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This section of the FEDERAL REGISTER contains notices to the public of the proposed issuance of rules and regulations. The purpose of these notices is to give interested persons an opportunity to participate in the rule making prior to the adoption of the final rules.

FEDERAL RESERVE SYSTEM

12 CFR Part 249

[Docket No. R-1514; Regulation WW]

RIN 7100 AE-32

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

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Notice of proposed rulemaking with request for public comment.

SUMMARY: The Board of Governors of the Federal Reserve System (Board) invites public comment on a proposed rule (proposed rule) that would amend the Board's liquidity coverage ratio requirement (LCR) to include certain U.S. municipal securities as high-quality liquid assets (HQLA). This proposed rule includes as level 2B liquid assets under the LCR general obligation securities of a public sector entity that meet the same criteria as corporate debt securities that are included as level 2B liquid assets, subject to limits that are intended to address the unique structure of the U.S. municipal securities market. This proposed rule would apply to all Board-regulated institutions that are subject to the LCR, which include: (1) Bank holding companies, certain savings and loan holding companies, and state member banks that, in each case, have \$250 billion or more in total consolidated assets or \$10 billion or more in on-balance sheet foreign exposure; (2) state member banks with \$10 billion or more in total consolidated assets that are consolidated subsidiaries of bank holding companies described in (1); and (3) nonbank financial companies designated by the Financial Stability Oversight Council for Board supervision to which the Board has applied the LCR by rule or order. This proposed rule would also permit bank holding companies and certain savings and loan holding companies, in each case with \$50 billion or more in total

consolidated assets that are subject to the Board's modified liquidity coverage ratio to rely on the proposed expanded definition of HQLA.

DATES: Comments on this notice of proposed rulemaking must be received by July 24, 2015.

ADDRESSES: When submitting comments, please consider submitting your comments by email or fax because paper mail in the Washington, DC area and at the Board may be subject to delay. You may submit comments, identified by Docket No. R-1514, by any of the following methods:

- *Agency Web site:* <http://www.federalreserve.gov>. Follow the instructions for submitting comments at <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm>.

- *Federal eRulemaking Portal:* <http://www.regulations.gov>. Follow the instructions for submitting comments.

- *Email:* regs.comments@federalreserve.gov. Include docket number in the subject line of the message.

- *Fax:* (202) 452-3819 or (202) 452-3102.

- *Mail:* Robert de V. Frierson, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW., Washington, DC 20551.

All public comments are available from the Board's Web site at <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm> as submitted, unless modified for technical reasons. Accordingly, comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper form in Room 3515, 1801 K Street NW. (between 18th and 19th Street NW.), Washington, DC 20006 between 9 a.m. and 5 p.m. on weekdays.

FOR FURTHER INFORMATION CONTACT:

Constance Horsley, Assistant Director, (202) 452-5239, Adam S. Trost, Senior Supervisory Financial Analyst, (202) 452-3814, or J. Kevin Littler, Senior Supervisory Financial Analyst, (202) 475-6677, Risk Policy, Division of Banking Supervision and Regulation; Dafina Stewart, Counsel, (202) 452-3876, or Adam J. Cohen, Senior Attorney, (202) 912-4658, Legal Division, Board of Governors of the Federal Reserve System, 20th and C Streets, Washington, DC 20551. For the hearing impaired only,

Telecommunication Device for the Deaf (TDD), (202) 263-4869.

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I. Background

On September 3, 2014, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively, the agencies) adopted a final rule that implemented a quantitative liquidity requirement¹ (LCR) consistent with the liquidity coverage ratio standard established by the Basel Committee on Banking Supervision (Basel III Liquidity Framework).² The LCR is designed to promote the short-term resilience of the liquidity risk profile of large and internationally active banking organizations, and to further improve the measurement and management of liquidity risk, thereby improving the banking sector's ability to absorb shocks arising during periods of significant stress. The LCR requires a company subject to the rule to maintain an

¹ 79 FR 61440 (October 10, 2014).

² Basel Committee on Banking Supervision, "Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools" (January 2013), available at <http://www.bis.org/publ/bcbcs238.htm>.

amount of high-quality liquid assets (HQLA) (the numerator of the ratio)³ that is no less than 100 percent of its total net cash outflows over a prospective 30 calendar-day period of significant stress (the denominator of the ratio). Community banking organizations are not subject to the LCR.⁴

Under the LCR, only a limited number of asset classes that have historically been used as a source of liquidity in the United States during periods of significant stress and have a demonstrable record of liquidity are included as HQLA. In identifying the types of assets that qualify as HQLA under the Basel III Liquidity Framework the Basel Committee on Banking Supervision considered several factors, including the asset's risk profile and characteristics of the market for the asset (e.g., active sale or repurchase markets at all times, significant diversity in market participants, and high trading volume). The agencies considered similar factors in developing the LCR. In addition, the agencies developed certain other criteria, such as operational requirements, that assets must meet for inclusion as eligible HQLA.

The LCR divides HQLA into three categories of assets: Level 1, level 2A, and level 2B liquid assets. Specifically, level 1 liquid assets are limited to balances held at a Federal Reserve Bank and foreign central bank withdrawable reserves, all securities issued or unconditionally guaranteed as to timely payment of principal and interest by the U.S. Government, and certain highly liquid, high credit quality sovereign, international organization and multilateral development bank debt securities. Level 1 liquid assets, which are the highest quality and most liquid assets, may be included in a covered

company's HQLA amount without limit and without haircuts. Level 2A and 2B liquid assets have characteristics that are associated with being relatively stable and significant sources of liquidity, but not to the same degree as level 1 liquid assets. Level 2A liquid assets include certain obligations issued or guaranteed by a U.S. government-sponsored enterprise (GSE) and certain obligations issued or guaranteed by a sovereign entity or a multilateral development bank that are not eligible to be treated as level 1 liquid assets. The LCR subjects level 2A liquid assets to a 15 percent haircut and limits the aggregate of level 2A and level 2B liquid assets to no more than 40 percent of the total HQLA amount. Level 2B liquid assets, which are liquid assets that generally exhibit more volatility than level 2A liquid assets, are subject to a 50 percent haircut and may not exceed 15 percent of the total HQLA amount. Under the LCR, level 2B liquid assets include certain corporate debt securities and certain common equity shares of publicly traded companies. Level 2 liquid assets, including all level 2B liquid assets, must be liquid and readily marketable as defined in the LCR to be included as HQLA.⁵ Other classes of assets, such as debt securities issued or guaranteed by a U.S. public sector entity (U.S. municipal securities), are not treated as HQLA. The LCR final rule defines a public sector entity to include any state, local authority, or other governmental subdivision below the U.S. sovereign entity level.⁶

The agencies received a substantial number of comments in connection with the LCR rulemaking⁷ from U.S. and foreign firms, public officials (including state and local governments and members of the U.S. Congress), public interest groups, private individuals, and other interested parties requesting that U.S. municipal securities be treated as HQLA. Commenters asserted that U.S. municipal securities exhibit liquidity characteristics consistent with those considered by the agencies in identifying assets as HQLA and presented data to demonstrate the liquidity of U.S. municipal securities. In particular, some commenters indicated that certain U.S. municipal securities trade more often and in greater volumes than some corporate debt securities that qualify as HQLA under the LCR. In

addition, commenters argued that the exclusion of U.S. municipal securities from HQLA could lead to higher funding costs for U.S. municipalities, which could affect local economies and infrastructure.

In the **SUPPLEMENTARY INFORMATION** section to the LCR final rule, the agencies expressed concern that covered companies would be limited in their ability to rapidly monetize U.S. municipal securities during a period of significant stress. For example, the funding of many U.S. municipal securities in the repurchase market is limited, which lessens the opportunity for companies to convert the securities to cash quickly during a period of significant stress. Accordingly, the LCR final rule did not include U.S. municipal securities as HQLA.

However, the Board indicated a willingness to continue to study the question of whether at least some U.S. municipal securities should be permitted under some circumstances to be included as HQLA. The Board now proposes to allow Board-regulated institutions to include as level 2B liquid assets under the LCR U.S. general obligation municipal securities that exhibit characteristics that are comparable to other asset classes included as level 2B liquid assets. The proposal contains a variety of criteria and limitations designed to ensure that U.S. general obligation municipal securities included as HQLA are liquid and appropriately valued for purposes of the LCR.

This proposed rule would apply to all Board-regulated institutions that are subject to the LCR, which include: (1) Bank holding companies, certain savings and loan holding companies, and state member banks that, in each case, have \$250 billion or more in total consolidated assets or \$10 billion or more in on-balance sheet foreign exposure; (2) state member banks with \$10 billion or more in total consolidated assets that are consolidated subsidiaries of bank holding companies subject to the LCR described in (1); and (3) nonbank financial companies designated by the Financial Stability Oversight Council for Board supervision to which the Board has applied the LCR by rule or order. This proposed rule would also allow bank holding companies and certain savings and loan holding companies, in each case with \$50 billion or more in total consolidated assets, that are subject to the Board's modified minimum liquidity coverage ratio to take advantage of the proposed expanded definition of HQLA.

³ A company's HQLA amount is calculated according to section 249.21 of the LCR.

⁴ The LCR applies to large and internationally active banking organizations, generally: (1) Bank holding companies, certain savings and loan holding companies, and depository institutions that, in each case, have \$250 billion or more in total assets or \$10 billion or more in on-balance sheet foreign exposure; (2) depository institutions with \$10 billion or more in total consolidated assets that are consolidated subsidiaries of bank holding companies and savings and loan holding companies described in (1); and (3) nonbank financial companies designated by the Financial Stability Oversight Council for Board supervision to which the Board has applied the LCR by rule or order. In addition, the Board adopted a modified minimum liquidity coverage ratio requirement for bank holding companies and certain savings and loan holding companies that, in each case, have \$50 billion or more in total consolidated assets but that do not meet the threshold for large and internationally active firms (together with the entities described in (1), (2), (3) above, covered companies).

⁵ The liquid and readily marketable standard is defined in section 249.3 of the LCR final rule and is discussed in section II.B.2 of the Supplementary Information section. 79 FR 61440, 61451 (October 10, 2014).

⁶ 12 CFR 249.3.

⁷ 78 FR 71818 (November 29, 2013).

II. Proposed Criteria for Inclusion of U.S. Municipal Securities as Eligible HQLA

As described in more detail below, this proposed rule would include limited amounts of U.S. general obligation municipal securities as level 2B liquid assets under the LCR if the securities meet certain criteria. The Board invites comment on all aspects of the proposal including whether these criteria and limitations are appropriate, reasonable, and achieve their intended purposes.

The Board proposes to include U.S. general obligation municipal securities as level 2B liquid assets, rather than as level 2A liquid assets. Municipal securities are less liquid than assets that are included as level 2A liquid assets. For example, the daily trading volume of securities issued or guaranteed by U.S. GSEs far exceeds that of U.S. municipal securities.

As a threshold matter, to qualify as HQLA under the proposal, U.S. general obligation municipal securities must be liquid and readily marketable and meet other criteria consistent with the criteria for corporate debt securities that are included as level 2B liquid assets. These criteria help to ensure comparable treatment between U.S. general obligation municipal securities and corporate debt securities included as HQLA.⁸ In addition, to help ensure sufficient liquidity of the U.S. general obligation municipal securities that are included in the total HQLA amount, this proposed rule would impose certain limits on the amount of U.S. general obligation municipal securities that a Board-regulated institution may include as eligible HQLA.⁹ This proposed rule would not limit the amount of U.S. municipal securities a Board-regulated institution could hold for other purposes.

A. Criteria for Inclusion as Level 2B Liquid Assets

1. U.S. General Obligation Municipal Securities

Under this proposed rule, U.S. municipal securities would qualify as HQLA only if they are general obligations of the issuing entity. General obligations of U.S. public sector entities, which include bonds or similar obligations that are backed by the full faith and credit of the public sector entities, are assigned a 20 percent risk weight under the Board's risk-based

capital rules.¹⁰ This provision, which is consistent with the Basel III Liquidity Framework, is designed to limit the liquidity and credit risk associated with U.S. municipal securities included in the HQLA amount.

Revenue obligations, which include bonds or similar obligations that are obligations of U.S. public sector entities, but which the public sector entities have committed to repay with revenues from a specific project rather than from general tax funds, are assigned a 50 percent risk weight under the Board's risk-based capital rules.¹¹ Revenue obligations are assigned a higher risk weight than general obligations because repayment of revenue obligations is dependent on revenue from an underlying project without an obligation from a public sector entity to repay these obligations from other revenue sources.¹² The Board has proposed to exclude revenue obligations because, during a period of significant stress, revenue derived from a particular project, such as a stadium, may fall dramatically as domestic consumption declines and the associated revenue bond may experience significant price declines and become less liquid.

2. Investment Grade U.S. General Obligation Municipal Securities

Consistent with the requirements for corporate debt securities included as level 2B liquid assets, this proposed rule would require that U.S. general obligation municipal securities be "investment grade" under 12 CFR part 1 as of the calculation date.¹³ This criterion requires an issuer of a U.S. general obligation municipal security to have adequate capacity to meet its financial commitments under the security for the projected life of the security, which is met by showing a low risk of default and an expectation of the timely repayment of principal and interest.

3. Proven Record as a Reliable Source of Liquidity

Consistent with the requirements for corporate debt securities included as level 2B liquid assets under the LCR, this proposed rule would require that U.S. general obligation municipal securities included as level 2B liquid

assets be issued by an entity whose obligations have a proven record as a reliable source of liquidity in repurchase or sales markets during a period of significant stress. A Board-regulated institution would be required to demonstrate this record of liquidity reliability and lower volatility during periods of significant stress by showing that the market price of the U.S. general obligation municipal securities or equivalent securities of the issuer declined by no more than 20 percent during a 30 calendar-day period of significant stress, or that the market haircut demanded by counterparties to secured lending and secured funding transactions that were collateralized by such debt securities or equivalent securities of the issuer increased by no more than 20 percentage points during a 30 calendar-day period of significant stress. This percentage decline in value and percentage increase in haircut is the same as those applicable to corporate debt securities included as level 2B liquid assets under the LCR.¹⁴ This limitation is meant to exclude volatile U.S. municipal securities because their volatility indicates these assets may not hold their value during a period of significant stress, thereby overestimating the amount of HQLA actually available to the banking entity.

