



North Carolina Office of the State Controller

Financial Reporting Update

GASB 79 Effective for FY 2016 and FY 2017 (paragraphs 18, 19, 23 – 26, and 40 only)

February 18, 2016

In December 2015, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* (GASB 79). This Statement establishes criteria that would permit a qualifying external investment pool to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool is 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. The University of North Carolina Investment Fund and the Department of State Treasurer Investment Pool are examples of external investment pools. If a government declines to measure all of its investments in a qualifying external investment pool at amortized cost, then GASB 79 does not apply. The existing authoritative standards, including GASB Statement 72, for fair value measurement should be followed instead.

GASB 79 is effective for the fiscal year ending June 30, 2016, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing (paragraphs 18, 19, 23-26, and 40). These provisions are effective for the fiscal year ending June 30, 2017. This Statement addresses the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's (SEC) regulations that apply to money market funds. References to the rule were previously incorporated in GASB literature. In response to changes contained in SEC Rule 2a7, due to take effect in April 2016, GASB decided to set its own criteria for determining whether a given investment pool may report investments at amortized cost, and whether pool participants may report their position in a given investment pool at a share price based on amortized cost rather than fair value.

Some external investment pools invest exclusively in high-quality, highly liquid debt securities and monetary instruments. These types of investments limit exposure to credit risk or interest-rate risk, and it is unlikely amortized cost would differ significantly from fair value. Thus an external investment pool may elect to measure, for financial reporting purposes, all of its investments at amortized cost if it meets all of the following criteria:

- a. Transacts with its participants at a stable net asset value per share (for example, all contributions and redemptions are transacted at \$1.00 net asset value per share);
- b. Meets the portfolio maturity requirements in GASB 79 paragraphs 8 – 16;
- c. Meets the portfolio quality requirements in GASB 79 paragraphs 17 – 26;
- d. Meets the portfolio diversification requirements in GASB 79 paragraphs 27 – 31;
- e. Meets the portfolio liquidity requirements in GASB 79 paragraphs 32 – 38; and
- f. Meets the shadow pricing requirements in GASB 79 paragraphs 39 and 40.

Significant noncompliance during the reporting period prevents the external investment pool from measuring all of its investments at amortized cost. When an external investment pool did not measure all of its investments at amortized cost in the previous reporting period, the pool may



North Carolina Office of the State Controller

Financial Reporting Update

make an election to change from fair value measurement to an amortized cost-based measurement in the subsequent reporting period, only if the pool meets all the criteria in Statement 79 and justifies a change in accounting principle.

If an external investment pool meets the criteria in GASB 79 and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of its investments at amortized cost and for governments that participate in those pools. Information about any limitations or restrictions on participant withdrawals should be disclosed. These disclosures are in addition to existing disclosure requirements for external investment pools.

To gain additional understanding of GASB 79, please refer to the following resources:

- a. GASB webpage from which you may access a PDF file of GASB 79 as well as other GASB pronouncements – [GASB Pronouncements](#)
- b. GASB Outlook (published prior to issuance of GASB 79; however, background information is useful) - [What You Need to Know: Local Government Investment Pools](#)

Thank you for your time and attention to this important change. OSC will continue to provide updates as the standard is implemented. Questions regarding this specific update should be directed to Joy Darden at (919) 707-0520 or joy.darden@osc.nc.gov.