



State of Louisiana
Division of Administration
Office of Statewide Reporting and Accounting Policy

March 22, 2011

OSRAP MEMORANDUM 11-22

TO: Fiscal Officers
All State Entities

FROM: Afranie Adomako, CPA
Director

SUBJECT: Implementation of Governmental Accounting Standards Board (GASB) Statement 59, *Financial Instruments Omnibus*

In June 2010, GASB issued Statement 59, *Financial Instruments Omnibus*, to amend certain GASB statements regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The following is a summary of amendments included in the statement. Please refer to Statement 59 for more details.

- National Council on Governmental Accounting Statement 4 (NCGA 4), *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, is updated to be consistent with the amendments to Statement 53 regarding certain financial guarantees. The second sentence in paragraph 9 of NCGA Statement 4 is amended to read, "Those claims include contractual actions, such as claims for delays or inadequate specifications on contracts, or for guarantees of the indebtedness of others that are not investment derivative instruments entered into primarily for the purpose of obtaining income of profit, property tax appeals, and unemployment compensation claims."
- GASB Statement 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement 43, *Financial Report for Postemployment Benefit Plans Other Than Pension Plans*, are amended to be consistent with the guidance provided in GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this amendment, "Investments in unallocated insurance contracts should be reported as interest-earning investment contracts according to the provisions of paragraph 8 of Statement 31."
- GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, is amended to state that investments in 2a7-like pools should

be measured at the net asset value per share provided by the pool. Statement 59 describes 2a7-like pools as external investment pools that operate in conformity with the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. The glossary entry for 2a7-like pool is deleted from GASB Statement 31, paragraph 22. An example of a Rule 2a7-like pool is the Louisiana Asset Management Pool (LAMP).

- GASB Statement 40, *Deposit and Investment Risk Disclosures*, is amended to clarify which type of mutual funds and external investment pools fall within the scope of the interest rate risk disclosure requirements. Prior to this amendment, Statement 40, paragraph 15, required interest rate risk disclosures for governments with investments in mutual funds, external investment pools, or other pooled investments that didn't meet the definition of a 2a7-like pool. Statement 59 limits these interest rate risk disclosures to debt (bond) mutual funds, external debt (bond) investment pools, or other pooled debt investments that do not meet the definition of a 2a7-like pool.
- GASB Statement 53, *Accounting and Financial Reporting for Derivative Instruments*, is amended to:
 - Clarify that contract nonperformance penalties do not meet the net settlement characteristic of a derivative instrument (Statement 53, paragraph 13).
 - Limit financial guarantee contracts within the scope of Statement 53 to only those that are investment derivative instruments entered into primarily for the purpose of obtaining income or profit. Also, examples of guarantees that do not fall within the scope of the statement are provided, e.g., a federal guarantee that protects a university from loss in its student accounts receivables (Statement 53, paragraph 16).
 - Clarify that certain contracts based on specific volumes of sales or service revenues are excluded from the scope of Statement 53 (see Statement 53, paragraph 17c).
 - Clarify that one of the "leveraged yield" criteria of Statement 53 is met if the initial rate of return on the companion instrument has the potential for at least a doubled yield. [Statement 53, paragraph 64c(5)(a)]

Statement 59 is effective for periods beginning after June 15, 2010. If you have any questions concerning these amendments, please contact Kim Dwin at 219-4445 or Kimberly.Dwin@la.gov.