

## COMMENTS ON IDA'S 3G AUCTION RULES

### 1 General Comments on Auction Process and Draft Rules

- 1.1 **StarHub is disappointed with the lack of details in the draft rules, especially with regards to the auction procedures themselves** (e.g. software involved, details on auction facilities and communication methods, movements of Authorised Representatives, etc). This limits our ability to fully comment on the auction process, and leaves room for doubt and confusion on how the auction will actually be conducted. Ultimately it further delays full consultation on the rules to 5<sup>th</sup> March, when the final rules are meant to be issued.
- 1.2 **We need full clarity of the auction rules**, otherwise potential bidders will be unable to accurately value the spectrum licences, and this will ultimately dampen interest and deter participation in the auction itself.
- 1.3 **All rules need to be fixed ahead of auction commencement, rather than leaving rules to be set during the auction itself** (e.g. minimum bid increments, fixed bid increment levels, etc). This will avoid confusion during the auction itself, which would otherwise essentially deter participation in the auction.
- 1.4 **There is an overall need for full transparency during the auction** (e.g. amounts of different bids by different bidders, information on who has dropped out as soon as it happens, etc). Such information helps bidders fully assess the future 3G market structure and thus fine-tune their valuations, encouraging active participation during the auction.
- 1.5 **In addition, full transparency of information serves to reinforce public confidence in the integrity of the auction process itself, and also in the choice of auction as the correct means of allocating spectrum.**
- 1.6 **StarHub considers that there must be a guarantee from the IDA, prior to 5<sup>th</sup> March, that the reserve price of \$150M will not be lowered in the future.** This goes to the fundamental heart of the whole spectrum valuation exercise, and is critical for StarHub to accurately assess its auction strategy. Doubt as to whether IDA will retain the \$150M reserve price in the future, will deter participation, as potential bidders wait out this auction, in the hope of gaining a licence at a much lower price later on. **In fact, if there is no IDA guarantee, StarHub itself will have to seriously reconsider its own bidding strategy for this auction. The only other acceptable alternative is a guarantee from the IDA that should the \$150M reserve price be subsequently reduced in the future, that the original 3G licence holders will be given a full rebate for the difference in the reserve prices.**

### 2 Quality of Service Standards (QoS) – should be left to the market

- 2.1 With 4 operators providing 3G services, there will be sufficient competition to ensure that quality of service is kept at a high level. **Competition in the industry will ensure that operators who do not meet the quality of service demanded by consumers will be forced out of the market.** A good example would be the present mobile industry, where meeting IDA's minimum QoS standards is not sufficient to remain competitive and every operator needs to surpass IDA's minimum QoS standards by a significant amount and meet the QoS standards of their competitors to survive.

- 2.2 **At the moment there is also very little known about the achievable QoS standards and this lack of knowledge will continue even in the near future; it will therefore be difficult to set realistic standards.** There is therefore a risk that IDA may set unrealistically high standards, which will be very difficult for operators to achieve.
- 2.3 **We therefore recommend that IDA does not impose any minimum QoS standards in what will be a highly competitive multi-operator environment and that the QoS be left to competitive and market forces.**

### **3 Roaming onto 2G Networks – should not be required at all, and certainly not beyond 2003; any agreed terms for 2G provision should not be applied to all operators given very different cost structures for each**

- 3.1 The IDA has stated that it will, if required, establish prices for national roaming that will be valid for a period of up to four years. This means that any new entrant will benefit from national coverage through roaming on the GSM networks of current incumbents from the start of operations. Such a benefit has not been afforded to the two previous new entrants to the Singapore market, MobileOne and StarHub, each of which has been required to build its own national network prior to launch. Each of these two operators has been successful at entering the market despite the requirement to rapidly build a national network. **We therefore believe that access to national roaming at a regulated price provides an undue level of assistance to potential new entrants in Singapore, and would encourage inefficient market entry.**
- 3.2 Further, we understand that the new 3G entrant will be allowed to acquire 2G spectrum. We do not see what purpose that would serve if not for the new entrant to use that 2G spectrum in different possible ways to speed up coverage provision before full nation-wide 3G coverage. **The policy here appears to contradict itself and we feel new entrants should not be allowed to acquire 2G spectrum..**
- 3.3 **We note that 3G operators in Singapore will be required to complete a full national roll out by the end of 2003. Given this roll out condition we see no merit in price regulated national roaming services (if at all these are mandated) being made available to new entrants beyond the end of 2003.** In order to make the IDA's position on national roaming and infrastructure roll out consistent we request that the IDA commit not to enforce price regulated national roaming beyond the end of 2003.
- 3.4 IDA has also stated that in the event that a new entrant fails to reach an agreement with an existing 2G operator within 90 days of commencing negotiations, IDA will intervene to determine the price, terms and conditions of the roaming agreement. The determined price will also apply to roaming agreements with other 2G operators.
- 3.5 However, IDA should note that the cost structure of each operator can vary greatly and it will not be fair to apply the determined price, terms and conditions of one operator to another. **We recommend that, if at all, IDA should determine the price, terms and conditions for individual operators in the event that 2G roaming agreement cannot be reached instead of imposing a common price, terms and conditions on all operators.**

