



Office of the Director of
**Telecommunications
Regulation**

DECISION NOTICE & REPORT ON CONSULTATION

Regulation of Universal Postal Services –
Accounting Separation & Costing
Methodology –
proposed direction to An Post

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FOREWORD

Transparency of accounting is a highly technical subject, but nevertheless very important. It is an essential tool to enable us and our European counterparts to monitor that postal prices are geared to costs and affordable, and do not distort competition in the partly liberalised market. It is also the case that An Post need it to root out and prevent inefficiency, and to recognise where change is needed if customers are to receive better value and service.

I very much appreciate the commitment of everyone who took part in the consultation. The quality of the responses was high and the arguments were put forward cogently. They have been very useful in informing our decisions on the way forward.

Etain Doyle,

Director of Telecommunications Regulation.

1 INTRODUCTION

The Director of Telecommunications Regulation (“the Director”) and her Office (“the ODTR”) are responsible for the regulation of Universal Postal Services in Ireland in accordance with National and EU legislation. The Director is the National Regulatory Authority (“NRA”) for the purposes of that legislation.

In carrying out her functions under the legislation, the Director is obliged to take into account the views of interested parties. The Director is currently consulting on the key issues that will form the framework of postal regulation in Ireland.

1.1 Background

In April 2001, the Director launched a consultation on the content and scope of the Directions to be issued to An Post regarding Accounting Separation, within their accounting systems, in order to achieve the transparency of accounting¹ required by the EU “Postal Directive”².

The process involved the publication of a consultation document (ODTR 01/29) which looked at the issue under the following headings:

- Financial Records - General Principles;
- Accounting for certain activities as separate companies;
- Inter-Company and similar Transactions;
- Definition of “Service”;
- Cost and revenue allocation;

¹ “whereas separate accounts.... are necessary in order to introduce transparency into the actual costs of the various services and in order to ensure that cross-subsidies from the reserved sector to the non-reserved sector do not adversely affect the competitive conditions in the latter.” (Recital 28)

² Directive 97/67/EC of the European Parliament and of the Council of 15 December 1997 on common rules for the development of the internal market of Community postal services and the improvement of quality of service. OJ L 15 21.1.1998, p. 14

- Revenue Determination and Trading Volume;
- Cost Allocation And Apportionment Rules;
- Hierarchy of costs;
- Reporting and transparency; and
- Audit of Accounts and Confirmation of Compliance.

The responses received to the consultation paper have been of assistance to the Director in helping her to form a view on the appropriate regulatory measures in relation to accounting separation and costing methodology to be included in the Direction to An Post.

Six organisations responded to the consultation document, as listed below:

- An Post
- Communications Workers' Union
- Irish Direct Marketing Association (IDMA)
- Irish Association of International Express Carriers (IAIEC)
- Pitney Bowes (Ireland) Ltd
- Bank of Ireland

The Director wishes to express her thanks to everyone who contributed to the consultation. With the exception of material marked as confidential, the written comments of respondents are available for inspection at the ODTR's office in Dublin.

1.2 Legislative Background

1.2.1 EU Postal Directive

The EU "Postal Directive" establishes a harmonised regulatory framework for postal services throughout the European Union and for securing improvements in the Quality of Service provided, and defines a decision-making process regarding further opening of the postal market to competition.

It was transposed into national law by the European Communities (Postal Services) Regulations 2000 (SI No.310/2000 "the Regulations"). Under these Regulations the Director has been given responsibility for regulation of the postal sector and An Post has been designated as a universal service provider³. Under Regulation 12(2) the Director is required to lay down Directions to universal service providers regarding the keeping of separate accounts within their accounting systems.

The Regulations provide that internal (management) accounts must be prepared on the basis of consistently applied and objectively justifiable cost accounting principles, and information from these separated accounts must be provided *in confidence* to the ODTR and European Commission.

Article 15 of the Directive places an obligation on universal postal service providers such as An Post to prepare and submit to audit their financial accounts in accordance with relevant community and national legislation for commercial undertakings.

1.2.2 *Financial Statements*

The Companies Acts 1963 to 1999, and the Regulations to be construed as one with those Acts, are the principal national legislation, and they are informed by the relevant Community legislation.

The Companies Acts impose on all companies formed under their provisions, including An Post, a requirement to keep proper books of account which disclose with reasonable accuracy at any time the financial position of the company, and to publish financial statements for each financial period which give a true and fair view of the state of affairs of the company, and of the profit or loss for that period.

In the case of An Post there are additional requirements specified in Sections 32 and 33 of the Postal and Telecommunications Services Act, 1983 concerning presentation of the accounts to the Minister and laying them before each House of the Oireachtás.

Company accounts must also be prepared in accordance with generally accepted accounting principles. Article 43 section 1(8) of the Fourth Council Directive⁴ and

³ The Minister for Public Enterprise may also designate one or more universal service providers having an obligation to provide all or part of the Universal Service.

⁴ The Fourth Council Directive of 25 July 1978 based on Article 54 (3) (g) of the Treaty on the annual accounts of certain types of companies (78/660/EEC) (OJ No L 222, 14. 8. 1978, p. 11)

SSAP 25 ‘Segmental Reporting’ requires disclosure of the turnover for each of the main areas of business activity, while SSAP 25 also requires disclosure of profit/loss and net assets for each main business activity. IAS 14 (International Accounting Standard) requires the disclosure of revenue, operating result, segment assets and liabilities etc along product/service and geographic lines.⁵

1.2.3 *The Director’s Duties*

As well as the provisions for the Director to issue Directions on accounting separation to universal service providers (Regulation 12(2)), the Regulations also require the Director to monitor compliance with the tariff principles, terminal dues principles and accounting requirements (Regulation 18(1)).

The Director has the power to issue directions (following consultation with the Minister) if she decides that a universal service provider is not complying with the tariff principles and / or terminal dues principles [Regulations 10(2) and 11(2)] and may approve other cost accounting services [Regulation 12(4)] so long as alternatives are compatible with Regulation 12(2).

Regulation 18(3) requires any Direction issued by the Director to be in writing and to state the reasons on which it is based .

The Director is also obliged to consult with interested parties in the exercise of her functions [Regulation 17(1)]

1.3 **Tariff Principles & Transparency of Accounts**

Chapter 5 of the Postal Directive is entitled "*Tariff Principles and Transparency of Accounts*" and is comprised of four Articles which it is appropriate to consider together.

- Article 12 sets out the tariff principles with which the provision of universal service must comply.
- Article 13 sets out the principles for fixing terminal dues

⁵ The European Commission has published a “Proposal For A Regulation Of The European Parliament And Of The Council On The Application Of International Accounting Standards” COM(2001) 80 final 13.2.2001 “to ensure that by 2005 all listed EU companies apply *International Accounting Standards*”. Under the proposed Regulation Member States will be free to permit /require their use by other companies or from an earlier date.

- Article 14 lays out the basis of the approach to accounting separation, and
- Article 15 deals with the preparation of financial accounts, requiring them to be drawn up and audited in accordance with Community and national legislation applicable to commercial undertakings.

The relevant recitals to the Postal Directive explain the purpose of these provisions:

(26) Whereas, in order to ensure sound management of the universal service and to avoid distortions of competition, the tariffs applied to the universal service should be objective, transparent, non-discriminatory and geared to costs;

(27) Whereas the remuneration for the provision of the intra-Community cross-border mail service, without prejudice to the minimum set of obligations derived from Universal Postal Union acts, should be geared to cover the costs of delivery incurred by the universal service provider in the country of destination; ...

(28) Whereas separate accounts for the different reserved services and non-reserved services are necessary in order to introduce transparency into the actual costs of the various services and in order to ensure that cross-subsidies from the reserved sector to the non-reserved sector do not adversely affect the competitive conditions in the latter;

(29) Whereas, in order to ensure the application of the principles set out in the previous three recitals, universal service providers should implement, within a reasonable time limit, cost accounting systems, which can be independently verified, by which costs can be allocated to services as accurately as possible on the basis of transparent procedures; whereas such requirements can be fulfilled, for example, by implementation of the principle of fully distributed costing; whereas such cost accounting systems may not be required in circumstances where genuine conditions of open competition exist;

1.4 Format of this Document

This report is structured along similar lines to the Direction that will be issued. Each section is divided into three parts:

- A summary of the question posed in the consultation document.
- A summary of the responses to the question.
- The Director's views on the issues.

Each section is then concluded by comments bringing the analysis together, accompanied by the Director's decisions. A concluding section presents, in its final form, the Direction to be sent to An Post.

ACCOUNTING SEPARATION – CONSULTATION ISSUES

2 FINANCIAL RECORDS AND ACCOUNTING SYSTEMS – FUNDAMENTAL REQUIREMENTS

2.1 Summary of the Consultation Topic

The consultation paper proposed that, as a fundamental principle, the financial records and accounting systems to be kept by any designated universal service provider, and each of its subsidiaries, should be sufficiently detailed to ensure that:

- (a) all decisions are supported by sufficient data to enable management to satisfy themselves that they are complying with the Tariff Principles (Regulation 10), Terminal Dues Principles (Regulation 11) and Universal Service Obligation (Regulations 6);
- (b) the Director can monitor compliance with these principles;
- (c) separate accounts can be maintained for each of the services within the reserved sector on the one hand and each of the services within the non-reserved sector on the other;
- (d) any request for information by the Director in accordance with Regulation 12(7) or 18(2) can be met; and
- (e) any request for information by the European Commission in accordance with Regulation 12(7) can be responded to promptly.

The Consultation Paper also proposed that the financial records and accounting information should also be maintained in sufficient detail to facilitate a detailed analysis, on a geographic or category of customer basis, for the purpose of calculating the cost of complying with the Universal Service Obligation and ensuring that tariffs are transparent and non-discriminatory.

2.2 Views of respondents

Responses were divided into two broad categories. First, An Post and one other respondent held that the proposals would place a disproportionate burden on An Post, and that they do not reflect the requirements laid down in the Postal Directive.

The second category comprised the four other respondents. These held that the principles set out were a concise and succinct summary of the fundamental principles that should apply to the **Financial Records and Accounting Systems** of a universal service provider. The most important point made in support of this view was that if transparent and effective accounting methods are not put in place then there is the possibility of cross subsidisation within An Post to the detriment of customers and other service providers.

2.3 Specific Issues raised

2.3.1 *Payment methods.*

One respondent made a specific point about the need to require An Post to maintain accounting records that provide sufficient detail about customer usage of franking machines, account based mail, and other payment channels, so that consumers may select the most efficient payment method for their needs, rather than the method which produces the greatest financial return to the service provider. This is considered in section 9.

2.3.2 *Terminal Dues*

Two respondents raised the issue of Terminal Dues in response to this question. One respondent made the point that it is particularly important that the Direction gives due account to the words “*sufficient data*” in the context of ensuring that the cost based principles required by Regulation 11 are implemented. The other respondent “*would like the ODTR to ensure that it has sufficient information to make a judgement*” as to whether there is discrimination between the different types of postal intermediaries, ie bulk mail manufacturers in Ireland and universal service providers in other countries.

2.3.3 *Universal Service Obligation*

An Post queried the Director’s power to require that financial records and accounting information should facilitate calculating the cost of complying with the Universal Service Obligation. The argument made was that the method of costing the Universal Service Obligation (USO) must be established before requesting the collection of information relating to the calculation of the cost of the USO.

2.4 Position of the Director

Having carefully considered the various submissions, the Director remains of the view that the principles set out in Section 2.1 should form the basis of the fundamental

requirements for the financial records and accounting systems to be maintained by any designated universal service provider.

The Director agrees with An Post's point that the accounting requirements should not create an disproportionate burden but the Director's view is that the suggested requirements do not differ significantly from the accounting information needed by the management of any commercial organisation.

The Director notes the concerns expressed by three respondents that the "*sufficient data*" requirement needs to be strictly enforced. She takes the view however that any addition to the principles as drafted would result in a loss of clarity, without necessarily achieving improvement in the scope of the financial records maintained. As indicated above the Director has a wide range of responsibilities for which separated accounts are needed. Whatever the methodology adopted the information derived from An Post's accounting systems as set out here will be valuable in gaining the fundamental insight into the costs and revenues of providing universal postal services, and thus the justification for any cross subsidies between reserved and non reserved areas.

2.5 Conclusion

The Director concludes that the principles set out in Section 2.1 should form the basis of the fundamental requirements for the financial records and accounting systems to be maintained by any designated universal service provider.

Decision No. 1

The fundamental requirements set out in para 2.1 above will form part of the Direction to An Post – see Decision No. 11.

3 DEFINITION OF "SERVICE"

3.1 Summary of the Consultation Topic

3.1.1 *Definition of "Service"*

The Postal Directive, the Regulations, and the fundamental requirements set out above (Section 2), require separate accounts to be kept for each "service", but do not define what is meant by the word.

The Consultation paper proposed the following as a definition of a “service” for the purpose of accounting separation and in particular the Directions to be issued under Regulation 12(2):

“Any service provided by An Post which involves the use of the public postal network as defined in the Regulations and

(i) is identified as a separate service in the Schemes or price lists published by An Post, or is provided under a contract or standard agreement with individual customers, and

(ii) operationally handles all items in the service in the same way;

If the service falls partly into the Reserved Sector and partly into the Non-Reserved Sector it shall be accounted for as if it were two separate services.”

The paper recognised that the definition of services should be considered in two different contexts. Firstly, in the revenue and cost accounting systems of the Universal service provider what level of separation and detail is required? This needed to be viewed in terms of the requirement to gear price to costs. Secondly, for financial reporting of individual services what level of aggregation of services may be appropriate? (This is considered in Section 6)

Respondents were asked whether they agreed with the Director’s proposed definition of “service” for accounting separation purposes.

3.1.2 Distinction between the Reserved and Universal Service Sectors

The Regulations also require a distinction to be drawn between services within the Reserved Sector and within the Non-Reserved Sector.

There is a definition of the Reserved Sector in Regulation 9(1):

“The services which shall be reserved for An Post as a universal service provider shall be the clearance, sorting, transport and delivery of items of domestic correspondence, cross-border and direct mail, whether by accelerated delivery or not, the price of which is less than five times the domestic public tariff for an item of correspondence in the first weight step of the fastest standard category, provided that they weigh less than 350g”

This legal definition is not reflected in An Post’s operating procedures. For example some services fall within both the Reserved Sector and the Non-Reserved Sector. From a

regulatory point of view the issue to be considered is how to account for such services. If it is accounted for as a single service there would be a need to devise a set of rules to determine how revenue and costs should be separated between the reserved and non-reserved areas.

3.2 Views of respondents

Responses to this issue are more diverse than the responses to other issues.

An Post queried the definition of "service" employed by the Director and contend that the definition is a matter of law and that reserved area need only be split into three areas for cost accounting purposes, these being:

1. Domestic Postal items
2. Outbound International Postal items
3. Inbound International Postal items

Another respondent argued that there was no legal basis on which a definition can be imposed, and suggested that practice in other regulated sectors (including the telecommunication sector) makes it clear that it is possible to implement an effective accounting separation system by reference to 'components of a service'.

One respondent mentions particular services that they would like to see monitored (First Class Letter Post at the weight levels of <50grams and <350grams, Postaim, Publicity Post, and the mail conveyance service provided by SDS to Letter Post) A second respondent remarked that "*when a service like the Inland Letter Service falls within both the Reserved Sector and the Non- Reserved sector it is important for such services to be accounted for as two services to minimise cross-subsidisation.*" A third respondent pointed to the practical difficulties of applying the definition. One respondent expressed no opinion.

3.3 Position of the Director

The fact that the term "service" is not clearly defined in the Directive has led to different interpretations in various Member States, some of which have complied with the Directive through primary legislation. The most common practice appears to be to interpret it as "single services", e.g. standard letter up to 20g, standard letter 20-50g, standard letter 50-100g, etc., meaning services with different prices.

In deciding what definition to apply in Ireland regard must be had to the purpose for which the information is needed – see Recital 29 of the Postal Directive set out in Section 1.3.

Also it must be remembered that a very large percentage of the costs incurred by USPs are “common costs” which according to Regulation 12(3)(b) / Article 14(3)(b) of the Postal Directive must be allocated between the various services in accordance with the principles set out therein.

The definition of the reserved area is a contingent one, dependant on “*the domestic public tariff for an item of correspondence in the first weight step of the fastest standard category*“. If that price increases the reserved area increases and vice-versa.

An Post’s proposed definition of “service” does not provide information that would help ensure that the prices charged for specific services are “geared to cost”, nor would it provide the level of information which is necessary. Furthermore if the EC Commission were to revive its proposal to liberalise the Direct Mail market at a faster pace than the market for items of domestic correspondence, under An Post’s proposals the accounting systems would need to be revised, under the Director’s proposals they would not.

One of the issues that respondents have asked the Director to consider is whether the price differential for the “Postaim” service and for the “First Class Letter Service” is justified by the “geared to cost” principle. Clearly it would not be possible to address issues such as these if the broadly based definition of “service” advocated by An Post was adopted.

The proposal made by one respondent that it is possible to implement an effective accounting separation system by reference to ‘components of a service’ is interesting, but the objective of the Directive and Regulations is that costs should be allocated to “services” as accurately as possible.

The public postal network is used to provide a wide range of “postal services”⁶ and other services, including many outside the universal service obligation. It is not possible to apportion the common costs associated with this network, without having a robust definition of each service that uses the network.

The Director's position therefore is that unless internal accounts are provided for each service which has a distinct tariff she cannot perform her function of monitoring compliance with the tariff principles as set down in Regulation 10, in particular the "geared to cost" principle.

3.4 Conclusion

There are obvious practical difficulties in determining how to define services so that *"costs can be allocated to services as accurately as possible on the basis of transparent procedures"*. In interpreting Regulation 12(2) the Director is guided by the underlying purposes of separated accounts – eg, to ensure that sufficient cost information is available to ensure that An Post's tariffs conform with the "geared to cost" principle. The Director is not persuaded by the argument that cost data for aggregated groups of services will be sufficient to meet this purpose, and has therefore decided that:

Decision No. 2

The definition of "service" set out in para 3.1.1 above will form part of the Direction to An Post – see Decision No. 11. In order to achieve full transparency of accounting the Direction will also require An Post to prepare a list of services consistent with this definition and to include this list in the accounting manual to be submitted to the Director for approval – see Decision No. 4. Once the manual is approved the Director will publish the approved list of services.

4 REPORTING AND TRANSPARENCY

4.1 Summary of the Consultation Topic

It was proposed that the following management accounts, disaggregated to the level of services, should be provided to the ODTR in confidence, as required by the Regulations:

1. Profit and loss accounts and balance sheets to be prepared annually for the Letters, SDS (Parcels) and Non Postal (Counters and miscellaneous) businesses of An Post. The Letters accounts should distinguish between services wholly or partly in the Reserved Area and those outside. These accounts to show data for the last complete Financial Year, the previous Financial Year and the Budget for the

⁶ as defined in the Directive / Regulations

current Financial Year, and be fully reconciled to the published financial accounts of the Company.

2. A profit and loss account to be produced annually for each letter and parcel service as determined by the Director – see Decision No. 2. The Director will take account of materiality in making a determination. These to be fully reconciled to the profit and loss accounts at 1 above.
3. An annual report based on the above estimating the cost of complying with the Universal Service Obligations.
4. A detailed report to be prepared annually in connection with item 2 above, or whenever prices are changed (or whenever An Post applies for permission to increase prices within the reserved area), comparing the existing and/or proposed price with a detailed estimate of the costs of providing the service.
5. Such Ad hoc reports as may be required by the ODTR from time to time.

