

Telecommunications - Taiwan

Detailed Separate Accounting to Be Implemented

March 19 2008

In order to comply with the adjustment of the value of the Production Efficiency Index in the price cap formula, during March 2008 the National Communications Commission (NCC) is to implement a new accounting rule providing for detailed separate accounting for the telecommunications industry. The NCC has indicated that it will apply the rule retroactively to cover financial statements and other reporting materials from 2006 onwards. Of the eligible carriers, Chunghwa Telecom has been chosen as the first to undergo such compliance in March 2008. Compliance will be phased in across the other existing Type I operators from April 2008.

Subject to the Accounting Standards and Regulations for Type I Telecommunications Enterprises, telecommunications operators, hold facilities and networks are required to prepare financial statements complying with general accounting principles, policies and formalities and, most importantly, with the principle of accounting separation in order to allocate costs, revenues and assets to the different types of telecommunications service or other business service. The NCC has stated that the new rule will create further detailed accounting titles based on existing separate accounting statements in line with the implementation of the new price cap system. By implementing the new rule the NCC will gain knowledge of each operator's costs; such knowledge will then be used as a basis to approve tariffs, wholesale prices and the costs of bottleneck facilities.

Chunghwa Telecom, which operates most of the different telecommunications services, has been flagged up as the carrier most likely to suffer under the new regulation, as compliance will inevitably cost much more time and money than previously. For example, in the new rule the NCC breaks down the 'local network' service into:

- asymmetric digital subscriber lines;
- dedicated lines;
- leased lines; and
- optical lines.

In addition, prices will be divided into wholesale prices and retail prices.

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