

Telecoms Access Review

BT Group response

Annex 2

Reporting requirements



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1. Executive summary

- 1.1. BT is broadly supportive of the format and principles proposed for the Regulated Financial Statements (RFS). However, we have concerns over increasing complexity being introduced to reporting in many areas. Our comments in our response focus mainly on detailed items.
- 1.2. We note the extra detail and granularity proposed for the financial reporting. BT is concerned that overall the current highly complex structure and preparation process of the RFS is neither proportionate to any perceived value it may add, nor does it provide increased transparency.
- 1.3. While we are supportive of what Ofcom is trying to achieve with the reporting schedules on the whole, we propose Ofcom takes a more flexible approach. We would like to work with Ofcom to finesse the format which will provide the transparency that Ofcom wants to achieve in a proportionate manner.
- 1.4. We also have concerns that RFS accounting and reporting neither represents GAAP nor is it in line with Ofcom's pricing policy in a number of areas. The RFS is relatively long and complex and in turn requires a complex accompanying AMD. Over time we would welcome the opportunity to explore further RFS revisions with Ofcom to provide a considerably more focused set of statements.



2. Introduction

- 2.1 Ofcom sets out that the purpose of regulatory financial reporting is to provide it with the information necessary to:
- make informed regulatory decisions;
 - monitor compliance with SMP conditions;
 - ensure that those SMP conditions continue to address the underlying competition issues; and
 - investigate potential breaches of SMP conditions and anti-competitive practices.¹
- 2.2 In addition, Ofcom states that the attributes of good regulatory reporting are:
- Relevance. The information needs to answer the right questions, in the right way and at the right time.
 - Reliability. The underlying data must be reliable, suitable rules for treatment of those data must be chosen and those rules need to be followed.
 - Transparency. The basis of preparation should be understood by the users of the reports and the presentation of the data should be clear.
 - Proportionality. The reporting requirements should be proportionate to the benefits.²

BT Response

- 2.3 We welcome Ofcom's proposals that Reporting requirements are aimed at strengthening the relevance, reliability and transparency of the RFS whilst ensuring the mandated regulatory financial reporting and the underpinning processes BT must adopt to meet them, are proportionate. We support these objectives.
- 2.4 In this consultation response, we propose amendments to Ofcom's proposals that we consider will better balance these objectives and result in a more proportionate approach to achieving these overall aims.
- 2.5 Complexity is increasing in the RFS as we're directed to add more detail in each review without rationalising anything that already exists, cite the examples of the sizeable LLA and IEC schedules that span many pages
- 2.6 The current construct of the RFS and supporting models and systems were built and subsequently amended many times based on historic network configurations giving rise to multiple automated layers in the hierarchy of cost allocation. Amendments have necessitated many additional manual overrides and journals. Consequently, the propensity to drive errors has significantly increased and corrections of those often have collateral consequences. Notwithstanding the benefit to stakeholders is usually negligible if indeed discernible, the workload to achieve these small amendments to remain compliant, is disproportionately high.
- 2.7 Ofcom has recognised some of these elements and has worked with us to try and simplify. However, the entire systems and processes are now in need of substantial revision. We look forward to working with Ofcom on a significant overhaul in the forthcoming months and years.
- 2.8 This document should be read in conjunction with the Openreach response to the TAR consultation, particularly with reference to indexation within Current Cost Accounting (CCA) (see the PIA pricing section of that response).

¹ TAR, Volume 6, Paragraph 2.3.

² TAR, Volume 6, Paragraph 2.5.

3. Accounting separation and cost accounting remedies

3.1 In this section we set out our comments on Ofcom's proposed reporting requirements, as set out in Section 3 of the consultation, and our response to Question 6.1.

