FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 69-181
July 23, 1969

To the President of Each State Member Bank
in the Eleventh Federal Reserve District:

Attached for your information and guidance is a copy of a letter from Vice Chairman J. L. Robertson of the Board of Governors of the Federal Reserve System to the President of each State member bank concerning revisions in the structure of bank statements of income to be included in stockholder reports submitted in accordance with the provisions of Regulation F of the Federal Reserve System.

Yours very truly,

P. E. Coldwell

President

Enclosure (1)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

OFFICE OF THE VICE CHAIRMAN

July 18, 1969.

TO THE PRESIDENT OF EACH STATE MEMBER BANK

One of the principal supervisory goals in the continuing program to improve bank accounting practices has been the development of reasonably uniform and informative bank financial reports. After extensive joint-agency staff discussions and a series of consultations with representative committees of industry, professional accountants, and the staff of the Securities and Exchange Commission, the Federal bank supervisory agencies announce the following revisions to the structure of bank statements of income to be included in stockholder reports in accordance with Part 18 of the Comptroller of the Currency regulations, Regulation F of the Federal Reserve Board and Part 335 of the Federal Deposit Insurance Corporation regulations.

1. Recognition of a loan loss factor in the operating expenses of banks. Any provision for loan losses not allocable against current operations shall be charged directly to the undivided profits account.

2. Inclusion of results of investment security transactions as realized in the report of income.

3. Designation of the last line in the statement of income as "net income."

Regulatory instruction for the allocation of loan losses to operating expense will include:

(a) Minimum charge equivalent to the five-year average ratio of losses computed on the basis of net charge-offs to total loans.

(b) An added amount based on management's judgment shall be permitted. Adequate disclosure of such discretionary action to be furnished in a referenced footnote.

(c) If the bank is on a charge-off basis of recognizing loan losses, the amount of actual charge-offs shall be reported against operating income.

Conforming to established bank accounting practice and in accordance with generally accepted accounting principles, gains and losses on investment securities shall be reported following the computation of operating income. Net security gains and losses shall be reflected in income in the period such results are realized and recorded in the accounts.

To visualize the effect of the revisions discussed herein and to assist your staff in their study of the matter, there is enclosed an illustrative financial statement presentation.

The above income report revisions shall be incorporated in published bank reports for the year 1969. The statement of condition as revised in the supervisory call of April 1969, has not been changed. Amendments to applicable regulations including the Report of Income and Dividends, will be forthcoming within the next few months.

Sincerely,

J. L. Robertson

Enclosures

Statement of Changes in Capital Accounts
For the Year Ended December 31, 19__

	Capital Stock	Surplus	Undivided Profits
Balance, January 1	$1,000,000	$1,250,000	$507,000
Net income for the year			406,000
Cash dividends declared--$2.00 per share			(200,000)
Provision for losses on loans, exclusive of portion charged against income, less related income tax effect $10,000			(10,000)
	$1,000,000	$1,250,000	$703,000

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Reconcilement of Reserve for Loan Losses
For the Year Ended December 31, 19__

Balance, January 1	$418,000
Additions:	
Transferred from operating earnings	29,000
Transferred from undivided profits	20,000
Recoveries of charged-off loans	2,000
	$469,000
Deductions:	
Loan charge-offs	51,000
Balance, December 31	$418,000

Balance Sheet
December 31, 19__ and 19__

	December 31 Current Year	December 31 Preceding Year
Assets		
Cash and due from banks	$ 9,000,000	$ 8,000,000
Investment Securities:		
U. S. Treasury securities	3,200,000	3,500,000
Securities of other U.S. Government agencies and corporations	800,000	400,000
Obligations of States and political subdivisions	2,000,000	2,000,000
Other securities	217,500	167,500
Trading account securities	-	-
Federal funds sold and securities purchased under agreements to resell	200,000	-
Other loans	18,198,000	17,418,000
Bank premises and equipment	860,000	970,000
Investments in subsidiaries not consolidated	-	-
Accrued interest receivable and other assets	152,500	142,500
Total	$34,628,000	$32,598,000
Liabilities		
Demand deposits	$22,387,000	$21,560,000
Savings deposits	4,260,000	3,500,000
Other time deposits	4,000,000	4,000,000
Total deposits	$30,647,000	$29,060,000
Federal funds purchased and securities sold under agreements to repurchase	-	-
Other liabilities for borrowed money	100,000	80,000
Mortgage indebtedness	-	-
Other liabilities	510,000	283,000
Total liabilities	$31,257,000	$29,423,000
Reserves on Loans and Securities		
Reserve for possible loan losses	$ 418,000	$ 418,000
Capital Accounts		
Capital notes and debentures	-	-
Equity capital:		
Capital stock (100,000 shares of $10 par value)	$ 1,000,000	$ 1,000,000
Surplus	1,250,000	1,250,000
Undivided Profits	703,000	507,000
	$ 2,953,000	$ 2,757,000
Total	$34,628,000	$32,598,000

Statement of Income
For the Years Ended December 31, 19__ and 19__

	Current Year	Preceding Year
Operating Income:		
Interest and fees on loans	$ 980,000	$ 890,000
Income on Federal funds sold and securities purchased under agreements to resell	20,000	10,000
Interest and dividends on investments:		
U.S. Treasury securities	160,000	185,000
Securities of other U.S. Government agencies and corporations	20,000	15,000
Obligations of States and political subdivisions	60,000	60,000
Other securities	10,000	8,000
Trust department income	100,000	90,000
Service charges on deposit accounts	50,000	45,000
Other service charges, collection and exchange charges, commissions, and fees	15,000	10,000
Other operating income	45,000	45,000
Total	$1,460,000	$1,358,000
Operating Expenses:		
Salaries	$ 220,000	$ 200,000
Pensions and other employee benefits	15,000	15,000
Interest on deposits	465,000	445,000
Expense of Federal funds purchased and securities sold under agreements to repurchase	5,000	5,000
Interest on other borrowed money	10,000	10,000
Interest on capital notes and debentures	-	-
Net occupancy of bank premises	55,000	52,000
Provision for losses on loans	29,000	15,000
Other	56,000	65,000
Total	$ 855,000	$ 807,000
Income Before Income Taxes and Securities Gains (Losses)	$ 605,000	$ 551,000
Applicable Income Taxes	262,000	236,000
Income Before Securities Gains (Losses)	$ 343,000	$ 315,000
Securities Gains (Losses), less related income tax effect of $21,000 and ($20,000)	63,000	(20,000)
Net Income	$ 406,000	$ 295,000
* Earnings per common share:		
Income before securities gains (losses)	$ 3.43	$ 3.15
Net income	4.06	2.95

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* Comparative per share amount of securities gains (losses) may be included herein.