

Rules and Regulations

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DEPARTMENT OF THE TREASURY

Office of the Comptroller of the Currency

12 CFR Part 50

[Docket ID OCC-2018-0013]

RIN 1557-AE36

FEDERAL RESERVE SYSTEM

12 CFR Part 249

[Docket No. R-1616]

RIN 7100-AF10

FEDERAL DEPOSIT INSURANCE CORPORATION

12 CFR Part 329

RIN 3064-AE77

Liquidity Coverage Ratio Rule: Treatment of Certain Municipal Obligations as High-Quality Liquid Assets

AGENCY: Office of the Comptroller of the Currency (OCC), Treasury; Board of Governors of the Federal Reserve System (Board); and Federal Deposit Insurance Corporation (FDIC).

ACTION: Final rule.

SUMMARY: The OCC, the Board, and the FDIC (collectively, the agencies) are jointly adopting as a final rule, without change, the August 31, 2018, interim final rule, which amended the agencies' liquidity coverage ratio (LCR) rule to treat liquid and readily-marketable, investment grade municipal obligations as high-quality liquid assets. This treatment was mandated by section 403 of the Economic Growth, Regulatory Relief, and Consumer Protection Act.

DATES: The final rule is effective on July 5, 2019.

FOR FURTHER INFORMATION CONTACT:

OCC: Christopher McBride, Director, James Weinberger, Technical Expert, or Ang Middleton, Bank Examiner (Risk

Specialist), (202) 649-6360, Treasury & Market Risk Policy; David Stankiewicz, Special Counsel, Lee Walzer, Counsel, Henry Barkhausen, Counsel, or Daniel Perez, Senior Attorney, (202) 649-5490, Chief Counsel's Office; or for persons who are deaf or hearing-impaired, TTY, (202) 649-5597, Office of the Comptroller of the Currency, 400 7th Street SW, Washington, DC 20219.

Board: Constance Horsley, Deputy Associate Director, (202) 452-5239, Peter Clifford, Manager, (202) 785-6057, J. Kevin Littler, Lead Financial Institution Policy Analyst, (202) 475-6677, or Christopher Powell, Senior Financial Institution Policy Analyst, (202) 452-3442, Division of Banking Supervision and Regulation; Laurie Schaffer, Associate General Counsel, (202) 452-2272, Benjamin W. McDonough, Assistant General Counsel, (202) 452-2036, Steve Bowne, Counsel, (202) 452-3900, Laura Bain, Senior Attorney, (202) 736-5546, or Jeffery Zhang, Attorney, (202) 736-1968, Legal Division, Board of Governors of the Federal Reserve System, 20th and C Streets NW, Washington, DC 20551. For the hearing impaired only, Telecommunication Device for the Deaf (TDD), (202) 263-4869, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW, Washington, DC 20551.

FDIC: Bobby R. Bean, Associate Director, (202) 898-6705, Michael E. Spencer, Chief, (202) 898-7041, Eric W. Schatten, Senior Policy Analyst, (202) 898-7063, Andrew D. Carayannis, Senior Policy Analyst, (202) 898-6692, *CapitalMarkets@FDIC.gov*, Capital Markets Branch, Division of Risk Management Supervision; Suzanne J. Dawley, Counsel, (202) 898-6509, Gregory S. Feder, Counsel, (202) 898-8724, or Andrew B. Williams, II, Counsel, (202) 898-3591, Supervision and Corporate Operations Branch, Legal Division, Federal Deposit Insurance Corporation, 550 17th Street NW, Washington, DC 20429. For the hearing impaired only, Telecommunication Device for the Deaf (TDD), (800) 925-4618.

SUPPLEMENTARY INFORMATION:

I. Background

The Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Board), and the Federal Deposit Insurance

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Corporation (FDIC) (collectively, the agencies) adopted the liquidity coverage ratio (LCR) rule¹ in 2014. The LCR rule established a quantitative liquidity requirement that is designed to promote the short-term resilience of the liquidity risk profile of large and internationally active banking organizations. The intent of the agencies in issuing the LCR rule was to improve the U.S. banking sector's ability to absorb shocks arising from financial and economic stress and the measurement and management of liquidity risk.² The LCR rule generally applies to a bank holding company, savings and loan holding company, or depository institution if: (1) It has total consolidated assets equal to \$250 billion or more; (2) it has total consolidated on-balance sheet foreign exposure equal to \$10 billion or more; or (3) it is a depository institution with total consolidated assets equal to \$10 billion or more and is a consolidated subsidiary of a firm that is subject to the LCR rule (each, a covered company).³ Covered companies generally must maintain an amount of high-quality liquid assets (HQLA) equal to or greater than their projected total net cash outflows over a prospective 30 calendar-day period. The LCR rule defines three categories of HQLA—level 1, level 2A, and level 2B liquid assets—and sets forth qualifying criteria for HQLA and limitations for an asset's inclusion in a banking organization's HQLA amount.

