

**Before the  
Federal Communications Commission  
Washington, D.C. 20554**

In the Matter of	)	
	)	
Comprehensive Review of the	)	WC Docket No. 14-130
Part 32 Uniform System of Accounts	)	
	)	
Jurisdictional Separations and Referral	)	CC Docket No. 80-286
to the Federal-State Joint Board	)	

**REPORT AND ORDER**

**Adopted: February 23, 2017**

**Released: February 24, 2017**

By the Commission: Chairman Pai and Commission O’Rielly issuing separate statements; Commissioner Clyburn approve in part, concur in part and issuing a statement.

**I. INTRODUCTION**

1. In this Report and Order (Order), we complete our proceeding to review our Part 32 Uniform System of Accounts (USOA) to consider ways to minimize the compliance burdens on carriers while ensuring that the agency retains access to the information it needs to fulfill its regulatory duties.<sup>1</sup> Section 220 of the Communications Act of 1934, as amended (the Act), authorizes the Commission to prescribe the system of accounts to be used by carriers subject to the Act,<sup>2</sup> and the USOA and its predecessors have historically performed this function for regulated telephone companies. But the USOA comes with a cost: Many regulated companies must maintain two sets of books—one for financial reporting and another for regulatory purposes—with the attendant costs of additional training for accountants, creating a second set of customized accounting software, and auditing two sets of processes for compliance.

2. We now conclude that, in light of the Commission’s actions in areas of price cap regulation, universal service reform, and intercarrier compensation reform, as well as the advancement of robust intermodal competition in the market for telephone services, the duty to maintain two sets of accounts is generally not necessary for price cap carriers. Moreover, with respect to all carriers, we streamline and eliminate outdated accounting rules no longer needed to fulfill our statutory or regulatory duties. By reducing the costly burden of outdated regulatory requirements placed upon carriers, today’s reforms give carriers the ability to better allocate scarce resources toward expanding modern networks which are critical to bringing economic opportunity, job creation, and civic engagement to all Americans.

<sup>1</sup> See 47 CFR Part 32.

<sup>2</sup> See 47 U.S.C. § 220(a)(2) (“The Commission shall, by rule, prescribe a uniform system of accounts for use by telephone companies. Such uniform system shall require that each common carrier shall maintain a system of accounting methods, procedures, and techniques (including accounts and supporting records and memoranda) which shall ensure a proper allocation of all costs to and among telecommunications services, facilities, and products (and to and among classes of such services, facilities, and products) which are developed, manufactured, or offered by such common carrier”); *see also* 47 U.S.C. § 220(a)(1) (“The Commission may, in its discretion, prescribe the forms of any and all accounts, records, and memoranda to be kept by carriers subject to this chapter, including the accounts, records, and memoranda of the movement of traffic, as well as of the receipts and expenditures of moneys”).

## II. BACKGROUND

3. Section 220 of the Act requires the Commission to “prescribe a uniform system of accounts for use by telephone companies.”<sup>3</sup> The Commission adopted its first accounting system in 1935 as Parts 31 and 33 of the Commission’s rules “when a rigid institutionalized regulatory environment was expected to continue forever.”<sup>4</sup> In 1986, the Commission adopted the USOA contained in Part 32 to respond to the “introduction of competition and an explosion of new products and services to which the existing systems could not respond without massive modification.”<sup>5</sup>

4. The Commission intended the USOA to “accommodate generally accepted accounting principles (GAAP) to the extent regulatory considerations permit.”<sup>6</sup> As the Commission explained:

GAAP is that common set of accounting concepts, standards, procedures and conventions which are recognized by the accounting profession as a whole and upon which most nonregulated enterprises base their external financial statements and reports. It directs the recording of financial events and transactions and relates to how assets, liabilities, revenues and expenses are to be identified, measured, and reported.<sup>7</sup>

While Part 32 specifies a chart of accounts and the types of transactions to be maintained in each account, GAAP allows companies to determine their own system of accounts subject to certain principles.<sup>8</sup>

5. The Commission adopted the USOA “at a time when regulators were required or inclined to organize telecommunications costs in a manner that allowed a logical mapping of these costs to telecommunications rate structures.”<sup>9</sup> Accordingly, the USOA was designed to complement rate-of-return regulation and the system of tariffed interstate access charges that incumbent LECs were required to follow at that time.<sup>10</sup> Part 32 required carriers to record their assets, expenses, and revenues in prescribed accounts. Part 64’s cost assignment rules apportioned the investment, expenses, and revenues between regulated and nonregulated activities.<sup>11</sup> Part 36 prescribed rules for separating regulated investment, expenses, and revenues between the interstate and intrastate jurisdictions.<sup>12</sup> Part 69 then

---

<sup>3</sup> 47 U.S.C. § 220(a)(2).

<sup>4</sup> See *Revision of the Uniform System of Accounts and Financial Reporting Requirements for Class A and Class B Telephone Companies (Parts 31, 33, 42, and 43 of the FCC’s Rules)*, CC Docket No. 78-196, Report and Order, 60 Rad. Reg. 2d (P&F) 1111, para. 2 (1986) (*Part 32 USOA Order*).

<sup>5</sup> *Id.*

<sup>6</sup> *Id.* at 1111, para. 3.

<sup>7</sup> *Revision of the Uniform System of Accounts for Telephone Companies to Accommodate Generally Accepted Accounting Principles (Parts 31, 33, 42, and 43 of the FCC’s Rules)*, CC Docket No. 84-469, Report and Order, 102 FCC 2d 964, 964, para. 1 n.1 (1985) (*GAAP Accounting Order*).

<sup>8</sup> *Id.* (“In very broad terms, these principles can be summarized as requiring that assets and liabilities be recorded at historical cost; that revenue be realized when the earning process is complete and an exchange transaction has occurred; that costs be matched with the revenues they helped to generate; that disclosure be full and adequate; that accounting principles be applied consistently between accounting periods; and that accounting data be objectively determined and verifiable.”).

<sup>9</sup> *2000 Biennial Regulatory Review -- Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2 et al.*, CC Docket Nos. 00-199, 97-212, 80-286, 99-301, Report and Order and Further Notice of Proposed Rulemaking, 16 FCC Rcd 19911, 19916, para. 8 (2001) (*2000 Biennial Regulatory Review: Phase 2 Order*).

<sup>10</sup> *Verizon v. FCC*, 770 F.3d 961, 962 (D.C. Cir. 2014).

<sup>11</sup> 47 CFR §§ 64.901–05.

<sup>12</sup> See 47 CFR Part 36.

specified how carriers were to apportion costs assigned to the interstate jurisdiction among the interexchange service category and the access categories and rate elements.<sup>13</sup> In other words, the access rates carriers charged were directly tied to the costs of the carriers, and thus the accurate recording of such costs in the USOA.

6. From 1984 until 1991, virtually all interstate access services were subject to rate-of-return regulation, under which carriers' charges are set to cover an entity's regulated operating expenses and to provide the opportunity to earn a prescribed return on the capital the company uses to provide regulated services. Earnings were monitored through Part 32 data that incumbent LECs filed annually through the Commission's Automated Reporting Management Information System (ARMIS).<sup>14</sup> Future carriers' charges were adjusted if profit margins were above or below the prescribed rate of return.

7. In 1991, the Commission adopted price cap regulation for the largest incumbent local exchange carriers (LECs) while making it optional for other incumbents.<sup>15</sup> Price cap regulation is a form of incentive regulation that relies on a series of Price Cap Indexes (PCIs) to limit the prices that these carriers charge for services to levels that are presumed to be just and reasonable.<sup>16</sup> Today, more than 95 percent of access lines are served by price cap carriers.<sup>17</sup>

8. Price cap regulation eliminated the direct link between changes in allocated accounting costs and changes in price, but as originally implemented, it did not sever the connection between accounting costs and prices entirely.<sup>18</sup> The 1991 LEC price cap plan required earnings above prescribed levels to be shared with ratepayers and provided for upward adjustment of PCIs if earnings fell below a prescribed level. LECs were also permitted to file above-cap rates if cost-based showings demonstrated that a rate within the cap would be confiscatory. In 1997, the Commission eliminated the sharing mechanism,<sup>19</sup> and in 1999, the Commission eliminated the low-end adjustment for incumbent LECs that received and exercised pricing flexibility.<sup>20</sup> This had the practical effect of severing the connection between prices and the need to account for costs from a regulatory point of view.

---

<sup>13</sup> See 47 CFR §§ 69.300 *et seq.* and 69.400 *et seq.*

<sup>14</sup> *Verizon v. FCC*, 770 F.3d at 963.

<sup>15</sup> *Policy and Rules Concerning Rates for Dominant Carriers*, CC Docket No. 87-313, Second Report and Order, 5 FCC Rcd 6786, 6787 (1990) (*LEC Price Cap Order*), *aff'd sub nom. National Rural Telecom Ass'n v. FCC*, 988 F.2d 174 (D.C. Cir. 1993).

<sup>16</sup> *Id.* at 6792, para. 47. By setting price limits that are defined by changes in input costs, the formula is intended to prevent aggregate rates charged by price cap carriers from fluctuating beyond a "zone of reasonableness." *Id.* at para. 49.

<sup>17</sup> *Connect America Fund High-Cost Universal Service Support*, WC Docket Nos. 10-90, 05-337, Sixth Order on Reconsideration and Memorandum Opinion and Order, 28 FCC Rcd 2572 (2013).

<sup>18</sup> *Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers*, CC Docket Nos. 96-262 and 94-1, Sixth Report and Order, *Low-Volume Long Distance Users*, CC Docket No. 99-249, Report and Order, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Eleventh Report and Order, 15 FCC Rcd 12962, 12969, para. 17 (2000) (*CALLS Order*), *aff'd in part, rev'd in part, and remanded in part, Texas Office of Public Util. Counsel et al. v. FCC*, 265 F.3d 313 (5th Cir. 2001), *cert. denied, National Ass'n of State Utility Consumer Advocates v. FCC*, 535 U.S. 986 (2002); *on remand, Access Charge Reform; Price Cap Performance Review for LECs; Low-Volume Long Distance Users; Federal-State Joint Board on Universal Service*, CC Docket Nos. 96-262, 94-1, 99-249 and 96-45, Order on Remand, 18 FCC Rcd 14976 (2003).

<sup>19</sup> *Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers*, CC Docket Nos. 94-1, 96-262, Fourth Report and Order in CC Docket No. 94-1 and Second Report and Order in CC Docket No. 96-262, 12 FCC Rcd 16642, 16700 (1997).

<sup>20</sup> *Access Charge Reform; Price Cap Performance Review for Local Exchange Carriers et al.*, CC Docket No. 94-1 et al., Fifth Report and Order and Further Notice of Proposed Rulemaking, 14 FCC Rcd 14221 (1999). Price cap

(continued....)

9. In the years following passage of the Telecommunications Act of 1996, the Commission reviewed and streamlined its accounting rules on several occasions. In 1997, the Commission clarified that “only incumbent local exchange carriers” are subject to specific USOA requirements and other accounting rules.<sup>21</sup> In 1999, the Commission “greatly streamline[d]” its depreciation requirements for price cap carriers, and established a waiver process whereby these carriers could obtain the ability to set their own depreciation rates in accordance with GAAP.<sup>22</sup> In 2000, the Commission streamlined Part 32 obligations by eliminating the expense matrix filing requirement, reducing the cost allocation manual audit requirement, relaxing certain affiliate transaction requirements for services, and eliminating the reclassification requirement for certain plant under construction.<sup>23</sup> In 2001, it consolidated and streamlined Class A accounting requirements, relaxed additional aspects of the affiliate transaction rules, reduced the cost of regulatory compliance with cost allocation rules for mid-sized incumbent LECs, and reduced financial reporting requirements.<sup>24</sup> And in 2008, the Commission forbore from applying its cost assignment rules and financial reporting rules to AT&T, Verizon, and Qwest, finding that its need for cost data had significantly diminished with continuing refinement of price cap ratemaking and universal service reforms.<sup>25</sup>

10. In 2012, USTelecom filed a petition pursuant to section 10 of the Act requesting that the Commission forbear from enforcing certain “legacy telecommunications regulations.”<sup>26</sup> In the

(Continued from previous page)

carriers were granted a certain degree of pricing flexibility for special access services across Metropolitan Statistical Areas (MSAs) and non-MSA areas when specified regulatory triggers were satisfied. *Id.*

<sup>21</sup> See, e.g., *Implementation of the Telecommunications Act of 1996*, CC Docket No. 96-193, Report and Order, 12 FCC Rcd 8071, 8095, para. 53 (1997) (addressing cost allocation manual (CAM) and ARMIS filing requirements, which were reporting obligations required by the USOA).

<sup>22</sup> *1998 Biennial Regulatory Review—Review of Depreciation Requirements for Incumbent Local Exchange Carriers*, CC Docket No. 98-137 et al., Report and Order in CC Docket No. 98-137 and Memorandum Opinion and Order in ASD 98-91, 15 FCC Rcd 242 (1999). The Commission decided that price cap carriers could obtain waivers to use GAAP depreciation if they agreed to (1) make below-the-line adjustments of depreciation reserves on the regulatory books; (2) use the same depreciation rates and factors for both regulatory and financial purposes; (3) forego the ability to recover any amounts written off on the regulatory books through low-end adjustment, exogenous cost adjustment, or above-cap filing; and (4) submit information the Commission would need to periodically update depreciation factors. *Id.* at 252, paras. 25-31.

<sup>23</sup> See *Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase I*, CC Docket No. 99-253, Report and Order, 15 FCC Rcd 8690, 8692-93, paras. 3-4 (2000).

<sup>24</sup> *2000 Biennial Regulatory Review: Phase 2 Order*, 16 FCC Rcd at 19914-15, paras. 5-6.

<sup>25</sup> *Petition of AT&T Inc. for Forbearance Under 47 U.S.C. § 160 from Enforcement of Certain of the Commission’s Cost Assignment Rules*, WC Docket Nos. 07-21, 05-342, Memorandum Opinion and Order, 23 FCC Rcd 7302 (2008) (*AT&T Cost Assignment Forbearance Order*), *recon. denied*, *Petition of USTelecom for Forbearance Under 47 U.S.C. § 160(c) from Enforcement of Certain Legacy Telecommunications Regulations et al.*, WC Docket No. 12-61 et al., Memorandum Opinion and Order and Report and Order in WC Docket No. 10-132 and Further Notice of Proposed Rulemaking and Second Further Notice of Proposed Rulemaking, WC Docket No. 12-61 et al., 28 FCC Rcd 7627, 7654-56, paras. 52-55 (2013) (*USTelecom Forbearance Order*), *pet. for review denied*, *Verizon v. FCC*, 770 F. 3d 961 (D.C. Cir. 2014); *Service Quality, Customer Satisfaction, Infrastructure and Operating Data Gathering*, *Petition of AT&T Inc. for Forbearance Under 47 U.S.C. § 160(c) from Enforcement of Certain of the Commission’s ARMIS Reporting Requirements et al.*, WC Docket No. 08-190 et al., Memorandum Opinion and Order and Notice of Proposed Rulemaking, 23 FCC Rcd 13647 (2008); *Petition of Qwest Corporation for Forbearance from Enforcement of the Commission’s ARMIS and 492A Reporting Requirements Pursuant to 47 U.S.C. § 160(c), et al.*, WC Docket Nos. 07-204, 07-273, Memorandum Opinion and Order, 23 FCC Rcd 18483, 18487, para. 8 (2008).

<sup>26</sup> *Petition of USTelecom for Forbearance Pursuant to 47 U.S.C. § 160(c) from Enforcement of Certain Legacy Telecommunications Regulations*, WC Docket No. 12-61 (filed Feb. 16, 2012). Section 10 provides the

(continued....)

*USTelecom Forbearance Order*, the Commission extended the forbearance it had granted to AT&T, Verizon, and Qwest to other price cap carriers,<sup>27</sup> but declined to forbear from applying the USOA to these carriers.<sup>28</sup> Nevertheless, the Commission “acknowledge[d] that further streamlining of our rules is likely appropriate,” and promised to “conduct a comprehensive review of the Part 32 Uniform System of Accounts” with the aim of “minimiz[ing] the compliance burdens of our regulations while ensuring our continued access to the relevant financial information necessary to fulfill our duties.”<sup>29</sup>

11. On August 18, 2014, the Commission adopted the Notice initiating the instant proceeding to reform its rules to ease the accounting burdens on carriers.<sup>30</sup> First, the Notice proposed to streamline the Commission’s USOA accounting rules while preserving their existing structure. In this regard, the Notice proposed to consolidate Class A and Class B accounts,<sup>31</sup> to revise our rules regarding continuing property records for price cap carriers,<sup>32</sup> and to better align with GAAP the USOA’s asset accounting rules,<sup>33</sup> its Allowance-for-Funds-Used-During-Construction (AFUDC) rules,<sup>34</sup> its materiality rules,<sup>35</sup> and its rules requiring that carriers submit all prior period adjustments (PPAs) and unusual or extraordinary items to the Commission for review and approval.<sup>36</sup> It sought comment on whether to better align the USOA’s depreciation and cost of removal-and-salvage accounting rules with GAAP.<sup>37</sup> Second, the Notice also sought focused comment on additional specific requirements that should be applied to price cap carriers. These included “eliminating the requirement that price cap carriers comply with the USOA and imposing targeted accounting requirements that fit our specific statutory needs.”<sup>38</sup> Third, it sought comment on several related issues, including state requirements, rate effects, implementation, and legal authority.<sup>39</sup> The Commission received ten comments and seven reply comments in response to the Notice.<sup>40</sup>

### III. DISCUSSION

12. In this Order, we make significant revisions to our Part 32 USOA accounting rules and take a number of steps to substantially reduce the accounting burdens on incumbent LECs. *First*, we

(Continued from previous page) \_\_\_\_\_

Commission with authority to forbear from enforcing provisions of the Act as well as its own regulations if certain conditions are met.

<sup>27</sup> *USTelecom Forbearance Order*, 28 FCC Rcd at 7648–49, para. 36.

<sup>28</sup> *Id.* at 7657, para. 59.

<sup>29</sup> *Id.* at 7665, para. 77.

<sup>30</sup> *See generally Comprehensive Review of the Part 32 Uniform System of Accounts*, WC Docket No. 14-130, Notice of Proposed Rulemaking, 29 FCC Rcd 10638 (2014) (Notice).

<sup>31</sup> *Id.* at 10642–43, paras. 11–13.

<sup>32</sup> *Id.* at 10652, para. 54.

<sup>33</sup> *Id.* at 10644, para. 18.

<sup>34</sup> *Id.* at 10645, para. 24.

<sup>35</sup> *Id.* at 10645, para. 26.

<sup>36</sup> *Id.* at 10646, para. 29.

<sup>37</sup> *Id.* at 10645, paras. 20, 22.

<sup>38</sup> *Id.* at 10647, para. 33; *see also id.* at 10648–51, paras. 36–49.

<sup>39</sup> *See id.* On August 14, 2015, the Commission notified state commissions of the pendency of this proceeding and invited their comment pursuant to Section 220(i) of the Act, 47 U.S.C. § 220(i). *See* Letter from Deena Shetler, Associate Chief-WCB, FCC to state commissions, WC Docket No. 14-130 (dated Aug. 14, 2015).

<sup>40</sup> *See infra* Appx. A.

streamline the USOA for all carriers, amending 39 rules effective January 1, 2018. *Second*, we allow price cap carriers to elect to use GAAP for all regulatory accounting purposes so long as they comply with targeted accounting rules.<sup>41</sup> These additional reforms will eliminate burdensome accounting requirements that serve no federal purpose for electing price cap carriers.

13. The reforms we adopt herein will significantly reduce the regulatory burdens associated with maintaining separate sets of financial accounts. As previously noted, while Part 32 specifies a chart of accounts and the types of transactions to be maintained in each account, GAAP allows companies to determine their own system of accounts subject to certain principles in the form of an overarching system of broad accounting guidelines that address the recording of assets, liabilities, and stockholders' equity.<sup>42</sup> Further, GAAP allows carriers to record financial transactions in a manner that reflects the broader nature of the enterprise, while Part 32 compliance requires carriers to maintain two separate sets of financial and accounting books for federal regulatory purposes. Commenters emphasized the burdensome nature of this requirement, which we acknowledge here.<sup>43</sup>

#### **A. Streamlining the USOA**

14. In this section, we adopt revisions to Part 32 that significantly streamline the accounting requirements applicable to incumbent LECs. Specifically, we adopt our proposals to consolidate Class A and Class B accounts and to revise our rules regarding continuing property records for price cap carriers. We better align with GAAP the USOA's asset accounting rules, its AFUDC rules, and its materiality rules. And we decline to amend the USOA's depreciation and cost of removal-and-salvage rules. These revisions, with the exception of the continuing property records rules, will apply to all carriers subject to Part 32's USOA, but not to any price cap carriers that elect to use GAAP accounting.

##### **1. Consolidating the Class A and Class B Accounts**

15. Part 32, as authorized by section 220(h) of the Act,<sup>44</sup> divides incumbent LECs into two classes for accounting purposes based on annual revenues: Class A (carriers with annual revenues equal to or above \$152.5 million) and Class B (smaller carriers).<sup>45</sup> These rules require Class A carriers to generally maintain 138 accounts, which provide more detailed records of investment, expense, and revenue than the 80 accounts that smaller Class B carriers are required to maintain.<sup>46</sup> When the Commission adopted this regime, it drew this line to "adopt a far less burdensome system" for smaller carriers—but one that was nevertheless sufficient to meet its statutory obligations.<sup>47</sup> The Commission has gradually altered these requirements as regulatory needs and market conditions have changed.<sup>48</sup>

---

<sup>41</sup> Price cap carriers may either use GAAP for setting pole attachment rates if they elect to employ a framework designed to avoid undue fluctuations in such rates, or may continue to utilize Part 32 for purposes of setting such rates. *See infra* Section III.B, paras. 32-39.

<sup>42</sup> *See supra* para. 4.

<sup>43</sup> *See* ACS Comments at 3; CenturyLink Comments Appx.; AT&T Reply Comments at 7.

<sup>44</sup> 47 U.S.C. § 220(h).

<sup>45</sup> *See* 47 CFR § 32.11(b); *Wireline Competition Bureau Announces Annual Adjustment of Revenue Thresholds*, Public Notice, 30 FCC Rcd 5044 (WCB 2015).

<sup>46</sup> *See* 47 CFR § 32.11(c), (d). The differences in the two account structures are set forth in tables contained in sections 32.103 (balance sheet accounts), 32.2000 (telecommunications plant accounts), 32.3000 (balance sheet accounts—depreciation and amortization), 32.3999 (balance sheet accounts—liabilities and stockholders' equity), 32.4999 (revenue accounts), 32.5999 (expense accounts), and 32.6999 (other income accounts).

<sup>47</sup> *Part 32 USOA Order*, 60 Rad. Reg. 2d at para. 109.

<sup>48</sup> *See supra* paras. 9-10 (outlining prior streamlining actions).

16. We now eliminate the classification of carriers, so that all carriers subject to Part 32's USOA will be required to keep only the streamlined Class B accounts and will otherwise be treated as Class B carriers for purposes of Part 32.<sup>49</sup> Collapsing the distinction between Class A and Class B carriers will simplify our rules and reduce the number of accounts that Class A carriers must keep by one-third. Doing so will ensure a more uniform treatment of accounts for carriers subject to the USOA, simplifying both compliance for carriers and oversight by the Commission.<sup>50</sup> Furthermore, we find that eliminating Class A treatment is sufficient to meet our regulatory needs, since no rate-of-return carrier (i.e., those where cost accounting is most important) is required by the Commission's rules today to keep Class A accounts.<sup>51</sup>

17. Ad Hoc disagrees, arguing that eliminating the distinction would prevent the Commission from carrying out its statutory duties.<sup>52</sup> Ad Hoc argues that we should retain the Class A accounts for cable and wire facilities, depreciation, amortization, amortizable assets, and revenue reporting for the basic local exchange category that includes private line revenue because doing so has "obvious import, both for the setting of pole and conduit rates and for the ongoing special access proceeding."<sup>53</sup>

18. Contrary to Ad Hoc's contentions, maintenance of accounts at the Class B level, coupled with the Commission's ability to require carriers to produce additional accounting data when there is an express federal need,<sup>54</sup> will enable us to ensure that Class A carriers' rates are just and reasonable and not unreasonably discriminatory. Indeed, no rate-of-return carrier currently qualifies as a Class A carrier, although the Commission's need for Part 32 accounting data are unquestionably greater for carriers subject to rate-of-return regulation and legacy universal service mechanisms that tie federal support to a carrier's reported costs. And Ad Hoc offers nothing beyond mere assertions that the rates would differ in any material way with Class B treatment, and ignores the fact that the Commission neither relied on Part 32 accounts when formulating its special access data collection<sup>55</sup> nor relied on any existing Part 32 Class A account in last year's Notice of Proposed Rulemaking.<sup>56</sup> We accordingly find Ad Hoc's assertions speculative and baseless.<sup>57</sup>

---

<sup>49</sup> The Notice explained that different accounts are not the only differences between Class A and Class B carriers, noting as an example that rule 32.3682(c) requires Class A carriers to maintain additional records for amortized leasehold improvements. Notice, 27 FCC Rcd at 10643, para. 13.

