

On July 1st [certain municipal securities will qualify as HQLA under the Federal Reserve Board's recent rules amending](#) the 2014 [liquidity coverage ratio \("LCR"\) rulemaking](#). The LCR rulemaking requires large banking organisations to hold a minimum amount of HQLA that can be readily converted into cash during a 30-day period of financial stress.

The Muni HQLA rulemaking is a limited concession to those that criticised the LCR rulemaking's treatment of munis. Critics include municipalities (see e.g., [this comment letter from the Mayor of New York City](#)) and key constituents of the financial services industry (see e.g., [this comment letter from SIFMA](#)). Among other things, these commenters argued that absent HQLA treatment for munis would shrink the muni market. This would cause the cost to borrow for municipalities to increase resulting in municipalities reduced ability to serve their residents. Generally, the commenters sought an amendment that would have allowed certain munis to obtain level 2A HQLA status. [HR 2209](#) (passed the House on February 1st 2016) addressed these concerns and would allow qualifying munis to obtain relatively favourable level 2A status under the LCR rulemaking, as described in the chart below. This approach was similar to the approach to corporate bonds taken by the [Basel Committee on Banking Supervision](#) ("BCBS") (allowing them to enjoy 2A status in certain circumstances).

Despite this opposition, the Federal Reserve Board decided to make a more limited allowance: allowing certain munis to receive, less favourable, level 2B HQLA status.

The below chart summarises the 2014 LCR rulemaking, the 2016 Muni HQLA rulemaking, and [HR 2209](#) (passed the House on February 1, 2016). The chart includes the LCR rulemaking's treatment of level 1 HQLAs and corporate debt securities to help draw a contrast:

Source	Asset type	HQLA category	Haircut	Cap	Scope	Requirements
LCR Rulemaking (Sept. 2014)	Corporate debt securities	Level 2B	50%	15%	All banks subject to LCR	(1) "liquid and readily marketable," (2) "investment grade;" and (3) "issued by an entity whose obligations have a proven record as a reliable source of liquidity in repurchase or sales markets during stressed market conditions." See § __.20(b) of LCR rulemaking.
	Munis	None	N/A	0%		N/A
HR 2209 (Feb. 2016)	Munis	Level 2A	15%	40% level 2A + 2B cap	All banks subject to LCR	(1) "liquid and readily marketable" and (2) "investment grade."
Muni HQLA Rulemaking (Apr. 2016)	Munis	Level 2B	50%	15%	Federal Reserve Board-regulated banks subject to LCR	(1) "liquid and readily marketable;" (2) "investment grade;" and (3) "issued by a public sector entity whose obligations have a proven record as a reliable source of liquidity in repurchase or sales markets during stressed market conditions."