Deutsches Rechnungslegungs Standards Committee e.V.
Accounting Standards Committee of Germany
® Der Standardisierungsrat

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EFRAG
Stig Enevoldsen
13-14 Avenue des Arts
B-1210 Brussels
Belgium

Berlin, 24 June 2008

Dear Stig,

EFRAG's Assessment of the Improvements to International Financial Reporting Standards (Project Cycle 2006-2008)

The German Accounting Standards Board (GASB) appreciates the opportunity to comment on EFRAG's Assessment of the Improvements to International Financial Reporting Standards.

We agree with EFRAG's technical assessment of the amendments regarding the technical criteria for endorsement, i.e. we support the positive endorsement advice to the European Commission regarding the adoption of 'Improvements to IFRSs'.

This view is partly supported by the answers that we received following a survey that the GASB carried out with selected companies in Germany. For this purpose we sent your questionnaire to the DAX30 companies and to the members of the 'External financial reporting' working group of the Association of Chief Financial Officers in Germany (Arbeitskreis 'Externe Unternehmensrechnung' der GEFIU). We received responses of four preparers as a result of the survey, all of whom fully support the EFRAG's technical assessment regarding the Amendments. Only one respondent noted with regard to EFRAG's question 2(b) that EFRAG did not mention '*an evaluation how time-consuming the implementation of certain changes could be. For the current annual improvements project this might be of minor relevance, however a judgement on a planned effective date of a new interpretation/standard would be highly appreciated.*' In addition, we would like to draw your attention to some comments that we received from three preparers mainly or partly acting in mail-order business. These companies expressed strong concerns regarding the amendment of IAS 38.69. They point out that the amendment will not lead to financial statements fairly presenting their financial position and financial performance. Furthermore, in their opinion, financial statements will be less comparable to those prepared in accordance with US GAAP and those of other retailers. For the detailed rationale of this opinion we refer to their responses to EFRAG's questionnaire, which you will find attached to this letter.

The GASB as a standard setter did not itself evaluate the costs and benefits that are likely to arise for preparers and users by the implementation of the amendments. However, all four respondents to the above-mentioned survey and the three additional commentators agreed with EFRAG's assessment of the costs and benefits arising, which means they support EFRAG's conclusion that the benefits to be derived from applying the amendments will exceed the costs involved.

If you have any further questions, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President

INVITATION TO COMMENT ON THE EFRAG'S ASSESSMENTS OF THE IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Comments should be sent to commentletter@efrag.org or uploaded via our website by 23 June 2008

EFRAG has been asked by the European Commission to provide it with advice and supporting material on the *Improvements to International Financial Reporting Standards* ('the Amendments'). In order to do that, EFRAG has been carrying out a technical assessment of the Amendment against the criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing the costs and benefits that would arise from its implementation in the EU.

A summary of the Amendments is set out in Appendix 1.

Before finalising its two assessments, EFRAG would welcome your views on the issues set out below. Please note that all responses received will be placed on the public record unless the respondent requests confidentiality. In the interest of transparency EFRAG will wish to discuss the responses it receives in a public meeting, so we would prefer to be able to publish all the responses received.

1 Please provide the following details about yourself:

(a) Your name or, if you are responding on behalf of an organisation or company, its name:

German Accounting Standards Board (GASB)

(b) Are you/Is your organisation or company a:

☐ Preparer ☐ User ☒ Other (please specify)

standard setter

(c) Please provide a short description of your activity/ the general activity of your organisation or company:

(d) Country where you/your organisation or company is located:

Germany

(e) Contact details including e-mail address:

Liesel Knorr

Zimmerstr. 30, 10969 Berlin, Germany

knorr@drsc.de

2 EFRAG's initial assessment of the Amendments is that they meet the technical criteria for endorsement. In other words, they are not contrary to the true and fair principle and they meet the criteria of understandability, relevance, reliability and comparability. EFRAG's reasoning is set out in Appendix 2.

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

(b) Are there any issues that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of the Amendments? If there are, what are those issues and why do you believe they are relevant to the evaluation?

No

3 EFRAG is also assessing the costs that will arise for preparers and for users to implement the Amendments, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this Invitation to Comment will be used to complete the assessment.

The results of the initial assessment are set out in Appendix 3. To summarise, EFRAG's initial assessment is that the Amendments are:

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(b) likely to involve users in no year one or ongoing incremental costs.

Do you agree with this assessment?

☐ Yes ☐ No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be?

As a national standard setter we did not ourselves evaluate these aspects. We, instead, refer to the results of the survey carried out by the ASCG and the additional comments received (see the cover letter).

