The Socialist Republic of Viet Nam
The Ministry of Finance, Viet Nam

The Socialist Republic of Viet Nam
Data Collection Survey
on the Vietnamese Accounting System

FINAL REPORT

December 2018

JAPAN INTERNATIONAL COOPERATION AGENCY

(JICA)

KPMG AZSA LLC

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Abbreviation

Abbreviation	Name
ASBJ	Accounting Standards Board of Japan
BAC	Business Accounting Council (Japan)
CASC	China Accounting Standards Committee
CESR	Committee of European Securities Regulators
FASB	Financial Accounting Standards Board (U.S.)
FASF	Financial Accounting Standard Board (Japan)
GASB	Governmental Accounting Standards Board (U.S.)
IASB	International Accounting Standards Board
IASCF	International Accounting Standards Committee Foundation
IFRS	International Financial Reporting Standards
J-GAAP	Japan's Generally Accepted Accounting Standards
JMIS	Japan's Modified International Standards
KAI	Korea Accounting Institute
KASB	Korea Accounting Standards Board
K-GAAP	Accounting Standards for Non-Public Entities (Korea)
K-IFRS	Korean International Financial Reporting Standards
M-FRS	Malaysia Financial Reporting Standards
SEC	Securities Exchange Commission (U.S.)
US-GAAP	United States' Generally Accepted Accounting Principles
VACPA	Vietnam Association of Certified Public Accountants
VAS	Vietnam Accounting Standard
VSAs	Vietnamese Standards on Auditing and Related Services

Chapter 1 Background and Project Outline

1.1 Background of the Survey Project

The Vietnamese government has attempted to modernize its accounting regime since the early 2000s as part of Vietnamese market economization and the integration of its economy into the international economy. It also approved the Law on Accounting in 2003 and formulated the current accounting system, including enterprise accounting and governmental accounting. As for the Vietnamese Accounting Standards (hereinafter referred to as "VAS") which is the generally accepted accounting standard in Vietnam, after publicizing the first four accounting standards in 2001, the Ministry of Finance (hereinafter referred to as "MoF") which is the Vietnamese accounting standard setter, has issued 26 standards before 2018 through major additions and modifications in 2003 and 2005. This system has been further developed by receiving national assembly's approval for the amended Law on Accounting in 2015 (enacted on January 1, 2017), which specifies the introduction of fair value accounting, for example.

Along with the advancement of accounting infrastructure, the Vietnamese government has modernized its accounting system and standards as a result of the growing need for Vietnamese enterprises to access international capital markets and the global movement towards the unification of global accounting standards. In connection to the initiatives stated above, the MoF in Vietnam has seriously considered application of International Financial Reporting Standards (hereinafter referred to as "IFRS") or IFRS-equivalent standards to domestic Vietnamese companies. Furthermore, MoF has formulated a policy to create a draft roadmap toward IFRS application and the details of this roadmap are currently being considered within MoF and rest of the Government of Vietnam.

Currently, VAS is based on the so-called "historical cost basis" in which assets and liabilities are principally valued and recorded at original cost. It does not utilize fair value measurement, which are required in many IFRS standards. In 2016, the MoF attempted to resolve the differences between VAS and IFRS by issuing Circular No. 200/2014/TT - BTC, but there are still significant differences between the two systems.

In addition, in the "Socio-Economic Development 10-Year Strategy (2011-2020)" announced by the Vietnamese government in connection to economic growth, the modernization of accounting infrastructure was stated as being an important step in becoming an industrialized country by strengthening international competitiveness, overcoming its inherent vulnerabilities and creating a fair society by the year 2020, so it is thought that there are many benefits from the introduction of IFRS in Vietnam.

1.2 Project Objectives

Based on the background stated above, the “Data Collection Survey on the Vietnamese Accounting System” (hereinafter referred to as “the project”) was carried out:

- To review past consideration work and implementation systems for the MoF pre-publicized draft roadmap; and based on experiences in other countries
- To contribute to the considerations made by the MoF regarding the reorganization and sub-categorization of points for consideration that are required before producing a roadmap proposal, the process of investigating problem points and constructing a system for the implementation of consideration work.

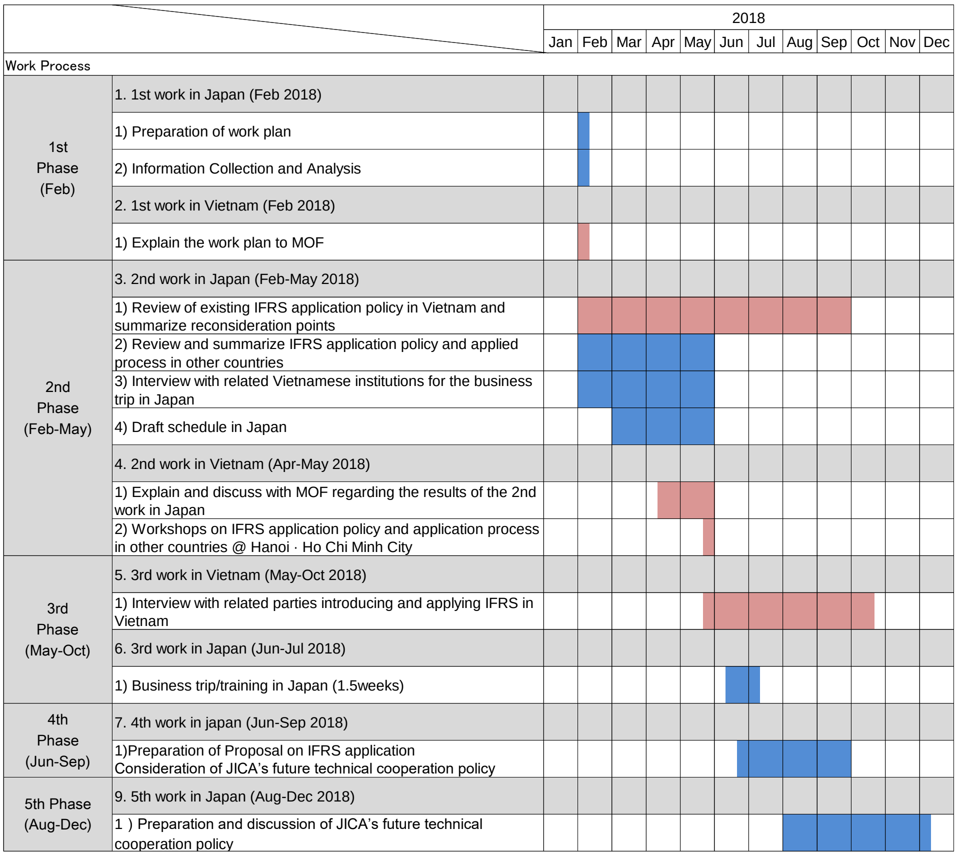
1.3 Project Sites

The project sites were Hanoi and Ho Chi Minh City in Vietnam, where relevant governmental organizations and major corporations are located.

1.4 Project Process and Deliverables

Figure 1-1 illustrates the project schedule. Work implementation periods for this project are shown in parentheses.

Figure 1 - 1 Project schedule



The Project Team prepared the reports and submitted them in the number of copies in accordance with the provision of the contract. The team submitted the minutes of the meetings that they had with stakeholders and reported the results of the field studies to the Japan International Cooperation Agency (referred to hereafter as "JICA").

Figure 1 - 2 Deliverables

Deliverable	Submission date	Numbers
Work plan (Japanese)	08/Feb/2018	Japanese:3 copies Electronic data
Work Plan (English and Vietnamese)	14/Feb/2018	English: 20 copies

Deliverable	Submission date	Numbers
		Vietnamese: 20 copies Electronic data
Work plan (Japanese)	08/Mar/2018	Japanese:3 copies Electronic data
Final Report (Japanese and English)	28/Dec/2018	Japanese: 5 copies English: 20 copies CD-R: 2 pieces

1.5 Project formation and members of the project team

The project formation and members of the project team are as per the following two figures.

Figure 1 - 3 Project formation

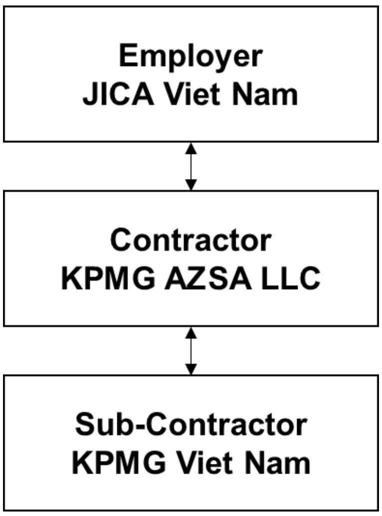


Figure 1 - 4 Members of the project team

Management	Name (Position)
Project Manager/Corporate Accounting	(Mr.) Satoshi Yoshino (Director/KPMG

Management	Name (Position)
System 1	AZSA)
Corporate Accounting System 2	(Mr.) Tomokazu Sekiguchi (Partner/KPMG AZSA)
Corporate Accounting Standards/ Financial Reporting Standards 1	(Mr.) Yasuhisa Taninaka (Director/KPMG AZSA)
Corporate Accounting Standards/ Financial Reporting Standards 2	(Mr.) Teruaki Tanaka (Senior Manager/KPMG AZSA)
Disclosure System	(Ms.) Yoko Watanabe (Senior Manager/KPMG AZSA)
Corporate Accounting/Disclosure System	(Mr.) Teruya Saruta (Associate Partner/KPMG AZSA)
Corporate Accounting/Logistics	(Mr.) Tetsuya Aoki (Senior Consultant/KPMG AZSA)

Chapter 2 Overview of Accounting System in Vietnam

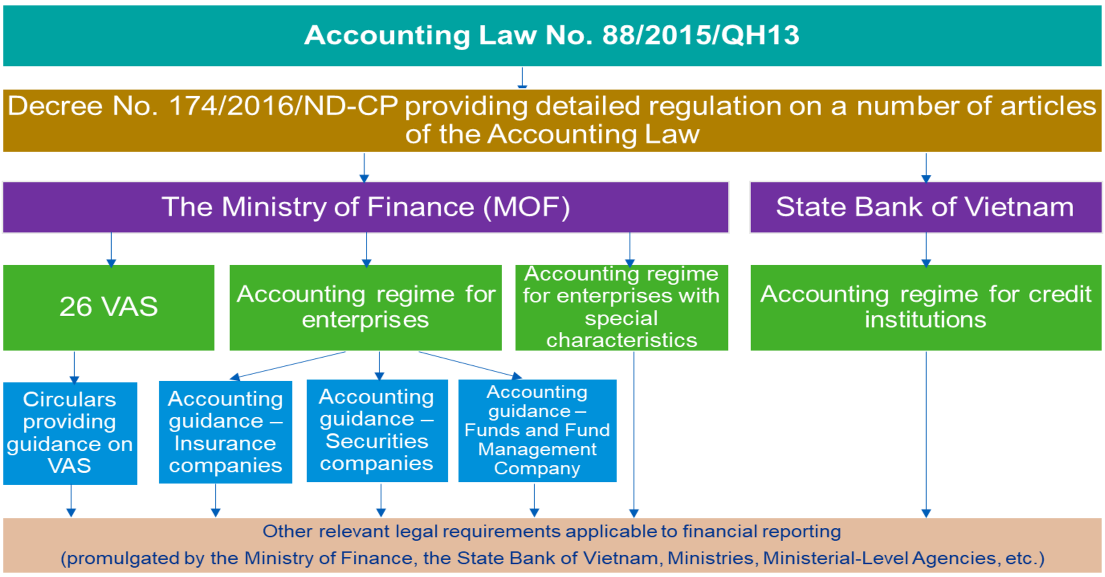
2.1 Overview of the Legislative Structure of Vietnamese Financial Reporting System

Generally, the legislative structure of Vietnamese financial reporting system comprises of several laws and regulations divided into four levels, in which:

- the highest level is the Law on Accounting passed by the National Assembly;
- the second level consists of decrees issued by the Government promulgating detailed guidance on the Law on Accounting and/or other regulations on accounting;
- the third level includes the Vietnamese Accounting Standards issued by the Ministry of Finance and Vietnamese Accounting Regime for enterprises and specific guidance for certain industries including banking, securities, insurance, investment funds and fund management companies, etc. issued by the Ministry of Finance and the State Bank of Vietnam (applicable to credit institutions); and
- the forth level comprises circulars issued by the Ministry of Finance/State Bank of Vietnam (applicable for credit institutions) or other ministries or ministry – level agencies that provide guidance on Vietnamese Accounting Standards, Vietnamese Accounting System and other regulations on accounting subjects.

Following chart illustrates the four level hierarchy of the legal documents.

Figure 2 - 1 Four Level Hierarchy of the Legal Documents in Vietnam



Considering the overall objective of this survey which is to assist the implementation of IFRS or IFRS-based financial reporting in Vietnam, this report will focus primarily on Vietnamese

Accounting Standards and Vietnamese Accounting Regime for profit-oriented entities, those for whom IFRS is designed.

Besides the laws and regulations which are clearly identified to address accounting and financial reporting matters, there are other Vietnamese regulations on the financial management subject or financial risk management subjects. These financial management and financial risk management regulations interact with the Vietnamese financial reporting system. The scope of application of these regulation, in many cases, are not clear e.g. whether for accounting purpose, for financial control purpose or for tax purpose. In some cases, the financial management and financial risk management regulations supplement the Vietnamese financial reporting system in areas that the Vietnamese financial reporting system does not have guidance while in some other cases these regulations cause conflict with Vietnamese Accounting Standards or Accounting Regime.

2.1.1 Law on Accounting and its Subordinate Guidance

The first Law on Accounting was promulgated in 2003 by the National Assembly and took effect from 1 January 2004 (hereinafter referred to as "Law on Accounting 2003"), replacing a number lower level legislation on accounting issued during the period from 1988 to 2003, legally formalized a framework at the highest regulatory level for accounting activities in Vietnam. The Law on Accounting 2003 was subsequently superseded by Accounting Law No. 88/2015/QH13 (hereinafter referred to as "Law on Accounting 2015") which took effect from 1 January 2017. The Law on Accounting 2015 including 6 Chapters and 74 Articles, regulating the contents of accounting work, the organization of accounting function, accountants, accounting services, State regulatory activities over accounting and accounting professional bodies. The notable points of the Law on Accounting 2015 are the introduction of fair value accounting principal and the "substance over form" accounting principle, which is a step closer to the international accounting practice.

(1) Introduction of Fair Value Accounting Principle

In accordance with the Law on Accounting 2015, assets and liabilities are initially recognized at costs. Subsequent to initial recognition, those assets and liabilities whose value frequently fluctuate following market price and can be reliably measured shall be stated at fair value at the end of the financial reporting period. This is a significant development compared to the Law on Accounting 2003 and existing Vietnamese Accounting Standards which provide that assets are stated at cost and an accounting entity is not allowed to revalue its assets unless otherwise stipulated by other laws and regulations. The Law on Accounting 2015 defines fair value as the value determined in line with market price, which would be received from selling an asset or paid to transfer a liability at the measurement date and provides certain categories of assets and liabilities that are measured and recognized at fair value at the end of the reporting period including:

- financial instruments as required by accounting standards to be recognized and measured at fair value;
- monetary items denominated in foreign currencies to be measured at actual exchange rates; and
- assets or liabilities which have frequent volatility in value to be revalued at fair value as required by accounting standards.

The fair value measurement of assets and liabilities must be based on reliable basis. Where there is no basis to determine fair value reliably, the asset or liability shall be recognized at historical cost. The Law on Accounting 2015 also provides that the Ministry of Finance shall specifically stipulate which assets and liabilities are measured and recognized at fair value and the accounting method for recognition and measurement of fair value.

Even though the introduction of fair value in the Law on Accounting was aimed at IFRS application, the Law on Accounting 2015 does not provide for initial recognition of assets and liabilities at fair value, which is the requirement of several IFRS.

(2) “Substance over Form” Accounting Principle

The Law on Accounting 2015 provides that the financial statements (hereinafter referred to as “FSs”) must be prepared and presented in a manner that fairly reflects the substances of transactions rather than their form. This is an important accounting principles of the IFRS which is introduced only in the Law on Accounting 2015 and had not been included in accounting standards or relevant regulations that were previously issued. The inclusion of this requirement in the law may have significant impacts on the accounting for transactions that have legal forms different from their economic substance. However, it appears that this concept may not be applied in practice unless there is specific application guidance in a sub-ordinated accounting regulations.

(3) Other Requirements Applicable to Financial Reporting

Law on Accounting 2015 does not only prescribe the general principles or provisions but contains various detailed regulations or requirements applicable to financial reporting. Some of those are detailed as follows:

- Accounting currency is Vietnam Dong. An entity whose receipts and payments are mainly denominated in a certain foreign currency may elect to use that foreign currency as its accounting currency. Such foreign currency FSs are required to be translated into Vietnam Dong using the actual exchange rate, unless otherwise prescribed by law; and
- The language of accounting shall be Vietnamese. Where a foreign language must be used on accounting record, accounting book, or FSs which are used in Vietnam, it is required to include both Vietnamese and that foreign language.

On 30 June 2016, the Government issued Decree No. 174/2016/ND-CP (hereinafter referred to as "Decree 174") providing detailed guidance on the Law on Accounting 2015 regarding accounting tasks, organization of accounting function and accountants, accounting service business, cross-border provision of accounting services and accounting professional body. Decree 174 took effect from 1 January 2017.

2.1.2 Vietnamese Accounting Standards and Vietnamese Accounting Regime

(1) Vietnamese Accounting Standards

During the period from 2001 to 2005, the 26 VAS were issued with details as follows:

- The first four Vietnamese Accounting Standards promulgated under the Decision No. 149/2001/QD-BTC issued by the Ministry of Finance on 31 December 2001 (VAS phase 1) including:
  - Standard No. 02 – Inventories
  - Standard No. 03 – Tangible fixed assets
  - Standard No. 04 – Intangible fixed assets
  - Standard No. 14 – Revenue and other income
- The six Vietnamese Accounting Standards promulgated under the Decision No. 165/2002/QD-BTC issued by the Ministry of Finance on 31 December 2002 (VAS phase 2) including:
  - Standard No. 01 – General standard
  - Standard No. 06 – Leases
  - Standard No. 10 – Effects of changes in foreign exchange rates
  - Standard No. 15 – Construction contracts
  - Standard No. 16 – Borrowing costs
  - Standard No. 24 – Cash flow statements

- The six Vietnamese Accounting Standards promulgated under the Decision No. 234/2003/QD-BTC issued by the Ministry of Finance on 30 December 2003 (VAS phase 3) including:
  - Standard No. 05 – Investment property
  - Standard No. 07 – Accounting for investments in associates
  - Standard No. 08 – Financial reporting of interest in joint ventures
  - Standard No. 21 – Presentation of financial statements
  - Standard No. 25 – Consolidated financial statements and accounting for investments in subsidiaries
  - Standard No. 26 – Related parties
- The six Vietnamese Accounting Standards promulgated under the December No. 12/2005/QD-BTC issued by the Ministry of Finance on 15 February 2005 (VAS phase 4) including:
  - Standard No. 17 – Corporate income tax
  - Standard No. 22 – Presentation of financial statements of banks and similar financial institution
  - Standard No. 23 – Events after the reporting period
  - Standard No. 27 – Interim financial reporting
  - Standard No. 28 – Segment reporting
  - Standard No 29 – Changes in accounting policies, accounting estimates and errors
- The last four Vietnamese Accounting Standards promulgated under the December No. 100/2005/QD-BTC issued by the Ministry of Finance on 28 December 2005 (VAS phase 5) including:
  - Standard No. 11 – Business Combination
  - Standard No. 18 – Provisions, contingent assets and liabilities
  - Standard No. 19 – Insurance contracts
  - Standard No. 30 – Earning per share

These 26 VAS have been developed based on the old International Accounting Standards (hereinafter referred to as “IAS”) and IFRS which were in existence at that time (the versions effective prior to 2005) with certain amendments. There were a number of IAS/IFRS and subsequent revisions to IFRS that were not adopted as part of VAS. As a result, a number of significant differences between VAS and IFRS have arisen, of which the most significant ones include:

- Fair value accounting: VAS is primarily historical cost based and the fair value/valuation principles of measurement expressed in IFRS are not considered under VAS, except for business combinations. As mentioned in Section 1.1 above, fair value accounting principle was introduced in the Law on Accounting 2015, however, no detailed application guidance has been provided yet, except for certain guidance provided for securities companies and investment funds.

- Impairment loss: there is no guidance on accounting for impairment of non-financial assets under VAS nor is there a Vietnamese accounting standard equivalent to IAS 36 – Impairment of Assets;
- Accounting treatment for financial instruments: financial assets are measured at their historical costs less allowance for doubtful debts or diminution in value of investments. A gain on the increase in fair value/market price of financial assets is not allowed to be recognized, except as provided for securities companies and investment funds. Financial liabilities are generally measured at their historical costs. Derivative financial instruments are generally not valued and recognized on the balance sheet.

In addition to the VAS, the Ministry of Finance also issued guidance circulars that were designed to assist with interpreting the requirements of the VAS with detail as follows:

- Circular No. 161/2007/TT-BTC on 31 December 2007 providing accounting guidance for implementation of 16 Vietnamese Accounting Standards promulgated under Decision No. 149/2001/QD-BTC; Decision No. 165/2002/QD-BTC and Decision No. 234/2003/QD-BTC;
- Circular No. 20/2006/TT-BTC on 20 March 2006 providing accounting guidance for implementation of six Vietnamese Accounting Standards promulgated under Decision No. 12/2005/QD-BTC; and
- Circular No. 21/2006/TT-BTC on 20 March 2006 providing accounting guidance for implementation of four Vietnamese Accounting Standards promulgated under Decision No. 100/2005/QD-BTC.

The guidance under above mentioned circulars includes detailed bookkeeping and journal entries for various types of transactions related to respective subject.

(2) Vietnamese Accounting Regime for Enterprises

Besides the Vietnamese Accounting Standards and the above guiding circulars, the Ministry of Finance also issued decisions/circulars providing guidance on Vietnamese Accounting Regime for enterprises, among which, Decision No. 15/2006/QD-BTC was issued on 20 March 2006 (hereinafter referred to as “Decision 15”) and was subsequently replaced by Circular No. 200/2014/TT-BTC on 22 December 2014 (hereinafter referred to as “Circular 200”) that is applicable for annual accounting periods beginning on or after 1 January 2015. Certain articles of Circular 200 are supplemented and amended by Circular No. 75/2015/TT-BTC on 18 May 2015 (hereinafter referred to as "Circular 75") and Circular No. 53/2016/TT-BTC on 21 March 2016 (hereinafter referred to as "Circular 53").

Circular 200 provided a detailed prescribed chart of accounts, double entry instructions for typical transactions, forms of accounting records and FS templates that were required to be followed by all enterprises in Vietnam, except for those in certain specialized industries e.g. credit institutions. Small and medium-sized enterprises are provided with the accounting regime for small and medium-sized enterprises by the Ministry of Finance. However, they may elect to apply the Vietnamese Accounting Regime for enterprise in Circular 200 instead of the Vietnamese Accounting Regime for Medium and Small Enterprises.

Circular 200 introduced a number of changes to its previous version (Decision 15) which contributes to bring Vietnamese Accounting Regime for Enterprises closer to IFRS in a certain areas, notably as follows:

- Investment property held for price appreciation is subject to impairment accounting while impairment accounting has not been stipulated in detail in any accounting regulations. If there is evidence of a decline in the value of the investment property by referencing to market price and the impairment loss can be measured reliably, the enterprise shall charge the impairment loss to cost of sales and recognize the loss as a reduction to cost of the investment property. The circular is silent on how to carry out impairment testing or how to account for the price recovery after an impairment loss is recognized;
- Foreign exchange losses accumulated in pre-operation period, which were previously allowed to be deferred as long-term prepaid expenses, shall be recorded in the income statements as they incurred under Circular 200;
- Circular 200 provides guidance similar to IFRIC 13 – Customer loyalty programs. Accordingly, at the date of sales transaction, an enterprise shall estimate fair value of the products, goods or services that would be redeemed for free or the cash discounts or rebates that would be provided to customers when the customers have satisfied the conditions of the program, and record this amount as unearned revenue; and
- An enterprise shall disclose fair value of each category of trading securities and investment in other entities. Fair value of investments in listed securities may be determined based on the current market price of the instruments. However, Circular 200 does not provide guidance on how to measure the fair value of investments in unlisted securities.

Another part of Vietnamese Accounting Regime for enterprises is Circular No. 202/2014/TT-BTC issued by the Ministry of Finance on 22 December 2014 providing guidance on preparation and presentation of consolidated FSs (hereinafter referred to as "Circular 202"). Circular 202 replaces previous guidance on preparation and presentation of consolidated FSs provided in Part XIII of Circular No. 161/2007/TT-BTC dated 31 December 2007 of the Ministry of Finance. Circular 202 is applicable for annual accounting periods beginning on or after 1 January 2015.

Circular 202 provides detailed guidance on preparation and presentation of consolidated FSs applicable for enterprises having investments in subsidiaries and associates and on accounting treatment including double entry instructions for a number of typical transactions including intra-group transactions and balances, business combinations, loss of control, recognition and measurement of non-controlling interest and deferred tax arising from business combination and consolidated FSs. The guidance in Circular 202 is, to a large extent, similar to IFRS.

Additionally, Circular No. 210/2009/TT-BTC issued by the Ministry of Finance on 6 November 2009 (hereinafter referred to as "Circular 210") provided guidance on the application of international accounting standards on presentation and disclosures of financial instruments and applicable to all enterprises that conduct transactions relating to financial instruments. This circular was basically translated from IAS 32 – Financial Instruments: Presentation and IFRS 7 – Financial instruments: Disclosures and took effect from 2011. However, from the effective date of Circular 200, Circular 210 is no longer mandatory for enterprises since Circular 200 stipulates that before the accounting standard for financial instruments and documents guiding the implementation of accounting standards for financial instruments are issued, enterprises are encouraged (but not required) to present and disclose about financial instruments in accordance with the provisions of Circular 210.

(3) Vietnamese Accounting Regime for Credit Institutions and Foreign Bank Branches

In respect of credit institutions and foreign bank branches, the FSs are prepared in accordance with:

- The chart of accounts of credit institutions required under Decision No. 479/2004/QD-NHNN dated 29 April 2004 dated 29 April 2004 of the Governor of the State Bank of Vietnam (hereinafter referred to as "Decision 479");
- Circular No. 10/2014/TT-NHNN issued by the State Bank of Vietnam on 20 March 2014 to supplement and supplement several accounts in the chart of accounts of credit institutions in conjunction with Decision 479 (hereinafter referred to as "Circular 10");
- Decision No. 16/2007/QD-NHNN of the Governor of the State Bank of Vietnam dated 18

April 2007 (hereinafter referred to as "Decision 16") on the issuance of the financial reporting regime applicable to credit institutions;

- Circular No. 49/2014/TT-NHNN dated 31 December 2014 issued by the Governor of the State Bank of Vietnam (hereinafter referred to as "Circular 49") to amend and to supplement some articles of financial reporting regime applicable to credit institutions as promulgated in Decision 16 and the chart of accounts of credit institutions as promulgated in Decision 479 with the effective date of 15 February 2015; and
- Circular No. 22/2017/TT-NHNN dated 29 December 2017 issued by the State Bank of Vietnam (hereinafter referred to as "Circular 22") amending and supplementing certain articles of the chart of accounts of credit institutions as promulgated in Decision 479 and financial reporting regime applicable to credit institutions as promulgated in Decision 16, effective from 1 April 2018.

The above-mentioned decisions and circulars provide a chart of accounts and accounting principles, accounting methods and FSs templates applied to credit institutions and foreign bank branches.

Information to be presented on the face of the primary statements and notes are presented in accordance with the standard format regulated by Circular 49, which are descriptive and inflexible. Therefore, the VAS FSs of a credit institution or foreign bank branch may include various classification and presentational differences compared to FSs prepared under IFRS.

(4) Supplemental Accounting Guidance for Securities Companies

The Ministry of Finance issued Circular No. 210/2014/TT-BTC on 30 December 2014 (hereinafter referred to as "Circular 210/2014") providing supplemental accounting guidance applicable to securities companies which came into effect from 1 January 2016. The Ministry of Financial also issued Circular No. 334/2016/TT-BTC on 27 December 2016 (hereinafter referred to as "Circular 334") on amending, supplementing and replacing Appendix No. 02 and 04 of Circular 210/2014/TT-BTC, which are effective for the annual accounting period from 2016. For any accounting matters which are not mentioned in Circular 210/2014 and Circular 334, the prevailing accounting regime for enterprises shall be applied.

Circular 210/2014 prescribes contents relating to the accounting vouchers, chart of accounts and accounting methods, accounting books, forms of FSs, methods of preparation and presentation of FSs applicable to securities companies.

The accounting regime for securities in accordance with Circular 210/2014 and Circular 334 have some differences with that for normal enterprises in accordance with Circular 200 as follows:

- Accounting treatment for financial assets: Circular 210/2014 provides that financial assets are classified into 4 categories: fair value through profit or loss (hereinafter referred to as "Circular FVTPL"), held-to-maturity financial assets (hereinafter referred to as "HTM"), loans and receivables (hereinafter referred to as "L&R"), and available-for-sale financial assets (hereinafter referred to as "AFS"). The measurement of each categories of financial assets are similar with the guidance of IAS 39 (hereinafter referred to as "superseded by IFRS 9). In accordance with Circular 210/2014, for financial assets measured at fair value (hereinafter referred to as "FVTPL and AFS"), the fair value may be determined based on the market price of the financial asset when an active market exists for such financial asset or may be determined using valuation techniques. If no active market exists for a financial asset or its fair value cannot be determined reliably, such financial asset shall be stated at cost. It is a common practice that securities companies measure unlisted financial assets at costs without making attempts to build valuation models to measure fair value. Therefore, the fair value exemption is not really "rare" as previously provided in IAS 39.
- Presentation of FSs: In accordance with Circular 210/2014 and Circular 334, components of FSs are more in line with IFRS than those specified in Vietnamese Accounting Regime for enterprises. Accordingly, a set of FSs includes a statement of comprehensive income, a statement of financial position, a statement of cash flows, a statement of changes in equity and notes to FSs. The statement of comprehensive income includes a separate part for other comprehensive income which is similarly to the provision of IAS 1 (Presentation of Financial Statements).

(5) Supplemental Accounting Guidance for Insurance Companies

For the insurance industry, the Ministry of Finance issued:

- Circular No. 199/2014/TT-BTC (hereinafter referred to as "Circular 199") on 19 December 2014 providing the accounting guidance for life insurance companies and reinsurance companies (hereinafter referred to as "life insurers"), which took effect from 1 January 2016;
- Circular No. 232/2012/TT-BTC (hereinafter referred to as "Circular 232") on 28 December 2012 on the promulgation of accounting guidance for non-life insurance companies, reinsurance companies and branches of foreign non-life insurance companies (non-life insurers) which took effect from 1 January 2014; and
- Circular No. 175/2011/TT-BTC on 5 December 2011 (hereinafter referred to as "Circular 175") on accounting guidance for insurance brokerage companies which took effect after 45 days from the signing date.

Circular 199, Circular 232 and Circular 175, each, provides a chart of accounts and accounting principles, accounting method and a template of a set of FSs applied for the respective type of life insurance companies, non-life insurance companies and insurance brokerage companies.

Life and non-life insurers and insurance brokerage companies are required to follow other prevailing accounting regime for enterprises to account for such transactions which are not covered by Circular 199, Circular 232 and Circular 175, respectively. Since Circular 232 and Circular 175 came into effect long before the issuance of Circular 200 while Circular 199's issuance date was only 3 days after the issuance of Circular 200, a few guidance in Circular 200 have not been reflected in the chart of accounts and/or the FS templates provided in Circular 199, Circular 175 and Circular 232.

It is noted that although VAS 19 – Insurance contracts was issued a long time ago (i.e. in 2005), it has not been implemented. There are some regulations, providing guidance on some aspects of insurance contracts, e.g. Decree No. 73/2016/ND-CP providing guidance on implementation of the Law on Insurance; Circular No. 50/2017/ND-CP providing guidance on implementation of Decree No. 73/2016/ND-CP and other guidance on specific lines of products. However, these regulations are not based on VAS 19 and therefore not consistent with VAS 19's provisions.

(6) Supplemental Accounting Guidance for Investment Funds and Fund Management Companies

For investment funds and fund management companies, the Ministry of Finance issued:

- Circular No. 125/2011/TT-BTC dated 5 September 2011 on promulgation of accounting guidance for fund management companies, which took effect from 1 January 2012;
- Decision No. 63/2005/QD-BTC dated 14 September 2005 promulgating the accounting guidance applicable to securities investment funds;
- Circular No. 198/2012/TT-BTC dated 15 November 2012 on the promulgation of accounting guidance for open-ended funds;
- Circular No. 181/2015/TT-BTC dated 13 November 2015 on the promulgation of accounting guidance for exchange-traded funds.

The above regulations, each, provides a chart of accounts and accounting principles, accounting methods and a template of a set of FSs applied for investment fund management companies, open-ended funds and exchange-traded funds respectively.

(7) Vietnamese Accounting Regime for Entities in Other Specific Sectors/Industries

Other than those mentioned above, the Ministry of Finance also issued a number of circulars guiding the Vietnamese Accounting Regime for entities in other specific sectors/industries, including but not limited to:

- Circular No. 133/2016//TT-BTC dated 26 August 2016 which is applicable to small and medium size enterprises;
- Circular No. 140/2007/TT-BTC on 30 November 2007 which is applicable to non-public service agencies operating in the field of education and training, medical, culture, sports, science and technology, environment, society, population, family, child care and protection;
- Circular No. 209/2015/TT-BTC on 28 November 2015 which is applicable to provincial investment and development funds;
- Circular No. 168/2009/TT-BTC on 19 August 2009 which is applicable to lottery companies;
- Circular No. 24/2017/TT-BTC on 28 March 2017 which is applicable to co-operatives or co-operatives alliances;
- Circular No. 177/2015/TT-BTC on 12 November 2015 which is applicable to deposit insurance agency;
- Circular No. 195/2012/TT-BTC on 15 November 2017 which is applicable to investors that have set up investment project management boards or investment project management boards itself;
- Circular No. 107/2014/TT-BTC on 8 August 2014 which is applicable to oil and gas operator representing other parties involved in petroleum contracts to conduct exploration and exploitation of oil and gas in Vietnam;
- Circular No. 77/2017/TT-BTC on 28 July 2017 which is applicable to state treasury.

Within the scope of this project, no further study on the above mentioned Vietnamese Accounting Regime for entities in specific sector/industries is contemplated.

Generally, if there is a conflict between Vietnamese Accounting Standards or their implementation guidance and the Vietnamese Accounting Regime, the Vietnamese Accounting Regime shall prevail since it was a regulation of the same regulatory level, issued by the same authority and issued later than the standards.

2.1.3 Other Relevant Statutory Requirements Applicable to Financial Reporting

A reporting entity, depending on whether it is a public/non-public interest entity or its ownership structure (joint-stock companies, state-owned enterprises, foreign invested enterprises, etc.) or its industry (banking, insurance, securities, etc.) might be subject to specific requirements/guidance issued by the relevant authority which are applicable to financial reporting. Some examples of those requirements/guidance are highlighted as follows:

- Decree No. 71/2017/ND-CP issued by the Government on 6 June 2017 regarding the corporate governance applicable to public companies effective from 1 August 2017 requires salary of Director/General Director and other management members to be separately disclosed on annual FSs of the company.
- The Law on Enterprises requires shareholders/members' council of an enterprise to approve the enterprise's FSs.
- Official Letter No. 7404/NHNN-KTTC dated 29 August 2006 issued by the State Bank of Vietnam providing guidance of accounting treatment for derivatives.
- Official letter No. 7459/NHNN-KTTC dated 14 April 2009 issued by the State Bank of Vietnam providing guidance for classification of investment securities.
- For the loans sold to Vietnam Asset Management Company (hereinafter referred to as "VAMC"), credit institutions account for bad debts sold in exchange for special bonds issued by VAMC in accordance with the guidance in Official Letter No. 8499/NHNN-TCKT dated 14 November 2013 issued by the SBV and Official Letter No. 925/NHNN-TCKT dated 19 February 2014 issued by the State Bank of Vietnam.
- Circular No. 135/2012/TT-BTC dated 15 August 2012 issued by the Ministry of Finance on the promulgation of implementation guidance for unit-linked insurance products requires Life insurers to measure the investments from Unit-Linked Funds at fair value at each reporting date.

