Deregulation for Fixed-Mobile Convergence (FMC)

Brief to the Information Technology and Broadcasting Panel on

13 November 2006

FMC is a technological trend

- With technology development, convergence is evolving across different dimensions – billing, services, device and networks
- Distinctions between fixed and mobile are becoming blurred
- FMC is expected to bring cost saving to operators and increased convenience & various innovative services to users
- Commercial converged services are available in the United States, United Kingdom and some European countries. Trials are taking place in other countries.

OFTA
電訊管理局

Need for a FMC review

- We have adopted a market-driven policy for the telecommunications industry. The market will decide the future of FMC in HK.

- Fixed & mobile services in HK are currently regulated under separate licensing regimes. Due to historical reasons, they are given asymmetric regulatory treatment.

- As the regulator, it is necessary to review the current regulatory framework
  - to ensure that existing regulatory guidance is not distorting competitive processes & constituting barriers to market development
  - to facilitate technological applications, infrastructure investment, market development and new services innovation
  - for the benefit of the industry and the consumers

OFTA
電訊管理局

The First Consultation

- To facilitate the development of FMC services, OFTA issued a public consultation paper in Sep 2005 on the proposal of unified carrier licence (UCL)
- 9 submissions were received in November the same year
  - Some comments received on the detailed arrangements for the UCL
  - A number of network operators suggested that the Government should first conduct a more holistic review on the various regulatory arrangements in relation to FMC

OFTA
電訊管理局

The Consultancy Study

- The TA commissioned a consultancy study in Dec 2005 - April 2006 to identify and assess the possible regulatory changes necessitated by FMC

- The Consultant has invited participation of industry players in various steps
  - The Consultant has met the concerned industry parties in the early stages to solicit their views
  - The Consultant has completed the consultancy report in April 2006 and held an industry workshop in May 2006 to give a briefing on the results. The report has also been given to the industry for study.

- The Consultant identified a number of major asymmetries in the regulation of fixed and mobile operators, and made recommendations on them

OFTA
電訊管理局

The Second Consultation

- Having made reference to the consultancy report, the TA issued a consultation paper on 14 July 2006 on a number of preliminary proposals on deregulatory measures in the FMC environment.

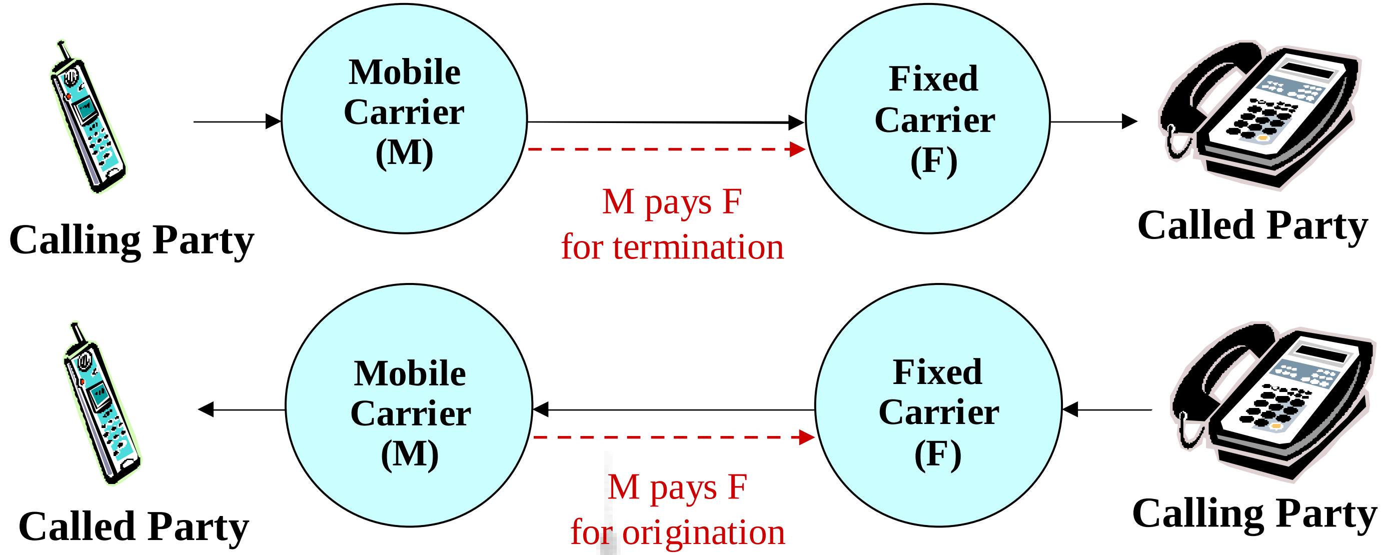
- The paper seeks views of the industry and the public on the preliminary proposals to tackle key regulatory barriers to FMC.

