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January 31, 2011

Technical Director Financial Accounting Standards Board 401 Merritt 7 Norwalk, CT 06856-5116

Re: File Reference No. 1890-100

Dear Technical Director:

Microsoft appreciates the opportunity to respond to the Discussion Paper (DP), "Effective Dates and Transition Methods". The effort to implement the projects that are the subject of this DP will be significant. The types of costs that will be incurred in planning for and adopting the new requirements are numerous and include IT systems changes, process development, employee training, dual reporting costs, contract-by-contract analysis of agreements and possible changes to them, changes to internal controls, increased external auditor engagement, changes to internal reporting, communication/education of the changes to senior management, our audit committee and board of directors, communication/education of the changes to investors, potential changes to income tax reporting and planning, and possible changes to incentive compensation.

Furthermore, we believe the cost and effort will be heavily impacted by the transition method required for the projects. Microsoft does not agree with the transition method as proposed for each project. Except for the Other Comprehensive Income project (which is a disclosure only project), we have objected to a requirement for retrospective transition in our individual comment letters on the projects, given the costs of that transition method versus what we believe is the actual needs of the users of financial statements. Microsoft strongly recommends that the FASB embrace a transition method similar to that provided under Accounting Standards Update (ASU) 2009-13, *Multiple-Deliverable Revenue Arrangements*.

That ASU allows a prospective transition method (with the option of retrospective transition if an entity so desires), but requires that both qualitative and quantitative information be disclosed that enables users of the financial statements to understand the effects of the change in accounting principle. One example of a quantitative disclosure would be to disclose information on the amounts that would have been recognized under the new guidance in the year before the year of adoption. Microsoft believes this type of information will provide users the information they desire while significantly reducing the costs of implementing these new proposals.

We believe the FASB needs to take a critical look at who is using comparable information from more than a year in the past and the purpose of that use. It has been our

experience that our users are most interested in comparisons to analysts' consensus, followed by comparisons to the prior year. To be quite frank, in the current fast changing environment, information from more than a year in the past seems, in many respects, to be ancient history.

During our initial project looking at the effort necessary to possibly adopt International Financial Accounting Standards, we quickly learned the extreme difficulty of trying to restate information from what was produced from our financial reporting systems. In order to do it properly, we strongly believe we need to have our systems and infrastructure in place for the new requirements prior to any periods that need to be restated for external reporting purposes. Microsoft, like many global companies, has a complex array of Enterprise Resource Planning (ERP) and reporting systems that are subject to competing internal and external needs. We must prioritize, fund, and plan systems modifications to meet ever-changing requirements. Implementing the new guidance would require changes to many of our systems and processes at a transaction level. Based on experience with other significant transaction level modifications, it will take up to two years or more to implement successfully. Aside from the systems changes, educating our employees, including senior management, for a change of this magnitude will require a year or more.

Microsoft therefore believes it would need at least three years prior to adoption to learn about each proposal, appropriately train personnel, plan for, and implement the new standards. It is important to note that this three year time period is based on the condition that these standards will be adopted on a prospective basis. If a standard is required to be adopted retrospectively, additional time is needed. For example, if two years of prior period income statements are required to be presented in the year of adoption, a time period of at least five years would be needed.

With respect to an overall implementation plan covering all of the standards that are the subject of the DP, there are advantages and disadvantages to the single date approach and the sequential approach, but on balance, Microsoft prefers a single date approach. Whenever we have significant changes to our financial reporting, be it an adoption of a new accounting standard, a significant deferral of revenue in relation to a new product introduction or a significant change to our reported operating segments, Microsoft normally has a conference call with our investors to explain the changes in detail prior to our actual earnings announcement. We find this separate conference call allows us to explain the pending changes to our investors in significant detail and avoids confusion during the actual reporting of our results. Given the significant changes encompassed with the proposed changes, we feel it would be preferable to try to explain the changes to our investors at a single point in time, rather than sequencing a number of calls with our investors to explain different changes over a period of time.

On the other hand, given the significance of the proposed changes, executing all the changes under a single date approach is quite a daunting task, reinforcing the importance of allowing significant lead time for companies to implement the proposed changes.

On balance, and with the caveat that sufficient time will be given to implement the proposed changes, Microsoft believes the single date approach will allow our investors to better understand the changes and will result in a more efficient process for them versus multiple communications of changes under a sequential approach. If, however, the FASB decides to go with a sequential approach, Microsoft believes the potential standard on Financial Statement Presentation should be last in the sequence.

