

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

**Federal-State Joint Conference on
Accounting Issues**

WC Docket No. 02-269

Comments of the Independent Telephone and Telecommunications Alliance

I. Introduction

In response to Public Notice issued by the Federal-State Joint Conference on Accounting Issues (the “Conference”) in the above-captioned proceeding,¹ the Independent Telephone and Telecommunications Alliance (“ITTA”) submits the following comments. ITTA is an organization of independent local exchange carriers that provide their customers with a diversified range of services, including local exchange, interexchange, digital subscriber line (“DSL”), Internet, and wireless services. Collectively, ITTA members serve over 10 million access lines, primarily in suburban, rural, other smaller markets in forty states across the country. Most ITTA members meet the definition of a “rural telephone company” contained in Section 3(37) of the Communications Act of 1934, as amended (the “Act”), 47 U.S.C. § 153(37). The Commission’s Part 32 rules classify all local exchange carriers operated by ITTA members either as Class B carriers whose annual revenues do not exceed the Indexed Revenue Threshold,² or as midsize carriers³, which are permitted to use the Class B accounts for regulatory accounting purposes.⁴

¹ Public Notice, *Federal-State Joint Conference on Accounting Issues*, WC Docket No. 02-269, Request for Comment, DA 02-3449 (rel. Dec. 12, 2003) (the “Notice”).

² The Indexed Revenue Threshold is currently set at \$119 million. *See* Public Notice, *Annual Adjustment of Revenue Threshold*, DA 02-957 (rel. Apr. 26, 2002).

³ The Commission’s rules define a “mid-sized incumbent local exchange carrier” as “a carrier whose annual revenue from regulated telecommunications operations equals or exceeds the indexed revenue threshold and whose revenue when aggregated with the revenues of any local exchange carrier that it

II. ITTA Supports the Conference’s Determination to Examine Carefully Any Proposal to Impose New Accounting and Reporting Requirements on Midsize Carriers

In a series of recent orders, the Commission has properly granted midsize carriers limited, but much-needed, relief from its most burdensome accounting and reporting rules.⁵ The Commission took these steps after carefully considering evidence that these accounting and reporting requirements place a disproportionate burden on midsize carriers that substantially outweighed the limited benefits such requirements might produce. ITTA concurs with the Commission’s conclusions and submits that nothing has changed since the Commission took action that would call these conclusions into doubt. Today, the costs of compliance would be as great and the utility of the data as limited as they were when the Commission first granted this relief.

The underlying findings that supported the Commission’s decision to differentiate in its accounting and reporting rules between midsize and larger carriers remain sound today. First, the Commission found that the limited amount of data provided by those midsize carriers that, under the former rules, submitted CAM filings and ARMIS reports did not materially contribute to the Commission’s overall ability to regulate the LEC industry. As the Commission observed, midsize carriers generally have financial transactions that are smaller than those of larger carriers and the Commission’s “regulatory focus has primarily been on the larger LECs

controls, is controlled by, or with which it is under common control is less than \$7 billion (indexed for inflation as measured by the Department of Commerce Gross Domestic Product Chain-type Price Index (GDP-CPI)).” 47 C.F.R. § 32.9000 (Glossary).

⁴ 47 C.F.R. § 32.11(b).

⁵ *2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2*, Report and Order in CC Docket Nos. 00-199, 97-212, and 80-286, Further Notice of Proposed Rulemaking in CC Docket Nos. 00-199, 99-301, and 80-286, 16 FCC Rcd 19913 (2001) (“*Phase 2 Order*”); *1998 Biennial Regulatory Review – Review of ARMIS Reporting Requirements*, Report and Order in CC Docket No. 98-117, and Fifth Report and Order in AAD File No. 98-43, 14 FCC Rcd 11443 (1999) (“*ITTA ARMIS Forbearance Order*”), at para. 11.

that comprise most of the access lines.”⁶ Observing that the BOCs serve the vast majority of all lines served by Class A carriers nationwide,⁷ the Commission reiterated its conclusion from the *ITTA ARMIS Forbearance Order* that “it could maintain the necessary degree of oversight and monitoring to protect consumers’ interests while imposing . . . less administratively burdensome requirements on such carriers.”⁸

Second, the Commission concluded that the compliance burden that these requirements placed on midsize carriers imposed disproportionately greater costs on midsize LEC customers than they did on the customers of larger LECs, because midsize carriers have fewer lines across which to spread the compliance costs.⁹ In doing so, the Commission specifically acknowledged that “the cost of filing ARMIS reports may be higher for the mid-sized carriers, on a per-line basis, than for the larger Class A companies.”¹⁰

In light of these established and well-supported Commission findings, ITTA strongly supports the Conference’s decision specifically to request that commenters address the “impact of any proposed changes to any accounting requirements on local exchange carriers with fewer than 2 percent of the Nation’s subscriber lines installed in the aggregate nationwide.”¹¹ The Conference is correctly hesitant to recommend that the Commission impose additional accounting

⁶ *Phase 2 Order* at para. 194.

