



**DEUTSCHE TELEKOM AG**

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Mr. Andrew Watchman  
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**YOUR REFERENCE** Group Accounting & Customer Finance; Principles, Policies and Research  
**OUR CONTACT** Michael Brücks  
**PHONE** +49 228 18187123  
**DATE** 08 December 2016  
**RE** IFRS 16 Leases – effective date and endorsement timing

Dear Mr. Watchman,

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. The Deutsche Telekom Group (“DT”) is required to apply IFRS 15 for annual periods beginning on or after 1 January 2018. DT and certain other German DAX listed entities have compelling reasons to apply IFRS 16 early as of 1 January 2018.

We would like to bring to your attention that we became aware of EFRAG’s potentially delayed endorsement of IFRS 16 into the first quarter of 2018 instead of the originally planned endorsement in the second half of 2017. Such a delayed endorsement of IFRS 16 would contradict an early application of IFRS 16 as permitted in the standard and our current effort of achieving an alignment of the complex interaction issues between IFRS 15 and IFRS 16 of lease and non-lease components in multiple element arrangements - complex in terms of defining leases, determining the consideration in the contract and allocating between IFRS 15 and IFRS 16 elements in a contract when another standard provides separation and measurement guidance, such as IFRS 16. To the extent that IFRS 16 is not endorsed by the end of 2017, Deutsche Telekom will not be permitted to an early application of this standard and could even not reach an alignment between first time adoption of IFRS 15 and IFRS 16 as well.

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Beside this, Deutsche Telekom is facing great complexity on the lessee side, due to time and lease volume if we implement IFRS 16 early on 1 January 2018. Beyond this, we have compelling reasons, which will be outlined in more detail below, to apply IFRS 16 early only on the lessor side. Sticking between a rock and a hardplace, we would like to propose that preparers receive more flexibility and be allowed to bifurcate the effective date of the supply side (supplier lessor) from the customer (lessee) side. We are currently in the process of implementing new IT systems and processes in order to adopt IFRS 15 as of 1 January 2018. The IASB decided and we quote IFRS 16.BC272 “to limit early application of IFRS 16 to entities that also apply IFRS 15. This is because some of the requirements of IFRS 16 depend on an entity also applying the requirements of IFRS 15 (and not the Standards that were superseded by IFRS 15)”. While we are not fully aware of all the details of the IASB’s reasoning, the IASB itself must have been concerned on a conceptual level that the interplay between IFRS 15 and IFRS 16 is an important factor to consider when applying both standards.

As you know, in the telecommunications industry, we are facing a large number of mass market multiple element transactions where IFRS 15 interacts significantly with IFRS 16 on the supplier/lessor side (e.g. several services and performance obligations combined with a handset lease). To solve these challenges effectively and efficiently, we very much prefer an alignment between the implementation of IFRS 15 and IFRS 16 as of 1 January 2018. As a result, a tremendous effort is currently underway to put IFRS 16 as a whole into early operation for both the lessee and the lessor side. As part of that effort, we have to adjust our IT systems and processes allowing for the complex rules resulting from the interaction between IFRS 16 with IFRS 15 for lease and non-lease components in multiple element arrangements, as explained above.

For example, there are multifaceted contractual arrangements in the business customer and ICT segments of DT where we may have contracts with likely changing units of account due to the change in the lease definition (e.g. servers / wholesale router) under IFRS 16 when compared to today’s rules under IAS17 / IFRIC 4. We would like to avoid that two systems and process solutions be introduced on the supplier/lessor side through a step by step introduction of the two standards (2018: IFRS 15 interplay with IAS17 / IFRIC4 and 2019: IFRS 15 interplay with IFRS 16). The systems solution and inputs for fiscal 2018 would in this case be in place for only one year before they would have to be changed again in 2019.



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It may become apparent in the course of 2017 that an early adoption of IFRS 16 as a whole (both the lessee and the lessor side) may prove to have significant challenges, particularly as we have only limited time to apply the new lease guidance on the lessee side when our focus is equally on the lessor side. Implementing IFRS 16 from a lessee's perspective alone is a huge and time consuming effort for Deutsche Telekom as the Group has more than 21 billion € in operating lease commitments as disclosed in the notes to the financial statements stemming. We may need the time and may have to shift our focus to the lessor side in order to first implement the new definition of a lease to our sell side universe of multiple element arrangements with lease elements and somewhat later shift our full attention to certain complex issues on the lessee side.

As a result of both, Deutsche Telekom's desire to adopt IFRS 16 early and the potential delay of the endorsement of the standard, we would like to ask EFRAG to consider in the development of its endorsement advise to also allow for the bifurcation of the application of IFRS 16 into separate effective dates for lessees and lessors, i.e. to allow an entity to apply different effective dates for lessee and lessor transactions particularly for those transactions affected by multiple element arrangements.

We believe that many companies in a similar lessor focused situation are unjustly burdened by also applying the lessee side of IFRS 16 early. Many entities with multiple element arrangements on the supply side would appreciate sufficient time to thoroughly analyse the lessee accounting implications and adopt IFRS 16, as many companies likely will, on 1 January 2019. Currently, many technical accounting issues begin to surface including issues where IFRS should align with U.S. GAAP interpretations because the guidance is largely the same. Early IFRS 16 lessee accounting adaptors face the challenge that some of these issues only get fully resolved among peers in an industry or audit firms after 1 January 2018.

We have analysed our proposal thoroughly for the DT Group and its consolidated entities and do not envision significant accounting or audit issues arising from this proposal. For example, we are considering based on what is permitted under IFRS 8 to account for intercompany lessor side leases as operating leases and only apply IFRS 16 to intercompany lessee side leases, making one sided elimination of intercompany transactions somewhat easier.

Possible concerns raised against our proposal 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.



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We are fully aware that the bifurcation idea is a novel approach to adopting a new IFRS standard under EU law. However, the leasing standard is somewhat unique as outlined above and we do not see any issue in making this option available to preparers of financial statements. This decision would allow preparers to early adopt the lessor side on 1 January 2018, thus aligning IFRS 16 with IFRS 15, while applying IFRS 16 on the lessee side later, on 1 January 2019. In addition, we would hope that EFRAG will be in a position to endorse IFRS 16 in time for adaption as of 1 January 2018.

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

Vice President

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Senior Expert

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