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FEDERAL RESERVE BOARD
WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

July 28, 1916.

Dear Sir:

With the view of insuring the use of more uniform methods in figuring average rates of earnings for the several classes of earning assets held by the Federal reserve banks, I take the liberty of inclosing 25 copies of a somewhat enlarged form (No. 722) which I would ask you to use in place of the old form furnished sometime ago.

You will note that we have added three columns headed respectively:

- | | | |
|--|---|------------------------|
| (2) | (3) | (4) |
| Total of daily holdings for the month as shown on Form 34. | <u>Transit items.</u> Amounts purchased for bank's account multiplied by number of days intervening between date of purchase and date of entry on books. | Aggregate of (2) & (3) |

It is hoped that your bookkeeping department will use the utmost care in reporting earning assets for a number of days corresponding to the number for which earnings are shown, and that the earnings for the transit period will be credited upon receipt of advice from the purchasing bank, and not be spread over the period during which the investment is actually held by the bank. The following example will illustrate what is meant by corresponding number of days:

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Suppose that an acceptance or warrant was purchased by the New York Federal Reserve Bank for one of the western banks. New York immediately notifies the western bank by mail of the purchase. The notice is received by the western bank three days later, The bank then enters on its books the discount or interest for the three days which the acceptance or warrant has run. As there can be no corresponding entry against the amount of acceptances or warrants held, Form 34 having already been forwarded to the Federal Reserve Board, it is necessary for the purchasing bank to set up in column (3) of enclosed Form No. 722 for reporting the annual rates of earnings, the amount of the purchase multiplied by the number of days in transit. This will result in having the earning assets held and the earnings therefrom appear for an equal number of days.

In figuring average holdings for the month, it is very desirable that you use the actual number of days (and not an average of 30 days for each month), likewise in figuring the annual rate of earnings that you use the actual number of days in the current year (i. e., 366 days for the present year).

Earnings should be given in full, i. e., for the entire number of days in the month for which the investment has run, including the days in transit. Earnings for the transit period should not be credited to "Sundry Profits".

Very truly yours,

Assistant Secretary.

Enclosure: