Regulatory Accounting Guidelines

T1640G

Proposed Decision

Date: 22 December 2025

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Contents

1. Summary

1.1 In its 2025 Work Programme, the Guernsey Competition and Regulatory Authority (GCRA) identified the development of enhanced financial telecommunications and performance reporting as a key priority for the year. In recent years, the GCRA has relied primarily on high-level reporting such as the annual Telecommunications Statistics Report and has adopted a more limited approach to financial reporting obligations.

1.2 In late 2024, the GCRA conducted an audit of Sure (Guernsey) Limited's (Sure's) financial systems. The audit confirmed that robust regulatory reporting systems are essential to ensuring that monopoly utilities operate fairly, comply with their regulatory obligations, and contribute to the effective functioning of the markets they serve. The audit identified significant deficiencies in Sure's existing reporting framework, including:

a. The absence of an activity-based costing (ABC) system; and
b. The lack of management accounts beyond the gross-margin level.

1.3 Findings from recent price control investigations indicate that the incumbent operator may have gone further than anticipated when regulatory oversight in this area was reduced. Also, the prices charged for broadband and private circuits were found to be significantly above levels that could be justified by underlying costs. This highlighted a risk that the operator's financial reporting systems are no longer sufficiently accountable to support price justification.

1.4 Regulatory accounting reporting is an approach taken in most jurisdictions, small or large. It is one of the standard regulatory tools relied on for oversight of utilities with powerful market positions achieved not through competing to attain their position but from advantages they continue to benefit from because of historic privileges and advantages often going back to pre-commercialisation. The approach is therefore in response to particular conditions and in line with regulatory practice norms. One of the GCRA's 2025 workstreams has developed a new financial reporting framework for Sure. Updating the Regulatory Accounting Guidelines (RAGs) is central to this work. RAGs provide the methodology for producing separated regulatory accounts in a transparent and consistent manner. They underpin the reporting model and ensure that regulated entities apply appropriate cost-allocation and reporting principles necessary to give appropriate transparency.

1.5 The current RAGs were implemented in 2004 and the GCRA is therefore updating the RAGs to reflect market developments and more modern approaches.

1.6 In preparing the revised RAGs, the GCRA adopted a collaborative approach with Sure, with the aim of developing a separated-accounts framework that is proportionate, reasonable and fit for current regulatory needs.

1.7 Full details of the proposed RAGs are set out in **Annex 1** to this document.

Structure of this document

1.8 This document is structured as follows:

Section 3	Outlines the legal background to this Proposed Decision - RAGs
Section 4	Sets out the rationale for the proposed updates
Section 5	Sets out the next steps
Appendix A	Presents the Revised RAGs

2. Legal background

2.1 Condition 27.1 of the Sure (Guernsey) Limited Fixed Telecommunications Licence, requires:

"Within six months of the Licence Commencement Date, the Licensee shall prepare and maintain accounting records in a form that enables the activities specified in any direction given by the GCRA to be separately identifiable, and which the GCRA considers to be sufficient to show and explain the transactions of each of those activities. The GCRA may direct the Licensee as to the basis and timing of such reports as the GCRA may require."

2.2 Condition 25.1 of the Sure (Guernsey) Limited Mobile Telecommunications Licence, requires:

"Within six months of the Licence Commencement Date, the Licensee shall prepare and maintain accounting records in a form that enables the activities specified in any direction given by the GCRA to be separately identifiable, and which the GCRA considers to be sufficient to show and explain the transactions of each of those activities. The GCRA may direct the Licensee as to the basis and timing of such reports as the GCRA may require."

2.3 This Licence Condition is based on the Powers of the [Authority] set out in the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 ("Utilities Law 2001") section 5 (1) (b) which provides as follows:

"to require the production of such documents, accounts or information from applicants for licences, licensees and other interested persons in relation to utility activities within such time periods or at such intervals as the [Authority] may require;"

3. Revisions to the Regulatory Accounting Guidelines

3.1 The existing RAGs have been updated to ensure they are proportionate, reasonable, and streamlined. The revised version is significantly shorter and more concise than the 2004 iteration, reduces complexity and makes the requirements easier to interpret and implement.

3.2 The material changes to the 2004 RAGs are set out in the sections below, which are:

- Changing the requirement for the regulatory accounts to be presented using Current Cost Accounting (CCA) and use Historical cost Accounting (HCA) instead,
- Removing the requirement for annual audits of the regulatory accounts,
- Moving from requiring reporting on products and services to markets;
- Revising the scope of products and services within the markets Sure is required to report on; and
- Modifying the publication requirement to be less prescriptive.

3.3 The rationale for the material changes to the 2004 RAGs are as follows:

3.4 Move from Current Cost Accounting (CCA) to Historical Cost Accounting (HCA):

- Consistency & Comparability: HCA provides consistency over time, enabling easier comparison of financial statements across reporting periods.

- Objectivity & Auditability: Because historical costs are based on actual transactions, they are objective and easily verifiable against invoices or receipts. This provides a clear audit trail and reduces the risk of disputes.

- Recovery and Transparency: HCA shows the costs actually incurred by the business, ensuring that prices set based on these accounts allow operators to recover their historical investments. HCA based accounts provide a consistent point of reference which can be used to validate the costs and revenues applied in future cost-based price control models.

3.5 Removing annual audits of regulatory accounts:

- Continuous engagement between the GCRA and Sure provides real-time oversight of the regulatory accounting model. This allows ongoing review of calculations, inputs, and changes, enabling timely identification and resolution of discrepancies. The level of visibility and operational transparency achieved through this continuous process exceeds what can be delivered through a retrospective annual audit.

- annual audits of separated accounts would impose a greater financial and administrative burden on the operator, particularly in a small market where audit costs may be significant relative to revenues. Removing the requirement for annual audits ensures that regulatory intervention remains targeted, necessary, and proportionate, consistent with the principle of proportionality.

3.6 Reporting on regulated markets instead of products and services:

- Preparing accounts by regulated markets allows for clearer identification of market segments with dominance and Significant Market Power (SMP), facilitating targeted regulation where risks of anti-competitive behaviour are highest.

