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October 28, 2005

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

Re: File Reference No. 1205-001

Dear Sue:

Microsoft appreciates the opportunity to respond to the Exposure Draft (ED), "Consolidated Financial Statements, Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries". Similar to our April 30, 2001 response to the liabilities and equity ED, we disagree with the Board's conclusion that shares of a consolidated subsidiary that represent the noncontrolling interests should be accounted for and reported as equity of the consolidated entity.

While we agree with the Board that noncontrolling interests do not meet the current definition of liabilities in FASB Concepts Statement No. 6, *Elements of Financial Statements*, we believe it is compelling that a substantial majority of respondents to the consolidations ED and the liabilities and equity ED asserted that noncontrolling interests are not equity interests in consolidated financial statements. We suspect that outcome will occur yet again this third time around. Given that the FASB has a Conceptual Framework project on its agenda, we believe it would be prudent to address this issue as part of that project.

In addition, similar to our response to the Business Combinations ED, we disagree that the Board's conclusions reflect the underlying economics. For instance, in the sale of an interest in an entity that results in loss of control, the underlying economic transaction is the sale of that interest. While the loss of control results in an accounting outcome of not consolidating the entity, we fail to see why that outcome should result in a remeasurement event for the retained interest of the entity.

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

Sincerely,

Bob Laux Director, Technical Accounting and Reporting

Questions 1 and 2—Reporting Noncontrolling Interests in the Consolidated Statement of Financial Position

This proposed Statement would define a noncontrolling interest as the portion of the equity (residual interest) in a subsidiary attributable to the owners of the subsidiary other than the parent and the parent's affiliates. The Board concluded that the noncontrolling interest in the net assets of a subsidiary should be reported in the consolidated statement of financial position within equity, and presented separately from the parent shareholders' equity (refer to paragraphs B10–B14). This conclusion is the same as the conclusion reached when the Board considered this issue as part of the October 1995 Exposure Draft, Consolidated Financial Statements: Policy and Procedures, and the October 2000 Exposure Draft, Accounting for Financial Instruments with Characteristics of Liabilities, Equity, or Both.

Question 1—Do you agree that the noncontrolling interest is part of the equity of the consolidated entity? If not, what alternative do you propose and why?

Question 2—Do you agree with the proposed requirement to present the noncontrolling interest in the consolidated statement of financial position within equity, separately from the parent shareholders' equity? If not, what alternative do you propose and why?

Response: Similar to our April 30, 2001 response to the liabilities and equity ED, Microsoft disagrees with the Board's conclusion that shares of a consolidated subsidiary that represent the noncontrolling interests should be accounted for and reported as equity of the consolidated entity. While we agree with the Board that noncontrolling interests do not meet the current definition of liabilities in FASB Concepts Statement No. 6, *Elements of Financial Statements*, we believe it is compelling that a substantial majority of respondents to the consolidations ED and the liabilities and equity ED asserted that noncontrolling interests are not equity interests in consolidated financial statements. We suspect that outcome will occur yet again this third time around. Given that the FASB has a Conceptual Framework project on its agenda, we believe it would be prudent to address this issue as part of that project.

Question 3—Attributing Consolidated Net Income and Consolidated Comprehensive Income to the Controlling and Noncontrolling Interests

This proposed Statement would require that net income or loss and each component of other comprehensive income be attributed to the controlling and noncontrolling interests based on relative ownership interests unless the controlling and noncontrolling interests have entered into a contractual arrangement that requires a different attribution between them. In that case, net income or loss and the components of other comprehensive income would be attributed to the controlling and noncontrolling interests based on the contractual requirements of that arrangement. Additionally, losses applicable

to the noncontrolling interest of a subsidiary would be attributed to the noncontrolling interest even if those losses exceed the noncontrolling interest in the subsidiary's equity (refer to paragraphs B15–B19).

Question 3—Do you agree with the proposed requirements for attributing net income or loss and the components of other comprehensive income to the controlling and noncontrolling interests? If not, what alternative do you propose and why?

Response: We agree that net income or loss and other comprehensive income or loss should be attributed to the controlling and noncontrolling interests based on relative ownership interests unless the controlling and noncontrolling interests have entered into a contractual arrangement that requires a different attribution between then. As we disagree with the Board's conclusion that the noncontrolling interest is part of the equity of the consolidated group, we do not believe losses applicable to the noncontrolling interest of a subsidiary should be attributed to the noncontrolling interest if those losses exceed the noncontrolling interest in the subsidiary's equity, unless the noncontrolling interest has an obligation to contribute assets to the subsidiary.

