

# Clearinghouse Rule 99-061

## CERTIFICATE

State of Wisconsin )  
Department of Financial Institutions )ss.  
Division of Securities )

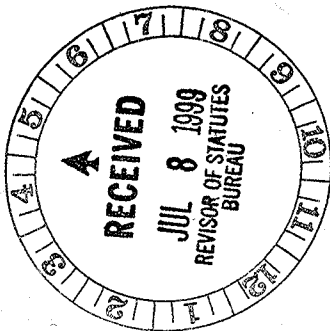
TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETINGS:


I, Patricia D. Struck, Administrator of the Department of Financial Institutions, Division of Securities, and custodian of the official records of the Division, do hereby certify that the annexed rules under Chapter 551, Wis. Stats., the Wisconsin Uniform Securities Law, relating to designating an alternative accounting guideline for the preparation of financial statements for Wisconsin and other state and local governmental issuers of securities utilizing the securities registration exemption in sec. 551.22(1)(a), Wis. Stats., were duly approved and adopted by the Division on July 7, 1999.

I further certify that this copy has been compared by me with the original on file in this Division and that it is a true copy of the original and of the whole of the original.

IN TESTIMONY WHEREOF, I have hereunto set  
my hand and affixed the official seal of the  
Department of Financial Institutions, Division of Securities,  
at 345 West Washington Avenue in the City of Madison,  
this 8th day of July, 1999.

[SEAL]



  
\_\_\_\_\_  
Patricia D. Struck  
Administrator  
Division of Securities

9-1-99

99-061

**FINAL ORDER OF THE  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
DIVISION OF SECURITIES  
STATE OF WISCONSIN  
ADOPTING RULES**

To create DFI-Sec 2.01(1)(c)6 and (1)(d)6, Wis. Adm. Code, Rules of the Division of Securities, relating to designating an alternative accounting guideline for the preparation of financial statements for Wisconsin and other state and local governmental issuers of securities utilizing the securities registration exemption in sec. 551.22(1)(a), Wis. Stats.

**Analysis Prepared by the Department of Financial Institutions, Division of Securities**

Statutory Authority: Sections 551.63(1) and (2), and 551.22(1)(a), Wis. Stats.

Statute Interpreted: Section 551.22(1)(a), Wis. Stats.

These permanent rules are being promulgated to be in place upon the expiration of identical emergency rules currently in effect that were issued by Order of the Administrator of the Division of Securities on February 23, 1999, and became effective on March 1, 1999 following publication in the official state newspaper and the required filings with the Secretary of State and the Revisor of Statutes Bureau. The permanent rules, as do the current emergency rules, designate an alternative accounting guideline for use of the securities registration exemption in sec. 551.22(1)(a), Wis. Stats., by Wisconsin and other state and local governmental issuers of their debt securities.

See the Statement Explaining Need for Rules in Section (a) of the attached Report for a more comprehensive discussion.

The rules designate an alternative-to-full-GAAP financial statement requirement (when the governmental issuer's financial statements are full-GAAP) where the auditor's opinion is qualified in accordance with GASB TB 98-1 with respect to disclosures concerning Year 2000 issues. As a result of the current emergency rules, and upon adoption of the permanent rules, those Wisconsin and other state and local governmental securities issuers affected by GASB TB 98-1 will be able to continue to rely on the "automatic" registration exemption under 551.22(1)(a), Wis. Stats., for their securities offerings.

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**Text of Rules**

**SECTION 1.** DFI-Sec 2.01(1)(c)6 is created to read:

DFI-Sec 2.01(1)(c)6. The issuer's annual general purpose financial statements through the accounting period ending December 31, 1999, are prepared according to generally accepted accounting principles as provided in subd. 1., except that the auditor's opinion is qualified in accordance with governmental accounting standards board technical bulletin 98-1 concerning Year 2000 issues.

**SECTION 2.** DFI-Sec 2.01(1)(d)6 is created to read:

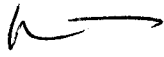
DFI-Sec 2.01(1)(d)6. With respect to par. (c)6., the financial statements are prepared according to generally accepted accounting principles, except that the auditor's opinion is qualified in accordance with governmental accounting standards board technical bulletin 98-1 concerning Year 2000 issues.

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The rules contained in this Order shall take effect as provided in s. 227.22(2), Stats., on the first day of the month following the date of publication in the Wisconsin Administrative Register.

Dated at Madison, Wisconsin, this 7th day of July, 1999.

