The University of Oklahoma®

ADMINISTRATION AND FINANCE

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

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

The University of Oklahoma appreciates the opportunity to comment on the proposed rule to implement a quantitative liquidity requirement consistent with the liquidity coverage ratio standard established by the Basel Committee on Banking Supervision (the Proposed Rule). The Proposed Rule is issued by the Office of the Comptroller of the Currency, Department of the Treasury, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation.

As an issuer of municipal securities, we rely on healthy demand for our securities in the marketplace to generate fair borrowing costs. Municipal bonds are our primary source of capital for large-scale public projects. Municipal bonds have historically been an attractive investment for households, mutual funds, depository institutions, insurance companies, money market funds, and various other types of investors because these investors are confident that we will meet our obligations and provide a safe and stable investment. We believe that excluding investment grade municipal bonds from being classified as High Quality Liquid Assets (HQLA) would have a negative effect on our ability to issue debt to finance our infrastructure needs and to provide various public services. A loss of market liquidity will drive up municipal bond yields, resulting in higher taxes and fees for our citizens.

It is our understanding that municipal bonds were excluded from the proposed rule because "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 the proposed rule. For example, securities issued by public sector entities generally have low average daily trading volumes." We strongly disagree with this characterization of the municipal market.

The Municipal Securities Rulemaking Board (MSRB) has over 1,600 registered broker-dealers who daily make markets in municipal securities. While it is true that many of our outstanding CUSIPs are not traded daily, market participants can easily use price information from one of our other outstanding CUSIPs that has recently traded, and price accordingly. We are not aware of any systematic problem in pricing municipal bonds. Furthermore, many holders of municipal bonds view the securities as buy-and-hold investments. In fact, during times of market stress, such as the recent financial crisis, we often see an

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increased demand for municipal bonds because of their safety and stability as compared to equities or corporate debt, which are both included as HQLA in the proposed rule. Historically, municipal bonds have had much lower default rates than corporate bonds, both in total, and across rating categories.

Municipal bonds are often structured with serial maturities, rather than in the bullet structures commonly found in the corporate market. As a result, whereas a series of corporate bonds might have a single CUSIP, a municipal offering with a comparable final maturity might generate ten or more CUSIPs for that series of bonds. We believe that the due to the large number of outstanding CUSIPs, municipal bonds should be compared to other securities by the percent of outstanding par traded per day. According to the most recent data available from SIFMA, the municipal market traded 0.27% of outstanding par per day, compared to 0.19% per day of outstanding corporate par and 0.27% of outstanding Federal Agency par (Table 1). Both corporate bonds and federal agency debt were included in the proposed rule as HQLA, and we believe that municipal debt is traded equally as frequently as both of these categories of securities.

Table 1

Asset Class	Avg. Daily Trading Volume Q3 ($ billions)	Outstanding Market Size Q3 ($ billions)	% Market Traded Daily
Municipal Debt	10.1	3,685.4	0.27%
Corporate Debt	18.2	9,561.7	0.19%
Federal Agency Debt	5.5	2,049.2	0.27%
Source: SIFMA U.S. Bond Market Statistics			

If municipal bonds are excluded from as the definition of HQLA, we believe that as issuers we would be negatively affected in three primary ways.

Cost of Borrowing. It would become more costly for banks to own municipal bonds. They would decrease their holdings, reducing the number of buyers in the marketplace, which would in turn increase our borrowing costs.

Reduced Bank Direct Purchase Market. Municipal issuers of variable rate debt are increasingly employing a direct purchase structure to place their bonds. Over the last two decades, most variable rate issuers relied on liquidity and/or credit facilities from commercial banks to support short-term put bonds, called variable rate demand obligations (VRDOs). In 2008 and 2009 municipal issuers experienced very significant put activity as the result of investor panic and ratings downgrades of large commercial banks. Through no fault of their own, municipal issuers were directly impacted by a loss of confidence in the US banking sector and in the letters of credit backing their VRDOs.

At the same time, commercial banks concerned about the impact of Basel III regulations on their capital charges sought alternatives to letters of credit to provide credit and liquidity support to VRDOs. The result, the direct purchase market, is one where municipal issuers continue to benefit from the ability to issue bank-supported variable rate debt, but without assuming credit exposure to the bank. The direct purchase market, where the commercial bank serves as a direct lender rather than a credit or liquidity provider, generates a valuable source of liquidity on a wide variety of transaction types and sizes. Smaller issuers and those of lower credit quality have benefitted significantly from the growth of this market. Larger issuers with sizable variable rate portfolios also rely on bank direct purchases as a risk management and cost reduction tool.

Under the Proposed Rule, the direct purchase market would also become more costly for banks and could cease to exist. Coupled with increased capital charges resulting from Basel III on

letters of credit, the Proposed Rule is likely to create significant market access problems for many municipal issuers.

Lower Demand for Public Deposits. State laws typically require public sector deposits over the FDIC insurance limit to be collateralized. Banks often use municipal securities as part of their collateralization portfolio. If municipal bonds are excluded from the definition of HQLA, the cost of providing collateral to us and issuers like us would increase, the amount of interest banks would be able to pay on our deposits would decrease and interest payments on our cash holdings would decrease, as a result.

The municipal bond market allows us to build roads, sewers, schools, and various other projects and to provide necessary public services to our citizens. It is vital that the marketplace continues to operate efficiently and as fairly as possible. We urge you to reconsider the proposed rule and include investment grade municipal bonds as HQLA.

Respectfully,

The University of Oklahoma

By: Chris Kuwitzky
Associate Vice President
Chief Financial Officer