County of Allegheny

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JOHN K. WEINSTEIN
TREASURER

January 30, 2014

Via Electronic Mail

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Docket No. R-1466
RIN 7100 AE-03

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
RIN 3064-AE04

Office of the Comptroller of the Currency
400 7th Street, SW
Washington, DC 20219
Docket ID OCC-2013-0016
RIN 1557 AD 74

Re: Liquidity Coverage Ratio: Liquidity Risk Management, Standards, and Monitoring

Ladies and Gentlemen:

I appreciate the opportunity to respond to the notice of proposed rulemaking (the "NPR") the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (the "Agencies") issued to implement the liquidity coverage ratio ("LCR"). As Treasurer of Allegheny County, Pennsylvania, I have the overall responsibility for the County's tax collection of $270 million annually and the day to day banking functions of the County. On average, the County has daily balances of $166 million.

The Agencies' NPR will have a major impact on municipal fund deposits and, thus, on the nature of the banking relationships municipal governments have with their banks. I am concerned that, if finalized without the changes recommended below, the rules would limit the choice of banks from which state and municipal treasurers can obtain the treasury management and other banking services they need. Under the NPR, municipal fund deposits, which are required by state law to be collateralized with high-quality assets,[1] would be treated like short-term, secured funding transactions, such as repurchase agreements. The NPR requires that, in calculating the LCR, banks assume that secured funding transactions are unwound in order to limit the potential that the LCR could be manipulated by temporarily exchanging assets with lower LCR value for assets with more favorable treatment. For municipal fund deposits, the unwind requirement would mandate that banks assume that the cash deposited is returned and that the collateral pledged to secure the deposit is released. In addition to the unwind requirement, the NPR also requires that banks apply a separate outflow assumption to municipal fund deposits (for example, an outflow of 15% when deposits are backed by securities issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation). This treatment of municipal fund deposits is more stringent than required under the international framework on which the NPR is based, does not reflect the actual nature of the deposit relationship and, therefore, is unduly punitive.

If implemented without change, these regulations will have a direct cost on the taxpayers of Allegheny County and other local jurisdictions across the country. The County pays the majority of the fees associated with banking services (treasury management services, for example) through earnings credits generated by the funds it deposits. The County often does not pay directly for these services, and the amount it allocates in its annual budget to pay for these fees is limited. As a result of the punitive treatment under the NPR, banks will significantly limit the amount of municipal fund deposits they will accept and will drastically reduce or eliminate earnings credits to municipal customers. Therefore, to pay for banking services the County will be required to specifically appropriate additional amounts in its budget to cover fees associated with the banking services the County needs.

Accordingly, I respectfully ask that the Agencies appropriately consider the impact of the NPR's treatment of municipal deposits not on just on banks, but also on their municipal government customers. In the final LCR rule, the Agencies should distinguish municipal fund deposits from the types of secured funding transactions they are concerned about and exempt municipal fund deposits from the unwind requirement. I appreciate your consideration of these recommendations.

Kind regards,

John K. Weinstein
County Treasurer

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[1] See Act 72 of 1971 (72 P.S. § 3836-1 et. seq.).