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Half-Hearted Relief for Munis: The Fed Adopts a Final Rule to Include Certain Municipal Securities as HQLAs Under the LCR Rule.

On March 31, 2016, the Board of Governors of the Federal Reserve System (the “Federal Reserve”) adopted a final rule (the “Final Rule”) to amend the Federal Reserve’s Liquidity Coverage Ratio Rule and Modified Liquidity Coverage Ratio (together, the “LCR Rule”) to now encompass specific types of U.S. municipal securities as high-quality liquid assets (“HQLAs”).¹ Specifically, companies subject to the LCR Rule will now be able to treat certain U.S. municipal securities as Level 2B liquid assets for purposes of calculating the company’s total HQLAs under the LCR Rule, subject to a number of limitations unique to municipal securities. The Federal Reserve originally proposed a rule to treat certain U.S. municipal securities as Level 2B liquid assets on May 18, 2015 (the “Proposed Rule”). The Final Rule goes into effect on July 1, 2016.

The adoption of the Final Rule comes one month after the U.S. House of Representatives passed H.R. 2209, authored by U.S. Representatives Luke Messer and Carolyn B. Maloney, which amends the Federal Deposit Insurance Act for purposes of “requir[ing] the appropriate Federal banking agencies to treat certain municipal obligations as level 2A liquid assets” under the LCR Rule.² While there is some overlap among the provisions contained in the Final Rule, the Proposed Rule and H.R. 2209, there are certain notable differences as discussed in greater detail below.³

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