In 2016, the Board amended its LCR rule to include certain U.S. municipal securities as HQLA, subject to certain

¹ 79 FR 61440 (Oct. 10, 2014), codified at 12 CFR part 50 (OCC), 12 CFR part 249 (Board), and 12 CFR part 329 (FDIC).

² *Id.*

³ See section 1 of the LCR rule. On December 21, 2018, the agencies invited comment on a proposed rule that would revise the framework for determining the applicability of the standardized liquidity requirements, including the LCR rule, for U.S. banking organizations. See Proposed Changes to Applicability Thresholds for Regulatory Capital and Liquidity Requirements, 83 FR 66024 (Dec. 21, 2018). On May 24, 2019, the agencies published for comment a proposed rule to apply standardized liquidity requirements to foreign banking organizations with respect to their combined U.S. operations. See Proposed Changes to Applicability Thresholds for Regulatory Capital Requirements for Certain U.S. Subsidiaries of Foreign Banking Organizations and Application of Liquidity Requirements for Foreign Banking Organizations, Certain U.S. Depository Institution Holding Companies, and Certain Depository Institution Subsidiaries, 84 FR 24296 (May 24, 2019). These proposed rulemakings, if adopted, would revise the scope of application of the LCR rule.

limitations (2016 Amendments).⁴ The 2016 Amendments permitted U.S. municipal securities to qualify as level 2B liquid assets if they were: (1) General obligation securities of public sector entities (that is, a state, local authority, or other governmental subdivision below the U.S. sovereign entity level);⁵ (2) investment grade under 12 CFR part 1 as of the calculation date; (3) 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; and (4) not be an obligation of a financial sector entity or a financial sector entity's consolidated subsidiary (unless only guaranteed by a financial sector entity or its consolidated subsidiary and otherwise eligible). The 2016 Amendments limited the inclusion of general obligation securities in the HQLA amount to 5 percent of the covered company's total HQLA amount. The 2016 Amendments also limited the inclusion of general obligation securities of any single public sector entity to two times the average daily trading volume during the previous four quarters of all general obligation securities issued by that public sector entity.

The Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) was enacted on May 24, 2018.⁶ Section 403 of the EGRRCPA amended section 18 of the Federal Deposit Insurance Act⁷ and requires the agencies—for purposes of the LCR rule and any other regulation that incorporates a definition of the term “high-quality liquid asset” or another substantially similar term—to treat a municipal obligation as HQLA that is a level 2B liquid asset if that obligation is, as of the calculation date, liquid and readily-marketable and investment grade. Section 403 defines “municipal obligation” as an obligation of a State or any political subdivision thereof; or any agency or instrumentality of a State or any political subdivision thereof. Section 403 defines “liquid and readily-marketable” as having the meaning given the term in 12 CFR 249.3 or any successor thereto. Section 403 defines “investment grade” as having the meaning given the term in 12 CFR 1.2 or any successor thereto.

⁴ 81 FR 21223 (Apr. 11, 2016).

⁵ The 2016 Amendments defined a general obligation as a bond or similar obligation that is backed by the full faith and credit of a public sector entity. 12 CFR 249.20(c)(2).

⁶ Public Law 115–174, 132 Stat. 1296–1368 (2018).

⁷ 12 U.S.C. 1828(aa).

II. Interim Final Rule

On August 31, 2018, the agencies published an interim final rule amending the agencies' LCR rule to implement section 403 of the EGRRCPA and soliciting public comment.⁸

The interim final rule added a definition to the agencies' rule for the term “municipal obligations,” which, consistent with the EGRRCPA, means an obligation of (1) a state or any political subdivision thereof or (2) any agency or instrumentality of a state or any political subdivision thereof. In addition, the interim final rule amended the HQLA criteria with respect to level 2B liquid assets by adding municipal obligations that, as of the LCR calculation date, are both liquid and readily-marketable and investment grade (under 12 CFR part 1)⁹ to the list of assets that are eligible for treatment as level 2B liquid assets.¹⁰

Consistent with section 403 of the EGRRCPA, the interim final rule also amended the definition of “liquid and readily-marketable” in the FDIC's and OCC's rules so that the term has the same meaning given to it under 12 CFR 249.3 of the Board's rule.¹¹

The interim final rule also rescinded the Board's 2016 Amendments so that municipal obligations under the Board's rule are treated consistently with section 403 of the EGRRCPA.

