

CR 94-93

**CERTIFICATE**

State of Wisconsin )  
Office of the )ss.  
Commissioner of Securities )

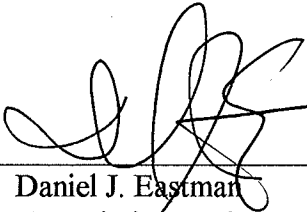
TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETINGS:

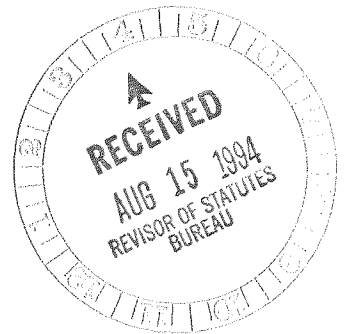
I, Daniel J. Eastman, Commissioner of the State of Wisconsin Office of the Commissioner of Securities, and custodian of the official records of said agency, do hereby certify that the annexed rules under Ch. 551, Wis. Stats., the Wisconsin Uniform Securities Law, relating to designating alternative accounting guidelines for the preparation of financial statements for certain governmental issuers of securities, were duly approved and adopted by this agency on August 15, 1994.

I further certify that this copy has been compared by me with the original on file in this agency 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 Office of the Commissioner of Securities in the City of Madison, this 15<sup>th</sup> day of Aug., 1994.

[SEAL]

  
\_\_\_\_\_  
Daniel J. Eastman  
Commissioner of Securities  
State of Wisconsin



10-1-94

ORDER OF THE  
OFFICE OF THE COMMISSIONER OF SECURITIES  
STATE OF WISCONSIN  
ADOPTING RULES

To create SEC 2.01(1)(c)4, 5 and 6 and SEC 2.01(1)(d)4, 5 and 6, Wis. Adm. Code, relating to designating alternative accounting guidelines for the preparation of financial statements for certain governmental issuers of securities.

Pursuant to ss. 551.63(1) and (2) and 551.22(1)(a) Stats., the Office of the Commissioner of Securities adopts rules interpreting s. 551.22(1)(a) Stats., as follows:

**SECTION 1. SEC 2.01(1)(c)4, 5 and 6 are created to read:**

SEC 2.01(1)(c)4. The issuer's annual general purpose financial statements relating to fiscal years ending on or before December 31, 1997, are prepared according to generally accepted accounting principles as provided in subd. 1, except that the auditor's opinion is qualified with respect to the omission of component units required to be included by governmental accounting standards board statement no. 14.

5. The issuer's annual general purpose financial statements relating to fiscal years ending on or before December 31, 1997, are prepared according to generally accepted accounting principles as provided in subd. 1, except that the auditor's opinion is qualified with respect to the unaudited financial statements of an included component unit.

6. The issuer's general purpose financial statements relating to fiscal years ending on or before December 31, 1997, are prepared according to generally accepted accounting principles as provided in subd. 1, except that the auditor's opinion is qualified with respect to the general purpose financial statements for component units whose financial statements are not presented in accordance with generally accepted accounting principles, but which are included in the reporting entity in accordance with governmental accounting standards board statement no. 14.

**SECTION 2. SEC 2.01(1)(d)4, 5 and 6 are created to read:**

SEC 2.01(1)(d)4. With respect to par. (c)4, the financial statements are prepared in accordance with generally accepted accounting principles, except that the auditor's opinion is qualified with respect to component units required to be included by governmental accounting standards board statement no. 14, or equivalent language.

5. With respect to par. (c)5, the financial statements are prepared according to generally accepted accounting principles, except that the auditor's opinion is qualified with respect to the unaudited financial statements of an included component unit, or equivalent language.

6. With respect to par. (c)6, the financial statements are prepared according to generally accepted accounting

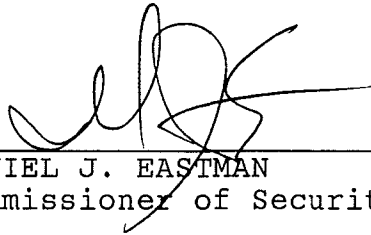
principles, except that the auditor's opinion is qualified with respect to the general purpose financial statements for component units whose financial statements are not presented in accordance with generally accepted accounting principles, but which are included in the reporting entity in accordance with governmental accounting standards board statement no. 14, or equivalent language.

