



**BOARD OF GOVERNORS**  
OF THE  
**FEDERAL RESERVE SYSTEM**

WASHINGTON, D.C. 20551

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

**S - 2362**

**December 19, 1977**

**TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS AND THE OFFICERS  
IN CHARGE OF BRANCHES**

**SUBJECT:** Financial Accounting Standards Board's Statement of Financial Accounting  
Standard No. 13

Effective January 1, 1977, the Financial Accounting Standards Board's Statement of Financial Accounting Standard (SFAS) No. 13 "Accounting for Leases" revised significantly the accounting for lease transactions. The Statement requires "capitalization" of leased property by the lessee whenever the lease agreement meets the criteria of a capital lease. Further, existing capital leases entered into prior to January 1, 1977 will be required to be retroactively restated no later than fiscal year ending December 31, 1981. The effect on lessor accounting for lease transactions is relatively minor. The Board adopts this SFAS as generally accepted accounting applicable to State member banks that are on an accrual accounting basis.<sup>1</sup>

State member banks may be lessees pursuant to capital lease agreements which require capitalization of leased property. In cases where State member banks have entered into bank premises capital lease agreements in 1977 or retroactively restate premises accounts related to pre-1977 capital leases as required by SFAS No. 13, increases in the carrying value of the bank premises may exceed the amount of the bank's capital stock.

This may raise questions with respect to section 24A of the Federal Reserve Act, under which a State member bank may not, without the Board's approval, make an investment in bank premises, or in stock, bonds, debentures, or other such obligations of any corporation, holding the bank premises, if such investments, in the aggregate exceed the capital stock of the bank. The Board is of the opinion that its approval is not required under section 24A where a change in generally accepted accounting principles requires a State member bank to capitalize premises leased in the year 1977 or restate retroactively leased premises pursuant to capital lease agreements entered into prior to the year 1977. Thus, if an investment in bank premises is increased to an amount in excess of a State member bank's capital stock by virtue of

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<sup>1</sup> Beginning with the supervisory call report for the year ended December 31, 1977, specific reporting instructions for capital lease transactions will be issued. In general, all capital lease property will be included in the fixed asset caption and capital lease liability will be included in the expanded caption, "mortgage indebtedness and capital lease obligations." Accounting for capital lease expenses will continue to be reported in the captions related to the nature of the leased property (i.e., occupancy or equipment expense).

capitalization of a lease entered into by the bank prior to January 1, 1978, the bank need not seek the Board's approval under section 24A. However, the Board's approval would be required under section 24A where such excess investment in bank premises derives from the capitalization of a lease entered into January 1, 1978 or subsequent thereto.

Very truly yours,

//signed//

Theodore E. Allison  
Secretary