



New FCC Regulations for Prepaid Card Providers

NACT Telecommunications

Intele-CardExpo
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Disclaimer

This presentation has been made available by NACT Telecommunications to the general public for the purpose of alerting prepaid card providers to the new FCC 06-79 Ruling and Order.

The opinions expressed in this presentation are solely those of NACT Telecommunications and should not be relied upon for any legal authority.

Consult the FCC website for the actual regulations, forms, and instructions governing the new FCC regulations and the federal Universal Service Fund with regard to prepaid card service providers.



Recent FCC Ruling and Order

- Prepaid Card Service Providers (FCC 06-79)
 - Declared as “Telecommunications Service Providers”
 - Subject to Federal Universal Service Fund (USF)
 - Required PIU Report submissions to Carriers
 - Required USF Certification submissions to FCC

Payphone Dial-around Compensation

- Footnote 101 on page 15 implies change in payphone DAC from “completed call” to “calls to prepaid platform”
“For similar reasons, we agree with APCC that our rules require the payment of dial-around compensation to a payphone service provider when the cardholder completes a call to the platform without attempting to call a third party.”
- IDT filed petition with well-written arguments to FCC on September 1 asking for clarification
- IDT petition clarifies APCC comment is for “information service” delivered by prepaid platform, which the footnote neglected to mention
- ***Payphone DAC has not changed***

Prepaid Calling Card Service Providers

- Subject to federal and state telecommunications regulations
 - Register as “214” Carrier
 - Contribute to Federal USF
 - Quarterly Percentage of Interstate Usage (PIU) reports
 - PIU Minutes and Percentages Reports to Carriers
 - Quarterly FCC Certification
 - Revenues and Percentages to FCC
- May have to contribute to States’ USF
 - FCC reports sent to states (states will know)



Federal Universal Service Fund

- Fund dedicated to providing all U.S. consumers with telecommunications services at reasonable cost
 - Administered by Universal Service Administrative Company (USAC)
- Four main programs
 - High Cost Infrastructure Support (mainly rural areas)
 - Rural Health Care
 - Low Income Support (subsidized services)
 - Schools and Libraries (Internet access)



Federal USF Contributions

- Funding supplied by USF contributions
 - Telecommunications services tax
 - Voice communications (PSTN)
 - Interstate and International Call Revenue
 - Interstate Services
 - Exceptions
 - Prepaid Card services provided to Department of Defense (DoD)
 - Information Service Calls (e.g. directory assistance, stock quote)
 - USF contributions remitted to USAC

Federal USF Rate Determination

- Rate determined once per calendar quarter
- Proposed by USAC
 - Service Providers (SPs) forecast next quarter's revenue
 - “Revenue” → face value of prepaid card at time of sale
 - Submit FCC Form 499-Q
 - Due 60 days before quarter start
 - Previous quarter's historical revenues
 - Next quarter's forecast revenues
 - USAC computes new USF tax rate based on
 - Revenue forecasts of all SPs
 - Needs of USF programs
 - Submits new USF rate to FCC 30 days before quarter start
- Approved by FCC
 - Published by 15th of month preceding quarter start
 - Q4 2006 rate of 9.1% announced Tuesday, September 12