Our responses to the questions raised in the DP are attached. If you have any questions, please contact me at (425) 703-6094.

Sincerely,

Bob Laux Senior Director, Financial Accounting and Reporting

Attachment

Question 1— Please describe the entity (or the individual) responding to this Discussion Paper. For example:

- a. Please indicate whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor, or other user of financial statements (such as a regulator). Please also indicate whether you primarily prepare, use, or audit financial information prepared in accordance with U.S. GAAP, IFRSs, or both.
- b. If you are a preparer of financial statements, please describe your primary business or businesses, their size (in terms of the number of employees or other relevant metric), and whether you have securities registered on a securities exchange.
- c. If you are an auditor, please indicate the size of your firm and whether your practice focuses primarily on public companies, private entities, or both.
- d. If you are an investor, creditor, or other user of financial statements, please describe your job function (buy side/sell side/regulator/credit analyst/lending officer), your investment perspective (long, long/short, equity, or fixed income), and the industries or sectors you specialize in, if any.
- e. Please describe the degree to which each of the proposed new standards will likely affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business and investors might explain the significance of the transactions to the particular industries or sectors they follow).

Response: Microsoft is a preparer of U.S. GAAP financial statements. We generate revenue by developing, manufacturing, licensing, and supporting a wide range of software products and services. We also design and sell hardware, including the Xbox 360 gaming and entertainment console. We employ approximately 90,000 people on a full-time basis and our common stock is traded on the NASDAQ Stock Market. The proposed new standards that are the subject of this ED will have a significant impact on Microsoft, with revenue recognition, financial instruments and leases having the biggest impact.

Question 2— Focusing only on those proposals that have been published as Exposure Drafts (accounting for financial instruments, other comprehensive income, revenue recognition, and leases):

a. How much time will you need to learn about each proposal, appropriately train personnel, plan for, and implement or otherwise adapt to each the new standard? b. What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?

Response: With respect to the other comprehensive income proposal, we believe we would need only one year to adopt the new standard as the information is already available and it is just a change in the presentation of the information. Even though the information is already available, the request for a one year time period is due to the desire

to be able to change our financial reporting systems in order to directly produce a statement of comprehensive income, instead of creating that statement outside the systems based on information already available.

With respect to the accounting for financial instruments, revenue recognition, and leases, Microsoft believes it would need at least three years prior to adoption to learn about each proposal, appropriately train personnel, plan for, and implement the new standards. It is important to note that this three year time period is based on the condition that these standards will be adopted on a prospective basis. If a standard is required to be adopted retrospectively, additional time is needed. For example, if two years of prior period income statements are required to be presented in the year of adoption, a time period of at least five years would be needed.

During our initial project looking at the effort necessary to possibly adopt International Financial Accounting Standards, we quickly learned the extreme difficulty of trying to restate information from what was produced from our financial reporting systems. In order to do it properly, we strongly believe we need to have our systems and infrastructure in place for the new requirements prior to any periods that need to be restated for external reporting purposes.

The types of costs that will be incurred in planning for and adopting the new requirements are numerous and include IT systems changes, process development, employee training, dual reporting costs, contract-by-contract analysis of agreements and possible changes to them, changes to internal controls, increased external auditor engagement, changes to internal reporting, communication/education of the changes to senior management, our audit committee and board of directors, communication/education of the changes to investors, potential changes to income tax reporting and planning, and possible changes to incentive compensation. In terms of the relative significance of each cost component, IT systems changes will be the most significant given our complex global IT environment and the need to make modifications at a transaction level.

Question 3— Do you foresee other effects on the broader financial reporting system arising from these new standards? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?

Response: We are not currently aware of examples where the proposed new financial reporting requirements conflict with other regulatory or tax reporting requirements, but, as noted above, they may cause changes to income tax reporting and planning. For instance, the proposed new requirements will most likely impact the calculation of deferred taxes and could impact items such as transfer pricing.

Question 4— In the context of a broad implementation plan covering all the new requirements, do you agree with the transition method as proposed for each project? If not, what changes would you recommend and why? In particular, please explain the

primary advantages of your recommended changes and their affect on the cost of adapting to the new reporting requirements.

