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Senate Bill Would Count Munis Toward Bank Liquidity.

CHICAGO — Bonds sold by U.S. states, cities, schools and other issuers in the municipal market could be held as liquid assets by banks under legislation introduced on Tuesday in the U.S. Senate, bolstering the case for purchasing the debt while helping financial institutions weather market crises.

The bipartisan measure would classify high-quality municipal bonds at the same level as corporate debt, allowing banks to use munis to comply with new 30-day federal liquidity requirements.

Federal rules approved in 2014 and effective next year are aimed at ensuring big banks will be able to access sufficient 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.

Muni debt issuers fear the exclusion would deter banks from buying muni debt, hurting their ability to fund everything from schools and bridges to water treatment plants and hospitals.

“If banks retreat from the muni-bond market, it could choke off a critical source of investment on which our cities and localities rely. This bill protects the stability of our markets while providing continued access to muni bonds for local governments,” Senator Chuck Schumer, a New York Democrat, said in a statement.

Schumer, along with Senators Mark Warner, a Virginia Democrat, and Mike Rounds, a South Dakota Republican, led a group sponsoring the legislation.

Putting munis on par with corporate debt “would be acceptable,” according to Washington State Treasurer James McIntire, president of the National Association of State Treasurers (NAST), which has been pushing for the inclusion of munis under the rules.

A House bill would also allow banks to count munis toward banks’ liquidity but at a higher face value, 85 percent, versus 50 percent in the Senate bill, according to NAST.

By REUTERS

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(Reporting by Karen Pierog; editing by Daniel Bases, Bernard Orr)