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FCC MODERNIZES ACCOUNTING AND REPORTING REQUIREMENTS

Comprehensive Accounting and Reporting Reform is Part of Commission's Biennial Regulatory Review Process to Repeal or Modify its Rules

Washington, D.C. – Today, the Federal Communications Commission (FCC) streamlined and modified its accounting rules and its financial and operating data reporting requirements for incumbent local exchange carriers (LECs). The Report and Order and Further Notice of Proposed Rulemaking, which is part of the Commission's 2000 biennial regulatory review process, continues the Commission's reform efforts to eliminate accounting and reporting regulations that are outdated or unnecessary.

The measures adopted today overhaul two areas: 1) the Commission's accounting rules, known as Part 32 of the Uniform System of Accounts (USOA), which largely prescribe how incumbent LECs record and allocate their revenues and costs, and 2) the Commission's Automated Reporting Management Information System (ARMIS) reporting rules, which require certain carriers to report financial and operating information on an annual basis. The reforms undertaken today cover the following areas (a summary of all the reform measures is attached):

1. Consolidated and streamlined Class A accounting requirements overall by forty-five percent, from 296 to 164 accounts, while at the same time responding to state requests to create new sub-accounts for five existing accounts.
2. Provided greater flexibility to carriers in how they value transactions with affiliates.
3. Eliminated cost allocation manuals and biennial audits for mid-sized carriers.
4. Streamlined the amount of information in each ARMIS report filed by large LECs.
5. Eliminated for mid-sized carriers three out of four financial ARMIS reports.

The USOA have been used for various purposes, such as determining interstate access charges, federal-state jurisdictional separations, and calculating universal service support. For accounting purposes, incumbent LECs are classified as either Class A, incumbent LECs with annual revenues from regulated telecommunications operations that are equal to or above the indexed revenue threshold – currently $117 million, or Class B, those falling below that threshold. Class A companies – BellSouth, Qwest, SBC, and Verizon – currently maintain 296 accounts, while the approximately 1300 Class B companies currently maintain 113 accounts.

ARMIS is an automated reporting system developed by the Commission in 1987 for collecting financial, operating, service quality, and network infrastructure information from certain incumbent LECs. It currently contains ten separate reports. Currently, 52 of the approximately 1,300 incumbent LECs file ARMIS reports on an annual basis. Thirty of the 52 are the operating companies of Verizon, SBC Communications, BellSouth, and Qwest. These companies file at the Class A level. The remaining 22 companies, the operating companies of Cincinnati Bell, C-TEC, Sprint, Alltel, Frontier, and Citizens, file ARMIS reports at the Class B level.

The Further Notice of Proposed Rulemaking that the Commission adopted today does the following:

- Seeks to further develop the record on the appropriate circumstances for elimination of accounting and reporting requirements for incumbent LECs;
- Seeks comment on whether certain ARMIS information would more appropriately be collected through ad hoc data requests or the Commission's Local Competition and Broadband Data Gathering Program; and,
- Seeks comment on conforming amendments to the Commission's separations rules, necessitated by our modifications to the USOA.

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Docket Nos.: CC 00-199, 97-212, 80-286, and 99-301

Action by the Commission October 11, 2001, by Report and Order and Further Notice of Proposed Rulemaking (FCC 01-305). Chairman Powell, and Commissioners Abernathy and Martin, with Commissioner Copps approving in part and dissenting in part, and Powell, Abernathy, Copps and Martin issuing statements

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Summary of Report and Order in CC Docket Nos. 00-199, 97-212, and 80-286

- Reduce the number of Class A accounts/subaccounts in Part 32 of our rules by forty-five percent, maintaining only those currently used in ongoing regulatory activities under the Communications Act and the 1996 Act;
- In response to state requests, establish new subaccounts for circuit and packet under digital switching, electronic and optical subaccounts under circuit equipment, and wholesale and retail subaccounts under services;
- Reduce the current Class B accounts/subaccounts in Part 32 of our rules by 27 percent;
- Eliminate certain inventory requirements in our rules;
- Allow carriers to adopt Statement of Financial Accounting Standard (SFAS) 116 for federal accounting purposes;
- Revise the affiliate transactions rules so that carriers are not required to do a fair market comparison for asset transfers to or from a given affiliate that total less than $500,000;
- Give carriers the flexibility to use the higher or lower of cost or market valuation as a ceiling or floor in valuing transactions with affiliates;
- Eliminate the need to do a fair market valuation in situations where third party sales amount to greater than 25 percent of total sales volume for that asset or service;
- Simplify how carriers record nonregulated revenues in the Uniform System of Accounts;
- Simplify deferred tax accounting;
- Modify our expense limit rules to include central office tools and test equipment in the $2000 expense limit;
- Simplify how carriers separate regulated from nonregulated costs by permitting carriers to treat as regulated revenues certain activities that are not regulated;
- Simplify the preparation of cost allocation manuals for Class A carriers by permitting them to allocate certain costs at the Class B level;
- Permit carriers to treat rates in interconnection agreements as tariffed rates for purposes of our cost allocation rules;
- Eliminate the requirement to do a revenue study analyzing the effect of proposed accounting standards changes prior to implementing those changes;
- Amend our accounting rules to expressly limit them to incumbent LECs;
- Modify ARMIS reporting for the large incumbent LECs to eliminate obsolete reporting requirements and to capture technological changes;

- Significantly streamline ARMIS 43-04, the Separations and Access Report;

- Eliminate the cost allocation manual (CAM) filing requirements and the biennial attestation requirement for mid-sized LECs; and

- Significantly simplify the reporting requirements for mid-sized incumbent LECs by eliminating the requirement that they file ARMIS 43-02, 43-03 and 43-04 Reports.

Summary of Further Notice of Proposed Rulemaking in CC Docket Nos. 00-199, 99-301, and 80-286:

- Seek to further develop the record on the appropriate circumstances for elimination of accounting and reporting requirements for incumbent local exchange carriers, including whether some or all requirements should be eliminated by a date certain;

- Seek comment on whether certain ARMIS information would more appropriately be collected through other means such as ad hoc data requests or our Local Competition and Broadband Data Gathering Program; and

- Seek comment on conforming amendments to our separations rules.