TAKKT AG

Vorstand

Sir David Tweedie
Chairman of the
International Accounting Standards Board
30 Cannon Street
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Stuttgart, January 10, 2008

Exposure draft of proposed improvements to International Financial Reporting Standards – in particular the proposed amendments to IAS 38 Intangible Assets: advertising and promotional activities

Dear Sir David,

TAKKT AG is listed on the prime standard of the Frankfurt and Stuttgart stock exchanges and is the leading B2B mail-order group for business equipment in Europe and North America. Its sales in 2007 will amount to approx. EUR 1 billion and its market capitalization is approx. EUR 900 million.

The Group consists of the management holding, TAKKT AG, the three business divisions, KAISER + KRAFT EUROPA, Topdeq, K + K America, and their operating companies with over 50 entities in more than 25 countries. TAKKT employs more than 2,000 people and has a product range of more than 110,000 products.

We would first of all like to thank you for the opportunity to submit our views on the "**Exposure Draft of Proposed Improvements to International Financial Reporting Standards**". Due to its clear wording the Exposure Draft (referred to below as "ED") is of assistance in many respects with regard to current accounting issues. However, we would like to state that the amendments proposed by the IASB in ED IAS 38.69, which require the catalogue costs incurred by mail-order companies to be treated as expenditure on advertising and promotion activities, will lead to an inaccurate presentation of the financial statements.

We have therefore taken the liberty of explaining the essential differences in our view between general advertising expenses and the catalogue costs incurred by mail-order companies.

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We are of the opinion that mail-order catalogues can be seen as an element of a "virtual salesroom" and generate future benefits which are solely under the control of the mail-order company in question. This also applies for the entire catalogue edition, regardless of when access is gained to the assets in question or of the status of mailing.

However, due to the fact that recognition as an intangible asset generally entails recognition as a non-current asset, we feel it would be preferable to recognize the entire catalogue edition as a prepayment analogous to other current assets.

As far as we are aware, this opinion is shared by the European market leaders in the mail-order business.

For this reason, we would like to request that you exclude the costs for mail-order catalogues incurred by mail-order houses from ED IAS 38.69. This could be effected by changing the wording of ED IAS 38.69 to the extent that ED IAS 38.69 only applies to advertising to which no measurable profit can be allocated. Strict criteria would need to be applied here when measuring profit.

The reasons for our opinion are outlined below:

A. Summary of the TAKKT Group

I. Data and facts 2006

TAKKT GROUP			
Turnover	EUR 958.5 million		
Profit before tax	EUR 92.9 million		
No. of employees (31.12.)	2,027		
Customers	~ 3 million		
Circulation advertising media	> 70 million		
	KAISER + KRAFT EUROPA	Topdeq	K + K America
Turnover in EUR million	451.2	86.0	421.5
No. of employees (31.12.)	892	192	915
Represented in	24 countries	7 countries	3 countries
Product range	office, business, transport, warehouse, environment	designer office furniture and accessoires	transport, warehouse, business, office, safety, packaging, food service and retailers, restaurants, hotel trade

II. Business model

The TAKKT Group focuses solely on the B2B segment of mail-order for durable equipment.

The reasons for this clear positioning of the TAKKT Group are:

- B2B mail-order is a systems business that can be steered and controlled efficiently.

- Mail-order as a sales channel has clear competitive advantages over traditional sales channels such as retail or wholesale and sales models based on personal contact. For example, there is a relatively low amount of labour involved in the mail-order business.

- The concentration on durable business equipment is primarily due to its relative price stability and the large degree of fragmentation among suppliers. A fragmented supplier structure is an important pillar of the business model and also of the added value that TAKKT offers its customers as a mail-order group. Only mail-order companies can bundle the products of many hundred suppliers and, in association with a sophisticated service concept, offer these at attractive conditions to customers.

