Letter of Comment No: 10
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Microsoft

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Ms. Suzanne Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Re: File Reference Nos. 1200-100, 1200-200, 1200-300, and 1200-400

Dear Sue:

Microsoft appreciates the opportunity to respond to the Exposure Drafts (EDs), "Inventory Costs", "Earnings per Share", "Exchanges of Productive Assets", and "Accounting Changes and Error Corrections", which are part of the FASB's Short-Term International Convergence project. Microsoft is a strong supporter of a single set of high-quality global accounting standards and commends the Board for its commitment to converge accounting standards.

As indicated in the EDs, the scope of the Short-Term International Convergence project is limited to those differences in which convergence around a high-quality solution would appear to be achievable in the short-term, usually by selecting between existing International Financial Reporting Standards and U.S. GAAP. In seeking a high-quality solution, we believe it is critical that an objectives-oriented approach be taken. This is consistent with the SEC's Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting System, which states that "Since the convergence project will require both Boards to seek a high-quality solution to the accounting issues addressed within an objectives-oriented regime, we believe that much of the transition towards a more objectives-oriented regime could occur along with convergence efforts". Microsoft does not believe that the commercial substance guidance in the Exchanges of Productive Assets ED or the impracticability guidance in the Accounting Changes and Error Corrections ED are consistent with an objectives-oriented approach to standards setting.

Exchanges of Productive Assets

APB Opinion No. 29, *Accounting for Nonmonetary Transactions,* has a clear objective, accounting for nonmonetary transactions should be based on the fair values of the assets (or services) involved. Obviously, an exception to this objective would occur if the fair value of neither the asset received nor the asset relinquished is determinable within

reasonable limits. We also concur with the Board that an exception should occur where the nonmonetary transaction lacks commercial substance.

However, we are opposed to the ED's requirement that commercial substance be assessed by comparing the expected cash flows of the entity immediately before and after the exchange, as it reduces the principle of commercial substance to a rules-based concept predicated on a mathematical approach comparing expected future cash flows. Rather, we believe guidance on the principle of commercial substance should describe characteristics of whether a transaction has commercial substance, similar to the current guidance in paragraphs 25 and 26 of ABP Opinion No. 29 on determining whether fair value is determinable. Furthermore, this approach to describing the principle of commercial substance would eliminate the perceived need to provide guidance concerning tax cash flows, which we believe is not the type of guidance which should be included in an objectives-oriented accounting standard.

Accounting Changes

Similar to APB Opinion No. 29, the Accounting Changes and Error Corrections ED that would supersede APB Opinion No. 20, *Accounting Changes,* contains a clear objective, a change in accounting principle shall be reported by retrospective application unless it is impracticable to determine either the cumulative effect or the period-specific effects of the change. However, similar to the Productive Assets ED, the Board deemed it necessary to list specific conditions that must exist in order to use the impracticability exception.

This is in stark contrast to an approach of describing the principle of impracticability, especially since a more a principles-based approach to describing impracticability is currently used in a number of standards, including FAS 107, *Disclosures about Fair Value of Financial Instruments,* FAS 109, *Accounting for Income Taxes,* and FAS 131, *Disclosures about Segments of an Enterprise and Related Information.* At the very least, Microsoft strongly believes the concept of impracticability should include the notion of excessive costs, which is included in each of the standards referenced above.

If you have any questions, please do not hesitate to contact me at (425) 703-6094.

Sincerely,

Bob Laux
Director, Technical Accounting and Reporting