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

In the Matter of	)	
	)	
Comprehensive Review of the Part 32 Uniform System of Accounts	)	WC Docket No. 14-130
	)	
	)	

COMMENTS OF THE
UNITED STATES TELECOM ASSOCIATION

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EXECUTIVE SUMMARY

USTelecom supports the removal of all Part 32 requirements for price cap carriers; and, the replacement of those requirements with more specific targeted accounting requirements, as proposed by the Commission in its Notice of Proposed Rulemaking. The Commission needs to move promptly to remove Part 32 requirements because they are a set of onerous federal regulations that no longer apply to the bulk of the telecom industry.

The majority of price cap carriers already have forbearance from Part 32 accounting data. This data was historically used as the starting point for rate setting based on procedures under Parts 36 and 64; however, the Commission has already granted conditional forbearance to price cap carriers from Part 64 cost allocation requirements and frozen Part 36 jurisdictional separations thereby making continuation of these rules unnecessary. Furthermore, maintenance of these accounting requirements play no part in the Commission's current regime for intercarrier compensation reform goals and are more burdensome and costly than any benefit they previously provided.

USTelecom supports the targeted accounting requirements proposed by the Commission with respect to pole attachment data. Pole attachment data is severable from other data and furthermore, carriers have already proven their ability to provide the Commission with the data necessary to set rates. Therefore, we support a proposal that only requires price cap carriers to use USOA accounting data to the extent that it is necessary to produce the relevant data. We also support the proposal that carriers be permitted to use a subsidiary record or some other method identified to track imputation transitions in compliance with section 272(e)(3) as Part 32 rules are not necessary to ensure compliance. In much the same way, we assert that Part 32 rules are not necessary to ensure section 254(k) compliance either and we support the Commission proposal to allow price cap carriers to certify that they will provide the necessary data upon reasonable request.

In the alternative, USTelecom also supports the adoption of streamlining USOA rules so that they more closely align with GAAP, particularly in the areas of asset accounting, depreciation, tax accounting, corporate book closing, accounting software and statistical sampling wherein USOA rules are often cumbersome and add to the unnecessary costs by requiring the maintenance of multiple accounting records. In the area of depreciation, the required additional classifications of depreciation expenses increase its complexity for carriers, whereas GAAP more closely aligns with the actual life of the asset which makes reconciliation less burdensome.

With respect to materiality, USOA rules currently have no materiality standard, forcing carriers to justify every accounting discrepancy no matter how trivial. The origins of this was to ensure there was no impact on the rate setting process, however, since that is no longer relevant aligning USOA rules with GAAP would ease the burden to carriers

As the Commission makes this comprehensive review of Part 32 rules it should consider the relevance of Part 32 rules in the context of today's marketplace and remove and streamline old and outdated rules to alleviate the compliance burden for all carriers while still ensuring the Commission and state agencies get the data it needs for regulatory purposes.

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The United States Telecom Association (USTelecom) [1] is pleased to submit its comments in response to the Commission's Notice of Proposed Rulemaking ("Notice")[2] in the matter of review of the Part 32 Uniform System of Accounts ("Part 32" or "USOA"). In the Notice, the Federal Communications Commission (Commission) seeks comment on ways to minimize the compliance burdens on carriers and streamline current rules while ensuring that the agency retains access to the information it needs to fulfill its regulatory duties under Section 220 of the Communications Act of 1934, as amended ("the Act").[3] The Notice also seeks comments on proposed targeted accounting requirements under Section 224 of the Act.[4]

As stated in its 2012 forbearance petition, USTelecom continues to assert that the Commission should completely remove all requirements that price cap carriers maintain the

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[1] USTelecom is the premier trade association representing service providers and suppliers for the telecom industry. Its diverse member base ranges from large publicly traded communications corporations to small companies and cooperatives – all providing advanced communications service to both urban and rural markets. USTelecom members provide a full array of services, including broadband, voice, data and video over wireline and wireless networks.

[2] *See Notice of Proposed Rulemaking, FCC, In the Matter of Comprehensive Review of the Part 32 Uniform System of Accounts*, WC Docket No. 14-130, FCC 14-123 (rel. Aug. 20, 2014) (*Notice*).

[3] *Id* at ¶ 1.

[4] *Id.*

USOA;[5] however, in the alternative, USTelecom supports the adoption of streamlining and targeted accounting proposals that only require carriers to provide accounting information as necessary upon reasonable request.

I. USOA REQUIREMENTS ARE INCREASINGLY IRRELEVANT

USOA is an arcane and onerous set of federal regulations that no longer apply to the bulk of the telecom industry. In granting portions of the *USTelecom Forbearance Petition*, the Commission acknowledged that there was a need to eliminate burdens on industry and modernize rules by removing outmoded requirements associated with Part 32 rules.[6] USTelecom continues to assert that Part 32 USOA requirements are no longer relevant for price cap carriers.

As the Notice acknowledges, "These rules, taken together, were designed to permit incumbent LECs to comply with rate of return regulation,"[7] but that today, "fewer than five percent of access lines are served by rate-of-return carriers – the incumbent LEC for most consumers is a price cap carrier."[8]

However, as the Commission recognized in 2008 when granting the Bell Operating Companies (BOCs) forbearance from the Cost Assignment Rules, by "sever[ing] the direct link between regulated costs and prices," price cap regulation reduces a carrier's incentive "to shift

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[5] *See* Petition of USTelecom for Forbearance Under 47 U.S.C. §160(c) from Enforcement of Certain Legacy Telecommunications Regulations et al., WC Docket 12-61 (filed Feb. 16, 2012) (*USTelecom Forbearance Petition*).

[6] *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 (2013) (*USTelecom Forbearance Order*).

[7] *See Notice* at 3, ¶ 5

[8] *See Id.* at 3-4, ¶ 6

non-regulated costs to regulated services;" to the extent such incentives remain, moreover, continued regulation of a price cap carrier's rates will adequately "protect consumers from unjust, unreasonable, and unjustly or unreasonably discriminatory charges, practices, classification and regulations."[9] The same is true for Part 32 rules.

In fact, currently, Part 32 has no bearing on the rates charged by price cap carriers. Part 32 accounting data historically were used as the starting point for cost allocation procedures under Part 64 and for jurisdictional separations purposes under Part 36.[10] However, the Commission has granted conditional forbearance to price cap carriers from Part 64 cost allocation requirements and Part 36 jurisdictional separations.[11] Lending further credence to the idea that this data is no longer necessary for Part 36 is the fact that the jurisdictional separation factors for price cap carriers have been frozen for more than a decade.[12]

[9] *See Petition of AT&T, Inc. for Forbearance Under 47 U.S.C. §160 From Enforcement of Certain of the Commission's Cost Assignment Rules,* Memorandum Opinion and Order, 23 FCC Rcd. 7302, 7311-12, ¶¶ 17-18 (2008) (granting AT&T and BellSouth forbearance from cost assignment rules) (*"AT&T Cost Assignment Forbearance Order").*

[10] *See 2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2; Amendments to the Uniform System of Accounts for Interconnection; Jurisdictional Separations Reforms and Referral to Federal-State Joint Board; Local Competition and Broadband Reporting,* Report and Order and Further Notice of Proposed Rulemaking, 16 FCC Rcd. 19911, 19916-17, ¶ 10 (2001) (*"2000 Biennial Review Order").*

[11] *See USTelecom Forbearance Order AT&T Cost Assignment Forbearance Order* 23 FCC Rcd. 7302, 7311-12, ¶¶ 17-18; *see also Petition of Qwest Corp. for Forbearance from Enforcement of the Commission's ARMIS and 492A Reporting Requirements Pursuant to 47 U.S.C. §160(c),* Memorandum Opinion and Order, 23 FCC Rcd. 18483, 18493-94 (2008) *("Qwest ARMIS Forbearance Order")* (granting forbearance from ARMIS Financial Reports when there was no "strong connection" between maintaining those reports "in anticipation of a speculative need for the information at some point in the future").*See* Public Notice, *Commission 2010 Biennial Review of Telecommunications Regulations,* CG Docket No. 10-266, DA 11-2050 at 2 (rel. Dec. 23, 2011) *("2010 Biennial Review Notice")* (expressing belief of Commission staff "that rules in Part 36, in their current form, may not be necessary in the public interest …").

[12] *See Jurisdictional Separations and Referral to the Federal-State Joint Board,* Report and Order, 16 FCC Rcd. 11382, 11386, ¶ 9 (2001) (ordering freeze of jurisdictional separations

Historically, price cap carriers' continued compliance with Part 32 was also required to achieve the Commission's universal service and intercarrier compensation reform goals; however, Part 32 plays practically no role under the Commission's current regime. Although the Commission required an ILEC that has been negatively impacted by its reforms to submit information by "Part 32 account" when seeking a waiver, the waiver process is more geared toward rate-of-return carriers.[13] And, in the event any price cap carrier intends to request a waiver, it would have the burden to produce appropriate data in order to satisfy the Commission's waiver requirements, notwithstanding relief from any continued obligation to comply with the current Part 32 rules. Furthermore, while the Commission relied upon Part 32 in explaining that its new disclosure requirements would "impose minimal new burdens," *id.* ¶ 601, the disclosure requirements at issue apply to rate-of-return carriers, not price cap carriers.

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factors for a five-year period beginning July 1, 2001, or until the Commission completed comprehensive separations reform, whichever came first). In 2006, the Commission extended the freeze for three years or until comprehensive reform could be completed, whichever came first. *See Jurisdictional Separations and Referral to the Federal-State Joint Board,* Order and Further Notice of Proposed Rulemaking, 21 FCC Rcd. 5516, 5523, ¶ 16 (2006). The freeze subsequently was extended in 2009, in 2010, and again in 2011. *See Jurisdictional Separations Reform and Referral to the Federal-State Joint Board,* Order and Further Notice of Proposed Rulemaking, 24 FCC Rcd. 6162 (2009); (extending the separations freeze until June 30, 2010); *Jurisdictional Separations and Referral to the Federal-State Joint Board,* Report and Order, 25 FCC Rcd. 6046, 6049, ¶ 11 (2010) (extending the separations freeze until June 30, 2011); *Jurisdictional Separations and Referral to the Federal-State Joint Board*, Report and Order, 26 FCC Rcd. 7133 (2011) (extending separations freeze until June 30, 2012); *Jurisdictional Separations Reform and Referral to the Federal-State Joint Board*, CC Docket No. 80-286, Report and Order, 27 FCC Rcd 5593 (2012) (extending the separations freeze through June 30, 2014); *Jurisdictional Separations Reform and Referral to the Federal-State Joint Board*, CC Docket No. 80-286, Report and Order, FCC14-91 (adopted June 12, 2014) (extending the separations freeze through June 30, 2017).

[13] *See Connect America Fund,* Report and Order and Further Notice of Proposed Rulemaking, WC Docket No. 10-90, 26 FCC Rcd. 17663, 17840, ¶ 542 (2011) ("*Universal Service Reform Order*").

As a result of other Commission reforms, Part 32 accounting data is no longer needed for rate regulation functions with respect to price cap carriers.[14]

The Part 32 accounting rules, which were designed to assist the FCC in setting cost-based rates for rate-of-return carriers in a monopoly era, no longer serve any purpose in a system of price cap regulation and intense competition. At the end of the day, the Commission can ensure just and reasonable rates and protect consumers without requiring price cap carriers to maintain two sets of accounting books, one of which—the regulatory books—is not even used by the FCC.

Additionally, these accounting requirements serve no regulatory purpose for price cap carriers and may, in fact, actually harm consumers due to the significant costs associated with maintaining these accounts – costs that are hardly benign and not offset by any benefits to consumers.[15] Carriers collectively incur millions of dollars in maintaining two separate sets of books – costs that continue to grow with the expanding divergence between Part 32 rules, developed more than 25 years ago, and the ever changing modern accounting techniques under GAAP. For example, public companies long ago moved to unit-based accounting to address each asset of the company. By contrast, Part 32 utilizes group accounting by which large groups of assets are lumped together. However, consumers are adequately protected by GAAP, Sarbanes-Oxley, the Foreign Corrupt Practices Act, and other accounting safeguards to which price cap carriers remain subject. Elimination of or forbearance from Part 32 would

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[14] *See AT&T Cost Assignment Forbearance Order,* 23 FCC Rcd. 7302, 7314, ¶ 19.

[15] *See, e.g., 2000 Biennial Review Regulatory Report* at 70 (acknowledging that "Part 32 may impose more burdensome information requirements on incumbent LECs than needed in the changing and competitive landscape" by establishing unnecessary "record-keeping requirements and accounting procedures").

allow price cap carriers to streamline their accounting systems and processes and avoid incurring unnecessary costs associated with accounting rules that serve no regulatory purpose and to which only a limited number of competitors are subject, which would serve the public interest. For these reasons, USTelecom maintains that the Part 32 rules for price cap carriers are no longer in the public interest and the Commission should eliminate those rules in this rulemaking.

II. USTELECOM SUPPORTS TARGETED ACCOUNTING RULES TO REPLACE CURRENT USOA REQUIREMENTS FOR PRICE CAP CARRIERS

In the absence of the elimination from all regulations in this area, USTelecom supports the removal of USOA requirements and the use of targeted accounting rules that better align with GAAP, as proposed in its Notice.[16]

A. Pole Attachment Rates

Under Section 224(c) of the Act, pole attachment rates are established via private negotiation using cost data reported by carriers in their Part 32 accounts. State commissions are permitted to regulate pole attachment rates so long as they certify to the FCC that they would do so. Where states have certified such rules, the Commission's rules do not apply. As previously stated, USTelecom continues to stress that there is no longer a need for price cap carriers to file pole attachment data. Part 32 data are not necessary to ensure just and reasonable pole attachment rates under 47 U.S.C. § 224.[17] Neither Section 224(d) nor the pole attachment rules require the use of Part 32 data to regulate pole attachment rates.[18] In fact, the pole attachment rules allow cost data to be derived from various sources.[19] To the extent a

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[16] *See Notice* at 10, ¶ 33.

[17] *See USTelecom Forbearance Order*, 28 FCC Rcd. 7627, 7658-7660 at ¶¶ 63-65.

[18] *See,* 47 U.S.C. § 224(d)(1); 47 C.F.R. §§ 1.1401-1.1424.

[19] *See* 47 C.F.R. § 1.1404(g)(2) ("Data and information should be based upon historical or

need arises to verify this data, price cap carriers can provide the same expense information maintained in accordance with GAAP. Although there are some differences between costs recorded pursuant to Part 32 and GAAP, there is no evidence to support the FCC's conclusion that relying upon GAAP "would actually alter the rates price cap carriers charge for pole attachments."[20] The vast majority of Part 32 data—including those set forth in the 170 cost and revenue accounts—has nothing to do with setting pole attachment rates. Indeed, there are less than a dozen cost accounts that relate to pole attachments, as the FCC acknowledges.[21] That some limited cost data could be necessary for pole attachment rates would not establish a current, federal need for the other Part 32 data that have no bearing on pole attachment rates.

USTelecom also acknowledges that GAAP derived data may for a period of time be different than USOA methods. However, as stated in USTelecom's May 3, 2013 letter to the Commission regarding the *USTelecom Forbearance Petition*,[22] carriers are already capable of continuing to file the existing Pole and Conduit Rental Calculation Information report by either maintaining the current account structure using GAAP or by tracking or mapping the relevant data to the Part 32 account structure.

For example, the Commission pole attachment rate formulae rely on accounting cost inputs used to determine the annual carrying charges attributable to the cost of owning a pole. The FCC rate formulae also, however, include factors that are not based on inputs impacted by

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original cost methodology, insofar as possible. Data should be derived from [Automated Reporting Management Information System Reports], FERC 1, or other reports filed with state or federal regulatory agencies (identify source).").

[20] *See USTelecom Forbearance Order*, 28 FCC Rcd. 7627,7659-7660,¶ 65.

[21] *See Id.* at 7659-7660,¶ 65

[22] *See* Letter from USTelecom to Chairman Genachowski, Federal Communications Commission, et al., WC Docket 12-61 (filed May 3, 2013).

any accounting changes between Part 32 and GAAP, such as the pole height or space occupied.[23] Pole attachment rates set by state commissions also would remain unaffected, except to the extent a state makes changes to its rates following Commission action here. These rates would continue to be based on the same cost report filed annually with the Commission, would have to be reasonable, and could decline under appropriate circumstances.

If challenged, the Commission would still look to the same cost report that carriers will file annually with the Commission to ensure that pole attachment rates are reasonable, and these rates could still decline under appropriate circumstances. Furthermore, as demonstrated by price caps carriers who have already received forbearance from portions of the Part 32 reporting requirements and continue to file pole attachment data on a voluntary basis, such pole attachment data is severable, therefore USTelecom supports the use of USOA only to the extent necessary.

B. Section 272(e)(3) Imputation

In its Notice, the Commission proposes a targeted rule that would allow price cap carriers to use a subsidiary record or some other identifier to track imputation transactions under Section 272(e)(3).[24] The Commission historically required that BOCs reflect the amounts imputed pursuant to section 272(e)(3) in Account 32.5280 (Unregulated Operating Revenue), but there is nothing about this particular account as it relates to a BOC's ability to track and record amounts imputed under section 272(e)(3). In fact, the BOCs can readily track the imputation transactions subject to section 272(e)(3) in a subsidiary record or using another identifier without maintaining every single expense and revenue account mandated by Part 32.

[23] See 47 C.F. R. §1.1409.

[24] *See Notice* at 13, ¶42.

As such, USTelecom continues to assert that Part 32 rules are not necessary to ensure compliance with the imputation requirements in section 272(e)(3) of the Act. Although Section 272(e)(3) requires a BOC to charge its long distance affiliate or "impute to itself (if using the access for its provision of its own services), 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," neither section 272(e)(3) nor any Commission order mandates that a BOC maintain Part 32 accounts in order to demonstrate compliance with its imputation obligations. Therefore, going forward, price cap carriers should maintain an annual subaccount/identifier or other record to track transactions subject to section 272(e)(3) in a reasonable (and auditable) manner.

C. Section 254(k)

The Commission also proposes targeted rule that would require price cap carriers to certify continued compliance with Section 254(k) and provide information upon reasonable request.[25] Section 254(k) states that a "telecommunications carrier may not use services that are not competitive to subsidize services that are subject to competition." As the Commission states in its Notice, although proof of compliance would typically come from the price cap carrier's USOA accounts, the Commission has never had to seek such data to address specific compliance allegations.[26] USTelecom maintains that for this reason the Part 32 rule is not necessary to ensure that price cap carriers comply with section 254(k) of the Act. To the extent the Commission has reason to believe a particular carrier has violated section 254(k), it can order the carrier to "provide any requested information necessary to prove" its compliance with the statute. There is no rational basis for price cap carriers to continue to collect and record

[25] *See Notice* at 13, ¶46.

[26] *See Id.* at ¶44.

Part 32 information when a price cap carrier can demonstrate compliance with section 254(k) based on accounting data maintained in accordance with GAAP or a successor regime. Price cap carriers will continue to comply with this mandate even if the Commission eliminates Part 32 and will provide information upon reasonable request.

Furthermore, given the sea change in the communications marketplace, it is difficult to identify a service (if any) that is now not subject to competition. And, in the face of such competition across all segments of the marketplace, it is doubtful that any price cap carrier would be able to engage in cross-subsidies. Nonetheless, if a carrier were to attempt to do so, the Commission would have to determine whether the particular service being used to subsidize another service is in fact "not competitive" – a determination that would not require access to any cost data.

Similarly, if the Commission decides to replace the USOA with targeted accounting requirements as proposed in the Notice, USTelecom supports amending price cap carriers' existing compliance plans to include any newly altered portions of Part 32. Currently, price cap carriers are capable of providing the Commission with data needed for regulatory purposes utilizing GAAP data, obviating the need for price cap carriers to continue to collect and record Part 32 information. Price cap carriers will continue to comply with the previously granted forbearance and any new targeted rules implemented by the Commission in the context of this proceeding, including providing information upon reasonable request.

III. THE COMMISSION SHOULD MORE CLOSELY ALIGN USOA RULES AND GAAP

In the absence of elimination of Part 32 rules, the Commission should adopt more substantial streamlining through a thorough review of the differences between USOA and GAAP and utilizing GAAP wherever possible. In the Notice, the Commission asks how

USOA rules differ from GAAP and the extent to which GAAP could be the basis for further streamlining of the USOA.[27] One specific proposal put forth by the Commission is the elimination of the classification of carriers into Class A and Class B. The FCC states that such a merger would reduce the number of accounts Class A carriers must keep by 1/3 (*i.e.*, from 138 to 80). Although USTelecom favors such streamlining measures, the Commission's proposal would not significantly reduce the burden on any companies.

A. Asset Accounting

While Part 32's specific requirements around accounting for assets may have historically served a purpose when regulating rate-of-return carriers, to the extent they different from GAAP, they are now merely a costly and cumbersome anachronism. For example, with respect to Asset Accounting, GAAP requires an adjustment of value when there is an acquisition via merger or purchase and Part 32 requires the acquisition be at original cost. In the past, this was to ensure carriers did not artificially inflate their rate bases by shifting assets back and forth between entities that could use the inflated rate base to increase regulated rates and revenues. This is no longer a risk for price cap carriers or unregulated competitors that set prices based upon the market and competition. Additionally, Part 32 has specific thresholds or requirements for the capitalization of asset purchases while GAAP does not. Part 32 requires the capitalization and tracking of all network assets, provides a $500 capitalization threshold for personal computers and $2,000 for most support asset categories (e.g., tools, vehicles, furniture, office equipment, etc.). Assets that fall between the Part 32 thresholds and thresholds used for GAAP must be tracked, depreciated, etc. thereby increasing the carrier's

[27] *See Notice* at 6, ¶15.

cost. Assets are no longer used in setting rates, and USTelecom has not identified any federal agency need for this information.

