Governmental Accounting Standards Board  
Attn: Mr. David Bean  
Director of Research and Technical Activities, Project No. 3-29E  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Dear Mr. Bean,

One of the responsibilities of the Treasurer of the State of Tennessee is to manage the State Pooled Investment Fund (SPIF), a stable dollar fund that consists of the state treasury combined with the local government investment pool. The fund averages over $8 billion, and is currently just over $9.2 billion. It is imperative that the fund operate as a stable dollar fund as a portion of the state’s cash and a large portion of the cash invested by local government officials are bond proceeds. Also, this fund includes funds of local governments and under state law those investments may only be placed in stable dollar investments. Therefore, the work being performed by GASB to offer public funds managers a viable option to remain in compliance with generally accepted accounting principles while still operating as a stable dollar fund is important to the State of Tennessee.

All things considered, the contents of the Exposure Draft represent a sound approach to remove public funds from the increasing regulations imposed by the SEC while still allowing a fund to operate utilizing amortized cost, or a stable dollar. The guidelines in the Exposure Draft related to quality, diversification, liquidity, and shadow pricing are either already in use by the SPIF or could be reasonably added to the operation without a negative impact. However, the paragraphs related to maturity would have a negative impact on the SPIF unless some minor modifications are considered.

The concern for Tennessee is the increased risks created by paragraphs 10 through 18. In summary, to be in compliance with the requirements, funds must maintain a weighted average maturity (WAM) of 60 days or less. The funds must also maintain a weighted average life (WAL) of 120 days or less. Weighted average maturity expresses investment time horizons, or the time when an investment becomes due and payable. Weighted average life expresses the average length of time that each dollar of principal remains unpaid. The definitions of WAM and WAL are very similar. However, when maturity shortening measures are taken into consideration to calculate the WAM, the differences become much more apparent. The Exposure Draft would allow maturity shortening measures to be used to reduce the WAM of a portfolio. Securities with variable interest rates or floating interest rates can use the rate reset dates as the maturity. This would mean that a portfolio can hold floating rate securities with actual maturities of 13 months into the future and use a maturity calculation of as little as one day in the calculation of WAM. The actual maturity date would need to be used for the WAL calculation,
but as long as the WAM is 60 days or less and the WAL is 120 days or less, the fund can report and operate as a stable dollar fund.

The use of maturity shortening techniques adds unnecessary risks to a fund and can be misleading to an investor. Floating and variable rate instruments are not as liquid as conventional securities. There may be some opportunity for increased yield, but as with any technique utilized to increase yield, there are always increased risks. Investors deserve to know the risks of a fund in order to determine if the risks are acceptable. That is the main reason that transparency has been the focus of many of the regulatory changes recently.

Tennessee would recommend that GASB consider an option for funds managers. A fund could choose to utilize the maturity requirements as written in the Exposure Draft, or could choose to avoid the use of maturity shortening techniques and operate with a WAM and a WAL of 120 days. This option would add absolutely no risk to the fund, and would still allow a fund that only invests in conventional securities to take advantage of an opportunity to move out on the yield curve slightly or utilize a barbell strategy. Without this option, funds such as the SPIF will need to either add the risk of investing in floating or variable rate instruments, or reduce the WAL of the fund, not just the WAM, to 60 days or less. That would have a negative impact on the earnings of the fund and would not improve liquidity or reduce risks. With earnings on stable dollar funds being greatly diminished since 2008, funds do not need to incorporate rules that will have an even greater negative impact on earnings.

My staff and I appreciate the willingness of GASB to seek input during the creation of this Exposure Draft, as well as the opportunity to offer input before the Statement becomes final. You and your staff are to be commended for the excellent work involved with this Draft. Your consideration of our recommendation would be greatly appreciated, and would allow the Treasurer to continue to offer a safe, liquid, and competitive, stable dollar investment option to the taxpayers in Tennessee. Please feel free to contact me or Tim McClure, the Assistant Chief Investment Officer, if you would like to discuss the recommendation further. You can reach Tim at (615)532-1166, or, tim.mcclure@tn.gov.

Sincerely yours,

David H. Lillard, Jr.
State Treasurer

CC: Honorable Steve McCoy, Georgia State Treasurer
    John Provenzano, Executive Director of NAST
    Kinney Poynter, Executive Director of NASACT
    Kore Donnelly, SDMN Association Director