

23- THE ACCOUNTING TREATMENT OF GOODWILL

- A) Circular No. (2/IBS/112/2003) regarding the manner of accounting treatment of goodwill resulting from holding the shares of other institutions and companies for the aim of controlling them.
- B) Circular No. (2/BS/175/2005) concerning the compliance with the rules of International Financial Reporting Standards (Standard No. 3) when treating goodwill resulting from holding the shares of other institutions and companies.

GOVERNOR

*Ramadhan 15, 1424 H
November 10, 2003*

THE CHAIRMAN,

**Circular No. (2/IBS/112/2003)
To All Islamic Banks**

We would like to advise you that, according to the policy approved by the Central Bank Board of Directors regarding the manner of accounting treatment of goodwill resulting from holding the shares of other institutions and companies for the aim of controlling them, banks must-generally-amortize the subject goodwill by charge to the operating results of the year in which the goodwill is reported.

The Central Bank of Kuwait may consider banks applications requesting the extension of the period over which the goodwill will be amortized, provided that such period does not exceed 20 years, subject to substantiating justifications.

With my best wishes,

SALEM ABDUL AZIZ AL SABAH

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A) Circular No. (2/IBS/112/2003) regarding the manner of accounting treatment of goodwill resulting from holding the shares of other institutions and companies for the aim of controlling them.

GOVERNOR

*Thu Alqi'da 29, 12425 H
January 10, 2005*

THE CHAIRMAN,

**Circular No. (2/IBS/175/2005)
To All Local Banks**

I would like to advise you that the Central Bank of Kuwait Board of Directors agreed at its meeting of 9/1/2005 to amend instructions No. (2/BS/62/1998)⁽¹⁾ issued on 27/9/1998 concerning the manner of the accounting treatment of goodwill resulting from acquiring the shares of other institutions and companies for the purpose of controlling them. According to this amendment, banks have to comply with the rules of International Financial Reporting Standards (Standard No. 3) in respect of the accounting treatment of the goodwill, while observing the following regulations and procedures in this regard:

- First:** Upon acquisition of such shares, the respective bank must notify the Central Bank of Kuwait of all information relevant to the cases resulting in (positive or negative) goodwill.
- Second:** Positive goodwill must be valued regularly (with periodicity not exceeding one year) throughout the period during which the goodwill exists.
- Third:** The respective bank must provide the Central Bank of Kuwait with all the information relevant to the valuation of the goodwill, approved by the external auditors and supported by a certificate from the external auditors testifying to the correctness and integrity of the procedures applied in valuating the goodwill, and confirming that those procedures comply with the relevant International Financial Reporting Standards.

⁽¹⁾ The corresponding instructions for Islamic banks were issued under Circular No. (2/IBS/112/2003) dated 10/11/2003

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B) Circular No. (2/BS/175/2005) concerning the compliance with the rules of International Financial Reporting Standards (Standard No. 3) when treating goodwill resulting from holding the shares of other institutions and companies.

Fourth: The financial statements and the notes to those statement must include a disclosure of all information related to the goodwill and its valuation.

These instructions shall be implemented from 1/1/2005.

With my best wishes,

SALEM ABDUL AZIZ AL SABAH