III. Comments Received

The agencies received nine comment letters addressing the interim final rule, including letters from trade associations, private sector enterprises, and one individual. Commenters generally expressed support for the inclusion of certain municipal obligations as HQLA and the agencies' implementation of section 403 of the EGRRCPA through the interim final rule. Many commenters asserted that municipal obligations were a suitable asset class for HQLA eligibility, with qualities consistent with other level 2B

⁸ 83 FR 44451 (Aug. 31, 2018).

⁹ The OCC's definition of “investment grade” under 12 CFR 1.2 provides that “[i]nvestment grade means the issuer of a security has an adequate capacity to meet financial commitments under the security for the projected life of the asset or exposure. An issuer has an adequate capacity to meet financial commitments if the risk of default by the obligor is low and the full and timely repayment of principal and interest is expected.” 12 CFR 1.2.

¹⁰ 12 CFR 50.20 (OCC); 12 CFR 249.20 (Board); 12 CFR 329.20 (FDIC).

¹¹ Under the Board's rule, a liquid and readily-marketable security is a security that is traded in an active secondary market with: (1) More than two committed market makers; (2) a large number of non-market maker participants on both the buying and selling sides of transactions; (3) timely and observable market prices; and (4) a high trading volume. 12 CFR 249.3.

liquid assets, and that the interim final rule effectively satisfied the underlying intent of section 403 of the EGRRCPA. Some commenters suggested additional changes to the LCR rule for the agencies' consideration, including changes that were not addressed or affected by section 403 of the EGRRCPA.

Comments Regarding Eligibility and Treatment of Municipal Obligations as HQLA

Some commenters requested that the agencies treat municipal obligations in the same manner as other asset types includable as HQLA, without imposing additional limitations, such as those in the Board's 2016 Amendments.¹²

Other commenters argued that municipal obligations should not be subject to certain requirements and limitations applicable to HQLA, such as the haircuts and composition limits generally applicable to level 2B liquid assets.¹³ Alternatively, commenters argued that these requirements should be liberalized with respect to municipal obligations. Another commenter recommended that the definition of liquid and readily-marketable should be revised, because it would exclude from HQLA certain municipal obligation securities with a liquidity risk profile similar to other assets that currently qualify as level 2B liquid assets.

Section 403 requires the agencies to treat a municipal obligation as a level 2B liquid asset if the obligation, as of the calculation date, is liquid and readily-marketable and investment grade. The interim final rule implemented section 403, imposing only those restrictions on municipal obligations that also apply to other level 2B liquid assets.¹⁴ In addition, the interim final rule defined “liquid and readily-marketable” as having the meaning given the term in 12 CFR 249.3, as specifically mandated by section 403. Accordingly, the agencies believe that it would not be appropriate to make changes to the restrictions applicable to municipal obligations as level 2B liquid assets or the definition of “liquid and readily-marketable” in this final rule.

¹² For example, the 2016 Amendments limited the inclusion of municipal obligations in a Board-supervised institution's HQLA amount to 5 percent of the institution's total HQLA amount and limited the inclusion as eligible HQLA of municipal obligations of any single issuer to two times the average daily trading volume of all general obligation securities of the issuer over the previous four quarters.

¹³ See 12 CFR 50.21 (OCC), 12 CFR 249.21 (Board), and 12 CFR 329.21 (FDIC).

¹⁴ As part of the interim final rule, the Board rescinded the 2016 Amendments.

Comments Regarding Broader Changes to the LCR Rule

Several commenters, while supportive of the interim final rule, requested broad changes to the LCR rule beyond the treatment of municipal obligations as HQLA. For example, certain commenters argued that the agencies should tailor the application of the LCR rule based on the risk profile, operations, and complexity of the banking organization. These commenters argued that the current applicability thresholds are outdated and overly reliant on fixed asset thresholds. These commenters also urged the agencies to eliminate the \$10 billion foreign exposure threshold as an interim measure.

