FEDERAL RESERVE BOARD

WASHINGTON 20

November ~~15~~, 1928,
St. 5970.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Closing of Books on December 31, 1928.

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, 1928, and are accompanied with the following information:

1. Estimated gross earnings, current expenses, additions to and proposed deductions from current net earnings, and net earnings available for surplus and franchise tax for the calendar year 1928.

2. Indebtedness to the Federal reserve bank of (a) suspended banks and (b) banks considered to be in a seriously overextended condition, giving the names of the banks, indebtedness of each on November 30, character of security, if any, and probable loss in the case of each bank.

The general procedure followed in the past with reference to charge-offs, depreciation and other reserves, transfers to surplus account and payment of franchise tax, which is covered by the attached memorandum, will be followed at the end of this year.

Very truly yours,

Walter L. Eddy,
Secretary.

Enclosure.

LETTER TO ALL CHAIRMEN*

GENERAL PRACTICE OF FEDERAL RESERVE BOARD REGARDING DEPRECIATION RESERVES ON BANK PREMISES, RESERVES FOR LOSSES ON PAPER OF FAILED BANKS, AND OTHER CHARGES TO CURRENT NET EARNINGS, AND METHOD OF DETERMINING FRANCHISE TAXES TO BE PAID BY FEDERAL RESERVE BANKS

1. Bank Premises. (a) Land. No charges against current net earnings will be authorized by the 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. The Board will in general authorize the banks to charge current net earnings each year with a depreciation reserve on bank buildings, including vaults but excluding fixed machinery and equipment, of not exceeding 2 per cent of their estimated replacement cost, such replacement cost to be determined in a manner approved by the Board. Where the book value of a building is in excess of replacement cost, the Board will consider a request for permission to charge off an amount sufficient to reduce the book value to estimated replacement cost.

(c) Fixed machinery and equipment. The Board will authorize the banks to charge current net earnings each year with a depreciation reserve of not to exceed 10 per cent of the cost of fixed machinery and equipment, such as boilers, engines, dynamos, motors, power pumps, elevators, heating, plumbing, lighting, and ventilating systems, pneumatic tubes, refrigeration plant, automatic fire sprinkler equipment, and vacuum cleaners.

2. Reserves for losses on paper of suspended banks and banks in an over-extended condition. Authorizations to set aside reserves to cover losses on paper of suspended banks or banks in an over-extended condition will be limited to such actual losses, in excess of reserves already carried, as the bank may reasonably be expected to sustain on such paper.

3. Furniture and equipment. It will be the general practice of the Board to authorize the banks to charge off at the end of the year all furniture and equipment purchased during the current year.

4. Other charges to current net earnings. Where a bank desires to set up any reserve other than those mentioned above or to make any other unusual charge against current earnings at the end of the year, full and complete information should be furnished the Board regarding the necessity for such charge.

5. Surplus and franchise taxes. After all current expenses, dividends, depreciation and other reserves, and charge-offs authorized by the Board have been provided for, any remaining net earnings shall be distributed as follows:

(a) Transfer to surplus account all net earnings unless such transfer will result in the bank's surplus account being in excess of its 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 subscribed capital.

(b) Distribute all available net earnings after the bank's surplus account is equal to its subscribed capital as follows:

(1) Transfer 10 per cent to surplus account.

(2) Pay 90 per cent to United States Government as a franchise tax.

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