<sup>50</sup> See, e.g., CenturyLink Comments at 11; ACS Comments at 13–14.

<sup>51</sup> Nothing in this Order precludes a state or regulatory agency, or another party as part of a contractual requirement, from requiring a carrier to maintain the Class A accounts or otherwise maintain the USOA. See, e.g., 17 CFR § 1770.11 (requiring Rural Utility Service borrowers to maintain Class A accounts).

<sup>52</sup> See Ad Hoc Comments at 3.

<sup>53</sup> See Ad Hoc Comments at 5.

<sup>54</sup> See 47 U.S.C. § 218; 47 CFR § 32.12.

<sup>55</sup> *Special Access for Price Cap Local Exchange Carriers; AT&T Corporation Petition for Rulemaking to Reform Regulation of Incumbent Local Exchange Carrier Rates for Interstate Special Access Services*, WC Docket No. 05-25, RM-10593, Report and Order and Further Notice of Proposed Rulemaking, 27 FCC Rcd 16318 (2012).

<sup>56</sup> *Business Data Services in an Internet Protocol Environment; Investigation of Certain Price Cap Local Exchange Carrier Business Data Services Tariff Pricing Plans; Special Access for Price Cap Local Exchange Carriers; AT&T Corporation Petition for Rulemaking to Reform Regulation of Incumbent Local Exchange Carrier Rates for Interstate Special Access Services*, WC Docket Nos. 16-143, 15-247, 05-25, RM-10593, Tariff Investigation Order and Further Notice of Proposed Rulemaking, 31 FCC Rcd 4723 (2016); *id.* at 4870, para. 380 (seeking comment on requiring price cap carriers to recreate "expense matrix data," which the Commission had stopped requiring such carriers to maintain in 2000).

<sup>57</sup> We also dismiss NASUCA's assertion that Class A carriers "do not seem to be suffering under their current burdens" as mere puffery. NASUCA Comments at 7.

19. Furthermore, we conclude that section 402(c) of the Telecommunications Act of 1996 does not prohibit us from eliminating the distinction between Class A and Class B carriers. That section states that “[i]n classifying carriers according to section 32.11 of [the FCC’s] regulations . . . the Commission shall adjust the revenue requirements to account for inflation . . . annually.”<sup>58</sup> In the Notice, the Commission did “not read this provision to require the Commission to classify carriers for purposes of Part 32 accounting rules, but instead to require annual adjustments so long as the Commission continues to classify carriers for these purposes.”<sup>59</sup> The only party to address this issue agreed with this interpretation.<sup>60</sup> We adopt it now.

## 2. Continuing Property Records for Price Cap Carriers

20. In the *USTelecom Forbearance Order*, the Commission concluded that forbearance from the continuing property records requirements in sections 32.2000(e) and (f) was warranted for price cap carriers, as long as they could demonstrate in compliance plans how they would “maintain the records necessary to track substantial assets and investment in an accurate, auditable manner that enables them to verify account balances in their Part 32 Uniform System of Accounts, make such property information available to the Commission upon request, and ensure maintenance of such data.”<sup>61</sup> In the Notice, the Commission sought comment on memorializing these requirements in a rule.<sup>62</sup> USTelecom supports requiring price cap carriers to maintain property records necessary to track substantial investments in an auditable fashion that enables verification and the ability to make such information available to the Commission upon request.<sup>63</sup> These data can be maintained by utilizing GAAP, according to USTelecom.<sup>64</sup> No party opposed the property records proposal advanced in the Notice.<sup>65</sup>

21. As proposed in the Notice, we revise Part 32 to require price cap carriers with a continuing Part 32 accounting obligation to maintain continuing property records necessary to track substantial assets and investments in an accurate, auditable manner that enables them to verify their accounting books, make such property information available to the Commission upon request, and ensure the maintenance of such data. This rule change reflects the expectations and commitments connected with the forbearance relief we granted in the *USTelecom Forbearance Order*.

22. We decline at this time to require price cap carriers to file compliance plans, as proposed by the Notice, to the extent they have not done so. No commenter addressed this issue. In the absence of record support for the proposal, we decline to adopt any compliance plan filing requirement.

## 3. Aligning the USOA More Closely with GAAP

23. In the Notice, the Commission proffered several different proposals for aligning the USOA more closely with GAAP. We adopt the proposals to align with GAAP the USOA’s asset accounting rules, its AFUDC rules, and its materiality rules.<sup>66</sup> First, we align our definition of original cost to align with GAAP so that carriers carry an asset at its purchase price when it was acquired, even if

<sup>58</sup> Pub. L. No. 104-104, § 402(c), 110 Stat. 56, 130 (1996).

<sup>59</sup> Notice, 29 FCC Rcd at 10642–43 n.30.

<sup>60</sup> CenturyLink Comments at 11–12.

<sup>61</sup> *USTelecom Forbearance Order*, 28 FCC Rcd at 7668, para. 86.

<sup>62</sup> Notice, 29 FCC Rcd at 10652, para. 54.

<sup>63</sup> USTelecom Comments at 19-20.

<sup>64</sup> *Id.*

<sup>65</sup> Two commenters generally disagreed with the Commission’s use of forbearance authority to address the issues raised in the Notice, but did not offer specific objections on any particular matter. See CenturyLink Comments at 4 n. 11; NASUCA Comments at 5-7.

<sup>66</sup> See Notice, 27 FCC Rcd at 10644–46, paras. 16–18, 23–27.

its value has increased or has declined when it goes into regulated service. *Second*, we allow carriers to reprice an asset at market value after a merger or acquisition. The record is barren of evidence that these requirements for carriers to price assets differently than they would in the ordinary course of business retain any value.

24. *Third*, we find that using GAAP principles to determine AFUDC should be the applicable standard. We revise the rules accordingly.<sup>67</sup> As the Commission noted at the time, the resulting difference in accounting is immaterial from a regulatory perspective but may increase the administrative burdens of compliance for carriers otherwise required to meet GAAP standards.

25. *Fourth*, we revise our rules to incorporate the concept of materiality. As USTelecom explains, “USOA has no materiality standard and requires all transactions be booked regardless of any materiality consideration. This forces carriers to justify every accounting discrepancy, no matter how trivial and immaterial, thereby adding unnecessary costs to the preparation and audit of a carrier’s accounting records.”<sup>68</sup> We agree and incorporate the GAAP standard of materiality for price cap carriers. We believe the flexible GAAP standard offers the “case-by-case” standard proposed by the Nevada Public Utilities Commission—and we agree with the state commission that the Commission will “ultimately be[] the arbiter” of whether a carrier has complied with GAAP’s materiality standard.<sup>69</sup>

26. We also agree with Alexicon that “it would be beneficial to NECA and its pool members if the Commission adopted a definition of materiality that provided guidance related to NECA’s review procedures.”<sup>70</sup> Indeed, more particular guidance may be especially important for carriers receiving legacy universal service support because federal support is tied to the reported costs of such carriers. We adopt the general materiality guidelines promulgated by the Auditing Standards Board.<sup>71</sup> Materiality levels are in large part a matter of professional judgment, and according to generally accepted auditing standards, may consider such factors as:

- (1) The elements of the financial statements (for example, assets, liabilities, equity, income, and expenses) and the financial statement measures defined in generally accepted accounting principles (for example, financial position, financial performance, and cash flows), or other specific requirements;
- (2) Where there are financial statement items on which, for the particular entity, users’ attention tends to be focused (for example, for the purpose of evaluating financial performance);
- (3) The nature of the entity and the industry in which it operates; and
- (4) The size of the entity, nature of its ownership, and the way it is financed.

Because independent auditors are required to undertake assessments of materiality and risk in all audit engagements, their judgment can and should be relied upon when determining materiality levels for purposes of regulatory reporting and review.

27. In contrast, we decline at this time to revise the USOA’s depreciation procedures or its rules for cost of removal-and-salvage accounting. As the Rural Associations argue, and we agree, revising USOA’s depreciation rules might result in unpredictable changes in rates and universal service funding mechanisms—potentially rendering universal service support unpredictable absent further study.<sup>72</sup> And we find the record too sparse to quell the concern we recognized in the Notice that changing

<sup>67</sup> See *GAAP Accounting Order*, 102 FCC 2d at 989, para. 91.

<sup>68</sup> USTelecom Comments at 13.

<sup>69</sup> Nevada PUC *Ex Parte* at 2.

<sup>70</sup> Alexicon Comments at 5.

<sup>71</sup> See Auditing Standard, AU Section 312.28 “*Audit Risk and Materiality in Conducting an Audit*.”

<sup>72</sup> Rural Associations Comments at 4-5; GVNW Reply at 4; see also 47 U.S.C. § 254(b)(5).

the USOA's rules for cost of removal-and-salvage accounting could have a significant impact on pole attachment rates.<sup>73</sup>

28. We are unconvinced that the generic opposition in the record to the wholesale adoption of GAAP for rate-of-return carriers warrants rejecting the targeted reforms we adopt in this Section.<sup>74</sup> Nor are we convinced by the Rural Associations' argument that no changes should be made to the USOA for rate-of-return carriers.<sup>75</sup> The association does not identify any of the reforms we are adopting as significant, nor do we find based on the record any reason to think that these paperwork-reducing reforms will not be beneficial to rural carriers. Further, we do not anticipate any significant rate effects resulting from these efforts to further align the USOA with GAAP principles.

#### **B. Elective Use of Targeted Accounting Rules for Price Cap Carriers**

29. In the Notice, the Commission sought comment on either maintaining the USOA for price cap carriers or replacing it with a more limited set of accounting rules targeted to our particular statutory needs.<sup>76</sup> Based on developments in the market and the nature of telephone rate regulation, and in light of the record before us, we conclude that we should let price cap carriers elect to use targeted accounting rules in lieu of the strictures and the second set of books required by the USOA.<sup>77</sup>

30. Indeed, all evidence in the record demonstrates that continued application of the USOA to price cap carriers is a substantial and unjustifiable burden.<sup>78</sup> ACS, for example, "incurs substantial and ongoing costs maintaining an entire second set of account books that meet the requirements of the USOA. The information they contain has no bearing on ACS's corporate planning, financial results, or service rates."<sup>79</sup> CenturyLink appends to its comments an appendix of the separate accounting entries it must maintain to comply with USOA and notes the "over 400 GAAP specific account codes" it must document so that its accountants can translate entries from one set of books to the other.<sup>80</sup> And AT&T explains how it must pay software engineers up to \$24 million a year to "bolt on" changes to vendor general ledger packages and to maintain the USOA on top of its existing GAAP-compliant accounts.<sup>81</sup>

31. We conclude that none of the three particular statutory obligations nor the regulatory requirement identified in the Notice justify the requirement that price cap carriers comply with the USOA. Instead, we conclude that price cap carriers may elect to comply with GAAP accounting, subject to a commitment to mitigate any impact election would have on pole attachment rates. We address these four issues in turn.

---

<sup>73</sup> Notice, 29 FCC Rcd at 10645, para. 22.

<sup>74</sup> Although some commenters urge the Commission to move as close to GAAP whenever possible without affecting regulatory needs, we emphasize that we are not eliminating the USOA for rate-of-return carriers but rather taking steps to more closely align the USOA with GAAP principles in limited areas. Thus, for these carriers, the Commission will continue to have access to detailed cost information that is uniform across carriers. *See, e.g.*, Alexicon Comments at 2-3; *see also* USTelecom Reply at 1-3.

<sup>75</sup> Rural Associations Comments at 4.

<sup>76</sup> Notice, 29 FCC Rcd at 10647, para. 33.

<sup>77</sup> Because this election is at the discretion of the carrier, it is not a requirement under section 220(g) of the Act. *See* 47 U.S.C. § 220(g) ("Notice of alterations by the Commission in the required manner or form of keeping accounts shall be given to such persons by the Commission at least six months before the same are to take effect"). Thus, this election does not require a six month notice prior to taking effect.