- Important issues identified include
  - Interconnection between fixed & mobile networks
  - Local access charge (LAC)
  - Licensing regime
  - Telephone number portability and numbering plan

OFTA 電訊管理局

1. Fixed Mobile Interconnection Charge (FMIC)

*see appendix for an overview of different interconnection arrangements in HK



- Under the current "mobile party's network pays" (MPNP) regulatory guidance*, a mobile network operator pays for both calls to and from a fixed network to a fixed network operator on a usage basis. This charge is know as fixed mobile interconnection charge (FMIC) which involves a total amount of about HK$600 million a year.
- Guidance introduced 20 years ago when mobile services were regarded as value added services
- Most controversial issue in this consultation as it affects HK$600 million a year of FMIC.

OFTA 電訊管理局

Proposed Changes to FMIC

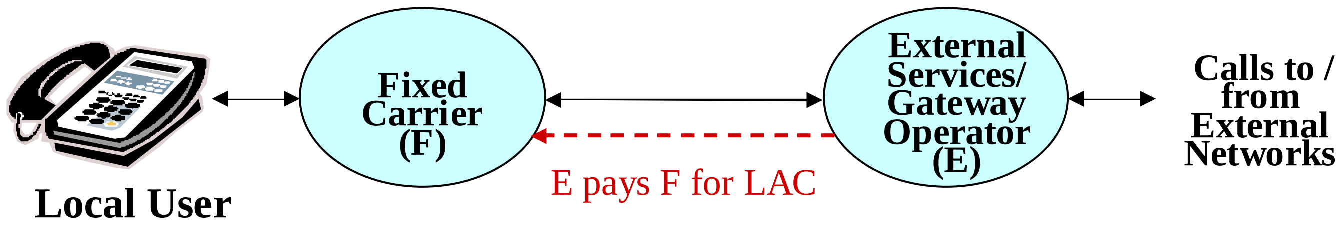
- The Consultant considers current MPNP out of line with international best practice and not conducive to the development of FMIC, and recommends removal of the asymmetry.

- Key questions in consultation paper
  - Should existing regulatory guidance on MPNP be withdrawn?
  - If yes, should the TA issue new regulatory guidance?
  - If yes, what should be that replacement mechanism?

- **Preliminary view:** Deregulate the FMIC over a transitional period of 2 years and let the industry negotiate the new arrangement. In the event of market failure, TA reserves right to make determination under S36A

OFTA 電訊管理局

2. Local Access Charge (LAC)



- LAC is the interconnection charge payable by providers of external telecoms services (ETS) to local carriers (e.g. fixed network operators) for conveyance of external calls to/from local users

- The current LAC chargeable by PCCW was regulated by the TA. Other fixed operators refer to this level.

- LAC for mobile networks is subject to market forces and not regulated by the TA. Mobile carriers do not receive any LAC from ETS providers now.

- The Consultant recommends that the asymmetry be removed

- **Preliminary view:** Deregulate LAC for fixed networks and let market set level through commercial negotiations. In the event of market failure, TA reserves right to make determination under S36A.