### **4 Access to 3G Networks – bidders who drop out of the auction, should be able to start negotiations with continuing bidders immediately**

- 4.1 IDA has stated that they will allow MVNO's to commercially negotiate with grantees of 3G Spectrum Rights for access to their networks. However, under IDA's Auction Rules, it is not clear when negotiations can commence. **In the interests of rapid 3G deployment, it is critical that as soon as a bidder (including StarHub itself) drops out of the Auction, it should be allowed to immediately commence negotiations with any of the remaining Bidders for access to their 3G network, rather than wait until the end of the Auction itself.**

**5 Full Disclosure of All Bid Information and Transparency of the Auction Process – to match international best practices, encourage participation, and reinforce public confidence in integrity of auction process**

- 5.1 One key aspect of this auction design which the IDA have put forward appears to differ from international best practice and we believe this difference will seriously undermine the effectiveness of the auction design and damage the international perception of the auction, and public confidence in the overall integrity of the auction process.
- 5.2 A survey of recent and forthcoming spectrum auctions in Europe, Australia, New Zealand and the United States reveals that the IDA's current proposal on the level of information to be disclosed at the end of each round is not aligned with international best practices. **Indeed, in all countries surveyed, the minimum information that was disclosed after each round was the current highest bid for each of the licences on offer together with the name of the bidder having placed the highest bid.** Many countries such as the United Kingdom, the United States and others have chosen the fully transparent approach of notifying all participants, and also the public, of the value of each bid made by each candidate and the licence to which each bid related (see Exhibit 1).
- 5.3 Exhibit 1: Information on bids and candidates submitted after each auction round for UMTS auctions conducted in several European countries.

	Disclosure of all bids/highest bids with name of candidate submitting the bid	Disclosure of highest bid only – name of candidate submitting bid omitted
United Kingdom	✓	
Austria	✓	
Switzerland	✓	
Germany	✓	
The Netherlands	✓	
Belgium	✓	
Italy	✓	
Australia	✓	
New Zealand	✓	
United States	✓	
Singapore		✓

- 5.4 **The IDA auction rules as currently stated provide for significantly less information on the bids submitted during each round to be made available to bidders, than has been the practice in spectrum auctions elsewhere in the world. This undermines many of the key benefits of using a simultaneous, ascending, multi-round auction.**
- 5.5 **One of the key advantages of the simultaneous, multi-round auction, compared to alternatives, such as sealed bid auctions, is that as the bidding progresses, information about other bidders valuations is revealed, which helps bidders to refine their own valuation. For this reason multi-round ascending bid auctions are believed to be the most efficient mechanism for instilling confidence in Bidders<sup>1</sup>.**
- 5.6 In the current version of the design put forward by the IDA, bidders in the auction will be bidding against unknown opponents on a round by round basis, with no knowledge of the identity of the highest bidder for each spectrum right or even of the bidders remaining in the auction. This will undermine the bidders' ability to refine their valuation as information is revealed through the auction process, giving bidders less confidence in their own valuation than is usually instilled through a multi-round ascending bid auction. For example, a bidder in the final stages will not

<sup>1</sup> Milgrom and Weber 1982 "A Theory of Auctions and Competitive Bidding" Econometrica. 50 pp. 1089-1122

know if it is bidding against a close competitor, or against a “rogue” bidder with little experience and little ability to value the spectrum correctly.