In the past, mail order businesses only operated with print catalogues. In recent years the internet has emerged as a complementing channel to the customer base. In this regard, E-Commerce can be seen as the logical evolution of the mail-order business. TAKKT AG pursues a two-pronged strategy in its E-Commerce sector.

1. Via the website, customers are offered an additional virtual market place from our respective operating company. The products listed in the catalogue are also available via the internet in accordance with the customers' needs. The customer can select and order the desired products via his browser. However, this offer is geared mostly towards small and mid-sized companies.

   Whether the customer orders via the internet or places his order traditionally via the catalogue is of little consequence. All orders are treated equally as soon as they are entered in the order management system. At TAKKT there is no difference in order-picking, shipment or billing. The customer, by contrast, can make use of an additional order channel and expanded services: via internet he can review whether the articles are in stock or if his order has been dispatched already. Thus, E-Commerce activities support the catalogue.

2. For selected major customers electronic catalogues are prepared to allow the customer to feed the data into his own intranet. By adjusting the catalogue to match the specific system requirements of the customer the presence of the catalogue is significantly enhanced and a major contribution made towards binding the customer. Moreover, the transaction costs for the customer are significantly reduced by means of the E-Procurement solution offered. This has led to the TAKKT Group becoming more frequently chosen as the preferred supplier - a classical win-win situation.

In total approx. 15% of the orders received by the sales companies of the TAKKT Group are received electronically. This share has been rising continuously in recent years with annual growth rates of approx. 30%.

B. Distinction between catalogue costs and general advertising

As a (functional) marketing system or as an independent (institutional) operation of a company, mail-order businesses constitute a sales business without a (physical) shop. However, just like shop business, it cannot do without investing in some form of sales infrastructure that has nothing in common with general advertising (e.g. outdoor advertising). The distinction can be made tangible as follows: where a shop uses physical objects such as display windows, shelves, counters or cash registers, a mail-order business uses a "virtual" sales room which exploits the medium of a catalogue as its sales platform.

Thus in distinction to other marketing systems or business models, mail-order business is primarily characterized by the way it prepares its range of products for a customer base that is generally already well known and without which the development of a successful catalogue and ordering system would be impossible. Indeed, a catalogue represents an investment decision that is made with regard to separate customer segments.

The use of catalogues in the mail-order business is a personalized (albeit not *personal* in the strict sense) interactive marketing approach that can be carefully controlled and whose success can be forecasted and measured specifically. The increasing sales of goods and services via the internet in the sense of E-Commerce can be viewed, as already mentioned, as an evolution of mail-order business. Like mail-order business, which uses print catalogues, it is a distance trading model but based on an electronic catalogue. The expertise of classical mail-order businesses is thus a key success factor: the benefits flowing from a website trading site can only be generated in connection with other factors, such as catalogues.

In contrast to purely communicative sales tools, such as general advertising which can be handed over to advertising agencies or sales promotion agencies for instance, catalogue related tasks such as product selection, design of the catalogues and selection of customer groups to be addressed are highly integrated in the organization. To this extent a decision to pursue mail-order business is, due to its relative permanence, more comparable to a decision for a certain sales system, which involves a decision for a long-term investment in the organization, than it is to a decision concerning a flexible advertising budget. This is particularly true when E-Commerce elements are integrated within this sales system, such as a virtual market place or when a constant presence is established in the customer's intranet to facilitate B2B trade.

A further major distinction between catalogues and general advertising lies in the fact that in the mail-order business sales-generating transactions can be allocated to a particular catalogue. This ability to directly allocate sales to a specific advertising measure makes it possible to forecast the success of future catalogues on the basis of past results and to compare these forecasts to future cash flows.

In the opinion of the IASB, as documented in the ED, the discussion of which "Accounting Model" should apply is predominated by the issue of whether the expenditure represents advertising expense in the sense of IAS 38.69. In the ED the IASB is classifying mail-order catalogues to advertising expense covered by IAS 38.69 purely on the basis of the type of costs incurred.

It is true, that in many respects mail-order catalogues are comparable to classical advertising. However there are critical differences.

