Deutsche Telekom

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April 1, 2005

Jonathan G. Katz, Secretary
U.S. Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549-0609

Re: Roundtable on Implementation of Internal Control Reporting Provisions
File Number 4-497

Dear Mr. Katz:

We appreciate the opportunity to participate in the roundtable discussion and to continue our dialogue with the Commission on this very important subject. We commend the Commission's efforts and sensitivity on behalf of foreign private issuers, and we believe that the current cooperative environment should result in a balance between sensible, cost-effective regulation and investor protection.

Compliance Costs Exceed Expectations

Deutsche Telekom AG is a large organization with over 400 subsidiaries and 250,000 employees located throughout approximately 65 countries. Like other large public companies, the costs that Deutsche Telekom has incurred and the efforts it has made to comply with the Sarbanes-Oxley Act of 2002 and related regulations, particularly Section 404, have been considerable and have far exceeded expectations. The Commission stated in its final rules release regarding management reports on internal control that these rules will increase costs for all reporting companies, but that such costs would be mitigated somewhat because companies already have an existing obligation to maintain an adequate system of internal accounting control under the Foreign Corrupt Practices Act. The Commission further noted that having a longer transition period would likely alleviate the additional cost burden. The Commission's estimate of the average aggregate annual additional costs per company of implementing Section 404 of the Sarbanes-Oxley Act was $91,000. Our estimated additional financial cost to date is similar to the experiences described by other large European companies (e.g., € 30-70 million). However, these costs do not include the internal costs of educating and training nearly 2,500 employees company-wide or the costs associated with our external auditors.

The magnitude of these costs does not imply that we have not had an adequate system of internal control in place prior to the implementation of Section 404. We believe we have been in compliance with all regulatory requirements prior to the adoption of Section 404 and we continually monitor and assess our internal controls through our Internal Audit, Risk Management and Security departments. Also, with the various accounting systems that we currently have operating (i.e., HGB (German

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GAAP), IFRS, U.S. GAAP, Statutory and Tax), the burdens of documentation at the transactional level and the general disruption to our normal business activities have been overwhelming, particularly for an enterprise that records over 500 million accounting entries annually.

We believe that the longer transition period for implementation of Section 404 (although helpful to those companies that are unable to comply in a timely manner) will also result in the incurrence of additional costs. Although we have an extra year to comply, we are fairly well along in our Section 404 implementation process, and we have decided not to deviate from our current time-plan of going "live" by the end of 2005. Accordingly, since 2005 now becomes an "assessment" year, we believe that we will be incurring additional costs in 2006 that were not previously anticipated since 2006 costs were primarily budgeted for maintenance costs. Further, we do not believe that, once a Section 404 compliance program has been implemented, the costs of maintaining that program, including the management reporting and documentation process, will be reduced to reasonable levels.

We continuously review the many articles and statements reported in the press and trade publications relating to Section 404 implementation and note the recent surveys and articles indicating that additional fees of external auditors relating to their Section 404 work is expected to approximate 50% of the regular audit fees. In this regard, we point out that the July 3, 2002 United States Senate Report of the Committee on Banking, Housing and Urban Affairs stated that "…the Committee does not intend that the auditor's evaluation be the subject of a separate engagement ***or the basis for increased charges or fees***." [Emphasis added] The Senate Committee Report further indicates that the audit process already requires auditors to extensively test internal controls and infers that there should be no appreciable increase in audit-related fees as a result of the auditor attestation relating to management's Section 404 report. It is apparent that this has not been the experience of most commenters to this roundtable discussion. Our experience in this area is still evolving, but we do not believe it will be different than the experiences of other reporting companies.

Annual Management Report and Auditor Attestation

We agree that all companies can continually improve upon their internal processes and should do so on a regular basis, as the COSO guidelines recommend. In connection with our internal control self-assessments, we have identified and documented nearly 25,000 control sets. By any standard, the effort has been, and continues to be, massive. This effort is tested by our Internal Control department and our SOX 404 teams on both a subsidiary level and a headquarters level (including by other departments and groups within our Company). Additionally, our external auditors test extensively our processes and various control sets, as well as the documentation relating to these processes and controls. However, we do not believe that a company's entire control structure needs to be documented, reviewed and evaluated on an annual basis by both its Internal Audit department (and other departments) and its external auditors. We believe that a company should review critical control sets, and control sets that have been identified as potential problems, annually and all other control sets on a rotating basis at least every three years.

