



Commission for
Communications Regulation

Consultation on universal postal service accounting obligations

Further submission to Consultation 15/135

Information Notice

Reference: ComReg 16/45

Date: 31 May 2016

An Coimisiún um Rialáil Cumarsáide

Commission for Communications Regulation

Abbey Court Lower Abbey Street Dublin 1 D01 W2H4 Ireland

Telephone +353 1 804 9600 Fax +353 1 804 9680 Email info@comreg.ie Web www.comreg.ie

This Information Notice contains:

- Correspondence from ComReg to An Post with regard to An Post's submission dated 27 January 2016 to ComReg's Consultation 15/135 'Consultation on universal postal service accounting obligations'
- Further non-confidential submission by An Post, dated 26 April 2016, to ComReg's Consultation 15/135 'Consultation on universal postal service accounting'

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- 1: Correspondence from ComReg to An Post with regard to An Post's submission dated 27 January 2016 to ComReg's Consultation 15/135 'Consultation on universal postal service accounting obligations'
- 2: Further non-confidential submission by An Post, dated 26 April 2016, to ComReg's Consultation 15/135 'Consultation on universal postal service accounting obligations'

1: Correspondence from ComReg to An Post with regard to An Post's submission dated 27 January 2016 to ComReg's Consultation 15/135 'Consultation on universal postal service accounting obligations'



15/03/2016

Mr Damian Quinn
Head of Regulatory Affairs
An Post
GPO
O'Connell Street
Dublin 1
D01 F5P2

**Ref: An Post's submission to consultation on universal postal service
accounting obligations**

Dear Damian

I refer to An Post's submission (dated 27 January 2016) to ComReg's consultation on universal postal service accounting obligations (ComReg Document No.15/135 dated 21 December 2015). An Post's non-confidential submission¹ to this consultation was published by ComReg in ComReg Document No. 16/10 (dated 12 February 2016).

In its submission to the consultation, An Post asks ComReg to explain and clarify certain points further. Most of these points were previously discussed and addressed as part of the engagement² between An Post and ComReg staff (and ComReg's advisers, Frontier Economics). On the basis of information previously received, ComReg is satisfied that it arrived at a reasonable position for the public consultation on the basis of information available to it at the time. As we are still in public consultation, ComReg is of course willing to consider the points further. In order that we can fully understand and consider the points that An Post requires further explanation and clarification on, we have in:

- (1) Annex 1 to this letter
- (2) The attached staff working document

set out the detail of what further information and evidence we require from An Post.

¹ Annex was redacted for confidentiality

² A summary of that engagement is included in Annex 2 to this letter.

Staff comments in this letter and in the attached working document are made without prejudice to ComReg's position on universal postal service accounting obligations pursuant to section 31 of the Communications Regulation (Postal Services) Act 2011 ("2011 Act").

Please respond by no later than 12 April 2016 with the information required in:

- (1) Annex 1 of this letter
- (2) The attached staff working document.

In accordance with our consultation procedures, An Post's response to this correspondence and enclosure will be treated as a further submission by An Post in response to Consultation 15/135. Therefore, in accordance with our procedures (ComReg Document No. 05/24), in An Post's response please clearly mark as confidential if you consider that any of the information therein is confidential.

Yours sincerely

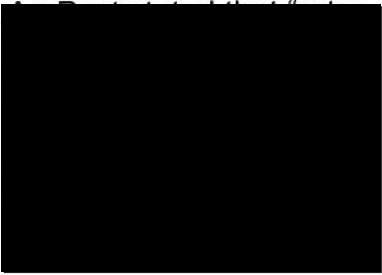


Stephen Brogan,
Senior Manager, Postal Regulatory Policy

Annex 1: Further information required by ComReg

An Post has raised a number of issues in its submission to Consultation 15/135 that have previously been discussed and addressed as part of the engagement between An Post and ComReg (and ComReg's advisers, Frontier Economics). In order to fully understand and consider An Post's submission, in the below we set out the key areas we require further information and evidence from An Post. Further detailed requirements are included in the attached staff working document.

Previously requested from An Post	Summary of information provided by An Post	Further information and evidence required
An Post were asked to provide evidence of the cost of performing the reconciliation between revenue-based and operationally-derived volumes by service.	An Post stated that the cost would require additional operational and HQ resources and systems to be put in place purely to facilitate such a reconciliation.	ComReg is proposing that An Post now reconcile volumes by format, a lower requirement than the reconciliation by service currently required. Please provide details of the difference in costs to An Post from reconciling at the format level rather than the service level.
An Post were asked to provide detail of how the recommendations would put An Post at a competitive disadvantage.	An Post stated that such information would provide information on its costs, volumes, and investments to competitors, and might facilitate or contribute to conditions conducive to coordination.	Please provide details, for each universal postal service, of what proposed requirements would put An Post at a significant competitive disadvantage. Please provide evidence of how it would be put at that disadvantage.
An Post were asked to provide details of costs arising from the proposal to require the Accounting Manual to include details of how operational volumes are calculated.	An Post stated the removal of existing operational flexibility may result in increased operational and HQ costs where any potential changes in operational processes may be delayed due to details being provided in the annual Accounting Manual.	Given that the proposal is a requirement that An Post reports its process, rather than changes to it, please provide evidence of the costs of this requirement to An Post.

<p>An Post were asked to provide details of average container fills and how they are reviewed.</p>	<p>An Post advised average container fills are reviewed once a year by the Head of Mails Processing, and changes to average container fills requires sign off by the Mails Operations Director. Container fills have not changed since 2012.</p>	<p>Please provide evidence of the costs to An Post of including in the Accounting Manual the process for reviewing container fills and the results of those reviews.</p>
<p>An Post were asked to provide details of An Post's "solution ... to agree access prices with other postal providers", including details of how prices are calculated, for agreeing access process with other postal providers.</p>		<p>Given ComReg may have to adjudicate future disputes in relation to s.33 of the 2011 Act, please provide details of how An Post identifies and calculates avoided costs.</p>
<p>An Post were asked to provide details of why it is not possible for An Post to estimate the costs of providing the universal postal service by price point.</p>	<p>An Post stated that its Regulatory Accounting systems were set up to provide P&L details per service, not per tariff point.</p>	<p>Please provide evidence of why it is not practical to provide cost estimates for all tariff levels given, as An Post states, it is format rather than weight that determines cost.</p>
<p>An Post were previously asked to provide recent analysis of its cash position.</p>	<p>An Post did not accept that cash, as a single financial metric, is an appropriate measure given An Post is a large and complex entity.</p>	<p>Please provide details of An Post's other financial metrics used internally (such as those used for credit ratings) that could also be included to get a more complete picture of An Post's financial position.</p>

We note that An Post has raised some additional issues, for which we require further information and evidence in order to fully understand its concerns. This further information required is set out in the table below. Further detailed requirements are included in the attached staff working document.

An Post's comments	Further information and evidence required
A large proportion of the information in the current regulatory statements is now commercially sensitive.	Please provide details of what information in the public regulatory accounts is now commercially sensitive, and evidence for why this is the case.
The cost of compliance to An Post of current obligations has changed as the market has evolved.	Please provide evidence of how the market has evolved, especially for the universal postal service, and evidence of how this has impacted An Post's compliance costs.
The proposed 10 week timeline to prepare the RFS is not in line with international precedents.	Please provide evidence of the international precedents referred to by An Post.
The need for some of the current or prospective requirements has changed in light of other regulatory remedies that have been introduced.	Please detail what regulatory remedies An Post is referring to, and how this impacts the proposed requirements, and how ComReg has demonstrably failed to consider this.
Considering An Post's current level of USO losses, it would be appropriate for ComReg to exercise more caution.	Please provide further details in relation to how ComReg could be more cautious given the USO losses currently being incurred by An Post. Please also set out An Post's expectation for USO losses for each year until 2019 split by (1) Domestic (2) Outbound (3) Inbound.
An Post compares rather than reconciles revenue-derived and operational volumes.	Please explain why An Post does not currently reconcile volumes, as required by section 3.1(f) of the current Accounting Direction (06/63).

Annex 2: Summary of engagement with An Post prior to public consultation 15/135

We outline below the main parts of the pre-consultation engagement and information exchange with An Post:

- On January 12th 2015, ComReg contacted An Post to arrange workshop to commence process.
- ComReg and its advisers, Frontier Economics, had the workshop with An Post on March 3rd 2015.
- An information request was sent by ComReg to An Post on April 30th 2015, which required An Post to send the requested information by May 15th 2015.
 - An Post responded to this information request on May 7th, 11th, 14th and 22nd 2015.
 - ComReg and Frontier Economics had a meeting with An Post on May 26th 2015 to discuss the information received.
 - Following this meeting, on 28th May 2015, An Post was requested by ComReg to provide further information. An Post provided some of this required information on June 5th 2015.
- An Post was informed by ComReg on June 16th 2015 that there was a number of items requested that were outstanding.
 - An Post provided their response to these outstanding items on June 23rd 2015.
- ComReg sent the draft report by Frontier Economics to An Post on July 29th 2015.
 - An Post's response to the draft report was received on September 3rd 2015.
- Following consideration of An Post's response to the draft report, ComReg provided An Post with a request for further information on September 17th 2015. This required An Post to provide to requested information no later than October 1st 2015.
 - An Post provided its response on October 1st 2015.
- ComReg sent to An Post the draft proposed schedules for the regulatory accounts on October 28th 2015.
- ComReg and Frontier Economics had a meeting with An Post on November 6th 2015.
- ComReg published Consultation 15/135 on December 21st 2015, which required responses to be received by January 27th 2016. As part of this public consultation, ComReg included An Post's proposed regulatory account schedules (sent by An Post November 27th 2015) and An Post's letter (December 9th 2015) setting out An Post's views on the proposed regulatory account schedules and the legal basis of the recommendations (published in ComReg Document No. 15/135f).

Staff Working Document

**Further information required
on An Post's submission to
Consultation 15/135 –
Consultation on universal
postal service accounting
obligations**

15 March 2006

An Post's Response to ComReg's "Consultation on Universal Postal Service Accounting Obligations"

ComReg Ref. 15/135

Please note that this information supplied by An Post to you contains commercially sensitive information consisting of financial, commercial, technical or other information whose disclosure to a third party could result in financial loss to An Post, or would prejudice the competitive position of An Post in the conduct of its business, or would otherwise prejudice the conduct or outcome of contractual or other negotiations to which An Post is a party. Accordingly, you are required to contact a member of the An Post Regulatory Department where there is a request by any party pursuant to the provisions of the Freedom of Information Act 2014 or any other legislative act to have access to records held by ComReg which may contain any of the information herein, and not to furnish any information without prior written permission from An Post.

27 January 2016



This page contains no comments

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Executive Summary

An Post welcomes the opportunity to provide comments on ComReg's 'Consultation on Universal Postal Service Accounting Obligations' (the "Accounting Obligations Consultation").

An Post recognises the importance of an appropriate regulatory regime, aimed at supporting the delivery of the Universal Service. To this end, An Post appreciates that completeness, accuracy and transparency of the information provided by An Post is necessary for ComReg to be able to discharge its duties and objectives as sector regulator. An Post has always been, and continues to be, supportive of this objective and of continued co-operation with ComReg in this regard.

However, An Post is concerned that the Accounting Obligations Consultation presents many shortcomings which, if not addressed, could damage An Post and distort the competitive process. An Post's general concerns with the Accounting Obligations Consultation are:

- Many of ComReg's requirements ¹do not meet the principle of proportionality. Consistent with regulatory best practice, ComReg should keep requirements to the minimum necessary to enable effective regulation, and should only impose requirements after careful consideration of the burden and cost they impose. Instead, ²ComReg does not appear to have appropriately considered the cost to An Post of implementing many of its recommendations. ⁴particular, the cost-benefit analysis conducted by ComReg is incomplete and high level, and thus not sufficient to arrive at robust conclusions. For ⁵example, ComReg did not undertake a cost-benefit analysis of calculating the costs associated with carrying out the detailed volume reconciliations ⁶recommended in this Consultation. An Post's cost estimates to implement these recommendations are substantial and ⁷would require extensive changes to the current Regulatory Financial Statements (RFS). ⁸
- ComReg fails to appropriately consider that the postal sector in Ireland has changed significantly in the past few years and competitive pressures on An

-
- Number: 1 Author: Subject: Sticky Note Date: 09/03/2016 09:11:36
Please document fully which proposed requirements An Post consider not proportional and explain why so.
-
- Number: 2 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- Number: 3 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- Number: 4 Author: Subject: Sticky Note Date: 09/03/2016 09:12:43
Please explain fully why An Post think ComReg has not carefully considered cost & incremental burden of the proposed requirements.
-
- Number: 5 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- Number: 6 Author: Subject: Sticky Note Date: 11/03/2016 17:13:16
Please provide details of the costs to An Post for reconciling at the service level. Please separately provide a cost estimate for reconciling at the format level.
-
- Number: 7 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- Number: 8 Author: Subject: Sticky Note Date: 09/03/2016 09:16:01
Please document fully the extensive changes to the current RFS An Post believe are required as against the draft RFS templates (confidential and public) provided in Consultation 15/135. What additional work would An Post have to perform? What would the cost impact (if any) be?

Post have increased. This implies that some of the requirements that were imposed in 2006, when the current Accounting Direction was implemented, might no longer be appropriate.¹ For example, the increase in competition and number of market players imply² that a large portion of the information included in the RFS has now become commercially sensitive³ should therefore be submitted only confidentially to ComReg rather than be made public.

- ComReg has not adequately considered international regulatory standards,⁴ for ComReg's own recommendations to Eircom (currently known as "eir") and RTE/2m,⁵ for example, ComReg's position in the Accounting Obligations Consultation in regard to the audit of the RFS is in some aspects inconsistent with ComReg's own conclusions with respect to the requirements imposed on Eircom. An Post believes that ComReg has not engaged with the professional Accounting Body during the pre-consultation period and we believe that this has resulted in a significantly flawed draft Direction.⁶
- Many of ComReg's preliminary views are without legal basis because they exceed the legal limits on the permissible content of an Accounting Direction under Section 31⁷ of the Communications Regulation (Postal Services) Act 2011 (the 2011 Act).

The discussion above summarises An Post's general concerns with the Accounting Obligations Consultation. In relation to specific proposed requirements, An Post's main observations are:

- The requirement of an auditable reconciliation of volumes,⁸ particular within the framework of a 'present fairly' audit opinion,⁹ for operational and revenue based volumes is not implementable due to the different nature of the volumes estimations.
- ComReg is proposing that it should appoint the Regulatory Auditor, as the independence, and therefore credibility, of the statutory auditor might otherwise be compromised. There is no issue regarding the independence of the Statutory Auditor (as auditors' independence is regulated by both legal and professional standards requirements). This recommendation is also

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- Number: 1** Author: Subject: Sticky Note Date: 14/03/2016 09:53:02
Which specific requirements in the 2006 Accounting Direction does An Post consider to be no longer appropriate due to changes in the postal sector?
-
- Number: 2** Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- Number: 3** Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- Number: 4** Author: Subject: Sticky Note Date: 09/03/2016 09:16:35
The Accounting Direction is in respect of the USO only, which does not face effective competition, so what information in the public regulatory accounts has become commercially sensitive and why?
-
- Number: 5** Author: Subject: Sticky Note Date: 09/03/2016 09:16:53
ComReg engaged external consultants to perform review, which took into account best practice regulation, EU Directives, Irish Law, ERGP, CERP and various economic reports such as those from WIK Consulting.
Please detail which international regulatory standards ComReg has not considered.
-
- Number: 6** Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- Number: 7** Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- Number: 8** Author: Subject: Sticky Note Date: 09/03/2016 09:18:00
Which specific recommendations to Eir and RTE/2rn does An Post believe that ComReg has not considered, given that these entities operate in different markets and service spheres?
-
- Number: 9** Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- Number: 10** Author: Subject: Sticky Note Date: 09/03/2016 09:18:15
Who is the professional accounting body to whom you refer, as numerous bodies exist?
For information, pre-consultations are not typical. ComReg engages through public consultations. In this respect, ComReg received one response to consultation from an accounting body - Chartered Accountants Ireland - which only commented on the Compliance Requirements section 4.4 of the Consultation (no comments were made in relation to all other sections of the Consultation - namely section 4.1 Measuring Mail Volumes, section 4.2 Cost Identification & Allocation, Section 4.3 Regulatory Reporting). Therefore the only accounting body that did respond to consultation only commented on two aspects contained within section 4.4 of the Consultation.
An Post is requested to document whether this consultation response by Chartered Accountants Ireland is sufficient engagement, and if not, An Post is requested to explain fully how would this result in an overall 'significantly flawed draft Direction'?
-
- Number: 11** Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- Number: 12** Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
ComReg has set out the legal basis of the Accounting Direction on pages 11-16 of the Consultation 15/135.
Please explain fully which preliminary views you consider to be without legal basis and demonstrate how they exceed the legal limits on permissible content.
-
- Number: 13** Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- Number: 14** Author: Subject: Sticky Note Date: 09/03/2016 09:23:16
Why is this the case particularly so? A 'presents fairly' audit opinion is the typical legal language used in an audit report and tends to be rule-based so why would a reconciliation not be considered to be audited within this context?

inconsistent with what is required by ComReg from Eircom and RTE/2rn. An Post believes that the 'Duty of Care' specified in the tri-partite agreement between ComReg, An Post and KPMG (the current Regulatory Auditor) gives ComReg more than is required to guarantee the independence of the Regulatory Audit. The ¹Implementation of the recommendation would involve a ²breach of procurement law.

- Appointing separate statutory and regulatory auditors ³would cause duplication of work by the auditors, increasing costs for An Post. ⁴This also does not appear to be in line with international precedents.
- An Post disagrees with the proposed 10 week timeline for production of the RFS. ⁷Such a short timeline ⁵is not in line with other national and ⁶international precedents ⁸is unworkable, especially in light of the increased reporting requirements envisaged in the Accounting Obligations Consultation by ComReg. In fact, if ComReg was to insist on its recommendation to have separate auditors (leaving aside that this itself is problematic), the timeframe is simply not achievable. We further note that there would appear to be no timeline given by ComReg as to the completion of their suggested auditing approach, which in itself, is counter to the increased transparency that is a key principle of regulatory accounting.
- An Post's ability to service the Universal Service Obligation (USO) in a sustainable financial environment is not singularly measurable by the cash balance on a quarterly balance sheet. The requirement to provide An Post's cash position quarterly until this exceeds €100 million is arbitrary and unjustified. Further, this is not in line with ¹⁰international precedents ⁹.

In summary, An Post believes that ComReg has not sufficiently considered the implications of some of the requirements that it is trying to impose and it has not articulated the precise issue that some of these requirements are intended to address.

ComReg should revisit its proposals, drawing a clearer link between the issues it has identified with the current regulatory process and consider the minimum set of obligations that would address such issues. In any case, An Post expects that, at a

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- T** Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- S** Number: 2 Author: Subject: Sticky Note Date: 09/03/2016 09:23:52
Please explain fully what you mean by breach of procurement law and why this would be so.
-
- T** Number: 3 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- S** Number: 4 Author: Subject: Sticky Note Date: 09/03/2016 09:24:58
Please document fully, with evidence, the additional costs that would be incurred. You may need to liaise with current auditors to get a quote for fee if regulatory audit was to be prepared minus synergies gained from conducting statutory audit. Please present response in the following format:
Fee for Audit of Statutory Financial Statements 2014: €xxxk
Fee for Audit of Regulatory Accounts 2014: €xxxk*
Total fee for Audit of Group Financial Statements 2014: €298k
* Discount /Savings due to elimination of duplicate work by performing both Statutory & Regulatory Audit: €xxk
-
- S** Number: 5 Author: Subject: Sticky Note Date: 14/03/2016 09:53:54
Please explain by providing the following details, as they stand currently (or for the most recent 2014 audit):
Regulatory Audit: Date commenced - date ended: xx weeks
Statutory Audit: Date commenced - date ended: xx weeks
Current total timeline: xx weeks

*Estimated time saved due to synergies from performing both statutory & regulatory audit by same auditor: xx days/weeks
-
- T** Number: 6 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- T** Number: 7 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- S** Number: 8 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
To which international precedents do you refer?
-
- S** Number: 9 Author: Subject: Sticky Note Date: 09/03/2016 09:26:58
To which international precedents do you refer?
-
- T** Number: 10 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-

minimum, ComReg revises its impact assessment with a more complete consideration of the costs that its proposals would impose on An Post and whether they are implementable at all. An Post remains available to engage further with ComReg on these issues.

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1. Introduction and Structure of this report

1.1 Background

This document sets out An Post's response to the "Consultation on Universal Postal Service Accounting Obligations", (the "Accounting Obligations Consultation"), document 15/135 issued by ComReg on 21st December, 2015.

The Accounting Obligations Consultation is based on a Pre-Consultation document (the "Pre-Consultation document"), which was prepared for ComReg by Frontier Economics. An Post was given the opportunity to provide initial comments and articulate major concerns on the Pre-Consultation document.

Therefore, while this document sets out An Post's formal response to the Accounting Obligations Consultation document, it builds upon the responses already provided in the Pre-Consultation stage.

1.2 An Post general comments on the Accounting Obligations Consultation

An Post agrees that it is in the interest of all stakeholders to ensure that the information contained in the RFS prepared by An Post is of the highest standard and meets all the appropriate requirements. An Post has shown its commitment to this over the years and has made significant progress in its regulatory reporting, even before many of the requirements had been formalised. For example:

- Establishment of Regulatory Accounting to inform the business of key financial metrics, in advance of any requirement to provide formal accounts to the regulator;
- Establishment of a detailed Accounting Manual, provided to ComReg annually;
- Review of the Accounting Manual by external experts in this area;
- Formal Audit of the Regulatory Accounts;
- Establishment of a tri-partite appointment for the regulatory audit, incorporating the views of the accounting professional body; and

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- Establishment of agreed Regulatory Accounts formats, in conjunction with ComReg.

The current Accounting Direction, which sets out An Post's current obligations in terms of regulatory financial reporting, was put in place in 2006, and An Post's compliance was reviewed for ComReg by Analysys Mason in 2012. Since the 2006 Accounting Direction, however, the Postal Market in Ireland has changed significantly. In particular, the sector is now fully liberalised and a Price Cap Mechanism (PCM) has been put in place. An Post would have expected these changes, and the impact they have on An Post, to be taken into account in the 2015/16 review of the Accounting Direction.

However, this does not appear to be the case. An Post is particularly concerned that in relation to some of the proposed requirements, ComReg fails to consider how:

- ¹ The costs (including the opportunity costs) of compliance to An Post of current obligations have changed as the market has evolved ²
- ⁴ Some requirements ³ would put An Post at a significant competitive disadvantage compared to other players in the market. For example, ComReg does not consider how some of the details which it recommends should be included in the published version of the RFS may disadvantage An Post in a competitive market (see section 3.2 for a more detailed discussion on the matter of confidentiality); and
- ⁵ The need for some of the current or prospective requirements has changed in light of other regulatory remedies that have been introduced, such as the PCM. ⁶

Therefore, An Post would like to draw ComReg's attention to the principles of materiality and proportionality as being of key importance in deciding to mandate any changes. In this regard it is worth noting ComReg's own quote from the Eircom Accounting Direction – *“While ComReg is mindful that the documenting of regulatory accounting systems could, conceivably, be open-ended it requires Eircom to address the more material aspects that drive costs within its regulatory accounting process. It is of the view that the enhanced documentation required will be in line with international best practice but also reflective of ComReg's own regulatory needs while*

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- T** Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- S** Number: 2 Author: Subject: Sticky Note Date: 09/03/2016 09:27:15
Please explain fully how market has evolved as Direction is for universal postal services (which do not face effective competition) and provide the costs (including the opportunity costs), with supporting evidence, for consideration by ComReg.
-
- S** Number: 3 Author: Subject: Sticky Note Date: 11/03/2016 17:15:56
Please outline and provide evidence for which requirements you refer to here and explain how each puts An Post at a competitive disadvantage.
-
- T** Number: 4 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- T** Number: 5 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- S** Number: 6 Author: Subject: Sticky Note Date: 11/03/2016 17:15:12
Please provide details of all other regulatory remedies An Post refers to, how these impact the proposed requirements, and evidence that ComReg has not considered these.

at the same time being proportionate for Eircom”.¹ An Post would expect similar considerations to be an integral part of this Accounting Obligations Consultation process and would expect this to be more fully addressed before a final decision is taken.

While ComReg has revised some of the recommendations which it had originally made in the Pre-Consultation document, there are still a significant number of recommendations that would make An Post's reporting requirements some of the strictest compared to other jurisdictions. ¹An Post believes many of the new requirements are not proportionate to the scale of operations ²An Post compared to other European operators and are unlikely to assist ComReg in discharging its regulatory duties. ³

Furthermore, the regulatory impact assessment ComReg has undertaken is presented at a high level with no consideration of the actual costs associated with the requirements. This is not consistent with regulatory best practice and leads ComReg to draw incorrect conclusions with respect to the burden imposed by specific requirements. In particular An Post would ask ComReg to be mindful of its own recommendation contained in the Eircom Accounting Separation direction “*It is not ComReg's intention to increase the regulatory burden ... unless absolutely necessary*”.² Considering in particular the ⁴current level of USO losses borne by An Post, ⁵it would seem appropriate for ComReg to exercise more caution and ⁶conduct a fuller analysis ⁷in what is currently presented in the Accounting Obligations Consultation.