In light of the business model of mail-order businesses certain actions, such as dispatch of the catalogue, represent an investment in the sales infrastructure comparable to a shop which must first create a platform on the basis of which individual sales transactions can be conducted. These actions are only comparable to advertising in terms of the type of cost but in terms of the business model do not constitute **advertising or promotional expense** in the sense of IAS 38.69 and ED IAS 38.69. For example, nobody would ever think of treating the display windows, shelving or cash registers of a shop as advertising costs and expensing them as incurred.

Moreover it should be noted that the opinion contained in the ED would result in a significant discretionary scope particularly in the mail-order business, with regard to the timing of the date on which access to the goods is obtained. For example, depending on the cash situation of the company, the date on which access to the catalogues is obtained or on which the catalogues are dispatched can be "shifted" from the last week of the old accounting period to the first week of the new accounting period. The impact of this on measurable sales is virtually nil but catalogue costs are a major cost item of a mail-order business and can have a major impact on the annual result. In our opinion, this discretionary scope restricts the informative function of the financial reporting.

Given the quarterly reporting practiced by TAKKT, the immediate expensing of catalogue costs upon access being gained or dispatch would also make a quarterly comparison virtually impossible. The same holds true for a year-on-year comparison with a corresponding adverse affect on our position in the capital markets.

As will be shown below, catalogue costs basically meet the definition of internally generated intangible assets under IAS 38 which would have corresponding consequences with regard to capitalizing these expenses. However, these assets do not meet the criteria for non-current assets outlined in IAS 1, indicating that there is a gap in the standards.

C. Suggested solutions

I. Gap in the standards

As discussed above, catalogue costs for mail-order businesses display some peculiarities with respect to typical advertising expenses which call for special accounting treatment. A closer inspection of the treatment of catalogue costs should be oriented towards these peculiarities.

If it is not possible to find a comprehensive answer to these special accounting issues, then it can be assumed that there is indeed a gap in the standards. In the event that the standards fail to cover this issue as they stand, the management should, in accordance with IAS 8.10, develop its own methods to supply the recipients of the reporting with relevant and reliable information in its financial statements. When developing such a method, IAS 8.10 and IAS 8.11 at first require standards or interpretations to be applied that handle similar or related issues.

There is a basic requirement to ensure correct matching of expenses that impact more than one period – both in terms of making a valid forecast of profit or loss for investors as well as internally for a value based management of the company.

Especially with regard to the accrual basis of accounting in IAS 1.25, we would once again like to emphasize that in the case of annual catalogue editions, the catalogue costs incurred at the end of the accounting period will typically only generate sales in the following accounting period.

As the catalogue's primary function is to generate sales in future periods, and given that this function takes clear precedence over any other function, as is characteristic of an intangible asset, the derivation of appropriate treatment in accordance with IAS 8.10 and IAS 8.11 must be oriented towards the standards governing intangible assets (IAS 38, SIC 32) as well as the existing treatment found in IAS 2.

In a secondary step pursuant to IAS 8.11 b the Framework should possibly also be drawn on with regard to reporting a prepayment.

In a further step, i.e. a third step, other accounting standards can be drawn on in accordance with IAS 8.12. In this case we refer to the Statement of Position (SOP) 93-7, Reporting on Advertising Costs, issued by the AICPA, which specifically provides for advertising measures in the field of direct marketing to be capitalized and contains other valuable points for the accounting treatment of the expenditure incurred by this particular sales channel.

II. "Fair presentation"

IAS 1.13 and IAS 1.15 require financial statements to make a fair presentation of the financial position, financial performance and cash flows of an entity under the assumption that this can be done by making a faithful representation of the transactions in accordance with the definitions and recognition criteria found in the Framework and compliance with the applicable IFRS in "virtually all circumstances".

