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**APR 20 1994**

**FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY**

April 20, 1994

Mr. William F. Caton, Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W. - Room 222  
Washington, D. C. 20554

Re: Ex Parte Presentation - CC Docket No. 93-292, Toll Fraud

Dear Mr. Caton:

A meeting was held today with Linda DuBroof of the Domestic Facilities Division and AT&T, represented by Richard Rubin and myself, to discuss AT&T's position in the proceeding indicated above. The attached document was used during the course of our meeting.

Pursuant to Section 1.1206(a)(1) of the Commission's Rules, an original and two copies of this notice are attached. Please contact me if you have any questions concerning this matter.

Sincerely,

A handwritten signature in cursive script that reads "Frank S. Simone".

ATTACHMENT

Copy to: L. DuBroof

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*CC Docket No. 93 - 292*

# **Toll Fraud**

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*Balance The Interests Of All Parties*

**AT&T**  
**April, 1994**

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# Industry Consensus

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*There is general agreement among all commenters on the following matters*

The Commission should play a larger role in industry efforts to prevent fraud

Proposed changes to Part 22, making it more difficult to counterfeit ESNs, should be implemented

Enforcement of existing laws to prosecute perpetrators of toll fraud should be supported

Customer education and warning programs are essential in the fight against toll fraud

# PBX Fraud

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## ***PBX fraud is diminishing in size as customer education widens and carriers respond to customer concerns***

A PBX, like other corporate assets, has benefits and costs. Costs created by PBX users should not be involuntarily passed on to carriers and other customers.

Carriers can detect "spikes" of usage from a customer location, but only the customer can tell the difference between legitimate business activity and fraud.

Under AT&T's voluntary negotiation process, liability is determined in each specific case, based upon a review of the applicable tariff and vendor contract requirements and each individual party's ability to control the equipment or network service element that enabled the fraud to occur -- 98% of the disputes have resulted in settlements - 90% of participants feel it is a fair process.

Discussions surrounding IXC recovery of the cost of a call versus the cost plus any profit fail to recognize the immense cost of the recovery process itself (made worse by the administrative burden of determining profit levels on each carrier call type), after which any profit on a recovered call is debatable.

# Payphone Fraud

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***"...the FPSC's policy has been effective only in reducing the number of complaints filed by private payphone owners regarding fraud -- the amount of fraud has not decreased"***

*- GTE Comments, p. 11; CC Docket No. 93-292 -*

The Commission should require carriers to share fairly in fraud losses, based upon the extent to which their actions or omissions enabled those losses to occur.

- ✓ PPOs should be *initially* liable to IXC's for all 1+ calls placed from their telephones,
- ✓ PPOs who comply with the reasonable fraud protection requirements suggested by AT&T should be relieved of liability for fraudulent 0+ calls,
- ✓ LEC blocking & screening services are the single most important means of enabling PPOs and IXC's to protect themselves from a large proportion of payphone fraud -- the LECs must be held accountable for delivery of these important services.

# Cellular Phone Fraud

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*Interexchange carriers have no practical way to detect whether calls are made from telephones using authorized ESN/MIN combinations or from phones which have been fraudulently cloned*

Spreading the liability for cellular toll fraud generated by counterfeiting to all IXC's and their customers weakens the incentives for the cellular industry to develop and implement technical means for combatting the problem.

# LIDB Fraud

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***Carriers who launch a LIDB query containing the appropriate call detail should be indemnified by the LEC against loss of their tariffed charges for a fraudulent call***

This approach is reasonable because:

- ✓ It provides the LECs with the data they've asked for to improve the fraud detection capabilities of LIDB and the incentives to do so;
- ✓ It provides appropriate financial incentives for other carriers to provide call detail;
- ✓ This is simple to administer and the data is captured in ordinary call detail records;

***Carriers who choose not to assist in fraud prevention by fulfilling the call detail requirements should be liable for any fraud on calls they allow.***

Only after the industry has adopted and implemented the call detail requirements described above would it be appropriate to determine whether LECs need to adjust LIDB rates as a result of fraud.