

J.C.R.A.R HEARING SLIP

(Please Print Plainly)

DATE: 7/14/99

CHR-NO. 99-061

OR

SUBJECT Rule BFI-sec 201(NC)6
(N)6

(NAME) Randall Schumann

(Street Address or Route Number) 345 West Washington

Madison WI 53701

(City and Zip Code)

(Representing) Dept of Financial Institutions
Division of Securities

Speaking in Favor of Rule: (i.e. against objection or the rule suspension)

Speaking Against the Rule: (i.e. in favor of objection or suspension)

Registering in Favor: but not speaking:

Registering Against: but not speaking:

Speaking for information only; Neither for nor against:

Please return this slip to a messenger PROMPTLY.

Senate Sergeant-At-Arms
State Capitol - B35 South
P.O.Box 7882
Madison, WI 53707-7882

J.C.R.A.R HEARING SLIP

(Please Print Plainly)

DATE: 7/14/99

CHR-NO. 99-061

OR

SUBJECT _____

(NAME) Dave Anderson

(Street Address or Route Number) 345 W. Wilson

Madison, WI

(City and Zip Code)

(Representing) DFI

Speaking in Favor of Rule: (i.e. against objection or the rule suspension)

Speaking Against the Rule: (i.e. in favor of objection or suspension)

Registering in Favor: but not speaking:

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State Capitol - B35 South
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Madison, WI 53707-7882

J.C.R.A.R HEARING SLIP

(Please Print Plainly)

DATE: July 14, 1996

CHR-NO. CH 99-061

OR DFI 2.01

SUBJECT _____

(NAME) Patricia D. Struck

(Street Address or Route Number) _____

(City and Zip Code) _____

(Representing) DFI DIVISION OF SECURITIES

Speaking in Favor of Rule: (i.e. against objection or the rule suspension)

Speaking Against the Rule: (i.e. in favor of objection or suspension)

Registering in Favor: but not speaking:

Registering Against: but not speaking:

Speaking for information only; Neither for nor against:

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Madison, WI 53707-7882

WISCONSIN LEGISLATIVE COUNCIL STAFF



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

CLEARINGHOUSE REPORT TO AGENCY

[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

WISCONSIN LEGISLATIVE COUNCIL STAFF

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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."



State of Wisconsin
Department of Financial Institutions

Tommy G. Thompson, Governor

Richard L. Dean, Secretary

February 25, 1999

Office of the Secretary of State
30 West Mifflin Street
Madison WI 53703

Revisor of Statutes Bureau
131 West Wilson Street, Suite 800
Madison WI 53703

Re: Filing of Certified Copy of Order Adopting Emergency Rules/
DFI-Sec 2.01(1)(c)6 and 2.01(1)(d)6/ Rules of the Division of Securities

Gentlemen and Mesdames:

Pursuant to the requirements of sec. 227.24(3), Wis. Stats., a certified copy is herewith filed of emergency rules in the form prescribed, adopted by the Department of Financial Institutions, Division of Securities, as published in the official state newspaper on this date, February 25, 1999, for effectiveness on March 1, 1999. Also, enclosed for use by the Revisor in connection with publication of the emergency rules in the Wisconsin Administrative Register is a diskette in Word 7.0 containing the text of the Order and the rules therein.

Very truly yours,

A handwritten signature in black ink, appearing to read "Randall E. Schumann".

Randall E. Schumann
Legal Counsel for the Division

RES
Enclosures

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

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

To create DFI-Sec 2.01(1)(c)6 and DFI-Sec 2.01(1)(d)6 of the Rules of the Division of Securities relating to designating alternative accounting guidelines for the preparation of financial statements for certain governmental issuers 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.

FINDING OF EMERGENCY AND ANALYSIS

The Division of Securities of the Department of Financial Institutions for the State of Wisconsin finds that an emergency exists and that the attached rules are necessary for the immediate preservation of the public peace, health, safety or welfare. A statement of the facts constituting the emergency follows.

