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April 14, 2009

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

Re: File Reference No. 1630-100

Dear Russ:

LETTER OF COMMENT NO. 134

Microsoft appreciates the opportunity to respond to the Discussion Paper (DP), "Preliminary Views on Financial Statement Presentation". We participated in the field test of implementing the DP and have firsthand experience with some of the difficulties in applying the proposed guidance. Microsoft believes that some of the proposals in the DP would improve the usefulness of the information provided in a company's financial statements and help users make decisions in their capacity as capital providers, but certain changes are needed to the DP in order to reduce the cost of implementing and maintaining the proposed presentation model. In particular, while we agree with the proposal for a cohesive set of financial statements by separating information into sections and categories such as business, investing and financing, changes are needed in areas such as the direct cash flows statement and disaggregating income and expense items by nature so that the cost to apply the proposed guidance can be reduced.

Cohesiveness Objective

Microsoft agrees with the cohesiveness objective as presented in the DP. By separating information into sections and categories such as business, investing and financing in each of the financial statements, users will be able to compare operating income with operating cash flows and will also have more complete data for calculating key financial ratios, such as return on net operating assets. We also agree with the management approach for the classification of line items in the financial statements.

Direct Cash Flows Statement

We were unable to produce a direct method cash flows statement as called for in the DP while participating in the field test, as our financial systems did not provide the information to allow us to capture direct cash receipts and cash payments as proposed in the DP. Furthermore, we believe changing our financial systems to capture direct cash receipts and cash payments as called for in the DP would be cost prohibitive.

However, as part of the field test, we did try to present a direct cash flows statement by arriving at line items in an indirect method. Currently, our balance sheet accounts are not disaggregated in order to align with the proposed statement of comprehensive income or the proposed cash flows statement. For example, Microsoft has one set of trade accounts payable and we do not distinguish each accounts payable account to individual expense items by nature. As a result, high level allocations had to be used to estimate the related cash flow impact on the cash flows statement as well as the proposed reconciliation schedule.

While it would result in additional systems work for Microsoft, the Boards may want to consider the costs/benefits of presenting a direct cash flows statement which would be created by companies in an indirect manner. For instance, the Boards could call for a minimal amount of line items, such as cash received from customers and cash paid for payroll and benefits, and let companies decide what additional detail they could provide in a cost effective manner.

Disaggregation by Nature

Similar to the statement of cash flows, we found it difficult to provide information by nature for the field test. One difficulty we ran into was the reallocation of expenses in our financial systems that resulted in overhead amounts where it was not possible to recreate the original nature of the expense. Again, similar to the direct cash flows statement, changing our financial systems to capture this information would be cost prohibitive. Microsoft suggests the Boards allow companies to report information by either function or nature, but not require both. This would be consistent with the management approach in the DP since it will result in financial statements that reflect how management views and manages the company.

Reconciliation Schedule

Given our difficulty of creating a direct cash flows statement and providing disaggregation by nature, once we isolated recurring fair value changes and valuation adjustments, we found the detailed reconciliation schedule to be little more than a mathematics exercise. Microsoft proposes that the Boards abandon the detailed reconciliation schedule, but require that the information concerning recurring fair value changes and valuation adjustments be disclosed in the notes to the financial statements for the benefit of users.

Our responses to the discussion 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 Question 1— Would the objectives of financial statement presentation proposed in paragraphs 2.5–2.13 improve the usefulness of the information provided in an entity's financial statements and help users make better decisions in their capacity as capital providers? Why or why not? Should the Boards consider any other objectives of financial statement presentation in addition to or instead of the objectives proposed in this Discussion Paper? If so, please describe and explain.

Response: Microsoft agrees with the cohesiveness objective as presented in the DP. By separating information into sections and categories such as business, investing and financing in each of the financial statements, users will be able to compare operating income with operating cash flows and will also have more complete data for calculating key financial ratios, such as return on net operating assets. We also agree with the management approach for the classification of line items in the financial statements.

However, we found it difficult to provide information by nature for the field test. One difficulty we ran into was the reallocation of expenses in our financial systems that resulted in overhead amounts where it was not possible to recreate the original nature of the expense. Changing our financial systems to capture this information would be cost prohibitive. Microsoft suggests the Boards allow companies to report information by either function or nature, but not require both. This would be consistent with the management approach in the DP since it will result in financial statements that reflect how management views and manages the company.

Question 2— Would the separation of business activities from financing activities provide information that is more decision useful than that provided in the financial statement formats used today (see paragraph 2.19)? Why or why not?

Response: Yes, Microsoft agrees that companies should present information about the way it creates value separately from information about the way it funds or finances those business activities.

Question 3— Should **equity** be presented as a section separate from the financing section or should it be included as a category in the financing section (see paragraphs 2.19(b), 2.36, and 2.52–2.55)? Why or why not?

Response: We believe equity should be presented as a section separate from the financing section as owner sources of financing should be presented separately from nonowner sources of financing.

Question 4— In the proposed presentation model, an entity would present its discontinued operations in a separate section (see paragraphs 2.20, 2.37, and 2.71—2.73). Does this presentation provide decision-useful information? Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets, and financing liabilities)? Why or why not?

Response: Microsoft agrees with the proposal in the DP to present discontinued operations in a separate section. Information about discontinued operations has different implications for future cash flows than information from continuing operations, which is presented in the relevant categories.

Question 5— The proposed presentation model relies on a management approach to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment (see paragraphs 2.27, 2.34, and 2.39–2.41).

- a. Would a management approach provide the most useful view of an entity to users of its financial statements?
- b. Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach? Why or why not?

Response: While it does reduce potential comparability, Microsoft believes that the management approach provides the most useful view of an entity to users of its financial statements.

Question 6—Paragraph 2.27 proposes that both assets and liabilities should be presented in the business section and in the financing section of the statement of financial position. Would this change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities? Why or why not?

Response: Microsoft agrees with the cohesiveness objective as presented in the DP. By separating information into sections and categories such as business, investing and financing in each of the financial statements, users will be able to compare operating income with operating cash flows and will also have more complete data for calculating key financial ratios, such as return on net operating assets.

Question 7— Paragraphs 2.27, 2.76, and 2.77 discuss classification of assets and liabilities by entities that have more than one reportable segment for segment reporting purposes. Should those entities classify assets and liabilities (and related changes) at the reportable segment level as proposed instead of at the entity level? Please explain.

Response: We agree that an entity should classify its assets and liabilities in the business and financing sections on the basis of the way those items are used in each of its reportable segments.

Question 8— The proposed presentation model introduces sections and categories in the statements of financial position, comprehensive income, and cash flows. As discussed in

paragraph 1.21(c), the Boards will need to consider making consequential amendments to existing segment disclosure requirements as a result of the proposed classification scheme. For example, the Boards may need to clarify which assets should be disclosed by segment: only total assets as required today or assets for each section or category within a section. What, if any, changes in segment disclosures should the Boards consider to make segment information more useful in light of the proposed presentation model? Please explain.

Response: We do not believe the Boards should clarify which assets should be disclosed by segment. For instance, assets are not allocated to segments for internal reporting presentations at Microsoft. Any changes to segment reporting should be considered in light of a comprehensive look at all segment reporting requirements.

Question 9— Are the business section and the operating and investing categories within that section defined appropriately (see paragraphs 2.31–2.33 and 2.63–2.67)? Why or why not?

Response: Microsoft believes the business section and the operating and investing categories within that section are defined appropriately, especially given the management approach in the DP.

Question 10— Are the financing section and the financing assets and financing liabilities categories within that section defined appropriately (see paragraphs 2.34 and 2.56–2.62)? Should the financing section be restricted to financial assets and financial liabilities as defined in IFRSs and U.S. GAAP as proposed? Why or why not?

Response: Similar to our response above, we believe the financing section and the financing liabilities categories within that section are defined appropriately.

Question 11— Paragraph 3.2 proposes that an entity should present a classified statement of financial position (short-term and long-term subcategories for assets and liabilities) except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant.

- a. What types of entities would you expect **not** to present a classified statement of financial position? Why?
- b. Should there be more guidance for distinguishing which entities should present a statement of financial position in order of liquidity? If so, what additional guidance is needed?

