



## Telecom Circular CRTC 2007-15

Ottawa, 8 June 2007

### The Canadian revenue-based contribution regime

#### Purpose

1. The purpose of this Circular is to consolidate and summarize information with respect to the Commission's revenue-based contribution regime, which subsidizes the high cost of residential telephone service in rural and remote areas of Canada.

#### Background

2. In *Changes to the contribution regime*, Decision CRTC 2000-745, 30 November 2000 (Decision 2000-745), the Commission introduced a national contribution collection mechanism based on revenues from telecommunications service providers (TSPs) to replace the former per-minute mechanism. The Commission was of the view that a revenue-based collection mechanism was superior to other proposed mechanisms, including the existing per-minute mechanism, because it would be more competitively equitable by spreading the contribution burden across a broad range of services and service providers.
3. The Commission determined that all TSPs, such as incumbent local exchange carriers (ILECs), alternate providers of long distance services, competitive local exchange carriers, resellers, wireless service providers, international licensees, satellite service providers, Internet service providers, pay telephone service providers, and data and private line service providers, 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 of annual total CTSR (i.e. in Part A of the Appendix to this Circular, 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.

#### Subsequent Commission determinations

5. Since Decision 2000-745, the Commission has issued several Telecom decisions and orders approving and clarifying certain elements of the contribution regime and providing definitions of various terms.
6. After Decision 2000-745 was issued, the Commission established several CRTC Interconnection Steering Committee (CISC) working groups to address the issues surrounding the revenue-based contribution regime established in Decision 2000-745. The results of these working groups were submitted to the Commission for approval.

7. In *Industry Consensus Reports submitted by the Contribution Collection Mechanism (CCM) Implementation Working Groups*, Order CRTC 2001-220, 15 March 2001 (Order 2001-220), the Commission approved, subject to some clarifications and minor modifications, the definitions proposed by the CISC working groups where consensus had been reached within the groups.
8. In *Disputed issues submitted by the Contribution Collection Mechanism (CCM) Implementation Working Groups*, Order CRTC 2001-221, 15 March 2001 (Order 2001-221), the Commission approved, subject to some clarifications and minor modifications, the definitions proposed by the CISC working groups where consensus had not been reached within the groups.
9. In *Definition of Canadian non-telecommunications service revenues for the purpose of the contribution regime*, Order CRTC 2001-288, 11 April 2001 (Order 2001-288), the Commission approved the definition of Canadian non-telecommunications service revenues.
10. In *CRTC gives final approval to procedures for the revenue-based contribution regime*, Order CRTC 2001-738, 21 September 2001 (Order 2001-738), the Commission determined that the definition of "related", as it pertained to TSPs, could be found in Section 3840 of the Handbook of the Canadian Institute of Chartered Accountants.
11. In *Regulatory framework for voice communication services using Internet Protocol*, Telecom Decision CRTC 2005-28, 12 May 2005, as amended by Telecom Decision CRTC 2005-28-1, 30 June 2005 (Decision 2005-28), the Commission determined that revenues associated with voice over Internet Protocol (VoIP) services are contribution-eligible, and replaced the term "PSTN Voice", contained in Order 2001-220, with the term "VoIP services" in the retail Internet deduction definition.
12. In *Accutel Conferencing Systems Inc. – Definition of terminal equipment revenues within the contribution regime*, Telecom Decision CRTC 2005-32, 2 June 2005 (Decision 2005-32), the Commission determined that terminal equipment must be located on the customer's premises to be eligible for the terminal equipment deduction.
13. Periodically, the Canadian Portable Contribution Consortium Inc. submits, for Commission approval, revisions to the procedures for the operation of the National Contribution Fund. The most recent procedures were approved by the Commission in *Revised procedures for the operation of the National Contribution Fund – May 2007*, Telecom Decision CRTC 2007-31, 4 May 2007.
14. The approved formula for calculating contribution-eligible revenues can be found in Part A of the Appendix to this Circular. The associated definitions and rules for the revenue-based contribution regime can be found in Parts B and C of the Appendix to this Circular. The definition for "related" may be found in Part D of the Appendix to this Circular.

