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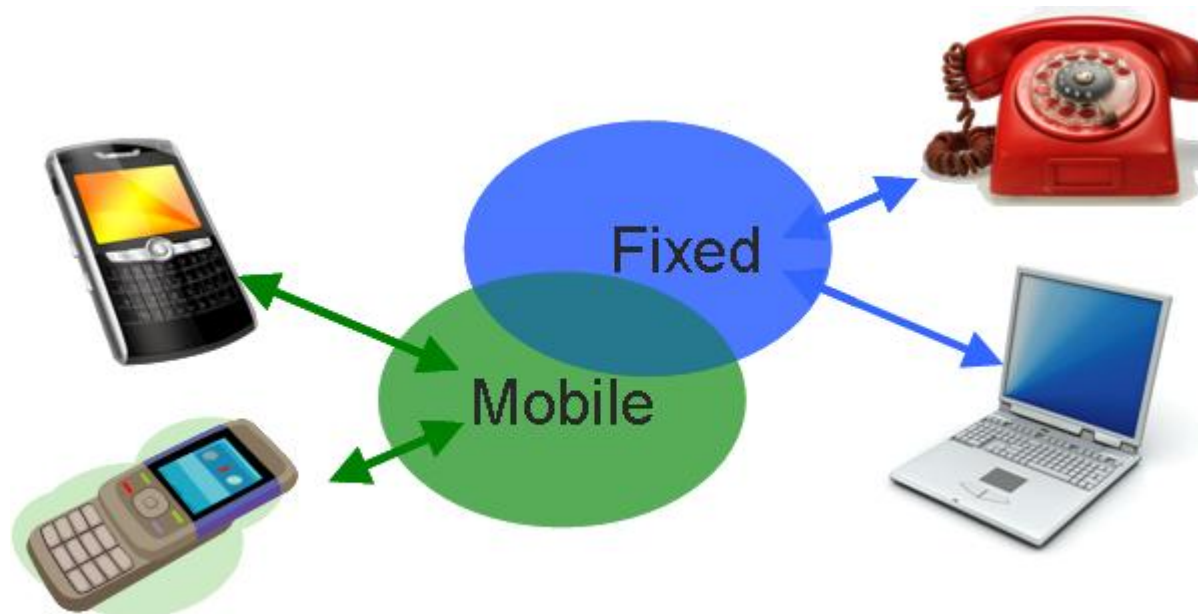
Fixed-Mobile Convergence – Progress Update

Panel on
Information Technology and Broadcasting
8 June 2009

Background

■ Fixed Mobile Convergence (FMC)

- Distinction between fixed and mobile networks and services becomes blurred
- Separate regulatory and licensing regimes for fixed and mobile services not conducive to FMC development