As discussed in the Supplementary Information section to the LCR final rule, a Board-regulated institution may demonstrate a historical record that meets this criterion through reference to historical market prices and available funding haircuts of the U.S. general obligation municipal security during periods of significant stress, such as the 2007–2009 financial crisis.¹⁵ Board-regulated institutions should also look to other periods of systemic and idiosyncratic stress to see if the asset under consideration has proven to be a reliable source of liquidity. As noted above, HQLA include only those assets that have demonstrated an ability to maintain relatively stable prices such that they can be rapidly sold by a Board-regulated institution to meet its

¹⁴ Under the LCR, equity securities included as level 2B liquid assets have a similar criteria. However, the covered company would be required to demonstrate that the market price of the security or equivalent securities of the issuer declined by no more than 40 percent during a 30 calendar-day period of significant stress, or that the market haircut demanded by counterparties to securities borrowing and lending transactions that are collateralized by the publicly traded common equity shares or equivalent securities of the issuer increased by no more than 40 percentage points, during a 30 calendar-day period of significant stress.

¹⁵ 79 FR 61440, 61459 (October 10, 2014).

¹⁰ See 12 CFR part 217.

¹¹ *Id.*

¹² 78 FR 62018, 62086 (October 11, 2013).

¹³ 12 CFR 1.2(d). In accordance with section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act, this regulation does not rely on credit ratings as a standard of credit-worthiness. Rather, the regulation relies on an assessment by the bank of the capacity of the issuer to meet its financial commitments.

⁸ See 12 CFR 249.20(c)(1).

⁹ The LCR final rule defines eligible HQLA as those high-quality liquid assets that meet the requirements set forth in section 249.22.

obligations during a period of significant stress.

4. Not an Obligation of a Financial Sector Entity or Its Consolidated Subsidiaries

Under this proposed rule, U.S. general obligation municipal securities would qualify as HQLA only if they are not obligations of a financial sector entity and not obligations of a consolidated subsidiary of a financial sector entity. For purposes of this provision, the Board considers a security that is issued or guaranteed by a financial sector entity to be an obligation of the financial sector entity. The LCR defines a financial sector entity to include a regulated financial company, investment company, non-regulated fund, pension fund, investment adviser, or a company that the Board has determined should be treated the same as the foregoing for the purposes of the LCR. Thus, if a bond insurer insures the general obligation municipal securities of a U.S. public sector entity (such insurance is commonly referred to as a “wrap”), the securities would not be eligible for inclusion in HQLA. The Board has proposed to include this criterion in order to exclude U.S. general obligation municipal securities that are valued, in part, based on guarantees provided by financial sector entities, because these financial sector entity guarantees could exhibit similar risks and correlation with Board-regulated institutions (wrong-way risk) during a liquidity stress period, thus overestimating the amount of HQLA that would be available to the banking entity during a liquidity stress period. This criterion is consistent with the Basel III Liquidity Framework and with the requirements imposed on corporate debt securities and publicly traded common equity shares that are included as level 2B liquid assets under the LCR.

1. How should the Board supplement or amend the proposed criteria for including U.S. general obligation municipal securities as HQLA?

2. Is it appropriate to exclude U.S. general obligation municipal securities that are guaranteed (or “wrapped”) by bond insurers or other financial sector entities from HQLA because of wrong-way risk? Why or why not? How else could the Board address concerns regarding the wrong-way risk associated with such securities?

B. Limitations on a Company’s Inclusion of U.S. General Obligation Municipal Securities as Eligible HQLA

This proposed rule would limit the amount of U.S. general obligation municipal securities a Board-regulated

institution could include as eligible HQLA based on the total amount outstanding of U.S. general obligation municipal securities with the same CUSIP number, on the average daily trading volume of general obligation municipal securities issued by a particular U.S. municipal issuer, and on a percentage of the institution’s total HQLA amount. These limitations are intended to address the unique structure of the U.S. municipal securities market and designed to help ensure sufficient liquidity of the U.S. general obligation municipal securities included in the HQLA amount under the LCR.

1. Limitation on the Inclusion of U.S. General Obligation Municipal Securities With the Same CUSIP Number as Eligible HQLA

Individual issuances of U.S. municipal securities (those with the same CUSIP number) by a single public sector entity are frequently far smaller and more numerous than issuances of debt securities by a single corporate issuer and exhibit a diverse array of maturity dates and interest rates. This is in part due to legal and other restrictions on the size of individual issuances by public sector entities and because U.S. municipal securities are frequently marketed to retail or smaller institutional investors. For example, a very large issuer of U.S. municipal securities (such as a state or large city) may have several hundred individual issuances outstanding. In contrast, a single corporate issuer may have a comparable dollar amount of securities outstanding but with only 20 to 30 individual issuances outstanding. Investors in U.S. municipal securities sometimes purchase a large percentage, including more than 50 percent of the outstanding amount, of the individual issuance.

The Board is concerned that a Board-regulated institution would not be able to monetize a concentration in the holding of a particular issuance of U.S. general obligation municipal securities during a period of significant stress without a material impact on the securities’ price. This proposed rule therefore would permit a Board-regulated institution to count U.S. general obligation municipal securities as eligible HQLA only to the extent the fair value of the institutions’ securities with the same CUSIP number do not exceed a maximum of 25 percent of the total amount of outstanding securities with the same CUSIP number. Under the proposal, this threshold for inclusion as eligible HQLA would be calculated prior to application of the 50 percent haircut applicable to level 2B

liquid assets that is set forth in § 249.21(a)(3) of the LCR final rule. This requirement is designed to ensure that a Board-regulated institution does not include in its HQLA amount a concentration of an individual issuance of U.S. general obligation municipal securities.

2. Limitation on the Inclusion of the U.S. General Obligation Municipal Securities of a Single Issuer as Eligible HQLA

The Board is proposing a limit on the amount of securities issued by a single U.S. public sector entity that a Board-regulated institution may include as eligible HQLA, based on the trading volume that the secondary market for the entity’s general obligation municipal securities could be expected to withstand before prices materially decline. For each U.S. public sector entity, this proposed rule would limit the aggregate fair value of the general obligation securities that a Board-regulated institution could include as eligible HQLA to two times the average daily trading volume, as measured over the previous four quarters, of all general obligation municipal securities issued by that public sector entity.

The LCR was designed to include as eligible HQLA assets that remain relatively liquid and have multiple buyers and sellers during periods of significant stress, as a covered company may be expected to sell HQLA to meet its cash outflows during such periods. To remain consistent with the design of the LCR, the proposal seeks to include U.S. general obligation municipal securities as eligible HQLA to the extent that they would exhibit liquidity without dramatic loss in value during periods of significant stress. The U.S. municipal securities market includes a large diversity of issuers, size of issuances, and volumes of secondary market trading. The Board analyzed data on the historical trading volume of municipal securities in order to determine the general level of increased sales of municipal securities that could be absorbed by the market during periods of significant stress before prices would materially decline. The proposal would limit the aggregate fair value of the U.S. general obligation municipal securities of a public sector entity that may be included as eligible HQLA to two times the average daily trading volume of all U.S. general obligation municipal securities issued by that public sector entity because, based on the Board’s analysis, a holding of two times the average daily trading volume could likely be absorbed by the market within a 30 calendar-day period

of significant stress without materially disrupting the functioning of the market.

Rather than proposing an average daily trading volume limitation on a per-security basis, the Board is proposing a limitation based on the average daily trading volume of all U.S. general obligation municipal securities issued by the public sector entity. Due to the smaller size of many U.S. municipal securities issuances, applying this limit on a per-security basis may unnecessarily restrict a covered company's ability to invest in a particular security that meets the Board-regulated institution's investment criteria and liquidity needs. However, as discussed above, the Board has proposed a separate limitation on the amount of an individual issuance that may be included as eligible HQLA to address the concern that a high concentration of an individual U.S. general obligation municipal security could be included as eligible HQLA.

3. Limitation on the Amount of U.S. General Obligation Municipal Securities That Can Be Included in the HQLA Amount

The Board is proposing to limit the amount of U.S. general obligation municipal securities that are included in a Board-regulated institution's HQLA amount to no more than five percent of its total HQLA amount. This limit is in addition to the 40 percent limit on the aggregate amount of level 2A and level 2B liquid assets and the 15 percent limit on level 2B liquid assets that can be included in the HQLA amount. It also complements the other two limits on U.S. general obligation municipal securities described above, which relate solely to a particular issuance and individual issuers. Although the Board has concluded that certain U.S. general obligation municipal securities are sufficiently liquid to be included as eligible HQLA, the Board proposes to limit the aggregate amount of all U.S. general obligation municipal securities that may be included in the HQLA amount to ensure appropriate diversification of asset classes within a Board-regulated institution's HQLA amount. Consistent with the LCR's limits on level 2A and level 2B liquid assets, this proposed five percent limit applies both on an unadjusted basis and after adjusting the composition of the HQLA amount upon the unwind of certain secured funding transactions, secured lending transactions, asset exchanges and collateralized derivatives transactions.¹⁶

The proposed five percent limit would be applied to the calculation of the HQLA amount by amending the definitions of the unadjusted excess HQLA amount and the adjusted excess HQLA amount.¹⁷ Under this proposed rule, the unadjusted excess HQLA amount would equal the sum of the level 2 cap excess amount, the level 2B cap excess amount and the public sector entity security cap excess amount. The method of calculating the public sector entity security cap excess amount is set forth in § 249.21(f) of this proposed rule. Under this provision, the public sector entity security cap excess amount would be calculated as the greater of: (1) The public sector entity security liquid asset amount minus the level 2 cap excess amount minus level 2B cap excess amount minus 0.0526 (or 5/95, which is the ratio of the maximum allowable public sector entity security liquid assets to the level 1 liquid assets and other level 2 liquid assets) times the sum of (i) the level 1 liquid asset amount, (ii) the level 2A liquid asset amount, and (iii) the level 2B liquid asset amount minus the public sector entity security liquid asset amount; or (2) zero.