Question 4—Changes in Ownership Interests in a Subsidiary

This proposed Statement would require that once control of a subsidiary is obtained, any increases or decreases in ownership interests in that subsidiary that do not result in a loss of control be accounted for as equity transactions. Any difference between the amount by which the noncontrolling interest is adjusted and the fair value of the consideration paid or received, if any, would be recognized directly in equity attributable to the controlling interest (for example, additional paid-in capital). Thus, the acquisition of some or all of the noncontrolling interest in a subsidiary would not be accounted for by the *purchase method* as in current practice (now called the *acquisition method* in proposed Statement 141(R)). That decision is consistent with the Board's tentative decision that at the time the parent obtains control of a subsidiary, the assets (including goodwill) and liabilities of the subsidiary would be recorded at their fair values rather than partially at fair value and partially at carryover basis (refer to paragraphs B22–B29).

Question 4—Do you agree that changes in ownership interests in a subsidiary after control is obtained that do not result in a loss of control should be accounted for as equity transactions? If not, what alternative do you propose and why?

Response: No, we believe that purchases of an additional ownership interest in a subsidiary after control is obtained should be accounted for as step acquisitions and sales of ownership interest should result in a gain or loss.

Questions 5 and 6—Loss of Control of Subsidiaries

This proposed Statement would require that on the date control of a subsidiary is lost, any retained investment in the former subsidiary be remeasured to its fair value in the

consolidated financial statements with any gain or loss included in consolidated net income of the period. That decision is based on the Board's conclusion that the loss of control of a subsidiary is a significant economic event that changes the nature of the underlying investment. The parent-subsidiary relationship ceases to exist and an investor-investee relationship begins (refer to paragraphs B30–B33). That decision is consistent with the Board's tentative decision that obtaining control of a business is a significant economic event that should result in the recognition in income of any gains or losses on any preacquisition equity investments.

Question 5—Do you agree that any gain or loss resulting from the remeasurement of a retained investment in a former subsidiary should be recognized in income of the period? If not, what alternative do you propose and why?

Response: No, as we disagree that the Board's conclusion reflects the underlying economic transaction. In the sale of an interest in an entity that results in loss of control, the underlying economic transaction is the sale of that interest. While the loss of control results in an accounting outcome of not consolidating the entity, we fail to see why that outcome should result in a remeasurement event for the retained interest of the entity.

Question 6

As noted in Question 4, this proposed Statement would require that once control of a subsidiary is obtained, changes in ownership interests in that subsidiary that do not result in a loss of control be accounted for as equity transactions. Therefore, no gain or loss would be recognized in consolidated net income. In contrast, as noted in Question 5, a decrease in ownership interests resulting in the loss of control of a subsidiary would result in any gain or loss being recognized in consolidated net income. The Board is aware that differences in accounting that depend on whether a change in control occurs could create opportunities for entities to structure transactions to achieve a particular accounting result. Therefore, this proposed Statement includes factors to consider for determining whether multiple arrangements that result in a loss of control should be accounted for as a single arrangement (refer to paragraphs B35 and B36).

Question 6—Do you agree with the proposed guidance for determining whether multiple arrangements should be accounted for as a single arrangement? If not, what alternative do you propose and why?

Response: No, and the fact this guidance is even necessary should be a strong indication to the Board that while the ED is theoretically correct based on current guidance in the Concepts Statements, there is strong indications that it will not result in an improvement in financial reporting. Furthermore, we believe this guidance is more akin to auditing guidance and that it does not belong in an accounting standard.

Question 7—Reporting Earnings per Share

This proposed Statement would amend Statement 128 to specify the computation,

presentation, and disclosure requirements for earnings per share if a parent has one or more partially owned subsidiaries. The Board believes that the presentation of earnings per share information is for the benefit of the common shareholders of the parent. Thus, although amounts for both the controlling interest and the noncontrolling interest would be reported in consolidated net income, the Board believes that earnings per share data in consolidated financial statements that include subsidiaries that are partially owned should be calculated using only amounts attributable to the controlling interest. That practice is consistent with how entities reported earnings per share before the issuance of this proposed Statement (refer to paragraphs B51 and B52).

