# Issue

# Determination of whether a certificate of deposit (CD) with a maturity date of less than 3 months needs to be treated as cash or as a security, as originally discussed in 2014.

# Research

Below outlines the current treatment on how each service complies and what the regulations, accounting guidance and industry standards are for this area.

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| Certificate of Deposit guidance | Air Force | Army | Navy | Marines |
| Current Classification of certificates of deposit (less than 3 month maturity) | Unclear | Unclear | Unclear | Unclear |
| DoDI 1015.15: Silent on Treatment. | N/A | N/A | N/A | N/A |
| FMR Volume 13, Chapter 2. 020402. A. Cash/Investments: Cash and investments are liquid assets, which can be quickly used to carry out operations. Cash consists of coins, paper currency, and readily negotiable instruments, cash in bank, foreign currencies, revolving cash funds, cash held in petty cash or change funds, imprest funds, savings, and restricted cash. Investments consist of interest-bearing deposits, certificates of deposit (12 months or less), and marketable securities. Employee retirement cash and investments (employee 401K, employee retirement, and employee post-retirement medical) must be excluded from a consolidated presentation. The employee retirement cash and investments will distort available NAF. | Unclear | Unclear | Unclear | Unclear |
| GAAP:  305-10-20. Cash Equivalents. Cash equivalents are short-term, highly liquid investments that have both of the following characteristics:  a. Readily convertible to known amounts of cash  b. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.  Generally, only investments with original maturities of three months or less qualify under that definition. Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year U.S. Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months. Examples of items commonly considered to be cash equivalents are Treasury bills, commercial paper, money market funds, and federal funds sold (for an entity with banking operations).  320-10-20. Security. A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:  a. It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer. [  b. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.  c. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.  Most certificates of deposit would not meet that definition. Certain negotiable certificates of deposit, however, may meet the definition of a security and, therefore, may be subject to FASB ASC 320.  A certificate of deposit with an original maturity greater than 90 days would not be included in cash and cash equivalents. If the certificate of deposit is not a security, as defined in FASB ASC 320, it could be included in "investments—other."  Certificates of deposit held for investment that are not debt securities are included in "investments—other." Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as "short-term investments—other." Certificates of deposit with remaining maturities greater than one year are classified as "long-term investments—other." | Unclear | Unclear | Unclear | Unclear |
| Industry Practice: Industry practice follows GAAP and is to include Certificates of Deposits with a maturity date of less than 3 months that can be readily converted into cash within cash equivalents. | N/A | N/A | N/A | N/A |

# Discussion

GAAP guidance and Industry practice is to treat certificates of deposit (CD) with a maturity date of less than 3 months from the date of purchase as a cash equivalent so long as it can be easily converted into cash. The FMR currently classifies CDs with a maturity date of less than 12 months as an investment.

# Recommendation

We recommend the Services adopt the GAAP position and record certificates of deposit with an original maturity of 3 months or less as a cash equivalent, and record certificates of deposit with an original maturity of over three months as a marketable security/investment.

While GAAP does not explicitly prohibit classification of a 90 day or less certificate of deposit as investment, we note that the GAAP guidance was written on the assumption that companies would be incentivized to overstate cash equivalents, not understate. Therefore, we consider the absence of this prohibition to be insignificant, especially in weighing the objectives of comparability and consistency. We contend this bright line distinction between cash equivalent and marketable security will ensure the consistency and comparability of Service cash balances and marketable securities balances, with a minimal reporting burden.

We recommend that FMR Volume 13, Chapter 2, paragraph 020402.A. “Cash/Investments” be revised to align with GAAP.

No change to DoDI 1015.15.

# Service Concurrence

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| Service | Concurrence | Reason for Non-concurrence |
| Air Force | Concurrence in 2014. **Re-concurred 10/19/2018.** |  |
| Army | Concurrence in 2014. **Re-concurred 11/2/2018.** |  |
| Marines | Concurrence in 2014. **Re-concurred 10/31/2018.** |  |
| Navy | Concurrence in 2014. **Re-concurred 11/2/2018.** |  |

# USD(P&R)/MC&FP Disposition

No further action.

**DFAS Disposition**

Revise DoD FMR Volume 13, Chapter 2, paragraph 020402. A. Cash/Investments.

# Forward to DoDIG?

No DoDIG equities.