



## Regulation

### ON TELECOMMUNICATIONS COMPANIES' COST-ACCOUNTING PROCEDURES AND THE DESCRIPTIONS OF THESE PROCEDURES

Issued in Helsinki on 1 September 2007

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The Finnish Communications Regulatory Authority (FICORA) has, under section 87(3) of the Communications Market Act of 23 May 2003 (393/2003), laid down, as provided for in Act 70/2007:

#### Section 1

##### **Scope of application**

This regulation concerns cost-accounting procedures and the descriptions of cost-accounting procedures in those telecommunications companies on which FICORA has, in accordance with section 87 of the Communications Market Act, imposed an obligation to use cost-accounting procedures.

#### Section 2

##### **Minimum requirements for the content and viability of cost-accounting procedures**

Cost-accounting procedures must be comprehensive with regard to their organisation and content.

The cost causality principle must be applied in cost allocation.

The information on costs in cost-accounting procedures must be derivable from the telecommunications operator's bookkeeping accounts. Costs in the cost-accounting procedures of the telecommunications operator must be divided into direct and indirect costs. Direct costs are incurred with immediate effect from the creation, maintenance and provision of a product or a service. Indirect costs consist of common costs and overhead costs across several

products. Direct and common costs must be, without delay but at least bi-annually, posted using a calculation identifier to at least the product group level. Overhead costs must be allocated to products within the cost-accounting procedures for at least each accounting period. A telecommunications operator must implement cost-accounting procedures for each product and accounting period.

### Section 3

#### **Use of cost-accounting procedures for setting the price of regulated products**

A telecommunications operator, on which FICORA has under the Communications Market Act imposed an obligation to use cost orientation pricing, must, prior to setting a price, draw up a pricing calculation for each regulated product on the basis of the data produced by the cost-accounting procedures. The pricing calculations must be reviewed each accounting period and updated whenever a telecommunications operator changes its prices.

### Section 4

#### **Proving the connection between cost-accounting procedures and the price setting of regulated products**

The connection between cost-accounting procedures and the price setting of regulated products is shown by pricing calculations. In its description of cost-accounting procedures, a telecommunications operator must describe how cost items of the different pricing calculations are connected to the cost-accounting procedures. The pricing calculations for regulated products must indicate, in detail, the direct and indirect costs incurred from providing the product or service in question, including depreciation and the possibly calculated return for the product or service and the return calculation principles. A telecommunications operator must also document the background calculations on which the pricing calculations are based. A telecommunications operator must draw up separate calculations for capital costs and other such cost items that the cost-accounting procedures cannot directly provide. The calculations must indicate how these items are formed and what their calculation basis is.

## Section 5

### **The content and form of the description of cost-accounting procedures**

The description of cost-accounting procedures must give a true and adequate view of the cost-accounting procedures used by the telecommunications operator. The description must include a clarification of how the telecommunications operator's cost-accounting procedures connect to the price calculations at a concrete level. The description of cost-accounting procedures must, at the minimum, contain:

- 1) the content of the calculation identifier used for posting entries in the accounting system;
- 2) a clarification of the allocation principles that are applied to common and overhead costs itemized per type of expense;
- 3) a list of the eventual detailed classification of the calculation identifier per item;
- 4) the percentage of direct, common and overhead costs of the total costs;
- 5) an account of the information systems linked to the cost-accounting procedures and how they connect with one another;
- 6) an account of the eventual differences in handling asset items for the purposes of cost-accounting procedures and pricing, and;
- 7) a description of the link between the cost-accounting procedures and pricing calculations.

## Section 6

### **Submitting the description of cost-accounting procedures to FICORA**

A telecommunications operator with an obligation to use cost-accounting procedures must submit a description of the cost-accounting procedures to FICORA without delay. If a telecommunications operator makes changes in the cost-accounting procedures that require the description of the procedures to be updated, or for other reasons changes the description of the cost-accounting procedures, it must submit an updated description to FICORA without delay.

## Section 7

**Entry into force**

This Regulation enters into force on 1 September 2007.

## Section 8

**Information and publication**

This Regulation is included in the Series of Regulations issued by the Finnish Communications Regulatory Authority and it can be obtained from the Customer Service Office of FICORA:

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Helsinki 1 September 2007

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