transit medium</del>					X		X	
<del>- WS Inter-tandem transit long</del>					X		X	
<b>Local-tandem conveyance and transit on fixed public narrowband networks</b>	X	X	X	X	X	X		X (except NCRFA)
- WS Local-tandem conveyance segment					X		X	
- WS Local-tandem conveyance segment (ISDN)					X		X	
- WS LTT Stick					X		X	

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>								
- WS LTT Stick (ISDN)					X		X	
- WS Local tandem circuit excluding port at tandem exchange					X		X	
- WS FRIACO port at the tandem exchange					X		X	
<b>Single transit on fixed public narrowband networks</b>	X	X	X	X	X	X		X (except NCRFA)
- WS Single transit segment					X		X	
- WS Single transit segment <u>PSTN</u> and ISDN					X		X	
<b>Technical areas</b>	X	X	X	X	X	X		X (except NCRFA)
- WS standard CSI connection					X		X	
- WS standard CSI rental - fixed					X		X	
- WS standard CSI rental per km					X		X	
- WS high performance CSI connection					X		X	
- WS high performance CSI rental - fixed					X		X	
- WS high performance CSI rental per km					X		X	
- WS ISI connection					X		X	
- WS ISI rental per 100m					X		X	
- WS IEC connection					X		X	
- WS IEC rental - fixed					X		X	
- WS IEC rental – per km					X		X	
- WS intra-building circuits connection					X		X	
- WS intra-building circuits rental					X		X	
- WS rearrangements					X		X	
- WS path protection connection per 34 Mbits/s					X		X	
- WS path protection connection per 140 Mbits/s					X		X	
- WS path protection rental per 34 Mbits/s					X		X	

Changes to BT's regulatory financial reporting and audit requirements – Statement

	Financial statements					Audit		Published
Wholesale market and illustrative services	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
<del>-WS path protection rental per 140 Mbits/s</del>					✗		✗	

### Review of the fixed geographic call termination markets

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOA C IC	RFR	SDR	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>								
<b>Fixed geographic call termination</b>	X	X	X	X	X	✗		X (except NCRFA)
- WS Call termination local exchange segment					X		✗	
- WS Call termination local exchange segment (ISDN)					X		✗	
- WS Call termination local exchange stick					X		✗	
- WS Call termination local exchange stick (ISDN)					X		✗	

## Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
<b>Wholesale markets and illustrative services</b>								
<b>Traditional interface symmetric broadband origination (up to and including 8Mbit/s);</b>	X	X	X	X	X	✗		X (except NCRFA)
- WS service A					X		✗	
- WS service B					X		✗	
- <u>Partial and Private Circuits 64kbit/s - connection</u>					X			
- <u>Partial and Private Circuits 64kbit/s – link</u>					X			
- <u>Partial and Private Circuits 64kbit/s - transmission</u>					X			
- <u>Partial and Private Circuits 64kbit/s – local end</u>					X			
- <u>Partial and Private Circuits 2mbit/s - connection</u>					X			
- <u>Partial and Private Circuits 2mbit/s - link</u>					X			
- <u>Partial and Private Circuits 2mbit/s - distribution</u>					X			
- <u>Partial and Private Circuits 2mbit/s - local end</u>					X			
- <u>RBS Backhaul sub 2mb rental</u>					X			
- <u>RBS Backhaul sub 2mb connection</u>					X			
- <u>RBS Backhaul 2mb rental</u>					X			
- <u>RBS Backhaul 2mb connection</u>					X			
- <u>SDSL</u>					X			
<b>Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);</b>	X	X	X	X	X	✗		X (except NCRFA)
- WS service A					X		✗	
- WS service B					X		✗	
- <u>Partial and Private Circuits 34/45mbit/s – link</u>					X			
- <u>Partial and Private Circuits 34/45mbit/s - distribution</u>					X			

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
<b>Wholesale markets and illustrative services</b>								
- Partial and Private Circuits 34/45mbit/s - local end					X			
- Partial and Private Circuits 140/155mbit/s - link					X			
- Partial and Private Circuits 140/155mbit/s - distribution					X			
- Partial and Private Circuits 140/155mbit/s - local end					X			
<b>Alternative interface symmetric broadband origination (all bandwidths);</b>	X	X	X	X	X	✗		X (except NCRFA)
- WS service A					X		✗	
- WS service B					X		✗	
- <u>WES/LES</u>					X			
- <u>BES</u>					X			
<b>Wholesale trunk segments (including Kingston upon Hull)</b>	X	X	X	X	X	✗		X (except NCRFA)
- WS service A					X		✗	
- WS service B					X		✗	
- <u>Partial and Private circuits 2mbit/s - trunk</u>					X			
- <u>Partial and Private circuits 34/45mbit/s - trunk</u>					X			
- <u>Partial and Private circuits 140/155mbit/s - trunk</u>					X			
- <u>Partial and Private circuits 622mbit/s - trunk</u>					X			
<b>Technical areas (as necessary, including fixed and per km variants)</b>	X	X	X	X	X	✗		X (except NCRFA)
- <u>In-Span Handover ("ISH")</u>					✗		✗	
- <u>Customer Sited Handover ("CSH");</u>					✗		✗	
- <u>ISH extension circuits</u>					✗		✗	
- <u>Synchronous Transfer Mode ("STM")-1 ISH and CSH handover</u>					✗		✗	
- <u>Point of Handover ("PoH")</u>					X			

## Part C

### Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
<b>Wholesale market and illustrative services</b>								
<b>Wholesale residential analogue exchange line services</b>	X		X			✗		X (except SPS)
- wholesale service A	X						✗	
- wholesale service B ...	X						✗	
<b>Wholesale business analogue exchange line services</b>	X		X			✗		X (except SPS)
- wholesale service A	X						✗	
- wholesale service B ...	X						✗	
<b>Wholesale business ISDN2 exchange line services</b>	X		X			✗		X (except SPS)
- wholesale service A	X						✗	
- wholesale service B	X						✗	
<b>Call origination on fixed public narrowband networks</b>	X		X			✗		X (except SPS)
- WS Call originating local exchange segment <u>PSTN and ISDN (excluding Operator Assistance)</u>	X						✗	
- WS Call originating local exchange segment (incl Operator Assistance)	X						✗	
- WS Call originating local exchange segment ISDN (incl Operator Assistance)	X						✗	
- WS Call origination local exchange Stick	X						✗	
- WS Call origination local exchange Stick (ISDN)	X						✗	
- WS Local exchange call origination circuit excluding FRIACO port	X						✗	



	Financial statements				Audit		Published
	Notes	RMP	SPS		FPIA	PPIA	
<b>Wholesale market and illustrative services</b>							
- WS FRIACO port at the local exchange	X					X	
- WS PPP for FRIACO	X					X	
<del>- NTS retailing services</del>	<del>X</del>					<del>X</del>	
<b>Inter-tandem conveyance and transit on fixed public narrowband networks</b>	X		X			X	X
<del>- WS Inter-tandem conveyance short</del>	<del>X</del>					<del>X</del>	
<del>- WS Inter-tandem conveyance medium</del>	<del>X</del>					<del>X</del>	
<del>- WS Inter-tandem conveyance long</del>	<del>X</del>					<del>X</del>	
<del>- WS Inter-tandem conveyance short (ISDN)</del>	<del>X</del>					<del>X</del>	
<del>- WS Inter-tandem conveyance medium (ISDN)</del>	<del>X</del>					<del>X</del>	
<del>- WS Inter-tandem conveyance long (ISDN)</del>	<del>X</del>					<del>X</del>	
<del>- WS Inter-tandem conveyance for IDD</del>	<del>X</del>					<del>X</del>	
<del>- WS Inter-tandem transmission for IDD</del>	<del>X</del>					<del>X</del>	
<del>- WS Inter-tandem conveyance for IDD (ISDN)</del>	<del>X</del>					<del>X</del>	
<del>- WS Inter-tandem transmission for IDD (ISDN)</del>	<del>X</del>					<del>X</del>	
<del>- WS Inter-tandem transit short</del>	<del>X</del>					<del>X</del>	
<del>- WS Inter-tandem transit medium</del>	<del>X</del>					<del>X</del>	
<del>- WS Inter-tandem transit long</del>	<del>X</del>					<del>X</del>	
<b>Local-tandem conveyance and transit on fixed public narrowband networks</b>	X		X			X	X (except SPS)
- WS Local-tandem conveyance segment	X					X	
- WS Local-tandem conveyance segment (ISDN)	X					X	
- WS LTT Stick	X					X	
- WS LTT Stick (ISDN)	X					X	
<del>- WS Local-tandem circuit excluding FRIACO port at tandem exchange</del>	<del>X</del>					<del>X</del>	
<del>- WS FRIACO port at the tandem exchange</del>	<del>X</del>					<del>X</del>	
<b>Single transit on fixed public narrowband networks</b>	X		X			X	X (except SPS)

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
<b>Wholesale market and illustrative services</b>								
-WS Single transit segment	X						X	
- WS Single transit segment <u>PSTN</u> and ISDN	X						X	
<b>Technical areas</b>	X		X			X		X (except SPS)
- WS standard CSI connection	X						X	
- WS standard CSI rental - fixed	X						X	
- WS standard CSI rental per km	X						X	
<del>-WS high performance CSI connection</del>	<del>X</del>						<del>X</del>	
<del>-WS high performance CSI rental - fixed</del>	<del>X</del>						<del>X</del>	
<del>-WS high performance CSI rental per km</del>	<del>X</del>						<del>X</del>	
- WS ISI connection	X						X	
- WS ISI rental per 100m	X						X	
- WS IEC connection	X						X	
- WS IEC rental - fixed	X						X	
- WS IEC rental – per km	X						X	
- WS intra-building circuits connection	X						X	
- WS intra-building circuits rental	X						X	
- WS rearrangements	X						X	
<del>-WS path protection connection per 34 Mbits/s</del>	<del>X</del>						<del>X</del>	
<del>-WS path protection connection per 140 Mbits/s</del>	<del>X</del>						<del>X</del>	
<del>-WS path protection rental per 34 Mbits/s</del>	<del>X</del>						<del>X</del>	
<del>-WS path protection rental per 140 Mbits/s</del>	<del>X</del>						<del>X</del>	

## Review of the fixed geographic call termination markets

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
<b>Wholesale market and illustrative services</b>								
<b>Fixed geographic call termination</b>	X		X			✗		X (except SPS)
- WS Call termination local exchange segment	X						✗	
- WS Call termination local exchange segment (ISDN)	X						✗	
- WS Call termination local exchange stick	X						✗	
- WS Call termination local exchange stick (ISDN)	X						✗	

## Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
<b>Wholesale markets and illustrative services</b>								
<b>Traditional interface symmetric broadband origination (up to and including 8Mbit/s);</b>	X		X			X		X (except SPS)
- WS service A	X						X	
- WS service B	X						X	
- <u>Partial and Private Circuits 64kbit/s - connection</u>								
- <u>Partial and Private Circuits 64kbit/s - link</u>								
- <u>Partial and Private Circuits 64kbit/s - transmission</u>								
- <u>Partial and Private Circuits 64kbit/s – local end</u>								
- <u>Partial and Private Circuits 2mbit/s - connection</u>								
- <u>Partial and Private Circuits 2mbit/s - link</u>								
- <u>Partial and Private Circuits 2mbit/s - distribution</u>								
- <u>Partial and Private Circuits 2mbit/s - local end</u>								
- <u>RBS Backhaul sub 2mb rental</u>								
- <u>RBS Backhaul sub 2mb connection</u>								
- <u>RBS Backhaul 2mb rental</u>								
- <u>RBS Backhaul 2mb connection</u>								
- <u>SDSL</u>								
<b>Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);</b>	X		X			X		X (except SPS)
- WS service A	X						X	
- WS service B	X						X	
- <u>Partial and Private Circuits 34/45mbit/s - link</u>								
- <u>Partial and Private Circuits 34/45mbit/s - distribution</u>								
- <u>Partial and Private Circuits 34/45mbit/s -local end</u>								
- <u>Partial and Private Circuits 140/155mbit/s - link</u>								

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
<b>Wholesale markets and illustrative services</b>								
- <u>Partial and Private Circuits 140/155mbit/s - distribution</u>								
- <u>Partial and Private Circuits 140/155mbit/s - local end</u>								
<b>Alternative interface symmetric broadband origination (all bandwidths);</b>	X		X			X		X (except SPS)
- WS service A	X						X	
- WS service B	X						X	
- <u>WES/LES</u>								
- <u>BES</u>								
<b>Wholesale trunk segments (including Kingston upon Hull)</b>	X		X			X		X (except SPS)
- WS service A	X						X	
- WS service B	X						X	
- <u>Partial and Private circuits 2mbit/s - trunk</u>								
- <u>Partial and Private circuits 34/45mbit/s - trunk</u>								
- <u>Partial and Private circuits 140/155mbit/s - trunk</u>								
- <u>Partial and Private circuits 622mbit/s - trunk</u>								
<b>Technical areas (as necessary, including fixed and per km variants)</b>	X		X			X		X (except SPS)
- <u>In Span Handover ("ISH")</u>	X						X	
- <u>Customer Sited Handover ("CSH");</u>	X						X	
- <u>ISH extension circuits</u>	X						X	
- <u>Synchronous Transfer Mode ("STM")-1 ISH and CSH handover</u>	X						X	
- <u>Point of Handover ("PoH")</u>	X							

