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January 20, 2014

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 34

Board Members:

Microsoft's Audit Committee appreciates the opportunity to provide comments on the PCAOB's Release No. 2013-005, "The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion" and "The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report". As members of Microsoft's Audit Committee, we have a critical role in the governance and oversight of the independent auditor and company management.

We share the PCAOB's objective that auditor reporting be relevant and useful to investors and other financial statement users. However, we do not believe the proposed requirements will meet that objective and are concerned with potential unintended consequences from the proposed requirements. In particular, we are opposed to the required disclosure of critical audit matters, changes to existing requirements with regard to the role of the auditor in reviewing other information outside the financial statements, and auditor tenure. We also believe the PCAOB needs to undertake detailed field testing in order to gain a better understanding of whether the proposed requirements will actually improve the relevance of the auditor's report while not unduly burdening the financial reporting process or undermining the role of the Audit Committee.

Disclosure of Critical Audit Matters

The proposed auditor reporting standard indicates that critical audit matters ordinarily are of such importance that they are included in the matters required to be (1) documented in the engagement completion document, which summarizes the significant issues and findings from the audit; (2) reviewed by the engagement quality reviewer; (3) communicated to the audit committee; or (4) any combination of the three. Given this broad scope, we do not agree that auditors' reporting these matters will make the audit report more informative.

Rather, we believe it will lead to less useful and lengthy audit reports that include many audit matters that may not be of importance to financial statement users. The potential for disclosure overload is exacerbated by the fact that in addition to identifying these audit

matters, the auditor's report will need to describe the considerations that led the auditor to determine that the matter is a critical audit matter as well as contain a reference to the relevant financial statement accounts and disclosures that relate to the matter. Furthermore, there are potential unintended consequences with requiring that auditors communicate these audit matters in the auditor's report. As indicated in the Release, the effort required to determine, prepare language for communication, and document such matters likely would occur during the final stages of the audit which might reduce the time available to the auditor for review and completion of the audit work.

We believe that for the most critical audit matters, management currently has the responsibility to disclose this information, for example in its discussion of critical accounting policies. Microsoft's critical accounting policies include revenue recognition, impairment of investment securities, goodwill, research and development costs, contingencies, income taxes, and inventories. The disclosure of these critical accounting policies comprises more than two pages of the Company's MD&A disclosures. In addition to these items, the accounting policy footnote to the financial statements discusses the principles of consolidation, estimates and assumptions, foreign currencies, cost of revenue, product warranty, sales and marketing, stock-based compensation, employee stock purchase plan, fair value measurements, allowance for doubtful accounts, property and equipment, and intangible assets. While we agree that not all of these items would rise to the level of critical audit matters as defined in the proposed rules, this extensive list of disclosures currently made by management illustrates our concern that the proposed rules will lead to less useful and lengthy audit reports that include many audit matters.

A requirement for the auditors to discuss these matters in an auditor's report could alter the fundamental roles and responsibilities of management, auditors and the Audit Committee. For example, the requirement to report matters discussed with the Audit Committee could have the unintended consequence of chilling the open and free flow of information from the auditor to the Audit Committee. Such an undesirable outcome would undermine the ability of the Audit Committee to fulfill its role and impair overall audit quality. The Audit Committee's role in overseeing financial reporting is intended to ensure that all material disclosures are included in a company's reports to shareholders based on input from management and communications with the independent auditors.

Finally, and perhaps most importantly, any lack of consistency between critical audit matters and management's disclosures will lead to confusion for financial statement users. Naturally, users will compare the critical accounting policies in the MD&A to the critical audit policies in the auditor's report. In any period we would expect differences based on changes in business, risks, and individual transactions. It is unclear how readers would reconcile two seemingly different descriptions of critical matters and whether it would be up to the company or the auditor to explain or answer questions about any apparent inconsistency.

Other Information Outside the Financial Statements

We agree with the proposal for clarification of the language in the auditor's report that would enhance users' understanding about the auditor's responsibility for other information outside the financial statements and support a statement in the auditor's report that clearly describes the auditor's role with respect to such information. However, such a requirement should not constitute a change from existing requirements with regard to the role of the auditor in reviewing such information or the level of assurance provided. PCAOB AU Section 550, "Other Information in Documents Containing Audited Financial Statements", indicates the following:

Other information in a document may be relevant to an audit performed by an independent auditor or to the continuing propriety of his report. The auditor's responsibility with respect to information in a document does not extend beyond the financial information identified in his report, and the auditor has no obligation to perform any procedures to corroborate other information contained in a document. However, he should **read** the other information and **consider** whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. [Emphasis added.]

The proposed guidance would require the auditor to evaluate the other information for a material misstatement of fact as well as for a material inconsistency with amounts or information, or the manner of their presentation, in the audited financial statements. We are concerned that the change in terminology from "consider" to "evaluate" will lead to significantly more work for the auditor, with users assuming a greater degree of responsibility by the auditor for the other information in documents containing audited financial statements.

We also believe an unintended consequence of this proposed change could be a decrease in the amount and insight of the other information provided with the audited financial statements. Much of the other information provided with the audited financial statements is based on management's insight into the business and the drivers of value creation, which may be difficult for an auditor to evaluate based on audit evidence obtained and conclusions reached during the audit.

Auditor Tenure

We believe that any disclosure about auditor tenure would more appropriately be reported in the proxy statement, where the Audit Committee reports, among other things, its oversight activities with respect to the independent auditor, and many companies submit the appointment of the independent auditor for a shareholder vote.

Field Testing

Before taking any final action, it is incumbent upon the PCAOB to undertake detailed field testing of the proposed guidance in order to understand the implications and potential unintended consequences of the proposed guidance. We believe robust field testing, including obtaining user feedback as part of field testing, will provide insights into what effect the proposed guidance might have on the audit, whether it will produce more relevant and useful information to investors, and whether the benefits of the proposed guidance exceed the quantitative and qualitative costs that will be incurred.

Sincerely,

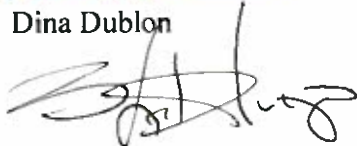
The Audit Committee of the Board of Directors of Microsoft Corporation



Charles H. Noski, Chairman



Dina Dublon



Stephen J. Luczo



Dr. Helmut Panke