CITY OF HOUSTON

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Mayor

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January 27, 2014

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

On Thursday, October 24, 2013, the U.S. Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation "regulators" published their proposed Liquidity Coverage Standards for U.S. commercial banks under Basel III. In the proposed liquidity standards the regulators did not include within High Quality Liquid Collateral (HQLA) any public sector entity municipal bonds, municipal variable instruments, or municipal commercial paper. We strongly disagree with this exclusion of municipal financial instruments from HQLA Basel III and believe that if implemented in its present state, this action will have unnecessary, far reaching negative impact on governmental entities. This exclusionary proposal is not supported by U.S. muni market data, the strong credit strength of much of the municipal market, or analytical or economic rationale. This action would vastly undermine the value of public sector entities' financial instruments, while at the same time supporting debt issued by the federal government, corporations, S&P 500 equity securities and even sovereign entities. Ultimately, if this proposal is implemented, it would have a detrimental effect on municipal financial instruments' marketing and pricing and would negatively impact the availability of credit for all financing instruments utilized by the nation's states, cities, counties, and other public sector entities.

The proposal to exclude municipal bonds and short-term financial instruments will have a detrimental effect on the municipal primary and secondary markets. It is estimated that commercial banks hold up to 10% of muni financial instruments; a demand reduction will negatively impact the municipal issuer's pricing as commercial bank demand is retracted. Of possibly greater concern is that the proposed ruling modification could impact investor perception of muni financial instruments, thus further eroding demand and increasing bond prices. The proposed ruling unfairly categorizes municipal financial instruments as sub-par/inferior instruments.

We strongly urge the Basel III Committee to include investment grade public sector municipal bonds, commercial paper, and variable instruments within commercial bank High Quality Liquid Collateral 2A. Commercial banks will benefit by allowing them to have more diversity in their HQLA portfolios. This inclusion will allow commercial banks to continue to invest in the U.S. economy, critical infrastructure, and the future of our nation's cities, states, and counties. Thank you for your consideration of the City of Houston's position on this issue. I request, at your earliest convenience, that a copy of the Committee's position on this issue be sent to me directly.

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