However, "in extremely rare circumstances" IAS 1.17 allows for management to depart from compliance with a given standard if it concludes that "compliance with a requirement would be so misleading that it would conflict with the objective of financial statements set out in the Framework", i.e. to ensure a "fair presentation". Such departure from the Standards must be disclosed, justified and its financial impact quantified.

Regardless of whether there is a gap in the Standards or not, it appears doubtful in this light whether an undifferentiated treatment of the expenses incurred for mail-order catalogues, in particular for catalogues still held by the entity, as current expenses of the period would ensure a fair presentation in extreme cases. In the extreme case, shipping a catalogue shortly before the end of the accounting period would result only in expenses in the current period and only in income for the subsequent period. Moreover, depending on the cash position of the entity the date on which the entity obtains access to the catalogues can be effectively "steered" with a substantial impact on the earnings position.

III. Treatment of catalogue costs by applying analogous IFRSs pursuant to IAS 8.11

As discussed above, we are of the opinion that there is a gap in the Standards with regard to the treatment of catalogue costs. By referring to Standards and Interpretations which deal with similar issues we will now try to identify the criteria for recognition and disclosure that would effectively cater to the peculiarities of this item.

1. Treatment of catalogue expense as other current assets under IAS 2

There are grave reservations against treating catalogues as inventories as catalogues are not products by nature.

2. Treating catalogue costs under analogous application of IAS 38

In the following passage we shall attempt to examine to what extent a catalogue edition in its own right can be recognized as an intangible asset under analogous application of IAS 38.

The criteria for recognizing catalogues as intangible assets are as follows:

(1) Meeting the general definition of an intangible asset (identifiability, control and the existence of future economic benefits flowing to the entity, IAS 38.9 to 38.17) and
(2) Meeting the general recognition criteria of IAS 38.21 (expected future economic benefits will flow to the entity and the cost can be measured reliably) and
(3) Possibly the other recognition criteria applying to internally-generated intangible assets in IAS 38.51 ff. in particular, IAS 38.57 (with regard to technical feasibility, and the ability and intention to use or sell it).

2.1 Meeting the general definition

The identifiability of an asset to distinguish it from goodwill requires either (1) separability in the sense of selling or exploiting it separately from the entity or (2) is identifiable due to contractual or other legal rights.

Catalogues are the intellectual property of the mail-order business and, moreover, can be exploited separately. Thus they are **identifiable**.

A core element of the definition is **future economic benefits**. As IAS 38.17 expressly states, future economic benefits can include revenue from the sale of products. Due to the fact that the business model of mail-order involves generating the greater portion of sales revenue from measures which are aimed at informing customers, such as catalogues, the future economic benefit from the resource (here in the form of a catalogue edition as a source of (future) sales revenue) is clearly evident. This is expressly acknowledged in IAS 38.69 sent. 1.

Control describes the power of the entity to obtain the future economic benefits from the resource and to restrict the access of third parties to those benefits and is normally based, <u>but not necessarily so</u>, on legally enforceable rights (IAS 38.13).

Even if the entity has physically lost the power to dispose of catalogues which have already been dispatched there is no doubt that the intellectual property rights to the catalogue remain with the entity and that the future economic benefits in the form of future sales revenue (IAS 38.17) from the catalogue will flow solely to the mail-order business in question.

We would like to note the following with regard to the **status of dispatch** of the catalogues: even though IAS 38 relates to intangible assets and thus at first sight only appears to apply to that portion of the catalogue edition that has been sent out to customers, a thorough appraisal of the matter reveals that no other treatment can apply to the catalogues still awaiting dispatch on grounds of similarity. In particular, the only difference in this portion of the catalogue edition is that it contains above and beyond the intangible asset a physical component and is thus subject to even greater direct control by the company. As already mentioned above, the future benefit of a catalogue edition distributed (in the form of future sales revenues) is clearly outweighting benefits of its physical substance or material cost, as could be expected for an intangible asset.

