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A comparative study on global perspectives on Policies and Accounting Regulations for Telecom Industry

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As the global telecommunications sector is rapidly changing, it is necessary to review and understand the policies and accounting regulations changes across the world to catch up with the current telecommunications industry regulatory accounting system to properly provide information necessary for decision-making by regulators and business stakeholders. We aim to thoroughly review the current version of telecommunications regulatory report of different countries, and the issue of the imposition of fines and penalties, and considers whether the system needs to be improved by benchmarking the regulatory accounting systems for telecommunications business in developed countries such as the United Kingdom, the United States, Japan, Australia, and Singapore. In particular, this study has policy implications in that it is the first comparative study on fine and penalties regulation in telecommunication industry and disclosure of regulating financial reporting information in various countries, a topic that has not been covered in existing research but is likely to be of great interest in regulation.

The results of this study are as follows. This study was conducted to suggest points to be considered to supplement the current regulatory accounting reports according to the telecommunications industry accounting separation criteria, and to improve the regulatory accounting report verification system and post-sanction measures in line with the global changes in the telecommunications industry.

Looking at recent changes to the UK's regulatory accounting system, Ofcom's involvement in regulated financial statements has

been strengthened, the scope of information disclosure has been broadened, and changes have been made to disclose more detailed information. In the process of preparing regulated financial statements, Ofcom's control was strengthened more than BT's discretion. Through these changes, Ofcom seeks to improve the understanding of stakeholders who use regulated financial statements and strengthen the consistency of regulatory accounting information and regulations. This also reflects Ofcom's determination to more strongly check whether SMPs are carrying out their obligations. In conclusion, efforts are needed to increase the reliability of accounting information in business reports and increase the understandability of stakeholders by introducing a prior verification system to increase the timeliness of accounting information and strengthening the control and intervention of regulatory agencies in the regulatory accounting system.

According to the revised fines guidelines in 2017, Ofcom takes into account all the circumstances of a case to determine the appropriate fine amount. Considering the seriousness of the case, the amount deemed sufficient to ensure that it acts as an effective incentive for regulatory compliance is generally determined by taking into account the size and sales of the relevant institution, and the most important purpose of imposing a fine is deterrence.

In Australia(ACCC), if a service provider fails to comply with the Access Agreement Reporting reporting requirement, sanctions may follow under the Telecommunications Act of 1997, and a fine of up to 8.9 billion won (\$10 million

Australian dollars) may be imposed for each violation. The ACCC uses specific reports and information submitted to monitor compliance and may also publish specific information or reports, but not confidential information.

Regarding the report verification system, the study proposed a plan to reduce the risk of accounting violations by preparing detailed accounting separation guidelines for each business operator while maintaining the current business report post-verification system.

And the study proposed to reduce the burden on operators by reducing the impact of the error amount due to simple mistakes rather than gross negligence or negligence of accounting managers while maintaining the current penalty method for post-sanctions related to accounting violations.

This study has the following policy suggestions for practical use.

- (1) Strengthening the preparation of accounting separation guidelines for each business operator
- (2) Strengthening accounting and audit expertise of the Ministry of Science and ICT
- (3) Revising the system: Since the amount of fines may be a burden to operators due to simple mistakes, the government will revise the system to reduce simple mistakes by operating the accounting separation guidelines and Q&A system more effectively.

This study contributes to the fact that it derived improvement measures for the overall telecommunication business accounting system in line with changes in the telecommunication industry technology, business environment, and regulatory environment.

England : Analysis of Recent Regulatory Financial Reports by BT

BT's regulatory financial reports are crucial for ensuring fair competition, cost-based pricing, and tariff regulation. These reports detail BT's regulatory obligations, such as accounting separation, cost information related to SMP markets, the correlation between prices charged to downstream parts of BT and third parties, key performance indicators related to regulatory obligations, and BT's accounting processes and methodologies used in cost allocation.

