# Does Your LGIP Follow GASB 79?

During stable times, and especially during economic or financial crisis, people depend on their government services. The last thing government finance officials want to worry about is the safety and liquidity of public funds invested in a Local Government Investment Pool (LGIP).

The Governmental Accounting Standards Board (GASB) Statement 79[1], issued in 2015, incorporates robust guidance and accounting standards for LGIPs to qualify for electing to measure its investments at amortized cost from a financial reporting perspective.

While an LGIP could opt not to adopt these standards and default to the fair value reporting standards in GASB 31, PFM Asset Management LLC ("PFMAM") believes following GASB 79 criteria is crucial to safeguarding investments. All stable value LGIPs managed by PFMAM have adopted GASB 79.

## GASB 79 Adherence Checklist

**Maturity Requirements.** All securities in the portfolio must have a maturity of 397 days or less. The portfolio's weighted average maturity must be 60 days or less, along with a weighted average life of 120 days or less.

**Diversification.** No more than 5% of the portfolio's assets are from a single issuer. U.S. government securities are exempt from this requirement.

**Liquidity.** At least 10% of the portfolio's assets must be in daily liquid assets, in addition to at least 30% being held in weekly liquid assets as those thresholds are defined in GASB 79. This is aimed at providing minimum daily and weekly liquidity under adverse market conditions.

**Portfolio Quality.** Securities must be rated in the highest category of short-term ratings.

1 *https://www.gasb.org/page/pageContent?pageId=/standards-guidance/pronouncements/summary--statement-no-79.html*

## How GASB 79 Can Help Focus on Investment Goals

For LGIPs managed by PFMAM, the primary goal is to seek to preserve the safety of principal and liquidity of funds in all rate environments, but especially during times of economic stress. Providing a competitive yield is also an important objective, but secondary to maintaining safety and providing liquidity.

Maintaining liquidity can allow the New Jersey Asset and Rebate Management Program (NJ/ARM) to serve unexpected investor redemptions and supports its ability to maintain a stable net asset value (NAV).

### NJ/ARM and GASB 79

NJ/ARM follows GASB 79 because liquidity, maturity, quality and diversification requirements are met to help protect the portfolio during adverse market conditions. Conversely, portfolios that hold more credit put themselves at risk when credit spreads widen during times of crisis, possibly causing the portfolio to become illiquid.

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