

POLICY FOLLOWED BY FEDERAL RESERVE BOARD IN AUTHORIZING DEPRECIATION ALLOWANCES AND CHARGE-OFFS ON BANK PREMISES OF FEDERAL RESERVE BANKS

The policy followed by the Federal Reserve Board in authorizing depreciation allowances and charge-offs on land and buildings acquired for banking house purposes by the Federal reserve banks, as set forth on page 23 of the Board's 1922 annual report, is as follows:

"On August 1, 1922, the Federal reserve banks were advised that in the future requests for authority to charge off depreciation on bank premises or to set up a reserve for depreciation thereon should be accompanied with a statement showing for each separate piece of property the cost, estimated replacement value, and book value of buildings, either completed or in course of construction; the cost, estimated market value, and book value of land owned; and the cost of fixed machinery and equipment, such as heating, lighting, plumbing, ventilating systems, etc., in order that the Board might have complete data before it in passing upon such requests and in order that separate rates of depreciation might be determined for land, buildings, and fixed machinery and equipment. In the same letter the board stated that no charges against current net earnings would be authorized to cover depreciation on land where the estimated market value of the land was equal to or in excess of its book value and that, in general, depreciation allowances on bank buildings were not to exceed 2 per cent of their estimated replacement cost (including vaults but excluding fixed machinery and equipment) unless the estimated replacement cost of bank buildings was materially below book value, in which case requests for permission to write off a depreciation charge in excess of 2 per cent would be considered. Estimated replacement costs were to be determined by taking the mean of the actual cost and the estimated lowest construction costs at any time in the past 15 years. The rule laid down with reference to fixed machinery and equipment provided that reserves should be based upon the estimated life of the machinery and equipment, with a view to its ultimate replacement, the annual reserve allowance in no case to exceed 10 per cent of cost."