- 5.7 **Furthermore, if bidders are not informed of the identity of bidders who drop out of the auction they will not have full information on the future market structure. For example, if an incumbent drops out, the result could be a five player mobile market, instead of a four player market, which has a very significant impact on valuation. For this reason bidders cannot be expected to make sensible bid decisions unless they are kept fully informed of who is still participating in the auction and who has dropped out in each round.**
- 5.8 **Additionally, players in the telecommunications industry increasingly expect licensing processes to be run on an open and transparent basis. Preparing to participate in a spectrum auction is an expensive undertaking and many international groups are unwilling to be involved in processes which are not fully open and transparent. The current version of the IDA rules will be seen as lacking the required transparency by many bidders and is unlikely to maximise the number of participants in the auction. Instead, the likely effect is to deter participation in the auction altogether, because bidders are unsure about the many variables in the auction.**
- 5.9 **We propose that the IDA should modify the current draft rules to include full disclosure of all bidders and their bids (as set out in Section 6.6 and 8.9.1), not only at the end of the day (as is currently proposed), but at the end of each round. This will improve the effectiveness of the auction, and thus reinforce public confidence and also improve credibility in the eyes of the telecommunications industry as a whole.**
- 5.10 We would urge the IDA to reconsider this fundamental aspect of the auction design and to adopt the fully transparent approach of disclosing full information on the bidding after each round. **At the very least, we believe that the highest bid for each licence together with the name of the bidder having placed the bid, and the name of the bidders that have withdrawn from the auction is the absolute minimum amount of information that needs to be made available to other participants at the end of each round of the auction.** Only then will participants be able to make informed and objective decisions about the value of the licence to themselves and to other players. Pursuing a less than fully transparent policy, will deter participation from potential bidders, because they are unable to confidently value the licences.

## **6 Communications – should allow open communication for bid team to encourage most effective decision-making during auction**

- 6.1 In the IDA clarifications posted on the IDA Web site (questions 15 and 18) the IDA has confirmed that the authorised bidders will be allowed to communicate with the bidder that they represent and that this communication will not be monitored by the IDA. However, the IDA has not yet described the manner and times in which the bidder may communicate, although it has indicated that this will be specified prior to the auction.
- 6.2 We believe it to be essential that the authorised representatives have an open channel of communication with the bidder at all times during and in between the auction sessions. **In general, bidders will have a sizeable team working on the valuation of the spectrum and the authorised representatives will need to be able to communicate freely with this team during the course of the auction. Bidders will also have internal procedures for authorising the representatives to bid at certain levels; again, these procedures will require an open channel of communication with the bidder at all times in the auction.**
- 6.3 We propose that the IDA should allocate a private bidding room at the auction location to each of the bid teams and that the room should contain a telephone that the authorised representatives are free to use to call the bidder they represent. If the IDA wishes the telephone could be configured to only allow calls to a designated number at the bidders premises.

- 6.4 We also urge the IDA to allow as much freedom as possible for authorised representatives to enter and leave the auction premises as they wish, with the only restriction being that at least one representative is present at all times. Onerous restrictions on the movements and conduct of the bid teams will only serve to make the auction unnecessary complex, and ultimately deter participation because of the difficulties involved.

## **7 Application Forms – full clarity on requirements required to avoid confusion / unnecessary complications later on for bidders**

- 7.1 It is unclear how the different parameters for qualification to be an eligible bidder will be measured (section 2.2.2 of auction rules) particularly those relating to financial and technical capability. The current criteria as drafted leave the amount of information required to pass IDA's test wide open to interpretation by the applicants. While an applicant may in fact have sufficient financial and technical capability based on IDA's internal criteria, it is quite possible that some of this information may be omitted in order to meet the guidance to "provide brief details only" (notes 1.7 and 1.8 in the application form), potentially to the applicant's detriment. **We therefore suggest that full clarity be provided on the amount of information that is required to demonstrate that an applicant has the requisite financial and technical capability, to avoid confusion and / or unnecessary complications.**
- 7.2 The amount of time required to compile various types of information can vary considerably depending on the complexity of the information requested (section 2.2.3 of auction rules). The time given therefore for clarification or additional information to be provided to IDA should be commensurate with the complexity of the information requested, particularly as IDA has stated that failure to provide such information or documents would invalidate the application form.