Finally, An Post is concerned that many of ComReg's preliminary views are without legal basis because they exceed the legal limits on the permissible content of an Accounting Direction under Section 31 of the 2011 Act. This is discussed in more detail in the appropriate sections in the remainder of this document.

¹ ComReg Document 10/67, section 1.24

² ComReg 10/67, D08/10, paragraph 3.71

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- T** Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- S** Number: 2 Author: Subject: Sticky Note Date: 14/03/2016 09:54:16
Please explain fully, with supporting evidence, which requirements are not proportionate to the scale of operations of An Post compared to other European operators.
- S** Number: 3 Author: Subject: Sticky Note Date: 09/03/2016 09:33:32
Please detail how, in An Post's view, these requirements are unlikely to assist ComReg in discharging its regulatory duties.
-
- T** Number: 4 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- S** Number: 5 Author: Subject: Sticky Note Date: 09/03/2016 09:34:09
Please explain why, in An Post's view, the Price Cap Mechanism has not / will not address losses on domestic USO and why s.29(1) of 2011 Act has not addressed losses on USO for International Inbound. Please quantify in €m split Domestic / International Inbound / International Outbound for current and projections to 2019.
-
- T** Number: 6 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- S** Number: 7 Author: Subject: Sticky Note Date: 09/03/2016 09:33:51
Please detail what type of analysis and what further information An Post needs in this respect.

1.3 Structure of this report

This report is structured as follows.

- Section 2 presents An Post's comments to the preliminary views on the accounting obligations covered in sections 4.1 to 4.6 of the Accounting Obligations Consultation.
- Section 3 presents An Post's comments to the preliminary views on the format of the Regulatory Accounts, covered in sections 4.7 and 4.6.1 of the Accounting Obligations Consultation.
- Section 4 presents An Post's comments on the preliminary views on the draft regulatory impact assessment, covered in section 5 of the Accounting Obligations Consultation.
- Section 5 presents An Post's comments to the preliminary views on the draft accounting direction, covered in section 6 of the Accounting Obligations Consultation.
- Section 6 provides a conclusion to An Post's response to the Consultation.

This page contains no comments

2. An Post comments on question one of the Accounting Obligations Consultation

This section discusses An Post's response to the question:

“Do you agree or disagree with ComReg’s preliminary views on updating the Accounting Direction? Please explain your response and provide any supporting evidence.”

This section covers the preliminary views presented in sections 4.1 to 4.6 of the Accounting Obligations Consultation.

2.1 Measuring mail volumes and revenues

This section discusses ComReg's proposals with respect to mail volumes and revenues, set out in section 4.1 of the Accounting Obligations Consultation.

Accounting Direction rules for measuring mail volumes and revenues


ComReg proposes that the current requirement that revenue-based volumes and operational based volumes are both presented in the RFS is carried over from the 2006 Direction.


An Post agrees with ComReg that the current methods for recording volumes and revenues are appropriate and therefore they do not need modifications.

Reconciliation of revenue and operation mail volumes

ComReg proposes that the reconciliation of revenue based and operational based volumes is provided at format level, as currently provided by An Post, rather than at service level as was originally suggested in the Pre-Consultation.

An Post agrees with ComReg that a reconciliation at service level would require a significant amount of additional resources and therefore is disproportionate.

Notwithstanding the above, An Post is surprised by ComReg's expectations in relation to this reconciliation. Specifically, **An Post is concerned that a detailed reconciliation, in the “accounting” sense, is not possible**  ²

 Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

 Number: 2 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19

What does this mean? Please explain difference between a reconciliation in an 'accounting sense' and a reconciliation in a 'non-accounting sense'.

This is because, as explained by 2010 Analysys Mason's report for Postcomm³, the difference between the operational and revenue based volumes is largely due to the factors characterising the two estimation methods, rather than specific service characteristics.⁴ The **two methods are based on different principles, one being a bottom-up estimation based on operational data and assumptions, and the other being a top-down estimation, based on total revenues and unit prices and other weights** ² Hence, it is not possible to reconcile on a 'unit by unit' basis the two volumes.

At present, **An Post provides a comparison, rather than a reconciliation** ³ **volumes by format**, which is accompanied by qualitative explanations of the differences based on the estimation methods.

Due to the intrinsic differences between the two estimation methods, An Post suggests this high level comparison, in line with that included in the past RFSs, should continue to be required for inclusion in the RFS, instead of a "reconciliation".

This distinction is important and might have significant implications for the auditability of this report, as discussed below. It is not possible to reconcile the two results in an accounting sense. An audit is therefore not possible, in particular in the context of the "presents fairly" framework which ComReg requires.

Moreover, **ComReg has not sufficiently explained what issue it is trying to resolve in proposing this requirement** ⁶ therefore, it is necessary for ComReg to clarify exactly whether it is proposing to introduce an additional requirement compared to what is currently provided by An Post, and, if so, why this is necessary.

An Post is also concerned with the **level of confidentiality** ⁷ the "reconciliation", or comparison, which An Post considers should not be included in the public version of the RFS. This is discussed in more detail in section 3.2 of this report.

Requiring a volume reconciliation does not appear to be common practice among European operators. Royal Mail, for example, is not required to provide a volume

³ Analysys Mason, 2010, 'Cost transparency'. Report for Postcomm

⁴ Analysys Mason, 2010, 'Cost transparency'. Report for Postcomm, p.33

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- T** Number: 1 Author: Subject: Highlight Date: 09/03/2016 09:35:41
-
- S** Number: 2 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
To help ComReg further understand, operational data is for the most part based on machine counts. Does An Post, for internal management, use operational data or revenue-derived data? If use one or both please document fully how used by An Post for internal management purposes.
- S** Number: 3 Author: Subject: Sticky Note Date: 14/03/2016 11:58:16
Please explain why An Post does not currently reconcile, as required by section 3.1(f) of the current Accounting Direction (06/63).
-
- T** Number: 4 Author: Subject: Highlight Date: 09/03/2016 09:35:53
-
- T** Number: 5 Author: Subject: Highlight Date: 09/03/2016 09:36:37
-
- S** Number: 6 Author: Subject: Sticky Note Date: 09/03/2016 09:36:31
Paragraphs 55, 75, 81, and 84 of Consultation 15/135 explain the importance of volumes to the regulatory accounts and ComReg's information requirements to meet its obligations set by the 2011 Act. In summary, volume information is so integral to cost allocation and that the checking of accuracy of volume data is critical to accurate accounting information being produced and to check against forecast volumes in the price cap mechanism to ensure An Post can still recover its efficient cost. Please document fully what more explanation is required.
- S** Number: 7 Author: Subject: Sticky Note Date: 09/03/2016 09:36:59
What exactly do you consider confidential? Please detail why.
-
- T** Number: 8 Author: Subject: Highlight Date: 09/03/2016 09:36:41
-

reconciliation nor the estimation of a second set of volumes on top of the revenue based volumes used in the Royal Mail's RFS.

ComReg itself seems to have misunderstood that the purpose to which the revenue based volume estimates are being utilised is to calculate an allocation basis for revenues and cost, with the revenues being those captured in An Post Statutory revenue General Ledger. As such, An Post would acknowledge the importance of these allocations and would like to highlight that these allocations are currently subject to extensive scrutiny, including by ComReg itself. For example, the Real Mail study (RMS) is reviewed by an independent auditor appointed by ComReg.

In the interests of transparency and proportionality it¹ is incumbent on ComReg to highlight what deficiencies it has found over the course of its review² that would necessitate this requirement. ³ Without such a dialogue An Post is at a loss as to the objective of this additional, and costly, reconciliation.⁴

Reconciliation of operational volume counts

ComReg proposes that a reconciliation between Mail Centre (MC) and Delivery Service Unit (DSU) mail volumes is provided by An Post on a quarterly basis.

An Post disagrees with this requirement, as it considers it to be disproportionate in relation to the perceived shortcomings it is attempting to address.

⁶ An Post currently estimates both MC and DSU volumes for operational reasons⁵. However, the two volumes are based on different methodologies. In particular, MC volumes are based on daily volume counts at four MC's while volumes in the c. 300 DSU's are based on a higher level count of containers, with average container fill values then applied to estimate total volumes. For this reason, an 'accounting style' reconciliation of the two is not possible. The different methodologies were highlighted by Analysys Mason in their 2012 report to ComReg. Significant additional resources would need to be invested in collecting the additional data and perform the ⁷ necessary checks that would be needed for An Post to perform a high-level reconciliation of the two sets of volumes.⁸ In addition, An Post is not confident that even with additional resources such a reconciliation would be possible, due to the intrinsic differences highlighted above.

T Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

S Number: 2 Author: Subject: Sticky Note Date: 14/03/2016 09:09:12

ComReg would like to point out section 4.1.2 of Consultation 15/135 - given that volume information is so integral to cost allocation and that the checking of accuracy of volume data is critical to accurate accounting information being produced. ComReg would also like to point out that the reconciliation is already required by the 2006 Accounting Direction. Therefore, ComReg requests An Post to fully explain why the reconciliation is not required.

T Number: 3 Author: Subject: Highlight Date: 08/03/2016 14:37:19

S Number: 4 Author: Subject: Sticky Note Date: 14/03/2016 09:55:01

Given ComReg is proposing a decrease in An Post's compliance requirements in respect of the level at which volumes are reconciled, please provide evidence of the cost of reconciling at the service level and a separate estimate of the cost of reconciling at the format level.

S Number: 5 Author: Subject: Sticky Note Date: 14/03/2016 09:10:23

Please explain these operational reasons more fully and please document more fully what MC and DSU volume information An Post uses for internal purposes.


Does this estimation for operational reasons occur at HQ?

T Number: 6 Author: Subject: Highlight Date: 08/03/2016 14:37:19

T Number: 7 Author: Subject: Highlight Date: 08/03/2016 14:37:19

S Number: 8 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19

Does An Post, for its own operational purposes, not review / reconcile volumes between MC and DSU?

In light of the cost that such reconciliation would impose on An Post, it is ComReg's duty to provide evidence of the benefits that could be derived from this requirement and ² demonstrate that these benefits outweigh the additional cost to An Post.  1

Currently, it is An Post's belief that there are no evident benefits from the reconciliation, and as such the requirement appears disproportionate.


An Post notes that the volumes currently used are those at the MC level, which are mostly based on machine counts and therefore more accurate.

However, in the spirit of co-operation, An Post suggests that some additional visibility on these estimates could be provided to ComReg in the form of a comparison, and a qualitative explanation of the differences could be provided, similarly to what is currently being provided for revenue driven and operational volumes.

Audit of the reconciliation of revenue derived volumes with operational based volumes

ComReg proposes that the reconciliation of the operational derived volumes and the revenue derived volumes is audited by the Regulatory Auditor.

An Post considers that auditing of the reconciliation, as currently conducted by An Post and as defined in Table 2 of ComReg's Accounting Obligations Consultation document, would not be possible.

³ Given the inherently different nature of the methodologies underpinning the two sets of estimations and the reliance of both estimates on differing assumptions, it would not be possible for an auditor to opine on such matters in a manner that would give an acceptable level of assurance.  4

Further, ComReg's understanding that the auditing of the reconciliation represents 'best practice' is unfounded. In the ERGP⁵ study mentioned by ComReg and Frontier Economics it is found that only in six of the 17 countries sampled the volume reconciliation is part of the audit of the regulatory accounts. Moreover, the sample of countries does not appear to be closely comparable to Ireland. For

⁵ The European Regulators Group for Postal Services (ERGP), 2013, 'Report on specific issues related to cost allocation'

Number: 1 Author: Subject: Sticky Note Date: 14/03/2016 12:01:46

Please provide breakdown, with supporting evidence, of estimated additional cost in the following format:

A) Current time taken to count/record volumes at DSU per day: (xx hours) x XXX DSUs

B) Cost to count/record volumes at DSUs per day = Time per above answer x Av. hourly rate

C) Current time taken to count/record volumes at MC per day: (xx hours) x 4 MCs

D) Cost to count/record volumes at MCs per day = Time per above answer x Av. hourly rate

E) Cost of informal comparison at HQ on daily basis: xx hours x Av hourly rate

F) Total current cost involved in operational counts on a daily basis = B) above + D) above + E) above

G) Additional cost of increasing of what An Post claims to be a "comparison" to reconciliation involving investigation of differences: xx hours x Av. hourly rate x 4 times per year

T Number: 2 Author: Subject: Highlight Date: 08/03/2016 14:37:19

T Number: 3 Author: Subject: Highlight Date: 09/03/2016 09:41:44


Number: 4 Author: Subject: Sticky Note Date: 09/03/2016 09:42:29

On what basis / supporting evidence, has An Post formed this view?

Has An Post discussed this with an auditor(s)? If so, please provide evidence to support contention.

example, countries such as the UK are not included in the sample. Yet, in its Pre-Consultation document, ComReg noted how the obligations imposed on Royal Mail are considered as the preferred benchmark for best practice in regulatory accounting and reporting. It therefore seems inconsistent to now claim that a requirement that is not imposed on Royal Mail is best practice and as such should be adopted by An Post. Finally, the ERGP study does not specify the type of “reconciliation” that applies in these six countries and therefore it is not possible to conclude that the requirements in these countries are comparable to what is being put forward in the Accounting Obligations Consultation.

An Post would also highlight that ComReg itself should acknowledge that this type of request is much closer in nature to the regulatory information that both Eircom and RTE/2rn currently provide to ComReg under the heading of “Additional Financial Information” (“AFI” for Eircom) or “Additional Financial Data” (“AFD” for RTE/2rn). As such, An Post would again highlight that such a format would both provide the information that appears to be required by ComReg, as well as acknowledging the commercially sensitive nature of certain aspects of such requests. In addition, and on an exceptional basis, it provides an ideal mechanism for provision of data that could be difficult for auditors to provide an opinion on, but “agreed upon procedures” could be entered into with an auditor to enable the necessary assurance to be provided. ComReg itself should acknowledge that such an approach is more consistent with its current approach in dealing with such issues in the case of Eircom and RTE/2rn and provides assurance in both a proportionate and a practical manner.

In summary, and for the reasons set out above, An Post does not consider that a reconciliation is possible and an audit of the volume reconciliation is therefore not appropriate or proportionate. An Post currently includes an unaudited comparison of volumes in the RFS provided to ComReg and **I believe that this meets the requirements of the existing Accounting Direction**  Further, it does not appear to be indisputably best practice, as is claimed by ComReg.

 Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

 Number: 2 Author: Subject: Sticky Note Date: 14/03/2016 09:11:37

Please explain more fully why An Post believe that this meets the requirements of the existing Accounting Direction. The existing Accounting Direction (06/63) requires "mail volumes, by service, separately recorded, from (i) revenue data recorded at the point of sale; and (ii) operational data recorded in the outward phase of the postal pipeline, shall be compared. An Post shall understand and shall be able to report the reasons for any divergence between the two measures "

*Reporting the process for measuring operational based volumes and their accuracy:
Automated machine counts*

ComReg proposes to include details on how operational based volumes are to be calculated. In particular, ComReg considers that An Post should be specifying the process for validating machine counts and the degree of accuracy to which machines are tested, in order to ensure accuracy and thereby increase confidence in the machine counts.

An Post is concerned that the cost that this requirement would pose on An Post is not proportional to the benefits that would derive from it.

First, operational volumes are not used in the RFS, other than to provide a comparison and a cross check for the revenue based volumes, which are instead the basis for the RFS. Thus, requiring significant additional investments to increase the level of control over the estimation of the operational volumes does not seem justified.

Moreover, Section 31 of the 2011 Act does not provide a clear legal basis for an Accounting Direction to require that such specific details be included, or that a specified format should be used, in a written document that is maintained by An Post, such as the Accounting Manual.

Reporting the process for measuring operational based volumes and their accuracy: Manual counts

ComReg proposes that An Post includes its Accounting Manual details of the process for reviewing average container fills. ComReg further proposes that assumptions on average container fills are revised quarterly, and that An Post reports the results of the average container fill reviews Accounting Manual.

An Post believes that these requirements violate the principles of materiality and proportionality that should guide any regulation, as discussed in the introduction to this report. The reasons given by ComReg to justify the need for new stricter rules regulating manual counts do not seem to hold against the additional cost that would be incurred by An Post to satisfy these requirements.

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T Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

+ Number: 2 Author: Subject: Sticky Note Date: 14/03/2016 09:12:16

We understand that An Post already performs these controls. Therefore please provide evidence of what additional costs An Post would incur.

T Number: 3 Author: Subject: Highlight Date: 08/03/2016 14:37:19

+ Number: 4 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19

Please explain this view more fully, especially given section 31(3)(g) of 2011 Act

T Number: 5 Author: Subject: Highlight Date: 08/03/2016 14:37:19

+ Number: 6 Author: Subject: Sticky Note Date: 14/03/2016 09:13:12

Please provide evidence of the costs of including in the Accounting Manual details of the process for reviewing container fills, and the outcome of those reviews.

T Number: 7 Author: Subject: Highlight Date: 08/03/2016 14:37:19

+ Number: 8 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19

1. How often does An Post currently review average container for its own internal processes and controls?
2. If so, how is this reported?

Further, An Post considers unnecessary reviewing average container fills' assumptions on a quarterly basis. As volumes are reported annually, the assumptions used to estimate the volumes should be annual estimates, which, when correctly derived, already control for seasonality. Thus, there is no need for seasonal estimates to be provided. Instead, An Post would consider providing updated estimates on average container fills on an annual basis, to update the assumptions used in the volumes estimation.

Hence, An Post proposes that the reporting of the manual counts process is left unchanged.

2.2 Cost identification and allocation

This section discusses ComReg's proposals with respect to cost identification and allocation, set out in section 4.2 of the Accounting Obligations Consultation.

Identification of costs

ComReg proposes that the existing requirements of the 2006 Accounting Direction, requiring An Post to provide details of the processes by which it identifies avoidable, variable, and fixed costs, should remain unchanged in the revised Accounting Direction. However, ComReg considers insufficient the level of detail currently provided by An Post in this regard. In particular, ComReg considers that no information is provided in An Post's RFS on the process by which An Post identifies avoidable costs.

An Post considers the level of details already included in the existing Accounting Manual sufficient. Neither the ERGP⁶ nor the CERP⁷ reports suggest that detailed examples and definition of the types of costs should be provided by the operators. At a minimum, ComReg should work with An Post to establish what material areas and allocations need to be covered in the Accounting Manual.

⁶ The European Regulators Group for Postal Services (ERGP), 2013, 'Report on specific issues related to cost allocation'

⁷ European Committee for Postal Regulation (CERP), 2009, 'Recommendation on best Practices for Cost Accounting Rules III'

This page contains no comments

Further, An Post notes that Royal Mail does not provide detailed information for all its products, but in its cost manual it describes the process for defining avoidable costs in First Class mail and Second Class mail only. Hence, Royal Mail does not report at the level of detail that ComReg suggests and would like to require from An Post.

In its Accounting Obligations Consultation ComReg also refers to the example of ¹access costs as a potential area which might require ComReg to obtain more detailed information on avoidable costs. ²However, An Post has already put a solution in place to agree downstream access prices with other postal providers. This solution has resulted in formal agreements being put in place with a number of postal providers.

Further, while the identification of avoidable, fixed and variable costs is an integral part of cost modelling exercises, these are costing labels which are not normally used within Historical Cost Accounts, which is the basis for the production of An Post's Regulatory Accounts. For neither Eircom, nor RTE, do these form part of the regulatory accounts, and their identification is of a highly specific nature. For example ComReg's Accounting Direction to Eircom (D08/10) states the following: "3.325 where necessary ComReg may require the submission of schedules for direct indirect and common costs for certain services and products. However, this is likely to be on an ad hoc basis (such as a price review) and would form part of AFI" (with the AFI being a process for the private submission of accounts based information to ComReg, with the provision of such information being agreed on an annual basis between ComReg and Eircom).

While An Post acknowledges the requirement for the identification of costs types for pricing and cost modelling purposes, the requirement for the inclusion of the identification process for these costs on an ongoing annual basis appears both unnecessary and disproportionate. ³Further, An Post does not believe that providing detailed descriptions and examples of the definition of cost types is common practice among other operators. ⁴

In ⁶relation to the cost of the USO, ⁵ComReg issued a separate direction on this so An Post does not think any adjustment needs to be made in the Accounting Direction in relation to this.

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T Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

S Number: 2 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19

If a s.33 dispute arose in relation to the price of access to the postal network of An Post, how would An Post propose to identify the avoided cost it incurs to inform the resolution of any such dispute?

T Number: 3 Author: Subject: Highlight Date: 08/03/2016 14:37:19

S Number: 4 Author: Subject: Sticky Note Date: 09/03/2016 09:45:48

Please provide supporting evidence and detail for this belief.

S Number: 5 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19

How will An Post identify the avoided cost for a reference scenario in any net cost submission?

T Number: 6 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Moreover, ¹the relevant legal basis does not allow for specific ²details, such as worked examples, to be mandated within the Accounting Manual. ³

For the reasons listed above, An Post believes that the existing process of providing information as requested on an ad hoc basis only, if and when the need for such information arises is appropriate and any additional requirement is disproportionate.

The allocation of the cost activities

ComReg proposes to maintain the current requirements in respect to the allocation of cost activities. These are high level requirements that specify the principles that should be used in allocating direct, indirect or common costs.

An Post agrees with ComReg that the current requirements on the allocation of cost activities are still relevant and should be maintained in the revised Accounting Direction.

Cost drivers

While retaining the high level principles from the current Accounting Direction, ComReg proposes to increase the level of information that An Post would need to provide regarding the methodology used to set cost drivers. This would take the form of a detailed description of the cost drivers in the Accounting Manual and the detail of any changes year-on-year.

An Post already undertakes an annual review of the cost drivers and it provides any updates to the cost allocation methodology in its annual Accounting Manual. The level of detail provided in its Accounting Manual is consistent with ⁵best practice. ⁴

⁶An Post is unclear on what additional information ComReg is recommending to be provided and would require more detail on the information requested before commenting on its appropriateness. ⁷

More broadly, ComReg should ⁸refrain from placing requirements on cost drivers which would remove flexibility for An Post on the methodologies used. ⁹ Its could have the adverse effect of preventing, rather than encouraging, improvements to be made year on year. This would be an undesired outcome that should be avoided.

T Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

T Number: 2 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Y Number: 3 Author: Subject: Sticky Note Date: 14/03/2016 12:03:54
Please explain fully reason / support for this review. Also, please explain why s.31(3)(a) and s.31(3)(g) do not apply.

Y Number: 4 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Please name or list examples of best practice you are referring to here

T Number: 5 Author: Subject: Highlight Date: 08/03/2016 14:37:19

T Number: 6 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Y Number: 7 Author: Subject: Sticky Note Date: 14/03/2016 12:05:21
As set out in 15/135 and our pre-consultation, ComReg is requesting that An Post set out in full all its cost drivers, why such cost driver is appropriate, and where there is a change in cost driver why that is appropriate. This is critical information to understand cost allocation. Please explain fully what more information (beyond that provided in Consultation 15/135) An Post requires to fully understand this proposal.

T Number: 8 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Y Number: 9 Author: Subject: Sticky Note Date: 09/03/2016 09:46:53
Please detail how would this requirement remove flexibility?

Further, there is no mention in ComReg's Accounting Obligations Consultation that the provision of information should be proportional to the materiality of the drivers or services, or that the commentary on annual changes would be required only for material changes. This requirement is explicitly referenced in both the Royal Mail and Eircom Regulatory Accounting Directions. Without such a reference, the requirements would be both disproportionate and unworkable.

To provide ComReg with additional reassurance and in order to avoid delays in the publication of the RFS, ¹An Post suggests that year on year methodology changes associated with material cost drivers could be discussed with ComReg in advance of the publication of the annual RFS. ²This is an approach adopted in other sectors and jurisdictions and one that An Post could engage with ComReg to implement. This would also be consistent with other precedents set by ComReg itself. For example, in Eircom's case, ComReg directed that Eircom should provide "*k) Details of material period on period changes to the form and content of the Separated Accounts and changes to cost allocations methodologies having a material impact.*"⁸ This requirement ensures that only material changes are the focus of attention.

However, as discussed above, ComReg would need to clarify what type of details it is looking to obtain, which are not currently provided by An Post.

Costs for each universal postal service price

ComReg proposes to require An Post to:

- provide the cost associated with universal postal services, at each price point, rather than at format level;
- provide a detailed explanation in its Accounting Manual of how costs are allocated to services with different price points; and
- provide a detailed explanation in its Accounting Manual of where the weight factors used in the allocation process do not align with the various tariff price points.