B. Depreciation

The same is true for the depreciation schedules under Part 32, which vary considerably from those developed for GAAP purposes and which add complexity and unnecessary costs to the accounting records maintained by price cap carriers. Part 32 rules are extremely burdensome since they do not afford the same flexibility that GAAP allows in the determination of depreciation expense. For example, the carrier cannot use depreciation methods that most closely reflect the use (and decline in net realizable value) of assets. Part 32 results in separate schedules and depreciation modules programmed in vendor accounting systems, e.g., additional analysis of FCC booked reserve balances, monthly journalization of FCC depreciation, and reconciliation to external books. Compliance with Part 32 requires companies to bear the burden of maintaining historical records supporting Part 32 depreciation as well as GAAP.

Although USOA rules require that carriers quantify and attribute the effects among lives, salvage, and cost of removal effects by class of depreciable plant, it is unclear that there is a regulatory purpose for that data. USTelecom members assert that it makes more sense to use GAAP, which will show how depreciation rates will more closely align with the actual life of the asset. One example of this is as it relates to the cost of removal and salvage. GAAP requires recognition of the cost of removal expense when incurred, whereas, Part 32 rules record the cost of removal as depreciation expense over the life of the asset. The Commission correctly observes that cost of removal would not be included in calculation of depreciation rates, but would be charged to expense at the time the expense is incurred, thereby demonstrating why GAAP are a more accurate reflection of the expense.

The same is also true for Part 32 requirements for plant accounting and recordkeeping, which are significantly more detailed than what GAAP requires. The level of detail at which accounts, subaccounts and detailed plant record categories are defined far exceeds the record keeping necessary to verify the existence of plant assets and support the asset balances presented in the financial statements and therefore should be more closely aligned with GAAP.

USTelecom also supports the use of GAAP rules for calculating Allowance for Funds used During Construction ("AFUDC"). Whereas USOA uses imputed interest on equity funds, GAAP uses the cost of debt in determining AFUDC. USTelecom concurs with the Commission's analysis that there would only be a negligible decrease in recorded asset values and depreciation expense.[28]

C. Materiality

The Commission also proposes to revise the USOA's treatment of materiality to better align with GAAP and seeks ways to incorporate the concept of materiality into the USOA.[29] Currently, 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.[30]

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[28] *See Notice* at 8, ¶¶ 23-24.

[29] *See Notice* at 9, ¶26.

[30] *See* 47 C.F.R. § 32.26 (requiring that ILECs adhere to the USOA "in recording all financial and statistical data irrespective of an individual item's materiality under GAAP …"). As has been previously explained to the Commission, materiality is an established, well-developed accounting concept that allows accountants and auditors to focus on meaningful entries or errors and to make a qualitative assessment of the importance of such entries or errors, from the

The original rationale for establishing a Commission-managed definition of materiality was the concern over its impact on the rate setting process. Since costs no longer have an impact on the rates for price cap carriers, there is no longer any reason for concern.[31] In fact, even before forbearance from cost allocation regulations, auditors took the regulatory implications into consideration. For example, in its *Ex Parte* letter in WC Docket 05-352 dated July 25, 2006, Ernst & Young explains, "The telephone companies are required to comply with the FCC's rules in determining these allocations to regulated activities. Therefore, E&Y believes it is more appropriate to establish planning materiality as a percentage of regulated revenues, expenses or investment, rather than a percentage of pretax income."[32] Under GAAP, materiality means that the nature of the economic event(s) including the dollar amount being accounted for and the overall economic environment, should be considered in determining how a particular transaction should be treated for reporting purposes. The FCC should adopt the GAAP definition of materiality or, in the alternative, allow for a percentage threshold such as a 1% threshold.

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perspective of the users of the statement at issue. *See* Letter from Deena Clausen, Ernst & Young, to Marlene Dortch, Secretary, Federal Communications Commission, WC Docket No 05-532 (filed July 25, 2006). Having carriers rely upon GAAP and the concept of materiality would enable price cap carriers and their auditors to more efficiently prepare and audit the carrier's accounts. Indeed, in the context of the 2008 Biennial Review, the Wireline Competition Bureau staff recommended that the Commission consider eliminating Rule 32.26. *See Commission Releases 2008 Biennial Review of Telecommunications Regulations*, WC Docket No. 08-183, Public Notice, 25 FCC Rcd 9041, 9043 (2010); *see also, 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 *(GAAP Accounting Order)*, 102 FCC 2d, 964, 987, ¶ 80.

