

GASB 79 allows the use of amortized cost to value all of an LGIP's portfolio assets for financial reporting purposes. It does not seek to regulate the operations of LGIPs. It replaces former GASB "2a7-like" LGIP guidance that had required LGIPs to follow SEC Rule 2a-7 to use amortized cost. SEC changes to Rule 2a-7 made that old approach unworkable.

Highlights

Amortized cost for entire portfolio	<ul style="list-style-type: none"> Stable net asset value (NAV) LGIPs can use amortized cost to value the whole portfolio if they meet GASB 79 criteria and elect to follow its requirements.
Presumptive amortized cost for short-term paper in LGIP portfolio	<ul style="list-style-type: none"> All LGIPs are permitted to use amortized cost to value portfolio assets with remaining maturity at time of acquisition of 90 days and under (even if they do not meet GASB 79 portfolio criteria).
Variable NAV (VNAV) per unit or share	<ul style="list-style-type: none"> VNAV LGIP cannot rely on GASB 79 and therefore cannot use amortized cost to value portfolio assets over 90 days for financial statement purposes. Other LGIPs can use a VNAV share price, and follow GASB 31 to value portfolio assets.
"Cash equivalent"?	<ul style="list-style-type: none"> An interest in a cash investment pool such as an LGIP is considered "cash equivalent" under GASB 9.
Round to \$1.00 stable NAV per unit or share	<ul style="list-style-type: none"> An LGIP that relies on GASB 79 must round unit prices up or down to the nearest penny to a stable value (generally \$1.00 per unit) for admission, redemption and financial statement purposes. Other cash pool LGIPs that do not rely on GASB 79 can still round unit values to the nearest penny to create a stable value \$1.00 unit price for investor admissions and redemptions.

Portfolio Criteria

GASB intent to assure amortized cost near fair value

Maximum maturity of a portfolio asset	397 days
The Weighted Average Life (WAL) of portfolio assets is based upon their ultimate maturity and payment date	120 days
The Weighted Average Maturity (WAM) of portfolio assets takes into account interest resets of portfolio assets to determine when they "mature" which is shorter than when they are due and payable.	60 days
Daily liquid assets (the percentage of the LGIP's portfolio that must consist of cash and instruments payable or redeemable on a daily basis)	<ul style="list-style-type: none"> At least 10% of LGIP's portfolio plus reasonably foreseeable redemptions based upon LGIP's knowledge of investor cash needs and investment horizons must be daily liquid assets. Direct obligation U.S. government securities (US Govis) count as daily assets regardless of actual maturity.
Weekly liquid assets (the percentage of the LGIP's portfolio that must consist of cash and instruments payable or redeemable on a weekly basis)	<ul style="list-style-type: none"> At least 30% of LGIP's portfolio plus reasonably foreseeable redemptions based upon LGIP's knowledge of investor cash needs and investment horizons must be weekly liquid assets. Non-direct obligation US Govis count if under 60 days WAM. Investments in money market funds (MMFs) can count as weekly liquid assets.
Illiquid assets	<ul style="list-style-type: none"> 5% maximum on LGIP portfolio invested in illiquid assets.

Portfolio Diversification	<ul style="list-style-type: none"> • 5% maximum per issuer. 10% maximum per guarantor. • If a security in the portfolio is in the 2nd highest rating category (as a result of a credit ratings downgrade) then limit to 0.5% per issuer and 2.5% per guarantor. • No limit on US Govis.
Credit Quality	<ul style="list-style-type: none"> • A security must be the highest rating category at purchase if rated by NRSRO or determined equivalent if unrated (even US Govis subject to this credit quality requirement). • Can rely on guarantee for rating or evaluation. • Up to 3% of the portfolio can consist of assets downgraded to 2nd highest rating category after purchase. • A security must be sold if lower than 2nd highest rating, or if held in an amount above 3% in aggregate, or 0.5% per downgraded issuer, 2.5% per guarantor.
Use of repurchase agreements (repo)	<ul style="list-style-type: none"> • Both counterparty and collateral must meet credit quality tests. • Look through to collateral for diversification test. • US Govi and Non-US Govi collateral allowed, but repo collateral must be an asset that the LGIP permitted to own directly other than maturity. • Consider custodial risk.
Dollar denominated	<ul style="list-style-type: none"> • Required for LGIP itself and all of its portfolio assets.
Custodial credit risk	<ul style="list-style-type: none"> • Must not be exposed to custodial credit risk per GASB Statement 40.
Bank deposits	<ul style="list-style-type: none"> • Credit evaluation or rating required. • Non-transferable bank deposits with over 5 business days remaining maturity are illiquid assets.
Asset-Backed (AB) portfolio assets	<ul style="list-style-type: none"> • If the obligations of a single entity constitute 10% or more of the assets that back that security, that entity should be considered to be the issuer of that portion of the asset-backed security.
Additional Considerations	
Other Prudential Controls	
Shadow pricing	<ul style="list-style-type: none"> • Monthly shadow pricing required (using market or model pricing), which must be within 0.5% of amortized cost value per unit.
Downgrades & defaults on portfolio assets	<ul style="list-style-type: none"> • 3% cap on securities with 2nd highest rating (with lower cap per issuer and guarantor). Those securities below 2nd highest rating and defaults must be sold.
Errors & Failing to Meet Criteria	<ul style="list-style-type: none"> • Cannot use GASB 79 if deemed “significantly non-compliant” during a reporting period, based on professional judgment regarding facts and circumstances. • Stricter test at acquisition and on reporting dates. • May requalify for subsequent periods.
Financial Statement Disclosures	<ul style="list-style-type: none"> • Special disclosures required in financial statements.
Fees & gates, stress-testing, Board approvals and actions, capacity to transact at VNAV, daily website disclosures and special recordkeeping	<ul style="list-style-type: none"> • Not Required.