Recent changes in BT's regulatory financial reports include a comprehensive review initiated by Ofcom. Since 2021, Ofcom has been considering a more holistic approach to reporting across all regulated markets. They have maintained ongoing communication with BT, adjusting requirements where necessary based on the review outcomes. To ensure consistency between policy and BT's reporting, Ofcom has revised the regulatory accounting guidelines to reflect policy initiatives, tariff controls, and investigation results. The core BT regulatory financial reports are detailed based on the following key summary items. For instance, the 2021 regulatory financial report, illustrated in Figure 2-1, summarizes new reporting requirements, methodology changes, changes in the format of the Accounting Methodology Document (AMD), and regulatory financial report items applicable from the next year on the first page. Thus, the 2021/2022 regulatory financial report includes details on the reconciliation of operating expenses between the regulatory financial report and the published annual financial report.

Regulatory Financial Reporting Sanctions: Examining actual sanction cases for regulatory financial reporting violations in 2019 shows that if BT promptly and proactively self-reports violations discovered during internal reviews, they may avoid fines. For instance, if cooperative and corrective measures are taken to prevent repeated simple mistakes, no penalties are imposed. In September 2017, BT's CFO Simon Lowth discovered during the review process for submitting the 2016 annual revenue that between 2011 and 2015, BT employees misunderstood data sources, resulting in inaccurate reporting and consequently lower management fees. Ofcom imposed a fine of £3,727,330 (approximately 5.87 billion KRW as of 2022 exchange rates) on BT for reporting inaccurate financial information to the regulator. BT did not contest this decision and paid the amount to Ofcom on July 29, 2019. Ofcom reported that the cooperation between Ofcom and BT during the investigation was extensive and productive, indicating that if Ofcom had undertaken this work independently, it would have required significant resources and time. Additionally, Ofcom communicates ongoing and concluded penalty cases through its Enforcement Bulletin, thereby continuously engaging with various stakeholders.

U.S: Implementation and Changes in the U.S. Regulatory Accounting System

The FCC's Electronic ARMIS Filing System (EAFS) data retrieval module allows downloading specific financial and operational data submitted by the largest domestic local exchange carriers. This data was filed with ARMIS EAFS for the years 2013 and earlier under FCC rules Part 43. Since 2014, all ARMIS submissions have been filed through the FCC's Electronic Comment Filing System (ECFS) under CC Docket No. 86-182, accessible by searching the ECFS. This change was made as a result of the 2014 ARMIS Procedures Order (DA 14-1387) to comply with FCC's cybersecurity policies. According to FCC CFR Title 47 Part 64.904, carriers submitting Report 43-03 and CAM must undergo an attest engagement by an independent auditor biennially or a financial audit biennially by an independent auditor. An attest engagement involves documenting an opinion on whether the systems, processes, and procedures generating the report comply with Joint Cost Orders (Docket No. 86-111), the Accounting Safeguarding Proceeding (Docket No. 96-150), and FCC rules. At least 30 days before the audit, the auditor must submit the audit program to the FCC, and the audit must be conducted according to relevant AICPA standards. FCC Docket DA 00-265 allows mid-sized ILECs to opt for an attest engagement, which is less burdensome than a financial audit. Mid-sized ILECs must prove that the CAM submitted according to the standard model assertion letter complies with FCC regulations. This assertion letter must be submitted with the attest opinion from the engagement. Additionally, mid-sized ILECs must provide a management representation letter proving that their internal controls are well-designed and operating effectively.

Key implications of the U.S. telecommunications accounting system include: **Systematic Legal Framework:** The regulatory scope is clearly separated between intrastate (regulated by PUC) and interstate (regulated by FCC) communications, ensuring clear accounting separation by regulatory territory. The legal framework is robust, with accounting rules included in CFR Title 47, integrating them systematically with other regulations. Parts 36 and

34 of the U.S. regulations define allocation standards by function and by regulated/non-regulated services, displaying allocation bases and numbers in reporting forms, ensuring clarity in the allocation of common costs. Accounting information usage is logically and systematically interconnected in areas such as tariffs, interconnection fees, and facility provision costs.

Transparent System Operation: The accounting rules are revised annually to reflect changes in the industry environment, with the updated rules published and disclosed. The regulatory body provides authoritative interpretations and quickly responds to operator inquiries regarding accounting rules in a Q&A format, ensuring smooth practical implementation.

