

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

IN REPLY REFER TO: 1600E

RAO Letter 32
DA 01-1435
Adopted: June 14, 2001
Released: June 18, 2001

Responsible Accounting Officer

Re: Accounting for Derivative Instruments and Hedging Activities

Several incumbent local exchange carriers (ILECs)¹ have notified us of their intention to adopt, for regulatory accounting purposes, Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, (SFAS 133).² SFAS 133 standardizes the accounting for derivative instruments by requiring that they be recognized as assets or liabilities in statements of financial position and that they be measured at fair market value.³ Companies with calendar-year fiscal years are required to adopt SFAS 133 for financial reporting purposes effective January 1, 2001.

It is the Commission's policy to require carriers to adopt new FASB standards in their Part 32 accounting systems unless there is a compelling regulatory reason not to do so.⁴ The carriers have stated that adoption of SFAS 133 in Part 32 would have no adverse impact on their revenue requirements.⁵ Further, we find that SFAS 133 can be accommodated within existing accounts in Part 32, and we find no need for rulemaking before the standard can be adopted for regulatory purposes. Based on the carriers' representations and our findings, we hereby require the ILECs to adopt SFAS 133 for Part 32 accounting purposes effective January 1, 2001.

¹ See, e.g., letters of intent to adopt SFAS 133 filed by Verizon, BellSouth Communications and SBC Communications, Inc. on March 9, 2001, March 29, 2001, and May 16, 2001, respectively.

² The Financial Accounting Standards Board (FASB) issued SFAS 133 in June 1998.

³ A derivative is a collective term for securities whose prices are based on the prices of another underlying investment. Examples of derivative instruments are interest rate swaps, foreign currency exchange rate swaps, and futures and options contracts.

⁴ 47 C.F.R. § 32.16. Section 32.16 provides that carriers shall apply new FASB standards and that a new standard automatically becomes effective 90 days after the Commission is notified of intent to adopt unless the Commission determines that the standard should not be adopted.

⁵ See, e.g., letters of intent to adopt SFAS 133 filed by Verizon and SBC Communications, Inc.

This letter is issued pursuant to authority delegated under section 0.291 of the Commission's rules.⁶ Applications for review under section 1.115 of the Commission's rules must be filed within 30 days of the date of this letter.⁷

If you have any questions, please contact Jose-Luis Rodriguez at (202) 418-0825.

Sincerely,

Kenneth P. Moran
Chief, Accounting Safeguards Division
Common Carrier Bureau

⁶ See 47 C.F.R. § 0.291.

⁷ See 47 C.F.R. § 1.4(b)(2).