

FASB User Advisory Council
MINUTES OF THE MEETING
October 14, 2004

The FASB User Advisory Council met at the Marriott Marquis Hotel in New York, New York.

Members Present

Jeremy Bean
Gary Black
Stuart Coco
Alison Emmerich
Robert Friedman
Richard Greenwood
Neville Grusd
Trevor Harris
Charles Hill
Adam Hurwich
Gregory Jonas

Joe Joseph
Michelle Kaufman
F. Barry Nelson
Janet Pegg
Marguerite Piret
Adam Quinton
Linda Selbach
Rick Sherlund
Damon Silvers
Robert Treanor
James Wei

Members Absent

Jane Adams
Craig Broderick
John Casesa
Mark Casey
Diane D'Erasmio
Ann Duignan
Betsy Graseck
Joseph Higgins
Raymond Katz
Michael Kwatinetz
Bill Mann

Steven Milunovich
Elizabeth Mooney
Steve Percoco
John Richards
John Robertson
Austin Rodgers
Edward Schreiber
Robert Sharps
Rita Spitz
Scott Sprinzen

Others Attending

Financial Accounting Standards Board:
Robert H. Herz, Chairman
Gary S. Schieneman, Board Member
Katherine Schipper, Board Member
Leslie F. Seidman, Board Member
Edward W. Trott, Board Member
Suzanne Q. Bielstein, Director of Major Projects and Technical Activities
Lawrence W. Smith, Director of Technical Application and Implementation Activities
Jason D. Arbuckle, Postgraduate Technical Assistant

Others:

Neri Bukspan, Managing Director, Chief Accountant, Standard & Poor's Credit Market Services

Douglas R. Carmichael, Chief Auditor, Public Company Accounting Oversight Board
Robert Ehudin, Goldman, Sachs & Co.

Jenifer Minke-Girard, Senior Associate Chief Accountant, Securities and Exchange Commission

Teresa S. Polley, Executive Director, Financial Accounting Standards Advisory Council

Introduction

Mr. Schieneman, who chaired the meeting, called the meeting to order at 9:00 a.m. and welcomed members of the Council, members of the Board, members of the FASB staff, and observers. He thanked the Council members for attending and noted that the purpose of the meeting is for the Council to give the Board input on users' needs in the financial reporting process. Mr. Schieneman noted that he had asked several members of the Council to give presentations and asked that other Council members provide input and feedback during those presentations. He introduced Mr. Harris and noted that he would provide the perspective of a sell-side equity analyst.

User Perspectives on Financial Performance Measures—Trevor Harris

Mr. Harris noted that he would focus on the financial reporting system and the information that would be helpful for users of financial statements. He described the objectives of financial reporting as discussed in the Board's conceptual framework. Mr. Harris noted that when performing a valuation analysis of an enterprise, users ask a series of questions that focus on the underlying business and how it is operating and will be sustained. He stated that a significant question in valuation is the accounting issues that affect the determination of sustainability of revenue and income. He noted that in valuation his firm tries to identify the differences between operating and financing activities, which can be difficult to do. Mr. Harris stated that when performing an analysis of a company, most sell-side analysts start by trying to identify revenue growth for the company by identifying new products, existing products, channels, regions, etc. He stated that his firm then tries to identify the drivers of costs and where the operating leverage is coming from, which requires some understanding of fixed versus variable costs of those areas.

Mr. Harris stated that sector concentration of revenues is an area in which improvements in disclosures would be helpful. He noted that certain areas of the financial statements, such as Management's Discussion and Analysis and the notes, contain some discussion about revenue but there is nothing in the financial statements that can actually articulate what the sector concentrations are. He stated that those concentrations are significant in

trying to determine the sustainability and risks of revenue growth. Mr. Harris noted that this information would be very helpful if it was disclosed in the financial statements.

