

Bidders' Online Training

Auction Policy



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Legal Disclaimer



This presentation is for information only. The policies and rules associated with the spectrum auction are set out in their entirety in the official Policy document and in any written amendments or supplements that may be issued by the Department.

Outline of Presentation



- **General Context**
- **Auction Process and Rules**
- **Concluding Remarks**

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General Context

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Why Choose Auctions as a Means of Assigning Spectrum?



- Simultaneous multiple round auctions
 - Assign spectrum authorizations to those who value them most and who are best able to offer innovative services to Canadians – i.e. rely on market forces
 - Are an open and objective assignment process
 - Allow the government to quickly license several blocks of spectrum in several markets across the country using one process
 - Provide a fair return to Canadian taxpayers for access to, or use of, publicly-owned or controlled resources

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Framework for Spectrum Auctions in Canada



- First issued in August 1998
- Subsequently revised in October 2001
- Outlines the approach that the Department would take whenever spectrum is assigned by auctions
- Available on Auction Web site at <http://strategis.gc.ca/spectrumauctions>

Framework Highlights



- Licences must be well-defined in geography, bandwidth, tenure and renewal
 - Full transferability and divisibility
 - Maximum possible flexibility in terms of both technologies and services
 - 10-year term with a high expectation of renewal
 - The spectrum licences that are issued pursuant to an auction continue to be subject to relevant provisions in the *Radiocommunication Act* and the *Radiocommunication Regulations*

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Licence Term and Renewal



- 10-year term with high expectation of renewal
- Non-renewal would be considered if
 - Breach of licence conditions
 - Fundamental reallocation of spectrum to a new service, or
 - Overriding policy need
- A consultation process for non-renewal or imposition of any renewal fees would be held no later than 2 years before the end of the licence term

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Transferability and Divisibility



- Licences are transferable and divisible with written notification to the Department
- Licences are divisible in both the bandwidth and geographical dimensions
- All eligibility criteria and conditions associated with a licence continue to apply to the new licensee

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First Spectrum Auction in Canada – 1999



24 GHz and 38 GHz - Fixed Wireless Broadband

- First country in the world to use the Internet with encryption and digital signatures to auction off spectrum licences
- Largest number of licences Industry Canada has ever assigned in a single licensing process (258 licences, over \$170 million in licence fees)
- New competitors introduced in the provision of broadband services

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Second Spectrum Auction in Canada – 2001



2 GHz – Personal Communications Services (PCS)

- Built on success of first auction
- 52 licences auctioned (\$1.48 billion)
- Increased availability of adequate spectrum resources to meet the needs of the expanding PCS market
- Enabled the introduction of new offerings such as third-generation (3G) PCS



