January 31, 2014

Department of the Treasury
Office of the Comptroller of the Currency
Docket ID OCC-2013-0016
Via electronic mail: regs.comments@occ.treas.gov

Board of Governors of the Federal Reserve System
Attn: Robert deV. Frierson, Secretary
Docket No. R-1466
Via electronic mail: regs.comments@federalreserve.gov

Federal Deposit Insurance Corporation
Robert E. Feldman, Executive Secretary
Attn: Comments / Legal ESS RIN No. 3064-AE04
Via electronic mail: comments@FDIC.gov

Re: Docket ID OCC-2013-0016; FRS Docket No. R-1466 & FDIC RIN 3064-AE04
Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring

Ladies and Gentlemen:

In assessing the liquidity characteristics, criteria and metrics of domestic high-grade state and local government securities according to the "Guidance for Supervisors on Market-Based Indicators of Liquidity" published this month by the Bank for International Settlements, it is apparent to this observer that these securities should qualify as High-Quality Liquid Assets (HQLA). However, they are excluded from the Federal Proposal for Bank Liquidity Coverage Rules. As a retired chief investment officer who oversaw $64 billion of municipal securities, I believe that the 2008 - 2009 market experience supports the proposal that high-grade municipals should be classified as HQLA.

The proposed rule likely would not permit securities issued by public sector entities below the level of a sovereign (including U.S. states and municipalities) to qualify as HQLA. The proposal states "the agencies believe that, at this time, these assets are not liquid and readily-marketable in U.S. markets and thus do not exhibit the liquidity characteristics necessary to be included in HQLA under this proposed rule."

From my experience even during the worst of the financial crisis, high-grade municipals were readily-marketable, liquid assets, in distinct contrast to other domestic fixed income securities, with the other exception being U.S. Treasury securities.

This respondent spent nearly forty years in the municipal securities market, primarily as an analyst and portfolio manager, during which he was cited as the top municipal generalist by Institutional Investor magazine for several years, while leading the municipal research group at Donaldson, Lufkin & Jenrette. This was followed by fourteen years at AIG, initially heading municipal research, then the asset class, and finally the last six years as the chief investment officer for its domestic property and casualty insurance companies, retiring in 2010. I then consulted for AIG and provided instruction in municipal securities for the SEC University.

During the fourth quarter of 2008 and the first quarter of 2009, there were several periods when various fixed income markets were non-functional or barely functioning. As CIO, I was unwilling to sell securitized debt at fire sale prices not reflective of their fair value as determined by the income method. Nor did we attempt to sell corporate bonds in a market with few buyers at inappropriate price levels.

AIG's domestic property and casualty companies held some $80 billion in assets during that period, over 70% of which consisted of high grade municipal securities with average ratings of AA+. The P&C companies had unusual liquidity demands in those months, following AIG's near-bankruptcy, during which these companies not only paid out claims as part of their regular insurance business, but also needed to replace letters of credit and surety bonds with Treasury securities on deposit. Fortunately, the high-grade municipal market was continuing to provide liquidity without transactions at fire-sale prices, when other markets, including corporates, were not. During that period, AIG property and casualty insurance companies sold hundreds of millions of dollars worth of high-grade municipals, such as general obligation bonds of states, cities and counties, as well as essential service revenue bonds backed by water, sewer and electric revenues.

While serious credit deterioration among large entities has occurred recently, as exemplified by Detroit and Puerto Rico, these two entities have not been highly-rated credits for many years. The vast majority of state and local governments worked their way through the recent recession. During that period, expenditures were cut and taxes and fees increased, in order to balance budgets as required by statutory or constitutional provisions. Tax revenues of state governments have grown consistently over the past four years. Rather than declining, domestic municipal ratings as an asset class have increased over the past decade, as they were brought into consonance with global rating scales. Default studies by the major rating agencies have consistently demonstrated that investment grade municipal securities have experienced a vastly lower default rate than investment grade corporates.

Other respondents have provided comments documenting the liquidity of municipals, demonstrating their importance as bank assets and their integral role in raising capital for domestic infrastructure. The record demonstrates that high-grade state and local government securities should be classified as HQLA under the proposed rule.

Sincerely,

William W. Fish

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