2.1.4 Financial Regime

The Government, the Ministry of Finance and the State Bank of Vietnam issue a number of regulations on financial regime, in which the instructions might be specific to the circumstances of a particular type of enterprises or industries or type of transactions. Some features of such financial regimes are observed as follows:

- Some financial regimes contains guidance relating to financial reporting which may be different with the principles or guidance under VAS.
- There is confusion about the purpose of certain financial regime regulations, i.e. whether it is for tax purpose/financial reporting purpose or for purpose of supervision of state authorities. For example: a number of circulars issued by the Ministry of Finance is pursuant to the Corporate Income Tax law and regulations but also contain guidance related to accounting such as:

- Circular No. 228/2009/TT-BTC guiding the making and utilizing allowance for inventories, diminution in value of financial investments, bad debts and warranty provision for products, goods and construction works at enterprises;
- Circular No. 45/2013/TT-BTC providing guidance on management, use and depreciation of fixed assets; and
- Circular No. 180/2012/TT-BTC guiding financial handling of severance allowance for employees in enterprises.

- In those areas where VAS only provides general guidance and more specific or quantitative guidance is prescribed in the financial regimes for certain matters or the financial regimes are used by the tax authority in assessing the taxable income, many enterprises tend to use those specified in the financial regime regulations for financial reporting even though sometimes, such guidance contradicts to the requirements of VAS.
- A few State-owned enterprises still received ad-hoc decisions and instructions from State authorities that might affect the preparation of their FSs. In many cases, those instructions provide special accounting treatments solely to ensure the profitability of the state owned enterprise of the reporting period. Since those instructions are ad-hoc and are for specific enterprises, they are not covered in the scope of this report.

2.1.5 Requirements on Preparation of the Financial Statements and Disclosure of Information Related to Financial Reporting

(1) Requirement on Preparation of Financial Statements

- In accordance with Article 29 of the Law on Accounting 2015 and Article 99 of Circular 200, all entities are required to prepare the FSs at the end of the annual accounting period.
- According to Article 99 of Circular 200, enterprises of which 100% charter capital or controlling shares is held by the State, entities of public interest must prepare interim FSs including the quarterly and half-year FSs.
- Superior enterprises whose subordinate units have no legal status must prepare their own FSs and combined FSs. Subordinate units without legal status must establish their FSs in accordance with the reporting period of superior entities to serve preparation of combined FSs of superior entities and inspection of state management agencies.
- According to Article 5 of Circular 202, parent companies which are listed entities, large-scale public companies and owned by the State must prepare annual and half-year full consolidated FSs and summary quarterly consolidated FSs. Parent companies which do not fall in the above categories shall prepare annual full consolidated FSs.
- In accordance with Decision 16 and Circular 49, credit institutions (hereinafter referred to as

"CIs") must prepare annual and interim FSs. CIs which have one or more subsidiaries must prepare annual and interim consolidated FSs.

- Article 23 of Decision 16 provides that CIs being coordinating accounting entities or designated as representative of a type/group of CIs operating and performing accounting independent from each other must prepare the combined FSs to reflect combined economic - financial information of all member entities in the same type/group (for example, a foreign bank having two or more branches operating and performing accounting independently in Vietnam, including one branch authorized/designated as a coordinating/representative entity).

(2) Requirement on Disclosure of Information Related to Financial Reporting

For enterprises in general:

- According to Article 29 of the Law on Accounting and Article 99 of Circular 200, the annual FSs of an entity shall be submitted to the competent authority within 90 days from the end of the annual accounting period.
- According to Article 6 of Circular 202, the annual and half-year consolidated FSs shall be submitted to the owners and the competent authorities in 90 days and 45 days, respectively from the end of the annual accounting period/the respective accounting period.

Listed entities, public companies, securities companies, fund management companies and public funds shall disclose information related to the FSs in accordance with Circular No. 155/2015/TT-BTC dated 6 October 2015 of the Ministry of Finance on guidelines for information disclosure on the securities market. Accordingly:

- A public company/large-scale public company and listed entity must disclose its audited annual FSs within 10 days, from the date on which the audit firm signs the audit report provided not exceeding 90 days (possibly extended to 100 days in certain circumstances), from the end of the financial year.
- A large-scale public company and listed entity must disclose its half-year FSs reviewed by an independent audit firm within 5 days, from the date on which the audit firm signs the review report provided not exceeding 45 days (possibly extended to 60 days in certain circumstances), from the end of the first six months of the financial year.
- A large-scale public company and listed entity must disclose its quarterly FSs within 20 days from the end of the quarter (possibly extended to 30 days in certain circumstances) and its reviewed quarterly FSs (if any) within 5 days from the date on which the audit firm signs the review report.
- A large-scale public company and listed entity must provide explanation in the event of a

significant change in profit (a change of 10% compared to profit as disclosed in the same period of last year, changes from profit to loss or vice versa relative to the prior period, etc.) and items in the statement of income (a difference of 5% or more between pre-audit and post-audit figures, etc.).

- A securities company and fund management company shall disclose information related to the FSs in the same way as a large-scale public company and listed company.

Enterprises of which 100% charter capital is held by the State (state-owned enterprises or SOEs) shall disclose financial information in accordance with Decree 81/2015/ND-CP dated 18 September 2015 of the Government on information disclosure of state-owned enterprises and Decree No. 87/2015/ND-CP dated 6 October 2015 of the Government on supervision of state capital investment in enterprises; financial supervision, performance assessment and disclosure of financial information of state-owned and state-invested enterprises. Accordingly:

- SOEs shall publish the audited six-month and annual FSs prior to 15 August of the same year and 31 May of the succeeding year, respectively.
- Enterprises operating in the parent – subsidiary model shall disclose the annual FSs of the parent company and the annual consolidated FSs (which shall have been audited).

Credit institutions shall submit the FSs to the State Bank of Vietnam and other competent authorities in accordance with Decision 16 and Circular 49 as follows:

- Audited annual FSs: in 90 days at the latest from the end of the financial year.
- Interim FSs: the 30th of the first month of the succeeding quarter at the latest.
- Credit institutions which are listed entities and large-scale public companies must submit the separate and consolidated/combined half-year FSs which have been reviewed by an independent audit firm in 45 days and 60 days at the latest from the end of the first six months of the financial year.

2.2 Overview of the Vietnamese Auditing System

2.2.1 Overview of the Vietnamese Auditing System

Under prevailing laws and regulations, the annual FSs of foreign invested enterprises (hereinafter referred to as “FIEs”), credit institutions, financial institutions, insurance companies, listed entities, issuers, securities trading companies and other public interest entities (hereinafter referred to as “PIEs”), state-owned enterprises, audit firms and foreign audit firms’ branches are required to be audited by an independent audit firm. Our reporting scope under the project is limited to independent audit rather than internal audit or State (Government) audit.

An audit contract shall be agreed with the independent auditors no later than 30 days before the end of the entity’s annual accounting period in accordance with the Law on Independent Auditing. Independent audit practice in Vietnam is governed by a number laws and regulations, which comprise:

- Law on Independent Auditing (Law No. 67/2011/QH12) approved on 29 March 2011, effective from 1 January 2012;
- Decree No. 17/2012/ND-CP issued by on 13 March 2012, effective from 1 May 2012, providing detailed guidance and implementation guidance on a number of articles on the Law on Independent Auditing;
- Circular No. 183/2013/TT-BTC issued by the Ministry of Finance on 4 December 2013, effective from 18 January 2014, stipulating independent audit for public interest entities;
- Circular No. 39/2011/TT-NHNN issued by the State Bank of Vietnam on 15 December 2011, effective from 1 January 2012 stipulating independent audit for credit institutions and foreign banks’ branches;
- Circular No. 157/2014/TT-BTC Promulgation on quality control of audit services;
- Other sub-ordinated legal documents on implementing the Law on Independent Auditing;
    - Circular No. 150/2012/TT-BTC Guiding on annual knowledge updates for registered practicing auditors and Circular No. 56/2015/TT-BTC Amendments and supplementations to Circular No. 150/2012/TT-BTC;
    - Circular No. 202/2012/TT-BTC Guiding registration, management and announcement of list of registered practicing auditors; and
    - Circular No. 91/2017/TT-BTC Guidance on Certified Public Accountant Examination.

(1) Law on Independent Auditing

Effective from 1 January 2012, the Law on Independent Auditing is the highest level legislation governing independent audit conducted in Vietnam. The Law prescribes principles, conditions, scope, operation form of audit services, rights and responsibilities of practicing auditors, audit firms, foreign audit firm’s branches in Vietnam.

According to the law, the Government shall govern overall independent audit activities. The Ministry of Finance shall compile and issue standards, regulate the registration of practicing auditors and audit firms, monitor quality control of audit services.

The Independent Auditing Law promulgates general requirements on audit services, audited entities, audit contracts, auditor's reports, audit quality controls, audit documents. The Ministry of Finance issues circulars to guide the implementation of the law and stipulates detailed guidance.

The law also defines the role of professional bodies. However, membership of a professional body is not a required condition for practicing independent auditing or provision of accounting services in Vietnam.

(2) Decree No. 17/2012/ND-CP (hereinafter referred to as "Decree 17"), detailing and guiding the implementation of a number of articles on the Law on Independent Auditing

Decree 17 provides detailed regulations on a professional body on auditing, independent audit firms, provision of cross-border auditing services, audited entities, audit reports and retention, use and destruction of audit files.

The professional body on audit (currently, the Vietnam Association of Certified Public Accountants) is entitled to organize training for practicing auditors/accountants; study, compile and update Vietnamese Standards on Auditing based on international standards and submit to the Ministry of Finance for approval and issuance; participate in organizing the examination for certified auditor; cooperate with the Ministry of Finance in conducting quality control inspection over audit services.

VACPA is currently the most prominent provider of continuing professional education (hereinafter referred to as "CPE") to auditors and accountants. VACPA can play an important role in the IFRS application process in Vietnam.

The Decree stipulates specific requirements for independent audit firms and foreign audit firm's branches to be eligible for providing audit services as follows;

- Minimum legal capital of VND 5 billion
- Maximum ownership percentage of institutional members[1] in an audit firm of 35%; minimum number of members being registered practicing auditors (hereinafter referred to as "CPAs")
- Minimum number of 2 CPAs are enrolled

[1] The term "Institutional member" means any individuals or organizations that hold part or all of charter capital of a limited liability company or partnership. [Enterprise Law 2014, Article 4.23]

- Minimum capital contributed by registered practicing auditors (50% stated capital)
- Minimum capital amount of foreign audit firm registering for its branch to provide audit services in Vietnam is of $500,000.

Competent authorities, chairman, board of directors, and member council of the audited entity have the right to require the auditors to explain any qualifications in the audit report.

Foreign audit firms are permitted to provide cross-border audit services to enterprises and organizations in Vietnam jointly with a licensed Vietnamese audit firm only, provided they meet the following conditions specified in this Decree

- Minimum number of 5 practicing auditors (including legal representatives) certified by the Ministry of Finance
- Having purchased professional indemnity insurance for their CPAs in Vietnam
- Having mandatory deposit equal to the required legal capital in a commercial bank legally operating in Vietnam, having a guarantee letter from that bank such that the bank shall settle the payment in cases where liabilities incurred from the cross border audit engagements exceeds the amount of mandatory deposits
- Having obtained the certificate of audit firm qualified to provide cross-border audit services issued by the MoF.

(3) Independent Audit for Public Interest Entities

According to Circular No. 183/2013/TT-BTC on Independent Audit for Public Interest Entities (hereinafter referred to as "Circular 183"), PIEs must have their annual FSs being audited and semiannual FSs being reviewed (if required) by an approved audit firm.

In order for an audit firm to be approved to provide audit services to PIEs, it must fulfill a number of conditions set out by Circular 183 and Decree No. 84/2016/ND-CP dated 1 July 2016 described below.

- Having been approved by the MoF to provide audit services
- Minimum registered capital is VND 6 billion
- Minimum number of CPAs is 10
- Having issued audit reports for at least 200 clients (of which at least 10 PIEs)

- Having a quality control system that meet the requirements set out in Vietnamese auditing standards

- Having purchased professional indemnity insurance or made provision for professional liabilities as prescribed by existing regulations.

The conditions for provision of audit services to "PIEs in securities sector" include: the audit firm shall have minimum number of 15 CPAs, have issued audit reports for more than 250 clients (of which at least 20 PIEs in securities sector). Under this circular, "PIEs in securities sector" include large scale public companies[2], listed entities, securities issuers, securities companies, securities investment companies, funds and fund management companies.

Conditions for approved auditors are having been registered CPA and included in the list of practicing auditors issued by the MoF in the year of registration and having at least 24 months practicing auditing in Vietnam.

Responsibilities and obligations of approved audit firms

The approved audit firms shall publish on its website an annual transparency report within 90 days from the financial year end.

The audit firms must communicate non-compliance committed by the audited PIEs and provide recommendation to audited entities in writing on measures to detect, prevent or resolve the violations; or reflect the issues in management letter; or report to third parties and competent authorities, as necessary.

The approved audit firms shall issue management letters to PIEs being audited on timely basis to communicate important findings in the audit, significant deficiencies in internal controls relating to preparation and presentation of financial reporting, qualified audit opinion due to limitation of scope imposed by the audited entities or due to material misstatements not reflected by the management.

The approved audit firms must not sub-contract part or the whole audit works of PIEs to unapproved audit firms (except for specialists as prescribed by auditing standards).

[2] According to the MoF, "large-scale public companies, listed companies and issuing houses (issuers)" that belong to the securities sector as defined in Circular No.183 are all corresponding companies regardless of industry type. The definition of "public interest entities" is a "company that has completed stock offering and has 100 or more shareholders with a total paid-in-capital amount of 10 billion VND or more" as provided in the Securities Act (2006). For this reason, "public interest entities" include not only listed companies but also unlisted companies that have completed stock offering.

(4) Independent audit for credit institutions and foreign banks' branches

The State Bank of Vietnam (hereinafter referred to as "SBV") issued Circular No. 39/2011/TT-NNNN (hereinafter referred to as "Circular 39") on 15 November 2011 to stipulate the requirements regarding independent audit for credit institutions (hereinafter referred to as "CIs") and foreign banks' branches (hereinafter referred to as "FBBs") with effect from 1 January 2012.

According to Circular 39, prior to the fiscal year end, CIs and FBBs must appoint eligible independent audit firm to audit (1) FSs and (2) operations of internal control system of the year.

There is no clear guidance on the applicable standards for the audit engagement of operations of internal control systems. In addition, the SBV has not issued detail guidance on the standards of internal control for CIs and FBBs. In practice, the contents and presentation of management's reports on internal control may vary significantly from one institution to another, and so do the presentation and contents of the reports issued by auditors on this subject matter.

In order for an independent audit firm to be eligible to conduct audits for CIs and FBBs, it must fulfill the following conditions;

- Having being established and operated in Vietnam for more than 3 years
- Having charter capital of VND 10 billion or more
- Having at least 10 CPAs, 5 CPAs involved in auditing CIs/FBBs
- Not specifically prohibited to provide audit services to CIs and FBBs as announced by the SBV
- Not providing audit services to the CI/FBB in more than 5 consecutive years, and not providing financial advisory services, management consulting services, risk management advisory services and valuation services to the CI/FBB in the previous and the current year
- Not having trade relationships (e.g., bonds or assets purchase, capital contribution, joint venture, share purchase) with the audited banks, CIs, FBBs
- Not being credit customers of the audited banks, CIs, FBBs under preferential terms and conditions.

The SBV does not require audit firms to be subject to specific approval procedure to audit CIs and FBBs like that required by the MoF and the State Securities Commission (hereinafter referred to as "SSC") for auditing PIEs.

In case an audit report on the FSs of a CI/FBB contains a qualified opinion, the CI/ FBB is required to engage another independent audit firm to audit areas subject to qualification.

In an audit engagement of CIs/FBBs, a management letter shall be a mandatory audit deliverable and shall include communications on general audit approach and scope of the audit, evaluation of changes in policies and practices related to the FSs and the internal control systems, risks that may have impacts on the FSs and the internal control systems, adjustments proposed by the audit firm, and any disagreements between auditors and management on matters that may have material effects on the FSs and the internal control system or on the auditors' opinions, how the divergent opinion have been resolved and effects of the matters. The CI or FBB is required to submit the management letter to the SBV.

(5) Quality control of audit services

Circular No. 157/2014/TT-BTC dated 23 October 2014 Promulgation on quality control of audit services with immediate effect provides regulations on quality control of audit services, which is applicable to audit firms, branches of foreign audit firms, certified practicing auditors, professional organization on audit, and other relate bodies, organizations and individuals in Vietnam.

According to this Circular, quality of audit, review and assurance services will be monitored via assessing: (1) annual quality control self-inspection reports prepared by audit firm; (2) quality of audit reports issued by the audit firms for statutory audit submitted to the MoF, the SSC and related bodies; (3) compliance with regulations on registration for practicing auditing and meeting the conditions of qualification to practice auditing, and conditions to provide audit services by audit firms; (4) an annual report prepared and submitted by audit firms to the MoF and the SSC and other information obtained during management.

The audit quality control will be directly inspected on a periodical or ad-hoc basis by competent authority (i.e., MoF, SSC). Furthermore, audit firms may also be inspected for indicators of misconduct behaviors or violations committed by the audit firms and practicing auditors or for claims, denouncements relating to audit quality controls.

The frequency for direct inspection of audit firms providing services to PIEs in securities field is at least once every 3 years, to other PIEs is once every 4 years, to non-PIEs is once every 05 years. If the result of an inspection was less than satisfactory (grade 3) or weak (grade 4), the audit firms would be re-inspected in 1 or 2 years subsequently.

If there are indicators of violations, or there are claims, denouncement or litigations relating to audit quality, the audit firms would be inspected on an ad-hoc basis. Audit firms have responsibilities in audit quality control including:

- Developing and implementing policies and procedures for audit quality controls
- Performing annual self-review of the audit quality control to detect and correct shortcomings and improve audit quality
- Submitting the self-review report to the MoF (and to the SSC with regard to audit firms providing services to PIE in securities field) by 31 May every year; and
- Reporting to the MoF and SSC upon request

(6) Other sub-ordinated legal documents on implementing the Law on Independent Auditing

Figure 2 - 2 Other sub-ordinated legal documents on implementing the Law on Independent Auditing

No.	Regulatory documents	Key requirements
1	Circular No. 150/2012/TT-BTC dated 12 September 2012, effective from 1 January 2013, Guiding on annual knowledge updates for registered practicing auditors and Circular No. 56/2015/TT-BTC dated 23 April 2015, effective from 8 June 2015, Amendments and supplementations to Circular No. 150/2012/TT-BTC	Registered practicing auditors must attend training for knowledge update of Vietnam laws and regulations on accounting and auditing (minimum 20 CPE hours), ethics (minimum 4 CPE hours), tax, financial management, management skills and other topics to obtain a required minimum of 40 CPE hours in total. The eligible training must be approved by the MoF and run by the professional bodies like VACPA, ACCA, ICAEW, approved education organizations, or approved audit firms. Registration, monitoring and reporting on the training must comply with conditions and procedures set out in the circulars.
2	Circular No. 202/2012/TT-BTC Guiding registration, management and announcement of list of registered practicing auditors	The MoF shall review registration documents and grant certificates for qualified registered practicing auditors who satisfied conditions specified in the circular, including: having passed the CPA examination, having 36 months of working experience in audit field, working full-time for an audit firm.

No.	Regulatory documents	Key requirements
		Subsequently, the registered CPAs must submit reports on maintaining the conditions for practicing audit to the MoF by 31 August. The MoF shall publish on its website the list of registered CPAs in each audit firm and update the list regularly.
3	Circular No. 91/2017/TT-BTC dated 31 August 2017, effective from 15 October 2017, Guidance on Certified Practicing Auditor Examination	This Circular provides guidance on examination, issuance and monitoring of Accountant and Auditor certificates in accordance with Article 11 of Law on Independent Auditing and Article 57 and Article 71 of Law on Accounting. Candidates applying to sit the examination for Vietnamese CPA certificate must satisfy the following criteria: • Holding university degree or above in Finance, Banking, Accounting or Auditing. • For those who graduated in other majors, the number of credits of Finance, Accounting, Auditing, Financial Analysis and Tax subjects should equal to 7% or above over the total credits of all subjects. • Having at least 36 months of working experience in finance or accounting or auditing field (counted from the graduation month to the application submission deadline). Audit working experience includes not only working duration at audit firms but also working duration in internal audit department of any enterprises or working at the State Audit of Vietnam. • Candidates having foreign CPA qualifications (ACCA, Australian CPA, U.S CPA, professional bodies that are members of IFAC) are permitted to take a conversion exam in 180 minutes for 5 topics (Economics Law and Corporate Law, Advanced Finance and Finance Management, Advanced Tax and Tax Management, Advanced Financial

No.	Regulatory documents	Key requirements
		Accounting and Managerial Accounting, Advanced Audit and Assurance service) in Vietnamese. The candidate must achieve a score of 70% to pass the conversion exam. • All candidates may take the exam in normal route (6 subjects Laws and regulations on business and enterprises, Advanced Finance and Finance Management, Advanced Tax and Tax Management, Advanced Financial Accounting and Managerial Accounting, Advanced Audit and Assurance service, Advanced Financial Analysis, 180 minutes in writing each subject plus a foreign language test in 120 minutes). The candidate must achieve minimum score of 50% for each subject and total points of at least 38/60 to pass the whole exams. After having passed the exams, the candidates shall be granted certificate of public auditors by the Ministry of Finance. This is the first condition to register to practice audit.

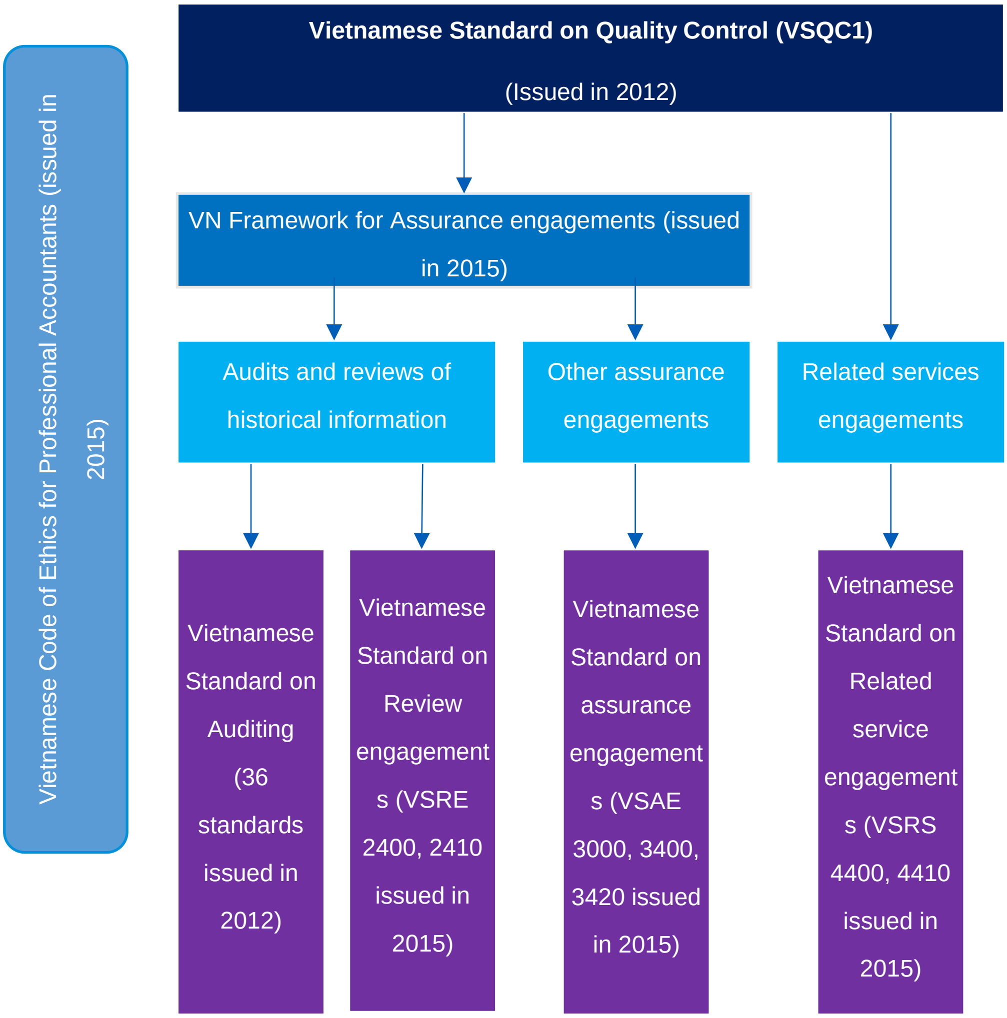
2.2.2 Vietnamese Standards on Auditing, Review, Assurance and Related Services

Independent audit practice in Vietnam is governed by Vietnamese Standards on Quality Control, Auditing, Review, other Assurance, and Related Service, Vietnamese Code of Ethics for Professional Accountants.

Most Vietnamese Standards on Auditing and related services (“VSAs”) were adopted from International Standards (version 2009) with little modifications. Differences between VSAs and international practice arise from:

- Modifications to ISAs’ requirements;
- Revisions made to ISAs (reflected in existing revised ISAs) have not yet been adopted in VSAs; and
- Specific requirements in auditing laws and regulations.

Figure 2 - 3 Structure of Vietnamese standards on quality control



Chapter 3 Experiences of IFRS Incorporation Policies and Process in Other Countries

3.1 Introduction

IFRS is now used in over 100 countries. IFRS is the standard developed by the International Accounting Standards Board (hereinafter referred to as "IASB") in 2001, and it is designed for application to general purpose FSs and other FSs of profit entities. As many countries and regions particularly in the European Union (referred to hereafter as the "EU") mandated the use of IFRS for companies listed on non-EU regulated markets in 2005, IFRS is now in use in many countries around the world.

Asia is not an exception. According to a recent survey by the Asia-Oceanian Standards Setters Group (hereinafter referred to as "AOSSG"), many jurisdictions with large capital markets in the Asia-Oceania region have already either mandated or permitted the use of IFRS or IFRS-equivalent Standards for the production of FSs from listed companies. Australia and Hong Kong, for example, have introduced national accounting standards that are substantially identical to IFRS since 2005. China published national accounting standards in 2007 that are substantially converged with IFRS, and Korea adopted the IFRS having translated into Korean as the national accounting standards in 2011. Many ASEAN countries are following similar trends. Also, Japan has permitted the use of IFRS for domestic listed companies when reporting consolidated FSs since March 2010.

In view of this background, in consultation with MoF, JICA and KPMG Vietnam, four countries were selected (Korea, Malaysia, China and the U.S.) for a study of the situation when introducing IFRS in each country. The following factors were considered when selecting the target countries:

- Political and social systems – How similar is the country's political and social system to that of Vietnam?
- Form of incorporation – Whether an "adoption" or a "convergence" approach is taken?
- Language – Was a translation of IFRS into the national language from English needed?
- Degree of in-depth analysis – When considering issues of incorporating IFRS, to what extent was an in-depth study conducted?
- Role of accounting standard setter – In the case that a national accounting standard setter continues to play a role after the incorporation of IFRS, is the funding mechanism from public funding (a state budget) or private funding (contributions from private companies)?

In addition to the four countries mentioned above, Japan was also surveyed as target country in this survey. Japan has a unique system whereby domestic listed companies are required to apply Japanese accounting standards (hereinafter referred to as “J-GAAP”) as the first option, but the use of IFRS as designated by the Financial Services Agency (hereinafter referred to as “designated-IFRS”), the United States Generally Accepted Accounting Principles (hereinafter referred to as “US-GAAP”) or Japan’s Modified International Standards (hereinafter referred to as “JMIS”) is also permitted. For this reason, the experience gained from this system is considered to be useful in Vietnam.

Please refer to Appendix 4 (“Questionnaire of issues when considering whether and how to incorporate IFRS into a national financial reporting system in China, Korea, Malaysia, U.S., and Japan)” for information gathered from the survey by KPMG for each country.

3.2 Current Status of IFRS or IFRS-equivalent standards in Surveyed Countries

3.2.1 China

(1) Use of New PRC GAAP

In China, the Ministry of Finance of the People’s Republic of China (hereinafter referred to as the “MOF-C”) established GAAP that substantially converges with IFRS. These new IFRS-equivalent standards are referred to as “Accounting Standards for Business Enterprises (ASBE)” or “New PRC GAAP” (hereinafter referred to as “New PRC GAAP”) During the process of making its standards to be converged with IFRS, in consideration of the status of the economy, legal system, business practices, supervising authorities and the capacity of those who are involved in accounting at business enterprises in China, and having reflected upon opinions of stakeholders, China opted to use the form of converging New PRC GAAP with IFRS instead of adopting the full IFRS or translated IFRS.

In addition to listed companies[3], the enterprises mentioned below are required to apply New PRC GAAP as the standards for the preparation of consolidated and non-consolidated FSs. No statistical data is publicly made available for the number of enterprises that apply New PRC GAAP.

- Specific regulated enterprises (including insurance companies, security companies and fund management companies);

[3] Foreign-invested enterprises are not allowed to be listed on stock markets in China.

- Large-sized state-owned enterprises (as defined in “Notice relating to the adoption of New PRC GAAP by enterprises supervised by the State-owned Asset Supervision and Administration Commission (SASAC)” issued on 6 April 2007);
- Financial institutions in the banking and related industries; and
- Other enterprises required to apply New PRC GAAP in accordance with the rules issued by the relevant regulatory authorities (e.g., local finance bureaus), for example, the notice issued by Guangzhou Financial Bureau and Guangzhou SASAC requiring all registered medium- to large-sized enterprises in Guangzhou to apply New PRC GAAP no later than 1 January 2010

Other enterprises are allowed to apply either the Old PRC GAAP (the “Accounting Regulations for Business Enterprises”) or New PRC GAAP.

In practice, many foreign-invested enterprises that prepare consolidated packages in accordance with the policy of consolidated accounting of the parent companies outside China select the application of New PRC GAAP, otherwise, they have to prepare two sets of FSs (those for the consolidated package and those for the preparation of statutory accounting records) using the two different sets of standards.

The Project Team has not been able to obtain details of guidelines for the application of New PRC GAAP in specific business fields in this survey. However, the MOF-C has published guidance on the application and interpretation of New PRC GAAP, which has been used by enterprises since 2006.

- Guidance on Application of New PRC GAAP

This is guidance on the application of New PRC GAAP, which provides detailed explanations of 32 accounting topics including key points in New PRC GAAP and stipulates the accounting subjects and major bookkeeping procedures.

- Interpretations of New PRC GAAP (No. 1 - 4)

These are guidance on the interpretation of New PRC GAAP, developed mainly for listed domestic companies. They stipulate accounting processes that adapt to the occurrence of new accounting events and resultant changes and the revision of New PRC GAAP in response to the revision of IFRS.

- New PRC GAAP Lectures and Explanations

These are guidance for practical issues occurring after the publication of New PRC GAAP and guidance on application.

- Opinions of the working group of experts on Implementation of New PRC

These are interpretation of New PRC GAAP showing experts’ opinions on points for consideration in implementing New PRC GAAP

(2) Differences between New PRC GAAP and IFRS

The MOF-C and the IASB issued joint statements in 2005 and 2015 in which they declared that the New PRC GAAP had substantially achieved convergence with IFRS. However, there were major differences on the points mentioned below between New PRC GAAP and IFRS at the introduction of New PRC GAAP:

(i) Reversal of impairment losses recognized for tangible fixed assets and intangible assets is not allowed.

(ii) State-owned enterprises under common control of the same government are not considered related parties unless one substantially controls an interest of the other and, therefore, disclosure is not required for transactions between such state-owned enterprises.

Regarding the point (ii), the difference was eliminated by the revision of IAS 24 *Related Party Disclosure* by IASB, which became effective for the annual periods beginning on or after 1 January 2011.

(3) Accounting Standards in China

In China, enterprises that are not required to prepare New PRC GAAP-based FSs are allowed to use Old PRC GAAP or the Accounting Standards for Small Enterprises (ASSE), depending on their size. The table below describes the outline of the accounting standards that Chinese domestic enterprises may use.

Figure 3 - 1 Overview of accounting standards in China

Type of standards	New PRC GAAP	Old PRC GAAP	ASSE
Scope	Listed enterprises and enterprises in specific industries (See 3.2.1 (1) for detailed reference)	Enterprises not obliged to prepare New PRC GAAP-based FSs	Small-sized enterprises
Accounting standard setter	The MOF-C	The MOF-C	The MOF-C
Proximity to IFRS	Substantially converged with IFRS	Difficult to measure the proximity	Largely different from IFRS

Type of standards	New PRC GAAP	Old PRC GAAP	ASSE
Frequency of changes	Updated whenever a new IFRS standard is issued or the existing IFRS standards are updated	Not frequent	Not frequent

(4) Status of XBRL

In China, listed enterprises are required to use XBRL[4] The MOF-C is the supervisory authority of XBRL.

3.2.2 Korea

(1) Use of IFRS

Having translated IFRS into the Korean language, the Korean International Financial Reporting Standards (hereinafter referred to as "K-IFRS") is applied as the national standard of Korea. K-IFRS is the same as IFRS, except that it is translated into Korean language. Application of K-IFRS is required for both consolidated and non-consolidated FSs for the following entities:

- Listed companies;
- Companies transitioning to listing on securities markets; and
- Unlisted financial institutions (except for smaller financial institutions such as savings banks.)

On the other hand, Accounting Standards for Non-Public Entities (hereinafter referred to "K-GAAP") is applied to unlisted entities which are subject to the Act on External Audit of Joint Stock Enterprises (hereinafter referred to "the Act on External Audit"). Unlisted entities not subjected to the Act on External Audit are permitted to apply Accounting Standards for SME, which is a simplified version of K-GAAP.

In Korea, public entities are classified into state-owned enterprises, quasi-government organizations and other public institutions. Use of K-IFRS is required to state-owned enterprises and quasi-government organizations, while separate accounting standards similar to K-GAAP is applicable to other public institutions. Therefore, it is not mandatory for unlisted public entities to apply K-IFRS in financial reporting.

[4] XBRL (or eXtensible Business Reporting Language) is a standardized XML-based computer language for the creation, distribution and use of various information for business reporting (including information on finance, business operation and investment.)

Foreign-invested enterprises are required to apply K-IFRS, IFRS or US-GAAP for the preparation of FSs.

As of the end of December 2016, application of K-IFRS is required for 2,263 companies including 2,081 listed companies and 182 unlisted financial institutions, which produce their own FSs in accordance with K-IFRS. No guidance on K-IFRS use is available for specific industries in Korea.

(2) Differences between K-IFRS and IFRS

Under the contractual provisions agreed between the Korean Accounting Standards Board (hereinafter referred to as "KASB") and the IFRS Foundation with regard to translation, modifications to the original Standards of IFRS is virtually prohibited in the development of K-IFRS. For this reason, differences from IFRS in K-IFRS are very limited. Specifically, modifications to IFRS in K-IFRS were limited to the following:

<u>*Stylistic modifications, such as numbering of Standards*</u>
KASB assigned serial numbers (with 4 digits) to distinguish between Standards of IAS-series and those of IFRS-series.

<u>*Addition of disclosure requirements that are not required under IFRS*</u>
As permitted by the contractual agreement with the IFRS Foundation, the KASB added disclosure requirements to develop K-IFRS, primarily in the following areas:

- Additional presentation requirement of "operating profit";
- Additional disclosure requirement of a "statement of disposition of retained earnings"; and
- Enhanced disclosure requirement relating to percentage of completion method regarding revenue recognition.

(3) Accounting Standards in Korea

An overview of accounting standards made available for Korean domestic enterprises is summarized below.

