

# OREGON ACCOUNTING MANUAL

Subject: Accounting and Financial Reporting	Number: 15.30.00
Division: Chief Financial Office	Effective date: July 1, 2012
Chapter: <b>Accounting and Financial Reporting</b>	
Part: <b>Securities Lending</b>	
Section:	
Approved: George Naughton, Chief Financial Officer	Signature on file

**PURPOSE:** This policy provides guidance on accounting and financial reporting for securities lending.

**AUTHORITY:** **ORS 291.040**  
**ORS 293.590**  
**ORS 293.736**  
 GASB Statement No. 3  
 GASB Statement No. 9  
 GASB Statement No. 28  
 GASB Statement No. 34  
 GASB Statement No. 40

**APPLICABILITY:** This policy applies to all state agencies included in the state's financial statements, except those agencies specifically exempted by OAM policy 01.05.00.

**DEFINITION:** Securities lending involves loaning securities from the Office of the State Treasurer (Treasury) in exchange for collateral. Treasury agrees to return the collateral for the same securities in the future. Treasury receives [lender fees](#) when *securities* are the collateral and Treasury (as the [lender](#)) pays [borrower rebates](#) for the use of *cash* collateral. [Securities lending agents](#) handle the transactions and receive [agent fees](#) in return.

**POLICY:**

101. Agency management is responsible for ensuring the proper accounting and reporting of securities lending.
102. This policy establishes the reporting requirements for [securities lending transactions](#) according to [generally accepted accounting principles \(GAAP\)](#).
103. GAAP require reporting the costs of securities lending such as rebates and agent fees, as expenditures/expenses (services and supplies). GAAP do not allow the netting of these costs with securities lending income.
104. The securities lent (the [underlying securities](#)) will still appear as assets on the balance sheet.
105. The *cash* received as collateral and investments made with that cash will appear as assets, with the invested cash reported per Treasury statements. The obligation to return the cash will show as a liability.
106. *Securities* received as collateral will show as assets if the state can pledge or sell them without borrower default. In this case, also report a liability to return the securities.

107. Revenues and costs of securities lending are subject to budgetary rules on a net basis.
108. Treasury provides reports to SARS and agencies that show which agencies with *designated investments* had securities lending income during the year. Agencies will post entries before the close of month 13 for their securities lending costs, and increase interest revenue by the same amount, in each GAAP fund. The amount of each of these entries is the total of “fees paid to agent” and “borrower rebates”.
109. Based on interest earnings posted to R\*Stars, SARS will allocate the *Oregon Short-term Fund (OSTF)* securities lending revenues and expenses. SARS will notify each agency that prepares audited statements of that agency’s GAAP fund(s) pro rata share. For all other GAAP funds, SARS will make entries at a statewide level to record costs and increase revenue.
110. Treasury provides reports to SARS and agencies that show which agencies with *designated investments* had securities lending balances at year-end. Designated investments will continue to show as investments on the balance sheet even though some designated investments are out on loan. Agencies will report the cash collateral received on securities lending for *designated investments* as an asset and a liability.
111. SARS will report investments of the *OSTF*, including any securities on loan, as cash in the balance sheet because the *OSTF* functions as a demand deposit account. This cash will remain on the balance sheet even though some securities within the *OSTF* are out on loan.
112. At year-end, SARS will tabulate the R\*Stars cash balances for each GAAP Fund. SARS will assign to each GAAP fund a pro rata share of the cash received as collateral *in the OSTF* and investments made with that cash. SARS will notify each agency required to prepare audited statements of their pro rata share of the assets. Those agencies will post entries for the cash collateral received and liabilities for cash collateral.

**PROCEDURES:**

**Recording Revenues and Expenditures/Expenses**

113. Use the following T-Codes to record the revenue and expenditure/expense entries for both designated investments and the *OSTF*:

- 1) **TC 908R:** Adjusts revenue for securities lending to the gross amount:

DR 1551	Deposit Liability	1,000	
CR 3200	GAAP Revenue Offset		1,000

- 2) **TC 909R:** Adjusts expenditures/expenses for securities lending to the gross amount

DR 3600	GAAP Expenditure Offset	1,000	
CR 1551	Deposit Liability		1,000

**Recording Assets and Liabilities**

114. Use the following T-Codes to record the balance sheet entries for both designated investments and the *OSTF*:

- 1) **TC 928:** Posts an equal entry in R\*Stars for the cash collateral received.

DR 0350	Securities Lending Collateral	500	
CR 1600	Obligations Under Securities Lending		500

## Financial Statement Reporting

115. Balance Sheet: SARS will present the securities lending assets as Securities Lending Collateral. SARS will present the securities lending liabilities as Obligations Under Securities Lending on the balance sheet.
116. Operating Statement: SARS will present securities lending revenue as part of investment income in the operating statement and securities lending costs as services and supplies.
117. Statement of Cash Flows: SARS will separately display securities lending revenue and expense in the statement of cash flows under “cash flows from investing activities”. The titles will be “investment income from securities lending” and “investment expense from securities lending.”

## Disclosure Requirements

118. SARS will request the following information from Treasury and will disclose it in the notes to the CAFR:
  - a. The source of legal approval for securities lending and any major breach of those provisions.
  - b. A general description of securities lending.
  - c. The carrying amount and fair value of the original securities.
  - d. Whether the maturities of the investments made with cash collateral generally match the maturities of the securities lent and the extent of such matching.
  - e. The amount of any losses on securities lending from the default of a borrower and amounts recovered from prior period losses.
  - f. The carrying amounts and fair values of securities lending collateral and original securities.
119. Treasury will provide information on *designated investments* to the agencies about securities on loan and investments purchased with cash collateral.
120. SARS will notify each agency required to prepare audited statements of the agency’s share of securities lending *for the OSTF*.