



Telecom Information Bulletin CRTC 2019-396

PDF version

Ottawa, 4 December 2019

The Canadian revenue-based contribution regime, effective 1 January 2020

Purpose

1. The purpose of this bulletin is to update the information summarized in Telecom Circular 2007-15 with respect to the Commission's revenue-based contribution regime to include changes related to the Broadband Fund¹ and the revised accounting definition for a related party.

Background

2. In Decision 2000-745, the Commission introduced a national contribution collection mechanism based on revenues from telecommunications service providers (TSPs). The Commission was of the view that a revenue-based collection mechanism was superior to other proposed mechanisms because it would be more equitable to spread the contribution burden across a broad range of services and service providers.
3. The Commission determined that all TSPs would be required to contribute based upon their total Canadian telecommunications services revenues (CTSR), less certain Commission-approved deductions.
4. A minimum revenue threshold was established to allow smaller companies to attain a certain level of revenues before being required to contribute, and to increase the administrative efficiency of the mechanism by reducing the number of parties required to contribute. Accordingly, only those TSPs, or groups of related TSPs, with \$10 million or more in total annual CTSR (i.e. in Part A of the Appendix to this bulletin, line D.4 – Canadian Telecommunications Services Revenues), based on their previous year's actual financial results, would be required to pay contribution for a given year.
5. In Telecom Circular 2007-15, the Commission consolidated and summarized all the information with respect to the Commission's revenue-based contribution regime and published the approved formula for calculating contribution-eligible revenues.

¹ In Telecom Regulatory Policy 2016-496, the Commission established the Broadband Fund, a funding mechanism to assist in (i) funding continuing access to the basic telecommunications services that form part of the universal service objective (namely that Canadians, in urban areas as well as in rural and remote areas, have access to voice services and broadband Internet access services, on both fixed and mobile wireless networks), and (ii) closing the gaps in connectivity.

Subsequent Commission determinations

6. Since the issuance of Telecom Circular 2007-15, the Commission has approved two changes with respect to the revenue-based contribution regime.
7. In Telecom Regulatory Policy 2016-496, the Commission determined that retail Internet service revenues and retail paging² service revenues will become subject to contribution in the first year of implementation of the Commission's broadband funding mechanism. The Commission has determined that 2020 will be the first year of operation for its Broadband Fund.
8. Therefore, lines D.7 (Retail Internet Service Revenues) and D.8 (Retail Paging Service Revenues) of the formula for the calculation of contribution-eligible revenues will no longer be used and must be reported as zero (0), effective as of the January 2020 data-month.
9. Periodically, the Canadian Telecommunications Contribution Consortium Inc. submits, for Commission approval, revisions to the Procedures for the Operation of the National Contribution Fund. The Procedures approved by the Commission in Telecom Decision 2018-60 included a revised definition of "Related Party", as it pertains to TSPs. This definition refers to International Accounting Standard 24 of the CPA Canada Handbook – Accounting.
10. A revised formula for the calculation of contribution-eligible revenues can be found in Part A of the Appendix to this bulletin and will take effect on 1 January 2020. The associated definitions and bundling rules for the revenue-based contribution regime can be found in Parts B and C of the Appendix to this bulletin.

Secretary General

Related documents

- *Canadian Telecommunications Contribution Consortium Inc. – Application to revise the Procedures for the Operation of the National Contribution Fund, effective 15 February 2018*, Telecom Decision CRTC 2018-60, 14 February 2018
- *Modern telecommunications services – The path forward for Canada's digital economy*, Telecom Regulatory Policy CRTC 2016-496, 21 December 2016
- *The Canadian revenue-based contribution regime*, Telecom Circular CRTC 2007-15, 8 June 2007
- *Accutel Conferencing Systems Inc. – Definition of terminal equipment revenues within the contribution regime*, Telecom Decision CRTC 2005-32, 2 June 2005

² The Commission used the term "texting" in Telecom Regulatory Policy 2016-496 because the majority of retail paging revenues, as defined in Order 2001-220, are texting revenues.