The accounts to be produced annually should be submitted no later than three months after the expiry of each financial year; in the first year of implementation of these procedures (i.e. in respect of the financial statements for the year ended 31st December 2000) the appropriate service financial statements shall be provided no later than three months after finalisation of the statutory accounts, or the issue of the Direction, whichever is the later.

Interested parties were asked whether the timescale proposed was reasonable, and whether there may be fewer or other reports that should be produced on a regular basis.

4.2 Views of respondents

The proposals were broadly acceptable to respondents. One commented that 3 months is fair and generous; accounts for any large organisation are usually available within 3 to 4 weeks. One respondent asked for an assurance that the report on the cost of meeting the universal service obligation would be independently compiled and / or commissioned by the Director's office, and that any suggestions they might make about the need for ad hoc reports would be considered. Another respondent questioned the right of the Director to ask for the Company's budget.

An Post argued that as the financial data for inclusion in the regulatory accounts is derived from the audited financial statements for the year in question it would not be

possible to finalise the revenue and cost allocation process until the statutory accounts have been approved by the Directors and signed off by the auditors. The earliest date that the regulatory accounts would be available under these circumstances is the end of May.

4.3 Position of the Director

The Director is conscious of the relationship between the published financial accounts and the management / cost accounts.

The request for information on the Company Budget stems from the need to ensure that tariffs are “geared to cost”. Rather than requiring this information to be produced automatically each year the Director is prepared to require such forecasts to be produced on an ad hoc basis as and when required.

The purpose of specifying in the Direction the range of reports that should be compiled on an annual basis is to reduce the demands on An Post’s staff. It is much more efficient to produce a range of reports on a regular planned cycle, rather than to produce them on an ad hoc basis when requested by the Regulator.

4.4 Conclusion

Decision No. 3

The timescale for production of the accounts will be increased to twenty one weeks, reduced to nineteen weeks from 2003.

5 MANAGEMENT ACCOUNTING MANUAL

5.1 Summary of the Consultation Topic

The Consultation Paper recognised that within the postal sector there are significant difficulties inherent in producing robust accounting data to the level of services, given the substantial joint and common costs that need to be allocated/apportioned. This is further complicated by the use of stamps and franking machine credits, which cannot be directly traced to their use for specific services or even retention by users for later use.

It was also recognised that the Direction should specify in some technical detail the range and scope of the data to be collected and the basis on which this data is to be allocated / apportioned between services. Another aspect that would have to be taken into account is that letter services offered by Universal service providers do not neatly fall into either the “reserved” or “non-reserved” sectors.

Respondents were asked whether they agreed with the Director's proposals to require a universal service provider to document the procedures and policies being used in the preparation of its management accounts, to review the manual annually and to obtain her approval to these.

The proposal was that the Direction should specify that the accounting manual should contain a schedule showing how each individual revenue and cost category is treated, together with a full description of supporting data.

5.2 Views of respondents

Responses on this issue were almost unanimously in favour. The comment that "*the suggested manual will surely when fully developed become a valuable and indispensable tool in the successful implementation of Regulation 11 and 12*" perhaps sums up the consensus.

An Post warned however that while it does maintain an accounting manual the Director has no power to require An Post to seek her prior approval before making any changes to it. It argued that a requirement to seek the Director's prior approval to any such changes would cause unnecessary delays. They concluded by saying that An Post would have no objection to notifying the Director of changes in the cost accounting system.

5.3 Position of the Director

The Director is encouraged by the importance that all respondents attach to this proposal. She would like to assure An Post that the proposal is that the manual should only be submitted for approval once a year.

5.4 Conclusion

Decision No. 4

(i) The Direction – see Decision No. 11 - will require a universal service provider to produce an accounting manual documenting the procedures and policies being used in the preparation of its management accounts.

(ii) An Post will be required to submit, no later than 1 December 2001, the Accounting Manual so prepared for approval by the Director, If necessary an alternative date may be agreed, subject to a requirement to produce the separated accounts for 2002 on the basis of the approved manual.

(iii) Thereafter An Post will be required to review the manual annually and to obtain the Director's approval for each annual edition of the manual.

6 BUSINESS SEGMENTS & INTER-COMPANY / INTER-SEGMENT TRANSACTIONS

6.1 Accounting for certain activities as separate companies

6.1.1 Summary of the Consultation Topic

The proposal was that the Direction to be issued to any designated universal service provider should require, if the universal service provider is divided for management purposes into separate business segments, that the accounting and financial records must enable each business segment to prepare separated accounts to the same standard as if each of the separate businesses was carried on by a separate company incorporated under the Companies Act 1963-1999.

In the case of An Post the company's Annual Report discloses that there are three business segments – Letter Post, Post Offices and SDS (Parcels and Express) as well as subsidiary and associated undertakings.

The proposal was that the Direction to An Post would require it to prepare separate balance sheets⁷ for the Letters and SDS divisions. Trade Debtors should be assigned to the division which extended the credit and the cost of financing working capital should be reflected in the Profit & Loss Accounts. Fixed Assets (Buildings, Vehicles, Sorting Equipment, etc) should be shown in the Balance Sheet of the "Prime User", with use by other divisions charged for on an arm's length basis.

6.1.2 Views of respondents

Responses were divided into two broad categories. The majority of respondents were supportive of the proposal put forward by the Director. The production of separate accounts, each audited to the *true and fair* standard, for its letters and for its SDS (Parcels) divisions was seen as appropriate, having regard to its obligations and the need to be consistent.

⁷ Balance Sheets are particularly important in that some competitive services, eg courier services, are often provided on credit, whereas the traditional Postal Services are paid for in advance. Trade Debtors (£17m at 31.12.2000) are likely therefore to fall into the competitive area.

An Post is seen as a semi state company with a wide and increasingly diverse portfolio of businesses along with a growing number of joint ventures. It is actively pursuing a broad range of other new business opportunities both within and outside of its core mail and parcels divisions. It also manages the post office network. Respondents expressed the hope that the Director will satisfy herself that this core activity is effectively and transparently separated from the rest of the business.

One respondent, while supportive of the proposal, suggested that to guarantee complete transparency of the income and expenditure available to the Universal Service Operator, the Letter Post division should have as its business the collection and delivery of items in the reserved area only, and that this reduced scope should be created in the Direction to An Post.