Figure 3 - 2 Overview of accounting standards in Korea

Types of standards	K-IFRS	K-GAAP	Accounting Standards for SME
Scope	Listed companies Companies transitioning to listing on securities markets Unlisted financial institutions (except for smaller financial institutions such as savings banks).	Unlisted companies and subjected to the Act of External Audit	Unlisted companies and not subjected to the Act of External Audit
Accounting Standard Setter	KASB/IASB (NB) K-IFRS is a translation of IFRS (as issued by the IASB)	Korea Accounting Institute[5] (KASB)	Korea Accounting Institute (KASB)
Proximity to IFRS	Almost 100%	Very close to IFRS	Largely simplified
Frequency of changes	Updated when IFRS is issued or updated	Once a year or more	Implemented in 2014, and amended in 2017

(4) Status of XBRL

It is mandatory for listed companies in Korea to submit XBRL information to the Financial Supervisory Service (hereinafter referred to as "FSS"). Only FSs without explanatory notes should be submitted in XBRL format, and financial institutions are not subjected to do so. The FSS is responsible for the maintenance of the XBRL.

3.2.3 Malaysia

(1) Use of M-FRS

The Government of Malaysia introduced IFRS on 1 January 2012 and established the Malaysia

[5] For information about the Korea Accounting Institute, please refer to the section 3.3.2.

Financial Reporting Standards (hereinafter referred to as "M-FRS") as the IFRS-based domestic standards. M-FRS are almost identical to IFRS and the application of M-FRS in the preparation of consolidated and non-consolidated FSs is mandatory for all enterprises other than the private entities[6] specified in Chapter 2 of the Company Act of Malaysia. Such private entities may opt to apply M-FRS. The Company Act obliges state-owned enterprises of Malaysia to prepare M-FRS-based FSs and requires foreign-invested enterprises listed on stock markets in Malaysia to prepare FSs based on either of M-FRS, IFRS, US-GAAP, UK-GAAP, or Australian GAAP. At present, statistical data on the number of enterprises applying M-FRS is not publicly made available.

The Central Bank of Malaysia has published guidelines for the application of M-FRS as it demands financial institutions to improve the comparability of the FSs that they publish and disclose sufficient information to enable accurate understanding of their financial state and business performance. The guidelines provide the standards for revenue recognition, methods to measure fair values and the minimum requirements on information disclosure for financial institutions applying M-FRS.

(2) Differences between New PRC GAAP and IFRS

There is no significant difference between M-FRS and IFRS, and they are considered practically identical.

(3) Accounting Standards in Malaysia

Malaysia has accounting standards (the Malaysian Private Entities Reporting Standards (hereinafter referred to as "MPERS")) for small-sized enterprises (private entities) for which the application of M-FRS is not mandatory. MPERS are the accounting standards for small- and medium-sized enterprises (SMEs) developed through adopting the entire IFRS for Small and Medium-sized Entities (hereinafter referred to as "IFRS-SMEs") published by the IASB in July 2009, except for modifications to a few standards.

The table below summarizes the accounting standards that domestic enterprises in Malaysia are permitted to use.

[6] A private entity means an enterprise not required to prepare financial statements by the regulation of the Security Commission Malaysia or the Central Bank of Malaysia.

Figure 3 - 3 Overview of accounting standards in Malaysia

Type of standards	M-FRS	MPERS
Scope	All enterprises except private entities	Private entities
Accounting standard setter	MASB/IASB	MASB
Proximity to IFRS	100 %	Very similar to IFRS-SMEs
Frequency of changes	Updated whenever IFRS is issued or updated	At least once a year

(4) Status of XBRL

Use of XBRL is not made mandatory in Malaysia.

3.2.4 United States

(1) Use of IFRS

Based on the Securities and Exchanges Act, domestic listed companies in the U.S. are required to prepare their own consolidated FSs in accordance with US-GAAP stipulated by the Financial Accounting Standard Board (hereinafter referred to as “FASB”). Foreign issuers can choose IFRS standards as issued by the IASB or US-GAAP. Preparation and presentation of non-consolidated FSs is not required according to the securities legislation, and the status of non-consolidated FSs is different in in each state.

As of April 2017, more than 500 foreign issuers registered with the Securities and Exchange Commission (hereinafter referred to as “SEC”) use IFRS Standards in their U.S. filings, and these companies have a worldwide market capitalization of approximately $7 trillion.

On the other hand, there is no specific guidance on IFRS application for specific industries partly because IFRS application is not permitted for national listed companies.

(2) Differences between US-GAAP and IFRS

As noted above, departure from IFRS is not permitted for domestic issuers in the U.S. Naturally, IFRS is not modified in the U.S.

FASB has worked with IASB towards a single set of accounting standards from 2001 based on the Norwalk Agreement between the two parties. However, currently, there are still many differences between US-GAAP and IFRS. For details, please see the publications from KPMG US[7].

(3) Accounting Standards in the United States

An overview of the standards made available for U.S. domestic enterprises is summarized below. The application of US-GAAP is mandated for all listed companies. Meanwhile, SMEs may use a partially simplified form of the standards that listed companies are obliged to apply.

Figure 3 - 4 Overview of accounting standards in the United States

Types of standards	US-GAAP	US-GAAP for private companies
Scope	All listed companies	Those enterprises not required to apply US-GAAP
Accounting standard setter	FASB	FASB (partially simplified based on the discussion in the Private Company Council)
Proximity to IFRS	Difficult to measure	Difficult to measure
Frequency of changes	Very often	Very often

(4) Status of XBRL

Use of XBRL is required for listed companies in the U.S. The organization responsible for XBRL is the SEC.

[7] https: //assets.kpmg.com/content/dam/kpmg/xx/pdf/2017/12/ifrs-us-gaap-2017.pdf

3.2.5 Japan

(1) Use of IFRS

Under Japanese legal system, in principle, J-GAAP is applied to listed companies for preparation of consolidated FSs in the context of the Financial Instruments and Exchange Act (FIEA), but the use of the designated-IFRS, US-GAAP or JMIS is permitted as well. Designated-IFRS is substantially identical to IFRS while JMIS is substantially identical to IFRS except for the amortization of goodwill and treatment of recycling of other comprehensive income. Furthermore, the use of J-GAAP for the preparation of non-consolidated FSs is mandated.

In Japan, the use of the designated-IFRS and JMIS is permitted (though not required) for entities subject to reporting requirements of the FIEA when they meet the following conditions:

- An entity describes specific measures taken to ensure fair presentation of its consolidated FSs in its annual reports; and
- An entity has board members or staff with sufficient knowledge of designated-IFRS and it establishes a system that would enable preparation of consolidated FSs.

There is no case of a listed state-owned enterprise that applies the designated-IFRS in Japan. Although no comprehensive survey has been conducted to verify the cases of the application of the designated-IFRS by unlisted state-owned enterprises, at least, they are not mandated to apply the designated-IFRS or JMIS for financial reporting.

Foreign issuers can prepare FSs in accordance with either J-GAAP, designated-IFRS, US-GAAP, or other accounting standards that are permitted by the authority.

As of the end of October 2018, 179 enterprises present FSs in accordance with designated-IFRS, and 16 companies have declared that they would apply the designated-IFRS in their FSs, and no companies have applied JMIS[8].

In Japan, with regard to dealing with specific industries, the Financial Service Agency (hereinafter referred to as "FSA") issued a draft modification to its banking regulations for public consultation in August 2017, which would permit banks to prepare consolidated FSs in accordance with the designated-IFRS. Currently, when banks apply designated-IFRS, they are also required to prepare consolidated FSs using J-GAAP. Although it is yet to be finalized as of October 2018, the finalization of this draft modification will reduce the load places on banks from the use of IFRS, so it is expected to promote the application of designated-IFRS among banks.

[8] https://www.jpx.co.jp/english/listing/others/ifrs/ (Voluntary Application of IFRS (Current and Scheduled), Japan Exchange Group (JPX))

(2) Differences among Designated-IFRS, JMIS and IFRS

Whereas designated-IFRS is considered to be substantially equivalent to IFRS, JMIS has the following two major differences from the original IFRS.

- ASBJ Modification Standard No.2 *Accounting for Other Comprehensive Income*. This requires recycling of Accounting for Other Comprehensive Income (AOCI) without exception, even where recycling of AOCI is sometimes prohibited under IFRS; and
- ASBJ Modification Standard No.1 *Accounting for Goodwill*. This requires amortization of goodwill over a certain period of years, where amortization of goodwill is prohibited under IFRS.

As a result of abundant detailed studies, the Accounting Standards Board of Japan (hereinafter referred to as "ASBJ") has decided to promote the convergence of J-GAAP and IFRS, but the two subjects mentioned above are still considered to be major differences. Although the contract between the Financial Accounting Standards Foundation (hereinafter referred to as "FASF")/ASBJ and the IASB is not publicly available, considering that certain parts of JMIS have been revised, it can be assumed that modifications of IFRS are not prohibited in the contract.

(3) Accounting Standards in Japan

Use of J-GAAP, designated-IFRS and JMIS is permitted in Japan, while US-GAAP is only permitted for a limited number of enterprises subject to the FIEA. In addition, the Accounting Guidelines for SMEs and the General Accounting Standards for SMEs have been published for small-to-medium enterprises.

An overview of the standards made available for Japanese domestic companies is summarized below.

Figure 3 - 5 Overview of accounting standards in Japan

Types of standards	J-GAAP	Designated-IFRS	JMIS	Accounting Guidelines for SMEs and the General Accounting Standards for SMEs
Scope	All companies	Companies that meet required conditions	Companies that meet conditions	Companies except or those subjected to the FIEA and those for which external

Types of standards	J-GAAP	Designated-IFRS	JMIS	Accounting Guidelines for SMEs and the General Accounting Standards for SMEs
		specified in the FIEA	specified in the FIEA	auditors are appointed
Accounting Standard Setter	ASBJ	FSA/IASB (NB) FSA designates all IFRS standards.	ASBJ	Japanese Institute of Certified Public Accountants, Japan Federation of Certified Public Tax Accountants' Association Japan Chamber of Commerce and Industry and Business Accounting Council
Proximity to IFRS	Close	100%	Very close	Largely simplified
Frequency of changes	Very often	Designation is updated when IFRS is issued or updated.	Standards are updated when IFRS is issued or updated.	Less frequent

(4) Status of XBRL

Use of XBRL is required for listed companies in Japan. The organizations responsible for XBRL in Japan are the FSA and FASF.

3.3 Matters to Consider for Application of IFRS or IFRS-equivalent standards (Analysis by Country)

Although a wide-range of considerations are warranted before introduction of IFRS or IFRS-equivalent standards, main points for consideration are shown below.

- Scope of application (relevant companies, applicable FSs)
- Form of application of IFRS (voluntary application vs. mandatory application, convergence vs. adoption)
- Interactions with laws and regulations (corporate tax law, company law, etc.)
- IFRS language translation
- Modification of IFRS

- National accounting standards after the application of IFRS
- Use of XBRL
- Macroeconomic impact from the introduction of IFRS
- Roles of national accounting standard setters
- Communication with IASB
- Education and training of IFRS
- Challenges for auditors

This section describes considerations made by each country for challenges and countermeasures from the view of each country's economic, social and cultural background, and the actual consideration process taken by the authorities in each country. Matters include (1) relevant authorities involved in IFRS or IFRS-equivalent Standards, (2) process of incorporating IFRS or IFRS-equivalent standards, (3) practical challenges, (4) translation of IFRS, (5) application method, (6) interaction with laws and regulations, and (7) anticipated socio-economic impacts by each country.

The next section (3.3), on the other hand, will explain challenges and countermeasures taken by each country, as aggregated by each of matters, taking into account similarities of challenges and countermeasures among the countries.

3.3.1 China

(1) Relevant Organizations to Introduction of New PRC GAAP

The MOF-C is responsible for selecting the accounting standards to be applied and setting accounting standards in China. The MOF-C played an important role in the introduction of New PRC GAAP. In February 2006, the MOF-C published New PRC GAAP which became effective in January 2007. The MoF-C played a significant role in the development of New PRC GAAP.

More practically, the Accounting Regulatory Department (ARD) of the MOF-C is responsible for monitoring operation of accountancy's work as well as the development, revision and abolition of accounting standards. The China Accounting Standards Committee (CASC) established in ARD is responsible for setting the accounting standards for business enterprises. The CASC is composed of some 30 members including staff of the MOF-C and representatives of enterprises, universities and association of accountants and has the following three professional committees:

- Professional Committee on Code of Ethics for professional accountants;
- Professional Committee on Accounting Standards for Business Enterprises; and
- Professional Committee on Accounting for Government and Non-profit Organizations.

(2) The process of NEW PRC GAAP's incorporation

The table below summarizes the process of New PRC GAAP introduction in China.

Figure 3 - 6 Chronology of New PRC GAAP introduction in China

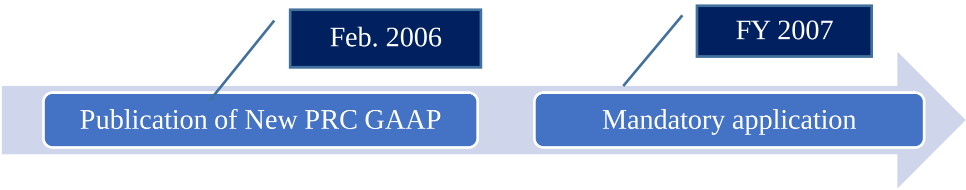
Month/year	Major event
Nov. 2005	The CASC and the IASB jointly announced the plan for the development of new accounting standards (New PRC GAAP) that is converged with IFRS in China.
Feb. 2006	The MOF-C published New PRC GAAP consisting of 38 specific accounting standards as new standards.
Jan. 2007	Application of New PRC GAAP began on the reference day of 1 January 2007. Works for achieving convergence between New PRC GAAP and IFRS continued step-by-step.
Dec. 2007	The CASC and the Hong Kong Institute of Certified Public Accountants jointly announced that the New PRC GAAP effective as of 6 December 2007 were practically identical with the Hong Kong Financial Reporting Standards with the exception of two standards, namely, one on the reversal of impairment losses of fixed assets and the other on related party disclosure.
Apr. 2010	The MOF-C published a road map including the continuation of the work to converge New PRC GAAP with IFRS. The road map mentioned the continuous promotion of convergence and the revision of New PRC GAAP in accordance with a schedule agreed upon with the IASB.
Nov. 2015	The MOF-C and the IFRS Foundation agreed on the promotion of convergence of New PRC GAAP with IFRS and the establishment of a working group for the promotion to facilitate the application of IFRS by Chinese enterprises engaged in international business, in particular.

The table below describes the major activities carried out in the development of New PRC GAAP in China.

Figure 3 - 7 Activities carried out in the development of New PRC GAAP

Activity	Description
Understanding of matters to consider	The MOF-C engaged members of the CASC and specialists in the relevant fields to host series of meetings focusing on accounting standards topics.
Conducting survey and analysis	The MOF-C requested that project leaders of each accounting standard prepare reports to elaborate on the details and potential issues, as well as the current practice and relevant issues in China.
Collection of comments from stakeholders	The MOF-C invited members and specialists in the relevant fields and stakeholders (e.g. representatives of industry associations, researchers, legal and tax experts, etc.) for comments, to achieve a coordinated approach between accounting standards and rules and regulations relating to entities, financial system, tax and securities.
Research	During the drafting and revision of the new accounting standards, representatives of listed enterprises, large-sized state-owned enterprises and accounting offices were invited to the conference to identify core issues in each matter for consideration in accounting and the practical challenges to be addressed. Research was conducted on the measures to be taken regarding the issues and to solve the challenges.
Consistency with auditing standards	When developing and drafting the accounting standards, reference are made to auditing standards to ensure the consistency and authoritativeness in implementation of both standards.

Figure 3 - 8 Process of New PRC GAAP introduction in China



"The Financial Services Agency Report (China)" prepared by the FSA of Japan states that the application of New PRC GAAP published in 2006 by all listed enterprises, insurance companies, security companies, fund management companies and futures brokers became effective in January 2007. It also stated that the application extended to the central-government-owned enterprises and unlisted banks (including foreign-invested banks, urban commercial banks, trust companies, financing companies, etc.) in 2008, and that the application was reportedly extended to local state-owned enterprises (in 35 provinces and cities) and rural trust cooperative societies in 2009.

(3) Addressing practical challenges

Following practical challenges were observed during the transition from Old PRC GAAP to New PRC GAAP.

- Principle-based IFRS framework allows a margin for discretionary judgments;
- Use of fair value measurement;
- Requirements for the disclosure of a wide range of information; and
- Problems in comparability derived from differences between New PRC GAAP and IFRS (*e.g.*, while IFRS allows the use of the cost model or revaluation model on fixed assets, New PRC GAAP only allows the use of the cost model.)

The following measures were taken against the above-mentioned challenges in China.

- Interview and surveys on the identified challenges;
- Training on New PRC GAAP;
- Strengthening of the coordination and cooperation between the MOF-C and the authorities engaged in accounting, security companies, banks, insurance companies, audit firms and other stakeholders;
- Establishment of working groups in the CASC for the transition to New PRC GAAP; and
- Issuance of the guidance on the interpretation of New PRC GAAP (guidance on 12 interpretation of relevant standards in New PRC GAAP were issued by December 2017.)

(4) Translation of IFRS

While it is considered that New PRC GAAP was developed based on the Chinese translation of IFRS, New PRC GAAP is not a word-for-word translation of IFRS. The MOF-C has not officially commented on the translation process[9].

(5) Transitional Arrangement

In China, the big-bang approach[10] was used for mandatory application of New PRC GAAP by domestic enterprises. Before mandatory application, The MOF-C conducted a pilot trial of the application to identify challenges and influences from the introduction of New PRC GAAP with more than 50 invited enterprises. Based on the results of this trial, the MOF-C published "First Application of Accounting Standards by Enterprises" stipulating the recognition, measurement and presentation of FSs when New PRC GAAP was applied for the first time.

The effective date of New PRC GAAP was uniformly set at 1 January 2007 on which a new fiscal year began and early application was not allowed. No specific requirement was set for the disclosure of the information on the influence on FSs from the transition from Old PRC GAAP to New PRC GAAP for the convenience of the users of the statements.

To promote convergence between New PRC GAAP and IFRS, the MOF-C and the IASB established a system of holding a regular conference twice a year. Since 2010, the said conference has been upgraded to a high-level conference.

(6) Interaction with Laws and Regulations

- Relationship with the Company Act

Article 167 of the Chinese Company Act stipulates that the current profit after tax with a certain percentage of legal reserve deducted, shall be available for dividend. The same method is used for the calculation of the profit available for dividend under both New PRC GAAP and IFRS.

- Relationship with the Corporate Tax Act

In China, the tax law and accounting standards are separate. As for corporate income tax, separate laws applied to domestic and foreign-invested enterprises until 2007. From fiscal years that

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9 "The Report on the Field Study of IFRS in Asia (China)" published by FSA of Japan mentions that a staff member of MOF-C interviewed in the study commented, "Adoption method is not an appropriate option in the existing language environment in China, considering the linguistic difference between English and Chinese and the difference in definitions of legal terms in the two languages.

10 The big-bang approaches used in China was an approach of applying New PRC GAAP consisting of 38 individual standards to listed enterprises and specific business operators (see 3.2.1 (1) for detailed reference) on the effective date of 1 January 2007.

began on and after 1 January 2008, the same corporate income tax law has applied to both types of enterprises. Under the Chinese corporate tax law, the taxable income is calculated through adjustments of the current profit after tax which is based on New PRC GAAP. “The FSA Report (China)” states that the reform of the accounting system that began in the 1990’s has created a gap between the conceptual frameworks of accounting and taxation because of the concept that accounting and taxation have different purposes. Therefore, it is believed that the introduction of New PRC GAAP has not caused fundamental changes in the relationship between accounting and taxation.

(7) Socio-economic Impact resulting from the introduction of New PRC GAAP

A study and analysis revealed that the introduction of New PRC GAAP had the following positive impacts on the market economy and economic environment in China.

- Introduction of New PRC GAAP has made it possible for China to take more appropriate responses to changes in the economic climate.
- It has contributed to the development and stabilization of the financial and capital markets in China with the establishment of a sound market economy.
- The quality of accounting information has a direct impact on the trust of investors in a stock market. Introduction of New PRC GAAP has contributed to the public interest in China, such that it allows investors to make appropriate decisions by improving the quality of accounting information and increasing the trust from investors in the information with the development of accounting standards for recognition, measurement and reporting that are consistent with international accounting practices.
- Introduction of New PRC GAAP has enabled regulatory authorities to strengthen appropriate regulations for sound capital market development by providing systematic and effective benchmarks.
- In an economic environment where IT is advancing, the importance of accounting, as a globally-recognized common economic language, has increased. Introduction of New PRC GAAP in such an environment has contributed to the development and deeper globalization of the entire Chinese economy.
- It has contributed to the internationalization of accounting standards and improvement of reliability of accounting in China.

In addition to the above-mentioned positive impacts, the study and analysis also revealed that the introduction of New PRC GAAP had the following negative impacts (costs).

(Costs borne by enterprises)

- Costs for renewing accounting manuals and in-house accounting systems that were developed to be in compliance with New PRC GAAP, and costs generated for continuous system operations;
- Additional costs for updating existing information systems to satisfy the requirements of financial reporting and information disclosure stipulated under New PRC GAAP; and
- Additional costs for providing accounting staff with training that enables them to acquire professional knowledge of New PRC GAAP and to make professional decisions against the principle-based standards, and costs for implementing educational and training activities so that staff could better understand the accounting and disclosure requirements of New PRC GAAP.

(Costs for users of FSs)

- Costs for educating users to make economic decisions with full understanding of New PRC GAAP; and
- Costs for collecting additional information to facilitate comparability of FSs based on New PRC GAAP and FSs based on Old PRC GAAP from different enterprises due to the coexistence of enterprises that apply New PRC GAAP and those that apply Old PRC GAAP.

(Costs borne by the regulatory authority)

- Costs for coordination among stakeholders to enable smooth transition from Old PRC GAAP to New PRC GAAP in an early stage of New PRC GAAP application;
- Costs for developing and formulating new regulations and systems based on New PRC GAAP; and
- Costs for developing new indicators for monitoring markets and measuring financial risks based on New PRC GAAP.

3.3.2 Korea

(1) Main Organizations Related to the Introduction of K-IFRS

The External Audit Act stipulates that the accounting standards for companies shall be established by the Financial Service Commission (hereinafter referred to as "FSC") with the deliberation of Securities and Futures Commission. The FSC is the central governmental organization, with mandate to instruct and supervise the work of the FSS which carries out inspections and punitive measures with regard to financial institutions.

The accounting standard setting board in Korea is the Korean Accounting Standards Board (hereinafter referred to as "KASB") established within the Korea Accounting Institute (hereinafter referred to as "KAI"). KASB performed an important role in the introduction of K-IFRS. The main roles of the KASB are:

- Development and revisions to accounting standards;
- Support for application of accounting standards in practical accounting;
- Studies of accounting standards;
- Educational activities in accounting; and
- Support for Korean personnel who work in the IFRS Foundation, the IASB and other international advisory bodies.

The KASB is operated by:

- General Assembly (consisting of 13 organizations): the Korean Institute of Certified Public Accountants, the Korea Chamber of Commerce and Industry, the Federation of Korean Industries, the Korea Federation of SMEs, the Korea Listed Companies Association, the Korea Federation of Banks, the Korea Financial Investment Association, the Korea Life Insurance Association, General Insurance Association of Korea, Korea Exchange, the FSS, the Korea Accounting Association and the KOSDAQ (the 13 member organizations jointly contribute to the establishment fund to be used for the establishment and operation of KASB at certain percentages);
- Board of Directors (consisting of up to 15 directors);
- Board of the KASB (consisting of the chairperson, a full-time member and five part-time members);
- Technical Committees: Technical Committee and Joint Technical Inquiry Committee of K-IFRS (jointly operated with FSS);
- Advisory Committees: Strategic Advisory Committee, KASB Advisory Council, Project Advisory Council and SME Standards Committee; and
- Research Department.

(2) The process of K-IFRS incorporation

In Korea, in February 2006, introduction of IFRS was promoted by the IFRS Implementation Preparation Committee whose members are the FCC, FSC, the Ministry of Finance and Economy, representatives of enterprises, the KASB and audit firms. A series of discussions at the committee and gathering of opinions at a public hearing were convened in November 2006, which resulted in the publication of a roadmap in March 2007. The gist of contents of this roadmap is described below, and wide-ranging considerations were made to this roadmap.

Figure 3 - 9 Process of K-IFRS introduction in Korea

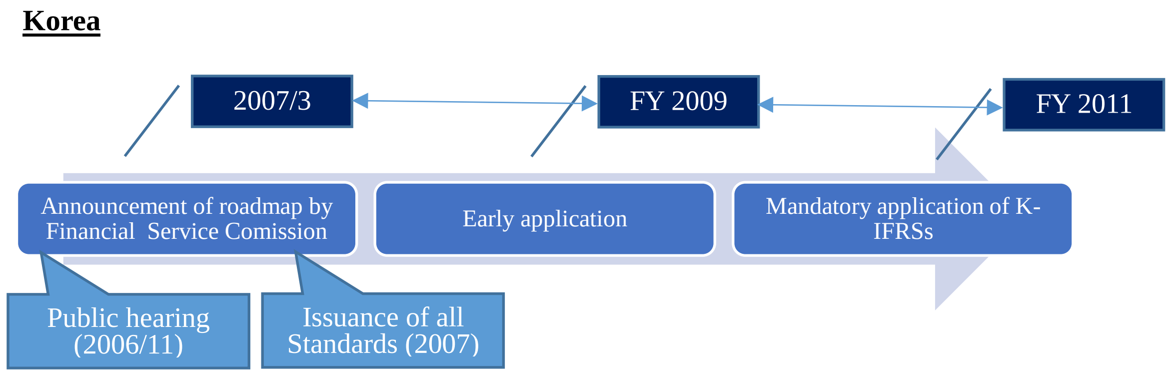


Figure 3 - 10 Overview of roadmap for the K-IFRS introduction

Subject	Brief description
Scope of application and time of adoption	In principle, K-IFRS shall be used by listed companies. While a company may begin the use of K-IFRS on a voluntary basis from 2009, the use of the standards will be mandatory for all listed companies from 2011 and thereafter. (This shall not preclude unlisted companies from applying the use of K-IFRS.) - Voluntary implementation (from 2009): Any companies that opted for voluntary application (excluding financial institutions) - Mandatory implementation (from 2011): All listed companies
Start of preparation of quarterly and semi-annual consolidated F/S	Year of application — Quarterly and semi-annual consolidated F/S Phase 1 — 2009 — Companies that opted to use IFRS Phase 2 — 2011 — Companies with assets of two trillion won or more Phase 3 — 2013 — All listed companies
Consolidated disclosure of non-financial information	Non-financial information including business reports shall be disclosed on a consolidated basis. A controlling company shall make a comprehensive disclosure of important matters concerning business management and other important matters requiring disclosure such as mergers and transfers of businesses between controlled companies.

Subject	Brief description
Use of accounting standards for unlisted companies	To reduce the burden of accounting on unlisted companies, simple and easy-to-follow accounting standards that are different from K-IFRS shall be developed and implemented. (Implementation began in 2011).
K-IFRS setting	The standard setting shall be completed by the latter half of 2007.

The table below shows major events for introduction of K-IFRS in Korea in chronological order.

Figure 3 - 11 Chronology of K-IFRS introduction in Korea

Year	Description of Major Activities
Feb 2006	Established an the IFRS Implementation Preparation Committee
Mar 2007	Announced the “Roadmap toward IFRS adoption in Korea”
Sep 2007	Copyright waiver contract with the IFRS Foundation
Dec 2007	Established and announced K-IFRS
Dec 2008	EC announced the determination of equivalence between K-GAAP and IFRS
2009	Initial disclosure of 2009 early applied firms (1Q F/S in May)
2010	Initial disclosure of 2010 early applied firms
2011	Initial disclosure of FSs of mandatory adoption firms (1Q F/S in May) Quarterly and semi-annual disclosure of consolidated FSs for listed companies with assets of 2 trillion Korean won or more
2012	Analysis of actual cases and notable points for IFRS FSs and systemic supplementation
2013	Quarterly and semi-annual disclosure of consolidated FSs for listed companies with assets of 2 trillion Korean won or less

(3) Addressing practical challenges

In Korea, after incorporation of K-IFRS, consolidated FSs became the principal FSs, and massive changes were observed in the production of FSs, such as the change in asset valuation from the historical costs to fair values. The main effects of introduction of K-IFRS included issues such as the transition from rule-based to principle-based financial reporting, change of measures for assets valuation, the calculation method of reserves for retirement benefits and foreign exchange conversion. The major matters of practical challenges are as follows:

- Transition from rule-based to principle-based financial reporting: There was a transition from rule-based to principle-based financial reporting, and, due to the large margin left by discretionary boundaries between principles and practical decisions, there was a great confusion among users of financial information when K-IFRS was introduced. There was also concern that the use of certain accounting procedures that had been allowed in the past might not be allowed under the new standards depending on the way that they were interpreted because there is greater room for interpretation in the new principle-based standards, which have less detailed guidance on interpretation, than the conventional Korean standards.
  According to the FSA's report (hereinafter referred to as the "FSA Report (Korea)"), the merits of introducing K-IFRS were greater comparability and more appropriate accounting standards based on the actual situation. Meanwhile, as there was some variation in accounting treatments among enterprises, there were concerns that the comparability of FSs would decline. In addition, regarding the difficulty in applying principle-based standards, some entities said that it was not as difficult as originally assumed, because IFRS actually stipulates detailed rules. On the other hand, others reported difficulties in obtaining correct interpretations.
- Change in asset valuation method: In the past, the cost model was mainly used for asset valuation. However, after the application of K-IFRS, fair values were used as the basis for asset valuation. It has been pointed out that the measurement of fair value requires significant cost and specialist skills. As a consequence, there is an increasing need for asset appraisal firms and other organizations that estimate values of assets fairly. Also, according to the FSA Report (Korea), since K-GAAP was developed with reference to IFRS, many companies reported that there were no major effects from the transition to K-IFRS, although some industries and companies were impacted by fair value measurement of assets.
- Reserves for retirement benefits: The average period of service, annual salary expected in the future and average wage growth rate are used for the projection of retirement

benefits and the net present value of the projected retirement benefits is measured for the calculation of reserve for retirement benefits. Large amount of costs were incurred for calculation of reserves for retirement benefits, because the process requires work to be commissioned from specialist businesses, for example.

- Problems related to foreign exchange conversion: If conversion for end-of-period asset holding and liabilities is made using an exchange rate that is temporarily high (or low), there were concerns that the FSs may not present the true financial state of a company. In particular, in the case of a large-scale long-term contract, the debt ratio may worsen because of the increased variability of assets and liabilities in FSs.

In response to these issues, there were some concerns particularly from industry about the early introduction and mandatory adoption of K-IFRS. In Korea, various countermeasures were taken with consideration for easing the burden on preparers of FSs and investors and adapting to other relevant laws and regulations. According to interviews with experts at the Korea Office of the KPMG and "FSA Report (Korea)," the following measures were taken:

- Established the IFRS implementation preparation committee by KASB;
- Set up the Q&A system by KASB;
- Conducted impact analyses;
- Improved supervision and management system on consolidated FSs;
- Implemented continuous education;
- Increased expertise in K-IFRS; and
- Promoted the KASB's influence on the IASB.

(4) Translation of IFRS

The IFRS Foundation issued the Translation, Adoption & Copyright Policy, which stipulates procedures and the responsibilities of authorities responsible for translation of IFRS when it is incorporated into a country's financial reporting system. At the time when IFRS was initially incorporated in Korea, the KASB entered into a copyright agreement with the IFRS Foundation. This agreement stipulates terms including the following:

- The IFRS Foundation will waiver the copyright over the Korean translation of IFRS used in Korea.
- In return, the KASB will pay GBP 8,000 to the IFRS Foundation annually.
- The KASB is not permitted to modify provisions of IFRS in translation.

Due to concerns over possible misinterpretations of IFRS in the process of translation, Korea initially adhered to the principle of word-for-word translation. Since IFRS translations in Korea adopted the word-for-word translation method, some pointed out that this method might have a bad impact on the ability to understand the translated text. To address this issue, the KAI reviewed the translation principles and went ahead with a new translation project to improve the ease of understanding K-IFRS. For such reasons, sections other than the main body of IFRS, including the Basis for Conclusions, were translated so as to facilitate readers' understanding of IFRS.

IFRS employs various terminologies indicating likelihood (according to a study in Korea, there are 35 terminologies indicating the extent of likelihood), concerns over inconsistency of accounting were raised due to different interpretations from information users. To analyze this problem and forge solutions, the KASB conducted a joint research with the Australian Accounting Standard Board (AASB) and proposed improvements for the use of IFRS terminologies to the IASB.

The principles of the translation for the K-IFRS setting and modifications released by KAI are summarized below.

- Although the original text of IFRS shall be translated literally so that the content of the text is transferred to the translated text word for word, the translated text shall follow the grammar and writing rules of Korean, such that it shall be composed of natural and easily understandable sentences.
- Words and terms frequently used in daily life shall be used as much as possible and the use of long words shall be minimized by using pure Korean words and simple Sino-Korean words while avoiding hard-to-understand Sino-Korean and Sino-Japanese words.
- Sentences shall be formed with consideration given to consistency with natural Korean word order and sentence composition.
- Sentences in the passive verbs shall be translated into the active verbs, wherever possible.
- A hard-to-understand double negative sentence shall be translated into an affirmative sentence.
- If an original sentence is too long and complicated because it is composed of several components connected with conjunctions, the possibility of translating it into two or more sentences shall be considered if it can be performed without changing the meaning.
- Only when a word-for-word translation of an original sentence of IFRS does not truly convey the meaning, a translation may focus more on the content and objective of the sentence (as opposed to its accuracy).

(5) Transitional Arrangement

In Korea, application of IFRS has been mandated to all listed companies since 2011 (Big Bang method). The Big Bang method in the Korean context means a method of applying all the standards established by the IASB to all listed companies and major financial institutions at a specific point of time. These target companies were obliged to disclose the impact of introducing K-IFRS in the 2010 annual report, and they were required to report on preparation planning and status, and the main differences between their existing and new accounting policy.

Although the mandatory application of K-IFRS became effective from 2011, voluntary application was also permitted (early adoption) from 2009 or 2010. No government-led pilot project to introduce K-IFRS was carried out.

(6) Interaction with Laws and Regulations

Because the Commercial Code before the modification stipulated standards for corporate accounting, there was potential for contradiction between some of its stipulations and those of K-IFRS. In addition, there was possibility of confusion due to differences between the standards stipulated in the Corporate Tax Code and those of K-IFRS.

Korea attempted to resolve or alleviate possible issues from introduction of K-IFRS by amending the Commercial Code, Corporate Tax Code and the Act on External Audits. Details of the changes are mentioned below.

- Commercial Code
  - ➢ Because consolidated FSs have become the main FSs with the introduction of K-IFRS, the Commercial Code has been amended so that consolidated FSs must be approved by the board of directors and regular general meeting of stockholders.
  - ➢ Because of expansion of the scope of fair value measurement of securities and tangible and intangible assets with the introduction of K-IFRS, the code has been amended so that unrealized gains should be excluded from the calculation of the limit of the profit available for dividend.
- Corporate Tax Code
  - ➢ The Corporate Tax Act was amended before the introduction of K-IFRS. According to the “Report on the Field Study of IFRS in Asia (Korea)” prepared by the FSA of Japan, there were the following basic policies for the modification of the Corporate Tax Code required by the introduction of K-IFRS:

    (1) Principle 1: A principle that a same taxation shall be applied to a same economic

activity shall be maintained.

(2) Principle 2: The burden of adjustment for taxable income shall be minimized.

(3) Principle 3: Increase of tax burdens can be acceptable if accounting treatments are legitimate for the purpose of the tax code.

- In practice, the Act was amended as mentioned below.
  - K-IFRS was identified as the accounting standards recognized in the Corporate Tax Code.
  - A company implementing K-IFRS was allowed to adjust a statement of depreciation on tangible and intangible assets.
  - A new clause was added to the code for filing a statement of changes in depreciation method and the length of service life.
  - A new method to calculate taxable income for a company using a functional currency was established.
  - A revision was made to the method for converting FSs of overseas offices in foreign currency to those in the domestic currency.
  - A revision was made to the method for the conversion of assets and liabilities in foreign currencies to those in the domestic currency.
  - Interest on general loans became necessary component in the capitalization of the interest on construction funds.
  - A grace period was set for the inclusion of reversal of allowance for doubtful accounts in gross revenue.
  - A revision was made to the criteria for the classification of leases in the corporate tax code.
  - The method for a company applying K-IFRS to submit FSs at the time of filing a tax base return form was defined clearly.