Question 6.1: *Do you agree with our proposal to retain the accounting separation and cost accounting remedies on each of the proposed SMP markets?*

Summary of Ofcom's proposals

- 4.6 Ofcom proposes that BT has significant market power (SMP) in the following markets:³
- a. the supply of wholesale access to telecoms physical infrastructure for deploying a telecoms network (in the UK excluding the Hull Area)
 - b. the supply of wholesale local access at a fixed location (Area 2 and Area 3)
 - c. the supply of Leased Lines Access (Area 2, Area 3 and High Network Reach areas)
 - d. the supply of Inter-exchange Connectivity Services (BT only and BT+1 exchanges)
- 4.7 Ofcom proposes to impose an accounting separation obligation⁴ on BT in each of the proposed SMP markets together with a cost accounting obligation intended to ensure that costs are attributed across markets (and the individual services within them) in a fair, objective, transparent and consistent manner.

BT Response

- 4.8 We have no objections to accounting separation and cost accounting in principle but have some concerns over some of the specific methodologies proposed in sections 4 and 5 of the consultation document. These are detailed below in the relevant sections of this response.
- 4.9 On the basis that Ofcom maintains its proposed market assessment in the final statement, we set out below how we propose to comply with Ofcom's directions and propose amendments to Ofcom's proposals which we consider would be more in line with its objectives.
- 4.10 In doing so, we will continue to work with Ofcom to improve the value of the RFS to Ofcom and other stakeholders.

³ TAR, Volume 6, Paragraph 2.10.

⁴ TAR, Volume 6, Paragraph 3.5.

4. Performance Schedules

4.1 In this section we set out our comments on Ofcom's proposed reporting requirements, as set out in Section 4 of the consultation, and our response to Question 6.2

Question 6.2: *Do you agree with our proposals in relation to the published performance schedules set out in Section 4?*

Summary of Ofcom's proposals

4.2 Ofcom proposes that BT continues to provide schedules that detail financial information, albeit with some changes:

- **Market level information.** This is information on the revenues, operating costs, mean capital employed (MCE) and returns on MCE for each SMP market and for BT Group overall.
- **Service level information.** This generally includes the revenue, volume, price, operating cost, MCE and returns on MCE for specific services or groups of services associated with SMP markets.
- **Breakdown of service level costs.** This includes a breakdown of service level operating costs by cost category and division (e.g. Openreach versus rest of BT), and service level MCE by asset type (e.g. duct, fibre, etc).

Headline

4.3 We broadly support the performance schedules, but we have some concerns in specific matters (including some raised, but rejected by Ofcom, in response to the WFTMR).

BT Response

4.4 Within the context of the current RFS, both Ofcom's and our intentions are that the schedules should be of use to stakeholders and provide relevant information. Therefore, the removal of low value schedules is welcome as it helps the users of the RFS focus on valuable reporting.

4.5 The landscape of the telecoms industry has evolved significantly since the introduction of service level reporting in the RFS. These were designed with commodity products in mind, which are becoming increasingly outdated with the introduction of newer generation service solutions.

4.6 Service level reporting granularity is not appropriate given Ofcom's pricing approach. Our key concern is that a service level focus will give undue prominence to individual service level returns which would not be in line with the way that prices have been set by Ofcom. We propose that reporting returns at a market level, or at least in aggregated service level basket, is more appropriate and proportionate.

4.7 We have a number of continuing concerns where we propose a more pragmatic reporting approach. These include:

- a. Ofcom's proposed property cost reporting where we propose to align regulatory reporting to GAAP and BT's Statutory accounts
- b. Revenue reporting journals where we propose to align regulatory reporting to GAAP and BT's Statutory accounts



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4.8 Further, some of the detail that Ofcom proposes BT reports, can compromise confidentiality of commercially sensitive information that is unnecessary and potentially provides an unfair competitive advantage to other stakeholders. This particularly applies where Ofcom proposes details of costs to other parts of BT, other than Openreach.

Focused items

Divergence from GAAP

- 4.9 There is a sound financial reasoning for following the accounting standards in the Annual Report and Accounts (ARA). Reversing these standards requires manual processes that increase the likelihood of error.
- 4.10 The RFS is still a compromise between pricing models and statutory accounts and may not always be easy to understand for some stakeholders. Ideally, the Regulatory Financial Commentary (RFC) would become redundant and the RFS would align with Ofcom's pricing decisions (pricing models) and the statutory accounts. Closer alignment would improve clarity and transparency for stakeholders. We acknowledge that Ofcom has for some time made efforts at alignment, but we consider it should go further.
- 4.11 As raised in our response to the WFTMR⁵, we are concerned that the regulatory reporting Ofcom proposes to introduce in the TAR consultation document, may result in further divergence. We are particularly concerned about these misalignments:
- a. Misalignment of RFS with Ofcom's pricing policy and objectives: Ofcom has generally set prices at a market level. In this context, the proposal to report costs and margins for most services at an individual service level does not provide a relevant yardstick to measure BT against its obligations.
 - b. Divergence from GAAP: Divergence from GAAP presents challenges to stakeholders who seek to compare the RFS to the statutory accounts. It adds complexity in the preparation of the RFS and reduces its comprehensibility versus accounting standards which are well understood by finance audiences. For example, the treatment of SLGs in the RFS is different from the treatment of SLGs under IFRS 15. Stakeholders would have a better understanding of our business without having to reconcile two different sets of numbers.
- 4.12 Addressing these issues will almost certainly involve the introduction of new methodologies. We recognise that a further challenge to the reader of the RFS is that large numbers of methodology changes are introduced at each market review. These invariably lead to collateral changes or journals that need to be implemented in the preparation of the RFS. There would be great value in minimising the number of times the RFS changes – making it easier to compare results over time, with less frequent disconnects from one period to the next.
- 4.13 We would like Ofcom to recognise the three alignment issues described above and consider improving alignment in these areas over the coming years.
- 4.14 We acknowledge that the RFS will always entail some complexity to produce but it is too complex and could be simplified. There are hundreds of different bases of allocation, the document is long, and the reporting is granular and detailed. Further, BT is concerned about the increasing complexity of producing the RFS, which makes errors more likely, leads to high costs and, importantly, stakeholders misunderstanding or not trusting how the numbers have been calculated. On that basis, we consider that increasing detail in the RFS will undermine rather than increase level of transparency – what good is extra detail if it leads to less clarity and trust in the data?

⁵ BT, June 2020, BT's Response to Ofcom's consultation document Promoting competition and investment in fibre networks: BT Regulatory Financial Reporting requirements covering wholesale fixed telecoms markets 2021-26, Paragraph 5.26.

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- 4.15 Ofcom should strike a better balance and focus more on the issue of RFS complexity. We would ask it to endorse the production of a less complex RFS as a key shared objective for the benefit of all stakeholders. Ofcom should especially consider the cumulative impact on costs and scope for error of many specific attribution drivers.
- 4.16 BT is preparing a proposal for a new and more efficient RFS that would both improve accuracy of cost allocations and better meet Ofcom's policy objectives. Specifically, we contend that attribution bases could be replaced with simpler and less error prone alternatives.
- 4.17 In the interim, some of the unnecessary complexity of producing the RFS would be addressed by Ofcom tackling the misalignment issues, as outlined above in 4.11.

Reporting service returns

- 4.18 Ofcom proposes that we should report returns by service in each market⁶. Ofcom believes that would help "stakeholders understand the impact of BT's cost attribution decisions (e.g. how it has implemented its cost accounting obligations for the purposes of allocating costs associated with BCMR services between geographic markets)"⁷.
- 4.19 This simply reflects an accounting allocation, rather than a specifically cost causal allocation. This is because the cost is calculated on a national basis so the allocation is the same unit rate for each BCMR market.
- 4.20 In fact, the lower the level of granularity, the less meaningful the accounting entry is.
- 4.21 Further, it does not underpin the regulatory pricing regime and, in some cases, the service level reporting does not reflect the way in which customers buy from Openreach (for example, VHB solutions).
- 4.22 A more helpful approach for stakeholders would be to understand the returns in each market, rather than by service, which would address the issues above, particularly cost causality at an appropriate level.
- 4.23 Ofcom highlights that reporting at a service level is not reliable in all cases⁷, which BT agrees with. We welcome the opportunity to work with Ofcom in the coming years on these cases to highlight the rationale for reporting decisions.
- 4.24 Ofcom states that it is maintaining its current approach of controlling Contractor Excess Construction Charges (ECCs) through a basis of charges obligation on BT⁸ and has retained the requirement for Additional Financial Information (AFIs) to be provided privately to Ofcom in relation to Contractor ECCs⁹.
- 4.25 Despite this continuation of approach, additional reporting requirements have been proposed on BT to separately report Contractor ECCs across five geographic markets, requiring the preparation and assurance of 1,000+ more financial figures across the RFS each year, and provide further information to Ofcom in relation to Direct ECCs through an additional AFI.
- 4.26 ECC costs are not tracked by individual order and therefore this information cannot be accurately provided. Any proposed apportionment methodology which would have to be applied, would be onerous and disproportionate on BT and make the financial information provided appear falsely precise, which could mislead users of the RFS. BT would propose that the existing requirement to present Direct ECCs within the RFS and provide additional