These emergency 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 emergency 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 will adversely impact 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 emergency 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 securities law provisions that would preclude underwriters from reoffering those securities to investors in the primary and secondary markets.

In the absence of the emergency rules, governmental securities issuers would be adversely affected by the costs of making securities filings with their attendant delays. 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).

Finally, having a filing requirement 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, 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 emergency rule-making action taken by the Division in 1994 and 1996 regarding specific accounting issues which occurred at those times, 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 these emergency rules designating 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 such emergency 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.

[Because this issue which has been triggered by GASB TB 98-1 has a limited "shelf life" such that no permanent rules relating to it will be needed after December 31, 2000, when action is taken by the Division to promulgate identical permanent rules to become effective upon expiration of the emergency rules, the permanent rules will provide for a December 31, 2000 "sunset" date, after which the permanent rules on the issue will no longer be effective.]

*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.

Pursuant to secs. 551.63(1) and (2) and 551.22(1)(a), Wis. Stats., the Division of Securities of the Department of Financial Institutions adopts emergency rules interpreting sec. 551.22(1)(a) of the Wisconsin Uniform Securities Law as follows:

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 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.

EFFECTIVE DATE

The emergency rules adopted by this Order shall take effect at 12:01 a.m. on March 1, 1999, which is subsequent to publication of the rules in the official state newspaper pursuant to the provisions of Sec. 227.24, Wis. Stats.

Dated at Madison, Wisconsin, this 23^d day of February, 1999.

[SEAL]



Patricia D. Struck
Administrator



State of Wisconsin
Department of Financial Institutions

Tommy G. Thompson, Governor

Richard L. Dean, Secretary

June 28, 1999

JUN 28 REC'D

✓ The Honorable Judith Robson, Co-Chair
Wisconsin Senate
Joint Committee for Review of Administrative Rules
Room 15 South, State Capitol
Madison, WI 53707

The Honorable Glenn Grothman, Co-Chair
Wisconsin Assembly
Joint Committee for Review of Administrative Rules
Room 15 North, State Capitol
State Capitol
Madison, WI 53707

Re: Division of Securities Request for 34-day Extension
(Until September 1, 1999) of Emergency Rule Effectiveness

Dear Senator Robson and Representative Grothman:

Pursuant to sec. 227.24(2), Wis. Stats., The Division of Securities of the Department of Financial Institutions ("DFI") hereby requests that the Joint Committee For Review of Administrative Rules take action to extend for 34 days the effectiveness of the emergency rules adopted effective March 1, 1999 by the Division under the Wisconsin Uniform Securities Law relating to 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.

The Division has instituted and proceeded with the permanent rule-making process to adopt permanent rules in this matter, including: (1) filing a 30-day Notice for adopting permanent rules without the need for a public hearing, which published Notice resulted in no petitions or requests for a public hearing regarding the proposed permanent rules; (2) filing the rules (as Clearinghouse Rule 99-061) in their proposed final form on May 10, 1999 with each of the Division's legislative oversight committees [referred to the Senate Committee on Privacy, Electronic Commerce and Financial Institutions on May 11, 1999, and the Assembly Financial Institutions Committee on May 19, 1999]; (3) during the 30-day Committee review periods, the Senate Committee by letter dated June 3, 1999 requested a meeting regarding Clearinghouse Rule 99-061, as well as regarding 3 other separate, pending, Clearinghouse Rules (99-058, 99-059, 99-060) proposed by other Divisions of DFI, thus tolling the Senate Committee's review period. [The Assembly Committee did not take any action regarding any of the pending DFI rules, including 99-061, and that review



June 28, 1999
Joint Committee for Review
of Administrative Rules
Page 2

period has expired]; (4) representatives of DFI met with the Chairperson and staff of the Senate Committee on June 23, 1999 to answer questions and provide information, and at the conclusion of the meeting, the Committee chairperson stated that no Committee hearing would be called during the remainder of the Committee review period with regard to any of the pending DFI rules, including 99-061.

However, although the Division will take action immediately after what will be the July 3, 1999 expiration of the Senate Committee review period to issue an Order to adopt the permanent rules, the printing and publication process necessary for effectiveness of the permanent rules cannot be completed until, at the earliest, a targeted effective date of September 1, 1999 -- which is 34 days after the July 29, 1999 expiration of the 150-day effectiveness period of the emergency rules.

An emergency continues to exist which necessitated the March 1, 1999 adoption of the rules for the preservation of the public peace, health, safety or welfare, because the facts constituting the emergency as set forth in the attached copy of the Finding of Emergency remain the same as at the time of the emergency rule adoption, and adverse consequences can be avoided only by extending the emergency rules for a 34-day period until September 1, 1999, so that the proposed permanent rules in Clearinghouse Rule 99-061 can become effective.

Copies are attached of the original emergency rules text with the Finding of Emergency, and pursuant to sec. 227.24(2)(am), Wis. Stats., a copy of this extension request is being provided to: (i) the presiding officer of each house of the legislature; and (ii) the Senate Privacy, Electronic Commerce and Financial Institutions Committee, as well as the Assembly Financial Institutions Committee, where the permanent rules in their proposed final form were filed. Also attached for your information and files is a copy of the Division's Proposed Final Order to adopt the rules in permanent form as previously filed with each the legislative oversight committees.

Any questions with regard to this request may be directed to me at my direct dial telephone number 266-3414.

For the Division,

Randall E. Schumann
Legal Counsel for the Division

cc: Patricia D. Struck, Administrator, Division of Securities, Department of Financial Institutions
David Anderson, Executive Assistant, Department of Financial Institutions
President, Wisconsin State Senate
Speaker of the Assembly
Chairperson, Senate Privacy, Electronic Commerce and Financial Institutions Committee
Chairperson, Assembly Financial Institutions Committee

Enclosures (2)

FISCAL ESTIMATE
DOA-2048 N(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. if Applicable

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

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
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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
A. State Costs by Category		
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. State Costs by Source of Funds		
GPR	\$	\$ -
FED		-
PRO/PRS	0	- 0
SEG/SEG-S		-
State Revenues 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
---	--	-----------------

99-061

SENATOR JUDITH B. ROBSON
CO-CHAIR
PO BOX 7882
MADISON, WI 53707-7882
(608) 266-2253



REPRESENTATIVE GLENN GROTHMAN
CO-CHAIR
PO BOX 8952
MADISON, WI 53708-8952
(608) 264-8486

**JOINT COMMITTEE FOR
REVIEW OF ADMINISTRATIVE RULES**

Emergency Rule Extension Motion Form

Last Modified March, 1999

Date: July 14, 1999 _____ Location: Room 201 SE, Wisconsin State Capitol, Madison

Moved by: Grothman, Seconded by: Grobschmidt

THAT, pursuant to § 227.24(2)(a), *Wisconsin State Statutes*, the Joint Committee for the Review of Administrative Rules extend the effective period of Emergency Rule **DFI 2.01** by **34 days**, at the request of the Department of Financial Institutions.

COMMITTEE MEMBER	Aye	No	Absent
1. Senator ROBSON			
2. Senator GROBSCHMIDT	X		
3. Senator SHIBLISKI			
4. Senator WELCH	X		
5. Senator DARLING	X		
6. Representative GROTHMAN	X		
7. Representative GUNDERSON	X		
8. Representative SERATTI			
9. Representative KREUSER			
10. Representative BLACK	X		
Totals	X		

Motion Carried

Motion Failed

SENATOR JUDITH B. ROBSON
CO-CHAIR
PO BOX 7882
MADISON, WI 53707-7882
(608) 266-2253



REPRESENTATIVE GLENN GROTHMAN
CO-CHAIR
PO BOX 8952
MADISON, WI 53708-8952
(608) 264-8486

JOINT COMMITTEE FOR REVIEW OF ADMINISTRATIVE RULES

July 14, 1999

Mr. Richard Dean, Secretary
Department of Financial Institutions
345 West Washington Avenue
4th Floor
PO Box 1768
Madison, WI 53701-1768

Dear Secretary Dean:

We are writing to inform you that the Joint Committee for the Review of Administrative Rules (JCRAR) held a Public Hearing on July 14, 1999. At that meeting, JCRAR received public testimony regarding **Emergency Rule DFI 2.01** relating to designating alternative accounting guidelines for the preparation of financial statements for certain issuers of securities.