4 The amendments are likely to result in improvements in the quality of the information provided. Taken individually, most of these improvements are likely to be relatively small; however, EFRAG believes that a handful of the amendments will have a noticeable effect on the quality of the information provided. Its initial assessment furthermore is that the benefits to be derived from applying the Amendments will exceed the costs involved (Appendix 3, paragraphs **Fehler! Verweisquelle konnte nicht gefunden werden.** – **Fehler! Verweisquelle konnte nicht gefunden werden.**).

Do you agree with this assessment?

☐ Yes ☐ No

If you do not, please explain why you do not and what you think the implications should be for EFRAG's endorsement advice?

See our answer to question 3.

5 EFRAG is not aware of any other factors that should be taken into account in reaching a decision as to what endorsement advice it should give the European Commission on the Amendments.

Do you agree that there are no other factors?

☒ Yes ☐ No

If you do not, please explain why you do not and what you think the implications should be for EFRAG's endorsement advice?

EFRAG
European Financial Reporting Advisory Group

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1 Please provide the following details about yourself:

(a) Your name or, if you are responding on behalf of an organisation or company, its name:

ARCANDOR AG

Theodor-Althoff-Strasse 2

D 45133 Essen

(b) Are you/Is your organisation or company a:

☒ Preparer ☐ User ☐ Other (please specify)

(c) Please provide a short description of your activity/ the general activity of your organisation or company:

Leading European retail and torism group (Karstadt, Primondo [incl. Quelle], Thomas Cook)

(d) Country where you/your organisation or company is located:

Germany

(e) Contact details including e-mail address:

Rainald Hagenhues, rainald.hagenhues@arcandor.com

Christian Tuemmler, christian.tuemmler@arcandor.com

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(a) Do you agree with this assessment?

☐ Yes ☒ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

Arcandor believes that catalogues as sent out by our mail order companies in the Primondo group, do not qualify for being advertising and promotional activities as scoped by par. 69 and 70 if IAS 38.

We believe that catalogues are the core sales medium of mail order companies comparable to "department stores at home" and therefore form a core asset of these companies. Our mail order companies are able to specifically assign revenue to a certain catalogue while having a very good knowledge of the respective customers which guarantees an on-target catalogue distribution. As the catalogues will comprise some pieces of advertisement, the main idea is NOT to influence customers but rather to provide consumers with information on the companies products. Therefore, we strongly believe that main catalogues are no advertisement / promotion by nature. We would recommend clarification of scoping main catalogues under IAS 38 par. 69 and 70.

We believe that treating main catalogues as advertising and promotional activities does not provide the reader of financial statements with understandable, relevant and reliable information on the respective business model.

(b) Are there any issues that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of the Amendments? If there are, what are those issues and why do you believe they are relevant to the evaluation?

See above

3 EFRAG is also assessing the costs that will arise for preparers and for users to implement the Amendments, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this Invitation to Comment will be used to complete the assessment.

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(b) likely to involve users in no year one or ongoing incremental costs.

Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be?

4 The amendments are likely to result in improvements in the quality of the information provided. Taken individually, most of these improvements are likely to be relatively small; however, EFRAG believes that a handful of the amendments will have a noticeable effect on the quality of the information provided. Its initial assessment furthermore is that the benefits to be derived from applying the Amendments will exceed the costs involved (Appendix 3, paragraphs **Fehler! Verweisquelle konnte nicht gefunden werden.** – **Fehler! Verweisquelle konnte nicht gefunden werden.**).

Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not and what you think the implications should be for EFRAG's endorsement advice?

5 EFRAG is not aware of any other factors that should be taken into account in reaching a decision as to what endorsement advice it should give the European Commission on the Amendments.

Do you agree that there are no other factors?

☒ Yes ☐ No

If you do not, please explain why you do not and what you think the implications should be for EFRAG's endorsement advice?

INVITATION TO COMMENT ON THE EFRAG'S ASSESSMENTS OF THE IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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A summary of the Amendments is set out in Appendix 1.

Before finalising its two assessments, EFRAG would welcome your views on the issues set out below. Please note that all responses received will be placed on the public record unless the respondent requests confidentiality. In the interest of transparency EFRAG will wish to discuss the responses it receives in a public meeting, so we would prefer to be able to publish all the responses received.

1 Please provide the following details about yourself:

(a) Your name or, if you are responding on behalf of an organisation or company, its name:

Otto (GmbH & Co KG),

Wandsbeker Straße 3-7,

22172 Hamburg, Germany

(b) Are you/Is your organisation or company a:

☒ Preparer ☐ User ☐ Other (please specify)

(c) Please provide a short description of your activity/ the general activity of your organisation or company:

Otto is the world's leading mail-order group: Still privately owned, the Otto Group is trading and providing services in all important markets in Europe, North America and Asia. The Otto Group's 52,700 employees work in 123 major companies operating in 19 countries. In

2007/08 the Otto Group generated revenues of 11.5 bn EUR in three strategic segments: Multi-channel retail (9.1 bn EUR), financial services (1.7 bn EUR), services (0.7 bn EUR). Starting its business in the domestic market in 1949, the Otto Group has increased its foreign revenues up to 54% in FY 2006/07.