An Post and one other respondent opposed the proposal. Firstly it was argued that there does not appear to be a policy basis on which this particular proposal could be justified. It was suggested that the “hands off” approach to financial oversight adopted in Germany, Portugal and the Netherlands was supportive of such a view.

An Post’s argument was that the imposition of a true and fair audit requirement is unnecessary given that the information from which the regulatory accounts are prepared is itself subject to audit. The response acknowledged that the information contained in the financial statements and the accounting systems from which they are extracted form the basis for the maintenance of separate accounts as required in Regulation 12, but suggested that the focus of the Director should be on the reserved and non-reserved categories, not on different business divisions of An Post.

6.1.3 Position of the Director

The Director notes that two respondents have suggested that the focus of the Director should be on the reserved and non-reserved categories, not on the different business divisions of An Post. In principle the Director accepts that to prevent unlawful cross-subsidies this would be the most desirable focus. However, when deciding what Directions to lay down for An Post in respect of the accounts it should keep, the Director must take into account the market and costing/operational realities within which these categories must be reviewed.

The definition of "reserved services" does not reflect services as they are presented to customers. Many services/items may fall within the reserved services on one occasion but outside it on another, for example after a price change. Some services may fall partly

within and partly without the reserved sector, while with regard to other items it may be impossible without opening an item to determine whether it falls strictly inside or outside the reserved area, given that the reserved area is defined in terms of the content of an envelope, as well as weight and price. Recent cost analysis suggests that format may be more important than weight in determining costs. An Post itself points out that it does not, in its product offerings to customers, differentiate between the various regulatory categories.

Unless the approach suggested by one respondent, that An Post should legally separate its activities in the reserved area from its other activities, were to be adopted, the lack of certainty in the definition of the Reserved Area makes it difficult, if not impossible, to produce a set of financial accounts on a consistent, comparable basis from year to year, or even from period to period within a year.

Furthermore the relevant international accounting standard specifies that it is wrong to construct accounting segments solely for external reporting purposes. Accounting segments must be based on organisational units.

The principal reason for requiring financial accounts to be prepared for the business segments is that the information contained in the financial statements, and the accounting systems from which they are extracted, form the basis for the preparation of separate cost accounts. If the pool of income and expenditure that is being apportioned by the costing system is too diverse, the accuracy of the cost accounts obviously suffers.

While the question of publication of such information is outside the Directors remit, this information is required to monitor compliance with the tariff principles and under Regulation 18(2) An Post is required to furnish such information to the Director.

In the case of Deutsche Post⁸ the EC Commission has required that the competitive parcel services be provided by a legally separate company from that providing the reserved services:

“(18) As the Commission explained in the Statement of Objections of 7 August 2000, only complete transparency of the financial relations between the reserved area on the one hand, and the parcel services which are open to competition on the other, can guarantee that individual competitive parcel services cover the additional costs of producing that service. Only if the DPAG activities which are open to competition are provided separate

⁸ Case COMP 35/341 (2001/354/EC) OJ L 125 5.5.2001 p27

from those covered by the reserved area, is there a guarantee that competitors are not eliminated by offers which are not based on efficiency or superior performance, but solely on the basis of a price below the additional costs of providing the competitive service. A structural separation of the reserved area from areas which are open to competition can rigorously prove and hence prevent a situation in which the additional costs of providing a competitive service are not covered.

“(20) DPAG takes account of the Commission's above requirements by a commitment to structurally separate its commercial parcel services. The commitment intends to make it clear, transparently and rigorously, that revenues from the reserved area are not being used to finance mail-order parcel services. In this connection, DP undertook to transfer all its commercial parcel activities, including the delivery of catalogues, to a legally separate company, Newco, by 31 December 2001.

The preparation of separate financial accounts, including balance sheets, for particular activities of a company does not necessarily depend on the creation of distinct legal entities. SSAP 25 / International Accounting Standard IAS 14 require the production of such accounts etc for “segments” and this achieves a similar level of transparency as the formation of a distinct legal entity. IAS14 is currently an optional standard⁹ but the EU Commission propose that it will be mandatory for all listed companies from 2005, while Member States are free to permit /require its use by other companies or from an earlier date.

6.1.4 Conclusion

The Director concludes that the Direction should require an universal service provider, divided for management purposes into separate business segments, to keep accounting and financial records to enable each business segment to prepare separated accounts to the same standard as if each of the separate businesses was carried on by a separate company incorporated under the Companies Acts.

Decision No. 5

In the interest of clarity and certainty the Direction – see Decision No. 11 - will require that accounts prepared in accordance with the principles set out in IAS 14 “Segmental

⁹ SSAP25, which requires disclosure of turnover, profit/loss and net assets for each of the main areas of business activity, is the accounting standard in Ireland at this time.

Reporting” should be used as the basis for the preparation of the separate cost accounts for accounting periods starting on or after 1 January 2002.

6.2 Inter-Company / Inter-Segment and similar Transactions

6.2.1 *Summary of the Consultation Topic*

Inter-Company and similar Transactions between a designated Universal service provider and its subsidiaries or associated companies must take full cognisance of the Tariff, Terminal Dues and Universal Service Obligation principles. In this regard the proposal was that payments / charges should be calculated on an arm’s length basis, and in a transparent and non-discriminatory manner, and that business segments should be regarded as “subsidiaries” for this purpose.

Respondents were asked if they considered it appropriate to account for the “inter-company” transactions as a transfer price subject to audit and scrutiny by the regulator, and with the proviso that this transfer “charge” should be the same as the price An Post would charge to any competitor who wished to use their network.

6.2.2 *Views of respondents*

Again responses were divided into two broad categories. Three respondents considered the proposals appropriate, noting that at the operational level the network which this breakdown of costs described is not used exclusively and separately for reserved non reserved and competitive services Universal or otherwise. One respondent remarked that it is not clear how a cost only approach could be adopted, suggesting that “*unless perhaps An Post created **totally** separate businesses and networks with all of their delivery and delivery related services being divided in a manner the Director believed would not undermine USO provision*”.

Two respondents did not accept the proposal. One argued that the Directive made no reference to downstream access and set out how such access would affect uniform letter prices.

An Post confirmed that all inter-company transactions between the Universal Service Provider and its subsidiaries are currently transacted on an arms length basis with pricing implemented in a non-discriminatory manner. An Post argued that for transactions between component parts of An Post the costing system should be used to provide the appropriate level of cross charge.

One respondent did not express a view.

6.2.3 *Position of the Director*

The issues raised in this section are concerned with ensuring that:

- (a) there is a level playing field for all entities using the public postal network, as defined in the Regulations, for the provision of value-added postal or other services open to competition; and
- (b) An Post does not buy services at above the market rate, thereby overstating universal service costs.

