



DEUTSCHE TELEKOM AG

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IASB
Mr. Edelmann
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YOUR REFERENCE Group Accounting and Customer Finance
OUR CONTACT Michael Brücks
PHONE +49 228 181 87123
DATE 14.10.2015
RE Leases Project – Effective Date

Dear Mr. Edelmann,

We noticed the IASB's staff agenda paper 3B for the upcoming Board meetings in October covering the effective date of the new leasing standard (referred to as "IFRS 16" hereafter). The staff makes the following three recommendations to the Board in paragraph 4 of paper 3B, which we agree with in general, except that we would like to propose a 4th decision item as stated under (d) below.

"The staff recommend that the IASB:

- (a) requires entities to apply the new Leases Standard for annual periods beginning on or after 1 January 2019.
- (b) permits early applications of the new Leases Standard, subject to the recommendation in paragraph 4(c) below.
- (c) prohibits entities from applying the new Leases Standard before applying IFRS 15 Revenue from Contracts with Customers (an entity would be permitted to apply both the new Leases Standard and IFRS 15 for the first time in the same reporting period.)"
- (d) allow to bifurcate the application of the new Leases Standard into separate effective dates for lessees and lessors (i. e. an entity would be permitted to apply different effective dates for lessee and lessor transactions including the sections pertaining to identifying a lease).

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DATE 14.10.2015
TO Mr. Edelmann
PAGE 2

As you know, in the telecommunications industry, we are facing a large number of multiple element transactions where the recently issued IFRS 15 interacts significantly with the new Leases Standard on the sale/lessor side. We are currently in the process of procuring new IT systems and implementing new processes to adopt IFRS 15. As part of that effort, we have to anticipate the effects of the interaction of IFRS 16 with IFRS 15 for leasing components in multiple element arrangements. Because of the significance of, and the time and money spent on, IFRS 15, we are set to implement IFRS 16 early – solely for the purpose of aligning the effective date of IFRS 16 with that of IFRS 15. As a result, we feel that we would be unjustly burdened for applying IFRS 16 early, since an early adoption of IFRS 16 would require us to also early adopt the lessee side of the standard, while we were hoping to get sufficient the time to thoroughly analyze the lessee accounting implications and adopt IFRS 16, as most companies will, on 01.01.2019.

As a result, we would like to ask the Board to consider the suggested additional decision point in order to provide a practical benefit for preparers dealing with complex and costly issues on the sale/lessor side with interactions between IFRS 15 and IFRS 16. This beneficial decision would allow preparers to early adopt the lessor side on 01.01.2018, thus aligning IFRS 16 with IFRS 15, while applying IFRS 16 on the lessee side later, on 01.01.2019.

We have analyzed this thoroughly for our Group and consolidated entities and do not see any accounting issues arising from this proposal. For example, we are considering based on what is permitted under IFRS 8 to account for intercompany leases as operating leases in the future, thus also eliminating complex intercompany eliminations when adopting the lessee side at a different date than lessor side. Furthermore, we do not see an issue for Deutsche Telekom Group applying the definition of a lease contract at different dates for the lessee and for the lessor side.

Other concerns raised may be that the disadvantage of permitting early application is the potential for lack of comparability between those entities that apply the new Leases Standard early and those that do not. However, this disadvantage exists in relation to all new Standards that permit early application. In terms of the new leasing standard, we believe that those users that oppose early application are mainly concerned with early application of the lessee side of the new accounting guidance, rather than lack of comparability for lessors.

We are fully aware that this is a novel approach to adopting a new IFRS standard. However, the leasing standard is somewhat unique as outlined above, we do not see any issue in making this option at least available to prepares of financial statements.



DATE 14.10.2015
TO Mr. Edelmann
PAGE 3

We would like to ask you to distribute our recommendation to all Board members for consideration before the upcoming October 20th Board meeting and would be pleased to have a discussion with you at your convenience. Please feel free to call Michael Brücks at +49 228 181 87123 or Norbert Panek at +49 228 181 87111.

Sincerely yours,

/s/ Michael Brücks

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