[31] *See GAAP Accounting Order* 102 FCC Rcd. 964, 986.

[32] *See* Letter to Ms. Marlene H. Dortch, Secretary, Federal Communications Commission from Deena Clausen, Executive Director, Ernst & Young, WC Docket No. 05-352, July 25, 2006.

D. Tax Accounting

Currently, all entries in Account 7910 for jurisdictional ratemaking differences under Part 32 are required to be recorded net of tax effects and supported by subsidiary records. This requirement is informational in nature and arguably not an entry that should be recorded in a financial system. The impact of recording income effects in Account 7910 also requires the applicable tax impacts to be recorded in the applicable deferred tax accounts and tracked by event for long periods of time until they are subsequently reversed in future years. The information has never been used in any proceeding to our knowledge and therefore this requirement should be eliminated to align with GAAP.

Under USOA rules, other aspects of tax accounting are also more burdensome. All entries required for Part 32 booking require the tax effect calculation and recording including the impact on tax reserves. Since there is only one tax return filed and it is based on the external GAAP books, the tax expense must be further reviewed and subsequently recorded as deferred taxes to the balance sheet for Part 32. The deferred taxes recorded from the Part 32 accounting differences also must be analyzed and reversed in accordance with the appropriate timing of each event that caused the book/tax difference. Reconciliation activity and controls of the book/tax differences between the GAAP external books and the FCC Part 32 books is also required. This is particularly burdensome since such reconciliations may need to occur as often as monthly, depending on the company. As such, GAAP should be applied to lessen the amount of reconciliation activity required.

E. Corporate Book Closing

Corporate book closing is also implicated by the differences between GAAP and Part 32 requirements. The monthly corporate books financial closing is impeded since the FCC Part 32 books must be closed and reconciled before the process is complete. This requires the establishment of unique controls, analysis and review of entries at critical times in short time frames and additional journal entries. An essential part of the closing process occurs when the monthly revenue and expense balances are matched in an Income Summary resulting in the net income for the period. This process is complicated by requiring the identification of all non-GAAP Part 32 entries and subsequently matching the non-GAAP revenue and expenses for elimination in order to close the books. In addition, unique coding of revenue, expenses and assets is required in order to recognize the non-GAAP Part 32 impacts so that they could be properly eliminated during a monthly financial close.

Furthermore, the analysis required to determine the proper accounting for all new products and services requires a double effort under Part 32 rules. One analysis is required to determine the GAAP accounting and another to determine the Part 32 accounting. Since the Part 32 accounting can frustrate many current processes and systems that were designed to handle the new customer demanded products much extra effort is required to resolve how to satisfy the Part 32 requirement. This too often results in manual processes since mechanized systems cannot handle the arcane requirements. An example is revenue accounting requirements related to new products and services. The continual review of the additional Part 32 compliance requirements slows down the completed delivery of products and services since they cannot be functional and released until they can be properly recorded and tracked in the books of account. We support the Commission streamline this process to align with GAAP so that subsequent matching the non-GAAP revenue and expenses for elimination is no longer necessary in order to close the books

F. Accounting Software

The software updates related to compliance with USOA versus GAAP also increase the burden on carriers. General Ledger packages purchased from system vendors such as Oracle require company specific customization in order to comply with Part 32 accounting requirements. Vendor systems are only designed for GAAP accounting. Typically "mappings" must be developed to get from native accounts of the package system to Part 32 accounts, creating substantial programming and system modification. The ongoing functionality of new systems is often severely diminished due to the level of records and data that must be added in order to comply with Part 32. The systems cannot function as they were intended because of the large volume of data that is required under Part 32. Every new updated release from the vendor requires additional customization rework and testing in order to install the new release. Any subsidiary feeder system – such as accounts payable or accounts receivable – require significant levels of effort to ensure that Part 32 compliance is maintained in the new system.

With the prospect looming that public companies in the United States will be required to migrate from GAAP to the International Financial Reporting Standards (IFRS), the unnecessary costs associated with Part 32 compliance will only grow exponentially.[33] For example, Verizon is updating and modernizing its accounting software platform – a multi-

[33] *See* SEC, Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers A Comparison of U.S. GAAP and IFRS -- A Securities and Exchange Commission Staff Paper, at 1 (Nov. 16, 2011) (available at http://sec.gov/spotlight/globalaccountingstandards/ifrs-work-plan-paper-111611-gaap.pdf) ("The purpose of the Work Plan is to consider specific areas and factors relevant to a Commission determination as to whether, when, and how the current financial reporting system for U.S. issuers should be transitioned to a system incorporating International Financial Reporting Standards"); SEC , Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers An Analysis of IFRS in Practice -- A Securities and Exchange Commission Staff Paper (Nov. 16, 2011) (available at http://sec.gov/spotlight/globalaccountingstandards/ifrs-work-plan-paper-111611-practice.pdf).