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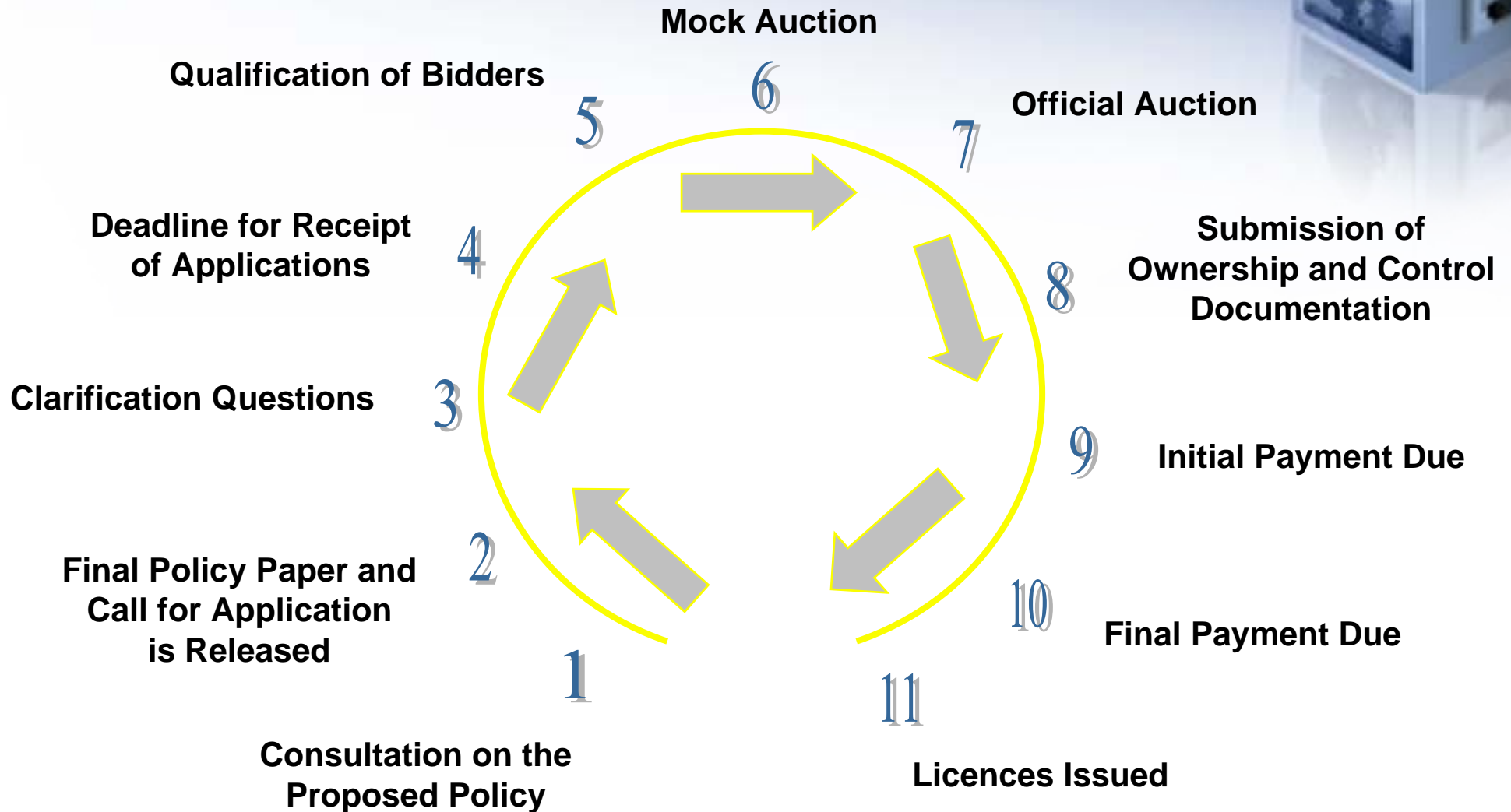


Auction Process and Rules

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Overview of the Auction Process



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Simultaneous Multiple Round Auction – How does it Work?



- A related set of spectrum licences is offered at the same time
- Bidding is organized into a series of rounds
- Results are posted after each round
- In each round, bidders are allowed to withdraw bids made in previous rounds subject to a penalty
- Auction closes when no new bids/no withdrawals/no waivers are submitted during the last stage of the auction
- Provisional winners hold the standing high bids at the auction's close

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Terms Used in Application Process



- Applicant
 - The legal entity applying to participate in the auction
- Qualified Bidder
 - The legal entity found qualified by the Department to participate in the auction (i.e. Corporation, partnership, etc.)
- Authorized Representative
 - Officer authorized to sign on behalf of the qualified bidder
- Designated Bidders
 - Individuals chosen by the qualified bidder who will actually be entering the bids during the auction
- Licensee
 - The entity to which the licence(s) will ultimately be issued

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Affiliates & Associated Entities



- Only one member of an Affiliate or Associated Entity is permitted to become a qualified bidder in the same service area
- “Affiliate” is defined as
 - “a person who controls the entity, or who is controlled by the entity or by any person who controls the entity”
- “Associated Entity” is defined as
 - “any entity that enters into any partnerships, joint ventures, agreements (including agreements in principle), to merge, consortia or any arrangements, agreements or understandings of any kind, either explicit or implicit, relating to the licences being auctioned or relating to the post-auction market structure”

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Prohibition of Collusion Among Bidders



- Applicants cannot enter into any agreements or arrangements of any kind with any competitor regarding
 - Amount to be bid
 - Bidding strategies
 - Particular licence(s) on which the applicant or competitors will or will not bid
- “Competitor” means any entity, other than the Applicant, its Affiliates or Associated Entities, who could potentially be a bidder in the same auction based on its qualifications, abilities or experience

