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n August 25th, the International Accounting Standards Board proposed a change to the way that companies are accounted for. IASB standards are published as "International Financial Reporting Standards" (IFRSs).

According to IFRS 9 Financial Instruments (October, 2010), when Company A purchases Company B, Company A must consolidate Company B's assets, liabilities, income and expenses in its own financial statements. However, the proposed change would allow Company A to report Company B as an investment listed at fair value--instead of consolidating it. This proposed rule will only apply if Company A is an "investment entity." IASB released a document which defines this term. An entity is an investment entity if:

*"[...] the entity’s only substantive activities are investing in multiple investments for capital appreciation, investment income (such as dividends or interest), or both. [...It] should have no substantive activities other than its investing activities and it should not have any significant assets or liabilities other than those relating to investing activities […]" IFRS 9 Financial Instruments.*

The move seems to benefit venture capital organizations, mutual funds, unit trusts and similar entities. The standard would free these entities from the costs and complications of consolidating, and allow them to report their investment companies measured at fair value through profit or loss.

But what about large companies that already control an investment entity?

*"[…A]parent of an investment entity should not retain the fair value accounting that is applied by its investment entity subsidiary to controlled entities, unless the parent qualifies as an investment entity itself[…]" IFRS 9 Financial Instruments.*

This rule is open to comment until January 5th, 2012, at which point as part of IFRS 10, it will become part of the international accounting paradigm.

Since 2001, IASB has undertaken the goal of developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. They work together with the US Financial Accounting Standards Board (FASB), and national accounting standard-setters to achieve convergence in accounting standards around the world.

The significance of this rule, if it is adopted, is integrally tied to the concept of "fair value". It is necessary to explore this concept in order to obtain the whole view of this new proposal that, without a doubt, is going to change dramatically the way investors do business in the near future.

If it is passed in January, then understanding this new standard will be an important issue for Colombian companies, for Colombian academics, and in general for the accounting community. One basic question seems to appear: are we prepared to adapt to this new challenge?

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