- The Act on External Audit
  - A provision that stipulates the definition of a company obliged to implement K-IFRS was included in the Act.
  - IFRS issued by the IASB was added to the accounting standards in Korea.

(7) Socio-economic impact resulting from the introduction of K-IFRS

In Korea, five years after the mandatory application of K-IFRS, the KASB conducted a comprehensive survey on the effects caused by K-IFRS. A study named “Costs and Benefits of IFRS Adoption in Korea – Preparers’ perspective” (2015) investigated the impact on financial statement preparers in 245 companies by means of questionnaires regarding the effects of K-IFRS.

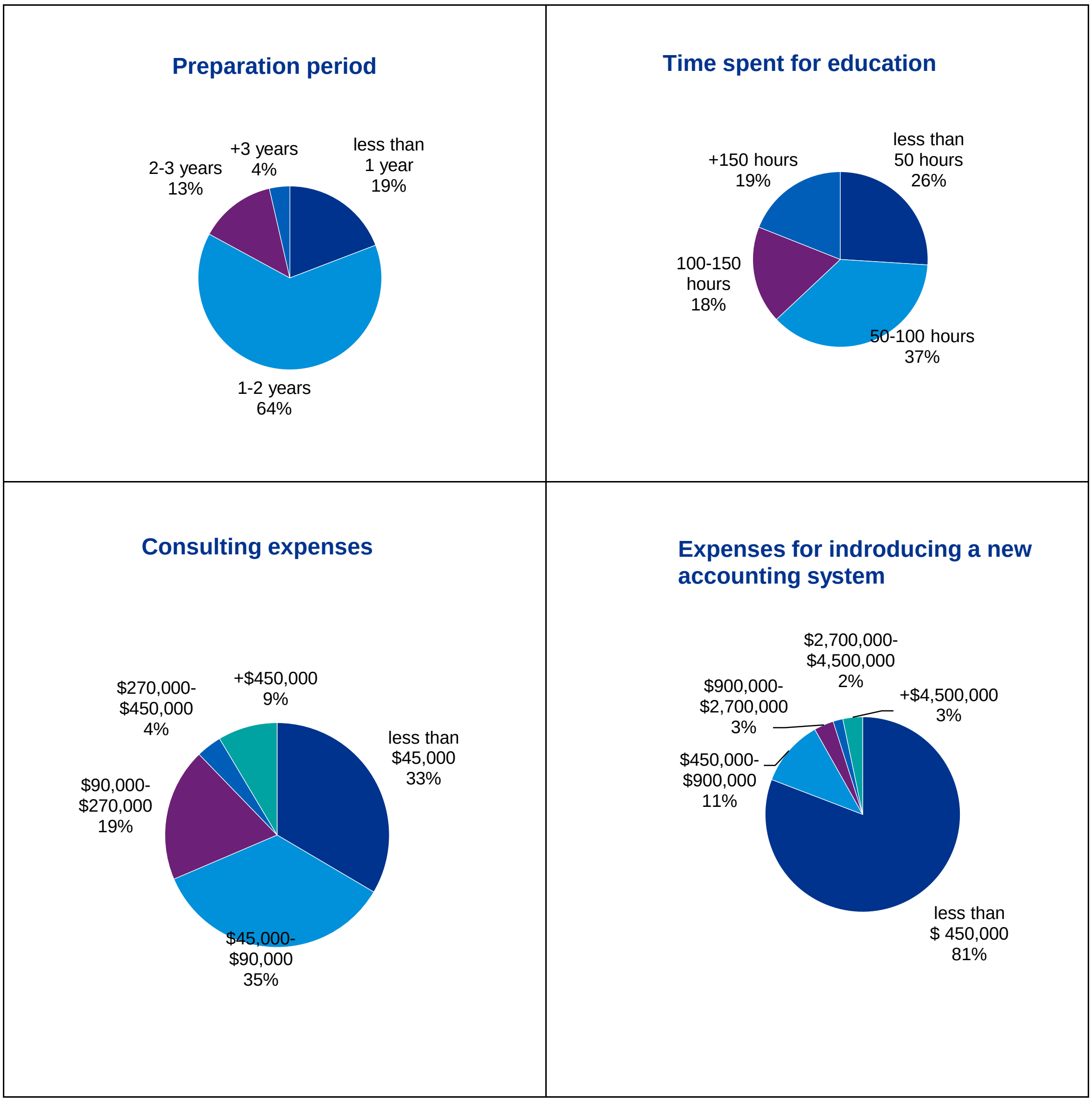
According to the survey, 10% of the companies said that benefits exceeded costs from the introduction of K-IFRS. The opposite response was given by 49% of the companies.

Negative effects pointed out by the largest number of companies (124 companies) was the increase in the personal and financial burden in accountancy work, while 59 companies stated that negative effects included increased difficulties in accounting such as preparation of FSs, and 45 companies stated a decrease in the ease-of-understanding. Furthermore, there were views that other negative effects included the increased burden and costs relating to the preparation of notes to the FSs, the increased risk of arbitrary accounting treatment, and inconsistency with local K-GAAP.

Positive effects pointed out by the largest number of companies (40 companies) were improved assessment and control over the consolidation group followed by strengthened expertise of accounting staff (30 companies), increased credibility (26 companies), advantages resulting from fair value measurement (22 companies), and enhanced accounting transparency (21 companies). Other positive effects that Korean enterprises raised in the questionnaire were increased usefulness of accounting information, improved comparability, globalization, and increased discretionary accounting treatment.

In addition, regarding the length of appropriate preparation period for enterprises before introducing K-IFRS, 19% of respondents answered “less than one year,” 64% answered “1-2 years,” 13% answered “2-3 years,” and only 4% answered “more than 3 years.” With regard to appropriate period for K-IFRS education of individual staff, 26% of companies answered “less than 50 hours,” 37% answered “50-100 hours,” 18% answered “100-150 hours,” and 19% answered “more than 150 hours.” Concerning consulting expenses, 33% of the respondents replied “less than $45,000,” 35% replied “$45,000 to $90,000,” 19.2% replied “$90,000 to $270,000,” and 12% replied “more than $270,000.” Lastly, regarding system development expenses for introducing K-IFRS, 81% of companies answered “less than $450,000,” and 19% responded “more than $450,000.”

Figure 3 - 12 Costs incurred for K-IFRS introduction to Korean enterprises



(Prepared by KPMG AZSA in reference to the KASB "Costs and Benefits of IFRS Adoption in Korea")

3.3.3 Malaysia

(1) Relevant Organizations to Introduction of IFRS in Malaysia

The Malaysian Accounting Standards Board (hereinafter referred to as "MASB"), consisting of 11 members selected from experts and scholars in accounting and the business world, is responsible for setting the accounting standards in Malaysia. MASB had 12 staff members as of October 2018.

The MASB played an important role in the introduction of M-FRS in Malaysia. The main functions of the MASB are as follows.

- Establishment, revision and abolition of accounting standards;
- Preparation and distribution of reports on accounting standards and financial reporting and reference materials;
- Exchange of opinions with domestic and overseas accounting standards setters; and
- Monitoring of the compliance with IFRS.

The MASB was established according to the provisions in the Financial Reporting Act enacted in 1997 (hereinafter referred to as "FRA 1997"). FRA 1997 stipulates that the Financial Reporting Foundation shall supervise activities of the MASB. Working groups established in the MASB have discussed specific points for consideration in accounting including lease, revenue recognition, impairment losses of fixed assets, fair value measurement and presentation of FSs. Members of the MASB, experts and scholars in accounting and representatives of the business world and supervising organization participated in each working group and they performed an important role in the process of setting the accounting standards. The MASB had 70 working groups as of October 2018.

(2) The process of M-FRS's incorporation

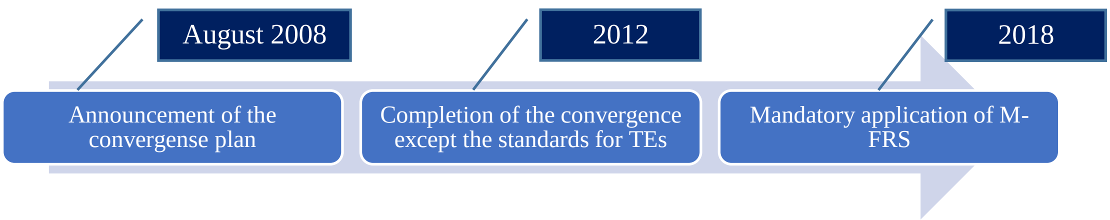
In August 2008, the MASB published a roadmap for the achievement of convergence of the accounting standards of Malaysia with IFRS by January 2012. The roadmap showed that M-FRS would be published when a series of tasks required for converging the conventional accounting standards with IFRS is completed, that the convergence process would be monitored continuously until its completion and that the MASB would continue to conduct dialogues with IASB. Later, in 2009, the MASB established the Convergence Task Force (hereinafter referred to as "CTF") consisting of representatives of the regulatory authority, associations of accountants and the business world. CTF discussed various issues including the questions from enterprises regarding the process of convergence with IFRS and the monitoring method of the convergence process. In July 2010, the MASB published "TR3 Guidance on Disclosure of Transition to IFRS," which had been prepared based on the discussion in CTF.

The guidance is intended to help users of FSs including investors understand M-FRS-based financial information. A series of accounting standards substantially equivalent to IFRS with the elimination of discrepancies were published successively between 2008 and 2012. "IAS 39 - Financial Instruments: Recognition and Measurement," which are standards that are quite different from the conventional standards of Malaysia, has been incorporated in the accounting standards of Malaysia. The convergence of M-FRS with IFRS was completed in January 2012, with the exception of the accounting of the transitioning entities (TEs).

Figure 3 - 13 Chronology of M-FRS introduction in Malaysia

Month/year	Major event
1978	First adoption of few International Accounting Standards (IAS)
March 1997	Parliamentary Act established the MASB, which is the standard setter to cover all companies in Malaysia. Principles of standards developed were based on the IASB standards with additional guidance.
2005 and 2007	The MASB Standards were renamed to Financial Reporting Standards (FRS) and the standards were revised to be virtually identical with IASB standards saved for the effective dates and some transitional provisions.
August 2008	Announcement of convergence plan with IFRS by 1 Jan 2012.
January 2010	Application of the provisions of IAS-39 as FRS 139
January 2012	Full convergence to IFRS, except Private Entities as defined by MASB.
January 2018	All companies other than Private Entities are required to apply M-FRS.

Figure 3 - 14 Process of M-FRS introduction in Malaysia



(3) Addressing practical challenges

In Malaysia, although practical challenges were found on the matters mentioned below, very few of them were serious.

- Measurement of bearer biological assets (BBA) in agriculture stipulated in IAS 41 *Agriculture*: and

- Revenue recognition in the real estate industry stipulated in IFRIC 15 *Agreements for the Construction of Real Estate*.

The MASB set a classification of "transitioning entities (TEs)" in September 2014 in order to reduce the negative impact on the domestic real estate industry and agriculture that was expected from applying IAS 41 and IFRIC 15, which were the subjects of discussion as the major differences between M-FRS and IFRS at the time of the convergence in 2012. By so doing, TEs were allowed to prepare FSs not based on these standards until the annual financial reporting for FY 2017, as exceptional cases. When setting this classification, the MASB thought that setting a certain period for transition would reduce the complexity of the diversifying accounting processes and could prevent unnecessary spending by enterprises.

The MASB also actively approached the IASB so that IASB would reflect situations in Malaysia when revising these standards or when replacing them by establishing new standards.

With the revision of IAS 41 and publication of IFRS 15 *Revenue from Contracts with Customers*, the status of "TE" became invalid since January 2018.

(4) Translation of M-FRS

As M-FRS are prescribed in English, IFRS is not translated into Malay. However, approximately 1,800 technical terms used in M-FRS have been translated into Malay for better understanding.

(5) Transitional Arrangement

In Malaysia, the phased approach, instead of the big-bang approach, was used for the mandatory application of IFRS because it was considered that the transition to the application of M-FRS could be achieved by Malaysian enterprises more smoothly with the phased approach than the big-bang approach. Early application of M-FRS or a pilot trial of M-FRS application was not conducted in Malaysia.

The MASB published "TR3 Guidance on Disclosure of Transition to IFRS" for the initial disclosure of the M-FRS application containing the following recommendations.

- Recommendation for voluntary disclosure of the state of preparation for IFRS application in 2012 in the annual report for FY 2010; and
- Recommendation for voluntary disclosure of the influence of IFRS introduction in the annual reports for FY 2011 and FY 2012.

(6) Interaction with Laws and Regulations

Limited coordination with laws including the Company Act and Corporate Tax Act was required in the development of M-FRS in Malaysia. One of the possible reasons for this is that the financial reporting standards published by the MASB in 1997 were based on the IAS standards and, therefore, coordination between the standards and domestic laws and regulations had already been made before M-FRS application.

- Relationship with the Company Act

The generally accepted accounting principles in Malaysia are those approved in Clause 244 of the Company Act 2016, and the approved standards have been used by enterprises in the preparation of consolidated and non-consolidated FSs. Accounting standards approved in accordance with the provision of Clause 243 of the same Act are described in Clause 2 of FRS.

Clause 2 of FRS approves the application of the following accounting standards:

- ➢ The accounting standards that should be applied by all enterprises other than the private entities approved by MASB;
- ➢ The accounting standards that should be applied by MASB-approved private entities; and
- ➢ The accounting standards that should be applied by foreign-invested enterprises listed on security markets in Malaysia.

- Relationship with the Corporate Tax Act

"The Guidelines on the Calculation of Income Tax of Financial Institutions Applying FRS 139" was published as a regulation on taxation by the Chartered Tax Institute of Malaysia (CTIM).

(7) Socio-economic Impact resulting from the introduction of M-FRS

An analysis of the impact of introduction of M-FRS introduction revealed that it had the following positive impacts on the market economy and economic environment in Malaysia.

- The introduction of M-FRS has enabled investors to evaluate FSs prepared by Malaysian enterprises more accurately and compare them with those of global enterprises.
- The use of accounting standards equivalent to the international accounting standards adopted in various countries of the world has enhanced the reputation of Malaysia as a country and prevented Malaysia from being left behind by global trends.
- The M-FRS introduction has enabled Malaysian enterprises seeking global business expansion to consolidate the financial information of their overseas subsidiaries without modification in the preparation of consolidated FSs and to reduce costs and labor arising from the need to adjust entries due to different accounting standards.

- It has enabled Malaysian enterprises to raise funds from investors in various countries of the world and to reduce fund-raising costs.
- Although the introduction of M-FRS is not considered to have had a direct influence on direct foreign investments in Malaysia, financial information created in accordance with M-FRS has increased the comparability and reliability of the information.

The initial application of M-FRS incurred additional costs not only from the work for the transition from the old accounting standards to M-FRS but also from the work to maintain compliance with the complex accounting standards including the reconstruction of internal control systems, reviewing IR and financial reporting systems, creating accounting standards for financial products and fair value valuation required by M-FRS and the accounting in the first fiscal year of M-FRS application.

3.3.4 United States

(1) Main Organizations Related to the Introduction of IFRS in United States

The supervisory authority of accounting and auditing in the U.S. is the SEC. The organization that sets accounting standards for enterprises is the FASB, and the setter of accounting standards for the government is the Governmental Accounting Standards Board (hereinafter referred to as "GASB"). For this reason, SEC plays the major role, while the role of the FASB is also considered when considering the incorporation of IFRS.

The FASB has more than 60 accounting and auditing special professionals including seven board members who serve full time and are completely independent from firms or institutions. Board members are appointed by the Financial Accounting Foundation and they consist of stakeholders with a wide range of backgrounds, including financial statement users and preparers, as well as academics, public and private companies and organizations, regulators and other government leaders, and auditing officers. They are appointed for 5-year terms and they can serve for a maximum of 10 years.

The FASB has advisory groups such as the Financial Accounting Standards Advisory Council (FASAC), Investor Advisory Committee (IAC), Not-for-Profit Advisory Committee (NAC), and the Small Business Advisory Committee (SBAC). It also comprises the Private Company Council (PCC) and Emerging Issues Task Force (EITF).

(2) The process of IFRS incorporation

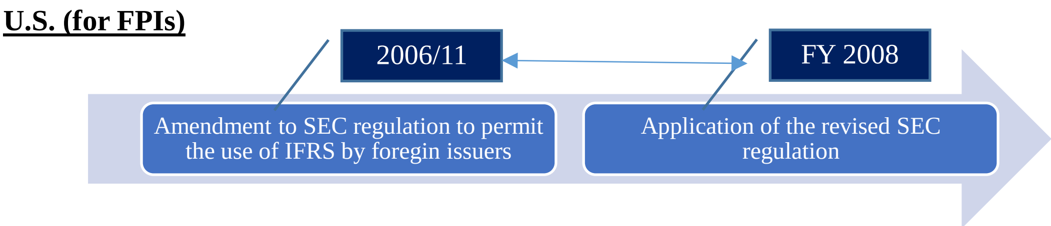
In the U.S., after permitting foreign private issuers to prepare FSs based on IFRS since 2007, the

SEC considered whether or not to incorporate IFRS into the U.S. financial reporting system, and, if so, how to going about incorporating it. In the consideration process, detailed analyses and considerations were made with regard to:

- Permitting voluntary application to the U.S. domestic SEC registrants;
- Imposing mandatory application of IFRS to the U.S. domestic registrants;
- Seeking a "condorsement approach[11]" in order to accelerate convergence between the US-GAAP and IFRS; and
- Explicitly permitting disclosure of IFRS-based information as Non-GAAP measures in reports filed to the SEC.

As a result, in 2012, the SEC decided not to take specific actions immediately to incorporate IFRS into the U.S. financial reporting system.

Figure 3 - 15 Process of IFRS introduction in the United States



The table below shows major activities concerning considerations in the introduction of IFRS in the U.S. in chronological order.

Figure 3 - 16 Chronology of IFRS Introduction in the United States

Year	Description of Major Activities
Oct 2002	"The Norwalk Agreement" This is an agreement showing that the FASB and the IASB will work toward the convergence of IFRS and US-GAAP in the medium to long term.
Feb 2006	Development of a roadmap toward the convergence of accounting standards between the FASB and the IASB from 2006-2008 (referred to hereafter as "MoU") "Major Joint Projects" and "Short-term Convergence Projects" are identified

[11] Condorsement is an approach that combines convergence with endorsement by "endorsing" one standard at a time into U.S. GAAP. It was proposed in the "SEC staff report 2011".

Year	Description of Major Activities
	as goals by 2008.
Nov 2007	The SEC announced abolishment of the requirement regarding the US-GAAP reconciliation for foreign private issuers.
2008	The SEC started to explore whether to require or permit IFRS for U.S. domestic issuers.
2008	(Update of the MoU) The target date was changed from 2008 to 2011.
2010. Jun	(Update of the MoU) Update of the milestones and establishment of priority to Major Joint Projects ("Priority Major Joint Projects").
May 2011	"Work Plan for the Consideration of Incorporating IFRS into the Financial Reporting System for U.S. Issuers" (SEC staff paper) This is to explore a possible method of IFRS incorporation (including condorsement)
Nov 2011	"Work Plan for the Consideration of Incorporating IFRS into the Financial Reporting System for U.S. Issuers" (SEC staff paper) This is a comparison of the U.S. GAAP and IFRS
Nov 2011	"Work Plan for the Consideration of Incorporating IFRS into the Financial Reporting System for U.S. Issuers" (SEC staff paper) > Analysis of IFRS in practice
Apr 2012	(Update MoU) Extension of the timetable for the remaining priority Major Joint Projects to mid-2013
July 2012	"Final Staff Report on Work Plan for the Consideration of Incorporating IFRS into the Financial Reporting System for U.S. Issuers"
2016	Completion of Work on the MoU project after announcing lease accounting in 2016

(3) Addressing practical challenges

Although introduction of IFRS to the U.S. domestic companies was discussed in the U.S., as mentioned above, the U.S. domestic companies are not permitted to prepare FSs in accordance with IFRS to date. Therefore, no serious practical problems concerning the application of IFRS has been identified in the U.S.

(4) Translation of IFRS

No translation work has been conducted in the U.S. because the language of IFRS stipulated and publicized by the IASB is English.

(5) Transitional Arrangement

The U.S. domestic companies are not permitted to prepare FSs in accordance with IFRS. Application of IFRS is permitted to foreign private issuers by the Big Bang approach.

(6) Interaction with Laws and Regulations

In the U.S., since application of IFRS for domestic companies is not approved, no adjustment has been made to coordinate with its legal system.

(7) Assumed Socio-economic Impact Resulting from the Introduction of IFRS

In the U.S., when considering introduction of IFRS, following benefits and costs were envisaged.

- Benefits
  - Greater comparability of financial information between companies;
  - Reduced listing costs for companies listed across multiple capital markets;
  - Contribution to increased competition among exchanges;
  - Better global resource allocation and capital formation;
  - Lower costs of capital; and
  - Higher economic growth.
- Costs
  - Increased uncertainty of information depending on the quantity and quality of information in financial reports prepared in accordance with IFRS;
  - Numerous challenges that negate the benefits stated above; and
  - Additional costs for system maintenance when future revisions to IFRS are made.

3.3.5 Japan

(1) Main Organizations Related to the Introduction of IFRS in Japan

The supervisory authority of accounting and auditing in Japan is the FSA. There were extensive discussions on how to introduce IFRS in the Japanese financial accounting system in the Business Accounting Council (hereinafter referred to as "BAC") established within the FSA. The BAC is composed of a wide range of stakeholders. Members of the BAC include representatives from financial statement preparers, financial statement users, auditors, and academics. The BAC's main working groups are the Accounting Committee (former Planning and Coordination) and the Auditing Committee, each of which is held approximately between 2 to 6 times per year, depending on the necessity. For each working group, there are about 10 regular members including the chairman as well as about 10 occasional members, and the FSA plays a secretariat's function.

In Japan, FSs are prepared in accordance with the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements stipulated by the FSA under the FIEA as well as generally accepted accounting standards. The ASBJ which was established within the FASF plays a leading role in the establishment of corporate accounting standards. Since its establishment of this private organization in 2001, the BAC has not developed individual accounting standards.

As of October 2018, at the ASBJ, there are 4 full-time board members and 10 part-time board members from a variety of backgrounds, including financial statement users, preparers, auditors, and academics, and their activities are supported by more than 20 researchers. As of October 2018, the ASBJ has active technical committees for emerging practical issues, financial instruments, lease accounting, business combinations, post-retirement benefits, special-purpose-entities and consolidation, revenue recognition, insurance contracts, deferred tax accounting, IFRS implementation and disclosures. In addition, there is also a working group regarding IFRS endorsement for the development of the JMIS.

(2) The process of IFRS incorporation

Since 2007, the BAC has considered potential for and methods of incorporating IFRS in Japan. The BAC has conducted this activity based on the opinion that application of IFRS not only contributes to the improvement of comparability of FSs but also makes it easier for enterprises conducting business globally to manage and finance their own business operations and operation of group companies.

The main points of discussion were the scope and degree of IFRS application in Japan, whether to adopt voluntary application or mandatory application, timing of application, scope of target companies, and the treatment of non-consolidated FSs. Among matters of consideration, the most important items and countermeasures are shown below.

- Voluntary application chosen rather than mandatory application

Designated-IFRS and the JMIS were introduced into the Japanese financial reporting system as an option that can be selected by companies. As a result, if company management thinks that the benefits of IFRS introduction would be greater than associated costs, they can choose to use IFRS. A view has been expressed that the availability of these options has enabled a reduction in costs borne by enterprises incurred from the changes in sets of accounting standards.

- IFRS application limited to only consolidated FSs

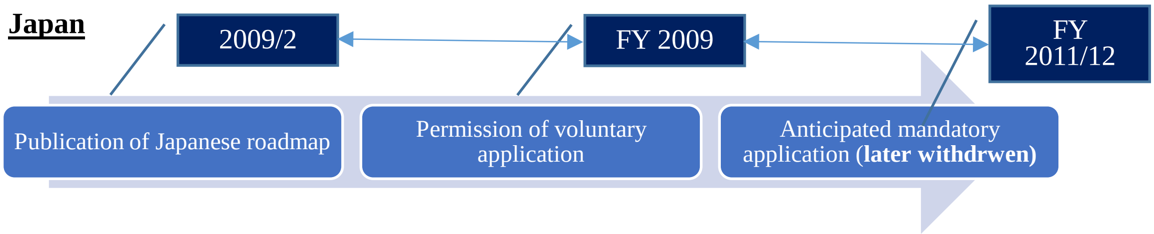
In Japan, application of IFRS is limited only to consolidate FSs in Japan, and the use of IFRS is not made available for non-consolidated FSs. Non-consolidated FSs are used primarily for the purposes of the basis of income tax filing and calculation of dividend that can be made available for shareholders. This scope of application reduces the need for adjustments with the legislative system.

- Securing transparency by parallel disclosures

Those companies that chose to apply designated-IFRS are required to demonstrate the impact on FSs by means of parallel disclosure in order for users to compare FSs prepared in accordance with IFRS and those prepared in accordance with J-GAAP. Parallel disclosure can be exempted for the first year of IFRS application only if the company adds a statement of comparison showing differences between IFRS and J-GAAP in the notes.

Based on the outcome of the series of discussions mentioned above, it was decided that measures would continue to be taken to facilitate voluntary application of IFRS for the time being, and no specific measures would be taken for the mandatory application of IFRS by domestic listed companies.

Figure 3 - 17 Process of IFRS introduction in Japan



The table below shows the major activities concerning considerations for the introduction of IFRS in Japan in chronological order.

Figure 3 - 18 Chronology of IFRS introduction in Japan

Year	Description of Major Activities
July 2001	The FASF/ASBJ established
2005	Application of IFRS started in the EU and other countries[12]
Aug 2007	Tokyo Agreement concluded between the ASBJ and the IASB
Dec 2007	U.S. SEC permitted the use of IFRS for foreign issuers[13]
Dec 2008	The European Commission decided equivalence assessment of J-GAAP
June 2009	The BAC published a report recommending the FSA to permit voluntary application of IFRS in Japan.

12 In the EU, since 2005, application of IFRS or equivalent standards has been mandated for non-EU companies that carry out fundraising in the EU. According to technical advice by the Committee of European Securities Regulators (hereinafter referred to as "CESR"), Japanese standards are assessed as equivalent to IFRS adopted in the EU as a whole but it was pointed out that supplementary measures be required for 26 items including revising accounting processes and additional disclosure. Based on this, ASBJ has published "STATEMENT ON JAPAN'S PROGRESS TOWARD CONVERGENCE BETWEEN JAPANESE GAAP AND IFRSs". It referenced to Technical Advice on Equivalence by CESR, and showed a policy for follow-up initiatives regarding Japanese standards and other effects on application of IFRS in Japan based on application of IFRS in the EU. For this reason, this table includes the explanation of IFRS application in the EU.

13 Approval from the SEC for application of IFRS by foreign companies greatly influenced discussions toward voluntary application of IFRS in Japan. For this reason, this table includes the explanation regarding approval from the SEC for application of IFRS by foreign companies.

Year	Description of Major Activities
	> After that, the FSA permitted voluntary application
July 2012	The BAC published an interim report analyzing mandatory application of IFRS.
June 2013	The BAC published a report regarding mandatory application of IFRS in Japan > The FSA decided to defer its decision about whether to mandate IFRS for domestic companies.
Apr 2014	The FSA published a report summarizing Japanese experience using IFRS.
June 2015	The ASBJ published an initial standard of JMIS.

(3) Addressing practical challenges

Following challenges were identified in Japan in the course of introduction of IFRS.

- Quality of IFRS: How to reflect views of Japanese stakeholders in the development of IFRS?
- Translation of IFRS: In what way, accuracy of the translated IFRS could be guaranteed?
- Strengthening due processes regarding IFRS: In what way influence can be most effectively exercised towards strengthening the due processes of the IFRS Foundation?
- IFRS education: How can IFRS education be effectively implemented?
- Participation in IASB standard setting planning: In order to ensure the presence of Japan in the process of setting standards for IFRS, in what way can Japan better participate in the process of standard setting by IASB?
- Adaptability of XBRL: How can taxonomies compliant with IFRS be maintained and developed?

(4) Translation of IFRS

In Japan, the FASF has concluded a contract with the IFRS Foundation regarding the translation of IFRS (although details of the contract have not been disclosed).

Translation of IFRS is carried out primarily by ASBJ staff. The translation of the IFRS is reviewed by the Review Committee which consists of ASBJ board members and staff as well as outside experts.

(5) Transitional Arrangement

In Japan, designated-IFRS (currently the same as IFRS) is voluntarily applied to domestic enterprises. For this reason, there was no special consideration regarding the transitioning process.

(6) Interaction with Laws and Regulations

The effect of designated-IFRS and JMIS on laws and regulations in Japan was limited. This is because, in Japan, the Company Act and the Tax Code continue to be premised on financial information in non-consolidated FSs produced according to J-GAAP, even though the application of consolidated FSs is permitted for designated-IFRS and JMIS.

(7) Socio-economic Impact resulting from the Introduction of Designated-IFRS

In Japan, in order to comprehend the actual situation affected by voluntary IFRS application, the FSA conducted a survey about issues and benefits of transitioning to IFRS to a total of 69 companies, comprising 40 companies that had voluntarily adopted IFRS before February 28, 2015, and 29 companies that had officially announced the intention that they would voluntarily adopt IFRS. The FSA published "IFRS adoption report" in 2015 based on responses from 65 of the 69 target companies.

The major finding of the report was that, after the transition to IFRS, many companies were able to receive the benefits that were expected prior to the transition. In the figure below which shows the benefits of introducing IFRS, the section "Number of companies before transition" shows the responses given for reasons for making decision to go for voluntary application of IFRS or major benefits expected prior to the transition, while "Number of companies after transition" shows the number of responses given for the actual benefits enjoyed after transition.

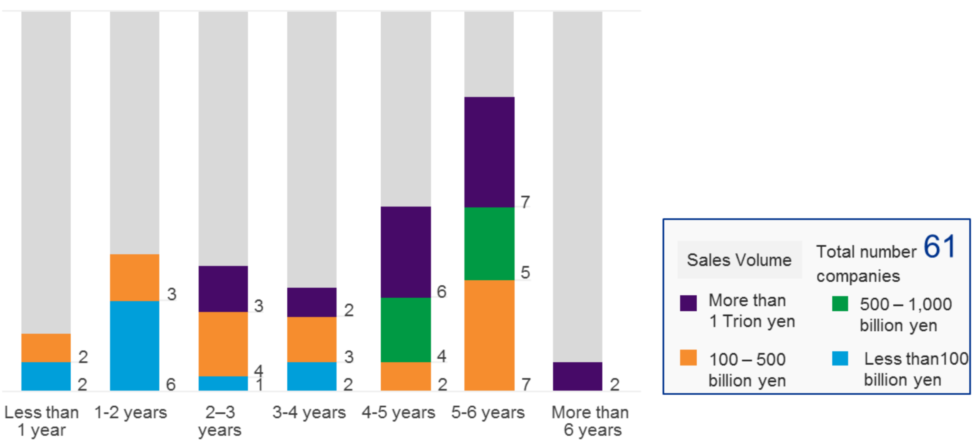
Figure 3 - 19 Expected benefits before transition and actual benefit after transition

Items	# of companies Before transition	# of companies After transition
①Contributions to business management	29	27
②Improved comparability	15	12
③Makes explanations to foreign investors easier	6	7
④Better reflection of performance	6	9
⑤Smoother finance from abroad	5	2
⑥Other	4	3

(Prepared by KPMG AZSA in reference to the FSA "IFRS Adoption Report")

According to the same report, the average period of transition was 3 years and 8 months. When the scale of the company is relatively small or the business is relatively simple, the transition period tended to be shorter. On the other hand, for companies that operate a wide range of business fields and that require a large number of accounting changes, a longer transitioning period was needed.

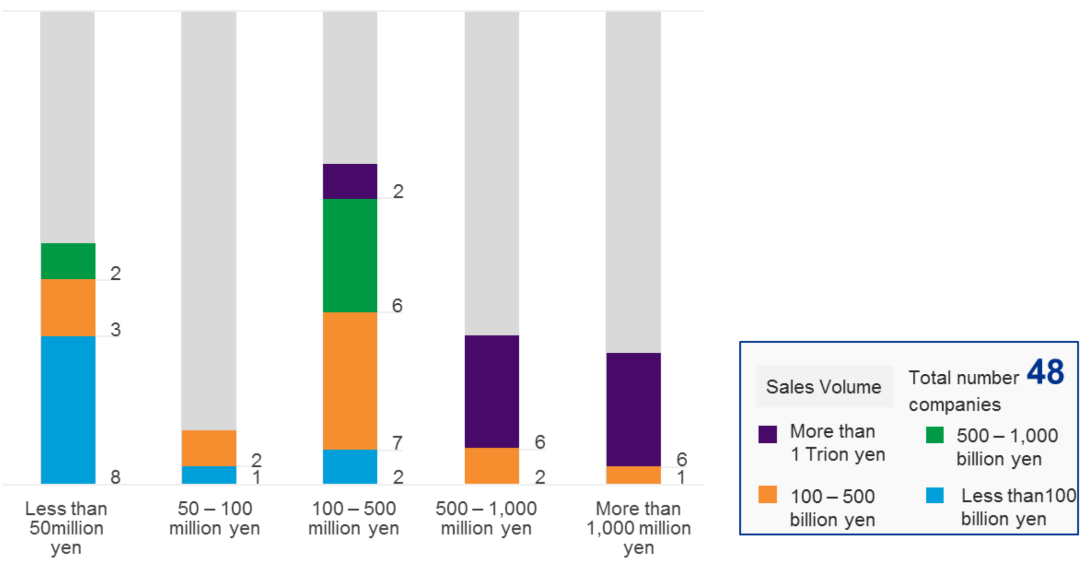
Figure 3 - 20 Number of companies by period of transition to IFRS (by sale scale)



(Prepared by KPMG AZSA in reference to the FSA "IFRS Adoption Report")

With regards to costs of transitioning to IFRS, although it depends on company size, accounting system, its policy and the purpose of IFRS introduction, with companies with diversified businesses and many overseas subsidiaries, the total cost tends to be greater.

Figure 3 - 21 Total cost for the transition to IFRS (by sale scale)



(Prepared by KPMG AZSA in reference to the FSA "IFRS Adoption Report")

3.4 Analysis by Item regarding Considerations for the Application of IFRS or IFRS-equivalent standards

This section describes identical or similar challenges among the five surveyed countries, and the issues in the adoption of similar countermeasures that were taken.

3.4.1 Impacts from the use of IFRS

This subsection describes the macroeconomic impact and entity-level impact resulting from the use of IFRS or IFRS-equivalent Standards based mainly on published information.

(1) Macroeconomic impact of IFRS or IFRS-equivalent Standards

It was found that there was no statistical data in any of the countries as to whether the use of IFRS or IFRS-equivalent Standards had a macroeconomic impact. This is partly because it is incredibly difficult (or even impossible) to single out the macroeconomic impact resulting from the use of IFRS or IFRS-equivalent Standards from other factors.

Following illustrates perceived negative impacts resulting from implementation of IFRS or IFRS-equivalent Standards.

(Macro-level impacts)

- Inconsistency with domestic laws and regulations;
- Decreased comparability of FSs during transition;
- Possibility of a decline in the reliability of information due to the amount and quality of information in FSs in accordance with IFRS; and
- Expense and effort required for the translation of IFRS.

(Micro-level impacts (on enterprises))

- Burden on domestic companies for additional costs arising from IT system maintenance;
- Costs required for the wide range of disclosures and fair-value measurements; and
- Costs required for IFRS education and training.

According to the FSA's "IFRS Adoption Report" (2015), contribution to business management, improved comparability, ease of explanation to overseas investors, better reflection of performance, and smoother finance from abroad are identified as benefits attributed from the introduction of IFRS.

(2) Measures taken to minimize negative impacts

It is difficult to identify measures to minimize negative impacts resulting from the use of IFRS or IFRS-equivalent Standards. Nonetheless, the main countermeasures that were taken in each country are shown below. For further details and other countermeasures taken in each country, please refer to the by-country analysis in 3.3.

In China, working groups were set up within CASC for migration to coordinate and build cooperative relationships with various stakeholders, and to conduct study regarding challenges. Also, for enterprises, training as well as interpretation guidelines for New PRC GAAP were provided.

