# Local Government Investment Pools (LGIPs) are expected to avoid proposed money market fund reforms

Federated Hermes

While LGIPs and money market funds can have similar investment goals, there are unique features of LGIPs that place them in a category of their own. With the new proposed amendments to Rule 2a-7 of the Investment Company Act of 1940 by the U.S. Securities and Exchange Commission (SEC) officially released last December, the unique governance of LGIPs is particularly important. The new set of proposed rules were prompted by liquidity and asset flow concerns some money market funds exhibited during the 2020 market turbulence. Conversely, LGIPs recognized steady cash flows and liquidity needs during that same time.

Formal oversight is at the foundation of how LGIPs and money market funds differ. LGIPs are not subject to U.S. Securities and Exchange Commission (SEC) supervision. Oversight for LGIPs comes from sponsorship and governance purview of State Treasurers or Comptrollers with state statutes controlling investment permissibility. GASB provides the framework for accounting methodologies. This oversight is rooted in the cash flow of LGIPs. Money within an LGIP is pooled state money and therefore does not cross state lines so does not enter interstate commerce. This distinct difference exempts LGIPs from congressional oversight as detailed in Article 1, Section 8, Clause 3 of the United States Constitution.

Prior to 2016, GASB literature referenced rules specific to 2a-7 funds but removed the reference and set its own criteria or LGIPs after 2016 SEC money market reforms. Similar to 2016, the proposed SEC rules are meant to address a comprehensive range of investors, beyond that of typical LGIP investors supporting the idea that rules governing each set of investment products will continue to deviate.

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