

Bond Case Briefs

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GFOA: Your Action Requested on Senate-Side High Quality Liquid Assets Legislation.

On February 1, 2016, the House of Representatives voted unanimously to approve [HR 2209](#), bipartisan legislation that would require federal regulators to classify all investment-grade, liquid, and readily marketable municipal securities as high quality liquid assets (HQLA). This important legislation is necessary to amend the liquidity coverage ratio rule approved by federal regulators last fall, classifying foreign sovereign debt securities as HQLA while excluding investment grade municipal securities in any of the acceptable investment categories for banks to meet new liquidity standards.

Some members of the Senate Banking Committee are seriously considering the introduction of companion legislation to HR 2209, and GFOA urges our members to send letters to Senate members asking them to sign on as cosponsors of the bill, especially from the following jurisdictions. A draft letter is available [here](#).

[Richard Shelby](#), Chairman (R-AL)

[Sherrod Brown](#), Ranking Member (D-OH)

[Tom Cotton](#) (R-AR)

[Bob Corker](#) (R-TN)

[Mike Crapo](#) (R-ID)

[Joe Donnelly](#) (D-IN)

[Heidi Heitkamp](#) (D-ND)

[Dean Heller](#) (R-NV)

[Mark Kirk](#), (R-IL)

[Robert Menendez](#), (D-NJ)

[Jeff Merkley](#) (D-OR)

[Jerry Moran](#) (R-KS)

[Jack Reed](#) (D-RI)

[Mike Rounds](#), (R-SD)

[Ben Sasse](#) (R-NE)

[Charles E. Schumer](#) (D-NY)

[Tim Scott](#) (R-SC)

[Jon Tester](#) (D-MT)

[Patrick J. Toomey](#) (R-PA)

[David Vitter](#) (R-LA)

[Mark R. Warner](#) (D-VA)

[Elizabeth Warren](#) (D-MA)

Background

In September 2014, the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System, and the Office of the Comptroller of the Currency (OCC) approved a rule establishing minimum liquidity requirements for large banking organizations. The liquidity coverage ratio rule was designed to ensure that large banks maintain liquid assets that can easily be

converted to cash during times of national economic crisis. The rule identifies HQLA to meet this requirement, but fails to include municipal securities in any of the acceptable investment categories—despite including foreign sovereign debt.

Following approval of the new rule, GFOA and our state and local association partners have urged the Federal Reserve, FDIC, and OCC to amend the rule to classify investment-grade, liquid, and readily marketable municipal securities as HQLA. On May 21, 2015, the Federal Reserve Board issued a [proposed rule](#) that would designate certain investment grade municipal securities as HQLA. While the GFOA is extremely grateful for the Federal Reserve's recognition of the liquidity features of municipal securities, we have some concerns with the proposal, which we raised in our [comment letter](#). Such concerns include the proposal's failure to include revenue bonds as HQLA, and the limit on the total amount of general obligation securities that a financial institution can hold of no more than 5% of the institution's total amount of HQLA.

Meanwhile, the FDIC and OCC refuse to modify the rule for municipal securities. In the absence of cooperation from these agencies, GFOA is working with bipartisan champions in Congress to change the rule through legislation (HR 2209) and preserve low-cost infrastructure financing for state and local governments and public-sector entities.

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% since 2009.

GFOA

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