<sup>78</sup> CenturyLink Comments at 4; Verizon Comments at 8-9; AT&T Reply Comments at 7.

<sup>79</sup> ACS Comments at 3.

<sup>80</sup> CenturyLink Comments Attach. at 4.

<sup>81</sup> AT&T Comments at 3.

32. *Pole Attachment Rates.* Section 224 of the Act allows state commissions to regulate pole attachment rates so long as they certify to the Commission that they will do so; elsewhere, the Commission's rules apply.<sup>82</sup> Under the Commission's rules, pole attachment rates are set in the first instance through private negotiation using cost data reported by carriers. Because many poles and conduits are owned by electric or other utilities not regulated by the Commission, our rules do not require all pole attachments to be based on USOA data, but instead require that the "data and information should be based upon historical or original methodology" and "should be derived from ARMIS, FERC 1, or other reports filed with state or federal regulatory agencies."<sup>83</sup> For incumbent LECs, however, the Commission has relied on data from "various Part 32 accounts (e.g., gross pole investment, gross plant investment, accumulated depreciation—poles, maintenance expense—poles etc.)."<sup>84</sup> And the Commission has used the USOA data to modify the formula by which pole attachment rates are calculated.<sup>85</sup>

33. USTelecom and AT&T contend that for price cap carriers, the use of a rate-of-return-based formula for pole attachments does not preclude the use of GAAP.<sup>86</sup> Verizon agrees with USTelecom, contending that the formulae used to derive pole attachment rates could be populated with GAAP-based data.<sup>87</sup> USTelecom also argues that there is no evidence that relying upon GAAP would alter rates price cap carriers charge for pole attachments,<sup>88</sup> while AT&T contends that there is no basis to believe that pole attachment rates calculated based on GAAP accounting would not be just and reasonable.<sup>89</sup> ACS also supports allowing price cap carriers to use GAAP.<sup>90</sup> CenturyLink proposes to address concerns about possible harms to pole attachment users during a transition to the use of GAAP by capping pole attachment rates at their current levels plus an annual inflation adjustment in states subject to federal regulation, except to the extent that rate increases are justified.<sup>91</sup> On the other hand, NCTA urges the Commission to continue compliance with Part 32 accounting in connection with pole attachment

---

<sup>82</sup> See 47 U.S.C. § 224(c).

<sup>83</sup> See 47 CFR § 1.1404(g)(2), (h)(2).

<sup>84</sup> See *USTelecom Forbearance Order*, 28 FCC Rcd at 7658, para. 62; 47 CFR § 1.1404(g)(2). Data derived from these accounts can also potentially be used by parties in both private negotiations and complaint filings. See 47 CFR Part 1, Subpart J.

<sup>85</sup> See *Implementation of Section 224 of the Act: A National Broadband Plan for Our Future*, WC Docket No. 07-245, GN Docket No. 09-51, Order and Further Notice of Proposed Rulemaking, 25 FCC Rcd 11864, 11923, para. 140, n.378 (2010); *Implementation of Section 224 of the Act: A National Broadband Plan for Our Future*, WC Docket No. 07-245, GN Docket No. 09-51 (*2011 Pole Attachment Order*), Report and Order and Order on Reconsideration, 26 FCC Rcd 5240, 5298–5306, paras. 135–52 & n.456 (2011) (referencing the Commission's rate calculations using Part 32 data from ARMIS that formed the basis of its telecom rate proposal).

<sup>86</sup> USTelecom Comments at 11-12; AT&T Reply Comments at 7.

<sup>87</sup> Verizon Comments at 5-6.

<sup>88</sup> USTelecom Comments at 7.

<sup>89</sup> AT&T Reply Comments at 5.

<sup>90</sup> ACS Comments at 7. ACS states that "[i]t would be possible for ACS to create subaccounts within the GAAP framework to track the necessary asset classes at the level of detail necessary to identify the information related to pole attachment rates." *Id.*

<sup>91</sup> CenturyLink Comments at 10. CenturyLink and USTelecom also recommend "targeted accounting requirements" based on GAAP accounting rather than the USOA. CenturyLink Reply Comments at 4; USTelecom Reply Comments at 4-6. These commenters do not, however, propose or otherwise identify the targeted accounting rules they recommend applying.

data,<sup>92</sup> while NASUCA argues that targeted accounting requirements would be more complicated and costly than maintaining the current mechanisms.<sup>93</sup>

34. We find that USOA accounting data are not necessary for the continued development of pole attachment rates in accordance with the statute. Nothing in section 224 directs or requires us to rely on the USOA, and we see no reason to subject one set of pole and conduit owners to onerous accounting obligations just because they happen to operate in a federal-default state or happened to have provided telephone service 21 years ago. Nor is there any reason to think the continued maintenance of USOA data for pole attachments is necessary for any future reforms. The Commission successfully collected data from hundreds of carriers on demand in the special access proceeding, and it could require similar disclosure of pole attachment costs if the need should arise.

35. Nonetheless, we share the concern of some commenters that a change in accounting rules could lead to rate shock—a large swing in rates as price cap carriers transition from one accounting system to another.<sup>94</sup> This possible rate differential is due to a number of factors, such as depreciation rates, cost of removal, and return on investment.<sup>95</sup> Pole attachment rates play a significant role in the deployment and availability of voice, video, and data networks, and sharp changes in pole attachment rates may distort infrastructure investment decisions and in turn could negatively affect the availability of advanced services and broadband, contrary to the policy goals of the Act.<sup>96</sup>

36. As such, we condition any price cap carrier's election of GAAP accounting on compliance with one of two framework options to mitigate any disruption in pole attachment rates from the election. The first option is for electing carriers to calculate an Implementation Rate Difference between the attachment rates calculated by the price cap carrier under the USOA and under GAAP as of the last full year preceding the carrier's initial opting-out of Part 32 USOA accounting requirements. We further require electing carriers to adjust their annually computed GAAP-based rates by the Implementation Rate Difference for a period of 12 years after the election. This framework largely parallels the plan offered by industry representatives to mitigate any pole attachment rate increases due to fluctuations and timing differences associated with the treatment of depreciation rates, the cost of removal, and salvage when GAAP is utilized instead of Part 32.<sup>97</sup> It relies on the half-life of a typical pole to establish the 12-year term (as a means of ensuring against double recovery).<sup>98</sup> We find this option is an appropriate means of mitigating rate shock to attaching ISPs while still allowing the price cap carrier to shed its USOA obligations.

---

<sup>92</sup> NCTA Comments at 3-4.

<sup>93</sup> NASUCA Comments at 8-9.

<sup>94</sup> See, e.g., NCTA Comments at 3 (noting differences that “could lead to unwarranted increases in pole attachment rates.”).

<sup>95</sup> See Industry Dec. 5, 2016 Letter at 1-2 (submitted on behalf of AT&T, CenturyLink, and Verizon); Letter from Timothy M. Boucher, Associate General Counsel, CenturyLink, to Marlene H. Dortch, Secretary, FCC, WC Docket No. 14-130, at 2 (filed Dec. 21, 2016) (Industry Dec. 21, 2016 Letter) (submitted on behalf of AT&T, CenturyLink, and Verizon). In addition, pole attachment rates may rise over time due to increased costs of installation and maintenance factors unrelated to accounting changes. See Industry Dec. 5, 2016 Letter at 1.

<sup>96</sup> See *2011 Pole Attachment Order*, 26 FCC Rcd at 5243, para. 6.

<sup>97</sup> See Industry Jan. 26, 2017 *Ex Parte* Letter at 3; Letter from Timothy M. Boucher, Associate General Counsel, CenturyLink, to Marlene H. Dortch, Secretary, FCC, WC Docket No. 14-130 (filed Jan. 26, 2017). (proposing a framework on behalf of AT&T, CenturyLink, and Verizon) (Industry Jan. 26, 2017 *Ex Parte* Letter).

<sup>98</sup> *Id.* (explaining that “[t]he proposed twelve-year transition time period is based on the rationale that the Implementation Rate Difference will no longer be warranted once a carrier reaches a point where any potential double recovery of the higher depreciation under Part 32 and the inclusion of the cost of removal related to existing poles would have been mitigated. One half the life of a pole (a typical life is 23 years) is a reasonable approximation of when a carrier might be expected to have reached that point.”).

37. As a second option, price cap carriers may comply with GAAP accounting for all purposes other than those associated with setting pole attachment rates while continuing to use the Part 32 accounts and procedures necessary to establish and evaluate pole attachment rates. Carriers have a period of 12 years in which they can opt into GAAP accounting for pole attachment rates and would be required to utilize the Implementation Rate Difference for the remaining portion of the 12 years after they have chosen to move to GAAP accounting. We find that this approach offers flexibility for price cap carriers who do not wish to immediately transition to GAAP for purposes of setting pole attachment rates.

38. We emphasize that a shift in accounting methodology (here, from USOA to GAAP) does not change *what* costs may be included in pole attachment rates—instead, it changes only *how and when* those costs are recognized. We thus expect that shifting the accounting method is unlikely to result in abrupt changes in pole attachment rates in the near term, and that rates will remain steady over the long-run. Price cap carriers have explained that shifting accounting methods is “not an effort to increase pole attachment rates” and “not an attempt to do some other rate- or cost-shifting,”<sup>99</sup> and we intend to monitor pole attachment rates and hold them to that promise.<sup>100</sup>

39. Finally, to facilitate transparency of pole attachment rates during the transition from USOA to GAAP, a pole attacher may request that a price cap carrier submit its pole attachment accounting data for a particular state to this Commission for three years following the effective date of the rule permitting a price cap carrier to elect GAAP accounting. Thus, if a pole attacher informs the Commission of a suspected problem with pole attachment rates, the Commission will require the price cap carrier to file its pole attachment data for the state in question. This requirement will assist the parties and the Commission in monitoring and evaluating any abrupt rate changes that may occur.<sup>101</sup> If it proves necessary, the Commission may extend this obligation for an additional three years.

40. *Other Issues.* We conclude that USOA accounting data is unnecessary to ensure compliance with section 254(k) of the Act, which prohibits a telecommunications carrier from “us[ing] services that are not competitive to subsidize services that are subject to competition.”<sup>102</sup> As the Notice explained, the Commission has never found it necessary to seek accounting data to address allegations of violations of section 254(k). In other words, USOA data have not been needed to ensure compliance with section 254(k), even right after the end of legal telephone service monopolies in the late 1990s. Given the advent of even more intermodal competition, we do not foresee a need for USOA data to resolve any section 254(k) violations going forward.

41. The Commission also sought comment on whether the harm intended to be addressed by section 272(e)(3) continues to be a concern, or whether the Commission should consider forbearing from

---

<sup>99</sup> Letter from B. Lynn Follansbee, Vice President-Law & Policy, USTelecom, to Marlene H. Dortch, Secretary, Federal Communications Commission, WC Docket No. 14-130, at 2 (Feb. 14, 2017).

<sup>100</sup> See Letter from Steve Morris, NCTA, to Marlene H. Dortch, Secretary, Federal Communications Commission, WC Docket No. 14-130, at 1-2 (Feb. 16, 2017) (urging the Commission to take steps to avoid pole attachment rate shock due to the transition from Part 32 to GAAP)) (NCTA Feb. 16 Ex Parte Letter); Letter from Thomas Cohen, Counsel to ACA, to Marlene H. Dortch, Secretary, Federal Communications Commission, WC Docket No. 14-130, at 3-4 (Feb. 16, 2017) (agreeing with NCTA-proposed temporary freeze on pole attachment rates and suggesting that the Commission require carriers to maintain and produce Part 32 data during this time period so it can be compared to rates that would result from the use of GAAP); Letter from Karen Reidy, Vice President, Regulatory, INCOMPAS, to Marlene H. Dortch, Secretary, Federal Communications Commission, WC Docket No. 14-130, at (Feb 16, 2017) (agreeing with NCTA position and urging the Commission not to take action that results in any pole attachment rate increases, even if temporary or part of a transition).

<sup>101</sup> See, e.g., NCTA Feb. 16 Ex Parte Letter at 2 (asking the Commission to closely monitor incumbent LEC pole attachment and conduit rates following the transition).

<sup>102</sup> 47 U.S.C. § 254(k).

this requirement.<sup>103</sup> In the record, the BOCs primarily focused on alternatives to antiquated Part 32 accounting, rather than addressing forbearance from section 272(e)(3).<sup>104</sup> In evaluating the lack of utility of Part 32 accounting rules, our attention is also focused on regulatory requirements such as section 272(e)(3) that, similar to the USOA, have outgrown their usefulness.

42. Before 1996, the BOCs were prohibited from entering the long-distance market (i.e., from offering interexchange service) out of concern that they could use their local monopoly to subsidize competitive operations in the long-distance market. The Telecommunications Act created a path for the BOCs to enter that market, requiring, among other things, that a BOC that offers its long-distance service to “impute to itself . . . an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service.”<sup>105</sup>

43. We conclude that we should forbear from the continued application of section 272(e)(3)’s imputation requirements. No party commented on whether the Commission should forbear. The rationales for removing the accounting requirements associated with section 272(e)(3) are equally applicable to considerations of forbearing from the requirements of the subsection completely. In the *USF/ICC Transformation Order*, the Commission placed terminating intercarrier compensation charges on a path toward bill-and-keep, which greatly diminishes the need for imputation charges. Furthermore, many other entities provide integrated long-distance service, such as non-BOC LECs, cable operators, over-the-top voice over Internet Protocol companies, and commercial mobile radio service providers; these entities are not required to impute charges between their local and long-distance affiliates (to the extent they even offer those services through separate affiliates). In the last 20 years, increased competition in access markets as a result of legislative, regulatory, and technological changes has reduced the need for section 272 imputation requirements to prevent cross-subsidization between incumbent LECs’ local and long distance services. Thus, continued enforcement of the section 272(e)(3) imputation requirements is not necessary to ensure that the charges, practices, classifications, or regulations by, for, or in connection with that telecommunications carrier or telecommunications service are just and reasonable and are not unjustly or unreasonably discriminatory.<sup>106</sup> Given these changes in the regulatory landscape and the diminished importance of imputation requirements to prevent marketplace harms, section 272(e)(3) is not necessary for the protection of consumers, and forbearance will be in the public interest.<sup>107</sup> Accordingly, we determine that forbearing from the continued application of these requirements is appropriate.

44. Finally, we terminate the conditions that the Commission placed on a variety of carriers granted forbearance from our cost allocation rules.<sup>108</sup> Forbearance was expressly premised on the continued availability of Part 32 accounting data and the filing of compliance plans consistent with that condition.<sup>109</sup> AT&T, Qwest and Verizon filed compliance plans that detailed their commitment to continue to maintain Part 32 accounting data. In the Notice, the Commission invited parties to comment on how changes to the Part 32 requirements would affect the commitments made in compliance plans

---

<sup>103</sup> Notice, 29 FCC Rcd at 10650, para. 43. Section 272 is only applicable to Bell Operating Companies (BOCs). See 47 U.S.C. §§ 153(35), 272(e)(3).

<sup>104</sup> See USTelecom Comments at 8-9 (Part 32 rules are not necessary to ensure compliance with section 272(e)(3), as carriers can maintain an annual subaccount/identifier or other record to track transactions subject to section 272(e)(3) in a reasonable (and auditable) manner).

<sup>105</sup> 47 U.S.C. § 272(e)(3).

<sup>106</sup> See 47 U.S.C. § 160(a).

<sup>107</sup> *Id.*

<sup>108</sup> See Notice, 29 FCC Rcd at 10651, para. 48.

<sup>109</sup> See, e.g., *AT&T Cost Assignment Forbearance Order*, 23 FCC Rcd at 7314, para. 21 (“USOA account data will continue to be maintained and available to the Commission on request”).

filed in connection with forbearance proceedings.<sup>110</sup> Commenters directly addressing this issue support the action taken herein.<sup>111</sup> Although we speculated in 2013 that “there may be a ‘federal need for this accounting information in the future to adjust our existing price cap regime or in our consideration of reforms moving forward,’”<sup>112</sup> time has proven that prediction untrue. And continuing to maintain these costly requirements on the speculation that at some point, some day, the Commission might do something with them fails any cost-benefit analysis.

### C. Other Considerations

45. We decline requests to reconsider other deregulatory actions by the Commission in this proceeding. NASUCA broadly argues that it opposes the rationale behind the Notice because the Commission has already minimized the compliance burden below the level needed for its regulatory duties, and urges the Commission to reverse course on other information requirements, pointing to ARMIS forbearance and other recent forbearance decisions.<sup>113</sup> The issues NASUCA raises are rejected as being overly vague and beyond the scope of the Notice. In any event, NASUCA has not presented sufficient support for its arguments to allow the Commission to act on these requests, instead merely stating its objections to the proposed reforms in a conclusory manner and failing to suggest concrete alternative solutions.<sup>114</sup>

## IV. REFERRAL TO THE JOINT BOARD

46. We recognize that eliminating the distinctions between Class A and Class B accounts and allowing all carriers to utilize the more streamlined requirements of Class B accounts has implications for the Commission’s jurisdictional separations rules pursuant to Part 36. For instance, many of the separations rules also designate accounts by Class A and Class B categories, and those rules likely would need to be modified to be consistent with the revised Part 32 regulations.<sup>115</sup> Accordingly, pursuant to section 410(c) of the Act, we refer to the Joint Board the issue of examining jurisdictional separations rules in light of the reforms adopted to the Part 32 regulations in this Report and Order.<sup>116</sup> We ask the Joint Board to consider the reforms adopted in this Report and Order and to consider how such reforms impact Part 36 and consequently the rule changes necessary to ensure the jurisdictional separations rules are consistent. We request that the Joint Board prepare a recommended decision within nine months of publication in the *Federal Register* regarding how and when the Commission’s jurisdictional separations rules should be modified to reflect the issues in the referral.

<sup>110</sup> See Notice, 29 FCC Rcd at 10651, para. 48.

<sup>111</sup> See, e.g., ACS Comments at 10-11 (although prior forbearance decisions assumed that the petitioning carrier would continue to maintain USOA records so that regulated accounting data would be available to the Commission upon request, the Commission has not explained why GAAP-based records would be insufficient for its purposes, particularly if it adopts proposals to harmonize the USOA with GAAP); AT&T Reply Comments at 4 n. 12 (to the extent the Commission adopts new rules in this proceeding, it has authority to revise forbearance conditions to conform to the new rules); see also NASUCA Comments at 4 (urging the Commission to reexamine prior forbearance decisions and noting that such decisions were conditioned on the continued application of Part 32).

<sup>112</sup> *USTelecom Forbearance Order*, 28 FCC Rcd at 7661, para. 68.

<sup>113</sup> See generally NASUCA Comments.

<sup>114</sup> *Id.*

<sup>115</sup> For example, apportioning basic local services revenue, a number of the operating expenses revenue, operating taxes and accumulated amortization distinguish accounts between Class A and Class B companies. See, e.g., 47 CFR §§ 36.212; 36-311-341, 36.352-53, 36.372, 36.411, 36.505.

<sup>116</sup> 47 U.S.C. §410(c).

## V. PROCEDURAL MATTERS

### A. Final Regulatory Flexibility Analysis

47. As required by the Regulatory Flexibility Act of 1980 (RFA),<sup>117</sup> an Initial Regulatory Flexibility Analysis (IRFA) was incorporated into the Notice.<sup>118</sup> The Commission sought written public comment on the possible significant economic impact on small entities regarding the proposals in the *Notice*, including comments on the IRFA. Pursuant to the RFA, a Final Regulatory Flexibility Analysis (FRFA) is set forth in Appendix C.

### B. Final Paperwork Reduction Act Analysis

48. This document contains modified information collection requirements subject to the Paperwork Reduction Act of 1995 (PRA), Public Law 104-13. The requirements will be submitted to the Office of Management and Budget (OMB) for review under Section 3507(d) of the PRA. OMB, the general public, and other Federal agencies are invited to comment on the modified information collection requirements contained in this proceeding. In addition, we note that pursuant to the Small Business Paperwork Relief Act of 2002, Public Law 107-198, *see* 44 U.S.C. § 3506(c)(4), we previously sought specific comment on how the Commission might further reduce the information collection burden for small business concerns with fewer than 25 employees.

49. In this present document, we have assessed the effects of our streamlining the Part 32 USOA accounting rules and find that the Commission's actions will result in overall reduced regulatory burdens for both price cap and rate-of-return carriers, including small businesses with fewer than 25 employees. In addition, the Report and Order allows price cap carriers to elect to use GAAP for all regulatory accounting purposes so long as they comply with targeted accounting rules. Because incumbent LECs subject to price cap regulation are among the largest of telecommunications companies, we do not anticipate any impact from this action on small businesses with fewer than 25 employees.

### C. Congressional Review Act

50. The Commission will send a copy of this Report and Order in a report to be sent to Congress and the Government Accountability Office pursuant to the Congressional Review Act, *see* 5 U.S.C. § 801(a)(1)(A).

## VI. ORDERING CLAUSES

51. Accordingly, **IT IS ORDERED** that, pursuant to the authority contained in sections 10, 201, 219-220, 224, 254(k), 272(e)(3), and 403 of the Communications Act of 1934, as amended, 47 U.S.C. §§, 160, 201, 219-220, 224, 254(k), 272(e)(3), 403, this Report and Order **IS ADOPTED**.

52. **IT IS FURTHER ORDERED** that, pursuant to the authority contained in sections 10, 201, 219-220, 224, 254(k), 272(e)(3), and 403 of the Communications Act of 1934, as amended, 47 U.S.C. §§, 160, 201, 219-220, 224, 254(k), 272(e)(3), 403, 47 CFR Parts 32 and 65, ARE AMENDED as specified in Appendix B, effective on a date ("Effective Date") following publication in the Federal Register of a notice announcing approval by the Office of Management and Budget (OMB) of these rules, which contain requirements involving Paperwork Reduction Act burdens, or on January 1, 2018, whichever is later, with the exception of amendments to sections 1.1409 and 32.1, which the Effective Date shall be following publication in the Federal Register of a notice announcing approval by OMB of these rules.

53. **IT IS FURTHER ORDERED** that the Commission **SHALL SEND** a copy of this Report and Order to Congress and the Government Accountability Office pursuant to the Congressional Review Act, *see* 5 U.S.C. § 801(a)(1)(A).

---

<sup>117</sup> *See* 5 U.S.C. § 604.

<sup>118</sup> *See* Notice, 29 FCC Rcd at 10655-57, Appx.

54. **IT IS FURTHER ORDERED** that the Commission's Consumer and Governmental Affairs Bureau, Reference Information Center, **SHALL SEND** a copy of this Report and Order, including the Final Regulatory Flexibility Analysis, to the Chief Counsel for Advocacy of the Small Business Administration.

55. **IT IS FURTHER ORDERED** that, pursuant to section 410(c) of the Communications Act of 1934 as amended, 47 U.S.C. §410(c), the issues specified in Section IV of this Report and Order are hereby referred to the Federal-State Joint Board on Separations for preparation of a recommended decision to be produced within nine months of publication in the *Federal Register*.

56. **IT IS FURTHER ORDERED** that, should no petitions for reconsideration, applications for review, or petitions for judicial review be timely filed, this proceeding shall be **TERMINATED** and its docket closed.

FEDERAL COMMUNICATIONS COMMISSION

Marlene H. Dortch  
Secretary

**APPENDIX A****List of Comments**

<u>Commenter</u>	<u>Abbreviation</u>
Ad Hoc Telecommunications Users Committee	Ad Hoc Comments
Alaska Communications Systems	ACS Comments
Alexicon Telecommunications Consulting	Alexicon Comments
CenturyLink	CenturyLink Comments
National Cable & Telecommunications Association	NCTA Comments
National Association of State Utility Consumer Advocates	NASUCA Comments
NTCA-The Rural Broadband Association; WTA-Advocates for Rural Broadband; Eastern Rural Telecom Association; and National Exchange Carrier Association	Rural Associations Comments
State of Nevada Public Utilities Commission	Nevada PUC Comments
United States Telecom Association	USTelecom Comments
Verizon	Verizon Comments

**List of Reply Comments**

Ad Hoc Telecommunications Users Committee	Ad Hoc Reply
AT&T Services, Inc. (AT&T)	AT&T Reply
CenturyLink	CenturyLink Reply
FairPoint Communications, Inc.	FairPoint Reply
GVNW Consulting, Inc.	GVNW Reply
United States Telecom Association	USTelecom Reply
Verizon	Verizon Reply

**APPENDIX B****Rule Changes****PART 1 – PRACTICE AND PROCEDURE**

1. The authority citation for Part 1 is amended to read as follows:

AUTHORITY: 15 U.S.C. 79 *et seq.*; 47 U.S.C. 151, 154(j), 160, 201, 225, 303, and 309.

2. Section 1.791 is amended to read as follows:

**§1.791 Reports and requests to be filed under part 32 of this chapter.**

Reports and requests shall be filed either periodically, upon the happening of specified events, or for specific approval by telephone companies in accordance with and subject to the provisions of part 32 of this chapter.

3. Section 1.1409 is amended by adding paragraph (g) to read as follows:

**§1.1409**

(a) \* \* \* \* \*

(g) A price cap company opting-out of Part 32 may calculate attachment rates for its poles, conduits, and rights of way using either Part 32 accounting data or GAAP accounting data. A price cap company using GAAP accounting data to compute rates to attach to its poles, conduits, and rights of way in any of the first twelve years after opting-out must adjust (increase or decrease) its annually computed GAAP-based rates by an Implementation Rate Difference for each of the remaining years in the period. The Implementation Rate Difference means the difference between attachment rates calculated by the price cap carrier under Part 32 and under GAAP as of the last full year preceding the carrier's initial opting-out of Part 32 USOA accounting requirements.

**PART 32 – UNIFORM SYSTEM OF ACCOUNTS FOR TELECOMMUNICATIONS COMPANIES**

1. The authority citation for Part 32 is amended to read as follows:

AUTHORITY: 47 U.S.C. 219, 220 as amended, unless otherwise noted.

2. Section 32.1 is amended to read as follow:

**§32.1 Background**

The revised Uniform System of Accounts (USOA) is a historical financial accounting system which reports the results of operational and financial events in a manner which enables both management and regulators to assess these results within a specified accounting period. The USOA also provides the financial community and others with financial performance results. In order for an accounting system to fulfill these purposes, it must exhibit consistency and stability in financial reporting (including the results published for regulatory purposes). Accordingly, the USOA has been designed to reflect stable, recurring financial data based to the extent regulatory considerations permit upon the consistency of the well established body of accounting theories and principles commonly referred to as generally accepted accounting principles (GAAP). Price cap companies that have opted-out of USOA requirements pursuant to the conditions specified by the Commission in sections 32.11 (g) are relieved of the rules of this Part in their entirety, including any other rules or orders that are derivative of or dependent on these Part 32 rules.

3. Section 32.3 is deleted and reserved.

4. Section 32.11 is amended to read:

**§32.11 Companies Subject to Part 32.**

(a) This Part applies to every incumbent local exchange carrier, as defined in section 251(h) of the Communications Act, and any other carrier that the Commission designates by order. This Part refers to such carriers as “companies” or “Class B companies.” Incumbent local exchange carriers’ successor or assign companies, as defined in section 251(h)(1)(B)(ii) of the Communications Act, that are found to be non-dominant by the Commission, will not be subject to this Uniform System of Accounts.

(b)-(f) Reserved.

(g) Notwithstanding subsection (a), a price cap company that elects to calculate its pole attachment rates pursuant to section 1.1409(g) of this Chapter will not be subject to this Uniform System of Accounts.

5. Section 32.26 is amended to read:

**§32.26 Materiality.**

(a) Except as provided in paragraph (b) of this section, companies may abide by the materiality standards of GAAP when implementing this system of accounts.

(b) For companies that receive High-Cost Loop Support, or Connect America Fund Broadband Loop Support, materiality shall be determined consistent with the general materiality guidelines promulgated by the Auditing Standards Board.

6. Section 32.101, subsection (c) is amended to read:

**§32.101 Structure of the balance sheet accounts.**

\* \* \*

(c) Account 3100, Accumulated depreciation through Account 3400, Accumulated amortization—tangible, shall include the asset reserves except that reserves related to certain asset accounts will be included in the asset account. (See §§32.2005, 32.2682 and 32.2690.)

\* \* \*

7. Section 32.103 is amended to read:

**§32.103 Balance sheet accounts for other than regulated-fixed assets to be maintained.**

Balance sheet accounts to be maintained by companies for other than regulated-fixed assets are indicated as follows:

**Balance Sheet Accounts**

**Account title**

**Current assets**

Cash and equivalents	1120
----------------------	------

Receivables	1170
-------------	------

Allowance for doubtful accounts	1171
---------------------------------	------

**Supplies:**

Material and supplies	1220
-----------------------	------

Prepayments	1280
-------------	------

Other current assets	1350
----------------------	------

**Noncurrent asset**

**Investments:**

Nonregulated investments	1406
--------------------------	------

Other noncurrent assets	1410
-------------------------	------

## Deferred charges:

Deferred maintenance, retirements and other deferred charges	1438
Other: Other jurisdictional assets-net	1500

8. Section 32.2000, paragraph (a)(4), paragraph (b)(1), subparagraph (b)(2)(iii), subsection (e), subparagraph (f)(2)(iii), paragraph (h)(3), and subsection (j) are amended to read:

**§32.2000 Instructions for telecommunications plant accounts.**

(a) \* \* \* (4) Reserved.

(b) \* \* \* (1) Property, plant and equipment acquired from an entity, whether or not affiliated with the accounting company, shall be accounted for at original cost, except that property, plant and equipment acquired from a nonaffiliated entity through an acquisition or merger may be accounted for at market value at the time of the acquisition or merger.

\* \* \*

(2) \* \* \* (iii) Accumulated Depreciation and amortization balances related to plant acquired shall be credited to Account 3100, Accumulated depreciation, or Account 3200, Accumulated depreciation—held for future telecommunications use, or Account 3400, Accumulated amortization—tangible and debited to Account 1438. Accumulated amortization balances related to plant acquired which ultimately is recorded in Accounts 2005, Telecommunications plant adjustment, Account 2682, Leasehold improvements, or Account 2690, Intangibles shall be credited to these asset accounts, and debited to Account 1438.

\* \* \*

(c) \* \* \* (2) \* \* \* (x) Allowance for funds used during construction (“AFUDC”) provides for the cost of financing the construction of telecommunications plant. AFUDC shall be charged to Account 2003, Telecommunications plant under construction, and credited to Account 7300, Nonoperating income and expense. The rate for calculating AFUDC shall be determined in accordance with GAAP when implementing this system of accounts. The amount of interest cost capitalized in an accounting period shall not exceed the total amount of interest cost incurred by the company in that period.

\* \* \*

(e) \* \* \* (8) Notwithstanding any other provision of this part concerning continuing property records, carriers subject to price cap regulations set forth in Part 61 shall maintain property records necessary to track substantial assets and investments in an accurate, auditable manner that enables them to verify their accounting books, make such property information available to the Commission upon request, and ensure the maintenance of such data.

(f) \* \* \* (2) \* \* \* (iii) The continuing property record shall reveal the description, location, date of placement, the essential details of construction, and the original cost (note also §32.2000(f)(3) of this subpart) of the property record units. The continuing property records shall be compiled on the basis of original cost (or other book cost consistent with this system of accounts) and maintained in such manner as will provide for the verification of property record units by physical examination. The continuing property record and other underlying records of construction costs shall be so maintained that, upon retirement of one or more retirement units or of minor items without replacement when not included in the costs of retirement units, the actual cost or a reasonably accurate estimate of the cost of the plant retired can be determined.

\* \* \*

(j) Plant Accounts to be Maintained by companies as indicated:

Account title	
Regulated plant	
Property, plant and equipment:	
Telecommunications plant in service	<sup>1</sup> 2001
Property held for future telecommunications use	2002
Telecommunications plant under construction-short term	2003
Telecommunications plant adjustment	2005
Nonoperating plant	2006
Goodwill	2007
Telecommunications plant in service (TPIS)	
TPIS—General support assets:	
Land and support assets	2110
TPIS—Central Office assets:	
Central Office—switching	2210
Operator systems	2220
Central Office—transmission	2230
TPIS—Information origination/termination assets:	
Information origination termination	2310
TPIS—Cable and wire facilities assets:	
Cable and wire facilities	2410
TPIS—Amortizable assets:	
Amortizable tangible assets	2680
Intangibles	2690

<sup>1</sup> Balance sheet summary account only

9. Section 32.2110 is amended to read:

**§32.2110 Land and support assets.**

This account shall be used by companies to record the original cost of land and support assets of the type and character detailed in Accounts 2111 through 2124.

10. Section 32.2210 is amended to read:

**§ 32.2210 Central office—switching.**

This account shall be used by companies to record the original cost of switching assets of the type and character detailed in Accounts 2211 through 2212.

11. Section 32.2230 is amended to read:

**§ 32.2230 Central office—transmission.**

This account shall be used by companies to record the original cost of radio systems and circuit

equipment of the type and character detailed in Accounts 2231 and 2232.

12. Section 32.2310 is amended to read:

**§ 32.2310 Information origination/termination.**

This account shall be used by companies to record the original cost of information origination/termination equipment of the type and character detailed in Accounts 2311 through 2362.

13. Section 32.2410 is amended to read:

**§ 32.2410 Cable and wire facilities.**

This account shall be used by companies to record the original cost of cable and wire facilities of the type and character detailed in Accounts 2411 through 2441.

14. Section 32.2680 is amended to read:

**§32.2680 Amortizable tangible assets.**

This account shall be used by companies to record amounts for property acquired under capital leases and the original cost of leasehold improvements of the type of character detailed in Accounts 2681 and 2682.

15. Section 32.2682, subsection (c) is amended to delete the last sentence.

16. Section 32.2690, subsection (b) is deleted and reserved.

17. Section 32.3000 is amended to read:

**§ 32.3000 Instructions for balance sheet accounts—Depreciation and amortization.**

(a) Depreciation and Amortization Subsidiary Records:

(1) Subsidiary record categories shall be maintained for each class of depreciable telecommunications plant in Account 3100 for which there is a prescribed depreciation rate. (See also §32.2000(g)(1)(iii) of this subpart.)

(2) Subsidiary records shall be maintained for Accounts 2005, 2682, 2690, 3400 in accordance with §32.2000(h)(4).

(b) Depreciation and Amortization Accounts to be Maintained by companies, as indicated.

Account title

Depreciation and amortization:

Accumulated depreciation	3100
Accumulated depreciation—Held for future telecommunications use	3200
Accumulated depreciation—Nonoperating	3300

Accumulated depreciation—Tangible 3400

18. Section 32.3400, subsection (a) is amended to read:

**§32.3400 Accumulated amortization—tangible.**

(a) This account shall include: \* \* \*

19. Section 32.3999 is amended to read:

**§32.3999 Instructions for balance sheet accounts—liabilities and stockholders' equity.**

**Liabilities and Stockholders' Equity Accounts To Be Maintained by Companies**

Account title

Current liabilities:

Current accounts and notes payable 4000

Customer's Deposits 4040

Income taxes—accrued 4070

Other taxes—accrued 4080

Net Current Deferred Nonoperating Income Taxes 4100

Net Current Deferred Nonoperating Income Taxes 4110

Other current liabilities 4130

Long-term debt:

Long Term debt and Funded debt 4200

Other liabilities and deferred credits:

Other liabilities and deferred credits 4300

Unamortized operating investment tax credits—net 4320

Unamortized nonoperating investment tax credits—net 4330

Net noncurrent deferred operating income taxes 4340

Net deferred tax liability adjustments 4341

Net noncurrent deferred nonoperating income taxes 4350

Deferred tax regulatory adjustments—net 4361

Other jurisdictional liabilities and deferred credits—net 4370

Stockholder's equity:

Capital stock 4510

Additional paid-in capital 4520

Treasury stock 4530

Other capital 4540

Retained earnings 4550

20. Section 32.4999, subsections (f) and (n) are amended to read:

**§32.4999 General.**

a) \* \* \*

(f) *Subsidiary records—jurisdictional subdivisions and interconnection.* Subsidiary record categories shall be maintained in order that the company may separately report revenues derived from charges imposed under intrastate, interstate and international tariff filings. Such subsidiary record categories shall

be reported as required by part 43 of this Commission's Rules and Regulations.