## **8 Associated Bidders – State's shareholdings should be exempt**

- 8.1 The present definition of Associated Bidders is not clear. For example, the present 2G mobile operators can be considered Associated Bidders as Temasek Holdings holds in excess of 20% share in each company.
- 8.2 An appropriate solution, as has been applied in many other countries, would be to exclude shareholdings related ultimately to the Temasek Holdings / the Singapore Government. Such an exclusion will need to be added to Section 2.3.7 and the application form. We believe that the solution put forward in the IDA clarifications (question 21), that SingTel, M1 and StarHub should submit documentation to demonstrate that common shareholdings do not affect policy and operational decision making is unduly onerous. **We believe that the IDA should clearly state in advance of the application that shares held by Temasek Holdings, as a public sector company, are exempt from consideration in the rules relating to Associated Bidders.**
- 8.3 Also the 2 business days given for a decision to reorganise so as to cease being Associated Bidders is too short especially for companies with multiple shareholders. We propose that this deadline be extended to 5 business days.
- 8.4 IDA has also stated that during the auction it may, if it determines that two or more bidders are or have become associated, exclude any of the Associated Bidders from the auction (section 2.3.4 (a) (ii) of auction rules). This has the detrimental effect of not giving the associated bidders the opportunity to decide for themselves which of the options in section 2.3.4 (a) (i) they would prefer. In the interest of transparency, it is only fair that the different associated bidders be allowed to decide between themselves what course of action they would prefer to take if they should be found to be associated. We therefore recommend that section 2.3.4 (a) (ii) be deleted.

## **9 Bank Guarantee and Additional Bank Guarantee – Additional Bank Guarantees should be provided within 1 Business Day to show bidders' seriousness**

- 9.1 To reinforce the seriousness and intent of a Bidder, each Bid should constitute a legally binding offer, upon bidding. In order to demonstrate a Bidders commitment to their Bid, it is proposed that the timeframe for providing the additional guarantees be reduced to 1 business day from the current 2 to 3 days. Any serious bidder should have no problem meeting this deadline, and it would effectively serve to deter "rouge" bidders.

## **10 Awards at Reserve Prices – IDA must guarantee that the reserve price will not be lowered in the future, to avoid temptation for potential bidders to simply wait for a lower price at a later date, or risk deterring participation**

- 10.1 IDA has stated that any 3G spectrum rights not provisionally awarded may be offered by IDA in another auction or allocated in a manner which IDA deems appropriate. However, we believe that it is essential to the successful conduct of the auction and the subsequent development of 3G mobile infrastructure in Singapore that the IDA makes a binding commitment not to sell any unsold spectrum rights in the future at a price which is lower than the reserve price in the auction. In fact, as has been said in our General Comments, **if IDA does not guarantee that the reserve price will not be lowered in the future, StarHub will have to seriously reconsider its decision to bid in this current auction.**
- 10.2 **Such a binding commitment from the IDA will have the effect of:**
- **providing an environment of greater certainty for companies investing in 3G infrastructure – leading to an increased level of participation in 3G**
  - **removing the temptation not to participate in the auction in the hope of picking up spectrum more cheaply at a later date.**
- 10.3 If there is no such binding commitment, we believe that many potential participants will find it difficult to justify participating in the auction process if such a commitment is not made by the IDA.
- 10.4 As IDA has also publicly stated that the reserve price has been determined by IDA and its consultants to be a fair and reasonable price, any 3G spectrum rights not awarded at this auction should not in future be awarded at a price lower than the reserve price as it would indicate that IDA's and its consultants' analysis of the value of the spectrum is wrong.
- 10.5 **Should IDA decide to award the remaining / additional 3G Spectrum Rights in future at prices lower than the Reserve Price, IDA should give a full rebate to the winners to the 3G Spectrum Rights in this Auction, to reflect the differences in the reserve prices. Should there not be a rebate by IDA, this will create an artificial distortion in the economics of the market, which will be due solely to the Policy decisions of IDA.**