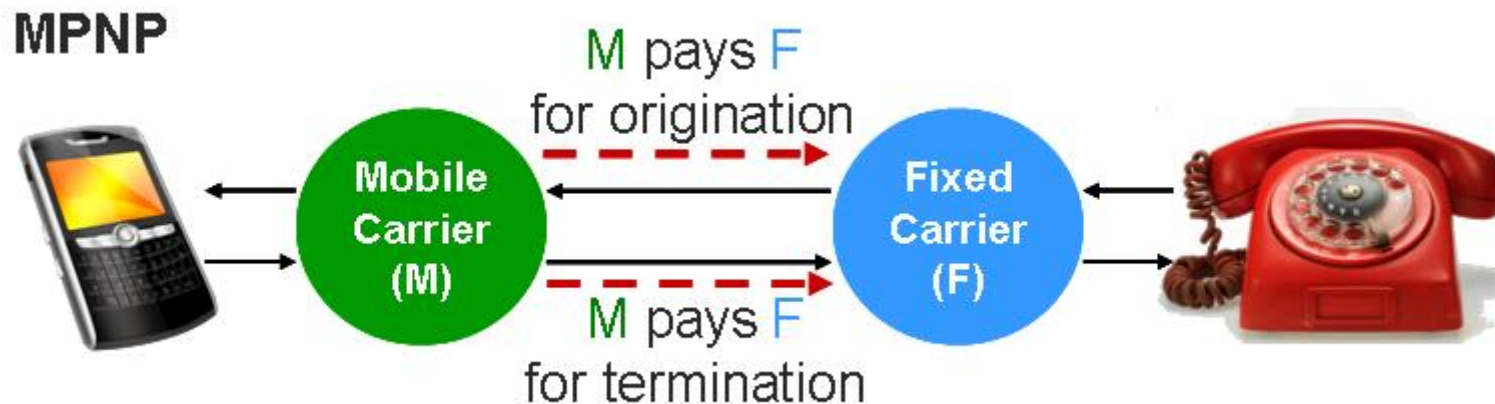
Background

■ Regulatory Review for FMC

- Two rounds of public consultation in 2005 and 2006
- Set out conclusions in the TA Statement “*Deregulation for Fixed-Mobile Convergence*” (FMC Statement) on 27 April 2007 with four major measures
 1. Deregulate **Fixed Mobile Interconnection Charge (FMIC)** (subject to a transition period of two years)
 2. Maintain existing **Local Access Charge (LAC)** regime (but review after FMIC de-regulation)
 3. Create a new **Unified Carrier Licence (UCL)**
 4. Consider demand and introduction of **Fixed Mobile Number Portability (FMNP)**

1. De-regulation of FMIC

- FMIC: interconnection charge between fixed and mobile network operators
- Phase out the Mobile Party's Network Pay (MPNP) regulatory guidance on FMIC
 - Introduced more than 20 years ago
 - Neither symmetric nor reciprocal
 - With effect from 27 April 2009 (end of transition period): commercial agreement will replace prescribed regulation





1. De-regulation of FMIC

■ Follow-up action

- Successfully rebutted legal challenges from one fixed network operator (FNO)
- Handling complaint from mobile network operators (MNOs) on anti-competitive conduct of the incumbent FNO for increase of FMIC tariff during transition period
- Revised “Interconnection and Related Competition Issues Statement No. 7– ‘Carrier-to-Carrier Charging Principles’” to remove the MPNP guidance
- Monitor commercial negotiations among FNOs and MNOs on post-transition FMIC arrangement
 - Provide necessary assistance to facilitate negotiations
 - Ensure no adverse impact on normal service



1. De-regulation of FMIC

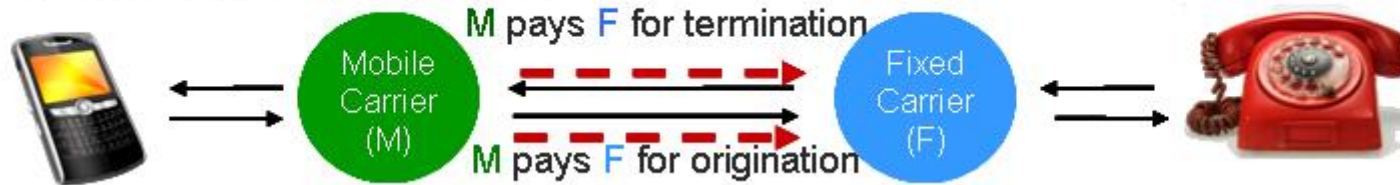
■ Current Status

- Withdrawal of MPNP guidance takes effect from 27 April 2009
- Smooth transition achieved without impact on normal service reported
- Commercial negotiations generally with positive progress and no intervention required
- Some major FNOs and MNOs already reached some form of agreements or understanding
 - Based on so called “Bill and Keep” (BAK) approach
- TA urges other operators to continue and complete negotiations without delay

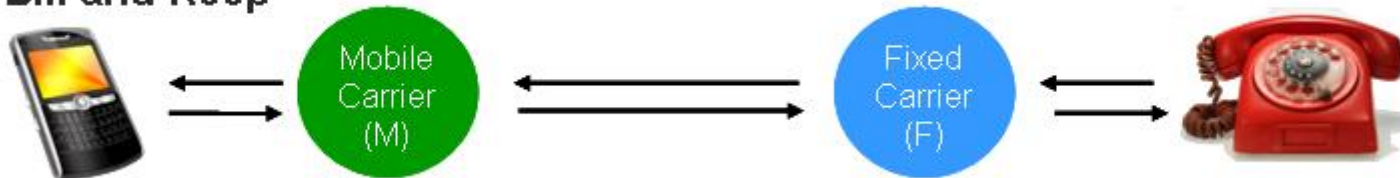
1. De-regulation of FMIC

■ Possible Settlement model for FMIC

Mobile Party's Network Pays



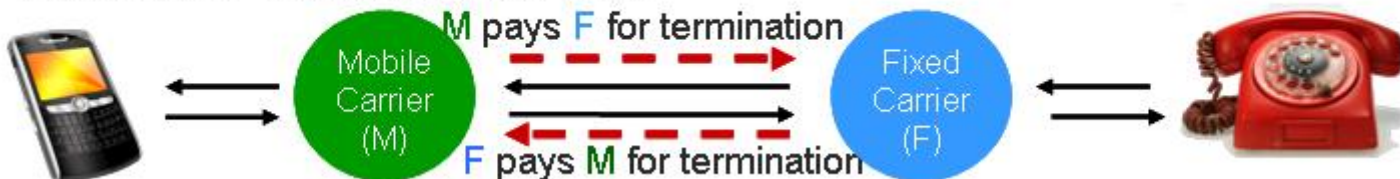
Bill and Keep



Calling Party's Network Pays



Receiving Party's Network Pays



1. De-regulation of FMIC

■ Consequential change : International Call Forward Service (ICFS)

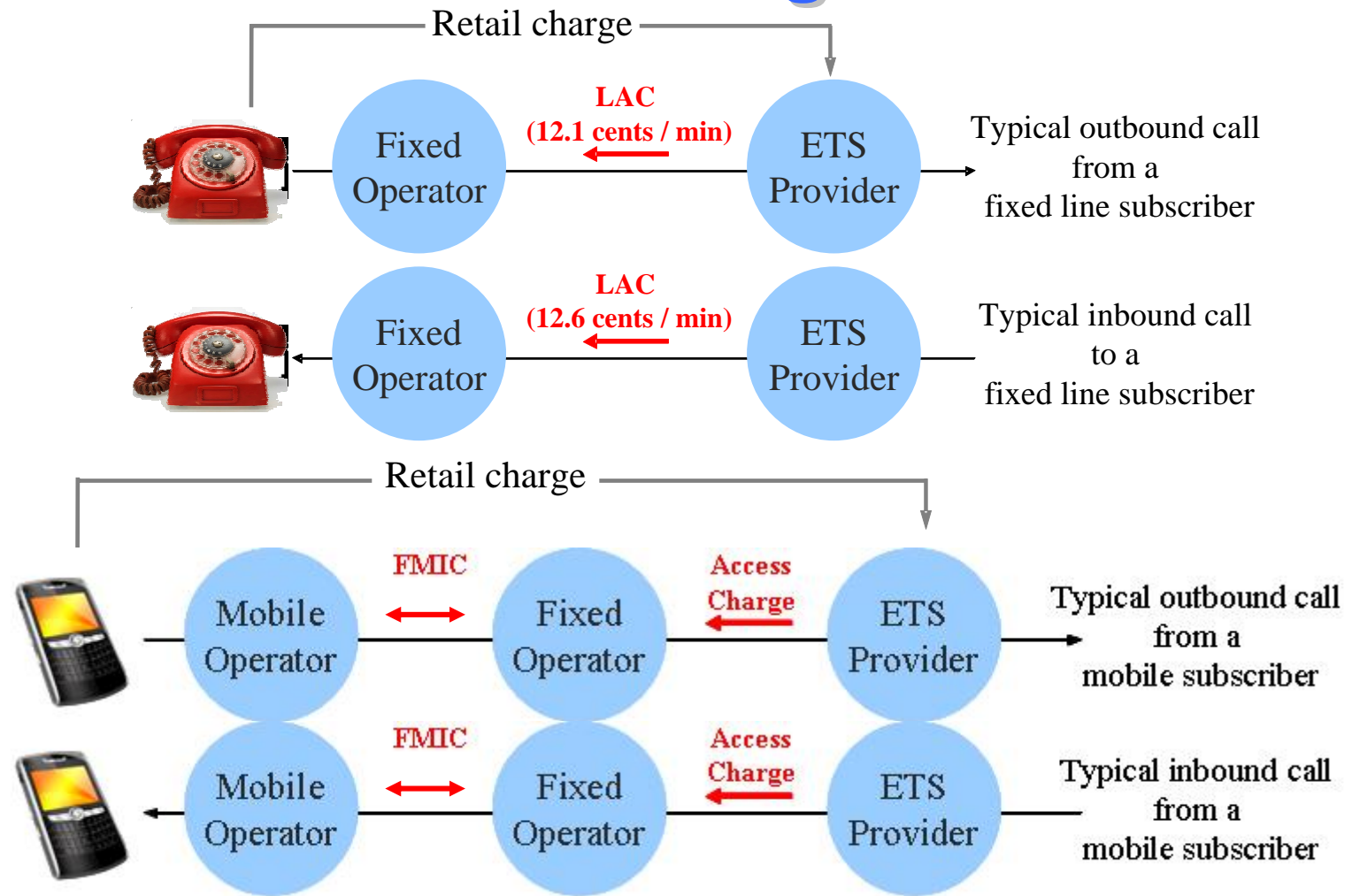
- Popular substitute of mobile roaming service
- ICFS providers pay interconnection charge (10.3 cents per min + **FMIC component**) to mobile carriers according to a determination made in 2003
- FMIC component is set at a fixed level based on prevailing market value in 2003
- TA issued consultation paper in March 2009 for variation of the 2003 determination
- TA varied the 2003 determination on 19 May 2009
 - Prior to 27 April 2009: unchanged
 - From 27 April 2009 onwards: FMIC component of ICFS charge depends on commercial negotiation on FMIC between the interconnecting FNO and MNO