- This approach also better supports market analysis. The GCRA's market reviews need to analyse demand and supply substitutability, geographical scope, and product/service bundles to define relevant markets accurately. Regulatory accounting based on markets supports this process directly, rather than the more detailed view given by product/service accounting. Regulatory accounts separated by market make it easier to monitor and flag potential anti-competitive concerns such as cross-subsidisation, margin squeeze, or discriminatory pricing.

- Cost accounting by regulated market provides the GCRA with essential information to set price controls, monitor compliance, and evaluate the effectiveness of regulatory policies. This is important for meeting the GCRA's duties in law. It is noticeable that many jurisdictions have evolved their frameworks to require market-based separation in regulatory accounts, recognising that products and services can span multiple regulated markets with varying competitive dynamics.

3.7 Revising the products and services [markets] Sure is required to report on:

- Sure is required to report on the products and services [markets] in which it holds SMP designation. As the industry has evolved, the markets where Sure is deemed to have SMP have changed, and the corresponding reporting requirements have therefore been updated to reflect the current SMP designations in line with good regulatory practice.

4. Next Steps

4.1 The GCRA hereby:

a) gives notice to Sure (Guernsey) Limited of its Proposed Decision to revise the Regulatory Accounting Guidelines as set out in Annex 1 to this document;

b) gives notice to the public of the Proposed Decision in Appendix A below;

c) requests any written objections or representations from any interested party to this Proposed Decision and its terms as set out in Annex 1, before 5pm on Friday 30 January 2026 in the manner and to the address indicated below;

d) Responses can be submitted by email to info@gcra.gg or alternatively in writing to;

GCRA, Suite 4, 1st Floor,
La Plaiderie Chambers, La Plaiderie,
St Peter Port, GY1 1WG

4.2 All written comments should be clearly marked 'Matter T1640G: Proposed Decision – Regulatory Accounting Guidelines'.

4.3 The GCRA's normal practice is to publish responses on its website. If any part of a response is considered to be commercially confidential, it should be clearly marked (by highlighting the confidential sections in yellow) when the response is submitted.

Appendix A - Revised Regulatory Accounting Guidelines

Contents

1. Introduction

The Guernsey Competition & Regulatory Authority ("GCRA" or "the Authority") regulates the telecommunications market in Guernsey to protect consumers and promote competition.

In those markets in which Sure (Guernsey) Limited ("Sure") has been identified as having a dominant position Sure must:

- Prepare separated regulatory accounts ("Regulatory Accounts")
- Submit these accounts to the (GCRA)
- Publish the Regulatory Accounts reporting on those markets in which it is dominant.

These Guidelines explain how Sure should prepare and present its Regulatory Accounts (also referred to as separated accounts), which purpose is to increase transparency and support fair competition.

This document replaces previous guidance and reflects Sure's current services and market position. The GCRA will review and update these Guidelines as needed to reflect changes in the market or regulatory requirements.

These Guidelines support the Excel cost accounting model which is being developed by the GCRA and Sure to assist with the preparation of the Sure's Regulatory Accounts.

Regulatory Accounts provide Sure with a framework within which to collect, assess and evaluate information, reducing ad hoc GCRA requests for information and allowing for the more staged planning of the workload involved in their production. They provide the GCRA with predictable and valuable information to carry out its functions. However, notwithstanding this, the submission of Regulatory Accounts by Sure does not prejudice the GCRA's legal right to seek and obtain any information it requires to carry out its functions[1].

Section 2 of these Guidelines provides context on Sure's dominant position, the purpose of Regulatory Accounts, and why accounting separation is required for monitoring compliance and supporting competition.

Section 3 sets out the core principles Sure must follow when allocating revenues, costs, assets, and liabilities for regulatory accounting and accounting separation.

Section 4 explains the documentation requirements such as methodologies, assumptions, accounting policies, and transfer charges, that must accompany the Regulatory Accounts.

Section 5 defines the standards of relevance, comparability, reliability, and data retention necessary to ensure the Regulatory Accounts are accurate, transparent, and useful for regulatory oversight.

Section 6 outlines the overarching rules for preparing the Regulatory Accounts, including transparency, accepted accounting standards, consistency, and the need for restatements

[1] As defined in Condition 4 of Sure's Fixed Telecommunications Licence.

when methodologies change.

Section 7 specifies the level of disaggregation required and identifies the markets in which Sure must produce separated accounts based on its dominance/SMP designation.

Section 8 lists the specific reports, statements, reconciliations, and supporting notes Sure must submit, including detailed cost allocation and transfer-charging information.

Section 9 sets the deadlines and timing requirements for annual submission and publication of Regulatory Accounts and notes the regulator's ability to request information on demand.

Section 10 explains how Regulatory Accounts must be made publicly accessible and the circumstances under which the GCRA may publish detailed financial information.

Annex 1 gives detailed guidance on developing cost accounting systems and the cost allocation process.

Annex 2 explains how to apply the principle of cost causality to operating costs, capital costs, capital employed, transfer charging, and revenues.

Annex 3 provides pro forma templates for financial statements and transfer charging reports.

2. Background

The telecommunications sector in the Bailiwick is open to competition. As the dominant incumbent operator in certain regulated markets, Sure is required to offer interconnection and access to other licensed operators and to its own downstream arm on a non-discriminatory basis. Sure is also subject to price controls on its wholesale broadband, and wholesale on-island leased lines where it holds a dominant position; these controls took effect from 1 April 2024.

Where Sure is dominant, its fixed and mobile licences require it to keep separated financial accounts ("Regulatory Accounts"). This enables the GCRA to monitor Sure's compliance with its licence obligations, including interconnection and fair competition.

Regulatory Accounts provide detailed financial information about regulated activities, allowing the GCRA, industry, and stakeholders to better understand Sure's financial performance, in the markets in which it is deemed to be dominant (i.e. hold significant market power ("SMP")) defined in line with good regulatory practice. At present, the GCRA only has sight of Sure's statutory accounts. These statutory accounts are not published and are made available solely to the GCRA.