\* \* \*

(n) *Revenue accounts to be maintained.*

Account title

Local network services revenues:

Basic local service revenue	5000
-----------------------------	------

Network access service revenues:

End user revenue	5081
------------------	------

Switched access revenue	5082
-------------------------	------

Special access revenue	5083
------------------------	------

Long distance network services revenues:

Long distance message revenue	5100
-------------------------------	------

Miscellaneous revenues:

Miscellaneous revenue	5200
-----------------------	------

Nonregulated revenues:

Nonregulated operating revenue	5280
--------------------------------	------

Uncollectible revenues:

Uncollectible revenue	5300
-----------------------	------

21. Section 32.5000 is amended to read:

**§32.5000 Basic local service revenue.**

Companies shall use this account for revenues of the type and character detailed in Accounts 5001 through 5060.

22. Section 32.5200, preamble is amended to read:

**§32.5200 Miscellaneous revenue.**

This account shall include revenue derived from the following sources, as well as revenue of the type and character detailed in Account 5230, Directory revenue.

23. Section 32.5999, subsection (g) is amended to read:

**§32.5999 General.**

\* \* \*

(g) Expense accounts to be maintained.

Account title

Income Statement Accounts

Plant specific operations expense:

Network support expense	6110
-------------------------	------

General support expenses	6120
--------------------------	------

Central office switching expense	6210
----------------------------------	------

Operators system expense	6220
--------------------------	------

Central office transmission expenses	6230
--------------------------------------	------

Information origination/termination expense	6310
---	------

Cable and wire facilities expenses	6410
------------------------------------	------

---

Plant nonspecific operations expense:	
Other property plant and equipment expenses	6510
Network operations expenses	6530
Access expense	6540
Depreciation and amortization expenses	6560
Customer operations expense:	
Marketing	6610
Services	6620
Corporate operations expense:	
General and administrative	6720
Provision for uncollectible notes receivable	6790

24. Section 32.6110 is amended to read:

**§32.6110 Network support expenses.**

(a) Companies shall use this account for expenses of the type and character detailed in Accounts 6112 through 6114.

(b) Credits shall be made to this account by companies for amounts transferred to Construction and/or other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours.

25. Section 32.6120 is amended to read:

**§32.6120 General support expenses.**

Companies shall use this account for expenses of the type and character detailed in Accounts 6121 through 6124.

26. Section 32.6230 is amended to read:

**§32.6230 Central office transmission expense.**

Companies shall use this account for expenses of the type and character detailed in Accounts 6231 and 6232.

27. Section 32.6310 is amended to read:

**§32.6310 Information origination/termination expenses.**

Companies shall use this account for expenses of the type and character detailed in Accounts 6311 through 6362.

28. Section 32.6410 is amended to read:

**§32.6410 Cable and wire facilities expenses.**

Companies shall use this account for expenses of the type and character detailed in Accounts 6411 through 6441.

29. Section 32.6510 is amended to read:

**§32.6510 Other property, plant and equipment expenses.**

Companies shall use this account for expenses of the type and character detailed in Accounts 6511 and 6512.

30. Section 32.6530 is amended to read:

**§32.6530 Network operations expense.**

Companies shall use this account for expenses of the type and character detailed in Accounts 6531 through 6535.

31. Section 32.6560 is amended to read:

**§32.6560 Depreciation and amortization expenses.**

Companies shall use this account for expenses of the type and character detailed in Accounts 6561 through 6565.

32. Section 32.6610 is amended to read:

**§32.6610 Marketing.**

Companies shall use this account for expenses of the type and character detailed in Accounts 6611 through 6613.

33. Section 32.6620 is amended to read:

**§32.6620 Services.**

Companies shall use this account for expenses of the type and character detailed in Accounts 6621 through 6623.

34. Section 32.6999 is amended to read:

**§32.6999 General.**

(a) Structure of the other income accounts. The Other Income Accounts are designed to reflect both operating and nonoperating income items including taxes, extraordinary items and other income and expense items not properly included elsewhere.

(b) Other income accounts listing.

Account title

Other operating income and expense:

Other operating income and expense	7100
------------------------------------	------

Operating taxes:

Operating taxes	7200
-----------------	------

Nonoperating income and expense:

Nonoperating income and expense	7300
---------------------------------	------

Nonoperating taxes:

Nonoperating taxes	7400
--------------------	------

Interest and related items:

Interest and related items	7500
----------------------------	------

Extraordinary items	7600
---------------------	------

Jurisdictional differences and non-regulated income items:

Income effect of jurisdictional ratemaking difference—net	7910
Nonregulated net income	7990

35. Section 32.7200 is amended to read:

**§32.7200 Operating taxes.**

Companies shall use this account for operating taxes of the type and character detailed in Accounts 7210 through 7250.

36. Section 32.9000 is amended by replacing the definition of “Original cost” with the following:

**§32.9000 Glossary of terms.**

\* \* \*

Original cost or cost, as applied to telecommunications plant, rights of way and other intangible property, means the actual money cost of (or the current money value of any consideration other than money exchanged for) property at the time when it was purchased.

\* \* \*

PART 65 –Interstate rate of return prescription, procedures, and methodologies

1. The authority citation for Part 1 is amended to read as follows:

AUTHORITY: 47 U.S.C. 151, 154(i), 155, 201, 205, 214, 219, 220, 254, 303(r), 403, and 1302 unless otherwise noted.

2. Section 65.810 is amended to read:

**§65.810 Definitions.**

As used in this subpart “account xxxx” means the account of that number kept in accordance with the Uniform System of Accounts for Telecommunications Companies in 47 CFR part 32.

3. Section 65.820, subsection (d) is amended to read:

**§65.820 Included items.**

\* \* \*

(d) *Cash working capital.* The average amount of investor-supplied capital needed to provide funds for a carrier's day-to-day interstate operations. Carriers may calculate a cash working capital allowance either by performing a lead-lag study of interstate revenue and expense items or by using the formula set forth in paragraph (e) of this section. Carriers, in lieu of performing a lead-lag study or using the formula in paragraph (e) of this section, may calculate the cash working capital allowance using a standard allowance which will be established annually by the Chief, Wireline Competition Bureau. When either the lead-lag study or formula method is used to calculate cash working capital, the amount calculated under the study or formula may be increased by minimum bank balances and working cash advances to determine the cash working capital allowance. Once a carrier has selected a method of determining its cash working capital allowance, it shall not change to an optional method from one year to the next without Commission approval.

## APPENDIX C

## Final Regulatory Flexibility Analysis

1. As required by the Regulatory Flexibility Act of 1980, as amended (RFA)<sup>1</sup> the Commission included an Initial Regulatory Flexibility Analysis (IRFA) of the possible significant economic impact on a substantial number of small entities by the policies and rules proposed in the Notice of Proposed Rulemaking in WC Docket No. 14-130.<sup>2</sup> The Commission sought written public comment on the proposals in the Notice, including comment on the IRFA. No comments were filed addressing the IRFA regarding the issues raised in the Notice. Because the Commission amended its rules in this Report and Order, we include this Final Regulatory Flexibility Analysis (FRFA). This present FRFA conforms to the RFA.<sup>3</sup>

**A. Need for, and Objectives of, the Report and Order**

2. Section 220 of the Act requires the Commission to “prescribe a uniform system of accounts for use by telephone companies.”<sup>4</sup> In 1935, the Commission adopted its first accounting system to collect financial and operating data designed to facilitate rate determinations for local and long distance telephone service. In 1986, in response to the “introduction of competition and an explosion of new products and services to which the existing systems could not respond without massive modification,” the Commission revised its accounting reporting requirements by adopting the Uniform System of Accounts (USOA) contained in Part 32.<sup>5</sup> Part 32 obligations were imposed only on incumbent local exchange carriers (LECs), i.e., those that operated exclusively within their local service area prior to the 1996 Act.<sup>6</sup>

3. On August 18, 2014, the Commission adopted a Notice of Proposed Rulemaking initiating a proceeding to reform its accounting rules to ease the burden on price cap carriers. Broadly speaking, the Notice: (1) proposed to streamline our USOA accounting rules while preserving their existing structure; (2) sought focused comment on the accounting requirements necessary for price cap carriers to allow us to meet our statutory and regulatory obligations; and (3) sought comment on several related issues, including state requirements, rate effects, implementation, continuing property records, and legal authority. The objectives of this Order were to therefore reduce the financial reporting burdens on incumbent LECs while ensuring the Commission received data sufficient to fulfill its statutory mandates of ensuring just and reasonable rates to consumers, and ensuring that no cross subsidization occurs between different services offered by each incumbent LEC.

4. In this Report and Order, we conclude our review of our Part 32 accounting rules with respect to incumbent LECs. After reviewing the record, we complete this proceeding by streamlining the Part 32 USOA accounting rules for both price cap and rate-of-return carriers. In addition, the Report and Order allows price cap carriers to elect to use GAAP for all regulatory accounting purposes so long as they comply with targeted accounting rules.

---

<sup>1</sup> See 5 U.S.C. § 603. The RFA, see 5 U.S.C. § 601-612, has been amended by the Small Business Regulatory Enforcement Fairness Act of 1996, Pub. L. No. 104-121, Title II, 110 Stat. 857 (1996) (SBREFA).

<sup>2</sup> *Comprehensive Review of the Part 32 Uniform System of Accounts*, WC Docket No. 14-130, Notice of Proposed Rulemaking, 29 FCC Rcd 10638 (2014) (NPRM).

<sup>3</sup> See 5 U.S.C. § 604.

<sup>4</sup> 47 U.S.C. § 220(a)(2).

<sup>5</sup> *Part 32 USOA Order*, 60 Rad. Reg. 2d (P&F) 1111, para. 2.

<sup>6</sup> *Verizon v. FCC*, 770 F.3d at 962.

**B. Summary of Significant Issues Raised by Public Comments in Response to the IRFA**

5. No comments specifically addressed the IRFA.

**C. Response to Comments by the Chief Counsel for Advocacy of the Small Business Administration**

6. Pursuant to the Small Business Jobs Act of 2010, which amended the RFA, the Commission is required to respond to any comments filed by the Chief Counsel for Advocacy of the Small Business Administration (SBA), and to provide a detailed statement of any change made to the proposed rules as a result of those comments.<sup>7</sup> The Chief Counsel did not file any comments in response to the proposed rules in this proceeding.

**D. Description and Estimate of the Number of Small Entities to Which the Proposed Rules Would Apply**

7. The RFA directs agencies to provide a description of, and, where feasible, an estimate of the number of small entities that may be affected by the proposed rules, if adopted.<sup>8</sup> The RFA defines the term “small entity” as having the same meaning as the terms “small business,” “small organization,” and “small governmental jurisdiction” under Section 3 of the Small Business Act.<sup>9</sup> In addition, the term “small business” has the same meaning as the term “small business concern” under the Small Business Act.<sup>10</sup> A small business concern is one which: (1) is independently owned and operated; (2) is not dominant in its field of operation; and (3) satisfies any additional criteria established by the Small Business Administration (SBA).<sup>11</sup>

8. **Small Businesses.** A small business is an independent business having less than 500 employees. Nationwide, there are a total of approximately 27.9 million small businesses, according to the SBA.<sup>12</sup> Affected small entities as defined by industry are as follows.

9. **Incumbent LECs.** Neither the Commission nor the SBA has developed a size standard for small businesses specifically applicable to incumbent local exchange services. The closest applicable size standard under SBA rules is for Wired Telecommunications Carriers. Under that size standard, such a business is small if it has 1,500 or fewer employees.<sup>13</sup> According to Commission data, 1,307 carriers reported that they were incumbent local exchange service providers.<sup>14</sup> Of these 1,307 carriers, an estimated 1,006 have 1,500 or fewer employees and 301 have more than 1,500 employees.<sup>15</sup> Consequently, the Commission estimates that most providers of incumbent local exchange service are small businesses that may be affected by rules adopted pursuant to the Order.

10. We have included small incumbent LECs in this present RFA analysis. As noted above,

---

<sup>7</sup> 5 U.S.C. § 604 (a)(3).

<sup>8</sup> *Id.* § 603(b)(3).

<sup>9</sup> *Id.* § 601(6).

<sup>10</sup> *Id.* § 601(3) incorporates by reference the definition of “small business concern” in 15 U.S.C. § 632. Pursuant to the RFA, the statutory definition of small business applies, “unless an agency, after consultation with the Office of Advocacy of the [SBA] and after opportunity for public comment, establishes one or more definitions of such term which are appropriate to the activities of the agency and publishes such definition(s) in the Federal Register.”

<sup>11</sup> 15 U.S.C. § 632.

<sup>12</sup> See SBA, Office of Advocacy, “Frequently Asked Questions,” available at [http://www.sba.gov/sites/default/files/FAQ\\_Sept\\_2012.pdf](http://www.sba.gov/sites/default/files/FAQ_Sept_2012.pdf) (last visited Aug. 8, 2014).