2. Local Access Charge

- Paid by ETS operators to FNOs / MNOs
- Current regulatory framework

| | To PCCW | To Other FNOs | To MNOs |
|---|-----------|---|------------------------|
| Obligation for ETS operators to pay LAC | Regulated | Regulated | Commercial negotiation |
| Level of LAC paid | Regulated | Not regulated Follow benchmark of PCCW | Commercial negotiation |

2. Local Access Charge





2. Local Access Charge

■ FMC Statement

- Maintain *status quo*
- Observe the de-regulation of FMIC on LAC before further review

■ Follow-up actions

- Complaint from ETS operators on increase of interconnection charge for external calls due to dispute between one FNO and one MNO
- Mediated with the concerned parties and settled the dispute
- No immediate impact on ETS operators
- Urge FNOs and MNOs to continue and conclude FMIC negotiations taking into account of ETS operators' interest
- Start review on LAC immediately
 - Target to carry out consultation in second half of 2009



3. Unified Carrier Licence

■ Past Licensing Regime

- Separate type of carrier licences for fixed and mobile services
- Not conducive to introduction of FMC products and services

■ FMC Statement

- Recommend to create UCL as a single, harmonised licensing instrument for fixed, mobile and converged services

■ Creation of UCL

- Two parallel consultations in December 2007
 - SCED : General conditions, licence period and licence fee
 - TA : special conditions and detailed licensing arrangement
- Decided to create UCL
- Subsidiary legislation passed without amendment
- Formal Implementation on 1 August 2008

3. Unified Carrier Licence

■ Introduction of Number Fee

- Cost recovery
- Encourage efficient use of telephone numbers
- Extend to all kinds of licences which have number allocation

| Licence | Introduced in | Number Fee |
|----------------|---------------|--------------|
| SBO Licence | Jan 2006 | * \$7 (→\$3) |
| UCL | Aug 2008 | \$3 |
| Paging Service | Jun 2009 | \$3 |
| MVNOs | Jun 2009 | \$3 |

* Proposed to reduce to \$3 in the consultation on "Review of the PNETS and SBO licensing regimes"

■ Other administrative measures

- Smaller number blocks
 - From 100,000 to 10,000 per block
- Tighten the threshold for allocation of new numbers
 - Usage rate of allocated numbers raised from 60% to 70%
- Permit returning non-consecutive idle numbers



3. Unified Carrier Licence

■ Returned numbers

- 843,000 numbers (as of end May 2009)
- From MNOs, SBOs and paging operators
- More numbers will be returned
 - When more licensees are subject to number fee
- Positive outcome for introduction of number fee and other administrative measures

4. Fixed-Mobile Number Portability

■ Fixed-Mobile Number Portability (FMNP)

- Allow users to keep their numbers when switching service subscription between fixed and mobile networks
- Once implemented, fixed and mobile numbers no longer be distinguishable

