



**Utility Regulation and Competition
Office**

**Licence Fees for
Long-term (ICT Sector One) Licences**

Guidelines for Licensees

17th March 2021

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1. Introduction

This document provides ICT Network operators and ICT Service providers licensed by the Office ("Office") with a detailed summary of the policy obligations used for the calculation and collection of licence fees for major ICT Licensees.

These procedures are subject to amendment and updating and any changes will be published on the Office's web site.

The information in this document should not be considered to represent legal or commercial advice and readers should seek appropriate professional advice appropriate to their own circumstances. This document is without prejudice to the legal position or the rights and duties of the Office to regulate the market generally. Any views expressed are without prejudice to the final form and content of any decisions the Office may issue.

Legislative Background

The Utility Regulation and Competition Act ("URC Act") and the Information and Communications Technology Act ("ICT Act") empower the Office to license and regulate ICT Service providers and ICT Network operators and to collect all fees, including licence fees and other charges levied under the these Acts or the Electronic Transactions Act or the regulations made thereunder.

The licence fees charged by the Office are expected, among other things, to meet its needs for funding its activities in carrying out the statutory functions assigned by the legislation.

The Office is required to publish its estimates of expenditure and revenue each year, in accordance with Section 41(1) of the URC Act.

The Office is required to maintain proper accounts, to have the accounts independently audited and to submit the audited accounts along with its annual report to Cabinet, no later than four months following the end of the financial year.

2. Who is liable to pay Licence Fees?

Cable & Wireless' licence defines "ICT Sector One" as "... all those activities identified as Types 1, 2, 3, 4, 5, and 9 (limited to Internet Service Providers) ICT Services, as set out in the first Section 23(2) Notice issued by the Office, as a minimum, and such others as the Office may prescribe from time to time." By this document, the Office redefines ICT Sector One to mean all those activities identified as ICT Networks and ICT Services as set out in the most recent Section 23(2) Notice. Pursuant to Annex 2 of the licences, Regulatory Fees and Royalty

Fees are payable by all ICT Network and Service licensees unless otherwise determined by the Office.

3. How will Licence Fees be calculated?

The licence fees are calculated and paid in arrears on a quarterly basis with an annual true-up mechanism based on the Licensee's annual audited financial statements.

For each Licensee, licence fees are comprised of a royalty fee and a regulatory fee. The only exceptions are Licensees whose licences exempt them from the payment of the royalty fee. In such cases, the licence fee will be comprised of the regulatory fee only.

The royalty fee, which is set by the Government, is 6% of each Licensee's revenues. The regulatory fee, which is based on the Office's costs for regulating ICT Sector One, is pro-rated across all Licensees based on each Licensee's quarterly revenues as a percentage of all Licensees' quarterly revenues. Both components of the licence fee are to be remitted by Licensees on a quarterly basis to the Office.

The Office will use Licensees' revenues for the quarter immediately preceding the quarter for which licence fees are due for purposes of calculating each Licensee's regulatory fee. In part, the reason for this is because of the time it will take for the Office to calculate the regulatory fee payable by each Licensee which can only be done after all Licensees provide their revenues. Given that Licensees' revenues will only be available some time after the end of the last month of each quarter, the Office is concerned that using revenues for the immediately preceding quarter would result in undue delays in calculating and collecting regulatory fees. Hence, the Office has decided to use revenues for the quarter prior to the immediately preceding quarter to calculate each Licensee's regulatory fee.

The quarterly licence fee comprises of:

- 1) a royalty fee to be calculated as 6% of the Licensee's quarterly revenues;
and
- 2) a regulatory fee to be calculated based on the Office's quarterly on-going expenditures for the regulation of ICT Networks and ICT Services multiplied by the Licensee's revenues for the quarter immediately preceding the quarter for which licence fees are due, divided by all Licensees' revenues for the same quarter.

The regulatory fee to be paid by each Licensee during the Office's financial year (i.e., 1st January to 31st December) shall not exceed six hundred thousand dollars.

When the results for a Licensee's financial year are finalised and it transpires that the audited revenues are higher than the sum of the unaudited quarterly revenues which were used to calculate licence fees during the year, the Licensee will be liable for an additional royalty fee equal to 6% of the difference between the audited revenues and the sum of its unaudited quarterly revenues. This will be payable forthwith upon submission of the Licensee's annual audited financial statements, which are due no later than three months after the end of its financial year. If, on the other hand, the Licensee's audited revenues are lower than the sum of its unaudited revenues, the Office will calculate and apply an equivalent credit to the Licensee's royalty fee for the current year. In either case, the Office does not anticipate collecting additional regulatory fees.

4. What constitutes Revenues for Licence Fee purposes?

In determining what constitutes turnover and revenue for licence fee purposes, the Office has sought, for reasons of administrative simplicity, to set out as broad a base as possible with few deductions.

The revenue base for purposes of calculating the royalty fee and the regulatory fee is defined as the Licensee's turnover less payments made to domestic ICT Licensees for wholesale, interconnection and infrastructure services and settlement payments made to international carriers for international traffic and non-recurring extraordinary items of receipt that are not made in the ordinary course of business.

Payments made by an ICT Licensee to another domestic ICT Licensee for wholesale, interconnection and access to and sharing of infrastructure services may be deducted by the Licensee making such payments from its turnover. The ICT Licensee providing wholesale, interconnection and access to or sharing of

infrastructure services will report such payments as part of its revenues. Licensees may also deduct settlement payments made to international carriers for international traffic. A deduction is allowed for non-recurring extraordinary items of receipt, such as that from real estate sales, which are not made in the ordinary course of business.

In the licence, revenues for purposes of calculating the royalty fee and the regulatory fee are defined as:

The total amount of money or money's worth earned by the Licensee from all sources arising out of or in connection with the Licensee's business in or from the Cayman Islands (which includes any fees derived from the use by the Licensee or a third party to advertise, whether directly or indirectly, on the channels broadcasted by the Licensee) for a defined period of time. (e.g., monthly, quarterly or annually, as the case may be)

Less

Payments made to other licensees for interconnection, infrastructure sharing, Wholesale Services; and

Settlement payments made to international carriers for international traffic, including adjustments to payments for such traffic for that same period. If any of the payments are made to a Licensee's affiliate, they shall be excluded from Annual Revenue only to the extent that those payments are made at open market value on an arm's-length basis; and

Non-recurring extra-ordinary items of receipt (including real estate) that are not made in the ordinary course of business.

For the purposes of calculating the royalty fee and the regulatory fee, Licensees are to report based on money or money's worth earned.

A Licensee must report its quarterly turnover and quarterly revenues in a licence fee report, the format of which is attached as Schedule 1 to this document.

5. When are Licence Fees payable?

Licence fees are payable no later than 15 days following the end of each quarter. The payment dates are:

<u>Due on or before</u>	<u>For the Quarter Beginning</u>
15 th April	1 st January
15 th July	1 st April

15th October1st July15th January1st October

In addition, no later than three months following the end of a Licensee's financial year-end, the Licensee is required to provide audited financial statements with any additional royalty fee payment arising from the year-end adjustment.

Where a payment date falls on a weekend or a holiday, licence fees are due on the first business day immediately following the weekend or holiday.

6. Procedures for the Payment of Licence Fees

The following procedures will be used for the payment of licence fees.

Quarterly

Thirty days prior to the beginning of each quarter, the Office will issue, to each Licensee, an invoice for the regulatory fee.

No later than fifteen days following the end of each quarter, each Licensee will provide:

- A licence fee report, the format of which is attached as Schedule 1 to this document;
- Unaudited Financial Statements; and
- Payment (by cheque or electronic fund transfer) for the licence fee payable (both royalty and regulatory fees), as calculated per the Licensee's licence fee report.

The licence fee report must be signed by an officer of the Licensee attesting to the veracity and completeness of the information provided and that the Licensee has reported all turnover. If a Licensee's turnover, revenues or licence fee payment differs from the precise details contained in the licence fee report, the Office may require the Licensee to provide further information in respect of the licence fees calculated.

Additionally, the Office may request further information at any time and in any format deemed advisable.

Within ninety days of receiving a Licensee's licence fee report and unaudited financial statements (or audited financial statements, as the case may be), if the Office disputes the exclusion of any item from the Licensee's turnover or the inclusion of any item deducted from the Licensee's turnover for the purpose of calculating its revenues, the Office may serve the Licensee with a dispute notice.

The procedures for resolving such a dispute are set out in Section 2 of Annex 2 to each ICT Licence.

Annually

No later than three months following the end of the Licensee's financial year, each Licensee must provide a full set of audited financial statements to the Office.

If the audited financial statements, as accepted by the Office, show that the Licensee has underpaid the licence fee, a further royalty fee payment in the amount of the 6% of the difference between the audited statements and the unaudited statements shall be paid to the Office.

In the event the audited financial statements show that the Licensee has overpaid licence fees, a credit in the amount of 6% of the difference shall be applied to the Licensee's royalty fee for the current year.

