

OREGON ACCOUNTING MANUAL		Number 15.30.00.PR
Oregon Department of Administrative Services State Controller's Division	Procedure	Effective July 27, 2005
Chapter	Accounting and Financial Reporting	.1 OF .3
Part	Securities Lending	
Section		Approval Signature on file at SCD

Recording Revenue and Expense

- .101 During the year, costs of securities lending transactions, such as borrower rebates (interest costs) and agent fees may be netted with income from the investment of cash collateral (interest revenue) or income from lender fees through an automated process at the State Treasury. However, at fiscal year end, the Treasury shall provide Statewide Accounting and Reporting Services (SARS) with the amount of revenue earned and costs incurred during the fiscal year so that **GAAP** adjustments can be made to record the expenditures (or expenses) and increase net interest revenue to gross interest revenue for reporting in the **Comprehensive Annual Financial Report (CAFR)**.
- .102 Different processes are used to gather securities lending transaction information, depending on whether the activity relates to designated investments or to investments in the Oregon Short-Term Fund.
- .103 *Designated Investments.* At fiscal year end, the State Treasury shall provide reports to SARS that indicate which agencies (with designated investments) generated securities lending income during the fiscal year. Treasury will notify these agencies of the revenue and costs pertaining to its securities lending for designated investments. Agencies shall record a transaction in the accounting system for the expenditures (or expenses) and increase the interest revenue (by the same amount) in the applicable GAAP fund. The amount of each of these entries is the combined total of "fees paid to securities lending agent" and "borrower rebates" as reported on the investment schedule from Treasury. These entries must be completed before the close of month 13 so they will be reflected in the CAFR.
- .104 *Oregon Short-Term Fund.* At fiscal year end, the State Treasury shall provide reports to SARS that indicate which agencies have moneys on deposit with the Treasury that is also invested in the Oregon Short-Term Fund (OSTF). The applicable GAAP fund types for those moneys will be identified by SARS. Based on earnings information provided by Treasury, SARS will allocate the revenue and costs pertaining to securities lending transactions within funds in the OSTF (figures to be provided by Treasury). SARS will notify each agency required to prepare audited financial statements of its pro rata share. For agencies that do not prepare audited financial statements, SARS will make year end adjustments in the appropriate GAAP fund types at a statewide level to record expenditures (or expenses) and increase net interest revenue to gross interest revenue.
- .105 To record expenditures (or expenses) and increase the interest revenue (by the same amount) t-code 908R (comptroller object 0800) is used to credit Interest on Investments and t-code 909R (comptroller object 4701) is used to debit Other Services (or a similar object at agency discretion). Securities lending activities are subject to budgetary guidelines on a net basis. T-codes 908R and 909R both affect deposit liability, but between the two transactions, deposit liability will net to zero. T-code 908R decreases the revenue GAAP offset and 909R decreases the expenditure GAAP offset. Because GAAP offsets are used, these entries may either be included for financial reporting purposes by running an operating statement that includes GAAP offsets or excluded for budgetary reporting by excluding GAAP offsets.

Recording Assets and Liabilities

- .106 *Designated Investments.* Securities lent (the underlying securities) that are part of the designated investment balance at State Treasury are carried on the applicable agencies' books as investments. These investments will remain on the balance sheet even though they are lent.
- .107 At fiscal year end, the State Treasury shall provide reports to SARS that indicate which agencies have designated investments on loan. Treasury will notify these agencies of the cash received as collateral on securities lending transactions related to designated investments and investments made with that cash.
- .108 *Oregon Short Term Fund.* Investments of the OSTF, including any securities on loan, that are part of the balance in the Oregon Short-Term Fund are carried on the applicable agencies' balance sheets as cash because the short-term pool functions as a demand deposit account. This cash will remain on the balance sheet even though some securities within the OSTF are lent.
- .109 At fiscal year end, the State Treasury shall provide reports to SARS that indicate which agencies have moneys in the OSTF. The GAAP fund types that carry those moneys will be identified by SARS. Based on year end balances provided by Treasury, SARS will allocate to applicable agencies the cash received as collateral on securities lending transactions related to the OSTF and investments made with that cash. SARS will notify each agency required to prepare audited financial statements of the assets pertaining to its pro rata share. For agencies that do not prepare audited statements, SARS will make year end adjustments in the appropriate GAAP fund types at a statewide level to record assets for cash collateral received (and invested) and liabilities for cash collateral due to be returned to the borrower.
- .110 The transaction to record a financial statement adjustment (t-code 928 in R*STARS) for the assets, as well as corresponding liabilities to return the cash to the borrower, in the applicable GAAP fund type is as follows:

DR 0350	Cash (Investments) - Securities Lending Collateral	XXX	
CR 1600	Obligations Under Securities Lending		XXX

To record FY__ assets and liabilities related to securities lending collateral.

Fund Financial Statement Presentation

- .111 Balance Sheet: Securities lending assets (cash and investments) shall be presented as Securities Lending Collateral and securities lending liabilities shall be presented as Obligations Under Securities Lending on the balance sheet.
- .112 Operating Statement: Securities lending revenue shall be reported as part of investment income in the operating statement. Securities lending expenditures/expenses shall be reported as services and supplies (i.e., interest expense or as other nonlimited expenditures).
- .113 Statement of Cash Flows: The change in the securities lending obligation account does not belong in the statement of cash flows because it offsets securities lending; thus, neither asset nor liability are included in the statement of cash flows. Securities lending revenue and expenses must be separately displayed in the statement of cash flows under cash flows from investing activities as, "investment income from securities lending" and "investment expense from securities lending."

Government-Wide Financial Statement Presentation

- .114 Statement of Net Assets (classified approach): Securities lending assets (cash and investments) are presented as a current asset, Securities Lending Collateral, and securities lending liabilities are presented as a current liability, Obligations Under Securities Lending.

- .115 Statement of Activities: Securities lending revenue is reported by function as part of program revenues in the Operating Grants and Contributions column. Securities lending expenditures/expenses are reported by function as services and supplies (i.e., interest expense or as other nonlimited expenditures).

Disclosure Requirements

- .116 SARS will request the following information from the State Treasury and will disclose it in the notes to the CAFR:
- a. The source of legal authorization for use of securities lending transactions and any significant violations of those provisions that occurred during the fiscal year.
 - b. A general description of the securities lending transactions during the fiscal year as detailed in GASB Statement No. 28.
 - c. The carrying amount and fair value of underlying securities at year end.
 - d. Whether the maturities of the investments made with cash collateral generally match the maturities of the securities lent, as well as the extent of such matching at year end.
 - e. The amount of any losses on securities lending transactions during the fiscal year resulting from the default of a borrower and amounts recovered from prior period losses, if any.
 - f. The carrying amounts and fair values of securities lending collateral that are reported in the balance sheet, as well as the carrying amounts and fair values of underlying securities.
- .117 The State Treasury shall provide information pertaining to designated investments to the agencies regarding the securities on loan and investments purchased with cash collateral. SARS and agencies required to prepare audited financial statements will include this information within the investment related disclosures required by GASB Statement No. 40.
- .118 SARS will notify each agency required to prepare audited statements of the agency's share of securities on loan from the OSTF. Because these securities are loaned for cash collateral, they are disclosed in the "not categorized" section of required investment disclosures under the title "Investments Held by Broker-Dealers under Securities Loans with Cash Collateral."
- .119 Cash collateral from the OSTF is invested in a short-term collateral investment fund maintained by the custodial agent. Investments purchased with cash collateral from the OSTF are allocated by agency and each agency required to prepare audited financial statements is notified by SARS of the allocated amount. The allocated amount is disclosed in the "not categorized" section of required investment disclosures under the title, "Securities Lending Short-term Collateral Investment Pool."