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LETTER OF COMMENT NO. 52

Your reference

Our contact

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Date April 09, 2009

Re

Discussion Paper "Preliminary Views on Financial Statement Presentation"

Dear Mrs. Gomez Soto,

on behalf of Deutsche Telekom AG we are writing to comment on the IASB's DP "Preliminary Views on Financial Statement Presentation" and appreciate the opportunity to comment on the DP.

We welcome the publication of the DP. In general, we appreciate the IASB's goal to improve the usefulness of the information provided in an entity's financial statements to help users make decisions in their capacity as capital providers (DP para. 1.6). However, we have a number of concerns with several proposals, in particular:

- We do not believe that a one statement approach is superior to a two statement approach (Question 14).

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- We do not see any advantage of a disaggregation of the statement of comprehensive income by function and by nature in comparison to the necessary efforts (Question 16).
- We are not convinced that presenting cash flow using the direct method provides superior information than using the indirect method (Questions 19 and 20).
- We do not believe that the reconciliation of cash flow to comprehensive income with the proposed details provides useful information to users.

Please find our comments in the Appendix to this letter. We would be pleased to discuss our comments with you at your convenience.

Yours sincerely,

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Appendix

Comment Letter on DP Preliminary Views on Financial Statement Presentation by Deutsche Telekom

Question 14:

Should an entity present comprehensive income and its components in a single statement of comprehensive income as proposed (see paragraphs 3.24–3.33)? Why or why not? If not, how should they be presented?

Net income is an important measure of performance. Insofar, we strongly support a separate presentation of net income and other comprehensive income. The question whether separate presentation of the two components of comprehensive income should be made in one or two statements is from our point of view crucial.

A single statement approach does not adequately reflect an entity's performance. The bottom line in a single statement would be a mixture of realised gains and losses and unrealised fair values changes. These are based on external circumstances and are mainly out of the control of the entity's management. Due to this uncertainty and unpredictability it is likely that the comprehensive income varies from year to year. The result is that a comparison from year to year is not possible and conclusions based on these figures might be misleading. On the contrary, net income is directly influenced by management and shows the development and performance over the years. It indicates positive as well as negative trends and is easier to explain because of the missing random influences. With the first-time adoption of IFRS Deutsche Telekom started using IFRS both for external and internal reporting purposes. As this convergence will be jeopardized by the implementation of the proposed approach, we recommend net income as the bottom line and consequently a two statement approach.

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Question 16:

Paragraphs 3.42–3.48 propose that an entity should further disaggregate within each section and category in the statement of comprehensive income its revenues, expenses, gains and losses by their function, by their nature, or both if doing so will enhance the usefulness of the information in predicting the entity's future cash flows. Would this level of disaggregation provide information that is decision-useful to users in their capacity as capital providers? Why or why not?

Currently, Deutsche Telekom disaggregates its income statement by function. The proposed format of the statement of comprehensive income in Appendix A8 requests a lot of information which we currently cannot generate with existing systems. Large companies, such as the Deutsche Telekom Group, with many inter-company transactions would not be able to deliver the information today, because such companies typically have more than one set of books. For transfer-pricing purposes we currently have special IT-systems, which do not generate the necessary information by nature. To add all the necessary supplementary information would be a large effort, costly and it would put a huge pressure on the performance of the IT-systems.

The possibility of choice between the leading structures – i.e. by function or by nature - should remain, without a directive to a further disaggregation, because in our opinion the possible information gain through the disaggregation cannot justify the enormous effort.

Question 19:

Paragraph 3.75 proposes that an entity should use a direct method of presenting cash flows in the statement of cash flows.

(a) Would a direct method of presenting operating cash flows provide information that is decision-useful?

(b) Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75–3.80) than an indirect method? Why or why not?

(c) Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?

- (a) The use of the direct method might provide information which is decision useful. However, we are not convinced that this method of presentation does provide information that is more decision-useful than the indirect method of presentation. Furthermore, the DP does not give evidence showing that the direct method is superior to the indirect method with respect to the decision-usefulness of the information provided. From our point of view, any argument for a change in the current presentation in practice needs to provide evidence that the direct presentation will improve the usefulness of the information and that the improvement will justify the associated costs.
- (b) We do not see any advantage of using the direct method concerning the cohesiveness and disaggregation compared to the use of the indirect method, because these are different approaches which both have advantages and disadvantages.
- (c) The information currently provided using an indirect method to present operating cash flows are similar but not identical to the information provided in the proposed reconciliation schedule. One example for a difference is: The indirect method refers to the statement of financial position by calculating changes in net working capital, while the reconciliation schedule does not contain any link to the statement of financial position.

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Question 20:

What costs should the boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81–3.83)? Please distinguish between one-off or one-time implementation costs and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?

Currently we use the indirect method and it would be a major effort to change towards the direct method. We would have to implement and pay for additional IT systems.

Capturing cash flows directly could require significant costs; in particular, our group consists of many subsidiaries with various sub-group accounting systems. Changing from the indirect cash flow method to the direct method would require system changes that go hand in hand with one-off costs (e.g. *implementation and training costs*) and ongoing costs (e.g. *costs of collecting information in complex groups as Deutsche Telekom*). Finally, the most important issue is whether the benefits will justify the costs of applying the direct method. Insofar, we ask the IASB to provide a comparison of both methods regarding their benefits and costs and note that only a few companies apply the direct method today.

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Question 23:

Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components: (a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, (c) remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments.

(a) Would the proposed reconciliation schedule increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.

(c) Is the guidance provided in paragraphs 4.31, 4.41 and 4.44–4.46 clear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.

- (a) We doubt that this information will be useful for users, because of the amount of information which will be given by the line by line reconciliation. Users would be confronted with too many numbers, which would have to be explained in detail in the notes. For preparers this would mean a large effort and we do not see that the benefit of this further information could justify the costs. Furthermore, as we strongly prefer the indirect method of presenting operating cash flows (see our answer to question 19 above) and this method provides all the information users need, following our approach a reconciliation scheme is *obsolete*.
- (c) As we do not support the reconciliation at all, there is no need to provide comments.