

## FEDERAL RESERVE BOARD

WASHINGTON

November 6, 1922.  
St. 3146.SUBJECT: Closing of Books on  
December 31, 1922.

Dear Sir:

On June 29, 1922, the Board advised you in its letter X-3462 of an opinion of Counsel wherein it was held that the practice of the Federal reserve banks of setting up two surplus accounts was not authorized by the Federal Reserve Act, and that when the total surplus of a bank equals or exceeds its subscribed capital, 90 per cent of net earnings, after the payment of dividends, must be paid to the United States as a franchise tax. In accordance with this opinion, you were advised in the Board's letter X-3492 of August 1, 1922, a copy of which is enclosed herewith, that those banks which transferred amounts to super-surplus account on December 31, 1920, should recalculate the amount of franchise taxes payable to the Government and the amount transferrable to surplus account. In this same letter the Board also stated the general principles by which it would be governed in the future in authorizing depreciation charges on bank premises.

In order that the Board may have ample time to pass upon all proposed charges against current earnings in connection with depreciation allowances or reserves to take care of probable losses, it is requested that the dividend resolution of your Board of Directors, together with your request for authority to close the books on December 31, 1922, and to make certain charges against current earnings on account of depreciation and for other extraordinary purposes, be mailed in time to reach the Board's offices not later than December 1, 1922.

The dividend resolution should be accompanied with statements showing the following information:

1. Estimated gross and net earnings for the calendar year 1922.
2. Unpaid indebtedness of closed banks to Federal reserve bank, giving the names of banks, indebtedness of each, character of security, if any, and estimated losses.
3. Indebtedness to Federal reserve bank of member banks which are considered to be in an unsafe condition, giving the names of the banks, indebtedness of each, character of security, if any, and probable losses.

The following rules have been approved by the Federal Reserve Board for the guidance of the Federal reserve banks in submitting requests for permission to make special charges against current net earnings and in closing their books on December 31, 1922:

1. Land, buildings (including vaults and vault equipment), and fixed machinery and equipment. Requests for permission to charge current earnings with depreciation allowances on land or buildings (including vaults and vault equipment) should be submitted in the form outlined in the Board's letter X-3492 of August 1, 1922, and should be accompanied with a complete statement of the facts and conditions considered by the Board of Directors in arriving at its recommendations. With regard to fixed machinery and equipment, it is requested that each class of machinery and equipment be listed separately, and that the rate of depreciation and the amount of reserve which the bank proposes to set up be shown separately for each class.
2. Furniture and equipment. The balance remaining in this account on December 31st should be charged to profit and loss.
3. Apparent depreciation on United States securities. Full provision should be made for apparent depreciation (based on market value) on United States securities before any amount is transferred to surplus account. In case the present reserve for apparent depreciation is in excess of the actual depreciation as determined by market quotations as of December 29, which the Board will telegraph to your bank on the morning of December 30, such excess should be credited to profit and loss.
4. Surplus and franchise taxes. After the surplus account has been charged with franchise taxes payable to the Government for prior years, in accordance with the Board's letter X-3492 of August 1, 1922, and after all current expenses, dividends, depreciation allowances and other extraordinary charge-offs authorized by the Federal Reserve Board have been provided for out of earnings the remaining net earnings shall be distributed as follows:
  - (a) Transfer to surplus account all available net earnings providing the total surplus 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 surplus account 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 surplus account, and 90 per cent paid to the U. S. Government as a franchise tax.

Further instructions as to the time and method of payment of the franchise tax due for former years, which will be charged to surplus account, and for the current year will be issued at a later date.

Very truly yours,

Vice Governor.

Enclosure.

(Letter to all Chairmen)

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