

FEDERAL RESERVE BOARD

WASHINGTON

St. 3808
November 22, 1923.

SUBJECT: Closing of Books on December 31, 1923.

Dear Sir:

In order that the Board may have ample time to pass upon all charges which your bank proposes to make against current earnings at closing of books on December 31, 1923, for depreciation allowances, reserves to take care of probable losses, and other extraordinary purposes, it is requested that the dividend resolution of your Board of Directors be mailed in time to reach the Board's offices not later than December 15, 1923.

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

1. Estimated gross earnings, current expenses, proposed charges to current net earnings, and estimated net earnings available for surplus and franchise tax, for the calendar year 1923.
2. Unpaid indebtedness of failed or suspended banks to Federal reserve bank, giving the names of the 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.
4. A statement in a form similar to that indicated below, showing separately for each property,
 - (a) the cost, estimated market value, reserves now carried, and net book value of land owned;
 - (b) the cost to date, estimated replacement cost, of re-modeled buildings or of new buildings, either completed or in course of construction, reserves now carried, and net book value.

LAND

Cost	\$ _____
Estimated market value	_____
Reserves now carried	_____
Book value (net)	_____

<u>BANKING HOUSE</u>	<u>BUILDINGS</u>		<u>FIXED MACHINERY AND EQUIPMENT</u>
	<u>TOTAL</u>	<u>INCLUDING VAULTS</u>	
Cost to date	\$ _____	\$ _____	\$ _____
Estimated replacement cost	_____	_____	_____
Reserves now carried	_____	_____	_____
Book value (net)	_____	_____	_____

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 for closing of books on December 31.

1. Bank premises. (a) In passing upon requests to set up depreciation reserves or to charge off depreciation allowances, the Board will in general permit a charge against current net earnings of not exceeding 2 per cent of the estimated replacement cost of bank buildings, including vaults but excluding fixed machinery and equipment. In case, however, the estimated replacement cost is considerably below the net book value, the Board will consider requests from Federal reserve banks for permission to write off a depreciation charge in excess of 2 per cent.

(b) The estimated replacement cost, less residual value, of fixed machinery and equipment, such as boilers, engines, dynamos, motors, power pumps, elevators, heating, plumbing, lighting and ventilating systems, pneumatic tubes, refrigeration plants, automatic fire sprinkler equipment, and vacuum cleaners, should be determined, and a reserve set aside each year out of current net earnings to cover replacements. Annual additions to this reserve should be based on the estimated life of the machinery and equipment, with a view to the ultimate replacement of the machinery and equipment, but in no case should the annual charge exceed 10 per cent of the cost thereof.

(c) No charges against current net earnings will be authorized by the Federal Reserve Board to cover depreciation on land where the estimated market value of the land is equal to or in excess of its net book value.

(d) The estimate of the market value of land and of the replacement cost of buildings either completed or in course of construction and of fixed machinery and equipment, should be obtained from the best available authorities. A copy of the estimates thus obtained should be enclosed with your request for authority to charge current net earnings with depreciation on bank premises unless similar estimates formerly submitted to the Federal Reserve Board are still applicable, in which event reference thereto will be sufficient. The estimated replacement cost of buildings including vaults, but excluding fixed machinery and equipment, may be arrived at by determining the mean of two amounts, namely; (1) the total actual cost of construction, and (2) the estimated cost of construction based on the lowest prices that have existed during the last fifteen years.

(e) Where properties have been purchased with the intention of razing existing buildings and of erecting new banking quarters the Board

will consider requests for permission to deduct from current net earnings an amount equal to the difference between the cost of the property and the market value of the building site exclusive of improvements.

(2) Furniture and equipment. The balance remaining in this account on December 31 should be charged to Profit and Loss.

(3) Depreciation on United States securities. Full provision should be made for depreciation (based on market value) on United States securities before any amount is transferred to surplus account. In case the present reserve for depreciation is in excess of the actual net depreciation on total holdings of United States securities as determined by approximate market quotations as of December 28, which the Board will telegraph to your bank on the morning of December 29, such excess should be credited to Profit and Loss.

(4) Surplus and franchise taxes. 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 United States Government as a franchise tax.

Instructions as to the time and method of payment of the franchise tax will as usual be issued at a later date by the Treasury Department.

Very truly yours,

Walter L. Eddy,
Secretary.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS