# Bond Case Briefs

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## Fed May Allow Banks to Use Muni Bonds to Meet Liquidity Rules: WSJ.

(Reuters) – The U.S. Federal Reserve may allow big banks to use some municipal bonds to meet new liquidity rules that ensure they have enough cash during a credit crunch, the Wall Street Journal reported, citing people familiar with the matter.

The Fed had excluded debt issued by cities and states when it approved liquidity rules for large banks in September, part of a global effort to make banks such as JPMorgan Chase and Citigroup more resilient in a financial crisis.

Fed officials had at that time said they did not think the rule would have significant implications for the $3.7 trillion municipal bond market. The Fed had also said it planned to propose allowing certain high-liquid municipal securities to count as a sellable asset at a later date, after further review.

U.S. cities and states have been urging the Fed, the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) to classify muni bonds as highly liquid if they are investment grade and have demonstrated reliable liquidity during times of economic stress.

However, the plan under discussion falls short of including all investment-grade municipal bonds, the Journal said.

The exact criteria for the kind of municipal bonds that would count under the rule has not been set, but a key focus will be the ability of a bank to sell the bonds in a fairly short time frame, the newspaper said.

The other regulators – the OCC and the FDIC, do not plan to follow the Fed, the newspaper said.

Reuters could not immediately reach the regulators for comment outside regular U.S. business hours.

The U.S. municipal bond market grew to $3.652 trillion during the fourth quarter, with banks picking up $41.1 billion, up from the prior quarter's $34.5 billion, according to data released by the Fed in March.

By REUTERS
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(Reporting by Supriya Kurane in Bengaluru; Editing by Anupama Dwivedi)