
Bill Making Munis HQLA Passed.

It's an exciting time to be in the municipal bond market after the U.S. Senate passed new legislation that reclassifies municipal debt as a High-Quality Liquid Asset (HQLA). For investors, this means municipal securities will fall under bank liquidity rules, making them instantly more attractive.

The House of Representatives last month passed the Economic Growth, Regulatory Relief, and Consumer Protection Act by a vote of 258 to 159 after the Senate approved the bill in March. The bill, which was sponsored by Senate Banking Committee Chairman Mike Crapo, will roll back some key provisions of President Obama's landmark 2010 Dodd-Frank Act. Once approved, the new legislation will make fewer banks systemically important by raising the amount of assets to $250 billion from $50 billion. By raising the threshold five times, fewer banks would be deemed "too big to fail" under the new guidelines.

In addition to the above, the new legislation will ease the impact of the so-called Volcker Rule, which had restricted U.S. banks from making certain speculative investments.

Under the new legislation, banks will be able to treat some municipal bonds as level 2B HQLAs, which proponents say will help ensure steady financing for state and local governments. The level 2B classification, which also applies to mortgage-backed securities, is a step down from 2A HQLAs. The market was hoping that munis would be placed into the 2A HQLA bracket, which would have put them on the same level as sovereign debt.

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