In Korea, actions taken included development of Q&A system by KASB, preliminary research, improvement of expertise through continued education and activities to expand influence on the IFRS Foundation. In terms of translation of K-IFRS, principles were provided for the translation to minimize unexpected influence from translation. Guidelines were developed and published for financial statement preparers, and IFRS education was expanded and tax law was modified.

In Malaysia, the MASB minimized impacts by creating a category of "transitioning entities" that gave companies from industries that would be greatly influenced by the introduction of M-FRS more time to apply M-FRS. At translation, MASB decided to keep English as the principle language, although it also translated important technical terms into the Malay language. For preparers of FSs, a guideline on treatment of income tax was issued.

In Japan, application was made voluntarily rather than mandatorily, and the impact was minimized by limiting the scope only to consolidated FSs. A task force was formed at Nippon Keidanren, and the experiences of various stakeholders were shared, while the FSA issued FAQs and disclosure templates with regard to areas for possible misunderstandings.

3.4.2 Role of national accounting standard setters

This subsection describes common views regarding the role of national accounting standard setters after a country incorporates IFRS or IFRS-equivalent standards into its national financial reporting system.

(1) Responsibility of national accounting standard setters

Even after IFRS or IFRS-equivalent standards are incorporated into a country's financial reporting system, national accounting standards setters have a number of responsibilities, typically including the following:

- Development and modification of accounting standards;
- Supporting implementation of accounting standards;
- Researching accounting standards;
- Conducting and supporting accounting education; and
- Supporting representatives from the country in preparation for meetings administered by the IFRS Foundation and the IASB.

(2) Ideal form of national accounting standard setters in each country

In many countries, accounting standard setters are established by the decision of a committee (board). The number of staff members differs between countries.

(3) Funding mechanisms of national standard setters

Different countries employ different models for funding for national accounting standard setters. For example, in China, there is a state budget as a funding source, while in Korea, Malaysia, the U.S., and Japan, the entire amount or part of the amount is covered by donations from private enterprises or income from publications.

3.4.3 Communication with IASB

This subsection summarizes the ideals of communication between relevant authorities of a country and IASB after IFRS is incorporated into national financial reporting systems.

(1) Measures to promote effective communication with the IASB

Different countries take different measures to promote effective communication with the IASB. Typically, such measures include:

- Sending comment letters;
- Holding regular meetings between a national authority and the IASB;
- Participating directly in the standard setting process of IASB (e.g., participating in the Accounting Standards Advisory Forum (hereinafter referred to as "ASAF")[14] meetings);
- Participating in the AOSSG; and
- Staff-secondment at the IFRS Foundation or the IASB.

(2) Financial contributions to the IFRS Foundation

A country that has incorporated IFRS into its national financial reporting system typically makes a financial contribution to the IFRS Foundation.

For example, the Financial Supporting Committee of Korea makes financial contributions to the IFRS Foundation by encouraging its relevant stakeholders (such as companies) to make donations. In addition, the FASF of Japan makes financial contributions to the IFRS Foundation by taking donations from a large number of listed companies and interested individuals.

Such contributions are often made with the motivation of enhancing national influence over the standard setting process in the development of IFRS.

(3) Relationship with the IFRS Foundation Asia-Oceania office

National standard setters of the Asia-Oceania region have a relationship with the IFRS Foundation and its Asia-Oceania office. The chair of the Asia-Oceania Standards Setters Group (AOSSG) is

[14] ASAF is the deliberating body established by the IFRS foundation in November 2012 with the objectives of sharing suggestions and opinions with IASB regarding the main technical issues in standard setting activities, and sharing inputs about issues in each country and region with IASB. ASAF is composed of the accounting standard setters from the principal countries, and it holds discussions about four times a year.

present at the ASAF meetings held every quarter.

3.4.4 Education and training for IFRS and IFRS-equivalent Standards

This subsection summarizes experiences with regard to education and training of IFRS or IFRS-equivalent Standards.

(1) Organizations responsible for IFRS education

Prior to the introduction of IFRS or IFRS-equivalent Standards, the following measures were taken in each country for education and training by the relevant authorities.

- Professional bodies of accountants held training for accounting specialists;
- Seminars were held for company managers and accounting managers by accounting firms; and
- Universities held lectures regarding IFRS.

(2) CPA exam and IFRS accreditation

Around the time of incorporating IFRS or IFRS-equivalent Standards into a national finance reporting system, the details of IFRS were incorporated into the CPA exam of that country.

There are not many cases of IFRS accreditation being systematized at the national level, but in Korea, the Korea Association of CFOs administers an accreditation system for IFRS regarding the understanding of IFRS.

3.4.5 Challenges for auditors

This subsection describes the challenges posed to auditors and the relevant measures taken as a result of incorporating IFRS or IFRS-equivalent Standards into the national financial reporting system.

(1) Specific challenges faced

The following challenges were cited as challenges that auditors faced as a result of implementing IFRS or IFRS-equivalent Standards:

- Initially, the number of auditors familiar with IFRS requirements was limited;
- The quality of FSs initially prepared by audited entities was not very high;
- It was difficult to ensure specialists for fair value measurements (financial instruments) and actuarial specialists;

- While there was an increase in the amount of time required to conduct audits, there was no great increase in remuneration for auditing, so the hourly wage decreased;
- Increase in disagreements between management and auditors; and
- Greater preference for larger audit firms when selecting auditors.

(2) Measures taken to address challenges

In response to these challenges, regulators and accounting standard setters mainly took measures including the following:

- Checking for consistency between accounting standards and auditing standards before finalizing the standards;
- Delivering training courses to auditors;
- Promoting communication between regulators/accounting standards-setters and audit firms;
- Initiating preventive monitoring activities and theme-based monitoring activities; and
- Holding workshops in response to the principle-based nature of IFRS. For example, in the case of Korea, "IFRS-Q&A joint meetings" were administered jointly by the Korea Financial Commission and KASB consisting of relevant members including external experts.

3.5 Lessons for Vietnam

This section describes items from among the experiences of other countries that can be relevant for future considerations in Vietnam on deciding whether to incorporate IFRS into the Vietnamese financial reporting system.

3.5.1 Ideals for Incorporation of IFRS

(1) Form of incorporation

In the countries that were researched, China and Japan took an approach to "converge" their national accounting standards with IFRS. Korea and Malaysia adopted the method of substantially applying IFRS as the domestic accounting standards without modification (hereinafter referred to as "the adoption approach"). Japan adopted the same approach for the incorporation of designated -IFRS and JMIS.

The convergence approach may have benefits in that it does not surrender the autonomy of standard setters, while the adoption approach may be more efficient as it can reduce the time and effort that is required for standard setting activities. Generally, countries with larger capital markets tend to take a convergence approach, while those with smaller capital markets tend to take an adoption approach.

The choice regarding which of the two approaches to take is highly important because it results in significant differences for the national financial reporting system.

(2) Scope of application of IFRS or IFRS-equivalent Standards

In the countries that were researched, the scope of application regarding IFRS or IFRS-equivalent Standards varied significantly. Where the use of IFRS or IFRS-equivalent Standards is mandated, it is the norm to require such standards from listed companies. However, each country took a different approach as to whether this included unlisted financial institutions (such as banks, insurance companies, and securities companies), in particular, and unlisted large-sized entities including large-sized state owned enterprises.

When making the decision about the scope of application of IFRS or IFRS-equivalent Standards in Vietnam, careful consideration is necessary regarding the costs and benefits based on the companies that are included in the scope of application.

(3) Guidance for specific entities

In the countries that were researched, some countries (China and Korea) issued guidance for specific entities (e.g. financial institutions), while others (Japan and Malaysia) did not. In addition, when applying IFRS or IFRS-equivalent Standards in the banking industry, it is necessary to consider the effect on supervision regarding minimum capital requirements.

In view of the above, in the case of applying IFRS or IFRS-equivalent standards in Vietnam, the target institutions shall be limited to some banks and insurance companies rather than all of them, it is therefore considered necessary to conduct a deliberate study on whether financial information created in accordance with IFRS should be recognized as necessary financial information for the supervision of banks and insurance companies by means of a comparison between the benefits of ensuring the comparability of information in supervision and the additional costs required for creating two sets of financial information based on two different standards.

(4) Accounting standards for foreign issuers

In the countries that were researched, in some cases, foreign issuers were permitted to use accounting standards other than those required for domestic companies in light of reducing costs.

However, different countries took different approaches as to the permissible accounting standards made available to foreign issuers, most notably whether to permit US-GAAP and other major GAAP (such as UK-GAAP and J-GAAP).

The selection of accounting standards that foreign-invested enterprises should be allowed to use has significant influence on achieving the two semi-contradictory objectives of protecting investors in the domestic stock markets in Japan and facilitating cross-border capital formation. Therefore, it is considered necessary to conduct a deliberate study to compare and balance the benefits and costs of limiting applicable accounting standards.

3.5.2 Modification to IFRS

Even when an adoption approach was taken, some countries modified IFRS to a greater or lesser degree.

Modification does not result in non-compliance with IFRS when it is limited to (i) stylistic modifications, (ii) deletion of alternatives permitted under IFRS, and (iii) addition of disclosure requirements that are not required under IFRS.

On the other hand, modification may result in non-compliance with IFRS when the accounting requirements of IFRS are modified (curve-out or curved-in[15]). When developing accounting standards modified from IFRS (hereinafter referred to as "VFRS"), careful consideration is necessary as to what aspects warrant modification to IFRS and whether the decision to modify particular requirements would be cost-effective.

3.5.3 Translation of IFRS

(1) Concluding a contract with the IFRS Foundation

In countries where a translation of IFRS was necessary, prior to the translation, there was a need to enter into an agreement with the IFRS Foundation. As the process takes considerable time, if Vietnam will proceed IFRS translation, it may be appropriate to contact the IFRS Foundation at the earliest convenience to discuss the terms and conditions of the contract.

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[15] When incorporating IFRS into the national accounting system, some countries do not apply a complete set of IFRS but rather modify parts of it. Curve-out means that certain requirements of an accounting standard under IFRS will not be adopted. Curve-in means that only certain parts will be adopted.

(2) Translation policy

In countries where translation of IFRS was necessary, the translation required a great amount of time and effort. To ensure a good translation, some countries, such as Korea, set forth a translation principal.

In addition, in order to establishing an appropriate system of translation, it is necessary to construct an appropriate translation system provided with sufficient personnel and funding sources, including the establishment of a review committee. In doing so, appropriate wording should be used so that readers do not misunderstand the text with regard to areas that require important decisions to be made by companies including words implying a level of possibility.

When translating IFRS into Vietnamese, it is recommended that the translation policy is clearly defined in advance by, for example, creating policy guidelines.

3.5.4 National Accounting Standards

Even after IFRS or IFRS-equivalent standards are incorporated into a national financial reporting system, national accounting standards are necessary, especially for smaller entities for which the use of IFRS is not cost-effective.

In deciding national accounting systems and mechanisms, the following items must be considered.

- Scope of application of IFRS or IFRS-equivalent Standards;
- The need of accounting guidance for smaller entities;
- What kind of accounting standards are required in view of laws and regulations that affect the preparation of FSs?
- Which companies should follow each set of standards in the preparation of FSs?
- Who should be responsible for maintenance of the standards?
- How close should each set of standards be?
- How frequently should each set of standards be updated?

It is recommended that discussions are held on the ideal accounting standards of the country with full consideration for the above-mentioned issues, even in the case in which IFRS or IFRS-equivalent accounting standards are to be incorporated in the financial reporting system of Vietnam.

3.5.5 Use of XBRL

Use of XBRL may be a helpful tool for users to analyze financial information using technology.

However, the introduction of IFRS or IFRS-equivalent Standards may not necessitate the use of XBRL. Hence, it would be important to perform a cost-benefit analysis before deciding whether and how to use XBRL, taking into account relevant factors including the needs of financial statement users.

If the use of XBRL is explored, it would be necessary to identify who should be responsible for the maintenance of the XBRL taxonomy.

3.5.6 Transitional arrangements

(1) Transitioning method to IFRS

In the countries that were researched, either a big-bang approach or a phased approach was taken, depending on the national situation. Even when a big-bang approach was taken, early application may be permitted for entities that are ready for voluntary application.

In addition, some countries set forth disclosure requirements regarding the effect of initial implementation before the effective date of IFRS or IFRS-equivalent Standards so that users can better understand the anticipated impacts resulting from the use of such standards.

If a decision is made to incorporate IFRS of IFRS-equivalent standards into the financial reporting system of Vietnam, the above-mentioned experiences suggest that it will be necessary to conduct a thorough comparative study of the appropriateness of adopting "the big-bang approach" and "the phased approach" in terms of the balance between the reduction of costs and the maximization of benefits to stakeholders. If a decision is made to adopt "the big bang approach," it is considered beneficial to allow the early application of the standards to a limited number of enterprises and to study how experiences from early application can be utilized in the application by other enterprises before full-scale application. In addition, it may be helpful to perform a pilot-test before the effective date so that the authority can understand potential impacts from the use of such standards.

(2) Period of transition

In the countries that were researched, different countries needed different periods of time from the decision to require the use of IFRS or IFRS-equivalent Standards to implementation of the set of standards. This may be influenced by various factors, such as the social and political system, the degree of similarity between IFRS and national accounting standards and the scope of companies that would be affected.

Yet, when mandating the application of IFRS or IFRS-equivalent Standards to domestic companies, in general, approximately three to four years is deemed to be necessary taking into account the presentation and disclosure requirements regarding the first-time adoption of IFRS when national accounting standards differ significantly from IFRS.

When IFRS or IFRS-equivalent standards are to be incorporated into the financial reporting system of Vietnam, the time required for the transition from the old to new standards differs depending on whether the application of the new standards should be mandatory or voluntary and the scope of the application. If the application of the standards is to be mandatory, a transition period of three years is generally deemed necessary.

3.5.7 Interaction with laws and regulations

Various interactions were found between accounting standards and laws/regulations, such as a maximum amount of dividend for distribution and corporate tax codes.

When incorporating IFRS or IFRS-equivalent Standards into accounting standards for non-consolidated FSs, it is highly important to thoroughly consider interaction with laws and regulations.

When IFRS or IFRS-equivalent accounting standards are to be incorporated into the financial reporting system of Vietnam and the application of such standards is to be made mandatory, it is considered necessary to make the standards sufficiently consistent with the Commercial Code /Corporate Act and Corporate Tax Act.

3.5.8 Role of national accounting standard setters

Even after IFRS was incorporated into a country’s financial reporting system, national accounting standard setters continued to have many responsibilities.

Hence, in Vietnam, it is necessary to identify what activities should be carried out to fulfil the role of the national accounting standard setter, the extent of resources necessary to bear these responsibilities, and how funding should be secured.

3.5.9 Communication with IASB

After IFRS or IFRS-equivalent Standards were incorporated into a country’s accounting standards, effective communication with the IFRS Foundation (including the IASB) was important. In order to promote effective communication, it would be desirable to consider the following matters:

- How to establish effective communication with the IFRS Foundation Asia-Oceania office;
- How to ensure effective communication (including how to promote participation in the activities of the AOSSG); and
- Whether and how to make financial contributions to the IFRS Foundation.

3.5.10 Education and training for IFRS

Education and training for IFRS or IFRS-equivalent Standards were carried out primarily by universities, professional bodies of accountants and large accounting firms.

In addition, IFRS or IFRS-equivalent Standards were incorporated into CPA exams after the implementation of such standards. Further, some countries also set up an IFRS accreditation system.

The experiences mentioned above suggest that, in the case that IFRS or IFRS-equivalent standards are to be incorporated into the financial reporting system of Vietnam, the approach to be used for incorporation will determine the method to be used in IFRS education and training. In practice, while outsourcing the education and training to a large-sized audit firm is generally considered sufficient in the case of voluntary application, an institution of a more public nature should be involved in education and training, and new subjects should be added to the certified public accountant examination if a relatively large range of enterprises are required to apply the said standards.

3.5.11 Challenges for auditors

Auditors faced similar challenges to those of entities (that is, financial statement preparers) when implementing IFRS or IFRS-equivalent Standards. However, there were also many challenges that were specific to auditors.

In Vietnam, based on these experiences, in addition to measures that could be taken for entities such as holding seminars, and issuance of Q&A, it may be helpful to promote communication among regulators, standard setters and audit firms.

Chapter 4 Study Trip in Japan

4.1 Schedule of Study Trip

Vietnamese stakeholders mainly from the MoF joined the Study Trip to Japan from 24 June to 4 July, 2018, and various lectures and discussions was given to introduce the IFRS application policy and process in Japan. The Vietnamese delegation visited the following 14 organizations.

- Financial Services Agency (Supervisory Authority for Accounting and Audit);
- Financial Accounting Standards Foundation / Accounting Standards Board of Japan (Accounting standard setters);
- Japanese Institute of Certified Public Accountants, Nippon Keidanren, Japan Securities Analysts Association (Association);
- IFRS Foundation Asia / Oceania Office;
- Japan Foundation for Accounting Education and Learning, Waseda University Graduate School (Educational institution);
- Nippon Telegraph and Telephone Corporation, Sumitomo Mitsui Banking Corporation, Japan Tobacco Inc., Sumitomo Corporation (Financial statement preparers);
- Tokyo Stock Exchange (Stock exchange); and
- KPMG AZSA & Co. (Accounting firm).

The schedule for the study trip is shown below.

Figure 4 - 1 Schedule of study trip

Date	AM	PM
24 June (Sun)	Departure from Hanoi (VN384)	Arrival at Haneda
25 June (Mon)	JICA Headquarters (9:30-10:30) KPMG AZSA Kickoff session (11:30-12:30)	Japanese Institute of Certified Public Accountants (JICPA) (13:00-15:00)
26 June (Tue)	Japan Foundation for Accounting Education and Learning (JFAEL)	Financial Services Agency (FSA)

Date	AM	PM
	(9:00-10:30) KPMG AZSA Accounting Advisory Service (10:30-11:30)	(13:00-15:30) Securities Analysts Association of Japan (SAAJ) (16:00-17:30)
27 June (Wed)	Nippon Keidanren (10:00-12:00)	Nippon Telegraph and Telephone Corporation (NTT Group) (15:30-17:00)
28 June (Thu)	Financial Accounting Standards Foundation / Accounting Standards Board of Japan (FASF / ASBJ) (9:30-11:30)	Tokyo Stock Exchanges (13:30-15:30)
29 June (Fri)	Sumitomo Mitsui Banking Corporation (SMBC) (10:00-12:00) KPMG AZSA mid-session (12:30-13:30)	Waseda University (14:00-15:30) IFRS Foundation Asia-Oceania office (16:00-17:00)
2 July (Mon)	Japan Tobacco Inc (10:00-11:30)	Sumitomo Corporation (13:30-15:00) (Interview by Keiei Zaimu (magazine) (16:30-17:30))
3 July (Tue)	KPMG AZSA closing-session (9:00-12:00)	
4 July (Wed)		Departure from Haneda、Arrival at Hanoi (VN385)

4.2 Objectives and Main Content of Interviews

The following chart states the organization name, role, and main contents of visiting organizations. Attachments 6 and 7 are the minutes from each agency and the materials distributed during the visit, respectively.

Figure 4 - 2 List of interviewees (in visiting order)

Organization	Role	Main Contents of Interview
Japanese Institute of Certified Public Accountants (JICPA)	CPA industry group	• JICPA policy for IFRS initiatives • IFRS education and training for personnel • Measures to address lack of understanding of IFRS • Public relations for IFRS application
Japan Foundation for Accounting Education and Learning (JFAEL)	Educational organization for accountants	• Background of establishment and overview of the JFAEL • Activities for education / training of IFRS in each business
Financial Services Agency (FSA)	Regulator of securities, banking, and insurance industries	• Overview on Japanese accounting auditing system • Background of IFRS application • Measures taken to address concerns over IFRS application • Measures taken to improve the quality of accounting standards • Dealing with supervision for banking and insurance
KPMG AZSA Accounting Advisory Service	Auditing firm	• Process of IFRS application • Points of success for IFRS application project

Organization	Role	Main Contents of Interview
Securities Analysts Association of Japan (SAAJ)	Association of securities analysts	• Benefits and challenges for financial statement users (securities analysts, and credit rating agencies) • IFRS accounts processing • SAAJ's initiatives designed to facilitate understanding of IFRS
Nippon Keidanren	Association of business enterprises	• Changes in the opinions of the government and business world on the incorporation of IFRS • Measures taken by Keidanren to increase the voluntary application of IFRS
Nippon Telegraph and Telephone Corporation (NTT Group)	Financial reporting preparer	• Summary of NTT • Schedule leading to IFRS implementation
Financial Accounting Standards Foundation / Accounting Standards Board of Japan (FASF / ASBJ)	Accounting standards setter	• Accounting standards used in Japan • Overview of FASF/ASBJ
JPX (Japan Exchange Group) – Tokyo Stock Exchanges	Securities Exchanges	• TSE's position for use of IFRS • Measures taken by JPX
Sumitomo Mitsui Banking Corporation (SMBC)	Financial reporting preparer	• Reason(s) for preparation of IFRS-based consolidated FSs for use in the U.S. • Method of preparing/creating IFRS-based consolidated FSs for use in the U.S. • Differences between the standards that required a long time to be addressed • Reason(s) for the long time required to prepare IFRS-based consolidated FSs for use in the U.S.

Organization	Role	Main Contents of Interview
		• Differences between J-GAAP and IFRS that appear on consolidated FSs in the banking business
Waseda University	Educational institution	• Status of educational organizations as a result of application of IFRS • Challenges faced by educational organizations for application of IFRS
IFRS Foundation Asia-Oceania office	IFRS Foundation regional office	• Role of IFRS Foundation Asia-Oceania office • Advantages and disadvantages of carve-ins and carve-outs of IFRS
Japan Tobacco Inc.	Financial reporting preparer	• Overview of JT • Activities for application of IFRS • Financial effect from implementing IFRS • Actions taken after IFRS application
Sumitomo Corporation	Financial reporting preparer	• Purpose of introducing IFRS • IFRS implementation projects and systems • Benefits and costs of IFRS application • Practical challenges for application of IFRS

4.3 Participants of Study Trip

Fifteen delegates from Vietnam led by Vu Duc Chinh, Director General of the Accounting and Auditing Supervision Department (hereinafter referred to "AASD") MoF, participated in the study trip. The following chart shows the names, organizations and positions of participants.

Figure 4 - 3 List of participants from Vietnam

Name	Organization	Position
Mr. Vu Duc Chinh	AASD, MoF	Director General
Mr. Trinh Duc Vinh	AASD, MoF	Deputy Director General
Mr. Nghiem Manh Hung	Division of Accounting and Auditing Management, AASD, MoF	Head of Division
Ms. Tran Thi Anh Tuyet	Division of Accounting and Auditing Management, AASD, MoF	Vice Head of Division
Ms. Nguyen Thi Thu Ha	Office, AASD, MoF	Vice Head of Division
Ms. Nguyen Thi Van	Division of Banking and Financial Sector, AASD, MoF	Vice Head of Division
Mr. Nguyen Hoang Long	Division of Banking and Financial Sector, AASD, MoF	Officer
Ms. Truong Thi Mai Phuong	Division of Financial Sector, AASD, MoF	Vice Head of Division
Ms. Pham Thi Thanh	Division of Financial Sector, AASD, MoF	Officer
Ms. Mai Thu Trang	Division of Financial Sector, AASD, MoF	Officer
Mr. Nguyen Ngoc Anh	Legal Department, MoF	Officer
Ms. Duong Thi Minh	Division 2, Corporate Finance Department, MoF	Vice Head of Division
Mr. Nguyen Quy Trung	Tax Policy Department, General Department of Taxation, MoF	Deputy Director

Name	Organization	Position
Ms. Le Thi Kim Hoai	Public Companies Surveillance Department, SSC, MoF	Officer
Ms. Tran Thi Thuy Linh	Listing Management and Appraisal Department, Ho Chi Minh Stock Exchange (HOSE)	Deputy Director

Chapter 5 Study on Vietnamese Stakeholders' Interview

5.1 Methodologies of the Survey

KPMG Vietnam, a subcontractor of the KPMG AZSA, conducted the study by sending questionnaires, and then conducting interviews. Our questionnaires are designed to each type of respondents, including:

- Separate questionnaires for enterprises/banks/securities companies, each of which contains separate groups of questions for:
  - entities that have adopted IFRS or have been initiating adoption of IFRS;
  - entities with preliminary understanding on IFRS; and
  - entities with no awareness of IFRS.
- Questionnaire for auditors;
- Questionnaire for educational institutions;
- Questionnaire for units affiliated to the Ministry of Finance (as described in section 2 of this report), General Department of Taxation and State Bank of Vietnam;
- Questionnaire for Stock Exchanges; and
- Questionnaire for other state regulatory agencies and non-governmental organizations.
- For meaningful analysis, we classified questions into 5 groups of topic as follows:
  - Sufficiency with the needs of the current Vietnamese Accounting Standards and Vietnamese Accounting System;
  - Need for adoption of IFRS in Vietnam;
  - Benefits of adoption of IFRS in Vietnam;
  - Challenges and difficulties in adoption of IFRS in Vietnam;
  - Application method and scope of IFRS in Vietnam;
  - Experience in adoption of IFRS from some surveyed enterprises.

5.2 Subject Entities of the Survey

27 enterprises classified based on the following criteria: Enterprises are those who directly prepare accounting records of economic transactions and FSs and therefore, are the main subjects of this survey. Basically, enterprises were selected to relatively represent different business activities, company sizes and economic sectors. However, we focused on listed companies and public interest entities as these entities are generally under pressure from regulatory bodies as well as investors in order to enhance transparency of the published financial information and are also the main entities who are currently required or permitted by most countries in the world to prepare FSs in accordance with IFRS.

Respondents participating in the survey include:

Figure 5 - 1 Types of interviewees in enterprise

Type of enterprises	Quantity
Listed companies with capitalization of:	
Less than VND20,000 billion	9
From VND20,000 billion to VND100,000 billion	10
More than VND100,000 billion	4
Foreign-invested companies	3
Unlisted public companies	1
	27

Type of enterprises	Quantity
Enterprise with more than 50% of equity owned by State	7
Enterprise with less than 50% of equity owned by State	6
Private enterprise	14
	27

Business sector	Quantity
Consumer goods	5
Banking	4
Insurance	3
Real estates and construction	3
Industrial production	2
Materials	2
Securities	1
Information technology	1
Petroleum	1
Utilities	1
Aviation	1
Energy	1
Agriculture	1
Transport	1
	27

In addition to the above 27 enterprises, we also contacted some other listed companies (5 entities with capitalization of less than VND20,000 billion each and 2 entities with capitalization of more than VND100,000 billion each). However, these entities refused to participate in the survey.

5 independent audit firms and Vietnam Association of Certified Public Accountants (hereinafter referred to "VACPA"). We performed face-to-face surveys with the representative of an independent audit firm and the representative of VACPA. In addition, through VACPA, we also received written responses to the questionnaire from 4 other independent audit firms.

13 other organizations including regulatory agencies, stock exchanges, educational institutions, non-governmental organizations: these respondents are interested in and use financial information of enterprises during performance of their functions and tasks. Details are as follows:

Figure 5 - 2 Lists and overview of the other 13 interviewed entities

No.	Organisation	Main functions and tasks
1	Units affiliated to the Ministry of Finance	
1.1	Department of Corporate Finance	Provide counsel and assistance to the Minister of Finance in state management of corporate finance; exercise the rights and obligations as the representative of state capital owner in enterprises
1.2	Department of Banking and Financial Institutions	Provide counsel and assistance to the Minister of Finance in management of the financial market and financial services within the scope of state management; maintain financial management of the State Bank of Vietnam, credit institutions, financial institutions, etc.
1.3	Insurance Supervisory Authority	Competent authority for management and supervision of insurance
1.4	Department of Tax Policy	Collaborate with the General Department of Taxation in tax policy planning
1.5	State Securities Commission	Competent authority for management and supervision of the stock market
1.6	Academy of Finance	Educational institution playing a key role in accounting staff training
1.7	General Department of Taxation	Competent authority that enforces tax policies
2	State Bank of Vietnam	Competent authority for management and supervision the banking sector, represent state capital owner in state-owned commercial banks
3	Vietnam Chamber of Commerce and Industry	Represent the Vietnamese enterprise association/community
4	Foreign Investment Agency (Ministry of Planning and Investment)	Central agency responsible for regulations and policy framework related to foreign direct investment
5	Ho Chi Minh Stock Exchange	Mainly comprises large-sized listed companies and the secondary market of corporate bonds
6	Hanoi Stock Exchange	Mainly comprises medium-sized listed companies and companies registered in UPCOM

No.	Organisation	Main functions and tasks
7	World Bank[16]	International financial institution that provides loans to developing countries to promote their economies through financing program

5.3 Summary of Survey Results

Survey results show that the adoption of IFRS in Vietnam is a natural tendency as the current VAS has shown significant limitation; no appropriate amendments have been made to keep abreast with the development progress of the economy. However, the demand for FSs prepared in accordance with IFRS exists only in enterprises that need to raise foreign investment capital as required by investors, shareholders and financers. For other enterprises, understanding on IFRS is relatively limited.

All of the interviewed entities agreed to the view that IFRS FSs preparation will bring benefits to enterprises in particular and Vietnam economy in general in the medium and long term; however, in the short term, a matter is that necessary costs and resources that enterprises have to allocate to IFRS implementation are relatively significant. Without the need for foreign investment capital, they believed that enterprises may allocate such resources to other more imperative needs and therefore, resources will be more efficiently utilized.

Based on analysis of survey results, interviewees were of the view that some notable matters that the Ministry of Finance may consider to select an appropriate roadmap and implement IFRS in Vietnam are as follows:

5.3.1 Sufficiency with the needs of the current VAS

A majority of enterprises and state regulatory agencies believed that the current VAS is relatively sufficient for their needs. According to enterprises, they viewed that FSs prepared in accordance with VAS have met the basic requirements of different groups of users of their FSs. This opinion was also confirmed during interviews with state regulatory agencies.

On the other hand, enterprises, audit firms and other organizations that stated that VAS meets the needs of FSs users in terms of quantity and quality reasonably sufficient or less than sufficient all

[16] The World Bank did not provide responses to the questionnaire sent to them. Refer to the World Bank's viewpoint related to adoption of IFRS in Vietnam in the "Report on the Observance of Standards and Codes" issued by the World Bank.

believe that the differences between VAS and IFRS is the main reason that VAS cannot be considered to be sufficient. These differences more or less depend mainly on the characteristics of business activities of each enterprise; however, the most common issues are fair value accounting and impairment of assets. In addition, 81% of the interviewed entities believe that the regulations are currently overlapping and inconsistent, causing significant difficulties for enterprises.

From another perspective, the Department of Tax Policy was of the opinion that the difference between tax and accounting is natural and objective and is derived from the difference between tax supervision purpose and accounting purpose. The Department of Tax Policy, therefore, would not propose amendment of the current tax policy. The Department of Tax Policy would consider and provide guidance for resolving enterprises' obstacles in implementation of tax regulations based on compliance with prevailing tax principles and laws.

The General Department of Taxation also expressed a relative prudent view on this matter. Accordingly, the revision of differences between tax and accounting, if any, should be thoroughly studied and assessed with respect to accompanying impact; and such revision and amendment should be made to the tax law (the document with the highest legality).

5.3.2 Benefits of adoption of IFRS in Vietnam

A majority of the enterprises, regardless of whether they have adopted IFRS or not, believed that IFRS application brings various benefit for enterprises. They stated that most apparent benefit of IFRS adoption is that it enables enterprises to satisfy requirements by external stakeholders (investors, financers, foreign partners) but has not actually facilitated the purpose of corporate governance.

However, when being asked about the usefulness of IFRS FSs for management, only 22% of enterprises believed that their management has used financial information under IFRS for the governance purpose. In addition, a majority of enterprises seemed to have no understanding of IFRS.

As for whether IFRS application would have positive effect on Vietnam as a whole, enterprises and organisations who believe that IFRS adoption brings positive effect on Vietnam account for more than 75%, and 100% of auditors agreed with this comment. Entities that stated that IFRS application would have no positive effect on Vietnam expressed their concern that IFRS adoption in the context of less developed economic and financial conditions in Vietnam is not really necessary and may also affect the quality of FSs as personnel knowledgeable on IFRS is still of a small number.

5.3.3 Challenges and difficulties in adoption of IFRS in Vietnam

In parallel with benefits, interviewees were of the view that IFRS adoption will certainly create challenges on related respondents including enterprises, auditors and regulatory agencies.

Enterprises stated that major challenges relate to the following areas:

- Human resources;
- Information technology;
- Availability of market information for some requirements under IFRS; and
- Other matters.

Auditors stated that the main difficulty for small- and medium-sized audit firm is the scarce of human resource that is able to perceive knowledge on IFRS.

Relevant agencies which receive and examine IFRS FSs (including Ministry of Finance, State Securities Commission, Ho Chi Minh Stock Exchange, Hanoi Stock Exchange, tax authorities, statistics office, licencing agencies) stated that challenges would arise due to the following reasons:

- Understanding of IFRS is not sufficient, which causes significant difficulty in examination of IFRS FSs;
- Personnel training on IFRS requires funding and human resources; and
- It would be hard for some staff to accept changes

5.3.4 Voluntary Adoption of IFRS

In the short term, virtually all of the interviewed entities believed that the Ministry of Finance should permit enterprises to voluntarily apply IFRS; this means those enterprises who have the need for IFRS and the ability to meet the requirements on resources are permitted to prepare IFRS FSs. As desired by enterprises, IFRS FSs must be recognized as statutory FSs. Enterprises will prepare only one set of IFRS FSs to minimize costs and resources.

Enterprises may be still required to prepare separate VAS FSs in parallel with IFRS FSs for the purpose of submitting to the tax authority in the short term as the possibility to amend laws and regulations on tax in a direction to approach IFRS is low. In addition, state-owned enterprises may still have to prepare separate and consolidated VAS FSs as required by their immediate regulatory agencies which are the Department of Corporate Finance/Department of Banks and financial institutions affiliated to the Ministry of Finance. The survey result also reveals that most of the enterprises prepare consolidated IFRS FSs in order to satisfy the need of investor. As such, during the period in which State management regulations are still inconsistent, permitting enterprises to voluntarily prepare IFRS FSs at the consolidated level can be considered as an appropriate approach which satisfy the requirements of enterprises and related state management authorities.

On application methods, although a majority of enterprises selected the phased approach due to concern about consumption of significant resources, those enterprises who voluntarily adopt IFRS virtually have not encounter this problem. The Big Bang approach will help the FSs to be fully complied with IFRS. FSs in compliance with IFRS will be more highly appreciated by investors and enables enterprises to compare their operating efficiency with the others of the same sector in the world, which are the main purposes of the enterprises for IFRS adoption. In addition, modifications of IFRS will consume significant time and slow the process of introducing IFRS for application in Vietnam.

When asked about views on necessary preparation period, a majority of entities believed that the necessary preparation period before adoption of IFRS is less than 3 years. However, for banks, the preparation period may be from 3 to 5 years as implementation of a system to meet the requirements of IFRS will consume significant time and resources.

In order to determine the necessary time period for the voluntary adoption, the most of the interviewees proposed that the Ministry of Finance should make plans to periodically assess the effect of IFRS on FSs of the volunteer enterprises and the preparedness of other enterprises for IFRS in order to make decisions as appropriate.

A limitation of this method as mentioned by interviewees is that the number of enterprises that voluntarily adopt IFRS may be small.

5.3.5 Amendment of Current VAS, Financial Regime and Tax Regulations

Most of the interviewees are of opinion that the Ministry of Finance should consider amending VAS in a direction of approaching IFRS including amendments of the current VAS and promulgation of new standards which have not been introduced in VAS, appropriate to the practical requirements of the economy. The VAS amendment process should be studied and implemented by a dedicated agency. This process will enable enterprises to have time to obtain knowledge on IFRS and is the buffer for transition to full adoption of IFRS.

For the differences between accounting standards and the financial regime, the majority of interviewees proposed that the Ministry of Finance should make appropriate amendments in a manner that clarifies that the purpose of the financial regime is state management and accounting aspects should be performed in accordance with accounting standards and guiding circulars on accounting treatment.

For tax regulations, Vietnam may learn from experience of countries in the world that have adopted IFRS to make appropriate amendments in order to reduce the unnecessary differences from accounting regulations. This is a solution to address the difficulties for enterprises and enable enterprises to be more prepared in approaching IFRS.

