

**STATEMENT OF  
COMMISSIONER MICHAEL J. COPPS,  
APPROVING IN PART, DISSENTING IN PART**

Re: *Federal-State Joint Conference on Accounting Issues, 2000 Biennial Regulatory Review—Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase II, Jurisdictional Separations Reform and Referral to the Federal-State Joint Board, Local Competition and Broadband Reporting (WC Docket No. 02-269, CC Docket Nos. 00-199, 80-286, 99-301)*

Two years ago, I enthusiastically embraced the Commission's decision to convene a Joint Conference on Accounting. Accounting deprecations had distressed the telecommunications industry and wreaked considerable havoc on the economy as a whole. I believed then and believe now that the cure for these problems lies in greater state and federal oversight, not less.

I am pleased that today's decision puts in place several rule modifications recommended by the Joint Conference. But I am troubled that it does not go far enough. In particular, it broadly rejects key recommendations concerning affiliate transactions. These recommendations were designed to remedy rules that provide carriers with too much discretion to value transactions between affiliates. This is precisely the kind of discretionary accounting that led to such serious problems in the financial sector and that raised concerns that led to development of the Joint Conference.

The majority also dismisses recommendations for some new accounts identified by the Joint Conference. These accounts are needed to get a full picture of carrier investment and to ensure that prices reflect actual costs. Both the States and the Commission use reported data to develop an understanding of the plant, revenue and expenses of carriers and to enable comparisons among companies and over time. States also use this data to develop prices for network elements, to develop prices for resold services and to conduct ratemaking proceedings. If the Commission keeps to its current course, emphasizing only the federal purpose of accounting data, the States' ability to carry out their statutory responsibilities will be sharply curtailed at potential great cost to consumers.

We have entered an era when more information—not less—is necessary for consumer confidence and investor security. We have a duty to ensure that the required system of accounts provides **both** state and federal regulators with the information they need to discharge their oversight obligations. This is the essence of a viable federal-state partnership. It is also memorialized in the Communications Act. In Section 220(i), Congress specifically directed the Commission to consider the views and input of each state commission before prescribing any accounting requirements. In Section 220(j), Congress directed the Commission to investigate and report on the need for legislation to define further or harmonize the powers of the Commission and of state commissions with respect to accounting requirements. In today's Order, the majority gives short shrift to the spirit of this partnership. They show too little interest in the needs of the States and are reluctant to acknowledge the expertise of the members of the Joint Conference. It appears they prefer to inch along on our current track, casting off even modest recommendations for reform as burdensome for carriers, without considering the consequences of a system based on deficient information. This is troubling because policies at both the state and federal level are only as good as the data on which they are based. For these reasons, I dissent in part.

The Joint Conference was asked to take a broad-based look at the Commission's accounting policies. The convening Order directed the group to ensure that accounting data are "adequate, truthful, and thorough." It is time for the Joint Conference to embrace the full scope of this duty and move forward with further recommendations. We have a broad mandate and I hope we can meet it before the charter of the Joint Conference expires. But we have far to go to amass a credible record. We need to

assess the adequacy of current requirements and question why regular audits are not a feature of the Commission's core responsibilities. We should ask how use of the Commission's authority to inquire into the business management of carriers under Section 218 might have helped us to identify recent corporate governance problems ranging from capacity swaps to tactics to circumvent access charges. The Commission also has specific requirements that carriers must comply with concerning continuing property records. Although this issue has been swept under the rug in the past, how can we approach TELRIC reform without taking another look at these underlying issues of cost? I also believe the Joint Conference should do more to memorialize the federal-state partnership that is the essence of Section 220, abandoning once and for all the misguided emphasis on federal purpose that the Commission adopted in its *Phase II* decision.

I want to commend my colleagues on the Joint Conference for their extensive efforts. They slogged through complex issues involving accounts, subaccounts, separate affiliate rules and reporting requirements. Through cooperative discussion we hashed out a reasonable set of recommendations. Though not all of these recommendations are adopted in this Order, I look forward to working with the members of the Joint Conference on future endeavors. We have a duty to consider what more needs to be done so that accounting data are comprehensive and accurate. Our rules must be up to the high standards of corporate governance and regulatory oversight that ratepayers across the country have a right to expect in light of events over the past few years.