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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.

Kommuninvest position

Kommuninvest securities should be regarded as High Quality Liquid Assets (HQLA) at Level 1 based on:

- Kommuninvest bonds are explicitly guaranteed by the members of the Kommuninvest Cooperative Society, which totaled 280 municipalities and 14 county councils on May 26 2023. Local governments in Sweden levy tax to meet their commitments. No Swedish local government has ever defaulted on a payment, nor can they be declared bankrupt; Swedish local governments can only cease to exist through merging. Consequently, Kommuninvest has never had a credit loss in its lending.
- Kommuninvest is a public sector institution and lending is only permitted to Swedish local government sector entities. Kommuninvest is a not-for-profit cooperation.
- Bonds issued by Kommuninvest are 0 % risk-weighted according to the Basel III regulations and carries AAA/Aaa rating. During stressed market conditions, Kommuninvest bonds have a proven record as a reliable source of liquidity.
- In Sweden, Kommuninvest is a Level 1 asset for LCR purposes. No haircuts apply and no cap in overall liquidity buffer.

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Kommuninvest Cooperative Society. Corporate identity number: 716453-2074. Registered office: Örebro

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- In the European Union, Kommuninvest is an expected Level 1 asset. According to Commission Delegated Regulation (EU) 2015/61 Kommuninvest securities are classified as Level 1.
- Kommuninvest's mandate as the Swedish Local Government Debt Office, its 0 % risk-weighting and the explicit guarantee from tax-levying local governments, makes it a proxy to Swedish sovereign risk.
- Kommuninvest opinion is that benchmark bonds, issued in USD or EUR under its Euro Medium Term Note programme, qualify as liquid and readily marketable instruments in the US market. As of May 26, 2023, there were fourteen (14) bonds outstanding, with a total outstanding notional amount of USD 14,75 billion and in maturities ranging from 2024 to 2025.
- Kommuninvest bonds has been accepted by US banks for repo transactions and also accepted as collateral by the Federal Reserve. It is Kommuninvest's assessment that they will continue to be accepted in the foreseeable future.

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