⁶ TAR, Volume 6, Paragraph 4.82.

⁷ TAR, Volume 6, Paragraph 4.88.

⁷ TAR, Volume 6, Paragraph 4.25.

⁸ TAR, Volume 4, Paragraph 5.64.

⁹ TAR, Volume 6, Paragraph 6.20.

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financial information in relation to Contractor ECCs, should be sufficient for the purposes of regulating ECCs.

- 4.27 Ofcom has proposed that BT describes within the RFS how it has determined where to report main link⁸. BT proposes that this information would be better included within the Accounting Methodology Document (AMD) which is intended to be read alongside the RFS.

PI reporting

- 4.28 Pricing compliance is demonstrated through the published pricing compliance statements, whether external or internal (of which there are no sales). Complex financial reporting will therefore not offer any further comfort on compliance with the pricing remedies.⁹
- 4.29 Ofcom outlines clearly that the internal revenue within the PI market is calculated to achieve a particular market return. Therefore, internal prices presented in this market in the RFS will not be comparable to the external prices¹⁰. There is therefore no value in publishing the internal prices, as they do not represent a true downstream price, and we would propose that these are not presented within the RFS due to the confusion they can cause.
- 4.30 We are currently obligated to report cost and revenues for two services, pole top equipment and cable up a pole. As it stands, our understanding is that this requirement is unchanged. Since Ofcom is proposing to set external charges for two pole services to zero (with costs for these services recovered from pole attachment services¹¹), the reporting obligation and the pricing decision are misaligned. If in the final statement Ofcom maintains its pricing approach to pole top equipment and cable up a pole, we consider Ofcom must change the reporting obligation to reflect its pricing decision.
- 4.31 Attribution of PI costs is currently published as part of the RFS within the Attribution Diagrams on an annual basis. We welcome Ofcom reviewing this requirement as it currently adds no value to the readers of the RFS, given its technical detail.
- 4.32 Ofcom has proposed an additional appendix to be published outlining the costs and volumes associated with each internal PI service attributing into markets¹². BT would propose that this schedule is looking to achieve the same aim as the current attribution diagram and therefore it would be appropriate to only retain one of the requirements.
- 4.33 BT would recommend that any reporting of downstream attributed cost is provided at infrastructure group level (i.e. Duct or Poles). The downstream charge is intended to represent overall usage of PI assets by other Openreach markets, but the detail of this by specific duct size used by each SMP market is disproportionate, will make the schedule harder to understand and increase the risk of errors in production.

Cross-market ancillaries

- 4.34 Ofcom has proposed that BT separately reports accommodation services where total revenue exceeds £5m¹³. That would add unnecessary complexity and increased risk of error in the preparation of the RFS without benefiting the users of the information. Each

⁸ TAR, Volume 6, Paragraph 4.101.

⁹ TAR, Volume 6, Paragraph 4.46.

¹⁰ TAR, Volume 6, Paragraph 4.66.

¹¹ TAR, Volume 6, Paragraph 4.47.

¹² TAR, Volume 6, Paragraph 4.74.

¹³ TAR, Volume 6, Paragraph 4.116.

