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

In the matter of Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation – Transition and Disclosure (an amendment of FASB Statement No. 123) Statement of Financial Accounting Standards No. 145, Rescission of FASB Statements 4, 44, 64, Amendment of FASB Statement 13, and Technical Corrections; and, Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities	)	WCB/Pricing 03-20

ORDER

Adopted**:** May 14, 2003 Released: May 14, 2003

By the Chief, Wireline Competition Bureau:

1. On February 14, and February 19, 2003, respectively, SBC Communications, Inc. (SBC) and Verizon filed notices of intent to adopt four Statements of the Financial Accounting Standards Board for regulatory accounting purposes.[1] SBC 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)[2] and provides for automatic Commission approval within 90 days unless the Commission notifies carriers otherwise.[3] It is the Commission's policy to incorporate changes in

[1] Letter from Brett A. Kissel, Associate Director, Federal Regulatory, SBC, to Clifford Rand, Deputy Chief, Pricing Policy Division, Wireline Competition Bureau, FCC (February 14, 2003); Letter from Gerald Asch, Director, Federal Regulatory, Verizon, to William Maher, Chief, Wireline Competition Bureau, FCC (February 19, 2003). *See* Financial Accounting Standards Board Statement No. 123, Accounting for Stock-Based Compensation (SFAS 123); Statement No. 148, Accounting for Stock-Based Compensation – Transition and Disclosure (an amendment of FASB Statement No. 123) (SFAS 148); Statement No. 145, Rescission of FASB Statements 4, 44, 64, Amendment of FASB Statement 13, and Technical Corrections (SFAS 145); and Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146).

[2] 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] 47 C.F.R. §32.16.

generally accepted accounting principles into its regulatory accounting unless the changes conflict with its regulatory objectives.[4] In this order we require all carriers to adopt the above mentioned FASB standards for regulatory accounting purposes.

2. **SFAS 123.** The FASB issued SFAS 123 in October 1995. This Statement establishes financial accounting and reporting standards for stock-based employee compensation plans. This Statement also applies to transactions in which an entity issues its equity instruments to acquire goods or services from nonemployees. SFAS 123 provides carriers with two options for reporting 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 Accounting Principles Board Opinion 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.

3. **SFAS 148**. The FASB issued SFAS 148 in December 2002. This Statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

4. **SFAS 145.** The FASB issued SFAS 145 in April 2002. SFAS 145 rescinds SFAS 4, Reporting Gains and Losses from Extinguishment of Debt, SFAS 44, Accounting for Intangible Assets of Motor Carriers, and SFAS 64, Extinguishments of Debt Made to Satisfy Sinking-Fund; amends SFAS 13, Accounting for Leases; and makes minor technical corrections to other statements.

5. **SFAS 146.** The FASB issued SFAS 146 in June 2002. This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred, not at the date when an entity commits to an exit plan. Those costs include, but are not limited to, termination benefits provided to current employees that are involuntarily terminated, costs to terminate a contract before the end of its term, and costs to consolidate facilities or relocate employees.

6. After reviewing SFAS Nos. 123, 148, 145, and 146, we conclude that their adoption for federal accounting purposes would not conflict with the Commission's current accounting rules. 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.

[4] *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).

7. 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 123, SFAS 148, SFAS 145, and SFAS 146 submitted by SBC and Verizon ARE HEREBY GRANTED 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 COMMUNICATION COMMISSION

William F. Maher, Jr.
Chief, Wireline Competition Bureau