Differentiated Reporting by Operator: Large telecommunications operators (ILECs) with annual revenues exceeding a certain amount must prepare and submit a detailed Cost Allocation Manual (CAM), reflecting their accounting separation and allocation standards. The FCC reviews and approves the submitted CAM in advance. Verification methods differ by operator size, with large operators subject to financial audits or attest engagements, and mid-sized operators allowed to opt for attest engagements to reduce the audit burden. Auditors must submit the audit program to the FCC at least 30 days before starting the audit, and audits must be conducted according to AICPA standards.

Adaptation to Environmental Changes: The FCC has mandated the annual submission of separated account reports by April 1 of the following year through ARMIS, established in 1987. However, post-2017 Commission Action regarding Part 32 account structure, significant changes have occurred in the regulatory accounting reporting obligations, especially concerning ARMIS submission Report 43-01 from the 2021 fiscal year. The reporting obligations are being relaxed, for instance, by removing the distinction between Class A and Class B operator groups and increasing revenue recognition criteria, reducing

the number of mandatory report submissions. Despite this relaxation, the FCC continues to revise telecommunications accounting rules annually, provide interpretations for ambiguous regulations, promptly respond to operator inquiries, and disclose these interactions to ensure smooth practical implementation and transparent system operation.

Regulatory Financial Reporting Sanctions: According to 47 CFR. 32.4(e), anyone who falsifies accounting records, entries, or fails to make complete, truthful, and accurate entries of all facts and transactions related to the carrier's business is guilty of a misdemeanor. Upon conviction, the penalty is a fine between \$1,000 and \$5,000 or imprisonment for one to three years. By maintaining stringent regulations and adapting to changes in the telecommunications industry, the FCC ensures that telecommunications operators comply with high standards of financial reporting, thereby protecting the integrity of financial information and fostering transparency in the sector.

JAPAN: Implementation and Changes in Japan's Regulatory Accounting System

Separation of Revenue and Expenses- Separation by Business Segment: According to Article 15, Paragraph 1 of the Telecommunications Business Accounting Regulations, revenues and expenses related to telecommunications businesses and other businesses must be allocated to each business based on appropriate standards. Schedule 1 of the Telecommunications Business Accounting Regulations specifies the allocation criteria for expenses related to telecommunications businesses and other businesses, excluding operating expenses, maintenance expenses, and telecommunications equipment usage fees. The diverse allocation criteria for common expenses, administrative expenses, test and research expenses, and research expense amortization reflect the different natures of these costs. Common expenses and administrative expenses are allocated based on the ratio of related fixed asset values or the ratio of labor costs or expenditure amounts of non-administrative departments. Test and research expenses and research expense amortization are allocated based

on the ratio of operating revenue or related expenditure amounts or fixed asset values. Other expenses, excluding business taxes allocated based on labor costs of administrative departments, are allocated based on the value of related fixed assets (book value).

Separation by Service Type: According to Article 15, Paragraph 3 of the Telecommunications Business Accounting Regulations, revenues and expenses related to more than one type of telecommunications service (as listed in Forms 14 to 16 of Schedule 2) must be allocated to each service based on the criteria specified in the forms or other appropriate standards. Following the 2016 revision, operating revenues related to more than one type of mobile telecommunications service are primarily allocated to each type of service based on the amount of operating expenses. If it is significantly difficult to allocate based on this standard, the entirety may be allocated to the main related business or service as per Article 15, Paragraph 4 of the Telecommunications Business Accounting Regulations.

Preparation and Submission of Reports: Telecommunications operators must prepare financial statements in accordance with Article 16 of the Telecommunications Business Accounting Regulations and submit them to the Minister of Internal Affairs and Communications within three months after the end of each business year. Operators, except as provided in the following paragraph, must classify their account items according to Schedule 1 and prepare the balance sheet, income statement, and other financial statements in the form specified in Schedule 2. This includes the basic telecommunications service profit and loss statement for operators providing basic telecommunications services, the designated telecommunications service profit and loss statement for operators providing designated telecommunications services, and the mobile telecommunications service profit and loss statement for operators designated under Article 30, Paragraph 1 of the Telecommunications Business Law.