■ FMC Statement

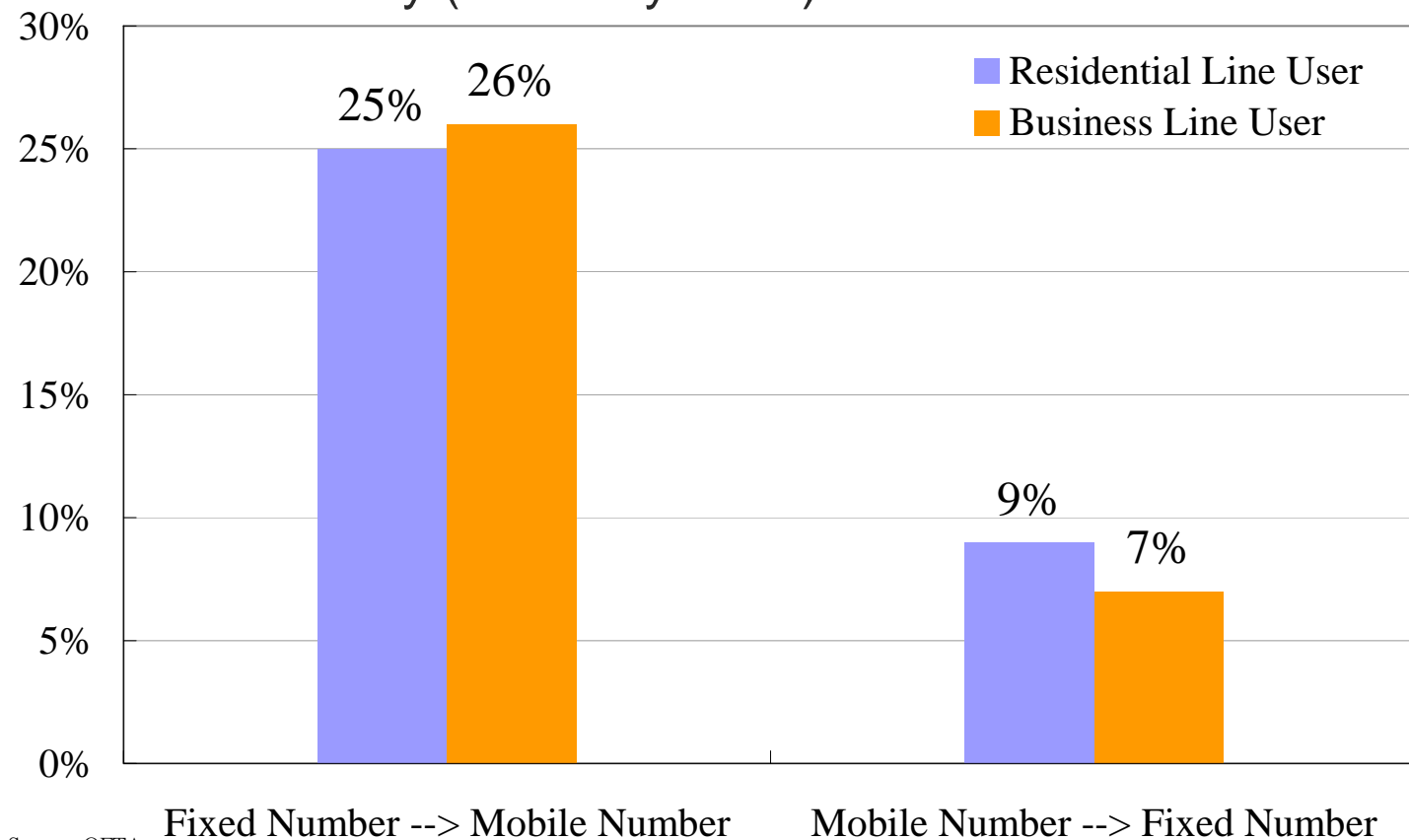
- Carry out market survey
- Ascertain public demand on FMNP before giving firm proposal



4. Fixed-Mobile Number Portability

■ Follow-up Actions

○ Market survey (February 2008)



Source: OFTA

Panel on Information Technology & Broadcasting (8 June 2009)

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4. Fixed-Mobile Number Portability

■ Follow-up Actions

- Consider results of market survey
 - Demand of FMNP is not high → No sufficient ground for mandatory implementation of FMNP
- Propose to allow voluntary implementation of FMNP
- Public Consultation on FMNP
 - *Consultation Paper on Fixed Mobile Number Portability* issued on 31 October 2008
 - Expect to make decision within June 2009



Way Forward

- Continue to monitor the market development and ensure a smooth implementation of FMIC de-regulation
- Issue TA Statement on FMNP in June 2009
- LAC consultation in the second half of 2009
- Review ICFS after FMIC settled

Thank You