Federal USF Remittance

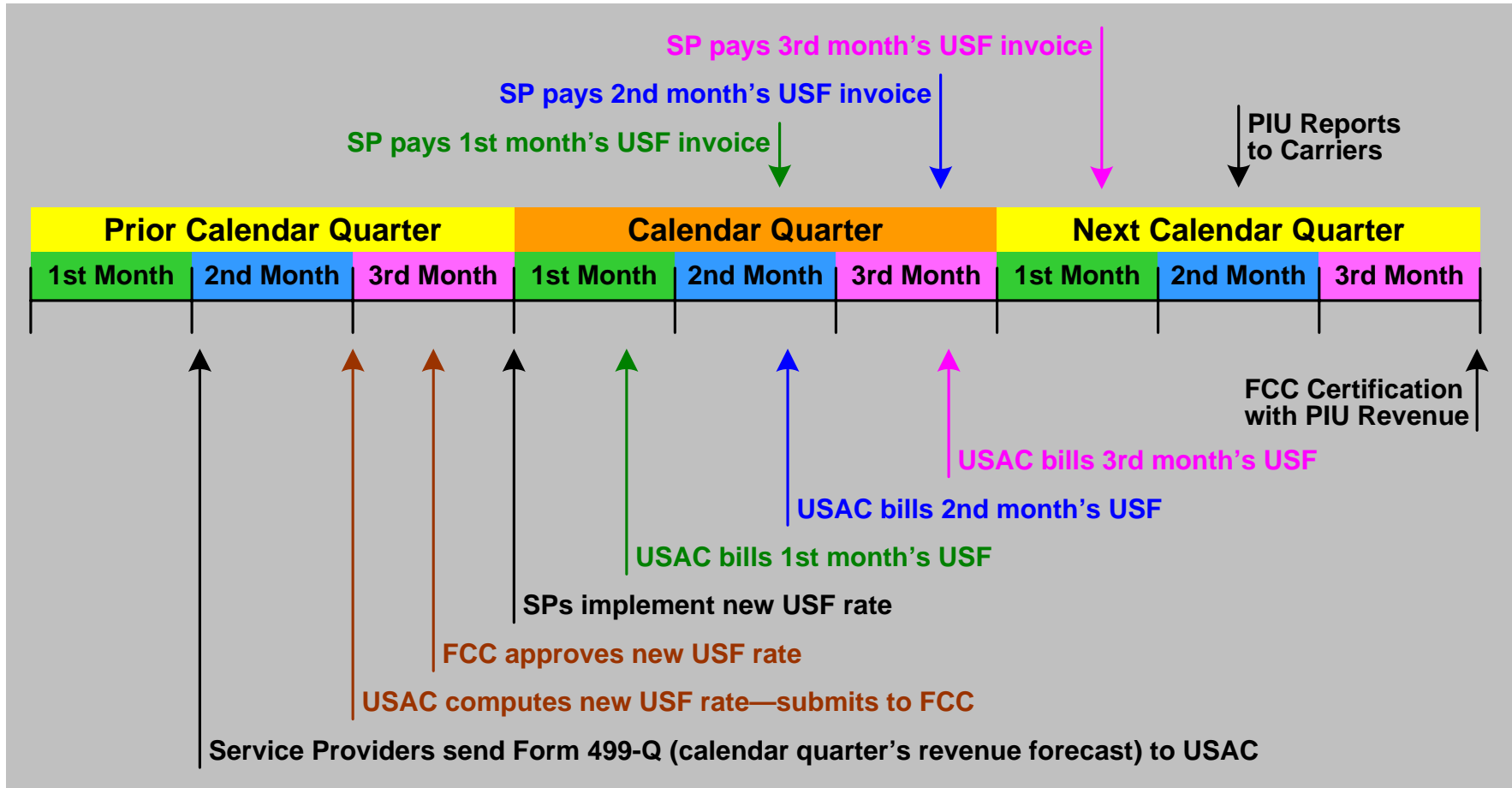
- USF Contributions Billing
 - USAC sends monthly invoice (22nd)
 - Amount due = 1/3 of quarterly forecast x USF rate (4Q06=9.1%)
 - Payment required within 30 days

- Annual USF “True-up”
 - Service Providers submit FCC Form 499-A to USAC
 - Due April 1 after calendar year
 - Actual annual interstate/international revenues
 - Used to “true up” USF contributions paid based on forecasts with correct USF contribution based on actual revenue