⁸ ComReg 10/67, D08/10, "Response to Consultation Document No. 09/75 and Final Direction and Decision: Accounting Separation and Cost Accounting Review of Eircom Limited"

 Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

 Number: 2 Author: Subject: Sticky Note Date: 09/03/2016 09:48:18

To aid ComReg's understanding, please detail how many methodology changes were made in the financial year ending 2014, what was the nature of these changes, and what proportion of these would An Post consider material changes?

¹An Post does not believe that it is practical to provide cost estimates for all services at tariff level within the Regulatory Accounts.² This issue has been discussed between An Post and ComReg in the past, as outlined in ComReg's document 02/15 section 4.2.7, which clearly states "it is the format of the item rather than the weight that determines the cost". The current reporting template was agreed with ComReg. It has been in place since 2009 and this has been the basis of the provision of Regulatory Accounts to ComReg since then.

The model used by An Post to produce the RFS does not currently allow for this level of disaggregation and extensive re-design and modification of the model would be required to introduce this level of granularity. Yet, this is not recognised by ComReg and An Post is disappointed to see that³ these significant costs are not taken into account in ComReg's Impact Assessment.⁴

The impracticality of providing these cost estimates is also highlighted by ComReg's own statement that while volumes are important for the correct estimation of costs, the workload that would be imposed in reconciling volumes at the individual service level would be excessive and therefore reconciliation would only be required at the format level.

Further, ⁶An Post believes that this requirement is inconsistent with the current PCM⁵ which is defined at the level of a basket of services, rather than at individual tariff level. Hence, it is unclear why this level of disaggregation would be required for ComReg to ensure An Post's compliance with the price control.

In addition, An Post would again like to highlight to ComReg that a similar original request was suggested in relation to Eircom, but in a recognition of the practical issues this was modified to provide the volume, pricing and cost comparison at a higher level. Specifically, ComReg stated: "*The Separated Accounts will also contain details regarding average revenues and average costs of **material services and products** and where relevant associated volumes*"⁹ (emphasis added). The preamble to this decision makes it clear that proportionality was a key consideration in reducing the regulatory burden of producing regulatory information and An Post

⁹ ComReg 10/67, D08/10 Paragraph 3.224

T Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

S Number: 2 Author: Subject: Sticky Note Date: 14/03/2016 12:06:30
Given section 3.2 of the current Accounting Direction (06/63) requires cost estimate for each price point, please explain why An Post is not currently complying with this?

T Number: 3 Author: Subject: Highlight Date: 08/03/2016 14:37:19

S Number: 4 Author: Subject: Sticky Note Date: 14/03/2016 12:08:46
Please provide evidence of any difference in costs between ComReg's proposal and the requirements of the current direction.

S Number: 5 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Please explain this more fully. The price cap decision was made pursuant to s.30 of the 2011 Act, the requirement for cost oriented prices for each universal postal service is pursuant to s.28 of the 2011 Act.

T Number: 6 Author: Subject: Highlight Date: 08/03/2016 14:37:19


would again ask that the same level of analysis and subsequent justification is provided by ComReg to An Post. It is not at all clear as to whether such analysis has been completed to date by ComReg.


In summary, An Post disagrees with ComReg about the requirement to produce costs at individual price points on an ongoing annual basis for inclusion in the RFS.

Inter-company and inter-segments transactions

ComReg proposes that the current requirements under the 2006 Accounting Direction, with regard to inter-company and inter-segment charges, are carried over and that the RFS should include the source of inter-segment revenue, in a matrix form. Further, ComReg proposes that the nature and detail of all inter-company and inter-segment charges should form part of the scope of the audit conducted by the Regulatory Auditor.

An Post notes that details regarding inter-segment revenues are already reported in the Accounting Manual, in Appendix 10. An Post agrees to modify the way it reports inter-segment revenues and inter-segment costs, to be consistent with the matrix form suggested by ComReg.

However, the inter-segment revenues/costs breakdown of the Mails business segment proposed by ComReg is too intrusive and not particularly insightful. **The inter-segment matrices should not be included in the published RFS, as they contain sensitive information, disclosure of which may put An Post at a competitive disadvantage in the marketplace.** 

Regarding the issues of the scope of the audit, An Post notes that inter-segment allocations are included within the RFS at present and are already covered by the existing audit scope. (See further comments and explanation on the nature of the existing audit opinion in section 2.4 of this document). **It is unclear to An Post what ComReg means when it states that the "nature and detail" of transfer charges should also be included within the scope of the audit.**  Clear explanation of what this requirement means, with specific examples, is necessary for An Post to be able to comment further on this recommendation.

T Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

+ Number: 2 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Please explain this view more fully, particularly as the universal postal service does not face effective competition.

T Number: 3 Author: Subject: Highlight Date: 08/03/2016 14:37:19

+ Number: 4 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
This was explained in the pre-consultation engagement and in 15/135. This means that whether the basis of the setting of the transfer charge is appropriate. For example, if a transfer charge was based on cost, is there a 3rd party charge that is more appropriate to set the transfer charge. Please explain more fully if this is still not clear to An Post and why this is still not clear.

2.3 Regulatory reporting

This section discusses ComReg's proposals with respect to regulatory reporting, set out in section 4.3 of the Accounting Obligations Consultation.

An Post believes that regulatory reporting requirements should follow several principles. This position is widely shared among governments and regulators as outlined by the Irish Government 2004 White Paper on Better Regulation¹⁰ and the 2009 "Revised RIA guidelines, how to conduct a Regulatory Impact Assessment". In the documents, six principles of 'Better Regulation' are defined:

- *"Necessity – is the regulation necessary? Can we reduce red tape in this area? Are the rules and structures that govern this area still valid?"*
- *Effectiveness – is the regulation properly targeted? Is it going to be properly complied with and enforced?"*
- *Proportionality – are we satisfied that the advantages outweigh the disadvantages of the regulation? Is there a smarter way of achieving the same goal?"*
- *Transparency – have we consulted with stakeholders prior to regulating? Is the regulation in this area clear and accessible to all? Is it supported by good explanatory material?"*
- *Accountability – is it clear under the regulation precisely who is responsible to whom and for what? Is there an effective appeals process?"*
- *Consistency – will the regulation give rise to anomalies and inconsistencies given the other regulations that are already in place in this area? Are we applying best practice developed in one area when regulating other areas?"¹¹*

¹⁰ Taoiseach Government, 2004, "Regulating Better"

¹¹ Taoiseach Government, 2009, "Revised RIA guidelines, how to conduct a Regulatory Impact Assessment" see:

http://www.taoiseach.gov.ie/eng/Publications/Publications_Archive/Publications_2011/Revised_RIA_Guidelines_June_2009.pdf

This page contains no comments

These principles are consistent with those set by Ofcom in its 2012 document “Regulatory financial reporting: a review”¹², and are also in line with the position expressed in the European Commission 2005 ‘Recommendation on accounting separation and cost accounting systems under the regulatory framework for electronic communications’:

*“The cost accounting and accounting separation systems of the notified operators need to be capable of reporting regulatory financial information to demonstrate full compliance with regulatory obligations. It is recommended that this capability be measured against the qualitative criteria of relevance, reliability, comparability and materiality.”*¹³

An Post broadly agrees with these principles. However, how these principles are applied in practice requires careful consideration.

The UK and Ireland follow very similar corporate governance systems in respect of financial reporting for businesses and utilities. In this context, in respect of financial reporting for regulatory accounting for the national postal operator, An Post would encourage ComReg to put in place reporting regimes very much in line with those in the UK and for other regulated utilities in Ireland. Corporate businesses this is the case and there is no reason to think that it would not work well for regulation of the postal sector. The precedents both in Ireland and the UK could be very valuable and give all parties insight into what appears to be a practical and balanced regulatory regime.

An Post is concerned that this does not appear to be the case at present. Many of the proposals made by ComReg in the Accounting Obligations Consultation are disproportionate and impractical and would seem prejudicial to the value of the business in the event of Government deciding that private capital in the national postal operator would be desirable. ComReg is going to put a regime in place that

¹² Ofcom, 2012, “Regulatory financial reporting: a review” see:

<http://stakeholders.ofcom.org.uk/binaries/consultations/reg-financial-report/summary/condoc.pdf>

¹³ EC, 2005, ‘European Commission recommendation of 19 September 2005 on accounting separation and cost accounting systems under the regulatory framework for electronic communications’, (2005/698/EC)

T Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Y Number: 2 Author: Subject: Sticky Note Date: 14/03/2016 09:57:05

Please explain why, in An Post's view, that legislative basis / competitive environment is comparable in UK and for other regulated utilities in Ireland.

Y Number: 3 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19

Please explain more fully why An Post is of this view.

T Number: 4 Author: Subject: Highlight Date: 08/03/2016 14:37:19

T Number: 5 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Y Number: 6 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19

Please explain this more fully. How would universal postal service accounting obligations affect any Government decision on private capital in An Post? Is An Post aware of any such plans by Government and time-frame of same?

is very much different to that in the UK, or to other regulated utilities in Ireland, ¹ An Post considers that the Government ought to be consulted in advance. ²

Reporting balance sheet at regular intervals

ComReg proposes that An Post submits its balance sheet on a quarterly basis, until the company cash at bank and in hand reaches €100 million, to ensure the provision of the universal postal service is sustainable.

An Post disagrees with ComReg on the necessity of providing the balance sheet and the cash position on a quarterly basis as, in An Post's opinion, this is unnecessary and impractical. In particular, An Post notes that:

- It is not correct to say that without a quarterly An Post balance sheet, ComReg would not be aware of An Post's cash position until Regulatory Accounts are presented after each year end. ³ here are regular review meetings (including at CEO and Commissioner level) where these issues are discussed. ⁴
- The ability to service the USO by An Post in a sustainable financial environment is ⁵ not singularly measurable by the cash balance on a quarterly balance sheet. ⁶ ComReg has not outlined how they intend to use this information to determine that An Post is in a position to continue to service the USO, and ⁷ An Post does not believe that it is possible make such a determination based on this information. ⁸
- ¹⁰ The level of €100 million seems arbitrary and unjustified. ⁹ An Post has demonstrated over the past number of years (see Figure 2 on page 37 of ComReg's Accounting Obligations Consultation) that the USO can be provided when cash on hands is significantly lower than this level. Further, ¹¹ any public utility and USO providers have no free cash and indeed ¹² extended debt. ¹³ Many of the most profitable and better run mail and other logistic operators do not have free cash on their balance sheet and would ¹⁴ have a finance structure with a mix of debt. ¹³ Information on cash held provides only a partial view of An Post's financial position.

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- T** Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- Y** Number: 2 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
The matter is subject to a public consultation (15/135); why and how does An Post consider that the Government ought to be consulted outside the public consultation process.
-
- T** Number: 3 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- Y** Number: 4 Author: Subject: Sticky Note Date: 14/03/2016 12:15:53
Please provide evidence to support this claim. According to ComReg's records, the presentations made to ComReg by An Post have not included detail on An Post's cash position. Also, these are not regular review meetings.
-
- T** Number: 5 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- Y** Number: 6 Author: Subject: Sticky Note Date: 14/03/2016 12:15:55
Please provide details of other financial metrics regularly used by An Post's management, such as those used for credit ratings (e.g. FFO/net debt, net debt/EBITDA, etc.)
-
- T** Number: 7 Author: Subject: Highlight Date: 09/03/2016 09:51:41
-
- Y** Number: 8 Author: Subject: Sticky Note Date: 14/03/2016 12:16:38
Please provide details of other financial measures that An Post considers would be useful in determining its financial position and its ability to continue to service the USO.
-
- Y** Number: 9 Author: Subject: Sticky Note Date: 14/03/2016 12:17:33
Please explain why An Post is of the view that the €100m is arbitrary and unjustified. What level would An Post consider to be justified and not arbitrary?
-
- T** Number: 10 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- T** Number: 11 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- Y** Number: 12 Author: Subject: Sticky Note Date: 09/03/2016 09:51:59
Which utilities and USO providers are these? Are they in an insolvency position or considered solvent?
-
- Y** Number: 13 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
As An Post is technically insolvent (due to pension deficit), would An Post be able to obtain debt finance if needed?
-
- T** Number: 14 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-

- The €100 million threshold may impact negatively on An Post's ability to invest, especially in the current context of low interest rates. Post's investments would be stifled by the requirement of keeping liquidity at all times. An Post was to borrow money to finance investments, given the current low interest rates, it may well be that much less than €100 million would be needed to honour the loan's repayment.
- It appears that the requirement proposed by ComReg is not consistent with international precedent in other jurisdictions. For example, La Poste¹⁴ and the Hellenic Post¹⁵ are both required to provide balance sheets on an annual basis.

In light of these arguments, An Post recommends that the existing process in relation to cash reporting should remain unchanged - it has proven effective to date and there does not appear to be a valid reason to change it.

Capital expenditure

ComReg proposes that An Post provides detailed commentary on its capital expenditure (capex) in its RFS.

An Post agrees with the need to provide a capital employed statement on an annual basis, and will continue to do so. Also, An Post agrees with ComReg that it would be practically difficult to split capex between USO and non-USO services and that any such disaggregation would need to be based on a number of methodologies.

However, An Post believes that providing a detailed commentary on capex in the published version of the RFS would risk damaging An Post commercially as well as add significant costs and increase the timelines for production of Regulatory Accounts. little or no benefit accruing. Detailed capex figures would include commercially sensitive information on An Post's commercial strategy. The disclosure of this information to competitors could distort competition and

¹⁴ Arcep, 2012, «Consultation publique du 17 janvier au février 2012 (partie 1) et du 17 janvier au 2 mars 2012 (partie 2)», Article 1

¹⁵ EETT, Decision of 3 December 2003, Article 8, paragraph (1)

T Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Y Number: 2 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Please explain fully why the proposed reporting requirement would lead to this claimed outcome.

T Number: 3 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Y Number: 4 Author: Subject: Sticky Note Date: 14/03/2016 12:18:26
An Post does not forecast significant further investment over the next few years so why would 'investments be stifled' by maintaining a higher cash balance?

Y Number: 5 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Are these examples technically insolvent with y-o-y decreasing liquidity ratios?

T Number: 6 Author: Subject: Highlight Date: 08/03/2016 14:37:19

T Number: 7 Author: brogans Subject: Highlight Date: 09/03/2016 09:53:27

T Number: 8 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Y Number: 9 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Please provide supporting evidence for this claim in relation to the proposed reporting requirement.

T Number: 10 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Y Number: 11 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
ComReg's concern regards the continued provision of the USO, and specifically any underspend on essential capex needed to ensure the ongoing provision of the USO. ComReg acknowledges that detailed capex figures are not available because a split out of USO and non-USO capex would be based on arbitrary assumptions.

Therefore, how would commentary on USO-related capex compromise commercial strategy, when the USO is not subject to competition?

disadvantage An Post, reducing the incentive for An Post to invest and innovate in their own businesses.

Further, it does not appear that detailed information on capex is provided by postal operators in other jurisdictions. ¹EETT, the Greek communications regulator, requires the USP to provide a breakdown of costs and revenues as well as capital employed annually for USO, non USO, exclusive and non-exclusive products. ²

However, the regulator does not require data on the return on capital by service nor comments on capex figures.¹⁶ In addition, ComReg itself, in requesting capex details from Eircom, has been careful to ensure that such requests are both reasonably high level and also provided privately to ComReg.

In light of these arguments, An Post proposes that information on capex in the RFS is not accompanied by a detailed commentary.

Payroll costs

ComReg proposes that An Post provides information on its payroll and average staff numbers - Full time equivalent (FTE) - by business segment and, for the mail business segment that it shall report separately for the USO and non-USO postal services.

³An Post considers that ComReg has not sufficiently explained the rationale and benefits arising from the inclusion of payroll cost and FTE by business unit in the RFS. ⁴These should be clarified by ComReg. ⁵As the changes that would be required on the costing system to enable such reporting in the RFS may be very costly. ⁶In addition to the costs associated with reporting, this recommendation would require An Post to disclose ⁷commercially sensitive information. ⁸As such it raises the same competition concerns that have already been outlined above.

In light of the above, An Post considers that ComReg would need to provide further arguments to justify such requests, including specific examples of areas where the availability of such data would be beneficial to ComReg in discharging its regulatory duties.

¹⁶ EETT, Decision of 3 December 2003, Article 8 paragraph (8)

T Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Y Number: 2 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Would An Post not think that providing commentary on USO-related capex is less intrusive than providing a detailed breakdown of capital employed for the USO and non-USO?

T Number: 3 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Y Number: 4 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
These were explained in the pre-consultation engagement and Consultation 15/135. Staff costs account for majority of USO cost, ComReg requires more information on this cost component. An Post is requested to explain more fully what further information beyond that in the pre-consultation and Consultation 15/135, that it requires.

T Number: 5 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Y Number: 6 Author: Subject: Sticky Note Date: 14/03/2016 09:28:36
Please explain this fully with supporting evidence as to why the information sought is not readily to hand for An Post. An Post used to produce similar information for its Annual Report up to 2008 but the production of such information has ceased since then, please explain why this is.

Does An Post not already record these costs differentiated by service as part of its cost accounting system?

T Number: 7 Author: Subject: Highlight Date: 08/03/2016 14:37:19


Y Number: 8 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Please explain this fully. The information relates to USO which does not face effective competition.

Further, the level of detail requested by ComReg is not in line with that provided by operators in other jurisdictions. For example, Ofcom requires Royal Mail to provide payroll costs data by productivity metrics such as staff headcount and FTE data by business unit only.¹⁷ An Post, on the other hand, currently publishes payroll for the mail products, split between USO and non-USO services, and FTE numbers for the entire group, as well as a split between the company and its subsidiaries. It is also clear that such levels of detail are not required by ComReg of either Eircom or RTE/2rn, and again An Post would question why such a requirement is put forward in the case of An Post.

An Post proposes that the payroll costs reporting remains unchanged.

Account commentary

ComReg proposes that the existing requirement under the 2006 Accounting Direction in relation to An Post having to provide commentary on the RFS should remain under the Proposed Accounting Direction. ComReg is also of the preliminary view that the accessibility of the RFS could be improved by including charts and trends similar to those included in An Post's Annual Report.

An Post is concerned that **ComReg's request of detailed commentary and graphic content in the RFS would create unnecessary and unjustified costs for An Post.** 

An Post would also reference the Eircom and RTE/2rn regulatory accounting commentary requirements and highlight that this request greatly exceeds what ComReg requested of either company. An Post would ask that ComReg reconsiders these requirements in light of these precedents. It should also be noted that as the Regulatory Accounts are based and reconciled to An Post's Statutory Accounts then trends and commentary information from An Post's Annual Report is of equal relevance to the An Post Regulatory Accounts.

¹⁷ Ofcom, Consultation October 2013, p11, see:

<http://stakeholders.ofcom.org.uk/binaries/Consultations/regulatory-reporting-framework/summary/framework.pdf>

T Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Number: 2 Author: Subject: Sticky Note Date: 14/03/2016 09:30:55
Please explain this fully, providing full detail on claimed cost, with supporting evidence.

Please provide in format:

Additional Cost = No. of hours required to increase commentary at the service level x average hourly rate x no. of employees

T Number: 3 Author: Subject: Highlight Date: 08/03/2016 14:37:19

T Number: 4 Author: Subject: Highlight Date: 08/03/2016 14:37:19

T Number: 5 Author: Subject: Highlight Date: 08/03/2016 14:37:19

1 An Post is of the opinion that the current level of detail included within the Regulatory Accounts is already in excess of the requirements of the 2011 Act² well as exceeding³ international standards³. A comparison of An Post published Regulatory Accounts to Royal Mail Regulatory Accounts evidences the disproportionate level of narrative of the two documents. The detail included in the Royal Mail formal Regulatory Accounts is very limited, and confined to the introduction section. Excluding the independent auditor's report and the statement of responsibility, the document has fewer than 3 pages of narrative. On the other hand, An Post's public RFS contains numerous explanations, both at the beginning of the RFS and accompanying tables.

In light of these arguments, An Post proposes that it will continue to provide commentary that may improve the users' interpretation of the annual RFS, but that this should not be mandated under the Accounting Direction.

Other reporting requirements

ComReg proposes that the existing requirement under the 2006 Accounting Direction, in relation to An Post having to provide, upon request, an ad hoc report on the availability of the universal service to ComReg, should be carried over in the Proposed Accounting Direction. ComReg also proposes that it may arrange for the Regulatory Auditor to conduct "Agreed Upon Procedures" in respect of any such ad hoc report, as may be requested by ComReg from time to time.

An Post currently provides ComReg with ad hoc documents on USO availability when required. As in the past, An Post will continue to work closely with ComReg on the provision of ad hoc reports where requested by ComReg. An Post also considers that any future regulatory requirement on providing additional information should be predictable, consistent, relevant and proportionate, to minimise the reporting burden imposed on An Post.

There is no legal basis for ComReg to require the production of information to it only pursuant to an Accounting Direction.

5 An Post does not agree that the ad hoc reports it provides to ComReg should be audited on an "Agreed Upon Procedures" basis.⁶ In particular, An Post would again

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- T** Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- +** Number: 2 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Why is An Post of this opinion? Please explain fully with supporting evidence by reference to requirements of the 2011 Act which include s.28, s.29, s.30, s.31, s.33, s.35
-
- +** Number: 3 Author: Subject: Sticky Note Date: 14/03/2016 09:58:52
Which international standards does An Post refer to?
-
- T** Number: 4 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- T** Number: 5 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- +** Number: 6 Author: Subject: Sticky Note Date: 14/03/2016 12:22:55
Please explain fully why An Post is of this view.

It is understood that an 'Agreed Upon Procedures' is not an audit & is not carried out in accordance with generally accepted auditing standards. It is an engagement carried out in accordance with ISRS 4400.

like to highlight that both Eircom and RTE/2rn, who currently provide regulatory information of this nature to ComReg, do so under the heading of “Additional Financial Information” (“AFI” for Eircom) and “Additional Financial Data” (“AFD” for RTE/2rn). ¹ The auditing of this information is on an ‘as needed’ basis and is the exception and not the norm. ² Therefore An Post would question as to why this approach would not provide a suitable basis for An Post. Additional comments on the audit standards can be found in section 2.4 below.

Publication of the Accounting Manual

ComReg proposes that An Post shall be required to include in its RFS details of the accounting principles which it applied in preparing its Regulatory Accounts, in sufficient detail as to clearly inform stakeholders on how those accounting principles were applied.

An Post agrees with ComReg that the Accounting Manual should not be published because of the amount of confidential and commercially sensitive information that it contains.

An Post points out that the published RFS currently includes a section dedicated to the regulatory accounting principles and the basis of preparation of the RFS. An Post believes that the information is provided in sufficient detail and thus considers this recommendation already fulfilled.


2.4 Compliance requirements

This section discusses ComReg’s proposals with respect to compliance requirements, set out in section 4.4 of the Accounting Obligations Consultation.

Scope of audit

ComReg proposes that the Proposed Accounting Direction should require that the scope of the audit should be on a “present fairly” basis, and that it should include commentary and verification of compliance by An Post with its internal cost accounting systems, in respect of the following:

- the Regulatory Accounts and the Accounting Manual;


 Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

 Number: 2 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19

The wording in the Consultation document Section 4.3.5 (154) and Section 4.3 of the Draft Direction include the word MAY arrange for an ad hoc report to be subject to an Agreed Upon Procedures - this means only if needed. How does it suggest that it would be the norm for an ad hoc report to be subject to an Agreed Upon Procedures? An Post is requested to comment.

- the revenue, costs, and volumes included in the Regulatory Accounts;
- the reconciliation between the Regulatory Accounts and Statutory Accounts;
- correctness of figures, including operational volumes and the reconciliation of revenue-derived volumes to operational volumes;
- methodologies used regarding amortisation, cost capitalisation, and cost allocation (including transfer charges / inter-segment charges);
- appropriateness of the usage of the cost drivers;
- nature and detail of all transfer charges / inter-segment charges;
- the frequency of updates used for cost allocation purposes;
- appropriateness of any changes in the cost allocation methodology; and
- whether the Accounting Manual continues to fairly present the USP's processes, procedures, and policies in preparing the Regulatory Accounts.

With respect to this requirement, ¹In Post has concerns with respect to both the level of audit opinion, as well as the specific list of areas that should be covered within the scope of the audit. 

With respect to the first issue, An Post notes that the audit opinion set out on pages 8 and 9 of the 2014 Regulatory Accounts are currently prepared on a 'present fairly' basis. However, ³In Post believes the audit standard should be conducted on a "properly prepared in accordance with" (PPIAW) basis.  A review of international precedents highlights that there is no single standard practice in relation to the type of audit opinion provided. For example, while a 'present fairly' basis is applied for some operators, RTE/2m and Royal Mail's regulatory audits

1 Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

2 Number: 2 Author: Subject: Sticky Note Date: 09/03/2016 10:21:16

The list is merely an explicit outline of the main points to be covered by the audit, which to our understanding, most are covered under the current Engagement Letter.

