



# PUBLIC NOTICE

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## FEDERAL-STATE JOINT CONFERENCE ON ACCOUNTING ISSUES

### Request for Comment

### WC Docket 02-269

**Comment Date: January 31, 2003**

**Reply Date: February 18, 2003**

By this Public Notice, the Federal-State Joint Conference on Accounting Issues (Joint Conference) seeks public comment with respect to its comprehensive review of regulatory accounting and related reporting requirements.

### BACKGROUND

The FCC prescribes the accounting rules that govern the manner in which incumbent local exchange carriers (LECs) record and allocate their costs and revenues for regulatory purposes. These rules are known as the Uniform System of Accounts for Telecommunications Companies (USOA). The FCC also maintains the Automated Reporting Management Information System (ARMIS), through which certain incumbent LECs are required annually to report regulatory accounting information.

Section 11 of the Communications Act requires that the Commission review every two years those regulations that are “no longer necessary in the public interest as a result of meaningful economic competition between providers” of telecommunications service.<sup>1</sup> To this end, the Commission recently undertook its second comprehensive biennial review of its Part 32 accounting rules and ARMIS reporting requirements.<sup>2</sup> As part of this review, the Commission adopted changes

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<sup>1</sup> 47 U.S.C. § 161.

<sup>2</sup> *2000 Biennial Regulatory Review—Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2; Amendments to the Uniform System of Accounts for Interconnection; Jurisdictional Separations Reform and Referral to the Federal-State Joint Board; Local Competition and Broadband Reporting*, Report and Order in CC Docket Nos. 00-199, 97-212, and 80-286; Further Notice of Proposed Rulemaking in CC Docket Nos. 00-199, 99-301,

to its accounts and related reporting rules that were intended to “reflect a sharpened focus on ongoing regulatory needs in the areas of competition and universal service”<sup>3</sup>, and minimize the regulatory burdens and distortions that could undermine the development of new technology. In addition, in a related Further Notice of Proposed Rulemaking, the Commission sought comment on certain accounting and related reporting requirements it identified for future reform.

Recently there has been increased public concern over the adequacy of financial accounting. The Commission convened the Joint Conference to engage in a thorough analysis of the Commission’s accounting requirements to ensure that regulatory accounting information is adequate and truthful and to ensure that information captured in regulated accounts is both necessary and sufficient for regulatory purposes.

Specifically, on September 5, 2002, the FCC issued an Order convening a Federal-State Joint Conference on Accounting Issues to “. . . provide a forum for an ongoing dialogue between the Commission and the states in order to ensure that regulatory accounting data and related information filed by carriers are adequate, truthful, and thorough.” According to that Order, the Joint Conference, “will further this goal by facilitating cooperative federal and state review of regulatory accounting and related reporting requirements in order to determine their adequacy and effectiveness in the current market and make recommendations for improvement.”<sup>4</sup>

The establishment of a Federal-State Joint Conference on regulatory accounting issues puts in place an effective means for examining the Commission’s regulatory accounting and reporting requirements. The mission of the Joint Conference is straightforward -- to ensure that regulatory and accounting reporting requirements are adequate and effective in the current market to protect consumers and carry out federal and state regulatory responsibilities.

Among the duties of the Commission and the states is to clearly define their respective responsibilities in the area of regulatory accounting. Regulatory accounting data and related information filed by the telecommunications carriers is used by federal and state telecommunications policymakers to fulfill various responsibilities, such as determining interstate access charges and intrastate retail rates, evaluating federal-state jurisdictional separations, setting rates for unbundled network elements, and calculating universal service support. The Commission and the states have different regulatory obligations, and thus may use information for varying purposes.

The Commission’s prior efforts in this area have focused on eliminating reporting requirements that were unnecessary and consolidating those requirements where a changed environment in the area of competition policy, broadband deployment, and universal service dictated. The establishment of a Joint Conference provides a forum for state and federal policymakers to coordinate their efforts to ensure that regulatory accounting information is adequate and truthful. State and federal regulators have separate responsibilities, but a common goal -- ensuring the adequacy of regulatory accounting data and related information by carriers so that we can fulfill our regulatory responsibilities and

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and 80-286, 16 FCC Rcd 19913 (2001) (*Phase II Accounting Order* and *Phase III Further Notice*); 47 C.F.R. § 32 *et seq.*

<sup>3</sup> *Phase II Accounting Order* at 19913.

<sup>4</sup> *Federal-State Joint Conference on Accounting Issues*, Order, WC Docket No. 02-269, FCC 02-240 (September 5, 2002) (*Convening Order*); *Federal-State Joint Conference on Accounting Issues*, Order, WC Docket No. 02-269, FCC 02-291 (October 17, 2002) (order establishing membership of Joint Conference).

promote a competitive telecommunications marketplace. The Joint Conference will engage in a comprehensive analysis of individual accounting requirements to ensure that information captured in regulated accounts is adequate, truthful, and thorough.

## **SPECIFIC TOPICS OF INQUIRY**

In the *Phase II Accounting Order and Phase III Further Notice* the FCC continued its second comprehensive biennial review of the accounting rules and the ARMIS reporting requirements that apply to incumbent local exchange carriers.

