The City of New York
Office of Management and Budget
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Office of the Comptroller of the Currency
Legislative and Regulatory Activities Division
400 7th Street SW, Suite 3E-218, Mail Stop 9W-11
Washington, DC 20219
Docket ID OCC-2013-0016

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551
Attn: Robert DeV. Frierson, Secretary
Docket No. R-1466

Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429
Attn: Comments/Legal ESS
Robert E. Feldman, Executive Secretary
RIN No. 3064-AE04

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

Ladies and Gentlemen:

The City of New York (the "City") submits this letter in response to your request for comments on the above-referenced proposal (the "Proposed Rule"). In particular, we are addressing the proposal to exclude securities issued by U.S. states, municipalities and local authorities and other government subdivisions ("Municipal Securities") from the definition of High Quality Liquid Assets ("HQLAs"). As a result of the Proposed Rule, Municipal Securities would not be available as HQLAs to satisfy the proposed Liquidity Coverage Ratio. Consequently, as further explained below, the Proposed Rule would have a profoundly negative impact on the market for Municipal Securities and on the City's ability to cost-effectively finance much-needed public infrastructure.

The Basel III framework promulgated by the Basel Committee on Banking Supervision (the "Basel Committee"), on which the Proposed Rule is largely based, included in the definition of HQLAs securities of "public sector entities," which would include Municipal Securities. Although the Proposed Rule included most of the Basel Committee's definition of HQLAs such as corporate securities and central bank securities, it excluded "public sector entities." It is unclear why the Proposed Rule would take a much more restrictive position than the Basel Committee.

The City believes the proposed definition is overly restrictive and is contrary to the goals of the Proposed Rule itself by discriminating against Municipal Securities in favor of sovereign debt and corporate debt. Municipal Securities are among the safest securities in US capital markets with very low default rates. A report published by BNY Mellon Wealth Management, citing data from Moody's, compares the cumulative default rates through 2012 on both corporate debt and Municipal Securities and clearly shows that for similarly rated securities, Municipal Securities have a lower default rate than corporate debt. For example, three years after being rated A, Municipal Securities had a cumulative default rate of 0.01%, or one in ten thousand. By contrast, 41 out of ten thousand corporate bonds defaulted. This lower default rate of Municipal Securities relative to corporate debt can be seen across the rating spectrum. Yet, the Proposed Rule would include corporate debt as HQLAs, but explicitly exclude Municipal Securities. Likewise, the Proposed Rule permits sovereign debt to be classified HQLAs even though Municipal Securities, in many cases, are more secure than sovereign debt obligations.

By excluding Municipal Securities from the definition of HQLAs, the Proposed Rule will cause banks to make fewer investments in Municipal Securities. This will weaken the overall demand for, and decrease liquidity of, Municipal Securities. Consequently, municipal borrowing costs will increase.

Further, the Proposed Rule would reduce the amount of bank capacity available to fund credit and liquidity support for municipal variable rate bond programs. Municipalities are typically required to obtain letters of credit or liquidity facilities from banks to support their variable rate bonds in the event that such bonds are unable to be remarketed. Under the Proposed Rule, the Municipal Securities associated with such letters of credit and liquidity facilities will not be able to be counted as HQLAs to meet the Liquidity Coverage Ratio. As a result, banks will reduce the amount of such letters of credit and liquidity facilities. The consequence will be increased costs to municipalities to obtain such letters of credit and liquidity facilities. Similarly the reduction in the availability of such letters of credit and liquidity facilities will limit municipalities' ability to issue variable rate bonds. This will also increase municipalities' overall borrowing costs because such variable rate programs effectively reduce municipalities' borrowing costs.

Given the size of the City's capital program and the concomitant financing needs, the City has a compelling interest in the proper functioning of the municipal securities market. The City is one of the largest (if not the largest) issuers of municipal bonds in the United States. The City, through its general obligation bonds and bonds of City-related issuers, issues over $6 billion of municipal bonds each year to finance the City's infrastructure projects. Currently, the City is facing multi-billion dollar budget gaps during the period of its four-year financial plan. Increased debt service costs will result in a reduction in the ability of the City to maintain the current level of its capital program, potentially causing a deterioration of its roads, bridges, school and other capital assets.

Alternatively, increasing debt service cost but maintaining public infrastructure investment will result in reduced availability of funding for necessary public services. Therefore, keeping these non-discretionary debt service costs as low as possible is crucial to the City's ongoing fiscal health and its ability to continue delivering the wide range of services that it provides for its residents.

We urge you to include Municipal Securities in the definition of HQLAs in a manner consistent with existing regulatory capital rules (giving such securities a 20 percent risk weight) and with the treatment given to sovereign debt under the Proposed Rule and with international regulatory standards, which we believe would be consistent with the intent of the Proposal and would avoid an unintended disruption of the municipal securities market leading to increased debt service burdens on States and local governments.

Thank you for the opportunity to comment on this important issue. We appreciate the opportunity to comment on the Liquidity Coverage Ratio Proposal and hope that our comments will be helpful to clarify why the Proposed Rule should be adjusted to include investment grade Municipal Securities in the definition of HQLAs.

Very truly yours,

Allan S. Anders