OVERHAUL SOUGHT IN BANK REPORTS

M. A. Schapiro Urges New Presentation of Statistics

By H. ERICH HEINEMANN

M. A. Schapiro & Co., Inc., one of the leading dealers in bank securities, called yesterday for an overhaul in the way banks report their earnings to shareholders.

In the March issue of its authoritative publication, the Bank Stock Quarterly, the Schapiro concern presented extensive calculations showing that from 1960 through 1966 a group of 25 major banks had overstated the long-term trend of their profits by $214.5-million, or 3.9 per cent.

For 1966 alone, the $952.2-million in "net operating earnings" reported by the 25 banks, the quarterly said, did not give the full story of their lending, investing and operating policies.

Rather, an article in the Schapiro publication stated, the banks also should have subtracted the $121.5-million they lost on the sale of securities, $46.9-million in losses on defaulted loans, plus another $900,000 in miscellaneous losses, none of which, under present bank accounting practices, are included in the calculation of net operating earnings.

Dubbed 'Bottom Line'

The resulting figure of $782.9-million, 17.8 per cent lower than the reported net operating earnings of more than $950-million, the Schapiro concern dubbed the "bottom line."

"Where significant differences exist [between net operating earnings and the bottom line]," the Bank Stock Quarterly stated, "the bottom line tells the truer story of a bank's long-term operating performance than does net operating earnings."

As traditionally calculated, net operating earnings represent the difference between the gross revenues of a bank and its direct expenses and taxes.

M. A. Schapiro's call for reform in bank accounting is the latest in a long series of similar complaints. The National Association for Bank Audit Control and Operations has a high-level committee at work drafting a reform proposal.