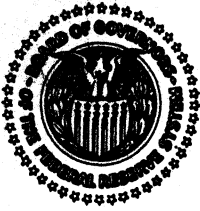


BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-50

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 6, 1937



Dear Sir:

The daily balance sheet, Form 34, has been revised for use during 1938 and a proof copy will be sent you as soon as it is received from the printer.

Form 34 now provides for the deduction of reserves on bank premises and on certain miscellaneous assets from the respective assets to which they apply. Reserves to cover estimated losses on industrial advances or on other assets carried among bills and securities, however, are shown on the present Form 34 against the liability item "Reserves for losses not elsewhere provided for". In the published statements such reserves have been included with "Reserves for contingencies". Since reserves for contingencies are intended to take care of future unforeseen losses rather than losses of the kind above mentioned, Form 34 as revised for use in 1938 provides for showing "Reserves for contingencies" immediately following "Surplus" and "Reserves for estimated losses on bills and securities" as a separate item under "Miscellaneous liabilities". The latter item should include reserves for estimated losses on industrial advances and on discounted bills shown in the bills and securities block of the daily balance sheet. Accordingly, beginning January 1, 1938, reserves for estimated losses on industrial advances carried among "Bills and securities" should be shown against the new item "Reserves for estimated losses on bills and securities". All reserves except those deducted from assets and those shown against the caption "Reserves for estimated losses on bills and securities" should be reported against the caption "Reserves for contingencies".

The 1938 edition of Form 34 provides for showing the Hungarian credits under "Miscellaneous assets" against a new caption "Hungarian credits". Accordingly, beginning January 1, 1938, the reserves set up against such credits should be included with reserves deducted from "Miscellaneous assets".

Charge-offs of assets against which reserves for estimated losses are carried, whether such reserves are deducted from the particular assets or included in "Reserves for estimated losses on bills and securities",

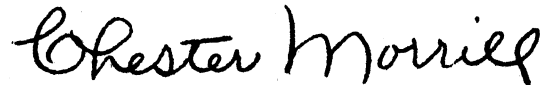
should be made direct to such reserves. If at the end of the year the reserve on a particular class of assets is in excess of the anticipated losses on such assets, the excess should be credited to profit and loss.

Inasmuch as reserves for contingencies are in effect a segregation of surplus, beginning with 1937 no additions to "Reserves for contingencies" should be charged to current net earnings. Further additions to reserves for contingencies should be charged direct to surplus, and the reserves thus established should be kept separate on the bank's books from contingent reserves heretofore set up, credits to which have been deducted from current net earnings in the annual profit and loss statements.

If it is desired at any time to reduce reserves for contingencies, the amount of the reductions should be included in the profit and loss statement as an addition to current net earnings until the contingent reserves set up out of current net earnings have been exhausted, and thereafter such reductions should be credited direct to surplus. By this procedure reserves which have been accumulated prior to 1937 through charges to current net earnings will be exhausted before any use is made of reserves accumulated by transfers from surplus.

There are inclosed copies of pages 40, 41 and 42 of the Board's Manual of Instructions Governing the Preparation of Earnings and Expense Reports and Profit and Loss Statements by the Federal Reserve Banks, which revised pages should be inserted in the copies of the Manual sent you in accordance with the Board's letter B-1200.

Very truly yours,



Chester Morrill,
Secretary.

Inclosures

TO THE PRESIDENTS OF ALL F. R. BANKS

FINANCIAL RESULTS OF OPERATION

A statement should be mailed, or telegraphed, to the Board in time to reach Washington on the morning of the second business day of the year, showing the financial results of operation of the Reserve bank for the preceding calendar year. The data should be furnished in the following form unless otherwise requested.

(Code)

EARL	- Earnings from discounted bills	\$ _____
EDGE	- Earnings from purchased bills	_____
EASE	- Earnings from Industrial Advances	_____
EBOE	- Earnings from commitments to make industrial advances	_____
ESPY	- Earnings from U. S. Government securities	_____
ETCH	- Other earnings (items 6 and 7 on form 95)	_____
EACH	- Total Current Earnings	=====
EBON	- Total operating expenses	=====
EBUR	- Less reimbursements for certain Fiscal Agency and other expenses	_____
ECRU	- Net operating expenses	_____
EBAL	- Assessment for expenses of Board of Governors	_____
EBER	- Cost of Federal Reserve Currency	_____
EVER	- Total current expenses	_____
EARN	- Current net earnings	=====
ELBA	- Additions to current net earnings \$ _____	_____
ENID	- Deductions from current net earnings _____	_____
EBID	- Net additions to or deductions from current net earnings	_____
EAST	- Net earnings	=====
EXIT	- Payment to Sec. of Treas. (Section 13b)	=====
EYRE	- Dividends paid	_____
ERSE	- Transferred to surplus (Section 13b)	_____
EVEN	- Transferred to surplus (Section 7)	_____
	Total (to agree with item EAST)	=====
CAPP	- Paid-in capital January 1 (of new year)	_____
TORK	- Surplus (Section 7) January 1 (of new year)	_____
TALC	- Surplus (Section 13b) January 1 (of new year)	_____
TOOK	- Reserves for contingencies January 1 (of new year)	_____

ANNUAL PROFIT AND LOSS STATEMENT

A profit and loss statement, prepared in accordance with the attached forms, should be furnished the Board of Governors not later than January 15 of each year. In addition to Schedules "A", "B" and "C" the annual profit and loss statement should be accompanied by an analysis and reconciliation for the year of all reserves shown on Form 34 except those for F.D.I.C. stock and for depreciation of "Buildings (including vaults)" and "Fixed machinery and equipment". The analysis of "Reserves for contingencies" (item TOOK) should show separately reserves established prior to January 1, 1937, through charges against current net earnings and reserves established subsequent to January 1, 1937, through charges against Surplus (sec. 7).

If an account such as "Difference account", has a net credit balance for the Head Office and branches combined, it should be shown only in Schedule "A". In this case a minus sign should be used to indicate a net debit balance for a given office. Similar accounts having a net debit balance for the Head Office and branches combined should be shown in like manner in Schedule "B".

Where several small profit and loss entries are made during the year in a given account, only the net debit or credit in the amount should be shown as an addition to or as a deduction from current net earnings.

END OF YEAR BALANCE SHEETS, FORM 34

In addition to the regular balance sheet (Form 34) for the last day of the calendar year representing the condition of the bank after final closing of the books, a balance sheet should be submitted showing the condition of the Reserve bank at close of business but prior to the making of any year end closing entries.

FEDERAL RESERVE BANK OF _____
 PROFIT AND LOSS STATEMENT FOR 19 _____

	Total	Head Office	Branch	Branch	Branch	Branch	Branch
Current earnings							
Current expenses							
Current net earnings							
Additions to current net earnings:							
Profit on United States Government securities sold - Net (if net loss show under "Deductions")		--	--	--	--	--	--
All other (Schedule "A")							
Total additions							
Deductions from current net earnings:							
Prior service contributions to Retirement System							
Special reserves on bank premises							
Charge-offs on bank premises							
Assessment for building for Board of Governors		--	--	--	--	--	--
All other (Schedule "B")							
Total deductions							
Net additions to (+) or deductions from (-) current net earnings							
Net earnings							
Paid U. S. Treasurer (Section 13b)		--	--	--	--	--	--
Dividends paid		--	--	--	--	--	--
Transferred to (+) or withdrawn from (-) surplus (Section 13b)		--	--	--	--	--	--
Transferred to (+) or withdrawn from (-) surplus (Section 7)		--	--	--	--	--	--