

# FEDERAL RESERVE BOARD

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WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

November 20, 1926  
St. 5164.

SUBJECT: Closing of Books on December 31, 1926.

Dear Sir:

In accordance with the usual custom, it will be appreciated if the resolution of your board of directors for the payment of the semi-annual dividend, and requests for authority to charge earnings with depreciation allowances, reserves for probable losses, etc., are received at the Board's offices not later than December 10, 1926, and are accompanied with the following information: (1) estimated gross earnings, current expenses, proposed additions to and deductions from current net earnings, and net earnings available for surplus and franchise tax for the calendar year 1926, (2) unpaid indebtedness of failed banks to Federal reserve bank, giving the names of the banks, indebtedness of each on November 30, character of security, if any, and the probable loss in the case of each bank, and (3) indebtedness to Federal reserve bank of member banks 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 estimated loss in the case of each bank.

The procedure laid down in the Board's letter St. 4333 of November 26, 1924, subject "Closing of Books on December 31, 1924," relating to charge-offs and depreciation reserves on bank premises, furniture and equipment, depreciation on United States securities, and surplus and franchise tax, is still in effect and should be followed in submitting your requests at the end of the year, except that it will be unnecessary to furnish an itemized list of furniture and equipment carried on the books at the date of your request and which it is proposed to purchase during the remainder of the year.

With regard to depreciation reserves and charge-offs on bank premises, the 1927 edition of daily balance sheet, form 34, will show the book value of Bank Premises divided into (a) Land, (b) Buildings, including vaults, (c) Fixed machinery and equipment, and (d) Other real estate and New building account, instead of Banking houses (including land), New building account, and Other real estate, as at present. By reference to paragraphs (b) and (c) under Bank Premises on page 2 of the Board's letter St. 4333 of November 16, 1924, you will note that it has been the purpose of the Board to authorize the banks to charge off a sufficient amount of the cost of each bank building to reduce the book value thereof to estimated replacement cost, and thereafter to

authorize the setting up of a depreciation reserve of not to exceed 2 per cent per annum of the replacement cost, also to authorize a reserve to be set aside each year to cover depreciation on fixed machinery and equipment, the annual addition to such reserve not to exceed 10 per cent of cost. In accordance with the principles laid down in that letter, the Board would prefer that beginning with January 1, 1927, all Federal reserve banks carry their bank premises accounts on form 34 as follows: (a) Land on which a banking house is located - at book value, i.e., actual cost less amounts charged off; (b) Completed buildings - at replacement cost, i.e., actual cost less amounts charged off to reduce book value to estimated replacement cost, determined in accordance with the formula laid down in paragraph (d) of the Board's letter St. 4333; (c) Fixed machinery and equipment in completed buildings - at actual cost; and (d) Other real estate and new building account (unfinished buildings) at book value, i.e., actual cost less amounts charged off. If this is done, the depreciation reserves to be set aside at the end of each year will be based on the replacement cost of the buildings and the actual cost of fixed machinery and equipment, as shown on form 34. The total of such reserves which is to be deducted from the book value of bank premises will then represent only the annual depreciation charges on buildings and fixed machinery and equipment, i.e., they will not include charges to earnings made for the purpose of bringing the book value of buildings down to replacement cost nor any amounts charged off on land.

In order that the bank premises records of the Board may be checked against those of the banks and any differences reconciled before the new accounts are set up on form 34 beginning with 1927, we are enclosing herewith a statement covering each separate building owned by your bank, showing on the face side of the form the cost of the building in detail, and on the reverse side the amounts charged off and the depreciation reserves set aside to the end of 1925. The reserves as shown on these statements may not agree with depreciation reserves now shown on form 34, as we have endeavored in all cases to follow the plan outlined above in determining whether each amount should be treated as a charge-off or as a depreciation reserve. It will be appreciated if you will have these statements checked and returned, if practicable, with your bank's request for authority to close your books, pay the semi-annual dividend, etc., at the end of 1926.

Very truly yours,

Walter L. Eddy,  
Secretary.

Enclosure.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS.