



October 10, 2014

Legislative and Regulatory Activities Division
Office of the Comptroller of the Currency
400 7th St., SW
Suite 3E-218
Washington, DC 20219

Mr. Robert deV. Fierson, Secretary
Board of Governors of the Federal Reserve System
29th St. and Constitution Ave., NW
Washington, DC 20551

Mr. Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th St., NW
Washington, DC 20429

[Docket ID OCC-2013-0016](#)

Submitted electronically

Introduction

On September 3, 2014, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve and the Federal Deposit Insurance Corporation (together, “the agencies”) approved a final rule addressing “Liquidity Coverage Ratio: Liquidity Risk Measurement Standards” (OCC Docket ID OCC–2013–0016) (“LCR Rule”). Also on that day, Federal Reserve staff issued a memo to the Federal Reserve Board outlining the LCR Rule. The staff memo recognized that the final LCR Rule does not treat municipal securities as High Quality Liquid Assets (“HQLA”). However, the Federal Reserve staff memo states that “certain municipal securities appear to be highly liquid” and that “staff recommends that the Board develop a new proposal for public comment to include highly liquid municipal securities as HQLA.”

As we discussed in our previous submissions, investment-grade municipal securities exhibit all the key characteristics of liquid and readily marketable assets and have retained these characteristics in times of

market stress. SIFMA¹ believes, as the Federal Reserve Staff has recognized, that many municipal securities meet the criteria for HQLA as outlined in the LCR Rule and that the LCR Rule should afford level 2A HQLA status for municipal securities that meet the requirements in the Rule. In that regard, this letter offers recommendations to the agencies regarding the treatment of municipal securities as HQLA. We are encouraged by the recognition that many municipal securities do meet the requirements for HQLA status, and we urge the agencies to move forward with amending the LCR Rule accordingly.

Final LCR Rule

The Final LCR Rule specifies criteria for securities that qualify as HQLA. These criteria, as well as characteristics of municipal securities that are correlated with a higher degree of liquidity, could form the basis for an amendment to the LCR Rule providing HQLA treatment for certain municipal securities.

The LCR Rule defines liquid and readily marketable securities traded through outright sales or repurchase transactions in an active secondary market with these characteristics:

- More than two committed market makers;
- A large number of non-market maker participants on both the buying and selling sides of transactions;
- Timely and observable market prices; and
- A high trading volume.

We believe that applying this four-part test to municipal securities as it is applied under the Rule to other credit products like federal agency and corporate debt securities would provide an appropriate means of determining whether particular municipal securities meet the qualification of HQLA. Still, we recognize that the agencies may prefer to include an additional criterion specific to the municipal market that would help identify highly liquid municipal securities.

A number of factors contribute to the liquidity of municipal securities. Of these, issuer or obligor size as measured by total marketable debt outstanding is the most significant determinant of liquidity. Examining municipal market liquidity as measured by trading volume against issuer debt outstanding, there is no clear inflection point below which trading volume drops significantly. Nevertheless, bonds of issuers and obligors with at least \$100 million of marketable debt securities outstanding tend to demonstrate the highest degree of market liquidity. We recommend that the agencies consider a rule amendment such that municipal securities of issuers and obligors with at least \$100 million of marketable debt outstanding at the time of purchase and that are investment grade under 12 CFR part 1

¹ The Securities Industry and Financial Markets Association (SIFMA) brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to develop policies and practices which strengthen financial markets and which encourage capital availability, job creation and economic growth while building trust and confidence in the financial industry. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit www.sifma.org.

as of the calculation date would qualify as Level 2A liquid assets. This would represent a sensible and workable approach to affording HQLA status to the most liquid segment of the market.

We also suggest that the LCR Rule impose a composition cap on municipal securities of 10 percent of an institution's total HQLA.

Conclusion

We agree with the Fed staff that some municipal securities clearly meet the criteria established in the LCR Rule for treatment as HQLA. We believe amending the LCR Rule to provide for Level 2A liquid asset treatment for the appropriate segment of the municipal securities market would be consistent with ensuring that banks subject to the rule hold a sufficient level of liquid assets and would contribute to safety and soundness by providing a means for banks to diversify liquid assets into a distinct asset class.

We hope this input is helpful, and we would be happy to work with you as you move forward on this initiative.

Sincerely,

A handwritten signature in black ink, appearing to read "M. Decker". The signature is fluid and cursive, with a large initial "M" and a long, sweeping underline.

Michael Decker
Managing Director