\* \* \* \*

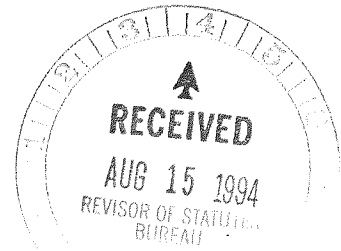
Pursuant to the provisions of s. 227.22(2)(intro.), Stats., the rules contained in this Order shall take effect on the first day of the month commencing after the date of their publication in the Wisconsin Administrative Register.

DATED this 15~~th~~ day of Aug, 1994.

(SEAL)



DANIEL J. EASTMAN  
Commissioner of Securities



REPORT PREPARED BY THE OFFICE  
OF THE COMMISSIONER OF SECURITIES  
RELATING TO FINAL, ADOPTED FORM OF NEW  
RULE PROVISIONS OF THE COMMISSIONER OF SECURITIES

(a) Statement Explaining Need for Proposed Rules

These permanent rules have been developed to be in place upon the expiration of identical emergency rules that were issued by Order of the Wisconsin Commissioner of Securities Office on April 26, 1994, and became effective on May 1, 1994 following required publications and filings. The permanent rules, as do the emergency rules, adopt several alternative accounting guidelines for the preparation of financial statements for certain governmental issuers of securities utilizing the securities registration exemption in s. 551.22(1)(a), Wis. Stats., for purposes of offering and selling their debt securities to public investors in Wisconsin. The alternative guidelines created in SEC 2.01(1)(c)4, 5 and 6, Wis. Adm. Code, allow an exception to the "full-GAAP" financial statement requirement where the issuer's financial statements are full-GAAP except for the "component units" of governmental issuers (which is a requirement recently imposed by the Governmental Accounting Standards Board in its Statement No. 14 in order for a governmental issuer's financials to be considered "full-GAAP"). Governmental securities issuers having "full-GAAP" financial statements have previously to date been able to sell their debt securities in reliance on automatic use of the registration exemption in s. 551.22(1)(a), Wis. Stats., (without the need for any exemption filing with this Office). Under the new alternative accounting guidelines (which still require "full-GAAP" financials, but allow an exception for GASB Statement No. 14 "component unit" items) those governmental securities issuers impacted by GASB Statement No. 14--which in absence of the alternative accounting guidelines in the new rules would have to make filings under Ch. 551--will continue to be able to rely on "automatic" use of the registration exemption of 551.22(1)(a) without the need for any filing with this Office.

The emergency rules adopting the alternative accounting guidelines were developed in consultation with a Working Group comprised of representatives of municipal/governmental securities issuers, bond attorneys and public accounting groups who had informed the Commissioner's Office that GASB Statement No. 14 would have an immediate, negative impact on the availability for use of the registration exemption in sec. 551.22(1)(a), Wis. Stats., by governmental/municipal securities issuers (having component units that will be subject to GASB Statement No. 14) which heretofore have had their general purpose financial statements prepared in full compliance with GAAP. In particular, the information provided to the Commissioner's Office was that auditors for municipal/governmental issuers with component units subject to GASB Statement No. 14 generally will no longer be able to issue unqualified opinions for general purpose financials of municipal governmental issuers--namely, that such financials are prepared, totally and without qualification, on the basis of generally accepted accounting principles. Two areas of concern in that regard were identified by the auditor groups. The first area related to "component units" that are housing authorities. Such housing authority component units typically prepare their financial statements according to the requirements of the

U.S. Department of Housing and Urban Development (HUD)--which requirements do not correspond totally with GAAP and thus would result in an auditor having to issue a qualified opinion for the general purpose financials for a governmental issuer having a housing authority component unit. The second area relates to a governmental/municipal securities issuer with other-than-housing-authority component units that have never previously been audited, but that under GASB Statement No. 14 would now be required to be included in the governmental entities' financial statements. With respect to each of the two areas, although the auditors can include unaudited information regarding such component units in the governmental issuer's general purpose financial statements, the auditor's opinion would have to be qualified, thus precluding use of the s. 551.22(1)(a) exemption on a self-executing basis for offers and sales of the governmental issuer's securities to the public.

Therefore, in similar fashion to permanent rule-making action taken by this agency in 1982 (which followed emergency similar rule-making action designating alternative accounting guidelines for certain governmental securities issuers), and for the purpose of alleviating any disruption that might occur to the near-term borrowing/bonding plans of governmental issuers of securities claiming registration exemption status under sec. 551.22(1)(a), Wis. Stats., and because it will require a period of time for those governmental issuers to be able to have their financial statements prepared according to full-GAAP via inclusion of the additional requirement under GASB Statement No. 14 (which necessitates having the audit report include all "component units" of a governmental/municipal issuer), and to induce such governmental issuers of securities (including those in Wisconsin), to move to full-GAAP (including GASB Statement No. 14) with all deliberate speed, the Office of the Wisconsin Commissioner of Securities has determined to promulgate the permanent rules summarized below.

During the public comment period relating to the rules in their proposed public comment draft form, comment letters were received from three members of the Working Group, expressing support for adoption of the rules in their proposed permanent form. One area for discussion and comment was directed by the Office to the Working Group relating to a letter received by this Office from a Wisconsin certified public accountant asking whether the financial statement requirement in sec. 551.22(1)(a) can be met by issuing "primary government" financial statements (in contrast to "general purpose" financial statements) that exclude all component units. The related rule-making issue was whether additional new subsections or other changes to the proposed permanent rules were necessary to deal with the "primary government" financials aspect. On the basis of this Office's understanding of the commentary received in the letters from, and in telephone discussions with, Working Group members on that point, this Office did not make any language modifications or add new subsections to the proposed permanent rules. Rather, the Office will add this commentary to the Report and Analysis discussion of this Report for the rules in their permanent form to the effect that certain members of the Working Group felt that providing full-GAAP "primary government" financials--for the "issuer" of the securities seeking to use the registration exemption in sec. 551.22(1)(a)--appeared to be an acceptable alternative to the preparation of general purpose financials (for which the GASB Statement

No. 14 permanent rules are needed), and for which no additional new rule sections or added rule language would be necessary.

In SECTION 1, three rule subparagraphs are created that: designate (in subpar. (c)4) as an alternative accounting guideline until December 31, 1997, GAAP but where the auditor's opinion is qualified with respect to the omission of component units required to be included by GASB Statement No. 14; designate (in subpar. (c)5) as an alternative accounting guideline until December 31, 1997, GAAP but where the auditor's opinion is qualified with respect to the unaudited financial statements of an included component unit; and designate (in subpar. (c)6) as an alternative accounting guideline until December 31, 1997, GAAP but where the auditor's opinion is qualified with respect to the general purpose financial statements for component units whose financial statements are not presented in accordance with generally accepted accounting principles, but which are included in the reporting entity in accordance with GASB Statement No. 14.

Each of the new alternative accounting guidelines specified in subpar. (c)4, 5 and 6 contains a built-in "sunset," in that the alternative guidelines are effective only for financial statements relating to fiscal years ending on or before 1997. Thereafter, unless the "sunset" date is extended, the full-GAAP-without-qualification basic accounting guideline requirement for automatic use of the 551.22(1)(a) exemption would be required to be met. This Office will re-evaluate the situation when the "sunset" date of the rules approaches to determine whether the sunset date should expire or be extended.

SECTION 2 of the new rules contains three subsections which provide that the auditor's opinion with respect to the financial statements of a governmental issuer subject to the subparagraphs of SECTION 1 must contain certain prescribed language corresponding to the qualification language in the new subparagraphs of (1)(c).

\* \* \* \*

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

- No modifications made to text of rules.
- Additional commentary added to Analysis and Report discussion of the proposed final rules.

(c) List of Persons Appearing or Registering at Public Hearing Conducted By Deputy Commissioner of Securities Patricia D. Struck as Hearing Officer, and Comment Letters Received

Persons appearing or Registering at Public Hearing:

- Randall E. Schumann, General Counsel of the Office of the Commissioner of Securities, made an appearance on behalf of the agency's staff to submit documents and information for the record, and to be available both to ask questions and to respond to questions regarding hearing testimony.

Comment Letters Received:

- Letter dated July 5, 1994, with attachments, received by facsimile on July 5, 1994 from Attorney Julianna Ebert of Quarles & Brady, Milwaukee, Wisconsin.
- Letter dated July 5, 1994, received by facsimile on July 5, 1994, from Fredric H. Smith of Bank One Capital Corporation, Milwaukee, Wisconsin.
- Letter dated July 5, 1994, received by facsimile on July 5, 1994, from Don Rahn of Virchow Krause & Co., Madison, Wisconsin.