OFTA 電訊管理局

3. Licensing Regime - Unified Carrier Licence (UCL)

- Currently, fixed and mobile services are licensed and regulated under two separate licensing frameworks.

- In the first consultation exercise, the TA proposed to create a unified carrier licence (UCL) to replace the two existing fixed and mobile network licences. The second consultation paper seeks further views.

- **Preliminary view:** Under the proposed UCL, network operators providing only fixed or only mobile or both services will be treated equally in terms of most rights and obligations and licence fees.

OFTA
電訊管理局

4. Number Portability & Numbering Plan

- Currently, there is fixed number portability and mobile number portability in HK but porting of numbers across fixed and mobile networks is not supported.

- In a FMC environment, fixed mobile number portability (FMNP) need to be considered as consumers may be assigned with one number. Changes to numbering plan may also be required.

- The Consultant identified no urgent need for FMNP. No such service is available currently and preferences of consumers is unknown.

- **Preliminary view:** Conduct market studies to determine market demand of FMNP first before making a proposal

OFTA 電訊管理局

Second Consultation Submissions

- Original 3 months consultation period for submissions extended on request by industry by 2 weeks to 27 October 2006
- 21 submissions received
- Preliminary analysis shows mixed views on proposals to deregulate for FMC

OFTA
電訊管理局

PCCW's Application for JR

- PCCW has filed for judicial review and interim stay of this public consultation
- The court has granted leave to the application but a hearing on the "interim stay" has been held in the morning of 13 November (i.e. today) (*)
- Therefore the public consultation process for FMC remains on-going until the court has granted the "interim stay"

* In paragraph 30 of the brief to the Legislative Council Panel on Information Technology and Broadcasting on "Deregulation for Fixed-Mobile Convergence", the mentioning of "but it (the Court) refused interim stay" is corrected as "but it (the Court) will arrange hearing for the application of interim stay".

OFTA
電訊管理局

Way Forward

- TA to analyse submissions in detail
- TA is committed to making a decision only after fully considering views of all stakeholders
- The way forward will be in view of the outcome of legal proceedings

OFTA 電訊管理局

Members views are welcome

Thank You !