Accounting separation is a recognised regulatory tool to address concerns about market power or to guard against them arising. By requiring Sure to split its regulated activities for accounting purposes, the GCRA can:

- Assess how costs and revenues are allocated across the business
- Monitor for unfair cross-subsidy or discrimination
- Ensure transfer charges between Sure's relevant wholesale and retail markets are fair

(cost basis or through the use of prescribed wholesale charges at the time of calculation).

These accounts help the GCRA to:

- Detect and prevent anti-competitive behaviour
- Assess market changes and inform future decisions
- Support a level playing field for all providers

The GCRA may specify the format and timing for these reports.

The Guidelines are reviewed periodically to take account of industry developments and regulatory requirements.

To submit Regulatory Accounts, Sure must develop accounting systems capable of producing the required accounts. While the Regulatory Financial Statements ("Financial Statements") are a key output, Regulatory Accounts also include descriptions of methodologies, accounting policies, and transfer charges. A crucial part of the submission is a clear explanation of the methodologies used, along with the assumptions made and the reasons behind them. These assumptions are to be documented in the Excel model.

Without this supporting documentation, the Financial Statements alone would lack transparency and have limited value for the regulator and stakeholders, including Sure. Therefore, the accounting systems, Financial Statements, and supporting documentation must be treated as a single, integrated package. Section 3 of the Guidelines set out the Principles which should be adopted in preparing the Regulatory Accounts.

3. Regulatory Accounting Principles

This section sets out the principles that should be followed to allocate costs, capital employed and revenues for the purposes of cost accounting and accounting separation.

Sure should adopt the following Regulatory Accounting Principles ("Principles") when preparing the Regulatory Accounts:

Priority and Proportionality
Within the Principles, insofar as there is conflict between the requirements of any or all of these Principles, the Principles are to be applied in the same order of priority in which they appear in this document, while at the same time ensuring that a balance is struck between the Principles, that is proportional and appropriate. The GCRA may provide guidance on a case by case basis in response to any specific queries that Sure may have on the application of the Principles.

Definitions
Any word or expression used in the accounting documents shall, unless the context otherwise requires, have the same meaning as it has in law and in Sure's licences.

Cost Causality
Revenue (including transfer charges), costs (including transfer charges), assets and liabilities

shall be attributed to cost components, services and markets in accordance with the activities which cause the revenues to be earned or costs to be incurred or the assets to be acquired or liabilities to be incurred.

Objectivity:
The attribution shall be objective and not intended to benefit Sure or any other operator, product, service, component or market.

Consistency of treatment:
There shall be consistency of treatment from year to year. Where there are material changes to the Principles, the attribution methods, or the accounting policies that have a material effect on the information reported in the Financial Statements of the markets, the parts of the previous year's Financial Statements affected by the changes shall be restated to enable a year on year comparison that indicates the extent of the change/s made.

Materiality:
The use of a specific allocation basis may not be necessary if the effect of allocation using an alternative is not material to the outcome, either individually or collectively with other cost allocations using the same allocation base. However, it may not be possible to measure the effect without adopting an alternative basis and, in cases of doubt, the most appropriate activity-related cost allocation basis shall be used.

Transparency:
The attribution methods used should be transparent. Costs and revenues, which are allocated to activities or markets, shall be separately distinguished from those that are apportioned.

All of the Principles are important and should be fully applied. The Principle of cost causality, in particular, is complex and underpins the development of cost allocation methodologies and systems. Annex 1 offers detailed guidance on building cost accounting systems, while Annex 2 explains the treatment of operating costs, cost of capital, capital employed, and transfer charges (both costs and revenues).

4. Regulatory Accounting Documentation

When preparing Regulatory Accounts, Sure must ensure that all methodologies are fully and transparently documented. Without clear documentation, the accounts will lack transparency and their value for regulatory purposes will be reduced. The Excel model should include notes explaining assumptions and attribution methodologies for revenues, costs, assets, liabilities, and capital employed.

The notes in the model should also describe the basis used to set transfer charges between the relevant markets. This ensures that Sure applies the same charging principles to itself as it does to other operators offering similar services, where required. Further guidance on transfer charges is provided in Annex 2, and a template is included in Annex 3.

Accounting policies should be consistent with those used for statutory accounts and must include details such as depreciation periods for fixed assets and the treatment of research and development costs. The basis for asset valuation (for example, asset lives and depreciation methods) must also be included. Transparent accounting policies are essential for understanding and auditing the Regulatory Accounts.

5. Quality of Data

To ensure the Regulatory Accounts are effective, all supporting data must be transparent, relevant, reliable, and comparable with previous reporting periods. It is also important to maintain a clear audit trail over time to protect the integrity of the data. This is necessary so that Sure and the GCRA can access more detailed financial information, if needed for longer-term analysis.

Relevance

Information is relevant if it could influence the economic decisions of users and is provided in time to influence those decisions. Relevant information has predictive value (if it helps users to evaluate or assess present and future events) or confirmatory value (if it helps users to confirm or correct their past evaluations and assessments) or both. For the Regulatory Accounts to be relevant, they must, *inter alia*, be presented in a timely fashion and be transparent and comply with the Regulatory Accounting Principles.

Comparability over Periods

The value of Sure's Financial Statements increases when they can be compared with similar information from other reporting periods, allowing trends and differences to be identified. This is especially important for the GCRA, which relies on comparable data to assess the impact of competition or other market developments and analyse cost trends for price control purposes.

Comparability is achieved by applying consistent accounting policies and clearly disclosing them. In a regulatory context, this includes transparency around cost attribution methods and other regulatory accounting treatments. Full disclosure of these policies and methodologies is essential for preparing Financial Statements.

According to the principle of consistency of treatment, any material changes should result in the restatement of previous years' results on a comparable basis.

Reliability

The GCRA, Sure, and other stakeholders must be able to rely on the information presented in the Regulatory Accounts. To be considered reliable, information should:

- Faithfully represent what it is intended to show
- Be free from deliberate or systematic bias
- Be free from material error
- Be complete, subject to materiality thresholds (and appropriate use of sampling)
- Demonstrate appropriate caution and sound judgement in estimates

Sure is responsible for ensuring the accuracy and reliability of all information included in its Regulatory Accounts. Confidence in the data can be reinforced by formal approval from a suitably qualified representative of the company.