Submission Requirements: Operators must prepare a detailed list of fixed assets, an investment in affiliates list, a securities list, a bonds list, a

borrowings list, a reserve list, an asset retirement obligations list, a telecommunications business operating expenses list, a basic telecommunications service profit and loss list, a designated telecommunications service profit and loss list, a mobile telecommunications service profit and loss list, and other important matters list as part of their financial statements. These lists must be prepared if the operator falls under the categories specified for basic telecommunications services, designated telecommunications services, or telecommunications operators subject to the prohibitions under Article 30, Paragraph 1 of the Telecommunications Business Law.

Publication and Disclosure: Operators subject to prohibitions under Article 30 of the Telecommunications Business Law must prepare and publish their balance sheet, income statement, individual periodic report (excluding the periodic report on changes in shareholder capital), a detailed list of fixed assets, an investment in affiliates list, a basic telecommunications service profit and loss list, a designated telecommunications service profit and loss list, a mobile telecommunications service profit and loss list, an ancillary business profit and loss list, and other important matters (such as significant concurrent positions of directors, auditors, and executives). Operators providing specified domain name telecommunications services under Article 39 of the Telecommunications Business Law must prepare and publish their balance sheet, income statement, and individual periodic report (excluding the periodic report on changes in shareholder capital). Operators subject to the above regulations must submit their financial statements to the Minister of Internal Affairs and Communications within three months after the end of each business year, make them available for public inspection at their business offices, and publish them on the Internet within seven days of making them available for inspection, ensuring that the information remains accessible for five years.

Sanctions for Regulatory Financial Reporting: According to Chapter 5 (Penalties) of the Telecommunications Business Law, Article 133 stipulates that anyone operating a special Type II telecommunications business in violation of Article 24, Paragraph 1 (Accounting Treatment) of the

Telecommunications Business Law shall be subject to imprisonment for up to one year, a fine of up to 500,000 yen, or both. By maintaining strict regulations and adapting to changes in the telecommunications industry, the Japanese regulatory accounting system ensures compliance with high standards of financial reporting, thereby protecting the integrity of financial information and promoting transparency in the sector.

Australia: Implementation and Changes in Australia's Regulatory Accounting System
Separation of Revenue and Expenses- Separation by Business Segment: Since the introduction of the regulatory accounting separation obligation in 2003, the accounting separation reporting framework has aimed to provide transparency for Telstra's wholesale and retail operations and to identify whether Telstra was discriminating against wholesale customers in favor of its retail operations. This framework saw a turning point in 2010 when the Australian government introduced legislation to reform the telecommunications industry, which included a framework for the structural separation of Telstra. In February 2012, Telstra's structural separation undertaking, approved by the ACCC, replaced the existing framework with a more comprehensive reporting structure. Consequently, the accounting separation reporting obligation for Telstra was abolished in 2014, and the RAF (Regulatory Accounting Framework) RKR (Record Keeping Rule) was finally canceled on October 20, 2017. In conjunction with these changes, the ACCC initiated the Wholesale Telecommunications Consultative Forum in 2012 to foster meaningful dialogue between the ACCC and the telecommunications industry. This forum provided the ACCC with insights into issues related to structural separation and migration, helping the ACCC fulfill its roles under the Competition and Consumer Act 2010 and the Telecommunications Act 1997. The ACCC continues to improve and promote regulatory frameworks to ensure effective maintenance of competition, consumer protection, and the reliability and security of telecommunications networks.

Special Access Undertaking (SAU) and Long Term Revenue Constraint Methodology (LTRCM): Currently, the regulated telecommunications entity in Australia is the National Broadband Network

