

**MEMO# 29606**

January 5, 2016

## **GASB Permits State and Local External Investment Pools to Continue to Apply Amortized Cost Accounting**

[29606]

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TO: MONEY MARKET FUNDS ADVISORY COMMITTEE No. 1-16  
MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 2-16 RE: GASB PERMITS STATE AND LOCAL EXTERNAL INVESTMENT POOLS TO CONTINUE TO APPLY AMORTIZED COST ACCOUNTING

The Governmental Accounting Standards Board recently released an accounting standard that permits certain state and local external investment pools to continue to use amortized cost accounting to stabilize net asset value for financial reporting purposes. [\[1\]](#) GASB No. 79 also permits participants in state and local external investment pools [\[2\]](#) to value their investment in the pool at amortized cost for financial reporting purposes. Prior to release of GASB No. 79, state and local external investment pools had to comply with Rule 2a-7 under the Investment Company Act of 1940 to stabilize net asset value.

GASB No. 79 explains that SEC amendments to Rule 2a-7 scheduled to take effect starting in April 2016 would, among other things: a) require money market funds, with limited exceptions, to transact with fund investors at a floating net asset value per share; b) impose liquidity fees and redemption gates under certain circumstances; c) require daily calculation of shadow price; and d) require website disclosure of portfolio-related information daily. GASB research indicated that many state and local external investment pools would not be able to comply with revised Rule 2a-7.

GASB No. 79 replaces the requirement to comply with Rule 2a-7 with risk-limiting conditions substantially similar to those in Rule 2a-7. Those conditions address maturity, credit quality, diversification, liquidity, and shadow pricing. In addition, the external investment pool must transact with its participants at a stable net asset value per share. The risk-limiting conditions are intended to ensure that the amortized cost stable net asset value does not differ materially from fair value.

GASB No. 79 is effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing, which are effective for reporting periods beginning after December 15, 2015.

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Senior Director of Fund Accounting and Compliance

**endnotes**

[1] GASB Statement No. 79, Certain External Investment Pools and Pool Participants (December 23, 2015) is available on the GASB website at <http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176160042391> (GASB No. 79).

[2] GASB Statement No. 31 defines an external investment pool as an arrangement that commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio; one or more of the participants is not part of the sponsor's reporting entity.

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