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Mr. Michael Nugent  
Technical Director  
International Integrated Reporting Council  
29 Lincoln's Inn Fields  
London WC2A 3EE  
United Kingdom

Dear Michael:

Microsoft appreciates the opportunity to respond to the Consultation Draft of the International <IR> Framework. We commend the International Integrated Reporting Council (IIRC) and agree with the view that corporate reporting needs to evolve to provide a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term.

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.

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

Sincerely,

Bob Laux  
Treasury Controller

## Chapter 1: Overview

### Principles-based requirements

To be in accordance with the Framework, an integrated report should comply with the principles-based requirements identified throughout the Framework in bold italic type (paragraphs 1.11-1.12).

***Question 1**— Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.*

Response: Microsoft agrees that where the unavailability of reliable data, specific prohibitions or competitive harm result in an inability to disclose information that is material, an integrated report should indicate what information has been omitted and explain the reason why the information has been omitted. We do not believe that in the case of the unavailability of data, an entity must identify the steps being taken to obtain the data and the expected time frame for doing so. We believe this is more akin to a compliance requirement, the exact thing that is trying to be avoided with Integrated Reporting.

### Interaction with other reports and communications

The <IR> process is intended to be applied continuously to all relevant reports and communications, in addition to the preparation of an integrated report. The integrated report may include links to other reports and communications, e.g., financial statements and sustainability reports. The IIRC aims to complement material developed by established reporting standard setters and others, and does not intend to develop duplicate content (paragraph 1.18-1.20).

***Question 2**— Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?*

Response: While we agree that the long-term solution for having financial reporting be more of a communication exercise rather than a compliance exercise may be a stand-alone integrated report, we are concerned that in the shorter term this will become an additional report along with current reports used for compliance purposes. Microsoft would like to see more progress and discussion in the area of an integrated report replacing current reports which are of a compliance nature.

***Question 3**— If the IIRC were to create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, which references should be included?*

Response: Microsoft believes the IIRC should consider providing a database of indicators or measurements methods organized by the six capitals. The IIRC should develop a framework for which indicators/measurements should be included based on criteria such as extent of use, correlation of the indicators/measurements to the capitals as described in paragraph 2.17, and the extent of the due process procedures of the group creating the indicators/measurements.

## **Other**

*Question 4— Please provide any other comments you have about Chapter 1.*

Response: We have no further comments regarding Chapter 1.

## **Chapter 2: Fundamental concepts**

### **The capitals (Section 2B)**

The Framework describes six categories of capital (paragraph 2.17). An organization is to use these categories as a benchmark when preparing an integrated report (paragraphs 2.19-2.21), and should disclose the reason if it considers any of the capitals as not material (paragraph 4.5).

*Question 5— Do you agree with this approach to the capitals? Why/why not?*

Response: Microsoft agrees with the six capitals, but disagrees that an entity should disclose the reason if it considers any of the capitals as not material. Similar to our response to Question 1, an entity should explain when material information is not disclosed, but having to disclose why a non-material item is not disclosed seems akin to a compliance requirement.

*Question 6— Please provide any other comments you have about Section 2B?*

Response: We have no additional comments about Section 2B.

### **Business model (Section 2C)**

A business model is defined as an organization's chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term (paragraph 2.26).

*Question 7— Do you agree with this definition? Why/why not?*

Response: Microsoft agrees with the definition. While we believe there needs to be a longer term focus in financial reporting, it is still necessary to show value creation in the short and medium term.

Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs (paragraphs 2.35-2.36).

*Question 8— Do you agree with this definition? Why/why not?*

Response: While we do not disagree with this definition, we are concerned with its all-encompassing nature and whether that will cause limited uptake of Integrated Reporting. Given that providers of financial capital are the primary intended report users and, as indicated in paragraph 2.38, providers of financial capital are focused on value in the form of financial returns, the initial focus of Integrated Reporting should be on the drivers that increase or decrease financial returns in the short, medium and long term.

*Question 9— Please provide any other comments you have about Section 2C or the disclosure requirements and related guidance regarding business models contained in the Content Elements Chapter of the Framework (Section 4E).*

Response: We have no further comments in this area.

## **Other**

*Question 10— Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.*

Response: We have no additional comments about Chapter 2.

## **Chapter 3: Guiding Principles**

### **Materiality and conciseness (Section 3D)**

Materiality is determined by reference to assessments made by the primary intended report users (paragraphs 3.23- 3.24). The primary intended report users are providers of financial capital (paragraphs 1.6-1.8).

*Question 11— Do you agree with this approach to materiality? If not, how would you change it?*

Response: Microsoft agrees that materiality should be judged in the context of whether a matter could substantively influence the assessments of providers of financial capital with regards to an entity's ability to create value over the short, medium and long term.

*Question 12— Please provide any other comments you have about Section 3D or the Materiality determination process (Section 5B).*

Response: We disagree that an entity needs to disclose its materiality determination process, including describing the process used to identify relevant matters and to narrow

them down to material matters, identifying the key personnel involved in the identification and prioritization of material matters and identifying the role of those charged with governance in the process. Microsoft believes this is more akin to a compliance exercise that will become little more than a boilerplate disclosure.

### **Reliability and completeness (Section 3E)**

Reliability is enhanced by mechanisms such as robust internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (paragraph 3.31).

*Question 13— How should the reliability of an integrated report be demonstrated?*

Response: Given the newness of Integrated Reporting and its lack of wide scale adoption, we believe the IIRC needs to be careful in proposing any mandated requirements, such as a requirement for external assurance. Over time, we agree external assurance will be helpful in demonstrating reliability. However, at this point in time, Microsoft believes the development of Integrated Reporting could be slowed by a push for assurance. The auditing profession needs revised training on how to attest to the information in an Integrated Report and much discussion is needed on the type of assurance that will be necessary.

*Question 14— Please provide any other comments you have about Section 3E.*

Response: We have no additional comments about Section 3E.

### **Other**

*Question 15— Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.*

Response: We have no additional comments about Chapter 3.

### **Chapter 4: Content Elements**

*Question 16— Please provide any comments you have about Chapter 4 that are not already addressed by your responses above (please include comments on the Content Element Business Model [Section 4E] in your answer to questions 7-9 above rather than here).*

Response: We have no additional comments about Chapter 4.

### **Chapter 5: Preparation and presentation**

#### **Involvement of those charged with governance (Section 5D)**

Section 5D discusses the involvement of those charged with governance, and paragraph 4.5 requires organizations to disclose the governance body with oversight responsibility for <IR>.

**Question 17**— *Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why/why not?*

Response: No, Microsoft believes this will just result in additional boilerplate disclosure in an Integrated Report. We believe it should be obvious that a report such as an Integrated Report issued by an entity is the responsibility of its management and overseen by its Board of Directors.

**Question 18**— *Please provide any other comments you have about involvement of those charged with governance (Section 5D).*

Response: We have no additional comments about Section 5D.

### **Credibility (Section 5E)**

The Framework provides reporting criteria against which organizations and assurance providers assess a report's adherence (paragraph 5.21).

**Question 19**— *If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?*

Response: As indicated previously, given the newness of Integrated Reporting and its lack of wide scale adoption, we believe the IIRC needs to be careful in proposing any mandated requirements, such as a requirement for external assurance. However, over time, we agree external assurance will be helpful in demonstrating the reliability of an Integrated Report. Given its integrated nature, we believe that if assurance is to be obtained, it should cover the Integrated Report as a whole. This is exactly the reason that significant discussion and debate is needed on the type of assurance that will be necessary.

**Question 20**— *Please provide any other comments you have about Credibility (Section 5E). Assurance providers are particularly asked to comment on whether they consider the Framework provides suitable criteria for an assurance engagement.*

Response: We have no additional comments about Section 5E.

### **Other**

**Question 21**— *Please provide any other comments you have about Chapter 5 that are not already addressed by your responses above (please include comments on the*

*materiality determination process [Section 5B] in your answer to question 11 above rather than here).*

Response: We have no additional comments about Chapter 5.

### **Overall view**

***Question 22**— Recognizing that <IR> will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate for use by organizations in preparing an integrated report and for providing report users with information about an organization’s ability to create value in the short, medium and long term?*

Response: Microsoft believes the Framework is appropriate at this time, but as <IR> evolves over time, we believe more specificity will be required. It will be difficult to provide a lot of specificity in an overall Framework and examples showing how <IR> concepts are manifested in a report will be useful. This cannot be a laundry list of examples, but rather, targeted examples which the IIRC truly believes represent the concepts and content of an Integrated Report. The IIRC may want to consider creating mock Integrated Reports (possibly by major industries) which demonstrate what is envisioned by the Framework.

### **Development of <IR>**

***Question 23**— If the IIRC were to develop explanatory material on <IR> in addition to the Framework, which three topics would you recommend be given priority? Why?*

Response: Microsoft believes more explanatory material is necessary for Intellectual Capital and Human Capital, as we believe these areas have less authoritative sources of indicators or measurement methods developed by established reporting standard setters and others. We would also like to see more explanatory material on the Future Outlook content element, such that it is clear that <IR> does not require predictions of the future, but rather, information on a company’s opportunities and risks based on current known trends.

### **Other**

***Question 24**— Please provide any other comments not already addressed by your responses to Questions 1-23.*

Response: We have no additional comments.