The consultation is not about the principle of access but about accounting for the provision of such services by one part of An Post to the other. It is important that the information supplied to the ODTR has sufficient granularity to be able to fully understand all the relevant relationships to meet these objectives.

In providing the Universal Postal service An Post's Letter Post Division buys/sells services from/to other business segments, eg the "Post Offices" segment or the SDS (Parcels) segment. An Post estimates that the Post Offices business will make a loss of €37m in 2004¹⁰ unless radical action is taken. The social/public policy of providing a network of "post offices" to supply retail financial services should not lead to prices in excess of market prices being paid for the sale of stamps. It is therefore essential that there should be complete transparency in the charges between the two business segments.

6.2.4 *Conclusion*

The Director's view that payments / charges should be calculated on an arm's length basis, and in a transparent and non-discriminatory manner, would appear to command significant support and be the most appropriate basis for charging in a competitive environment.

Decision No. 6

The proposal will be included in the Direction to An Post— see Decision No. 11 -, but only operable for accounting periods beginning on or after 1 January 2002 to allow time for the necessary determination of prices.

¹⁰ An Post press release. 11 July 2001. Windfall profits mask inadequate returns.

7 REVENUE DETERMINATION AND TRADING VOLUME.

7.1 Summary of the Consultation Topic

The introduction of postage stamps and a uniform rate of postage, as part of the Post Office Reforms of 1837-1840 were intended to reduce administrative costs. But the system does not automatically generate reliable information about the volume of mail being handled in the network, and of more importance, details about its characteristics, weight, size and the service required. The only figure currently recorded by An Post is the total value of stamp sales, and credits to franking machines. It is therefore necessary to first determine the value of sales for each service/item characteristic, and then use this to calculate the volume, using statistically reliable sampling.

The views of interested parties were sought as to the level of statistical reliability, eg +/- 1% at the 95% Confidence Level, that should be specified.

The Consultation Paper observed that in contrast there appeared to be good quality information on the volume of parcels handled throughout the network, and a significant proportion of Revenue could be directly identified.

7.2 Views of respondents

An Post recognised the difficulties of identifying the different purposes for which stamps and meter machines are used, but held out hope for the future:

“In relation to franking meters a number of innovations are being developed by manufacturers which have the potential to identify the service for which the meter is used. This technology is likely to be available in the next two years. “

An Post confirmed that the targeted/planned precision level of the sampling, where operationally achievable, is +/-1% at the 95% confidence level, but warned that this precision level is not achievable where the mail streams are small.

Other respondents supported these views, except for one who argued that Franking Machines and the current weight steps associated with posting lead to inefficient practices within their organisation.

7.3 Position of the Director

The director is encouraged to hear that so much work is being done to make the allocation of revenue to services more accurate. She is concerned however that the Franking Machine system of collecting revenue could affect the opportunities for other

service providers to compete with An Post. This will become a significant issue when the postal market is fully liberalised. Franking machine manufacturers will need to develop new technological based products to give their customers the benefits of their existing machines with the ability to choose which postal supplier to use.

7.4 Conclusion

Decision No. 7

The Direction – see Decision No. 11 - will specify a target of +/-1% at the 95% confidence level for the accuracy of statistical sampling.

The Director will watch with interest how the service providers and equipment manufacturers respond to the needs of accountants and customers in the new liberalised markets.

8 COST ALLOCATION AND APPORTIONMENT RULES

8.1 Summary of the Consultation Topic

The Consultation Paper observed that An Post's current accounting systems appeared to enable the cost of the various aspects of operating the network to be identified with reasonable accuracy, but that one of the key issues to be addressed in the accounting manual referred to in section 5 should be the basis on which the costs of particular activities should be apportioned between services.

A specific example based on the cost of delivery to residential and business customers proposed that the cost of An Post's letter delivery network should be apportioned between the various services that use this aspect of the network on the basis of volumes, "weighted" by factors which reflect the different impact of each item on the cost of delivery.

For example in some cases the postman or postwoman will have to knock and wait for a response, either because he or she has to get a signature on delivery or the item is too large for the aperture, while in others it can simply be posted through the aperture.

The weighting factors will of course be specific to each operational process, as will be the range of services that use that process. These would be subject to approval by the Director when the accounting manual is submitted to her.

Respondents were asked whether they agreed with the Director’s proposals for apportioning the cost of the main letter delivery network between the various reserved, universal service obligation and commercial services.

The paper proposed to require that the accounting manual should contain a schedule showing how each individual cost category is treated, and respondents were asked whether they agreed that the cost accounting criteria to be applied must be documented by the service provider and approved by the Director

8.2 Views of respondents

There was again unanimity amongst respondents. An Post commented that it is already following the principles, but expressed similar concerns to those recorded in section 5 about the documentation of their procedures. On the other hand, another respondent suggested that the Director should not only approve this information, but subject it to independent specification and audit.

8.3 Conclusion

The Direction will be issued in line with the proposal put to consultation. Where cost allocation rules are being used to set charges, there may also be a case for periodically consulting interested stakeholders on the rules used, subject to legitimate confidentiality concerns.

Decision No 8.

The Direction – see Decision No. 11 - will specify that the accounting manual should set out the basis on which the costs of particular activities are to be allocated/apportioned between services. Allocation methods should reflect current best practice in addition to the principles set out in Regulation 12 and in paragraph 8.1 above.

9 HIERARCHY OF COSTS

9.1 Summary of the Consultation Topic

The proposal was that, as a minimum, the hierarchy of costs to be applied to each service should enable the cost of the following activities to be calculated:

- i.) Sale of stamps/sale of the service
- ii.) Collection

- iii.) Outward sorting
- iv.) Transport
- v.) Inward sorting
- vi.) Preparation
- vii.) Delivery

The hierarchy of accounts should also distinguish between categories of costs (e.g. pay and non-pay expenditure). Accounting items not involving the movement of funds [e.g. depreciation] should also be separately identified. Respondents were asked whether they agreed that the hierarchy of costs for each service as suggested here was appropriate.

9.2 Views of respondents

9.2.1 General

Four respondents commented on this issue. Three respondents took the view that the proposed hierarchy of costs was fundamentally sound. An Post, on the other hand, submitted that there is no reason to change from its existing hierarchy of costs, which is designed to produce data on the operational pipeline process under the headings of Clearance, Inward / Outward Sorting, Transportation and Delivery. The serving costs incurred at the retail counter are included under the heading of Clearance and the preparation costs are reported under the heading of Delivery. Preparation and delivery should be combined.

