

# FEDERAL RESERVE BOARD

WASHINGTON

November 30, 1921.

X-3258

SUBJECT: Depreciation Allowances for Federal Reserve Bank Buildings.

Dear Sir:

The Board has had under consideration for some time past the question of depreciation allowances for the buildings of Federal Reserve Banks. This matter has also been the subject of correspondence and conversations between members of the Board and the Governors of several of the Federal Reserve Banks.

The building operations which have been engaged in have all involved higher construction costs than are regarded as normal, and the Board recognizes the force of the argument which has been made in favor of setting up reserves during the time that the buildings are in course of construction, in order to reduce the actual construction cost to a figure which upon completion of the work will approximate the mean between the present and pre-war costs.

In anticipation of a possible prolonged period of smaller earnings, Federal Reserve Banks generally have evinced a desire to charge off comparatively large amounts against their buildings at the close of the present year. The Board takes the view that it is desirable that buildings be carried on the books of the banks at a reasonable valuation, but it must take into consideration the propriety of permitting Federal Reserve Banks to charge off these amounts out of current net earnings, thus depriving the Treasury of the United States of sums which would otherwise be paid to it as franchise taxes.

The Board has reached the conclusion that it would be proper for Federal Reserve Banks to charge off out of current net earnings each year an amount not in excess of two per cent of the book value of their buildings, but if it is desired by any Federal Reserve Bank to charge off an additional sum or to provide a reserve for depreciation, the charge should be made not against current net earnings but against the super-surplus fund. In practically all cases, the super-surplus at the end of this year will be large enough to enable the Federal Reserve Banks to establish a reserve for depreciation or to make the desired reduction in their building accounts without diminishing their payments to the Government on account of franchise taxes.

You are requested to advise the Board before the end of the year of the amount that your directors may desire to set up as depreciation reserve or to charge off for present or anticipated depreciation of buildings.

Very truly yours,

G o v e r n o r .