Mr. Sherlund stated that financial statements primarily include historical information about a company and that the role of analysts to make projections is outside the scope of financial reporting. He stated that he would prefer to see more supplemental information. He noted that because of Regulation F-D, companies are disclosing more information in the financial statements, but it has become more difficult to obtain the data necessary to forecast. Mr. Sherlund stated that forecasting also is done by understanding the market, which is outside the scope of the financial statements. He noted that certain analysts favor particular information more than others and that analysts add value by analyzing the financial statements to understand what has happened at the company and then using their expertise to make projections for that company. He stated that accounting information is the starting point and that most analysts typically start by analyzing revenue first.

Mr. Trott noted that the Board is currently discussing disaggregation of revenue in the performance reporting project. He stated that some constituents may prefer that revenue be divided in different ways. He asked members of the Council whether they would prefer to know the company's perspective of how it breaks down and manages revenue or whether they would prefer to have common definitions between companies.

Mr. Harris stated that analysts generally are more interested in things such as "unit x price" for revenue purposes and not in what the performance obligation is, as is currently being discussed in the Board's project on revenue recognition. He stated that he would trust companies to decide what information to include.

Mr. Sherlund stated that product data are particularly helpful for forecasting revenue. He also noted that a major issue for analysts is to forecast the revenue or growth that is attributed to the core operations of the business and not to acquisitions. He stated that when companies make acquisitions, it becomes difficult to use the financial data to determine the core or organic growth. He suggested that the Board consider requiring more data about core operations of a business, especially when there have been acquisitions.

Mr. Harris stated that a typical disclosure on revenue recognition is not helpful because it does not tell how it relates to the numbers in the financial statements; if it did so, it would be particularly helpful. He also noted that, in his opinion, it is not currently possible to make a meaningful forecast based on the drivers of costs and to understand what costs are fixed or variable. He noted that costs are currently reported by function, such as cost of goods sold, or research and development, but not in terms of nature, or fixed versus variable.

Mr. Herz asked whether there is a preference for costs by function, such as cost of goods sold and marketing, or by nature, such as labor cost and purchased materials. Mr. Harris stated that his preference is for both to be disclosed. Mr. Schieneman stated that the

analysts said they spend the majority of their time forecasting revenue, not costs, in large part because cost information is not very informative. Mr. Trott stated that preparers have expressed concern that if they are required to disclose certain information, such as margins, it will hurt their competitive advantage.

Mr. Harris stated that he does not believe it would hurt companies competitively to disclose margins, but he noted that the capital market may treat them differently if they did disclose them. He noted that the information given in financial statements about costs cannot be used practically by analysts.

Mr. Harris stated that using the cash flow statement for valuation purposes has some severe disadvantages. He noted that in his opinion operating cash flows are the easiest numbers to manipulate on the financial statements because a company can securitize some receivables or not pay some payables, and operating cash flows will look very different. This manipulation is easier than trying to manipulate other financial statements because it appears valid from an auditing point of view and there are no disclosures about the extent to which those transactions have occurred.

Mr. Harris described measurement and reporting issues that complicate valuation. Those issues include items such as shares outstanding, recurring versus nonrecurring items, pensions, leases, taxes, and the classification of operating versus financing activities. He noted that making judgments about nonrecurring items is particularly challenging. At his firm, only items that are viewed as one-time events are not carried into the forecast. He also noted that one specific line item that is extremely difficult to separate into operating and financing activities is taxes.

Mr. Herz stated that the FASB has been asked to define what is recurring or sustainable, or categories of items that are unusual in nature. He asked Council members if they would prefer that the Board define recurring and nonrecurring items or leave it to the financial analysts.

Mr. Joseph stated that it would be extremely useful to have a definition of what is recurring. Mr. Sherlund stated that he would prefer that the Board not specify what is recurring, as he uses his best judgment to make that determination. Mr. Quinton stated that a definition would be helpful but that most analysts usually can determine what a recurring item is and that a definition may be counterproductive if it is too restrictive. Mr. Bukspan stated that a danger with defining what is recurring and what is not is that companies may become too lenient with disclosures of those items. He noted that he believes the information about recurring items should be provided by management in either Management's Discussion and Analysis or as a second level disclosure but should not be defined. Mr. Friedman questioned why an analyst would include or exclude an item based on its frequency of occurrence if that item arises from the ongoing operations of the company.

Mr. Schieneman stated that many analysts think of nonrecurring items in terms of the current year only. He asked Mr. Joseph whether he looks at a company's history of

nonrecurring items and, if so, whether he ever considers those nonrecurring items to be recurring. Mr. Joseph stated that he views nonrecurring items as a way to evaluate management's use of investor capital, so essentially a restructuring charge is a way of management saying that it has not deployed the capital properly and is restructuring to do so. To obtain an accurate evaluation of management's use of capital, he noted that it is necessary to take that restructuring charge or nonrecurring item, spread it back over time, and then calculate a return on capital for the company adjusted for the good decisions and the bad decisions that management has made over time. Mr. Joseph noted that certain nonrecurring items do become recurring and, assuming management does not change, those items are a fairly accurate predictor of what an investor can expect in the future about nonrecurring items and management's use of capital.

Mr. Schieneman thanked Mr. Harris for his presentation and stated that Mr. Joseph now would present the adjustments that a buy-side equity analyst would make to a company's financial statements.

Tailoring Financial Statements for Our Investing Process—Joe Joseph

Mr. Joseph stated that he would focus on how he uses financial reporting data to buy stocks and make investments. He stated that his firm looks at investing similar to how a private investor would—essentially, how much cash will his firm be required to invest, how long will the cash be tied-up, and how much cash will he receive from the investment.

Mr. Joseph described some of the adjustments that his firm makes in analyzing financial statements of companies. He noted that with pensions, he tries to quantify the current service cost and how that cost will change due to the aging of employees and changes in benefits and the size of the workforce. He stated that to get to the current service cost they use the footnotes to make adjustments.

Mr. Joseph stated that another item the analysts adjust for is stock options. He stated that his firm has two approaches for its adjustment for stock options. The first approach is to forecast option grants based on the history of management to issue options and then forecast annual option exercises for the next five years and add them to the current fully diluted share count. He noted that his firm also removes the tax benefit of option exercises from the cash flow statement. Mr. Joseph stated that the second and more precise approach is to take the difference between net income and pro forma net income adjusted for options as disclosed in the footnote and reduce cash flows or operating profits by that difference.

Mr. Joseph stated that another area in which he makes adjustments is operating leases. He stated that his firm capitalizes operating leases by capitalizing rental expense using the cost of capital and adding it to debt. Mr. Joseph stated that on the income statement, he adds back rent expense multiplied by the marginal tax rate. He noted that the present value of operating leases is added to total capital for calculating the return on capital.

Mr. Ehudin stated that in terms of the debt side of operating leases, one may think that it would be very well understood by the user community. However, he noted that a recent article was published about a certain company and its operating leases, and immediately following that article the credit default spreads increased significantly for that company. He stated that this would indicate that perhaps analysts do not understand lease accounting as well as some people may think.

Mr. Joseph stated that another adjustment is made for deferred taxes and that his firm looks at the change in deferred taxes to calculate the cash tax rate. Mr. Joseph stated that he generally does not consider derivatives because the complex disclosures about derivatives in the financial statements are extremely difficult to use.

Mr. Joseph stated that on the issue of financial statement presentation, he agrees with comments made by Mr. Harris and added that his firm spends a lot of time separating operating and financing cash flows. He noted that he focuses primarily on operating activities because he believes that the market does not reward companies for financial engineering. Mr. Joseph noted that his firm separates the income statement into three sections: core business, business partnerships, and financing. He stated that he also separates the balance sheet into operating and financing amounts. His firm also makes changes to the cash flow statement to try to determine the normalized cash flow from the core operations of the company.

Mr. Joseph stated that having more disaggregated information would greatly improve the valuation process for his firm. He noted that his firm tries to determine the organic growth of the company and not the reported growth. Mr. Joseph stated that it is extremely difficult to determine the growth rate for those companies that are serial acquirers.

Mr. Joseph stated that his firm appreciates the reliability and consistency of accounting and the comparability among industries it currently provides. He stated that he finds the footnotes and critical accounting policy disclosures very helpful for valuation purposes. Mr. Joseph stated that he does not prefer accounting guidelines that give management a lot of discretion in developing the numbers. He stated his belief that accounting should be a reporting mechanism to inform users about how the company has used capital in the past and should not be a mechanism for projections and valuation.

Mr. Schieneman noted that Mr. Joseph's forecasting model is based on ratios and historical trends and asked whether having more detailed information about expenses would really have a major impact on the ability to forecast. Mr. Joseph stated that the impact would be significant and noted that the current disaggregation of some expenses is very helpful. Mr. Sherlund stated that for the industry he covers, the software industry, more detailed information about expenses would not have as significant an impact and that it is more important to have more information for revenues.

Mr. Schieneman thanked Mr. Joseph for his presentation and stated that Mr. Jonas now would present the viewpoint of a credit rating agency.

Use of Financial Reporting in the Credit Rating Process—Greg Jonas

Mr. Jonas stated that his views generally are consistent with those expressed by Mr. Harris and Mr. Joseph. He stated that he would discuss briefly how Moody's assesses credit risk, the general principles underlying that analysis, and the use of financial statement data in the ratings process.

Mr. Jonas noted that his comments would reflect the fundamental approach that Moody's uses. He described some of the different needs of creditors versus investors, including understanding the downside risk of the securities and bankruptcy concerns. Mr. Jonas stated that financial reporting covers a majority of the areas that a credit analyst uses, but other information is needed to analyze a company. He stated that credit rating analysts try to understand the business and analyze the segments separately. Mr. Jonas noted the importance of separating core activities from peripheral activities. He added that there is no specific formula to determine what "core" activities are but that individual analysts make that determination through their work. He noted that in making that determination, the sufficiency of information provided in the financial statements is very important.

Mr. Schieneman asked Mr. Jonas whether he would be comfortable allowing management to determine its core activities if the Board decided to require companies to report core numbers.

Mr. Jonas stated that he would be comfortable with that if management provided disclosures about how it decided what to include and what not to include in determining its core activities. Mr. Hill discouraged the Board from adopting the notion of core activities because it is too subjective. He stated that the Board should provide better tools, such as disclosures, for analysts to make the determination for themselves on how to classify certain items. Mr. Quinton noted that sell-side analysts should question companies harder about the classification of recurring versus nonrecurring items and other such items.

Mr. Jonas stated that the analysis of financial statements begins first with adjusting data; second, computing key data and ratios; third, comparing those data with peers; fourth, identifying trends; fifth, projecting financial data; and sixth, doing a stress-test projection. Mr. Jonas stated that analysts from Moody's make adjustments for several reasons, including that GAAP sometimes does not reflect economic reality; for estimates or judgments made by management that are unreasonable; for transactions or events that are unusual or nonrecurring; and to improve consistency and comparability. Mr. Jonas described several of the GAAP adjustments made by his firm's analysts, such as pensions, leases, capitalized interest, and stock compensation.

Mr. Jonas noted that the analysts use many ratios in their analysis and that many of these ratios use cash flow. He agreed with Mr. Harris' earlier comments that the statement of cash flows can be managed just as easily as the income statement or balance sheet. He noted that he came to Moody's supporting the direct method of reporting cash flows but now realizes that few analysts in his firm want the direct method. First, few companies prepare their cash flow statements using the direct method. Second, the analysts would have to recreate the direct method from other information provided in the financial statements—a burdensome activity. Mr. Jonas stated that even if more companies prepared cash flow statements using the direct method, analysts would continue to want the reconciliation provided by the indirect method.

Mr. Jonas noted several areas for which improved disclosures would help in comparability assessments, such as more detail about revenue streams and costs. He stated that analysts from Moody's ask management for additional segment information, in particular, the cash flows that segments generate, which indicates that currently required disclosures may not be sufficient. He stated that another area for improvement is the issue of measurement uncertainty.