[ SEAL ]

  
\_\_\_\_\_  
PATRICIA D. STRUCK  
Administrator  
Division of Securities

REPORT PREPARED BY THE  
DIVISION OF SECURITIES  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
RELATING TO NEW PERMANENT  
RULES OF THE DIVISION OF SECURITIES

(a) Statement Explaining Need for Rules

These permanent rules are being promulgated to be in place upon the expiration of identical emergency rules currently in effect that were issued by Order of the Administrator of the Division of Securities on February 23, 1999, and became effective on March 1, 1999 following publication in the official state newspaper and the required filings with the Secretary of State and the Revisor of Statutes Bureau. The permanent rules, as do the current emergency rules, designate an alternative accounting guideline for use of the securities registration exemption in sec. 551.22(1)(a), Wis. Stats., by Wisconsin and other state and local governmental issuers of their debt securities.

The rules are necessitated by a new accounting guideline relating to disclosures about Year 2000\* issues applicable to the preparation of financial statements for governmental issuers of securities as required by Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues* ("GASB TB 98-1", or "Guideline"). The existence of this issue and the need for both emergency and permanent rule treatment to assist governmental issuers was brought to the attention of the Division by representatives of Wisconsin public accounting groups and Wisconsin bond attorneys who recently learned about a Report by the American Institute of Certified Public Accountants regarding GASB TB 98-1.

As a result of that Report (and as particularized below) many Wisconsin governmental issuers would have the audit opinions for their financial statements for years ending after October, 1998, qualified with respect to disclosures about Year 2000 issues. Thus beginning in approximately March and April of 1999 and continuing through the accounting period ending 12/31/99, that new accounting Guideline would have adversely impacted the ability of Wisconsin and other state and local governmental securities issuers to continue to use on an "automatic"/self-executing basis, the existing securities registration exemption in s. 551.22(1)(a) of the Wisconsin Securities Law to offer and sell their debt securities to public investors in Wisconsin.

Over the years and to date, Wisconsin and other state and local governmental securities issuers having "full-GAAP" financial statements (e.g. prepared in accordance with generally accepted accounting principles) have been able to sell their debt securities to Wisconsin public investors in reliance on automatic use of the registration exemption in s. 551.22(1)(a), Wis. Stats., without the need for any exemption or other filing with the Division.

GASB TB 98-1 requires footnote disclosure of Year 2000 information regarding a governmental issuer's preparedness in terms of making its systems and equipment Year 2000 compliant. GASB TB 98-1 applies to financial statements dated October 31, 1998, and terminates for financial statements issued for purposes of the accounting period ending December 31, 1999, unless systems and equipment are not Year 2000 compliant as of the balance sheet date. In response to GASB TB 98-1, members of the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA) issued a Report under the title "AICPA Illustrative Reporting Guidance on Year 2000 Disclosures Made Under GASB TB 98-1, Issued October 22, 1998." That Report raised the concern that in light of the unprecedented nature of the Year 2000 issue, the required disclosures will be neither ascertainable by management nor verifiable by auditors. As a result, the AICPA strongly recommended that auditors issue qualified opinions (scope limitations) with respect to such Year 2000 issue disclosures.

Consequently, all Wisconsin and other governmental securities issuers whose financial statements would contain such qualified opinions, would not meet (in the absence of the current emergency rules and the permanent rules) the "full-GAAP" financial statement requirement for automatic use of the registration exemption in 551.22(1)(a), Wis. Stats. Thus, such issuers would either have to go through a regulatory filing and review procedure with the Division prior to each offering, or would have to restrict the initial offering to be pursuant to securities law provisions that would preclude underwriters from reoffering those securities to investors in the primary and secondary markets.

In the absence of the current emergency rules and adoption of the permanent rules, governmental securities issuers would be adversely affected by the costs of making securities filings with the Division, as well as by the attendant delays of making such filings. Also, even though Year 2000 issues equivalently affect private corporate issuers of securities, because there is no counterpart to GASB TB 98-1 within the standards promulgated by the Financial Accounting Standards Board applicable to private corporate securities issuers, the additional costs and filing delays would be singularly borne by *governmental* securities issuers (if the emergency rules were not adopted and the permanent rules are not adopted).

Finally, having a filing requirement for use of the registration exemption in sec. 551.22(1)(a) under the Wisconsin Securities Law be triggered for Wisconsin and other state and local governmental securities offerings solely because of an auditor's qualification in an audit report on the Year 2000 issue (based on a temporary accounting guideline of limited duration) would result in added regulatory filing and review processes and procedures under the Wisconsin Securities Law that would not provide any "value added" investor protection benefits.

