Draft liability allocation determination under sections 85 and 85 of the Telecommunications Act 2001 for 1 July 2015 to 30 June 2016

Submission | Commerce Commission

16 November 2016

Introduction

1. Thank you for the opportunity to comment on the Commission's draft liability allocation determination under sections 84 and 85 of the Telecommunications Act 2001 for 1 July 2015 to 30 June 2016 (**the draft**).

2. We support the Commission's general approach to identifying liable revenues - it's consistently applied the methodology and sought to align with accounting standards. However, we recognise that the methodology may need to be amended over time to reflect – for example – changes to accounting standards and the market.

3. Liable parties are in the process of implementing a new accounting policy NZ IFRS 15 *Revenue from Contracts with Customers* (**NZIFRS 15**). Implementing NZIFRS 15 may result in changes to reported revenues as, for example, previously expensed acquisition costs may be capitalised and amortised over the life of the customer. As the TDL is allocated on the basis of the proportion of liable revenue, a firms TDL liability can change due to its or another liable parties revenues and accounting policies relating to that revenue.

Comment

4. We support aligning TDL reporting with financial reporting principles and prescribed practices – this approach reduces compliance costs and promotes a more predictable TDL levy process. However, implementing NZIFRS 15 may raise specific transition issues as liable party may elect to adopt new accounting standards early.

5. The NZ Accounting Standards Board has specified a revised accounting standard NZIFRS 15 *Revenue from Contracts with Customers* which provides, amongst other things, for the accounting treatment of customer acquisition costs. The reporting standard is mandatory for reporting periods starting from 1 January 2018, although firms may adopt the standard early.

6. The overall impact of the accounting policy is unclear as NZIFRS 15 implementation will have different implications for firms, depending on the nature of their business and current accounting policies. For example, Trustpower reports in its September 2016 half year results that it has decided to adopt the NZIFRS 15 standard early, and to restate its March 2016 results[1]. Trustpower note that, whereas it had expensed acquisition costs immediately in the period in which they occurred, the new policy sees these costs amortised over the expected life of the customer relationship as reduced revenue. In other words, the amortisation of direct customer incentives will be shown as a discount to revenue rather than other operating expenses. This resulted in a $3.3m adjustment down from audited March 2016 results.

7. As noted above, we support aligning TDL reporting requirements with accounting requirements where reasonable. However, where the parties are at different stages of adopting the standard, the standard could have substantive implications for TDL reporting solely due to liable party's adoption of the standard in different years. In other words, liable revenues can vary simply due to liable parties applying new financial standards in different TDL years. While on the face of it Trustpower is the only early adopter this year, the potential remains that a substantive proportion of liable parties may adopt the policy early for next year resulting in material changes in allocation.

[1] See note 1 from Trustpower September 2016 interim results.

8. We expect this is only a transition matter until the standard becomes mandatory for accounting periods commencing on or after 1 January 2018. At that time, all liable parties should be compliant with the standard and consistent approach could be taken for TDL purposes.

9. Accordingly, we recommend that for the transition period, the Commission promote transparency by implementing a TDL reporting requirement that, in the year a firm adopts NZIFRS15, it clearly articulate the impact of the change and provide a reconciliation of the change from the old to the new treatment. This would likely be required for their financial statements in any case.

10. From the 2019 year onwards no reconciliation would be required as all liable parties should have adopted the new policy.

END