Which points cause the concern for An Post?

1 Number: 3 Author: Subject: Highlight Date: 08/03/2016 14:37:19

2 Number: 4 Author: Subject: Sticky Note Date: 14/03/2016 12:24:43

Why does An Post have a preference for a PPIAW opinion? Given the current audit is "fairly presents", why in An Post now of the view that PPIAW is better? This was not raised by An Post in the pre-consultation.

are carried out on a PPIAW basis¹⁸, which Frontier Economics and ComReg have failed to discuss in the Pre-Consultation report as a possible option.

1 An Post would ask that ComReg revisit this section of the Draft Direction in detail as the information provided is both difficult to interpret² well as using language that from an auditing perspective does not provide the clarity necessary to either An Post or an auditor. An Post would specifically ask that ComReg review the 4 auditing requirements with experts in this area³ use the precedence of the establishment of the tri-partite engagement and the “Duty of Care” dialogue when agreeing this highly technical area; this involved ComReg, An Post, the Auditors as well as the CAI¹⁹. Given the highly specialised nature of auditing, An Post notes with surprise that such an engagement has not commenced to help inform this Draft Consultation, despite the clear opportunity to do so during the pre-consultation phase.

In particular 6 An Post requests that more detail and wider engagement is required⁵ to be given to the following, in relation to the requirement as listed in Paragraph 164 of the Draft Consultations:

- What specifically are the detailed requirements of 7 “present fairly”?⁸
- What specifically is required when “commentary” is to be included? Is this to be included as part of the detail of the audit opinion or separately?
- 10 What, from an auditing perspective does ComReg require⁹ when it requests:
 - “correctness of figures”?
 - “appropriateness of the usage”?

¹⁸ See Royal Mail engagement letter with Ernst & Young:
<http://stakeholders.ofcom.org.uk/binaries/post/engagement-letter.pdf>

¹⁹ Chartered Accountants Ireland.

T Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Y Number: 2 Author: Subject: Sticky Note Date: 14/03/2016 12:45:04
Please explain this with supporting evidence.

The current audit opinion states whether the Regulatory accounts present fairly the profits and losses attributable to individual products and services in accordance with the Regulatory Accounting Principles and Basis of Prep.....and are properly prepared....in accordance with Regulatory Accounting Principles and Basis of Prep....

Y Number: 3 Author: Subject: Sticky Note Date: 14/03/2016 09:59:23
Who does An Post consider to be "experts in this area"?

T Number: 4 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Y Number: 5 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Why does An Post consider that sufficient detail has not been provided to date?

Please explain what "wider engagement" that An Post contends is required.

T Number: 6 Author: Subject: Highlight Date: 08/03/2016 14:37:19

T Number: 7 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Y Number: 8 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Is this not answered by reference to the audit opinion in the Regulatory Accounts - namely, that the Regulatory Accounts present fairly, the profits and losses attributable to the individual services?

What further information does An Post request?

Y Number: 9 Author: Subject: Sticky Note Date: 09/03/2016 10:24:38
What does An Post, given it currently appoints the Regulatory Auditor, believe to be reasonable requirements of ComReg for the regulatory auditor?

T Number: 10 Author: Subject: Highlight Date: 08/03/2016 14:37:19

- “whether the Accounting Manual continues to fairly present the USP’s processes, procedures, and policies in preparing the Regulatory Accounts”?

An Post notes that there ²would appear to be differences ¹ between the details provided in Section 4.4 of the Draft Consultation document and the proposals as detailed in Section 6.2. An Post would ask ComReg to provide clarification on its audit requirements as these could easily lead to confusion and misinterpretation. For example, An Post requires further detail on the requirements to provide a ‘present fairly’ audit opinion specifically on the Accounting Manual. For other regulated entities, the audit opinion directly relates to the financial statements. The related accounting documentation is provided to detail the basis of preparation of the statements.

With regards to the second issue, An Post notes that the scope of the audit covers the totality of the Regulatory Accounts and not specific aspects therein, in accordance with International Standards on Auditing. This is also set out in the tripartite engagement letter An Post has agreed with ComReg, which states that An Post’s regulatory audit covers “*the Regulatory Accounts as whole and not individual factors/components within the Regulatory Accounts or individual areas of compliance with the Direction*”. Hence, the entirety of the RFS is currently audited.

Further, the existing audit engagement with KPMG, including a “Duty of Care” to ComReg, was fully accepted by ComReg in January 2013 (see letter from ComReg of 16 January 2013). An Post thus do not see any reason to change the outcome of such a recent engagement.

In light of the above, An Post would encourage ComReg to revisit, through engagement with the necessary experts in this area, these audit requirements.

Appointment of the Regulatory Auditor

ComReg proposes that the auditor of the Regulatory Accounts (the Regulatory Auditor) should be appointed by ComReg and not by An Post and that the appointed auditor shall not be the same entity that audits An Post’s statutory accounts.

Number: 1 Author: Subject: Sticky Note Date: 09/03/2016 10:25:22
What are the differences An Post refers to here?

Number: 2 Author: Subject: Highlight Date: 08/03/2016 14:37:19

ComReg justifies this requirement on the basis of the potential for the independence of the Regulatory Auditor to be compromised. The Regulatory Auditor will also have a 'duty of care' to An Post.

Right to appoint the Regulatory Auditor

An Post is highly concerned by the implications of this recommendation. The independence of an accredited auditor should not be questioned. ¹As there are not and there should not be any suspicions on the independence of an auditor, ²there is no need for the Regulatory Auditor to be appointed by ComReg rather than An Post as it is currently the case.

Currently An Post's auditor has a duty of care to both An Post and ComReg as is outlined in the Letter of Engagement, which was agreed between ComReg, Chartered Accountants Ireland, An Post and KPMG. ³The auditor's appointment is re-evaluated and re-tendered every 3-5 years in accordance with public procurement requirements on an arm's length basis by An Post. ⁴The audit letter of engagement is signed by ComReg, An Post and the auditor. This arrangement is working successfully and An Post is not aware of any instance where there has been doubt as to the independence and validity of the Regulatory Auditor's conclusions.

It is not customary or usual in Ireland for an auditor to be appointed to a semi-state body, which operates on a commercial or quasi-commercial basis, by a third party or regulator – this type of procedure would more usually correspond with a public body (e.g. a hospital or university where the Comptroller and Auditor General is appointed by persons other than the board of directors to conduct an audit). Indeed, in the case of Eircom, ComReg in its 2009 Accounting Direction²⁰ discusses the issue of independence of the auditor but does not recommend that the regulatory auditors should be appointed by ComReg.

An Post would also highlight the WIK report²¹ which states that, "*In 7 Member States (EL, FR, IE, IT, MT, NL, RO), the auditor is an accounting firm retained by the USP*".

²⁰ Accounting Direction Doc. 09/75

²¹ WIK-Consult, 2009, The Role of the Regulator in a More Competitive Postal Market <http://ec.europa.eu/internalmarket/post/doc/studies/2009-wikregulators.pdf>

T Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

+ Number: 2 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Please provide evidence to support this claim.

T Number: 3 Author: Subject: Highlight Date: 08/03/2016 14:37:19

+ Number: 4 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Please advise when KPMG commenced as (1) Statutory Auditor (2) Regulatory Auditor and how many re-appointments of (1) and (2) by An Post have been made

Given the report shows an even split between jurisdictions where the auditor is appointed by the regulator and jurisdictions where the auditor is appointed by the operator the quote on the appointment by the regulator being “*best practice*” appears to be unfounded.

An Post would also like to highlight the inconsistent position of ComReg with respect to the ²²WIK report mentioned ²¹ve. This report, together with another report also by WIK²², was quoted by An Post in the response to the Consultation on Quality of Service Standard for Universal Postal Service²³. However, ComReg in its response to An Post rejected the reference to the two reports, arguing:

“An Post provides quotes from a consultant’s report to the European Commission with regard to its submission that there is an increased availability of alternative means of communications. ComReg would note that such reports are, in general, for the purpose of assisting the European Commission to consider possible future amendments which it may make to the European Postal Directive, including any amendments reflecting a change in policy.”²⁴

In light of this quote, it appears highly inconsistent that ComReg in both the Pre-Consultation and the Accounting Obligations Consultation uses the very reports whose use it previously rejected as the only justification for its proposal to grant itself the right to appoint An Post’s Regulatory Auditor.

Separation of Regulatory Auditor and Statutory Auditor

An Post also disagrees with ComReg’s recommendation that the Statutory Auditor and the Regulatory Auditor should not be the same entity. In An Post’s view, where the Regulatory Auditor is not the same as the Statutory Auditor, this would add considerably in terms of cost and burden on An Post, as the Regulatory Auditor typically leverages from the financial information and general knowledge it obtains through the statutory audit, in conducting the regulatory audit. For example, in auditing the regulatory accounts there is a requirement on the auditor to complete an

²² WIK-Consult, Main Developments in the Postal Sector (2010-2013)

²³ ComReg, 15/126

²⁴ ComReg, 15/126

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The proposal for the NRA to appoint the auditor and separate the Statutory auditor from the Regulatory Auditor is mainly based on a paper by CERP (see ComReg 15/135a - page 99)

To reiterate, the CERP report points towards best practice in cost accounting and acknowledges that where the statutory auditor is different to the regulatory auditor, the cost of auditing will be increased. However, this may be worth merit because it guarantees full auditor separation, particularly given that the USP pays for the audit.

Two alternatives suggested to provide the regulator with extra assurance in the case where the Statutory Auditor is the same as the Regulatory Auditor:


- 1) We could consider another auditor perform a peer review on the work of the Stat Auditor, or
- 2) the Regulator pays for the audit

What does An Post think about the above suggestions?

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extensive and detailed examination of the underlying financial sources, in particular at a General Ledger (GL) level. This is required to ensure that the underlying financial systems, for example the GLs, are accurately capturing costs and to gain the required understanding of the costs to ensure that the most appropriate driver(s) have been employed to allocate these costs in the RFS. This would imply a significant duplication of effort were the auditors different.

As the appointment of the Statutory Auditor continues to be the responsibility of the An Post shareholders, in An Post's view the responsibility for appointment of the Regulatory Auditor should also be retained by the An Post shareholders.

An Post would also highlight that the restriction suggested by ComReg that An Post's Statutory Auditor could not audit the Regulatory Accounts is, as far as it can be determined, without precedence and based on the premise that there is a question of the independence of the auditor in this situation. As this premise has not been based on anything other than a comment from a ²report by WIK consultants, ¹An Post would seek a clarification from ComReg as to the basis and the logic of these requirements 

It should also be noted that in a subsequent 2013 WIK report on the main developments in the postal sector²⁵ the two regulatory accounting regimes that were mentioned as best practice are the UK and France, and in both these jurisdictions the same auditor is retained for the Statutory and Regulatory Audits.


In addition, in ComReg's Decision for Eircom, ComReg stated that "*ComReg was of the initial view that a suitably qualified independent body conduct the audit of Eircom's separated accounts. In its view the Regulatory Auditor, which could be the same as the Statutory Auditor, should have the necessary expertise to conduct the audit.*"²⁶ Further, in the same Direction issued by ComReg to Eircom in 2010 it is stated that:

"(a) The auditor of Eircom's Separated Accounts be independent and have the necessary skills to undertake the audit.

²⁵ WIK-Consult, Main Developments in the Postal Sector (2010-2013)

²⁶ ComReg, 10/67, D08/10

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This was provided in the pre-consultation engagement and in Consultation 15/135, please provide detail on what further information An Post requires.

(b) There should be a "Duty of Care" to ComReg from Eircom's Regulatory Auditors.

(c) An auditor's letter of engagement should be a tri-partite arrangement covering Eircom, ComReg and Eircom's Regulatory Auditors."

Further, in the 2009 Eircom Draft Accounting Direction²⁷, ComReg states:

"While ComReg does not object to the regulatory auditor also being the statutory auditor, it is however important that the appointed auditor has the right skills to perform the specific audit tasks set out in the letter of engagement."

The document also states that:

"ComReg is of the preliminary view that the proposals set out in this consultation (see recommendation section below) with regard to cost allocation and apportionment [of the auditor] are consistent with the practices employed in the countries considered in our benchmarking analysis, with Commission Recommendations (including ERG) and with other regulated industries (i.e. Postal Sector)."

In light of the above, there appears to be a clear contradiction in ComReg's position across industries and Directions.

As mentioned above, Royal Mail also appoints its auditor, after consulting with Ofcom:

"The new regulatory financial reporting requirements were set out in the USP Accounting Condition (-USPAC') which was published as Annex 10 of the March Statement.

1.3 The USPAC requires Royal Mail to select and appoint an auditor upon Ofcom giving their approval to the appointment and the terms of the engagement. Royal Mail have advised us that they propose to select Ernst & Young LLP (-Ernst & Young') as auditor for the financial year ending 31 March 2013.

²⁷ Accounting Direction Doc. 09/75

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1.4 In the February Consultation we proposed to approve the appointment of Ernst & Young as auditor.”

Moreover, in its compendium “The Law of Public and Utilities procurement: Regulation in the EU and UK”²⁸ Professor Arrowsmith specifies that the Court of Justice has stated²⁹ as a general principle that contracting authorities can decline to consider firms only if they fail to respect four professional quality factors. These factors are: economic and financial standing, technical and professional ability, suitability to pursue the professional activity (i.e. possession of the appropriate professional qualification and authorisations), and professional honesty, solvency and reliability. Since the participation of the Statutory Auditor in the tender for the regulatory audit does not contradict any of these factors, it appears that ComReg’s proposed recommendation is not in line with what is stated by the Court of Justice.

Further, according to the Public Sector Directive³⁰, ComReg is obliged to ensure competition among tenders is open, fair, transparent and inclusive. Four TFEU³¹ principles must be upheld by the procuring body: the principles of equal treatment, transparency, proportionality and mutual recognition. The principle of equal treatment is concerned with ensuring that the same rules are applied to all tenders, so that equal rights of access are guaranteed. Hence, all tenderers admitted to participate in procurement procedures must have equal access to procurement opportunities and must be treated in an equal manner. The statement included in the Accounting Obligations Consultation clearly breaches this principle as it prohibits the Statutory auditor from acting as the Regulatory auditor: “*ComReg proposes that the auditor of the Regulatory Accounts (the Regulatory Auditor) should be appointed under contract by ComReg and that the appointed auditor shall not be the same entity as audits An Post’s statutory accounts (and as appointed by An Post).*”³²

²⁸ Professor Sue Arrowsmith, 2014, “The Law of Public and Utilities procurement: Regulation in the EU and UK”

²⁹ Joined Cases C-226/04 and C-288/04, La Cascina v Ministero della Difesa, 2006, Paragraph 21 of the judgment.

³⁰ Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC

³¹ Treaty on the Functioning of the European Union

³² ComReg, Accounting Obligations Consultation, Paragraph 168

This page contains no comments

In light of these considerations, An Post suggests that the proposed recommendation is changed to enable An Post to appoint the Regulatory Auditor, which will continue to be subject to a duty of care to ComReg, without any restrictions due to the auditing of the Statutory Accounts.

ComReg's approval of the USP's Accounting Manual

ComReg proposes that it would be more efficient if An Post was only required to notify ComReg of any changes to the Accounting Manual and if it was not required to obtain ComReg's approval for each annual edition of the Accounting Manual. To ensure that the Accounting Manual correctly sets out the procedures and policies for preparing the Regulatory Accounts, ComReg proposes that the Regulatory Auditor would assess any such changes and would report to ComReg as to whether the Accounting Manual continues to fairly present An Post's processes, procedures, and policies in preparing the Regulatory Accounts.


An Post agrees with ComReg that it is impractical to validate the entire Accounting Manual early. The original requirement of needing pre-approval did not appear to be consistent with international precedent. Pre-approval of the Accounting Manual is not requested in any European jurisdiction as far as An Post is aware.

An Post broadly agrees with ComReg that the preliminary view in the Accounting Obligations Consultation would represent an improvement in the requirement. However, ¹without limiting this requirement to material changes² is every risk that this recommendation would prove unworkable and would delay the existing working arrangements.

Statement of compliance

ComReg proposes that the Accounting Direction shall maintain the requirement that the Directors of An Post furnish a signed statement, acknowledging their responsibilities for the preparation of the Accounting Manual and the Regulatory Accounts and confirming that said documents comply with section 31 of the 2011 Act and with the Proposed Accounting Direction.

This is the current situation and therefore An Post considers this recommendation already implemented. An Post would also highlight that ComReg is potentially

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Please explain this. What would be "material"? Would a change only be made by An Post if it is "material"? If it is not "material", why would a change be made? Please provide examples to fully understand this point.

introducing¹ added complexity and practical difficulties with the continued provision of the Directors statement in a situation where the auditors were by appointment of ComReg.²

Timetable to comply with direction

ComReg is of the preliminary view that An Post should be in full compliance with the requirements of the Proposed Accounting Direction, given under section 31 of the 2011 Act, by the start of financial reporting period commencing 1 January 2017, in order that the Regulatory Accounts ending 31 December 2017 shall be fully compliant with the Proposed Accounting Direction (when made).

An Post is concerned that³ ComReg has not appropriately considered the numerous changes⁴ An Post's systems/procedures that would be necessary to comply with, if the accounting recommendations proposed in the Accounting Obligations Consultation were implemented. Hence, An Post believes ComReg should consider that it may be not possible to implement all changes in time for the 2017 RFS.

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T Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

M Number: 2 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Please explain why this would be as the Regulatory Auditor would have a "duty of care" to An Post.

T Number: 3 Author: Subject: Highlight Date: 08/03/2016 14:37:19

M Number: 4 Author: Subject: Sticky Note Date: 14/03/2016 12:45:33
Please list, document and explain fully, with supporting evidence, the numerous changes required.

3. An Post comments on question two of the Accounting Obligations Consultation

This section provides An Post's response to the question:

“Do you agree or disagree with ComReg’s preliminary views on the format of the Regulatory Accounts as set out in ComReg 15/135b? Do you agree or disagree with ComReg’s views on what in the Regulatory Accounts is made public as set out above and in the Summary Regulatory Accounts set out in ComReg 15/135c? Please explain your response and provide any supporting evidence.”

This section covers the preliminary views presented in sections 4.7 and 4.6.1 of the Accounting Obligations Consultation.


3.1 Format of the Regulatory Accounts


Format of the Regulatory Accounts


¹An Post is of the opinion that the format of the RFS should be established by An Post,² discussion with ComReg, and also that the current level of detail included within the Regulatory Accounts is ³in excess of the requirements of the 2011 Act.⁴ An Post's opinion, there is a requirement for significant changes to be made to the format of the Regulatory Accounts.


Moreover, ⁵An Post understands that there is no clear legal basis for an Accounting Direction to require compliance by An Post with a certain written format.⁶


Regarding the details of the Regulatory Accounts proposed by ComReg, the table below presents a summary of ComReg's proposed changes to the Regulatory Accounts by schedule and An Post's response.


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-  Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

 -  Number: 2 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Why is An Post of this opinion?

 -  Number: 3 Author: Subject: Highlight Date: 08/03/2016 14:37:19

 -  Number: 4 Author: Subject: Sticky Note Date: 14/03/2016 12:46:15
What level of detail is in excess of the requirements of the 2011 Act? Please document fully.

 -  Number: 5 Author: Subject: Highlight Date: 08/03/2016 14:37:19

 -  Number: 6 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Why is An Post of this understanding?




SECTION OF THE PROPOSED RFS	COMREG'S PROPOSED CHANGE	AN POST RESPONSE
Financial Summary and Business Review	Include financial liquidity measures in the KPIs.	<p>Opposed.</p> <p>Inclusion of financial liquidity measures in the RFS is outside the norm.</p> <p>1) Gathering a complete understanding of the liquidity position of a company requires the analysis of a number of metrics.</p>
Financial Review	Add an annual figure of net assets including pension liability to the financial review.	Accepted.
USO Performance	Include high-level summary of An Post USO annual performance and a summary of USO performance split by geography (inbound inter-community, inbound rest of the world and outbound international).	<p>An Post accepts ComReg's proposal of including a high level financial review of USO services.</p> <p>An Post believes that the split by geography should be moved to the appendix and included in the confidential version only.</p> <p>A review of Ofcom RFS guidelines highlighted that Royal Mail is not required to produce a similar split of USO performance in its accounts, suggesting that Frontier Economics' requirement is not in line with UK best practice.</p>
Profit and Loss Account for each Business Segment	<p>In line with what published in previous An Post RFS.</p> <p>Includes detailed symmetric tables on inter-segment revenues and costs, split by business segments (Mail, Retail and Subsidiaries) and Mail inter-segments (USO and non-USO).</p>	<p>An Post agrees that such an account should be included in the Published and Confidential RFS.</p> <p>See section 2.2 of this report</p>

T Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

+ Number: 2 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Would An Post agree that a liquidity metric is one such part?


+ Number: 3 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Why is An Post of the view that UK is best practice?

T Number: 4 Author: Subject: Highlight Date: 08/03/2016 14:37:19

<p>Per Unit Revenue, Cost and Profit/(Loss) details for each USO service</p>	<p>Include per unit cost, revenue and profit figures for each USO service.</p>	<p>Opposed.</p> <p>An Post believes these figures are superfluous as aggregate information on volumes, revenues and costs is easily available in the Confidential RFS and thus unit figures can and should be calculated by users when necessary.</p> <p>1his position is in line with Royal Mails (RM) RFS, both the public and the private accounts, where the aggregate figures are presented but no unit figures are provided. </p>
<p>Balance Sheet for each Business Segment</p>	<p>Include a breakdown at business segment level, with the Mail segment being further split between USO and non-USO.</p>	<p>Opposed.</p> <p>While An Post agrees on the recommended format of the balance sheet, An Post believes that the split into USO and Non-USO mail is unnecessarily invasive. An Post thus proposes to present figures for the Mail segment aggregated.</p> <p>3his is also in line with what was requested by Ofcom to RM: RM is requested to provide the balance sheet at Group level and at Reported Business level. </p>
<p>Detailed Profit and Loss Account for Mails Business Segment</p>	<p>Detailed P&L should be split by business operating process, as to give a “pipeline” view of An Post’s business. The proposed P&L accounts are to be provided by category for USO and Non-USO Mail services. Separate accounts should be created for domestic, international inbound intra-EU and international inbound to the rest of the world operations.</p>	<p>6pposed for public version. </p> <p>An Post proposes that a summarised version of the P&L for all geographies broken down by USO services is included in the Confidential RFS, with the tables suggested by ComReg included in the appendix.</p>

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- T** Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19
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- Y** Number: 2 Author: Subject: Sticky Note Date: 09/03/2016 10:28:06
An Post is different to Royal Mail - on what basis is An Post using to assume Royal Mail is a directly comparable example?
-
- T** Number: 3 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
- Y** Number: 4 Author: Subject: Sticky Note Date: 14/03/2016 09:37:53
Considering concerns relating to the USO here in Ireland, and to help facilitate evaluation of the PCM, does An Post not think that a USO & non-USO split of Mails balance sheet is understandable?
-
- Y** Number: 5 Author: Subject: Sticky Note Date: 14/03/2016 10:00:25
Please explain fully why opposed for public version.
-
- T** Number: 6 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-

Detailed Profit and Loss Account for Each Universal Service	Detailed P&L accounts at service level for all USO services. These should be split by business operating processes, as to give a "pipeline" view of the An Post business. There should be separate proposed P&L accounts for domestic, international inbound intra-EU and international inbound to the rest of the world operations.	<p>2 Opposed for public version. </p> <p>This would crowd the RFS, while not providing insightful information to the public.</p>
Estimated cost of providing USO services by price point	Include average cost to provide services and the tariff is provided for each price point, international outbound and domestic (both fully paid price and bulk products) services.	<p>Opposed.</p> <p>See section 2.2 of this report.</p>
Notes to the Regulatory Financial Statements	<p>Include a reconciliation of turnover, costs and profits/loss with the figures reported in the Statutory accounts in the Public and Confidential RFS.</p> <p>Include information on fixed assets, debtors, creditors and capital employed scheduled.</p> <p>Include detailed accounts of staff and payroll costs, split by cost type (payroll cost only) and area of employment (both payroll and staff).</p>	<p>Accepted.</p> <p>Accepted.</p> <p>Opposed.</p> <p>See section 2.3 of this report.</p>
Supplementary information - reconciliation of revenue-derived and operational volumes	Include reconciliation of revenue derived and operational volumes at format level.	<p>Opposed.</p> <p>See section 2.1 of this report.</p>
Supplementary information - reconciliation of Mail Centre and Delivery Service Units Volumes	Include reconciliation of Mail Centre and Delivery Service Units volumes.	<p>Opposed.</p> <p>See section 2.1 of this report.</p>
Cash Balance	Include in balance sheet the amount of cash at bank and in hand at the end of each quarter is reported when the figure in the current quarter is below €100 million.	<p>Opposed.</p> <p>See section 2.3 of this report.</p>

Number: 1 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Please explain why opposed for public version.