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additional accommodation service would create 300+ additional published numbers in the RFS on current preparation basis

- 4.35 Ofcom states publishing internal and external information for services in cross-market ancillaries will support stakeholders' assessment of the impact and effectiveness of remedies in Volume 4¹⁴. However, while this is a current reporting requirement, accommodation and electricity services are externally provided only, and removing the reporting requirement for the services provided externally only, will support Ofcom in its aim to provide stakeholders with clear information.

¹⁴ TAR, Volume 6, Paragraph 4.117.



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5. Preparation and Assurance

5.1 In this section we set out our comments on Ofcom's proposed reporting requirements, as set out in Section 5 of the consultation, and our response to Questions 6.3 and 6.4.

Question 6.3: *Do you agree with our proposals in relation to the preparation and assurance of the RFS set out in Section 5? Please set out your reasons and supporting evidence for your response*

Question 6.4. *To what extent do you think it is necessary to require BT to publish in the reconciliation report the impact on current year figures of each methodology change reported in the CCN (which includes the impact of each change on prior year figures)?*

Summary of Ofcom's proposals

5.2 Ofcom proposes BT publishes information on the basis of the preparation of the RFS in relation to

- a. Publication requirements relating to preparation of the RFS.
- b. Basis of preparation – directions applicable to all markets.
- c. Basis of preparation – directions applicable to specific markets.
- d. Assurance.

Headline

5.3 BT is comfortable with many of Ofcom's proposals although we have some areas of concern detailed below.

BT Response

5.4 We support the change in materiality from the higher of 5% or £1m to higher of 5% or £5m, since anything smaller than this provides no value to stakeholders. We agree a material change should mean a change to any figure published in the Performance Summary by Market Schedule or a Market Summary schedule in the RFS, which exceeds the aforementioned materiality threshold.

5.5 We support the proposal to remove the requirement for BT to publish within the Reconciliation Report the impact on current year figures for each methodology change reported in the Change Control Notification (CCN). This drives significant cost within the preparation of the regulatory reporting, for little benefit, given that the impact of the changes has already been presented within the CCN.

5.6 Ofcom proposes that BT publishes a Cost Component List describing components used to prepare the RFS. This information won't be useful to stakeholders as it relates to cost components which are not (and should not be) published. It is not clear how stakeholders could use that information, nor how it could help inform stakeholders so they can have confidence that BT is complying with its obligations. We propose that we supply this information to Ofcom privately instead.

5.7 Moreover, there is a further complication in the preparation of the financials. RPI is the index used for RAV adjustment. If RPI were to be dropped, then any replacement index that reflects the fact that costs associated with duct, copper and pole assets, which relate to (capitalised) labour and civils, are likely to increase over time¹⁵. We welcome discussion with Ofcom to resolve this issue.

¹⁵ TAR, Volume 6, Paragraph 5.80.

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- 5.8 Ofcom proposes that the AMD could include explanations of how discounts are treated in the RFS¹⁶. We welcome this proposal to provide more clarity to readers of the RFS and have included this within the draft 24/25 AMD, due to be published in July.
- 5.9 Ofcom proposes that low volume services may be reported, with Ofcom's agreement, as part of other services, but that a note must be included which explains what has been done and why¹⁷.
- 5.10 We consider this is a disproportionate reporting requirement, given the low volume of impacted services and ambiguity of the level of granularity at which services are required to be reported. We propose that the requirement is removed.
- 5.11 Ofcom has proposed that BT continues to publish cost allocation diagrams, to help readers understand the RFS¹⁸. We agree that these cost allocation diagrams can be useful but propose some amendments to the requirement to increase their effectiveness.
- 5.12 We request that Ofcom clarifies in its directions that in certain circumstances, cost attribution diagrams are not required. In line with what we produce currently, we suggest that cost attribution diagrams are not required when:
- allocation is 100% to Rest of BT in current and prior years;
 - there is £nil cost in current and prior years;
 - there are significant negative balances within a cost category, as these distort the diagrams;
 - Ofcom has agreed for any other reason that a cost attribution diagram is not required.
- 5.13 Within the cost attribution diagrams BT is required to separate out each geographic market (e.g. WLA / BCMR Area 2, WLA/BCMR Area 3). The RFS is prepared on a national unit cost basis¹⁷, meaning that the differences in allocations between geographic markets are simply a function of the difference in volumes of services sold within each market. Many of the diagrams produced allocate very small percentages (<1%) to particular markets, making them very difficult to read. BT would propose that attribution diagrams continue to be produced but that the requirement is altered to allow a more sensible grouping of geographic markets, to provide clearer information to stakeholders.