One commenter recommended that the agencies revise the scope of assets recognized as HQLA. The commenter also requested that the agencies review the LCR rule's inflow and outflow assumptions, including its stability assumptions. This commenter also recommended revising the LCR rule to better reflect market realities, including by revising maturity assumptions, the treatment of retail trusts, and the definition of operational deposits. This commenter also recommended that the agencies either "remove or increase the lag time" associated with LCR disclosures.

The agencies are not adopting these broader proposed changes in this final rule.¹⁵ The interim final rule was issued to implement section 403 of the EGRRCPA, and broader revisions to the LCR rule fall outside of the scope of the changes that the agencies sought comment on in the interim final rule.

IV. Description of the Final Rule

For the reasons described above, the agencies are adopting the interim final rule as final without change.

The interim final rule's changes to the LCR rule provided covered companies greater flexibility in meeting the LCR rule's minimum requirements by expanding the types of assets that are eligible as HQLA. For FDIC- and OCC-regulated institutions, the interim final rule's changes marked the first time that such institution could treat any municipal obligations as HQLA. For Board-regulated institutions, those changes broadened the types of municipal obligations that could be included as HQLA. In particular, because the Board rescinded the 2016 Amendments as part of the interim final

rule, municipal obligations were no longer required to be general obligation securities and, as a result, many issuances of revenue bonds could qualify as municipal obligations. In adopting the interim final rule as final without change, the final rule does not impact the changes described above.

This final rule does not otherwise affect which assets can count as HQLA under the LCR rule.

V. Regulatory Analysis

A. Administrative Procedure Act and Effective Date

The Administrative Procedure Act (APA) generally requires that a final rule be published in the **Federal Register** no less than 30 days before its effective date.¹⁶ Therefore, the final rule will become effective on July 5, 2019. The interim final rule will remain in effect until the final rule becomes effective.

B. Riegle Community Development and Regulatory Improvement Act

Pursuant to section 302(a) of the Riegle Community Development and Regulatory Improvement Act (RCDRIA),¹⁷ in determining the effective date and administrative compliance requirements for a new regulation that imposes additional reporting, disclosure, or other requirements on insured depository institutions (IDIs), each federal banking agency must consider any administrative burdens that such regulation would place on depository institutions and the benefits of such regulation. In addition, section 302(b) of the RCDRIA¹⁸ requires such new regulation to take effect on the first day of a calendar quarter that begins on or after the date on which the regulations are published in final form, with certain exceptions, including for good cause. The RCDRIA does not apply to the final rule because the rule does not impose any additional reporting, disclosures, or other new requirements on IDIs.

C. Regulatory Flexibility Act

The Regulatory Flexibility Act (RFA) does not apply to a rulemaking when a general notice of proposed rulemaking is not required.¹⁹ Because the agencies previously determined that it was unnecessary to publish a general notice of proposed rulemaking for the interim final rule, the RFA's requirements relating to an initial and final regulatory flexibility analysis do not apply to this final rule. Nonetheless, the agencies

believe that, because size thresholds for covered companies under the final rule exceed the size limits of "small entities" as defined in section 601(6) of the RFA, small entities are not affected by the final rule.²⁰ Thus, the final rule does not have a significant economic impact on a substantial number of small entities.

D. Paperwork Reduction Act of 1995

The Paperwork Reduction Act of 1995²¹ states that no agency may conduct or sponsor, nor is the respondent required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The agencies have determined that this final rule does not create any new, or revise any existing, collections of information pursuant to the Paperwork Reduction Act and, therefore, no information collection request submission needs to be made to the OMB.

E. Use of Plain Language

Section 722 of the Gramm-Leach Bliley Act²² requires the agencies to use plain language in all proposed and final rules published after January 1, 2000. Having received no comments with respect to making the interim final rule easier to understand, the agencies are adopting the final rule without change.

F. Unfunded Mandates Reform Act of 1995

Consistent with section 202 of the Unfunded Mandates Reform Act of 1995 (Unfunded Mandates Act),²³ the OCC prepares an impact statement before promulgating any final rule for which a general notice of proposed rulemaking was published. Because the OCC did not publish a general notice of proposed rulemaking for the reasons described above in paragraph A of this section, the OCC has not prepared an impact statement for the final rule under the Unfunded Mandates Act.

List of Subjects

12 CFR Part 50

Administrative practice and procedure, Banks, Banking, Liquidity, Reporting and recordkeeping requirements, Savings associations.

¹⁵ The agencies have proposed revisions to the LCR rule in separate rulemakings that would address certain comments regarding the scope and applicability thresholds. *See supra* n. 3.