Federal USF Calendar Quarter

Significant events, dates, and deadlines for Service Providers

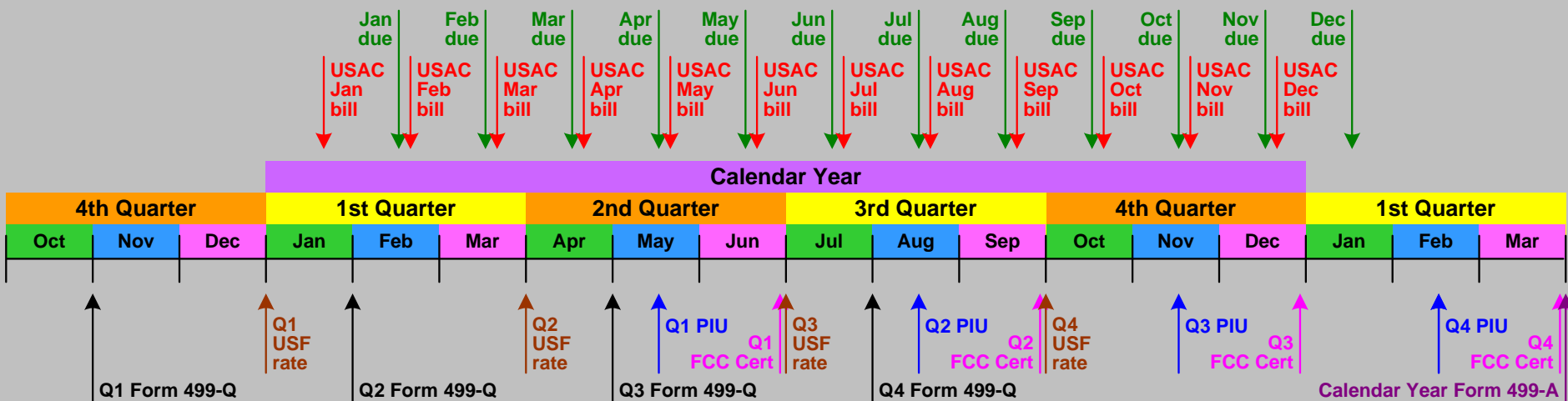
One Calendar Quarter



Federal USF Calendar Year

Significant events, dates, and deadlines for Service Providers

One Calendar Year



- 4 FCC Form 499-Q submissions to USAC
- 4 USF rate adjustments to prepaid platform federal USF tax rate
- 4 Percentage of Interstate Usage (PIU) Minutes Report submissions per carrier
- 4 Certifications with Revenue and Interstate/International Percentage Reports to FCC
- 12 Federal USF invoices from USAC
- 12 Federal USF remittances to USAC
- 1 FCC Form 499-A submission to FCC

State Universal Service Funds

- State USF tax on telecommunications services
 - Voice communications (PSTN)
 - Intrastate call and local services revenues only
 - Based on caller's location
 - Need signaling protocol that reports caller's location
 - SS7, ISDN, Feature Group D, H.323
 - Wireless use SS7 Jurisdiction Information Parameter (JIP)
- State USF mutually-exclusive with Federal USF
 - U.S. Constitution
 - Federal versus States' rights
 - Intrastate commerce in the state's domain
 - Interstate commerce in the federal domain



State Universal Service Funds

- Must track state USF taxes by state/territory
 - 50 States
 - Washington D.C.
 - 8 Territories
- Each state's USF program different
 - Utah has one state USF program with rate of 0.9%
 - California has five state USF programs with rates of 1.29%, 0.05%, 0.21%, 2.0% and 0.13%
- USF reporting and compliance different for each state
- State USF may not apply
 - Examples: Utah taxes intrastate prepaid card calls and California specifically exempts prepaid card calls from state USF
(<http://www.cpuc.ca.gov/static/telco/consumer+information/surcharges.htm>)