Secretary General

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**Part A:**  
**Approved Formula for the Calculation of Contribution-Eligible Revenues**

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

<b>Line</b>	<b>Description</b>
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
<b>LESS</b>	
D.2	Non-Canadian Revenues
D.3	Canadian Non-Telecommunications Service Revenues
D.4	Subtotal: Canadian Telecommunications Services Revenues (D.1-D.2-D.3) (\$10 million dollar threshold applies here, as per Decision 2000-745; to ascertain whether Telecommunications Service Providers (TSPs) are "related" for the purposes of this formula, see Part D of this Appendix)
<b>LESS</b>	
D.5	Contribution Payments received
D.6	Inter-Carrier Payments
D.7	Retail Internet Service Revenues
D.8	Retail Paging Service Revenues
D.9	Terminal Equipment Revenues
D.10	Non-Contribution-Eligible Revenues eliminated from those bundles to which both contribution-eligible and non-eligible revenue are attributed
D.11	Subtotal: (D.5+D.6+D.7+D.8+D.9+D.10)
<b>ADD</b>	
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, C, and D.

<b>Part B:</b> <b>Definitions for the Revenue-Based Contribution Regime Formula</b>	
<p><b>Line D.1.A</b></p> <p><b>Total Operating Revenues reported in financial statements</b></p> <p>(Order 2001-220)</p>	<p>"Total Operating Revenues reported in financial statements" refers to a TSP's reported non-consolidated operating revenues which have been prepared in accordance with generally accepted accounting principles.</p>
<p><b>Line D.1.B</b></p> <p><b>Add deductions from revenues</b></p> <p>(Order 2001-220)</p>	<p>To the extent the following amounts have been deducted in arriving at a TSP's operating revenue, these amounts must be added back in arriving at the Total Operating Revenues for contribution purposes:</p> <ul style="list-style-type: none"> <li>• bad debts,</li> <li>• commissions, agent/dealer fees and other selling costs,</li> <li>• material and labour cost of sales,</li> <li>• contribution (portable subsidy) expense,</li> <li>• settlements and other inter-carrier payments, and</li> <li>• costs associated with warranty claims.</li> </ul>
<p><b>Line D.1</b></p> <p><b>Total Operating Revenues for contribution purposes</b></p> <p>(Order 2001-220)</p>	<p>"Total Operating Revenues for contribution purposes" refers to the sum of "Total Operating Revenues reported in financial statements" and "Add deductions from revenues".</p>
<p><b>Line D.2</b></p> <p><b>Non-Canadian Revenues</b></p> <p>(Order 2001-220)</p>	<p>"Non-Canadian Revenues" means revenues derived from goods and services that are provided outside of Canada, including, but not limited to, revenues derived from the provision of 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.</p>

<p><b>Line D.3</b></p> <p><b>Canadian Non-Telecommunications Service Revenues</b></p> <p>(Order 2001-288)</p>	<p>"Canadian Non-Telecommunications Service 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.</p>
<p><b>Line D.4</b></p> <p><b>Canadian Telecommunications Services Revenues</b></p> <p>(Order 2001-220)</p>	<p>"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.</p>
<p><b>Line D.5</b></p> <p><b>Contribution Payments received</b></p> <p>(Order 2001-220)</p>	<p>"Contribution Payments received" means contribution entitlements from the Central Fund Administrator.</p>
<p><b>Line D.6</b></p> <p><b>Inter-Carrier Payments</b></p> <p>(Order 2001-220)</p>	<p>The following payments are deductible as "Inter-Carrier Payments", to the extent that such expenses were incurred to earn Contribution-Eligible Revenues:</p> <ul style="list-style-type: none"> <li>• Expenses incurred, whether inside or outside of Canada, for the transmission and termination of traffic,</li> <li>• Expenses incurred, whether inside or outside of Canada, for roaming charges,</li> <li>• Expenses incurred in Canada for services either for administrative purposes or to provide telecommunications services or facilities to Centrex, private line services, and unbundled local loops,</li> <li>• Expenses incurred for switching and aggregation pursuant to a tariff approved by the Commission,</li> <li>• Expenses incurred for co-location services, and</li> <li>• Expenses incurred for start-up costs pursuant to a tariff approved by the Commission.</li> </ul>

<p><b>Line D.7</b></p> <p><b>Retail Internet Service Revenues</b></p> <p>(Decision 2005-28)</p>	<p>"Retail Internet Service Revenues" means revenues from all Internet services, independent of speed and the facilities over which the services are carried. For greater certainty, retail Internet service includes all Internet services that permit the users of those services to upload and/or download information from the Internet and to use applications such as electronic mail, but it does not include voice over Internet Protocol (VoIP) services or other contribution-eligible telecommunications services, nor does it include goods or services the revenues from which fall within the definition of Canadian Non-Telecommunications Service Revenues.</p> <p>For the purposes of this definition, VoIP services are defined as voice communication services using Internet protocols (IP) that use North American Numbering Plan (NANP)-conforming numbers and provide access to and/or from the public switched telephone network (PSTN). Revenues from the provision of VoIP services are contribution-eligible telecommunications services.</p>
<p><b>Line D.8</b></p> <p><b>Retail Paging Service Revenues</b></p> <p>(Order 2001-220)</p>	<p>"Retail Paging Service Revenues" include those from the provision of a wireless and/or satellite-based service that permits a customer to receive and/or send uni-directional messages from one or more individual receivers. Retail paging service may also contain, but is not limited to, voice, text, audio, video and data.</p>
<p><b>Line D.9</b></p> <p><b>Terminal Equipment Revenues</b></p> <p>(Order 2001-221 and Decision 2005-32)</p>	<p>"Terminal Equipment Revenues" means revenues from the sale or rental of terminal equipment. Such revenues are defined as revenue generated by the transfer of title or specifically contracted use of any network addressable equipment, which is intended for use in conjunction with the provision of a telecommunication service. Equipment providing telecommunication services includes:</p> <ul style="list-style-type: none"> <li>• client premises routers</li> <li>• private branch exchanges</li> <li>• handsets</li> <li>• stand-alone earth station equipment or other satellite-based end-user equipment and jointly-used teleport facilities</li> </ul> <p>Revenues from ancillary services, also considered a component of Terminal Equipment Revenues, include:</p> <ul style="list-style-type: none"> <li>• equipment installation</li> <li>• site preparation</li> <li>• programming</li> </ul>

	<ul style="list-style-type: none"> <li>• maintenance</li> <li>• customer training</li> <li>• engineering</li> <li>• design</li> <li>• technical support</li> <li>• related financing charges</li> </ul> <p>A deduction for Terminal Equipment Revenue shall only be allowed when the equipment is located on the customer's premises; revenue from terminal equipment not located on the customer's premises is contribution-eligible telecommunication revenue.</p>
<p><b>Line D.10</b></p> <p><b>Non-Contribution-Eligible Revenues</b> [...]</p> <p>(Orders 2001-220 and 2001-221)</p>	<p>"Bundling" (or "bundles") refers to a situation where one rate covers a number of products and/or services.</p> <p>Definitions and reporting rules for "Non-Contribution-Eligible Revenues eliminated from those bundles to which both contribution-eligible and non-eligible revenue are attributed" may be found in Part C of the Appendix.</p>
<p><b>Line D.12</b></p> <p><b>Contribution-Eligible Revenues on package discounts</b></p> <p>(Order 2001-221)</p>	<p>"Contribution-Eligible Revenues on package discounts" covers where 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 services, which 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.</p>
<p><b>Line D.13</b></p> <p><b>Contribution-Eligible Revenues</b></p> <p>(Decision 2000-745, Order 2001-220, Order 2001-221, and Decision 2005-32)</p>	<p>"Contribution-Eligible Revenues" means Canadian Telecommunications Services Revenues less Contribution Payments, Inter-Carrier Payments, Retail Internet Service Revenues, Retail Paging Service Revenues, Terminal Equipment Revenues and Non-Contribution-Eligible Revenues eliminated from those bundles to which both contribution-eligible and non-eligible revenue are attributed.</p> <p>Add Contribution-Eligible Revenues on package discounts to resulting subtotal for total Contribution-Eligible Telecommunications Revenues.</p>

**Part C:  
The Bundling Rules  
(as set out in Orders 2001-220 and 2001-221)**

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

**Methodologies 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 at paragraph 116 of Decision 2000-745 whereby the Commission was prepared to consider a workable and reasonable proposal to eliminate non-contribution-eligible revenues from bundled services.