Response: Given their business models, we suspect certain financial institutions will not present a classified statement of financial position. We do not believe additional guidance is needed in this area.

Question 12— Paragraph 3.14 proposes that **cash equivalents** should be presented and classified in a manner similar to other short-term investments, not as part of cash. Do you agree? Why or why not?

Response: Microsoft agrees with the proposal, as it allows securities considered to be cash equivalents to be presented in a category different from the category in which cash is classified. However, when presenting the change in cash equivalents in the cash flows statement, companies should be allowed to present this on a net basis instead of being required to present gross inflows and outflows of cash equivalents. Our financial systems do not currently provide this level of detail and we question the usefulness of a requirement to present gross inflows and outflows for securities that have an original maturity of three months or less.

Question 13—Paragraph 3.19 proposes that an entity should present its similar assets and liabilities that are measured on different bases on separate lines in the statement of financial position. Would this disaggregation provide information that is more decision useful than a presentation that permits line items to include similar assets and liabilities measured on different bases? Why or why not?

Response: During our field test, we did not have any similar assets or liabilities that were measured on different bases.

Question 14—Should an entity present comprehensive income and its components in a single statement of comprehensive income as proposed (see paragraphs 3.24–3.33)? Why or why not? If not, how should they be presented?

Response: Given that the Boards have agreed on the presentation of a net income figure, Microsoft is not opposed to a single statement of comprehensive income as proposed in the DP.

Question 15—Paragraph 3.25 proposes that an entity should indicate the category to which items of other comprehensive income relate (except some foreign currency translation adjustments) (see paragraphs 3.37–3.41). Would that information be decision useful? Why or why not?

Response: We agree that information is useful and it was not onerous for us to present in the field test.

Question 16—Paragraphs 3.42–3.48 propose that an entity should further disaggregate within each section and category in the statement of comprehensive income its revenues, expenses, gains, and losses by their function, by their nature, or both if doing so will enhance the usefulness of the information in predicting the entity's future cash flows. Would this level of disaggregation provide information that is decision useful to users in their capacity as capital providers? Why or why not?

Response: We found it difficult to provide information by nature for the field test. One difficulty we ran into was the reallocation of expenses in our financial systems that resulted in overhead amounts where it was not possible to recreate the original nature of the expense. Changing our financial systems to capture this information would be cost prohibitive. Microsoft suggests the Boards allow companies to report information by either function or nature, but not require both. This would be consistent with the management approach in the DP since it will result in financial statements that reflect how management views and manages the company.

Question 17— Paragraph 3.55 proposes that an entity should allocate and present income taxes within the statement of comprehensive income in accordance with existing requirements (see paragraphs 3.56–3.62). To which sections and categories, if any, should an entity allocate income taxes in order to provide information that is decision useful to users? Please explain.

Response: Microsoft supports the Boards' decision to retain the existing intraperiod tax allocation guidance such that income taxes are allocated among income from continuing operations, discontinued operations, other comprehensive income items, and items charged or credited directly to equity.

Question 18— Paragraph 3.63 proposes that an entity should present foreign currency transaction gains and losses, including the components of any net gain or loss arising on remeasurement into its functional currency, in the same section and category as the assets and liabilities that gave rise to the gains or losses.

- a. Would this provide decisions-useful information to users in their capacity as capital providers? Please explain why or why not and discuss any alternative methods of presenting this information.
- b. What costs should the Boards consider related to presenting the components of net foreign currency transaction gains or losses for presentation in different sections and categories?

Response: During our field test, we did not run into any significant problems in presenting foreign currency gains and losses in the same section and category as the assets and liabilities that gave rise to the gains or losses.

Question 19— Paragraph 3.75 proposes that an entity should use a direct method of presenting cash flows in the statement of cash flows.

- a. Would a direct method of presenting operating cash flows provide information that is decision useful?
- b. Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75–3.80) than an indirect method? Why or why not?

c. Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?

Question 20—What costs should the Boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81–3.83)? Please distinguish between oneoff or one-time implementation costs and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?