The Joint Committee for the Review of Administrative Rules met in Executive Session on July 14, 1999 and adopted the following motion:

Carried, pursuant to §227.24(2)(a), *Stats.*, the Joint Committee for Review of Administrative Rules extend the effective date of **DFI 2.01** by 34 days, at the request of the Department of Financial Institutions.

Ayes: (8) Senators Robson, Grobschmidt, Shibilski, Welch, and Darling; Representatives Grothman, Gunderson, and Black

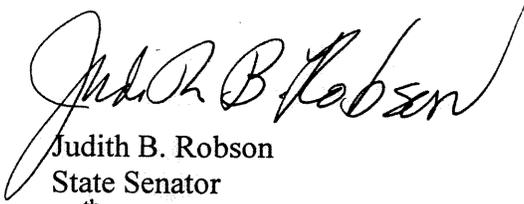
Noes: (0)

Absent: (4) Senators Shibilski and Darling; Representatives Seratti and Kreuser.

Motion Carried: Extension Granted.
8 Ayes, 0 Noes, 4 Absent.

Pursuant to §227.24(2)(c), *Stats.*, we are notifying the Secretary of State and the Revisor of Statutes of the Committee's action through copies of this letter.

Sincerely,



Judith B. Robson
State Senator
15th Senate District



Glenn Grothman
State Representative
59th Assembly District

JBR:chmiv

cc: Secretary of State La Follette
Revisor of Statutes Gary Poulson



State of Wisconsin
Department of Financial Institutions

Tommy G. Thompson, Governor

Richard L. Dean, Secretary

February 25, 1999

Joint Committee for Review
of Administrative Rules

✓ c/o Senate Co-Chair Judy Robson
15 South Capitol
Madison WI 53702
c/o Assembly Co-Chair Glenn Grothman
15 North Capitol
Madison WI 53702

Re: Filing of Copy of Order Adopting Emergency Rules/
DFI-Sec 2.01(1)(c)6 and 2.01(1)(d)6 Rules of the Division of Securities

Dear JCRAR Co-Chairs:

Pursuant to the statutory requirements in Chapter 227, Wis. Stats., for adopting emergency rules, a copy is herewith filed with the Co-Chairs of the JCRAR of an Order Adopting Emergency Rules issued by this Division as published in the official state newspaper on this date, February 25, 1999, for subsequent effectiveness on March 1, 1999. The emergency rules designate an alternative accounting guideline for use of the securities registration exemption in sec. 551.22(1)(a) of the Wisconsin Securities Law by certain governmental issuers of securities selling their debt securities in Wisconsin.

Certified copies are being concurrently filed with the Secretary of State and the Revisor of Statutes, and copies are also being filed with the Chief Clerk of each house of the legislature. Additionally, the Senate Sergeant-at-Arms and the Assembly Sergeant-at-Arms have been provided with sufficient copies of the Order Adopting Rules, together with a cover memo and fiscal estimate, to make the required distribution under sec. 227.24(3), Wis Stats., of the materials to all members of the legislature.

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

Very truly yours,


Randall E. Schumann
Legal Counsel for the Division

enclosure

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

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

To create DFI-Sec 2.01(1)(c)6 and DFI-Sec 2.01(1)(d)6 of the Rules of the Division of Securities relating to designating alternative accounting guidelines for the preparation of financial statements for certain governmental issuers 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.

FINDING OF EMERGENCY AND ANALYSIS

The Division of Securities of the Department of Financial Institutions for the State of Wisconsin finds that an emergency exists and that the attached rules are necessary for the immediate preservation of the public peace, health, safety or welfare. A statement of the facts constituting the emergency follows.