5.3.6 Subjects of Voluntary Adoption

During the interview, it was found that stakeholders believe that the Ministry of Finance may consider the option of mandatory application for certain forms of businesses with the following priority order:

- Listed enterprises and large-sized unlisted public enterprises;
- Enterprises engaged in finance;
- Foreign-invested enterprises whose parents prepare IFRS FSs;
- State-owned enterprises.

5.3.7 IFRS for SMEs

During interviews, concerns were expressed for increasing complexity of accounting standards for small- and medium-sized enterprises.

Stakeholders believed that the accounting system for small- and medium-sized enterprises should also be amended in a direction of approaching IFRS applicable to small- and medium-sized enterprises. The interviewees supposed that the Ministry of Finance should consider conducting a separate survey for small- and medium-sized enterprises in order to provide an appropriate adoption road map and appropriate amendments.

5.3.8 Implementation

Below is the collated opinions of the surveyed entities related to implementation of IFRS in Vietnam:

For the IFRS implementation scheme to be submitted to the Government:

- The Ministry of Finance should consider making a report on comparison between IFRS and VAS based on FS figures of some typical enterprises that have adopted IFRS, to enable the Government to have a more specific picture of the effect of IFRS on enterprises' FSs.

On promulgation of IFRS and related state management regulations:

- It is important to establish a dedicated agency in charge of the IFRS implementation process, establish a mechanism for continual adoption of IFRS and updating Vietnamese accounting standards and accounting system;
- It is important to promulgate a translation of IFRS accompanied with complete and practical regulations and guidance. It is notable that the Ministry of Finance should promulgate a framework on fair value determination;
- The necessary time period for enterprises and related organizations to prepare for IFRS adoption after the announcement of the translation and guidance for implementation is at least 3 years;
- Regulatory agencies should be consistent in compilation of laws and guiding documents for implementation, establishing a unified legal corridor for enterprises' application;
- IFRS adoption should be made into law with specific sanctions to serve as the basis for regulatory agencies to provide guidance;
- Measures are needed to promote the operation of the listed company market in order to ensure transparency and raise observability for inputs of asset and liability valuation models;
- Banking is a specific industry; therefore, in developing IFRS for Vietnam, the Ministry of Finance should involve the State Bank of Vietnam, which is the line agency of financial institutions, as a member of the compilation committee in order to ensure consistency in guidance promulgated by the Ministry of Finance and the State Bank of Vietnam;
- It is important to enhance communications on IFRS for enterprises, especially their leaders, to understand the importance and benefits of IFRS.

On training

- Universities should corporate IFRS into the curriculum for students to minimize the pressure of training on enterprises. Some respondents also indicate that current training on accounting in schools is still theoretical making graduates unable to immediately get on well with practical jobs. In addition, the foreign language level of accounting staff is still limited, which reduces accountants' ability to access and study IFRS. Consequently, line agencies, professional associations and the Ministry of Finance should provide support to training institutions to develop an appropriate training curriculum as well as training material system to raise the training quality;

- The Ministry of Finance should collaborate with educational institutions/professional associations to organize training courses and workshops on IFRS for personnel working in accounting and auditing;
- Tax management and financial management staff should also be provided with updates and knowledge enrichment so that they could peruse and understand IFRS FSs, from that be able to manage and compare the reports.

Chapter 6 Summary of issues to be considered for the application of IFRS based on the draft roadmap

6.1 Summary of issues based on the draft roadmap

In conducting this survey, we were provided with the draft roadmap by the MoF. Then, we reviewed it and discussed with MoF. As a result, we believed that the following points would be the most significant issues for the MoF to consider in finalizing the draft roadmap.

6.1.1 Grouping of Enterprises regarding Applied Accounting Standards

(1) Backgrounds

In the draft roadmap and the discussions with the MoF based on it, it was proposed that different accounting standards be applied to each group as shown below.

Figure 6 - 1 Accounting standards to be applied (type of groups)

Group	Accounting standards to be applied
Group 1	Vietnamese IFRS (VFRS), developed by adding limited modifications to IFRS
Group 2	Vietnamese Accounting Standards, developed based on IFRS/IAS
Group 3	Relatively-simplified accounting standards

Also, it was proposed that the above grouping be applied to the following entities.

Figure 6 - 2 Grouping of subjected entities

Group	Applicable entities
Group 1	• The mandatory targets to apply VFRS are listed companies, unlisted companies belonging to public interest entities such as banks, insurance companies, securities companies and other financial institutions. • Some others are not mandatory targets but voluntarily apply VFRS to serve their managerial and operational purposes, for example an enterprise of foreign capital that needs to make financial reports according to IFRS to unify with the FSs of their parent company abroad; or other Vietnamese enterprises that need to mobilize capital on the international capital market. Note: The application of VFRS for enterprises in Vietnam does not apply solely to separate financial reports but also to consolidated ones.

Group	Applicable entities
Group 2	• State-owned entities; • Public companies; and • Medium and large - sized enterprises not included in group 1. Note: It is assumed that the majority of Group 2 are mostly unlisted companies and companies which are not public interest entities and even private companies, family business companies that do not belong to Group 3.
Group 3	• Small/micro enterprises

(2) Issues to be considered

It was considered that the following points need to be sorted out in regards to the grouping and applicable entities based on it.

- Whether state-owned enterprises should be classified into group 1 or 2;Whether group 1 should be limited to listed companies or include other types of enterprises including unlisted PIEs;
- If group 1 is defined based on PIEs, how the following issues are viewed;
  - On what basis unlisted entities which come under PIEs should be classified into group1 (For instance, total assets, total revenues and number of employees can be considered as types of assumed standards).
  - Whether commercial banks, securities companies, insurance companies and investment funds included in unlisted companies should be classified into group 1 without exception.
- For group 2, how the following issues are viewed;
  - Whether all companies should be classified into group 2.
  - On what basis “small and medium-sized enterprises not belonging to group 1 ” should be classified into group 2 and how “small/micro enterprises” classified into group 3 should be segregated.
- For group 3, how the following issues are viewed;
  - Whether to change three groups where small and micro enterprises are not distinguished in grouping to four groups where they are distinguished, considering that information needs of FSs users are significantly different between small and micro enterprises,

    * In the EU, the degree of disclosures are different between small and micro enterprises. Also, “Guidance on the accounting for small and medium-sized enterprises” and “Accounting procedures for small and medium-sized enterprises” are issued in Japan.

Interviews with Vietnamese stakeholders revealed that significant number of financial statement preparers advocated grouping companies together in a gradual application of IFRS (phased approach), yet there was no major difference in opinion among auditors as to the immediate application of IFRS without grouping companies together (the big-bang approach) or the phased approach.

In addition, interviews with Vietnamese stakeholders brought up the following opinions in connection to the scope of Group 1.

- In general, listed companies and other PIEs should adopt IFRS. That is, in general, state-owned enterprises that are listed companies and PIEs should adopt IFRS. However, in view of the limitation on human resources, this may be restricted to large-scale companies.
- Financial institutions are considered to have a great need when it comes to preparing FSs based on IFRS, and they also have a relatively large amount of human resources, so they may be viewed as companies that should adopt IFRS.
- As for foreign companies, except for cases where the consolidated FSs of the parent company are prepared in line with US-GAAP, they may be considered as companies that should adopt IFRS.
- As for state-owned enterprises, rather than immediately adopting IFRS, it may be better to include them through a process of gradually increasing the scope of application.

6.1.2 Scope of financial statements to which VFRS is applied

(1) Backgrounds

In the draft roadmap, it was proposed that VFRS should be applied to both consolidated and non-consolidated FSs.

(2) Issues to be considered

Depending on whether VFRS should be applied to both consolidated and non-consolidated FSs or only to consolidated ones, the impacts could be significantly different, including:

- Whether provisions of corporate income tax law need to be amended; and
- Whether the calculation method for earnings available for dividends needs to be modified.

Also, it was pointed out that different policies are adopted on this issue according to the studies in other countries. Therefore, it was considered that the scope of FSs to which VFRS is applied should be considered carefully.

Interviews with Vietnamese stakeholders brought up the following opinions regarding the need to revise the stipulations of corporate tax based on the application of IFRS.

- Companies: Rather than creating an unnecessary gap between tax treatment and accounting treatment, the General Department of Taxation should eliminate any such gap.
- The MoF Tax Policy Department: In view of the fact that corporate tax and accounting standards have different purposes, it is obvious that there will be a gap between tax treatment and accounting treatment, and there is no consideration for changing the current tax treatment.
- The MoF General Department of Taxation: There is a desire to consider publishing guidance for proper compliance with tax treatment.

6.1.3 An alternative to adopt IFRS without modification

(1) Backgrounds

In the draft roadmap and the discussions with the MoF based on it, it was proposed that VFRS, which is developed by adding limited modification to IFRS, be applied to enterprises belonging to group 1.

In relation to the above, during the workshop held in May 2018, some participants suggested that the alternative of (voluntarily) applying pure-IFRS should be provided also for enterprises belonging to group 1, based on the information needs of investors and their parent companies.

(2) Issues to be considered

Depending on how IFRS is modified in developing VFRS, it could be expected that FSs prepared in conformity with VFRS are not considered as prepared in accordance with IFRS. Therefore, FSs prepared in conformity with VFRS might not meet the information needs of financial statements users.

If enterprises are permitted to apply pure-IFRS, comparability of their FSs with those of foreign enterprises could be enhanced. On the other hand, comparability of FSs among enterprises in Vietnam could be deteriorated.

Therefore, it is necessary to carefully consider whether to permit entities to apply pure-IFRS, taking the trade-off relationship into consideration.

As a result of interviews with Vietnamese stakeholders, almost all stakeholders advocated the voluntary application of IFRS without any modifications.

6.1.4 Items in IFRS to be modified in developing VFRS

(1) Backgrounds

In the draft roadmap, it was not clear how and which part of IFRS requirements and interpretations would be modified. On the other hand, it is considered that this point will be extremely important in developing VFRS.

During the workshop held in May 2018, a MoF officer had pointed out that modifications of "amortization of goodwill" is required under the JMIS in case of Japan, which is of use as a reference.

(2) Issues to be considered

In developing VFRS, it should be considered whether to modify IFRS and, if so, how to modify IFRS, including the following points.

- In which areas modification are considered;
- Whether modifications are transitional for a certain period of time;
- Whether to modify other items than the following ones;
  - To delete options permitted under IFRS
  - To add more disclosure requirements than IFRS
- Whether it is possible that the standards be named as something other than "VFRS"; and
- How attribution of the copyrights and the payment of considerations for VFRS could be agreed based on the discussions with the IFRS foundation.

Interviews with Vietnamese stakeholders revealed that most companies were of the opinion that IFRS should not be modified, although some financial statement preparers are of the opinion that IFRS should be partially modified before being adopted in Vietnam. The reasons for this include the fact that IFRS was developed through strict due processes. In addition, auditors were not of the opinion that IFRS should be modified before its application.

6.1.5 Issuance of interpretations

(1) Backgrounds

The draft roadmap included the policies to develop interpretations, based on which the MoF supports the application of VFRS. This is based on the fact that the MoF has already published much guidance regarding accounting standards in Vietnam. However, it is generally not encouraged to issue interpretations and implementation guidance to avoid proliferation of "IFRS by countries". In regards to this, the following points are basically confirmed in "the Charter between IASB and Other Accounting Standards-setters(April 2014)".

- Ordinarily an accounting standard-setter would seek the views of other accounting standard-setters on an emerging issue it identified (possibly as part of an IFASS meeting agenda).
- The issue is drawn to the attention of the IASB or IFRS Interpretations Committee for timely resolution in the context of the Committee's process for dealing with emerging issues.

- An interpretation is issued in a jurisdiction only when another accounting standard setter concludes that an issue is jurisdiction-specific by virtue of the circumstances and an interim solution is needed in that particular jurisdiction based on above.
- The proposed interpretation is circulated to other accounting standard setters to confirm that it is consistent with IFRS.

In interviews with Vietnamese stakeholders, some were of the opinion that, in the case that IFRS is adopted in Vietnam, it is important to publish comprehensive and practical guidance in addition to an appropriate translation. In particular, some were of the opinion that guidance should be published for the appropriate methods of fair value measurements.

(2) Issues to be considered

The following points should be considered in regard to the issuance of interpretations on VFRS.

- Policies to issue interpretations (e.g. whether to issue interpretations, approximate number of issues to be included in the interpretations);
- Initiatives to ensure that guidance is comprehensive in view of actual challenges in business;
- When to issue the interpretations (whether to issue interpretations before the issuance of VFRS);
- Efforts to provide more practical guidance; and
- Procedures to be complied with in issuing interpretations.

6.1.6 Development of VAS

(1) Backgrounds

The draft roadmap suggests that VAS be applied to group 2 entities. While the draft roadmap describes that it is assumed that VAS will be improved by amending current VAS referring to IFRS and that VAS is not as complicated as VFRS, it is not sufficiently clear how the VAS should be.

(2) Issues to be considered

The following points should be considered before the amendment of VAS is considered in detail.

- What is the primary purpose of use of FSs prepared in accordance with VAS?
- Which of the following methods should be adopted in amending VAS?
    - To simplify some of the VFRS, while starting from IFRS
    - To add some requirements to VAS, while starting from current VAS
    - To develop new accounting standards, while starting from IFRS for SMEs

➢ Others

6.1.7 Transition period

(1) Backgrounds

In the draft roadmap, the following transition period was assumed for the transition to VFRS.

Figure 6 - 3 Transition period (type of group)

Category	Transition period
Group 1	(FY2020- FY 2024) While application of VFRS is required for some entities belonging to group 1, voluntary application of IFRS is permitted for other entities. (FY 2025 and thereafter) After taking necessary measures based on the practical experience of the application from 2020 to 2024, application of VFRS is required for all entities belonging to group 1.
Group 2	(2025 and thereafter) Application of amended VAS is required for entities belonging to group 2.
Group 3	Circulars relating to simplified accounting treatments are issued by the MoF Entities belonging to group 3 are required to comply with the circulars.

As far as we have studied practical experiences of each country, the secured period from the date when implementation of IFRS or its equivalents is announced to the date of application varies from country to country as shown below.

Figure 6 - 4 Transition periods from the determination of IFRS incorporation to the applied date in foreign countries

Country	Period from the date of determination to the date of application
China	To the date of application of NEW PRC GAAP: a little less than a year.
Korea	To the date of early application : a little more than a year in the shortest. To the date of mandatory application : a little more than 5 years.
Malaysia	To the date of application of MFRS : a little more than 4 years.
United States	To the date of voluntary application for foreign entities : a little less than a year Also, it was considered in the draft Roadmap that transitional period of 3 to 4 years is provided when mandatory application of IFRS to domestic entities is

Country	Period from the date of determination to the date of application
	determined.
Japan	To the date of voluntary application of the designated IFRS：a little less than a year.

(2) Issues to be considered

In Vietnam, there are huge differences between current VAS and IFRS. Therefore, it should be carefully considered how long period is needed from date when implementation of IFRS or its equivalents is determined to the date of application, along with the consideration of grouping for applicable entities. In interviews with Vietnamese stakeholders, majority of entities believed that the necessary preparation period before applying IFRS is less than 3 years.

6.2 Application Methods (Voluntary or Mandatory applications)

While considering the draft roadmap in comparison with experiences of foreign countries, it was considered that it is particularly important which to choose voluntary or mandatory application in implementing IFRS in Vietnam. Also, it was considered that the impacts and views on which to choose adopt voluntary or mandatory application could significantly vary among stakeholders. Therefore, based on the assumptions in the draft roadmap, impacts on each stakeholder were considered for the two options below.

- Option 1： mandatory application of VFRS that is developed based on IFRS with some modifications to consolidated FSs as a basis of accounting standards
- Option 2： voluntary application of pure-IFRS to consolidated FSs as a basis of accounting standards without modifications

Considerations on the two options are described below. In addition, in conducting interviews with Vietnamese stakeholders, almost all stakeholders interviewed were in favor of IFRS voluntary application in Vietnam. Views obtained from interviews are also included in the descriptions below and marked *.

Figure 6 - 5 Impacts on financial statements preparers/users and auditors

Stakeholders	Impacts
Financial	<u>Option 1</u>

Stakeholders	Impacts
statements preparers	• It is expected that many entities will face challenges such as insufficient knowledge of VFRS and lack of resources to address the application. • Entities which attempt to apply pure-IFRS are required to prepare FSs in conformity with the two accounting standards, VFRS and IFRS. • Subsidiaries and affiliates of listed companies are required to prepare FSs in conformity with the two accounting standards, VAS and VFRS. (Provisional assessment) Issues faced by the stakeholder could be significant. <u>Option 2</u> • It is expected that issues such as insufficient knowledge of IFRS and lack of resources to address the application is not as significant as in option 1 based on the following reasons. ➢ Number of entities to which IFRS is voluntarily applied is limited. ➢ Since entities will determine the voluntary application of IFRS based on their knowledge and resources, those entities which voluntarily determine the application of IFRS are expected to possess sufficient knowledge and resources. • On the other hand, there is a considerable burden on financial statement preparers that voluntarily adopt IFRS for the following reasons. ➢ Even if IFRS is voluntarily applied to the consolidated FSs, separate FSs need to be continuously prepared in conformity with VAS. ➢ Subsidiaries and affiliates of those companies which voluntarily adopt IFRS are required to prepare FSs in conformity with the two accounting standards, VAS and VFRS. (Provisional assessment) Issues faced by entities are expected to be relatively limited. * As a result of conducting interviews with Vietnamese companies (financial statement preparers), the following points were identified as major challenges in the application of IFRS:

Stakeholders	Impacts
	➢ Ensuring the necessary personnel; ➢ IT investment; and ➢ Fair value measurements.
Financial statements users	<u>Option 1</u> ・ As far as modifications to IFRS do not add a new accounting treatment to ones that IFRS has already required or permitted to do so, comparability of FSs is higher than option 2 for those companies listed in the Vietnamese markets. (Provisional assessment) It is expected that relative significance of benefit and issues of option 1&2 will vary, depending on market participants. <u>Option 2</u> ・ When not limiting companies listed in Vietnamese market, it is expected that comparability of FSs will be higher than option 1 if foreign enterprises listed at other markets than the Vietnamese markets are included in consideration. (Provisional assessment) It is expected that relative significance of benefit and issues of option 1&2 will vary, depending on market participants. * As a result of conducting interviews with Vietnamese stakeholders, the following opinions were given as to benefits of applying IFRS: ➢ Increased transparency and comparability of financial information; ➢ An aid to promote the participation of foreign companies in the Vietnamese securities markets; and ➢ An aid to promote the operations of international financial and business activities by Vietnamese companies.
Auditors	<u>Option 1</u> ・ Audit firms will need to deploy plenty of resources for audit and advisory services to ensure that many Vietnamese enterprises prepare FSs in accordance with VFRS. Therefore, it will become an issue to secure resources who are engaged in those services. (Provisional assessment) Issues faced by the stakeholder could be significant.

Stakeholders	Impacts
	Option 2 • It is not expected that many enterprises voluntarily apply IFRS at least at the initial phase of voluntary application. Therefore, it is expected that issues of securing resources of auditors will not be relatively significant. (Provisional assessment) Issues faced by the stakeholder are expected to be relatively limited. * As a result of conducting interviews with Vietnamese auditors, the following points were identified as major challenges in the application of IFRS: ➢ Ensuring the necessary personnel; ➢ Costs related to training; and ➢ Difficulty of making judgments.

Figure 6 - 6 Impacts on regulatory bodies

Stakeholders	Impacts
MoF AASD	Option 1 • It is necessary to assess and determine how and which parts of each IFRS standard should be modified. It could be necessary to reconcile interests of a broad range of stakeholders, including other departments in the MoF. (Provisional assessment) Issues faced by the stakeholder could be significant. Option 2 • It will not be necessary to assess how and which parts of each IFRS standard should be modified. • It could be necessary to consider measures to increase the number of enterprises which voluntarily apply pure-IFRS. (Provisional assessment) Issues faced by the stakeholder are expected to be relatively limited.

Stakeholders	Impacts
	* As a result of conducting interviews with the AASD, currently, the major challenges were identified as an insufficient understanding of IFRS and the cost of training.
MoF Department of Tax Policy General Department of Taxation	Option 1 • It is necessary to consider whether to amend corporate tax laws and how to amend them in case of amendment before the application of VFRS. (Provisional assessment) Issues faced by the stakeholder could be significant. Option 2 • The necessity to consider amendments of corporate tax laws is not expected to be relatively high, while it could vary depending on the degree of amendments of VAS (which is applied to non-consolidated FSs which is a basis of calculation for taxable income). (Provisional assessment) Issues faced by the stakeholder are expected to be relatively limited. * As a result of conducting interviews with the Vietnam MoF (Tax Policy Department/General Department of Taxation), the opinion was given that corporate tax treatment should not be changed even in the case that the accounting standards are changed, and instead consideration may be given to providing guidance for coping with difficulties in complying with corporate tax law.
MoF Corporate Finance Department (Authority of finance of state-own enterprise)	Option 1 • It is necessary to sufficiently consider how to resolve the points where there are inconsistencies between accounting standards and financial regime[17]. (Provisional assessment) Issues faced by the stakeholder could be significant. Option 2 • While it is necessary to consider how to resolve the points where there are inconsistencies between accounting standards and financial regime, degree of consideration is not expected to be as extensive as

[17] For more information on financial regime, please refer to 2.1.4

Stakeholders	Impacts
	required in option 1. (Provisional assessment) Issues faced by the stakeholder are expected to be relatively limited. * State-owned enterprises under the jurisdiction of the Corporate Finance Department will be required to adopt account processing based on VAS for both separate (non-consolidated) FSs and consolidated FSs. Therefore, as a result of conducting interviews with Vietnamese stakeholders, the opinion was stated that it would be appropriate to accept the use of IFRS for the preparation of not only consolidated FSs but also separate (non-consolidated) FSs in the case that the preparation of consolidated FSs based on IFRS is required.
MoF Insurance Supervisory Authority (supervisory authority of insurance) State Bank of Vietnam (supervisory authority of bank)	<u>Option 1</u> • It is necessary to consider whether to accept FSs prepared in conformity with VFRS as financial information for the purpose of their supervision (including the purpose of calculating capital adequacy ratio), or whether to require addition of certain adjustments. (Provisional assessment) Issues faced by the stakeholder could be significant. <u>Option 2</u> • The same considerations as above need to be performed. (Provisional assessment) Issues faced by the stakeholder could be significant. * As a result of conducting interviews with Vietnamese stakeholders, in connection to the Department of Banking and Financial Institutions of MoF, Insurance Supervisory Authority of MoF and SBV's functions, the major challenges were identified as being costs related to training and ensuring consistency with laws, as there is currently an insufficient understanding of IFRS. Moreover, in the case of mandatory application, some were of the opinion that it will be necessary to consider publishing guidance for financial institutions in order to plan for consistent application, and that the establishment of an appropriate system will be required to conduct fair value

Stakeholders	Impacts
	measurements.
MoF State Securities Commission (supervisory authority of securities)	<u>Option 1</u> • It is necessary to employ external resources who have knowledge and experience or perform training for internal resources to secure examiners/inspectors who are familiar with VFRS. • It is necessary to sufficiently consider how to make decisions on financial information prepared in accordance with principle-based approach in terms of examination/inspections. • It is necessary to consider whether to extend deadlines for submission of FSs and annual reports. (Provisional assessment) Issues faced by the stakeholder could be significant. <u>Option 2</u> • In principle, the same considerations as above need to be performed. However, the degree of efforts required for recruiting and training could be relatively low. Also, since those entities which voluntarily determine the application of IFRS are expected to possess sufficient knowledge and resources, it would not be necessary to consider extension of deadlines for submission of annual reports. (Provisional assessment) Issues faced by the stakeholder are expected to be relatively limited. * Regarding the functions of the State Securities Commission, as a result of interviews with Vietnamese stakeholders, the major challenges were identified as being costs related to training and ensuring consistency with laws, as there is currently an insufficient understanding of IFRS.
Stock Exchanges	<u>Option 1</u> • Same as the descriptions for the State Securities Commission. (Provisional assessment) Issues faced by the stakeholder could be significant. <u>Option 2</u> • Same as the descriptions for State Securities Commission. • In the case of voluntary application, as the Vietnamese accounting

Stakeholders	Impacts
	standards that are different from international accounting standards will continue to be used by many companies listed on the stock exchange, it is possible that the goal of internationalization of Vietnamese financial markets cannot be sufficiently achieved. (Provisional assessment) Issues faced by the stakeholder are expected to be relatively limited. * As a result of interviews with the Vietnamese stock exchange, the major challenges were identified as being the difficulty of auditing FSs prepared on the basis of IFRS and costs related to training to become proficient with IFRS, as there is currently an insufficient understanding of IFRS.

Figure 6 - 7 Assumed opinions of other stakeholders

Stakeholders	Opinions
IASB	<u>Option 1</u> • When certain modifications are made to IFRS in developing VFRS and conformity with VFRS does not mean conformity with IFRS, it is possible that concerns are expressed by IASB. (Provisional assessment) Issues faced by the stakeholder could be significant. <u>Option 2</u> • It is possible that IASB will express credit to the approach where IFRS is applied as is (without modifications).
International organizations (including the World Bank)	<u>Option 1</u> • It is not certain how they will react. (While it is possible for them to support the application of accounting standard similar to IFRS, it is also possible that they will express concerns for making modifications.) (Provisional assessment) Issues faced by the stakeholder are expected to be relatively limited

Stakeholders	Opinions
	Option 2 ・ It is not certain how they will react. (While it is possible for them to support the application of IFRS as is, it is also possible that they will express concerns that the number of companies which apply IFRS could be less compared to mandatory application.)
Educational institutions	Option 1 ・ It is necessary to consider what VFRS should be and whether significant changes should be made to the subjects for CPA examination based on VFRS. (Provisional assessment) Issues faced by the stakeholder are expected to be relatively limited. Option 2 ・ Training could be put in the hands of large accounting firms, considering that application of IFRS is voluntarily determined and the number of companies which apply IFRS is limited. ・ Impacts on the subjects for CPA examination are expected to be limited.

6.3 Considerations on Financial Statements (Consolidated and Non-consolidated) to be Applied in Complying IFRS

In addition to the above, it is expected that, in implementing f IFRS to Vietnam, impacts on stakeholders could be different when IFRS is applied to only consolidated FSs or both of consolidated and separate FSs. Because taxable income under the corporate tax law is calculated based on net income in separate FSs, if separate FSs are prepared in conformity with VFRS or IFRS (not VAS), the difference between taxable income and net income is expected to be significant.

Therefore, we have below described considerations on how each stakeholder could be impacted when IFRS is applied to separate FSs as well as consolidated FSs, assuming voluntary application of IFRS.

In addition, in conducting interviews with Vietnamese stakeholders, many stakeholders interviewed expressed their opinions that it will be difficult to revise corporate tax law to ensure its consistency with IFRS, and that there will be a demand to limit the application of IFRS to consolidated FSs only while separate (non-consolidated) FSs continue to be produced in compliance with VAS.

Figure 6 - 8 Impacts on financial statements preparers/users and auditors

Stakeholders	Impacts
Financial statements preparers	**<u>Companies that adopt IFRS</u>** • Because two sets of FSs (in compliance with IFRS and VAS) need not be prepared, costs required for the preparation of FSs are expected to decrease. • Amount of taxable income could be impacted depending on how they respond to the corporate tax law. (Provisional assessment) While costs to prepare FSs are expected to decrease, issues faced by companies depend on the actions taken by the tax authorities. **<u>Companies that do not apply IFRS</u>** • Significant impacts are not expected. (Provisional assessment) Issues faced by the stakeholder are expected to be relatively limited.
Financial statements users	• Many financial statements users focus on consolidated FSs, not on separate FSs. Therefore, impacts are expected to be limited except for credit rating agencies. (Provisional assessment) Issues faced by the stakeholder are expected to be relatively limited.
Auditors	• Because it is not necessary to audit FSs prepared in accordance with different accounting standards, the number of hours required for audits is expected to be less than the case where FSs prepared in accordance with different accounting standards are audited. However, these impacts are not expected to be significant. (Provisional assessment) Issues faced by the stakeholder are expected to be relatively limited.

Figure 6 - 9 Impacts on regulators

Stakeholders	Impacts
MoF AASD	• The positioning of tax treatment in the calculation of taxable income using separate (non-consolidated) FSs and the financial regime will have an influence on supervisory policies that require the submission of separate (non-consolidated) FSs for the purpose of the supervision of specific industries (banking, insurance and state-owned enterprises), so it is thought that there will be an increasing need for coordination within the MoF (Department of Tax Policy, General Department of Taxation, Department of Corporate Finance, Insurance Supervisory Authority and Department of Banking and Financial Institutions, etc.) and with the SBV. (Provisional assessment) Issues faced by the MoF AASD are expected to be relatively limited.
MoF Department of Tax Policy General Department of Taxation	• Because there are large differences between IFRS and VAS, it needs to be considered whether it is necessary to issue guidance on how taxable income should be calculated based on FSs prepared in accordance with IFRS. (Provisional assessment) Issues faced by the stakeholder could be significant.
MoF Corporate Finance Department (Authority of finance of state-own enterprise)	• It needs to be considered whether it is necessary to abandon financial regime in keeping with financial information prepared in accordance with IFRS. • It is necessary to consider possible abolishment of the requirement to produce both separate (non-consolidated) FSs and consolidated FSs based on VAS by state-owned enterprises. (Provisional assessment) Issues faced by the stakeholder could be significant.
MoF Department of Insurance Supervisory Authority (supervisory	• Since supervision of banking/insurance is generally performed based on financial figures in consolidated FSs, impacts are expected to be limited. (Provisional assessment) Issues faced by the stakeholder are expected to be relatively limited.

Stakeholders	Impacts
authority of insurance), State Bank of Vietnam (supervisory authority of bank)	
MoF State Securities Commission (supervisory authority of securities)	• Some impacts are expected in those areas where the guidelines for inspections/supervisions are based on separate FSs. However, impacts are expected to be limited if supervision of securities markets are conducted based primarily on financial figures in consolidated FSs. (Provisional assessment) Issues faced by the stakeholder are expected to be relatively limited.
Stock Exchanges	• Some impacts are expected in those areas where the guidelines for inspections/examinations are based on separate FSs. However, impacts are expected to be limited if supervisions by securities exchanges are conducted based primarily on financial figures in consolidated FSs. (Provisional assessment) Issues faced by the stakeholder are expected to be relatively limited.

Figure 6 - 10 Impacts on other stakeholders

Stakeholders	Impacts
IASB	• Since IASB does not have interests in separate FSs, particular impacts are not expected. (Provisional assessment) Issues faced by the stakeholder are expected to be relatively limited.
International organizations (including the World Bank)	• Since international institutions are interested in consolidated FSs in terms of ensuring market transparency, impacts are expected to be limited. (Provisional assessment) Issues faced by the stakeholder are expected to be relatively limited.
Educational institutions	• It is expected that there are not many different procedures to be performed due to the application of IFRS to separate FSs.

Stakeholders	Impacts
	(Provisional assessment) Issues faced by the stakeholder are expected to be relatively limited.

6.4 Commitment of mandatory application in the future

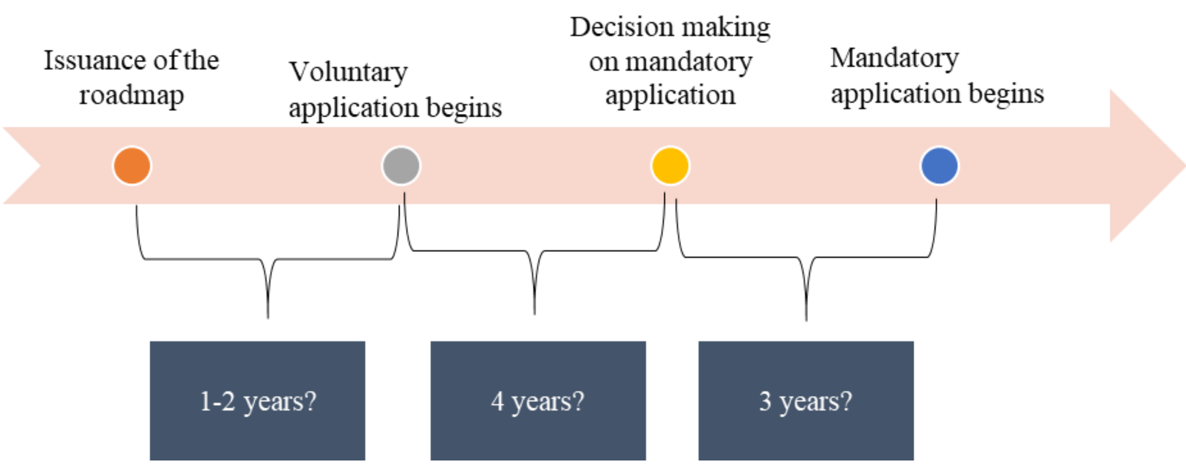
Even if IFRS is implemented through voluntary application method, mandatory application at some points in the future may be committed in advance. In that case, it is expected that the following methods of commitment can be taken, which could result in different consequences.

6.4.1 The method of commitments for mandatory application in the future

While various approaches can be considered as methods of commitments for mandatory application in the future, consideration is given in this study based on the following assumptions.
(Assumptions)

- Voluntary application will commence one or two years after the issuance of the roadmap.
- Four years after voluntary application commences, details of mandatory application will be determined.
- Three years after details of mandatory application is determined, mandatory application will commence.
- Mandatory application will be adopted only for consolidated FSs.

Figure 6 - 11 Necessary periods of future's mandatory application



6.4.2 The reasons why the above method of commitment are assumed.

Following factors are considered in estimating the above assumptions of the commitment.

- Mandatory application of IFRS to enterprises could lead to significant changes in accounting systems for many applicable enterprises.
- Surveys conducted on other countries' experiences (the Chapter 3) revealed that at least three years are generally required before the application after details of mandatory application (e.g. applicable entities, applicable FSs) are determined.
- In determining details of mandatory application, in case where one should consider experiences obtained in the processes of voluntary application, it is assumed to be reasonable to determine what mandatory application should be 3 to 4 years after voluntary application commences.
- While it is expected that regulatory bodies do not need so much preparation before voluntary application commences, at least one to two years are expected to be required.

Therefore, we have considered how each stakeholder could be impacted and how they express their views if mandatory application of IFRS is committed while permitting voluntary application for the time being. Details of the consideration are described below.

Figure 6 - 12 Impacts on financial statements preparers/users and auditors

Stakeholders	Impacts
Financial statements preparers	**<u>Companies that apply IFRS</u>** ・ No particular direct impacts are expected as IFRS is already adopted. ・ However, if commitments for application in the future are presented, it will be more likely that the government will amend related laws and regulations so that they may be more compliant with IFRS at a certain point in the future. Therefore, they are expected to welcome commitments for mandatory application in the future. （Provisional assessment）Certain positive assessments are expected. **<u>Companies that do not apply IFRS</u>** ・ The burden of preparation for mandatory application of IFRS could arise depending on for which entities application of IFRS is committed. Therefore, some entities are expected to express concerns about the burden.

Stakeholders	Impacts
	• However, positive views are expected because companies can use experiences of early application companies, compared with the case where IFRS is mandatorily applied at one time by the big-bang method. （Provisional assessment）Companies included in the scope of application could express concerns depending on the details of the commitment, while some positive views could also be anticipated.
Financial statements users	• If commitments for mandatory application of IFRS in the future are expressed, it is expected that comparability of FSs will be enhanced in the mid-to-long term. Therefore, this method is generally expected to be welcomed. （Provisional assessment）Overall, positive assessment is expected.
Auditors	• While it is possible that concerns about resources will be expressed depending on the degree of scope of mandatory application, predictability of future conditions will be improved if commitments for application at a certain point in the future are presented. Therefore, commitments for application in the future are expected to be welcomed by auditors because they will make future planning for recruitment and training easy. （Provisional assessment）Overall, positive assessment is expected, while there is a possibility that concerns about the details of the commitment will be expressed.