Number: 2 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Treatment of parcels

It is ComReg’s preliminary view that the service level should include parcels as a separate category, as the current Regulatory Accounts do not provide disaggregated information on parcels. Given the growth in e-commerce, parcels are potentially a large component of revenues, and therefore it would seem to be appropriate for it to be a separate line item, rather than including it in “other” as is the case currently. This would also ensure that the reporting of parcels is consistent with the reporting of packets (smaller parcels).

An Post is of the opinion that this requirement is already fulfilled, as data at parcel level is already included in An Post Regulatory Accounts. For example, in the summary Profit and Loss account in the publicly available Regulatory Accounts, USO parcels are reported as a separate category, while the confidential version has detailed information on USO and Non-USO parcels.


3.2 Confidential and public versions of Regulatory Accounts

ComReg’s preliminary view in relation to the confidentiality of the additional information requirements proposed for the updated Accounting Direction is set out in the table below.



ADDITIONAL INFORMATION	COMREG PROPOSED TREATMENT
Commentary and additional KPI in “Schedule 1 - Financial Summary and Business Review”	Public as does not contain confidential information
Commentary on USO volumes in “Schedule 3 - USO Performance”	Public as does not contain confidential information
Split on International Inbound profit/(loss) between intra-Community and Rest of World	Public as does not contain confidential information; improves information for section 29 of 2011 Act
Split on intra-segment revenue and cost, USO and non-USO	Public as does not contain confidential information
Per unit Revenue, Cost and Profit(Loss) for each universal postal service	Public as does not contain confidential information; improves information for section 28(1) of 2011 Act
Split non-USO Parcels from other	Confidential as relates to non-USO Parcels
International Inbound by intra-Community and Rest of World	Public as does not contain confidential information

This page contains no comments

Estimated cost of providing universal postal service by price point	Confidential
Average FTE and Payroll costs by business segment, USO, non-USO	Public as does not contain confidential information

An Post is concerned that ComReg has not explained sufficiently the benefits that it expects from the publication of the information in the table above. Following the liberalisation of the sector, competition in the postal service markets has increased significantly in Ireland. For this reason, An Post believes that mandating the disclosure of sensitive information, such as service-level information, **would provide competitors with commercially sensitive information which would disadvantage An Post with respect to other operators and further undermine the provision of the Universal Service.** 

An Post believes it is ComReg's duty to justify the need for the information it would like to make publicly available by demonstrating the expected benefits from publication. Some of the areas where the impact of the breach in confidentiality would be damaging for An Post are:

- Per unit Revenue, Cost and Profit (Loss) for each universal postal service
 - An Post is concerned that publically providing this information would **give its competitors an insight to the operational process at An Post and this could put them at a competitive disadvantage.** 
- Average FTE and Payroll costs by business segment, USO, non-USO:
 - This would require An Post to disclose **commercially sensitive information that may put it at further disadvantage when competing against other market participants.** 
- Non-USO products breakdown:
 - As the market for Non-USO products is competitive, information on Non-USO products should be limited and provided only at aggregated level.
- Detailed Profit and Loss Account for Mails business segment and for each universal service, to be provided by category for USO and Non-USO Mail

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T Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Y Number: 2 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Please explain with supporting evidence. USO does not face effective competition.

T Number: 3 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Y Number: 4 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Please explain this fully with supporting evidence to support the contention. This information is already available from An Post's published RFS - how has this impacted An Post and put it at a competitive disadvantage to date?

T Number: 5 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Y Number: 6 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Please explain this fully with supporting evidence to support the contention.

services. Separate accounts should be created for domestic, international inbound intra-EU, and international inbound to the rest of the world operations.

- An Post is concerned that ComReg has not sufficiently demonstrated the benefits of publishing this information, ¹while the costs in terms of loss of confidential information are evident. ²

Overall, An Post believes that the published RFS should not include any data on Non-USO services. This is because An Posts' activity in Non-USO markets should be regarded as that of any other operator in the market, as An Post's operations in these markets are not subject to any specific requirements/treatments.

Moreover, a comparison of An Post published Regulatory Accounts to Royal Mail Regulatory Accounts ³shows how the level of information provided by An Post is ⁴greater than Royal Mail's. ⁵Notably the detail included in the Royal Mail formal Regulatory Accounts is limited to two services i.e. aggregated USO Service and Other Operations. This, along with supplementary information supplied to Ofcom, is sufficient for the regulator to carry out its regulatory duties.

In light of these arguments, An Post believes that ComReg has not identified any reason to support their view that publishing of the data is necessary for the correct functioning of the market.

T Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Y Number: 2 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Please provide this evidence to support.

T Number: 3 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Y Number: 4 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
How has An Post reached this conclusion?

For example, Royal Mail includes an Income Statement in its Reg Accounts showing Network Access - this is not required of An Post.

4. An Post comments on question three of the Accounting Obligations Consultation

This section provides An Post's response to the question:

“Do you have any views on this draft Regulatory Impact Assessment and are there other factors ComReg should consider in its Regulatory Impact Assessment? Please explain your response and provide details of any factors that should be considered by ComReg.”

This section covers the preliminary views presented in section 5 of the Accounting Obligations Consultation.

An Post believes that ComReg has failed to quantify or adequately justify why it believes the additional costs of these requirements would be outweighed by the alleged benefits, which do not seem to be adequately justified within the context of ComReg's regulatory duties. While the costs of implementing the requirements will depend on the exact detailed specification of the options, **An Post estimates the costs of implementing these changes are likely to be between €2.5m and €5m per annum**². These costs are significant and a more detailed impact assessment is required before proceeding with the implementation of the options.

In addition, An Post considers highly inadequate the Regulatory Impact Assessment (RIA) conducted by ComReg, especially when compared to the RIAs that the regulator has recently conducted against other regulatory proposals, for example in the **telecommunication sector for Eircom**³³ and **RTE/2rn**³⁴. Indeed, both those RIAs are more detailed than that performed in the postal sector, and are in line with the six principles of 'Better regulation' set by the Irish government.³⁵ For example, both the telecommunications RIAs include an explicit discussion of the six principles of 'Better

³³ ComReg, 2010, Response to Consultation Document No. 09/75 and Final Direction and Decision: Accounting Separation and Cost Accounting Review of Eircom Limited, ComReg 10/67

³⁴ ComReg, 2013, "Market Review Broadcasting Transmission Services in Ireland", ComReg 13/71

³⁵ Taoiseach Government, 2009, "Revised RIA guidelines, how to conduct a Regulatory Impact Assessment" see:

http://www.taoiseach.gov.ie/eng/Publications/Publications_Archive/Publications_2011/Revised_RIA_Guidelines_June_2009.pdf

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T Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

▶ Number: 2 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Detailed calculations with supporting evidence is required to support this claimed estimate.

▶ Number: 3 Author: Subject: Sticky Note Date: 14/03/2016 12:49:16
To aid ComReg's understanding, what exact differences between the Eircom RIA and the draft RIA in 15/135 is An Post of the opinion that causes the draft RIA in 15/135 to be inadequate?

T Number: 4 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Regulation' and explain why each of the principles is met in the RIA. Given that these are Government guidelines, updated as recently as 2009, for the completion of RIA we fail to understand the reason that these guidelines were not followed before the issuing of this Draft Direction. In particular, when ComReg came to decide on, what for An Post and ComReg, is a significant step, having the potential for significant *incremental* cost implications on An Post, with unclear *incremental* benefits on the industry as a whole.

Further details on An Post's view on the costs that would be imposed by the proposed requirements are provided in Appendix 1 of this document.

4.1 Comments on the draft Regulatory Impact Assessment

The following comments relate to ComReg's determination of the impacts on stakeholders and competition in paragraph 201.

- **Option 2a:** ComReg fails to identify whether the cost of carrying out the reconciliation are significant. ComReg state that all that is required is to "*provide more detailed commentary in relation to existing reconciliation*", referring to the comparison of revenue and operational volumes at the format level. However, this does not currently contain a detailed reconciliation of the volumes.

As stated previously in this response, the differences between revenue based and operational volumes ultimately derive from the underlying assumptions of the two methodologies and therefore it is not possible to undertake a quantitative reconciliation. The qualitative "*reconciliation*" currently provided by An Post provides all the possible clarity on the differences between the two sets of volumes, **given the information currently collected by An Post.**

- **Option 2b:** ComReg considers that the impact of this requirement should not be "*onerous*" and is "*a matter of more detailed reporting*". An Post has systems in place to meet its current obligations and **undertaking more detailed reporting of operational volumes at the Mail Centre and Delivery Service Unit level would require changes to the reporting systems.** An Post does not believe that

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T Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Y Number: 2 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19

Please document fully all the information currently collected by An Post in relation to (1) operational volumes (2) Revenue derived volumes.

T Number: 3 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Y Number: 4 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19

Please document in detail what changes to the reporting systems would be required and why An Post does not use such detailed reporting for its own purposes.

the benefits to ComReg would be commensurate to the costs imposed on An Post.

- **Option 2c:** An Post believes that a reconciliation is not possible, as already discussed.
- **Option 2d:** An Post does not believe this would result in a material improvement in the non-machine counts. Non-machine counts are by nature more time consuming than machine counts so although these account for a small share of the total volumes, **the relative workload required to improve these is significant.** An Post has previously recommended that ComReg introduce a **materiality consideration** before introducing such a requirement.
- **Option 2e:** As mentioned previously, compared to other precedents An Post already provides a sufficient level of detail when identifying different types of costs. **Providing further detail on this would not be proportional to the benefits obtained from this information.** The justification presented by ComReg also appears weak, as An Post already has a solution in place to agree access prices with other providers which is working effectively, as shown by a number of agreements.

Therefore, **the additional costs to An Post in meeting this option are not proportionate to the limited impact** this will have on ComReg's ability to regulate effectively.

- **Option 2f:** An Post already undertakes an annual review of the cost drivers and the level of detail provided in its Accounting Manual is consistent with best practice. In this context, An Post is unclear on what additional information ComReg is recommending be provided. An Post would require additional detail on the information requested before commenting on the impact of this requirement.
- **Option 2g:** **ComReg has significantly understated the costs associated with this option.** Frontier Economics, in their recommendations to ComReg, stated that *"there are numerous inter-segment charges, and it would have been impractical ... to detail all of them ... as part of this review"*. Therefore

1 Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

2 Number: 2 Author: Subject: Sticky Note Date: 15/03/2016 09:11:55

Please outline the exact steps involved in conducting a review of average container fills to aid ComReg's understanding.

Please list all steps and indicate approx. time taken to complete each.

For example: Step 1: Head of Mails Processing obtains prior year list of average container fill assumptions (time taken - n/a)

Step 2: Check to see if any new containers in use at DSU level compared to prior year (Time taken - x hours/days)

Step 3: Where new container has been introduced, conduct testing to obtain average fill assumption to a degree of accuracy of +/- X% (Time taken - x hours/days)

Step 4: Conduct sampling of existing containers at DSU level (high frequency) to ensure coverage of X% and degree of accuracy of +/- X% (Time taken - x hours/days)

Step 5: Check to see if any new containers in use at MC level compared to prior year (Time taken - x hours/days)

Step 6: Where new container(s) has(ve) been introduced, conduct testing to obtain average fill assumption to a degree of accuracy of +/- X% (Time taken - x hours/days)

Step 7: Conduct sampling of existing containers at MC level (high frequency) to ensure coverage of X% and degree of accuracy of +/- X% (Time taken - x hours/days)

Step 8: Collate results of testing/sampling and update assumptions (Time taken - x hours/days)

Step 9: If any changes required, obtain review and sign off by Mails Director (Time taken - x hours/days)

(NOTE: the above are illustrative suggested steps but please amend/add/delete as necessary to accurately document your own exact process)

3 Number: 3 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19

Please detail and explain what "materiality consideration" should be introduced.

1 Number: 4 Author: Subject: Highlight Date: 08/03/2016 14:37:19

1 Number: 5 Author: Subject: Highlight Date: 08/03/2016 14:37:19

6 Number: 6 Author: Subject: Sticky Note Date: 09/03/2016 12:18:49

Please explain why An Post believes this to be the case.

1 Number: 7 Author: Subject: Highlight Date: 08/03/2016 14:37:19

8 Number: 8 Author: Subject: Sticky Note Date: 14/03/2016 09:44:34

ComReg does not see any additional cost included in An Post's Table 1 'High Level Summary of Potential Implementation Costs' on page 61 of this RTC.

Please outline what additional costs are involved in documenting the process involved to identify avoidable, variable and fixed costs in the An Post Accounting Manual?

1 Number: 9 Author: Subject: Highlight Date: 08/03/2016 14:37:19

10 Number: 10 Author: Subject: Sticky Note Date: 09/03/2016 11:35:49




Please explain fully with supporting evidence. ComReg notes no additional expense associated with this proposal in An Post's Table 1 'High Level Summary of Potential Implementation Costs' on page 61 of this RTC.

All totals in the template table can be completed by using what was already provided in the published 2014 Reg Accounts. Also, the General Ledger should provide the breakdowns?

ComReg should specify a **materiality requirement**¹ this option in order to ensure that the requirements are proportional.

- **Option 2h:** The suggestion that this option should increase the cost of the audit needs clarification as this already forms part of the audit. ComReg has been unclear as to what is required as part of the audit and the expected increase in cost suggests that the “*nature and detail*” of the transfer charges requires more than just continuing the requirement as stated by ComReg.
- **Option 2i:** **ComReg is already aware of An Post’s cash position at intervals throughout the year**⁴ this additional requirement is not proportionate as there will not be a significant additional benefit to ComReg. It is also not clear how ComReg can use this limited information to provide assurance on the provision of the Universal Service.
- **Option 2j:** Providing a **detailed commentary on An Post’s capex may put it at a competitive disadvantage as competitors will have sight of the investments it is making that could affect non-USO services**⁶ ComReg has neglected to consider the impact this could have on An Post. An Post considers this risk to outweigh any benefits that ComReg might receive from this information.
- **Option 2k:** Similarly to option 2j, **this option creates competition concerns for An Post as it involves commercially sensitive information**⁸. This cost to An Post has not been included in ComReg’s assessment of the regulatory impact.
- **Option 2l:** Having ComReg appoint the auditor will increase the costs of the audit, due to the lost efficiencies of the dual regulatory appointment, An Post disagree that this would provide greater assurance to ComReg as the regulatory auditor already has a duty of care to ComReg under the current tripartite arrangement.

An Post also believes that ComReg has not correctly accounted for the financial impact on An Post. Suggesting that the cost to An Post will be lower due to the audit increasing the cost of regulation is misleading as the cost of regulation is covered by the postal levy which will result in An Post continuing to pay for the audit, regardless of who appoints the auditor. In addition, the

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-  Number: 1 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Please detail and explain what "materiality requirement" should be introduced.
-
-  Number: 2 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
-  Number: 3 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
-  Number: 4 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
Please provide evidence for this contention
-
-  Number: 5 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
-  Number: 6 Author: Subject: Sticky Note Date: 15/03/2016 10:05:52
How does commentary on USO-related capex compromise commercial strategy, when the USO is not subject to effective competition?
-
-  Number: 7 Author: Subject: Highlight Date: 08/03/2016 14:37:19
-
-  Number: 8 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
The information relates to USO which does not face effective competition. Please explain An Post concerns.
-

duplication of effort, both on the part of the auditors and of An Post, has not been fully acknowledged by ComReg.


- **Option 2m:** An Post agrees that this change would improve the production of the regulatory accounts and better reflects the experience of previous years. However, An Post would like to state that the extra assurance burden placed on the regulator is likely to increase the cost of the audit.

4.2 Other factors to be considered

An Post believes that ComReg has not considered the impact of providing the accounts at each price point. ComReg has stated that this does not currently occur and An Post will need to make significant changes in order to meet this requirement. However, this option was not discussed in the regulatory impact assessment, thus biasing the overall assessment.

Some of the potential costs of this option are briefly discussed in section 4.2.1.3. of the Accounting Obligations Consultation. However, there was no discussion of whether these would be proportionate to the regulatory benefit. Additionally the costs considered by ComReg do not appear to include the full costs of meeting this requirement. As ComReg have mentioned in the Accounting Obligations Consultation, volumes are an important driver of costs but there are difficulties in consistently recording them at the most granular level. This suggests that while imposing a large cost to An Post in updating their systems and the model, the benefits are not going to be significant because it will not be possible to provide sufficient assurance that the volumes, and therefore costs, are accurate. This is also recognised by ComReg when stating that they do not require the reconciliation of revenue and operational volumes at the service level because of the “*significant additional resources*” required.

 Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

 Number: 2 Author: Subject: Sticky Note Date: 15/03/2016 10:07:02

To aid understanding of costs involved, please detail, with supporting evidence, the various steps that would need to be implemented in order to meet this requirement.

5. An Post comments on question four of the Accounting Obligations Consultation

This section discusses An Post's response to the question in section 6:

“Do you have any comments on the draft Direction? Please explain your response and provide details of any amendments that should be considered by ComReg.”

This section covers the preliminary views presented in section 6 of the Accounting Obligations Consultation.

Response

An Post's comments from the previous sections apply to this section. In addition, An Post:

- Agrees with ComReg on the necessity to remove reference to the Reserved and Non-Reserved Sectors, as these no longer apply;
- Agrees with ComReg regarding the need to update the IAS14 standard to the IFRS8 standard;
- Has a concern that there is ¹no clear timeline for the completion of the auditing activities² is highly unusual and this lack of clarity on the production of Regulatory Accounts could have a significant impact on An Post, both in terms of cost and the lack of clarity and transparency that this introduces into the regulatory process; and
- ³has a concern about the timeline of submitting the accounts to ComReg within 10 weeks of the financial year ending⁴

In regard to the last point, it is not clear to An Post why ComReg believes that it is possible, or indeed acceptable, to reduce the reporting timelines from the ⁵existing 19 weeks⁶ to 10 weeks while also significantly increasing the reporting requirements.

T Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Y Number: 2 Author: Subject: Sticky Note Date: 15/03/2016 10:07:10

Please explain fully and provide suggested solution/timeline. Is it not for the independent auditor to determine the timeline for completion of the audit depending on the audit engagement and whether there are information delays / concerns etc. that impact on the audit?

T Number: 3 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Y Number: 4 Author: Subject: Sticky Note Date: 14/03/2016 09:47:58

Please explain fully by reference to existing timeline of providing accounts to Regulatory Auditor for review. Please provide suggested solution/timeline.

T Number: 5 Author: Subject: Highlight Date: 08/03/2016 14:37:19

Y Number: 6 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19


Please provide full detailed breakdown of the existing 19 weeks timeline.

In addition, a timeline of 10 weeks is significantly shorter than that allowed by Ofcom to Royal Mail, as well as significantly shorter than what ComReg itself allows Eircom for its regulatory accounts.

Indeed, Ofcom in the USP Accounting Conditions (USPAC 1.3.7) requires Royal Mail to publish the RFS within 120 days – approximately 17 weeks - after the end of the financial year for which the statement has been prepared.


ComReg in its 'Final Direction and Decision on Accounting Separation and Cost Accounting' states: *"ComReg also proposed that Eircom publish its separated accounts on its website within five months [i.e. over 20 weeks] of the first financial year end and four months thereafter."*³⁶

In light of the above, it appears unjustified for ComReg to allow An Post less than half of the time it allows Eircom for the preparation of its regulatory accounts. The proposal to provide accounts to ComReg prior to audit does not yield this level of saving in preparation time.

Therefore, **An Post opposes the proposed 10 week timeline**  is not in line with other national and international precedents and is unworkable, especially in light of the increased reporting requirements envisaged in the Accounting Obligations Consultation by ComReg.

³⁶ ComReg Decision D08/10


 Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19


 Number: 2 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19
What timeline does An Post consider to be appropriate? Please provide supporting evidence.


6. Conclusion

An Post welcomes this opportunity to provide comments on the Accounting Obligations Consultation. In considering this response An Post anticipates that ComReg will give due consideration to the issues raised in our response, considering in particular:

- The legal limits on the requirements that may be included in any new Accounting Direction based on the relevant legal basis under Section 31 of the 2011 Act;
- The proportionality of any recommendation proposed. The financial burden that the introduction of a recommendation will impose on An Post should be compared to the expected benefits it may provide to ComReg in exercising its statutory functions;
- How market and regulatory changes since 2006 (including the PCM) have changed the competitive pressures in the postal sector in Ireland, and how these changes impact the proposed recommendations;
- The need to work closely with An Post and relevant auditing experts to establish and agree the exact auditing requirements and associated timeline; and
- The need to prove that the publication of any data from An Post is necessary for the correct functioning of the market and/or for ComReg to discharge its statutory duties.

An Post recommends that the parties work together, and with the **Accounting profession**,  view regulatory reporting requirements that are proportionate. Should ComReg wish to meet to discuss further, An Post is available to meet.

 Number: 1 Author: Subject: Highlight Date: 08/03/2016 14:37:19

 Number: 2 Author: Subject: Sticky Note Date: 08/03/2016 14:37:19

Who are the "Accounting profession" and why would they need to be party to the setting by ComReg of universal postal service accounting obligations to meets its information requirements and requirements set by 2011 Act?

**2: Further non-confidential submission
by An Post, dated 26 April 2016, to
ComReg's Consultation 15/135
'Consultation on universal postal
service accounting obligations'**

An Post's response - Additional information requested 15 March 2016

Ref: An Post's submission to consultation on universal postal service accounting obligations

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26 April 2016



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2. Request for further information from An Post

On 27 January 2016, An Post provided a response to ComReg's "Consultation on universal postal service accounting obligations" (the 'Consultation')¹.

On 15 March 2016 ComReg requested further specific information in relation to An Post's response, in order to fully consider An Post's views. The information and documents requested will provide inputs to ComReg for any prospective changes to the Accounting Direction.

ComReg requested additional information from An Post in two separate documents:

- A letter dated 15 March 2016. Reference: An Post's submission to consultation on universal postal service accounting obligations (the 'Letter to An Post').
- A Staff Working Document. Reference: Further information required on An Post's submission to Consultation 15/135 – Consultation on universal postal service accounting obligations (the 'Staff Working Document').

Details of the information request are set out in Sections 4 and 5 of this document, while Section 3 provides some general observations on ComReg's approach.

¹ ComReg Document 15/135

3. General observations

Proportionality and Necessity

An Post considers that regulatory reporting requirements should follow not just the applicable legal principles but also the principles outlined by the Irish Government 2004 White Paper on Better Regulation²:

- *“Necessity – is the regulation necessary? Can we reduce red tape in this area? Are the rules and structures that govern this area still valid?”*
- *Effectiveness – is the regulation properly targeted? Is it going to be properly complied with and enforced?*
- *Proportionality – are we satisfied that the advantages outweigh the disadvantages of the regulation? Is there a smarter way of achieving the same goal?*
- *Transparency – have we consulted with stakeholders prior to regulating? Is the regulation in this area clear and accessible to all? Is it supported by good explanatory material?*
- *Accountability – is it clear under the regulation precisely who is responsible to whom and for what? Is there an effective appeals process?*
- *Consistency – will the regulation give rise to anomalies and inconsistencies given the other regulations that are already in place in this area? Are we applying best practice developed in one area when regulating other areas?”*

These principles are consistent with those set by Ofcom in its 2012 document “Regulatory financial reporting: a review”³, and are also in line with the position expressed in the European Commission 2005 “Recommendation on accounting separation and cost accounting systems under the regulatory framework for electronic communications”:

“The cost accounting and accounting separation systems of the notified operators need to be capable of reporting regulatory financial information to demonstrate full compliance with regulatory obligations. It is recommended that this capability be measured against the qualitative criteria of relevance, reliability, comparability and materiality.”⁴

An Post is concerned that ComReg’s proposal and requests for information fail to respect, or even consider in some cases, these principles, and in particular the principles of Proportionality and Necessity. An Post’s concerns with respect of these two principles are discussed in turn below.

The amount of information requested by ComReg is not proportionate to the information on benefits provided by ComReg

In line with the principle of proportionality, it is ComReg’s duty to justify each piece of information it requests to An Post by detailing what use it would make of the information provided and which benefits it expects from the use of such information requested. At present, ComReg has failed to do so on a number of occasions, as highlighted by An Post in its response to the Consultation and further in this response. In some instances, ComReg has provided benefit-based justification to its proposed

² Taoiseach Government, 2009, “Revised RIA guidelines, how to conduct a Regulatory Impact

³ Ofcom, 2012, “Regulatory financial reporting: a review” See: www.stakeholders.ofcom.org.uk/binaries/consultations/reg-financial-report/summary/condoc.pdf

⁴ EC, 2005, ‘European Commission recommendation of 19 September 2005 on accounting separation and cost accounting systems under the regulatory framework for electronic communications’, (2005/698/EC)

changes to the Regulatory Financial Statement (RFS), but these are vague and not substantiated. For instance in ComReg Document 15/135 ComReg used as justifications the following statements⁵:

- *“This requirement should improve the accuracy of manual counts”*
- *“the reporting of payroll costs could be improved by requiring the USP to report its payroll costs for each business segment and to split its payroll costs between its universal and non-universal postal services.”*
- *“ComReg considers that it would improve information if details of average FTE matched the detail on payroll”*
- *“The proposed format also improves the accessibility of the Regulatory Accounts by including additional information such as per unit revenue, cost and profit/loss details for each universal postal service.”*

While ComReg has failed to provide detailed explanation of the benefits it expects from its proposed regulations, its information request includes a large amount of very detailed requests on An Post costs, expected costs, and forecasts, including full details of data used to manage the business.

