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ADDRESS REPLY TO
FEDERAL RESERVE BOARD

December 14, 1918.

X-1308

SUBJECT: Treatment of Extraordinary Charges against Earnings of Federal Reserve Banks at the closing of Books December 31, 1918.

Dear Sir:

In order that there may be uniformity of practice, the Federal Reserve Board has approved for Federal Reserve Banks the adoption of the following rules for the treatment of depreciation and extraordinary charges against earnings and profit and loss account at the closing of books December 31, 1918.

1. Cost of Federal Reserve and Federal Reserve Bank Notes.

Balance of account, as shown by books on December 31, to be charged to current expense account.

2. Furniture and Equipment Account.

Balance of account, as shown by books on December 31, to be charged to current expense account.

3. Cost of Vaults.

- (a) All expenditures made during the year 1918 for vaults and vault equipment to be charged to current expense account;
- (b) Balance of account, as shown by books on December 31, 1917, to be charged to Profit and Loss account.

4. Alterations and Improvements.

Charge against current expense account all expenditures made during the year 1918 in repairing, altering or remodeling bank premises.

5. Bank Premises.

- (a) Where properties have been purchased with the intention of erecting new bank buildings, banks to be permitted to charge

against Profit and Loss account an amount sufficient to cover the estimated value of buildings which will have to be razed, such estimated valuation of buildings to be submitted to the Federal Reserve Board for approval before depreciation allowance is determined.

- (b) Where properties have been remodeled and are now used as permanent banking quarters by a Reserve Bank, a reasonable depreciation charge will be permitted but in no case shall it exceed 10 per cent of the estimated value of buildings on December 31, 1918.
- (c) Where a Reserve Bank has purchased, or may purchase, a site for a new building, it will be permitted to charge down the book value of premises now owned and occupied to a fair selling price, such price to be submitted to the Federal Reserve Board for approval before depreciation allowance is determined.

6. Apparent Depreciation on Government Securities.

Full provision to be made for apparent depreciation (based on market value) in Government securities before any sum is transferred to surplus account, and provision made for Government franchise tax.

No change should be made in book value of securities but depreciation allowance should be charged to Profit and Loss account and credited to account "Reserve for Depreciation". Depreciation should be figured on the following basis:

2%	Bonds 1930-8.	. . . . .	98
4%	" 1925	. . . . .	106
3%	Conversion 1946-7	. . . . .	85
3%	One-year notes	. . . . .	100
3½%	Liberty Loan 1947	. . . . .	98
4%	" " 1942-7	. . . . .	93
4¼%	" " 1928-47	. . . . .	96

7. Surplus and Franchise Tax.

After dividends and all allowable charge-offs have been made, one half the remainder, up to 40% of capital paid in, to be credited to surplus account and the balance credited to an account to be opened under the title "Reserve for Franchise Tax", to remain in such account until demand therefor is made by the Government, of which due notice will be given you by the Federal Reserve Board.

Kindly acknowledge receipt.

Respectfully,

Governor,
Federal Reserve Bank,

Governor.