## **11 Information Session and Trial Auction – should not limit number of attendees**

- 11.1 It is not clear from this section (section 4 of auction rules) which persons will be allowed to participate in the information session and trial auction. While StarHub accepts that the trial auction could be restricted to the list of authorised representatives previously specified by the bidders, it would be useful not to restrict the attendance at the information session to only these six persons. As can be expected, it is only natural that the actual bid team in a bidder would comprise more than just the six authorised representatives. **To aid better understanding of all involved as well as to ensure an efficient and successful auction, we recommend that at least the information session be open to a larger number of persons, the identity and particulars of whom can be provided to IDA in advance by each bidder.**

- 11.2 It seems somewhat strange for authorised representatives to sign an undertaking immediately after the trial auction that they understand the rules (section 4.5 of auction rules) as there is no way to determine that. It would suffice that each authorised representative undertakes to observe the auction rules. We also request that the requisite declaration be made available sufficiently in advance of the trial auction for the Authorised Representatives to read and understand fully what is required of them by the undertaking.
- 11.3 IDA should also specify the circumstances under which it will allow bidders to replace the Authorised Representatives. One situation would be where the auction has been suspended for some time in which case bidders may need to replace Authorised Representatives since circumstances would have changed.

## **12 IDA as the Current Highest Bidder – need only match IDA “bid”**

- 12.1 **In any Round where IDA is deemed to be the Current Highest Bidder for any 3G Spectrum Right, there should not be a need to submit a Bid with a Minimum Increment for that Spectrum Right.** That is to say that matching the current highest bid in such an instance should be sufficient to make the bidder the new Current Highest Bidder. This is fair both in the case of the first round as well as in future rounds when IDA becomes the Current Highest Bidder due to bidder withdrawal/exclusion etc. There is no reason to justify why Bidders are required to top a Bid where IDA is the Current Highest Bidder.

## **13 Commencement and Duration of Auction, Recesses and Notification Following End of Round – full information and full transparency needed, at each round**

- 13.1 As stated above (see General Comments), there is a need for greater information provision and transparency in the Auction. **We therefore request that IDA provide the following information (in addition to that specified in Sections 6.6 and 8.9.1) as well:**
- **the identity of the current highest bidder, including IDA (if IDA is the Current Highest Bidder)**
  - **the identity of bidders who requested recesses and waivers**
  - **the identity of bidders and the bids they made in each round**
  - **the identity of bidders who have withdrawn, or been excluded, from the auction**
- 13.2 **Also, all the above information (including that specified in Sections 6.6 and 8.9.1) should be provided at the end of each round and not just at the end of the last session of the day.**

## **14 Commencement and Duration of Auction and Conduct of Auction – fixed schedule set in advance is needed to avoid confusion during auction**

- 14.1 **In order to ensure regularity and minimise last-minute confusion, IDA should adopt a regular schedule for the duration, frequency and start and end times of rounds every day (section 8.1.2 of auction rules).** While IDA may wish to vary any of these parameters, we propose that IDA make such changes as and when required, on an exception basis, as opposed to informing bidders of the different parameters on a daily basis. This will help to make the auction administratively more efficient and reduce the potential for confusion and unnecessary errors.

## **15 Settlement of Price and Grant of 3G Spectrum Rights – bank guarantees should be returned in the event that the auction is suspended**

- 15.1 In the event that the auction is suspended for an extended period of time, IDA should return the bank guarantee to bidders. IDA can request a new bank guarantee when the auction is re-started.

**16 Collusion, Disclosure of Information, Misleading or False Information, And Connected Persons – disclosure to shareholders should be allowed; immediate disclosure to the Press once a bidder has dropped out of the auction should be allowed**

- 16.1 This Section of the Auction Rules seems to prohibit the disclosure of confidential information even to shareholders. This is not feasible as Bidders would require the guidance and decision of shareholders in order to proceed with the Auction and bid levels. **IDA is therefore requested to amend the Section to state clearly that disclosure of confidential information to shareholders is allowed.**
- 16.2 **IDA is also requested to amend the 3G Spectrum Rights (Sections 8.4 and 9.3) and FBO Licence (Sections 29.3, 31.3 and 31.5) to enable Licensees to disclose such confidential information to advisers and shareholders.**
- 16.3 **StarHub also requests that once IDA has been informed that a Bidder has withdrawn from the Auction, that Bidder should be allowed to make a public announcement to this effect and that that Bidder be allowed to immediately commence negotiations with remaining Bidders in the Auction.**