Under this proposed rule, the adjusted excess HQLA amount would equal the sum of the adjusted level 2 cap excess amount, the adjusted level 2B cap excess amount, and the adjusted public sector entity cap excess amount. The method of calculating the adjusted public sector entity security cap excess amount is set forth in § 249.21(k) of this proposed rule. Under this provision, the adjusted public sector entity security cap excess amount would be calculated as the greater of: (1) The adjusted public sector entity security liquid asset amount minus the adjusted level 2 cap excess amount minus the adjusted level 2B cap excess amount minus 0.0526 (or 5/95, which is the ratio of the maximum allowable adjusted public sector entity security liquid assets to the adjusted level 1 liquid assets and other adjusted level 2 liquid assets) times the sum of (i) the adjusted level 1 liquid asset amount, (ii) the adjusted level 2A liquid asset amount, and (iii) the adjusted level 2B liquid asset amount minus the adjusted public sector entity security liquid asset amount; or (2) zero.

3. *What additional or alternative limitations should the Board consider relating to the inclusion of individual and aggregate issuances of U.S. public sector entities as eligible HQLA and in a Board-regulated institution's HQLA amount? How else could the Board address concerns regarding*

concentrations and minimizing market price movements associated with sales of HQLA?

III. Plain Language

Section 722 of the Gramm-Leach Bliley Act (Pub L. 106–102, 113 Stat. 1338, 1471, 12 U.S.C. 4809) requires the Board to use plain language in all proposed and final rules published after January 1, 2000. The Board invites your comments on how to make this proposal easier to understand. For example:

- Has the Board organized the material to suit your needs? If not, how could this material be better organized?
- Are the requirements in the proposed rule clearly stated?
- If not, how could the proposed rule be more clearly stated?
- Does the proposed rule contain language or jargon that is not clear? If so, which language requires clarification?
- Would a different format (grouping and order of sections, use of headings, paragraphing) make the proposed rule easier to understand? If so, what changes to the format would make the proposed rule easier to understand?
- What else could the Board do to make the regulation easier to understand?

IV. Regulatory Flexibility Act

The Regulatory Flexibility Act¹⁸ (RFA), requires an agency to either provide an initial regulatory flexibility analysis with a proposed rule for which a general notice of proposed rulemaking is required or to certify that the proposed rule will not have a significant economic impact on a substantial number of small entities (defined for purposes of the RFA to include banks with assets less than or equal to \$550 million). In accordance with section 3(a) of the RFA, the Board is publishing an initial regulatory flexibility analysis with respect to this proposed rule. Based on its analysis and for the reasons stated below, the Board believes that this proposed rule will not have a significant economic impact on a substantial number of small entities. Nevertheless, the Board is publishing an initial regulatory flexibility analysis. A final regulatory flexibility analysis will be conducted after commenters received during the public comment period have been considered.

As discussed above, this proposed rule would amend the liquidity coverage ratio rule to include certain high-quality general obligation U.S. municipal securities as high-quality

¹⁶ See 12 CFR 249.21(g).

¹⁷ See 12 CFR 249.21(c) and (f).

¹⁸ 5 U.S.C. 601 *et seq.*

liquid assets for the purposes of the LCR.

Under regulations issued by the Small Business Administration, a "small entity" includes a depository institution, bank holding company, or savings and loan holding company with total assets of \$550 million or less (a small banking organization). As of December 31, 2014, there were approximately 664 small state member banks, 3,832 small bank holding companies, and 275 small savings and loan holding companies.

This proposed rule does not apply to "small entities" and would apply only to Board-regulated institutions subject to the LCR, which include: (1) Bank holding companies, certain savings and loan holding companies, and state member banks that, in each case, have \$250 billion or more in total consolidated assets or \$10 billion or more in on-balance sheet foreign exposure; (2) state member banks with \$10 billion or more in total consolidated assets that are consolidated subsidiaries of bank holding companies subject to the LCR; and (3) nonbank financial companies designated by the Financial Stability Oversight Council for Board supervision to which the Board has applied the LCR by rule or order. This proposed rule also would apply to bank holding companies and certain savings and loan holding companies with \$50 billion or more in total consolidated assets, which are subject to the modified minimum liquidity coverage ratio. Companies that are subject to this proposed rule therefore substantially exceed the \$550 million asset threshold at which a banking entity is considered a "small entity" under SBA regulations.

As noted above, because this proposed rule is not likely to apply to any company with assets of \$550 million or less, if adopted in final form, it is not expected to apply to any small entity for purposes of the RFA. The Board is aware of no other Federal rules that duplicate, overlap, or conflict with this proposed rule. In light of the foregoing, the Board does not believe that this proposed rule, if adopted in final form, would have a significant economic impact on a substantial number of small entities supervised and therefore believes that there are no significant alternatives to this proposed rule that would reduce the economic impact on small banking organizations supervised by the Board.

