

# Accounting Standards and Regulations for the Telecommunications Enterprise with Significant Market Power

With view to and maintaining fair competition and in response to the continued development of communications and broadcasting, the National Communications Commission (NCC) has adjusted the scope of control by the Telecommunications Management Act for enterprises with significant market power. In order to prevent such enterprises from abusing market forces, maintain fair competition and to protect consumers rights and interests, the said enterprises are obligated to establish a separation of accounting systems, the purposes of which are to facilitate transparency of telecommunications services revenues, costs, profits and loss, as well as used assets and capital; and further evaluate if they are involved in cross subsidization, price squeezing or other matters related to the abuse of market position. Meanwhile, with information on the network components and service costs of enterprises with significance in the market, costs-oriented tariff controls have been implemented accordingly. The Accounting Standards and Regulations for Enterprises with Significance in the Market (hereinafter referred to as the Standards) are therefore hereby stipulated in accordance with Paragraph 3 of Article 34 of Telecommunications Management Act.

To ensure that the Standards are prudently and cautiously deliberated, NCC has organized several in-depth interviews and meetings with experts and enterprises, with the aim of minimizing the gap between theory and practice. In the meantime, practical information has been extensively acquired from major telecommunications enterprises' accounting methodologies undertaken between 2014 and 2018 and "Accounting Separation Regulations for Electricity Transmission and Distribution Enterprise" promulgated by the Ministry of Economic Affairs in April 2018. Recently promulgated by the Financial Supervisory Commission, the General Industry International Financial Reporting Standards (IFRSs) Account Names and Codes are one of the references for the stipulation of these Standards, thereby confirming that the provisions, accounting terms, as well as the items and format of supplementary provisions, comply with the up-to-date accounting regulations and practice norms.

In Summary, in coordination with the Telecommunications Management Act, these Standards have changed the market dominator to enterprises with significant market power in order to apply different levels of control measures thereon. In the meantime, the Standards have also integrated up-to-date accounting regulations and practice norms and implemented the principles of regulation simplification, thereby regulating enterprises with significance in the market with respect to their accounting separation methods and principles; cost separation principles; stipulation and review of accounting procedures; administration management; and other compliance matters. The Standards consists of four chapters with 48 articles. The highlights of these Standards are as follows:

1. Chapter I: General Rules, in which the legal basis, terms of definition and the applicability and priority of regulations have been specified (Articles 1 to 3);
2. Chapter II: Separation Accounting, in which the separation accounting principles, cost

separation principles, asset separation principles, capital cost separation principles and revenue separation principles for enterprises with significant market power have been specified (Articles 4 to 42);

3. Chapter III: Administration Management, in which regulations for the accounting operating procedures manual, account names and codes, preparation of financial statements, financial statement audit system and data preservation period have been stipulated (Articles 43 to 47);
4. Chapter IV: Supplementary Provisions, in which the promulgation date has been stated (Article 48).

## Accounting Standards and Regulations for Enterprises with Significant Market Power

| Articles  | Descriptions  |
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| Chapter I General Rules   | Chapter No.   |
| Article 1 These Standards are enacted in accordance with Paragraph 3 of Article 34 of Telecommunications Management Act.  | Specifies the legal basis of the Standards.   |
| <p>Article 2 The terms used in the Standards are defined as follows:</p> <ol style="list-style-type: none"> <li>1. Licensed segment: the segment within a telecommunications enterprise that provides telecommunications services.</li> <li>2. Other segments: other segments within a telecommunications enterprise that provides non-licensed (non-telecommunications) services.</li> <li>3. Related parties: as defined in Financial Supervisory Commission recognized International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).</li> <li>4. Entity accounting: the accounting principles, accounting policies and chart of accounts prescribed for a telecommunications enterprise to prepare its consolidated financial information thereof.</li> <li>5. Separation accounting: the concepts, methods and practice prescribed for a telecommunications enterprise that attribute its revenues, costs and assets to telecommunications services or other non-telecommunications services.</li> <li>6. Accounting Operating Procedures Manual (procedures manual): a document used by the telecommunications enterprise to specify and illustrate the steps for implementing the Standards.</li> <li>7. Capital cost: the opportunity cost of the funds invested for maintaining operations.</li> <li>8. Jointly acquired asset: an asset that is purchased or constructed with an intention of it being used by a telecommunications enterprise and its related parties and has limited alternative uses.</li> <li>9. Data pool: a mechanism that compiles data on the costs, assets and revenues derived from an operating activity or telecommunications service.</li> <li>10. Driver: a factor that causes costs, revenue and assets; and is used to measure the extent of resources consumed by telecommunications services.</li> <li>11. Equal Proportionate Mark-Up: a method of allocating common costs in proportion to the cost already allocated to the separate segments (i.e., costs directly and indirectly attributed to the licensed segment).</li> </ol> | <ol style="list-style-type: none"> <li>1. Define terms used in the Standards.</li> <li>2. The terms “licensed segment” and “other segments” described in Subparagraphs 1 and 2 refer to the division of accounting information rather than organizational structure. For example, the salary of headquarters management personnel in charge of cable television and telecommunications services shall be separated into the items of “telecommunications service segment (licensed segment)” and “cable television service segment”.</li> <li>3. Defines “related parties”. The original definition of this term referred to “the Statement of Financial Accounting Standards No. 6” issued by Financial Accounting Standards Committee, Accounting Research and Development Foundation, Republic of China. Nevertheless, the Foundation is only responsible for the translation of International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC), whereas Financial Supervisory Commission oversees the promulgation thereof.</li> <li>4. Entity accounting refers to accounting events (transactions) in which a telecommunications enterprise must comply for its overall business operations.</li> <li>5. Separation accounting refers to accounting events in which different service sectors inside a telecommunications enterprise must comply. In other words, separation refers to the process of subdividing the costs and revenues firstly according to their function type and then according to their service type. For example, network component items shall first be classified as local loops, exchange equipment, transmission equipment, trunks, network interface equipment, directory equipment and signaling equipment first; and then be subdivided according to service type.</li> <li>6. The Standards are provided to telecommunications enterprises as principled norms for processing accounting operations. Telecommunications enterprises shall, with respect to their provided services, organizational structure, accounting system and science-based technology, prepare an “Accounting Operating Procedures Manual” that complies with the Standards’ framework.</li> </ol> |