De-capitalisation

- 5.14 Expensing services such as network adjustments or ECCs is unnecessary and complicates the preparation of the RFS (and therefore increases the risk of errors).
- 5.15 Capitalising an asset and then depreciating it, is completely separate from cashflow. Any perceived benefit of then having additional ROCE is unwound in real terms by discounting back to the point of purchase. Depreciation is simply the accounting mechanism and does not provide a double benefit, since all regulatory pricing is based on the accounting. This is an anomaly.
- 5.16 The correct accounting treatment (as per the statutory accounts) is to capitalise the asset and depreciate over its asset life.

Services included in BT's regulatory accounting system

- 5.17 Ofcom proposes, in addition to all services that it is required to publish in the RFS, that BT separately identifies within its regulatory accounting system all services in SMP markets where total revenue (across all SMP markets) exceeds £5m¹⁹.

¹⁶ TAR, Volume 6, Paragraph 5.16.

¹⁷ TAR, Volume 6, Paragraph 4.25.

¹⁸ TAR, Volume 6, Paragraph 4.25.

¹⁹ TAR, Volume 6, Paragraphs 5.85-5.88.

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- 5.18 We understand that this is so Ofcom has better visibility of new and/or fast-growing services which are not specifically published in the RFS but which it may require more detailed information on.
- 5.19 This proposal would require BT to separately identify and therefore allocate costs to services far beyond those we are required to publish in the RFS, leading to a significant increase in complexity of our cost allocations. For example, within FTTP Other Rentals we would potentially need to create c.30 additional cost allocations based on different speed variants.
- 5.20 We propose a more proportionate way of providing Ofcom with the information it requires would be privately to provide revenue reporting only at this level of detail. This could then be used to support discussion on the requirement and future timing for publishing any additional services in the RFS schedules.



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6. Information Provided

6.1 In this section we set out our comments on Ofcom's proposed reporting requirements, as set out in Section 6 of the consultation, and our response to Question 6.5.

Question 6.5: *Do you agree with our proposals in relation to information provided to Ofcom set out in Section 6? Please set out your reasons and supporting evidence for your response.*

Summary of Ofcom's proposals

- 6.2 Ofcom requires BT to provide information privately to Ofcom, principally relating to further information on the RFS, such as data and models supporting the RFS and 'additional financial information' (AFIs) relating to SMP markets. Ofcom proposes to remove the obligation to provide the data and models used to run our cost attribution system (currently CostPerform) in current and prior years, alongside any additional spreadsheets or models used to prepare the schedules in the RFS along with many of the schedules.
- 6.3 Ofcom proposes that BT will now need to provide additional AFIs to provide granular service and component level information, as well as information on exchange closure and copper recovery.²⁰

BT Response

- 6.4 BT acknowledges Ofcom's decision to remove the requirement to provide supporting data and models supporting the RFS but notes the additional reports we will be required to produce.
- 6.5 BT also notes there is a slight discrepancy between the title of AFI (v) as presented in Volume 6²¹ and Volume 7²² and suggests these should be consistent for clarity.