At the same time, in conducting the Regulatory Impact Assessment (RIA) ComReg does not use an appropriate level of detail when discussing the cost of compliance to An Post. Statements such as *“This option should not be onerous”* should be evidence based.

In summary, An Post believes that ComReg’s Consultation and information requests fail to meet the principle of proportionality, as ComReg has failed to estimate or even list the expected benefits of most of its proposed changes. ComReg should also be more cautious in its analysis of the expected costs to An Post, and conduct a detailed RIA to balance the costs and benefits of the proposed changes.

These failures result in many of the proposed changes being disproportionate or lacking proportionality in the first place. For instance, the following requests are considered to be lacking proportionality:

- Specify the process for validating machine counts and the degree of accuracy to which machines are tested.
- Conducting a detailed volumes reconciliation at Delivery Service Unit (DSU) level, rather than the comparison currently included in the RFS provided to ComReg for the last number of years.
- Provide details of the processes by which it identifies avoidable costs.

ComReg requests information that is not necessary to discharge its statutory duties

The purpose of the RFS is to provide ComReg with the necessary information to discharge its obligations under the Act in the context of the accounting obligations. Therefore, ComReg should only request information that is necessary to fulfil its statutory duty with respect to its functions in connection with the regulation of USO services. At present, ComReg has proposed to include information which is not necessary in the RFS.

⁵ ComReg Document 15/135

Legal Basis

Many of the requests for further information from ComReg request An Post to explain the legal queries An Post raised on the various legal bases relied on by ComReg. This was dealt with in detail in An Post's letter to ComReg of 9 December 2015 which included the legal advices provided by Matheson and we respectfully refer ComReg to the content of that correspondence which deals with all of the queries ComReg has raised on An Post's legal queries.

Further engagement

An Post suggest that this process will benefit from a direct engagement between the parties' advisors and a representative body such as Chartered Accountants Ireland (CAI). An Post would like to take this opportunity to stress its availability to further discuss the complex issues presented in this response.

4. Discussion of comments in the Letter to An Post

Areas for which further information and evidence is required by ComReg

1) Volume reconciliations.

ComReg is proposing that An Post now reconcile volumes by format, a lower requirement than the reconciliation by service currently required. Please provide details of the difference in costs to An Post from reconciling at the format level rather than the service level.

An Post currently provides a volume comparison by format, not by service. In its response to the Consultation An Post has provided an estimate of conducting the reconciliation by service and at the same time providing the reconciliation between Mail Centres and DSU's as proposed in the Consultation. This cost is estimated to be approximately €5 million, as previously provided to ComReg in Table 1 of Appendix 1 of response of 27 January 2016.

In the Consultation ComReg states that *“having considered the USP’s statement that a reconciliation at service level would require significant additional resources, and the view of Frontier Economics in respect of this, ComReg proposes to reduce the requirement of the reconciliation by service to a reconciliation at a less detailed level, namely by format (i.e. letter, large envelope, packet, parcel). ComReg considers that this proposal is proportionate, given the USP’s statement on its capability to reconcile its volume by service.”*

In light of the expected cost provided by An Post and in accordance with ComReg’s advisors suggestion, a reconciliation of volumes by service is not required. Therefore, ComReg should request An Post to continue to provide the volume comparison at format level.

We further note that ComReg has not explained why this information is required and in particular what added value a further reconciliation at DSU level will bring to their regulatory oversight.

2) Commercially sensitive Information.

Please provide details, for each universal postal service, of what proposed requirements would put An Post at a significant competitive disadvantage. Please provide evidence of how it would be put at that disadvantage.

As stated in the response to the Consultation, An Post considers it is ComReg’s duty to justify the need for publication of any information by demonstrating the expected benefits from publication. An Post repeats its previous position and urges ComReg to examine and detail which benefits, if any, it foresees from the publication of each of the sets of information ComReg has proposed An Post includes in the published RFS. An Post is committed to continue to provide this information to ComReg in the confidential RFS.

With regard to non-USO services, An Post considers that the published RFS should not include any data on non-USO services. This is because An Post’s activity in non-USO markets should be regarded as that of any other operator in the market, as in these markets An Post competes with other operators on a level playing field. Since the publication of information on these services is not matched by equal disclosure by other large operators in the market, requiring An Post to do so would distort competition in the market creating information asymmetries.

With regard to USO services, ComReg fails to recognise that due to recent market developments some of the markets where USO services are offered are increasingly competitive. As a result, USO information which was not sensitive a few years ago, is now increasingly commercially sensitive due to the levels of competition.

In particular, contrary to what is argued by ComReg, competition in the parcels and packets services market is already strong. Indeed, 60%-70% of the volume share of those markets is held by competitor suppliers of parcels and packets services whereas An Post has between 30% and 40% of market volumes, as estimated by Frontier Economics in 2015.⁶ Competitor

⁶ www.comreg.ie/fileupload/publications/ComReg1547.pdf

suppliers, as also reported by Frontier Economics, such as Nightline, DPD and GLS are the next largest with growing respective shares between 10-15%, and Fastway and DHL are estimated to have 5-10% of volumes.

Competition in the parcel and packets sectors is expected to increase further due to the expansion of the delivery market, especially through demand for low-cost delivery services⁷. This is in line with international trends.

In the UK, for example, Royal Mail competitors DPD and Hermes are investing heavily in the parcel delivery markets. While currently Royal Mail still maintains more than a one-third share of the £9bn parcels sector, competitors are growing extremely fast. DPD, for example, grew by over 120% between 2010 and 2015⁸.

As a result of the change in the competitive status of several USO markets and to ensure that An Post is not competitively disadvantaged vis-à-vis competitors who do not have to make public commercially sensitive information not normally in the public domain, the following areas are considered to be commercially sensitive by An Post:

- Unit revenue, cost, volumes and profit/(loss). Disclosing per unit revenue, volumes, cost and profit/(loss) would give insights into An Post's operational process and costs. Knowledge of the cost and profit margin for each service would advantage competitors in designing offers whose quality-price mix is not easily replicable by An Post. This would be especially damaging for An Post's ability to compete with all of the other competitor suppliers of parcels and packets services, particularly in tender processes.
- Average FTE and Payroll costs. Disclosing information on average FTE and payroll costs by business segment, USO and non-USO would give insights into the technology intensity of An Post's services and gives competitors an unprecedented insight into the costs of a competitor. As highlighted by Frontier Economics⁹, competitiveness in the postal sector is increasingly linked to technological development insofar as this allows the offer of increasingly innovative solutions that meet customers' evolving requirements.
- Profit and Loss Account for Mails business segment and for each universal service. Publishing a detailed Profit and Loss Account for Mails business segment and for each universal service, to be provided by category for USO and non-USO Mail services. Separate accounts should be created for domestic, international inbound intra-EU, and international inbound to the rest of the world operations.

The international parcel and packet sectors are amongst the most competitive in Ireland. The European international segment is particularly competitive, and several companies operating in Ireland have easy access to European delivery networks:

- GLS is owned by Royal Mail and has an extensive European delivery network.
- DHL Express is owned by Deutsche Post and has a large component of international volumes which it delivers itself to Ireland.
- DPD is owned by La Poste and has an extensive European delivery network.

In the parcels and packets segment there are also national companies operating, such as Nightline, which specialises in providing express courier services.

In addition, companies such as Lettershop, CityPOST and DX increasingly pose competitive constraints to An Post in the letter market segment.

Therefore, disclosing information such as revenues and volumes for national, international and EU segments of the market separately would likely damage An Post commercially.

⁷ This is also mentioned by Frontier Economics in its 2015 report. See: www.comreg.ie/fileupload/publications/ComReg1547.pdf

⁸ Financial Times, Royal Mail rivals DPD and Hermes step up parcel delivery competition, 8 February 2016. See: www.ft.com/intl/cms/s/0/ef156c7e-cc2a-11e5-a8ef-ea66e967dd44.html#axzz44NezYdjE

⁹ Ibid

- Detailed commentary on capex in the published version of the RFS would disclose information on An Post's commercial strategy.

3) Calculation of operational volumes process.

Given that the proposal is a requirement that An Post reports its process, rather than changes to it, please provide evidence of the costs of this requirement to An Post.

Operational volumes are not used in the RFS, other than to provide a comparison and a cross check for the revenue based volumes, which in line with international best practice are instead the basis for the RFS. Thus, requiring significant additional investments to increase the level of control over the estimation of the operational volumes is not justified. Reporting on the process used to estimate operational volumes will result in additional administration costs, ComReg has not made it clear what added value this will bring to its regulatory oversight.

Moreover, Section 31 of the 2011 Act does not provide a clear legal basis for an Accounting Direction to require that such specific details be included, or that a specified format should be used, in a written document that is maintained by An Post, such as the Accounting Manual.

4) Average container fill.

Please provide evidence of the cost to An Post of including in the Accounting manual the process for reviewing container fills and the results of these reviews.

As outlined in point 3 above, operational volumes are not used in the RFS. Reporting on the average container fills used to estimate operational volumes quarterly, as proposed by ComReg, will result in additional administration costs. Again, we note that ComReg has not made it clear what added value this will bring to their regulatory oversight.

5) DSA.

Given ComReg may have to adjudicate in the future disputes in relation to s. 33 of the 2011 Act, please provide details of how An Post identifies and calculates avoided costs.

✗.

Further, it is unreasonable of ComReg to request information that may or may not be useful in the future. An Post considers the information provided at this stage to be sufficient and will engage with ComReg in the event that further information is needed in the context of a specific investigation/dispute.

6) Costs per tariff point.

Please provide evidence of why it is not practical to provide cost estimates for all tariff levels given, as An Post states, it is format rather than weight that determines cost.

As explained by An Post in its response to the Consultation, the current reporting template has been discussed and agreed with ComReg and adopted since 2009.

While, as stated in ComReg's Document 02/15 section 4.2.7, "*it is the format of the item rather than the weight that determines the cost*", designing a rule to allocate cost across all price points would impact An Post's costs significantly. Indeed such a granular disaggregation would inevitably need to rely on high-level and to some extent subjective allocation rules, which would increase the complexity of the model without increasing accurateness of cost allocation.

The model used by An Post to produce the RFS does not currently allow for costs to be estimated at each tariff point. An extensive re-design and modification of the model would be required to introduce this level of granularity, which would cost An Post approximately €0.25m for one off system changes plus additional annual FTE costs of €>k. An Post propose that estimates of costs per tariff point may be provided to ComReg, where requested, as

Additional Financial Information (AFI) rather than including these in the RFS accounts template.

In light of the costs of implementation, and since ComReg has been satisfied by the current reporting template, An Post believes that this requirement is not proportionate.

7) Cash position.

Please provide details of An Post's other financial metrics used internally (such as those used for credit rating) that could also be included to get a more complete picture of An Post's financial position.

An Post has developed systems of Financial Reporting to the Board and meets best practice for Corporate Governance for an organisation of its size and complexity. The Board, which contains only one Executive Director, the remaining being Non-Executive Directors, is satisfied with the extent of reporting on key metrics including the company Cash position. There are no plans to change this.

With respect to the €100m threshold, An Post highlights once again that ComReg has failed to provide any evidence of the benchmarks and analysis it used to derive the proposed threshold. An Post is concerned that adopting an arbitrary threshold would impose a burden on An Post but would not create any tangible benefits.

Information and evidence required by ComReg to understand An Post concerns

8) Commercially sensitive information.

Please provide details of what information the public regulatory accounts is now commercially sensitive, and evidence for why this is the case.

As discussed in the answer to question 2, the assessment of commercial sensitivity should be done in light of the current market conditions. In particular, the fact that some USO segments now face competition should be considered.

For this reason, An Post considers that the following information should be excluded from the published RFS:

- Profit and Loss Account by USO service. As parcels and packets are increasingly competitive sectors, publishing information on turnover, costs and profit discloses sensitive information to competitors. Instead, as proposed by An Post, such break down should only be included in the extended (confidential) regulatory statement provided to ComReg.
- Profit and Loss Account by geographic segments. As the international sector is increasingly competitive, disclosing information on turnover, costs and profit split by domestic, international inbound and international outbound is unnecessary and excessive.
- Profit and Loss Account by USO service split by geographic segments. The reasons why this information should not be included in the public RFS are outlined in the two points above.
- Inter-segment matrices. This is commercially sensitive information in relation to the cost of staff providing services, many of which are not based in the Regulated Postal division of An Post. For example, An Post believes that the internal transactions between USO and non-USO products and the overall charges in relation to An Post's retail operations should not be included in the public RFS.

9) Compliance costs due to market evolution.

Please provide evidence of how the market has evolved, especially for the universal postal service, and evidence of how this has impacted An Post's compliance costs.

As already explained by An Post in its response to ComReg's Consultation 13/68, the inclusion of packets and parcels in the USO categories is more a "safety net"¹⁰: the concept of the universal postal service is to provide a "safety net" for postal service users who cannot avail of alternatives.

Since the publication of the final decision to the Consultation on scope and form of proposed price cap control¹¹ three new operators have been licensed in the market¹²:

- RR Donnelley Document Solutions (Ireland) Ltd.
- Sooner Than Later Solutions Ltd.
- CityPOST Limited

This suggests that ComReg's conclusion on likely barriers to entry and competition in the market are not accurate.

Competition levels in the market have increased, especially in the parcel and packets sectors, which have been growing at a rate of about 7% per annum between 2011 and 2013¹³. Currently, there are 9 companies with at least 5% to 10% value market share operating in the Irish market. In 2013, An Post was estimated to have between 20% and 30% of value share in the parcel and packets sector¹⁴.

This increased competition resulted in some of the data currently included in the published RFS to become commercially sensitive. In particular, An Post believes that data on revenues, profits, costs and volumes in the parcel and packets business segments should not be published as these segments are now increasingly competitive.

In light of the recent market developments, An Post does not propose to reduce the level of information provided to ComReg, but only to limit some of the information to the confidential RFS.

10) Regulatory Accounts timelines.

Please provide evidence of the international precedents referred to by An Post.

An Post has already mentioned in its response to the Consultation that Ofcom in the USP Accounting Conditions (USPAC 1.3.7) requires Royal Mail to publish the RFS within 120 days – approximately 17 weeks - after the end of the financial year for which the statement has been prepared. Indeed, in USPAC 1.3.7 Ofcom explicitly states:

*"Royal Mail must publish each of the financial statements and information required under USPAC 1.3.1(a), (b), (c) and (f) by placing a copy of the statements and information on any relevant website operated or controlled by Royal Mail within 120 days after the end of the Financial Year for which the statement has been prepared."*¹⁵

Where USPAC 1.3.1 (a), (b), (c), and (f) detail the financial statement and information published by Royal Mail:

- (a) Consolidated income statement for the Relevant Group;

¹⁰ http://www.comreg.ie/_fileupload/publications/ComReg1382.pdf

¹¹ ComReg 13/82 and D13/13 http://www.comreg.ie/_fileupload/publications/ComReg1382.pdf

¹² http://www.comreg.ie/postal/regulation_of_authorised_providers.545.html

¹³ http://www.comreg.ie/_fileupload/publications/ComReg1547.pdf

¹⁴ Ibid.

¹⁵ http://stakeholders.ofcom.org.uk/binaries/post120713/USP_accounting_condition.pdf

- (b) A consolidated balance sheet statement for the Relevant Group;
- (c) A consolidated cash flow statement for the Relevant Group; and
- (f) An annual reconciliation of the consolidated income statement, a consolidated balance sheet statement and a consolidated cash flow statement for the Relevant Group with the consolidated accounts of RMH plc.

In France, La Poste has up to the 1 July of the year following the account's reference year to provide ARCEP, the regulator, with regulatory financial statement information.¹⁶ Since the accounts of La Poste follow the calendar year, the 1 July deadline is 6 months after the end of the year for which the information is prepared.

With regards to the timeline to be applied in Ireland, An Post considers the current timeline of 19 weeks appropriate. Therefore, An Post suggests that the 19 week timeline continues to apply.

11) Other regulatory remedies.

Please detail what regulatory remedies An Post is referring to, and how this impacts the proposed requirements, and how ComReg has demonstrably failed to consider this.

The Price Cap Mechanism (PCM) regulates prices. As prices are fully regulated at the basket level, ComReg should only be requiring the minimum set of information needed to ensure that An Post is compliant with the obligations under the PCM. It is inconsistent for ComReg to determine that a basket based approach is sufficient for price control purposes and then impose much more granular disclosure in the RFS.

Another example of recent regulation that impacts the proposed requirements is the establishment of the USO funding process in 2013 (ComReg Document 13/69). According to the regulations' requirements, any calculation of the incremental cost of providing the USO is to be calculated separately according to the methodology set by ComReg in relation to the cost of USO provision.

¹⁶ <http://www.arcep.fr/index.php?id=12344> and Art. 4 Decision 2012 0207 at http://www.arcep.fr/uploads/tx_gsavis/12-0207.pdf

12) Risk of increasing costs and USO losses.

Please provide further details in relation to how ComReg could be more cautious given the USO losses currently being incurred by An Post. Please also set out An Post's expectation for USO losses for each year until 2019 split by (1) Domestic (2) Outbound (3) Inbound.

In conducting the Regulatory Impact Assessment ComReg does not use an appropriate level of detail. Statements such as "*This option should not be onerous*"¹⁷ should be avoided or expanded. An Post considers ComReg should be more cautious in analysing and estimating when necessary with the support of An Post the costs of compliance of some of its proposed remedies. These issues refer to the lack of detail ComReg has provided with respect to the balance of expected costs of compliance and expected benefits, which is discussed in Section 3 of this note.

With respect to the USO, An Post is concerned that in the context of the current USO losses the proposed RFS poses an issue of sustainability of the provision of universal services. The proposed RFS would increase costs to An Post, further increasing USO losses. An Post's ability to counteract USO losses is limited, partially due to regulatory requirements. Overall, An Post is concerned that due to this situation, the proposed RFS would further jeopardise the provision of the USO and the ability of An Post to operate in the market.

An estimate of USO losses, normally based on the An Post five year plan, is not appropriate at this point given that the five year plan does not include the significant potential financial impact of the very recent Labour Court Recommendation (LCR21206) of 14 April 2016 which is currently being considered by the Company. Given the increased costs associated with this recommendation USO costs will increase accordingly.

13) Volume reconciliation.

Please explain why An Post does not currently reconcile volumes, as required by Section 3.1(f) of the current Accounting Direction (06/63).

As already explained by An Post in its response to the Consultation¹⁸, what ComReg refers to as "*Reconciliation of revenue derived and operational based volumes*" in Table 2 of the Consultation cannot be considered a reconciliation in the "accounting" sense. This is because the differences between the two sets of volumes are due to different estimation methodologies, and thus a "*unit-by-unit*" explanation of the differences between the two sets of volumes cannot be provided.

Since the deviation between the two estimates cannot be analysed as it is mostly due to systematic differences in the estimation methodologies, An Post believes that the comparison currently provided should be sufficient. An Post further notes that the current RFS, including the volume comparison in its current form, was agreed with ComReg.

¹⁷ ComReg Document 15/135

¹⁸ See p.12 of An Post response to ComReg Document 15/135

5. Discussion of Staff Working Document's comments

This section discusses the comments in response to the Staff Working Document provided by ComReg, (page references refer to this document).

Executive Summary

P.3

Please document fully which proposed requirements An Post consider not proportional and explain why so.

In several comments in the Staff Working Document ComReg refers to proportionality of the proposed remedies, requesting An Post to prove that such requirements are not proportionate. An Post would like to highlight that it is ComReg's responsibility to prove that proposed remedies are proportionate. The issue of proportionality is further discussed in Section 3 of this note.

Please explain fully why An Post think ComReg has not carefully considered cost & incremental burden of the proposed requirements.

This is discussed in the answer to question 12 above.

Please provide details of the costs to An Post for reconciling at the service level. Please separately provide a cost estimate for reconciling at the format level.

An Post does not believe it is practically possible to compare revenue derived and operational volumes at service level, considering there are over thirty services included in the current regulatory accounts. A comparison at this level would require the addition of a significant level of operational and administration processes to capture data at the service level, these include additional operational streaming and manual data gathering, for each service. The benefit of such data has not been provided by ComReg.

Regarding the extent by which a reconciliation at service level is performed in other countries in Europe, in the ERGP report quoted by Frontier in the pre-consultation document, it is not specified whether any of the countries that require the volume reconciliation require it to be performed at service level, as Frontier suggests An Post should do. Further, An Post already provides a comparison of volumes at format level, i.e. for letters, flats and packets separately.¹⁹ With respect to Royal Mail, Ofcom mandates that Royal Mail uses revenue-driven volume estimates in its regulatory accounts:

"Royal Mail must use the Revenue derived method of traffic measurement, whereby the traffic volume for products and/or services is calculated by dividing the total revenue of the products and/or services by the average unit price of them, in the National Costing Methodology."²⁰

However, Royal Mail is not required to provide alternative volumes estimates with which to reconcile the revenue based volumes used in the costing exercise.²¹

¹⁹ An Post Regulatory Financial Statements, 2014

²⁰ Ofcom, 2014, 'Updating the regulatory reporting framework – Statement USP accounting condition', Annex 2

²¹ Ofcom in Annex 2 of 2014 'Updating the regulatory reporting framework – Statement USP accounting condition' mandates Royal Mail to reconcile the revenue based volumes with the workloads, defined as volumes weighted by the time expected to be taken to process them. This reconciliation aims at scrutinising the weight assumptions rather than validating the assumptions used to derive the volumes, and is thus an irrelevant precedent in this context.

Please document fully the extensive changes to the current RFS An Post believe are required as against the draft RFS templates (confidential and public) provided in Consultation 15/135. What additional work would An Post have to perform? What would the cost impact (if any) be?

An alternative template has been provided by An Post (response of 27 November 2015). This alternative template clearly highlights the elements that An Post considers to include in the Regulatory Accounts, this includes the Long Form (confidential) and Short Form (public) versions.

With respect to the cost impact of these changes, once again An Post would like to stress that the burden is on the regulator and not An Post to justify how the requirements assist it in discharging its regulatory duties. Therefore, ComReg should specify and quantify the expected benefits from each change it proposes to the RFS, rather than asking An Post to estimate the cost of the changes. This is further discussed in Section 3 of this document.

P.4

Which specific requirements in the 2006 Accounting Direction does An Post consider to be no longer appropriate due to changes in the postal sector?

This is discussed in the answer to question 2 above.

The Accounting Direction is in respect of the USO only, which does not face effective competition, so what information in the public regulatory accounts has become commercially sensitive and why?

This is discussed in the answer to question 2 above.

ComReg engaged external consultants to perform review, which took into account best practice regulation, EU Directives, Irish Law, ERGP, CERP and various economic reports such as those from WiK Consulting.

Please detail which international regulatory standards ComReg has not considered.

ComReg refers mainly to Royal Mail, especially in the pre-consultation and does not provide evidence from other European countries. An initial overview of the accounts published in other countries was provided to ComReg at the very outset of this process (14 May 2015). ComReg, or their advisors, have not made any comment on this or referred to it in their consultation. We believe that this should form part of their review. For information, a copy of the table is included below:

Table 1: Survey on production and publication of Regulatory Accounts (EU-15)

	NPO	Question
		If the Accounts are published where can they be located on the website?
1	Austria	Not Published
2	Belgium	Not Published
3	Denmark	Not Published
4	Finland	Not Published
5	France	Not Published
6	Germany*	Not Published
7	Greece	Not Published
8	Ireland	www.anpost.ie/AnPost/MainContent/About+An+Post/Annual+Reports/about-annualreports
9	Italy	Not Published
10	Luxembourg	Not Published
11	Portugal	Not Published
12	Netherlands	Not Published
13	Spain	a "censored version" is published at: www.cnmc.es/Portals/0/Ficheros/Transporte_Postales/resoluciones_postal/2014
14	Sweden	Not Published
15	UK	www.royalmailgroup.com/about-us/regulation/regulatory-financial-statements

*Deutsche Post: "The accounts are not directly approved by the Regulatory Authority (Bundesnetzagentur); instead, the Authority proceeds to an indirect control of accounts when controlling the costs documents provided for rates approval"

Which specific recommendations to Eir and RTE/2rn does An Post believe that ComReg has not considered, given that these entities operate in different markets and service spheres?

This is discussed in An Post's response to the Consultation (27 January 2016).