The Joint Conference seeks specific comment on a number of the issues that were addressed in the Phase II Order. We also seek comment on broader questions, including whether there are additional accounting requirements that should be adopted in order to ensure that federal and state regulators have sufficient information to protect consumers, promote investment, promote competition, and monitor the marketplace, and whether there are additional accounting requirements that could be streamlined or eliminated.

With respect to the Phase II issues, the Joint Conference seeks input on (1) the accounts and changes in reporting requirements requested by the States but not added in Phase II, as outlined in item (6) below, including whether these accounts should be added at a future time; (2) the provisions of the Phase II Order that were suspended by the Commission in its November 12, 2002 Order;<sup>5</sup> (3) the issues raised by the outstanding petitions for reconsideration of the *Phase II Accounting Order*<sup>6</sup>; and (4) the Phase II changes to affiliate transaction rules.

Accordingly, the Joint Conference requests specific comment on the following issues:

1. Whether the FCC should reinstate Account 5230 Directory revenues;
2. Whether the FCC should reinstate the following Accounts:
  - 6251 Depreciation Expense – Telephone Plant in Service
  - 6562 Depreciation Expense – Property Held for Future Telecommunications Use
  - 6563.1 Amortization Expense – Capital Leases
  - 6563.2 Amortization Expense – Leasehold Improvements
  - 6564 Amortization Expense – Intangible
  - 6565 Amortization Expense – Other;
3. Whether the FCC should reconsider consolidation of Accounts 6621 through 6623 into Account 6620 (Services) and the creation of wholesale and retail subaccounts to the newly consolidated account, as is currently required in the Phase II Order;

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<sup>5</sup> *Federal-State Joint Conference on Accounting Issues*, Order, WC Docket 02-269, FCC 20-309 (November 12, 2002) (*Suspension Order*).

<sup>6</sup> See Petition of Bellsouth, SBC and Verizon for Reconsideration of Report and Order in CC. Docket Nos. 00-199, 97-212, and 80-286 (filed March 8, 2002); SBC Communications, Inc., Petition for Reconsideration (filed March 8, 2002) .

4. Whether the FCC should reconsider changing the title “Sheath Kilometer” to “Loop Sheath Kilometer” on the Table II of the ARMIS 43-07 report, as is currently required in the Phase II Order;
5. Whether the FCC should reconsider any of the changes to the affiliate transaction rules that were adopted in the Phase II Order;
6. Whether any accounts should be added to the USOA, including:
  - Optical Switching
  - Switching Software
  - Loop and Interoffice Transport
  - Interconnection – Revenue (with subaccounts for UNEs, Resale, Reciprocal Compensation, and Other Interconnection Arrangements)
  - Interconnection – Expense (with subaccounts for UNEs, Resale, Reciprocal Compensation, and Other Interconnection Arrangements)
  - Universal Service Support Revenue
  - Universal Service Support Expense
7. Whether the FCC should reconsider any other Phase II adopted changes.

With respect to broader issues, we also seek comment on the following questions:

1. What are the respective roles of the state regulatory agencies and the Commission in maintaining the accuracy and reliability of regulatory accounts, and what is the Commission’s role in establishing consistency in minimum regulatory accounting standards nationwide;
2. Whether, in light of the Communications Act’s Biennial Review clause<sup>7</sup>, the FCC has the authority to maintain accounts used solely by the states;
3. What are the purposes of regulatory accounting, and how do they compare to the purposes of other types of accounting, including among others, taxation, public company financial disclosure, and corporate planning;
4. What lessons can be learned from other regulatory accounting requirements, including those requirements, if any, used by such agencies as the Securities and Exchange Commission, the Federal Energy Regulatory Commission, the Federal Trade Commission, the Department of Justice, the state Attorneys General and Secretaries of State;

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<sup>7</sup> Section 11 of the Communications Act states that “in every even-numbered year . . . , the Commission shall review all regulations under this Act in effect at the time of the review that apply to the operations of activities of any provider of telecommunications service; and shall determine whether any such regulation is no longer necessary in the public interest as the result of meaningful economic competition between providers of such service.” (47 U.S.C. § 161).

5. What is the role of regulatory accounting at the present stage in the movement from a regulated monopoly towards an increasingly competitive communications market;
6. Whether additional accounting and reporting requirements not contemplated in the Phase I and Phase II Orders are necessary to support current regulatory efforts and goals, including the establishment of UNE prices, conducting interconnection arbitrations under the Telecommunications Act of 1996, determining costs to be supported by universal service programs, monitoring market share and service quality, and preventing cross-subsidization between regulated and non-regulated operations.
7. Whether the FCC and/or the states should increase their financial monitoring of any telecommunications carriers, including incumbents or competitive carriers. If so, what additional accounting requirements would be appropriate?
8. What is the impact of any proposed changes to any accounting requirements on local exchange carriers with fewer than 2 percent of the Nation's subscriber lines installed in the aggregate nationwide;
9. Whether additional accounting requirements are needed in order to prevent financial problems of affiliates of telecommunications carriers from threatening the financial viability of telecommunications carriers;
10. Whether the FCC and/or the states should increase the use of audits (including potentially joint federal/state audits) to ensure the consistency and accuracy of accounting information provided by carriers;
11. Whether additional accounting requirements would be appropriate in order to enable state and federal regulators to make a better assessment of the consequences of mergers on the financial viability of the affected carriers; and
12. Whether other changes are needed to the FCC accounting and auditing schedule to assure the FCC and/or the states fulfill their regulatory mandate to protect consumers and ensure the integrity of the telecom network?