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|  | <ol style="list-style-type: none"> <li>7. Capital costs shall be included in the network interconnection setup charge, access charge, universal service charge and internal profit calculated based on the costs from internal transfer pricing. That is, for services provided between enterprises or segments of an enterprise, profits shall also be granted in proportion to the invested capital.</li> <li>8. Defines “jointly acquired asset”.</li> <li>9. Defines “data pool”. For example, network components (ex. local loops and trunks), material procurement and accounts processing related operations are established for the purpose of collecting accounting information.</li> <li>10. Defines “driver”. For example, exchange equipment costs are allocated to a local network, long-distance network, international network and other telecommunications service items that require the said exchange equipment; and the basis of cost allocation (driver) is the proportion of their annual call volume.</li> <li>11. Defines “Equal Proportionate Mark-Up”.</li> </ol>   |
| <p>Article 3 The accounting policies, system, methods, procedures and principles of enterprises with significance in the market shall be handled in accordance with these Standards. Those that are not specified in the Standards shall refer to the generally accepted accounting principles.</p> <p>The generally accepted accounting principles described in the preceding paragraph refer to Financial Supervisory Commission recognized and issued International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).</p>  | <p>Defines accounting policies, system, methods, procedures and principles that are applicable to enterprises with significance market power. Due to supervision requirements, it is deemed necessary for the competent authority to define the said applicability based on the industry’s characteristics. Those that are not specified in the Standards shall refer to the generally accepted accounting principles.</p>   |
| Chapter II Separation Accounting   | Chapter No.  |
| Section 1 Basic separation accounting principles   | Section No.  |
| <p>Article 4 The enterprises with significant market power shall attribute the costs, revenues and assets thereof to licensed segments and other segments in the its accounting (financial) statements. Those that have been attributed to licensed segments shall be further subdivided to their respective telecommunications services.</p> <p>The costs described in the preceding paragraph refers to operating costs and capital costs.</p> <p>The telecommunications services as described in Paragraph 1 include: local network services, long-distance services, international network services, wireless broadband access services, mobile broadband services, circuit (including domestic long-distance terrestrial cables and international submarine cables) lease services, satellite mobile communications services, fixed satellite communications services, satellite broadcasting program relay services and satellite circuit rental services.</p> <p>The competent authority may request enterprises with significant market power to further subdivide the financial data of telecommunications services described in the preceding paragraph based on tariff items (such as network</p> | <ol style="list-style-type: none"> <li>1. In order to evaluate the telecommunications service operations of enterprises with significant market power; audit the profit of all telecommunications services (preventing them from being twisted by cross subsidization); evaluate the said enterprises’ costs derived from network interconnection setup and access charges; and meet other supervision requirements, Paragraph 1 prescribes that the entity accounting data of enterprises with significant market power shall be attributed to telecommunications services provided thereby.</li> <li>2. Paragraph 2 specifies that “costs” shall include both operating costs and capital costs.</li> <li>3. Several telecommunications services are listed in Paragraph 3 as examples. Nevertheless, following the progress of technological development, telecommunications services are continuously evolving. ; hence, the provided separation accounting data shall, in principle, be sufficient to meet supervision requirements. For example, if an enterprise provides only the mobile telecommunications and</li> </ol> |

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| <p>interconnection bandwidth, local loops, digital subscriber loop and other circuit items) thereof.</p> <p>Separation accounting data provided by enterprises with significance in the market shall be consistent with their entity accounting data.</p>   | <p>circuit lease services, it is necessary to calculate the profits and losses derived from mobile telecommunications services and circuit lease services separately.</p> <p>4. In order to ascertain the financial information of different tariff items provided by enterprises with significant market power for specific telecommunications service markets, the competent authority may request enterprises them to subdivide the financial information of telecommunications services described in Paragraph 3 according to tariff items. Paragraph 4 is stipulated accordingly.</p> <p>5. As the principle of telecommunications separation accounting is based on the principle of disaggregating the layers of entity accounting data specified in the financial statements, the information of entity accounting and separation accounting shall be consistent as prescribed in Paragraph 5.</p> |
| <p>Article 5 Enterprises with significant market power shall record the costs, revenues and assets that are unrelated to the operations of licensed segment separately. Where the financial data of licensed segment and other segments cannot be recorded separately, it is necessary to adopt separation rules prescribed in the Standards accordingly.</p>   | <p>Apart from running telecommunications services, enterprises with significant market power may also provide other non-telecommunications services (ex. the sales of terminal equipment of telephone and mobile phone users) concurrently. In order to prevent improper cross subsidization among service segments, enterprises with significant market power shall record the costs, assets and revenues of their respective service segments accordingly. Where the costs, assets and revenues of service segments must be separated but cannot be recorded separately, it is necessary to adopt separation accounting related rules as prescribed in these Standards.</p>  |
| <p>Article 6 When implementing separation accounting, enterprises with significant market power shall adhere to the following principles:</p> <ol style="list-style-type: none"> <li>1. The attribution and causes of costs, revenue and assets shall be relevant.</li> <li>2. The separation of costs, revenues and assets shall be objectively and unbiasedly handled.</li> <li>3. The separation methods adopted for costs, revenues and assets before and after the accounting period shall be consistent.</li> <li>4. The attribution methods used for costs, revenues and assets shall be reasonable.</li> <li>5. The sampling methods shall comply with the principles of statistics.</li> </ol> | <p>Defines the basic principles of the separation accounting process.</p>  |
| <p>Article 7 When implementing separation accounting, enterprises with significant market power shall refer to the accounting records generated from their system established according to these Standards as well as their operating information.</p> <p>The operating information as prescribed in the preceding paragraph refers to the network architecture, internet usage, network capacity, number of provided services and their respective expenditures and other business-related information.</p>  | <p>Defines the source of separation accounting data.</p>   |
| <p>Article 8 The transfer pricing methods adopted by enterprises with significant market power for internal transactions shall</p>  | <p>1. Paragraph 1 stipulates that internal transactions related matters shall be included in the accounting system of</p>  |