We are mindful of Commissioner Glassman's statements in her speech before the European Corporate Governance Summit on March 2, 2005, in which she indicated that Section 404 implementation should not be viewed as a "short-term, check-the-box exercise;" rather, it should be seized upon as an opportunity for management to employ a broader risk management initiative to improve management oversight and disclosure and financial reporting, thereby restoring investor confidence. We concur with Commissioner Glassman's remarks. However, we are not convinced that the current framework will accomplish these goals. We believe that a management report and auditor attestation on an annual basis is unnecessary, as the annual certifications of management under Sections 302 and 906 should provide an adequate basis for continued compliance with all rules and regulations and an effective deterrent for non-compliance. Further, companies are already subject to disclosure obligations with respect to material control deficiencies and weaknesses irrespective of Section 404. We recommend issuing a management report and auditor attestation every three years.

Additional Definitional Interpretive Guidance

All parties involved in the implementation of Section 404 are learning through the implementation process. Accordingly, interpreting these new rules is sometimes a formidable task with differing views among the various audit firms, which has not always resulted in improved performance and understanding. We believe that additional interpretive guidance should be provided with respect to many aspects of Section 404 and the PCAOB's Auditing Standard No. 2 ("ASN2"), as discussed below.

Management has significant responsibilities relating to Section 404, including those set forth in ASN2, which, among other things, requires the documentation of internal control over financial reporting in sufficient detail about how transactions are initiated, authorized, recorded, processed and reported, and to allow for the identification of controls related to each relevant assertion for all significant accounts and disclosures in the company's financial statements. Inadequate documentation of the design of controls over relevant assertions related to significant accounts and disclosures will be viewed as a deficiency in the company's internal control over financial reporting, and could cause an auditor to conclude that there is a limitation on the scope of the audit. When determining whether management's documentation provides reasonable support for its assessment, ASN2 requires an auditor, among other things, to:

- evaluate the documentation underlying management's assessment and make certain judgments regarding the bases for such assessments;

- evaluate whether management's assessment of the effectiveness of internal control over financial reporting is free of material misstatement;

- determine the existence of a material weakness or significant deficiency;

- determine whether material weaknesses, if any, have been properly disclosed; and

- assess management's performance and oversight effectiveness.

Therefore, ASN2 has imposed upon the auditors the making of legal judgments with respect to materiality and sufficiency of disclosure, as well as judging the adequacy of management's performance and compliance with legal standards. These judgments are based on the auditor's own views and interpretations of standards that may not be uniform. However, such judgments can result in significant legal, disclosure and market consequences. Although ASN2 provides definitions of significant deficiency and material weakness, such definitions are not necessarily consistent with principles of materiality that have been established through case-law and SEC interpretive guidance. We remain concerned that the lack of definitional uniformity will lead to confusion, lack of uniformity in analysis and interpretation, and a rote application of the specific examples identified in ASN2, which, in turn, will lead to disclosures of immaterial events, making it confusing and difficult for investors to recognize those disclosed items that are truly of material importance to them. Additionally, since these judgments are legal determinations, we can foresee that it may become necessary to obtain legal opinions to support management's conclusions regarding materiality (even though the relevant standards for disclosure purposes may be different from the standards espoused in ASN2 for determining the existence of a significant deficiency or material weakness), even in clear cases of immaterial events. We believe that more objective standards and interpretive guidance would be useful in providing auditors, attorneys and companies with the tools necessary to make these sometimes difficult judgments in a more consistent manner.