(d) Country where you/your organisation or company is located:

Group Headquarter is located in Hamburg, Germany

(e) Contact details including e-mail address:

Ludwig Richter, Vice President Group Accounting

Otto (GmbH & Co KG) · Wandsbeker Straíe 3-7 · 22172 Hamburg · Germany

Phone: +49 (0) 40 6461 1706 · Fax: +49 (0) 40 6464 1706

mailto:ludwig.richter@ottogroup.com · www.ottogroup.com

Peter Krohn, Division Manager Group Financial Reporting

Otto (GmbH & Co KG) · Wandsbeker Straíe 3-7 · 22172 Hamburg · Germany

Phone: +49 (0) 40 6461 303 · Fax: +49 (0) 40 6464 303

mailto:peter.krohn@ottogroup.com · www.ottogroup.com

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(a) Do you agree with this assessment?

☐ Yes ☒ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

We strongly believe that IAS 38.69 - even after simply including a few additional words - should not be used to determine whether an entity may recognise as an asset goods or services that might be used for advertising. We find that applying the principle proposed regarding expenditure on advertising and promotional materials on items such as catalogues would appear to be at odds with the basic definition of an asset. We continue to believe that catalogues in the mail-order business can not be considered as just a form of advertising or promotional material, but meet the requirements for the recognition of an intangible asset. An asset that needs to be capitalised and amortised over its lifecycle in order to fairly present financial statements of a mail-order company comparable with other type of retailers. Due to the substantially different character and purpose of catalogues in comparison to general advertising activities and untargeted promotional materials it does not appear to us to be appropriate to simply subsume them as an item of advertising expenditures. Consequently, IAS 38.69 including the proposed amendments are, in our view, not relevant for the treatment of catalogue costs. We believe that recognising catalogues as an intangible asset is in accordance with IFRS and in doing so provides appropriate information to the users of the financial statements for their economic decisions.

In contrast to EFRAG we do not see the concerns regarding the issue of mail order catalogues as overstated. Changing the established and approved accounting method of mail-order catalogues has a fundamental impact on the European mail-order business. It will not enhance comparability, in fact it distorts competition. With this amendment, IFRS departs from the convergence path with US GAAP resulting in clear disadvantages for the European mail order companies. That catalogues are not mere general advertising and therefore disserve a differentiated accounting treatment is a view shared by US GAAP. SOP 93-7 explicitly states that costs of "direct-response advertising" whose primary focus is to elicit sales – like catalogues – to customers who have responded specifically to the advertising and that results in probable future economic benefits are not to be expensed as incurred. Those clearly assigned costs are in fact capitalised and amortised over the estimated period of their benefits.

(b) Are there any issues that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of the Amendments? If there are, what are those issues and why do you believe they are relevant to the evaluation?

see above

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(b) likely to involve users in no year one or ongoing incremental costs.

Do you agree with this assessment?

☒ Yes ☐ No

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Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not and what you think the implications should be for EFRAG's endorsement advice?

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Do you agree that there are no other factors?

☒ Yes ☐ No

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European Financial Reporting Advisory Group

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1 Please provide the following details about yourself:

(a) Your name or, if you are responding on behalf of an organisation or company, its name:

TAKKT AG

Presselstrasse 12

D 70191 Stuttgart

(b) Are you/Is your organisation or company a:

☒ Preparer ☐ User ☐ Other (please specify)

(c) Please provide a short description of your activity/ the general activity of your organisation or company:

Leading B2B mail order Group for business equipment in Europe and North America

(d) Country where you/your organisation or company is located:

Germany

(e) Contact details including e-mail address:

Dr. Florian Funck, florian.funck@takkt.de

Richard s. Wells, richard.wells@takkt.de

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(a) Do you agree with this assessment?

☐ Yes ☒ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

see the attachment

(b) Are there any issues that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of the Amendments? If there are, what are those issues and why do you believe they are relevant to the evaluation?

See above

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(b) likely to involve users in no year one or ongoing incremental costs.

Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be?

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Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not and what you think the implications should be for EFRAG's endorsement advice?

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Do you agree that there are no other factors?

☒ Yes ☐ No

If you do not, please explain why you do not and what you think the implications should be for EFRAG's endorsement advice?

Attachment to the EFRAG questionnaire from TAKKT AG regarding No 2 (a)

1. 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 realized cash flows.

4. 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 controlling the business value of the entity. 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, 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 result. 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 result**.

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 be made to SIC 32 and SOP 93-7 also.

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.