Therefore, in similar fashion to rule-making action taken by the Division in 1994 and 1996 regarding specific governmental accounting issues which occurred at those times (involving the adoption by the Division of emergency rules followed by identical permanent rules), and for the purpose of alleviating the disruption that would occur in the borrowing/bonding plans of Wisconsin and other state and local governmental issuers that regularly claim exemption status under sec. 551.22(1)(a), Wis. Stats., for the offer and sale of their debt securities in Wisconsin, the Division, in consultation with representatives of Wisconsin accounting groups and Wisconsin bond attorneys, is adopting the permanent rules set forth below. The rules designate an alternative-to-full-GAAP financial statement requirement (when the governmental issuer's financial statements are full-GAAP) where the auditor's opinion is qualified in accordance with GASB TB 98-1 with respect to disclosures concerning Year 2000 issues. As a result of the rules, those Wisconsin and other state and local governmental securities issuers affected by GASB TB 98-1 will be able to continue to rely on the "automatic" registration exemption under 551.22(1)(a), Wis. Stats., for their securities offerings.

\*The Year 2000 problem is the result of shortcomings in electronic data-processing systems and equipment that may adversely affect operations in the year 2000 and beyond. The problem stems from the use within electronic systems and equipment of two-digit storage for calendar years. Affected and uncorrected systems and equipment may be unable to distinguish the year 2000 from the year 1900; as a result, such systems may process inaccurately or stop processing altogether.

(b) Explanation of Modifications Made as a Result of Public Comment Letters and Hearing Testimony

--Not Applicable. No public hearing was held or was required to be held because the 30-Day Notice rule-making procedure was used, and no requests for a public hearing regarding the rules were received from any entity or individual during the 30-day period.

(c) List of Persons Appearing or Registering at Public Hearing and Comment Letters Received

Not Applicable, see (b) above.

(d) Response to Legislative Council/Rules Clearinghouse Report Recommendations

Adoption of Rules Clearinghouse Comments in whole:

--Consistent with the Rules Clearinghouse comment under Item 5. "Clarity, Grammar and Punctuation" in the Effective Date provision, the typographical error which capitalized the word "on" following the word "statutes" was changed to delete the capitalization.

(e) No final regulatory flexibility analysis is included because the rules relate solely to municipal/governmental securities issuers and do not impact small businesses.

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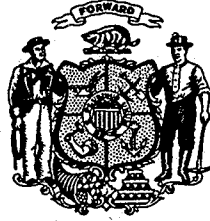
WISCONSIN LEGISLATIVE COUNCIL STAFF

LCRC  
FORM 2

**RULES CLEARINGHOUSE**

Ronald Sklansky  
Director  
(608) 266-1946

Richard Sweet  
Assistant Director  
(608) 266-2982



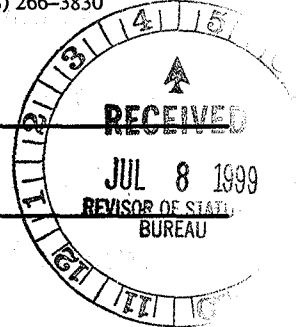
David J. Stute, Director  
Legislative Council Staff  
(608) 266-1304

One E. Main St., Ste. 401  
P.O. Box 2536  
Madison, WI 53701-2536  
FAX: (608) 266-3830

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**CLEARINGHOUSE REPORT TO AGENCY**

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[THIS REPORT HAS BEEN PREPARED PURSUANT TO S. 227.15, STATS. THIS IS A REPORT ON A RULE AS ORIGINALLY PROPOSED BY THE AGENCY; THE REPORT MAY NOT REFLECT THE FINAL CONTENT OF THE RULE IN FINAL DRAFT FORM AS IT WILL BE SUBMITTED TO THE LEGISLATURE. THIS REPORT CONSTITUTES A REVIEW OF, BUT NOT APPROVAL OR DISAPPROVAL OF, THE SUBSTANTIVE CONTENT AND TECHNICAL ACCURACY OF THE RULE.]

**CLEARINGHOUSE RULE 99-061**

AN ORDER to create DFI-Sec 2.01 (1) (c) 6. and (d) 6., relating to designating an alternative accounting guideline for the preparation of financial statements for Wisconsin and other state and local governmental issuers of securities utilizing the securities registration exemption in s. 551.22 (1) (a), Stats.