**Part D**

**Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation**

	Financial statements					Audit		Published
	AFI (a)	AFI (b)	AFI (c)	AFI (d)		FPIA	PPIA	
<b>Wholesale market and illustrative services</b>								
<b>Wholesale residential analogue exchange line services</b>								
- wholesale service A	X	X	X	X			✗	
- wholesale service B ...	X	X	X	X			✗	
<b>Wholesale business analogue exchange line services</b>								
- wholesale service A	X	X	X	X			✗	
- wholesale service B ...	X	X	X	X			✗	
<b>Wholesale business ISDN2 exchange line services</b>								
- wholesale service A	X	X	X	X			✗	
- wholesale service B	X	X	X	X			✗	
<b>Call origination on fixed public narrowband networks</b>								
- WS Call originating local exchange segment <u>PSTN and ISDN (excluding Operator Assistance)</u>	X	X	X	X			✗	
- WS Call originating local exchange segment (incl Operator Assistance)	X	X	X	X			✗	
- WS Call originating local exchange segment ISDN(incl Operator Assistance)	X	X	X	X			✗	
- WS Call origination local exchange Stick	X	X	X	X			✗	
- WS Call origination local exchange Stick (ISDN)	X	X	X	X			✗	
- WS Local exchange call origination circuit excluding FRIACO port	X	X	X	X			✗	
- WS FRIACO port at the local exchange	X	X	X	X			✗	
- WS PPP for FRIACO	X	X	X	X			✗	

	Financial statements				Audit		Published
	AFI (a)	AFI (b)	AFI (c)	AFI (d)	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>							
-NTS retailing services	X	X	X	X		X	
<b>Inter-tandem conveyance and transit on fixed public narrowband networks</b>							
-WS Inter-tandem conveyance short	X	X	X	X		X	
-WS Inter-tandem conveyance medium	X	X	X	X		X	
-WS Inter-tandem conveyance long	X	X	X	X		X	
-WS Inter-tandem conveyance short (ISDN)	X	X	X	X		X	
-WS Inter-tandem conveyance medium (ISDN)	X	X	X	X		X	
-WS Inter-tandem conveyance long (ISDN)	X	X	X	X		X	
-WS Inter-tandem conveyance for IDD	X	X	X	X		X	
-WS Inter-tandem transmission for IDD	X	X	X	X		X	
-WS Inter-tandem conveyance for IDD (ISDN)	X	X	X	X		X	
-WS Inter-tandem transmission for IDD (ISDN)	X	X	X	X		X	
-WS Inter-tandem transit short	X	X	X	X		X	
-WS Inter-tandem transit medium	X	X	X	X		X	
-WS Inter-tandem transit long	X	X	X	X		X	
<b>Local-tandem conveyance and transit on fixed public narrowband networks</b>							
- WS Local-tandem conveyance segment	X	X	X	X		X	
- WS Local-tandem conveyance segment (ISDN)	X	X	X	X		X	
- WS LTT Stick	X	X	X	X		X	
- WS LTT Stick (ISDN)	X	X	X	X		X	
-WS Local-tandem circuit excluding FRIACO port at tandem exchange	X	X	X	X		X	
-WS FRIACO port at the tandem exchange	X	X	X	X		X	
<b>Single transit on fixed public narrowband networks</b>							
-WS Single transit segment	X	X	X	X		X	

	Financial statements				Audit		Published
	AFI (a)	AFI (b)	AFI (c)	AFI (d)	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>							
- WS Single transit segment <u>PSTN</u> and ISDN	X	X	X	X		X	
<b>Technical areas</b>							
- WS standard CSI connection	X	X	X	X		X	
- WS standard CSI rental - fixed	X	X	X	X		X	
- WS standard CSI rental per km	X	X	X	X		X	
<del>- WS high performance CSI connection</del>	<del>X</del>	<del>X</del>	<del>X</del>	<del>X</del>		<del>X</del>	
<del>- WS high performance CSI rental - fixed</del>	<del>X</del>	<del>X</del>	<del>X</del>	<del>X</del>		<del>X</del>	
<del>- WS high performance CSI rental per km</del>	<del>X</del>	<del>X</del>	<del>X</del>	<del>X</del>		<del>X</del>	
- WS ISI connection	X	X	X	X		X	
- WS ISI rental per 100m	X	X	X	X		X	
- WS IEC connection	X	X	X	X		X	
- WS IEC rental - fixed	X	X	X	X		X	
- WS IEC rental – per km	X	X	X	X		X	
- WS intra-building circuits connection	X	X	X	X		X	
- WS intra-building circuits rental	X	X	X	X		X	
- WS rearrangements	X	X	X	X		X	
<del>- WS path protection connection per 34 Mbits/s</del>	<del>X</del>	<del>X</del>	<del>X</del>	<del>X</del>		<del>X</del>	
<del>- WS path protection connection per 140 Mbits/s</del>	<del>X</del>	<del>X</del>	<del>X</del>	<del>X</del>		<del>X</del>	
<del>- WS path protection rental per 34 Mbits/s</del>	<del>X</del>	<del>X</del>	<del>X</del>	<del>X</del>		<del>X</del>	
<del>- WS path protection rental per 140 Mbits/s</del>	<del>X</del>	<del>X</del>	<del>X</del>	<del>X</del>		<del>X</del>	



## Review of the fixed geographic call termination markets

	Financial statements					Audit		Published
	AFI (a)	AFI (b)	AFI (c)	AFI (d)		FPIA	PPIA	
<b>Wholesale market and illustrative services</b>								
<b>Fixed geographic call termination</b>								
- WS Call termination local exchange segment	X	X	X	X			✗	
- WS Call termination local exchange segment (ISDN)	X	X	X	X			✗	
- WS Call termination local exchange stick	X	X	X	X			✗	
- WS Call termination local exchange stick (ISDN)	X	X	X	X			✗	

## Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	AFI (a)	AFI (b)	AFI (c)	AFI (d)		FPIA	PPIA	
<b>Wholesale markets and illustrative services</b>								
<b>Traditional interface symmetric broadband origination (up to and including 8Mbit/s);</b>								
- WS service A	X	X	X	X			✗	
- WS service B	X	X	X	X			✗	
- <u>Partial and Private Circuits 64kbit/s - connection</u>								
- <u>Partial and Private Circuits 64kbit/s - link</u>								
- <u>Partial and Private Circuits 64kbit/s - transmission</u>								
- <u>Partial and Private Circuits 64kbit/s – local end</u>								
- <u>Partial and Private Circuits 2mbit/s - connection</u>								
- <u>Partial and Private Circuits 2mbit/s - link</u>								
- <u>Partial and Private Circuits 2mbit/s - distribution</u>								
- <u>Partial and Private Circuits 2mbit/s - local end</u>								
- <u>RBS Backhaul sub 2mb rental</u>								
- <u>RBS Backhaul sub 2mb connection</u>								
- <u>RBS Backhaul 2mb rental</u>								
- <u>RBS Backhaul 2mb connection</u>								
- <u>SDSL</u>								
<b>Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);</b>								
- WS service A	X	X	X	X			✗	
- WS service B	X	X	X	X			✗	
- <u>Partial and Private Circuits 34/45mbit/s - link</u>								
- <u>Partial and Private Circuits 34/45mbit/s - distribution</u>								
- <u>Partial and Private Circuits 34/45mbit/s -local end</u>								

	Financial statements					Audit		Published
	AFI (a)	AFI (b)	AFI (c)	AFI (d)		FPIA	PPIA	
<b>Wholesale markets and illustrative services</b>								
- <u>Partial and Private Circuits 140/155mbit/s - link</u>								
- <u>Partial and Private Circuits 140/155mbit/s - distribution</u>								
- <u>Partial and Private Circuits 140/155mbit/s - local end</u>								
<b>Alternative interface symmetric broadband origination (all bandwidths);</b>								
- WS service A	X	X	X	X			✗	
- WS service B	X	X	X	X			✗	
- <u>WES/LES</u>								
- <u>BES</u>								
<b>Wholesale trunk segments (including Kingston upon Hull)</b>								
- WS service A	X	X	X	X			✗	
- WS service B	X	X	X	X			✗	
- <u>Partial and Private circuits 2mbit/s - trunk</u>								
- <u>Partial and Private circuits 34/45mbit/s - trunk</u>								
- <u>Partial and Private circuits 140/155mbit/s - trunk</u>								
- <u>Partial and Private circuits 622mbit/s - trunk</u>								
<b>Technical areas (as necessary, including fixed and per km variants)</b>								
- <u>In Span Handover ("ISH")</u>	✗	✗	✗	✗			✗	
- <u>Customer Sited Handover ("CSH");</u>	✗	✗	✗	✗			✗	
- <u>ISH extension circuits</u>	✗	✗	✗	✗			✗	
- <u>Synchronous Transfer Mode ("STM")-1 ISH and CSH handover</u>	✗	✗	✗	✗			✗	
- <u>Point of Handover ("PoH")</u>	✗	✗	✗	✗				

## Part E

### Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation

	Financial statements					Audit		Published
	AFI (e)		AFI (f)	AFI (g)	AFI (h)	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>								
<b>Wholesale residential analogue exchange line services</b>			X	X			X	
- wholesale service A								
- wholesale service B ...								
<b>Wholesale business analogue exchange line services</b>			X	X			X	
- wholesale service A								
- wholesale service B ...								
<b>Wholesale business ISDN2 exchange line services</b>			X	X			X	
- wholesale service A								
- wholesale service B								
<b>Call origination on fixed public narrowband networks</b>			X	X			X	
- WS Call originating local exchange segment <u>PSTN and ISDN</u> (excluding Operator Assistance)								
- WS Call originating local exchange segment (incl Operator Assistance)								
- WS Call originating local exchange segment ISDN(incl Operator Assistance)								
- WS Call origination local exchange Stick								
- WS Call origination local exchange Stick (ISDN)								
- WS Local exchange call origination circuit excluding FRIACO port								
- WS FRIACO port at the local exchange								
- WS PPP for FRIACO								
- NTS retailing services								

	Financial statements					Audit		Published
	AFI (e)		AFI (f)	AFI (g)	AFI (h)	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>								
<b>Inter-tandem conveyance and transit on fixed public narrowband networks</b>			✗	✗			✗	
-WS Inter-tandem conveyance short								
-WS Inter-tandem conveyance medium								
-WS Inter-tandem conveyance long								
-WS Inter-tandem conveyance short (ISDN)								
-WS Inter-tandem conveyance medium (ISDN)								
-WS Inter-tandem conveyance long (ISDN)								
-WS Inter-tandem conveyance for IDD								
-WS Inter-tandem transmission for IDD								
-WS Inter-tandem conveyance for IDD (ISDN)								
-WS Inter-tandem transmission for IDD (ISDN)								
-WS Inter-tandem transit short								
-WS Inter-tandem transit medium								
-WS Inter-tandem transit long								
<b>Local-tandem conveyance and transit on fixed public narrowband networks</b>			X	X			✗	
- WS Local-tandem conveyance segment								
- WS Local-tandem conveyance segment (ISDN)								
- WS LTT Stick								
- WS LTT Stick (ISDN)								
-WS Local-tandem circuit excluding FRIACO port at tandem exchange								
-WS FRIACO port at the tandem exchange								
<b>Single transit on fixed public narrowband networks</b>			X	X			✗	
-WS Single transit segment								
- WS Single transit segment <u>PSTN and ISDN</u>								

Wholesale market and illustrative services	Financial statements					Audit		Published
	AFI (e)		AFI (f)	AFI (g)	AFI (h)	FPIA	PPIA	
			X	X			X	
<b>Technical areas</b>								
- WS standard CSI connection								
- WS standard CSI rental – fixed								
- WS standard CSI rental per km								
<del>-WS high performance CSI connection</del>								
<del>-WS high performance CSI rental – fixed</del>								
<del>-WS high performance CSI rental per km</del>								
- WS ISI connection								
- WS ISI rental per 100m								
- WS IEC connection								
- WS IEC rental – fixed								
- WS IEC rental – per km								
- WS intra-building circuits connection								
- WS intra-building circuits rental								
- WS rearrangements								
<del>-WS path protection connection per 34 Mbits/s</del>								
<del>-WS path protection connection per 140 Mbits/s</del>								
<del>-WS path protection rental per 34 Mbits/s</del>								
<del>-WS path protection rental per 140 Mbits/s</del>								

## Review of the fixed geographic call termination markets

	Financial statements					Audit		Published
	AFI (e)		AFI (f)	AFI (g)	AFI (h)	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>								
<b>Fixed geographic call termination</b>			X	X			X	
- WS Call termination local exchange segment								
- WS Call termination local exchange segment (ISDN)								
- WS Call termination local exchange stick								
- WS Call termination local exchange stick (ISDN)								

## Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements				Audit		Published	
	AFI (e)		AFI (f)	AFI (g)	AFI (h)	FPIA		PPIA
<b>Wholesale markets and illustrative services</b>								
<b>Traditional interface symmetric broadband origination (up to and including 8Mbit/s);</b>			X	X			X	
- WS service A								
- WS service B								
- <u>Partial and Private Circuits 64kbit/s - connection</u>								
- <u>Partial and Private Circuits 64kbit/s - link</u>								
- <u>Partial and Private Circuits 64kbit/s - transmission</u>								
- <u>Partial and Private Circuits 64kbit/s – local end</u>								
- <u>Partial and Private Circuits 2mbit/s - connection</u>								
- <u>Partial and Private Circuits 2mbit/s - link</u>								
- <u>Partial and Private Circuits 2mbit/s - distribution</u>								
- <u>Partial and Private Circuits 2mbit/s - local end</u>								
- <u>RBS Backhaul sub 2mb rental</u>								
- <u>RBS Backhaul sub 2mb connection</u>								
- <u>RBS Backhaul 2mb rental</u>								
- <u>RBS Backhaul 2mb connection</u>								
- <u>SDSL</u>								
<b>Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);</b>			X	X			X	
- WS service A								
- WS service B								
- <u>Partial and Private Circuits 34/45mbit/s - link</u>								
- <u>Partial and Private Circuits 34/45mbit/s - distribution</u>								



	Financial statements				Audit		Published
	AFI (e)		AFI (f)	AFI (g)	AFI (h)	FPIA	
<b>Wholesale markets and illustrative services</b>							
- <u>Partial and Private Circuits 34/45mbit/s - local end</u>							
- <u>Partial and Private Circuits 140/155mbit/s - link</u>							
- <u>Partial and Private Circuits 140/155mbit/s - distribution</u>							
- <u>Partial and Private Circuits 140/155mbit/s - local end</u>							
<b>Alternative interface symmetric broadband origination (all bandwidths);</b>			X	X			X
- WS service A							
- WS service B							
- <u>WES/LES</u>							
- <u>BES</u>							
<b>Wholesale trunk segments (including Kingston upon Hull)</b>			X	X			X
- WS service A							
- WS service B							
- <u>Partial and Private circuits 2mbit/s - trunk</u>							
- <u>Partial and Private circuits 34/45mbit/s - trunk</u>							
- <u>Partial and Private circuits 140/155mbit/s - trunk</u>							
- <u>Partial and Private circuits 622mbit/s - trunk</u>							
<b>Technical areas (as necessary, including fixed and per km variants)</b>			X	X			X
- <u>In Span Handover ("ISH")</u>							
- <u>Customer Sited Handover ("CSH");</u>							
- <u>ISH extension circuits</u>							
- <u>Synchronous Transfer Mode ("STM") - 1 ISH and CSH handover</u>							
- <u>Point of Handover ("PoH")</u>							

## Part F

### Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation

	Financial statements				Audit		Published
		AFI (i)	AFI (j)		FPIA	PPIA	
<b>Wholesale market and illustrative services</b>							
<b>Wholesale residential analogue exchange line services</b>		X				✗	
- wholesale service A		X				✗	
- wholesale service B ...		X				✗	
<b>Wholesale business analogue exchange line services</b>		X				✗	
- wholesale service A		X				✗	
- wholesale service B ...		X				✗	
<b>Wholesale business ISDN2 exchange line services</b>		X				✗	
- wholesale service A		X				✗	
- wholesale service B		X				✗	
<b>Call origination on fixed public narrowband networks</b>		X	X			✗	
- WS Call originating local exchange segment <u>PSTN and ISDN (excluding Operator Assistance)</u>		X	X			✗	
- WS Call originating local exchange segment (incl Operator Assistance)		X	X			✗	
- WS Call originating local exchange segment ISDN(incl Operator Assistance)		X	X			✗	
- WS Call origination local exchange Stick		X	X			✗	
- WS Call origination local exchange Stick (ISDN)		X	X			✗	
- WS Local exchange call origination circuit excluding FRIACO port		X				✗	
- WS FRIACO port at the local exchange		X				✗	
- WS PPP for FRIACO		X				✗	

	Financial statements				Audit		Published
		AFI (i)	AFI (j)		FPIA	PPIA	
<b>Wholesale market and illustrative services</b>							
- NTS retailing services		X				X	
<b>Inter-tandem conveyance and transit on fixed public narrowband networks</b>		X				X	
- WS Inter-tandem conveyance short		X				X	
- WS Inter-tandem conveyance medium		X				X	
- WS Inter-tandem conveyance long		X				X	
- WS Inter-tandem conveyance short (ISDN)		X				X	
- WS Inter-tandem conveyance medium (ISDN)		X				X	
- WS Inter-tandem conveyance long (ISDN)		X				X	
- WS Inter-tandem conveyance for IDD		X				X	
- WS Inter-tandem transmission for IDD		X				X	
- WS Inter-tandem conveyance for IDD (ISDN)		X				X	
- WS Inter-tandem transmission for IDD (ISDN)		X				X	
- WS Inter-tandem transit short		X				X	
- WS Inter-tandem transit medium		X				X	
- WS Inter-tandem transit long		X				X	
<b>Local-tandem conveyance and transit on fixed public narrowband networks</b>		X				X	
- WS Local-tandem conveyance segment		X				X	
- WS Local-tandem conveyance segment (ISDN)		X				X	
- WS LTT Stick		X				X	
- WS LTT Stick (ISDN)		X				X	
- WS Local-tandem circuit excluding FRIACO port at tandem exchange		X				X	
- WS FRIACO port at the tandem exchange		X				X	
<b>Single transit on fixed public narrowband networks</b>		X				X	
- WS Single transit segment		X				X	

	Financial statements				Audit		Published
		AFI (i)	AFI (j)		FPIA	PPIA	
<b>Wholesale market and illustrative services</b>							
- WS Single transit segment <u>PSTN and ISDN</u>		X					
						X	
<b>Technical areas</b>		X				X	
- WS standard CSI connection		X				X	
- WS standard CSI rental - fixed		X				X	
- WS standard CSI rental per km		X				X	
<del>- WS high performance CSI connection</del>		X				X	
<del>- WS high performance CSI rental - fixed</del>		X				X	
<del>- WS high performance CSI rental per km</del>		X				X	
- WS ISI connection		X				X	
- WS ISI rental per 100m		X				X	
- WS IEC connection		X				X	
- WS IEC rental - fixed		X				X	
- WS IEC rental – per km		X				X	
- WS intra-building circuits connection		X				X	
- WS intra-building circuits rental		X				X	
- WS rearrangements		X				X	
<del>- WS path protection connection per 34 Mbits/s</del>		X				X	
<del>- WS path protection connection per 140 Mbits/s</del>		X				X	
<del>- WS path protection rental per 34 Mbits/s</del>		X				X	
<del>- WS path protection rental per 140 Mbits/s</del>		X				X	

## Review of the fixed geographic call termination markets

	Financial statements				Audit		Published
		AFI (i)	AFI (j)		FPIA	PPIA	
<b>Wholesale market and illustrative services</b>							
<b>Fixed geographic call termination</b>		X				X	
- WS Call termination local exchange segment		X				X	
- WS Call termination local exchange segment (ISDN)		X				X	
- WS Call termination local exchange stick		X				X	
- WS Call termination local exchange stick (ISDN)		X				X	

## Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements				Audit		Published
		AFI (i)	AFI (j)		FPIA	PPIA	
<b>Wholesale markets and illustrative services</b>							
<b>Traditional interface symmetric broadband origination (up to and including 8Mbit/s);</b>		X				X	
- WS service A		X				X	
- WS service B		X				X	
- <u>Partial and Private Circuits 64kbit/s - connection</u>							
- <u>Partial and Private Circuits 64kbit/s - link</u>							
- <u>Partial and Private Circuits 64kbit/s - transmission</u>							
- <u>Partial and Private Circuits 64kbit/s – local end</u>							
- <u>Partial and Private Circuits 2mbit/s - connection</u>							
- <u>Partial and Private Circuits 2mbit/s - link</u>							
- <u>Partial and Private Circuits 2mbit/s - distribution</u>							
- <u>Partial and Private Circuits 2mbit/s - local end</u>							
- <u>RBS Backhaul sub 2mb rental</u>							
- <u>RBS Backhaul sub 2mb connection</u>							
- <u>RBS Backhaul 2mb rental</u>							
- <u>RBS Backhaul 2mb connection</u>							
- <u>SDSL</u>							
<b>Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);</b>		X				X	
- WS service A		X				X	
- WS service B		X				X	
- <u>Partial and Private Circuits 34/45mbit/s - link</u>							
- <u>Partial and Private Circuits 34/45mbit/s - distribution</u>							
- <u>Partial and Private Circuits 34/45mbit/s -local end</u>							

	Financial statements				Audit		Published
		AFI (i)	AFI (j)		FPIA	PPA	
<b>Wholesale markets and illustrative services</b>							
- <u>Partial and Private Circuits 140/155mbit/s - link</u>							
- <u>Partial and Private Circuits 140/155mbit/s - distribution</u>							
- <u>Partial and Private Circuits 140/155mbit/s - local end</u>							
<b>Alternative interface symmetric broadband origination (all bandwidths);</b>		X				X	
- WS service A		X				X	
- WS service B		X				X	
- <u>WES/LES</u>							
- <u>BES</u>							
<b>Wholesale trunk segments (including Kingston upon Hull)</b>		X				X	
- WS service A		X				X	
- WS service B		X				X	
- <u>Partial and Private circuits 2mbit/s - trunk</u>							
- <u>Partial and Private circuits 34/45mbit/s - trunk</u>							
- <u>Partial and Private circuits 140/155mbit/s - trunk</u>							
- <u>Partial and Private circuits 622mbit/s - trunk</u>							
<b>Technical areas (as necessary, including fixed and per km variants)</b>		X				X	
- <u>In Span Handover ("ISH")</u>		X				X	
- <u>Customer Sited Handover ("CSH");</u>		X				X	
- <u>ISH extension circuits</u>		X				X	
- <u>Synchronous Transfer Mode ("STM")-1 ISH and CSH handover</u>		X				X	
- <u>Point of Handover ("PoH")</u>		X					

## Annex B to Direction 3

### Accounting Separation Financial Statements

For the purposes of this annex the following abbreviations are used, the scope of these statements is set out in the matrix of obligations that follows; references to annexes are to the form and content direction attached at Schedule 4 to the Notification dated 8 April 2004. In the table below, X means that the financial statement set out at the head of the column is required for the market or service on that row.

Please note, the separation of the tables into Parts A to B is purely for presentational purposes.

- TS - turnover statements: sales of External Wholesale Services (as set out in annex 24) and sales of Internal Wholesale Services (as set out in annex 25)
- SOS – notes to the financial statements (as set out in annex 23) in relation to sufficiency of separation, in particular assurance that activities to which accounting separation applies have been sufficiently separated from each other and from activities to which separation does not apply;
- IMT – Inter-market turnover, reconciliation of the source and destination of inter market turnover, to verify that transfer charges are self cancelling overall (as set out in annex 33)
- RFR – regulatory financial review, as set out in annex 2;
- SDR – statement of responsibility, as set out in annex 3
- FPIA – Audit Opinion required for required statements, for inclusion in audit report as set out in annex 4
- PPIA – Audit opinion required for required statements, for inclusion in audit report as set out in annex 4
- CCPS = ‘current cost primary statements’, to demonstrate sufficiency of separation where CCPS not required for cost accounting purposes – current cost profit and loss statement and statement of current cost mean capital employed, as set out in Annexes 13 & 14 in relation to wholesale services, Annexes 11 & 12 in relation to wholesale segments (when designated), Annexes 9 & 10 in relation to individual wholesale markets;
- RTW = ‘reconciliation to wholesale’, reconciliation of CC P&L and CC MCE to wholesale level, to demonstrate sufficiency of separation where for cost accounting purposes RTW not required – consolidation across group of markets covered by review, followed by consolidation of these consolidations, to give consolidated CC P&L and CC MCE for wholesale markets subject to accounting separation (as set out in annex 5 & 6)
- RTSA = ‘reconciliation to statutory accounts’, reconciliation of consolidated CC P&L and CC MCE for wholesale markets subject to accounting separation to the profit and loss account and balance sheet of the operator shown in their statutory financial statements (as set out in annexes 27 & 28, supported by annexes 29, 30, 31 & 32), to demonstrate sufficiency of separation where RTSA not already required for cost accounting purposes



## Part A

### Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation

	Financial statements			Audit		Published
	TS	SOS	IMT	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>						
<b>Wholesale residential analogue exchange line services</b>	X	X	X	✗		X (except IMT)
- wholesale service A		X			✗	
- wholesale service B ...		X			✗	
<b>Wholesale business analogue exchange line services</b>	X	X	X	✗		X (except IMT)
- wholesale service A		X			✗	
- wholesale service B ...		X			✗	
<b>Wholesale business ISDN2 exchange line services</b>	X	X	X	✗		X (except IMT)
- wholesale service A		X			✗	
- wholesale service B		X			✗	
<b>Wholesale business ISDN30 exchange line services</b>	X	X	X	✗		X (except IMT)
- wholesale service A		X			✗	
<b>Call origination on fixed public narrowband networks</b>	X	X	X	✗		X (except IMT)
- WS Call originating local exchange segment <u>PSTN and ISDN (excluding Operator Assistance)</u>		X			✗	
- WS Call originating local exchange segment (incl Operator Assistance)		X			✗	
- WS Call originating local exchange segment ISDN (incl Operator		X			✗	

	Financial statements			Audit		Published
	TS	SOS	IMT	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>						
Assistance)						
- WS Call origination local exchange Stick		X			X	
- WS Call origination local exchange Stick (ISDN)		X			X	
- WS Local exchange call origination circuit excluding FRIACO port		X			X	
- WS FRIACO port at the local exchange		X			X	
- WS PPP for FRIACO		X			X	
<del>- NTS retailing services</del>		X			X	
<b>Local-tandem conveyance and transit on fixed public narrowband networks</b>	X	X	X	X		X (except IMT)
- WS Local-tandem conveyance segment		X			X	
- WS Local-tandem conveyance segment (ISDN)		X			X	
- WS LTT Stick		X			X	
- WS LTT Stick (ISDN)		X			X	
<del>- WS Local-tandem circuit excluding FRIACO port at tandem exchange</del>		X			X	
<del>- WS FRIACO port at the tandem exchange</del>		X			X	
<b>Inter-tandem conveyance and transit on fixed public narrowband networks</b>	X	X	X	X		X
<del>- WS Inter-tandem conveyance short</del>		X			X	
<del>- WS Inter-tandem conveyance medium</del>		X			X	
<del>- WS Inter-tandem conveyance long</del>		X			X	
<del>- WS Inter-tandem conveyance short (ISDN)</del>		X			X	
<del>- WS Inter-tandem conveyance medium (ISDN)</del>		X			X	
<del>- WS Inter-tandem conveyance long (ISDN)</del>		X			X	
<b>Single transit on fixed public narrowband networks</b>	X	X	X	X		X (except IMT)
<del>- WS Single transit segment</del>		X			X	
- WS Single transit segment <u>PSTN and ISDN</u>		X			X	

	Financial statements			Audit		Published
	TS	SOS	IMT	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>						
<b>Interconnection</b>	X	X	X	X		X (except IMT)
- WS Connection (£ per 2Mbit/s per year)		X			X	
- WS Rental – fixed (£ per 2Mbit/s per year)		X			X	
- WS Rental – per km (£ per 2Mbit/s per year)		X			X	
- WS Re-arrangements (£ per occasion)		X			X	

### Review of the fixed geographic call termination markets

	Financial statements			Audit		Published
	TS	SOS	IMT	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>						
<b>Fixed geographic call termination</b>	X	X	X	✗		X (except IMT)
- WS Call termination local exchange segment		X			✗	
- WS Call termination local exchange segment (ISDN)		X			✗	
- WS Call termination local exchange stick		X			✗	
- WS Call termination local exchange stick (ISDN)		X			✗	

### Review of International Wholesale Services

	Financial statements			Audit		Published
	TS	SOS	IMT	FPIA	PPIA	
Wholesale market and illustrative services						
Wholesale IDD to category B	X	X	X	X		X (except IMT)

## Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements			Audit		Published
	TS	SOS	IMT	FPIA	PPIA	
<b>Wholesale markets and illustrative services</b>						
<b>Traditional interface symmetric broadband origination (up to and including 8Mbit/s);</b>	X	X	X	✗		X (except IMT)
- WS service A		X			✗	
- WS service B		X			✗	
- <u>Partial and Private Circuits 64kbit/s - connection</u>						
- <u>Partial and Private Circuits 64kbit/s - link</u>						
- <u>Partial and Private Circuits 64kbit/s - transmission</u>						
- <u>Partial and Private Circuits 64kbit/s – local end</u>						
- <u>Partial and Private Circuits 2mbit/s - connection</u>						
- <u>Partial and Private Circuits 2mbit/s - link</u>						
- <u>Partial and Private Circuits 2mbit/s - distribution</u>						
- <u>Partial and Private Circuits 2mbit/s - local end</u>						
- <u>RBS Backhaul sub 2mb rental</u>						
- <u>RBS Backhaul sub 2mb connection</u>						
- <u>RBS Backhaul 2mb rental</u>						
- <u>RBS Backhaul 2mb connection</u>						
- <u>SDSL</u>						
<b>Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);</b>	X	X	X	✗		X (except IMT)
- WS service A		X			✗	
- WS service B		X			✗	
- <u>Partial and Private Circuits 34/45mbit/s - link</u>						
- <u>Partial and Private Circuits 34/45mbit/s - distribution</u>						
- <u>Partial and Private Circuits 34/45mbit/s -local end</u>						
- <u>Partial and Private Circuits 140/155mbit/s - link</u>						
- <u>Partial and Private Circuits 140/155mbit/s - distribution</u>						

<u>- Partial and Private Circuits 140/155mbit/s - local end</u>						
	Financial statements			Audit		Published
Wholesale markets and illustrative services	TS	SOS	IMT	FPIA	PPIA	
<b>Alternative interface symmetric broadband origination (all bandwidths);</b>	X	X	X	✗		X (except IMT)
- WS service A		X			✗	
- WS service B		X			✗	
- <u>WES/LES</u>						
- <u>BES</u>						
<b>Wholesale trunk segments (including Kingston upon Hull)</b>	X	X	X	✗		X (except IMT)
- WS service A		X			✗	
- WS service B		X			✗	
- <u>Partial and Private circuits 2mbit/s - trunk</u>						
- <u>Partial and Private circuits 34/45mbit/s - trunk</u>						
- <u>Partial and Private circuits 140/155mbit/s - trunk</u>						
- <u>Partial and Private circuits 622mbit/s - trunk</u>						
<b>Technical areas (as necessary, including fixed and per km variants)</b>	X	X	X	✗		X (except IMT)
- In Span Handover ("ISH")		✗			✗	
- Customer Sited Handover ("CSH");		✗			✗	
- ISH extension circuits		✗			✗	
- Synchronous Transfer Mode ("STM")-1 ISH and CSH handover		✗			✗	
- <u>Point of Handover ("PoH")</u>		✗				

## Review of the wholesale broadband access market

	Financial statements			Audit		Published
	TS	SOS	IMT	FPIA	PPIA	
<b>Wholesale markets and illustrative services</b>						
<b>Asymmetric broadband origination in the UK excluding the Hull area</b>	X	X	X	✗		X (except IMT)
<b>Broadband conveyance in the UK</b>	X	X	X	✗		X (except IMT)
- WS ATM Interconnection		X			✗	



## Part B

### Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets, consultation

	Financial statements			Audit		Published
	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>						
<b>Wholesale residential analogue exchange line services</b>	X	X	X	✗		X
- wholesale service A		X			✗	
- wholesale service B ...		X			✗	
<b>Wholesale business analogue exchange line services</b>	X	X	X	✗		X
- wholesale service A		X			✗	
- wholesale service B ...		X			✗	
<b>Wholesale business ISDN2 exchange line services</b>	X	X	X	✗		X
- wholesale service A		X			✗	
- wholesale service B		X			✗	
<b>Wholesale business ISDN30 exchange line services</b>	X	X	X	✗		X
- wholesale service A		X			✗	
<b>Call origination on fixed public narrowband networks</b>	X	X	X	✗		X
- WS Call originating local exchange segment <u>PSTN and ISDN (excluding Operator Assistance)</u>		X			✗	
- WS Call originating local exchange segment (incl Operator Assistance)		X			✗	
- WS Call originating local exchange segment ISDN (incl Operator Assistance)		X			✗	
- WS Call origination local exchange Stick		X			✗	

	Financial statements			Audit		Published
	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>						
- WS Call origination local exchange Stick (ISDN)		X			X	
- WS Local exchange call origination circuit excluding FRIACO port		X			X	
- WS FRIACO port at the local exchange		X			X	
- WS PPP for FRIACO		X			X	
<del>- NTS retailing services</del>		X			X	
<b>Local-tandem conveyance and transit on fixed public narrowband networks</b>	X	X	X	X		X
- WS Local-tandem conveyance segment		X			X	
- WS Local-tandem conveyance segment (ISDN)		X			X	
- WS LTT Stick		X			X	
- WS LTT Stick (ISDN)		X			X	
<del>- WS Local-tandem circuit excluding FRIACO port at tandem exchange</del>		X			X	
<del>- WS FRIACO port at the tandem exchange</del>		X			X	
<b>Inter-tandem conveyance and transit on fixed public narrowband networks</b>	X	X	X	X		X
<del>- WS Inter-tandem conveyance short</del>		X			X	
<del>- WS Inter-tandem conveyance medium</del>		X			X	
<del>- WS Inter-tandem conveyance long</del>		X			X	
<del>- WS Inter-tandem conveyance short (ISDN)</del>		X			X	
<del>- WS Inter-tandem conveyance medium (ISDN)</del>		X			X	
<del>- WS Inter-tandem conveyance long (ISDN)</del>		X			X	
<b>Single transit on fixed public narrowband networks</b>	X	X	X	X		X
- WS Single transit segment		X			X	
- WS Single transit segment <u>PSTN</u> and ISDN		X			X	

	Financial statements			Audit		Published
	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>						
<b>Interconnection</b>	X	X	X	X		X
- WS Connection (£ per 2Mbit/s per year)		X			X	
- WS Rental – fixed (£ per 2Mbit/s per year)		X			X	
- WS Rental – per km (£ per 2Mbit/s per year)		X			X	
- WS Re-arrangements (£ per occasion)		X			X	

### Review of the fixed geographic call termination markets

	Financial statements			Audit		Published
	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>						
<b>Fixed geographic call termination</b>	X	X	X	✗		X
- WS Call termination local exchange segment		X			✗	
- WS Call termination local exchange segment (ISDN)		X			✗	
- WS Call termination local exchange stick		X			✗	
- WS Call termination local exchange stick (ISDN)		X			✗	

### Review of International Wholesale Services

	Financial statements			Audit		Published
	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
Wholesale market and illustrative services						
Wholesale IDD to category B	X	X	X	X		X

## Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements			Audit		Published
	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
<b>Wholesale markets and illustrative services</b>						
<b>Traditional interface symmetric broadband origination (up to and including 8Mbit/s);</b>	X	X	X	✗		X
- WS service A		X			✗	
- WS service B		X			✗	
- <u>Partial and Private Circuits 64kbit/s - connection</u>		X				
- <u>Partial and Private Circuits 64kbit/s - link</u>		X				
- <u>Partial and Private Circuits 64kbit/s - transmission</u>		X				
- <u>Partial and Private Circuits 64kbit/s – local end</u>		X				
- <u>Partial and Private Circuits 2mbit/s - connection</u>		X				
- <u>Partial and Private Circuits 2mbit/s - link</u>		X				
- <u>Partial and Private Circuits 2mbit/s - distribution</u>		X				
- <u>Partial and Private Circuits 2mbit/s - local end</u>		X				
- <u>RBS Backhaul sub 2mb rental</u>		X				
- <u>RBS Backhaul sub 2mb connection</u>		X				
- <u>RBS Backhaul 2mb rental</u>		X				
- <u>RBS Backhaul 2mb connection</u>		X				
- <u>SDSL</u>		X				
<b>Traditional interface symmetric broadband origination (above 8Mbit/s up to and including 155Mbit/s);</b>	X	X	X	✗		X
- WS service A		X			✗	
- WS service B		X			✗	
- <u>Partial and Private Circuits 34/45mbit/s - link</u>		X				
- <u>Partial and Private Circuits 34/45mbit/s - distribution</u>		X				

	Financial statements			Audit		Published
	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
<b>Wholesale markets and illustrative services</b>						
- <u>Partial and Private Circuits 34/45mbit/s -local end</u>		X				
- <u>Partial and Private Circuits 140/155mbit/s - link</u>		X				
- <u>Partial and Private Circuits 140/155mbit/s - distribution</u>		X				
- <u>Partial and Private Circuits 140/155mbit/s - local end</u>		X				
<b>Alternative interface symmetric broadband origination (all bandwidths);</b>	X	X	X	X		X
- WS service A		X			X	
- WS service B		X			X	
- <u>WES/LES</u>		X				
- <u>BES</u>		X				
<b>Wholesale trunk segments (including Kingston upon Hull)</b>	X	X	X	X		X
- WS service A		X			X	
- WS service B		X			X	
- <u>Partial and Private circuits 2mbit/s - trunk</u>		X				
- <u>Partial and Private circuits 34/45mbit/s - trunk</u>		X				
- <u>Partial and Private circuits 140/155mbit/s - trunk</u>		X				
- <u>Partial and Private circuits 622mbit/s - trunk</u>		X				
<b>Technical areas (as necessary, including fixed and per km variants)</b>	X	X	X	X		X
- <u>In Span Handover (“ISH”)</u>		X			X	
- <u>Customer Sited Handover (“CSH”);</u>		X			X	
- <u>ISH extension circuits</u>		X			X	
- <u>Synchronous Transfer Mode (“STM”) -1 ISH and CSH handover</u>		X			X	
- <u>Point of Handover (“PoH”)</u>		X				

## Review of the wholesale broadband access market

	Financial statements			Audit		Published
	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
<b>Wholesale markets and illustrative services</b>						
<b>Asymmetric broadband origination in the UK excluding the Hull area</b>	X	X	X	✗		X
<b>Broadband conveyance in the UK</b>	X	X	x	✗		X
- WS ATM Interconnection		X			✗	



## Annex C to Direction 3

### Retail Cost Accounting Financial Statements

For the purposes of this annex the following abbreviations are used, the scope of these statements is set out in the matrix of obligations that follows; references to annexes are to the form and content direction attached at Schedule 4 to the Notification dated 8 April 2004. In the table below, X means that the financial statement set out at the head of the column is required for the market or service on that row.

