

Bond Case Briefs

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GASB Adds External Investment Pools to Its Technical Agenda.

Project Description: The objective of this project is to improve financial reporting by external investment pools and pool participants that report positions in investment pools. Improvement will be achieved by addressing recognition, measurement, of investment pools and their disclosures.

EXTERNAL INVESTMENT POOLS—PROJECT PLAN

Background: In order to qualify for amortized cost reporting, current GASB literature in Statement 31 links local government investment pools to Securities and Exchange Commission (SEC) Rule 2a7, requiring that pool sponsors follow specific 2a7 criteria. In 2014, the SEC significantly revised its rules affecting money market funds. The pre-agenda research indicated that those rules will affect investment pools to such an extent that few governments will be in a position to adopt the 2014 amendments. Those effects include the inability of pool participants to transact at a floating net asset value per share and the potential imposition of liquidity fees or redemption gates. Pre-agenda research indicated that some local government investment pools differ from many SEC-registered money market funds. For example, pool sponsors may have a more complete understanding about cash flow and liquidity needs of pool participants, pool participation may be involuntary, and alternative investment vehicles may be limited.

The pre-agenda research results suggested that some investment pools are assuming significant interest rate risk. In the event of an increase in interest rates, pool investments could suffer fair value losses. The extent of those losses, if any, will depend in part on the maturities of a pool's investments. The longer an investment's term-to-maturity, the greater an investment's exposure to fair value losses arising from interest rate risk. To portray accurately the financial position and economic condition of a pool, the proposed project would examine the interest rate risk of and structures of different investment pools in order to determine the appropriate measurement criteria and disclosure requirements.

Accounting and Financial Reporting Issues: The project will consider the following issues:

- If a cost-based measurement for investment pools is developed, what criteria or defining characteristics describe such pools
- For all investment pools, what additional note disclosures are essential information for financial statement users?
- For pool participants, what additional note disclosures are essential information for financial statement users.

History:

Pre-agenda research proposed: August 2014

Proposed for addition to the current technical agenda: December 2014

Status:

Added to Research Agenda: August 2014
Added to Current Agenda: December 2014

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Board Meetings Topics to be considered:

January 2015: Measurement of investment pool assets and net asset value per share. Criteria for cost-based investment pools.
March 2014: Continuation of cost-based criteria.
April 2015: Investment pool and participant disclosures.
May 2015 (T/C): Review draft standards section of an Exposure Draft.
June 2015: Review preballot draft of an Exposure Draft.
June 2015 (T/C): Review ballot draft and issue Exposure Draft.
July-August 2015: Comment Period (60 days).