

Suggested Format of Comments

In order to assist the Board and the Secretary in preparing the subordinated debt study, the two agencies have determined to invite interested parties to submit comments and information that would inform the study. Comment is invited on all of the issues under study and identified below as well as on other issues related to the study that have not been included below.

I. Objectives of a Mandatory Subordinated Debt Requirement

Several changes in the banking industry⁴ have complicated the supervision of large banking organizations. These changes include the removal of barriers to interstate banking, the blurring of traditional boundaries between banking and other types of financial services, and the consolidation of bank and nonbank activities in very large organizations. Large banks use highly complex methods for taking, measuring, and controlling risks. This greatly increases the challenge that regulators have in evaluating bank performance and ensuring safety and soundness.

Proponents of a requirement for large banking organizations to issue subordinated debt (SD) argue that it would enhance market discipline exerted on banks, and thus help to promote safety and soundness. A mandatory SD policy could provide direct discipline through changes in a bank's cost of issuing SD. An SD requirement could also enhance indirect discipline, as private market participants and government supervisors evaluate bank risk by monitoring SD secondary market prices. Expectations of higher SD interest costs and the potential imposition of other market or regulatory penalties would provide a bank with incentives to manage risk-taking more effectively.

Some proponents of an SD requirement emphasize its potential in limiting supervisory forbearance towards troubled institutions, while others argue that it would serve the objective of improving transparency and disclosure as SD holders and other market participants demand sufficient information to assess the bank's financial condition.

Finally, an SD requirement is often viewed as a means to increase the protection of the deposit insurance funds, since SD could provide the FDIC an extra buffer to absorb losses in the event of bank failure.

II. Is a Mandatory SD Requirement on Large Banking Organizations Feasible and Appropriate?

Current Market: An understanding of the current market for banking organization SD is necessary to evaluate the feasibility of instituting an SD requirement. Important features of the current market to consider include: Its liquidity; the typical size and frequency of debt issuance; fixed and variable issuance costs; the degree of homogeneity of the debt instruments; the quality of price and volume data; and the size and other characteristics of the issuing organizations. It is also important to assess the effectiveness of the current SD market with respect to: creating market discipline; protecting the FDIC; and providing useful information to government supervisors.

Benefits of Mandatory SD: Proponents of a mandatory SD policy argue that, if structured in certain ways, the policy would provide greater market discipline than that provided by the existing SD market. Some also have argued that: SD compares favorably to other debt instruments and to equity in providing accurate and timely signals about bank risk; mandatory SD could improve bank supervision; and mandatory SD would provide additional protection from losses to the deposit insurance funds.

Costs and Risks of Mandatory SD: Critics of mandatory SD argue that such a requirement may impose additional costs on banking organizations, including the greater underwriting and related costs arising from required periodic issuance. A mandatory policy may alter market liquidity in ways that raise banks' funding costs. There are concerns that a mandatory SD policy might lead to a substitution of debt for equity. Some have cautioned about risks to economic stability, including the possibility that such a policy could exacerbate a business cycle downturn. These critics also say that SD may not be necessary because the deposit insurance reforms enacted early in the 1990s may provide a sufficient amount of market discipline in a downturn. Furthermore, an SD policy structured in certain ways (e.g., capping spreads on the debt or requiring put options) could unduly constrict supervisory flexibility and destabilize financial institutions or debt markets.

III. If an SD Requirement Is Feasible and Appropriate, How Should It Be Structured and to Which Organizations Should It Apply?

Most mandatory SD proposals have called for debt to be issued at the bank level, while the existing market for the

publicly traded SD of large banking organizations is primarily at the holding company level. The minimum institution size to which an SD requirement would apply, the amount of SD required, the minimum frequency of issuance and maturity, and other features of the debt all would affect the degree to which the policy meets its desired objectives while avoiding undue costs and risks.

IV. If an SD Requirement is Feasible and Appropriate, How Should It Be Incorporated Into Existing Capital Standards and Supervisory Policies?

Some mandatory SD proposals would allow SD to count towards existing capital requirements while others call for SD over and above capital levels currently required. Application of mandatory SD only to U.S. banks could have implications for international competitiveness. Some argue that using interest rate spreads or SD as supervisory triggers (e.g., in prompt corrective action and in setting risk-based deposit insurance premiums) would be critical to its effectiveness, while others argue that the augmented market discipline and additional information it would provide to supervisors would be worthwhile on their own.

V. If an SD Requirement Is Feasible and Appropriate, What Are the Transition Issues?

Imposing an SD requirement would raise various transition issues, including the treatment of existing SD outstanding (e.g., grandfathering) and the length of a transition period to full implementation of the requirement.

Dated: February 25, 2000.

Gregory A. Baer,

*Assistant Secretary for Financial Institutions,
Department of the Treasury.*

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DEPARTMENT OF THE TREASURY

Fiscal Service

Financial Management Service; Proposed Collection of Information: Application of Undertaker for Payment of Funeral Expenses From Funds to the Credit of a Deceased Depositor

AGENCY: Financial Management Service, Fiscal Service, Treasury.

ACTION: Notice and request for comments.

