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**Microsoft**

August 15, 2008

Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

*1590-100*

LETTER OF COMMENT NO. 105

Re: File Reference No. 1590-100

Dear Russ:

Microsoft appreciates the opportunity to respond to the Exposure Draft (ED), "Accounting for Hedging Activities". Microsoft supports the current proposal to amend Statement No. 133 and believes the revised approach will simplify the accounting for hedging activities. We have specific comments with respect to forecasted intercompany transactions, critical terms matching, time value of purchased options, interest rate risk, and effective date.

Forecasted Intercompany Transactions

Microsoft agrees with the proposal to eliminate bifurcation-by-risk with the two exceptions for foreign currency risk and interest rate risk for an entity's own debt as indicated in the ED. As discussed in the Basis for Conclusions of the ED, eliminating the ability of an entity to designate only foreign currency risk as the hedged risk would not be feasible in this project because it would necessitate reconsideration of Statement No. 52.

However, we believe the Board needs to clarify its intent with regards to cash flow hedges of forecasted foreign currency denominated intercompany transactions. The ED amends paragraph 40 of Statement No. 133 by adding the following sentence:

> However, the requirement in paragraph 29(c) that the forecasted transaction presents an exposure to variations in cash flows that could affect reported earnings must still be met at the level being reported on. (For example, in the financial statements of a consolidated entity, there would need to be a potential earnings effect that survives consolidation.)

It is our understanding that this amendment to Statement No. 133 only emphasizes existing requirements for hedge accounting with respect to intercompany transactions, but we have heard some express the belief that this amendment of Statement No. 133 effectively eliminates hedge accounting for all forecasted intercompany transactions.

Critical Terms Matching

Microsoft also agrees with the proposal to eliminate critical terms matching. However, with respect to recognizing ineffectiveness in earnings for foreign currency risks, we believe there should be a specific reference to paragraph 29 of Statement No. 52 which allows for the use of averages or other methods of approximation when translating revenue.

Time Value of Purchased Options

Similar to forecasted intercompany transactions, we also believe the Board needs to clarify its intent with respect to the time value component of a purchased option. Paragraph A33 of the ED indicates the following:

> The Board believes that the time value component of a purchased option represents ineffectiveness that should be reported in earnings. However, to simplify the cash flow hedge accounting model and to provide consistency with the way the time value component of a purchased option is accounted for under the foreign currency cash flow hedging model, the Board decided to allow deferral of the time value component. If an entity defers the time value component in other comprehensive income, it would need to reclassify from other comprehensive income to earnings each period on a rational basis an amount that adjusts earnings for the amortization of the cost of the option.

We were surprised this guidance was in the Basis for Conclusions of the ED rather than the proposed Statement itself and believe the Board needs to be more specific concerning when the time value of an option should be amortized to earnings.

Interest Rate Risk

As indicated above, Microsoft agrees with the exception that permits an entity to designate only interest rate risk as the hedged risk associated with an entity's own issued or borrowed debt. However, we disagree with the requirement that this exception be permitted only at the inception of the debt. Consistent with the discussion in the Alternative Views of the ED, it is very common for companies to put on the hedge after the issuance of the debt in response to changes in the interest rate environment.

Effective Date

Even if a final Statement is issued by December 31, 2008 as indicated in the ED, Microsoft does not believe that provides enough time for us to adopt the Statement for our fiscal year beginning July 1, 2009. Given the requirements to dedesignate and designate new hedging relationships under the proposed Statement, we believe the proposed Statement should be effective for fiscal years beginning after December 15, 2009.

If you have any questions, please contact me at (425) 703-6094.

Sincerely,

Bob Laux
Senior Director, Technical Accounting and Reporting