Figure 6 - 13 Impacts and views on regulators

Stakeholders	Impacts
MoF AASD	• If commitments for mandatory application at a certain point in the future are expressed, it is considered that MoF will need to coordinate with other departments (e.g., tax authorities, corporate finance department) for measures to be taken in the future. • Mandatory application will eventually result in delegating the autonomy of accounting standards to IASB. Therefore, it will not be possible to develop or revise accounting standards that conform to the economic situation in Vietnam or the business customs specific to

Stakeholders	Impacts
	Vietnam. (Provisional assessment) While longer preparation period can be secured than immediate mandatory application, careful discussion with relevant departments will still be required to amend the related laws and regulations if mandatory application is enforced.
MoF Department of Tax Policy General Department of Taxation	• If mandatory application is enforced, it is expected that many enterprises will experience practical difficulty due to the difference between accounting treatments in accordance with IFRS and tax treatments in compliance with corporate tax laws. Therefore, it may be necessary to consider how corporate tax and related laws should be amended. (Provisional assessment) While longer preparation period can be secured than immediate mandatory application, the amendments of the related laws and regulations need to be considered in detail if mandatory application is enforced.
MoF Corporate Finance Department (Authority of finance of state-own enterprise)	• If mandatory application is enforced, it is expected that many enterprises will experience practical difficulty due to the difference between the requirements of IFRS and financial regime. Therefore, it needs to be considered how accounting-related financial regime should be abandoned. In addition, there will be a need to consider whether it is necessary to make changes to the financial supervision policies for state-owned enterprises that are conducted by the Department of Corporate Finance or the target FSs used for such supervision. (Provisional assessment) While longer preparation period can be secured than immediate mandatory application, the abandonment of the related financial regime needs to be carefully considered if mandatory application is enforced.
MoF Insurance Supervisory Authority (supervisory authority of	• Even if future commitments do not require all banks and insurance companies to adopt IFRS, it will be necessary to consider in detail whether financial information and ratios developed based on FSs prepared in accordance with IFRS can be used as benchmarks in supervising banks and insurance companies and how to use them. • It will be necessary to secure appropriate human resources to properly

Stakeholders	Impacts
insurance), State Bank of Vietnam (supervisory authority of bank)	understand IFRS. • There is a possibility that mandatory application could provide opportunities that the way of supervising banking and insurance companies in Vietnam will become more consistent with the international norms. (Provisional assessment) While longer preparation period can be secured than immediate mandatory application, it could be necessary to carefully consider what banking and insurance supervisory measures could be impacted by switching to financial information prepared in accordance with IFRS, if mandatory application is enforced.
MoF State Securities Commission (supervisory authority of securities)	• Disclosure regimes in the securities markets will need to be amended based on the characteristics of FSs prepared in accordance with IFRS. • It will be necessary to secure appropriate human resources to properly understand IFRS. • There is a possibility that mandatory application could provide opportunities that the way of regulating securities markets in Vietnam and its regulations will become more consistent with the international norms. (Provisional assessment) While longer preparation period can be secured than immediate mandatory application, it will be necessary to carefully consider what disclosure regimes in the securities markets should be amended consiering the characteristics of financial information prepared in accordance with IFRS if mandatory application is enforced.
Stock Exchanges	• Disclosure regimes in securities exchanges will need to be amended based on the characteristics of FSs prepared in accordance with IFRS. • It will be necessary to secure appropriate human resources to properly understand IFRS. • There is a possibility that mandatory application could provide opportunities that the way of operating securities exchanges in Vietnam will become more consistent with the international norms. (Provisional assessment) While longer preparation period can be secured than immediate mandatory application, it is necessary to consider what disclosure regulations in the securities markets should be, based on the characteristics of financial information prepared in accordance with IFRS

Stakeholders	Impacts
	if mandatory application is enforced.

Figure 6 - 14 Impacts and views on other stakeholders

Stakeholders	Impacts and views
IASB	• Mandatory application of IFRS is expected to be highly appreciated.
International organizations (including the World Bank)	• Mandatory application of IFRS is expected to be highly appreciated.
Educational institutions	• It is necessary to consider details on what education/training for each stakeholder should be, considering the limitation of resources. • There is a possibility that mandatory application could provide opportunities to effectively use materials prepared by international educational/training institutions.

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Appendixes

Appendix1：Analysis on differences between Vietnamese accounting standards and financial regimes in the financial statements of enterprises (workshop documents)

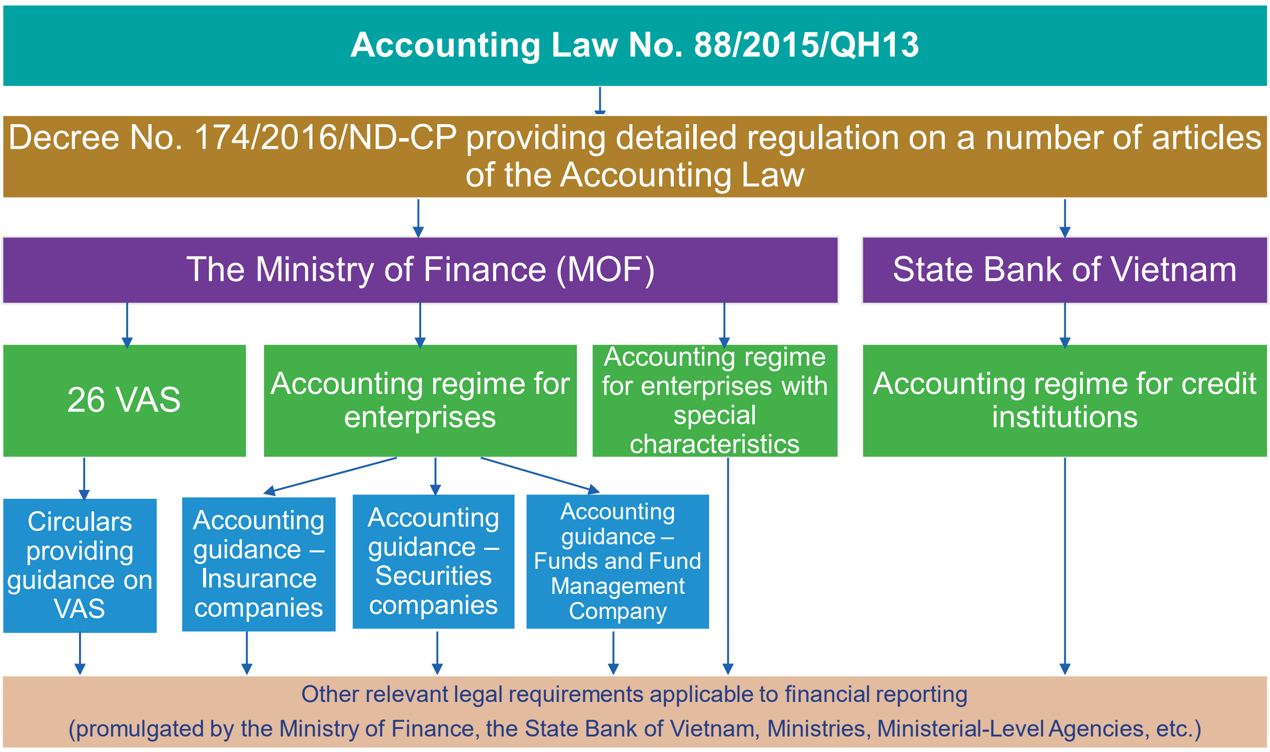
KPMG

Effects of differences between accounting standards and the financial regime in Vietnam on enterprises' financial statements

KPMG Limited

28 / 30 May 2018

System of relevant legal requirements applicable to financial reporting in Vietnam



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Systematic differences

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VGAAP	IFRS
Comprising multiple legal documents in the Vietnamese legal system	A complete system of standards for financial reporting
Besides the MOF, other regulators also promulgate legal documents having impact on financial reporting	Published by IASB on a consensual basis with clear hierarchy of effectiveness degrees
Promulgating process of legal documents on accounting is similar to that of other legal documents	Promulgating process of international financial reporting standards is standardized and follows unified principles

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Significant contents of IFRS not incorporated into VGAAP

Impairment of non-financial assets

- Applicable to long-term non-financial assets stated at cost
- Recoverable value may be lower than cost less depreciation
- Identify asset impairment indicators
- Conduct impairment tests and recognize loss, if any

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Fair value measurement

- Used in various standards and in different circumstances (financial instruments, investment properties, business combinations, non-cash transactions, etc.)
- Enhance the relevance of financial information
- Increase fluctuations in operating results of an entity

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Significant contents of IFRS not incorporated into VGAAP

Recognition, classification and measurement of financial instruments	• Initially recognized at fair value • Subsequently measured at fair value or amortised cost less impairment of assets • Systematic requirements on determining impairment losses on financial assets taking into account qualitative information and statistical data. • Recognize derivative financial instruments on the balance sheet • Hedge accounting → decreasing timing differences 49
IFRS 15 revenue recognition model	• Generally applicable to sale of goods, provision of services, construction contracts, etc. • Concept of a performance obligation • Significant financing components (time value of money) • Transfer of control Vs Transfer of risks and rewards 38

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Significant contents of IFRS not incorporated into VGAAP

Accounting for share-based payments	• Recognize expense over the service period of employees as required for their entitlement • Measured at fair value → better reflect expenses of entities related to issuance of shares to employees or suppliers 43
New accounting standard for leases in accordance with IFRS 16	• Contracts that contain leases but have a different legal form → recognize in accordance with economic substance • The lessee shall recognize the rights to use leased asset on the balance sheet at present value → change the size of the balance sheet and financial ratios on short-/long-term liquidity 44

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Significant contents of IFRS not incorporated into VGAAP

Components of financial statements	• Statement of other comprehensive income → reflect unrealized gain or loss • Statement of changes in equity • True and fair override 16
Biological assets	• Recognize as assets separately from inventories or fixed assets • Measured at fair value less costs to sell → increase the relevance of financial information 35
Employee benefits	• Short-term benefits (e.g. amortization of salaries for paid leave) • Long-term benefits including defined contribution plans and defined benefit plans • Fully recognize obligations; matching of expenses to the service period 41

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Intentional modifications

- Intangible fixed assets being land use rights — 28
- Amortisation of goodwill — 22
- Amortisation of pre-operation expenses — 28
- No revaluation of fixed assets and investment properties — 26, 30
- Minimum cost to recognize fixed assets — 26
- Functional currency and foreign exchange differences — 24
- Provision for foreseeable loss on construction contracts
- Prospective application of changes in accounting policies resulting from initial application of law and regulation — 51

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Other statutory requirements on accounting

Legal documents with higher level of authority	• Accounting law • Decree • Circulars issued after accounting standards
Accounting regime for enterprises	• Mechanism to ensure consistency with accounting standards? • Is it necessary to provide detailed guidance on each basic transaction; each accounting entry?
Guidance on application of accounting standards	• General guidance • Specific guidance for each enterprise? • Exceptions?

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Differences due to financial regime

	Financial regime	Accounting standards
Objectives	• Maintain financial control of an enterprise's operations • Supplement tax regulations?	• Give a true and fair view of the financial position of and the results of operations
Contents	• Control of revenue, expenses, ensuring capital (assets) • → resulting in inflexible requirements in areas that require accounting estimates (depreciation, provisions, foreign exchange differences)	• Method of recognition, classification, measurement and reporting of transactions
Subject of application	• State-owned enterprises? • Enterprises in specific industries (banking, insurance, securities)?	• Enterprises in general

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Differences due to financial regime - Examples

	Financial regime	Accounting standards
Depreciation of fixed assets	• Pursuant to Corporate Income Tax Law • Time frame for depreciation	• An asset is depreciated on a systematic basis over its useful life that reflects the pattern in which the benefits associated with the asset are consumed.
Allowance for doubtful debts	• Pursuant to Corporate Income Tax Law • Conditions, basis for making allowance • Allowance is provided for based on overdue period of the debt	• Circular 200: Allowance for doubtful debts is provided in accordance with prevailing regulations • IFRS 9: Impairment losses is provided based on expected credit losses. Enterprise shall assess qualitative and quantitative information for making allowance for impairment losses including unreported losses

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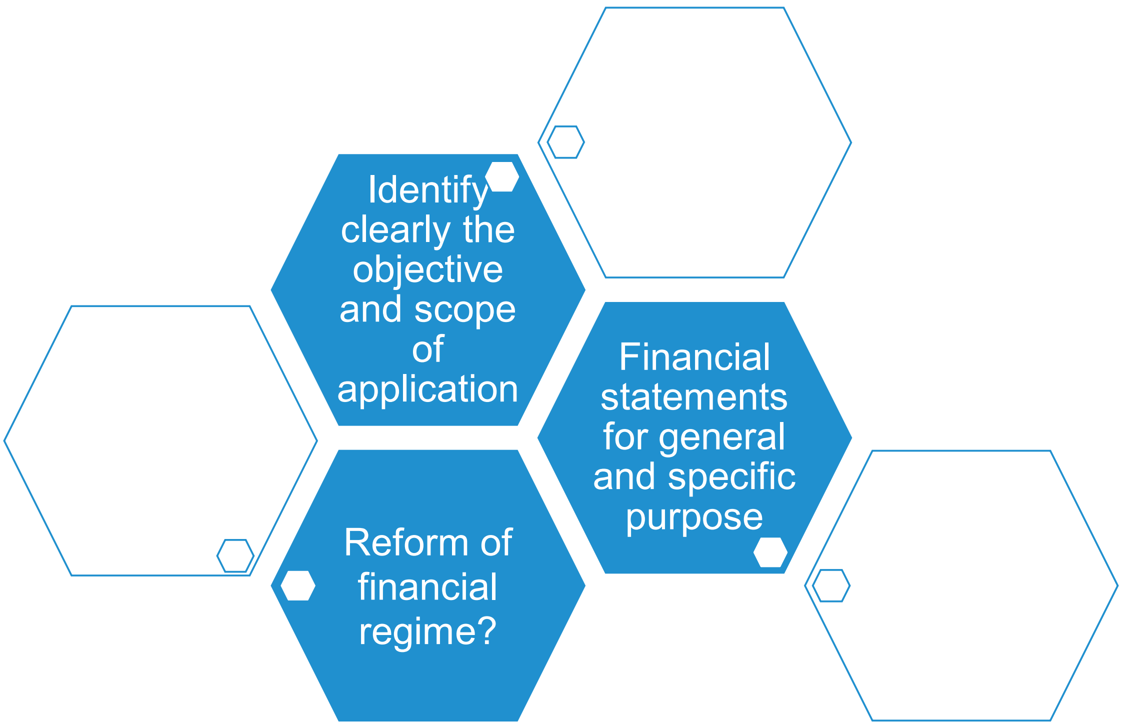
Financial regime - Direction when applying IFRS



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Other legal documents having impacts on financial reporting

Industry-specific laws and regulations

- Regulations of the State Bank of Vietnam on classification of loans and allowance for credit risk
- Regulations of the Ministry of Finance on technical reserves in insurance industry

Reporting for specific purposes?

Other requirements

- Regulations on financial and accounting treatment in equitization of state-owned enterprises
- Regulations on budgeting and finalization of capital expenditures and investments

Substance over form?

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Appendix – Details of differences between IFRS, VGAAP and the financial regime applicable to enterprises

General matters

VGAAP	IFRS
• Accounting Law 2015 and guiding documents • Accounting standards • Accounting regime for enterprises • Other legal documents • Other legal documents whose effectiveness may be higher than that of accounting standards	• System of international financial reporting standards, interpretations and application guidance • IFRS is a complete system of standards on financial reporting
• VAS 01 – General standard • No regime to ensure that development of accounting standards and guidance is in accordance with VAS 01	• The Conceptual Framework for Financial Reporting • The Conceptual Framework is the basis for development of accounting standards and guidance

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Form and components of financial statements

GAAP	IFRS
• VAS 21 – Presentation of financial statements • VAS 24 – Statement of cash flows • Circular 200 and accounting guidance for specific enterprises	• IAS 01 – Presentation of financial statements • IAS 07 – Cash flow statement
• Components of financial statements comprise: ✓ Balance sheet; ✓ Statement of income; ✓ Statement of cash flows; ✓ Notes to financial statements	• Components of financial statements comprise: ✓ Statement of financial position ; ✓ Statement of comprehensive income; ✓ Statement of changes in equity; ✓ Statement of cash flows; ✓ Notes to financial statements;
• No regulation equivalent to IFRS	• Departure from requirements of IFRS in certain special and rare circumstances for the purpose of giving "a true and fair view"

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Form and components of financial statements

VGAAP	IFRS
• Regulations on unified forms and chart of accounts	• Requirement only on a minimum line items to be included financial statements
• Expenses are presented based on their function for normal enterprises and based on their nature for some specific entities such as credit institutions	• It is permitted to elect to present expenses based on their function or nature relevant to an entity's activities

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Fair value measurement

VGAAP	IFRS
• No equivalent VAS	• IFRS 13 – Fair Value Measurement
• Certain assets and liabilities should be measured at fair value <u>subsequent to initial recognition</u> (Accounting Law 2015)	• Financial instruments and some other items should be <u>initially recognized</u> at fair value
• The Ministry of Finance promulgated Vietnamese valuation standards but there is no specific guidance on using valuation techniques included in these standards in accounting and financial reporting	• Use valuation techniques that are appropriate to measure fair value when market prices are not available
• No equivalent regulation	• Establish a fair value hierarchy that categorises into three levels of the inputs used to measure fair value.

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Consolidated financial statements

VGAAP	IFRS
• VAS 25 – Consolidated financial statements and accounting for investments in subsidiaries • Circular 202/2014/TT-BTC	• IFRS 10 – Consolidated financial statements • IAS 27 – Separate financial statements
• Subsidiaries are not consolidated when control over such subsidiaries is temporary or when their operation is subject to a restriction period of more than 12 months	• No equivalent exception
• No equivalent regulation	• A parent that is an investment entity shall not present consolidated financial statements if it measures its subsidiaries at fair value.
• Control model is similar to that required in the former IAS 25 superseded by IFRS 10	• Control model is completely changed from the former model of IAS 25

Consolidated financial statements

VGAAP	IFRS
• No equivalent requirement	• Control model is applied to special purpose entities
• Non-controlling interests ("NCI") are measured at their proportionate share of the acquiree's identifiable net assets which are recognised at fair value	• It is permitted to also elect to measure NCI at fair value at the date of acquisition
• Preparation of consolidated financial statements is not required for the year in which the parent divests in its sole subsidiary	• Consolidation is required until the date of loss of control

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Consolidated financial statements

VGAAP	IFRS
• An enterprise is required to prepare the separate financial statements not comprising dependent entities and the combined financial statements comprising dependent entities	• No equivalent requirement
Financial regime	
• According to regulations on equitization of state-owned enterprises, investments in subsidiaries shall be recognized at the revaluated amount for the equitization purpose. However, in consolidation of the financial statements, assets and liabilities of subsidiaries are still recognized at cost.	

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Business combination

VGAAP	IFRS
• VAS 11 – Business combination • Circular 202/2014/TT-BTC	• IFRS 3 – Business combination
• Cost of a business combination includes any costs directly attributable to the business combination such as consulting fee, audit fee, valuation fee	• These costs are recognized as expenses for the period (profit and loss account)
• Goodwill/gain from bargain purchase does not include the portion attributable to NCI	• If NCI is recognized at fair value at the date of acquisition, goodwill/gain from bargain purchase includes the portion attributable to NCI

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Business combination

VGAAP	IFRS
• Goodwill is amortised over a period of no more than 10 years. • Requirement on recognition of impairment of goodwill when there are indicators of impairment.	• Goodwill is not amortised but is subject to periodic impairment in accordance with provisions of IAS 36 – Impairment of non-financial assets
Financial regime	
• Decree No.128/2014/ND-CP on sales, grant or transfer of 100% state-owned enterprises: increase and decrease of capital is recognized corresponding to the book value of the transferred enterprise. Accordingly, the accounting method under VAS 11 is not applicable. • For a combination in terms of legal form (which does not constitute a parent-subsidiary relationship), in several circumstances, the regulator approves the combination without consideration of provisions of VAS 11.	

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Effects of changes in exchange rates

VGAAP	IFRS
• VAS 10 – Effects of Changes in Exchange Rates • Other regulations	• IAS 21 - Effects of Changes in Exchange Rates
• IFRS's requirements on functional currency not fully applied	• Requirements on functional currency
• Allows recognition in owners' equity and amortization of foreign exchange differences during the pre-operating period of state-owned enterprises implementing national key projects which are tasked with macroeconomic stabilization and national security/defence.	• All foreign exchange differences are recognized in profit or loss.

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Financial Reporting in Hyperinflationary Economies

VGAAP	IFRS
• No equivalent VAS	• IAS 29 - Financial Reporting in Hyperinflationary Economies
• No equivalent requirements	• Financial statements prepared on the historical cost model and using the currency of a country that has a hyperinflationary economy should be restated into the measuring unit current at the end of the reporting period by applying a general price index.
• No equivalent requirements	• Prior period's comparative information should also restated into the measuring unit current at the end of the reporting period.

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Tangible fixed assets

VGAAP	IFRS
• VAS 03 – Tangible Fixed Assets ("TFA")	• IAS 16 – Property, Plant and Equipment
• The minimum cost of an asset that is qualified for recognition as a TFA is VND30 million.	• IFRS has no requirements on minimum cost
• With only requirements on historical cost model	• With requirements on historical cost model and revaluation model
• No equivalent requirements	• TFAs should be assessed whether they are impaired in accordance with IAS 36 – Impairment of Assets

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Tangible fixed assets

Financial regime
• Circular 45/2013/TT-BTC providing guidance on management and depreciation of fixed assets; Circular 28/2017/TT-BTC and Circular 147/2016/TT-BTC amending a number of articles of Circular 45: ✓ Legal bases for issuing the circulars refer to CIT regulations. ✓ Entities tend to use in their preparation of financial statements related to TFAs.
• Circular 09/2016/TT-BTC providing regulations on finalization of completed projects using state capital. This Circular provides detailed regulations on conditions for investment expenditures to be finalized and approved, and may differ from general accounting principles of the accounting standards on recognition of cost of fixed assets.

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Intangible fixed assets

VGAAP	IFRS
• VAS 04 – Intangible Fixed Assets ("IFA")	• IAS 38 – Intangible Assets
• The differences are similar to TFAs with respect to minimum cost of assets; historical cost/revaluation model, impairment.	
• Allows recognition as prepaid expenses and amortization of certain expenses (establishment, training, advertising expenses during the entity's pre-operating period…) over a period of no more than 3 years.	• Recognised as an expense incurred during the period
• Land use rights are recognized as IFA or long-term prepaid expenses	• Land use rights are recognized in accordance with IFRS 17 - Leases

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Intangible fixed assets

Financial regime
• Circular 45: similar to the case of TFAs. Besides, Circular 45 provides detailed regulations on cases where land use rights may be recognized as IFAs.
• Circular 138/2012/TT-BTC allows recognition of business advantage arising from equitization of state-owned enterprises and amortization over a maximum period of 10 years.

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Investment property

VGAAP	IFRS
• VAS 05 – Investment Property	• IAS 40 – Investment Property
• Only provides requirements on historical cost model after initial recognition	• Provides the historical cost and revaluation models
• No requirements on impairment assessment, except where the market value of investment property held for capital appreciation is determined to be lower than carrying value.	• Requirements on impairment assessment in accordance with IAS 36 – Impairment of Assets

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Investment property

Financial regime
• Circular No. 09/2016/TT-BTC providing regulations on finalization of completed projects funded with State capital. This Circular provides detailed regulations on conditions for investment expenditures to be finalized and approved, and may differ from general accounting principles of the accounting standards on recognition of cost of investment property. • Circular 16/2018/TT-BTC provides that: For properties held for sales or transfer for the purpose of recovering capital within 3 years, credit institutions shall not record the increase in assets and depreciation

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Accounting for Investments in Associates

VGAAP	IFRS
• VAS 07 – Investments in Associates	• IAS 28 – Investments in Associates and Joint Ventures
• Where an investment is expected to be disposed or operation of the associate is restricted → apply the historical cost model	• Where an investment is held for sale → apply IFRS 5 • Investments of an investment entity/venture capital organization → apply IFRS 9
• Recognised in separate financial statements on the historical cost basis	• Recognised in separate financial statements: ✓ on the historical cost basis; ✓ according to IFRS 9 ✓ on the equity basis

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Accounting for Investments in Associates

VGAAP	IFRS
• No specific guidance on impairment in consolidated financial statements. Provision method for impairment in separate financial statements is not compatible with IFRS	• Apply IFRS 9 for determination of impairment indicators and recognition of impairment of investment according to IAS 36
• No guidance for cases where the investment entity has no subsidiary but has only associates → generally apply the historical cost method	• Use of the equity method is required.

Financial regime

- In accordance with relevant regulations on equitization of state-owned enterprises, investments in associates are recognized at revalued amount for equitization purposes.
- Circular 228/2009/TT-BTC and 89/2013/TT-BTC providing guidance on provision for long-term investments is not compatible with impairment accounting requirements of IFRSs.

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Joint Arrangements

VGAAP	IFRS
• VAS 08 – Financial Reporting of Interest in Joint Ventures	• IFRS 11 – Joint Arrangements
• Types of joint arrangements: ✓ Jointly controlled operations ✓ Jointly controlled assets ✓ Jointly controlled entities	• Types of joint arrangements: ✓ Joint operation ✓ Joint venture
• Jointly controlled entities: ✓ In separate FSs → historical cost method ✓ In consolidated FSs → equity method	• Joint venture: ✓ In separate FSs → (1) historical cost method/ (2) fair value/ (3) equity method ✓ In consolidated FSs → equity method
• Where venturers do not have any subsidiary, nor do they prepare consolidated FSs → Recognize at cost	• Use of equity method is required.

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Biological Assets

VGAAP	IFRS
• There's no equivalent VAS	• IAS 41 – Agriculture
• Biological assets may be classified as inventories (short-term plants or breeding animals) or fixed assets (bearing plants)	• Defines biological assets/ agriculture produce
• Recognition, measurement and disclosure according to VAS 02 – Inventory, and VAS 03 – Tangible Fixed Assets	• Separate regulations on conditions for recognition, measurement and disclosure of biological assets/ agriculture produce in IAS 41
• Biological assets are recognised at cost	• Biological assets are recognised at fair value

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Impairment of Assets

VGAAP	IFRS
• There's no equivalent VAS	• IAS 36 – Impairment of Assets
• Assets are generally recognized at cost less depreciation and amortization (if any). There's no requirement on impairment of assets	• Assessment of impairment indicators should be performed for each reporting period. • If there is evidence on impairment of an asset, the recoverable value of the asset should be determined. • Impairment loss is recognized as an expense during the period.

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Provision, contingent assets and liabilities

VAS	IFRS
• VAS 18 – Provision, contingent assets and liabilities	• IAS 37 – Provision, contingent assets and liabilities
• Allows establishment of science and technology development fund	• Establishment of similar fund is not allowed
• Allows establishment of provision for major repair	• There's no similar requirement

Financial regime
• Circular 228/2009/TT-BTC provides regulations on establishment of provision for warranty which should not exceed 5% of total revenue or total construction contract value. Actual obligations may be lower or higher than this level.

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Revenue and other income

VGAAP	IFRS
• VAS 14 – Revenue and other Income • VAS 15 – Construction Contracts • VAS 14 and VAS 15 are similar to IAS 18 and IAS 11, replaced by IFRS 15	• IFRS 15 – Revenue from Contracts with Customers
• Revenue from sales of goods is recognized based on assessment of the risks and rewards associated with the products, goods or services provided to customers.	• Revenue is recognized: ✓ upon transfer of control over the products, goods or services provided to customers ✓ at the consideration to which the entity expects to be entitled

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Revenue and other income (continued)

VGAAP	IFRS
• VAS 15 provides two methods of revenue recognition for construction contracts depending on the payment mode specified in the contract: ✓ (i) payments made according to the set schedule: recognize revenue by reference to the stage of completion determined by the contractor; ✓ (ii) payments made according to the value of stage of completion: recognise revenue by reference to the stage of completion certified by the customers	• This method of revenue recognition (ii) of VAS 15 may cause differences from IFRS 15.

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Government Grant and Assistance

VGAAP	IFRS
• There's no equivalent VAS • Circular 200	• IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance
• Received gifts, presents, financial support are recognized as an increase in equity if required by a competent authority; or as other income if there's no request to increase equity. • Value of TFAs received as gifts, presents shall be evaluated by a Delivery/Takeover Council or a appraisal organization • Capital expenditure funds/non-business expenditure funds provided by the State are recognized in equity. • Non-business expenditures are recognized as assets; upon finalization, they are offset against non-business expenditure funds.	• A government grant is not recognised until there is reasonable assurance that: ✓ the entity will comply with the conditions attaching to it; ✓ and that the grant will be received. • Government grants shall be recognised in profit or loss of each period, based on related costs in the period. • Non-monetary government grants are recognized at fair value.

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Employee benefits

VGAAP	IFRS
• There's no equivalent VAS	• IAS 19 – Employee benefits
• Bonus and welfare fund is appropriated from profit after tax for payment of short-term employee benefits	• All short-term employee benefits are recognized as expenses.
• Social insurance, health insurance → similar to DCP • Severance allowance → similar to DBP in some respects • Some various viewpoints in recognition of severance allowance	• 2 popular post-employment benefit plans: ✓ Defined contribution plan (DCP) ✓ Defined benefit plan (DBP)

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Employee benefits (continued)

Financial regime
• Circular 96/2015/TT-BTC providing guidance on corporate income tax allows establishment of provision for salary fund which should not exceed 17% of the released salary fund for CIT purposes. • State-owned enterprises have separate salary regulations.
• Circular 180/2012/TT-BTC requires entities to reverse their previously established provision for severance allowance.

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Share based payments

VGAAP	IFRS
• There's no equivalent VAS	• IFRS 2 – Share based payments
✓ No equivalent requirements	• There are two types of share-based payments, either allowing the counter-party to receive: ✓ Cash or other assets of the entity; or ✓ Equity instruments
• In practice, share-based payments are generally recognised: ✓ at nominal value; ✓ at the payment date.	• Share-based payments are recognized: ✓ at fair value at the payment date; ✓ in profit or loss over the vesting period

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Leases

VGAAP	IFRS
• VAS 06 – Leases, similar to IAS 17 (to be replaced with IFRS 16 effective 1/1/2019)	• IAS 17 – Leases; • IFRIC 4 – Determining whether an arrangement contains a lease; • IFRS 16 – Leases (supersedes IAS 17, IFRIC 4 effective 1/1/2019)
• Operating leases are not recognized in balance sheet	• Under IFRS 16, leases including operating leases shall be recognized as assets and liabilities in the balance sheet of the lessee
• No specified guidance for cases where an entity who does not have a financial lease function enters into a lease which is by nature a financial lease	• No similar issue

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Leases (continued)

VGAAP	IFRS
• No guidance similar to IFRIC 4 – Determining whether an arrangement contains a lease	• IFRIC 4 and IFRS 16 have guidance on determining whether an arrangement contains a lease;
Financial regime	
• Circular 45/2013/TT-BTC: The rights to use leased land obtained before the effective date of Land Law (2003) for which payments have been made in advance for more than 5 years and supported by land use right certificate issued by competent authority are recognized as an intangible fixed asset.	
• Under the Law on Credit Institutions and Circular 39/2014/ND-CP, only finance lease companies and some types of finance companies are allowed to provide finance lease services.	

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Non-current assets held for sales and discontinued operations

VGAAP	IFRS
• There's no equivalent VAS	• IFRS 5 – 2.21 Non-current assets held for sales and discontinued operations
• No equivalent requirements	Disposal/held for sale assets groups are: • separately classified in FSs • recognised at the lower of its carrying amount and fair value (less costs to sell) • not depreciated

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Extractive Activities

VGAAP	IFRS
• There's no equivalent VAS	• IFRS 6 – Exploration for and Evaluation of Mineral Resources • IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine
• No equivalent requirements	• Exploration and evaluation assets are initially recognized at cost • After initial recognition, apply either the cost model or the revaluation model
• No equivalent requirements	• Stripping costs incurred in the production phase of surface mining activities are recognized as assets if they improve access to ore to be mined.

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Service Concession Arrangements

VGAAP	IFRS
• There's no equivalent VAS	• IFRIC 12 – Service Concession Arrangements
• No equivalent requirements	• Applies to public-to-private service concession arrangements granted by the Government or other relevant bodies
• As there are no other requirements, infrastructure is generally recognized as TFAs.	• The entity does not recognize infrastructure in the scope of IFRIC 12 as TFAs, but as financial assets or intangible assets

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Financial instruments

VGAAP	IFRS
• There's no equivalent VAS • Circular 210 is similar to IAS 32 and IFRS 7 but is not mandatory • Some legal documents applicable to credit institutions, securities companies have requirements on financial instruments	• IFRS 9 – Financial Instruments • IAS 32 - Financial Instruments: Presentation • IFRS 7 - Financial Instruments: Disclosures
• Financial instruments are measured at cost less allowance for diminution in the value, except securities companies that apply fair value and measurement according to IAS 39 • The effective interest rate concept is not applied consistently.	• Financial instruments are initially recognized at fair value; after initial recognition, they are measured at fair value or amortised cost depending on their classification. • Under the amortised cost method, the applicable interest rate is always the effective interest rate.

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Financial instruments (continued)

VGAAP	IFRS
• There's no requirement on impairment assessment for financial assets, except some documents specified in the financial regime below.	• IFRS 9 introduces a new impairment model based on expected credit losses
• There's no requirement on hedge accounting and derivative financial instruments (except Official Letter 7404/NHNN-KTTC applicable to credit institutions, but not based on fair value).	• There's guidance on hedge accounting and derivative financial instruments.
• Circular 210 is developed based on IAS 32 and IFRS 7 but is not mandatory.	• IFRS 7 requires full disclosure on financial instruments.
Financial regime	
• Circular 228 prescribes the establishment of provision for receivables and financial investments • For credit institutions: Circular 02/09 prescribes the classification of loans and establishment of provision for loans; Official Letter 7459/NHNN-TCKT provides guidance on establishment of provision for securities investments of credit institutions.	

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Changes In Accounting Policies, Accounting Estimates And Errors

VGAAP	IFRS
• VAS 29 – Changes In Accounting Policies, Accounting Estimates And Errors	• IAS 8 – Changes In Accounting Policies, Accounting Estimates And Errors
• Changes in accounting policies due to adoption of new statutory requirements are often prospectively applied	• Changes in accounting policies due to adoption of new standards, if there is no guidance on transition, should be retrospectively applied
• No equivalent requirement	• Requirement on disclosure of the effect of new standards which have been published but not effective yet

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Segment reporting

VGAAP	IFRS
• VAS 28 – Segment reporting similar to IAS 14 superseded by IFRS 8	• IFRS 8 – Segment reporting
• Requirement on reporting of primary segments and secondary segments	• Requirement on reporting based on internal reports used in allocating resources and assessing performance of a segment
• A segment is required to report when a majority of its revenue is generated from sales to external customers	• The segment has revenue primarily generated from sales to other segments is also within the scope of IFRS 8

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Income tax

VGAAP	IFRS
• VAS 17 – Corporate income tax	• IAS 12 – Corporate income tax ("CIT")
• No equivalent requirement	• Guidance on recognition of deferred tax for: ✓ share-based payments ✓ assets recognized at fair value
• Tax penalties and interest on late payment are recognized in other expenses	• Tax penalties and interest on late payment, according to IFRS Interpretations Committee, are recognized: ✓ in accordance with IAS 12 if they are themselves income tax in nature ✓ in accordance with IAS 37, if IAS 12 is not applied

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Insurance contracts

VGAAP	IFRS
• VAS 19 - Insurance Contracts • Circular 232/2012/TT-BTC on promulgation of accounting guidance for non-life insurance companies; • Circular 199/2014/TT-BTC on promulgation of accounting guidance for life insurance companies.	• IFRS 4 - Insurance Contracts • IFRS 17 - Insurance Contracts (effective from 1 January 2021 superseding IFRS 4)
• Applicable to insurance companies • Guidance in the accounting regime for enterprises includes some inconsistencies with VAS 19, primarily related to method of appropriating technical reserves	Applicable to contract that meets definition of insurance contract

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Presentation of additional information in financial statements of banks and similar financial institutions

VGAAP	IFRS
• VAS 22 – Disclosures in Financial Statements of Banks and Similar Financial Institutions	• IAS 30 has been superseded by IFRS 7
• State Bank of Vietnam issues guidance on presentation using the financial statement template including Decision 16/2007/QD-NHNN, Circular 49/2014/TT-NHNN and Circular 22/2017/TT-NHNN	• No requirement on specific template is provided but the following standards should be followed: IAS 1, IAS 7, IFRS 7

Financial regime

- Circular No. 16/2018/TT-BTC stipulates some specific guidance on recognition of expenses.