9.2.2 Sale of stamps / sale of the service

One of the respondents commented adversely on the inclusion of sale of stamps/sale of service as it would appear to run the risk of stretching the application of the Regulation into the retail side of the An Post's activities and in particular post offices. They emphasised that the Directive and the Regulation very deliberately do not mention 'post offices'. Instead they presume that the payment for the service are accounted for under collection and/or clearance.

In response to other questions, two respondents put the opposite view on this aspect.

One suggested that the cost structure for services should include revenue collection for the various payment methods. They argued their case on the basis that revenue collection

greatly impacts the cost of delivery and varies by payment method. For example, stamped mail is prepaid but subject to significant administrative cost; metered mail is prepaid and collected at minimal cost to An Post by the meter supply company; and account based mail is paid in arrears on presentation of invoice and is monitored by paper based administrative process.

The other suggested that the principle of prepayment of postage may not be true for government departments and argued that if this was the case under the principles of transparency and non discrimination An Post should offer similar payment terms to equivalent customers -i.e. customers with similar mailing volumes or insist that government departments pay in the same way as other large customers¹¹.

9.3 Position of the Director

The Director takes the view that *if* there is a material difference in cost between the various payment methods this should be taken into account in setting tariffs and that the requirement to keep financial records relative to these costs is included within principle (a) in section 2.1. It follows also that this should be reflected in the hierarchy of costs.

Revenue collection is important to ensure that there is complete transparency in relation to the cost charged for use of An Post's retail network, and that this can be compared with the cost incurred in respect of other channels for revenue collection, eg sales through supermarkets, direct invoicing etc. It should be borne in mind that under the proposals in Section 6.2 such payments / charges should be calculated on an arm's length basis, and in a transparent and non-discriminatory manner.

The suggestion to combine Preparation and Delivery is acceptable.

9.4 Conclusion

Decision No. 9.

The Hierarchy of costs set out in para 9.1 above will form part of the Direction to An Post – see Decision No. 11 - except that “sale of stamps/sale of the service” will be called “Revenue Collection” and Preparation and Delivery will be combined.

¹¹ The Director will takes these comments into account when monitoring compliance with the tariff principles. She understands that while there are special arrangements for Government Departments value is still received by An Post before the items are processed.

10 AUDIT OF ACCOUNTS AND CONFIRMATION OF COMPLIANCE

10.1 Summary of the Consultation Topic

It was proposed that the Direction should restate the requirement in the Regulations that An Post should engage auditors to verify compliance with the Direction and to publish an auditor's statement of compliance in its annual report.

The views of interested parties were sought as to the desirability of appointing different auditors for a Universal service providers financial accounting and management accounting /costing systems. The proposal was that An Post should consult with the Director before appointing auditors for this purpose.

10.2 Views of respondents

An Post's response stated that they are bound by Government Guidelines and that the auditors of the Company's statutory financial accounts could not be excluded from any invitation to tender for this work. Other respondents were generally content to leave the issue to be agreed between the Director and An Post. One argued that the Director had no authority to involve the NRA in the appointment of auditors.

10.3 Position of the Director

Having considered the submissions made the Director is satisfied that the Direction should require An Post to consult with her before appointing auditors for the purpose of verifying compliance with any Direction. This would not preclude anyone from tendering for the work, nor does it mean that someone unacceptable to An Post need be appointed. It must be borne in mind that this verification may need different skills from those needed to undertake the statutory audit.

10.4 Conclusion

Decision No. 10

The Direction will require consultation by An Post before the contract is let.

11 TIMETABLE

The above arrangements will apply to accounting periods beginning on or after 1 January 2002. It is necessary for the Accounting Manual to be available as near to the start of the accounting year as possible. An Post will therefore be required to submit for approval by

the Director, no later than 1 December 2001, their timed programme for compliance with the Direction, including preparation of the Accounting Manual. In the same document An Post will be required to indicate the extent to which they can comply with the Direction for accounting periods commencing on or after 1 January 2000 and ending on or before 31 December 2001, and the reasons why they cannot comply with any specific item.

12 DIRECTION TO AN POST

This is the first Direction to be sent to An Post as required by Regulation 12(2). The Director is willing to receive submissions about its implementation and will formally review its operation after an appropriate interval and consult on the terms of any modification if necessary.

Decision No.11

The terms of the formal Direction to be sent to An Post are as follows:

The Secretary
An Post
GPO
O'Connell Street
DUBLIN 1

DIRECTION ON THE ACCOUNTING SYSTEMS OF AN POST

The Director of Telecommunications Regulation (hereafter “the Director”) in pursuance of Regulation 12(2) of the European Communities (Postal Services) Regulations 2000 (S.I. No. 310 of 2000), and having taken into account the views of interested parties following a public consultation, hereby gives the following direction:

Interpretation

In this Direction, except where the context otherwise requires:

“IAS14” means International Accounting Standard No 14 “Segment Reporting” published by the International Accounting Standards Committee.

“ODTR” means the Office of the Director of Telecommunications Regulation

“Service” means any service provided by An Post which involves the use of the public postal network as defined in the Regulations and

- (a) is identified as a separate service in the Schemes or price lists published by An Post, or is provided under a contract or standard agreement with individual customers and

(b) operationally handles all items in the service in the same way;

If the service falls partly into the Reserved Sector and partly into the Non-Reserved Sector it shall be accounted for as if it were two separate services.

“Tariff Principles” means the principles set out in Regulation 10 of the European Communities (Postal Services) Regulations 2000 (S.I. No. 310 of 2000).

“Terminal Dues Principles” means the principles set out in Regulation 11 of the European Communities (Postal Services) Regulations 2000 (S.I. No. 310 of 2000).

“The 1983 Act” means the Postal and Telecommunications Services Act, 1983 (No. 24 of 1983).

“The 1996 Act” means the Telecommunications (Miscellaneous Provisions) Act, 1996 (no. 34 of 1996).

“The Regulations” means the European Communities (Postal Services) Regulations 2000 (S.I. No. 310 of 2000).

“Universal Service Obligation” means the obligations and principles set out in Regulation 6 of the European Communities (Postal Services) Regulations 2000 (S.I. No. 310 of 2000).

“Universal service provider” means An Post or any other legal person designated by the Minister for Public Enterprise under Regulation 6(3)(b) of the European Communities (Postal Services) Regulations 2000 (S.I. No. 310 of 2000).

