

ED First-time Application of International Financial  
Reporting Standards

Dear IAS Board Members,

I would like to respond to your invitation for comments on this Exposure Draft.

My comment concerns the treatment of goodwill from business combinations. The current treatment of goodwill for companies applying IAS for the first time is determined by the transitional provisions of IAS 22 and SIC 8. According to IAS 22 and SIC 8 a retrospective capitalisation of goodwill is necessary for goodwill arising from acquisitions made on or after January 1, 1995. A retrospective capitalisation of goodwill is not required for goodwill arising from acquisitions before this date.

The new Exposure Draft 1 First-time Application of International Financial Reporting Standards states that an entity shall not apply IAS 22 Business Combinations retrospectively to business combinations that the entity recognised under previous GAAP before the date of transition of IFRSs (ED - Exemptions from requirements in other IFRSs - Business Combinations - Paragraph 20). This means that a retrospective capitalisation of goodwill arising from acquisitions made on or after January 1, 1995 is not required for companies adopting in 2003 IFRS. A company adopting IFRS before 2003 however is required to capitalise retrospectively this goodwill. This difference might result in a different treatment of goodwill arising from acquisitions between 1995 and 2002 and different audit opinions for companies adopting IFRS in 2003 and companies adopting IAS in 2002 or earlier.

Wienerberger for example adopted IAS in 1997 and did not make the required retrospective capitalisation of goodwill arising from acquisitions made on or after January 1, 1995. This resulted in a qualified opinion on the consolidated financial statements. However, if Wienerberger would have adopted in 2003 IFRS this qualified opinion would not be there.

Therefore we believe the ED should contain a transitional provision that a failing retrospective capitalisation of goodwill does not mean the financial statements do not comply with IAS. With this paragraph the audit report will be adjusted.

Without this paragraph there will be different audit opinions for equal circumstances. This inconsistency violates the accounting principle of comparability and creates a disadvantage only for those that adapted early to IAS. It seems contrary to reason to penalise early adapters of IAS since these are the very entities that have increased the acceptance of IAS.

I am convinced that this situation concerns not only Wienerberger but many other European companies as according to the 7-th EU Directive it is allowed to offset goodwill directly against reserves.

I hope you will consider my comment in the new Standard. Please contact me for any further questions.

Best Regards,

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