

Letter of Comment No: 143  
File Reference: EITF03-1A

Microsoft Corporation      Tel 425 882 8080  
One Microsoft Way        Fax 425 936 7329  
Redmond, WA 98052-6399    <http://www.microsoft.com/>

**Microsoft**

October 29, 2004

Mr. Lawrence W. Smith  
Director, Technical Application and Implementation Activities  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5116

Dear Larry:

Microsoft appreciates the opportunity to comment on the Proposed FASB Staff Position EITF Issue 03-1-a, "Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, 'The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments'". We are strongly opposed to paragraph 7 of the FSP which inappropriately severely limits the circumstances that would not call into question an investor's ability or intent to hold other securities to recovery.

We believe the FASB staff has inappropriately imposed the tainting guidance (unexpected and significant) in FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, to a different fact pattern concerning management's intent and ability with respect to impaired securities. The striking difference between the tainting notion for held-to-maturity securities in FAS 115 and the imposition of that notion to the analysis of whether a security is other-than-temporarily impaired is that the date of maturity of a debt security is *known* at the time management indicates its ability and intent to hold a debt security to maturity, whereas the ability and intent to hold an investment until a *forecasted* recovery of fair value is based on an estimated date which is subject to market forces outside the control of management.

Microsoft believes EITF Issue No. 03-1 appropriately takes a principles-based approach in determining whether a security is other-than-temporarily impaired by taking into account an investor's ability and intent to hold an investment for a reasonable period of time sufficient for a forecasted recovery of fair value. We were surprised that the guidance in paragraphs 12 and 16 of EITF Issue No. 03-1 was being interpreted in a bright-line manner such that any sale of a security prior to recovery would taint an investor's intent with respect to other securities. The guidance in the proposed FSP is not much better than this bright-line interpretation due to its severe limits on the circumstances that would not call into question an investor's ability or intent to hold other securities to recovery and therefore unintentionally imposes significant potential economic constraints in prudently managing investment portfolios.

Given that it was not intended to be presumptive and the confusions it has caused, we believe the tainting language should be removed from EITF Issue No. 03-1 and Question

3(b) should be removed from the proposed FSP. Our responses to the specific issues raised in the requests for comments are attached. If you have any questions, please contact me at (425) 703-6094 or Bart Coteles, Microsoft's Treasury Controller, at (425) 703-9666.

Sincerely,

Bob Laux  
Director, Technical Accounting and Reporting

### **Minor Impairments**

*Issue 1: The Board considered defining minor impairment as an impairment of 5 percent or less. Some Board members believe that minor impairments can be considered temporary without further analysis because normal interest rate and/or sector spread volatility is expected to eliminate a minor impairment. Some Board members disagree with defining minor impairment as an impairment of 5 percent or less because that definition embodies assumptions about the volatility of the applicable interest rate. Others prefer that the guidance not provide a “bright-line” test. For these reasons, the Board generally supported the notion that minor impairments can be considered temporary and did not support including either additional guidance or a numerical threshold to be used in determining whether an impairment is minor. Do you believe that financial statement preparers and auditors will be able to apply the notion of “minor impairment” without any additional guidance from the FASB? If not, do you believe that the Board should specify a numerical rule or threshold and, if so, what would that rule or threshold be?*

Response: We certainly hope that financial statement preparers and auditors will be able to apply the notion of “minor impairment” without any additional guidance from the FASB, or the move to principles-based standards is doomed for failure.

### **Limiting the Notion of Minor Impairments to Debt Securities Evaluated for Impairment Pursuant to Paragraph 16 of Issue 03-1**

*Issue 2: The Board generally believes that it is appropriate to limit the notion of “minor impairments” that would not create the need for an ability and intent assertion to debt securities analyzed for impairment under paragraph 16 that are impaired because of interest rate and/or sector spread increases, since, absent a sale prior to recovery or maturity, such impairments will be recovered. Because the same cannot be said for debt securities that can be contractually prepaid or otherwise settled in such a way that the investor would not recover substantially all of its cost and equity securities, the Board generally does not support extending the exclusion to investments analyzed for impairment under paragraphs 10–15 of Issue 03-1. However, some Board members support expanding the notion of “minor impairments” to all investments analyzed under Issue 03-1 because they acknowledge that normal price volatility may eliminate an impairment. Do you support the Board’s conclusion to limit the notion of “minor impairments” to debt securities analyzed for impairment under paragraph 16 that are impaired because of interest rate and/or sector spread increases? If not, why?*

Response: No, we believe the notion of “minor impairments” is a practical expedient in performing an other-than-temporary impairment analysis and should be applicable to all securities covered by EITF Issue No. 03-1.