FCC NEWS from the Federal Communications Commission

Media Contact:
Mark Wigfield, (202) 418-0253
mark.wigfield@fcc.gov

For Immediate Release

FCC TAKES STEPS TO REDUCE ACCESS ARBITRAGE

Wasteful Schemes Indirectly Cost Consumers $60-$80 Million Annually

WASHINGTON, September 26, 2019—The Federal Communications Commission today took steps to combat wasteful arbitrage schemes that exploit the system of intercarrier compensation between local and long-distance providers, and indirectly cost consumers an estimated $60 million to $80 million annually.

These arbitrage schemes are based on a simple tactic: a rural phone company with historically high access charge rates stimulates large volumes of incoming traffic, such as through partnering with free conference calling or chat line services, and often interposes an intermediate access provider in the call flow. The phone company (or its designated intermediate access provider) then collects access charges from long-distance companies that far exceed the costs of completing the calls. And these excessive access charges are ultimately passed on to all long-distance customers, regardless of which customers actually make calls to high-volume calling services.

One access arbitrage scheme has resulted in twice as many minutes of calls per month being routed to Redfield, South Dakota, population 2,300, as is routed to all of Verizon's facilities in New York City, population 8.5 million. In addition to distorting the economics of the intercarrier compensation system, these artificially high volumes of traffic can result in blocked and dropped calls.

Today's action reduces the financial incentives for carriers to engage in these schemes by requiring that an access-stimulating local phone company, rather than the long-distance company, be financially responsible for covering the cost of incoming traffic. The local phone companies dictate the routing for calls bound for their customers, and the new rules will provide an incentive for access-stimulating local phone companies to pick the most cost-efficient call path. While past FCC reforms barred access-stimulating phone companies from collecting terminating end office access charges, long-distance companies still had to pay for tandem switching and tandem transport access charges—a loophole that has been exploited by access-stimulating local phone companies and their partners as the FCC cut off other avenues for arbitrage.

Today's Order also expands the definition of "access stimulation" to include situations in which the access-stimulating phone company does not have a revenue sharing agreement with a conference calling, chat line, or similar service, but instead has an unusually high ratio of inbound calling traffic as compared to outbound calling traffic. The revised definition is calibrated to avoid mislabeling rural incumbent local phone companies as access stimulators.

Finally, the Order modifies the authorizations of certain intermediate access providers (known as centralized equal access providers) to permit traffic bound for access-stimulating local phone companies to bypass those intermediate providers. This change will allow the access-stimulating local phone companies to choose the most cost-efficient route for traffic terminating on their networks and will prevent long-distance companies and their customers from having to provide financial support for these arbitrage schemes.

Action by the Commission September 26, 2019 by Report and Order and Modification (FCC 19-94). Chairman Pai, Commissioners O'Rielly, Carr, Rosenworcel, and Starks approving. Chairman Pai, Commissioners O'Rielly, Carr, and Starks issuing separate statements.

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Media Relations: (202) 418-0500 / ASL: (844) 432-2275 / TTY: (888) 835-5322 / Twitter: @FCC / www.fcc.gov