U.S. Board of Governors of the Federal Reserve System Proposes Rule to Treat U.S. Municipal Securities as Level 2B High-Quality Liquid Assets Under the Liquidity Coverage Ratio.

On May 21, 2015, the US Board of Governors of the Federal Reserve System issued a proposal adding certain general obligation state and municipal bonds to the range of assets a banking organization may use to satisfy the Liquidity Coverage Ratio requirement. Under the LCR requirement adopted by the federal banking agencies in September 2014, large banking organizations are required to hold High-Quality Liquid Assets that can be easily and quickly converted into cash within 30 days during a period of financial stress. The proposed rule would allow investment grade, general obligation US state and municipal bonds to be counted as HQLA up to certain levels if they meet the same liquidity criteria that currently apply to corporate debt securities. The limits on the amount of a state or municipality's bonds that could qualify are based on the specific liquidity characteristics of the bonds. The proposed rule would apply only to entities subject to the LCR and supervised by the Federal Reserve Board. The deadline for comments on the proposed rule is July 24, 2015.

The proposed rule is available here.

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The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

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