Question 7—Do you agree that earnings per share amounts should be calculated using only amounts attributable to the controlling interest? If not, what alternative do you propose and why?

Response: We agree.

Questions 8–12—Disclosures

This proposed Statement would require that a parent with one or more partially owned subsidiaries disclose separately, on the face of the consolidated financial statements, the total amounts of consolidated net income and consolidated comprehensive income, and the amounts of each attributable to the controlling interest and the noncontrolling interest (refer to paragraphs B37 and B38).

Question 8—Do you agree that disclosure of the total amounts of consolidated net income and consolidated comprehensive income, and the amounts of each attributable to the controlling interest and the noncontrolling interest should be required? If not, why?

Response: No, as we disagree with the Board's conclusion that the noncontrolling interest is part of the equity of the consolidated group, income attributable to the noncontrolling interest should be deducted to arrive at consolidated net income and comprehensive income.

Question 9

This proposed Statement would require that a parent with one or more partially owned subsidiaries disclose the amounts attributable to the controlling interest for the following if any of these amounts is reported in the financial statements (refer to paragraph B39):

- 1. Income from continuing operations
- 2. Discontinued operations
- 3. Extraordinary items
- 4. Cumulative effect of changes in accounting principles
- 5. Components of other comprehensive income.

Question 9—Do you agree that disclosure of the amounts attributable to the controlling interest should be required? If not, why?

Response: No, consistent with our response to the previous question.

Question 10

This proposed Statement would require that an entity with one or more partially owned subsidiaries provide a reconciliation of the changes in the noncontrolling interest from the amount reported in equity as of the beginning of each reporting period to the amount reported at the end of each reporting period. That reconciliation would be provided in the consolidated statement of changes in equity, if presented, otherwise in notes to consolidated financial statements.

Question 10—Do you agree that a reconciliation of the changes in the noncontrolling interest should be required? If not, why?

Response: Again, as we disagree that the noncontrolling interest is part of the equity of the consolidated group, we do not believe a reconciliation of the changes in the noncontrolling interests should be required.

Question 11

This proposed Statement would require that a parent with one or more partially owned subsidiaries disclose in notes to the consolidated financial statements a separate schedule that shows the effects of any transactions with the noncontrolling interest on the equity attributable to the controlling interest. An entity that presents earnings per share data also would be required to disclose on that schedule an additional per-share metric that includes in the numerator of the calculation the effects of any equity transactions with the noncontrolling interest. In its exposure draft of proposed amendments to IAS 27, *Consolidated and Separate Financial Statements*, the International Accounting Standards Board (IASB) has decided not to require the disclosure of such a schedule (refer to paragraphs B40–B46).

Question 11—Do you agree that disclosure of a separate schedule that shows the effects of any transactions with the noncontrolling interest on the equity attributable to the controlling interest should be required? Please provide the basis for your position.

Response: We are trouble by the Basis for Conclusions that indicates that users of financial statements would be "interested" in this information and believe this is a classic example of why the FASB needs to establish a disclosure framework so that new disclosure requirements are examined in the context of all existing disclosures and not just within the context of a certain accounting issue.

Question 12

If control of a subsidiary is lost, this proposed Statement would require that the parent disclose (a) the amount of any gain or loss recognized on the loss of control and (b) the caption in the income statement in which that gain or loss is recognized (if not separately presented on the face of the income statement). If the parent retains an investment in the former subsidiary, this proposed Statement also would require disclosure of the portion of the gain or loss related to the remeasurement of the retained investment separately from the disclosure of the total gain or loss recognized.

Question 12—Do you agree that disclosure of the gain or loss recognized on the loss of control of a subsidiary should be required? If not, why?

Response: We disagree with the requirement to disclose the portion of the gain or loss related to the remeasurement of the retained investment separately from the disclosure of the total gain or loss recognized. If the Board truly believes that the economic event is the loss of control of a subsidiary, we fail to see why the Board believes the gain or loss from that event should be bifurcated.

Question 13—Transition

The requirements of this proposed Statement would be applied retrospectively except in limited circumstances for which the Board believes retrospective application is likely to be impracticable (refer to paragraphs B48–B50).

Question 13—Do you agree with the proposed transition requirements? If not, what alternative do you propose and why?

Response: If the Board proceeds with the guidance in the ED, we agree with the proposed transition requirements.