PIU Reports

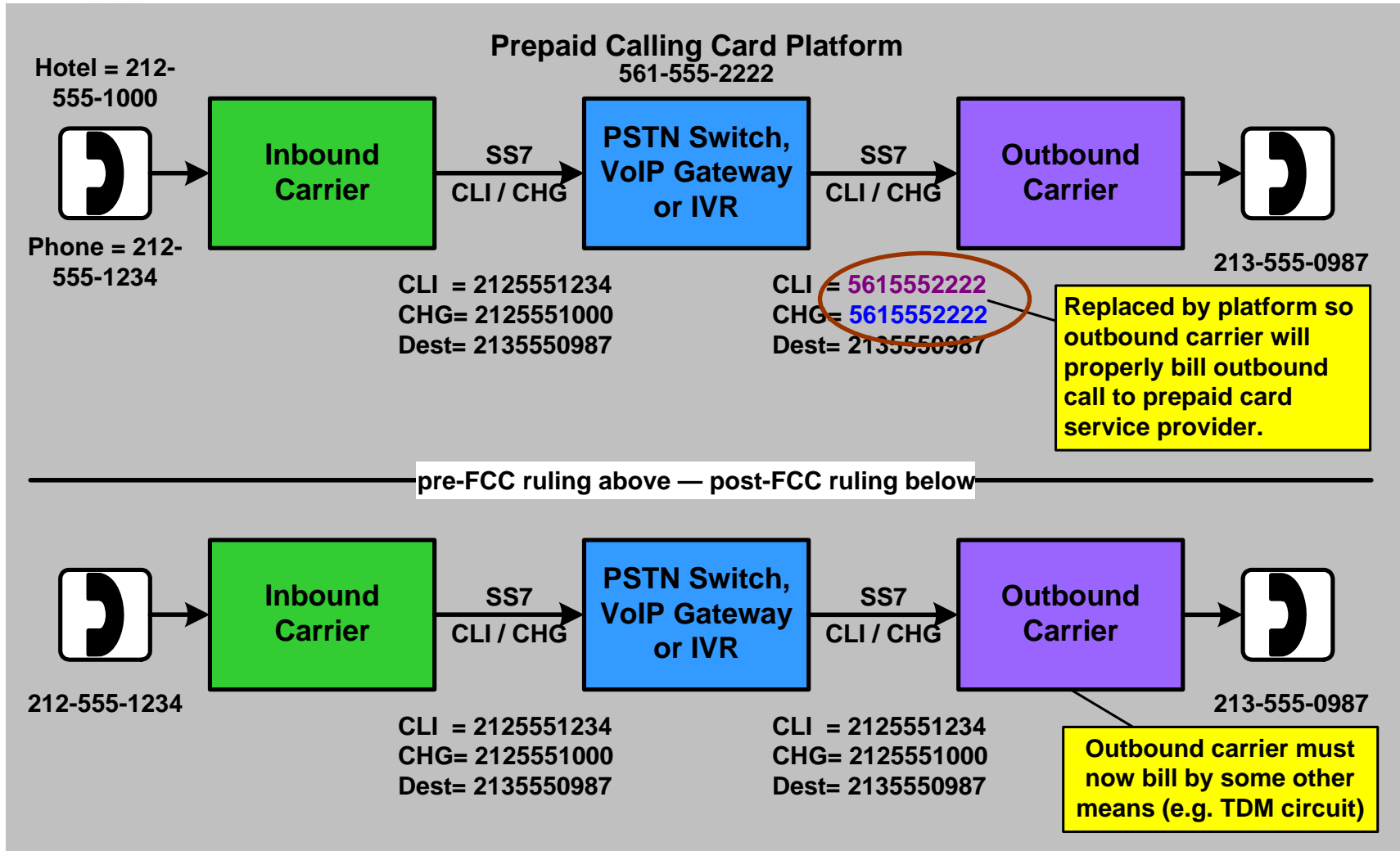
- Percentage of Interstate Usage (PIU) Minutes
 - Domestic Origination by State
 - Intrastate
 - Interstate
 - International
 - International Origination
 - Domestic[§] (U.S. state or territory)
 - International
- All prepaid card providers submit PIU reports to carriers
 - Originating Carriers/Originating Minutes
 - Terminating Carriers/Terminating Minutes (by Originating State)
- Requires knowledge of
 - Caller's location (U.S. state/territory or country)
 - Called party's location (U.S. state/territory or country)

§ U.S. FCC and USF regulations explicitly note interstate and international calls are subject to USF taxes and international-to-international calls are not, but do not mention international-to-domestic calls. The assumption here is that what is not explicitly exempted in the regulations is subject to tax.

SS7 Signaling Restrictions

- Outbound carriers must produce own PIU reports
 - Need to identify caller's location
- No SS7 signaling protocol parameter substitution permitted for prepaid calling card calls
 - Calling Line Identification Number (CLI)
 - FCC CPN = Calling Party Number
 - Charge Number (CHG)
 - FCC CN = Charge Number
- Other protocols not mentioned—probably should not substitute same parameters in keeping with spirit of regulation
 - ISDN (CLI)
 - Feature Group D (CHG)
 - H.323 (CLI)

SS7 Signaling Restrictions





Call Jurisdiction Determination

- **Determine Origination Locale**
 - Domestic U.S. versus International
 - Find calling party's location using CLI (preferred) or CHG
 - Wireless caller use SS7 Jurisdiction Information Parameter (JIP)
- **Determine Termination Locale**
 - Domestic U.S. versus International
 - Find called party's location using destination number
- **Determine Call Jurisdiction (Tax Jurisdiction)**
 - Intrastate (state/territory)
 - Interstate (federal)
 - International (federal)
 - Exempt (DoD, information service, international-to-international)
- **Use area code-prefix (NPA-NXX) with Telcordia TPM**
 - Can use area code → state/territory mapping



