

# FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

November 26, 1924.  
St. 4333.

SUBJECT: Closing of Books on December 31, 1924.

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 when the books are closed on December 31, 1924, for depreciation allowances, for reserves to take care of probable losses, and for 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 10, 1924.

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 net earnings available for surplus and franchise tax, for the calendar year 1924.
2. Unpaid indebtedness of failed or suspended banks to Federal reserve bank, giving the names of the banks, indebtedness of each on November 30, 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 on November 30, character of security, if any, and probable losses.
4. A statement in the form outlined below, showing separately for each property acquired for Banking House purposes,
  - (a) the cost, amounts charged off, net book value, and estimated market value of land owned;
  - (b) the cost to November 30, amounts charged off, reserves carried, net book value, and estimated replacement cost of buildings, exclusive of fixed machinery and equipment, either completed or in course of construction;
  - (c) the cost to November 30, amounts charged off, reserves carried, and net book value of fixed machinery and equipment.

LAND

Cost to November 30	\$ _____
Amount charged off	_____
Book value (net)	_____
Estimated market value	_____

BUILDING INCLUDING VAULT

Cost to November 30	\$ _____
Amount charged off	_____
Reserves now carried	_____
Book value (net)	_____
Estimated replacement cost	_____

FIXED MACHINERY AND EQUIPMENT

Cost to November 30	\$ _____
Amount charged off	_____
Reserves now carried	_____
Book value (net)	_____

In the case of land on which a new building has been or is to be constructed the cost of the land (building site) should agree with the amount reported against item 6 of quarterly bank premises report (Federal Reserve Board Form St. 2810). In case of buildings purchased and occupied as bank quarters, the reported cost of land should represent its fair market value at time of purchase. The balance of the purchase price should be considered as the cost of the building.

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) Land. 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.

(b) Buildings. In passing upon requests to set up depreciation reserves on bank buildings, the Board will in general permit a charge against current net earnings of not exceeding 2 per cent of estimated replacement cost, including vaults but excluding fixed machinery and equipment. In case the net book value of a building is in excess of its estimated replacement cost, the Board will consider requests from Federal reserve banks for permission to write off a depreciation charge not exceeding the amount of such excess.

(c) Fixed machinery and equipment. A reserve should be set aside each year to cover depreciation on 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. Annual additions to this reserve should be based on the estimated life of the

machinery and equipment, but in no case should the annual charge exceed 10 per cent of cost. Replacements of Fixed Machinery and Equipment should be charged to this reserve.

(d) Estimates of the market value of land and of the replacement cost of buildings either completed or in course of construction 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 have been previously submitted to the Federal Reserve Board. For the purpose of this report 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 fifteen years preceding the completion of construction.

(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. Requests to charge off the balance remaining in the Furniture and Equipment account on December 31 should be accompanied with an itemized list of all Furniture and Equipment carried on the books as of the date your request is submitted and also with a list of additional furniture, if any, that it is proposed to purchase during the remainder of the year.

3. Depreciation on United States securities. A reserve amounting to 3 per cent of the par value of U. S. conversion bonds of 1946-47 may be set aside to cover depreciation on such bonds. In case the present reserve for depreciation is in excess of actual depreciation as above determined 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, any 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 shall 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 shall 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.