FEDERAL RESERVE BOARD

WASHINGTON

St.2467.
December 8, 1921.

SUBJECT: Closing of Books on December 31, 1921.

Dear Sir:

With a view of securing uniform reports from all Federal reserve banks the Federal Reserve Board has approved the following rules governing the closing of books on December 31, 1921.

1. COST OF VAULTS, PERMANENT ALTERATIONS AND IMPROVEMENTS, AND BANK PREMISES.

No charges to current expenses or deductions from current net earnings should be made on account of vaults, permanent alterations or 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 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 letters, X-1741, dated December 3, 1919, and X-3258, dated November 30, 1921.

2. FURNITURE AND EQUIPMENT.

In order that the account "Furniture and Equipment" may be handled on a uniform basis throughout the year the balance remaining in this account on December 31 should be charged to current expenses. Beginning with 1922, the cost of furniture and equipment will be handled in accordance with general instructions issued by the Board on June 20, 1921.

3. APPARENT DEPRECIATION ON U. S. 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 allowances should be deducted from current net earnings and carried to account "Depreciation reserve on U. S. bonds", while any appreciation on such bonds should be added to the same account. Adjustments should be figured on the basis of December 30, 1921 market quotations.

4. SURPLUS AND FRANCHISE TAX.

After all current expenses, depreciation allowances, other extraordinary charge-offs, and dividend payments have been provided for, the net earnings remaining should be distributed as follows:

(a) Transfer to surplus account all available net earnings provided the normal surplus account will 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.

As stated in the Board's letter St. 1641, dated December 11, 1920, 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, should 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 percent of the bank's subscribed capital. On Form 34 and in all published statements, however, the two accounts - surplus, and super-surplus - will, in accordance with the present practice, be combined under the general heading "Surplus".

Kindly acknowledge receipt.

Very truly yours,

GOVERNOR.

(All Federal Reserve Agents)