The Board welcomes comment on all aspects of its analysis. A final regulatory flexibility analysis will be conducted after consideration of comments received during the public comment period.

V. Paperwork Reduction Act

In accordance with the requirements of the Paperwork Reduction Act of 1995 (44 U.S.C. 3501–3521) (PRA), the Board may not conduct or sponsor, and a respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The Board reviewed this proposed rule and determined that it would not introduce any new collection of information pursuant to the PRA.

List of Subjects in 12 CFR Part 249

Administrative practice and procedure; Banks, banking; Federal Reserve System; Holding companies; Liquidity; Reporting and recordkeeping requirements.

Authority and Issuance

For the reasons stated in the Supplementary Information section, the Board proposes to amend part 249 of chapter II of title 12 of the Code of Federal Regulations as follows:

PART 249—LIQUIDITY RISK MEASUREMENT STANDARDS (REGULATION WW)

■ 1. The authority citation for part 249 continues to read as follows:

Authority: 12 U.S.C. 248(a), 321–338a, 481–486, 1467a(g)(1), 1818, 1828, 1831p–1, 1831o–1, 1844(b), 5365, 5366, 5368.

■ 2. Amend § 249.20, by redesignating paragraph (c)(2) as paragraph (c)(3) and adding new paragraph (c)(2) to read as follows:

§ 249.20 High-quality liquid asset criteria.

* * * * *
(c) * * *

(2) A general obligation security issued by, or guaranteed as to the timely payment of principal and interest by, a public sector entity where the security is:

(i) Investment grade under 12 CFR part 1 as of the calculation date;

(ii) Issued or guaranteed 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, as demonstrated by:

(A) The market price of the security or equivalent securities of the issuer declining by no more than 20 percent during a 30 calendar-day period of significant stress; or

(B) The market haircut demanded by counterparties to secured lending and secured funding transactions that are collateralized by the security or equivalent securities of the issuer increasing by no more than 20

percentage points during a 30 calendar-day period of significant stress; and

(iii) Not an obligation of a financial sector entity and not an obligation of a consolidated subsidiary of a financial sector entity.

* * * * *

■ 3. Amend § 249.21, by:

■ a. Adding paragraph (b)(4);

■ b. Removing the period at the end of paragraph (c)(2) and adding in its place a semicolon and the word "plus";

■ c. Adding paragraph (c)(3);

■ d. Redesignating paragraphs (f) through (j) and as paragraphs (g) through (j) respectively and adding new paragraph (f);

■ e. Adding paragraph (g)(4);

■ f. Removing the period at the end of paragraph (h)(2) and adding in its place a semicolon and the word "plus";

■ g. Adding paragraphs (h)(3); and (k);

The additions read as follows:

§ 249.21 High-quality liquid asset amount.

* * * * *

(b) * * *

(4) Public sector entity security liquid asset amount. The public sector entity security liquid asset amount equals 50 percent of the fair value of all general obligation securities issued by, or guaranteed as to the timely payment of principal and interest by, a public sector entity that are eligible HQLA.

(c) * * *

(3) The public sector entity security cap excess amount.

* * * * *

(f) *Calculation of the public sector entity security cap excess amount.* As of the calculation date, the public security entity security cap excess amount equals the greater of:

(1) The public sector entity security liquid asset amount minus the level 2 cap excess amount minus level 2B cap excess amount minus 0.0526 times the sum of:

(i) The level 1 liquid asset amount;

(ii) The level 2A liquid asset amount;

and
(iii) The level 2B liquid asset amount minus the public sector entity security liquid asset amount; or

(2) 0.

(g) * * *

(4) *Adjusted public sector entity security liquid asset amount.* A [BANK]'s adjusted public sector entity security liquid asset amount equals 50 percent of the fair value of all general obligation securities issued by, or guaranteed as to the timely payment of principal and interest by, a public sector entity that would be eligible HQLA and would be held by the [BANK] upon the unwind of any secured funding

transaction (other than a collateralized deposit), secured lending transaction, asset exchange, or collateralized derivatives transaction that matures within 30 calendar days of the calculation date where the [BANK] will provide an asset that is eligible HQLA and the counterparty will provide an asset that will be eligible HQLA.

(h) * * *

(3) The adjusted public sector entity security cap excess amount.

* * * * *

(k) *Calculation of the adjusted public sector entity security cap excess amount.* As of the calculation date, the adjusted public sector entity security cap excess amount equals the greater of:

(1) The adjusted public sector entity security liquid asset amount minus the adjusted level 2 cap excess amount minus the adjusted level 2B cap excess amount minus 0.0526 times the sum of:

(i) The adjusted level 1 liquid asset amount;

(ii) The adjusted level 2A liquid asset amount; and

(iii) The adjusted level 2B liquid asset amount minus the adjusted public sector entity security liquid asset amount; or

(2) 0.