¹⁶ 5 U.S.C. 553(d).

¹⁷ 12 U.S.C. 4802(a).

¹⁸ 12 U.S.C. 4802(b).

¹⁹ 5 U.S.C. 603, 604.

²⁰ 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 and trust companies with total assets of \$38.5 million or less.

²¹ 44 U.S.C. 3501–3521.

²² Public Law 106–102, section 722, 113 Stat.

1338, 1471 (1999).

²³ 2 U.S.C. 1532.

12 CFR Part 249

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

12 CFR Part 329

Administrative practice and procedure, Banks, Banking, Federal Deposit Insurance Corporation, Reporting and recordkeeping requirements.

DEPARTMENT OF THE TREASURY**Office of the Comptroller of the Currency****12 CFR Chapter I****PART 50—LIQUIDITY RISK MEASUREMENT STANDARDS**

■ The interim final rule amending 12 CFR part 50 of chapter I, title 12 of the Code of Federal Regulations, which was published at 83 FR 44451 on August 31, 2018, is adopted as a final rule without change.

Federal Reserve System**12 CFR Chapter II****PART 249—LIQUIDITY RISK MEASUREMENT STANDARDS (REGULATION WW)**

■ The interim final rule amending 12 CFR part 249 of chapter II, title 12 of the Code of Federal Regulations, which was published at 83 FR 44451 on August 31, 2018, is adopted as a final rule without change.

Federal Deposit Insurance Corporation**12 CFR Chapter III****PART 329—LIQUIDITY RISK STANDARDS**

■ The interim final rule amending 12 CFR part 329 of chapter III, title 12 of the Code of Federal Regulations, which was published at 83 FR 44451 on August 31, 2018, is adopted as a final rule without change.

Dated: May 20, 2019.

Joseph M. Otting,

Comptroller of the Currency.

By order of the Board of Governors of the Federal Reserve System, May 28, 2019.

Ann E. Misback,

Secretary of the Board.

Federal Deposit Insurance Corporation.

By order of the Board of Directors.

Dated at Washington, DC, on May 28, 2019.

Valerie J. Best,

Assistant Executive Secretary.

[FR Doc. 2019-11715 Filed 6-4-19; 8:45 am]

BILLING CODE 4810-33-P; 6210-01-P; 6714-01-P

DEPARTMENT OF TRANSPORTATION**Federal Aviation Administration****14 CFR Part 25**

[Docket No. FAA-2019-0152; Special Conditions No. 25-744A-SC]

Special Conditions: Greenpoint Technologies, Inc., Boeing Model 787-8 Airplane; Dynamic Test Requirements for Single-Occupant, Side-Facing Seats With Airbag Devices in Shoulder Belts

AGENCY: Federal Aviation Administration (FAA), DOT.

ACTION: Final special conditions; request for comments.

SUMMARY: These amended special conditions are issued for the Boeing Model 787-8 airplane. This amendment removes reference to leg-flail airbags and adds reference to leg-flail devices installed on side-facing seats. This airplane, as modified by Greenpoint Technologies, Inc. (Greenpoint), will have a novel or unusual design feature when compared to the state of technology envisioned in the airworthiness standards for transport category airplanes. This design feature is single-occupant, side-facing seats with airbag devices in shoulder belts, and a floor-level, leg-flail-prevention device to limit the axial rotation of the upper leg. The applicable airworthiness regulations do not contain adequate or appropriate safety standards for this design feature. These 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: This action is effective on Greenpoint Technologies, Inc. on June 5, 2019. Send comments on or before July 22, 2019.

ADDRESSES: Send comments identified by Docket No. FAA-2019-0152 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 9 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://www.regulations.gov/>, including any personal information the commenter provides. Using the search function of the docket website, 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).

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 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:

Shannon Lennon, Airframe & Cabin Safety Section, AIR-675, Transport Standards Branch, Policy and Innovation Division, Aircraft Certification Service, Federal Aviation Administration, 2200 South 216th Street, Des Moines, Washington 98198; telephone and fax 206-231-3209; email shannon.lennon@faa.gov.

SUPPLEMENTARY INFORMATION: The FAA has determined that notice of, and opportunity for prior public comment on, these special conditions is impracticable because the substance of these special conditions has been published in the **Federal Register** for public comment in several prior instances with no substantive comments received. The FAA therefore finds it unnecessary to delay the effective date and finds that good cause exists for making these special conditions effective upon publication in the **Federal Register**.

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