Treating parts of a special sales measure as represented by a single catalogue edition only measured on the basis of the degree to which the entity has incurred an expense (as intended in the ED) or even the (random) degree to which catalogues have been dispatched on balance sheet date should not be permitted as this would open the door to wanton manipulation of the annual results.

2.2 General recognition criteria

We refer to 2.1 with regard to the likelihood of future economic benefits. Another general recognition criterion is the **ability to measure the asset reliably**. On the basis of the regular and comprehensive cost information that is available with each edition of the catalogue, the expense incurred to produce the catalogues can be traced and allocated directly.

2.3 Special recognition criteria for internally generated intangible assets

Due to the complexity of identifying and measuring the cost of internally generated intangible assets, IAS 38 provides additional recognition criteria which break down the internal production process into a research and development phase (IAS 38.52). The costs of the research phase cannot be recognized. This distinction is not restricted merely to purely technical processes but is a basic distinction to separate internal work into a design phase and a later construction phase.

According to IAS 38.57, the development phase must meet the following criteria: **technical feasibility and the ability and intention to "use" or sell it**, i.e. to employ it for the purpose for which it was intended: in this case mailing to customers. Due to the customary practice of mail-order business there can be no doubt that these criteria are fulfilled.

2.4 Interim conclusion I

As presented above, the criteria for capitalizing catalogue costs as intangible assets under analogous application of IAS 38 are met in principle.

3. Treating catalogue costs under analogous application of SIC 32

SIC 32 provides guidance on the capitalization / measurement of the costs of websites as an intangible asset if these expenses meet the general recognition criteria of IAS 38 (see above) and remains unchanged in the ED.

3.1 Recognition criteria

The expectation of future economic benefits as a necessary component of the definition of an asset takes specific form in the recognition criteria of IAS 38 in the need to demonstrate the probability of future economic benefits. As an example of such evidence for the costs of a website SIC 32.8 lists the possibility created by the website of placing an order online. However, we do not see any distinction here to the possibility of placing an order created by a mail-order catalogue. Mail-order companies regularly generate sales from the orders placed on the basis of their print catalogues. The corresponding data is prepared regularly as part of monitoring the success of the advertising material.

As discussed above, it can also be assumed on the basis of experience with online shopping and E-Commerce that the "stand-alone" solution of a website does not generate sufficient traffic. A website that merely enables customers to place orders is missing a critical factor for retaining customers.

3.2 Determining useful life

SIC 32.10 states, "The best estimate of a web site's useful life should be short." The same applies for capitalized catalogues whose useful life is limited to the following edition. The economic benefits from the catalogue fall rapidly once the new catalogue has been sent. On the basis of the analyses performed to monitor the success of advertising measures, the share of orders attributable to catalogues issued in earlier periods can be regularly determined. Generally, it can be assumed that they are fully amortized by the time the new catalogue is sent out.

3.3 Costs subject to mandatory recognition

With regard to the costs subject to mandatory recognition, SIC 32.2 and 32.3 make a distinction between the different development stages (planning, application and infrastructure development, graphic design, content development) and the operating stage. Excluding the costs of the planning stage and the operating stage of the website (SIC 32.9) allows both cost components purchased from third parties (SIC 32.9) as well as internal costs to be recognized under the historical cost model (SIC 32.18).

3.4 Interim conclusion II

Even by applying SIC 32 by analogy, catalogue costs would be recognizable as a current intangible asset under IAS 38.

4. Treatment of catalogue costs as prepayments under the Framework pursuant to IAS 8.11 b

4.1 Recognition criteria

Beyond referring to existing Standards, the theoretical basis of recognition under IFRS, particularly as found in the Framework, should also be drawn on. The treatment of catalogue costs under IFRS must comply with the basic principles of recognition under IFRS. IAS 1.13 establishes this connection to the definitions found in the Framework, even if the special wording found in the relevant Standards always takes precedence (F.2).