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| <p>be stipulated in the enterprises' accounting system.</p> <p>The internal transactions described in the preceding paragraph refer to the provision or receipt of products, services, assets (use and transfer of assets) and other resources between telecommunications services.</p>   | <p>enterprises with significant market power so as to prevent the occurrence of cross-subsidization.</p> <p>2. Paragraph 2 defines internal transactions.</p>  |
| <p>Article 9 Enterprises with significant market power shall categorize all costs, assets and revenues into the following three categories based on their relevance with the telecommunications services:</p> <ol style="list-style-type: none"> <li>1. Directly attributable items: items that are identified as being caused by a specific telecommunications service; and the said service can be directly tracked or precisely identified from the enterprise's subsidiary and general ledger.</li> <li>2. Indirectly attributable items: items that are identified as being caused by a specific telecommunications service, but the said service cannot be directly tracked or precisely identified from the enterprise's subsidiary and general ledger.</li> <li>3. Unattributable items: items that cannot be identified as being caused by a specific telecommunications service.</li> </ol> <p>The established system shall be able to directly attribute items that are identified as being caused by a specific telecommunications service.</p> | <ol style="list-style-type: none"> <li>1. Paragraph 1 specifies that the composition of all costs, assets and revenues shall be divided into three categories according to their relevance with the telecommunications services. The purpose thereof is to decide the attribution or allocation method.</li> <li>2. To prevent enterprises with significant market power from judging a specific operation or telecommunications service derived costs, assets and revenues derived from as indirect attributable items (this create an unsuitable driver for allocation and further results in an inaccurate allocation), Paragraph 2 therefore prescribes that, under the consideration of costs, enterprises with significant market power shall ensure that their established accounting system facilitates the direct attribution of costs, assets and revenue.</li> </ol>  |
| <p>Article 10 Upon categorizing costs, assets and revenues according to the preceding Article, enterprises with significant market power shall implement attribution according to the following order and principles:</p> <ol style="list-style-type: none"> <li>1. Directly attributable items shall be directly attributed to telecommunications services.</li> <li>2. Indirectly attributable items shall be indirectly attributed to telecommunications services according to their respective driver.</li> <li>3. Unattributable items shall be attributed to telecommunications services in accordance with Equal Proportionate Mark-Up.</li> </ol>   | <p>Specifies that the enterprises' costs, assets and revenues shall be classified into three categories according to their nature; and that each category shall have explicit attribution principles. Among them, Subparagraph 3 specifies that Equal Proportionate Mark-Up refers to a method of allocating common costs in proportion to the cost already allocated to the separate segments (i.e., costs directly and indirectly attributed to the licensed segment).</p>   |
| <p>Article 11 When implementing the attribution as prescribed in the previous Article, enterprises with significant market power shall analyze the drivers and collect the data of indirectly attributable items according to the following steps and methods:</p> <ol style="list-style-type: none"> <li>1. The relevance between directly attributable items (i.e., the costs, assets and revenues thereof) and relevant operating activities shall be firstly analyzed, followed by a review on the relevance between business activities and telecommunications services to ensure the drivers thereof.</li> <li>2. Establish a data pool according to operating activities confirmed in the preceding subparagraph to collect directly attributable costs, assets and revenues; and allocate them to telecommunications services based on operating activities.</li> </ol>   | <ol style="list-style-type: none"> <li>1. This Article prescribes the accounting allocation methodology. When implementing accounting allocation, telecommunications service costs, assets and revenues often cannot be directly attributed to a specific telecommunications service and should therefore be attributed to telecommunications service-related operating activity. This operating activity is then used as the data pool to collect relevant data, which are then attributed to different telecommunications services according to the driver of operating activity (data pool).</li> <li>2. "Driver" hereby refers to the consequential accounting allocation basis. For example, the period of using the equipment (ex. allocating depreciation costs of machinery and equipment to the respective activity according to the use time), number of employees, building size, material costs (ex. allocating material procurement and inventory management costs to the respective operating activities according to actual material costs) and so on.</li> </ol> |

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| Article 12 When allocating directly attributable costs, assets and revenues according to the driver, enterprises with significant market power may estimate the drivers using the sampling technique.   | Specifies that the drivers can be calculated using the sampling technique.  |
| Section 2 Cost allocation principles  | Section No.   |
| <p>Article 13 Enterprises with significant market power shall attribute the operating costs of entity accounting to the following four cost data pool and itemized cost data pool (as the figure attached) according to Articles 9 to 12:</p> <ol style="list-style-type: none"> <li>1. Telecommunications services: this data pool collects data on operating costs that are directly attributed to telecommunications services, including the costs of network components, supporting functions and general management functions of all services.</li> <li>2. Network components: this data pool collects cable, exchange, transmission and other internet equipment related costs that cannot be directly attributed to telecommunications services.</li> <li>3. Supporting functions: this data pool collects the costs that cannot be directly attributed to telecommunications services but are prerequisite for the provision of telecommunications services (ex. when providing customers services or internet support services).</li> <li>4. General management functions: This data pool collects costs that are not directly related to telecommunications services, but are prerequisite for running the operations of its licensed segment</li> </ol> <p>The operating costs as described in previous paragraph refers to the direct or indirect costs of telecommunications services.</p> | <ol style="list-style-type: none"> <li>1. Enterprises with significant market power may adopt different approaches for recording its costs due to differences in organizational structure. To make the cost separation approach applicable to different telecommunications services, the enterprises are therefore requested to categorize all costs into four cost data pools according to their attribution, and then subdivide them systematically in order to implement the following cost allocation procedures. This not only makes cost allocation procedures even more systematic and feasible, but also reaches the objective of ensuring a transparent cost calculation framework. For example, the operating costs (expenses) of local exchange services include “administration or common expenses”, “customer service expenses”, “network support expenses” and “direct expenses”.: <ol style="list-style-type: none"> <li>(1) Administration and common expenses refers to expenses incurred at the administration department (management of local exchange services and other services) and expenses that cannot be directly attributed telecommunications services or are directly attributed as non-economic costs; and these expenses are collected to the cost center of administration and common expenses. For example, the salary of administration department’s personnel (personnel expenses), fees for utilities, cleaning fees and so on.</li> <li>(2) Customer service expenses refers to expenses incurred with the application and installation of local exchange services, relocation of equipment, change services, marketing; accounts processing and so on.</li> <li>(3) Network support expenses refers to operating costs incurred to support the network services, such as costs derived from the network design, traffic quality control, circuit dispatch, material procurement, inspection, control, vehicle management and so on.</li> <li>(4) Direct expenses refers to costs directly derived from the engagement of network operations, including the those derived from the exchange, transmission, cable lines, trunks and power equipment (including the depreciation fee). “Customer service fees” that are directly attributed to telecommunications services (ex. salary of the personnel engaged in the marketing of local exchange service) are also included.</li> </ol> </li> <li>2. The expense allocation procedures shall refer to the figure attached to the Standards.</li> <li>3. Paragraph 2 defines operating costs. For example, equipment costs (depreciation costs), personnel</li> </ol> |

