

Bond Case Briefs

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GFOA Leads Effort to Support Legislation to Classify Municipal Securities as High Quality Liquid Assets.

On May 27 the GFOA joined with the National League of Cities, National Association of Counties, U.S. Conference of Mayors, National Governors Association, National Association of State Treasurers, the National Association of State Auditors, Comptrollers and Treasurers and others to urge members of the U.S. House of Representatives to cosponsor legislation that would classify investment-grade municipal securities as High Quality Liquid Assets (HQLA). The joint letter is available below. The bipartisan legislation (HR 2209), authored by Congressman Luke Messer (R-I-6), comes in response to a new rule that was approved by the Federal Reserve Board, Federal Depository Insurance Commission and the Comptroller of Currency in September of 2014, which established new liquidity standards for banks. The new standards, which went into effect in January of 2015, require financial institutions with at least \$250 billion in total assets to maintain prescribed levels of liquid assets that can quickly be converted into cash in times of national economic stress. These asset classes included foreign sovereign debt, but failed to classify municipal securities as HQLA.

Not classifying municipal securities as HQLA will increase borrowing costs for state and local governments to finance public infrastructure projects, as banks will likely demand higher interest rates on yields on the purchase of municipal bonds during times of national economic stress, or even forgo the purchase of municipal securities. The resulting cost impacts for state and local governments could be significant, with bank holdings of municipal securities and loans having increased by 86 percent since 2009.

Congressman Messer's legislation would protect municipal securities issuers from such cost increases by directing the Federal Reserve, FDIC and OCC to admit municipal securities into accepted HQLA classes outlined under last September's rule. The GFOA is extremely grateful to Congressman Messer for his leadership on this important issue, and will be engaging GFOA members in the coming weeks in the advocacy effort to advance consideration of this legislation in the House this summer.

Download:

[HR 2209 Support Letter](#)

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