Exchange Closures

- 6.6 Ofcom has included additional requirements on BT to provide privately information in relation to the Exchange Closure Programme and Copper Recovery Programme. In both cases, Ofcom has also directed changes to the Regulatory Accounting System to ensure that these costs are separately identifiable within that system¹⁶.
- 6.7 BT understands the requirement for this information to enable Ofcom to regulate appropriately as we go through a once-in-a-generation change, however we would propose that the direction does not need to explicitly state that the information is available within the Regulatory Accounting System.
- 6.8 The exchange closure programme is in very early stages, and we do not yet have full understanding of the types of balances involved or how these would be appropriately identified. Accordingly, it would be appropriate to retain flexibility in how best to obtain and store this information prior to providing to Ofcom.
- 6.9 We would therefore propose that BT be required to provide the information required in the form of an AFI to Ofcom, and that once produced and reviewed, BT and Ofcom together consider how this could be best incorporated in the Regulatory Accounting System (if at all). We consider this is a reasonable alternative to Ofcom's proposal, which is made without any assessment of the work or complexity and potential knock-on effects of changing the Regulatory Accounts System for this purpose.

²⁰ TAR, Volume 6, Paragraph 5.96 and 5.100.

²⁰ TAR, Volume 6, Paragraph 6.8.

²¹ TAR, Volume 6, Paragraph 6.6.

²² TAR, Annex B to Direction 2 of Volume 7 Part F: Regulatory Reporting Directions

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- 6.10 Financial accounts are not the appropriate place to forecast strategic or operational decisions, such as closures of exchanges. Such information will need to come directly from Openreach.
- 6.11 The "estimate of annualised benefit" needs definition. If Ofcom refers here to the cash rental charge, rather than how it is accounted for, then that could be provided, although it ignores the reversal of how the provision / liability is accounted for in the RFS, both in the year of release and in subsequent years.
- 6.12 There is a discrepancy between an individual exchange's rental cost and the cost that flows through the accounts, since rent is a cash outflow, whereas the input cost from the chart of accounts, is on the basis of IFRS16.
- 6.13 Ofcom asks for balance sheet entries with provisions and liabilities²³. If these are used to calculate future revenues and costs, there will be a mismatch with the current costs reported on a different basis.

Reporting of 'Major Services'

- 6.14 Ofcom has proposed "to require BT to additionally provide, for each LLA and IEC market, volume, revenue, cost and MCE information for major services within these optical service categories"²⁴.
- 6.15 BT is not currently required to allocate cost and MCE to this level within optical services within the Regulatory Accounting System, instead reporting total rentals, connections and main link. Ofcom has stated that it considers that is consistent with the level of the regulation (i.e. a control on rental, connection and main link optical charges)²⁵.
- 6.16 The proposed change to the requirement will create disproportionate additional complexity within the Regulatory Accounting System given the level of regulation in this area. BT proposes that the requirement from WFTMR²⁶ is retained to provide a breakdown of revenue and volumes in order to determine the major services within this area. Cost and MCE allocation should only be required at a total rental, connection and main link level as reported in the RFS.
- 6.17 Reporting some services could also lead to inconsistency based on customer purchasing processes (e.g. within bundle/FOC). There would then need to be new allocation bases to services that are not cost causal, providing inconsistencies between volumes and revenue.
- 6.18 BT seeks clarification on the information "previously provided" to Ofcom in paragraph 6.29 of Volume 6.
- 6.19 The proposal for more detailed breakdown of Electricity costs is disproportionate given Ofcom acknowledges that BT electricity charges are consistent with its basis of charges obligation²⁷. BT requests this additional reporting requirement is removed.

²³ TAR, Volume 6, Paragraph 6.13.

²⁴ TAR, Volume 6, Paragraph 6.23.

²⁵ TAR, Volume 6, Paragraph 4.110.

²⁶ TAR, Volume 6, Paragraph 5.87.

²⁷ TAR, Volume 6, Paragraph 5.73.

7. SMP conditions and directions

7.1 In this section we set out our comments on Ofcom's proposed reporting requirements, as set out in Section 7 of the consultation.

