Congress of the United States
Washington, DC 20515

April 16, 2014

The Honorable Thomas Curry
Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street SW
Washington, DC 20219

The Honorable Martin Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

The Honorable Janet Yellen
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: OCC Docket ID OCC–2013–0016, Federal Reserve Docket No. R–1466, and FDIC RIN 3064–AE04.)

Dear Comptroller Curry, Chairman Gruenberg and Chairman Yellen,

As members of the New York congressional delegation, we are writing to express our concerns about the proposed rule your agencies issued on November 29, 2013 that would implement a quantitative liquidity requirement in accordance with the liquidity coverage ratio (LCR) standard established by the Basel Committee on Banking Supervision. Our concerns with this proposal are twofold: 1) that municipal securities are not classified as "High Quality Liquid Assets" (HQLA); and 2) with the punitive treatment of state and municipal deposits. This proposal would restrict the ability of state and local governments to raise capital to finance infrastructure investment and pay day-to-day bills.

1) HQLA Treatment

The proposed LCR rule treats U.S. municipal securities as riskier than foreign debt, even small nations whose sovereign securities are illiquid or even distressed. It is also at odds with the Basel-established standard being adopted by other nations. The Basel Committee recommends Level 2A liquid asset treatment for "marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs [public sector entities] or multilateral development banks" meeting certain conditions. This means PSE securities, which include those issued by state and local governments, receive HQLA treatment.

Although we support increased liquidity, we are concerned this proposal could discourage financial institutions from investing in municipal securities because of the second-tier status assigned to them in this proposal. The result could be reduced demand for state and local debt,

which would drive up the financing costs for states and local governments to fund infrastructure projects. As of the end of 2013, banks held over $416 billion of municipal securities, or 11 percent of the total outstanding. It's clear that large financial institutions play a vital role in providing financing to states and localities, and we do not want to see their participation needlessly discouraged.

It does not make sense that the LCR proposal would explicitly exclude municipal securities from HQLA treatment, since municipal securities meet or exceed the criteria established in the rule for HQLA treatment. For example:

- Trading volume as measured by turnover rate is comparable to other categories of securities like investment-grade corporate bonds that would receive HQLA treatment under the proposal.
- Municipal securities exhibit price stability, even in stressed market conditions. Historical price declines for municipal securities in stressed markets are better than or as good as those for assets that would be HQLA.
- Municipal securities are eligible as collateral for Discount Window advances at Federal Reserve Banks, and haircuts are as favorable or more favorable than other assets that would count as HQLA under the proposal.

New York State and its local governments issued over $48 billion in bonds and notes to finance a variety of public investment in 2013 alone. This is their principal means to raise capital to finance public investment in schools, roads, water and sewer systems, airports and other infrastructure. After the devastating impact of Superstorm Sandy, to limit this important source of capital for rebuilding would hamper New York's recovery.

In an era of government budget-cutting, failure to classify municipal debt as a HQLA will leave the public sector with even fewer options to finance the needs of New Yorkers. We urge you in the final rule to provide for "Level 2A" High Quality Liquid Asset treatment for investment-grade municipal securities.

2) Treatment of Collateralized Deposits

The proposed treatment of deposits placed by states and municipalities, which, under state law, must be collateralized (so called "preferred deposits"), is also punitive and more stringent than required under the Basel III framework. As a result, banks may have to limit the amount of preferred deposits they accept and further reduce the interest paid on preferred deposits. Banks would have to hold high quality liquid assets equal to the deposit that the public entity has with the bank, in addition to the collateral currently being held to secure the public deposits. This effectively doubles the collateral held to secure public deposits, severely increasing the costs associated with public deposits.

The treatment of secured deposits of U.S. municipalities and public sector entities will lead to a negative distortion in the HQLA calculation. The U.S. LCR proposal could create incentives for institutions to stop offering particular products and services to public sector entities, which could cause U.S. municipalities to have difficulties in providing critical public services to citizens, and meeting payroll for public servants.

We urge you, in finalizing the LCR rule, to provide Level 2A HQLA treatment for investment-grade municipal securities and to exclude collateralized deposits from U.S. municipalities and public sector entities from the 100 percent unwind requirement. Ensuring unfettered access to capital and other financial services is imperative for the infrastructure investments and day-to-day services offered by our municipalities and public sector entities.

We appreciate your consideration of our concerns, and look forward to your response.

Sincerely,

PETER T. KING
Member of Congress

CAROLYN B. MALONEY
Member of Congress

MICHAEL GRIMM
Member of Congress

CAROLYN MCCARTHY
Member of Congress

TIMOTHY BISHOP
Member of Congress

CHRIS COLLINS
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JOSEPH CROWLEY
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TOM REED
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SEAN PATRICK MALONEY
Member of Congress