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GASB Issues Proposed Guidance on External Investment Pools and Component Units.

Norwalk, CT, June 30, 2015 — The Governmental Accounting Standards Board (GASB) today issued two Exposure Drafts proposing accounting and financial reporting guidance related to external investment pools and how certain component units should be presented in a governmental reporting entity's financial statements.

[The Exposure Draft](#), *Accounting and Financial Reporting for Certain External Investment Pools*, would permit qualifying external investment pools to measure pool investments at amortized cost for financial reporting purposes. Reporting under the amortized cost basis reflects investment cost and adjustments made for premiums or discounts associated with the purchase price of the underlying investments in the pool.

[The Exposure Draft](#), *Blending Requirements for Certain Component Units*, would enhance existing guidance regarding the presentation of the financial reporting entity in governmental financial statements. The proposed Statement would establish an additional blending criterion for financial statement presentation of component units of state and local governments.

"These two proposals come in response to requests by stakeholders to resolve important practice issues," said GASB Chairman David Vaudt. "The Exposure Draft on external investment pools should help avoid confusion ahead of forthcoming regulatory rule changes. The Exposure Draft on blending requirements will clarify reporting entity presentation of certain component units incorporated as not-for-profit corporations."

External Investment Pools

For governments, external investment pools function much like money market mutual funds do in the private sector. Government investment funds pool the resources of participating governments and invest in various securities permitted under state law. By pooling their cash together, governments can benefit in a variety of ways, including from economies of scale and professional fund management.

Existing standards provide that external investment pools may measure their investments at amortized cost for financial reporting purposes if they follow substantially all of the provisions of the U.S. Securities and Exchange Commission's Rule 2a7 for money market funds. Likewise, participants in those pools are able to report their position in the pool at amortized cost per share.

The proposal would replace the reference in GASB literature to Rule 2a7 with the GASB's own set of criteria. This is being done in response to major changes to Rule 2a7 that take effect in 2016. Under the rule changes, many government pools would expect to no longer qualify for amortized cost reporting. This would represent a significant change from current practice for both the pools and their participants.

The proposed Statement also would establish additional note disclosure requirements for external

investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. These disclosures would include information about limitations or restrictions on participant withdrawals.

Blending Requirements

This Exposure Draft addresses diversity in practice regarding the presentation of not-for-profit corporations in which the primary government is the sole corporate member. The GASB has proposed treating these component units as if they were activities of a primary government through a financial presentation method referred to as blending. The Board believes the proposed approach would enhance consistency of application among governments reporting these types of component units—which would result in increased comparability across governments.

The Exposure Drafts are available on the GASB website, www.gasb.org. Stakeholders are encouraged to review and provide comments on the Exposure Draft, Accounting and Financial Reporting for Certain External Investment Pools, by August 31, 2015. Stakeholders are encouraged to review and provide comments on the Exposure Draft, Blending Requirements for Certain Component Units, by October 2, 2015.

About the Governmental Accounting Standards Board

Established in 1984, the GASB is the independent, private-sector organization based in Norwalk, Connecticut, that establishes accounting and financial reporting standards for U.S. state and local governments that follow Generally Accepted Accounting Principles (GAAP). These standards are recognized as authoritative by state and local governments, state Boards of Accountancy, and the American Institute of CPAs (AICPA). The GASB develops and issues accounting standards through a transparent and inclusive process intended to promote financial reporting that provides useful information to taxpayers, public officials, investors, and others who use financial reports. The Financial Accounting Foundation (FAF) supports and oversees the GASB. For more information, visit www.gasb.org.