When developing the Excel model for preparing Regulatory Accounts, both the GCRA and Sure will arrange for an external review to confirm that the model is fit for purpose. This external review will serve as a quality assurance measure for the initial version of the accounts and may be required for future updates. It will serve as an independent validation of the model which will focus on methodology, internal consistency, and alignment with regulatory requirements. The review is meant to check whether Sure has appropriately treated the costs, revenues, and allocation methodologies within its model, in addition to whether the formulas work. This external review will replace the need for an independent annual audit of Sure's regulatory accounts.

Data Retention

The GCRA may require financial information over a time series in order to carry out its statutory functions. Therefore, financial information should be kept for a period of five years, making it possible to trace significant evolutions of costs, revenues and outputs and evaluate the effects on costs of applying possible different criteria and methods.

6. Guiding Principles

The preparation of the Regulated Accounts should follow these guiding principles:

a) The Regulatory Accounts shall be based on a transparent cost apportionment methodology, using an historic cost accounting convention.

b) The Regulatory Accounts shall include transfer charges between the relevant markets for services the organisation provides to itself. All accounts should, therefore make explicit any transfer charges to or from other markets. They shall also summarise the equivalent transactions with competing operators.

c) The Regulatory Accounts shall be prepared in accordance with accepted accounting standards insofar as they are relevant.

d) The Regulatory Accounts shall be prepared in accordance with the Regulatory Accounting Principles, which set out the general rules by which the Financial Statements are prepared.

e) Details of significant changes that impact on the Financial Statements and prior year restatements shall be given.

f) Regulatory Accounts shall be submitted annually to the GCRA and contain comparative information. Where there are material changes (to Regulatory Accounting Principles, Cost Allocation Methodology, Attribution Methods, the Transfer Charging System Principles, or to Accounting Policies) that have a material effect on the information reported in the regulatory Accounts of a main business area or a disaggregated activity, the parts of the previous year's Regulatory Accounts affected by the changes shall be restated.

g) The Regulatory Accounts shall make explicit, any differences between costs allocated to different activities by the operator and the costs that the GCRA allowed for the purpose of determining charges. Regulated accounts should be based on wholesale charges.

7. Level of Accounting Separation

This section sets out the level of disaggregation that is required for Sure's Regulatory Accounts, taking account of the specific markets in which Sure has been found dominant and designated to hold Significant Market Power. The GCRA will require Sure to prepare Regulatory Accounts for the following markets:

- Wholesale Line Rental
- Wholesale Broadband
- Wholesale On-Island Leased lines
- Mobile Termination
- Retail Broadband
- Retail On-Island Leased lines
- Other – and this is a category which is in effect the balancing item, but which will not be published.

It should be noted that this requirement identifies the main markets for which the Authority currently considers appropriate for Sure to produce separated accounts, while reserving the right to request additional detail on these or other markets from time to time.

Sure is required for the time being by the Authority to present the disaggregation of its business activities in the format set out below.

Sure will need to submit Profit and Loss Accounts and Balance Sheets for the markets listed in Section 7 and defined more fully below. Sure will need to provide reconciliations between Sure's statutory accounts and the Financial Statements for the markets listed above.

The markets are defined as:

Wholesale Line Rental Market
Wholesale Line Rental (WLR) market will regard WLR as a service and includes all other aspects that relates to the WLR service such as one-off charges, e.g.; connection charges, house moves and non-standard charges. The accounts for the WLR market will include the costs, revenues and capital employed associated with the provision of WLR services.

Wholesale Broadband market
The Wholesale Broadband Market is defined as wholesale access to the Internet at a fixed location using an access network based on local loops that are either exclusively or partially based on the copper or fibre access network or using the 4G and ultimately 5G wireless access network via a fixed device in the whole Bailiwick of Guernsey.
The accounts for the Wholesale Broadband Market will include the costs, revenues and capital employed associated with the provision of these wholesale broadband access services. The revenues of this market will derive principally from the sale of wholesale broadband access services to Sure's retail business and to other operators.

Wholesale On-Island Leased Line Market
The Wholesale On-Island Leased Lines Market in Guernsey consists of all leased-line services, of any bandwidth or delivery technology, supplied on a wholesale basis between licensed operators where both endpoints of the circuit are located on Guernsey. The accounts for the wholesale on-island leased lines market will include the costs, revenues and capital employed associated with the provision of wholesale on-island leased lines services. The revenues of this market will derive principally from the sale of wholesale on-island leased lines services to Sure's retail business and to locally licensed operators.

Mobile Termination Rates
Mobile Call Termination (MCT) is a particular type of call termination service provided by a Mobile Network Operator (MNO). It enables the originating network operator, which could be fixed or mobile, to connect a call through to a customer of an MNO. The originating operator pays an amount, known as the mobile termination rate (MTR), to the MNO providing the wholesale MCT service. The accounts for the retail the MTR market will include the costs, revenues and capital employed associated with the provision of MCT services.

Retail Broadband Market
The Retail Broadband Market definition is broadband connectivity provided to end users within the Bailiwick of Guernsey over copper and fibre for any speed. The accounts for the retail broadband market will include the costs, revenues and capital employed associated with the provision of retail broadband services. It is noted that the costs for this Retail Broadband Market will include a transfer cost from the Wholesale Broadband Market.

Retail On-island Leased Line Market
The Retail On-Island Leased Lines Market consists of all leased-line services, across all bandwidths and delivered using both Alternative Interface and Traditional Interface technologies, supplied directly to end-user businesses or organisations where both circuit endpoints are located within Guernsey. The accounts for the retail on-island leased lines market will include the costs, revenues and capital employed associated with the provision of retail on-island leased lines services. The revenues for the Retail business are those obtained from the provision of service by Sure using Sure's wholesale products. The costs for this market are the cost of providing the retail service (billing, support, sales, marketing, etc.) and the wholesale costs of the products sold.

Other Activities
For the purposes of accounting separation, the costs, revenues and capital employed associated with activities not included in the specified markets will need to be reported separately to allow for the reconciliation with the Statutory Accounts. This category will not be publicly reported.