Who is the professional accounting body to whom you refer, as numerous bodies exist? For information, pre-consultations are not typical. ComReg engages through public consultations. In this respect, ComReg received one response to consultation from an accounting body - Chartered Accountants Ireland - which only commented on the Compliance Requirements section 4.4 of the Consultation (no comments were made in relation to all other sections of the Consultation - namely section 4.1 Measuring Mail Volumes, section 4.2 Cost Identification & Allocation, Section 4.3 Regulatory Reporting). Therefore the only accounting body that did respond to consultation only commented on two aspects contained within section 4.4 of the Consultation. An Post is requested to document whether this consultation response by Chartered Accountants Ireland is sufficient engagement, and if not, An Post is requested to explain fully how would this result in an overall 'significantly flawed draft Direction'?

The responses to consultation were published by ComReg (Document 16/10). Respondents included KPMG and PwC, it is not clear why ComReg does not consider these to be part of the professional accounting body. The conclusion from CAI clearly states that they believe further work should be undertaken before a Decision is issued. An extract from their response is included below.

“As set out in this letter, we believe there are a number of important matters of principles to consider in taking the proposals further – including the agreement of relevant criteria to support the provision of assurance. We would be pleased to meet with you and colleagues to assist in developing an appropriate framework for the regulatory auditor’s work and report relating to regulatory accounts, both in this particular instance and more generally.”

In addition, both KPMG and PwC comment on a number of the proposals, including appointment of the Auditor, independence of the Auditor, scope of the Audit, reconciliation of revenue derived and operational volumes and reconciliation of operational volume counts.

An Post does not accept that ComReg has engaged adequately with the accounting body, this is clear from their response to consultation. To be clear, An Post believes ‘accounting body’ includes accounting firms and not just traditional associations or representative bodies.

ComReg has set out the legal basis of the Accounting Direction on pages 11-16 of the Consultation 15/135.

Please explain fully which preliminary views you consider to be without legal basis and demonstrate how they exceed the legal limits on permissible content.

An Post has already provided a letter from An Posts’ legal advisors, Matheson, in which a series of “serious legal concerns” are identified. Among the concerns set out and explained in detail, we note the following:

- “ComReg is entitled to issue a Direction only where one of the pre-conditions under Section 31(2)(a)-(c) of the 2011 Act are met. At present, the pre-conditions set out in Sections 31(2)(a) and 31(2)(b) are not met. Therefore, ComReg is not in a position to issue a Direction unless it can meet the pre-condition under Section 31(2)(c), which requires it to be “*satisfied that competition in the market for postal services is not fully effective*”.”
- “Certain Frontier recommendations that form part of the proposal have no clear legal basis under Section 31(3) of the 2011 Act.”

An Post urges ComReg to review our letter previously submitted in December 2015 and to take the full letter into consideration.

Why is this the case particularly so? A 'presents fairly' audit opinion is the typical legal language used in an audit report and tends to be rule-based so why would a reconciliation not be considered to be audited within this context?

If ComReg’s intention is for this reconciliation to have a ‘present fairly’ audit opinion then the audit procedure conducted under present fairly requires the auditor, not only to certify that the reviewed accounts are compliant, but also that the underlying methodologies along with their application has been performed in a consistent as well as reasonable manner. In the case of the volumes reconciliation, such a set of guarantees would be highly complex and difficult, if indeed possible to provide, since a reconciliation of the resulting volumes, in the true accounting sense, cannot be performed. Therefore, an auditor could not directly review the volumes reconciliation under a fairly presents standard and provide the certifications required, when as stated the volumes are not truly reconcilable, in the audit sense, one of the key difficulties being the two differing volume sources and two differing methodologies for their subsequent production.

For these reasons An Post has strongly suggested that instead of a ‘reconciliation’ that a ‘comparison’ with commentary, both on year-on-year movements, as well as between the Revenue and Operational volumes could be provided as the most reasonable alternative to provide the necessary comfort that that is required to meet the standard.

Please explain fully what you mean by breach of procurement law and why this would be so.

This is clearly explained at page 38 of our response of 27 January 2016, see extract below. The Staff Working Document provided by ComReg on 15 March 2016 contains no comment on this page.

“Moreover, in its compendium “The Law of Public and Utilities procurement: Regulation in the EU and UK”²⁸ Professor Arrowsmith specifies that the Court of Justice has stated²⁹ as a general principle that contracting authorities can decline to consider firms only if they fail to respect four professional quality factors. These factors are: economic and financial standing, technical and professional ability, suitability to pursue the professional activity (i.e. possession of the appropriate professional qualification and authorisations), and professional honesty, solvency and reliability. Since the participation of the Statutory Auditor in the tender for the regulatory audit does not contradict any of these factors, it appears that ComReg’s proposed recommendation is not in line with what is stated by the Court of Justice.”

Please document fully, with evidence, the additional costs that would be incurred. You may need to liaise with current auditors to get a quote for fee if regulatory audit was to be prepared minus synergies gained from conducting statutory audit. Please present response in the following format:

Fee for Audit of Statutory Financial Statements 2014: €xxxk

Fee for Audit of Regulatory Accounts 2014: €xxxk*

Total fee for Audit of Group Financial Statements 2014: €298k

*** Discount /Savings due to elimination of duplicate work by performing both Statutory & Regulatory Audit: €xxk**

Fee for Audit of Statutory Financial Statements 2014: Xk

Fee for Audit of Regulatory Accounts 2014: Xk

In the commentary from Chartered Accountants Ireland there is discussion about increasing cost of audit. This discussion helpfully includes discussion on whether meeting the regulator’s expectations is even feasible. In addition, asking professional firms to speculate on fees in the future and the likely increase in cost from a separation is unfair, in particular as the future estimates may be published on consultation. From the perspective of the professional firms, such speculation is not appropriate. As a working assumption we consider adding 50% to the cost of the Regulatory Audit to be a conservative estimate.

Please explain by providing the following details, as they stand currently (or for the most recent 2014 audit):

Regulatory Audit: Date commenced - date ended: xx weeks

Statutory Audit: Date commenced - date ended: xx weeks

Current total timeline: xx weeks

***Estimated time saved due to synergies from performing both statutory & regulatory audit by same auditor: xx days/weeks**

In addition to the answer provided above, ComReg should consider that elements of both the Regulatory and Statutory Audits are carried out in parallel, this would not be possible if the Regulatory and Statutory Audits were carried out by different firms.

To which international precedents do you refer?

This is discussed in the answer to question 10 above.

To which international precedents do you refer?

An Post is not aware of other operators being required to provide similar information or subject to an arbitrary threshold such as the €100m threshold proposed by ComReg.

P.8

Please explain fully how market has evolved as Direction is for universal postal services (which do not face effective competition) and provide the costs (including the opportunity costs), with supporting evidence, for consideration by ComReg.

Please outline and provide evidence for which requirements you refer to here and explain how each puts An Post at a competitive disadvantage.

Please provide details of all other regulatory remedies An Post refers to, how these impact the proposed requirements, and evidence that ComReg has not considered these.

An explanation of how the market(s) have evolved can be found in the An Post answer to question 9 in this document.

An Post has already provided an estimation of the cost associated with implementing the proposed changes to the existing Accounting Direction in its response to the Consultation dated 27 January 2016. Excluding the negative impact linked to the disclosure of commercially sensitive information to competitors of An Post, An Post has estimated a total annual cost of €4.9m and at least €250,000 in one-off changes (e.g. changes to the systems to accommodate new reporting process). Further details can be found in Table 1 of An Post's response to the Consultation.

A discussion of the requirements that would put An Post at a competitive disadvantage can be found in the answer to questions 8 and 9 of this document.

A discussion of the impact of remedies such as the PCM and funding of the USO can be found in the answer to question 11 of this document.

P.9

Please explain fully, with supporting evidence, which requirements are not proportionate to the scale of operations of An Post compared to other European operators.

An Post's turnover in 2014 was €820.6 million.

Royal Mail in 2015 had revenue of over €11,700 million at Group level, of which over €9,790 million were UK parcels, international and letters (UKPIL)²².

Poste Italiane had total revenue of €28,512 million in 2014 at Group level, with over €9,160 million from Poste Italiane SpA, the mails business of the Group²³.

La Poste, in 2014 had revenue of over €16,500 million at Group level, of which €15,978 million were from the mails business²⁴.

Therefore, An Post's scale is roughly 14 times smaller than Royal Mail's, 35 times smaller than Poste Italiane and 20 times smaller than La Poste. ComReg is seeking to impose more onerous requirements on An Post than is imposed by other regulators.

Please detail how, in An Post's view, these requirements are unlikely to assist ComReg in discharging its regulatory duties.

We note that the burden is on the regulator and not An Post to justify how the requirements assist it in discharging its regulatory duties.

²² Royal mail 2015 Annual Report. See: http://www.royalmailgroup.com/sites/default/files/Annual%20Report%20and%20Accounts%202014-15_0.pdf

²³ Poste Italiane 2014 Annual Report. See: http://www.posteitaliane.it/resources/editoriale/pdf/En/Annual_Report_2014.pdf

²⁴ La Poste 2014 Annual Report. See: [http://legroupe.laposte.fr/en/finance/publications/\(annee\)/2014](http://legroupe.laposte.fr/en/finance/publications/(annee)/2014)

Please explain why, in An Post's view, the Price Cap Mechanism has not / will not address losses on domestic USO and why s.29(1) of 2011 Act has not addressed losses on USO for International Inbound. Please quantify in €m split Domestic / International Inbound / International Outbound for current and projections to 2019.

An estimate of USO losses, normally based on the An Post five year plan, is not appropriate at this point given that the five year plan does not include the significant potential financial impact of the very recent Labour Court Recommendation (LCR21206) of 14 April 2016 which is currently being considered by the Company. Given the increased costs associated with this recommendation USO costs will increase accordingly. However, it is clear that the level of losses in the USO continue to be unsustainable with 2015 losses in the region of €32m.

Please detail what type of analysis and what further information An Post needs in this respect.

This is discussed to the answer of question 12.

2.1 Measuring mail volumes and revenues

Reconciliation of revenue and operation mail volumes

P.11

What does this mean? Please explain difference between a reconciliation in an 'accounting sense' and a reconciliation in a 'non-accounting sense'.

This is discussed in the answer to question 13.

P.12

To help ComReg further understand, operational data is for the most part based on machine counts. Does An Post, for internal management, use operational data or revenue-derived data? If use one or both please document fully how used by An Post for internal management purposes.

An Post uses both operational and revenue derived volumes for internal management, we believe that this is the case across the industry. For example, revenue and revenue derived volume is used in managing the sales performance of the business, while operational volumes are used in managing the operational performance of the business. It is not clear to An Post why ComReg is now requesting details of all data used to manage the business. We note that the burden is on the regulator and not An Post to justify how the requirements assist it in discharging its regulatory duties.

Please explain why An Post does not currently reconcile, as required by section 3.1(f) of the current Accounting Direction (06/63).

This is discussed in the answer to question 13.

Paragraphs 55, 75, 81, and 84 of Consultation 15/135 explain the importance of volumes to the regulatory accounts and ComReg's information requirements to meet its obligations set by the 2011 Act. In summary, volume information is so integral to cost allocation and that the checking of accuracy of volume data is critical to accurate accounting information being produced and to check against forecast volumes in the price cap mechanism to ensure An Post can still recover its efficient cost. Please document fully what more explanation is required.

Rather than the principles referenced by ComReg, An Post considers it necessary for ComReg to clarify what the benefit from the proposed change in the reconciliation would be, compared to the current state. Therefore, ComReg should fully document what the expected marginal benefit of the change would be, considering that a more accurate reconciliation is not possible by An Post, as explained in the Consultation response, and why what is currently provided by An Post is not regarded as accurate by ComReg.

An Post considers the requirements of the existing Accounting Direction need to be clarified in relation to volumes. For example, section 3.1 (f) states a supplementary schedule should be provided that "reconciles" revenue derived and operational volumes. Whereas section 4.3.2 (c) states these volumes "shall be compared". An Post considers that the existing supplementary schedule included in the RFS provided to the Regulator meets the existing requirements and ComReg has not provided justification for any change to this, particularly the proposal to extend the comparison to DSU level.

What exactly do you consider confidential? Please detail why.

If the reconciliation was to be conducted in an "accounting" sense, which, as explained by An Post, would not be feasible, it would then need to contain a breakdown of volumes by type of service. Publishing information on the volumes by service could damage An Post commercially, as in some segments of the mail business competitive pressure is high. We note also that this is a unilateral disclosure obligation to be imposed arbitrarily on An Post and that our competitors are not required to disclose such information publicly.

P.13

ComReg would like to point out section 4.1.2 of Consultation 15/135 - given that volume information is so integral to cost allocation and that the checking of accuracy of volume data is critical to accurate accounting information being produced. ComReg would also like to point out that the reconciliation is already required by the 2006 Accounting Direction. Therefore, ComReg requests An Post to fully explain why the reconciliation is not required.

An Post agrees with ComReg with the necessity to continuing to conduct a comparison or reconciliation in the "non-accounting" sense of the operational and revenue based volumes. However, An Post considers that ComReg has not sufficiently explained why the reconciliation currently provided by An Post is not sufficient, and why the marginal benefit from a change in the way An Post conducts the reconciliation would outweigh the costs of conducting such modified reconciliation.

Currently, the overall difference in the existing comparison is less than 5%. While An Post considers the difference acceptable, it appears that ComReg is not of the same opinion. Therefore, An Post would appreciate if ComReg would provide more information on the level of difference between the two estimates it considers acceptable.

And again, as stated previously, An Post has strongly suggested that instead of a 'reconciliation' that a 'comparison' with commentary, both on year-on-year movements, as well as between the Revenue and Operational volumes could be provided as the most reasonable alternative to provide the necessary comfort that that is required to meet the standard.

Given ComReg is proposing a decrease in An Post's compliance requirements in respect of the level at which volumes are reconciled, please provide evidence of the cost of reconciling at the service level and a separate estimate of the cost of reconciling at the format level.

This is discussed in the answer to question 1.

Reconciliation of operational volume counts

P.13

Please explain these operational reasons more fully and please document more fully what MC and DSU volume information An Post uses for internal purposes. Does this estimation for operational reasons occur at HQ?

This has been discussed in the responses above. We note that the burden is on the regulator and not An Post to justify how the requirements assist it in discharging its regulatory duties.

Does An Post, for its own operational purposes, not review / reconcile volumes between MC and DSU?

Reviews are carried out as part of normal day to day operational management. A "reconciliation" is not required by An Post to manage the business.

P.14

Please provide breakdown, with supporting evidence, of estimated additional cost in the following format:

A) Current time taken to count/record volumes at DSU per day: (xx hours) x XXX DSUs

B) Cost to count/record volumes at DSUs per day = Time per above answer x Av. hourly rate

C) Current time taken to count/record volumes at MC per day: (xx hours) x 4 MCs

D) Cost to count/record volumes at MCs per day = Time per above answer x Av. hourly rate

E) Cost of informal comparison at HQ on daily basis: xx hours x Av hourly rate

F) Total current cost involved in operational counts on a daily basis = B) above + D) above + E) above

G) Additional cost of increasing of what An Post claims to be a "comparison" to reconciliation involving investigation of differences: xx hours x Av. hourly rate x 4 times per year

An Post provided cost estimates at Table 1 of the response of 27 January 2016. An Post considers it inappropriate to now provide such detailed estimates, including daily costs per office, since ComReg has failed to provide any estimates on the benefits that it expects from the provision of a reconciliation of operational volumes counts. This is further discussed in Section 3 of this note.

Audit of the reconciliation of revenue derived volumes with operational based volumes

P.14

On what basis / supporting evidence, has An Post formed this view? Has An Post discussed this with an auditor(s)? If so, please provide evidence to support contention.

This is discussed in the answer to question 13.

P.15

Please explain more fully why An Post believe that this meets the requirements of the existing Accounting Direction. The existing Accounting Direction (06/63) requires "mail volumes, by service, separately recorded, from (i) revenue data recorded at the point of sale; and (ii) operational data recorded in the outward phase of the postal pipeline, shall be compared. An Post shall understand and shall be able to report the reasons for any divergence between the two measures"

As explained by An Post in its response to the Consultation and in this document, a reconciliation of the volumes, in the "accounting" sense, is not possible as the different methodologies result in systemic differences between the estimates.

An Post currently provides a comparison/reconciliation of the two sets of volumes, and understands that the main driver of differences between the estimates is due to the methodologies being different: one being a bottom up estimate (operational volumes) and the other a top down estimate (revenue based volumes). It is not clear to An Post why ComReg considers this to be insufficient.

***Reporting the process for measuring operational based volumes and their accuracy:
Automated machine counts***

P.16

We understand that An Post already performs these controls. Therefore please provide evidence of what additional costs An Post would incur.

An Post refers ComReg to Table 1 of An Post's response to the Consultation, dated 27 January 2016, where estimates of the cost of compliance to An Post are detailed.

Requiring An Post to include such details in an Accounting Manual is not provided for in Section 31 of the Act. In addition, this would restrict An Post's ability to manage the existing processes.

Please explain this view more fully, especially given section 31(3)(g) of 2011 Act

The type of specificity with which ComReg believes it can direct An Post to comply with or that it can require of An Post does not have a legal basis within Section 31(3)(g) which provides for a general power only and must be read in light of all of Section 31 of the Act and what that specific subsection states. We refer ComReg to our Letter from our Legal Advisors where this is clearly explained.

Reporting the process for measuring operational based volumes and their accuracy: Manual counts

P.16

Please provide evidence of the costs of including in the Accounting Manual details of the process for reviewing container fills, and the outcome of those reviews.

1. How often does An Post currently review average container for its own internal processes and controls? 2. If so, how is this reported?

An Post believes that these requests fail to comply with the principles of necessity and proportionality that should guide any regulation, as discussed in Section 3 of this response.

2.2 Cost identification and allocation

Identification of costs

P.18

If a s.33 dispute arose in relation to the price of access to the postal network of An Post, how would An Post propose to identify the avoided cost it incurs to inform the resolution of any such dispute?

An Post is concerned that ComReg appears to misinterpret the purpose and/or function of a set of RFS. The RFS is not designed to and should not contain information that can potentially be of use in case of a dispute, but rather should include the information necessary to ComReg to perform its functions for the purposes in question. In case of a dispute, An Post would certainly liaise with ComReg and provided the necessary information, but requesting that this information is pre-emptively included in the RFS on a 'just-in-case' basis in the event that a dispute may occur is inappropriate and non-proportional.

Please provide supporting evidence and detail for this belief.

As stated by An Post in the response to the Consultation, Royal Mail does not provide detailed information for all its products, but in its cost manual it describes the process for defining avoidable costs in First Class mail and Second Class mail only. Hence, Royal Mail does not report at the level of detail that ComReg suggests and would like to require from An Post.

How will An Post identify the avoided cost for a reference scenario in any net cost submission?

An Post will identify avoided cost for a reference scenario in line with the PC methodology outlined by ComReg in Document 13/69.

P.19

Please explain fully reason / support for this review. Also, please explain why s.31(3)(a) and s.31(3)(g) do not apply.

We refer ComReg to our Letter from our Legal Advisors where this is clearly explained.

Cost drivers

P.19

Please name or list examples of best practice you are referring to here.

An Post is not aware of any jurisdictions where the incumbent provides a full description of cost drivers in the Accounting Manual as proposed by ComReg. For example, both the French²⁵ and the Italian²⁶ Regulators do not discuss the level of reporting on cost drivers required from the USP.

²⁵ See: http://www.arcep.fr/uploads/tx_gsavis/10-0363.pdf and http://www.arcep.fr/uploads/tx_gspublication/synt-system-regcompta-laposte-120410.pdf

²⁶ See: <http://www.agcom.it/documents/10179/540185/Allegato+19-12-2013+1/32a608f7-6464-4556-a5c4-0d334b2dbc7f?version=1.0>

As set out in 15/135 and our pre-consultation, ComReg is requesting that An Post set out in full all its cost drivers, why such cost driver is appropriate, and where there is a change in cost driver why that is appropriate. This is critical information to understand cost allocation. Please explain fully what more information (beyond that provided in Consultation 15/135) An Post requires to fully understand this proposal.

As An Post stated in its response to the pre-consultation and the Consultation, An Post currently forwards details of the proposed cost drivers to ComReg on an annual basis. This information includes details of how the cost drivers are set and reviewed annually.

With regards to the level of detail included in the cost driver discussion, since An Post currently provides in full its cost drivers to ComReg specifying any changes from the previous year, it is still unclear to An Post exactly what type of additional information ComReg would like to receive.

P.20

To aid ComReg's understanding, please detail how many methodology changes were made in the financial year ending 2014, what was the nature of these changes, and what proportion of these would An Post consider material changes?

All changes are included in the Accounting Manual, An Post does not consider any of these changes to be material. As per response of 27 January 2016, An Post suggests that year on year methodology changes could be discussed with ComReg in advance of publication of the annual Regulatory Accounts.

Costs for each universal postal service price

P.21

Given section 3.2 of the current Accounting (sic) Direction (06/63) requires cost estimate for each price point, please explain why An Post is not currently complying with this?

This is discussed in the answer to question 6 above.

Please provide evidence of any difference in costs between ComReg's proposal and the requirements of the current direction.

This is discussed in the answer to question 6 above.

Please explain this more fully. The price cap decision was made pursuant to s.30 of the 2011 Act, the requirement for cost oriented prices for each universal postal service is pursuant to s.28 of the 2011 Act.

An Post is in compliance with the Tariff Principles included in the Act, including cost orientation. The PCM provides an overall limit on the annual percentage change in charges that can be imposed for any basket of postal services. The PCM is defined at the level of a basket of goods. Therefore, rather than deriving a price cap for each service, under the current system, price caps are derived for a set of services. Since the price caps are based on cost estimates, it is necessary that these estimates are derived at the level of the defined baskets. At the same time, further disaggregation of the costs is not necessary for the PCM.

Inter-company and inter-segments transactions

P.22

Please explain this view more fully, particularly as the universal postal service does not face effective competition.

This is discussed in the answer to question 8 (commercial sensitivity of inter-segment matrices) and question 2 (competitiveness in the market).

This was explained in the pre-consultation engagement and in 15/135. This means that whether the basis of the setting of the transfer charge is appropriate. For example, if a transfer charge was based on cost, is there a 3rd party charge that is more appropriate to set the transfer charge. Please explain more fully if this is still not clear to An Post and why this is still not clear.

Transfer charges and methodology are explained in detail in the Accounting Manual, it is still not clear what ComReg consider to be the "nature and detail" of charges in addition to that already included in the accounts. Such charges are covered by the current Audit scope.

Further, An Post believes that the internal transactions between USO and non-USO products and the overall charges in relation to An Post's retail operations are commercially sensitive should not be included in the public RFS.

2.3 Regulatory reporting

P.24

Please explain why, in An Post's view, that legislative basis / competitive environment is comparable in UK and for other regulated utilities in Ireland.

Please explain more fully why An Post is of this view.

Please explain this more fully. How would universal postal service accounting obligations affect any Government decision on private capital in An Post? Is An Post aware of any such plans by Government and time-frame of same?

Our response of 27 January 2016 clearly states that we consider many of the proposals to be disproportionate and impractical, such a regime would increase costs and reduce the commercial value of the business.

P.25

The matter is subject to a public consultation (15/135); why and how does An Post consider that the Government ought to be consulted outside the public consultation process.

The Minister, as the sole shareholder of An Post, ought to be consulted directly.

Reporting balance sheet at regular intervals

P.25

Please provide evidence to support this claim. According to ComReg's records, the presentations made to ComReg by An Post have not included detail on An Post's cash position. Also, these are not regular review meetings.

Regular meetings are held at CEO and Commissioner level, with the most recent meeting being in February 2016. Cash balances may not be discussed at all meetings but are discussed where necessary, An Post can include this in all future meetings if ComReg believe this is necessary.

Please provide details of other financial metrics regularly used by An Post's management, such as those used for credit ratings (e.g. FFO/net debt, net debt/EBITDA, etc.)

This is discussed in the answer to question 7.

Please provide details of other financial measures that An Post considers would be useful in determining its financial position and its ability to continue to service the USO.

This is discussed in the answer to question 7.

Please explain why An Post is of the view that the €100m is arbitrary and unjustified. What level would An Post consider to be justified and not arbitrary?

An Post, as explained in its response to the Consultation, believes that any threshold set by ComReg would be arbitrary, as the ability of An Post to provide the universal postal service does not exclusively depend on its cash at bank and in hand. As explained by An Post, its financial position is not appropriately summarised by the cash position alone.

Which utilities and USO providers are these? Are they in an insolvency position or considered solvent?

The US Postal Service (USPS), for example, has been suffering chronic losses each year since 2007. In 2015, the operator has reported a \$5.1 billion loss²⁷.

USPS has made losses of \$26bn over the past three years, which convinced the company to propose a reduction in the number of days of delivery to five per week and the introduction of delivery to community mailboxes. The Congressional Budget Office has estimated that over 10 years these changes would save USPS \$10.9bn and \$8.1bn respectively. However, the US Congress has not approved any of these changes²⁸.