(NBN), and the regulatory framework for NBN is detailed in the NBN's Special Access Undertaking (SAU), which has been in effect since 2013. The SAU, a core component of the NBN regulatory framework, is applicable until June 2040. The SAU establishes the LTRCM (Long Term Revenue Constraint Methodology), which determines the annual regulated revenue, regulated asset base, and the accumulated account of initial unrecovered costs that NBN can recover in the later stages of the SAU period. LTRCM, similar in nature to the UK's BT Accounting Methodology Directive (AMD), allows NBN to recover appropriately and efficiently incurred costs, including a suitable return on investment. It also incentivizes NBN to set reasonable prices that promote long-term benefits for end-users. As outlined in the SAU, the ACCC must undertake several steps before making the final LTRCM determination for a specified period mentioned in the SAU. These steps include the submission of regulatory information by NBN, the release of preliminary views on capital and operational expenditures, the publication of a draft decision, and the final decision. The LTRCM process for a period begins when NBN submits specific regulatory information to the ACCC, including financial data necessary to determine the allowable revenue. NBN must also demonstrate that prices did not exceed the Maximum Regulated Prices (MRP) as directed by the SAU at any point during the fiscal year. The ACCC evaluates whether NBN's capital and operational expenditures meet the SAU's requirements for inclusion in the RAB (Regulatory Asset Base) and ABBRR (Annual Building Block Revenue Requirement) and assesses whether the LTRCM components are calculated according to the formula specified in the SAU. The LTRCM proposal must reflect the expenditures included in the decision process. For instance, on October 31, 2019, NBN submitted regulatory information for the 2018-19 fiscal year to the ACCC, which provided preliminary views on the submission on December 20, 2019. Subsequently, on May 1, 2020, the ACCC published a draft decision and requested additional information from NBN, leading to the final determination and price compliance report issued on June 26, 2020.

Telecommunications Industry Record Keeping and Reporting Rules: Following the approval of

Telstra's structural separation undertaking by the ACCC in February 2012, Telstra was released from its previous regulatory accounting reporting obligations. Correspondingly, the regulatory accounting framework evolved into the more comprehensive Telecommunications Industry Record Keeping and Reporting Rules. These new rules empower the ACCC to specify the records that telecommunications operators must keep, the methods for preparing reports, and the timing for submitting reports, as derived from Section 151BU of the Competition and Consumer Act 2010. The ACCC uses the submitted reports and information to monitor compliance and may publish specific information or reports, excluding confidential information. Unless specified otherwise, reports are generally submitted via email (RKRIinbox@accc.gov.au).

Audit Procedures: Operators with accounting separation obligations must undergo an external audit of their accounting separation reports annually at their own expense and submit the audit report to the ACCC. The audit must be conducted in accordance with Australian Auditing Standards, and it is a prerequisite for maintaining the license. In rare cases, significant errors in the audit report can lead to license revocation. Operators must submit an audit report plan to the auditor within one month after the end of the fiscal year. If the ACCC requests specific audit terms of reference within seven days after the fiscal year, the operator must submit the specific audit plan to the auditor.

Audit plans requested by the ACCC must be adhered to for the current and future audits. Even if the ACCC does not notify the operator to submit an audit plan, the operator must provide a draft plan to the ACCC within 14 days after the fiscal year. If modifications are needed, the ACCC will inform the operator within 21 days. The audit plan must include the audit's purpose, the format for the auditor's opinion, essential elements of the audit report, and an audit timetable.

Sanctions for Regulatory Financial Reporting: Sanctions related to non-compliance with the telecommunications industry's regulatory reporting framework are crucial for ensuring adherence and maintaining the integrity of the reporting system. Non-compliance with Access Agreement

Reporting requirements under the Telecommunications Act 1997 can result in penalties, including fines up to AUD 10 million per violation. The ACCC imposes fines and penalties, considering several factors to determine the appropriate level. Legal provisions specify the maximum penalties, which can be in monetary terms, "penalty units," or other methods such as a percentage of revenue.

Singapore: Regulatory Framework and Accounting Separation in Singapore's Telecommunications Sector