Summary of Ofcom's proposals

- 7.2 Ofcom proposes to impose an SMP condition regarding regulatory financial reporting on BT in relation to each of the markets in which it has proposed to make an SMP finding, together with legal tests for each as detailed in section 3. It also proposes to impose an accounting separation obligation and a cost accounting obligation, as well as such directions as it considers appropriate in relation to BT's reporting obligations from time to time.
- 7.3 There are five directions Ofcom proposes:
- a. Regulatory Accounting Principles Direction
 - b. Preparation, Delivery, Publication, Form and Content Direction
 - c. Consistency with Regulatory Decisions and Regulatory Asset Value Direction
 - d. Audit of the RFS Direction
 - e. Reconciliation Report Direction

BT Response

- 7.4 In general, the SMP conditions and accounting separation are consistent with previous years and BT has no concerns in these areas.
- 7.5 We have provided detailed responses to elements of Ofcom's directions in sections above so do not comment further on these here.
- 7.6 We note the requirement to disclose a specific series of Adjustments as part of the 'Reconciliation Statement – Income Statement'²⁸. We note that 'Specific Items' have not been included in the listed Adjustments.
- 7.7 BT requests that 'Specific Items' are incorporated into the Proforma as this will be a required adjustment each year due to the reporting treatment of Specific Items in the Annual Report versus the RFS.
- 7.8 Ofcom has provided a Proforma for the 'Reconciliation Statement – Mean Capital Employed'²⁹. We note that there is a requirement to disclose 'Total Rest of BT SMP'.
As there are no SMP markets forming part of Rest of BT, BT propose removing this table from the Proforma.
- 7.9 We note there is an inconsistency between the definition Ofcom provides for the CCN³⁰ and the direction of what must be included in the CCN³¹.
- 7.10 BT proposes that Ofcom amends the definition of CCN³² as follows: "Change Control Notification" means a list of every material change to the Regulatory Accounting Methodology which BT is required to publish and deliver to Ofcom by 31 March of the Financial Year in which the change to the Regulatory Accounting Methodology is to be made.'

²⁸ TAR, Volume 7: Annex A to Direction 2

²⁹ TAR, Volume 7: Annex A to Direction, Paragraph 14.

³⁰ TAR, Volume 7: Annex A to Direction 5, Paragraph 3b.

³¹ TAR, Volume 7: Annex A to Direction 5, Paragraph 5.

³² TAR, Volume 7: Annex A to Direction 5, Paragraph 3b.

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- 7.11 We note the requirement to disclose the impact of Material Errors on the restated Prior Year Comparatives as part of the reconciliation report³³, and note that this requirement is in line with the WFTMR directions³⁴.
- 7.12 We further note that BT has previously exceeded the required disclosure by publishing the impact of each methodology change on Prior Year Comparatives as part of the reconciliation report. We recognise that this is a duplication of information provided in the CCN and confirm that we will publish impacts on Prior Year Comparatives in line with the TAR directives going forward.

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- 7.13 The proposed requirement to add additional published services in the RFS for Other WLA Rentals, Other WLA Connections and Other WLA Ancillaries, is not proportionate to the additional burden and evaluated level of risk adding each additional service will bring. As noted earlier each service adds 300+ published numbers per geographic market. BT requests this requirement is removed.
- 7.14 The proposed proformas for LLA and IEC markets are similarly disproportionate to the level of information needed to assess returns in these markets. Whilst BT maintains that market level reporting is the most appropriate approach (see 4.6), an aggregated basket for these services would be more suitable than the current proposal.
- 7.15 BT acknowledges the rationale for separating LBW and HBW services. However, the schedules would be considerably more readable if all rental services below the speed of 1 Gbit/s were grouped in LBW and those at 10 Gbit/s in HBW. This adjustment would reduce the reporting requirement whilst still aligning with pricing proposals.
- 7.16 This approach would enhance consistent reporting across LLA & IEC, with Connections, Rentals and Main Link by speed variant and product matching the requirements for optical services.
- 7.17 BT observes the formatting of the total Low Bandwidth (LBW) and High Bandwidth (HBW) services is incorrect in the LLA A2 proforma. The subtotal line should be above "Total high bandwidth services" line.

³³ TAR, Volume 7: Annex A to Direction 5, Paragraph 6b.

³⁴ TAR, Volume 7: Annex A to Direction 5, Paragraph 5b.