

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N. Y. 10045

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May 16, 1967

To the Chief Executive Officer
of the State Member Bank Addressed:

A number of inquiries have been received by the Federal Reserve and the other Federal bank supervisory agencies concerning the proposed practice of certain banks of deferring and amortizing profits and losses on sales of securities. The proposed practice of certain banks of converting tax-exempt revenues to a fully taxable basis in the preparation of income reports required by the bank regulatory agencies has also been brought to the attention of the supervisory agencies.

Accordingly, on behalf of the Board of Governors of the Federal Reserve System, we are informing all State member banks of the Federal Reserve System in this District that (1) the deferring and amortizing of profits and losses on security sales, and (2) the conversion of tax-exempt revenues to a fully taxable basis in bank reports of income do not conform to current regulatory instructions of the Federal bank supervisory agencies for the preparation of bank financial statements. Although these proposed practices have some merit as methods of supplementing other information for certain analytical purposes, it has not been demonstrated that the practices are accurate or desirable methods of reporting the earnings and condition of banks. A similar letter is being sent to insured nonmember banks by the Federal Deposit Insurance Corporation and to national banks by the Comptroller of the Currency.

A reexamination and evaluation of current bank accounting programs and financial reporting practices and of new concepts in these areas is being conducted by a committee consisting of representatives of the three Federal bank supervisory agencies. All banks will be promptly notified if any changes affecting the reporting of items in bank financial statements are adopted.

Your continued cooperation in observing current reporting instructions on these items pending a thorough review of the issues will be greatly appreciated.

ALFRED HAYES,
President.