Basically the recognition concept under IFRS pursues a two-stage model: firstly, a *general* ability to recognize a particular balance sheet item (i.e. an element of the financial statements, e.g. an asset) based on meeting certain definitions and, secondly, a *specific* ability to recognize a balance sheet item based on meeting certain recognition criteria (e.g. the existence / probability of an economic benefit, reliable measurement).

The Framework defines an asset as a resource that is controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity (F. 49a). An item that meets the definition of an element should be recognized if it is probable that any future economic benefit associated with the item will flow to or from the enterprise and the item has a cost or value that can be measured reliably (F.83).

Deferred items such as prepayments are not directly defined in IFRS as distinct elements of financial statements - however their basic existence is undisputed. As the recognition requirements of the Standards which treat similar or related issues are met, it appears that it would be permissible to recognize a catalogue edition with which sales are typically generated in the following period as a prepayment in the financial statements.

4.2 Interim conclusion III

As the recognition criteria are met, it is conceivable that the catalogue costs could be recognized as other assets under current assets / prepayments on the basis of the Framework, although on the basis of Standards dealing with related issues the more specific considerations discussed above should be given preference.

5. Conclusion: catalogue costs are current intangible assets that should be disclosed as prepayments

By referring to IAS 38 and SIC 32, which provide well-founded analogies, it can be concluded that there is a gap in the Standards with regard to the treatment of catalogue editions as intangible assets. Catalogues are a component of a "virtual sales room" and are identifiable as an element of a direct marketing scheme generating future economic benefits under the control of the mail-order business issuing the catalogue. This applies to the entire catalogue edition regardless of the date on which the entity obtains access to the catalogue or on the extent to which the edition has been mailed to customers.

However, as intangible assets are in practice generally disclosed under non-current items, it appears that short-lived catalogue editions should be recognized as a prepayment each, analogous to other current assets, and this for the entire edition in question.

IV. Treatment of direct marketing under US-GAAP (SOP 93-7) - in reference to other standard-setting bodies in accordance with IAS 8.12

The treatment of catalogue costs under the Statement of Position (SOP) 93-7 released by the Accounting Standards Division, Reporting on Advertising Costs, reveals the following treatment that is very similar to the treatment proposed above and, in accordance with IAS 8.12, can also be referred to for assistance in finding suitable treatment.

SOP 93-7 makes a distinction on the basis of the degree to which catalogues have been mailed out:

Catalogues held by an entity on balance sheet date

On the basis of the SOP, catalogues held by an entity on balance sheet date would be carried as "tangible assets" or, alternatively, as prepayments on the basis of an option (see SOP 93-7, Paragraph 32: "Sales material, such as brochures and catalogues may be accounted for as prepaid supplies until they no longer are owned or expected to be used").

Recognition extends to those costs that qualify as historical cost measured on the expenses incurred for goods or services received from third parties (i.e. excluding internal costs).

Treatment of catalogues no longer held by an entity on balance sheet date

Alternatively to deferring the catalogues held by the entity on balance sheet date as "tangible assets" and the catalogues that have already been dispatched as "intangible assets", it is permissible to treat the costs of the entire edition as an intangible asset. In this case, all costs associated with the edition would need to be recognized.

SOP 93-7 makes a distinction between treating advertising costs basically as expenses and certain direct-response advertising activities as assets (SOP 93-7, paragraph 26). However, SOP 93-7 places relatively high requirements before recognizing advertising expenditures on direct response activities as assets (SOP 93-7, paragraphs 34 and 77 in particular). Thus, before recognizing catalogue costs as assets the following criteria must be met:

- A direct relationship can be demonstrated between individual catalogue edition and orders from specific customers and
- Past data on the estimate of the specific revenues/success of the activity (order rate, etc.) can be shown for each activity

The catalogues mailed out by mail-order companies easily qualify as "direct-response advertising" under SOP 93-7 (customers are addressed directly and individually without any interim sales process involved and the customer has the opportunity to respond and place an order), more so given that the SOP obviously concentrates on types of more general advertising activities, which are "anonymous" by nature.

To distinguish between the advertising activities treated in the SOP and catalogue mail-outs, it can be stated that the advertising activities of mail-order companies are mailed, on the basis of past data, to a much more focused customer base. The typical direct marketing activities provided as examples in the SOP (mailing campaigns, magazine inserts, etc.) by contrast, address a much wider audience.

However, in both cases a prospective customer base is addressed and it is uncertain as to which individual customer will react to specific advertising activities. Where SOP 93-7 even approves, under certain conditions, of recognizing some advertising expenses aimed at attracting the interest of new customers, this is even more the case for direct-response activities aimed at an existing customer base, such as mail-order catalogues.

Overall it can be stated that the advertising activities of mail-order companies meet the recognition criteria of SOP 93-7 without any reservation. The data generally prepared for controlling purposes on the success of specific catalogue activities allow individual orders to be allocated to a specific edition of a catalogue. Likewise, the detailed controlling of the success of past advertising activities allows a sufficiently accurate estimate to be made of the sales of the respective catalogue edition on the basis of the figures for past years and the comprehensive experience of the mail-order company.

Determining useful life

In the event of being recognized as an asset, a useful life must be chosen that is oriented on the periods in which income is generated by the activity (SOP 93-7, paragraphs 46, 47). In this case, these periods would be based on the regular mailing cycle of the individual catalogues. Thus in most cases it would be assumed that subsequent measurement of the current catalogue would only involve that portion of the remaining costs from earlier advertising activities that corresponds to the share in total revenue from the preceding catalogue that is earned by the "old" catalogue in the period of the "new" catalogue. Where this share is insignificant, it can be assumed that the old catalogue has been fully amortized upon mailing the new catalogue.

Costs subject to mandatory recognition

In the course of recognizing advertising measures as an intangible asset, the share in overheads (personnel, etc.) associated with the activity would also be subject in full to mandatory recognition in addition to the prepaid supplies already included as the historical cost of the catalogue in question (SOP 93-7, paragraphs 40 and 41). These cost items need to be determined by mail-order companies by means of appropriate cost accounting.

D. Summary

1. The mail-order business as a (functional) marketing system or as an independent (institutional) operating activity of an entity constitutes sales activity without the need for a physical shop. Like regular shop business it cannot do without investment in some form of sales infrastructure which in terms of its character and useful life has nothing in common with general advertising (e.g. outdoor advertising). The distinction can be made tangible as follows: where a shop uses physical items like shop windows, shelves, counters or cash registers for its sales platform, mail-order companies use a "**virtual sales room**" based on the medium of a mail-order catalogue.

2. In light of the business model of mail-order businesses certain actions, such as dispatch of the catalogue, represent an investment in the sales infrastructure comparable to a shop which must first create a platform on the basis of which individual sales transactions can be conducted. These actions are comparable to advertising in terms of the type of cost but in terms of the business model do not constitute **advertising or promotional spend** in the sense of IAS 38.69 and ED IAS 38.69. For example, nobody would ever think of treating the display windows, shelving or cash registers of a shop as advertising costs and expensing them as incurred.

3. A further major distinction between catalogues and general advertising lies in the fact that in mail-order business sales-generating transactions can be allocated to a particular catalogue. This ability to directly allocate sales to a certain catalogue makes it possible to forecast the success of future catalogues on the basis of past results and to compare these forecasts later to the cash flows realized.

4. There is a basic requirement to ensure correct matching of expense that impact more than one period – both in terms of making a valid forecast of profit or loss for investors as well as internally for a value based management of the company. Treating catalogue costs as expenditure on advertising activities in the sense of ED IAS 38.69 would lead to the financial statements of mail-order companies not providing a fair presentation. In the extreme case where a mail-order company ships its catalogue shortly before balance sheet date only expenses are posted in the current year and only revenue in the following period.

