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Mr. Lawrence Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Dear Larry:

Microsoft appreciates the opportunity to comment on EITF Issue No. 06-2, “Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, *Accounting for Compensated Absences*”. We believe the accounting issue articulated in Issue Summary No. 1 of this Issue is not stated correctly and we agree with the March 13, 2006 letter from Intel Corporation that the views in the Issue Summary do not fully capture the debate about *when* such benefits accumulate. Furthermore, Microsoft is a proponent of View C as described in the above referenced letter, but for slightly difference reasons than those provided as support for this view.

As indicated in the Issue Summary, we believe it is very important to keep in mind that the issue of accounting for sabbatical leave and other similar benefits is being raised in the context of the requirements of FAS 43. In our opinion, the issue boils down to what is mean by the term “accumulate” in paragraph 6(b) of FAS 43. Footnote 2 of FAS 43 indicates that, “For purposes of this Statement, *accumulate* means that earned but unused rights to compensated absences may be carried forward to one or more periods subsequent to that in which they are earned, even though there may be a limit to the amount that can be carried forward”. We believe the key term in this footnote is “**earned but unused**” [Emphasis added].

One of the arguments articulated for View C in the above referenced letter is that Concepts Statement No. 5 defines earned for purposes of recognizing revenues as the point at which “the entity has substantially accomplished what it must do to be entitled to the benefits represented by revenues”. Microsoft was not particularly swayed by this argument since it is in the context of revenue recognition, is from a Concepts Statement (which we believe are more for the purpose of guiding standard setters rather than establishing GAAP) and, probably most importantly, the diversity we believe exists on exactly what the term “earned” actually means in the accounting literature. For instance, paragraph 158 of the Basis for Conclusions of FAS 106, *Employers’ Accounting for Postretirement Benefits Other Than Pensions*, indicates that, “The Board concluded that, conceptually, compensation cost should be recognized in the period in which it is earned

under the plan-that is, when the employee renders the required service . . .”. However, Microsoft believes that the inclusion of the wording “but unused” with the term “earned” in the FAS 43 description of accumulate is consequential. We struggle to see how a right to sabbatical leave can be “unused” if an employee does not have the current right to use that benefit. In the example in the Issue Summary, the employee does not have the right to use a sabbatical leave until they have provided 8 years of service.

We also do not believe the arguments supporting View A in the Issue Summary are compelling. Paragraph 11 of View A indicates that, “. . . supporters of View A believe that the Board’s intent was that in absence of the right expiring, prior service would be a factor in determining eligibility and, therefore, the benefit would *accumulate* as the employee provides the requisite years of service to reach the eligibility date”. We believe this assessment of the Board’s intent is quite a leap. In our opinion, just because the right does not expire does not mean that the right must accumulate as that term is described in FAS 43. If that was what the Board intended, it seems they could have easily communicated that without separately discussing what was meant by the word accumulate. For instance, if that was their intent, paragraph 6(b) of FAS 43 could have simply indicated that, “The obligation relates to rights that vest or have not expired”. In addition, we really struggle with how paragraph 13 of the Issue Summary supports View A. Yes, we agree that a sabbatical leave is in the scope of FAS 43, but paragraph 18 of FAS 43 clearly indicates that a liability should be accrued for a sabbatical leave only if the conditions for accrual of FAS 43 are met. Finally, we view the reference to the definition of a liability in Concepts Statement No. 6 similar to how we view the reference to the term earned in Concepts Statement No. 5 noted above.

In summary, Microsoft believes that it is very important to keep in mind that this issue is being raised in the context of the requirements of FAS 43 and that the inclusion of the wording “but unused” with the term “earned” in the FAS 43 description of accumulate is consequential. Furthermore, we believe that if the EITF reaches a consensus on View A, it is incumbent on the Task Force to provide more compelling arguments on why that is the correct answer.

Sincerely,

Bob Laux
Director, Technical Accounting and Reporting