

The Importance of GASB 79



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Information provided by WGIF'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).

WGIF and GASB 79

While adoption of GASB 79 is optional, all of the stable value LGIPs managed by PFM Asset Management (PFMAM) have adopted GASB 79, including WGIF. Following the guidance of GASB 79 helps PFMAM to serve our clients 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.

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If you would like join WGIF or find out more, please feel free to contact us.

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