

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

In the matter of)	
)	
Financial Accounting Standards Board)	
)	WCB/Pricing 05-32
Statement of Financial Accounting Standards)	
No. 123r, Accounting for Stock-Based)	
Compensation)	
)	
Statement of Financial Accounting Standards)	
No. 149, Amendment of Statement 133 on)	
Derivative Instruments and Hedging Activities)	
)	
Statement of Financial Accounting Standards)	
No. 150, Accounting for Certain Financial)	
Instruments with Characteristics of Both)	
Liabilities and Equity)	
)	
Statement of Financial Accounting Standards)	
No. 151, Inventory Costs (an amendment of ARB)	
No. 43, Chapter 4))	
)	
Statement of Financial Accounting Standards)	
No. 152, Accounting for Real Estate Time-Sharing)	
Transactions (an amendment of FASB Statements)	
Nos. 66 and 67))	
)	
Statement of Financial Accounting Standards)	
No. 153, Exchanges of Nonmonetary Assets (an)	
amendment of APB Opinion No. 29); and)	
)	
Statement of Financial Accounting Standards)	
No. 154, Accounting Changes and Error)	
Corrections (a replacement of APB Opinion No.)	
20 and FASB Statement No. 3))	

ORDER

Adopted: September 22, 2005

Released: September 22, 2005

By the Chief, Wireline Competition Bureau:

1. On June 24, 2005, BellSouth, on behalf of an industry coalition consisting of BellSouth Corporation (BellSouth), SBC Communications, Inc. (SBC), Qwest International Communications, Inc. (Qwest), and Verizon Communications, Inc. (Verizon) filed notices of intent to adopt seven Statements of the Financial Accounting Standards Board for regulatory accounting purposes.¹ BellSouth, SBC, Qwest, and Verizon filed these notices pursuant to section 32.16 of the Commission's rules, which requires carriers to apply new standards adopted by the Financial Accounting Standards Board (FASB) and provides for automatic Commission approval within 90 days unless the Commission notifies carriers otherwise.² It is the Commission's policy to incorporate changes in generally accepted accounting principles into its regulatory accounting unless the changes conflict with its regulatory objectives.³ In this order we require all carriers to adopt the above-mentioned FASB standards for regulatory accounting purposes.

2. **SFAS 123r.** The FASB issued SFAS 123r in December 2004. Statement 123r revises Statement 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. Statement 123 established financial accounting and reporting standards for stock-based employee compensation plans, and it provided two options for companies to report their stock-based compensation: (1) the fair value method, whereby companies record stock-based compensation in their books of account based on a calculation of the fair value of the options, or (2) the intrinsic value method previously required by APB 25. The fair value method generally recognizes compensation expense for stock options while the intrinsic value method typically does not recognize compensation expense if the exercise price of the options equals or exceeds the market price on the grant date. Statement 123r eliminates the intrinsic value method, resulting in a uniform methodology for companies to report stock-based employee compensation.

3. **SFAS 149.** The FASB issued SFAS 149 in April 2003. This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS 133 standardized the accounting for derivative instruments by requiring that they be recognized as assets or

¹ Letter from Mary L. Henze, Assistant Vice-President, Federal Regulatory, BellSouth, on behalf of an industry coalition consisting of BellSouth, SBC, Qwest, and Verizon, to Thomas Navin, Chief, Wireline Competition Bureau, FCC (June 24, 2005). Qwest also filed a separate letter notifying the Commission of its intent to adopt SFAS No. 123r. See Letter from Edward Henry, Director, Finance, Qwest, to Thomas Navin, Chief, Wireline Competition Bureau, FCC (June 9, 2005). See Financial Accounting Standards Board Statement No. 123r, Accounting for Stock-Based Compensation (SFAS 123); Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities; (SFAS 149); Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity (SFAS 150); Statement No. 151, Inventory Costs (an amendment of ARB No. 43, Chapter 4) (SFAS 151); Statement No. 152, Accounting for Real Estate Time Sharing Transactions (an amendment of FASB Statements No. 66 and 67) (SFAS 152); Statement No. 153, Exchanges of Nonmonetary Assets (an amendment of APB Opinion No. 29) (SFAS 153); and Statement No. 154, Accounting Changes and Error Corrections (a replacement of APB Opinion No. 20 and FASB Statement No. 3) (SFAS 154).

² 47 C.F.R. § 32.16. The Financial Accounting Standards Board is the authoritative standard setting body responsible for accounting and disclosure practices to be used for published financial statements in the American business community.

