

The Importance of GASB 79

LGIP Article | Originally published April 2020



Information provided by MILAF+'s Investment Adviser PFM Asset Management LLC

GASB-79 Benefits

During times of economic or financial crisis, citizens depend on the efficient functioning of their respective government services. For government finance officials, one of the last things they want to worry about is the safety and liquidity of public funds invested in a local government investment pool (LGIP). In particular, they expect funds invested in a stable value LGIP to be safe and liquid. The good news is that Governmental Accounting Standards Board (GASB) Statement 79¹ became effective in 2015. GASB 79 incorporates robust guidance and accounting standards for an LGIP. An LGIP that follows GASB 79 may elect to use amortized cost in financial reporting if it follows all of the criteria listed below (note that this is a summary, and that each of these criteria has a large amount of detail):

| | |
|------------------------------|--|
| Maturity Requirements | All securities in the portfolio must have a maturity of 397 days or less. The weighted average maturity must be 60 days or less and the weighted average life must be 120 days or less. This is designed to protect a portfolio against market volatility that could move the underlying value of portfolio securities away from their amortized cost. |
| Liquidity | The portfolio must hold at least 10% of its assets in daily liquid assets and 30% in weekly liquid assets. This follows Securities and Exchange Commission requirements for registered money market mutual funds and is aimed at providing minimum daily and weekly liquidity under adverse market conditions. |
| Diversification | The portfolio would hold no more than 5% of its total assets from a single issuer. U.S. government securities are exempt from this requirement. |
| Portfolio Quality | Securities must be rated in the highest category of short-term ratings. |
| Shadow Pricing | The investments in the portfolio should be priced using the fair value method on a monthly basis. The shadow price should not deviate by more than one half of 1 percent from the net asset value per share compared to the value of investments at amortized cost. |

¹ https://www.gasb.org/jsp/GASB/Document_C/GASBDocumentPage?cid=1176167751556&acceptedDisclaimer=true



For LGIPs that are rated by a Nationally Recognized Statistical Rating Organization (NRSRO), a credit rating agency, many but not all of the requirements of GASB 79 are encompassed in rating agency criteria. In particular, having a high degree of liquidity in an LGIP is important during all market environments, but is critical during times of economic stress. Enhanced liquidity levels not only serve to fund unexpected investor redemptions but also bolster the ability of an LGIP to maintain a stable net asset value (NAV).

MILAF+ and GASB 79

While adoption is optional, the MILAF+ Board of Trustees voted to adopt GASB 79 to help serve MILAF+ investors during turbulent times in meeting key investment goals such as: 1) seeking to ensure safety of principal and 2) the liquidity of funds. A third goal, providing a competitive yield, is important but is of lower priority during volatile market environments.

To learn more or discuss in greater detail, please contact us:

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