<sup>13</sup> See 13 CFR § 121.201, NAICS code 517110.

<sup>14</sup> See *Trends in Telephone Service* at Table 5.3.

<sup>15</sup> See *id.*

a “small business” under the RFA is one that, *inter alia*, meets the pertinent small business size standard (e.g., a telephone communications business having 1,500 or fewer employees), and “is not dominant in its field of operation.”<sup>16</sup> The SBA’s Office of Advocacy contends that, for RFA purposes, small incumbent LECs are not dominant in their field of operation because any such dominance is not “national” in scope.<sup>17</sup> We have therefore included small incumbent LECs in this RFA analysis, although we emphasize that this RFA action has no effect on Commission analyses and determinations in other, non-RFA contexts.

11. The Report and Order adopts changes to the Commission’s current Part 32 USOA, which results in a reduced information collection, reporting, and recordkeeping requirements for incumbent LECs.

**E. Description of Projected Reporting, Recordkeeping and Other Compliance Requirements**

12. The rule changes enacted in this Report and Order affect incumbent LECs. Because our actions here result in reduced regulatory burdens, we conclude that the rule changes enacted here will not result in any additional recordkeeping requirements for small entities. Nevertheless, to the extent our revised rules may impact the operations of small businesses, we reiterate that such changes have been designed specifically to reduce, not increase, burdens of existing recordkeeping requirements.

**F. Steps Taken to Minimize Significant Impact on Small Entities, and Significant Alternatives Considered**

13. The RFA requires an agency to describe any significant alternatives that it has considered in reaching its proposed approach, which may include the following four alternatives (among others): (1) the establishment of differing compliance or reporting requirements or timetables that take into account the resources available to small entities; (2) the clarification, consolidation, or simplification of compliance and reporting requirements under the rule for small entities; (3) the use of performance, rather than design, standards; and (4) an exemption from coverage of the rule, or any part thereof, for small entities.<sup>18</sup>

14. The rules adopted or revised herein apply solely to incumbent LECs and result in reduced regulatory burdens. We therefore certify that the Report and Order will not have a significant impact on small entities.

**G. Report to Congress**

15. Commission will send a copy of the Report and Order, including this FRFA, in a report to Congress and the Government Accountability Office pursuant to the Congressional Review Act.<sup>19</sup> In addition, the Commission will send a copy of the Report and Order, including this FRFA, to the Chief Counsel for Advocacy of the Small Business Administration. A copy of this Report and Order and FRFA (or summaries thereof) will also be published in the *Federal Register*.<sup>20</sup>

---

<sup>16</sup> 5 U.S.C. § 601(3).

<sup>17</sup> See Letter from Jere W. Glover, Chief Counsel for Advocacy, SBA, to William E. Kennard, Chairman, FCC (May 27, 1999). The Small Business Act contains a definition of “small business concern,” which the RFA incorporates into its own definition of “small business.” See 15 U.S.C. § 632(a); see also 5 U.S.C. § 601(3). SBA regulations interpret “small business concern” to include the concept of dominance on a national basis. See 13 CFR § 121.102(b).

<sup>18</sup> 5 U.S.C. § 603(c).

<sup>19</sup> See 5 U.S.C. § 801(a)(1)(A).

<sup>20</sup> See *id.* § 604(b).

**STATEMENT OF  
CHAIRMAN AJIT PAI**

Re: *Comprehensive Review of the Part 32 Uniform System of Accounts, WC Docket No. 14-130;*  
*Jurisdictional Separations and Referral to the Federal-State Joint Board, CC Docket No. 80-286.*

Percy Bysshe Shelley's poem *Ozymandias* presents two trunkless legs standing in the desert, the remains of a formerly grand statue depicting a once-important king.<sup>1</sup> On a pedestal, an inscription states: "Look on my Works, ye Mighty, and despair!" The Part 32 accounts are the Commission's *Ozymandias*. Once an important tool that touched every corner of the telecommunications industry, and one so grand that even the mightiest accountants despaired, the Part 32 accounts now affect only a small and shrinking portion of the marketplace in this era of intermodal competition. And they are, for many, nothing more than archaic relics of our regulatory history.

And so it is that we take a common-sense step today to remove regulations that have long outlived their usefulness. For years, price cap carriers essentially have had to keep two sets of books—one for financial reporting and one for regulatory reporting. This was because many regulatory functions involving monopolies required systematically reported data in a way that didn't necessarily reflect well a company's financial position for non-regulatory purposes. As I explained years ago when we kicked off this proceeding, "[t]he FCC first adopted detailed accounting rules for telephone companies in the 1930s, when command-and-control was the preferred approach to regulation and legal monopolies dominated. But since the passage of the Telecommunications Act of 1996, competition has blossomed and our Part 32 accounting rules now apply to a small and shrinking percentage of the market."<sup>2</sup> There is simply no need to continue requiring these and only these carriers to waste time and money keeping two sets of books.

This is especially important because every dollar used to comply with the Commission's outdated regulations is a dollar that can't be used to build 21st-century networks. And the money involved here isn't chump change: The record suggests some carriers have been spending millions of dollars a year to comply with the Part 32 accounting rules. To me, that represents potentially thousands of American consumers who could have been digitally connected.

It's also important to note that removing these requirements will not impair in the least the government's ability to discharge its duties. Recently, we asked Bureau staff to determine how often of late the FCC used this Part 32 data for price cap carriers. The staff responded that it was not aware of any federal reliance on this data in the last five years. In addition, the Bureau said that going forward, none of the changes in this *Order* would prevent them from having the necessary accounting data to carry out any of the agency's statutory duties.

Let all of that sink in for a moment. For at least half a decade, the Commission has been mandating that carriers devote scarce resources to accounting paperwork that the Commission doesn't even need. This is the telecom equivalent of the government levying a tax and the IRS then burning the money.

A coda on policy: The possible impact of our action today on pole attachment rates has received some attention. But a change in accounting methodology does not affect *what* costs are includable in pole attachment rates, but only *when* they are recognized. The solution we adopt mitigates any rate shock. Moreover, the Commission will monitor pole attachment rates and will take appropriate action should the need arise. For as I made clear last September, competitive pole attachment rates are important "[i]f we

---

<sup>1</sup> Percy Bysshe Shelley, *Miscellaneous and Posthumous Poems of Percy Bysshe Shelley* 100 (1826).

<sup>2</sup> *Comprehensive Review of the Part 32 Uniform System of Accounts*, Notice of Proposed Rulemaking, WC Docket No. 14-130, 29 FCC Rcd 10638, 10658 (2014) (Statement of Commissioner Ajit Pai).

want more affordable broadband and more competition.”<sup>3</sup> And that’s a topic we will discuss further in the time to come.

I’d like to thank the staff who have worked so hard on this *Order*. Understanding and modernizing these rules are not tasks for the faint of heart. I’m impressed by and grateful for the deep expertise the Commission has drawn upon in addressing these matters. Thank you to Pam Arluk, Robin Cohn, Warren Firschein, Victoria Goldberg, Athula Gunaratne, Jane Jackson, Marvin Sacks, Mika Savir, and Doug Slotten. I look upon your works, ye Mighty, and marvel.

---

<sup>3</sup> Remarks of Commissioner Ajit Pai at the Brandery, “A Digital Empowerment Agenda,” *available at* [https://apps.fcc.gov/edocs\\_public/attachmatch/DOC-341210A1.pdf](https://apps.fcc.gov/edocs_public/attachmatch/DOC-341210A1.pdf).

**STATEMENT OF  
COMMISSIONER MIGNON L. CLYBURN  
APPROVING IN PART AND CONCURRING IN PART**

Re: *Comprehensive Review of the Part 32 Uniform System of Accounts, WC Docket No. 14-130;  
Jurisdictional Separations and Referral to the Federal-State Joint Board, CC Docket No. 80-286.*

Until today, Section 220 of the Communications Act required all regulated telephone companies to keep their accounting books in a uniform manner. This in and of itself is not an unusual condition, for there are many other industries, both regulated and unregulated that use this system of uniformity, to include hotels, restaurants, marinas and boatyards. Even the “destination marketing” industry (yes, that is a real term), has a uniform system of accounts that diverges in certain respects from generally accepted accounting principles, or GAAP. So it is worth mentioning, that price cap telephone companies asked to be exempted from an accounting system that many other industries readily employ to ensure uniformity.

But we have met at this juncture before. When first faced with whether to forbear from requiring this data in 2013, I agreed that forbearance was unwarranted, and it is also worth mentioning that the Commission’s view was upheld by the court. The mere existence of data can act as an insurance policy against bad behavior. Today, we are cancelling that policy.

I am concerned that we are acting too soon. While the majority cites our reforms of intercarrier compensation, as justification for no longer needing uniform bookkeeping, we are still years away from bill-and-keep for terminating access charges. And might I note, that the Commission has yet to reform originating access charges.

I also fear that our action will be cited to our state counterparts as the main reason why they will no longer need a uniform system of accounts in their state regulatory structure. Just as we have seen state legislatures deregulate in the face of promises, that federal rules will protect consumers, federal deregulation has also been used to leverage state deregulation. This is especially problematic here, where the lack of a federal need, does not equate to a lack of state need for such regulation. In fact, quite the opposite is true.

Let me be clear, I believe that it is high time we reform Part 32 of our rules: the section dealing with uniform accounting. Streamlining the number of accounts, allowing carriers to reprice assets at market value after a transaction, and incorporating the concept of materiality into accounting practices for example, are good ideas that I am glad we are implementing.

And since accounting for costs related to pole attachments are still critically relevant, regardless of accounting method, I am pleased that we act to make sure, that data regarding pole costs remain transparent and easily accessible for several years. I only wish we could have gone further to protect attachers from rate shock, as this may happen as pole owners switch to GAAP accounting.

Yes, today’s action will provide bookkeeping flexibility to price cap carriers. However, the result of these changes will be less uniformity and certainty going forward, which in turn, may mean comparing apples to oranges when we look at carrier costs. And because I am not wholly convinced that we are completely free of our need for this data in the future, I respectfully concur in part.

So to those carriers who advocate for decreased regulatory burdens, let me assure you: I am with you. However, the next time this Commission or a state commission asks for cost data, to support a rulemaking, investigate a complaint, or bring an enforcement action, I hope we do not hear protestations that the request is too burdensome because the data is not kept in the format that the FCC or state commission needs.

To the staff of the Wireline Competition Bureau, I again thank you for all your hard work on this item, as well as your efforts over the years in implementing the Uniform System of Accounts.

**STATEMENT OF  
COMMISSIONER MICHAEL O'RIELLY**

*Re: Comprehensive Review of the Part 32 Uniform System of Accounts, WC Docket No. 14-130;  
Jurisdictional Separations and Referral to the Federal-State Joint Board, CC Docket No. 80-286*

This order takes an important first step to reduce unnecessary regulation. For years, I have questioned the utility of requiring price cap carriers to keep two sets of accounts, at significant expense, as marketplace and regulatory changes have substantially diminished the need for specialized accounting rules. While some wanted to simply consolidate and simplify, I pushed to find out why we couldn't scrap them altogether without harming our mission. When I met with staff in 2014, it quickly became apparent that the data required under our existing accounting system would only be used in extremely few instances, if ever. And, except for pole attachments, most of these potential uses were highly speculative. Indeed, it was apparently so rare that anyone would review or rely on this data that we had to scour the Commission to find staff that understood how to make sense of it, much less how to go about reforming it. In short, these requirements are like an old sweater that you keep in the back of the closet, haven't worn in years, and aren't sure still fits, but continue to store just in case it comes back into style. It's time to remove these accounting burdens, which no longer make sense in today's world. I hope to work with my colleagues and interested parties on other ideas to remove similarly situated outdated burdens.

For this reason, I also support an effort to review and eliminate unnecessary Part 36 jurisdictional separations requirements. For too long, the Commission has kicked this regulatory can down the road, hoping that our other reforms will ultimately remove the need for these rules as well. But with each passing year, there are fewer people that understand these arcane rules and the substantive usefulness of the rules decreases precipitously. Therefore, we've reached a critical deregulatory opportunity. It only seems appropriate to overhaul our outdated separations regulations in a sensible way. While the referral to the Separations Joint Board in this item is a narrow one, as Chair of the Joint Board, I am eager to take a broader view and I look forward to working with my federal and state colleagues on more comprehensive reform.