Meeting Between Staff of the Federal Reserve Board, the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Mayor of New York City
October 3, 2014

Participants: David Emmel, Kevin Littler, Dafina Stewart, Jahad Atieh (Federal Reserve Board)

Kevin Walsh, James Weinberger, David Stankiewicz, Tiffany Eng (OCC)

Kyle Hadley, Greg Feder, Suzanne Dawley (FDIC)

Albert Rodriguez (New York City Law Department)
Scott Ulrey (New York City Office of Management and Budget)
Rebecca Kagan Sternhell (New York City Law Department & Mayor's Office of Federal Affairs)

Summary: Staff of the Federal Reserve Board, the OCC, and the FDIC met with Albert Rodriguez and other representatives of the office of the Mayor of New York City to discuss the Liquidity Coverage Ratio rule, which implements the Basel III liquidity standards in the United States, and its treatment of securities issued by states and municipalities. Representatives discussed New York City's issuance of municipal bonds and the impact of the exclusion of municipal securities from the class of high-quality liquid assets on municipal markets. Representatives of the office of the Mayor of New York City submitted a letter on October 24, 2014 with additional information, which is attached.

Attachment

The City of New York
Office of Management and Budget
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October 24, 2014

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

Ladies and Gentlemen:

Thank you very much for meeting with representatives of our office and the New York City Law Department on October 3rd. We greatly appreciate the opportunity to express our views with respect to the recently-adopted rule addressing the Liquidity Coverage Ratio (the "Rule") and its impact on the City and the market for our bonds.

In particular, we would like to thank you for resolving a significant point of confusion surrounding the reference in the preamble of the Rule to "variable rate demand note amounts payable within 30 days", which are assigned a 100% outflow rate. We were pleased to receive your assurance that the preamble reference does not include liquidity facilities provided to municipalities in connection with variable rate demand bonds, which are assigned a 30% outflow rate pursuant to Section 32(e)(iv) of the Rule.

Nevertheless, we continue to have serious concerns about the exclusion of municipal securities from the definition of Level 2A High Quality Liquid Assets ("HQLAs") under the Rule as adopted. Despite your assurances that the Rule has had, and will have, no effect on the amount of municipal securities purchased by banks, we continue to believe that banks will purchase fewer municipal bonds if they are unable to treat them as HQLAs. Consequently, the market for our bonds will be weakened and our borrowing costs will increase. As we have discussed, increased borrowing costs will reduce funds available for important City services and projects.

We understand that municipal securities were not included as Level 2A HQLAs under the Rule because you have concerns that banks, during periods of stress, would have difficulty disposing of such securities. Respectfully, we believe a review of historical data conclusively proves this assumption wrong. Municipal bonds are widely accepted as highly-liquid securities. Our experience has shown, time and again, that during periods of stress in the financial markets, investors turn toward our bonds, not away from them. Even during the financial crisis of 2008, our maintenance of market access highlighted the marketability of our bonds.

We do not believe that trading volume alone, particularly if based on a single CUSIP, should determine whether a municipal security would be marketable to a bank during periods of stress. The fact that municipal bonds are often held by long-term investors indicates that they are desirable to investors, not that they are illiquid. However, if you must rely on average trading volume as the sole indicator of liquidity, we believe you could limit the inclusion of municipal securities within Level 2 HQLAs to securities of investment grade municipal issuers with a significant amount of debt outstanding. We understand that Government Finance Officers Association has suggested a standard based on an issuer's total outstanding debt, as have representatives from other New York State issuers. Such a standard would be well supported by data submitted to you by the Securities Industry and Financial Markets Association showing that municipal issuers with more than $10 billion of fixed-rate investment grade debt outstanding trade, on average, 0.30 percent of their outstanding par each day. By comparison, investment grade, non-financial corporate debt trades approximately 0.13 percent of its total outstanding par each day and the government-sponsored entities market trades roughly 0.30 percent of its total outstanding par each day. (See, Securities Industry and Financial Markets Association, Response to questions posed by the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve, dated June 30, 2014.)

Accordingly, we urge you to reconsider the standard established pursuant to the Rule and to include municipal securities as Level 2A HQLAs.

Very truly yours,

Alan L. Anders

Alan L. Anders
Deputy Director for Finance