- *Definition of Canadian non-telecommunications service revenues for the purpose of the contribution regime*, Order CRTC 2001-288, 11 April 2001
- *Disputed issues submitted by the Contribution Collection Mechanism (CCM) Implementation Working Groups*, Order CRTC 2001-221, 15 March 2001
- *Industry consensus reports submitted by the Contribution Collection Mechanism (CCM) Implementation Working Groups*, Order CRTC 2001-220, 15 March 2001
- *Changes to the contribution regime*, Decision CRTC 2000-745, 30 November 2000

Appendix to Telecom Information Bulletin CRTC 2019-396

Part A: Approved formula for the calculation of contribution-eligible revenues

Contribution-eligible revenues are to be calculated according to the following formula:

D.1.A: Total Operating Revenues reported in financial statements

D.1.B: Add deductions from revenues

D.1: Subtotal: Total Operating Revenues for contribution purposes

LESS

D.2: Non-Canadian Revenues

D.3: Canadian Non-Telecommunications Revenues

D.4: Subtotal: Canadian Telecommunications Services Revenues (D.1 - D.2 - D.3)

(The \$10 million threshold applies here, as per Decision 2000-745. To ascertain whether telecommunications service providers (TSPs) are “related” for the purpose of this formula, see International Accounting Standard 24 of the CPA Canada Handbook – Accounting.)

LESS

D.5: Contribution Payments received

D.6: Inter-Carrier Payments

D.7: *No longer being used (formerly Retail Internet Service Revenues) and must be reported as zero (0)*

D.8: *No longer being used (formerly Retail Paging Service Revenues) and must be reported as zero (0)*

D.9: Terminal Equipment Revenues

D.10: Non-Contribution-Eligible Revenues eliminated from those bundles to which both contribution-eligible and non-eligible revenues are attributed

D.11: Subtotal (D.5 + D.6 + D.7 + D.8 + D.9 + D.10)

ADD

D.12: Contribution-Eligible Revenues on package discounts

D.13: Total: Contribution-Eligible Revenues (D.4 - D.11 + D.12)

Definitions for the above-noted terms are set out in Parts B and C.

Part B: Definitions for the revenue-based contribution regime formula

Line	Definition
Line D.1.A: Total Operating Revenues reported in financial statements (Order 2001-220)	“Total Operating Revenues reported in financial statements” refers to a TSP’s reported non-consolidated operating revenues, prepared in accordance with generally accepted accounting principles.
Line D.1.B: Add deductions from revenues (Order 2001-220)	To the extent the following amounts have been deducted in arriving at a TSP’s operating revenues, these amounts must be added back to arrive at the Total Operating Revenues for contribution purposes: <ul style="list-style-type: none"> • bad debts, • commissions, agent/dealer fees and other selling costs, • material and labour cost of sales, • contribution (portable subsidy) expense, • settlements and other inter-carrier payments, and • costs associated with warranty claims.
Line D.1: Total Operating Revenues for contribution purposes (Order 2001-220)	“Total Operating Revenues for contribution purposes” refers to the sum of “Total Operating Revenues reported in financial statements” and “Add deductions from revenues”.
Line D.2: Non-Canadian Revenues (Order 2001-220)	“Non-Canadian Revenues” means revenues derived from goods and services that are provided outside of Canada, including revenues derived from telecommunications services provided outside of Canada; roaming services provided outside of Canada; the sale of telecommunications systems outside of Canada; the operation and maintenance of telecommunications equipment provided outside of Canada; transit traffic services; and international consulting services provided to customers outside of Canada. If a Non-Canadian Revenue is deducted, then the corresponding Inter-Carrier Payments cannot be deducted.

Line D.3: Canadian Non-Telecommunications Revenues (Order 2001-288)	“Canadian Non-Telecommunications Revenues” includes all Canadian revenues that are derived from services other than telecommunications services as defined in section 23 of the <i>Telecommunications Act</i> . Telecommunications services include, among other things, any service that is incidental to the business of providing telecommunications services.
Line D.4: Canadian Telecommunications Services Revenues (Order 2001-220)	“Canadian Telecommunications Services Revenues” (CTSR) means Total Operating Revenues less Non-Canadian Revenues and less Canadian Non-Telecommunications Revenues as those terms are defined for contribution purposes.
Line D.5: Contribution Payments received (Order 2001-220)	“Contribution Payments received” means contribution entitlements from the Central Fund Administrator.
Line D.6: Inter-Carrier Payments (Order 2001-220)	The following payments are deductible as “Inter-Carrier Payments”, to the extent that such expenses were incurred to earn Contribution-Eligible Revenues: <ul style="list-style-type: none"> • expenses incurred, whether inside or outside of Canada, for the transmission and termination of traffic; • expenses incurred, whether inside or outside of Canada, for roaming charges; • expenses incurred in Canada for services, either for administrative purposes or to provide telecommunications services or facilities, including Centrex and private line services, and unbundled local loops; • expenses incurred for switching and aggregation pursuant to a tariff approved by the Commission; • expenses incurred for co-location services; and • expenses incurred for start-up costs pursuant to a tariff approved by the Commission.
Line D.7	<i>No longer being used (formerly Retail Internet Service Revenues) and must be reported as zero (0).</i>
Line D.8	<i>No longer being used (formerly Retail Paging Service Revenues) and must be reported as zero (0).</i>

<p>Line D.9: Terminal Equipment Revenues (Order 2001-221 and Telecom Decision 2005-32)</p>	<p>“Terminal Equipment Revenues” means revenues from the sale or rental of terminal equipment. Such revenues are defined as revenues generated by the transfer of title or specifically contracted use of any network addressable equipment that is intended for use in conjunction with the provision of a telecommunications service. Equipment providing telecommunications services includes the following:</p> <ul style="list-style-type: none"> • client premises routers, • private branch exchanges, • handsets, and • stand-alone earth station equipment or other satellite-based end-user equipment and jointly-used teleport facilities. <p>Revenues from ancillary services, also considered a component of Terminal Equipment Revenues, include the following:</p> <ul style="list-style-type: none"> • equipment installation, • site preparation, • programming, • maintenance, • customer training, • engineering, • design, • technical support, and • related financing charges. <p>A deduction for Terminal Equipment Revenues shall be allowed only when the equipment is located on the customer’s premises. Revenues from terminal equipment not located on the customer’s premises are contribution-eligible telecommunications revenues.</p>
<p>Line D.10: Non-Contribution-Eligible Revenues eliminated from those bundles to which both contribution-eligible and non-eligible revenues are attributed (Orders 2001-220 and 2001-221)</p>	<p>“Bundling” (or “bundles”) refers to a situation in which one rate covers a number of products and/or services. Definitions and reporting rules for “Non-Contribution-Eligible Revenues eliminated from those bundles to which both contribution-eligible and non-eligible revenues are attributed” can be found in Part C of the Appendix.</p>
<p>Line D.12: Contribution-Eligible Revenues on package discounts (Order 2001-221)</p>	<p>“Contribution-Eligible Revenues on package discounts” applies when one or more contribution-eligible services are offered at a discount that is dependent on the use or purchase of one or more non-contribution-eligible</p>

	services that are priced above the stand-alone price. In such cases, the excess over the stand-alone price for each of the non-contribution-eligible services would be subject to contribution.
Line D.13: Contribution-Eligible Revenues (Decision 2000-745, Order 2001-220, Order 2001-221, and Telecom Decision 2005-32)	“Contribution-Eligible Revenues” means Canadian Telecommunications Services Revenues less Contribution Payments, Inter-Carrier Payments, Terminal Equipment Revenues, and Non-Contribution-Eligible Revenues eliminated from those bundles to which both contribution-eligible and non-eligible revenues are attributed. Add Contribution-Eligible Revenues on package discounts to the resulting subtotal to arrive at total Contribution-Eligible Revenues.

Part C: The bundling rules (as set out in Orders 2001-220 and 2001-221)

The bundling rules set out, firstly, alternative methods for separating contribution-eligible revenues from non-contribution-eligible revenues and, secondly, rules for reporting the contribution-eligible revenues set out in Part A above.

Methods for separating contribution-eligible revenues in bundles

The Bundling and Other Exemptions Working Group (BOEWG) was charged with addressing the opportunity provided to the industry in paragraph 116 of Decision 2000-745 whereby the Commission was prepared to consider a workable and reasonable proposal to separate non-contribution-eligible revenues from bundled services for the purpose of calculating contribution-eligible revenues.

The BOEWG proposed two methods by which TSPs could calculate contribution-eligible revenues for bundles. In the first method, the portion of revenues from the bundle that represents contribution-eligible service(s) would be calculated on a pro-rata basis using the rates of the elements in the bundle as per the following formula:

$$\frac{\text{Sum [rate(s) for contribution-eligible element(s) X units sold of each]}}{\text{Sum [rate(s) for contribution-eligible and ineligible element(s) X units sold of each]}} \times \text{Revenue for Bundle}$$

The BOEWG recommended that the rates of the elements in the bundle be based on stand-alone prices, where available. If stand-alone prices were unavailable, the rates were to be based on a proxy.

In the second method, contribution-eligible revenues would be calculated based on the rates of the contribution-eligible elements as per the following formula:

$$\text{Sum [rate(s) for contribution-eligible element(s) X units sold of each]}$$

This method was proposed since it was less burdensome to use in some cases because the rates of ineligible elements were not required.

The BOEWG also recommended that if neither of the two methods described above were used, then all revenues from an entire bundle would be considered contribution-eligible.

The BOEWG recommended that if the contribution-eligible elements within a bundle did not represent a material portion of the total value of the bundle, the entire bundle would be deemed contribution-ineligible. The BOEWG also recommended the adoption of a 5% threshold whereby if the proportion of contribution-eligible revenues within a bundle were 5% or lower, then the revenue from the bundle would not need to be included in the CTSR.

Finally, if one or more contribution-eligible services were offered at a discount dependent on the use or purchase of one or more non-contribution-eligible services that were priced above the stand-alone price, the excess amount over the stand-alone price for each of the non-contribution-eligible services would be subject to contribution.

Rules for reporting contribution-eligible revenues in bundles

To ensure that operating revenues are appropriately recorded, operating revenues associated with bundles are to be reported as follows (letter references can be found in Part A):

Bundles with contribution-eligible and non-contribution-eligible revenues

- If the bundle contains both (i) non-contribution-eligible revenues related to Lines D.2 and/or D.3, and (ii) contribution-eligible revenues, then the non-contribution-eligible revenues must be reported on Line D.2 or D.3, as applicable.
- If the bundle contains both (i) non-contribution-eligible revenues related to Line D.9, and (ii) contribution-eligible revenues, then the non-contribution-eligible revenues must be reported on Line D.10 only.
- If the bundle contains both (i) non-contribution-eligible revenues related to Lines D.2, D.3, and/or D.9; and (ii) contribution-eligible revenues, then the Lines D.2 and/or D.3 non-contribution-eligible revenues must be reported on Lines D.2 and/or D.3, as applicable, and the Line D.9 non-contribution-eligible revenues must be reported on Line D.10. If the non-contribution-eligible revenues cannot be separated, then the non-contribution-eligible revenues must be reported on Line D.10 only. Non-contribution-eligible revenues associated with Line D.9 are not to be reported on Line D.2 or D.3.

Bundles with non-contribution-eligible revenues only

- If the bundle contains only non-contribution-eligible revenues, then the revenues must be reported on Lines D.2, D.3, and/or D.9, as applicable. If the revenues cannot be separated, then the revenues must be reported on Line D.10 only. Non-contribution-eligible revenues associated with Line D.9 cannot be reported on Line D.2 or D.3.

Bundles with contribution-eligible revenues representing less than 5% of the bundle

- If the revenues from the bundle comprise less than 5% contribution-eligible revenues, then the entire bundle is considered non-contribution-eligible and the revenues must be reported on Lines D.2, D.3, and/or D.9, as applicable (including the immaterial portion of contribution-eligible revenues).
- If the non-contribution-eligible revenues cannot be separated, all of the revenues are to be reported on Line D.10. If the total of the contribution-eligible revenues and the non-contribution-eligible revenues that would normally be reported on Line D.9 represents less than 5% of the bundle, the total revenues from the bundle can be reported on Line D.2 or D.3, as applicable.