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|   | expenses, maintenance fee, administrative costs, R&D and training expenses, access charge, allocation expenses and other expenses required to maintain the operations.  |
| <p>Article 14 The network component items shall be subdivided into loops, trunks, exchange equipment, transmission equipment, signaling network equipment, network interface equipment, directory equipment and services, base station and so on according to their respective functions.</p> <p>The network components categorized according to their functions shall then be subdivided according to the service type.</p>  | This Article specifies that the network component items shall be subdivided in order to facilitate the calculation of access charge and to prevent cross subsidization.   |
| <p>Article 15 The supporting functions shall be subdivided into network management, power, materials management, accounting, customer service, marketing, commission or agent fee, installation and setup, product development and other supporting functions. For those that cannot be attributed to the aforesaid items, it shall be necessary to establish new supporting functions therefor.</p>  | This Article is based on the definition of functional cost data pool as prescribed in Subparagraph 3 of Paragraph 1 of Article 13, in which several subdivision items of the supporting function cost data pool are listed as examples. Moreover, to facilitate the use of enterprises with significant market power, enterprises can, depending on the actual operations and when the items listed in the provision is deemed insufficient, set additional subdivision items. For example, with respect to costs derived from the network design, traffic quality control, circuit dispatch, material procurement, inspection, control and vehicle management to support the network services, an enterprise can establish a data pool therefor based on its nature if required. |
| <p>Article 16 General management functions shall be subdivided into execution and planning; procurement; finance and accounting; information technology; research and development; control matters; and other general management functions. For those that cannot be attributed to the aforesaid items, it is necessary to establish new general management functions therefor.</p>   | This Article is based on the definition of general management function data pool as prescribed in Subparagraph 4 of Paragraph 1 of Article 13, in which several subdivision items of the general management function cost data pool are listed as examples. Moreover, to facilitate the use of enterprises with significant market power, depending on the actual operations and when the items listed in the provision is deemed insufficient, the enterprise can establish additional subdivision items.  |
| <p>Article 17 When implementing the subdivision of cost data pool subdivision as prescribed in Articles 14 to 16, enterprises with significant market power shall further subdivide the cost data pool if any difference is found in the drivers of account.</p>  | As items subdivided from the cost data pool can be different in nature, all the subdivided items attributed to the same cost data pool with the same cost allocation basis results in allocation errors. Therefore, to ensure accuracy of allocation, it is necessary to further subdivide the items according to the drivers thereof to ensure the cost allocation accuracy.   |
| <p>Article 18 All costs shall, according to the actual use thereof, be attributed to the internal occurring or beneficiary unit of enterprises with significant market power and be attributed according to the functions of operating activities engaged by the occurring or beneficiary unit in accordance with Articles 13 to 17.</p> <p>The cost data collection process could involve several detailed sub-processes, which shall be conducted in accordance with the Regulations.</p> | Specifies that the general rules of attributing costs to cost data pool are applicable to the subdivision costs.  |
| <p>Article 19 Enterprises with significant market power shall, according to the working time records, analyze the working hours of personnel involved in various operating activities or telecommunications services. The enterprises shall also calculate the personnel expenses derived from operating</p>  | <p>1. As telecommunications enterprises' personnel expenses weigh heavily in the total cost thereof, this provision therefore specially regulates the attribution and subdivision of personnel expenses to cost data pools.</p>   |



