

GASB 79: Origin and Purpose

History

The 2008-09 financial crisis caused extensive disruptions throughout the investment industry. In particular, money market mutual funds (money market funds) were exposed to extreme stress and dozens required support from their sponsoring organizations to keep their net asset value equal to \$1.00 per share. In the aftermath of the financial crisis the Securities and Exchange Commission (SEC) closely examined the rules governing money market funds. In response, the SEC implemented key rule changes in 2010 and 2014 to SEC Rule 2a-7 which governed money market funds. The 2014 rule change, which became effective in 2016, required that any institutional money market fund that invested in credit instruments (defined as prime money market funds) such as commercial paper must incorporate a floating net asset value and adopt liquidity fees and redemption gates.

At the time, the Governmental Accounting Standards Board (GASB) rules related to external pools such as local government investment pools (LGIPs) relied heavily on references to SEC Rule 2a-7 governing money market funds. The SEC changes to Rule 2a-7 made this linkage impractical for governmental pools, prompting GASB to establish an independent, public-sector-specific framework.

When the SEC materially revised Rule 2a-7, GASB sought to:

- Decouple governmental reporting from SEC regulation
- Establish independent accounting criteria for external investment pools

Objectives

The core objective of GASB Statement No. 79 (GASB 79) is to permit the use of amortized cost for financial reporting when such measurement is expected to approximate fair value, based on portfolio maturity, liquidity, credit quality, and diversification.

GASB 79 applies to external investment pools that commingle funds from multiple legally separate entities, such as an LGIP. Application of GASB 79 is elective but requires full compliance if elected. Pools that do not qualify must report investments at fair value under GASB Statement No. 31 and GASB Statement No. 72.

Key Elements of GASB 79

Stable NAV Transaction Structure

Qualifying pools must transact with participants at a stable unit value, typically \$1.00 per share, rounded to the nearest cent.

Portfolio Maturity Limits

- Maximum maturity of any security: 397 days
- Weighted Average Maturity (WAM): 60 days
- Weighted Average Life (WAL): 120 days

Credit Quality and Diversification

Investments must be high-quality, generally limited to the highest short-term rating categories (A1/P1). Diversification limits generally restrict exposure to 5% per non-government issuer.

Liquidity Requirements

Qualifying pools must maintain at least 10% in daily liquid assets and 30% in weekly liquid assets.

Shadow Pricing and Compliance

Pools must calculate and monitor a shadow price comparing amortized cost to fair value. Significant deviations or noncompliance require reversion to fair value accounting.

LGIP Risk Management

A GASB 79 compliant LGIP is designed with principal stability at the forefront. A non-GASB 79 LGIP inevitably accepts higher investment risk than a compliant pool—not because it is poorly managed, but because GASB 79 eligibility itself constrains risk. The incremental risk shows up primarily as interest rate risk and liquidity risk, with secondary implications for market confidence under stress. While GASB 79 pools are engineered so price volatility is de minimis, non-compliant pools must tolerate observable NAV movement, even if final cash flows are intact. This is real economic risk, not just accounting noise. A non-compliant GASB 79 LGIP is, by definition, assuming more interest-rate and liquidity risk. That additional risk may be intentional and well managed, but it creates greater sensitivity to rate shocks, participant behavior, and stress-driven asset sales. GASB 79 is engineered so rate volatility is absorbed by maturity limits, diversification and liquidity; aggressive pools accept price volatility up front.

Compliance with GASB 79 is independent of credit rating criteria and some rating elements overlap GASB 79 and some do not. Thus, it is possible for an LGIP to be AAAM rated without complying with GASB 79. The graphic below provides context for the risk / return tradeoffs of GASB 79 compliant pools vs. non-compliant pools.

LGIP Risk Spectrum

GASB 79 Compliant

- Focuses on principal stability
- High liquidity buffer
- Low interest rate sensitivity

Conservative Non-Compliant

- Yield with guardrails
- Managed liquidity
- Moderate interest rate sensitivity

Aggressive Non-Compliant

- Yield maximization
- Higher tail risk
- Greater NAV variability

Comparative Analysis

The tables below provide a high-level overview of key elements of three different types of external pools that seek to deliver \$1.00 per share. This analysis is not applicable to pools that specifically operate with a variable net asset value such as a short-term bond fund.

- GASB 79 compliant pools
- Conservative Non-Compliant pools
- Aggressive Non-Compliant pools

GASB 79 Comparative Analysis

Structural Snapshot			
Feature	GASB 79 Compliant	Conservative Non-Compliant	Aggressive Non-Compliant
Accounting treatment	Amortized cost	Fair value	Fair value
WAM / WAL discipline	Tight (≤60 / ≤120 days)	Moderately extended	Fully tactical
Effective duration	Very short	Short–intermediate	Intermediate+
Daily / weekly liquidity	Explicit minimums	Policy-based, flexible	Opportunistic
Liquidity Risk			
Dimension	GASB 79 Compliant	Conservative Non-Compliant	Aggressive Non-Compliant
Normal withdrawals	Easily met	Easily met	Usually met
Large idiosyncratic redemption	High resilience	Manageable w/ planning	Portfolio dependent
Systemic stress (March-2020-type)	Structural buffers	Vulnerable without warning	Greater forced sale risk
Reliance on market liquidity	Low	Moderate	High
Realized Loss Risk			
Scenario	GASB 79 Compliant	Conservative Non-Compliant	Aggressive Non-Compliant
Rising rates, no redemptions	Minimal impact	Paper losses only	Large paper losses
Rising rates + modest redemptions	Still minimal	Selective sales	Forced sales likely
Rising rates + spreads widen + redemptions	Extremely unlikely	Possible but containable	Higher probability of realized loss

Conclusions

Stable value LGIPs commonly elect GASB 79 compliance, allowing both the pool and participants to report at amortized cost. GASB 79 modernized the accounting framework for local government investment pools by establishing clear, public sector specific criteria for amortized cost reporting. It remains foundational for stable value LGIPs, supporting not only principal stability but also comparability, transparency, and financial statement disclosures.

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