Response: No, Microsoft does not agree with the transition method as proposed for each project. Except for the Other Comprehensive Income project (which is a disclosure only project), we have objected to a requirement for retrospective transition in our individual comment letters on the projects, given the costs of that transition method versus what we believe is the actual needs of the users of financial statements. Microsoft strongly recommends that the FASB embrace a transition method similar to that provided under Accounting Standards Update (ASU) 2009-13, *Multiple-Deliverable Revenue Arrangements*.

That ASU allows a prospective transition method (with the option of retrospective transition if an entity so desires), but requires that both qualitative and quantitative information be disclosed that enables users of the financial statements to understand the effects of the change in accounting principle. One example of a quantitative disclosure would be to disclose information on the amounts that would have been recognized under the new guidance in the year before the year of adoption. Microsoft believes this type of information will provide users the information they desire while significantly reducing the costs of implementing these new proposals.

We believe the FASB needs to take a critical look at who is using comparable information from more than a year in the past and the purpose of that use. It has been our experience that our users are most interested in comparisons to analysts' consensus, followed by comparisons to the prior year. To be quite frank, in the current fast changing environment, information from more than a year in the past seems, in many respects, to be ancient history.

Question 5— In thinking about an overall implementation plan covering all of the standards that are the subject of this Discussion Paper:

- a. Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimize the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimizing disruption, or other synergistic benefits).
- b. Under a single date approach, what should the mandatory effective date be and why? c. Under the sequential approach, how should the new standards be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new standards.
- d. Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.

Response: There are advantages and disadvantages to the single date approach and the sequential approach, but on balance, Microsoft prefers a single date approach. Whenever

we have significant changes to our financial reporting, be it an adoption of a new accounting standard, a significant deferral of revenue in relation to a new product introduction or a significant change to our reported operating segments, Microsoft normally has a conference call with our investors to explain the changes in detail prior to our actual earnings announcement. We find this separate conference call allows us to explain the pending changes to our investors in significant detail and avoids confusion during the actual reporting of our results. Given the significant changes encompassed with the proposed changes, we feel it would be preferable to try to explain the changes to our investors at a single point in time, rather than sequencing a number of calls with our investors to explain different changes over a period of time.

On the other hand, given the significance of the proposed changes, executing all the changes under a single date approach is quite a daunting task, reinforcing the importance of allowing significant lead time for companies to implement the proposed changes. As indicated previously, Microsoft believes it would need at least three years prior to adoption to learn about each proposal, appropriately train personnel, plan for, and implement the new standards. It is important to note that this three year time period is based on the condition that these standards will be adopted on a prospective basis. If a standard is required to be adopted retrospectively, additional time is needed.

On balance, and with the caveat that sufficient time will be given to implement the proposed changes, Microsoft believes the single date approach will allow our investors to better understand the changes and will result in a more efficient process for them versus multiple communications of changes under a sequential approach. If, however, the FASB decides to go with a sequential approach, Microsoft believes the potential standard on Financial Statement Presentation should be last in the sequence.

Question 6— Should the Board give companies the option of adopting some or all of the new standards before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

Response: Given the significant costs that will be incurred in implementing the proposed new standards, companies should have the option of adopting the standards before their mandatory effective dates.

Question 7— For which standards, if any, should the Board provide particular types of entities a delayed effective date? How long should such a delay be and to which entities should it apply? What would be the primary advantages and disadvantages of the delay to each class of stakeholders (financial statement preparers, financial statement users, and auditors)? Should companies eligible for a delayed effective date have the option of adopting the requirements as of an earlier date?

Response: The FASB should follow its normal procedures on deciding on whether particular types of entities should be provided a delayed effective date.

Question 8— Should the FASB and IASB require the same effective dates and transition methods for their comparable standards? Why or why not?

Response: Yes, given the importance of international convergence, we believe the FASB and IASB should require the same effective dates and transition methods for their comparable standards

Question 9— How does the Foundation's ongoing evaluation of standards setting for private companies affect your views on the questions raised in this Discussion Paper?

Response: It is readily apparent that upon the formation of the blue-ribbon panel, the FASB dramatically increased its activities with respect to private entities. We believe one item that has been missing from the debate is how this significant increase in activities with respect to private entities will impact the FASB's ability to fully and adequately address public company reporting issues. While many issues impact both public and private entities, there are also significant differences, especially given the Sarbanes—Oxley Act. For instance, it is our understanding that the FASB will appoint one staff member to each project to focus exclusively on private company issues. Given the limited resources of the FASB, one would presume that this will impact the FASB's ability to fully and adequately address public company reporting issues.