⁷ *Id.* at para. 185 (citing statistics that the BOCs serve 87.6 percent of all ILEC access lines in the nation, while the remaining Class A companies serve an additional 6.1 percent.).

⁸ *Id.* at para. 187. *See also ITTA ARMIS Forbearance Order* at para. 12 (“This reduction in reporting requirements is based on a balancing of our regulatory needs for information from mid-sized ILECs against our desire not to impose unreasonable or unnecessary reporting requirements on telephone companies. We do not believe that retaining these 21 tables for mid-sized ILECs is needed to provide us with information relative to the regulation of those carriers or the industry as a whole.”)

⁹ *Id.* at para 192 (“We are aware that some mid-sized carriers have more limited resources than the larger companies, and the costs of regulatory compliance may disproportionately impact these carriers.”).

¹⁰ *Id.* at para. 194.

¹¹ Notice at 5.

and reporting requirements on midsize carriers without engaging in such an analysis. First, the costs of compliance remain high for the entire group of midsize carriers to which the Commission has already granted relief. In weighing the impact of any such change that a commenter proposes, therefore, ITTA urges the Conference to consider the impact on this midsize carrier group, and not solely on two percent carriers. Many two percent carriers have never been subject to the Commission's most burdensome accounting and reporting requirements and there is no justification for the Conference to recommend expansion of burdens like these onto those companies in this proceeding. ITTA asks the Conference to bear in mind the disproportionately high compliance costs and limited utility that led the Commission to eliminate significant accounting and reporting requirements for midsize carriers in the recent past.

Second, there is no evidence suggesting the presence of any systemic financial accounting issues within the midsize carrier community, much less any issues caused by the Commission's much-needed Phase 2 accounting and reporting reforms. In the wake of the Commission's accounting and reporting reforms, there have been no reports that midsize carriers have employed questionable financial accounting techniques, otherwise engaged in financial mismanagement or self-dealing, or commenced Chapter 11 proceedings. Further, the regulatory accounting and filing requirements discussed in the Notice would not have highlighted or signaled the systemic problems at any now-bankrupt carriers, midsize or otherwise. Therefore, ITTA believes that it would disserve the public interest for the Conference to recommend that the Commission impose new accounting and reporting requirements on midsize carriers.

To the contrary, with competition increasing in local exchange markets nationwide, the Conference and the Commission should strive to regulate in as minimal and competitively-neutral a manner as possible. As the Telecommunications Act of 1996 recognized, the impact of

competition on a midsize or rural carrier's ability to meet its universal service obligations can be particularly great;¹² therefore, the Conference and the Commission should remain particularly sensitive to regulatory burdens placed asymmetrically on these carriers, but not their competitors. Already today, ILECs uniquely observe the Commission's Part 32 accounting, Part 64 cost allocation, and Part 36 jurisdictional separations rules, and report financial information under ARMIS. Unregulated competitors today bear none of these costs and, indeed, may benefit from the public release of otherwise competitively-sensitive information by the ILEC against which they compete. Asymmetric regulatory requirements of this type inhibit the development of robust, efficient competition. Especially as cross-platform competition increases among ILECs, CLECs, CMRS, cable, and satellite providers, the Commission should move toward competitively-neutral requirements that do not disproportionately burden one class of competitor over others. The reforms in the *Phase 2 Order* moved the Commission's regulations toward this goal and ITTA urges the Conference to recommend that the Commission continue the process it initiated in its previous proceedings.¹³

¹² See, e.g., 47 U.S.C. §§ 214(e)(2), 251(f).

¹³ See *2000 Biennial Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2 and Phase 3*, CC Docket No. 00-199, Phase 3 Comments of the Independent Telephone and Telecommunications Alliance (filed Feb. 13, 2001).

III. Conclusion

For the foregoing reasons, ITTA strongly supports the Conference's determination to carefully consider the impact any proposed accounting or reporting changes would have on midsize carriers, and urges the Conference bear in mind the disproportionate burden and limited utility of such requirements that the Commission has found in the past.

Respectfully submitted,

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