

Summary of Minutes of the 5th Meeting of the Study Group on the Accounting System in the Telecommunications Service

1. Date and time: April 17 (Tue), 2007 16:30 to 18:40

2. Location: Special Conference Room 2, Ministry of Internal Affairs and Communications, 1st Floor, Central Joint Government Building No. 2

3. Attendees:
 - (1) Members (Entered in alphabetical order of last names, with honorifics omitted)
Hiromasa Sekiguchi (Deputy Chairperson), Seno Tezuka, Mikio Tokai (Chairperson), and Junichiro Tsuruta
 - (2) Observers (Entered in alphabetical order of entity names)
Chubu Telecommunications Co., Inc.; eAccess Ltd.; KDDI Corporation; Nippon Telegraph and Telephone East Corporation; Nippon Telegraph and Telephone West Corporation; Nomura Securities Co., Ltd. (Masuno, Senior Researcher); SOFTBANK TELECOM Corporation; and Telecom Service Association.
 - (3) 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; and Iimura, Assistant Director of the Tariff Division

4. Agenda
 - (1) Responses to questions asked at the 4th meeting of the Study Group
 - (2) Consolidation of major points at issue [1]
 - (3) Others

5. Outline of proceedings

[Responses to questions asked at the 4th meeting of the Study Group]

 - The Secretariat explained the responses from relevant companies on the basis of Documents 1 to 3.

[Consolidation of major points at issue]

 - (1. What the equipment categories should be in connection accounting)
 - The Secretariat explained the major points at issue on the basis of Document 4.
 - Major discussions were as given below:

Member: Isn't it a lack of broad view of things to discuss the purposes of connection accounting in such a way that arguments are limited to the basis for calculation of connection fee costs based on historical costing? For example, verification of connection fee costs calculated by the LRIC method should also be regarded as one of the purposes.

Member: Even in cases where studies concerning the abolition or merger of equipment categories in connection accounting are conducted from the viewpoint of whether such categories are directly used in connection fee costs based on historical costing, confirmation is needed as to whether or not verification of connection fee costs calculated by the LRIC method or by historical costing is hindered.

Secretariat: With regard to the abolition and merger proposed on page 10, we believe that there will be no problem with such verifiability or ability to be cross-referenced even if these items are merged.

Member: As a matter of fact, ever since the foundation of the connection accounting system, the number of network functions has significantly increased compared to the number of relevant equipment categories. If the above-mentioned ability to be cross-referenced is ensured, then I believe that there is no mistake in the basic viewpoint that the relationship between network functions and equipment categories in connection accounting will be rearranged in such a way as to maintain compatibility with the basis for calculation of connection network user fees.

NTT East Corp.: However, if rearrangement is made based on network functions, it will turn out that costs will be added up redundantly, and therefore, it is necessary to discover a good way in some manner. At any rate, it should be arranged so that connection fees can be calculated in a flexible way after the cost categories in connection accounting are rendered as stable as possible.

Member: The situation is worrisome because there are the following two aspects: a facet in which markets should be entrusted with equipment categorization in the user sector, since restraints are imposed on designated electrical communications equipment; and a facet where the traceability should be ensured with regard to basic service fees. In this regard, it is necessary to consider this in order not to hinder competition. I believe that even if documents to be disclosed are compiled at the least, there will be no problem, as long as the propriety of fees regarding basic services can be judged by administrative agencies.

SOFTBANK: It is not that we have no sympathetic understanding of what is mentioned, but equipment categorization in the use sector is necessary to facilitate expense verification for management departments. Properly speaking, such categorization should be further subdivided.

Member: The positioning of the use section is such that some aspects overlap those of

accounting classified by service. I feel that there will be no problem if proper functioning takes place in the ability to cross-reference connection accounting and accounting classified by service.

SFTBANK: As regards the relationship between equipment categories constituting the basis for network user fee calculation and equipment categories in connection accounting, as well as regarding the relationship between the above-mentioned categories and network functions, explanations should be given by means of actual numerical values.

NTT East Corp.: As regards the relationship between equipment categories and network functions, we believe there is a method where the basis for network user fee calculations that we currently disclose is rendered more elaborate.

Member: In keeping with the growth of subscriptions to IP telephone service, what changes are conceivable with respect to the future relationship between network functions and equipment categories in connection accounting?

NTT East Corp.: It is difficult to forecast the future situation, but embodied equipment configurations will differ from current ones, and there will be change requests from other entrepreneurs. In this regard, in keeping with the growth of subscriptions to IP telephone service, there have been great changes in the circumstances where only NTT can build equipment. It is therefore necessary to consider restraints after the actual conditions are carefully observed.

