NATIONAL ASSOCIATION OF
STATE TREASURERS

January 31, 2014

Department of the Treasury
Office of the Comptroller of the Currency
400 7th Street SW, Suite 3E-218, Mail Stop 9W-11
Washington, DC 20219
Attn: Legislative and Regulatory Activities Division
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

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Secretariat
The Council of
State Governments

Re: Comment on the Proposed Rulemaking on the Liquidity Coverage Ratio: Liquidity Risk Management, Standards, and Monitoring (OCC: Docket ID OCC-2013-0016)

The National Association of State Treasurers ("NAST") is a bi-partisan association that is composed of all state treasurers, or state finance officials with comparable responsibilities, from the United States, its commonwealths, territories, and the District of Columbia. We appreciate the opportunity to provide comments on the proposed rule by the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Board), and the Federal Deposit Insurance Corporation (FDIC) that is intended to implement a quantitative liquidity requirement consistent with the liquidity coverage ratio standard established by the Basel Committee on Banking Supervision, but, in fact, goes beyond that goal in a very critical respect.

With respect to the exclusion of municipal bonds from the High Quality Liquid Asset ("HQLA") definition, we believe that the proposed rule would impair a long history of U.S. legislative motivation for banks to serve and support the municipal securities market. Without having offered any demonstration of diminished liquidity, the Agencies have proposed not to allow municipal bonds to qualify for any category of HQLA, and in doing so, propose to dampen bank demand for the asset class. In response to the exclusion, we expect that regulated companies would need to reduce their participation in the roughly 3.7 trillion dollar municipal securities market. They are an important portion of this vitally-important market, and their absence would be detrimental to its efficient functioning. We believe that the immediate and direct consequence of this exclusion to municipal issuers and their taxpaying constituents is unnecessary, and in many instances unbearable, increasing the cost of financing desperately needed for repair and replacement of existing municipal infrastructure. Such public works projects are critical to a vibrant and expanding U.S. economy in an increasingly competitive world-wide economy. We believe the unintended consequences would therefore be appropriately avoided by allowing investment grade municipal securities to qualify as Level 2A High Quality Liquid Assets.

The Federal Reserve currently accepts all municipal securities (not just those that are rated investment grade) at a 2%-5% haircut when pledged at the central bank, depending upon the maturity of the securities. Thus, the Federal Reserve already acknowledges the sound credit, diversification, and liquidity value of municipal securities by accepting them at the same haircut as U.S. agency securities and GSEs and at better haircuts than U.S. corporate bonds (which would be included as HQLA under the proposed rule) when such securities are pledged at the Federal Reserve. We also protest that the proposed rule would permit foreign sovereign state obligations to be categorized as HQLA, while obligations of the 50 U.S. states and their various political subdivisions would be excluded from consideration in any category of HQLA. Such a dichotomy would discriminate against the U.S. states and their political subdivisions and effectively penalize regulated companies for servicing domestic public sector clients, a result that seems to be contrary to one of the stated purposes of the proposed rule.

Therefore, we respectfully request that the Agencies revise the proposed rule in order to reclassify investment grade securities of U.S. states and their political subdivisions as Level 2A HQLA. We believe that this revision would be consistent with the Agencies' stated intent of the proposed rule and would serve to improve the liquidity risk profiles of the regulated companies by enlarging and further diversifying the stock of eligible HQLA to include an asset class that has an inherently diverse investor base and to which the regulated companies currently are underexposed.

We also would request that the Agencies reconsider their outflow rate assumptions under the proposed rule for Secured Funding to U.S. banks that are generated from U.S. public sector entities. We believe that history shows these deposits to be very stable and, as such, actually serve to further diversify the sources of stable funding for the regulated companies. We therefore believe that they warrant outflow rates commensurate with other HQLA secured financing and with a maximum outflow of 25%, as recommended in BCBS 238.

As State Treasurers concerned about the financial strength and integrity of states and all governmental units within our states, we appreciate this opportunity to comment and express our concerns on this proposed rule.

Sincerely,

Richard Ellis
President, National Association of State Treasurers
Utah State Treasurer