Submitted by **DEPARTMENT OF FINANCIAL INSTITUTIONS**

03-19-99 RECEIVED BY LEGISLATIVE COUNCIL.

04-15-99 REPORT SENT TO AGENCY.

RS:dls:jal;kjf



**LEGISLATIVE COUNCIL RULES CLEARINGHOUSE REPORT**

This rule has been reviewed by the Rules Clearinghouse. Based on that review, comments are reported as noted below:

1. STATUTORY AUTHORITY [s. 227.15 (2) (a)]

Comment Attached

YES

NO

2. FORM, STYLE AND PLACEMENT IN ADMINISTRATIVE CODE [s. 227.15 (2) (c)]

Comment Attached

YES

NO

3. CONFLICT WITH OR DUPLICATION OF EXISTING RULES [s. 227.15 (2) (d)]

Comment Attached

YES

NO

4. ADEQUACY OF REFERENCES TO RELATED STATUTES, RULES AND FORMS  
[s. 227.15 (2) (e)]

Comment Attached

YES

NO

5. CLARITY, GRAMMAR, PUNCTUATION AND USE OF PLAIN LANGUAGE [s. 227.15 (2) (f)]

Comment Attached

YES

NO

6. POTENTIAL CONFLICTS WITH, AND COMPARABILITY TO, RELATED FEDERAL  
REGULATIONS [s. 227.15 (2) (g)]

Comment Attached

YES

NO

7. COMPLIANCE WITH PERMIT ACTION DEADLINE REQUIREMENTS [s. 227.15 (2) (h)]

Comment Attached

YES

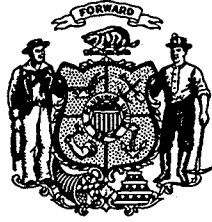
NO

# WISCONSIN LEGISLATIVE COUNCIL STAFF

## RULES CLEARINGHOUSE

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## CLEARINGHOUSE RULE 99-061

### Comments

**[NOTE: All citations to "Manual" in the comments below are to the Administrative Rules Procedures Manual, prepared by the Revisor of Statutes Bureau and the Legislative Council Staff, dated September 1998.]**

#### 5. Clarity, Grammar, Punctuation and Use of Plain Language

The effective date provision contains a typographical error; the phrase "Stats. On" should be replaced by the phrase "Stats., on."

LRB or Bill No./Adm. Rule No.  
DFI-Sec 2.01(1)(c)6, (1)(d)6  
Amendment No. if Applicable

**FISCAL ESTIMATE**  
DOA-2048 N(R10/98)

- ORIGINAL
- CORRECTED
- UPDATED
- SUPPLEMENTAL

**Subject** Designating an alternative accounting guideline for use of securities registration exemption 551.22(1)(a), Stats.

**Fiscal Effect**

State:  No State Fiscal Effect

Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation.

Increase Costs - May be possible to Absorb Within Agency's Budget  Yes  No

- Increase Existing Appropriation
- Decrease Existing Appropriation
- Create New Appropriation
- Increase Existing Revenues
- Decrease Existing Revenues

Decrease Costs

Local:  No local government costs

- 1.  Increase Costs
  - Permissive
  - Mandatory
- 2.  Decrease Costs
  - Permissive
  - Mandatory

- 3.  Increase Revenues
  - Permissive
  - Mandatory
- 4.  Decrease Revenues
  - Permissive
  - Mandatory

5. Types of Local Governmental Units Affected:
- Towns
  - Villages
  - Cities
  - Counties
  - Others \_\_\_\_\_
  - School Districts
  - WTCS Districts

**Fund Sources Affected**

- GPR
- FED
- PRO
- PRS
- SEG
- SEG-S

**Affected Ch. 20 Appropriations**

**Assumptions Used in Arriving at Fiscal Estimate**

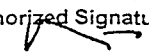
These rules adopt an alternative accounting guideline for the preparation of financial statements for Wisconsin and other state and local governmental issuers of securities utilizing the securities registration exemption in section 551.22(1)(a), Wis. Stats., for purposes of offering and selling their debt securities in Wisconsin. The alternative guidelines allow an exception to the "full-GAAP" financial statement requirement for use of the exemption where the issuer's financial statements are full-GAAP except that the auditor's opinion is qualified in accordance with the Governmental Accounting Standards Board Technical Bulletin 98-1 concerning Year 2000 issues.

