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The Path Forward on HQLA.

PHOENIX- Legislation defining readily tradeable, investment-grade municipal securities as high quality liquid assets under federal banking rules may have a window to move forward fairly soon, according to market groups watching developments on Capitol Hill.

The Municipal Finance Support Act of 2017, H.R. 1624, sponsored by Rep. Luke Messer, R-Ind., was reported out of the House Committee on Financial Services Sept. 12 after receiving unanimous support in late July.

The bill is a response to rules adopted by the Federal Reserve Board, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corp. in 2014. These rules require 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 regulators did not include munis as HQLA under the rule because they felt the securities were not liquid enough.

The Fed later amended its rules to include some munis as HQLA but muni market participants said the amendments were still too restrictive and, in any case, would mean little if the other banking regulators did not ease their rules as well.

Messer's bill has been amended to require the regulators to treat munis that are investment grade and actively traded in the secondary market as level 2B HQLA, the same level as mortgage backed securities, down from its original requirement that they be treated as level 2A securities on the same level as sovereign debt.

This change reconciles it with a Senate bill, S. 828, sponsored by Sen Mike Rounds, R-S.D. The House approved legislation making some munis 2A assets last year, but it never advanced in the Senate.

"The House is expected to act on the bill soon," the National Association of State Treasurers said in a legislative update posted for members Sept. 17. "The House bill as reported out of committee now conforms with the Senate 2B legislation, which increases the likelihood that the bill could be signed into law."

The NAST update said that S. 828, currently awaiting action by the Senate Banking Committee, is considered likely to come up when the committee next takes action on several financial services-related bills.

"A unanimous vote in support could clear the way for the bill to be 'hotlined,' a Senate procedure that would allow for expedited consideration and passage," the NAST update said.

The question now remains when and if the House will act on the bill now that it is awaiting floor action. It could be considered as a stand-alone bill, or it could end up being attached to a larger bill,

such as tax reform legislation.

Emily Brock, director of the Government Finance Officers Association's federal liaison center, said her sense is that lawmakers might be inclined to deal with bipartisan legislation like Messer's bill before the anticipated difficulty of a tax reform showdown. Brock said that when GFOA last met with legislators on this issue, the energy was very positive.

"This is a light lift," she said.

The House's agenda is ultimately determined by House Speaker Paul Ryan, R-Wisc., and other Republican leaders.

The Bond Buyer

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