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| <p>activities and telecommunications services based on individuals weighted average hourly rate prior to the implementation of the preceding Article.</p>   | <p>2. Personnel expenses include costs directly derived from personnel who engage in network operations, offer specific customer services and work in the administration department. Examples of the allocation methods are summarized as follows:</p> <ol style="list-style-type: none"> <li>(1) Personnel expenses are estimated according to the distribution of working hours</li> <li>(2) Personnel expenses are attributed to the appropriate service category according to detailed company records (ex. the salary of personnel who engages in the advertising activity of a specific product).</li> </ol> |
| <p>Article 20 Depreciation costs shall be calculated with the straight-line method and the minimum depreciation period shall comply with the Table of Service Life of Fixed Assets stipulated by the Ministry of Finance.</p> <p>The depreciation costs shall be separated to the operating activities or telecommunication services according to the attribution method specified in Articles 28 to 35; and then be attributed to the subdivision item according to Article 18.</p>  | <p>As telecommunications enterprises' equipment depreciation costs weigh heavily in the total cost thereof, this provision therefore specially regulates the attribution of depreciation costs.</p>  |
| <p>Article 21 After attributing telecommunications operating costs and capital costs to the suitable subdivisions of cost data pool according to Articles 13 to 17, enterprises with significant market power shall implement the following cost allocation steps:</p> <ol style="list-style-type: none"> <li>1. Allocating general management function costs to the cost data pool of telecommunications services, network components and supporting functions using the Equal Proportionate Mark-Up approach.</li> <li>2. Allocating supporting function costs to the cost data pool of telecommunications services and network components according to the drivers thereof.</li> <li>3. Allocating network component costs to the cost data pool of telecommunications services according to the drivers thereof.</li> <li>4. Collect costs derived from various telecommunications services.</li> </ol> | <p>Specifies that the costs attributed to the four cost data pools shall be allocated according to their respective subdivisions.</p>  |
| <p>Article 22 In the cost driver analysis, network components shall be first disaggregated into traffic sensitive and non-traffic sensitive network components based on the equipment records.</p> <p>Traffic sensitive network components described in the preceding paragraph refer to the network components used by several customers in common. "Non-traffic sensitive network components" refer to the network components dedicated to a particular customer.</p> <p>The costs of traffic sensitive network components shall be allocated to individual telecommunications services based on network traffic.</p> <p>The costs of non-traffic sensitive network components shall be allocated to individual telecommunications services based on consumed network resources.</p> <p>The network component cost analysis data shall be traceable to an individual data center or exchange office.</p>  | <ol style="list-style-type: none"> <li>1. When analyzing the driver of network components, it is necessary to evaluate if it is related to the internet usage.</li> <li>2. Traffic sensitive network components (ex. exchange and transmission equipment) shall adopt subscriber's network traffic (ex. the used hours) as the allocation basis.</li> <li>3. Non-traffic sensitive network components (ex. local line) shall be allocated according to the consumed network resources (ex. the number of subscribers) as the basis.</li> </ol>   |

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| <p>Article 23 When implementing cost allocation as prescribed in Article 21, enterprises with significant market power shall refer to Attachment 1 as the guidelines for setting up the cost allocation bases.</p>   | <p>The Attachment is provided to enterprises with significant market power as a reference on possible cost allocation bases (cost driver). Enterprises with significance in the market shall consider the cause and effect and decide the most suitable cost driver accordingly.</p>   |
| <p>Article 24 The operating costs associated with spare capacity assets shall be allocated to individual telecommunications services, based on the same allocation methodology as assets in use.</p> <p>The spare capacity assets described in the preceding paragraph refer to assets additionally purchased to effectively respond to current telecommunications services and to satisfy the potential demand for communications. The said assets include equipment, land and the data center.</p>   | <ol style="list-style-type: none"> <li>1. With respect to the spare capacity created under the economic considerations of current and future demand for communications data center and equipment, Paragraph 1 prescribes the accounting methodologies thereof, where costs derived therefrom shall be allocated to individual telecommunications services according to the current operations of data center and equipment (ex. electric circuit and communication lines). The costs of non-spare capacity assets, on the other hand, shall not be counted as a telecommunication enterprise's service expense as it can result in overinvestment. Enterprises shall specify the adopted approach in detail in the Accounting Operating Procedures Manual thereof.</li> <li>2. Paragraph 2 defines "spare capacity assets".</li> </ol> |
| <p>Article 25 With respect to internal transactions , namely the provision or receipt of products, services or use of assets, between telecommunications services of an enterprise with significant market power, it is necessary to adhere to provisions specified in Article 26 and the pricing thereof shall be calculate based on the unit trading price times the actual trading volume.</p> <p>The unit trading price as described in the preceding paragraph shall be set according to the following order:</p> <ol style="list-style-type: none"> <li>1. Those that can refer to the telecommunications tariffs shall be calculated therewith.</li> <li>2. Those that can refer to the market price shall be calculated therewith.</li> <li>3. Those that cannot have its costs calculated according to the aforesaid methods shall be calculated according to the product, service and asset use (including the capital cost) costs.</li> </ol>   | <p>This Article specifies the internal pricing methods to prevent cross-subsidization.</p>   |
| <p>Article 26 With respect to internal jointly acquired assets, enterprises with significant market power shall calculate the periodic costs thereof according to any of the following two conditions:</p> <ol style="list-style-type: none"> <li>1. When the total actual usage of all users is greater than or equal to the total anticipated usage of all users, enterprises with significance in the market shall allocate the periodic costs thereof based on the actual usage.</li> <li>2. When the total actual usage of all user is smaller than the total anticipated usage, the periodic costs shall be calculated as follows: <ol style="list-style-type: none"> <li>(1) If the total usage of the enterprise with significance in the market exceeds or equals to the anticipated usage, the periodic costs shall be allocated according to the actual usage.</li> <li>(2) If the total usage of the enterprise with significance in the market is less than the anticipated usage, the allocation base equals the enterprise's anticipated usage less the adjustment of usage difference. The formulas are as follows:</li> </ol> </li> </ol> | <ol style="list-style-type: none"> <li>1. With respect to assets purchased to satisfy an anticipated demand for various services or operations, the said services or operations must bear the costs of unused parts to prevent cross-subsidization that can occur among services.</li> <li>2. Paragraph 2 defines periodic costs and internal jointly acquired assest.</li> </ol>  |