Federal USF Computation

- Prepaid Card “revenue” recognized at time of retail sale
 - Federal USF “revenue” defined as card’s face value
- Need Interstate/International Revenue Percentage
 - Use domestically originated calls
 - Compute an “interstate/international” call traffic percentage
 - Interstate/international vs. intrastate minutes
 - Minimum one day’s calls required for percentage computation (recommend 28 days)
- Compute federal USF tax = (federal USF rate) x (prepaid card “revenue”) x Interstate/International percentage
- More information—see FCC Form 499-Q instructions

State USF Computation

- State USF
 - Intrastate calls only
 - State may or may not apply USF tax to prepaid card calls
 - Compute state USF tax = (state USF rate) x (call revenue)
 - Track state USF taxes by state

Federal USF Statistics

- Track Minutes and Revenue by
 - Date
 - Origination Jurisdiction
 - U.S. State/Territory
 - International
 - Unknown
 - Call Category
 - Intrastate
 - Interstate
 - International
 - Exempt
 - DoD
 - Information Service Calls
 - International-to-International Calls
- Report by
 - Month (remittance comparison)
 - Quarter (Form 499-Q)
 - Year (Form 499-A)

State USF Statistics

- Track Minutes and Revenue by
 - Date
 - Origination State
- Report by
 - Origination State
 - Month (remittance)
 - Quarter (Form 499-Q)
 - Year (Form 499-A)



Originating Carrier PIU Reports

- Answered origination minutes only
- Track and aggregate by date and carrier
 - Domestic origination by U.S. state/territory
 - Intrastate Termination
 - Interstate Termination
 - International Termination
 - Exempt Minutes (DoD, Information Services)
 - Origination-only uses platform number as destination number
 - International Origination
 - Domestic Termination[§]
 - International Termination (USF exempt)
 - Unknown Origination

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Terminating Carrier PIU Reports

- Answered termination minutes
- Track and aggregate minutes by date and carrier
 - Domestic origination by U.S. state/territory
 - Intrastate Termination
 - Interstate Termination
 - International Termination
 - Exempt Minutes (DoD and Information Services)
 - International Origination
 - Domestic Termination[§]
 - International Termination (USF exempt)
 - Unknown Origination

§ U.S. FCC and USF regulations explicitly note interstate and international calls are subject to USF taxes and international-to-international calls are not, but do not mention international-to-domestic calls. The assumption here is that what is not explicitly exempted in the regulations is subject to tax.

FCC Form 499 Reports

- **FCC Form 499-Q**
 - Filed quarterly 60 days before calendar quarter start
 - Historical revenue for prior calendar quarter
 - Prepaid cards' face value
 - Apportioned by historical interstate/international revenue percentage
 - Forecast revenue for next calendar quarter
 - Face value of anticipated prepaid card sales
 - Apportioned by anticipated interstate/international revenue percentage
- **FCC Form 499-A**
 - Filed annually by April 1
 - Calendar year historical revenue report
 - Prepaid cards' face value
 - Apportioned by interstate/international revenue percentage

FCC Certification Reports

- Track call revenues by
 - Date
 - Domestic origination
 - Intrastate
 - Interstate
 - International
 - International origination
 - U.S. termination
 - International termination (exempt)
 - Unknown origination
 - Exempt (DoD and Information Services)
- Track revenue by
 - Date
 - Prepaid cards' face value at time of sale
 - Exempt (DoD, Information Services, Int'l-to-Int'l)



FCC Compliance Certification

- Quarterly FCC Certification
 - Due at end of next calendar quarter
 - Prepaid Calling Card Minutes Percentages
 - Intrastate
 - Interstate
 - International
 - Revenue Percentages
 - Interstate
 - International
 - Excludes exempt revenue
 - Statement saying USF contribution is based on percentages
 - Signed by company officer (under penalty of perjury)
 - Submit under WC Docket 05-68
 - <http://www.fcc.gov/cgb/ecfs/> – click on “Submit a Filing” link



Questions?

(www.nact.com)