Appendix

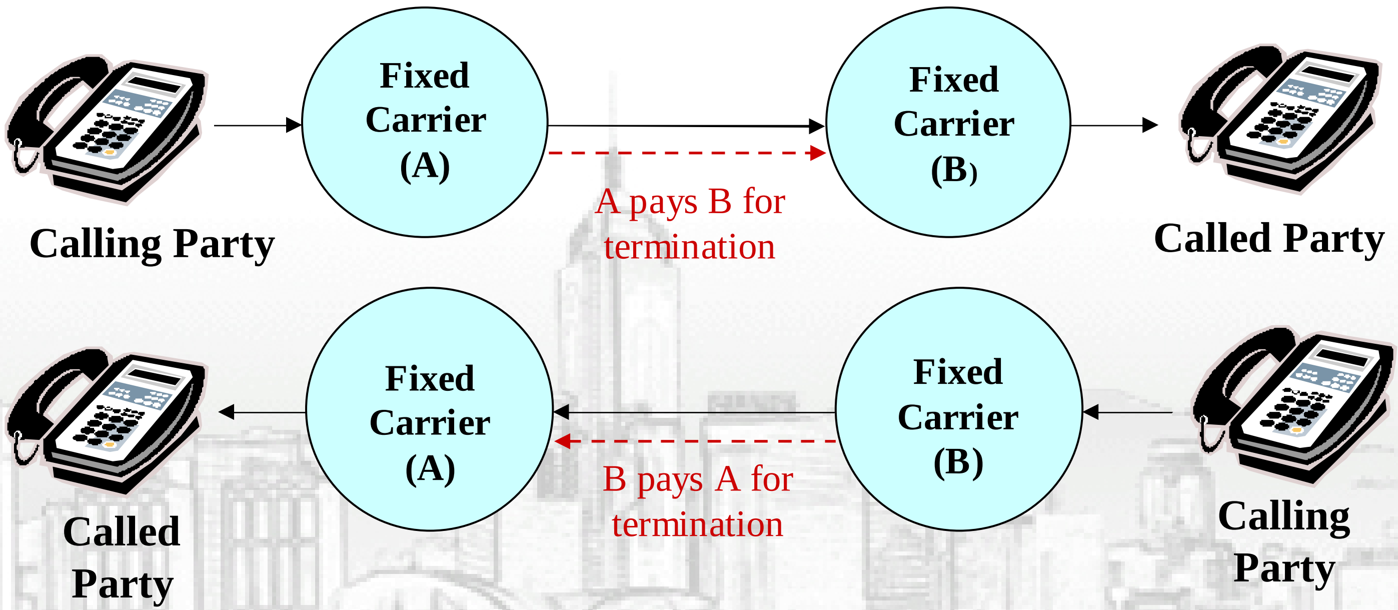
Interconnection Arrangements

Interconnection Settlement Arrangement (1)

The Existing Arrangement

Fixed/Fixed Interconnection Charging (FFIC) Arrangement

It is based on "Calling-Party's-Network Pays" ("CPNP")

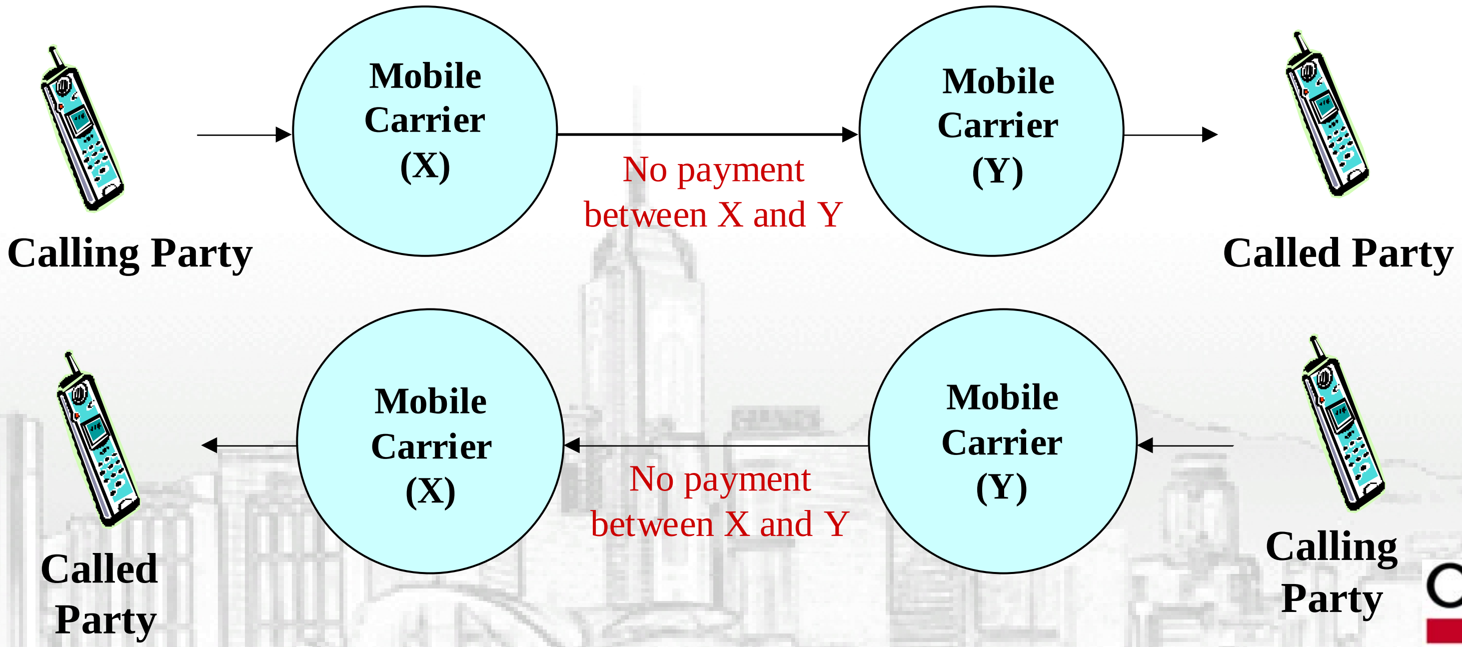


Interconnection Settlement Arrangement (2)

The Existing Arrangement

<u>Mobile/Mobile Interconnection Charging (MMIC) Arrangement</u>

It is based on “Bill and Keep” (“BAK”)



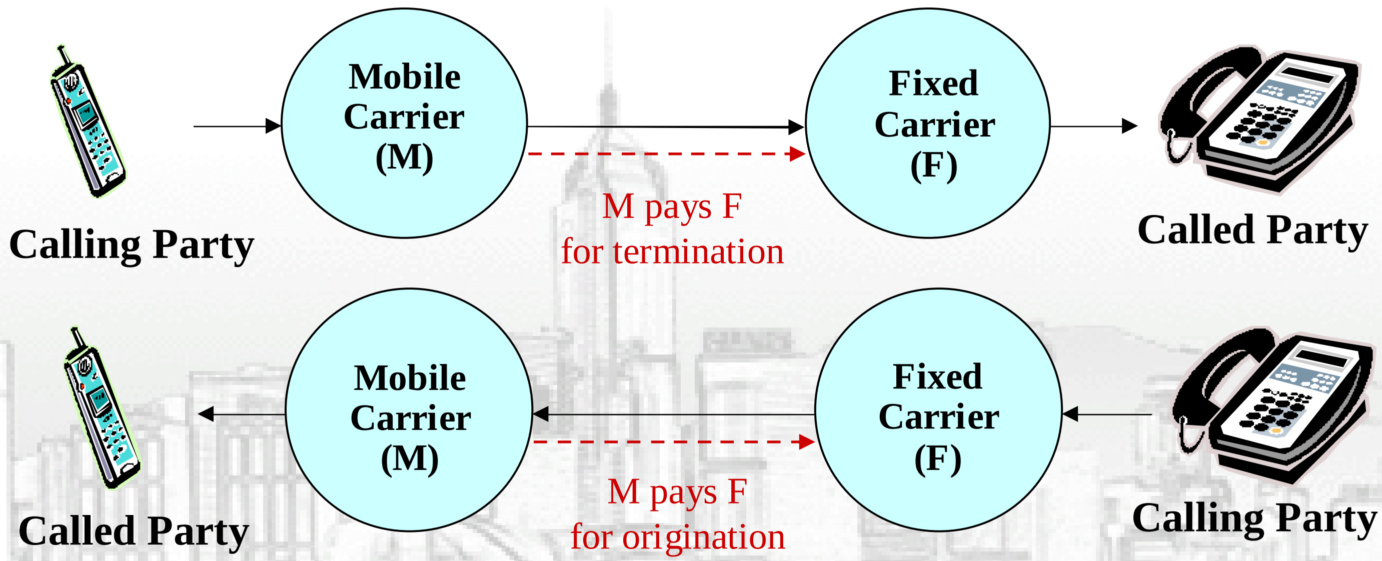
OFTA 電訊管理局

Interconnection Settlement Arrangement (3)

The Existing Arrangement

Fixed/Mobile Interconnection Charging (FMIC) Arrangement

It is based on "Mobile-Party's-Network Pays" ("MPNP"). With the level of 4.36 ¢/min levied by the incumbent fixed operator, the annual FMIC payment under "MPNP" regime amounts to some HK$600 million.



OFTA 電訊管理局