

# LIMITED PARTNERSHIPS

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HEARING  
BEFORE THE  
SUBCOMMITTEE ON  
TELECOMMUNICATIONS AND FINANCE  
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COMMITTEE ON  
ENERGY AND COMMERCE  
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Mr. MARKEY. Thank you, Mr. Davis.

Our next witness, Mr. John Rozek, is the assistant vice president for New England Securities, here from Boston, MA.

#### STATEMENT OF JOHNATHAN M. ROZEK

Mr. ROZEK. Thank you, Mr. Chairman and members of the subcommittee, for the privilege of speaking before you.

I know you have about this much time to devote to each issue that you are confronted with and this many issues, and I believe that, if there is a tax solution to this, as H.R. 4670 proposes, or micro-legislation about dealing with very small percentages as a solution to it, we are not going to get through Congress when all is said and done.

I believe that in order for these reforms to be enacted quickly we have to go to three areas. The first one is better information, not just disclosure but information; the second is analysis from the marketplace to be included in that disclosure; and the third is the elimination of the ability to use partners' money against the partners and for the roll-ups.

First, the point of better information. I believe that we wouldn't be here today if we all believed that investors read the documents, understood the implications of the roll-ups, and voted that they wanted to do the roll-up. That isn't the case. There is a need not only to notify investors in either the initial proxy and prospectus but supplements of court actions but also of actions that are coming before the SEC Enforcement Division and coming before State securities commissioners, because not everybody, as was pointed out earlier, can afford court actions, but the small person can afford to write a letter to the SEC, and I have an example of that, that I mention in my written testimony, of a former SEC counsel writing to somebody that he knew in the Enforcement Division saying that, "This is an outright lie, what is being mentioned in some of the materials going out to investors. Could you please look at it?" Nothing was done. The fact that these kinds of actions are being brought before the SEC should be part of the disclosure so people know what is happening.

Better readability. I turned to a random page in a recent deal and looked at one of the paragraphs, and it was 111 words long per sentence. Some of them are 50, 60 words per sentence. That's absurd. I mean I spend my life looking at these deals, and they take me a long time to read over, and no investor is going to be able to do that.

The insurance industry has adopted something called the Flesch test, after Rudolph Flesch, and it is a readability test. I talked to the fellow at New England Mutual Life Insurance Company who is in charge of putting insurance contracts into that, and I said, "Is there any concept in insurance that couldn't be reduced and simplified?" and he said no. You start to think in those terms of shorter sentences, get to your points, have bullets, and that is what we need; we need a Flesch test for limited partnerships.

A second point, analysis from the marketplace. Currently, we have the investment equivalent of a doctor handing a blood chemistry test to a patient and saying, "Well, your electrolyte balances

are all right there; your enzymes are right there. Can't you see in black and white what your health is?" We have disclosure, but we have no interpretation or analysis of that disclosure.

Not only do we need that analysis, but both at the stage when the SEC is looking at the deal and when investors are looking at it, we have to have analysis from people with different motivations. My motivation, partnership associations, independent due diligence people, the financial press, they all should have a right or the ability to comment, just as the IRS asks for comments from people, before final regulations are issued.

Finally, I believe that securities firms such as mine should be required to take a stand on roll-ups. It is too easy for them to sit back and say, "Hey, there are too many issues here that are unknown, and we couldn't opine on that." They didn't have a problem opining on the original deal, which had just as many issues that are uncertain. They were making a commission at that time. Now, when people are really looking to them for some action, they defer.

Finally, to eliminate the ability to use investors' money against them. It shouldn't be an issue of, do we have commissions for no votes also, there should be no commissions. Securities firms already made their money on this deal; this is part of the bargain, to advise people once they are in that program for the life of that program.

There should be the ability to mail on a piggy-back basis with things that the sponsor is sending out other kinds of analyses or other articles that come out against roll-ups. Right now, the sponsor has complete control over that.

Finally, the sponsor uses partners' money to hold meetings, informational meetings, and doesn't allow the opposition to speak. That is simply unfair. They are using partners' money.

You might ask, why do I advocate equal access in this degree for this kind of investment when other investments don't have that standard? It is because it is the difference between a racquet ball club and a nursing home. You can walk out of one a lot easier than you can walk out of the other, and we have to take care of those.

[Testimony resumes on p. 88.]

[The prepared statement and attachment of Mr. Rozek follow:]