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Securities Law

Muni Market Groups Urge House Members to Co-Sponsor Muni HQLA Bill

by Lynn Hume
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WASHINGTON - Sixteen municipal market groups are urging House members to co-sponsor a bill that would treat all investment grade and actively traded municipal securities as high-quality liquid assets under a bank liquidity rule.

The bill - **H.R. 2209** -- was introduced by Rep. Luke Messer, R-Ind., on May 1 in response to the bank liquidity rule, which was adopted by bank regulators earlier this year, and does not include any munis as HQLA. The legislation has at least nine other co-sponsors who are all on the House Financial Services Committee.

The muni groups made the request for support for the bill in a May 27 letter sent to House Speaker John Boehner, R-Ohio, and other House members.

"Classifying investment grade municipal securities as HQLA will help ensure low-cost infrastructure financing remains available for municipal securities issuers to continue to build infrastructure for commerce, public safety, job creation and the development of an educated workforce that our communities and national economy rely on," said the groups, which represent issuers, borrowers, utilities and lawyers.

The bank liquidity rule, which would take effect on Jan. 1, 2017, is designed to ensure large banks and other financial institutions have enough HQLA that could quickly and easily be converted to cash with little or no loss of value during periods of financial stress. Bank regulators said they did not include munis as HQLA in the rule because they are not liquid or easily marketable.

Muni groups have been urging the regulators to reverse themselves. The Government Finance Officers Association, National League of Cities, National Association of State Treasurers and other muni groups that sent the letter, provided House members with data showing munis have low price volatility, high transaction volume and are traded in deep and stable funding markets.

The letter was sent about a week after the Board of Governors of the Federal Reserve System proposed amendments modifying the bank liquidity rule to treat uninsured investment-grade general obligation bonds as HQLA. But the Fed proposal would be more restrictive than the Messer bill.

The Fed would characterize investment grade GO bonds as level 2B liquid assets under the liquidity coverage ratio rule as long as they meet the same requirements as corporate bonds, are liquid and readily marketable. The LCR is defined as the ratio of HQLA to total net cash outflows.

The Fed would cap munis at 5% of an institution's total HQLA holdings. Messer's bill would treat all actively traded investment grade munis as level 2A assets, the same tier as some sovereign debt and the debt of U.S. government-sponsored entities like Fannie Mae and Freddie Mac. Munis could account for up to 40% of a bank's HQLA under the bill.

The other problem with the Fed proposal is that it is a unilateral action not followed by the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corp.

The bank liquidity rule applies to banks with at least $250 billion of total assets or consolidated on-balance sheet foreign exposure of at least $10 billion. But according to Fed data, all but two of the nine banks and other financial institutions that held those levels of assets at the end of 2014 are primarily regulated by the OCC.

Messer's bill would apply to all bank regulators.
