



FEDERAL RESERVE BANK
OF DALLAS

DALLAS, TEXAS
75265-5906

February 28, 2001

Notice 01-21

TO: The Chief Executive Officer of each
financial institution and others concerned
in the Eleventh Federal Reserve District

SUBJECT

**Report on Feasibility of
Mandatory Subordinated Debt**

DETAILS

The Board of Governors of the Federal Reserve System and the Secretary of the Treasury have released a report on the feasibility of mandating the issuance of subordinated debt. The joint report, dated December 2000, found that subordinated debt issuance by large depository institution organizations may encourage market discipline and generate other supervisory benefits. The report also indicated that the Board and the Treasury's Office of the Comptroller of the Currency and Office of Thrift Supervision will consider ways to enhance their use of voluntarily issued subordinated debt in supervisory monitoring. The Board and the Secretary, however, chose not to recommend that Congress make subordinated debt issuance mandatory at this time.

The report to Congress, required by the Gramm-Leach-Bliley Act, called for continued research and, most importantly, continued evaluation of financial institution supervisors' experience in using information derived from voluntarily issued subordinated debt. Most of the largest banking organizations already issue subordinated debt. The agencies monitor subordinated debt yields and issuance patterns in evaluating the condition of large depository institution organizations.

The study found that existing evidence supports the use of subordinated debt to encourage market discipline. However, it said that the net benefits of a mandatory policy are not

clear enough to justify such a policy. If additional evidence suggests that requiring institutions to issue subordinated debt is appropriate, either the Board or the Secretary may recommend legislation.

A copy of the report is available on the Board's web site at <http://www.federalreserve.gov/boarddocs/RptCongress/>.

MORE INFORMATION

For more information, please contact Dorsey Davis, Banking Supervision Department, at (214) 922-6051. For additional copies of this Bank's notice, contact the Public Affairs Department at (214) 922-5254 or access District Notices on our web site at <http://www.dallasfed.org/banking/notices/index.html>.