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Dear International Integrated Reporting Committee:

Microsoft appreciates the opportunity to respond to the Discussion Paper (DP), "Towards Integrated Reporting - Communicating Value in the 21<sup>st</sup> Century". We commend the International Integrated Reporting Committee (IIRC) for its efforts to develop an overarching framework that will help provide a holistic and integrated account of a company's strategy and its financial and non-financial performance.

As we commented recently in our response to the International Accounting Standards Board's Request for Views, "Agenda Consultation 2011", many of us involved in financial reporting have lamented, admittedly in very generalized terms, that financial reporting seems to be moving more towards a compliance exercise rather than a communication exercise. Microsoft believes that Integrated Reporting provides the mechanism to improve financial reporting by providing information in a concise manner on how a company creates and sustains value.

Microsoft agrees that international action is needed to help improve how organizations represent their value-creation process. As noted in the DP, the type of information that is needed to assess the performance of organizations and their future resilience is much wider than is provided for by the existing business reporting model. While there has been an increase in the information provided, key disclosure gaps remain. We believe that the guiding principles identified in the DP provide a sound foundation for preparing an Integrated Report and that the concept of multiple capitals is helpful in explaining how an organization creates and sustains value.

Our responses to the questions raised in the Request for Views 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**— (a) Do you believe that action is needed to help improve how organizations represent their value-creation process? Why/why not?

(b) Do you agree that this action should be international in scope? Why/why not?

Response: Microsoft agrees that business reporting can be enhanced to provide a clear, concise picture of performance, impacts and interdependencies and that international action is needed to help improve how organizations represent their value-creation process.

**Question 2**— Do you agree with the above definition of Integrated Reporting? Why/why not?

Response: Yes, we agree with how Integrated Reporting has been defined in the DP.

**Question 3**— Do you support the development of an International Integrated Reporting Framework? Why/why not?

Response: Yes, Microsoft believes that an overarching framework will help companies in providing a holistic and integrated account of their strategy and financial and non-financial performance.

**Question 4**— (a) Do you agree that the initial focus of Integrated Reporting should be on reporting by larger companies and on the needs of their investors? Why/why not?

(b) Do you agree that the concepts underlying Integrated Reporting will be equally applicable to small and medium enterprises, the public sector and not-for-profit organizations?

Response: In order to make initial progress, Microsoft agrees that the initial focus of Integrated Reporting should be on reporting by larger companies and on the needs of their investors. After some initial progress, we believe it would then be appropriate to study the potential impact/benefit of Integrated Reporting on small and medium enterprises, the public sector and not-for-profit organizations.

**Question 5**— Are: (a) the organization's business model, and (b) its ability to create and sustain value in the short, medium and long term, appropriate as central themes for the future direction of reporting? Why/why not?

Response: We agree that the organization's business model and its ability to create and sustain value in the short, medium and long term, are appropriate as central themes for the future direction of reporting.

**Question 6**— *Do you find the concept of multiple capitals helpful in explaining how an organization creates and sustains value? Why/why not?*

**Question 7**— *Do the Guiding Principles identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Guiding Principles that should be added? Why/why not?*

Response (Questions 6 and 7): We believe that the guiding principles identified in the DP provide a sound foundation for preparing an Integrated Report and that the concept of multiple capitals is helpful in explaining how an organization creates and sustains value. This is especially true with respect to intellectual capital and human capital, which are two areas we do not believe currently receive enough focus in current financial reporting given the potential of both of these capitals to significantly impact an entity's value creation. The upcoming Exposure Draft will need to provide more specificity with respect to the multiple capitals and the guiding principles.

**Question 8**— *Do the Content Elements identified in the Discussion Paper provide a sound foundation for preparing an Integrated Report – are they collectively appropriate; is each individually appropriate; and are there other Content Elements that should be added? Why/why not?*

Response: Microsoft believes that the content elements identified in the DP provide a sound foundation for preparing an Integrated Report and that they are collectively and individually appropriate.

**Question 9**— *From your perspective as a key stakeholder:*

*(a) Do you agree with the main benefits as presented in the Discussion Paper? Why/why not?*

*(b) Do you agree with the main challenges as presented in the Discussion Paper? Why/why not?*

Response: We agree with the main benefits and challenges presented in the DP. An additional challenge from a reporting organization perspective is the ability to identify reliable information that is material to an investor.

**Question 10**— *(a) Do you agree that the actions listed in the Discussion Paper should be the next steps undertaken by the IIRC? Why/why not? Are there other significant actions that should be added?*

*(b) What priority should be afforded to each action? Why?*

Response: Microsoft agrees that the actions listed in the DP should be the next steps undertaken by the IIRC. Given the resistance to change, we believe outreach and

showing early momentum/support for Integrated Reporting will be the most important actions for the IIRC.