■ 4. Amend § 249.22, by redesignating paragraph (c) as paragraph (d) and adding new paragraph (c) to read as follows:

§ 249.22 Requirements for eligible high-quality liquid assets.

* * * * *

(c) *Securities of public sector entities as eligible HQLA.* A Board-regulated institution may include as eligible HQLA a general obligation security issued by, or guaranteed as to the timely payment of principal and interest by, a public sector entity if each of the following is satisfied:

(1) The fair value of a single issuance of securities that are included as eligible HQLA by the Board-regulated institution is no greater than 25 percent of the total amount of outstanding securities with the same CUSIP number at the calculation date; and

(2) The fair value of the aggregate amount of securities of a single public sector entity issuer that are included as eligible HQLA by the Board-regulated institution is no greater than two times the average daily trading volume during the previous four quarters of all general obligation securities issued by that public sector entity.

* * * * *

By order of the Board of Governors of the Federal Reserve System, May 18, 2015.

Robert deV. Frierson,
Secretary of the Board.

[FR Doc. 2015-12850 Filed 5-27-15; 8:45 am]

BILLING CODE P

DEPARTMENT OF TRANSPORTATION

Federal Aviation Administration

14 CFR Part 33

[Docket No. FAA-2015-1771; Notice No. 33-15-01-SC]

Special Conditions: Pratt and Whitney Canada, PW210A; Flat 30-Second and 2-Minute One Engine Inoperative Rating

AGENCY: Federal Aviation Administration (FAA), DOT.

ACTION: Notice of proposed special conditions.

SUMMARY: This action proposes special conditions for the Pratt and Whitney Canada PW210A engine model. This engine will have a novel or unusual design feature—an additional one engine inoperative (OEI) rating that combines the 30-second and 2-minute OEI ratings into a single rating. The applicable airworthiness regulations do not contain adequate or appropriate safety standards for this design feature. These proposed special conditions contain the additional safety standards that the Administrator considers necessary to establish a level of safety equivalent to that established by the existing airworthiness standards.

DATES: Send your comments on or before June 8, 2015.

ADDRESSES: Send comments identified by docket number FAA-2015-1771 using any of the following methods:

- *Federal eRegulations Portal:* Go to <http://www.regulations.gov> and follow the online instructions for sending your comments electronically.

- *Mail:* Send comments to Docket Operations, M-30, U.S. Department of Transportation (DOT), 1200 New Jersey Avenue SE., Room W12-140, West Building Ground Floor, Washington, DC 20590-0001.

- *Hand Delivery or Courier:* Take comments to Docket Operations in Room W12-140 of the West Building Ground Floor at 1200 New Jersey Avenue SE., Washington, DC, between 8 a.m., and 5 p.m., Monday through Friday, except Federal holidays.

- *Fax:* Fax comments to Docket Operations at 202-493-2251.

Privacy: The FAA will post all comments it receives, without change,

to <http://regulations.gov>, including any personal information the commenter provides. Using the search function of the docket Web site, anyone can find and read the electronic form of all comments received into any FAA docket, including the name of the individual sending the comment (or signing the comment for an association, business, labor union, etc.). DOT's complete Privacy Act Statement can be found in the **Federal Register** published on April 11, 2000 (65 FR 19477-19478), as well as at <http://DocketsInfo.dot.gov>.

Docket: Background documents or comments received may be read at <http://www.regulations.gov> at any time. Follow the online instructions for accessing the docket or go to the Docket Operations in Room W12-140 of the West Building Ground Floor at 1200 New Jersey Avenue SE., Washington, DC, between 9 a.m., and 5 p.m., Monday through Friday, except Federal holidays.

FOR FURTHER INFORMATION CONTACT: For technical questions concerning this proposed rule, contact Tara Fitzgerald, ANE-111, Engine and Propeller Directorate, Aircraft Certification Service, 12 New England Executive Park, Burlington, Massachusetts 01803-5213; telephone (781) 238-7130; facsimile (781) 238-7199. For legal questions concerning this proposed rule, contact Vincent Bennett, ANE-7, Engine and Propeller Directorate, Aircraft Certification Service, 12 New England Executive Park, Burlington, Massachusetts 01803-5299; telephone (781) 238-7044; facsimile (781) 238-7055; email vincent.bennett@faa.gov.

SUPPLEMENTARY INFORMATION:

Comments Invited

We invite interested people to take part in this rulemaking by sending written comments, data, or views. The most helpful comments reference a specific portion of the special conditions, explain the reason for any recommended change, and include supporting data.

We will consider all comments received in the docket on or before the closing date for comments. We will consider comments filed late if it is possible to do so without incurring expense or delay. We may change these special conditions based on the comments we receive.

Background

On February 14, 2013, Pratt and Whitney Canada applied for an amendment to Type Certificate No. E00083EN-E to include the new PW210A engine model. The PW210A, which is a derivative of the PW210S