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Submission of Applications



- To submit an application to participate in an auction, the following material must be physically delivered to the Manager, Wireless Networks by the deadline outlined in the Policy document
 - Application form
 - Deed of acknowledgement
 - Financial deposit in the form of an irrevocable standby letter of credit
- Application forms are available at the time of publication of the Policy paper

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Deed of Acknowledgement



- Confirms that the applicant will accept and follow the conditions and terms of the auction
- Confirms that the applicant will pay any debt and obligation owing as a result of his/her participation in the auction

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Financial Deposit



- Refundable financial deposit required from all applicants
 - Must be submitted as an irrevocable standby letter of credit in a format acceptable to the Department
 - Deposit based on the licences on which the applicant wishes to be eligible to bid

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Eligibility Points



- Eligibility points
 - Determine the applicant's required pre-auction deposit
 - Define the initial level of a bidder's eligibility
- Applicants must indicate on their application the total number of “points worth” of licences they wish to be active on in any round
 - “Points worth” cannot be increased afterwards
 - In the event that an applicant's requested level of points does not correspond with the amount of the deposit submitted, then the applicant's points will be determined by the value of the deposit submitted

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Eligibility Points – cont'd



- Regardless of the financial deposit submitted by any applicant, no applicant will be given more eligibility points than he/she can possibly use without violating the spectrum aggregation limits, when such aggregation limits are imposed during an auction
 - Refer to the Policy paper and any amendments or supplements issued by the Department

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Receipt of Applications



- Applicants will receive notification from the Department upon receipt of application materials
 - Not to be construed as approval
- List of all applicants is published on the Auction Web site

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Review of Applications



- Applicants are informed by the Department of any errors or omissions in these forms, and additional information may be requested
- Applications to participate in the auction may be rejected if
 - Required financial deposit has not been submitted
 - Errors or omissions are not corrected
- Rejected applicants will
 - Receive a letter of non-acceptance
 - Have their pre-auction deposits returned

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Qualification of Bidders



- Each entity that is qualified to participate in an auction will receive
 - Qualified Bidder Certificate
 - Auction software and instructions
 - PKI application forms to receive codes for the encryption software
 - Information on mock auctions
 - Schedule
- List of qualified bidders and their initial level of eligibility will be published on Auction Web site
- Reminder: only one member of an Affiliate or Associated Entity will be permitted to become a qualified bidder in the same service area

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Designated Bidders



- Each entity that is qualified to participate in the auction will designate up to 3 individuals to submit bids on his/her behalf
- Change in designated bidders is possible prior to activation of the digital signature and encryption keys
 - notify the Manager, Wireless Networks

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Change or Withdrawal of Application – Before Start of Auction



- Qualified bidders must inform the Manager, Wireless Networks of any change in the information submitted within 5 business days of such change
- Written request for withdrawal must be physically delivered to the Manager no later than on the business day preceeding the opening of the auction
 - Department will then return the irrevocable standby letter of credit

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Change or Withdrawal of Application – After Start of Auction



- Bidders can have their financial deposit returned during the course of the auction upon presentation of a written request to the Manager, Wireless Networks if
 - Eligibility points are reduced to zero during the course of the auction, AND
 - Bidder is not potentially liable for any penalties, AND
 - Bidder is not the standing high bidder on any licence
- Upon receipt of the request, the Department will confirm the above conditions and will return the irrevocable standby letter of credit to the bidder

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Opening Bids



- Opening bids are based on the principle that all spectrum users should contribute to covering the costs of spectrum management in Canada and provide fair compensation to the Canadian public for the use of their spectrum resource
- Opening bids are being used to “kick start” the auction
 - They are not the same value as the financial deposits

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Non-discretionary Bidding



- New bids for a licence are non-discretionary
 - i.e. the Department states the exact level of an acceptable new bid
 - Bidders provide a yes/no response to an offered price
- Advantages
 - Reduces chances of signaling through bidding amounts
 - Reduces possibility of erroneous bid amounts
 - Allows for controlled and predictable advancement of bidding activity

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Bid Increments



- If a licence receives a bid in a given round, then its price will rise in the next round by a predetermined bid increment
- This pacing mechanism ensures that
 - Bidders actively participate in the auction and submit serious bids
 - Auction closes after a reasonable period of time