8. Documentation to be Provided by Sure

Sure's regulatory cost accounting system and Financial Statements must produce financial information with the degree of detail necessary to demonstrate compliance with the principles of non-discrimination and transparency, adequately identifying and attributing revenues and costs for the several activities performed by Sure. Such accounting information should be made available in a prompt manner to the GCRA and should be tied to the timeframe for submission of Sure's Annual Financial Statements.

Good presentation of Financial Statements ensures that the essential messages are communicated clearly and effectively and in as simple and straightforward a manner as possible. The presentation of information in the Financial Statements involves some degree of abstraction and aggregation. If this process is carried out in an orderly manner, greater knowledge will result because such a presentation will satisfy the various regulatory objectives such as demonstrating that certain charges are based on the prevailing wholesale charges, where appropriate, or the absence of undue discrimination.

In this context, accounting reports comprise supporting notes that amplify and explain the Financial Statements and both the Financial Statements and the supporting notes form an integrated whole.

Sure should prepare and publish the following information for all the markets and activities listed in Section 7:

- Profit and Loss statement;
- Capital employed statement;
- Consolidation and reconciliation with statutory accounts or other source of costing information;
- Non-discrimination notes (namely, detailing transfer charges); and
- Description of accounting principles, policies, methodologies and procedures used, namely regarding the cost allocation methodologies.

The Authority does not believe it appropriate to require Sure to publish detailed financial information on its unregulated markets that it would not otherwise be required to reveal for statutory reporting purposes. Financial information relating to such activities should instead be shown in total and reported as "Other Activities".

The Authority does, however, reserve the right to request financial and other information regarding these unregulated activities as and when it considers this necessary to exercise its duties with regard to safeguarding fair and open competition in the Guernsey telecoms markets. In particular the GCRA may require information on previously unregulated activities if there is any need to investigate the behaviour of the company, given its dominant position in a number of defined markets, or in the event that a review of any given market concludes that Sure have acquired a dominant position in that market.

The accounts should also make explicit any difference between the costs allocated to different activities by Sure and the costs that the GCRA allowed for the purpose of determining charges which are based on the prevailing wholesale charges. This will provide transparency about the extent of costs excluded by the GCRA for charging purposes and about the reasons for their exclusion.

These Regulatory Accounts should include a statement in writing from at least one Director of the company confirming that they are verified and accurate.

Financial Statements on their own are too consolidated a level, fail to enable the GCRA to fulfil its obligations and fail to satisfy the requirements of transparency and aid competition. Additional detailed information on the costs incurred by Sure and its relationship with its own retail arm is essential to deliver the required transparency for effective competition. The additional information to be submitted will include:

a) a statement of the accounting policies used in the preparation of the accounts;
b) a matrix summarising the total transfer charges between the different Accounts (see proforma in Annex 3);
c) a statement describing the basis on which unattributable costs have been allocated between different accounts;
d) information about the cost allocation methodologies employed in order to prepare the Regulatory Accounts. This should be at a level of detail that makes clear the relationship between costs and interconnection and access charges.

9. Reporting Period

For Sure's Regulatory Accounts to be effective, the information submitted to the GCRA should be timely. Any unnecessary delay in the submission of the accounts and the additional financial information would reduce the positive effects of accounting separation.

Sure is required to publish its regulatory accounts on an annual basis, and as soon as possible after the end of the accounting year and no later than within six months of the end of the company's financial year end. For the first year of Sure's submission of the regulatory accounts, the GCRA require Sure to publish its regulatory accounts as soon as possible after the end of the previous accounting year and no later than within nine months of the end of the company's financial year end.

However Sure should be capable of reporting on-demand or within a stricter timeframe, when required by the GCRA for specific circumstances, in particular for investigations regarding compliance with specific licence conditions.

10. Publication of Information

Regulatory accounting information is an important element in enabling the GCRA to carry out its statutory functions. Others that may be affected by regulatory decisions based on that information, such as competitors, investors and consumers will also have an interest in Sure's Regulatory Accounts. Publication of this information will contribute to an open and competitive market whilst also making the regulatory regime transparent.

Publication of Sure's Regulatory Accounts should be in a form easily accessible by interested parties, such as on Sure's website. Sure is required to inform interested parties on how to access its regulatory accounts.

The Authority may request detailed financial information at any time from Sure and this information may be published if it would contribute to an open and competitive market subject to the consideration of its commercial confidentiality.

Annex 1: Cost Accounting Systems

This section provides generic guidance on the development of cost accounting separation systems.

Steps in Developing an Accounting Separation System

A cost accounting system in essence is a set of rules to ensure the attribution and allocation of revenues, costs, assets, liabilities and capital employed to individual activities and services. This involves particular emphasis in considering direct and indirect operating costs of services as well as past and future expenses.

More precisely, a cost accounting system will involve establishing a record-keeping mechanism, keeping track of costs and identifying operational expenditures such as equipment maintenance. The principal benefit of this system should be a transparent illustration of the relationship between costs and prices, as the system should be able to disaggregate costs to ensure that costs allocated to regulated services do not result in cross subsidies, excessive prices and that prices reflect efficiently incurred costs.

Development of a cost accounting system will involve the following steps:

- Identification of the directly attributable costs;
- Identification of indirectly attributable costs;
- Evaluation of capital employed;
- Development of rules of allocation of common and joint cost to services; and
- Definition of transfer charges.

The distinction between direct and indirect cost is well established in the accounting practice. These concepts were also mentioned in the regulatory framework of 1998[2] and in a respected recent cost[3] study which clearly states a distinction between directly attributable, indirectly attributable, and unattributable costs along the following lines:

Identification of Directly Attributable Costs

Directly attributable costs are those costs that can be directly and unambiguously related to a particular product or service without the need for apportionment. These costs can include the following:

- (annualised) costs of equipment specific to the service and directly related costs such as installation; and
- network related operating costs (such as maintenance).

[2] See for example Directive 98/10/EC of the European Parliament and of the Council, Article 18; Commission Recommendation of 8 April 1998 on interconnection in a liberalised environment (Part 2 – Accounting separation and cost accounting.

[3] Study on the preparation of an adaptable bottom-up costing model for interconnection and access pricing in European Union countries – A final report for Information Society Directorate-General of the European Commission by Europe Economics, April 2000.