(2. What the equipment categories should be in telecommunications business accounting)

- The Secretariat explained the major points at issue on the basis of Document 4.
- Major discussions were as given below:

SFTBANK: We believe that, basically, there is a problem with the very demarcation of markets in competition evaluation. Thus, we believe that it is problematic for relevant service categories to be used as service categories in business accounting as they are. In particular, we believe that the situation is not such that FTTH can be understood in what is called broadband markets in such a way as to be combined with other services.

eAccess: One idea is to focus attention on the concept of markets in the accounting system. In this connection, with regard to broadband markets, services in business accounting should be categorized for individual partial markets such as the FTTH market. Furthermore, our understanding is that services included in categories other than designated services are not necessarily limited to competitive services. It is a somewhat irrational approach to believe that because relevant categories are in the black as a whole, it is not necessary to look at income and expenditure of individual categories.

CTC: We appreciate the fact that the viewpoint of curbing and restraining improper internal

mutual assistance is clearly stated as a major point at issue. We believe that the function of restraining internal mutual assistance exists to some extent due to information disclosure. With regard to items for which services are to be categorized in business accounting, it is necessary to keep in mind the services for which markets will expand in the future, such as FTTH and optical IP telephone services.

NTT East Corp.: The issues of methods of market demarcation and service categorization and the issue of possession or non-possession of the power to dominate relevant markets are distinct subjects of discussion. In the evaluation of competition conducted by the Ministry of Internal Affairs and Communications, evaluation is made to the effect that, basically, the possibility is low that NTT East Corp. and NTT West Corp. will exercise the power to dominate the markets. The Ministry believes that, except for some areas, there will be no monopolistic user services. As regards NGN services and bundled services, it suffices to judge the necessity of service categories depending on whether we are in a situation where the power to dominate markets can be exercised. Those matters cannot be predetermined. Isn't it sufficient to consider this when a harmful effect is caused?

Member: I would like to confirm this with the Secretariat. Is it that the concept of market demarcation will be used as reference information in conducting studies on service categories, and that this concept is not meant to be used as is?

Secretariat: That is right. The meaning is as follows: When studies on service categories in business accounting are to be conducted from the viewpoint of curbing and restraining improper internal mutual assistance among markets, we suggest that this concept of market demarcation be used as reference information by way of a reasonable arrangement.

Member: At any rate, I believe that the categorization of designated telecommunication services and specific telecommunication services is indispensable in terms of the current accounting system, and that it is necessary to provide this system with a verification capability regarding improper internal mutual assistance.

Member: As to whether it is possible to change service categories in business accounting from the viewpoint of curbing and restraining improper internal mutual assistance, isn't it necessary to continue to make rearrangements, including the grounds for restraints?

(3. What the cost allocation should be)

- The Secretariat explained the major points at issue on the basis of Document 5.
- NTT East Corporation and West Corporation gave explanations on the basis of Document 5.
- Major discussions were as given below:

Member: I understand that NTT East Corporation and West Corporation presented remedial measures this time in respect to the fact that in the past, multiple sets of allocation criteria

were given in parallel in the procedures for connection accounting processing, and that application relationships for individual sets of criteria were unknown.

SOFTBANK: We appreciate the fact that efforts are made to ensure uniformity in connection accounting and business accounting when preparing list type documents on allocation processing procedures. In this connection, we hope that data such as the numerical values actually used in allocation will be disclosed by discovering a good way, that is, for example, by mutually concluding nondisclosure agreements. In this regard, if the number of pages turns out to be large, isn't it possible to improve efficiency by utilizing electronic data?

Member: As regards the disclosure of the numerical values themselves, I believe that there are difficult aspects, as judged by looking at instances in various foreign countries. However, it is desirable that at least allocation criteria be appropriately disclosed, thereby deepening the understanding of persons concerned.

eAccess: It is stated that allocation criteria will be reexamined from now on in such a way as to directly determine costs related to IP-based services. What will be the approximate level of accuracy with which such costs can be determined?

NTT East Corp.: We believe that as the broadband business progresses, every business related to IP-based services will develop into a consolidated item distinct from other business, thus permitting relevant costs to be properly and directly determined.

Mr. Masuno: What approximate level of impact is considered to be exerted by reexamining allocation criteria and directly determining costs related to IP- based services?

NTT East Corp.: The level of impact is unknown at this time; therefore, we are not in a position to state such amounts. IP- based facilities increase year after year; therefore, we believe that the discrepancy between accounting and actual conditions can be curbed to lower levels if reexamination is carried out as soon as possible.

Member: The philosophy of ABC is to determine costs in such a way as to be as compatible with actual conditions as possible. I believe that the surest approach is one whereby direct charges are increased.

[Others]

○ SOFTBANK made an offer to present, at the next meeting, a document containing a summary of SOFTBANK' s concepts on major points at issue. The Chairperson accepted this offer and, at the same time, requested other observers to notify the Secretariat accordingly if similar offers are to be made.

○ At the next meeting, free discussions will be held on the remaining points, with observers also attending.

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