

Sir
David Tweedie
Chairman of the
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

13. December 2007

Dear Sir David,

IASB Draft of proposed Improvements to International Financial Reporting Standards: Proposed Amendments to IAS 38 *Intangible Assets*

Arcandor AG is pleased to comment on the above Draft Improvements to IFRS. We support the issues and proposed amendments and have some further comments as set out below.

Company's profile

Arcandor AG is a leading European retail and tourism group. It's core businesses are Karstadt department stores in premium locations of German cities, mail order companies which operate domestic and abroad and also the tour operator Thomas Cook. Arcandor AG is listed in the MDAX (German index for mid-cap issues from traditional sectors) segment.

Arcandor AG's mail order business is managed under the holding of Primondo GmbH. Universal mail order company Quelle and additionally, various special mail order companies form part of the Primondo segment. As market leader in Germany, Quelle is currently expanding it's premier status as a multi channel provider through it's catalogues, via the Internet, via OTC and, after the successful acquisition of teleshopping channel HSE24 also via Television.

In the following, we do not specifically relate to the questions 28(a) and 28(b) as our comments are more general in nature and based on a business view of a mail order company.

Executive Summary

As we believe that catalogues do not qualify for being advertising and promotional activities the accounting for catalogue costs of a mail order company should not fall under the scope of paragraphs 69 and 70 of IAS 38 *Intangible Assets*. Accordingly, catalogue costs should not be recognised as expenses when a mail order company gains access to the catalogues.

We would like to suggest defining the term “advertising and promotional activities” being used in paragraphs 69 and 70 of IAS 38 *Intangible Assets*. This definition should either explicitly scope out catalogues from advertising and promotional activities or should provide clear guidance as to whether catalogues fulfil the definition of advertising and promotional activities.

Rationale

We believe that mail order catalogues are not general advertising and promotional activities but rather the core sales medium and basis of the mail-order business as such. The main catalogues are comparable to “department stores at home” with an update of the assortments 2 to 3 times a year. The main catalogues offer a very broad range of products representing an entire department store accessible at home and comprising more than 1,000 pages. More specialised catalogues (e.g. furniture, sporting equipment) offer a comprehensive selection of specific goods and comprise up to 500 pages.

The respective lifecycles depend on the character of the catalogues: whereas fashion brands are issued every 6 months (or even more frequently), some catalogues, e.g. furniture catalogues, are only issued once a year. Generally, a longer lifecycle than one year does not make sense due to changes in fashion styles, in technological developments and in price dynamics.

Due to the business model of mail-order companies, main catalogues represent a core asset. Main catalogues are the primary interface between the mail-order company and its customers, the source of sales of the core and standard product range and therefore the basis for orders, revenues and cash flows. Distribution of the catalogues as “stores at home” is a necessary precondition for mail-order companies to generate sales.

The main catalogues are not distributed randomly but rather to selected customers. Customers are selected by identifying the „expected revenue per catalogue“ for each customer on the basis of purchasing and payment histories as well as sociological and socio-demographical characteristics of the respective customers. Usually, customers are clustered and ranked on the basis of their past purchases. Adequate catalogue distribution is determined by the revenue contribution of a customer tier meeting exactly the contribution margin necessary for positive results. Clearly defined and statistically proven forecasts of future purchasing patterns guarantee an “on-target” catalogue circulation.

As the main catalogues are the core sales medium, mail-order companies are able to clearly assign revenue to a catalogue by catalogue-specific article numbers. This is because the articles offered in the main catalogues can only be ordered by reference to the article number.

Revenues from a main catalogue are stabilised over the total catalogue-lifecycle by carrying out advertising and promotion campaigns. The objective of advertising and promoting the main catalogues and the respective brands is to increase the customer base for distributing the catalogues. These advertising and promotional activities could be non-addressed based advertising (e.g. flyers with limited offers including order forms, bulk mailing, enclosures in magazines), addressed based advertising (e.g. mailings offerings if desired) and traditional advertising (e.g. print media, ads, TV spots, radio spots, mailed newsletter). In comparison to the above advertising and promotional activities, which we believe should fall under the scope of paragraphs 69 and 70 of IAS 38 *Intangible Assets*, main catalogues are very different in nature as they represent a “store at home” and are subject to advertising and promotional activities themselves.

The term “advertising and promotional activities” is not defined in IAS 38 *Intangible Assets*. Several definitions of advertising and promotional activities exist in the academic literature, e.g.:

- “Advertising media are promotional statements relating to objects, which replace or accompany direct contact between the advertiser and the target audience.”
- “Advertising is a form of physically non-coercive intellectual (rational) and emotional influence through which an advertiser, using special means of communication, aims to make a target audience behave in a desired way.”
- “Advertising is understood to be an attempt at influencing the opinion of a selected group of people about a certain product through special means of communication.
- “In an advertising campaign, the advertiser attempts to convey a promotional message to a single or several groups of people. The aim of many advertising campaigns is to influence the selected target group’s awareness, purchase intentions or image of a particular product.”

We know that a main catalogue must be presented in a specific way that encourages people to place orders. However, that catalogue is not targeted at influencing the customer, but rather at providing consumers with information on the company's products. In order for the business model to work, a department store must be carried into the consumer's living room. There is ultimately no other way for the customer to find out about the products and services a mail order company has to offer.

We strongly believe that the main catalogues distributed by mail order companies to their customers are not advertising and promotional activities by nature as defined in the academic literature. Therefore, we would like to recommend clarifying the term "advertising and promotional activities" in paragraph 69 and 70 of IAS 38 *Intangible Assets*. This definition should either explicitly scope out catalogues from advertising and promotional activities or include clear guidance as to whether catalogues fulfil the definition of advertising and promotional activities.

We would be pleased to discuss this comment letter with you if you wish. Please feel free to contact Rainald Hagenhues and Christian Tümmeler.

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