Fundamental requirements

The financial records and accounting systems to be kept by any designated universal service provider should be sufficiently detailed to ensure that:

- (a) all decisions are supported by sufficient data to enable management to ensure that they comply with the Tariff Principles, Terminal Dues Principles and Universal Service Obligation;
- (b) the Director can monitor compliance with these principles;
- (c) separate accounts can be maintained for each of the services within the reserved sector on the one hand and each of the services within the non-reserved sector on the other;
- (d) any request for information by the Director in accordance with Regulation 12(7) or 18(2) can be met; and
- (e) any request for information by the European Commission in accordance with Regulation 12(7) can be responded to promptly.

The financial records and accounting information should also be maintained in sufficient detail to facilitate a detailed analysis, on a geographic or category of customer basis, for

the purpose of calculating the cost of complying with the Universal Service Obligation and ensuring that tariffs are transparent and non-discriminatory.

Reason:

To enable An Post comply with its obligations under the 1983 Act and the Regulations and to enable the Director to exercise her functions under the 1983 Act, the 1996 Act, the Regulations or any other relevant legislation.

Reporting and transparency

In accordance with Regulation 12(7) and 18(2) the following separated accounts, disaggregated to the level of services, should be provided to the ODTR in confidence, within 19 weeks of the end of each financial year:

- (a) Profit and loss accounts and balance sheets for each business segment of An Post as defined in IAS14. The relevant accounts should distinguish between services wholly or partly in the Reserved Area and those outside. These accounts to show data for the last complete Financial Year and the previous Financial Year and to be fully reconciled to the published financial accounts of the Company.
- (b) A profit and loss account for each letter and parcel service. These to be fully reconciled to the profit and loss accounts at 1 above.
- (c) An annual report based on the above estimating the cost of complying with the Universal Service Obligations.

A detailed report must also be prepared annually in connection with item (b) above, or whenever prices are changed (or whenever An Post applies for permission to increase prices within the reserved area), comparing the existing and/or proposed price with a detailed estimate of the costs of providing the service.

In addition such Ad hoc reports shall be prepared as may be required by the ODTR from time to time.

Reason:

To enable the Director to exercise her functions under the 1983 Act, the 1996 Act, the Regulations or any other relevant legislation.

Management Accounting manual

Each universal service provider must:

- (a) document the procedures and policies being used in the preparation of its management accounts,
- (b) review the manual annually, and
- (c) obtain the Director's approval for each annual edition of the manual.

The accounting manual should contain a schedule showing how each individual revenue and cost category is treated. The manual should therefore specify in technical detail the range and scope of the data to be collected and the basis on which it is to be allocated/apportioned between services.

This should be guided by the following principles:

i.) Business Segments & Inter-Company / Inter-Segment transactions

Revenue and Costs should initially be directly assigned to business segments in accordance with the principles set out in IAS14. Fixed Assets (Buildings, Vehicles, Sorting Equipment, etc) should be shown in the Balance Sheet of the “Prime User”, with use by other business segments charged for on an arm’s length basis.

Inter-Company and similar Transactions between a designated Universal service provider and its subsidiaries or associated companies must take full cognisance of the Tariff, Terminal Dues and Universal Service Obligation principles. Business segments, as defined by IAS14, should be regarded as “subsidiaries” for this purpose. In this regard payments / charges should be calculated on an arm’s length basis, and in a transparent and non-discriminatory manner, with the proviso that this transfer “charge” should be the same as the price the universal service provider would charge to any competitor who wished to use their network or pay to any external supplier.

ii.) Revenue Determination and Cost Allocation and Apportionment Principles

Within the business segments, as defined by IAS14, revenue and costs should be allocated to each of the reserved and to the non-reserved services respectively in the following manner:

- (a) revenue and costs which can be directly assigned to a particular service shall be so assigned:
- (b) Postage stamps sold and franking machine credits, which cannot be directly assigned to their use for specific services or retention by users for later use shall be apportioned to services on the basis of statistical sampling accurate to +/- 1% at the 95% Confidence Level.
- (c) common costs, that is costs that cannot be directly assigned to a particular service, shall be allocated as follows:
 - (i) whenever possible, common costs shall be allocated on the basis of direct analysis of the origin of the costs themselves;
 - (ii) when direct analysis is not possible, common cost categories shall be allocated on the basis of an indirect linkage to another cost category or group of cost categories for which a direct assignment or allocation is possible; the indirect linkage shall be based on comparable cost structures;
 - (iii) when neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated on the basis of a general

allocator computed by using the ratio of all expenses directly or indirectly assigned or allocated, on the one hand, to each of the reserved services and, on the other hand, to the other services.

A list of the services (as defined in this Direction) provided by An Post shall be included in the manual and may be published by the Director.

iii.) Cost Allocation And Apportionment Rules

The accounting manual should set out how the operating cost of the various aspects of the public postal network, as defined in the regulations, should be identified.

It should also set out the basis on which the costs of particular activities are to be apportioned between services. Costs should be apportioned between the various services that use each aspect of the network on the basis of volumes, “weighted” by factors which reflect the different impact of each item on the cost of the activity. The weighting factors should be specific to each operational process, as will be the range of services that use that process.

As a minimum, the hierarchy of costs to be applied to each service should enable the cost of the following activities to be calculated:

- (a) Revenue Collection
- (b) Collection
- (c) Outward sorting
- (d) Transport
- (e) Inward sorting
- (f) Preparation and Delivery

The hierarchy of accounts should also distinguish between categories of costs (e.g. pay and non-pay expenditure). Accounting items not involving the movement of funds [e.g. depreciation] should also be separately identified.

Reason:

To enable the Director to exercise her functions under the 1983 Act, the 1996 Act, the Regulations or any other relevant legislation, and to enable the Director to comply with Regulation 12(6).

Audit of Accounts and Confirmation of Compliance

Each universal service provider should:

- (a) engage auditors to verify compliance with the Direction, and
- (b) publish an auditor's statement of compliance in its annual report.

Each universal service provider should consult with the Director before appointing auditors for this purpose.

Reason:

To enable the Director to exercise her functions under the 1983 Act, the 1996 Act, the Regulations or any other relevant legislation, and to enable each universal service provider to comply with Regulation 12(5).

Timetable

The above Direction will apply to accounting periods beginning on or after 1 January 2002. It is necessary for the Accounting Manual to be available as near to the start of the accounting year as possible. An Post are therefore required to submit for approval by the Director, no later than 1 December 2001, their timed programme for compliance with this Direction, including preparation of the Accounting Manual. In the same document An Post should indicate the extent to which they can comply with the Direction for accounting periods commencing on or after 1 January 2000 and ending on or before 31 December 2001, and the reasons why they cannot comply with any specific item.

Dated this 20th day of September 2001

Etain Doyle

Director of Telecommunications Regulation