The Licensee's audited financial statements are to include at the Licensee's option, either:

- a) audited Statement of Financial Position, Statement of Comprehensive Income, Statement of Cash Flows, Annual Turnover and Annual Revenue statements (including audits of amounts of Annual Turnover earned as money or money's worth, Annual Turnover earned from Affiliates, payments to Affiliates, and other deductions from Turnover) and such other statements as the Office may reasonably prescribe, all in respect of the Licensee's business in or from the Cayman Islands for a Licensee Financial Year during the Term of the Licence; or
- b) audited statements of Annual Turnover and Annual Revenue (including audits of amounts of Annual Turnover earned as money or money's worth, Annual Turnover earned from Affiliates, payments to Affiliates, and other deductions from Turnover) and such other statements as the Office may reasonably prescribe, all in respect of the Licensee's business in or from the Cayman Islands for a Licensee Financial Year during the Term of the Licence.

With respect to Licensees' audited financial statements,

- Only auditors from the Cayman Islands Monetary Authority's Current List of Approved Local Auditors or any other locally certified public accounting firm that is approved by the Office in advance of the Licensee's financial year

end, will be accepted by the Office as the auditors of record for Licensee's audited financial statements; and

- Consistent with the Cayman Islands Monetary Authority's Policy for Local Auditor Sign Off, the Office will not require that all of the audit work is carried out locally or carried out solely by the approved auditor of record.

Licensees are responsible for ensuring that they make payment of the quarterly amount of the licence fees calculated on the basis of revenues on or before the due date. The Office will issue an acknowledgement for fees received.

Where a date falls on a weekend or holiday, the due date will automatically be the first business day immediately after the weekend or holiday.

7. Automated Payments

Payments should be made to the Office's bank account, details of which will be provided directly to each Licensee. The name of the Licensee as it appears on the relevant licence should be quoted in the payment.

8. Penalties

The requirement to pay licence fees are included in all licences issued by the Office. Therefore, failure to pay a fee will constitute a breach of licence. There are various remedies available to the Office where there is a breach of licence and without prejudice to those remedies, or any other remedies available under the ICT Act or URC Act if the Licensee fails to pay any amount due by the due date, any unpaid amount will accrue interest daily from the due date to the date of payment at three percentage points above the published Cayman Islands Dollar Prime Rate published from time to time by the Office's bankers, Butterfield Bank (Cayman) Limited.

9. Rebate of Excess Fees and Collection of Shortfalls

The Office is required by its legislation to maintain a reserve fund. Traditionally, in the event that the Office collected regulatory fees that are greater than its estimated operating budget, including maintenance of a reserve fund, any excess is paid into the Office's general reserve to be managed in accordance with the URC Act and related general reserve policies.

Should there be any shortfall, the Office may make up this shortfall using one or more of a number of options including.

- imposing an additional regulatory fee or levy on Licensees within the calendar year in which the shortfall arises; or

- obtaining short term funding (such as by seeking loans in accordance with Section 35 of the URC Act) and increasing the regulatory fee in the following calendar year; or
- seeking grants from the Government in accordance with Section 36(1) of the URC Act.

The mechanism to be used will depend on the nature and size of any shortfall and will be decided by the Office on a case by case basis.

Schedule 1

LICENCE FEE REPORT						
1	Date Submitted:					
2						
3	Licensee Name:					
4	Licensee No.:					
5						
6	Contact Person:					
7	Telephone:					
8	E-mail:					
9						
10		Note	Month 1	Month 2	Month 3	Quarter
11	Turnover					YTD
12	[Unless otherwise prescribed by the Authority, the licensee should provide a breakdown of revenues, at a minimum, for each individual licence category.]					
13	Interconnection					
14	Wholesale					
15	Access to and Sharing of Infrastructure					
16	Other	1				
17	Gross Turnover	2				
18						
19	Less:					
20	Outpayments to international carriers					
21	Interconnection services from other licensees					
22	Wholesale services from other licensees					
23	Access to and sharing of Infrastructure from other licensees					
24	Total Regular Deductions	3				
25						
26	Non-recurring extraordinary items of receipt	4				
27						
28	Revenues for Royalty Fee Calculation	5				
29	Royalty Fee Payable					
30	6% x Line 28					
31						
32	Revenues for Next Regulatory Fee Calculation	6				
33	Regulatory Fee Per Authority Invoice					
34						
35	Total Licence Fee Remitted					
36						
37						
38	I verify the above to be accurate and complete to the best of my knowledge.					
39						
40						
41						
42						

**Schedule 1
(cont'd)**

LICENCE FEE REPORT

Notes:	[Provide detailed descriptions of additional notes]						
1 Other	[Specify]						
2 Gross Turnover	Sum of Lines 12 to 16						
3 Total Regular Deductions	Sum of Lines 20 to 23						
4 Non-recurring extraordinary items of receipt (including real estate) not made in the ordinary course of business	[Specify]						
5 Revenues for Royalty Fee Calculation	Line 17 minus (Line 24 plus line 26)						
6 Revenues for Next Regulatory Fee Calculation	Line 17 minus (Line 24 plus line 26)						