

**To:** Participating Employers with Defined Benefit Pension Plans or Other Postemployment Benefit Plans (OPEB) in the Florida Municipal Pension Trust Fund

**From:** The Administrator, Florida League of Cities, Inc.

**Date:** December 4, 2020

**Subject:** GASB 40 Deposit and Investment Risk Disclosure

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The Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3* (GASB 40) addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. This memo is intended to serve as information relating to GASB 40 and the Florida Municipal Pension Trust Fund (FMPTF) for your governmental entity's defined benefit pension plan or OPEB reporting requirements.

The FMPTF is established as a trust whereby governmental entities with employee pension or OPEB plans may elect to join the trust (becoming a Participating Employer), and with the trust providing the plans with administrative and investment services for the benefit of Participating Employers, Participating Employees, and Beneficiaries. All employee pension plan or OPEB assets with the FMPTF are included in the trust's Master Trust Fund. Employee pension plan or OPEB assets of the defined benefit type are invested by the FMPTF through the Florida Municipal Investment Trust (FMIvT) for the benefit of the Participating Employers, Participating Employees and Beneficiaries.

The FMIvT is a Local Government Investment Pool (LGIP) and, therefore, considered an external investment pool for GASB reporting requirements. Your governmental entity is a Participating Employer in the FMPTF and has a beneficial interest in shares in the FMIvT portfolios listed below. Your government's investment is the beneficial interest in the FMIvT portfolio, not the individual securities held within each portfolio. Please refer to your plan's FMPTF September 30, 2020 account statement for asset balance.

As of September 30, 2020, the asset allocations for the various investment models were as follows:

	Pension Fund A 60% Equity	Pension Fund B 70% Equity	Pension Fund C 50% Equity	OPEB Fund A 60% Equity	OPEB Fund B 70% Equity	OPEB Fund C 50% Equity
Cash and Money Market	0.8%	0.6%	4.3%	0.8%	0.1%	0.4%
FMIvT Broad Market High Quality Bond	13.9%	9.0%	18.3%	14.1%	9.2%	18.2%
FMIvT Core Plus	14.0%	9.5%	18.4%	14.7%	10.0%	19.8%
FMIvT Diversified Large Cap Equity	36.1%	40.9%	28.5%	35.7%	41.4%	31.3%
FMIvT Diversified Small to Mid Cap Equity	10.2%	12.6%	7.4%	10.1%	12.2%	7.7%
FMIvT International Equity	15.9%	18.9%	13.4%	16.2%	18.6%	14.4%
FMIvT Core Real Estate Portfolio	9.1%	8.5%	9.7%	8.4%	8.5%	8.2%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

The following information is provided to assist you in reporting the types of risks that must be disclosed for your governmental entity’s beneficial interest in the above FMIvT portfolios, pursuant to GASB 40. Please refer to GASB 40 for disclosure requirements in addition to those discussed in this memo.

**Credit Risk**

Credit risk exists when there is a possibility the issuer, or other counterparty to an investment, may be unable to fulfill its obligations. GASB 40 requires disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, and other pooled investments of fixed-income securities. Investments may be aggregated by rating categories within the disclosure. Ratings are set by nationally recognized statistical rating organizations (Fitch, Moody’s and S&P). In cases where an investment is unrated, a disclosure noting that the investment is unrated is required.

Credit Risk for FMIvT Funds

<u>Fixed Income Fund:</u>	<u>Fitch Rating</u>
FMIvT Broad Market High Quality Bond Fund	AAf/S4
FMIvT Core Plus Fixed Income Fund	Not Rated
 <u>Equity Portfolios:</u>	 <u>Rating</u>
FMIvT Diversified Large Cap Equity Portfolio	Not Rated
FMIvT Diversified Small to Mid Cap Equity Portfolio	Not Rated
FMIvT International Equity Portfolio	Not Rated
FMIvT Core Real Estate Portfolio	Not Rated

**Custodial Credit Risk**

GASB 40 modifies the existing GASB 3 custodial credit risk reporting requirements. Under GASB 3, governments had to categorize their investments into one of three custodial credit risk categories. This is no longer required. Under GASB 40, disclosure is only required if investments are uninsured, unregistered and held by either the counterparty or the counterparty’s trust department or agent but not in the government’s name. (This was “Category 3” in GASB Statement 3.)

Participating Employers’ investments through the FMPTF in the FMIvT are evidenced by shares of the pool. Investments in pools should be disclosed, but not categorized because they are not evidenced by securities that exist in physical or book-entry form. The public entity’s investment is with the pool, not the securities that make up the pool; therefore, no disclosure is required.

**Concentration Risk**

In addition to describing the credit risk of investments in the portfolio, governmental entities will need to disclose the concentration of credit risk with a single issuer. If 5 percent or more of the total assets of the portfolio are invested with one issuer, a footnote disclosure will be required. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments are excluded from the concentration of credit risk disclosure requirements.



**Interest Rate Risk**

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment’s fair value. GASB 40 requires that interest rate risk be disclosed using one of the five approved methods. The five methods are: segmented time distribution, specific identification, weighted average maturity (WAM), duration, and simulation model. Different methods may be presented for different types of investments.

Interest rate risk disclosures are required for all debt investments as well as investments in mutual funds, external investment pools, and other pooled investments that do not meet the definition of a 2a7-like pool.

FMIVT Interest Rate Risk (Years)

<u>Fixed Income Fund</u>	<u>Modified Duration</u>	<u>WAM</u>
FMIvT Broad Market High Quality Bond Fund	5.52	6.60
FMIvT Core Plus Fixed Income Fund	3.35	5.82

**Foreign Currency Risk**

This category applies only if a government’s deposits or investments are exposed to foreign currency risk. If subject to such exposure, the government should disclose the dollar balances subject to such risks, organized by currency denomination and investment type. Participating Employers’ investments in the FMIvT are not subject to foreign currency risk.

For questions or additional information, please contact Jeff Blomeley at 850-701-3614 or [jblomeley@flcities.com](mailto:jblomeley@flcities.com).