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Stage Changes



- Auction is divided into 3 stages
 - Each stage contains an unspecified number of rounds
 - Each stage has a minimum required activity level
- Department will announce stage changes in advance
 - Stage changes occur when bidding activity declines to a low level as determined by the Department

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Closure of Auction



- The auction will not close until stage 3 has been reached
- At that time, the auction will close when a round concludes with
 - no bids or withdrawals being submitted, and
 - no pro-active waivers being submitted
- In exceptional circumstances and after all bidders have been notified, any round can be declared the final round
- The standing high bidder on each licence at the auction's close will be declared the provisional winner of that licence
- Licences which receive little or no bidding activity during the auction, and remain unsold at the close of the auction may be made available through alternate licensing processes

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Payments



- Required initial payment within 10 business days of the auction's close
 - A non-refundable payment of 20% of the sum of standing high bids
 - plus 100% of the sum of any penalties
- A payment for the remaining 80% of the total of the high bids will be due within 30 business days of the auction's close
- Bidder's irrevocable standby letter of credit will be drawn upon if payment is not sufficient or not made within the specified time period
- If not fully paid by the deadline, the bidder will forfeit his/her right to be issued any licences and will be subject to the applicable forfeiture penalties

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Form of Payment



- All payments are to be made by certified cheque, wire-transfer, or bank draft payable to the Receiver General for Canada drawn on a financial institution that is a member of the Canadian Payments Association
- These payments are in lieu of any fees fixed for the radio authorization under the *Radiocommunication Act* or any other Act

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Eligibility Documentation



- Provisional licence winners will be required to submit documentation related to their compliance with the Condition of Licence for Ownership and Control within 10 business days of auction's close
 - Refer the Policy document and any amendments or supplements for details
- If the provisional winner fails to comply with the Canadian ownership and control requirements within 60 days of being notified by the Department of the required changes, then the provisional licence winner will forfeit the right to be issued any licences offered in this auction process and will be subject to the related penalties

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Forfeiture Penalties



- After the conclusion of an auction, bidders who fail to comply with the specified payment schedule or do not comply with the *Radiocommunication Regulations*, will forfeit their right to the licence
- Forfeiture penalty equals
 - An amount equal to the difference between the forfeited bid and the eventual selling price of the licence in a subsequent re-auction if the price determined by a subsequent licensing process is lower
 - Plus, an additional fee that is outlined in the Policy document
- When a bidder forfeits on a licence, that bidder and any Affiliates or Associated Entities, will be ineligible to bid on it in any subsequent licensing process