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

Adoption of Rules Clearinghouse Comments

- Consistent with the Rules Clearinghouse comment in par. (a) under "Form, Style and Placement in Administrative Code," in the "pursuant to" clause before the text of the rule, the abbreviations for "sections" and "section" are changed to "ss" and "s," and "Wis. Stats." is changed to "Stats."
  - Consistent with the Rules Clearinghouse comment in par. (b) under "Form, Style and Placement in Administrative Code," in the treatment clause before the text in SECTIONS 1 and 2, the language "Wis. Adm. Code" is deleted.
  - Consistent with the Rules Clearinghouse comment in par. (c) under "Form, Style and Placement in Administrative Code," in all of the subdivisions, the words "except that" are substituted for "but where."
  - Consistent with the Rules Clearinghouse comment in par. (d) under "Form, Style and Placement in Administrative Code," whenever the term "Governmental Accounting Standard Board Statement No. 14" is used, capitalization of each word is removed and lower case is substituted.
  - Consistent with the Rules Clearinghouse comment in par. (e) under "Form, Style and Placement in Administrative Code," in the effective date clause at the end of the rule, "sec." is changed to "s.", and "Wis. Stats." is changed to "Stats."
- (e) No final regulatory flexibility analysis is included because the rules relate solely to municipal/governmental securities issuers and do not impact small businesses.

\* \* \* \*

# WISCONSIN LEGISLATIVE COUNCIL STAFF

LCRC  
FORM 2

## RULES CLEARINGHOUSE

**Ronald Sklansky**  
Director  
(608) 266-1946

**Richard Sweet**  
Assistant Director  
(608) 266-2982



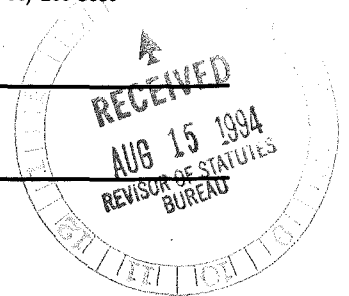
**David J. Stute, Director**  
Legislative Council Staff  
(608) 266-1304

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 94-93

AN ORDER to create SEC 2.01 (1) (c) 4 to 6 and (d) 4 to 6, relating to designating alternative accounting guidelines for the preparation of financial statements for certain governmental issuers of securities.

Submitted by OFFICE OF THE COMMISSIONER OF SECURITIES.

5-20-94. Received by Legislative Council.  
6-20-94. Report sent to Agency.

RS:DLS:jt;las



# WISCONSIN LEGISLATIVE COUNCIL STAFF

## RULES CLEARINGHOUSE

**Ronald Sklansky**  
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(608) 266-1946

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Madison, WI 53701-2536  
FAX: (608) 266-3830

## CLEARINGHOUSE RULE 94-93

### 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 November 1991.]**

#### 2. Form, Style and Placement in Administrative Code

- a. In the "pursuant to" clause before the text of the rule, "sections" and "section" should be "ss." and "s.", respectively, and "Wis. Stats." should be "Stats."
- b. In the treatment clause before the text in SECTIONS 1 and 2, delete " Wis. Adm. Code,".
- c. In all of the subdivisions in SECTIONS 1 and 2, it appears that use of the words "except that" instead of "but where" would make the rule more comprehensible.
- d. Wherever it appears in the rule, the term "Governmental Accounting Standards Board Statement No. 14" should read "governmental accounting standard board statement no. 14."
- e. In the effective date clause at the end of the rule, "sec." should be "s." and "Wis. Stats." should be "Stats."

