
WSJ: Regulators Open to Counting Muni Bonds in Bank Assets.

WASHINGTON—Federal banking regulators said they plan to revisit a decision to exclude municipal securities from a postcrisis rule aimed at ensuring banks have enough cash on hand to survive a crisis, saying they are open to allowing some debt issued by states and localities to count as a "safe" asset.

Top officials from three bank regulators—the Federal Reserve, Office of the Comptroller of the Currency and the Federal Deposit Insurance Corp.—told Senate lawmakers Tuesday they would consider altering a rule completed last week that requires banks to hold enough cash or cash-like assets to fund their operations for 30 days. Previously, only the Fed had expressed a willingness to alter the rule.

Municipal securities currently don't count as a "high-quality liquid asset" under the rule, which means they won't qualify under the new funding requirements. State and local officials have said the exclusion could prompt banks to retreat from the municipal debt markets, forcing governments to scale back spending on roads, schools and other infrastructure projects financed with municipal bonds. Banks play an increasingly important role in the market, having nearly doubled their ownership of municipal securities over the past decade to more than 11%, according to Fed data.

"I hope all three agencies will reassess the final rule," said Sen. Charles Schumer (D., N.Y.), who slammed the current restrictions at a Senate Banking Committee hearing. Mr. Schumer said excluding municipal bonds from the rule could crimp bank purchases of the debt and increase borrowing costs for states and localities.

At Tuesday's hearing, Fed Gov. Daniel Tarullo said he has asked his staff to analyze the trading of municipal securities to determine which bonds would meet the definition of a "high-quality liquid asset." The comments are similar to those he made last week when finalizing the rule, saying there is evidence some state and local debt is frequently traded and may be "comparable to that of the very liquid corporate bonds" that qualify as high-quality and liquid.

Martin Gruenberg, chairman of the FDIC, said his agency would support revising the rule "if there's reason to make adjustments."

Thomas Curry, the Comptroller of the Currency, said any decision to alter to the rule would rest on the Fed's analysis.

"We're open but we need to talk with our colleagues," he said.

The Fed's decision to reconsider whether to fully exclude municipal securities was first reported by The Wall Street Journal last week. By law, the Fed could amend the definition of safe assets unilaterally, though banking experts said it is unlikely they would act without the support of the two other regulators.

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