LA14-382

Congress of the United States
Washington, DC 20515

May 28, 2014

Mr. Thomas J. Curry
Comptroller of the Currency
400 7th Street SW, Suite 3E-218
Mail Stop 9W-1
Washington, D.C. 201219

Mr. Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, D.C. 20429

Ms. Janet L. Yellen
Chair
Board of Governors of the Federal Reserve Board System
20th Street and Constitution Avenue NW
Washington, D.C. 20551

Re: Liquidity Coverage Ratios and Municipal Securities; Docket ID OCC-2013-0016

Comptroller Curry, Chairman Gruenberg, and Chair Yellen:

We are writing to comment on the Office of Comptroller of the Currency, Board of Governors of the Federal Reserve, and Federal Deposit Insurance Corporation (Agencies) recently proposed rulemaking Docket ID OCC-2013-0016, "Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring" (Proposed Rule).

We support the efforts of the Agencies to improve the ability of the banking system to absorb shocks through enhanced credit and liquidity standards under Basel III capital requirements, which is why are concerned that the Proposed Rule excludes all municipal securities from the definition of High Quality Liquid Asset (HQLA). The municipal securities market includes numerous securities that share the key characteristics of other HQLA qualified securities. Furthermore, such municipal securities would provide additional diversity to the investment categories, which should decrease systemic risk. We respectfully urge your Agencies to continue to work with the primary regulators of municipal bonds, the Securities and Exchange Commission and the Municipal Securities Rulemaking Board (MSRB); issuers; and, industry stakeholders to further evaluate the Proposed Rule's exclusion of municipal securities from the definition of HQLA.

The preamble of the Proposed Rule outlines various factors the Agencies considered for making a HQLA determination, including trading volume, price stability, and availability of funding markets. The $3.7 trillion municipal market encompasses varying qualities, characteristics, and credit profiles, but we believe that the Agencies can work with regulators, issuers, and industry to evaluate those municipal securities that could qualify as HQLA. In fact, during the 2008 financial crisis, classes of municipal bonds, specifically highly rated dollar-denominated general obligation and revenue bonds, exhibited greater price stability than comparably rated corporate bonds, which the Agencies consider HQLA. Presumably, this is due to the low default rate of these securities. Furthermore, municipal securities now trade over a real-time transaction reporting system operated by the MSRB called the Electronic Municipal Market Access (EMMA) system that provides pricing and transaction information, which combined with the diversity of buy and sell side participants, supports both liquidity and pricing information commensurate with other HQLA eligible securities. Finally, as you know, municipal securities are already "central bank eligible," meaning the Federal Reserve accepts municipal securities as collateral for overnight lending.

We appreciate and support the Agencies' efforts to strengthen banking safety and soundness, but endorse additional findings in coordination with regulators, issuers, and industry stakeholders with regard to the Proposed Rules treatment of highly rated dollar-denominated municipal securities.

Gwen Moore
Member of Congress

Terri A. Sewell
Member of Congress