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LETTER OF COMMENT NO. 48

**Microsoft**

May 30, 2008

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. 1550-100

Dear Sue:

Microsoft appreciates the opportunity to respond to the Preliminary Views (PV), "Financial Instruments with Characteristics of Equity". The PV indicates that it is being issued for public comment as a step preceding the development of an Exposure Draft of a proposed Statement of Financial Accounting Standards. We believe this is the wrong approach and that the items discussed in the PV are closely linked to, and should be included within Phase B of the FASB's and IASB's joint conceptual framework project which is reconsidering the definitions of assets, liabilities, and equity. This is consistent with the opening sentence of the Notice for Recipients, which states that the primary purpose of the PV is to solicit comments on the FASB's views on distinguishing between equity and liabilities or assets.

It is especially troubling that the PV is approaching these issues on a standalone basis, as the document does not address the changes to or the interaction with other literature, for example, Statement No. 133 and Statement No. 123(R). As indicated in the PV, "If the basic ownership approach was applied to share-based-payment awards, those awards would be classified as liabilities. FASB Statement No. 123 (revised 2004), *Share-Based Payment*, requires that liability awards be reported using a fair-value-based measure. The Board will need to consider at a future date whether or not share-based-payment awards should be in the scope of any standard resulting from this Preliminary Views". If it is the Board's intention to tackle liability/equity issues within current standards on a piecemeal basis, Microsoft believes it would be appropriate to include the issues discussed in the PV within the broader conceptual framework project rather than within the context of a standalone Statement of Financial Accounting Standards.

While we agree with the statement in Appendix D of the PV that there are practice problems in current GAAP related to instruments within the scope of this project, we do not agree that they need to be resolved at a standards level before the elements definitions

are completed in the conceptual framework project. Microsoft disagrees with the comment in Appendix D that, “the conceptual framework project will address differences created by the standards-level project”. We believe the purpose of the conceptual framework is to provide a sound foundation for developing accounting standards, not to correct differences created by new standards-level projects.

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

Sincerely,

Bob Laux  
Senior Director, Technical Accounting and Reporting