These emergency 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 emergency 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 will adversely impact 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 emergency 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 securities law provisions that would preclude underwriters from reoffering those securities to investors in the primary and secondary markets.

In the absence of the emergency rules, governmental securities issuers would be adversely affected by the costs of making securities filings with their attendant delays. 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).

Finally, having a filing requirement 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, 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 emergency rule-making action taken by the Division in 1994 and 1996 regarding specific accounting issues which occurred at those times, 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 these emergency rules designating 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 such emergency 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.

[Because this issue which has been triggered by GASB TB 98-1 has a limited "shelf life" such that no permanent rules relating to it will be needed after December 31, 2000, when action is taken by the Division to promulgate identical permanent rules to become effective upon expiration of the emergency rules, the permanent rules will provide for a December 31, 2000 "sunset" date, after which the permanent rules on the issue will no longer be effective.]

*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.

Pursuant to secs. 551.63(1) and (2) and 551.22(1)(a), Wis. Stats., the Division of Securities of the Department of Financial Institutions adopts emergency rules interpreting sec. 551.22(1)(a) of the Wisconsin Uniform Securities Law as follows:

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 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.

EFFECTIVE DATE

The emergency rules adopted by this Order shall take effect at 12:01 a.m. on March 1, 1999, which is subsequent to publication of the rules in the official state newspaper pursuant to the provisions of Sec. 227.24, Wis. Stats.

Dated at Madison, Wisconsin, this 23d day of February, 1999.

[SEAL]



Patricia D. Struck
Administrator



State of Wisconsin
Department of Financial Institutions

Tommy G. Thompson, **Governor**

Richard L. Dean, **Secretary**

February 25, 1999

Joint Committee for Review
of Administrative Rules

✓ c/o Senate Co-Chair Judy Robson
15 South Capitol
Madison WI 53702
c/o Assembly Co-Chair Glenn Grothman
15 North Capitol
Madison WI 53702

Re: Filing of Copy of Order Adopting Emergency Rules/
DFI-Sec 2.01(1)(c)6 and 2.01(1)(d)6 Rules of the Division of Securities

Dear JCRAR Co-Chairs:

Pursuant to the statutory requirements in Chapter 227, Wis. Stats., for adopting emergency rules, a copy is herewith filed with the Co-Chairs of the JCRAR of an Order Adopting Emergency Rules issued by this Division as published in the official state newspaper on this date, February 25, 1999, for subsequent effectiveness on March 1, 1999. The emergency rules designate an alternative accounting guideline for use of the securities registration exemption in sec. 551.22(1)(a) of the Wisconsin Securities Law by certain governmental issuers of securities selling their debt securities in Wisconsin.

Certified copies are being concurrently filed with the Secretary of State and the Revisor of Statutes, and copies are also being filed with the Chief Clerk of each house of the legislature. Additionally, the Senate Sergeant-at-Arms and the Assembly Sergeant-at-Arms have been provided with sufficient copies of the Order Adopting Rules, together with a cover memo and fiscal estimate, to make the required distribution under sec. 227.24(3), Wis Stats., of the materials to all members of the legislature.

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

Very truly yours,


Randall E. Schumann
Legal Counsel for the Division

enclosure

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

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

To create DFI-Sec 2.01(1)(c)6 and DFI-Sec 2.01(1)(d)6 of the Rules of the Division of Securities relating to designating alternative accounting guidelines for the preparation of financial statements for certain governmental issuers 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.

FINDING OF EMERGENCY AND ANALYSIS

The Division of Securities of the Department of Financial Institutions for the State of Wisconsin finds that an emergency exists and that the attached rules are necessary for the immediate preservation of the public peace, health, safety or welfare. A statement of the facts constituting the emergency follows.

These emergency 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 emergency 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 will adversely impact 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 emergency 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 securities law provisions that would preclude underwriters from reoffering those securities to investors in the primary and secondary markets.

In the absence of the emergency rules, governmental securities issuers would be adversely affected by the costs of making securities filings with their attendant delays. 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).