Since the enactment of the Telecommunications Act 1999, Singapore's telecommunications sector has been regulated under the Telecommunications Act 1999 and the Info-Communications Media Development Authority Act 2016 (IMDA Act). The regulatory body, the Info-Communications Media Development Authority (IMDA), functions as an integrated regulator for the information communications and media sectors. IMDA, under the Ministry of Communications and Information, is responsible for the development, promotion, and regulation of the information and communications industry, encompassing both telecommunications and IT sectors. The Telecommunications Act serves as the foundational legislation governing Singapore's telecommunications industry, establishing a comprehensive licensing and regulatory framework for the sector. Specific issues are addressed through regulations, codes of practice, performance standards, guidelines, and advisory guidelines issued by IMDA under the authority of the Telecommunications Act. According to Section 2.3 (Dominant Entities) of the Telecom and Media Competition Code (TMCC), licensees operating facilities that are sufficiently costly or difficult to replicate are classified as 'dominant.' Consequently, dominant licensees must comply with accounting separation obligations under TMCC. These accounting separation requirements provide IMDA with information to monitor cross-subsidization among major FBO (Facilities-Based Operators) licensees and ensure that services provided by dominant FBO licensees to downstream operators or affiliates are offered on terms similar to those provided to other equivalent services. Since the introduction of the accounting separation regime in

2001, IMDA has maintained a two-tier approach to accounting separation. This approach aligns with international practices, which apply stricter accounting separation arrangements to entities with market power that could potentially use their position for anti-competitive behavior. Conversely, IMDA considers it unreasonable to impose detailed segment reporting obligations on non-dominant entities, as they are less likely to engage in anti-competitive behavior. To minimize the administrative burden on licensees, non-dominant entities are subject to simplified reporting requirements, though IMDA retains the authority to request additional information for specific studies or investigations.

Accounting Separation Guidelines: The accounting separation guidelines present two levels of accounting separation: Detailed Segment Reporting requires separate reporting for major service segments and specific individual retail service segments and includes specific cost allocation processes and prescribed allocation methodologies.

SBO (Services-Based Operations) Licensees: SBO licensees must also adhere to accounting separation guidelines as per the Guidelines for Submission of Application for Services-Based Operations Licence. All SBO licensees are regulated under the licensing and regulatory framework established by the Telecommunications Act 1999. They must comply with the Code of Practice for Competition in the Provision of Telecommunication and Media Services 2022, which aims to ensure the development of a fair and competitive telecommunications environment in Singapore. Recognizing the dynamic and constantly evolving nature of the information communications environment, the Singapore government continues to review and improve the regulatory framework to ensure its relevance in light of market trends and developments. Licensees are obligated to submit detailed segment reports periodically according to the Accounting Separation Framework (ASF), which sets out the minimum requirements for providing a structured regulatory reporting framework.

Procedure and Cost Allocation Manual (PCAM): Each licensee must document the procedures

implemented to comply with the guidelines in a Procedure and Cost Allocation Manual (PCAM) and obtain IMDA's approval. The PCAM must be submitted to IMDA in hard copy and should include comprehensive and complete written statements of the policies, principles, and methodologies required for preparing accounting separation reports. These statements must be detailed enough for external parties or auditors to understand the methodologies used. The PCAM should support audit reviews with audit control procedures and traceable related data. IMDA reviews the PCAM within 90 days of submission and provides written notification of approval, non-approval, or requests for additional information or amendments. Licensees must submit the required information or amended PCAM within 15 days of IMDA's notification, and the 90-day review period may be extended accordingly. The PCAM approval notice specifies the date from which licensees must begin reporting in compliance with the guidelines.

Audit and Compliance: Licensees must appoint an independent auditor, a member of the Institute of Certified Public Accountants of Singapore (ICPAS), to audit the accounting separation reports submitted to IMDA. The licensee bears responsibility for completing the audit, though IMDA may request meetings with the auditor to discuss their work. If IMDA determines that additional work is necessary for regulatory certainty or that the auditor's report does not sufficiently approve the accounting separation report for regulatory purposes, IMDA may appoint or request the licensee's auditor to perform a full or partial re-audit. This re-audit may impact the issuance of the auditor's report, particularly concerning significant non-compliance, defects, or failures noted in the Procedure and Cost Allocation Manual or other audit considerations. Licensees must grant the auditor reasonable access to their accounts and records and may require information and explanations from any officers for audit purposes. Regardless of whether IMDA appoints the auditor, licensees must bear all audit costs unless they can justify otherwise. Auditors must conduct audits in accordance with Singapore auditing standards.

