

Örebro, 24 September 2014

## **Kommuninvest and the US regulation regarding Liquidity Coverage Ratio**

### Background

On September 3, 2014, the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency issued its final draft regarding the Liquidity Coverage Ratio requirement.

### Eligible securities

Securities carrying a sovereign guarantee are eligible as High Quality Liquid Assets (HQLA) at Level 1. Municipal securities will not currently count toward HQLA, but regulators are planning to issue a new proposal that would allow certain highly liquid muni securities to be treated as HQLA, probably at Level 2b.

### Kommuninvest position

**Kommuninvest believes there are valid arguments to include Kommuninvest securities as High Quality Liquid Assets (HQLA) at Level 1:**

- Kommuninvest is a public sector institution whose mandate is to provide Swedish local governments with cost-efficient and stable funding. Kommuninvest is a not-for-profit initiative, and its lending is exclusively to Swedish local government sector entities.
- Kommuninvest bonds are 0 % risk-weighted according to the Basel III framework and carry a AAA/Aaa rating. During stressed market conditions, Kommuninvest obligations have a proven record as a reliable source of liquidity.
- Kommuninvest bonds are explicitly guaranteed by the members of the Kommuninvest Cooperative Society, which totalled 272 municipalities and 8 county councils on 15 September, 2014. Local governments in Sweden are by law entitled to levy tax to meet their commitments. No Swedish local government has ever defaulted on a payment commitment nor can they be declared bankrupt; Swedish local governments can only cease to exist through merging. Kommuninvest has never recorded a loss in its lending to Swedish local governments.
- In Sweden, Kommuninvest is a Level 1 asset for LCR purposes. No haircuts apply and no cap on proportion in overall liquidity buffer. Effective from 1 January 2013.

**Kommuninvest i Sverige AB (publ)**. Corporate identity number: 556281-4409. Registered office: Örebro

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- In the European Union, Kommuninvest is an expected Level 1 asset. According to an EU Commission draft, Kommuninvest securities are to be classified as a Level 1 instrument (decision expected October 2014).
- Kommuninvest's mandate as the Swedish Local Government Debt Office, its 0 % risk-weighting and the explicit guarantee from local government sector owners with tax-levying authority, makes it the closest proxy to Swedish sovereign risk.
- In particular, Kommuninvest believes its benchmark bonds issued in USD under its Euro Medium Term Note programme qualify as liquid and readily-marketable instruments in the US market. As of 15 September, 2014, there were seven (7) bonds outstanding, for a total outstanding amount of USD 9.6 billion and in maturities ranging from 2015 to 2017.
- Kommuninvest bonds are accepted by US banks for repo transactions and accepted as collateral by the Federal Reserve.

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*Swedish Local Government Debt Office*

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