Finally, having a filing requirement 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, 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 emergency rule-making action taken by the Division in 1994 and 1996 regarding specific accounting issues which occurred at those times, 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 these emergency rules designating 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 such emergency 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.

[Because this issue which has been triggered by GASB TB 98-1 has a limited "shelf life" such that no permanent rules relating to it will be needed after December 31, 2000, when action is taken by the Division to promulgate identical permanent rules to become effective upon expiration of the emergency rules, the permanent rules will provide for a December 31, 2000 "sunset" date, after which the permanent rules on the issue will no longer be effective.]

*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.

Pursuant to secs. 551.63(1) and (2) and 551.22(1)(a), Wis. Stats., the Division of Securities of the Department of Financial Institutions adopts emergency rules interpreting sec. 551.22(1)(a) of the Wisconsin Uniform Securities Law as follows:

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 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.

EFFECTIVE DATE

The emergency rules adopted by this Order shall take effect at 12:01 a.m. on March 1, 1999, which is subsequent to publication of the rules in the official state newspaper pursuant to the provisions of Sec. 227.24, Wis. Stats.

Dated at Madison, Wisconsin, this 23^d day of February, 1999.

[SEAL]



Patricia D. Struck
Administrator



State of Wisconsin
- Department of Financial Institutions

Tommy G. Thompson, Governor

Richard L. Dean, Secretary

May 7, 1999

The Honorable Fred Risser, President
Wisconsin State Senate
Attn: Donna Doyle
c/o Office of Senate Journal and Records
1 E. Main St., Ste. 402
Madison, WI 53702

The Honorable Scott Jensen
Speaker of the Assembly
Attn: Ken Stigler
c/o Office of Assembly Records
1 E. Main St., Ste. 402
Madison, WI 53702

Re: Clearinghouse Rule 99-061/Administrative Rule-Making Notice and Report to
Legislative Standing Committees Under secs. 227.19(2) and (3), Wis. Stats.

Gentlemen:

The Division of Securities of the Department of Financial Institutions hereby submits for filing with the Wisconsin Legislature pursuant to the administrative rule-making requirements of secs. 227.19(2) and (3), Wis. Stats., copies in triplicate of the Notice and Report required thereunder consisting of:

- (1) Proposed administrative rules in proposed final draft form as specified in sec. 227.14(1), Wis. Stats.
- (2) A Report as prescribed in sec. 227.19(3), Wis. Stats.
- (3) A fiscal estimate for the proposed rules.
- (4) A copy of the Clearinghouse Report of the Wisconsin Legislative Council relating to the published, public comment draft form of the proposed rules.

If you have any comments or questions regarding the above, please telephone me at 266-3414.

Very truly yours,

Randall E. Schumann
Legal Counsel for the Division

RES:gat

Attachments

cc: Revisor of Statutes
Joint Committee for Review of Administrative Rules
Patricia D. Struck, Administrator, Division of Securities
David Anderson, Executive Assistant, DFI



Division of Securities

345 W. Washington Ave. 4th Floor PO Box 1768 Madison WI 53701-1768 • (608) 266-1064 • Fax: (608) 256-1259 • www.wdfi.org

**PROPOSED 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 proposed 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 proposed 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 Proposed 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 proposed 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.

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.

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 _____ day of _____, 1999.

[SEAL]

PATRICIA D. STRUCK
Administrator
Division of Securities

REPORT PREPARED BY THE
DIVISION OF SECURITIES
DEPARTMENT OF FINANCIAL INSTITUTIONS
RELATING TO PROPOSED FINAL FORM OF NEW
RULES OF THE DIVISION OF SECURITIES

(a) Statement Explaining Need for Proposed Rules

These proposed 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 proposed 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 proposed 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 proposed 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, proposes to adopt 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 such emergency 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.

Because this regulatory issue which has been triggered by GASB TB 98-1 has a limited "shelf life" such that the permanent rules relating to it will not be needed after the accounting period ending December 31, 1999, the proposed permanent rules provide for a "sunset" date that extends through the accounting period ending December 31, 1999, after which the permanent rules will no longer be effective.

*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 proposed 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.