³ *Revision of the Uniform System of Accounts for Telephone Companies to Accommodate Generally Accepted Accounting Principles*, CC Docket No. 84-469, Report and Order, 50 Fed. Reg. 48408 (Nov. 25, 1985).

liabilities in statements of financial position and that they be measured at fair market value.⁴ The changes in this Statement improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. In particular, this Statement: (1) clarifies under what circumstances a contract with an initial net investment meets the characteristics of a derivative; (2) clarifies when a derivative contains a financing component; (3) amends the definition of “underlying” to conform it to language used in FASB Interpretation No. 45, Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others; and (4) amends certain other existing pronouncements. The changes will result in more consistent reporting of contracts as either derivatives or hybrid instruments.

4. **SFAS 150.** The FASB issued SFAS 150 in May 2003. This statement establishes standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equities. This statement requires an issuer to classify the following financial instruments as liabilities: (1) an instrument issued in the form of shares that is mandatorily redeemable; (2) an instrument, other than an outstanding share that, at inception, embodies an obligation to repurchase the issuer’s equity shares and that requires or may require the issuer to settle the obligation by transferring assets; and (3) an instrument that embodies an unconditional obligation or a financial instrument other than an outstanding share that embodies a conditional obligation that the issuer must or may settle by issuing a variable number of its equity shares.

5. **SFAS 151.** The FASB issued SFAS 151 in November 2004. This statement amends Accounting Research Bulletin No. 43 (ARB 43), Chapter 4, “Inventory Pricing,” to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) must be recognized as current period charges. ARB 43 had previously stated that in some circumstances these costs may be so abnormal as to require treatment as current period charges. SFAS 151 eliminates uncertainty by requiring that these costs be recognized as current period charges regardless of whether they meet the “so abnormal” criterion.

6. **SFAS 152.** The FASB issued SFAS 152 in December 2004. This statement amends FASB Statement No. 66 (SFAS 66), Accounting for Sales of Real Estate, and FASB Statement No. 67 (SFAS 67), Accounting for Costs and Initial Rental Operations of Real Estate Projects. SFAS 66 is amended to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position 04-02 (SOP 04-02), Accounting for Real Estate Time-Sharing Transactions. SFAS 67 is amended to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP 04-02.

7. **SFAS 153.** The FASB issued SFAS 153 in December 2004. This statement addresses the measurement of exchanges of nonmonetary assets. It amends APB Opinion No. 29, Accounting for Nonmonetary Transactions, by eliminating the exception from fair value measurement for nonmonetary exchanges of similar productive assets, and replaces it with an exception for exchanges that do not have commercial substance. This statement specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. By focusing on exchanges that lack commercial substance, the FASB believes this statement produces financial reporting that more faithfully represents the economics of the transactions.

8. **SFAS 154.** The FASB issued SFAS 154 in May 2005. This statement replaces APB Opinion No. 20, Accounting Changes, and SFAS No 3, Reporting Accounting Changes in Interim

⁴ A derivative is a collective term for securities whose prices are based on the prices of another underlying investment. Examples of derivative instruments are interest rate swaps, foreign currency exchange rate swaps, and futures and options contracts.

Financial Statements, and it changes the requirements for the accounting for and reporting of a change in accounting principles. Statement 154 requires retrospective application to prior periods' financial statements of changes in accounting principles. Retrospective application is defined as the application of a different accounting principle to prior accounting periods as if that principle had always been used. This statement also redefines "restatement" to mean the revising of previously issued financial statements to reflect the correction of an error.

9. After reviewing SFAS Nos. 123r, 149, 150, 151, 152, 153, and 154, we conclude that their adoption for federal accounting purposes would not conflict with the Commission's current accounting rules.⁵ In order to minimize differences between published financial statements and regulatory accounting under the Commission's Rules, we require that the carriers implement these FASB Statements for federal accounting purposes at the same time and in the same manner that carriers implement the statements in their published financial statements.

10. ACCORDINGLY, IT IS ORDERED, pursuant to section 4(i), 4(j), and 220 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 154(i), 154(j), and 220, section 32.16 of the Commission's rules, 47 C.F.R. § 32.16, and the authority delegated pursuant to sections 0.91 and 0.291 of the Commission's rules, 47 C.F.R. §§ 0.91, 0.291, that the notifications of intent to adopt SFAS 123r, SFAS 149, SFAS 150, SFAS 151, SFAS 152, SFAS 153, and SFAS 154 submitted by BellSouth on behalf of the coalition consisting of BellSouth, Qwest, SBC, and Verizon ARE HEREBY APPROVED and that all subject carriers SHALL IMPLEMENT these Statements for federal accounting purposes at the same time and in the same manner that they implement them in their published financial statements.

FEDERAL COMMUNICATIONS COMMISSION

Thomas J. Navin
Chief, Wireline Competition Bureau

⁵ With respect to the adoption SFAS 153, carriers must still comply with the Commission's rules for plant acquisition as prescribed in § 32.2000(b), Telecommunications plant acquired. 47 C.F.R. § 32.2000(b).