Regulatory Financial Reporting Sanctions: Section 58 of the Telecommunications Act grants the Minister for Communications and Information the

authority to issue directions to IMDA or telecommunications licensees as deemed necessary, including: Prohibition and regulation of telecommunications as required, Control over the use of all telecommunication systems and equipment, Stopping, delaying, and censoring messages as necessary. Non-compliance may result in the highest applicable fines: Up to 10% of the annual revenue of the business segment. SGD 1 million (approximately USD 730,000 at 2022 exchange rates). Continuing non-compliance may incur fines of up to SGD 100,000 per day.

While the appeals procedure under the Telecommunications Act does not apply to the Minister's discretion under Section 58, telecommunications licensees can seek judicial review of the Minister's decisions if they can demonstrate illegality, irrationality, or procedural impropriety in the exercise of the Minister's discretion.

Conclusion

Verification Systems and Organizational Structure:

Countries like the UK, the US, and Japan, which operate regulatory financial reporting systems for telecommunications, predominantly adopt a pre-verification system. In this study, pre-verification refers to the submission of regulatory financial statements by operators to the regulatory authority, accompanied by the auditor's opinion. This implies that the auditor provides reasonable assurance that the regulatory financial statements are appropriately prepared in accordance with the regulatory financial reporting framework. Regulatory authorities may still investigate cost information as needed, despite the pre-verification system. In the UK, for instance, the quality of pre-verification is enhanced through continuous formal or informal dialogue between BT's regulatory financial statement auditors and Ofcom. The advantages of pre-verification include: Timely Use of Accounting Information:

For example, BT's financial year runs from April 1 to March 31. Regulatory financial statements are submitted by the end of July, four months after the fiscal year ends, allowing regulatory authorities to use the previous year's regulatory financial reporting data promptly. Reduced Burden on Regulatory Authorities: Since the costs associated with pre-verification are borne by the operators, the burden on regulatory authorities is minimized. However, pre-verification also has disadvantages: Potential Influence on Auditors: If the independence of auditors is not fully ensured, the regulatory financial statement audit process may be influenced by the operators. Excessive Discretion and Inconsistency: Without a well-established regulatory financial reporting framework, excessive discretion by operators or frequent accounting changes may compromise the comparability and consistency of accounting information. The duties of the verification organization can be divided into those under the current regulatory accounting system for telecommunications and those under a pre-verification system similar to the UK's. Under the current system, the verification organization's duties include those handled by the Telecommunications Policy Planning Division and the auditing firms verifying operational reports. These duties encompass the establishment and verification of accounting systems, policy cost estimation and verification, and market analysis. With the shift from retail regulation to the introduction of wholesale regulation, the need for retail market analysis decreases. Thus, the verification organization's duties can be defined to include the establishment and verification of accounting systems, policy cost estimation and verification, and wholesale market analysis. Under a pre-verification system like the UK's, the

verification organization would undertake duties such as establishing accounting systems, appointing auditors, controlling audits, and verifying the appropriateness of costs. The designated auditing firm, appointed by the Ministry of Science and ICT, would audit the operational reports, while the verification organization would ensure the appropriateness of costs. The auditing firm would audit and express opinions on whether the operational reports are prepared in accordance with the regulations on telecommunications business accounting and reporting, accounting separation standards, and accounting separation guidelines. In major foreign countries, external auditors perform the verification within a pre-verification system, rather than regulatory financial statements being directly verified by the regulatory authorities.

Trends in Regulatory Accounting Systems for Telecommunications Overseas:

Recent changes in the UK's regulatory accounting system indicate that Ofcom's involvement with regulatory financial statements has intensified, and the scope of information disclosure has broadened to include more detailed information. Ofcom's control over the preparation process of regulatory financial statements has increased, reducing BT's discretion. These changes aim to enhance stakeholders' understanding and ensure the consistency of regulatory accounting information with regulatory practices. They also reflect Ofcom's intent to rigorously monitor the fulfillment of Significant Market Power (SMP) obligations. In conclusion, the adoption of a pre-verification system can improve the timeliness of accounting information while strengthening the control and intervention of regulatory authorities over the regulatory accounting system. This effort is necessary to enhance the reliability of accounting information in operational reports and improve stakeholders' comprehension.

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