Response (Questions 19 and 20): We were unable to produce a direct method cash flows statement as called for in the DP while participating in the field test, as our financial systems did not provide the information to allow us to capture direct cash receipts and cash payments as proposed in the DP. Furthermore, we believe changing our financial systems to capture direct cash receipts and cash payments as called for in the DP would be cost prohibitive.

However, as part of the field test, we did try to present a direct cash flows statement by arriving at line items in an indirect method. Currently, our balance sheet accounts are not disaggregated in order to align with the proposed statement of comprehensive income or the proposed cash flows statement. For example, Microsoft has one set of trade accounts payable and we do not distinguish each accounts payable account to individual expense items by nature. As a result, high level allocations had to be used to estimate the related cash flow impact on the cash flows statement as well as the proposed reconciliation schedule.

While it would result in additional systems work for Microsoft, the Boards may want to consider the costs/benefits of presenting a direct cash flows statement which would be created by companies in an indirect manner. For instance, the Boards could call for a minimal amount of line items, such as cash received from customers and cash paid for payroll and benefits, and letting companies decide what additional detail they could provide in a cost effective manner.

Question 21— On the basis of the discussion in paragraphs 3.88–3.95, should the effects of basket transactions be allocated to the related sections and categories in the statement of comprehensive income and the statement of cash flows to achieve cohesiveness? If not, in which section or category should those effects be presented?

Response: We did not encounter the issue of possibly having to allocate the effects of a basket transaction during our field test.

Question 22— Should an entity that presents assets and liabilities in order of liquidity in its statement of financial position disclose information about the maturities of its short-term contractual assets and liabilities in the notes to financial statements as proposed in paragraph 4.7? Should all entities present this information? Why or why not?

Response: For purposes of the field test, Microsoft classified its assets and liabilities into short-term and long-term subcategories, and we believe it would be onerous to also have to disclose information about the maturities of our short-term contractual assets and liabilities in the notes to the financial statements.

Question 23— Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components: (a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, (c) remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments.

- a. Would the proposed **reconciliation schedule** increase users' understanding of the amount, timing, and uncertainty of an entity's future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.
- b. Should changes in assets and liabilities be disaggregated into the components described in paragraph 4.19? Please explain your rationale for any component you would either add or omit.
- c. Is the guidance provided in paragraphs 4.31, 4.41, and 4.44–4.46 clear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.

Response: Given our difficulty of creating a direct cash flows statement and providing disaggregation by nature, once we isolated recurring fair value changes and valuation adjustments, we found the detailed reconciliation schedule to be little more than a mathematics exercise. Microsoft proposes that the Boards abandon the detailed reconciliation schedule, but require that the information concerning recurring fair value changes and valuation adjustments be disclosed in the notes to the financial statements for the benefit of users.

Question 24— Should the Boards address further disaggregation of changes in fair value in a future project (see paragraphs 4.42 and 4.43)? Why or why not?

Response: Microsoft is not opposed to the Boards looking at further disaggregation of changes in fair value in a future project, but it is incumbent on the Boards that they provide evidence that the additional information is definitely needed by users and can be provided in a cost effective manner.

Question 25— Should the Boards consider other alternative reconciliation formats for disaggregating information in the financial statements, such as the statement of financial position reconciliation and the statement of comprehensive income matrix described in Appendix B, paragraphs B.10–B.22? For example, should entities that primarily manage

assets and liabilities rather than cash flows (for example, entities in the financial services industries) be required to use the statement of financial position reconciliation format rather than the proposed format that reconciles cash flows to comprehensive income? Why or why not?

Response: No, Microsoft does not believe the Boards should consider other alternative reconciliation formats and, as noted above, we believe the proposed reconciliation is of limited usefulness.

Question 26— The FASB's preliminary view is that a memo column in the reconciliation schedule could provide a way for management to draw users' attention to unusual or infrequent events or transactions that are often presented as special items in earnings reports (see paragraphs 4.48–4.52). As noted in paragraph 4.53, the IASB is not supportive of including information in the reconciliation schedule about unusual or infrequent events or transactions.

Response: In addition to our above comments concerning the detailed reconciliation schedule, Microsoft believes there are better ways to call users' attention to unusual or infrequent events or transactions, such as in Management's Discussion and Analysis.