Please note, the separation of the tables into Parts A to F is purely for presentational purposes.

- CCPS = 'current cost primary statements', current cost profit and loss statement (CC P&L) and statement of current cost mean capital employed (CC MCE), as set out in Annexes 21 & 22 in relation to retail product segments, Annexes 19 & 20 in relation to individual retail markets;
- RTR = 'reconciliation to retail', reconciliation of CC P&L and CC MCE to retail level - consolidation across group of markets covered by review, followed by consolidation of these consolidations, to give consolidated CC P&L and CC MCE for retail markets subject to cost accounting (as set out in annexes 15 & 16)
- RTSA = 'reconciliation to statutory accounts', reconciliation of consolidated CC P&L and CC MCE for retail markets subject to cost accounting to the profit and loss account and balance sheet of the operator shown in their statutory financial statements (as set out in annexes 27 & 28, supported by annexes 29, 30, 31 & 32)
- SoCC Ext = statement of costs and charges for wholesale service supplied in the market, other than those which are only Internal Wholesale Services (as set out in annex 34);
- SoCC Int = statement of costs and charges for wholesale service supplied in the market, which are only Internal Wholesale Services (as set out in annex 35);
- SoAC FA = statement of activity costs on a current fully allocated cost basis for the market (as set out in Annexes 38), supported by consolidated statement of activity costs on a current fully allocated cost basis (as set out in Annexes 37),
- NCR FA = attribution of activity costs on a current fully allocated cost basis for the market (as set out in annex 40), supported by consolidated attribution of activity costs on a current fully allocated cost basis (as set out in annex 39),
- SoAC IC = consolidated statement of activity costs on a incremental and standalone cost basis (as set out in Annex 41)
  
- RFR – regulatory financial review, as set out in annex 2;
- SDR – statement of responsibility, as set out in annex 3
- FPIA – Audit Opinion required for required statements, for inclusion in audit report as set out in annex 4
- PPIA – Audit opinion required for required statements, for inclusion in audit report as set out in annex 4
- Notes – notes to the financial statements, as set out in annex 23
- RMP – retail markets purchase statement, as set out in annex 26
- SPS – summary, for reconciliation purposes, of profitability by wholesale service (as set out in annex 36);

- AFI (a) – cost category analysis AI-1 (LRIC) and AI-3 (FAC) (as set out in annex 42)
- AFI (b) – summarised activity analysis AI-4 (FAC) AI-2 (LRIC) (as set out in annex 42)
- AFI (c) – analysis of depreciation charge and CCA adjustments AI-5 and CCA fixed asset movement statement AI – 6 (as set out in annex 42)
- AFI (d) – mean capital employed and summarised activity analysis for all network components AI – 7 and network activity analysis of mean capital employed for all network components AI –9 (as set out in annex 42)
- AFI (e) – analysis of outpayments AI – 8 (as set out in annex 42)
- AFI (f) – indices applied for CCA revaluation AI-10 (as set out in annex 42)
- AFI (g) – assets valuation and useful economic life analysis AI-11 (as set out in annex 42)
- AFI (h) – marketing expenditure analysis AI-12 (as set out in annex 42)
- AFI (i) – operating cost and mean capital employed by plant group AI- 13 (as set out in annex 42)
- AFI (j) – CPS set up costs AI- 14 (as set out in annex 42)

## Part A

### Review of Fixed Narrowband Retail markets

	Financial statements					Audit		Published
	CCPS	RTR	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
<b>Retail markets and illustrative retail product segments</b>								
<b>Residential analogue exchange line services in the UK excluding the Hull area</b>	X	X	X			X		X
- PSTN Res Connections (Std)	X						X	
- Res Tele Line Rentals	X						X	
<b>Residential local calls in the UK excluding the Hull area</b>	X	X	X			X		X
- PSTN Local calls: Res	X						X	
<b>Residential national calls in the UK excluding the Hull area</b>	X	X	X			X		X
- PSTN National calls: Res	X						X	
<b>Residential IDD calls category A routes (retail IDD routes which are competitive at WS) in the UK excluding the Hull area</b>	X	X	X			X		X
- IDD Calls to O'seas Fixed Res	X						X	
- IDD Calls to O'seas Mobile Res	X						X	
<b>Residential IDD calls to category B routes (retail IDD routes which are not competitive at WS) in the UK excluding the Hull area</b>	X	X	X			X		X
- IDD Calls to O'seas Fixed Res	X						X	
- IDD Calls to O'seas Mobile Res	X						X	
<b>Residential calls to mobiles in the UK excluding the Hull area</b>	X	X	X			X		X
- Inland Calls to Mob Res	X						X	
<b>Residential operator assisted calls in the UK excluding the Hull</b>	X	X	X			X		X

Changes to BT's regulatory financial reporting and audit requirements – Statement

	Financial statements					Audit		Published
	CCPS	RTR	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
<b>Retail markets and illustrative retail product segments</b>								
<b>area</b>								
- Retail segments ...	X						X	

## Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	CCPS	RTR	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
<b>Retail markets and illustrative retail product segments</b>								
<b>Traditional interface retail leased lines (up to and including 8Mbit/s);</b>	X	X	X			X		X
- Speech/Keyline Connexions	X						X	
- Speech/Keylines Rent	X						X	

## Part B

### Review of Fixed Narrowband Retail markets

Retail markets and illustrative retail product segments	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
<b>Residential analogue exchange line services in the UK excluding the Hull area</b>				X	X	X		X
- PSTN Res Connections (Std)					X		X	
- Res Tele Line Rentals					X		X	
<b>Residential local calls in the UK excluding the Hull area</b>				X	X	X		X
- PSTN Local Calls: Res					X		X	
<b>Residential national calls in the UK excluding the Hull area</b>				X	X	X		X
- PSTN National Calls: Res					X		X	
<b>Retail IDD calls category A routes (retail IDD routes which are competitive at WS) in the UK excluding the Hull area</b>				X	X	X		X
- IDD Calls to O'seas Fixed Res					X		X	
- IDD Calls to O'seas Mob Res					X		X	
<b>Retail IDD calls to category B routes (retail IDD routes which are not competitive at WS) in the UK excluding the Hull area</b>				X	X	X		X
- IDD Calls to O'seas Fixed Res					X		X	
- IDD Calls to O'seas Mob Res					X		X	
<b>Residential calls to mobiles in the UK excluding the Hull area</b>				X	X	X		X
- Inland Calls to Mob Res					X		X	

Changes to BT's regulatory financial reporting and audit requirements – Statement

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
<b>Retail markets and illustrative retail product segments</b>								
<b>Residential operator assisted calls in the UK excluding the Hull area</b>				X	X	✗		X
- Retail segments ...					X		✗	

## Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
<b>Retail markets and illustrative retail product segments</b>								
<b>Traditional interface retail leased lines (up to and including 8Mbit/s);</b>				X	X	✗		X
- Speech/Keyline Connexions					X		✗	
- Speech/Keyline Rent					X		✗	



## Part C

### Review of Fixed Narrowband Retail markets

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
<b>Retail markets and illustrative retail product segments</b>								
<b>Residential analogue exchange line services in the UK excluding the Hull area</b>	X	X				X		X
- PSTN Res Connections (Std)	X						X	
- Res Tele Line Rentals	X						X	
<b>Residential local calls in the UK excluding the Hull area</b>	X	X				X		X
- PSTN Local Calls: Res	X						X	
<b>Residential national calls in the UK excluding the Hull area</b>	X	X				X		X
- PSTN National Calls: Res	X						X	
<b>Residential IDD calls category A routes (retail IDD routes which are competitive at WS) in the UK excluding the Hull area</b>	X	X				X		X
- IDD Calls to O'seas Fixed Res	X						X	
- IDD Calls to O'seas Mob Res	X						X	
<b>Residential IDD calls to category B routes (retail IDD routes which are not competitive at WS) in the UK excluding the Hull area</b>	X	X				X		X
- IDD Calls to O'seas Fixed Res	X						X	
- IDD Calls to O'seas Mob Res	X						X	
<b>Residential calls to mobiles in the UK excluding the Hull area</b>	X	X				X		X
- Inland Calls to Mob Res	X						X	
<b>Residential operator assisted calls in the UK excluding the Hull area</b>	X	X				X		X

Changes to BT's regulatory financial reporting and audit requirements – Statement

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
<b>Retail markets and illustrative retail product segments</b>								
- Retail segments ...	X					X		

**Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets**

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
<b>Retail markets and illustrative retail product segments</b>								
Traditional interface retail leased lines (up to and including 8Mbit/s);	X	X				X		X
- Speech/Keyline Connexions	X						X	
- Speech/Keyline Rent	X						X	

## Part D

### Review of Fixed Narrowband Retail markets

	Financial statements					Audit		Published
	AFI (a)	AFI (b)	AFI (c)	AFI (d)		FPIA	PPIA	
<b>Retail markets and illustrative retail product segments</b>								
<b>Residential analogue exchange line services in the UK excluding the Hull area</b>								
- Retail segments ...								
<b>Residential local calls in the UK excluding the Hull area</b>								
- Retail segments ...								
<b>Residential national calls in the UK excluding the Hull area</b>								
- Retail segments ...								
<b>Residential IDD calls category A routes (retail IDD routes which are competitive at WS) in the UK excluding the Hull area</b>								
- Retail segments ...								
<b>Retail IDD calls to category B routes (retail IDD routes which are not competitive at WS) in the UK excluding the Hull area</b>								
- Retail segments ...								
<b>Residential calls to mobiles in the UK excluding the Hull area</b>								
- Retail segments ...								
<b>Residential operator assisted calls in the UK excluding the Hull area</b>								
- Retail segments ...								

**Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets**

	Financial statements					Audit		Published
	AFI (a)	AFI (b)	AFI (c)	AFI (d)		FPIA	PPIA	
<b>Retail markets and illustrative retail product segments</b>								
<b>Traditional interface retail leased lines (up to and including 8Mbit/s);</b>								
- Retail segment A ...								
- Retail segment B ...								

## Part E

### Review of Fixed Narrowband Retail markets

	Financial statements					Audit		Published
	AFI (e)		AFI (f)	AFI (g)	AFI (h)	FPIA	PPIA	
<b>Retail markets and illustrative retail product segments</b>								
<b>Residential analogue exchange line services in the UK excluding the Hull area</b>	X		X	X	X		X	
- PSTN Res Connections (Std)	X				X		X	
<b>Residential local calls in the UK excluding the Hull area</b>	X		X	X	X		X	
- PSTN Local Calls: Res					X		X	
<b>Residential national calls in the UK excluding the Hull area</b>	X		X	X	X		X	
- PSTN National Calls: Res					X		X	
<b>Residential IDD calls category A routes (retail IDD routes which are competitive at WS) in the UK excluding the Hull area</b>	X		X	X	X		X	
- IDD Calls to O'seas Fixed Res					X		X	
- IDD Calls to O'seas Mob Res					X		X	
<b>Residential IDD calls to category B routes (retail IDD routes which are not competitive at WS) in the UK excluding the Hull area</b>	X		X	X	X		X	
- IDD Calls to O'seas Fixed Res					X		X	
- IDD Calls to O'seas Mob Res					X		X	
<b>Residential calls to mobiles in the UK excluding the Hull area</b>	X		X	X	X		X	
- Inland Calls to Mob Res	X				X		X	
<b>Residential operator assisted calls in the UK excluding the Hull area</b>	X		X	X	X		X	
- Retail segments ...	X				X		X	

## Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements				Audit		Published	
	AFI (e)		AFI (f)	AFI (g)	AFI (h)	FPIA		PPIA
<b>Retail markets and illustrative retail product segments</b>								
<b>Traditional interface retail leased lines (up to and including 8Mbit/s);</b>	X		X	X	X		X	
- Speech/Keyline Connexions	X				X		X	
- Speech/Keyline Rent	X				X		X	