The participants of the BOEWG proposed two methodologies by which TSPs could calculate contribution-eligible revenues for bundles. In the first method, that portion of the revenues from the bundle that represents the 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 for the elements in the bundle be based on stand-alone prices, where available. Where stand-alone prices were unavailable, the rates were to be based on a proxy.

In the second method, contribution-eligible revenue would be calculated based on the rates for 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, as rates for 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 where 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 adoption of a 5 percent threshold whereby if the proportion of contribution-eligible revenue within a bundle were 5 percent or lower than the entire revenue of the bundle, then, in these circumstances, the revenue from the bundle need not be included in the CTSR.



Finally, where 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, which were priced above the stand-alone price, the excess 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 may be found in Part A):

#### *Contribution-eligible and non-contribution-eligible revenues in a bundle:*

- If the bundle contains non-contribution-eligible revenues related to Lines D.2 and/or D.3 and 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 non-contribution-eligible revenues related to Lines D.7, D.8, and/or D.9 and contribution-eligible revenues, then the non-contribution-eligible revenues must be reported on Line D.10 only.
- If the bundle contains non-contribution-eligible revenues related to Lines D.2, D.3, D.7, D.8, and/or D.9 and 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 Lines D.7, D.8, and/or 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 Lines D.7, D.8, and/or D.9 are not to be reported on Lines D.2 or D.3.

#### *Bundle of 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, D.7, D.8, 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 Lines D.7, D.8, and/or D.9 cannot be reported on Lines D.2 or D.3.

#### *Contribution-eligible revenues represent less than 5 percent of the bundle:*

- If the bundle contains less than 5 percent contribution-eligible revenues, then the entire bundle is considered non-contribution-eligible and the revenues must be reported on Lines D.2, D.3, D.7, D.8, 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 in Lines D.7, D.8, and/or D.9 represents less than 5 percent of the bundle, the total revenues from the bundle shall be reported on Lines D.2 or D.3, as applicable.

**Part D:**  
**Identification of Related Companies**  
**(as referred to in Order 2001-738)**

The relevant portions of section 3840 of the Handbook of the Canadian Institute of Chartered Accountants are reproduced below. For further information, please consult the Handbook of the Canadian Institute of Chartered Accountants.

**Definitions**

"Control" means the continuing power to determine an enterprise's strategic operating, investing and financing policies without the co-operation of others.

"Joint control" means the contractually agreed sharing of the continuing power to determine the strategic operating, investing and financing policies of an economic activity.

"Significant influence" means the ability to affect the strategic operating, investing and financing policies of an enterprise.

"Related parties" means when one party has the ability to exercise, directly or indirectly, control, joint control, or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include management and immediate family members.

"Related party transaction" means a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

"Ownership interest" means when an enterprise has the right and ability to, directly or indirectly, obtain future economic benefits from a transferred item or provided service.

**Identification of Related Parties**

The most commonly encountered related parties of a reporting enterprise include the following:

- (a) An enterprise that directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, the reporting enterprise.
- (b) An individual who directly, or indirectly through one or more intermediaries, controls the reporting enterprise.
- (c) The other party, when an investment is accounted for by the equity or the proportionate consolidation method and the reporting enterprise is either the investor or the investee.

- (d) Management: any person(s) having authority and responsibility for planning, directing and controlling the activities of the reporting enterprise. (In the case of a company, management would include the directors, officers and other persons fulfilling a senior management function. When an independent committee of the board of directors is established in accordance with regulatory requirements, to represent the non-controlling interests of an enterprise, the directors serving on that committee are deemed not to be related parties for the transaction under consideration.)
- (e) An individual having an ownership interest in the reporting enterprise that results in significant influence or joint control.
- (f) Members of the immediate family of individuals described in (b), (d) and (e). (Immediate family comprises an individual's spouse and those dependent on either the individual or the individual's spouse.)
- (g) The other party, when a management contract or other management authority exists and the reporting enterprise is either the managing or managed party.
- (h) Any party that is subject to significant influence, whether by reason of an ownership interest, management contract or other management authority, by another party that also has significant influence over the reporting enterprise.
- (i) Any party that is subject to joint control by the reporting enterprise. (In this instance, a party subject to joint control is related to each of the ventures that share that joint control. However, the venturers themselves are not related to one another solely by virtue of sharing of joint control.)