



July 24, 2018

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

The Honorable Jelena McWilliams
Chair
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

The Honorable Joseph M. Otting
Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street SW, Suite 3E-218
Mail Stop 9W-11
Washington, DC 20219

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

Dear Chair McWilliams, Comptroller Otting, and Chairman Powell:

As you know, section 403 of the recently enacted “Economic Growth, Regulatory Relief, and Consumer Protection Act” (PL 115-174) (the “Act”) amended the Federal Deposit Insurance Act to require the federal banking agencies to amend their rules related to liquidity coverage ratios (“LCR”) to provide treatment for certain municipal securities as Level 2B high quality liquid assets (“HQLA”). The law also required the Federal Reserve (the “Fed”), the Federal Deposit Insurance Corporation (the “FDIC”), and the Office of the Comptroller of the Currency (the “OCC” and, collectively with the Fed and the FDIC, the “Agencies”) to complete their related rulemakings no later than August 22, 2018. The members of the Large Public Power Council (“LPPC”) are significant issuers of municipal obligations and, as such, have been closely following the development of the LCR rules from the outset.

LARGE PUBLIC POWER COUNCIL MEMBER COMPANIES

Austin Energy / Chelan County PUD No.1 / Clark Public Utilities / Colorado Springs Utilities / CPS Energy / Electricities of NC, Inc. / Grand River Dam Authority
Grant County PUD / Imperial Irrigation District / JEA / Long Island Power Authority / Los Angeles Department of Water & Power / Lower Colorado River Authority
MEAG Power / Nebraska Public Power District / New York Power Authority / Omaha Public Power District / Orlando Utilities Commission / Platte River Power Authority
Puerto Rico Electric Power Authority / SMUD / Salt River Project / Santee Cooper / Seattle City Light / Snohomish County PUD No.1 / Tacoma Public Utilities

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Founded in 1987, LPPC is a national organization comprising 25 of the nation's largest public power systems. We are locally owned and controlled not-for-profit electric utilities committed to the people and communities we serve. LPPC advocates for policies that allow public power systems to build infrastructure, invest in communities and provide reliable service at affordable rates. From New York to California and from Washington State to Florida, LPPC members provide reliable, low-cost electric service to over 30 million people. Our member utilities represent a cross section of the nation's utility industry, and own and operate over 71,000 MW of generation with a significant amount of renewables, fossil, hydro, efficiency and demand side management. LPPC members represent some of the largest issuers of municipal securities.

The LPPC is pleased that Congress has taken the action to enact section 401 of the Act. LPPC requests that the Agencies make their best efforts to meet the statutory deadline for action on this provision of the Act.

There is one important substantive issue that arises under the provisions of section 403. The operative provision of Section 403 of the Act reads as follows:

(2) MUNICIPAL OBLIGATIONS.—For purposes of the final rule entitled “Liquidity Coverage Ratio: Liquidity Risk Measurement Standards” (79 Fed. Reg. 61439 (October 10, 2014)), the Final rule entitled “Liquidity Coverage Ratio: Treatment of U.S. Municipal Securities as High-Quality Liquid Assets” (81 Fed. Reg. 21223 (April 11, 2016)), and any other regulation that incorporates a definition of the term “high-quality liquid asset” or another substantially similar term, the appropriate Federal banking agencies shall treat a municipal obligation as a high-quality liquid asset that is a level 2B liquid asset if that obligation is, as of the date of calculation—

- (A) liquid and readily-marketable; and
- (B) investment grade.

The direction to the Agencies under the Act is largely clear except that the Agencies will need to provide guidance regarding whether municipal obligations are “liquid and readily marketable.” For purposes of determining whether municipal securities are liquid and readily marketable, LPPC urges the Agencies to apply the existing provisions of the LCR rule in the same manner to municipal securities as to other HQLA.

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Prior to the changes made by the Act, the Fed had issued rules that were intended to treat certain municipal obligations as eligible for HQLA treatment. Unfortunately, the limitations imposed by the Fed in what appeared to be an effort to address liquidity and marketability issues resulted in the vast majority of municipal obligations being ineligible for HQLA treatment. These limitations included the exclusion of bonds other than general obligations bonds (including the types of revenue bonds issued by LPPC's members), limits on the amount of securities of a single issuer that a bank could hold as HQLA, and an overall limit on the volume of municipal obligations that a bank could treat as HQLA. As we and other municipal market participants have commented in the past, we do not believe that limits such as those imposed by the Fed are necessary or appropriate. In particular, we support the comments on this issue made in the recent letter to the Agencies submitted by the Government Finance Officers Association, the National Association of State Treasurers, and SIFMA. These limitations do not apply to other types of securities under the LCR Rule and should not apply to municipal obligations. Further, if Congress believed that any of the limitations imposed on municipal obligations by the Fed were appropriate, it would have included them in some manner in the Act.

We appreciate your consideration of our suggestions. LPPC and its members would be happy to provide assistance in the development of the new regulations. As those regulations are drafted, we recommend that municipal securities are treated in the same manner as other Level 2B assets are treated under the rules of the Agencies. We continue to believe that there is no reason to treat municipal obligations differently.

Sincerely,



John Di Stasio, President
Large Public Power Council

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