



Digicel Submission  
In Response to  
Consultation Document  
“Cable and Wireless Jamaica –  
Accounting Documents for Regulatory  
Accounts”

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## **Introduction**

Digicel is grateful for the opportunity to provide comments on the Cable and Wireless Jamaica (CWJ) – Accounting Documents for Regulatory Accounts. The purpose of accounting separation is to impose the obligation of providing more detailed information than what can be derived from the annual financial statements of a dominant operator and increase transparency. This should reflect as closely as possible the performance of various parts of the operator's business as if they had operated as separate businesses, to prevent discrimination in favour of their own activities and unfair cross-subsidy.

The succeeding comments are not exhaustive and Digicel's decision not to respond to any particular issue raised in the document does not necessarily represent agreement, in whole or in part with the position taken; nor does any position taken by Digicel in this document mean a waiver of any sort of Digicel's rights in any way. Digicel expressly reserves all its rights. Any questions or remarks that may arise as a result of these comments by Digicel may be addressed to:

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## **Overview**

Accounting separation should be a system that develops a comprehensive set of accounting policies, procedures and techniques that can be applied to CWJ (the dominant incumbent operator) financial information that displays conformity with non-discrimination obligations and the absence of anticompetitive cross-subsidies. The resulting output must be capable of independent corroboration that clearly states the financial position and relationships between product and service markets. By using accounting separation, the OUR can impose rules on CWJ as to how accounting information should be collected and reported, so as to ensure that CWJ does not bundle its accounts and gain an unwarranted competitive advantage as a result of its dominant position.

Accounting separation should provide a logical dis-aggregation of costs, revenues and capital employed between the various departments and services of a vertically integrated subsidiary. The financial report should only include costs, revenues and capital employed that are relevant to the regulatory departments and services. Equally, it is important that clear distinctions are made between the costing of a PSTN network versus the costing of a mobile network. For example, where there is a clear demarcation between the access network and the core network of a PSTN network, such demarcation is not distinct in a mobile network.

Digicel urges the OUR to be Vigilant in its pursuit of an effective accounting separation system for the dominant fixed incumbent operator. CWJ still possess the ability to leverage its dominant position in the PSTN market in other markets such as the mobile market and the internet provider market. The OUR must ensure that there is competent personnel available to provide expert opinion at the accounting information presented by CWJ. Barring the availability of such expert opinion accounting separation techniques can not provide the requisite protection to would be injured operators and ultimately the consumers.

Digicel also provide comments with respect to the following areas:

### **Consistency of treatment**

Digicel disagrees with the way consistency is proposed to be treated by the document. Digicel believes that the CWJ should apply the same and consistent practices every year to afford meaningful comparison of information over time. However, where changes to accounting practices and or policies may become necessary such changes should be in accordance with the procedures for modification. Digicel asserts that the following rules could be adopted as procedures for modification of the Regulatory Accounting Principles, the Attribution Methods or the Accounting Policies:

- I. Any change to the procedures for compliance with the Guidelines proposed by CWJ must be filed with OUR for approval prior to implementation.
- II. A notice for change should be accompanied by the reasons for the change and the financial impact on the affected segment(s) of the company. Also, in order to illustrate the effect of the proposed change, CWJ should submit reporting statements for the previous three periods.
- III. The OUR may request that CWJ provides further information for the purposes of its consideration of the proposed change.
- IV. The OUR will consider the proposed change and notify CWJ of its approval within six (6) weeks of the notice for proposed change.

### **2.5.5 Cash at bank and in hand**

Digicel completely disagrees with the proposed method of allocating cash balances. This is because cash balances may be related to operational activities

or may be surplus. Therefore an evaluation of the various cash accounts should be done in order to identify cash that is related to operations vis-à-vis surplus cash. Where cash can be identified as related to operations, the balance should be allocated to the respective segment. Surplus cash balances are essentially a funding decision of management. Surplus cash therefore has to be separated from operational cash, as well as the interest earned on surplus cash balances.

### **2.6.3 Transmission**

The links between customer premises and connection Distribution Points (DPs / cabinet) should be part of the **access network**. This should not be included in the transmission as it is used to provide access from the customer's premises to the rest of the network. Digicel reiterates the point that it is important that the relevant expertise is available to do a proper assessment of CWJ accounts.

### **3.2 Network Charges**

The rate of return on capital of 26.7% is very high for an incumbent PSTN network, compared with else where in the region and the rest of the world. PSTN networks are generally well established with lower risk exposure than newly built networks, such as mobile. Digicel is respectfully asking that this be reviewed.

### **Conclusion**

Digicel believes that the success of accounting separation will be dependent on the vigilance of the OUR in ensuring that CWJ is not allowed to gain any competitive advantage, due to its dominant position. This can only be achieved by constant monitoring and the employment of qualified experts.