FISCAL ESTIMATE

DOA-2048 (R10/92)

- ORIGINAL
- CORRECTED
- UPDATED
- SUPPLEMENTAL

Subject  
 SEC 2.01(1)(c)4 to 6 and (1)(d) 4 to 6 designating alternative accounting guidelines

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
  - VTAE Districts

Fund Sources Affected

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

Affected Ch. 20 Appropriations

Assumptions Used in Arriving at Fiscal Estimate

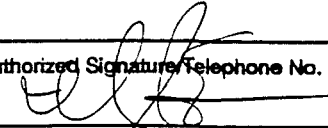
These rules adopt several alternative accounting guidelines for the preparation of financial statements for certain governmental issuers of securities utilizing the securities registration exemption in s. 551.22(1)(a), Wis. Stats., for purposes of offering and selling their debt securities to public investors in Wisconsin. The alternative guidelines allow an exception to the "full-GAAP" financial statement requirement where the issuer's financial statements are full-GAAP except for the "component units" of governmental issuers (which is a requirement recently imposed by the Governmental Accounting Standards Board in its Statement No. 14 in order for a governmental issuer's financials to be considered "full-GAAP").

The rule adoptions will not have any agency fiscal effect because governmental securities issuers having "full-GAAP" financial statements have previously to date sold their debt securities in reliance on automatic use of the registration exemption in s. 551.22(1)(a), Wis. Stats. (without the need for any registration or exemption filings with this Office). Under the alternative accounting guidelines (which provide for "full-GAAP," except for GASB Statement No. 14 "component unit" items) those governmental securities issuers impacted by GASB Statement No. 14--which in absence of the alternative accounting guidelines in the new rules would have to make filings under Ch.551--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 with this Office.

Long-Range Fiscal Implications

None

Agency/Prepared by: (Name & Phone No.)  
 WI Commissioner of Securities Ofc  
 Randall E. Schumann, General Counsel  
 266-3414

Authorized Signature/Telephone No.  
  
 Daniel J. Eastman, Commissioner  
 266-3433

Date  
 4-28-99

**FISCAL ESTIMATE WORKSHEET**

1993 Session

Detailed Estimate of Annual Fiscal Effect  ORIGINAL  UPDATED  
 DOA-2047(R10/92)  CORRECTED  SUPPLEMENTAL

LRB or Bill No./Adm. Rule No.	Amendment No.
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Subject SEC 2.01(1)(c)4 to 6 and (1)(d)4 to 6 designating alternative accounting guidelines

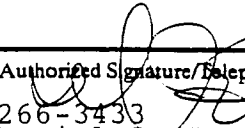
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):  
 None

II. Annualized Costs:	Annualized Fiscal impact on State funds from:	
	Increased Costs	Decreased Costs
A. State Costs by Category		
State Operations - Salaries and Fringes	\$	\$ -
(FTE Position Changes)	( 0 FTE)	(- 0 FTE)
State Operations - Other Costs		-
Local Assistance		-
Aids to Individuals or Organizations		-
<b>TOTAL State Costs by Category</b>	<b>\$ 0</b>	<b>\$ - 0</b>
B. State Costs by Source of Funds		
GPR	\$	\$ -
FED		-
PRO/PRS	0	- 0
SEG/SEG-S		-
III. 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		-
<b>TOTAL State Revenues</b>	<b>\$ 0</b>	<b>\$ - 0</b>

**NET ANNUALIZED FISCAL IMPACT**

	<u>STATE</u>	<u>LOCAL</u>
NET CHANGE IN COSTS	\$ 0	\$ 0
NET CHANGE IN REVENUES	\$ 0	\$ 0

Agency/Prepared by: (Name & Phone No.) 266-3414  
 WI Commissioner of Securities Ofc  
 Randall E. Schumann, General Counsel

Authorized Signature/Telephone No.  
  
 266-3433 Daniel J. Eastman, Commissioner

Date  
 9-29-97

**State of Wisconsin**  
**Office of the Commissioner of Securities**

**Tommy G. Thompson**  
Governor

**Daniel J. Eastman**  
Commissioner

**Patricia D. Struck**  
Deputy Commissioner



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Franchise	(608) 266-3364
Licensing	(608) 266-3693
Legal Services	(608) 266-8557
Administration	(608) 266-3583

August 15, 1994

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 53703-3233

Re: Filing of Certified Copies of Final Order  
Adopting Rules/Clearinghouse Rule 94-93

Gentlemen and Mesdames:

Pursuant to the requirements of ss. 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 agency on August 15, 1994.

Also attached is a copy of the Report prepared by this agency relating to the final rules, together with a copy of a fiscal estimate relating to the rules, 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,

A handwritten signature in cursive script that reads "Randall E. Schumann".

Randall E. Schumann  
General Counsel

RES:jdc  
enclosures  
cc: Daniel J. Eastman  
Commissioner of Securities