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| <p>a. “The enterprise’s cost allocation basis” equals to “the enterprise’s anticipated usage minus “adjustment of usage difference”.</p> <p>b. “Adjustment of usage difference” equals to (the total actual usage of all users less the anticipated usage of all users) times (the enterprise’s anticipated usage less the enterprise’s actual usage) divided by (the anticipated usage of all users who have insufficient use less the actual usage of all users who have insufficient use).</p> <p>The periodic costs as described in the preceding paragraph refer to operating and capital costs derived from jointly acquired assets and incurred during the current accounting year. Jointly acquired asset refers to an asset that is purchased or constructed with an intention of it being used by various telecommunication services and such asset is not used for other purposes.</p> |  |
| <p>Article 27 When costs are separated to individual telecommunications services or operating activities, the cost structure thereof shall be identical with that specified in the individual income statement.</p>   | <p>To facilitate traceability of reasons for costs and preparation of income statement by service type, the cost structure of allocated costs shall be identical with that specified in the enterprise’s individual income statement.</p>  |
| <p>Section 3 Asset separation principles</p>  | <p>Section No.</p>   |
| <p>Article 28 The provisions governing cost separation under Articles 13 to 17 shall apply mutatis mutandis to the attribution of entity accounting assets.</p>   | <p>Asset separation is compulsory for the calculation the remuneration rate, depreciation expenses and capital costs of individual telecommunications services. As asset is considered as an unexhausted cost, enterprises can refer to cost separation rules.</p>   |
| <p>Article 29 The provisions under Article 18 shall apply mutatis mutandis to the collection of individual asset data.</p>  | <p>This Article stipulates the mutatis mutandis rule for the asset collection process.</p>   |
| <p>Article 30 The provisions under Article 21 shall apply mutatis mutandis to cost allocation after the separation of assets as described in Article 28.</p>  | <p>As asset is considered as an unexhausted cost, enterprises can refer to cost separation rules.</p>  |
| <p>Article 31 Unless otherwise approved by the competent authority, asset transfers between telecommunications services of enterprises with significant market power shall be recorded at the fair market value. If the fair market value cannot be confirmed, the transfer shall be recorded at the book value of the transferred asset.</p>   | <p>Asset transfers between telecommunications services of enterprises with significant market power shall be recorded at the fair market value or, if the fair market value is not available, book value of the transferred asset. The purpose thereof is to prevent cross-subsidization during the transfer of internal assets.</p> |
| <p>Article 32 The costs of back capacity assets shall be allocated to individual telecommunications services according to the operating costs and the method described in Article 24</p>  | <p>As asset is considered as an unexhausted cost, enterprises can refer to cost separation rules.</p>  |
| <p>Article 33 Internal jointly acquired asset shall be allocated to individual telecommunications services according to its anticipated usage.</p>  | <p>To prevent cross-subsidization, internal jointly acquired asset shall be allocated to individual telecommunications services according to its anticipated usage.</p>  |
| <p>Article 34 When assets are separated to individual telecommunications services or operating activities, the asset structure thereof shall be identical with that specified in the</p>  | <p>To meet the requirements for preparing a balance sheet by service type, the asset structure shall be identical with that specified in the consolidated balance sheet.</p>   |

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| balance sheet.  |  |
| Article 35 The asset separation methods for enterprises with significant market power shall refer to Attachment 2 °   | Specifies the asset separation methods for enterprises with significance in the market.  |
| Section 4 Capital cost calculation principles   | Section No.  |
| Article 36 The capital costs of a telecommunications service or operating activity shall equal the capital employed for the service or operating activity multiplied by the enterprise's cost of capital.   | <ol style="list-style-type: none"> <li>1. Specifies the calculation formula of capital cost. Capital cost refers to the opportunity cost of the funds invested for the maintaining the operations. The amount of capital cost that must be allocated to individual telecommunications services or operating activities depends on the "capital employed" and "cost of capital" of the service or operating activity.</li> <li>2. "Capital employed" refers to the capital of fixed assets that are used during the provision of telecommunications services or operating activities, and the capital used to maintain the normal operations. Fixed assets (ex. equipment like cables and channels; and land, house, building and other equipment that are related to the telecommunications operations) used by individual telecommunications services or operating activities shall be separated according to their respective operating costs (the Standards Articles 28 to 35).</li> <li>3. Enterprises that engage in various telecommunications services shall, according to financial and operating risks of individual service, calculate the cost of capital thereof. Cost of capital that is applicable to operating activities shall be separated from the activity to cost of capital of its telecommunications service (Article 39 of the Standards).</li> </ol> |
| Article 37 The capital employed for telecommunications services or operating activities as described in the previous Article refers to assets that have been separated to the said service or operating activities in accordance with Articles 28 to 35. It includes the directly used property, plant and equipment; capital that is compulsory for maintaining the normal operations; and assets separated from individual functions. | <ol style="list-style-type: none"> <li>1. Specifies the composition of capital employed.</li> <li>2. The definition of "property, plant and equipment" shall refer to Financial Supervisory Commission's newly updated "General Industry International Financial Reporting Standards (IFRSs) Account Names and Codes".</li> </ol>  |
| Article 38 The cost of capital of enterprises with significant market power shall reflect the opportunity cost of invested funds.<br>Those that engage in several telecommunications services shall calculate the cost of capital of individual services according to their respective financial and operating risks.   | <ol style="list-style-type: none"> <li>1. Specifies the measurement and calculation principles for cost of capital</li> <li>2. The cost of capital of individual telecommunications services shall reflect individual risks.</li> </ol>  |
| Article 39 The cost of capital that is applicable to a network component and operating activity shall be the cost of capital of the telecommunications services separated to that network component or operating activity.<br>Where several services jointly use a network component or operating activity, it is necessary to calculate their respective costs of capital according to the parts that                                  | The costs of network components and operating activities shall include capital costs. As the cost of capital thereof cannot be calculated solely, the cost of capital of individual telecommunications services is therefore applicable.   |

