

FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS 75222

Circular No. 70-154
June 29, 1970

SUBORDINATED NOTES AND DEBENTURES
(Amendments to Regulations D and Q)

To All Member Banks
in the Eleventh Federal Reserve District:

The following is a press statement issued by the Board of Governors of the Federal Reserve System on June 29, 1970, concerning amendments to Regulations D and Q:

"The Board of Governors of the Federal Reserve System today announced new conditions that must be met for a subordinated note or debenture issued by a member bank to be exempt from interest rate controls (Regulation Q) and reserve requirements (Regulation D).

"The new conditions, to become effective tomorrow (Tuesday, June 30), are designed to distinguish clearly between capital-type funds and deposit-type funds.

"Under the basic rule for new issues, in order for a subordinated note to be exempt from Regulations Q and D it must have an original maturity of 7 years or more and be in an amount of at least \$500. Certain statements, designed to assure that an investor in such notes understands the nature of his investment, must be included in each note. The issuance of the notes must be approved by the bank's primary Federal bank supervisor.

"In exigent circumstances, the primary bank supervisor may permit the issuance of nondeposit subordinated notes with a maturity of less than 7 years.

"Formerly, the exemption from the regulations for subordinated notes applied if the maturity of the obligation was more than 2 years. The changes became necessary in view of recent evidence that member banks were able to market exempt obligations to acquire deposit-type funds.

"Proposed changes in the Board's rules regarding subordinated notes were announced on March 2.

"These changes in the Board's regulations were adopted following extensive consideration by the Interagency Co-

ordinating Committee--the Comptroller of the Currency, the Chairman of the Federal Deposit Insurance Corporation, the Chairman of the Federal Home Loan Bank Board, and the Vice Chairman of the Board of Governors."

Copies of the amendments will be forwarded as soon as available.

Yours very truly,

P. E. Coldwell

President