FEDERAL RESERVE BOARD

WASHINGTON

December 11, 1920.

St. 1641.

SUBJECT: Closing of Books on December 31, 1920.

Dear Sir:-

With the view of maintaining uniformity of practice, the Federal Reserve Board has approved the following rules to be adopted by the Federal Reserve Banks for the treatment of depreciation and extraordinary charges against current net earnings at closing of books on December 31, 1920.

1. Cost of Federal Reserve and Federal Reserve Bank Notes.
   Charge balance of account "Cost of Federal Reserve currency" as shown by books on December 31 to current expenses. For method of treatment of the account "Equipment for printing Federal Reserve notes", see Board's letters St. 1576 and X-2075, dated November 19 and December 2, 1920, respectively.

2. Furniture and Equipment.
   Charge balance of account as shown by books on December 31 to current expenses.

3. Cost of Vaults, Permanent Alterations and Improvements, and Bank Premises.
   No charges against current expense or current net earnings should be made on account of vaults, permanent alterations and improvements, or bank premises without first obtaining the approval of the Federal Reserve Board.
   In acting upon requests for approval to charge off the cost of alterations and improvements and to make certain charge-offs on account of depreciation of bank buildings or properties purchased with the intention of erecting new bank buildings, the Board will be guided in general by the principles outlined in its letter X-1741 dated December 3, 1919.

4. Apparent Depreciation on United States Government Securities.
   Full provision should be made for apparent depreciation (based on market value) on U. S. Government securities before any amount is transferred to surplus account. No change should be made in the book value of securities, but depreciation allowance should be charged to current net earnings and carried to account "Depreciation reserve on U. S. bonds". Adjustments should be figured on the basis of December 30, 1920 market quotations.

5. Surplus and Franchise Tax.
   After all current expenses, extraordinary charge-offs, and dividend payments have been provided for, the net earnings should be distributed as follows:
   (a) Transfer to surplus account all available net earnings provided the normal surplus account would not as a result exceed the bank's subscribed capital, in which case only such amount should be transferred as is necessary to increase the normal surplus to an amount equal to the bank's subscribed capital.
   (b) Of the balance of net earnings, if any, 10 per cent should be transferred to super-surplus account and 90 per cent paid to the U. S. Government as a franchise tax.

It is the Board's desire that the normal surplus of each Federal Reserve Bank, i.e., the surplus which according to law may reach a maximum equivalent to the bank's subscribed capital, be kept separate on the Bank's books from the "Super-surplus" to be accumulated from net profits retained by the bank after the normal surplus shall have reached 100 per cent of the bank's subscribed capital.

On Form 34 and in all published statements, however, the two accounts, surplus and super-surplus, should be combined under the general heading "Surplus".

Kindly acknowledge receipt.

Very truly yours,

Governor.

(Copy of this letter sent to Chairman of each F.R.Bank.)