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| have been separated thereto.   |  |
| Article 40 The calculation of capital cost of enterprises with significant market power shall refer to Attachment 3.   | Specifies the calculation of capital cost and regulates factors that must be considered for the estimation of capital cost. These are provided to enterprises with significant market power as a reference to prevent overestimation or underestimation of capital cost.   |
| Section 5 Revenue separation principles  | Section No.  |
| Article 41 Operating revenue that can be directly traced to a specific telecommunications service shall be directly attributed to that service with the use of accounting records and system.  | Specifies that telecommunications revenues shall be directly attributed to their respective telecommunications services with the use of accounting records and system.   |
| Article 42 Operating revenues that are generated by several telecommunications services and cannot be directly traced to a specific telecommunications service shall be allocated accordingly:<br>1. Those that can refer to the telecommunications tariffs shall be allocated according to their proportion of revenue that is calculated from the telecommunications tariffs.<br>2. Those that can refer to the market price shall be allocated according to their proportion of revenue that is calculated from the market price.   | In general, telecommunications revenues can be directly attributed to a specific telecommunications service with the use of accounting records and system. When this does is not applicable, the separation shall be conducted according to the proportion of revenue generated from related services. This Article therefore specifies that the allocation of operating revenues generated by several services shall be based on the telecommunications tariffs, followed by the market price.  |
| Chapter III Administration Management  | Chapter No.  |
| Article 43 Telecommunications enterprises that are announced by the competent authority as an enterprise with significant market power shall, within four months following the announcement date, stipulate or amend the Accounting Operating Procedures Manual thereof. The said Manual shall be submitted together with a CPA's (certified public accountant) audit report to the competent authority for review.<br><br>Where an amendment to the Accounting Operating Procedures Manual is required due to major organizational or operational changes, enterprises with significant market power shall, within four months after the occurrence of the fact, amend the said Manual. The revised Manual shall be submitted together with a CPA's audit report to the competent authority for review.<br><br>Whenever it is deemed necessary, the competent authority may request enterprises with significance in the market to make amendments to their present Accounting Operating Procedures Manual and enterprises with significance in the market must not reject the request.<br><br>The contents of the Accounting Operating Procedures Manual described in Paragraph 1 shall specify the enterprises' approaches of implementing the Standards. | 1. The preparation of Accounting Operating Procedures Manual aims to specify how an enterprise with significant market power implements the separation accounting steps and procedures, as well as the allocation methods and basis thereof, all of which is important information as the accounting separation financial statements are prepared accordingly. Therefore, whether the contents of Accounting Operating Procedures Manual are reasonable and appropriate will demonstrate whether the separation accounting information filed by the said enterprises can precisely reflect the cost structure thereof. In other words, the Accounting Operating Procedures Manual is understandably of great concern to a telecommunications enterprise' implementation of separation accounting. Therefore, the contents thereof shall be reviewed and approved by the competent authority prior to the implementation thereof.<br>2. Enterprises with significant market power shall propose their respective Accounting Operating Procedures Manual and submit it to the competent authority for approval prior to the implementation thereof.<br>3. Where an enterprise with significant market power is deemed necessary to make amendments to its Accounting Operating Procedures Manual due to major operational changes (ex. change of business scale and type; service type; used technology; and |

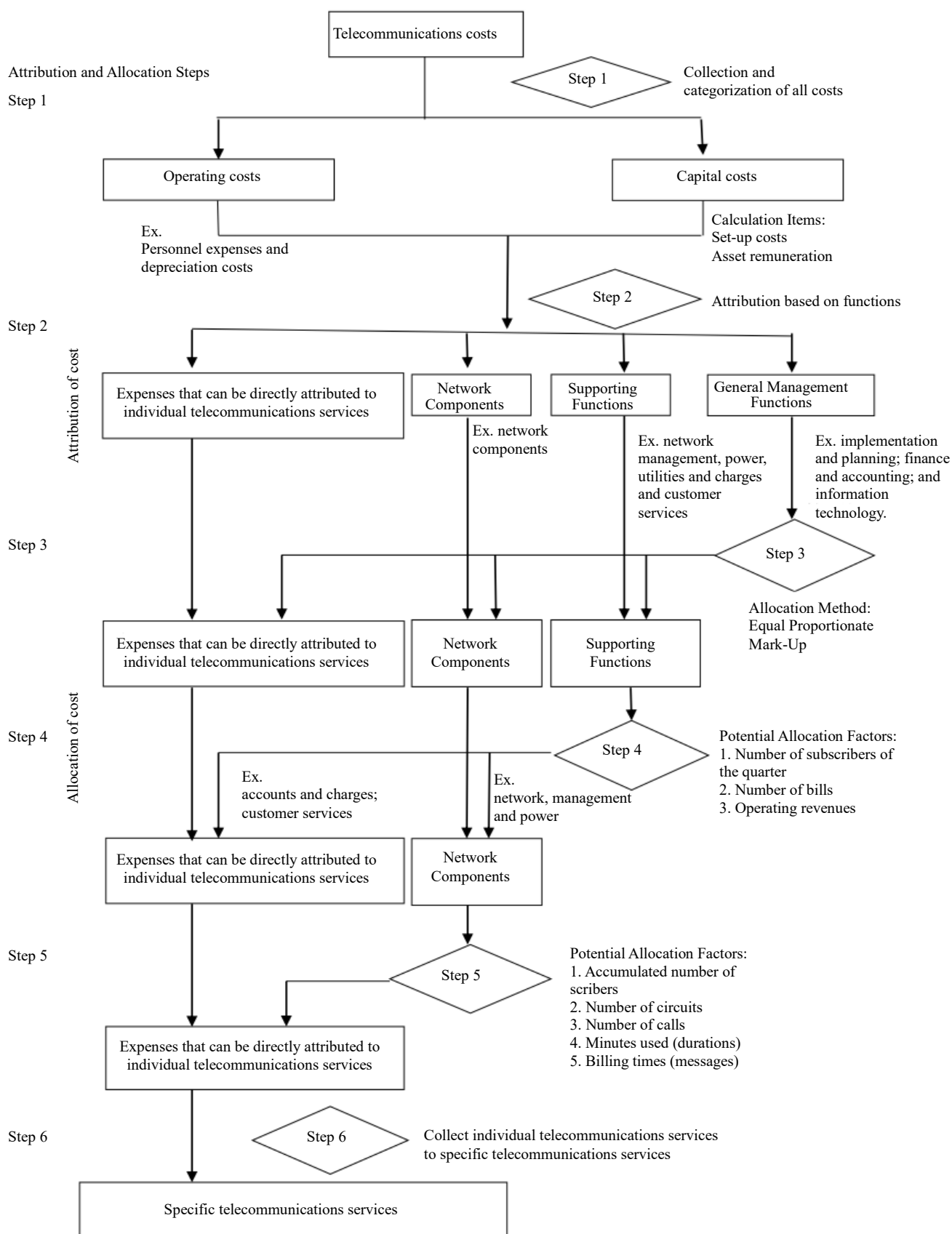
| Articles   | Descriptions  |
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|  | <p>other major changes) and fails to make an amendment proactively or report it to the competent authority for approval, the competent authority may proactively request the said enterprise to make an amendment ex officio.</p>   |
| <p>Article 44 With respect to the establishment and category of accounts of an enterprise with significant market power and the explanation of accounts thereof, please refer to Attachment 4 for detailed information.</p>                                      | <ol style="list-style-type: none"> <li>1. To prevent the occurrence of cross-subsidization and to meet other supervision requirements, the establishment and category of accounts of an enterprise with significant market power and the explanation of accounts thereof must be regulated in order to coordinate with the Standards and facilitate the implementation thereof.</li> <li>2. Due to the progress of telecommunications technology and the increasing complexity of accounts, the account names, codes, explanations and handling methods of enterprises with significant market power are specified in the provision. The purposes thereof are to keep the flexibility of accounts when an amendment must be made thereto due to the change of science-based technology; and to regulate different enterprises at different levels according to the control demand.</li> <li>3. To facilitate the accounting separation of telecommunications services, the Attachment provides enterprises with significant market power a framework of setting up an account, including the name, code and definition of accounts as well as the accounting separation methods. As for specifications of basic accounts, enterprises with significant market power can add accounts depending on their respective needs. The account name and code are composed of 8 digits. The first four digits refer to “General Industry International Financial Reporting Standards (IFRSs) Account Names and Codes” published by Financial Supervisory Commission, whereas the last four digits are created based on the separation accounting demand of telecommunications services. Therefore, the account structure thereof is quite like those of general public enterprises. This not only ensures the feasibility of account applications, but also helps to reduce enterprises’ accounting costs.</li> </ol> |
| <p>Article 45 The preparation of financial statements that must be submitted by enterprises with significant market power (ex. the type, format, submission times and deadline of financial statements; and CPA’s audit report) shall refer to Attachment 5.</p> | <ol style="list-style-type: none"> <li>1. To prevent cross-subsidization and to meet other supervision needs, the preparation of financial statements that must be submitted by enterprises with significant market power (ex. the type, format, submission times and deadline of financial statements; and CPA’s audit report) must be regulated and adhere to the Standards.</li> <li>2. Due to the complexity of the types, format and contents of financial statements, the Attachment “Preparation for the Financial Statements of Enterprises with Significance in the Market” is therefore provided to regulate enterprises with significant market power, ensuring that their financial reports are prepared according to “Regulations Governing Establishment of Internal Control Systems by Public Companies” announced by the Financial Supervisory Commission. Moreover, the</li> </ol>   |

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|  | <p>said rules have retained a flexibility in the types and format of financial statements as amendments may be required to meet technological and control requirements; additionally, in response to different control requirements, enterprises are also regulated with different levels of control measures. With respects to the operations of enterprises with significant market power, the competent authority plans to launch two systems for the preparation of financial statements: the general financial statements and separation accounting financial statements. The general financial statements shall consist of balance sheet, income statements, cash flow chart and statement of changes in equity, whereas separation accounting financial statements include the income statements of licensed segment and other segments, net investment report by service, income statement by service, internal resource usage pricing, calculation of network component unit cost and telecommunications equipment change list. Based on the consideration of the competent authority's control costs and demand plus enterprises' operating costs, the competent authority plans to, based on the approaches of the U.S., EU and Japan, the competent authority shall request enterprises with significant market power to submit the aforesaid statements within six months after the end of each business year. Furthermore, the submitted financial statements shall also be audited and certified by a CPA.</p> |
| <p>Article 46 Enterprises with significant market power shall appoint their own CPA to audit the financial statements thereof. The competent authority may, whenever it has been deemed necessary, dispatch an account therefor for audit.</p> <p>CPAs whom are appointed to audit the financial statements described in the preceding paragraph shall adhere to Attachment 6.</p> | <p>With respect to the financial statements prepared by enterprises with significant market power, to further regulate CPAs to abide by current regulations while taking the industry's characteristics into consideration during the audit, the competent authority specifies Attachment 6 "Guidelines for CPA to Audit and Certify Financial Statements Prepared by Enterprises with Significance in the Market", where the audit items, audit procedures and audit report details are specified in the Attachment as the major contents thereof. The highlights are as follows:</p> <ol style="list-style-type: none"> <li>1. The audit of general financial statements prepared by an enterprise with significant market power shall adhere to the generally accepted auditing standards and Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants promulgated by Financial Supervisory Commission.</li> <li>2. The audit of accounting separation financial statements prepared by an enterprise with significant market power shall not only adhere to generally accepted auditing standards, but also necessary audit procedures must be taken to ensure their compliance with Accounting Standards and Regulations for Enterprises with Significant Market Power. Furthermore, enterprises with significant market power must submit their respective Accounting Operating Procedures Manual to the competent authority for approval.</li> </ol>                     |

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| Article 47 Enterprises with significant market power shall make available all accounting documents for at least five years after the completion of annual closing procedures; and all accounting books and financial statements shall be kept for at least ten years after the completion of annual closing procedures. The above limitation does not apply to the documents of permanent records and of unresolved accounting issues. | This Article is stipulated in accordance with Article 38 of Business Entity Accounting Act with respect to the preservation period of accounting documents and financial statements. |
| Chapter IV Supplementary Provisions  | Chapter No.  |
| Article 48 These Standards shall be enacted from their promulgation date.  | The promulgation date of the Standards.  |



**Attached Figure: Cost Allocation Framework for Telecommunications Services**



Telecommunications Services: Services provided to the end-users and intermediate users