Identification of Indirectly Attributable Costs

Indirectly attributable costs are those costs that can be apportioned to products or services on a measured non-arbitrary basis reflecting the relationship of the costs with directly attributable costs. They include many network costs such as transmission equipment which will be shared by services using cost-building parameters, like the appropriate routing factors.

Both directly and indirectly attributable costs can fall into one of two categories. First, costs of inputs that vary with the level of output, so that even if the output of more than one service requires this input, the extent to which a single service causes the costs can be calculated. Second, there are assets and operating costs which are fixed with respect to the level of output but which are service specific.

Residual costs (that are not clearly directly or indirectly attributable) are known as "unattributable costs" and comprise those costs which can only be attributed on an arbitrary basis.

Evaluation of Capital Employed

The evaluation of capital employed should be done at long-run average incremental cost (LRAIC).

Rules for Cost Allocation of Common/Joint Costs

A clear methodology must be used for allocating costs between regulated activities and "other" (non-regulated) activities of the notified operator and to allocate costs to each activity in a proportionate and objective way. Typically, costs which cannot be directly assigned to specific services within either regulated or non-regulated activities will be described as common costs.

Common costs shall be grouped into homogeneous cost categories designed to facilitate the proper allocation of costs to specific services between an operator's regulated and non-regulated activities. Each cost category should be allocated between regulated and non regulated activities in accordance with the following hierarchy:

(i) Whenever possible, common cost categories shall be allocated based upon direct analysis of the origin of the cost themselves.

(ii) When direct analysis is not possible, common cost categories shall be allocated based upon an indirect, cost-causative linkage to another cost category (or group of cost categories) for which a direct assignment or allocation is available.

(iii) When neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated based upon a cost driver computed by using the ratio of all expenses directly assigned or attributed to regulated and non- regulated activities (i.e. Equi Proportional Mark Up).

Definition of Transfer Charges

The methodologies applied by Sure to take into account the costs of products or services used internally should be transparent and satisfactory. A system of transfer charges should be applied to services and products provided from one business (for example, in the fixed network, Local Access-Network, Core Network and Retail) to another. The transfer charges for internal usage should be determined as the product of usage and unit charges. The charge for internal usage should be equivalent to the charge that would be levied if the product or service were sold externally rather than internally.

For accounting separation purposes, it should be assumed that Sure's Retail business pays the same charge for the same service. There should be a clear rationale for the transfer charges used and each charge should be justifiable. Charges should be non-discriminatory and there should be transparency of transfer charges in the separate accounts. There shall be consistency of treatment of transfer charges from year to year and any change in methodology should be transparent and satisfactory to the GCRA.

Annex 2 provides more detailed information on how transfer charges should be treated.

Cost Allocation Process

This section sets out the process, based on best practice, which Sure should follow in order to allocate costs, capital employed and revenues for the purposes of preparing separate accounts.

Figure 1.1 illustrates a typical cost allocation process. It should be noted that actual allocation processes may vary depending on the entity's organisational structure and the way(s) in which financial/operating data are captured, and may be more complex and involved than Figure 1.1 implies. It is important to note, however, that in order to ensure that the GCRA has confidence that the company's regulatory accounts are fit for purpose that the costs are allocated in a transparent manner and that the supporting documentation and assumptions are both comprehensive and auditable.

The process starts from information and data captured by the general ledger or other costing or financial systems operated by the company. Regardless of the source, a key factor, which will influence the ultimate usefulness of the costing information, is the level of detail at which costs are initially captured. A high level of disaggregated detail, without prejudice to principles of transparency, proportionality and materiality, should be applied. The initial costing information should also refer to all relevant services / products provided by Sure. The costing information held by these systems may be divided between operating costs, capital costs and accounting entries such as depreciation.

Costs may be attributed either directly to services or to cost pools called network components, related functions or other functions. These are defined as follows:

Markets

These are the costs that can be directly identified with a particular market.

Network components

This pool contains the costs relating to the various components of transmission, switching and other network plant and systems. The costs will be in respect of network components that cannot be attributed directly to a particular service as they are utilised in the provision of a number of services.

Related functions

This pool contains the costs of functions necessary for the provision of services to the customer such as billing, maintenance, and customer services.

Other functions

This pool contains the costs of functions that are not related to the provision of particular services but are an important part of the operations of the company. Examples of such costs include planning, personnel and general finance.

As noted, there are a series of steps which allocate cost pools in a tiered approach to eventually allocate costs to services. These step allocations are performed using appropriate drivers. Each step is summarised below:

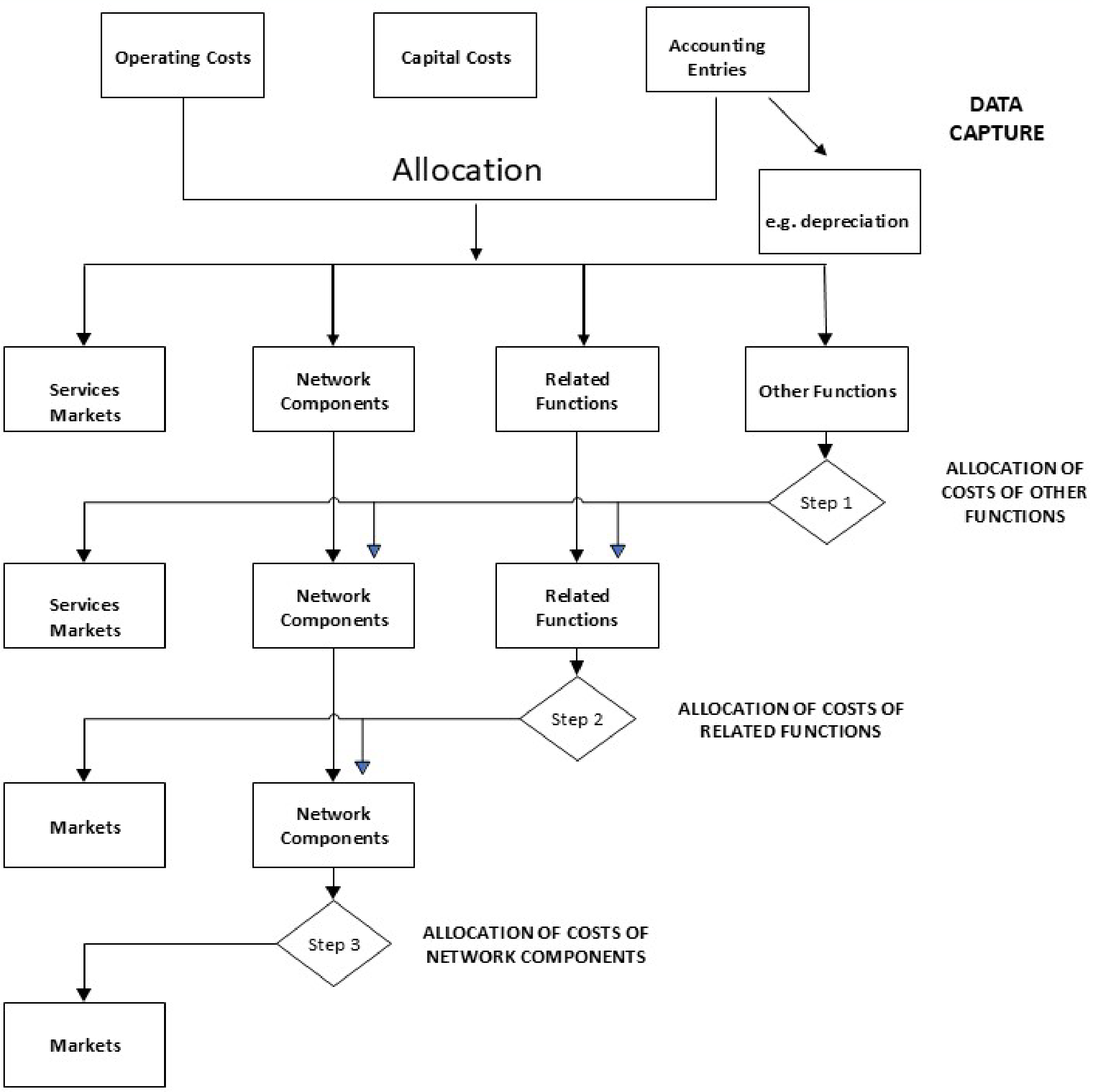
Step 1: The allocation of other functions across related functions, network elements and services.
Step 2: The allocation of the related function costs to services and the network elements.
Step 3: The allocation of network components to services.
Step 4: The grouping of services into businesses (as defined for the purposes of accounting separation).

Each of the allocation steps illustrated above could involve a number of detailed sub- steps, particularly if the initial capture of cost information is at an aggregated level. Where it is possible to perform an allocation via a number of direct or indirect attributions this is preferable to allocation through a single arbitrary step. It is important to emphasise that the attribution methodologies should be comprehensively documented with underlying data so as to be transparent to the GCRA and a description of the attribution methodologies should also be published by Sure to provide transparency to interested parties.

It is anticipated that Sure will need to use sampling techniques and periodic activity reviews in order to allocate costs (including capital costs) to the services that they provide and, subsequently to the businesses defined for the purposes of accounting separation. For example, periodic analysis of the tasks undertaken by staff in customer call centres may be used to determine the amount of time spent by those staff on different tasks. This information may then be used to allocate either directly or indirectly the costs associated with the staff to the services provided. Cost drivers definitions and calculations must be subject to review by the GCRA, and the methodology used for survey and sampling techniques should be made available to the Authority.

The fundamental objective of this process is to arrive at an appropriate basis of attribution to comply with the principle of causation.

Figure : Typical Cost Allocation Process



Annex 2: Principle of Cost Causality

Identifying different types of costs and attributing these costs to individual markets is an essential and complex issue. It is believed that allocations should be based on cost causality, transparency, objectivity and consistency.

Introduction

The principle of causality implies that costs and revenues are allocated, directly or indirectly, to the markets that "cause" the costs (and revenues) to arise. This requires the implementation of appropriate cost allocation methodologies. In practice, this requires that Sure:

- Reviews and justifies each item of cost, capital employed and revenue;
- Establishes the driver that caused each item to arise;
- Uses the driver to allocate each item to individual activities, network components or markets; and
- Clearly and transparently documents the process and rationale used.

All allocations may be subject to review by the GCRA.

Each item of cost and revenue must be allocated to the markets defined by the GCRA, or where relevant, to Other Activities. In the case of revenues, the GCRA would expect that most can be thoroughly allocated directly to those markets to which they relate. This is not the case for costs, however, because a relatively high proportion of the costs are shared between different markets and Other Activities.

Allocation methodologies, such as activity-based costing (ABC), allow the explicit establishment of stronger causal relations between costs and services or products. ABC views the markets as a series of activities, each of which consumes resources and therefore generates costs. This methodology, based on the cause of costs (cost drivers), traces and allocates costs through the activities performed and establishes a clear cause-and-effect relation between activities, their associated costs and the resulting output from those activities.

ABC introduces an intermediate stage of activities, enabling some costs that would otherwise be allocated in a less direct way to be attributed to the markets that cause them to occur. This enables a higher proportion of indirect costs to be allocated in an objective fashion to outputs. Nevertheless, with ABC it will generally not be possible to allocate all costs to markets via activities, and hence some costs will remain to be apportioned to outputs in a relative arbitrary manner.

Once direct and indirectly attributable costs have been allocated to particular markets on the basis of causality, the remaining costs might be allocated based using several approaches, namely EPMUs or apportionment based on revenues /other costs / input - output share where costs are not assigned to activities to the extent to which they "cause" the cost, although for specific objectives some may be more appropriate than others. In a well-defined costing system these remaining costs should be kept to a minimum, ideally not exceeding

10% of the total costs.

The Cost of Capital and Capital Employed

The Telecommunications (Bailiwick of Guernsey) Law, 2001 and Sure's licence conditions require that certain charges for Sure wholesale services should be cost-oriented, whilst allowing for a reasonable return on investment. The determinants of the level of this return are the cost of capital and a capital value.

