

Bond Case Briefs

Municipal Finance Law Since 1971

Congress Passes Legislation to Classify Municipal Securities as High Quality Liquid Assets.

This week the House of Representatives passed Senate legislation addressing a rule approved by the Federal Reserve Board, Federal Depository Insurance Commission and the Comptroller of Currency in September of 2014, which established new liquidity standards for banks. The new standards, which went into effect in January of 2015, require financial institutions with at least \$250 billion in total assets to maintain prescribed levels of liquid assets that can quickly be converted into cash in times of national economic stress. These asset classes included foreign sovereign debt, but failed to classify municipal securities as High Quality Liquid Assets.

[S. 2155](#) - Economic Growth, Regulatory Relief, and Consumer Protection Act (Closed Rule, One Hour of Debate) (Sponsored by Sen. Mike Crapo / Financial Services Committee) is now headed to the President's desk. Included in the bill is a provision that will mend an oversight of the Liquidity Coverage Ratio rule to include municipal securities as High Quality Liquid Assets. The core features of investment grade municipal securities are consistent with all of the criteria characterized as HQLA, including limited price volatility, high trading volumes and deep and stable funding markets, as described below.

The municipal securities market is a large, deep pool of capital representing a \$3.85 trillion market. Institutional investors dedicate capital to the municipal market because muni securities are a secure investment. Municipal bonds are traded by a large number of committed retail participants in high trading volumes with timely and observable market prices through the MSRB's reporting system, EMMA.

After US Treasuries, municipal securities are the safest available investment, with state and local governments having nearly a zero default rate. Some municipal bonds (such as the GO bonds of nine states) are more highly rated than US treasury securities.

Classifying investment grade municipal securities as HQLA helps ensure that low-cost infrastructure financing remains available for state and local governments to continue to build the infrastructure for commerce, public safety, job creation and the development of an educated workforce. We applaud Leadership's recognition that the ability of banks to invest in municipal securities for infrastructure projects is critically important and should not be impaired and Congress' dedication to ensuring the municipal bond remains the cornerstone of a healthy and productive economy.