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U.S. State Treasurers to Seek Banks' Help on Muni Bond Liquidity Rules.

U.S. state treasurers will ask banks and private equity firms to help lobby federal policymakers in their push to categorize municipal bonds as high quality liquid assets under new banking rules, Washington State Treasurer James McIntire said on Thursday.

Federal rules approved in September 2014 aim to ensure that big banks will be able to access enough cash during a financial crisis. But the rules excluded muni bonds from the types of securities that count as high quality liquid assets, or HQLAs.

States, cities and investors fear that the exclusion would deter banks from buying muni debt, hurting municipalities' ability to fund everything from schools and bridges to water treatment plants and hospitals.

The National Association of State Treasurers (NAST) and several other organizations have been pushing for inclusion of munis. The rule, due to take effect in January 2017, requires that large banks hold high-quality assets that can be quickly and easily converted into cash within 30 days of a financial stress period.

NAST plans to ask for help from its corporate partners, including financial institutions, in its ongoing effort to secure muni bonds a place at the table, said McIntire, the group's incoming president.

"They might bring a little bit more firepower to the table," McIntire said of the banks in an interview.

The decision by the regulators has been "very challenging," McIntire said. "It's been hard to get their attention."

Congressional action has begun to help, McIntire said. Last month the House Committee on Financial Services passed a bill that would qualify muni bonds as HQLA.

Some studies have shown munis, especially general obligation bonds issued by states, to be at least as liquid as their corporate counterparts.

Cumberland Advisors wrote in a commentary last month that yields on muni bonds rose 20 percent in the second half of 2008, while investment-grade corporate yields shot up by 50 percent.

A study last year by Washington State compared its own general obligation bonds to senior unsecured bonds from Microsoft Corp, one of the state's most well known companies.

During the bond market selloff in mid-2013, more than \$3.2 billion of Washington State's bonds traded, compared to about \$2.14 billion of Microsoft's bonds, the study said.

Reuters

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