## PROCEDURAL MATTERS

Pursuant to sections 1.415 and 1.419 of the Commission's rules,<sup>8</sup> interested parties may file comments no later than January 31, 2003. Interested parties may file reply comments no later than February 18, 2003. **All responsive filings must reference the docket number of this proceeding, WC Docket No. 02-269.** Comments and reply comments may be filed using the Commission's Electronic Comment Filing System (ECFS) or by filing paper copies.

Comments and reply comments filed through the ECFS can be sent as an electronic file via the Internet to <http://www.fcc.gov/e-file/ecfs.html>. Generally, only one copy of an electronic submission must be filed. If multiple docket or rulemaking numbers appear in the caption of this proceeding, however, commenters must transmit one electronic copy of the filing to each docket or rulemaking number referenced in the caption. In completing the transmittal screen, commenters should include their full name, Postal Service mailing address, and the applicable docket or rulemaking number. Parties may

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<sup>8</sup> 47 C.F.R. §§ 1.415, 1.419.

also submit an electronic copy by Internet e-mail. To get filing instructions for e-mail comments, commenters should send an e-mail to [ecfs@fcc.gov](mailto:ecfs@fcc.gov), and should include the following words in the body of the message: "get form <your email address>." A sample form and directions will be sent in reply. Commenters also may obtain a copy of the ASCII Electronic Transmittal Form (FORM-ET) at <http://www.fcc.gov/e-file/email.html>.

Parties who choose to file by paper must file an original and four copies of each filing. If more than one docket or rulemaking number appears in the caption of this proceeding, commenters must submit two additional copies for each additional docket or rulemaking number. Filings can be sent by hand or messenger delivery, by commercial overnight courier, or by first-class or overnight U.S. Postal Service mail (although we continue to experience delays in receiving U.S. Postal Service mail). The Commission's contractor, Vistrionix, Inc., will receive hand-delivered or messenger-delivered paper filings for the Commission's Secretary at 236 Massachusetts Avenue, N.E., Suite 110, Washington, D.C. 20002. The filing hours at this location are 8:00 a.m. to 7:00 p.m. All hand deliveries must be held together with rubber bands or fasteners. Any envelopes must be disposed of before entering the building. Commercial overnight mail (other than U.S. Postal Service Express Mail and Priority Mail) must be sent to 9300 East Hampton Drive, Capitol Heights, MD 20743. U.S. Postal Service first-class mail, Express Mail, and Priority Mail should be addressed to 445 12<sup>th</sup> Street, S.W., Washington, D.C. 20554. All filings must be addressed to the Commission's Secretary, Office of the Secretary, Federal Communications Commission.

Regardless of whether parties choose to file electronically or by paper, parties should also file one copy of any documents filed in this docket with the Commission's copy contractor, Qualex International, Portals II, 445 12<sup>th</sup> Street S.W., CY-B402, Washington, D.C. 20554 (telephone 202-863-2893; facsimile 202-863-2898) or via e-mail at [qualexint@aol.com](mailto:qualexint@aol.com). One copy of each submission must be served upon each member of the Joint Conference on Accounting.<sup>9</sup> In addition, one copy of each submission must be filed with Jane E. Jackson, Associate Chief, Wireline Competition Bureau, 445 12<sup>th</sup> Street, S.W., Washington, D.C. 20554. Documents filed in this proceeding will be available for public inspection during regular business hours in the Commission's Reference Information Center, 445 12<sup>th</sup> Street, S.W., Washington, D.C. 20554, and will be placed on the Commission's Internet site.

This proceeding will be governed by "permit-but-disclose" *ex parte* procedures that are applicable to non-restricted proceedings under section 1.1206 of the Commission's rules.<sup>10</sup> For purposes of this proceeding the state members of the Joint Conference, and well as the federal members, will be considered "decision makers" within the meaning of 47 C.F.R. sec. 1.1202(c). Parties making oral *ex parte* presentations are reminded that memoranda summarizing the presentation must contain a summary of the substance of the presentation and not merely a listing of the subjects discussed. More than a one- or two-sentence description of the views and arguments presented generally is required.<sup>11</sup> Other rules pertaining to oral and written presentations are set forth in section 1.1206(b) as well.

For further information, contact Jane E. Jackson, Associate Chief, Wireline Competition Bureau, (202) 418- 1500.

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<sup>9</sup> See *Federal-State Joint Conference on Accounting Issues*, Order , WC Docket No. 02-269, FCC 02-291, (October 17, 2002), Appendix A (names and service addresses of Joint Conference members).

<sup>10</sup> 47 C.F.R. § 1.1206.

<sup>11</sup> 47 C.F.R. § 1.1206(b)(2).