## Part F

### Review of Fixed Narrowband Retail markets

	Financial statements					Audit		Published
	AFI (i)	AFI (j)				FPIA	PPIA	
<b>Retail markets and illustrative retail product segments</b>								
<b>Residential analogue exchange line services in the UK excluding the Hull area</b>							X	
- PSTN Res Connections (Std)							X	
- Res Tele Line Rentals							X	
<b>Residential local calls in the UK excluding the Hull area</b>							X	
- PSTN Local Calls: Res							X	
<b>Residential national calls in the UK excluding the Hull area</b>							X	
- PSTN National Calls: Res							X	
<b>Residential IDD calls category A routes (retail IDD routes which are competitive at WS) in the UK excluding the Hull area</b>							X	
- IDD Calls to O'seas Fixed Res							X	
- IDD Calls to O'seas Mob Res							X	
<b>Residential IDD calls to category B routes (retail IDD routes which are not competitive at WS) in the UK excluding the Hull area</b>							X	
- IDD Calls to O'seas Fixed Res							X	
- IDD Calls to O'seas Mob Res							X	
<b>Residential calls to mobiles in the UK excluding the Hull area</b>							X	
- Inland Calls to Mob							X	
<b>Residential operator assisted calls in the UK excluding the Hull area</b>							X	



Changes to BT's regulatory financial reporting and audit requirements – Statement

	Financial statements					Audit		Published
	AFI (i)	AFI (j)				FPIA	PPIA	
<b>Retail markets and illustrative retail product segments</b>								
- Retail segments ...							✗	

## Review of the retail leased lines, symmetric broadband origination and wholesale trunk segments markets

	Financial statements					Audit		Published
	AFI (i)	AFI (j)	AFI (k)			FPIA	PPIA	
<b>Retail markets and illustrative retail product segments</b>								
<b>Traditional interface retail leased lines (up to and including 8Mbit/s);</b>							✗	
- Speech/Keyline Connexions							✗	
- Speech/Keyline Rent							✗	

## ANNEX D

**Annexes A and B of the Original FA10 Direction are hereby amended in that the words, symbols and columns struck through below are deleted from the annexes and the words and symbols underlined below are inserted in the annexes.**

### Annex A

#### Wholesale Cost Accounting Financial Statements

For the purposes of this annex the following abbreviations are used, the scope of these statements is set out in the matrix of obligations that follows; references to annexes are to the Direction made by Ofcom on 16 December 2004 under SMP Condition FA10.2 relating to the form and content of the Regulatory Financial Statements. In the table below, X means that the financial statement set out at the head of the column is required for the market or service on that row.

Please note, the separation of the tables into Parts A to F is purely for presentational purposes.

- CCPS = 'current cost primary statements', current cost profit and loss statement (CC P&L) and statement of current cost mean capital employed (CC MCE), as set out in Annexes 13 & 14 in relation to wholesale services, Annexes 11 & 12 in relation to wholesale segments (when designated), Annexes 9 & 10 in relation to individual wholesale markets;
- RTW = 'reconciliation to wholesale', reconciliation of CC P&L and CC MCE to wholesale level - consolidation across group of markets covered by review, followed by consolidation of these consolidations, to give consolidated CC P&L and CC MCE for wholesale markets subject to cost accounting (as set out in Annexes 5 & 6);
- RTSA = 'reconciliation to statutory accounts', reconciliation of consolidated CC P&L and CC MCE for wholesale markets subject to cost accounting to the profit and loss account and balance sheet of the operator shown in their statutory financial statements (as set out in annexes 27 & 28, supported by annexes 29, 30, 31 & 32);
- SoCC Ext = statement of costs and charges for wholesale service supplied in the market, other than those which are only Internal Wholesale Services (as set out in annex 34);
- SoCC Int = statement of costs and charges for wholesale service supplied in the market, which are only Internal Wholesale Services (as set out in annex 35);
- SoAC FA = statement of activity costs on a current fully allocated cost basis for the market (as set out in Annexes 38), supported by consolidated statement of activity costs on a current fully allocated cost basis (as set out in Annexes 37),
- NCR FA = attribution of activity costs on a current fully allocated cost basis for the market (as set out in annex 40), supported by consolidated attribution of activity costs on a current fully allocated cost basis (as set out in annex 39);
- SoAC IC = consolidated statement of activity costs on a incremental and standalone cost basis (as set out in Annex 41);
- RFR – regulatory financial review, as set out in annex 2 [NB - no audit opinion is required for the RFR];
- SDR – statement of responsibility, as set out in annex 3 [NB - no audit opinion is required for the SDR];
- FPIA – Audit Opinion required for statements, for inclusion in audit report as set out in annex 4;

- PPIA – Audit opinion required for statements, for inclusion in audit report as set out in annex 4;
- Notes – notes to the financial statements, as set out in annex 23;
- RMP – retail markets purchase statement, as set out in annex 26;
- SPS – summary, for reconciliation purposes, of profitability by wholesale service (as set out in annex 36) [NB - the SPS should not be published];
- AFI (a) – cost category analysis AI-1 (LRIC) and AI-3 (FAC) (as set out in annex 42);
- AFI (b) – summarised activity analysis AI-4 (LRIC) and AI-2 (FAC) (as set out in annex 42);
- AFI (c) – analysis of depreciation charge and CCA adjustments AI-5 and CCA fixed asset movement statement AI – 6 (as set out in annex 42);
- AFI (d) – mean capital employed and summarised activity analysis for all network components AI – 7 and network activity analysis of mean capital employed for all network components AI –9 (as set out in annex 42);
- AFI (e) – analysis of outpayments AI – 8 (as set out in annex 42);
- AFI (f) – indices applied for CCA revaluation AI-10 (as set out in annex 42);
- AFI (g) – assets valuation and useful economic life analysis AI-11 (as set out in annex 42);
- AFI (h) – marketing expenditure analysis AI-12 (as set out in annex 42);
- AFI (i) – operating cost and mean capital employed by plant group AI-13 (as set out in annex 42);
- AFI (j) – CPS set up costs AI-14 (as set out in annex 42);
- AFI (k) – BT inter-market turnover reconciliation AI-22 (as set out in annex 42).

**Part A**  
**Review of the wholesale local access market**

	Financial statements					Audit		Published
	CCPS	RTW	RTSA	SoCC Ext	SoCC Int	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>								
<b>Wholesale local access market</b>	X	X	X			✗		X
- wholesale service A	X			X			✗	
- wholesale service B etc	X				X		✗	

**Part B**  
**Review of the wholesale local access market**

	Financial statements					Audit		Published
	SoAC FA	NCR FA	SOAC IC	RFR	SDR	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>								
<b>Wholesale local access market</b>	X	X	X	X	X	✗		X (except NCRFA)
- wholesale service A					X		✗	
- wholesale service B ...					X		✗	

**Part C**  
**Review of the wholesale local access market**

	Financial statements					Audit		Published
	Notes	RMP	SPS			FPIA	PPIA	
<b>Wholesale market and illustrative services</b>								
<b>Wholesale local access market</b>	X		X				✗	X (except SPS)
- wholesale service A	X						✗	
- wholesale service B ...	X						✗	

**Part D**  
**Review of the wholesale local access market**

	Financial statements					Audit		Published
	AFI (a)	AFI (b)	AFI (c)	AFI (d)		FPIA	PPIA	
<b>Wholesale market and illustrative services</b>								
<b>Wholesale local access market</b>								
- wholesale service A	X	X	X	X			✗	
- wholesale service B ...	X	X	X	X			✗	

**Part E**  
**Review of the wholesale local access market**

	Financial statements					Audit		Published
	AFI (e)		AFI (f)	AFI (g)	AFI (h)	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>								
<b>Wholesale local access market</b>			X	X			✗	
- wholesale service A								
- wholesale service B ...								

**Part F**  
**Review of the wholesale local access market**

	Financial statements					Audit		Published
	AFI (i)	AFI (k)				FPIA	PPIA	
<b>Wholesale market and illustrative services</b>								
<b>Wholesale local access market</b>	X	X					X	
- wholesale service A	X						X	
- wholesale service B ...	X						X	

## Annex B

### Accounting Separation Financial Statements

For the purposes of this annex the following abbreviations are used, the scope of these statements is set out in the matrix of obligations that follows; references to annexes are to the annexes to the Direction made by Ofcom on 16 December 2004 under SMP Condition FA10.2 relating to the form and content of the Regulatory Financial Statements. In the table below, X means that the financial statement set out at the head of the column is required for the market or service on that row.

Please note, the separation of the tables into Parts A to B is purely for presentational purposes.

- TS - turnover statements: sales of External Wholesale Services (as set out in annex 24) and sales of Internal Wholesale Services (as set out in annex 25);
- SOS – notes to the financial statements (as set out in annex 23) in relation to sufficiency of separation, in particular assurance that activities to which accounting separation applies have been sufficiently separated from each other and from activities to which separation does not apply;
- IMT – Inter-market turnover, reconciliation of the source and destination of inter market turnover, to verify that transfer charges are self cancelling overall (as set out in annex 33);
- RFR – regulatory financial review, as set out in annex 2 [NB - no audit opinion is required for the RFR];
- SDR – statement of responsibility, as set out in annex 3 [NB - no audit opinion is required for the SDR];
- FPIA – Audit Opinion required for required statements, for inclusion in audit report as set out in annex 4;
- PPIA – Audit opinion required for required statements, for inclusion in audit report as set out in annex 4;
- CCPS = 'current cost primary statements', to demonstrate sufficiency of separation where CCPS not required for cost accounting purposes – current cost profit and loss statement and statement of current cost mean capital employed, as set out in Annexes 13 & 14 in relation to wholesale services, Annexes 11 & 12 in relation to wholesale segments (when designated), Annexes 9 & 10 in relation to individual wholesale markets;
- RTW = 'reconciliation to wholesale', reconciliation of CC P&L and CC MCE to wholesale level, to demonstrate sufficiency of separation where for cost accounting purposes RTW not required – consolidation across group of markets covered by review, followed by consolidation of these consolidations, to give consolidated CC P&L and CC MCE for wholesale markets subject to accounting separation (as set out in annex 5 & 6);
- RTSA = 'reconciliation to statutory accounts', reconciliation of consolidated CC P&L and CC MCE for wholesale markets subject to accounting separation to the profit and loss account and balance sheet of the operator shown in their statutory financial statements (as set out in annexes 27 & 28, supported by annexes 29, 30, 31 & 32), to demonstrate sufficiency of separation where RTSA not already required for cost accounting purposes.



**Part A**  
**Review of the wholesale local access market**

	Financial statements			Audit		Published
	TS	SOS	IMT	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>						
<b>Wholesale local access market</b>	X	X	X	✗		X (except IMT)
- wholesale service A		X			✗	
- wholesale service B ...		X			✗	

**Part B**  
**Review of the wholesale local access market**

	Financial statements			Audit		Published
	RFR	SDR	CCPS, RTW & RTSA	FPIA	PPIA	
<b>Wholesale market and illustrative services</b>						
<b>Wholesale local access market</b>	X	X	X	✗		X
- wholesale service A		X			✗	
- wholesale service B ...		X			✗	

## Annex 3

# Notification of Modification to Direction 4

## NOTIFICATION UNDER SECTION 49 OF THE COMMUNICATIONS ACT 2003

### **Direction modifying a Direction under section 49 of the Communications Act 2003 and SMP Services Condition OA2 and FA10.2 specifying requirements for the form and content of Regulatory Financial Statements in respect of wholesale cost accounting, accounting separation and retail cost accounting**

#### **WHEREAS:**

(A) as a result of a market analysis carried out by the Director General of Telecommunications (the 'Director') and OFCOM in accordance with section 79 of the Act, BT has been designated as having SMP in respect of certain identified markets in accordance with section 79 of the Act;

(B) as a result of such SMP designations, BT has been subjected to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act, including conditions OA1 to OA34 and FA10 imposing obligations on BT in respect of wholesale cost accounting, accounting separation and retail cost accounting in relation to BT's activities in those markets where BT has been designated as having SMP;

(C) in complying with the SMP services conditions referred to in paragraph B above, and in particular condition OA5 and FA10.5, BT is required to prepare such Regulatory Financial Statements as directed by OFCOM from time to time;

(D) by virtue of the Transitional Provisions, references to the Director in any of those SMP services conditions should be read as references to OFCOM;

(E) conditions OA2 and FA10.2 includes, in accordance with section 45(10) of the Act, the ability for OFCOM to make such directions as they consider appropriate from time to time in relation to BT's obligations under conditions OA1 to OA34 and FA10;

(F) this Direction modifies:

- i. Direction 4 given under SMP Services Condition OA2 at Annex 4 of The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004 (the "Original Direction 4"), which relates to BT's obligations under SMP services conditions OA1 to OA34, in that it sets out the form and content to be applied by BT in preparing certain Regulatory Financial Statements required by virtue of condition OA5 and the Direction 4; and
- ii. a Direction given under SMP Services Condition FA10.2 at Schedule 5 to the Notification set out in Annex 2 of the Review of the wholesale local access market, dated 16 December 2004 (the "Original FA10 Direction"), which relates to BT's obligations under SMP services condition FA10, in that it sets

out the form and content to be applied by BT in preparing certain Regulatory Financial Statements required by virtue of condition FA10.5 and the Original FA10 Direction;