Communications with Auditors

ASN2 also indicates that if a company shares preliminary drafts of its financial statements with the auditor, and if such financial statements are not complete and do not identify all circumstances relevant to its incompleteness, that such a situation could result in a significant deficiency in a company's internal control over financial reporting. Even inadvertent errors or omissions that are subsequently corrected would be deemed a significant deficiency and possibly a material weakness in internal controls. We believe that such a situation will impede the free flow of information between a company and its auditors and that such communications may be delayed, even in time-critical situations, out of fear that if the information is not in near-final form, the auditors will find that a material weakness exists, even in circumstances where this is not the case. We believe that the regulatory framework should promote open communications between a company and its auditors and attorneys. Accordingly, we believe that the automatic determination of the existence of a material weakness relating to incomplete or unintentionally erroneous communications with auditors should be eliminated and that a more objective analysis based on facts and circumstances should be adopted.

Effectiveness of Company-Level Controls

We also believe that the current interpretations and practices have not fully taken into account the particular legal framework that exists for foreign private issuers, particularly in Germany. The current legal structure in Germany precludes the supervisory board from taking an active role in the day-to-day affairs of a German company, including with respect to the audit committee, which is a committee of the supervisory board. Accordingly, it would present significant legal issues for German companies if the audit committee (a committee of the supervisory board) expanded its role into the realm that, for German legal purposes, was exclusively the domain of the management board. In this regard, we have solicited informal clarification from members of the PCAOB, SEC and the accounting profession with respect to the standards that are likely to be applied in assessing the performance of the audit committee in the context of evaluating the effectiveness of this important company-level control. Applying U.S.-based audit committee effectiveness standards to a German company may, in certain circumstances, raise questions under German law. We understand that the focus over the past few months has been to prepare U.S. companies for their year-end compliance deadlines, but to date, we have not been provided with much guidance on the evaluation of this important internal control. Additional guidance in this area in the near term will assist us in preparing our own control self-assessments and evaluations of the appropriate level of functioning of our audit committee.

Likewise, we believe that permitting external auditors to rely on the evaluations, work papers and reports of the internal auditors would be appropriate, even in circumstances where the internal audit department does not report directly to the audit committee. Obviously, external auditors will continue to conduct their own assessments and evaluations of internal controls, but relying to a greater degree on the work that has already been prepared and documented by a company's internal audit department, at least for non-critical internal controls, would effectively reduce costs, eliminate certain redundancies and lead to less disruption of business operations and personnel.

Conclusion

Accordingly, we believe that certain of the new obligations on companies and their auditors will have unintended consequences. We believe that the following modifications to the existing regulatory framework would assist in reducing the burden on public companies (particularly foreign private issuers) and their auditors and attorneys, while at the same time promoting the goal of increasing investor protection and confidence.

(1) The requirement to submit a management report and auditor attestation should be modified from annually to once every three years.

(2) Interpretive guidance through the PCAOB or SEC should be provided that it is not necessary to re-evaluate annually each and every control set that is assessed in the initial implementation phase.

(3) A clearer definition of materiality should be provided in the context of determinations of a material weakness and a significant deficiency.

(4) Communications with auditors should not, in all instances, be subject to, determinations of material weakness in internal controls, particularly in connection with providing time-sensitive preliminary information for discussion purposes.

(5) Clearer guidance should be provided regarding the effectiveness of company-level controls where the legal structure differs from that of U.S. domestic companies.

(6) External auditors should be permitted to place reasonable reliance on internal audit assessments and reports, even in circumstances where, due to the requirements of home-country law, the internal audit department reports directly to management as well as the audit committee.

Although we understand the reasons for adopting the Sarbanes-Oxley Act of 2002 and related regulations, and in particular Section 404, we do not believe that legislation, in all circumstances, is the most effective way to facilitate what amounts to a change in attitude and behavior. We understand that legislative bodies in the U.S. and abroad are compelled to take action in view of the recent spate of corporate scandals, but we do not believe that the ultimate impacts of these measures will justify the enormous costs and burdens imposed on every public company. We believe that additional guidance and reasonableness is necessary to achieve the stated goals of these legislative initiatives.

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We intend to send representatives to Washington, D.C. to participate in the roundtable discussion on April 13, 2005, and would be pleased to respond to any questions that you may have regarding this letter or our Sarbanes-Oxley Act compliance experiences.

Sincerely yours,

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