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Issuance of Licence

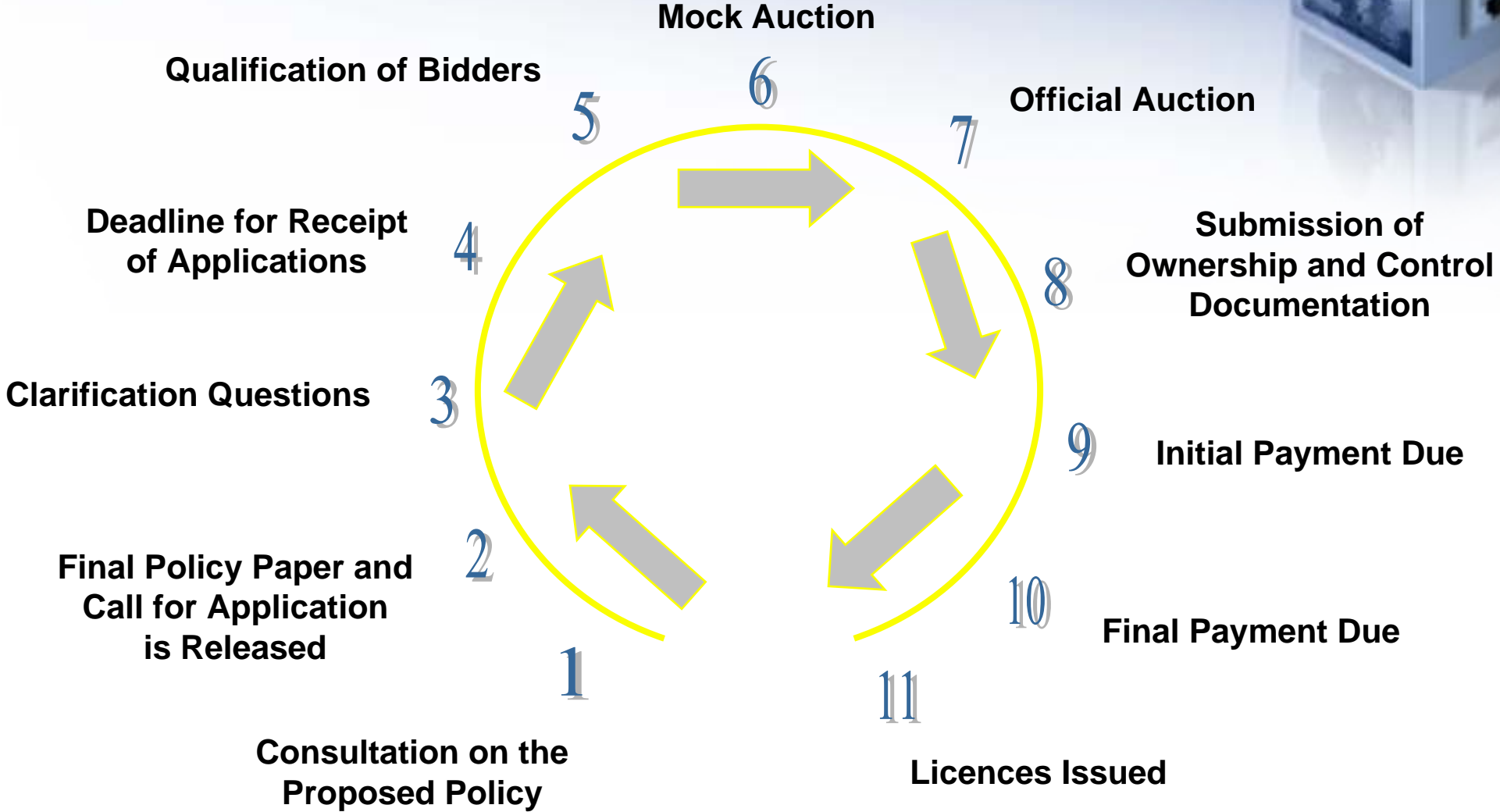


- Provisional winners will be issued licence(s) on completion of
 - Payment of the sum of their standing high bids and of their penalties, and
 - A determination by the Department that the Canadian ownership and control requirements have been met
 - The length of time required for this process will depends on the complexity of the ownership

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Recap - The Auction Process



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Tips for Auction Bidders



- Learn the auction rules
- Determine in advance your firm's objectives and values for the licences
- Perform your firm's due diligence on the spectrum being auctioned
- Obtain the financing
- Organize the bidding team
- Make use of the information available
- Run practice sessions and participate in the official mock auction
- Develop contingency plans

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Where Can I Get More Information About Auctions?



- All information and documentation regarding past and upcoming auctions is available online at

<http://strategis.gc.ca/spectrumauctions>

Get Regular Updates



<http://strategis.gc.ca/spectrumauctions>

Spectrum Auctions - Microsoft Internet Explorer

File Edit View Favorites Tools Help

Back Forward Stop Home Search Favorites History Print

Address http://strategis.ic.gc.ca/epic/internet/insmt-gst.nsf/vwGeneratedInterE/h_sf01714e.html Go

- Personal Communications Services
- Satellite Services
- Spectrum Auctions
 - Reference Documents
 - Service Areas for Competitive Licensing
 - Spectrum Auctions in Other Countries
 - Spectrum Licensing
 - Wireless Communication Services (WCS) and Fixed Wireless Access (FWA)

(02) [Auction of Additional PCS Spectrum in the 2 GHz Frequency Range](#)

(01) [Auction of the 24 and 38 GHz Frequency Bands](#)

E-mail Distribution List

Email: Spectrum.Auctions@ic.gc.ca

To add your name to Industry Canada's [e-mail distribution list](#) to receive important announcements and licensing information regarding Spectrum Management Policy and Licensing Procedures.

Quick Links

[Reference Documents](#)

[Service Areas for Competitive Licensing](#)

[Spectrum Auctions in Other Countries](#)

[Spectrum, Information Technologies and Telecommunications Gateway](#)

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