SUMMARY: The Financial Management Service, as part of its continuing effort

⁴ This and subsequent references to the banking industry refer to both commercial banks and savings institutions.

to reduce paperwork and respondent burden, invites the general public and other Federal agencies to take this opportunity to comment on a continuing information collection. By this notice, the Financial Management Service solicits comments concerning the POD Form 1672 "Application of Undertaker for Payment of Funeral Expenses From Funds to the Credit of a Deceased Depositor".

DATES: Written comments should be received on or before May 9, 2000.

ADDRESSES: Direct all written comments to Financial Management Service, 3700 East West Highway, Programs Branch, Room 144, Hyattsville, Maryland 20782.

FOR FURTHER INFORMATION CONTACT: Requests for additional information or copies of the form(s) and instructions should be directed to Robert Spiegel, Manager, Judgment Fund Branch, Room 6D39, 3700 East West Highway, Hyattsville, Maryland 20872, (202) 874-8664.

SUPPLEMENTARY INFORMATION: Pursuant to the Paperwork Reduction Act of 1995, (44 U.S.C. 3506(c)(2)(A)), the Financial Management Service solicits comments on the collection of information described below.

Title: Application of Undertaker for Payment of Funeral Expenses From Funds to the Credit of a Deceased Depositor.

OMB Number: 1510-0033.

Form Number: POD 1672.

Abstract: This form is used by the undertaker to apply for payment of a postal savings account of a deceased depositor to apply for funeral expenses. This form is supported by a certificate from a relative (POD 1690) and an itemized funeral bill. Payment is made to the funeral home.

Current Actions: Extension of currently approved collection.

Type of Review: Regular.

Affected Public: Individuals or households.

Estimated Number of Respondents: 15.

Estimated Time Per Respondent: 30 minutes.

Estimated Total Annual Burden Hours: 8.

Comments: Comments submitted in response to this notice will be summarized and/or included in the request for Office of Management and Budget approval. All comments will become a matter of public record. Comments are invited on: (a) Whether the collection of information is necessary for the proper performance of the functions of the agency, including whether the information shall have practical utility; (b) the accuracy of the

agency's estimate of the burden of the collection of information; (c) ways to enhance the quality, utility, and clarity of the information to be collected; (d) ways to minimize the burden of the collection of information on respondents, including through the use of automated collection techniques or other forms of information technology; and (e) estimates of capital or start-up costs and costs of operation, maintenance and purchase of services to provide information.

Judith R. Tillman,

Assistant Commissioner, Financial Operations.

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DEPARTMENT OF THE TREASURY

Internal Revenue Service

Proposed Collection; Comment Request for Form 851

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice and request for comments.

SUMMARY: The Department of the Treasury, as part of its continuing effort to reduce paperwork and respondent burden, invites the general public and other Federal agencies to take this opportunity to comment on proposed and/or continuing information collections, as required by the Paperwork Reduction Act of 1995, Public Law 104-13 (44 U.S.C. 3506(c)(2)(A)). Currently, the IRS is soliciting comments concerning Form 851, Affiliations Schedule.

DATES: Written comments should be received on or before May 9, 2000, to be assured of consideration.

ADDRESSES: Direct all written comments to Garrick R. Shear, Internal Revenue Service, room 5244, 1111 Constitution Avenue NW., Washington, DC 20224.

FOR FURTHER INFORMATION CONTACT: Requests for additional information or copies of the form and instructions should be directed to Faye Bruce, (202) 622-6665, Internal Revenue Service, room 5244, 1111 Constitution Avenue NW., Washington, DC 20224.

SUPPLEMENTARY INFORMATION:

Title: Affiliations Schedule.

OMB Number: 1545-0025.

Form Number: 851.

Abstract: Form 851 is filed by the parent corporation for an affiliated group of corporations that files a consolidated return (Form 1120). Form 851 provides IRS with information on

the names and identification numbers of the members of the affiliated group, the taxes paid by each member of the group, and stock ownership, changes in stock ownership and other information to determine that each corporation is a qualified member of the affiliated group as defined in Internal revenue Code section 1504.

Current Actions: There are no changes being made to Form 851 at this time.

Type of Review: Extension of a currently approved collection.

Affected Public: Businesses or other for-profit organizations and farms.

Estimated Number of Responses: 4,000.

Estimated Time Per Response: 12 hrs., 5 min.

Estimated Total Annual Burden Hours: 48,360.

The following paragraph applies to all of the collections of information covered by this notice:

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid OMB control number. Books or records relating to a collection of information must be retained as long as their contents may become material in the administration of any internal revenue law. Generally, tax returns and tax return information are confidential, as required by 26 U.S.C. 6103.

REQUEST FOR COMMENTS: Comments submitted in response to this notice will be summarized and/or included in the request for OMB approval. All comments will become a matter of public record. Comments are invited on: (a) Whether the collection of information is necessary for the proper performance of the functions of the agency, including whether the information shall have practical utility; (b) the accuracy of the agency's estimate of the burden of the collection of information; (c) ways to enhance the quality, utility, and clarity of the information to be collected; (d) ways to minimize the burden of the collection of information on respondents, including through the use of automated collection techniques or other forms of information technology; and (e) estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information.

Approved: March 3, 2000.

Garrick R. Shear,

IRS Reports Clearance Officer.

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