This paper attempts to analyze bank subordinated debt (i.e. subordinated debt issued by the banks) from the perspective of its ability to increase market discipline in banking. Doing so, we departure from the prevailing literature in this field in two regards. First, we focus on the European banking sector while majority of the research has been devoted to the US banking. Second, the paper concentrates more on direct market discipline (market control of banks' risk-taking) whereas majority of the current research deals with indirect market discipline (market signalling of bank's financial situation). We empirically test wheather the large European banks were subject to direct market discipline during the period 2001-2006. In the final part, we discuss a proposal designed to increase direct market discipline in Europe and possible costs of this policy.