

**Resolution on Accounting for Operating System Software**

**WHEREAS**, The National Association of Regulatory Utility Commissioners (NARUC) has become increasingly concerned with the present accounting practices of the Regional Bell Operating Companies and major independent telephone companies regarding the accounting for operating system software purchases and development; and

**WHEREAS**, The concerns more specifically relate to whether it is appropriate to expense right-to-use and license-to-use fees; costs of major operating systems and applications software development; and costs for enhancements and modifications which are purchased or developed internally; and

**WHEREAS**, The accounting practices of the Regional Bell Operating Companies and major independent telephone companies may have resulted in significant understatement of assets for financial statements and regulatory purposes; and

**WHEREAS**, The current method of booking software costs, estimated to be greater than one billion dollars annually, of the Regional Bell Operating Companies and major independent telephone companies may have significant adverse impact on ratepayers; and

**WHEREAS**, These software systems, although currently expensed under the assumption that they have only short-term benefit, may in actuality have a significantly longer-term future benefit; and

**WHEREAS**, The current expensing policies of the Regional Bell Operating Companies and major independent telephone companies may be inconsistent with Generally Accepted Accounting Principles and Part 32 of the Federal Communications Commission's Uniform System of Accounts; and

**WHEREAS**, The costs associated with operating system software have increased significantly in recent years and, in many instances, these software systems have made available new telecommunications services, both regulated and non-regulated, which produce additional revenue; and

**WHEREAS**, Developments in telecommunications technology may have rendered present accounting rules and conventions obsolete, thus resulting in imprecision and a lack of clarity; now, therefore, be it

**RESOLVED**, That the National Association of Regulatory Utility Commissioners (NARUC), convened at its 105th Annual Convention in New York, New York, requests that the Federal Communications Commission investigate whether current accounting practices of the Regional Bell Operating Companies and major independent telephone companies, for operating system software purchases and development, are in

compliance with Part 32 of its rules and whether or not those rules need to be revised; and be it further

**RESOLVED**, That the NARUC encourages state commissions to pursue this matter in individual state proceedings within their jurisdictions; and be it further

**RESOLVED**, That the NARUC General Counsel take the necessary action to request that the Federal Communications Commission investigate the concerns expressed in this resolution.

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Sponsored by the Committees on Finance and Technology, and Communications

Adopted November 17, 1993

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