

Government Finance Officers Association
National Association of Health and Educational Facilities Finance Authority
National Association of State Treasurers
American Public Power Association
Large Public Power Counsel
Securities Industry and Financial Markets Association
Bond Dealers of America

January 16, 2024

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551

James P. Sheesley
Assistant Executive Secretary
Attention: Comments/Legal OES (RIN 3064-AF29)
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, D.C. 20429

Chief Counsel's Office
Attention: Comment Processing
Office of the Comptroller of the Currency
400 7th Street SW
Suite 3E-218
Washington, D.C. 20219

Re: Regulatory capital rule: Amendments applicable to large banking organizations and to banking organizations with significant trading activity
Federal Reserve: Docket No. R-1813, RIN 7100-AG64
FDIC: RIN 3064-AF29
OCC: Docket ID OCC-2023-0008

Dear Sir or Madam,

On behalf of the various participants in the U.S. state and local government debt market that we collectively represent, we write to you expressing our concerns regarding recently proposed rules to increase capital requirements for large banks, known as the "Basel III Endgame." Our organizations are composed of thousands of state and local government issuers of municipal debt, nonprofit borrowers, lenders, underwriters, investors, counsel, and other participants across the municipal debt market.

We appreciate the U.S. Department of Treasury's, Federal Reserve's, Office of the Comptroller's, and Federal Deposit Insurance Corporation's (collectively the "Proposing Agencies") request for comment and continuous work to maintain the stability and public confidence in our financial system. To that end, we

understand the need for these agencies to reexamine bank prudency measures from time to time. We believe, however, that the implementation of these proposed rules would increase the costs to financial institutions that make loans to issuers of municipal debt, and those that underwrite and hold municipal debt in inventory and will disincentivize market makers, resulting in increased borrowing costs and reduced liquidity and stability in the municipal debt market. This anticipated outcome is the opposite of the stated goals of the proposal. We share the concerns of many stakeholders that the increased banking requirements, as proposed, would broadly tighten access to credit and pose economy-wide increases to borrowing costs. These concerns are elevated by the proposal's release during a time of 30-year-high borrowing costs.

We now ask that you pause the rulemaking process until the proposing agencies and other stakeholders can 1) further evaluate the effect of these rules on the economy generally; 2) specifically evaluate the impact to the municipal debt market and state and local issuers of debt; and 3) reassess the treatment of municipal securities in light of their tax-exempt status and reduce the risk weights and loss-given-default rates in both the sensitivities-based method and default risk charge which we believe would lead to a significant risk weighted asset reduction, especially considering the materially lower instance of default in the municipal market.¹ If these key details are not assessed, all these issues will make the financing of U.S. state and local government and non-profit borrowers' capital projects more expensive.

Our U.S. State and local government issuers and conduit nonprofit borrowers rely on access to affordable credit, primarily through the issuance of municipal bonds and direct loans from financial institutions, to finance our nation's infrastructure assets and critical public services. These borrowing opportunities are often made more affordable by the tax-advantaged treatment of qualified bonds and relationships built between local lenders and borrowers. Increases in debt service costs for municipal issuers and conduit borrowers will result in declined investment in infrastructure, public safety, education, and numerous other social services.

Governmental entities also rely on banks as counterparties to derivatives contracts that are used to hedge prices and supply risks related to energy commodities. Whether these commodities are for power generation, for institutional use, or for transportation, we do not believe that increasing the capital requirements for these contracts will increase financial system stability, but we are certain that it will increase the cost of managing these risks – costs that will ultimately be passed on to communities through higher charges for services. Further exacerbating this problem is that the portion of the proposal related to derivatives provides a favorable rule for entities that issue investment grade securities that are publicly traded on an exchange, which effectively excludes State and local governments from this favorable treatment.

In addition to direct costs from higher interest rates and charges for commodity hedges, overly punitive changes to the capital rules, without regard to the unique nature of the municipal debt markets may result in reduced willingness by financial institutions to hold inventory and could lead to less liquidity, higher yields and lower market making activity in municipal bonds. Major market players have already taken steps to analyze whether to deploy their capital elsewhere and several firms have exited the municipal market because of many factors including regulatory burdens.²

The debt market and access to commodity hedges are critical tools for states and municipal governments to finance the infrastructure in this country which drives our economic engine. Thank you again for your time

¹See letters from SIFMA, ISDA and SIFMA AMG, dated January 16, 2016 with related quantitative impact analysis and recommendations.

² See "UBS to Exit Key Muni Investment Banking Business Plans Job Cuts" Accessed January 12, 2024 [UBS to Exit Key Muni Investment Banking Business. Plans Job Cuts – Bloomberg](#) and "[Citi to exit the muni business | Bond Buyer](#)

and attention on this important matter, and we look forward to working with you to ensure the implementation of your agencies' mandates do not cause unintended damage to U.S. the municipal debt market, infrastructure finance and public finances more generally.

Sincerely,

Government Finance Officers Association, Emily Brock, 202-393-8467

National Assn of Health and Educational Facilities Finance Authority, Chuck Samuels, 202-434-7311

National Association of State Treasurers, Dillon Gibbons, 916-290-3741

American Public Power Association, John Godfrey 202-467-2929

Large Public Power Counsel, J. W. Thurber, 531-226-3056

Securities Industry and Financial Markets Association, Leslie Norwood, 212-313-1130

Bond Dealers of America, Michael Decker, 202-603-5663