million dollar expense – as it prepares for the eventual migration to IFRS. Although this modernization process provides an opportunity to make Verizon's accounting systems more efficient, absent elimination or , the company will be required to incur the capital expenses associated with programming its new software platform to ensure compliance with the extensive Commission accounting requirements under Part 32. We support the FCC streamlining the rules in such a way that the burden of increased costs in software updates is eased.

G. Statistical Sampling

Another particularly cumbersome example of the unnecessary costs associated with continued application of Part 32 to price cap carriers is the Commission's requirement that price cap carriers seek prior approval of changes in a carrier's time sampling processes.[34] Statistical sampling techniques historically were used to record technician and marketing personnel expenses to the appropriate Part 32 accounts. As with the other Part 32 requirements, however, the data captured by the statistical sampling process no longer impacts rates of price cap carriers and otherwise serves no regulatory purpose. Nonetheless, for an ILEC that wants to modify the statistical sampling it uses for its own business purposes or that makes any systems upgrades that impact its Part 32 statistical sampling processes, the ILEC must incur the time and expense of securing Commission approval. We seek streamlining measures that will no longer necessitate Commission approval for a change in sampling processes.

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[34] *See, e.g.,* Letter from Albert M. Lewis, Chief, Pricing Policy Division, Wireline Competition Bureau, Federal Communications Commission to Linda Vandeloop, Director, AT&T, 25 FCC Rcd 13731 (2010); Letter from Sharon E. Gillett, Chief, Wireline Competition Bureau, Federal Communications Commission to Timothy M. Boucher, Corporate Counsel, Qwest, 25 FCC Rcd 2114 (2010).

H. Effect on Rate of Return Carriers

USTelecom supports the elimination of Part 32 rules. However, as the U.S. Supreme Court held in *Louisiana PSC v. FCC*, Section 152(b) bars federal pre-emption of state regulation over depreciation of dual jurisdiction property for intrastate ratemaking purposes, thereby giving states the right to require accounting based on their own model including the utilization of Part 32 rules.[35] Like all carriers, rate of return carriers utilize GAAP in preparing their accounts and then back that data into the accounts required under Part 32 of the FCC's rules. As noted above, the biggest difference between USOA and GAAP accounts is with respect to the categorization of expenses, the methods for determining depreciation and accumulated depreciation, and deferred taxes. Where rate of return carriers or price cap carriers operating in those states that require USOA accounting for their regulatory purposes, those carriers will have to continue to provide that data regardless of whether the FCC eliminates or streamlines certain rules in this proceeding, however, that also does not mean that the FCC is obligated to keep Part 32 rules in effect at the federal level even though states may require it at the local level.

All of the reasons for which USTelecom requested forbearance from enforcing Part 32 legacy regulations in 2012 remain true today. In the absence of the elimination of all USOA rules, USTelecom supports measures to more closely align USOA with GAAP and additional streamlining of the rules.

IV. Other Issues

In the same way, USTelecom also supports the proposed consolidation of the remaining property records rule in subsection 32.2000(e)(7)(i)(A) into subsection 32.2000(f), creating a

[35] *See Louisiana Public Service Commission v. FCC*, 476 U.S. 355,368-379 (1986).

new rule in subsection (e) for price cap carriers that requires they maintain property records necessary to track substantial investments in auditable fashion, that enables verification and the ability to make such property information available to the Commission upon request.[36] Price caps carriers are capable of maintaining this property records data utilizing GAAP which are fully auditable and can be made available upon reasonable request by the Commission.

We recognize, as noted in the Notice, that some state commissions continue to require USOA accounting data for performing regulatory functions. Regardless of any streamlining measures taken by the Commission in this proceeding, USTelecom members will continue to abide by state regulatory requirements.

With respect to implementation of changes to the USOA rules, most carriers could be able to implement changes within one year.

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[36] *See Notice* at 15, ¶54.

V. CONCLUSION

The Commission should eliminate the Part 32 accounting requirements in their entirety for price cap carriers; however, in the alternative, the Commission should adopt streamlining measures to more closely align with GAAP and where appropriate the proposed targeted accounting rules for price cap carriers to the extent that USTelecom describes herein.

Respectfully submitted,

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