Messer, GFOA Pushing HQLA Bill in Congress.

WASHINGTON – Rep. Luke Messer, R-Ind., and local finance officers plan to continue to push a bill that would treat investment grade and actively traded municipal securities as high quality liquid assets under a bank liquidity rule adopted by bank regulators in 2014.

Messer, who introduced the bill in May, spoke Friday with Government Finance Officers Association members gathered for the group's winter meeting in Washington.

The bipartisan bill, co-sponsored by Rep. Carolyn Maloney, D-N.Y., is a response to a rule from the Federal Reserve Board, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corp. The rule requires banks with at least $250 billion of total assets or consolidated on-balance sheet foreign exposures of at least $10 billion to have a high enough liquidity coverage ratio – the amount of HQLA to total net cash outflows – to deal with periods of financial stress. The compliance date for the rule is Jan. 1, 2017.

But the rule does not currently count municipal securities as HQLA, even though foreign sovereign debt would receive that classification.

Messer's bill would require the three bank regulators to treat munis that are investment grade and actively traded in the secondary market as Level 2A assets, the same level as some sovereign debt and government sponsored debt of Fannie Mae and Freddie Mac. Messer's bill would also allow for munis to account for up to 40% of a bank's HQLA.

Messer said he is "very optimistic" about the bill's chances if it is brought to a vote on the House floor. The House Financial Services Committee, where Messer sits, approved the bill by a vote of 56 to 1 on Nov. 3. Messer said Sens. Chuck Schumer, D-N.Y., and Mike Rounds, R-S.D., have both showed an interest in pursuing similar legislation in the Senate.

Spokespersons for Schumer and Rounds could not be reached for comment.

The committee vote on the bipartisan bill "is no small feat in today's partisan Washington," Messer said, but he added he and groups like GFOA still have a lot of work to do after running out of time to get it included in one of the financial packages Congress plans to pass by the end of the year.

"There are few issues that have the kind of broad consensus that this seems to be developing and you have all kinds of folks in government willing to sign on and endorse this," Messer said. The next step is to get the bill's ideas and any debate about its purpose circulating in the Senate to get some "champions" for the bill in that chamber, he said.

Messer predicted the proposed House bill will be passed in the first half of 2016, if not in the first quarter.

Dustin McDonald, director of GFOA's federal liaison center, said the group has been working to prioritize the bill in Congress by meeting with senators and coordinating with other municipal groups on letters to legislators explaining the need for it. A recent letter sent to every member of the

House urging them to support the bill’s passage was signed by 15 muni groups.

Bills in Congress can often “go from zero to 60” in a short amount of time, McDonald said during the meeting. He said he wants to make sure GFOA is ready with letters and other support if the HQLA bill is suddenly being considered in the full House and Senate.

Movement on the bill in the Senate was slowed by the Senate Committee on Banking, Housing, and Urban Affairs, which had been focusing on a contentious regulatory relief bill for banks that includes proposed changes to the Dodd-Frank Act, he said.

McDonald, who took part in a panel discussion that was hosted by the Municipal Bond Club of New York last week in New York City, said that there was a consensus among everyone in the room that the rule was bad and would have a negative impact on the muni market.

“I think Pat McCoy clearly laid out the concerns of issuers, which are that the failure to classify 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 our bonds during times of economic stress,” said McDonald.

McCoy, the director of finance for the Metropolitan Transportation Authority in New York was on the panel along with George Friedlander from Citi, Hugh McGuirk from T. Rowe Price, and Don Winton from Crews & Associates.

The event was the club’s first of its kind and was a huge success with over 120 attendees. The MBCNY has been putting together more events to go along with their annual bond school, as the goal of the club is to provide a sense of community to the municipal bond industry.

Meanwhile, McDonald told GFOA members, “While we are making great progress, this fight isn’t over and there is still a lot of work to be done to win, which presents us with an opportunity to work more closely together and engage our members of Congress to cosponsor HR 2209.”

While GFOA is hopeful the bill in the House follows a timeline like the one Messer predicted during his remarks, McDonald said there is a possibility that if the bill does not gather enough momentum to be brought forward for a vote on its own, it will have to be put into a year-end financial package in 2016.

“Somewhere in between optimism and realism is when Congress is going to act,” he said.

THE BOND BUYER

BY JACK CASEY and AARON WEITZMAN

DEC 14, 2015 12:34pm ET