As An Post is technically insolvent (due to pension deficit), would An Post be able to obtain debt finance if needed?

It is not clear why ComReg refers to An Post as “*technically insolvent (due to a pension deficit)*”. The pension deficit does not impact An Post’s solvency in managing the day to day business and should not be considered an issue in this context.

P.26

Please explain fully why the proposed reporting requirement would lead to this claimed outcome.

An Post does not forecast significant further investment over the next few years so why would 'investments be stifled' by maintaining a higher cash balance?

The ability of An Post to plan future investments will also depend on the liquidity requirements that would be imposed by ComReg. The €100m requirement would make An Post more dependent on external funding for its investments, thus making it more difficult for An Post to invest.

Are these examples technically insolvent with y-o-y decreasing liquidity ratios?

With respect to liquidity ratios, An Post’s Current Ratio in 2014 was higher than both La Poste and Hellenic Post’s, suggesting a better liquidity position. La Poste’s Current Ratio increased by 1% between 2011 and 2015, from 1.017 to 1.027, while the Hellenic Post’s Current Ratio decreased by 6% between 2011 and 2014, from 0.96 to 0.90.

²⁷ USPS Annual Report 2015 <https://about.usps.com/who-we-are/financials/integrated-financial-plans/fy2015.pdf>

²⁸ http://ec.europa.eu/internal_market/ergp/docs/documentation/2014/ergp-14-16-uso_en.pdf

Capital expenditure

P. 26

Please provide supporting evidence for this claim in relation to the proposed reporting requirement.

Details on capital expenditure are commercially sensitive and should not be included in the published RFS. ComReg has not clearly explained what the perceived benefit of this proposal is in aiding ComReg to carry out their duties.

ComReg's concern regards the continued provision of the USO, and specifically any underspend on essential capex needed to ensure the ongoing provision of the USO. ComReg acknowledges that detailed capex figures are not available because a split out of USO and non-USO capex would be based on arbitrary assumptions.

Therefore, how would commentary on USO-related capex compromise commercial strategy, when the USO is not subject to competition?

This is discussed in the answer to question 8.

P. 27

Would An Post not think that providing commentary on USO-related capex is less intrusive than providing a detailed breakdown of capital employed for the USO and non-USO?

An Post does not accept that it is required to comment on capex in the public RFS, which it regards to be intrusive and potentially damaging of An Post's interests.

Payroll costs

P. 27

These were explained in the pre-consultation engagement and Consultation 15/135. Staff costs account for majority of USO cost, ComReg requires more information on this cost component. An Post is requested to explain more fully what further information beyond that in the pre-consultation and Consultation 15/135, that it requires.

The fact that the payroll costs account for a large part of the USO cost itself does not justify the request. ComReg should explain which benefits it expects from having this information. In this sense, ComReg has not responded to An Post's request, but merely restated what is already included in the pre-consultation and in the Consultation.

Once again, An Post would like to remind ComReg that information requests from the USP should be motivated by necessity, not by unspecified and general improvement of the reporting as suggested by ComReg in its Consultation.

Please explain this fully with supporting evidence as to why the information sought is not readily to hand for An Post. An Post used to produce similar information for its Annual Report up to 2008 but the production of such information has ceased since then, please explain why this is. Does An Post not already record these costs differentiated by service as part of its cost accounting system?

Currently, An Post's costing model does not allow for a split of payroll costs at the business unit level, contrary to what ComReg asserts in the Consultation. Updating the cost model to allow for this split has an estimated cost, included in Table 1 of the An Post response of 27 January 2016, which could only be justified if ComReg would clearly define which benefits specifically it would expect from this information and if those benefits would be deemed to outweigh the cost to An Post. Payroll cost details are included in the notes to the An Post Statutory Accounts, this note can be repeated in the RFS.

Please explain this fully. The information relates to USO which does not face effective competition.

This is discussed in the answer to question 8 above.

Account commentary

P. 28

Please explain this fully, providing full detail on claimed cost, with supporting evidence. Please provide in format: Additional Cost = No. of hours required to increase commentary at the service level x average hourly rate x no. of employees.

ComReg has ignored the reference to Eircom and RTE/2rn made in the response from An Post of 27 January 2016, the requirements proposed by ComReg greatly exceed what is requested by ComReg of similar organisations.

P. 29

Why is An Post of this opinion? Please explain fully with supporting evidence by reference to requirements of the 2011 Act which include s.28, s.29, s.30, s.31, s.33, s.35

Which international standards does An Post refer to?

Please see An Post response of 27 January 2016 for an overview of Royal Mail commentary.

Other reporting requirements

P. 29

Please explain fully why An Post is of this view.

It is understood that an 'Agreed Upon Procedures' is not an audit & is not carried out in accordance with generally accepted auditing standards. It is an engagement carried out in accordance with ISRS 4400.

An Post believes that ComReg should apply the same level of scrutiny to An Post's ad hoc reports that it requires from Eircom and RTE/2rn. Both operators currently provide additional information to ComReg under the heading of "Additional Financial Information" ("AFI" for Eircom) and "Additional Financial Data" ("AFD" for RTE/2rn).

P. 30

The wording in the Consultation document Section 4.3.5 (154) and Section 4.3 of the Draft Direction include the word MAY arrange for an ad hoc report to be subject to an Agreed Upon Procedures - this means only if needed. How does it suggest that it would be the norm for an ad hoc report to be subject to an Agreed Upon Procedures? An Post is requested to comment.

In its response to the Consultation An Post states that: "An Post would again like to highlight that both Eircom and RTE/2rn, who currently provide regulatory information of this nature to ComReg, do so under the heading of "Additional Financial Information" ("AFI" for Eircom) and "Additional Financial Data" ("AFD" for RTE/2rn). The auditing of this information is on an 'as needed' basis and is the exception and not the norm." Therefore, An Post has not misinterpreted ComReg's suggestion to request the report ad hoc, but it is simply noting that this is the case also for Eircom and RTE/2rn, whose cases An Post considers to provide ComReg with useful benchmark for the standard of scrutiny of the ad hoc reports.

2.4 Compliance requirements

Scope of audit

P. 31

The list is merely an explicit outline of the main points to be covered by the audit, which to our understanding, most are covered under the current Engagement Letter. Which points cause the concern for An Post?

The response from An Post of 27 January 2016, along with the responses from CAI, KPMG and PwC all highlight that the audit points proposed in the Consultation need to be made clear. We suggest that this can be best achieved by direct engagement between ComReg, An Post and the professional body, CAI.

Why does An Post have a preference for a PPIAW opinion? Given the current audit is "fairly presents", why in An Post now of the view that PPIAW is better? This was not raised by An Post in the pre-consultation.

An Post considers the audit standard should be conducted on a "properly prepared in accordance with" (PPIAW) basis. The PPIAW standard is considered to be sufficient and proportionate by An Post, as it would not be as burdensome as the fairly prepares standard, but would still provide ComReg with confidence on the RFS.

A review of international precedents highlights that there is no single standard practice in relation to the type of audit opinion provided. For example, while a 'present fairly' basis is applied for some operators, RTE/2m and Royal Mail's regulatory audits are carried out on a PPIAW basis, which Frontier Economics and ComReg have failed to discuss in the pre-consultation report as a possible option.

P. 32

Please explain this with supporting evidence. The current audit opinion states whether the Regulatory accounts present fairly the profits and losses attributable to individual products and services in accordance with the Regulatory Accounting Principles (sic) and Basis of Prep.....and are properly prepared....in accordance with Regulatory Accounting Principles (sic) and Basis of Prep....

As previously noted in this document, we suggest that this can be best achieved by direct engagement between ComReg, An Post and the professional body, CAI.

Who does An Post consider to be "experts in this area"?

An Post believes that before considering changes to the accounting standard ComReg should consult CAI.

Why does An Post consider that sufficient detail has not been provided to date? Please explain what "wider engagement" that An Post contends is required.

Some of the audit requirements listed in paragraph 164 of the Consultation are vague. Their implementation may therefore be open to interpretation, as highlighted by An Post in its response to the Consultation. An unambiguous definition of the auditing requirements is necessary for An Post to comment on their appropriateness. Therefore, An Post believes that more detail should be provided by ComReg on the interpretation of the areas listed by An Post on pages 32 and 33 of the Consultation response of 27 January 2016.

Further, An Post believes that a clarification of the interpretation of these areas would be best achieved through discussions between An Post, ComReg and CAI, as this would allow ComReg reach a feasible and efficient solution in the shortest time, since ComReg would be able to set the requirements in line with what An Post can feasibly provide.

Is this not answered by reference to the audit opinion in the Regulatory Accounts - namely, that the Regulatory Accounts present fairly, the profits and losses attributable to the individual services? What further information does An Post request?

What does An Post, given it currently appoints the Regulatory Auditor, believe to be reasonable requirements of ComReg for the regulatory auditor?

As previously noted in this document, we suggest that this can be best achieved by direct engagement between ComReg, An Post and the professional body, CAI.

P. 33

What are the differences An Post refers to here?

As previously noted in this document, we suggest that this can be best achieved by direct engagement between ComReg, An Post and the professional body, CAI.

Appointment of the Regulatory Auditor

P.34

Please provide evidence to support this claim.

The independence of an accredited auditor is guaranteed by ethical requirements. The Financial Reporting Council, the UK and Republic of Ireland's independent regulator, promoting high quality corporate governance, reports that:

*"Auditors in the UK and Ireland are subject to ethical requirements from two sources: the APB Ethical Standards for Auditors concerning the integrity, objectivity and independence of the auditor, and the ethical pronouncements established by the auditor's relevant professional body."*²⁹

The APB Ethical Standards for Auditors state that:

*"Auditors shall conduct the audit of the financial statements of an entity with integrity, objectivity and independence."*³⁰

The members of the Institute of Chartered Accountants in England and Wales (ICAEW), the professional membership organisation that promotes, develops and supports more than 144,000 chartered accountants in 160 countries:

*"All members are required to apply [ICAEW's Code of Ethics](#) ('the Code') in all of their professional and business activities. This includes, among other things, being objective. In addition, when carrying out an assurance engagement, independence is required, which can be considered to be a sub-set of objectivity, focused on the avoidance or management of particular relationships and activities that could, or could be seen to, compromise objectivity."*³¹

Further, the Audit regulations and guidance that applies to all member firms of the ICAEW states that:

"Registered auditors must comply with the regulations, which require them to:

- *Carry out audit work with integrity;*
- *Be and be seen to be independent;*
- *Comply with auditing standards;*
- *Make sure that all principals and employees are fit and proper persons; and*

²⁹ See <https://www.frc.org.uk/Our-Work/Publications/Audit-and-Assurance-Team/200-Overall-objectives-of-the-independent-auditor.pdf>

³⁰ See [https://www.frc.org.uk/Our-Work/Publications/APB/ES-1-\(Revised\)-Integrity,-objectivity-and-independ.pdf](https://www.frc.org.uk/Our-Work/Publications/APB/ES-1-(Revised)-Integrity,-objectivity-and-independ.pdf)

³¹ Regulation of Auditor Independence. See: <http://www.icaew.com/en/technical/ethics/auditor-independence/regulation-of-auditor-independence>

- *Make sure that all principals and employees are competent and continue to be competent to carry out audit work.*³²

Therefore, there should not be any doubt on the independence of an accredited auditor, as auditors are required to be independent.

Please advise when KPMG commenced as (1) Statutory Auditor (2) Regulatory Auditor and how many re-appointments of (1) and (2) by An Post have been made.

It is not clear why this question has been raised by ComReg as this information is a matter of public record. An Post procurement is governed by EU 2004 Directive (Award of Contracts by Utility Undertakings 2004/17/EC) transposed into national legislation by implementing Regulations 2007 (SI no. 50 of 2007).

KPMG has been the Statutory Auditor for An Post since the formation of the Company under the Postal and Telecommunications Services Act 1983, this information is a matter of public record and is included in the Annual Reports of the Company. KPMG commenced as Regulatory Auditor in 2007, this information is also included in the published RFS.

P.35

The proposal for the NRA to appoint the auditor and separate the Statutory auditor from the Regulatory Auditor is mainly based on a paper by CERP (see ComReg 15/135a - page 99). To reiterate, the CERP report points towards best practice in cost accounting and acknowledges that where the statutory auditor is different to the regulatory auditor, the cost of auditing will be increased. However, this may be worth merit because it guarantees full auditor separation, particularly given that the USP pays for the audit.

Two alternatives suggested to provide the regulator with extra assurance in the case where the Statutory Auditor is the same as the Regulatory Auditor:

- 1) We could consider another auditor perform a peer review on the work of the Stat Auditor, or***
- 2) the Regulator pays for the audit.***

What does An Post think about the above suggestions?

In the Consultation ComReg uses the two WIK reports to justify the need to consider allowing the Authority to appoint the regulatory auditor (see page 45 of the Consultation). Therefore, the fact that ComReg previously rejected An Post quoting from the same two reports is relevant.

Further, while the CERP report describes this as best practice, a 2009 WIK report found an even split between jurisdictions where the auditor is appointed by the regulator and jurisdictions where the auditor is appointed by the operator³³. Therefore, it continues to be unclear as to what specific concern is being addressed with these suggestions being put forward by ComReg, quoting "best practice" as referred above, is not consider sufficient justification if not linked directly to a quantifiable issue.

An Post would also reiterate that currently the regulatory auditor owes a duty of care towards ComReg, which in An Post's view should be considered as sufficient.

³² See <http://www.icaew.com/en/members/regulations-standards-and-guidance/audit/audit-regulations-and-guidance-31-march-2013-archive>

³³ WIK-Consult, 2009, The Role of the Regulator in a More Competitive Postal Market <http://ec.europa.eu/internalmarket/post/doc/studies/2009-wikregulators.pdf>

P.36

This was provided in the pre-consultation engagement and in Consultation 15/135, please provide detail on what further information An Post requires.

Since, as discussed by An Post in its response to the Consultation and in this document, the independence of an audit is guaranteed when an accredited accountant is used, further information should be provided by ComReg to justify the need to separate the regulatory auditor and the statutory auditor.

ComReg's approval of the USP's Accounting Manual

P.39

Please explain this. What would be "material"? Would a change only be made by An Post if it is "material"? If it is not "material", why would a change be made? Please provide examples to fully understand this point.

Some of the changes to the Accounting Manual merely mirror minor changes to the internal accounting system of An Post. These changes do not have material impacts on the Accounting Manual, but may be necessary due to changes to the internal An Post process or system. We note that the issue of materiality will be in reference to its impact on the final Regulatory Statements, but again, we suggest that this can be best discussed by direct engagement between ComReg, An Post and the professional body, CAI.

Statement of compliance

P.40

Please explain why this would be as the Regulatory Auditor would have a "duty of care" to An Post.

For An Post's Directors to take full responsibility of the regulatory audit, full knowledge of the regulatory audit is necessary. If the auditor was to be appointed by ComReg and thus ComReg was to be the auditor's main contact, An Post's Directors would not automatically have the knowledge and the confidence to take full responsibility of the audit. To acquire such knowledge they would need to invest time and resources replicating what ComReg's staff would have already done.

Further, An Post would like to highlight that the current duty of care that the regulatory auditor owes to ComReg is clearly not regarded as sufficient by ComReg, as the Authority's proposed changes suggest that ComReg does not think it currently has enough oversight over the audit process. Consequently, An Post wonders why the duty of care is considered insufficient for ComReg in relation to the functioning of the audit, but is regarded as being sufficient for An Post Directors to take full responsibility for it. It should also be noted that the existing tri-partite engagement process was agreed and put in place in 2012 after detailed discussions and engagement between the parties and CAI. It is not clear why ComReg considers that this tri-partite engagement process is now somewhat deficient and requires change.

Timetable to comply with Direction

P.40

Please list, document and explain fully, with supporting evidence, the numerous changes required.

The numerous changes are included in the various Consultation documents issued by ComReg and the responses issued by An Post, it is not clear what further details ComReg now requires.

Format of the Regulatory Accounts

P.41

Why is An Post of this opinion?

The RFS should provide enough information for ComReg to perform its duty as regulator, while minimising the cost of compliance to An Post. Allowing An Post to design the RFS would ensure that the information required by ComReg is included in the format that would minimise An Post's cost of compliance. This would not be the case if ComReg was to design the RFS due to the fact that ComReg does not have detailed knowledge of An Post's internal processes. This has been highlighted in many instances in this consultation, as demonstrated by the information included in this document and in An Post's response to the Consultation.

The higher number of iterations necessary to agree on a RFS designed by ComReg would pose an unnecessary cost to both ComReg and An Post. Further, there is no reason to presume that a RFS initially designed by ComReg would result in a different balance between feasibility and cost of compliance than the current format designed and agreed between An Post and ComReg over the past number of years. We consider that this process has worked effectively and should continue into the future.

What level of detail is in excess of the requirements of the 2011 Act? Please document fully.

This is included in our letter to ComReg of 9 December 2015, including details on our legal concerns from our legal advisors, Matheson.

Why is An Post of this understanding?

See answer above to previous question.

P.42

Would An Post agree that a liquidity metric is one such part?

This is discussed in the response to question 7 above.

Why is An Post of the view that UK is best practice?

In ComReg's pre-consultation, Royal Mail is used as virtually the only benchmark to define An Post's new regulatory requirements. ComReg's documents includes 16 references to Royal Mail, while no reference is made to other European useful benchmarks, such as Italy or France, which have instead been consulted by An Post.

On the premise that Royal Mail is used so extensively as benchmark by ComReg, An Post believes that it is only fair that Royal Mail's example is referenced also in circumstances when the UK best practice is not in line with ComReg's proposed changes.

Therefore, it is not clear why ComReg uses so extensively Royal Mail as a benchmark but does not appear to accept An Post's reference to it?

P.43

An Post is different to Royal Mail - on what basis is An Post using to assume Royal Mail is a directly comparable example?

As discussed in the previous question ComReg uses Royal Mail as benchmark in several instances, including the frequency of publication of the Accounting Manual, the review of the container fills assumptions, and the avoidable costs example included in Royal Mail accounts. An Post is surprised that Royal Mail is considered comparable in ComReg's own document, but references to Royal Mail are opposed when provided by An Post.

Further, An Post would agree with ComReg that the companies are different, as discussed above, An Post's size and scope of business is much smaller than Royal Mail's, and thus the need for public accountability should be less than that required by Ofcom of Royal Mail. Therefore, information on per unit revenue, cost and profit for each USO service should not be published.

As mentioned by An Post in its response to the Consultation, aggregate information on volumes, revenues and costs is easily available in the confidential RFS.

Considering concerns relating to the USO here in Ireland, and to help facilitate evaluation of the PCM, does An Post not think that a USO & non-USO split of Mails balance sheet is understandable?

Please explain fully why opposed for public version.

This is discussed in the answer to question 2 above.

P.44

Please explain why opposed for public version.

This is discussed in the answer to question 2 above.

P.46

Please explain with supporting evidence. USO does not face effective competition.

This is discussed in the answer to question 2 above.

Please explain this fully with supporting evidence to support the contention. This information is already available from An Post's published RFS - how has this impacted An Post and put it at a competitive disadvantage to date?

This is discussed in the answer to question 2 above.

Please explain this fully with supporting evidence to support the contention.

This is discussed in the answer to question 2 above.

P.47

Please provide this evidence to support.

This is discussed in the answer to question 2 above.

How has An Post reached this conclusion? For example, Royal Mail includes an Income Statement in its Reg Accounts showing Network Access - this is not required of An Post.

The detail included in the Royal Mail Regulatory Accounts is limited to two services i.e. aggregated USO Service and Other Operations. This, along with supplementary information supplied to Ofcom, is sufficient for the regulator to carry out its regulatory duties.

P.48

Detailed calculations with supporting evidence is required to support this claimed estimate.

See Table 1 of An Post's response of 27 January 2016.

To aid ComReg's understanding, what exact differences between the Eircom RIA and the draft RIA in 15/135 is An Post of the opinion that causes the draft RIA in 15/135 to be inadequate?

Some of the key differences are already discussed in An Post's response to the Consultation (pages 48, 49 and 52). An Post invites ComReg to review the RIA performed for other regulated entities in recent years, for example ComReg Document 10/67, to gain a better understanding of the standards expected by An Post.

P.49

Please document fully all the information currently collected by An Post in relation to (1) operational volumes (2) Revenue derived volumes.

This is discussed in the answer to question 1 above.

Please document in detail what changes to the reporting systems would be required and why An Post does not use such detailed reporting for its own purposes.

This is dealt with in the answer to question 1 above.

P.50

Please outline the exact steps involved in conducting a review of average container fills to aid ComReg's understanding.

Please list all steps and indicate approx. time taken to complete each.

For example: Step 1: Head of Mails Processing obtains prior year list of average container fill assumptions (time taken - n/a)

Step 2: Check to see if any new containers in use at DSU level compared to prior year (Time taken - x hours/days)

Step 3: Where new container has been introduced, conduct testing to obtain average fill assumption to a degree of accuracy of +/- X% (Time taken - x hours/days)

Step 4: Conduct sampling of existing containers at DSU level (high frequency) to ensure coverage of X% and degree of accuracy of +/- X% (Time taken - x hours/days)

Step 5: Check to see if any new containers in use at MC level compared to prior year (Time taken - x hours/days)

Step 6: Where new container(s) has(ve) been introduced, conduct testing to obtain average fill assumption to a degree of accuracy of +/- X% (Time taken - x hours/days)

Step 7: Conduct sampling of existing containers at MC level (high frequency) to ensure coverage of X% and degree of accuracy of +/- X% (Time taken - x hours/days)

Step 8: Collate results of testing/sampling and update assumptions (Time taken - x hours/days)

Step 9: If any changes required, obtain review and sign off by Mails Director (Time taken - x hours/days)

(NOTE: the above are illustrative suggested steps but please amend/add/delete as necessary to accurately document your own exact process)

An Post provided cost estimates at Table 1 of the response of 27 January 2016. An Post considers that sufficient explanations have not been provided by ComReg to justify the provision of such detailed information. At present, it is not clear to An Post why ComReg is seeking such detailed information. For example, details of container fill estimates have no impact on the Regulatory Accounts cost allocation process.

Please detail and explain what "materiality consideration" should be introduced.

Please see Section 1 of this response.

Please explain why An Post believes this to be the case.

It is ComReg's responsibility to prove that proposed regulation is proportionate. Currently, ComReg has failed to indicate the exact benefits that it expects from the identification of avoidable costs.

ComReg does not see any additional cost included in An Post's Table 1 'High Level Summary of Potential Implementation Costs' on page 61 of this RTC.

Please outline what additional costs are involved in documenting the process involved to identify avoidable, variable and fixed costs in the An Post Accounting Manual?

See response to similar question at section 2.2 above.

Please explain fully with supporting evidence. ComReg notes no additional expense associated with this proposal in An Post's Table 1 'High Level Summary of Potential Implementation Costs' on page 61 of this RTC.

All totals in the template table can be completed by using what was already provided in the published 2014 Reg Accounts. Also, the General Ledger should provide the breakdowns?

An Post has dealt with this point in the response of 27 November 2015 (including alternative templates for the RFS at Appendix A).

P.51

Please detail and explain what "materiality requirement" should be introduced.

Again, we suggest that this can be best discussed by direct engagement between ComReg, An Post and the professional body, CAI.

Please provide evidence for this contention

See above.

How does commentary on USO-related capex compromise commercial strategy, when the USO is not subject to effective competition?

This is discussed in the answer to question 2 above.

The information relates to USO which does not face effective competition. Please explain An Post concerns.

This is discussed in the answer to question 2 above.

P.52

To aid understanding of costs involved, please detail, with supporting evidence, the various steps that would need to be implemented in order to meet this requirement.

An Post's expected costs are outlined in our previous response of 27 January 2016. ComReg should consider the costs provided by An Post and balance them to the expected benefits from regulatory change, which should be detailed by ComReg. ComReg has failed to detail the expected benefits for many of the proposed changes.

P.53

Please explain fully and provide suggested solution/timeline. Is it not for the independent auditor to determine the timeline for completion of the audit depending on the audit engagement and whether there are information delays / concerns etc. that impact on the audit?

An Post's response of 27 January 2016 clearly states that the existing timeline of 19 weeks should continue to apply.

Please explain fully by reference to existing timeline of providing accounts to Regulatory Auditor for review. Please provide suggested solution/timeline.

This is discussed in the answer to question 10 above.

Please provide full detailed breakdown of the existing 19 weeks timeline.

We propose that this is discussed with the Auditor as part of the tri-partite engagement process.

P.54

What timeline does An Post consider to be appropriate? Please provide supporting evidence.

This is discussed in the answer to question 10 above.

P.55

Who are the "Accounting profession" and why would they need to be party to the setting by ComReg of universal postal service accounting obligations to meet its information requirements and requirements set by 2011 Act?

An Post believes that CAI or a similar body should be involved in the discussions.