Mr. Trott asked whether the Board should require a sensitivity analysis for various assumptions and estimates. Mr. Jonas stated that it would be helpful to know the varying estimates that management had seriously considered, why certain estimates were rejected, and the impact on the amount. Mr. Bukspan added that the sensitivity analysis provided by the OPEB disclosures is helpful. Mr. Ehudin stated that when performing a credit analysis, having more information about the ranges of reasonably possible losses for contingencies would be helpful. Ms. Seidman asked whether it would be more useful if more of those contingencies were recognized on the balance sheet or if more information was disclosed in the footnotes. Mr. Ehudin stated that he would prefer more information in the footnotes.

Mr. Jonas stated that analysts would be able to analyze a company's liquidity more easily with information about a company's peak and average borrowings, an MD&A-type discussion of the cash flow statement, unusual transactions or events, and business combinations.

Mr. Herz noted that the Board has posted on the FASB website a summary of its tentative decisions in the purchase method procedures project. He noted that the Board expects to issue Exposure Drafts related to this project later in 2004 and encouraged Council members to read the Exposure Drafts and send in comment letters.

Mr. Schieneman thanked Mr. Jonas for his presentation and noted that Mr. Hurwich now would present his viewpoint as a hedge fund participant.

Security Valuation and an Approach to Financial Reporting—Adam Hurwich

Mr. Hurwich stated that as an investor he tries to take advantage of opportunities when he believes a security is not valued correctly by the market. He stated that the process of valuing securities begins with understanding what is backing the security, such as the company's business model, and also what is the timing and magnitude of the return on capital. Mr. Hurwich stated that understanding the dynamics and subtleties of accounting is imperative. He noted that the balance sheet and its evolution over time are central to his analysis.

Mr. Hurwich stated that many investors focus on the cash flow statement and determine the free cash flow as a basis for security evaluation, but he believes that approach is not comprehensive enough. Mr. Hurwich stated that his focus in the investing process is on the capital of the company. He noted that if a company is growing and uses debt in its capital structure, then the capacity to support debt grows over time, and the excess capital generated has to take that into account. If management does not have a targeted capital structure, he said that he cannot measure debt capacity and therefore cannot understand management's allocation of that excess capital in reinvestment activities, or the aggressiveness of its return of capital to investors.

Mr. Hurwich noted that the cash flow statement or the balance sheet alone cannot help to understand the capital structure, but that together those statements could provide a reasonably good basis for that understanding. He stated that a good topic for discussion with the managements of companies is their understanding of the tradeoffs between growth and cost of capital, including their perception of value creation. He noted that acquisition-based growth requires a different analysis than organic growth, and that this is one area in which accounting falls short in providing information. Mr. Hurwich stated that it is important to consider sustainability; that is, what are the competitive advantages of a business and how long can they persist. He noted other issues to consider are items such as leasing, gains on sales, and tangible versus stated equity.

Mr. Schieneman thanked Mr. Hurwich for his presentation and noted that Ms. Emmerich would provide the perspective of a fixed income analyst.

Financial Statements in the Investment Decision—Alison Emmerich

Ms. Emmerich stated that as a credit analyst, she focuses on the downside of investments and what the risks are. She noted that she shares many of the same concerns discussed earlier, such as identifying core activities and nonrecurring items. She stated that as a fixed income analyst she does not try to forecast earnings, but tries to make sure that the company can meet its obligations. Ms. Emmerich noted that she emphasizes quality of earnings, long-term trends, and comparability. She noted that certain adjustments made to earnings include nonrecurring items and restructuring charges, pensions, stock options, and goodwill.

Ms. Emmerich stated that she spends a lot of time on adjustments for hedging activities. She noted that she extensively uses the footnote disclosures for these items, but observed that the quality of those disclosures varies from company to company. Ms. Emmerich stated that it is difficult to cover all possible hedging strategies in one accounting standard and suggested that perhaps a broader definition of hedge accounting would be helpful.

Ms. Seidman stated that she would agree with Ms. Emmerich and that the requirements in Statement 133 are geared toward describing what did not go right in a hedging strategy; therefore, quantitative disclosures are required only if you are applying hedge accounting and things did not go right. She stated that the Board is undertaking several projects that may alleviate some of Ms. Emmerich's concerns. In the fair value measurement project, the Board has proposed disclosures that summarize the items in the financial statements that are remeasured at fair value and describe how those fair value estimates are made. Ms. Seidman noted that in a hedging situation, a derivative would be included in that disclosure, which could be useful information for certain analysts. The second item is the fair value option project that the Board is considering.

Ms. Emmerich noted that it is difficult to assess the potential risks involved with hedges and that as a fixed income investor those items are crucial to understand. Mr. Silvers noted that although fair value may be the appropriate way to account for those instruments, it may not necessarily convey the risks associated with the derivatives that she seeks.

Ms. Schipper noted that in the fair value option project, the Board is considering a free choice alternative that could be extended to mark designated portions of the balance sheet to market. She noted that free choice creates noncomparability and asked the users for their views.

Mr. Bukspan stated that the analysts he knows would find value in both fair value and historical cost, how fair value is determined, and a sensitivity analysis associated with it. He noted that it is crucial that information be disclosed to help users understand the starting point and the adjustments made to arrive at the ending point. Mr. Hill stated that a free choice may be all right, but that there should be a standard for each industry. He noted that while some may not want comparability for every company, comparability across an industry is critical. He noted the difficulties in determining which companies fit particular industries.

Ms. Emmerich stated that differences between regulatory requirements and GAAP requirements can make it difficult to understand an institution's financial condition. For example, unrealized gains and losses from available-for-sale securities are not included in regulatory capital but are included in other comprehensive income. On the issue of liquidity and funding risk, she noted that more information about off-balance-sheet items, such as guarantees and stand-by letters of credit, would be helpful. Ms. Emmerich stated that FIN 46(R) complicates the assessment of the capital, profitability, and funding of a company. She noted that additional disclosures, such as more descriptions of the assets

consolidated from special-purpose entities and what is supporting the assets, would be beneficial. Mr. Herz stated that the disclosure requirements under FIN 46(R) were intended to include that information and that either companies are not complying with those disclosures or the disclosures are not clear.

Ms. Emmerich stated that as an analyst she wants to know what the expected loss in the loan portfolio is and the cushion available if losses continue to rise. She noted that the cursory loan information on the balance sheet is not particularly useful by itself. Ms. Emmerich noted that it is difficult to assess the risk with credit default swaps. Ms. Seidman stated that the Board has identified issues regarding credit loss as an area that it may reconsider. Mr. Harris said that some believe that the accounting for credit risk induces the wrong economic behavior.

Mr. Schieneman thanked Ms. Emmerich for her presentation.

Income Taxes

Mr. Schieneman asked the Council members to discuss how they deal with taxes in their forecasts and the usefulness of the disclosures for income taxes.

Mr. Joseph noted that because an analyst discounts cash flows in a valuation, it is necessary to project a consistent tax rate for those cash flows. He noted that another issue is what to do with unrepatriated foreign earnings. Mr. Joseph noted that his firm adjusts for the unrepatriated foreign earnings by asserting that the amount of earnings that has been reinvested will be captured in the capital expenditure line on a consolidated basis and the uninvested portion would show up as cash on the consolidated books. He noted that if the company can bring the earnings back and meet the requirements to reinvest then those earnings are accounted for as such; if not, a reduction is made to the cash amount by the estimate of the tax liability. Mr. Joseph noted that another tax issue requiring a significant amount of time is net operating losses and the extent to which there is a cash benefit. He noted that he also tracks changes in deferred tax expense because studies have shown that as deferred tax expense increases, the likelihood of that stock underperforming increases significantly. Mr. Herz asked Mr. Joseph to what extent he uses the disclosure of taxes paid in the statement of cash flows. Mr. Joseph stated that he does not use that information.