(G) BT is entitled to depart from the form and content set out in this Direction in certain circumstances in accordance with conditions OA7 and OA21 and FA10.7 and FA10.21;

(H) for the reasons set out in the explanatory statement accompanying this modified Direction, OFCOM are satisfied that, in accordance with section 49(2) of the Act, this Direction is:

- (i) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
- (ii) not such as to discriminate unduly against particular persons or against a particular description of persons;
- (iii) proportionate to what it is intended to achieve; and
- (iv) in relation to what it is intended to achieve, transparent;

(I) for the reasons set out in the explanatory statement accompanying this modified Direction, Ofcom have considered and acted in accordance with the six Community requirements set out in section 4 of the Act and their duties in section 3 of the Act;

(J) on 3 May 2006, Ofcom published a notification of the proposed modified Direction in accordance with section 49 of the Act (the 'Notification');

(K) a copy of the Notification was sent to the Secretary of State, the European Commission and the regulatory authorities at every other Member State in accordance with section 50 of the Act;

(L) in the Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 14 June 2006;

(M) by virtue of section 49(9) of the Act, OFCOM may give effect to the proposal set out in the Notification, with or without modification, only if:

- a) they have considered every representation about the proposal that is made to them within the period specified in the Notification; and
- b) they have had regard to every international obligation of the United Kingdom (if any) which has been notified to them for this purpose by the Secretary of State;

(N) Ofcom has considered every representation about the proposed modified Direction duly made to them and these representations are discussed in the statement accompanying this modified Direction; and the Secretary of State has not notified OFCOM of any international obligation of the United Kingdom for this purpose;

**NOW, therefore, pursuant to section 49 of the Act and Condition OA2, OFCOM hereby gives the following modification to the Original Direction 4 and the Original FA10 Direction:**

1. Except where BT is entitled to amend the form and content of the Regulatory Financial Statements in accordance with conditions OA7 and OA21 and FA10.7 and FA10.21, BT shall ensure that the Regulatory Financial Statements required by conditions OA5 and FA10.5 and Original Direction 3 and Original FA10 Direction (both as amended) shall be prepared, as appropriate, as to form and content in the manner set out in the Original Direction 4 and the Original FA10 Direction as modified by Annex A to this Direction;
2. The Additional Financial Information set out in Annex 42 to the Original Direction 4 and the Original FA10 Direction shall be amended as set out in Annex B to this Direction.
3. For the purpose of interpreting this modified Direction, the following definitions shall apply:
  - a) "**Act**" means the Communications Act 2003 (c. 21);
  - b) "**BT**" means British Telecommunications plc, whose registered company number is 1800000, and any of its subsidiaries or holding companies, or any subsidiary of such holding companies, all as defined by section 736 of the Companies Act 1985, as amended by the Companies Act 1989;
  - c) "**Director**" means the Director General of Telecommunications as appointed under section 1 of the Telecommunications Act 1984;
  - d) "**Direction 3**" means this Modified Direction given under SMP Services Condition OA2 at Annex 4 of The Regulatory Financial Reporting obligations on BT and Kingston Communications statement, dated 22 July 2004, which relates to BT's obligations under SMP services conditions OA1 to OA34, in that it sets out the Regulatory Financial Statements which are required to be prepared, audited (including the level of audit), delivered to OFCOM and/or published by BT under condition OA5 as modified;
  - e) "**OFCOM**" means the Office of Telecommunications;
  - f) "**Notification**" means the Notifications which set in place the obligations on BT referred to in recital (B) of this modified Direction above; and
  - g) "**Transitional Provisions**" means sections 408 and 411 of the Act, the Communications Act 2003 (Commencement No.1) Order 2003, and the Office of Communications Act 2002 (Commencement No. 3) and Communications Act 2003 (Commencement No. 2) Order 2003.
4. Except insofar as the context otherwise requires, words or expressions shall have the meaning assigned to them in this notification and otherwise any word or expression shall have the same meaning as it has in the Notification and otherwise any word or expression shall have the same meaning as it has in the Act.
5. For the purpose of interpreting this modified Direction:

- a) headings and titles shall be disregarded; and
  - b) the Interpretation Act 1978 (c. 30) shall apply as if this Direction were an Act of Parliament.
6. This Direction shall take effect on the day it is published.
7. The Schedule to this modified Direction shall form part of this modified Direction.

**Andrew Heaney**

**Competition Policy Director, Ofcom**

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

**16 August 2006**

## Annex A

The form and content of the Regulatory Financial Statements set out in the Original Direction 4 and the Original FA10 Direction are amended in that the words struck through below are deleted from the Regulatory Financial Statements and the words underlined below are inserted into the Regulatory Financial Statements.

### BT Wholesale Market Statement

#### CURRENT COST PROFIT AND LOSS ACCOUNT for the year ended 31 March 2006

	Notes	£m 2006	% per line item/total	£m 2005	% per line item/total	% Change Year on Year
<b>Turnover (</b>						
<b>Internal Sales (Gross/Net)</b>						
- services which are also available externally						
- services provided internally only						
<b>External Sales (Gross/Net)</b>						
Discounts (No disclosure required if less than 10% of Gross Revenue)						
Total Turnover			100%		100%	
<b>Operating costs</b>						
Changes from Other BT Wholesale Markets						
<b>Operating costs of Wholesale Market</b>						
- Provisions & installation/maintenance						
- Network support						
- General support						
- General management						
- Finance and billing						
- Accommodation						
- Bad debts						
- Other Costs						
- Depreciation						
<u>Land &amp; Buildings</u>						
Access						
Switch and transmission						
Other related						
Sub total operating expenditure			100%		100%	
CCA adjustments:						
Holding (gain)/loss						
Supplementary depreciation						
Other adjustments						
Total operating costs						
<b>Return</b>						

#### RETURN ON MEAN CAPITAL EMPLOYED AND TURNOVER for the year ended 31 March 2006

	2006 %	2005 %	%
Return on mean capital employed			
Return on turnover			

BT Wholesale Market Statement

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STATEMENT OF CURRENT COST MEAN CAPITAL EMPLOYED  
for the year ended 31 March 2006

Notes	£m 2006	£m 2005	% Change
<hr/>			
Fixed assets			
Tangible fixed assets (identifying asset categories where the value exceeds 10% of total fixed asset base)			
- Land & Buildings			
<del>- Duct</del>			
<del>- Transmission Equipment</del>			
<del>- Exchange Equipment</del>			
<del>- Other</del>			
<u>- Access</u>			
		<u>Copper</u>	
		<u>Fibre</u>	
		<u>Duct</u>	
<u>- Switch and transmission</u>			
		Switch	
		Transmission	
- Other related			
Investments			
<hr/>			
Total fixed assets			
Current assets			
Stocks			
Debtors			
- internal			
Other current assets			
<hr/>			
Total current assets			
<hr/>			
Creditors: amounts falling due within one year			
Other creditors			
- internal			
- external			
<hr/>			
Total creditors: amounts falling due within one year			
<hr/>			
Net current assets			
<hr/>			
Total assets less current liabilities			
Provisions for liabilities and charges			
<hr/>			
<u>Mean capital employed</u>			
<hr/>			

**Annex B**

**Annex 42 of the Original Direction 4, and Annex 42 of the Original FA10 Direction are amended in that the words underlined below are inserted in the annexes.**

<b>Reference</b>	<b>Additional Financial Information</b>	<b>Description</b>	<b>Purpose (AS, CA &amp; R Reconciliation)</b>
<b>AI - 1</b>	Cost category (as used within regulatory LRIC model) analysis for network components, increments and relevant layers of common cost (LRIC basis)	<ul style="list-style-type: none"> <li>to ensure the LRIC model reconciles to BT group's total cost and asset &amp; liability base</li> <li>review the outputs of BT's LRIC model for the whole BT group by cost category and components, increments and layers of common costs</li> <li>identify all relevant layers of common costs separately within BT group</li> <li>enable trend analysis of this breakdown to be undertaken</li> <li>enable assessment of cost-volume relationships</li> <li>provide input into network price control reviews</li> </ul>	<b>CA &amp; R</b>
<b>AI - 2</b>	Summarised activity analysis of components for network activities, increments and the relevant layers of common cost (LRIC basis)	<ul style="list-style-type: none"> <li>review the outputs of BT's LRIC model by activity analysis for network components, increments and the layers of common costs</li> <li>identify all relevant layers of common costs separately for network activities</li> <li>enable trend analysis of this breakdown to be undertaken</li> <li>provide input into network price control reviews</li> <li>ensure LRIC model reconciles to the total cost and asset &amp; liability base for BT's network activities</li> </ul>	<b>CA &amp; R</b>



<b>Reference</b>	<b>Additional Financial Information</b>	<b>Description</b>	<b>Purpose (AS, CA &amp; R Reconciliation)</b>
<b>AI – 3</b>	Cost category (as used within regulatory LRIC model) analysis for network components and increments	<ul style="list-style-type: none"> <li>• similar to AI-1 but on a fully allocated cost basis</li> </ul>	<b>CA &amp; R</b>
<b>AI – 4</b>	Summarised activity analysis for network components and increments	<ul style="list-style-type: none"> <li>• similar to AI-2 but on a fully allocated cost basis</li> </ul>	<b>CA &amp; R</b>
<b>AI – 5</b>	Analysis by asset category and network activities, of the depreciation charge for the year and impact of CCA valuation adjustments on costs for the year: - e.g. <ul style="list-style-type: none"> <li>• HCA depreciation</li> <li>• CCA supplementary depreciation</li> <li>• Holding gain</li> <li>• Other CCA adjustments</li> </ul>	<ul style="list-style-type: none"> <li>• impact on profit and loss cost base of the application of CCA methodologies</li> <li>• enable trend analysis of this breakdown to be undertaken</li> <li>• provides sub-analysis (for the cost/gain line items left) of the asset movement statement in relation to network components</li> <li>• provide input into network price control reviews</li> </ul>	<b>CA &amp; R</b>

<b>Reference</b>	<b>Additional Financial Information</b>	<b>Description</b>	<b>Purpose (AS, CA Reconciliation)</b>
<b>AI – 6</b>	CCA fixed asset movement statement a) gross replacement costs brought forward, additions/disposals/transfers, holdings gains/(loss), gross replacement costs carried forward and b) gross depreciation brought forward, HCA depreciation charge, supplementary CCA depreciation, disposals/transfers/other movements, holding gains/(loss), gross depreciation carried forward) by asset category for BT Group plus reconciliation to HCA fixed assets movement statement in the group statutory accounts	<ul style="list-style-type: none"> <li>• review the breakdown of asset costs between principal asset categories and how such CCA asset values have moved in the year</li> <li>• enable trend analysis of CCA asset values to be undertaken</li> <li>• provide input into network price control reviews</li> </ul>	<b>CA &amp; R</b>
<b>AI – 7</b>	Total mean capital employed and detailed activity analysis for all network components	<ul style="list-style-type: none"> <li>• review network component costs</li> <li>• enable trend analysis of these breakdowns to be undertaken</li> <li>• provide input into price control reviews</li> <li>• assist in dealing with investigations</li> <li>• ensure summarised activity analysis presented elsewhere reconciles to BT's network activities cost base</li> </ul>	<b>CA</b>

<b>Reference</b>	<b>Additional Financial Information</b>	<b>Description</b>	<b>Purpose (AS, CA &amp; R)</b>
<b>AI – 8</b>	Analysis by type of product group and by type of OLO of costs, mean capital employed and transfer charges to disaggregated activities (and associated volumes) in relation to outpayments to other licensed operators (OLOs)	<ul style="list-style-type: none"> <li>• review how outpayments are accounted for</li> <li>• review fast growing segment of wholesale call market</li> <li>• review the impact of outpayments on BT's network cost base, for example, for different call types</li> <li>• enable trend analysis of outpayment costs and volume breakdowns to be undertaken</li> <li>• assist in dealing with investigations</li> </ul>	<b>CA &amp; R</b>
<b>AI – 9</b>	Detailed Network activity analysis of mean capital employed for all network components	<ul style="list-style-type: none"> <li>• enable trend analysis of these breakdowns to be undertaken</li> <li>• ensure summarised activity analysis reconciles to BT's network activity mean capital employed</li> </ul>	<b>CA &amp; R</b>
<b>AI – 10</b>	Graphs over time of the various raw indices, index weightings & composite indices used by BT to revalue assets onto a current cost basis	<ul style="list-style-type: none"> <li>• evaluate the price trends for composite elements of BT's asset revaluation indices</li> <li>• evaluate the weightings within individual asset revaluation indices</li> <li>• evaluate the trend of individual asset revaluation indices</li> <li>• provide input into price control reviews and determinations</li> </ul>	<b>CA</b>

<b>Reference</b>	<b>Additional Financial Information</b>	<b>Description</b>	<b>Purpose (AS, CA Reconciliation)</b>
<b>AI – 11</b>	Estimated economic useful lives, valuation and depreciation basis, survey used for valuation or index used to revalue, historical cost accounting (HCA) & current cost accounting (CCA) depreciation, gross book values (GBV) by year of acquisition, gross replacement costs (GRC) & net replacement costs (NRC) across asset categories	<ul style="list-style-type: none"> <li>• review the nature and relative distribution of BT's asset base</li> <li>• evaluate BT's chosen asset lives for individual asset categories</li> <li>• review the relationship between gross HCA and CCA valuations</li> <li>• evaluate the appropriateness of the CCA valuation basis for each asset category</li> <li>• evaluate the appropriateness of the CCA depreciation methodology for each asset category</li> <li>• review the impact of CCA accounting on the cost base</li> <li>• enable trend analysis of CCA costs to be undertaken</li> <li>• provide input into network price control reviews</li> </ul>	<b>CA &amp; R</b>
<b>AI – 12</b>	Marketing expenditure analysis of the top 10 campaigns in the financial year, including advertising copy, video and audio tape of the advertising campaigns.	<ul style="list-style-type: none"> <li>• enable a review to be undertaken of the attribution to disaggregated activities of the most significant campaigns</li> <li>• enable trend analysis to be undertaken</li> <li>• assist in dealing with investigations</li> <li>• provide input into retail price control reviews</li> <li>• provide input into NTS retail uplift determinations</li> </ul>	<b>CA</b>

<b>Reference</b>	<b>Additional Financial Information</b>	<b>Description</b>	<b>Purpose (AS, CA or Reconciliation)</b>
<b>AI – 13</b>	Total operating costs & mean capital employed costs (and associated volumes) for each plant group and their individual exhaustion, including the disclosure of relevant usage factors, onto each network activity and/or (sub) component	<ul style="list-style-type: none"> <li>• review the breakdown of costs to all the different components and sub-components within BT's network activities</li> <li>• enable trend analysis of this breakdown to be undertaken</li> <li>• provide input into network price control reviews</li> <li>• ensure total plant group costs reconcile to the cost base for BT's network activities</li> </ul>	<b>CA &amp; R</b>
<b>AI – 14</b>	CPS set up costs and their recovery over time on a discounted cash flow basis	<ul style="list-style-type: none"> <li>• ascertain the extent of these costs</li> <li>• enable Oftel to review the recovery of these costs over time</li> <li>• provide a reconciliation between the costs disclosed in the CCA Financial Statements and the cash flows used to determine cost recovery</li> </ul>	<b>CA</b>

<b>Reference</b>	<b>Additional Financial Information</b>	<b>Description</b>	<b>Purpose (AS, CA &amp; R)</b>
<b>AI – 15</b>	Provision of BT 'Data File'	<ul style="list-style-type: none"> <li>• Delivery of “data file” in prescribed format containing all records from 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.</li> </ul> <p>The data would as a minimum, be able to replicate the outputs of the financial statements, and therefore would include transfer charges and CCA adjustments, and be able to identify the attribution bases to those described in the DAM. The basis of preparation, must be consistent with the Primary Accounting Documents</p> <p>The information to be provided annually within 10 days of the publication of the regulatory accounts, and on a quarterly basis thereafter, 30 days after each quarter end. The outputs of the annual file would be consistent with published audited information.</p> <p>BT to maintain file in format consistent with Ofcom/3<sup>rd</sup> party import routine, accompanied by provision of control totals, and any technical advice which allows seamless data transfers.</p>	<b><u>AS, CA &amp; R</u></b>

<b>Reference</b>	<b>Additional Financial Information</b>	<b>Description</b>	<b>Purpose (AS, CA or Reconciliation)</b>
<b><u>AI - 20</u></b>	<u>CCA information to allow Ofcom to re-calculate the regulatory asset value (RAV) for copper assets used in BT's access network.</u>	<ul style="list-style-type: none"> <li>• <u>Breakdown of the following information</u> <ul style="list-style-type: none"> <li>– <u>Full CCA on an actual price index basis</u></li> <li>– <u>Pre 1997 assets on an RPI basis</u></li> <li>– <u>Post 1997 assets on an actual price index basis.</u></li> </ul> </li> <li>• <u>Enable Ofcom to re-calculate and monitor the affect of this going forward.</u></li> </ul>	<b><u>CA</u></b>
<b><u>AI - 21</u></b>	<u>Comprehensive analysis of the transfer charges where this information is summarised in the published statements because there are a significant number of variants with different charging bases.</u>	<ul style="list-style-type: none"> <li>• <u>Allow Ofcom to check that material items have been separately disclosed in the published Regulatory Accounts.</u></li> <li>• <u>Allows BT to demonstrate compliance with its non-discrimination obligations.</u></li> </ul>	<b><u>AS</u></b>

## Annex 4

# Notification of Consent under Condition OA1

## NOTIFICATION UNDER SECTION 49 OF THE COMMUNICATIONS ACT 2003

**Consent under section 49 of the Communications Act 2003 and SMP Services Condition OA1 imposed on British Telecommunications plc in Schedule 2, Part 2 to the Notification at Annex 2 of *The regulatory financial reporting obligations on BT and Kingston Communications* final statement and notification made on 22 July 2004.**

WHEREAS:

(A) as a result of a market analysis carried out by the Director General of Telecommunications (the "Director") and Ofcom, in accordance with sections 48(1) and 79 of the Act, BT has been designated as having Significant Market Power ('SMP') in respect of certain identified markets as set out in the Notification and the notification of Annex 2 of the Review of the wholesale local access market, made on 16 December 2004;

(B) as a result of such SMP designations, BT has been subjected to various SMP services conditions in accordance with sections 45 and 86 to 92 of the Act including:

- (a) conditions OA1 to OA34 and FA10, imposing obligations on BT in respect of wholesale cost accounting, retail cost accounting and accounting separation in relation to BT's activities in those markets where BT has been designated as having SMP;

(C) this Consent concerns matters to which Condition OA6 (b) relates;



(D) for the reasons set out in the explanatory statement accompanying this Consent, Ofcom are satisfied that in accordance with section 49(2) of the Act, this direction is:

- (i) objectively justifiable in relation to the networks, services, facilities, apparatus or directories to which it relates;
- (ii) not such as to discriminate unduly against particular persons or against a particular description of persons;
- (iii) proportionate to what it is intended to achieve; and
- (iv) in relation to what it is intended to achieve, transparent;

(E) for the reasons set out in the explanatory statement accompanying this Consent, Ofcom are satisfied that in accordance with the relevant duties set out in sections 3 and 4 of the Act;

(F) on 3 May 2006, Ofcom published a notification of the proposed Consent and accompanying explanatory statement in accordance with section 49 of the Act and invited representation about any of the proposals therein by 14 June 2006 (the "First Notification");

(G) by virtue of section 49(9) of the Act, Ofcom may give effect to the proposal set out in the First Notification, with or without modification, only if-

- a) they have considered every representation about the proposal that is made to them within the period specified in the Notification; and
- b) they have had regard to every international obligation of the United Kingdom (if any) which has been notified to them for this purpose by the Secretary of State;

(H) Ofcom have considered every representation about the proposed Consent duly made to it and the Secretary of State has not notified Ofcom of an international obligation of the United Kingdom for this purpose;

**Therefore, pursuant to section 49 of the Act and SMP Conditions OA1 in Schedule 1 to the Notification, Ofcom give the following Consent:**

1. In SMP Condition OA6(b), the four month period within which BT must publish its Regulatory Financial Statements and any corresponding audit opinions after the end of the period to which they relate shall be extended to six months for the reporting period ending 31 March 2006.

2. For the purpose of interpreting this Direction, the following definitions shall apply:

- (a) '**Act**' means the Communications Act 2003; and
- (b) '**The Notification**' means the notification at Annex 2 of the *The regulatory financial reporting obligations on BT and Kingston Communications* final statement and notification made on 22 July 2004.

3. Except insofar as the context otherwise requires, words or expressions shall have the meaning assigned to them in paragraph 2 above and otherwise any word or expression shall have the same meaning as it has in the Notification, and otherwise any word or expression shall have the same meaning as it has in the Act.

4. For the purpose of interpreting this Consent:

- (a) headings and titles shall be disregarded; and
- (b) the Interpretation Act 1978 shall apply as if this Consent were an Act of Parliament.

5. This Consent shall take effect on the day it is published.

**Andrew Heaney**

**Competition Policy Director, Ofcom**

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

**16 August 2006**

## Annex 5

# Notification of revocation of SMP Condition

### NOTIFICATION UNDER SECTION 48 OF THE COMMUNICATIONS ACT 2003

#### Revocation of SMP services conditions applying to BT in relation to inter-tandem conveyance and transit on fixed public narrowband networks.

#### WHEREAS

(A) on 22 July 2004, OFCOM published a notification under sections 48(1) and 86(1) of the Communications Act (the "Act") at Annex 2 to the document entitled "The regulatory financial reporting obligations on BT and Kingston Communications – final statement and notification ("the July 2004 Notification") with the effect of setting SMP services conditions on BT as set out in Schedule 2 to that notification in the market defined in Schedule 1, Part 1, Wholesale Market 8 of that notification as:

"Inter-tandem conveyance and transit on fixed public telephone networks in the UK excluding the Hull Area.";

(B) on 18 August 2005, Ofcom published a document entitled "Review of BT's network charge controls – Explanatory Statement and Notification of decisions on BT's SMP status and charge controls in narrowband wholesale market" (the "August 2005 Notification") in which it determined that, among other things, BT did not, either individually or jointly with others, have significant market power in the market for inter-tandem conveyance and transit on fixed public telephone networks in the UK excluding the Hull Area;

(C) as a consequence of the determination referred to in (B), the SMP services conditions imposed on BT as set out in Schedule 2 of the July 2004 Notification as they apply to the market defined in Schedule 1, Part 1, Wholesale Market 8 of that notification should no longer apply;

(D) in making the decisions referred to in paragraph 1, Ofcom has considered and acted in accordance with its general duties set out in section 3 of the Act as well as the six Community requirements set out in section 4 of the Act;

(E) on 3 May 2006, Ofcom published a notification of the proposed modified Direction in accordance with section 48 of the Act (the "First Notification");

(F) copies of the First Notification and the accompanying explanatory statement were sent to the Secretary of State for Trade and Industry, the European Commission and to the regulatory authorities of every other member State in accordance with section 50 of the Act;

(G) in the first Notification and accompanying explanatory statement OFCOM invited representations about any of the proposals therein by 14 June 2006;

(H) by virtue of section 48(5) of the Act, OFCOM may give effect to the proposal set out in the First Notification, with or without modification, only if:

- c) they have considered every representation about the proposal that is made to them within the period specified in the Notification; and
  - d) they have had regard to every international obligation of the United Kingdom (if any) which has been notified to them for this purpose by the Secretary of State;
- (I) Ofcom has considered every representation about the proposed revocation duly made to them and these representations are discussed in the statement accompanying this revocation; and the Secretary of State has not notified OFCOM of any international obligation of the United Kingdom for this purpose;

## **NOW THEREFORE**

Ofcom is proposing that in the table contained in Schedule 1, Part 1 of the July 2004 Notification, the following words are deleted:

“8. Inter-tandem conveyance and transit on fixed public telephone networks in the UK excluding the Hull Area.”

### ***Interpretation***

2. Except for references made to identified services markets in this Notification (including the recitals hereto), in the July 2004 Notification and in the August 2005 Notification, words or expressions used in this Notification (and in the recitals hereto) shall have the same meaning as they have been ascribed in the Act.

**Andrew Heaney**

**Competition Policy Director, Ofcom**

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

**16 August 2006**

**Annex 6****Audit opinions required for 2005/06****Introduction**

The tables below set out the opinions required on the 2005/06 Regulatory Financial Statements.

**Wholesale markets**

<b>Market</b>	<b>2005/06</b>
Wholesale residential analogue exchange line services	FPIA
Wholesale business analogue exchange line services	FPIA
Wholesale business ISDN2 exchange line services	FPIA
Call origination on fixed public narrowband networks	PPIA
Local-tandem conveyance & transit on public n/band networks	PPIA
Single transit on fixed public n/band networks	N/A
Technical areas	PPIA
Fixed call termination	PPIA
Traditional interface symmetric broadband origination (up to and inc. 8Mbit/s)	FPIA
Traditional interface symmetric broadband origination (above 8mbit/s up to and inc. 155Mbit/s)	FPIA
Alternative interface symmetric broadband origination(all bandwidths)	FPIA
Wholesale trunk segments	FPIA
Technical areas	N/A
Asymmetric broadband origination	FPIA
Broadband conveyance	PPIA
Wholesale residential ISDN2 exchange line services	N/A
Wholesale business ISDN30 exchange line services	FPIA
Wholesale local access	N/A

**Retail markets**

<b>Market</b>	<b>2005/06</b>
Residential analogue exchange line services	PPIA
Residential local calls	PPIA
Residential national calls	PPIA
Residential IDD calls (Category A)	PPIA
Residential IDD calls (Category B)	N/A
Residential calls to mobiles	PPIA
Residential operator assisted calls	N/A