

## **Summary of Minutes of the 1st Meeting of the Study Group on the Accounting System in the Telecommunications Service**

1. Date and time: November 22 (Wed), 2006 16:30 to 18:30
2. Location: Conference Room 401, 4F Central Joint Government Building No.2
3. Attendees:
  - (1) Members (Honorifics omitted)  
Hiroshi Obata, Hiromasa Sekiguchi, Junichiro Tsuruta, Seno Tezuka, Mikio Tokai
  - (2) Ministry of Internal Affairs and Communications  
Sakurai (Director-General of the Telecommunications Business Department), Taniwaki (Director of the Tariff Division), Ninomiya (Senior Planning Officer of the Tariff Division), Katagiri (Assistant Director of the Tariff Division), Imura (Assistant Director of the Tariff Division)
4. Agenda
  - (1) Current status of discussions on the accounting system in the telecommunications service
  - (2) Draft solicitation of proposals on the accounting system in the telecommunications service
  - (3) Others
5. Outline of proceedings

[Meeting Guideline]

  - Approval was gained on the “Draft Meeting Guideline” (Document 1) proposed by the Secretariat.

[Selection of the Chairman and the appointment of the Deputy Chairman]

  - Member Tokai was selected Chairman. Member Sekiguchi was appointed Deputy Chairman by Chairman Tokai.

[Opening of the meeting to the public]

  - “Opening of the meeting to the public (draft)” proposed by the Secretariat (Document 2) was explained and approval was obtained from the attendees.

[How to proceed with the meeting]

- “How to proceed with the meeting (draft),” the proposal of the Secretariat,” (Document 3) was explained and approval was obtained from the members.

[Current status of the accounting system in the telecommunications service]

- The Secretariat explained the “Current status of the accounting system in the telecommunications service” (Document 4).
- Major comments of the members in questions and answers were as given below:
  - One of the initial purposes of the establishment of the connection accounting system is to make it as a basis for calculating the cost of connection fees. Then, Long Run Incremental Cost (LRIC) was introduced as the calculation method for the cost of connection fees. I remember, however, that not much discussion was made at that time about the relationship with the connection accounting. As a result, the sections of the cost element calculated by LRIC do not currently match the items in the cost of connection accounting and the actual costs relating to LRIC are not separated. In order to verify the reasonability of LRIC, it is necessary to confirm the difference from the actual fees and actual costs.
  - When assuming that half of the 60 million subscriptions of fixed telephones will be changed to IP at the time of 2000, fixed connection fees will need be considered for those changing to IP. Namely, we may consider that the cost according to the amount of traffic will disappear. On the other hand, there will still remain half of the existing fixed telephone network, which will involve the cost according to the amount of traffic as usual. We are going to study how to balance the discussions between both these matters.
  - Under the environment where competition is increasing, fee policy has become one of the major strategies of telecommunication operators. So far the cost and the user fee appeared to be linked to some extent. However, where the relationship between the cost and the fee is complicated because of reasons such as the introduction of bundle fees or the recovery of the cost from advertising income, we have to discuss how to determine such costs.
  - I have heard from telecommunication operators in the experience of past business practices that the allocation standards do not correspond with the actual status and to some extent I agree. I recognize that those allocation standards need be reviewed.
  - Since no overall review has ever been made even though partial modifications have been made to date, it is the fundamental attitude of this Study Group to first look over the entire accounting system currently in place to discuss whether it is appropriately configured. Then

we will suggest, if not to make a final conclusion, a direction for a new classification system and new viewpoint with an eye to several years ahead.

[Draft solicitation of proposals on the accounting system in the telecommunications service]

- The Secretariat explained the “Draft solicitation of proposals on the accounting system in the telecommunications service” (Document 5).
- Below are the major comments from the members in the exchange of views:
  - This draft is to provide materials for soliciting frank comments from the public. For that purpose it appears appropriate since they cover almost all items.
  - Emphasis is placed on the “Fixed assets value ratio” among the allocation standard items to be discussed. Is it correct to say that this refers to both the obtained fixed asset value ratio and the net fixed asset value ratio?
  - The amendment of the accounting standards, such as lease accounting, which has been a subject of discussion in recent years, involves topics related to the method of depreciation and period of depreciation. Accordingly, it seems necessary to examine the direction of the amendment of accounting standards and the extent of its impact when we proceed with this topic.
  - The connection cost currently applied includes the capital cost and the tax corresponding to the profit, but it seems that not much discussion has been made about how to collect such data. This meeting of the Study Group is regarded as an important opportunity to resolve such various problems.
  - As for the proposed items to be studied, each subject presents a wide range of coverage, such as the “desirable connection accounting,” but the lower categories present issues restricted to certain matters such as “a desirable cost allocation.” If there is no intention to solicit comments after identifying the items to be examined by the Study Group, it appears better to solicit comments on whether or not there still exist other items to be discussed for each sub-category.

[Others]

- Comments are to be solicited from November 27 to December 22 for the draft items to be studied.
- The second meeting is expected to be held at the end of January.

End