The City of New York
Office of Management and Budget
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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-1514

Re: Regulation WW: Liquidity Coverage Ratio:
Treatment of U.S. Municipal Securities as High-Quality Liquid Assets

Ladies and Gentlemen:

The City of New York (the "City") submits this letter in response to your request for comments on the above-referenced proposal (the "Proposed Amendment") by the Board of Governors of the Federal Reserve System (the 'Board") to amend the liquidity coverage ratio rule (79 Fed. Reg. 61439) (the "Rule") to include certain municipal bonds as high-quality liquid assets ("HQLAs").

During the comment period for the Rule, we submitted a letter, dated January 29, 2014, reflecting our concern that the exclusion of municipal securities from the definition of HQLAs was both unwarranted and would have a negative impact on the market for municipal securities and on the City's ability to cost-effectively finance much-needed public infrastructure. We, therefore, support the Board's proposal to include municipal securities as HQLAs under the Rule as a clear step in the right direction.

However, the Proposed Rule does not go far enough toward addressing the concerns we expressed in our previous comment letter. We continue to believe that municipal securities are, overall, more secure than, and at least as liquid as, corporate securities, particularly in times of economic stress. Our own experience has demonstrated that municipal securities are very much in demand during periods of economic stress. During the financial crisis of 2008-2009, we did not lose access to the capital markets. During the one year period from July 2008 through June 2009, we continued to experience strong demand for our bonds, issuing a total of $11,652,760,000 of bonds in 25 separate issues (including new money, refundings and conversions/reoffering) by the City, the New York City Transitional Finance Authority ("TFA") and the New York City Municipal Water Finance Authority ("NYW"). Furthermore, we see no reason to believe that municipal securities are less liquid than corporate securities generally. Daily average trading volumes based on the percentage of par outstanding of our three primary borrowing programs, City General Obligation, TFA and NYW bonds, are .34%, .37% and .36%, respectively, compared to the daily average trading volume of the top 50 corporate bond issuers, which is .36% (see SIFMA response to questions (Docket ID OCC-2013-0016) dated June 30, 2013, pp. 9-10). We, therefore, believe that since municipal securities are more secure and at least as liquid as corporate securities, municipal securities should be afforded level 2A HQLA status, rather than level 2B HQLA status as set forth in the Proposed Amendment.

Furthermore, we believe that the criteria and limitations placed on municipal securities that would qualify as HQLAs under the Proposed Amendment are not appropriate or reasonable, nor do they achieve their intended purposes. Such limitations undermine much of the progress that we believe the Proposed Amendment intends to make toward addressing our concerns with respect to the Rule. Based on our own experience, as well as the data that has been submitted by SIFMA and others in their original comment letters on the Rule, we do not see a justification for special limitations on municipal securities beyond those applied to corporate securities that qualify as HQLAs. Consequently, we request that the following limitations contained in the proposed rule be reconsidered and revised as described below.

Municipal Revenue Bonds Should Be Included in the Proposed Rule along with General Obligation Bonds. The City strongly encourages the Board to broaden the definition of HQLRs to include all investment grade municipal securities, not just general obligation bonds. We believe the distinction being drawn in the Proposed Amendment between general obligation bonds and revenue bonds is not based on a clear understanding of these two types of municipal debt. While it is correct that general obligation bonds are backed by the full faith and credit of the issuer, revenue bonds are not, in many cases, dependent on the revenues of a particular project. For example, TFA bonds are secured not by project revenues but by personal income tax revenues of City residents. Furthermore, it is incorrect to conclude that revenue bonds are by definition weaker than general obligation bonds, as evidenced by the TFA's credit ratings on its Future Tax Secured Bonds, which are AAA/AAA/AAA, while the City's General Obligation Bond ratings are Aa2/AA/AA. Although we recognize that the Rule does not permit the use of ratings to determine whether a security is investment grade, these ratings clearly demonstrate that general obligation credits are not necessarily stronger than revenue credits. It would be preferable, and more accurate, to focus on the investment grade nature of a security to determine its suitability for inclusion as an HQLA rather than the inherent distinction between general obligation bonds and revenue bonds.

The 25 Percent Limitation on Municipal Bonds of an Individual CUSIP Number Should Be Eliminated. In addition, the Proposed Amendment limits an institution's holding of municipal securities to 25 percent of the total outstanding securities with a particular CUSIP number. As long as municipal securities qualify as investment grade, we believe that there should not be any limitation on holdings of a particular issuer. Such limits do not exist with respect to corporate securities, and we see no logic in distinguishing corporate from municipal securities in this regard. If the Rule must nevertheless place a limit on securities of an individual issuer, that limitation should not be based on CUSIP numbers. Because municipalities such as the City often issue bonds with annual serial maturities (primarily reflecting legal requirements to amortize debt in even installments), each maturity within a bond issue typically has its own CUSIP number. This results in many CUSIP numbers with small principal amounts, despite the fact that the bonds represented by such CUSIP have the same characteristics as the issuer's bonds from other series. We believe investors to be indifferent as to which CUSIP number of series of bonds they purchase as long as those bonds are of the same issuer and have the same credit profile and term. If the 25 percent limitation is to be applied at all, it should be applied without regard to CUSIP number.

The Overall Five Percent Limit on Municipal Securities Should be Eliminated. The Proposed Amendment limits the amount of municipal securities that may be included in an institution's HQLA amount to no more than five percent. As noted above, we strongly believe that investment grade municipal securities are more secure and at least as liquid as investment grade corporate securities. Consequently, we do not see a basis for imposing an additional limitation beyond these imposed on other HQLAs at the same level as municipal securities.

The Limitation on Municipal Securities to Two Times the Average Daily Trading Volume Should be Eliminated. The Proposed Amendment limits the amount of municipal securities an institution could include as HQLAs to two times the average daily trading volume of the security. Once again, we strongly believe that investment grade municipal securities are more secure and at least as liquid as investment grade corporate securities. Consequently, we do not understand this additional limitation on municipal securities compared to corporate securities.

The effect of these limitations on the inclusion of municipal securities within the definition of HQLAs will be to increase borrowing costs for state and local governments, including the City, because banks will be disincentivized to purchase and hold municipal securities. Given the size of the City's capital program and the concomitant financing needs, the City has a compelling interest in the proper functioning of the municipal securities market. The City is one of the largest (if not the largest) issuers of municipal bonds, including revenue bonds, in the United States. Therefore, keeping debt service costs as low as possible is crucial to the City's ongoing fiscal health and its ability to continue delivering the wide range of services that it provides for its residents.

Thank you for the opportunity to comment on this important issue. We hope that our comments will be helpful to clarify why the Proposed Rule should be adjusted to (i) include municipal securities as level 2A HQLAs, (ii) include all investment grade municipal securities in the definition of HQLAs, (iii) eliminate the limitations on municipal securities based on individual CUSIP numbers, (iv) eliminate the five percent limit on an institution's inclusion of municipal securities in its HQLA amount and (v) eliminate the limitation of municipal securities held as HQLAs to two times the average daily trading volume.

Very truly yours,

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