The rule adoptions will not have any state fiscal effect because those Wisconsin and other state and local governmental securities issuers having "full-GAAP" financial statements have previously to date sold their debt securities to public investors in Wisconsin in reliance on automatic use of the registration exemption in 551.22(1)(a) of the Wisconsin Securities Law (without the need for any filing involving fees payable to the Division of Securities). Under the alternative accounting guideline, those Wisconsin and other state and local governmental securities issuers impacted by Technical Bulletin 98-1, -- and who in the absence of the alternative accounting guidelines in the attached new rules would have to make filings under Chapter 551, Wis. Stats., -- will continue to be able to rely on "automatic" use of the registration exemption of 551.22(1)(a) without the need for any filings (including fees) with the Division.

The rules do not involve any local government costs.

Long-Range Fiscal Implications None

Agency/Prepared by: (Name & Phone No.)  
Dept. of Financial Institutions/Div of Securities  
Randall Schumann, Legal Counsel 266-3414

Authorized Signature/Telephone No.  
  
Patricia D. Struck, Administrator 266-3432

Date  
2-25-99

**FISCAL ESTIMATE WORKSHEET**

1999 Session

Detailed Estimate of Annual Fiscal Effect  
DOA-2047 (R10/98)

ORIGINAL     UPDATED  
 CORRECTED     SUPPLEMENTAL

LRB or Bill No /Adm. Rule No.  
DFI-Sec 2.01(1)(c)6, (1)(d)6

Amendment No.

**Subject**

Designating an alternative accounting guideline for use of securities registration exemption 551.22(1)(a), Stats.

I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):  
None

II. Annualized Costs:		Annualized Fiscal impact on State funds from:	
		Increased Costs	Decreased Costs
<b>A. State Costs by Category</b>			
State Operations - Salaries and Fringes		\$ 0	\$ - 0
(FTE Position Changes)		( 0 FTE)	(- 0 FTE)
State Operations - Other Costs			-
Local Assistance			-
Aids to Individuals or Organizations			-
TOTAL State Costs by Category		\$ 0	\$ - 0
<b>B. State Costs by Source of Funds</b>		Increased Costs	Decreased Costs
GPR		\$	\$ -
FED			-
PRO/PRS		0	- 0
SEG/SEG-S			-
<b>State Revenues</b> Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)		Increased Rev.	Decreased Rev.
GPR Taxes		\$	\$ -
GPR Earned			-
FED			-
PRO/PRS		0	- 0
SEG/SEG-S			-
TOTAL State Revenues		\$ 0	\$ - 0


**NET ANNUALIZED FISCAL IMPACT**

STATE

LOCAL

NET CHANGE IN COSTS                      \$ 0    \$ 0

NET CHANGE IN REVENUES                \$ 0    \$ 0

Agency/Prepared by: (Name & Phone No.) Dept. of Financial Institutions/Div of Securities Randall Schumann, Legal Counsel 266-3414	Authorized Signature/Telephone No.  Patricia D. Struck, Administrator 266-3432	Date 2-25-99
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**State of Wisconsin**  
*Department of Financial Institutions*

Tommy G. Thompson, **Governor**

Richard L. Dean, **Secretary**

July 8, 1999

Office of the Secretary of State  
30 W. Mifflin St.  
Madison, WI 53703

✓ Revisor of Statutes Bureau  
131 W. Wilson St., Ste. 800  
Madison, WI 53703-3233

Re: Wisconsin Division of Securities, Department of Financial Institutions,  
Filing of Certified Copies of Final Order Adopting Rules/Clearinghouse Rule 99-061

Gentlemen and Mesdames:

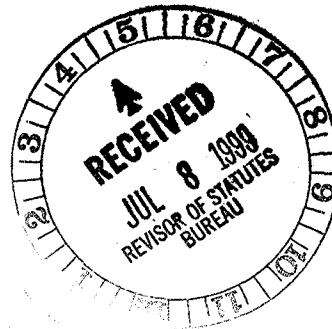
Pursuant to the requirements of sec. 227.20, Wis. Stats., a certified copy is herewith filed with each of your offices of the above-referenced Final Order Adopting Rules in the form prescribed by sec. 227.14, Wis. Stats. The Final Order Adopting Rules was signed and issued by this Division on July 7, 1999.

Also attached is a copy of the Report prepared by this Division relating to the final rules, together with a copy of a fiscal estimate and a copy of the Wisconsin Legislative Council Rules Clearinghouse Report.

If you have any questions, please call me at 266-3414.

Very truly yours,

Randall E. Schumann  
Legal Counsel for the Division



RES

Enclosures

cc: Patricia D. Struck, DFI/DOS Administrator  
David Anderson, DFI Executive Assistant