The calculation and setting of a cost of capital for the purpose of setting interconnection and other cost-based charges and is outside the scope of these Guidelines. However, there should be consistency between the measure of capital employed on which the cost of capital is based and the measure of capital employed reported in the Financial Statements.

Consistency will enable comparison of the actual percentage returns earned by Sure from its relevant markets with the cost of capital allowed by the GCRA when reviewing charges for these activities. The focus of this annex is the need for consistency and its implications for the allocation of items of capital employed.

Cost of Capital

Sure's cost of capital should reflect the opportunity cost of funds invested in network components and other related assets. It conventionally reflects the following:

- The (weighted) average cost of debt for the different forms of debt held by each operator;
- The cost of equity as measured by the returns that shareholders require in order to invest in the network given the associated risks; and
- The values of debt and equity.

This information can then be used to determine the weighted average cost of capital (WACC) using the following formula:

$$WACC = re \cdot E/(D+E) + rd \cdot D/(D+E) \cdot (1-T)$$

where re is the cost of equity, rd is the cost of debt, E is the total value of equity, D is the total value of interest-bearing debt and T is the corporate tax rate. This calculation gives the post tax WACC which needs to be converted to the pretax rate (i.e. WACC post tax divided by (1-T)).

The WACC must be applied to a capital value for network components and other related assets in order to determine the return that needs to be recovered. While it may be easy to identify the values of debt and equity for Sure as a whole, it is not easy to do so for each of its constituent activities. This is because decisions about debt finance are largely corporate decisions determined by a number of factors, such as historical borrowing facilities and tax planning considerations. Hence, the debt position of the corporate organisation may not relate specifically to the funding requirements of individual activities. An alternative approach to determining the capital value for regulated markets is therefore required.

One approach is provided by the following balance sheet identity:

Shareholders' funds (i.e. equity) + Debt = Net Assets excluding debt

It follows that the capital values of regulated activities can be determined by apportioning net assets or capital employed. This apportionment should be carried out on a causal basis and under current valuation methodologies.

Transfer Charging

This section of the Guidelines sets out the approach to be applied in order to take account of the costs of products or services that are used internally by Sure. This involves the establishment of a system of transfer charges to services and products provided from one market to another.

Transfer charges can be seen as a cost to one part of the Sure's business and a revenue to another part of the business, where they exist in different regulated markets.

For accounting separation purposes, it should be assumed that in any of Sure's retail markets for which it is deemed to hold SMP, it pays the same interconnection or access charge for the same service as would apply to wholesale customers.

The approach to transfer charging is set out below:

- Transfer charges (revenues and costs) shall be attributed to cost components, or markets in accordance with the activities, which cause the revenues to be earned, or costs to be incurred.
- The attribution shall be objective in accordance with the principles set out in section 3 and not intended to benefit any market.
- There shall be consistency of treatment of transfer charges from year to year.
- The transfer charging methods used should be transparent. There should be a clear rationale for the transfer charges used and each charge should be supportable.
- The transfer charges for internal usage should be determined as the product of usage and unit charges.
- The charge for internal usage should be equivalent to the charge that would be levied if the product or service were sold externally rather than internally.
- The Regulatory Accounts shall disclose the transfer charges between markets.

Annex 3: Proforma Reporting Formats

Figure 3.1 – Proforma reporting formats for the Wholesale Markets

(a) Profit and Loss

	Current Year	**Prior Year**
Turnover		
From Retail		
From other operators		
Total turnover		1
Operating costs		
Total operating costs		2
Return		3 = 1 - 2

The calculation of the return must be consistent with the basis on which the cost of capital is calculated. Therefore, if - as envisaged in the main body of the guidelines – a pre-tax and pre-interest WACC is used, the return shown in the accounts should be equivalent to profit before interest and tax.

Figure 3.1 (cont.) – Proforma reporting formats for the Wholesale Markets

(b) Balance sheet information

	Current Year	**Prior Year**	
Fixed assets			
Tangible fixed assets Intangible fixed assets Investments			
Total fixed assets			1
Current assets Stocks Debtors Investments			
Cash at bank & in hand			
Total current assets			2
Creditors			3
Provisions for liabilities and charges			4
Mean capital employed			5 = 1 + 2 - 3 - 4

All entries in the "balance sheet" should be prepared on a historical cost basis.

Figure 3.1 (cont.) – Proforma reporting formats for the Wholesale Markets

(c) Return on capital employed

	Current Year	**Prior Year**	
Return			1
Mean capital employed			2
Return on mean capital employed (%)			3 = 1/2

Figure 3.2 – Proforma reporting formats for the Retail Markets

(a) Profit and Loss

	Current Year	Prior Year	
Turnover:			
Connection charges Rental charges			
Other turnover			
	________	________	
Total turnover			1
Operating costs:			
Operating costs specific to Retail Transfer charges from other markets			
	________	________	
Total operating costs			2
	________	________	
Return			3 = 1 - 2

The same formats would apply to separate regulated activities within Wholesale.

(b) Balance sheet information

As for Wholesale Markets.

(c) Return on capital employed

As for Wholesale Markets.

Figure 3.3 – Proforma reporting formats for "Other activities"

(a) Profit and Loss

	Current Year	Prior Year	
Turnover			1
Operating costs			2
	________	________	
Return			3 = 1 - 2

As discussed in the main body of the guidelines there may be a case for disaggregating "Other activities" in order to provide greater transparency of the performance of specific activities. It will be up to the GCRA to specify the extent to which separate accounts for these activities will be prepared.

(b) Balance sheet information
As for Wholesale Markets.

(c) Return on capital employed
As for Wholesale Markets.

Table 3.1 Transfer Charge Statement (£)

Markets / Costs	Market A	Market B	Market C	Total Transfer Charges

Table 3.2 Inter Business Costs Summary (£)

	TO	Market A	Market B	Market C	Market D	Market E	Total
FROM							
Market A			X	X	X	X	**X**
Market B		X		X	X	X	**X**
Market C		X	X		X	X	**X**
Market D		X	X	X		X	**X**
Market E		X	X	X	X		**X**
Total		**X**	**X**	**X**	**X**	**X**	**X**