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GASB: What You Need to Know about Local Government Investment Pools.

In June, the GASB plans to issue proposed guidance on local government investment pools operated by governments (also known as external investment pools). This proposal is intended to address rule changes recently adopted by the Securities and Exchange Commission (SEC) that will impact the related financial reporting requirements.

Local government investment pools function much like money market funds. Typically, government investment funds pool the resources of participating governments and invest in various securities as permitted under state law. By pooling their cash together, participating governments benefit in a variety of ways, including from economies of scale and professional fund management.

Under [GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools](#), as amended, governments are allowed to use an amortized cost basis for reporting their pool investments if the funds operate like SEC-regulated money market funds under SEC Rule 2a7. Likewise, governments that participate in pools report their shares at amortized cost. Using the amortized cost basis reflects the cost of the investment plus or minus adjustments made for the premiums and discounts associated with the purchase price of the underlying investments in the pool.

To qualify for amortized cost reporting under existing accounting standards, an investment pool has to meet the basic requirements of Rule 2a7, except for the requirement to file with the SEC—referred to as being “2a7-like.” However, under the [SEC’s new rules](#), which take effect in 2016, many government pools are not expected to qualify for amortized cost reporting and would have to report their investments at fair value. This would have a significant impact on local governments.

After weighing its options—which included taking no action at all—the GASB decided to develop criteria to replace the 2a7-like guidance provided in Statement 31, as amended. The GASB is in the process of finalizing proposed guidance that would address issues raised by the SEC’s new rules. The guidance will be exposed for public comment in June. The proposal will seek input on what criteria should be in place for a pool to report at amortized cost.

We encourage you to follow our progress on this project at www.gasb.org.

As always, your input is critical to helping us develop high-quality standards. We encourage you to follow our progress on this project at www.gasb.org, and to review and provide comment on the Exposure Draft when it is issued.

More information on the project can be found [here](#).