Mr. Quinton stated that analysts spend a significant amount of time projecting revenue, but less on costs, and even less on taxes. The reason for this, he noted, is because it is easy to contact the company and ask what the projected tax rate is. Mr. Quinton also noted that deferred taxes are difficult to analyze and to understand increases or decreases. He stated that more discussion about deferred taxes in the MD&A would be helpful.

Mr. Schieneman asked how analysts deal with forecasting taxes for entities that have tax complications in multiple jurisdictions. Mr. Friedman noted that he does not spend a significant amount of time trying to forecast taxes. Mr. Hill noted that more time is spent

by analysts on the revenue of companies than on taxes because with revenue one has the opportunity to develop a better forecast than what the company's management may project. However, with taxes, one cannot project better than management, and therefore many analysts rely on management for that information. Ms. Pegg noted that the footnote is often used to gauge the sustainability of the tax rate.

Mr. Jonas agreed that he tries to analyze the sustainability of the rate for cash taxes paid. He noted that his firm often questions whether deferred tax liabilities really are liabilities and the circumstances in which they are not. Mr. Jonas stated that his firm discounts long-term deferred tax assets that relate to an undiscounted pretax amount. He noted that another area that is important to consider is exposure for companies that have taken aggressive tax positions.

Mr. Harris stated that in the example of a tax footnote in the discussion materials, the second-largest balance under the heading Deferred Tax Assets is "Other." He noted that this makes analysis particularly difficult because that caption is meaningless.

Mr. Schieneman noted that the Board has a project on its agenda to address tax accounting for unrepatriated earnings. He asked the analysts how they use the unrepatriated earnings number.

Mr. Wei said that for fixed-income investments he looks at the cash balance in the balance sheet and reduces it for the amount of taxes that would be paid for bringing those earnings back to the domestic country. He noted that for equity investments he assumes there is no repatriation and makes no adjustment. Ms. Pegg said that in her opinion there is not a broad use of that information.

Mr. Schieneman asked the Council to comment on uncertain tax positions. He noted that the Board is working on an Interpretation that would require that a liability be recognized if it is not probable that the tax position would be sustained. Mr. Joseph stated that he would expect a CEO to take the most aggressive, legal position possible for the benefit of the company, but questioned the logic of requiring disclosure of that position, which could invite IRS scrutiny. Mr. Trott noted that as an investor he would like to know how aggressive the company has been with regard to its tax position.

Mr. Harris noted that the discussion makes it clear that current tax disclosures can be improved and that presently, analysts must go to the company to obtain the needed information.

Conclusion

Mr. Schieneman thanked the Council members and the presenters for their input. Mr. Joseph asked the Board members to comment on the information they found beneficial from the meeting.

Mr. Trott stated that the discussion reaffirmed his belief that users use different information for different purposes. He stated that the discussion helped him to understand that users need more information and that the Board has a continued challenge to try to provide more information. Mr. Trott noted that he would think more about sensitivity analysis and whether that can be provided in a meaningful way, and the other issues the Council presented.

Mr. Herz stated that although there are many different types of users, he heard many express concerns about items such as leases, pensions, and the mixed-attribute model. He also noted that many users asked for more information about operating and financing activities and core activities but that the Board does not necessarily have to define those items. Mr. Herz stated that Council members also would like additional disaggregated information about revenues, costs, and different drivers of costs.

Ms. Seidman thanked the Council for their time and input. She stated that the Board currently is working on many of the issues that are of concern to Council members and that the Board should carefully consider Council members' views as it moves forward with the performance reporting project. Ms. Seidman stated that she was surprised by the comments about the direct method and the statement of cash flows. She also noted that Council members expressed a need for better and more detailed disclosures for several items, including contingencies.

Ms. Schipper noted that the Council demonstrated that it is impossible to meet the divergent needs of all users in a single set of financial statements. She noted that there are many different types of users who seek different information and have varying concerns, although some are similar.

Mr. Schieneman adjourned the meeting at 4:00 p.m.