5. Moreover it should be noted that the opinion contained in the ED would result in a significant discretionary scope in accounting policy particularly in the mail-order business, with regard to the timing of the date on which access to the goods is obtained. For example, depending on the cash situation of the company, the date on which access is obtained or on which the catalogues are dispatched can be "shifted" from the last week in the old accounting period to the first week of the new accounting period. The impact of this on measurable sales is virtually nil, but catalogue costs are a major cost item of a mail-order business and can have a major impact on the annual results. In our opinion, this significant discretionary scope is counterproductive to the informative function of the financial statements and would open the door to **wanton manipulation of the annual results.**

6. Given the quarterly reporting practiced by TAKKT, the immediate expensing of catalogue costs upon access being gained or dispatch of the catalogues would also make a **quarterly comparison** virtually impossible. The same holds true for a year-on-year comparison with a corresponding adverse affect on our position on the capital markets.

7. Catalogue costs basically meet the definition of internally generated intangible assets under IAS 38 which has corresponding consequences with regard to the capitalization of these expenses. However, these assets do not meet the criteria for non-current assets in IAS 1, indicating that there is **no IFRS Standard available which could be applied** in this case (gap in the IFRS).

8. The peculiarity of the sales model of mail-order companies, which combine customer contact with the ability to place an order, distinguish it clearly from general advertising expenditure and in the event of a gap in the IFRS Standards necessitates **alternative treatment** analogous to the definition and recognition criteria of an asset **pursuant to IAS 38**. Moreover, the matching principle (IAS 1.25) requires such treatment. Reference can also be made to SIC 32 and SOP 93-7.

9. The criteria for recognizing catalogue costs under (analogous application of) **IAS 38 / SIC 32** are fulfilled.

10. Under **US GAAP, SOP-37** catalogue costs are deferred in principle.

Thus our conclusions with regard to the recognition and measurement of direct marketing expenditure under IFRS are as follows:

11. Catalogue costs should be recognized **as a prepayment under other current assets** due to the peculiarities of the catalogue-based sales model used by mail-order companies so as to ensure correct matching (IAS 1.25). This is the more appropriate accounting treatment, particularly with regard to existing Standards and guidelines (IAS 38, SIC 32), the Framework and in comparison to other standard-setting bodies for identical cases (SOP 93-7). Even if the analogy to IAS 38 indicates that direct marketing campaigns are intangible assets in principle, it appears preferable to recognize them as prepayments under other current assets due to their short-term nature based on the repeated mailings of catalogue editions within the business cycle.

This would comply with the criteria in IAS 8.10 in a special way: very *reliable* data is presented due to the continuous data collected during the year on the success of the different campaigns and the *relevance* of the financial statements is enhanced as the direct marketing campaigns are matched correctly.

12. With regard to the **measurement of the asset** it appears, with reference to the accounting option allowed under SOP 93-7/US-GAAP, that recognition solely at purchase cost is appropriate if by far the greater share of the edition is still held by the entity on balance sheet date. With regard to the amortization of the asset, the useful life should be proportionate to the sales generated by the catalogue. It could be assumed that the catalogue costs recognized for the prior edition are fully amortized upon shipment of a new catalogue edition.

13. To summarise, we would once again like to remark that the current draft of the proposed amendments to IAS 38 which treats – in the opinion of the IASB - catalogue costs as advertising expense, would result in an inaccurate presentation of the results of operations in the case of mail-order companies.

14. Moreover, given future convergence endeavours, the treatment of catalogue costs as advertising expense in ED IAS 38.69 would lead to a discrepancy between IFRS and US GAAP.

For this reason, we would like to request that you exclude the catalogue costs of mail-order companies from ED IAS 38.69. This could be effected by changing the wording of ED IAS 38.69 to read that ED IAS 38.69 only applies to advertising to which no measurable profit can be allocated. Strict criteria would need to be applied here when measuring profit.

We would be happy to explain our opinion at a meeting if you should so desire.

Yours sincerely,

TAKKT AG

Florian Funck
CFO

R.S. Wells

Richard S. Wells
Group Accounts Manager