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Thank you

Appendix2：Case studies in other countries on the implementation of IFRS (China, Korea, Malaysia, the United States and Japan) (workshop documents)

Survey of Other Countries' Experiences

KPMG AZSA LLC
28 and 30 May 2018

Contents

- Overview
- Japanese experiences
- Other countries' experiences
  - China
  - Korea
  - Malaysia
  - US
  - Others (EU/ Canada/Australia) - Purely for reference purposes
- Wrap up

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Overview

Overview

- Objectives:
  - Study lessons learned from other countries' experiences
  - Consider lessons learned in providing relevant information to MoF in formulating policies with regard to IFRS adoption
- Our approach:
  - Analyzed lessons learned from Japanese experiences
  - Selected four countries (Korea, Malaysia, China and US) for in-depth understanding

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Comparison of Key Issues: Basic Information

Key Issues	Japan	China	Korea	Malaysia	US
Form of incorporation	Voluntary application	Full convergence	Adoption (translation is required)	Adoption with limited modification	Voluntary application (Foreign issuers)
Timing	2009	2007	2011 (+ early application)	2012	2008
Scope	Primarily listed companies	Listed companies + regulated entities etc.	Listed companies + Financial Institutions	All, other than private entities	Foreign issuers
Number of subject companies	About 200	Data – Not available	About 2,000	Data – Not available	About 500 (foreign issuers)
Modifications to IFRSs	Designated IFRSs – No JMIS – Yes	Yes	No	No (except for transition)	No

The use of US GAAP is required to US domestic companies.

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Comparison of Key Issues: Difference with IFRSs

Of the countries we studied, three countries have / had differences between their standards and IFRSs.

- **Japan**
  - ➢ There is no difference between 'designated IFRSs' and IFRSs
  - ➢ There are two differences between 'Japan's Modified International Standards (JMIS) and IFRSs
    - Recycling of Accumulated Other Comprehensive Income
    - Amortization of goodwill acquired in business combinations
- **China**
  - ➢ Although New PRC GAAP is fully converged with IFRSs, there are some differences between the standards, including:
    - Reversal of impairment losses of assets (New PRC GAAP prohibits the reversal.)
    - Delay of application of newly published standards (e.g., IFRS 15)
- **Malaysia (currently, no difference between MFRSs and IFRSs)**
  - ➢ Curve out of IAS 41 and IFRIC 15 for 'Transitioning Entities'

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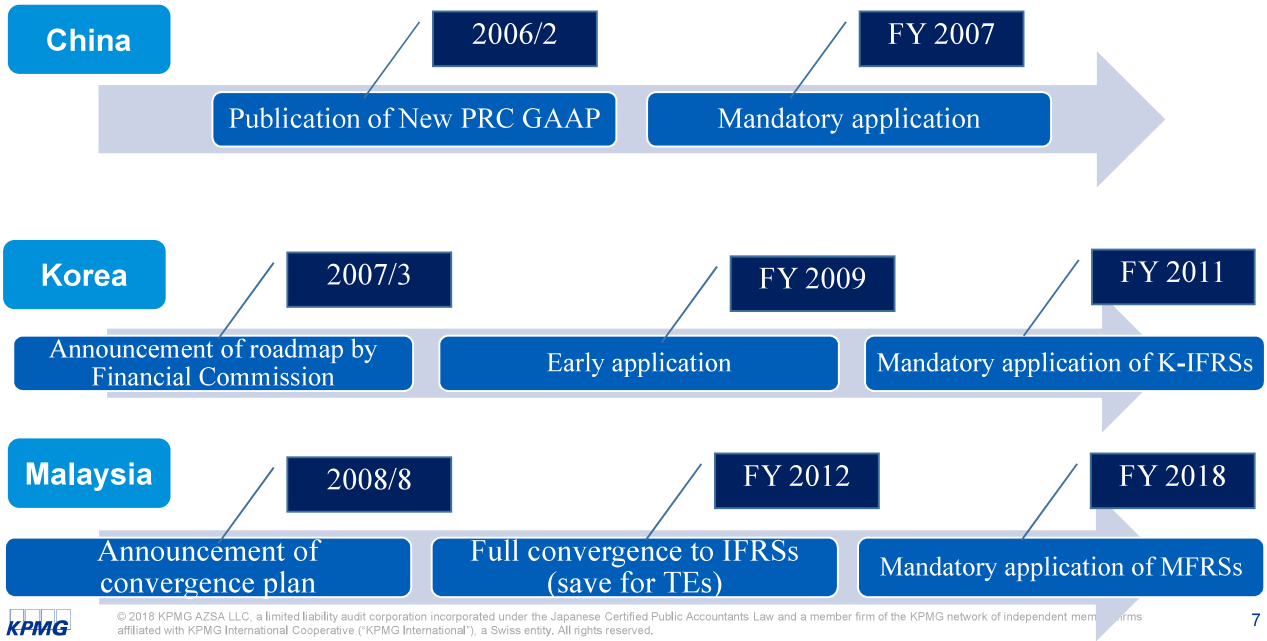
Journey to Application of IFRSs

A journey to application of IFRSs (or is equivalent Standards) differs significantly, reflecting situations of a country, and careful planning is warranted.



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Japanese Experiences

Japanese Situations: Current Status

a. Legislative framework regarding financial reporting system

- ➢ Financial Instruments Exchange Acts (FIEA): **For public companies**
  - Providing relevant information with investors for their decision making
- ➢ Companies Acts: **For all companies**
  - Providing relevant information with owners to fulfil management's accountability
  - Providing relevant information with creditors for assessment of the viability of contractual relationship (including an entity's credit standing)

b. Japanese companies

- ➢ Total: About 4 thousands

c. Securities markets

- ➢ JPX (including Tokyo Stock Exchanges)
- ➢ Number of listed companies: 3,603 (As of 02/Mar/2018. Source: JPX)
  - Foreign listed companies: 6 (As of 02/Mar/2018. Source: JPX))

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Japanese Situations: Accounting Standards

[Japanese domestic companies]

Companies by category	Consolidated FS	Non-consolidated FS
Listed companies	Japanese GAAP (Default) IFRSs (Voluntary) JMIS (No one applies) US GAAP (Limited scope)	Japanese GAAP
Other companies subject to FIEA		
Companies subject to external audit requirements		
Others		SME accounting guidance SME accounting guideline

[Foreign companies listed in Japanese securities markets]

Companies by category	Consolidated FS	Non-consolidated FS
Listed companies	**IFRSs or National GAAP (as far as permitted)**	
Other companies subject to FIEA		

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Chronology: Major Events

Year	Major events
7/2001	FASF/ASBJ: Established
2005	EU and other countries: Application of IFRSs started
8/2007	ASBJ: Concluded Tokyo Agreement with IASB
12/2007	US SEC: Decided to permit the use of IFRSs for foreign issuers
12/2008	EU: Decided equivalence assessment of third country accounting standards
6/2009	BAC: Published a report recommending FSA to permit voluntary application of IFRSs in Japan. > After that, **FSA permitted voluntary application**.
7/2012	BAC: Published an interim report analyzing mandatory application of IFRSs.
6/2013	BAC: Published a report regarding mandatory application of IFRSs in Japan. > **FSA decided to defer its decision whether to mandate IFRSs for domestic companies.**
7/2014	ASBJ: Published an initial Standard of JMIS
4/2015	FSA: Published a report summarizing Japanese experience using IFRSs.

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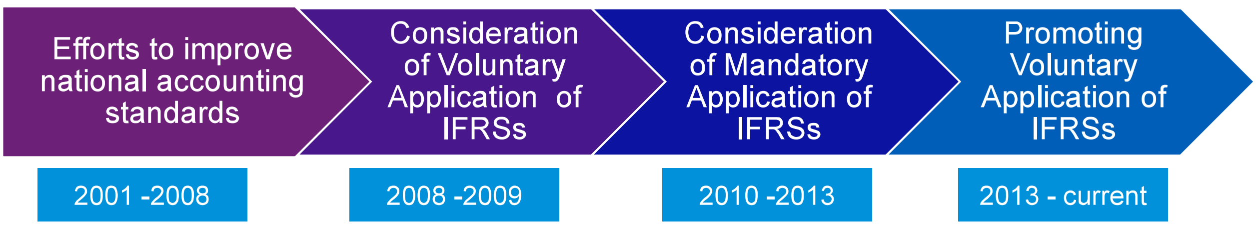
Overview



In this slides, recent history around accounting standards is divided into the following four stages:

- **Stage 1** (2001-2008): Intensifying efforts to improve national accounting standards
- **Stage 2** (2008-2009): Considering **voluntary** application of IFRSs for Japanese listed companies
- **Stage 3** (2010-2013): Considering **mandatory** application of IFRSs for Japanese listed companies
- **Stage 4** (2013 – current): **Encourage** voluntary application of IFRSs for Japanese companies

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Stage-1 (1/2)

Efforts to improve national accounting standards	Consideration of Voluntary Application of IFRSs	Consideration of Mandatory Application of IFRSs	Promoting Voluntary Application of IFRSs
2001 -2008	2008 -2009	2010 -2013	2013 - current

(Establishment of the ASBJ)

In 2001, the ASBJ was established within the FASF as **a private-sector accounting standard-setting body** for enterprises, with the aim of contributing to sound financial reporting systems in Japan and development of the sound securities markets through:

- Researching and developing accounting standards
- Researching on other disclosure systems
- Contributing to the development of development of international accounting standards

Since the establishment, the ASBJ has worked as a vehicle to develop Japanese accounting standards, and to contribute to the development of international accounting standards by launching a joint project with the IASB for promoting international convergence of accounting standards.

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Stage-1 (2/2)

Efforts to improve national accounting standards	Consideration of Voluntary Application of IFRSs	Consideration of Mandatory Application of IFRSs	Promoting Voluntary Application of IFRSs
2001 -2008	2008 -2009	2010 -2013	2013 - current

(Efforts regarding the EU's equivalence assessment)

Concurrent with the mandatory application of IFRSs in the regulated markets of the EU, the EC launched an equivalence assessment of third country accounting standards within the context of prospectus directive and transparency directive.

ASBJ accelerated its efforts to reduce differences between J-GAAP and IFRSs, focusing on significant differences identified by the CESR by concluding the "**Tokyo Agreement**" with the IASB.

In December 2008, **J-GAAP was assessed equivalent with the IFRS** by the EC. This secured its continued usage as a set of standards in the EU's regulated markets.

(US SEC's move)

After lifting its reconciliation requirements for foreign issuers following IFRSs, in January 2008, the SEC published a draft Roadmap that considers whether and how the use of IFRSs should be permitted or mandated for US domestic issuers.

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Stage-2 (1/3)

Efforts to improve national accounting standards | **Consideration of Voluntary Application of IFRSs** | Consideration of Mandatory Application of IFRSs | Promoting Voluntary Application of IFRSs

2001 -2008 | 2008 -2009 | 2010 -2013 | 2013 - current

Against the background, the FSA asked the BAC to consider whether, and if so, how the use of IFRSs should be permitted or mandated for Japanese listed companies.

In December 2012, based on the recommendation from the BAC, the FSA permitted the use of IFRSs for listed companies.

In June 2009, the BAC published a report recommending the following matters:

- Permitting voluntary application of IFRSs for consolidated financial statements of listed companies meeting both of the following conditions:
  - **Secured a sufficient system and manuals to report on IFRSs**
  - **Engaged in international financing or business activities**
- Considering mandatory application of IFRSs for consolidated financial statements of listed companies around 2012
- Urging the ASBJ to accelerate its efforts to promote international convergence of accounting standards

* BAC (Business Accounting Council) is an advisory body to the commissioner of the FSA , consisting of high-level stakeholders relating to financial reporting.

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Stage-2 (2/3)

Efforts to improve national accounting standards | **Consideration of Voluntary Application of IFRSs** | Consideration of Mandatory Application of IFRSs | Promoting Voluntary Application of IFRSs

2001 -2008 | 2008 -2009 | 2010 -2013 | 2013 - current

The BAC's paper noted the following as reasons why the roadmap towards the use of IFRSs was considered necessary.

- **Improved comparability of financial information** in ever integrating capital markets
- Possible **reduction of costs of capital** for companies
- **Usefulness of group management** of overseas subsidiaries
- Speaking same languages with those of other countries for auditors

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Stage-2 (3/3)

Efforts to improve national accounting standards | **Consideration of Voluntary Application of IFRSs** | Consideration of Mandatory Application of IFRSs | Promoting Voluntary Application of IFRSs

2001 -2008 | 2008 -2009 | 2010 -2013 | 2013 - current

At the same time, the BAC's paper noted following challenges for the expanded use of IFRSs.

- Quality of IFRSs
- Need for translation of IFRSs
- Due-process regarding the development of IFRSs
- Preparation efforts, training and education of IFRSs for all stakeholders (investors, preparers, auditors, regulators, educational institutions, stock exchanges) to minimize costs of transition
- More contribution to the IASB's standard-setting
- Adaptability of XBRL

The BAC's paper envisaged the following timeframe.

2010: voluntary application → US decision? → 2012: Decision of mandatory application → US application? → 2015-2016: Starting mandatory application

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Stage-3 (1/2)

Efforts to improve national accounting standards | Consideration of Voluntary Application of IFRSs | **Consideration of Mandatory Application of IFRSs** | Promoting Voluntary Application of IFRSs

2001 -2008 | 2008 -2009 | 2010 -2013 | 2013 - current

After the FSA permitted the use of IFRSs for domestic listed companies, the number of voluntary adopters have increased gradually.

Nonetheless, after going through careful consideration, the US SEC withdrew the draft Roadmap towards application of IFRSs for US companies.

Considering such developments, the BAC held a number of meetings to consider whether, and if so, how to require the use of IFRSs for Japanese listed companies. After careful consideration**, the BAC found it difficult to draw a consensus for mandatory application**. The reasons included the following:

- Opaque benefits from the mandatory use of IFRSs
- Possible negative impact on business transactions
- Quality of IFRSs
- Difficulties of changing related systems (including tax system) to accommodate IFRSs

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Stage-3 (2/2)

Efforts to improve national accounting standards | Consideration of Voluntary Application of IFRSs | Consideration of Mandatory Application of IFRSs | **Promoting Voluntary Application of IFRSs**

2001 -2008 | 2008 -2009 | 2010 -2013 | 2013 - current

Hence, in June 2013, the BAC recommended the following as next steps:

- Taking measures to promote the voluntary use of IFRSs
  - **Relaxing the hurdle to apply IFRSs**
  - Enhancing communications between Japanese stakeholders and the IASB
  - Maintaining the requirement regarding the use of J-GAAP for non-consolidated financial statements
  - Ruling out potential effect on SME accounting as a result of changes to IFRSs
- Development of a set of standards that follows more rigor screening process
  - While maintaining the 'pure-IFRSs' for voluntary use, another set of standards (**Japan's Modified International Standards or JMIS**) that follows more rigor domestic screening process should be developed.
- Simplification of non-consolidated financial statements

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Stage-4 (1/5)

Efforts to improve national accounting standards | Consideration of Voluntary Application of IFRSs | Consideration of Mandatory Application of IFRSs | **Promoting Voluntary Application of IFRSs**

2001 -2008 | 2008 -2009 | 2010 -2013 | 2013 - current

Following the BAC's recommendation, in June 2015, the ASBJ developed an initial set of the JMIS, which had the following features:

- It follows more rigorous national due-process
- It was developed following the policy to minimize differences with IFRSs
- Due to difference of fundamental thinking behind accounting standards between J-GAAP and IFRSs, it was modified from IFRSs in the following respects:
  - **Requiring recycling of AOCI**
  - **Requiring amortization of goodwill**
- After the ASBJ developed the JMIS, no company has used the JMIS

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Stage-4 (2/5)

Efforts to improve national accounting standards	Consideration of Voluntary Application of IFRSs	Consideration of Mandatory Application of IFRSs	**Promoting Voluntary Application of IFRSs**
2001 -2008	2008 -2009	2010 -2013	2013 - current

During the ASBJ's deliberation to develop the JMIS, following were identified as possible items for modification due to different reasons:

(Due to differences in fundamental thinking behind accounting)

- **Scope of FV measurement** (revaluation model under IAS 16 and 38 / FV model under IAS 40 / FV measurement of investments in equity instruments under IFRS 9 / biological and agricultural produce under IAS 41)
- Development costs

(Due to practical challenges)

- Depreciation methods
- FV measurement of investments in equity instruments without quoted prices
- Unification of reporting periods of subsidiaries and associates
- Determination of functional currency
- Disclosure requirements

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Stage-4 (3/5)

Efforts to improve national accounting standards	Consideration of Voluntary Application of IFRSs	Consideration of Mandatory Application of IFRSs	**Promoting Voluntary Application of IFRSs**
2001 -2008	2008 -2009	2010 -2013	2013 - current

Other initiatives to promote the voluntary use of IFRSs included the following:

- FSA
  - **Publication of a report that summarizes lessons learned from practical experiences**
  - **Publication of illustrative disclosures**
- FASF/ASBJ
  - Initiating a study group of younger generation within the FASF
  - Establishment of a network of international accountants
  - Initiating a technical committee to consider IFRIC discussion
- JPX
  - **Requiring disclosure of intention of using IFRSs in the near future**
  - Incorporating the use of IFRSs into the determination of a composite of companies with better governance structure

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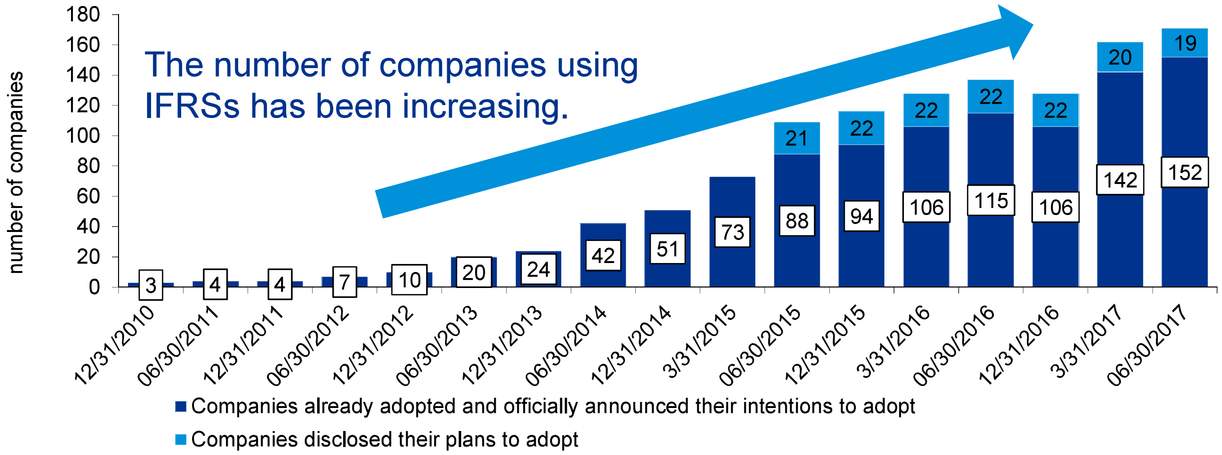
Stage-4 (4/5)

Efforts to improve national accounting standards	Consideration of Voluntary Application of IFRSs	Consideration of Mandatory Application of IFRSs	**Promoting Voluntary Application of IFRSs**
2001 -2008	2008 -2009	2010 -2013	2013 - current



Current status (as of Jan. 2018)	# of companies
# of Listed companies (as of 23/Jan/18)	3602 (2065 at 1st section)
# of companies applying IFRS	139
# of companies determining to apply IFRS	22
Total	161

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Stage-4 (5/5)

Efforts to improve national accounting standards	Consideration of Voluntary Application of IFRSs	Consideration of Mandatory Application of IFRSs	**Promoting Voluntary Application of IFRSs**
2001 -2008	2008 -2009	2010 -2013	2013 - current

According to the FSA's report, following were cited as major reasons for decision to voluntary application of IFRSs

- Facilitate more effective group management by measuring performance using the same benchmark
- Better communication with investors by increased comparability of financial information of competitors

In addition, major challenges cited in the report include the following:

- Group-wide efforts (not just accounting division) were necessary
- Considerable amount of transition costs (including IT costs) were necessary, depending on size and nature of a group
- Greater amount of communication with auditors were necessary yet challenging
- Education and training of personnel in an entity were necessary yet challenging

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A View on the Lessons Learned

Efforts to improve national accounting standards	Consideration of Voluntary Application of IFRSs	Consideration of Mandatory Application of IFRSs	**Promoting Voluntary Application of IFRSs**
2001 -2008	2008 -2009	2010 -2013	2013 - current

- Introduction of IFRSs (speaking the same accounting language) is a global trend, and it can never stop.
- Yet introduction of IFRSs is a significant issue, and different stakeholders have different (and sometimes strong) views. Hence, careful consideration/discussion is necessary.
- It is very difficult to measure ‘benefit’ (e.g., reduction of costs of capital) of using IFRSs, while identifying the costs is much easier.
- Once IFRSs is introduced it would be very difficult to ‘come back’ to a national accounting standard especially when parallel disclosure is not required. To some extent, this might mean that introduction of IFRSs would eventually be surrendering accounting sovereignty.

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Other Countries' Experiences

Overview

Our Approach

- In-depth research, such as through working with KPMG network firms:
  - Developing a questionnaire in consultation with MoF/JICA
  - Sending a questionnaire to KPMG network firms
  - Discussing responses with respective firms
- Targeted study
  - Undertake targeted study based on publicly available information for the following region / countries:
    - EU
    - Canada
    - Australia

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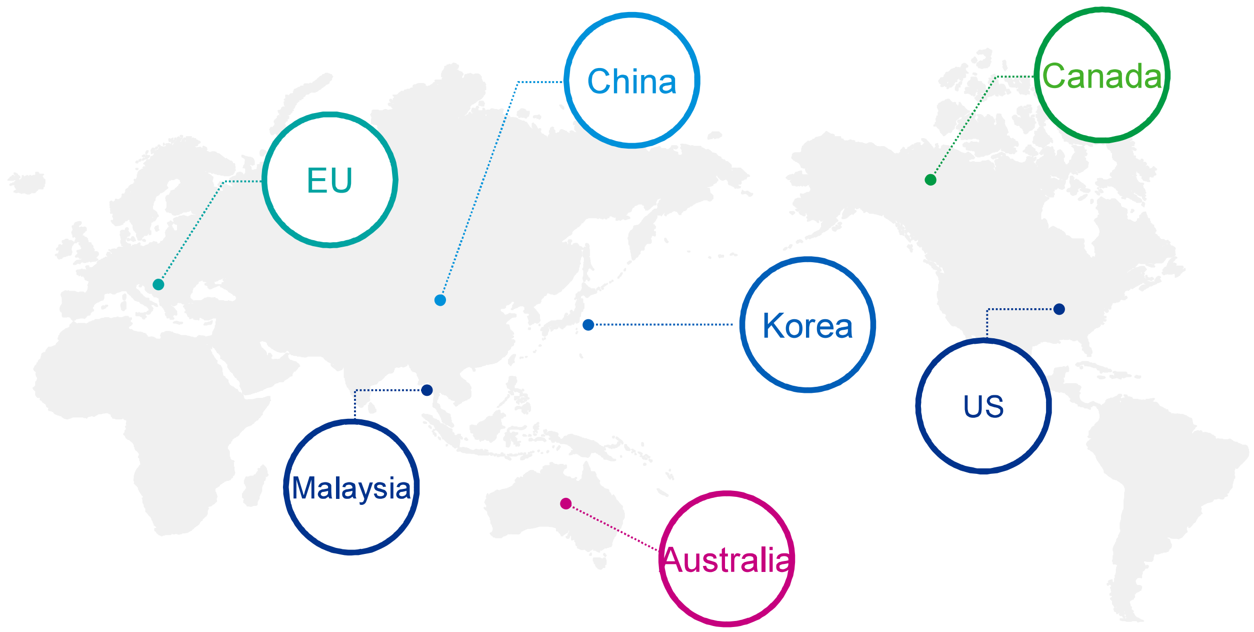
Countries /Region Researched



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Key Features: Countries for In-depth Research

Areas of focus	China	Korea	Malaysia	US
Form of incorporation	Full convergence	Adoption (translation is required)	Adoption with limited modification	Convergence
Language	Chinese	Korean	Malaysian / English	English
Accounting standard setters	MoF	KASB (administered by the KICPA)	MASB (semi-governmental organization)	FASB (private organization)
Research Motivation	Lessons from convergence processes in a socialist country	Lessons from adoption processes	Lessons from adoption processes in developing country	Lessons from convergence processes between IFRS and US GAAP

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Survey Themes -1/2

For the said four countries, we surveyed the following themes:

1. Use of IFRSs
2. Consideration when determining the use of IFRSs
3. Macroeconomic impacts from the use of IFRSs
4. Translation of IFRSs
5. Modifications to IFRSs
6. Communicating views with the IASB
7. Addressing practical challenges

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Survey Themes - 2/2

(Continued)

8. Interactions with laws and regulations
9. Education and training of IFRSs
10. Transitional arrangement
11. Use of XBRL
12. National accounting standards
13. Role of national accounting standard setters
14. Challenges for auditors

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China

Index

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1. Country Profile

a. China issued Accounting Standards for Business Enterprises, commonly known as **New PRC GAAP** in February 2006

b. New PRC GAAP is **substantially converged with IFRSs** but **not a direct adoption**. China took 'convergence' approach instead of 'adoption' approach.

c. China takes into account the **specific economic environment, legal system, culture, supervision and competency of accounting staff and the users of financial statements in China**.

d. Use of New PRC GAAP is required to the following companies:

- Listed companies
- Certain regulated companies (insurance companies, securities companies and fund management companies)
- **Large-sized state-owned enterprises**
- **Financial institutions in the banking industry**
- Other companies as specified by relevant regulatory authorities

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2. Major Events

Year	Main events
2005	The CASC and IASB issued a joint statement affirming achievement of the convergence.
2006	The MOF issued New PRC GAAP, comprising the Basic Standard and 38 specific standards.
2007	New PRC GAAP has been adopted since 1 January 2007, with its application coverage gradually expanding.
2010	The MOF issued the Roadmap of Continuous Convergence between New PRC GAAP and IFRSs, which indicates that - China will keep pace with the developments and revisions to IFRS, and that - the timetable of revisions to New PRC GAAP will be kept consistent with that of the IASB
2015	The MOF and IFRS Foundation issued a joint statement reaffirming the goal of full convergence.

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3. Highlight - (1) New PRC GAAP

- New PRC GAAP is a set of accounting standards and related guidance that has achieved convergence with IFRS accounting principles.
- New PRC GAAP is not a word-for-word, standard-by-standard adoption of IFRSs.
- New PRC GAAP mainly consists of:
  - A Basic Standards
  - Specific Standards
  - Application Guidance statements
  - A series of Bulletin issued by the MoF
  - MoF interpretations
  - Opinions from Professional Working Group of the CASC on implementation
  - Others

Maintains Chinese own structure

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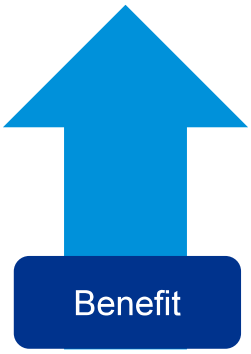
3. Highlight - (2) Pros and Cons for New PRC GAAP



- Assist China adapt to the changing economic landscape
- Build a sound system of market economy
- Safeguard public interest
- Strengthen the government's regulation of the market
- Further open up
- Internationalize the accounting standards in China

Enterprises
- Business Process reengineering
- IT investments

Users
- Needs to study new accounting standards

Regulators
- Update regulatory system

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3. Highlight - (3) Addressing Practical Challenges

- Owing to the more **principle-based nature** of New PRC GAAP, China experienced various practical challenges when transitioning to New PRC GAAP.
- China took the following steps to address the practical challenges:
  - **Set up the working group** of the Chinese Accounting Standards Committee to discuss practical issues encountered.

  - Conducted on-site investigation and research on issues identified in the analysis of annual reports of listed companies.
  - Organized trainings on New PRC GAAP to accounting staff.
  - Strengthened the coordination and cooperation between the MOF and other authorities and regulators for securities, banking, insurance, auditing and state-owned assets

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3. Highlight - (4) National Accounting Standards

- There are 3 sets of accounting standards (including New PRC GAAP) in China, as shown below.

	New PRC GAAP	Old PRC GAAP	Accounting Standards for Small Enterprises
Who use the set of standards?	See "1. Country Profile" – d.	Companies other than those required to apply New PRC GAAP	Entities qualified as small entities
Responsibility of the standards	MoF	MoF	MoF
Proximity to IFRSs	Fully converged	Difficult to measure	Different from IFRSs
Frequency of changes	Updated as IFRS is issued or updated	Not often	Not often

Major differences
- Reversal of impairment losses on assets
- Related party disclosure etc.

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Korea

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3. Areas of highlight
   (1) Anticipated pros for adopting IFRSs
   (2) Anticipated cons for adopting IFRSs
   (3) Translation of IFRSs
   (4) Areas of practical challenges
   (5) Maintenance of national accounting standards

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1. Country Profile

a. Korea has required the use of **K-IFRS** in **2011** for companies ('Big-bang' approach), while allowing early application to some segments.

b. K-IFRS is **pure translation** of IFRS without any modifications to IFRS requirements.

c. Use of K-IFRS for domestic companies: **About 2,000 companies**
   - All public companies (listed companies)
   - Unlisted major financial institutions

d. Form of adoption: '**Big-bang' approach (early adoption permitted)**

	Listed companies etc. (see (c) above)	Other domestic companies	Foreign companies
Accounting standards	K-IFRS	K-GAAP or K-IFRS	K-IFRS, IFRS, or US GAAP

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2. Major Events

Year	Major Events
2007	IFRS Roadmap was announced. K-IFRS was finalized.
2008	Task Forces for K-IFRS was established. Translation of IFRS Interpretations was finalized.
2009	Relevant law and regulations were amended to ensure K-IFRS implementation. First K-IFRS based consolidated financial statements were issued by early adopters. A set of accounting standards for private enterprises was issued.
2010	K-IFRS-based consolidated financial statements were issued by early adopters.
2011	Use of K-IFRS became mandatory for all listed companies. A set of accounting standards for private enterprises became effective.
2012	Relevant regulations were amended based on the experience.
2013	K-IFRS based consolidated interim financial statements were issued.

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3. Highlight - (1) Anticipated pros for IFRS adoption

- Respond to the call for aligning accounting standards with the global standards (IFRSs)
- Ultimately reduce the financial reporting costs and costs of capital for Korean firms
- Improve accounting quality and subsequently firm value by implementing principle-based, fair-value accounting standards
- To deter 'Korea Discount' by improving the reliability of accounting information

Research report concluded that **these objectives were generally met**, although further research is required for some areas.

(Source: 'IFRS Adoption in Korea – 5 Years' Experience and Lessons (December 2016), KASB)

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3. Highlight - (2) Anticipated cons for IFRS adoption

- **Costs** of IFRS adoption may outweigh the benefits
- **Comparability** in accounting numbers may be reduced due to increased managerial flexibility and discretion
- Different legal system in Korea may cause differences in the **monitoring and enforcement of accounting**
- Negative impact may arise as a result **of surrendering local standard-setting authority** to an international body
- Costs of **incentivizing interested parties for effective IFRS implementation** may be large.

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3. Highlight - (3) Translation of IFRSs

- Translation principle
  - Endeavour to promote understandability in the context of Korean language, while **precisely translating sentences as issued by IASB**.
  - **Use plain daily-used Korean words** as much as possible, and avoid foreign words or foreign-oriented words (including Chinese characters).
  - **Maximize the use of active sentence**, and minimize the use of passive sentence.
  - **Avoid double negative sentences.**
  - **Consider separating a sentence into multiple sentences** if considered too long a and complicated, while not making changes to its contents.
  - If and only if translation of IFRSs does not faithfully communicate intended contents, translate words based on what were intended.
- Translation Improvement Project

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3. Highlight - (4) Areas of Practical Challenges

(For users)

- Lack of comparability of financial information at transition

KASB developed disclosure guideline.

(For preparers)

- Increased volume of disclosure
- Fair value measurement / Volatility due to foreign currency translation
- Shift from rule-based system to principle-based system

KASB is tasked with answering to questions from practitioners.

(For auditors)

- Sufficient number of auditors familiar with IFRS requirements
- Quality of financial statements initially prepared by audited entities
- Lack of specialists for fair value measurement (financial instruments)

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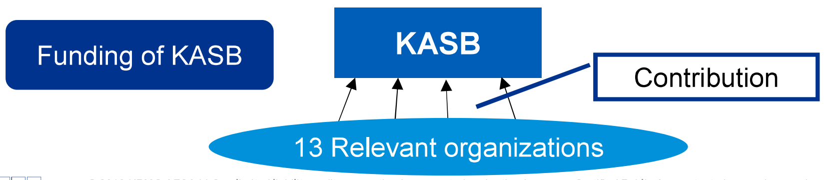
3. Highlight - (5) National Accounting Standards

■ In addition to K-IFRS, K-GAAP is applicable in Korea, as shown below.

	K-IFRS	K-GAAP
Who use the set of standards?	See “1. Country Profile” – c.	Companies other than those required to apply K-IFRS
Who is responsible for maintenance of the standards?	Translation of IFRSs (as issued by the IASB)	KASB
Proximity to IFRSs	100%	Close to IFRSs (More than 90%?)
Frequency of changes	Updated as IFRSs is issued or updated	Once a year or more



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Malaysia

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3. Areas of highlight
   (1)Anticipated pros and cons for IFRS adoption
   (2)Transitional Arrangement
   (3)Maintenance of national accounting standards

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1. Country Profile

a. The **MFRSs** (**word-for-word IFRS,** except for the minor modifications) were issued with an effective date of **2012/1/1**.

b. All companies are required to apply MFRS, except for entities that falls under the following categories:
   - Transitioning Entities ("TEs") *

     * For financial periods beginning on 2018/1/1, the availability of TE status expired.
   - **Private Entities**, entitled to use MPERS(Malaysian Private Entities Reporting Standards, word-for-word the IFRS for SMEs).

MFRSs (in English) is almost identical to IFRSs!

c. Following summarizes the accounting standards applicable to companies under each category.

	All companies (other than private entities)	**Private Entities**	**Foreign companies**
Accounting standards	MFRSs	MFRSs or MPERS	IFRSs, US GAAP, UK GAAP, Australian GAAP

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2. Major Events

Year	Major events
1997	Parliamentary Act established MASB, conferring **MASB Standards** a legal standing for all companies. Principles of standards developed were based on IASB standards with additional guidance.
2005& 2007	MASB Standards were renamed to **FRS** and the standards were revised to be virtually identical with IASB standards.
2008	Announcement of convergence plan with IFRS by 1 Jan 2012.
2009	Convergence Task Force was set up by the MASB.
2010	Application of IAS 39 as FRS 139 MASB issued Guidance on Disclosures of Transition to IFRSs.
2008-2012	MASB issued new standards, amendments and interpretations, making the Malaysian standards in line or closing the gap with IFRS.
2012	Full convergence to IFRS, saved for Transitioning and Private Entities

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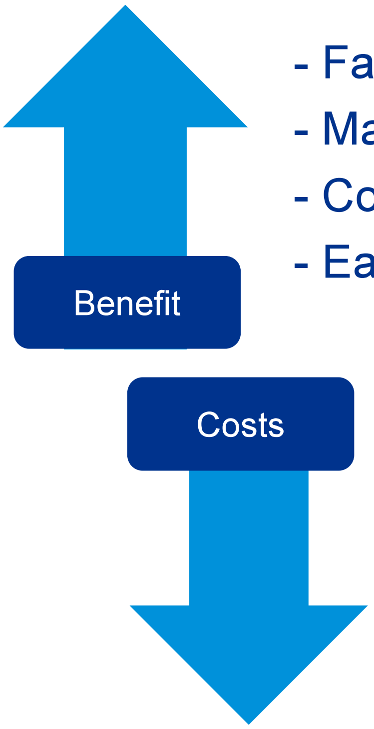
3. Highlight - (1) Pros and Cons for New PRC GAAP



- Facilitate comparison of FS worldwide
- Malaysia not left out from the global wave
- Cost-effective for multinational companies
- Easier access to capital

Not just accounting, various tasks are required for transition (e.g., stakeholder relations, internal controls)

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3. Highlight - (2) Transitional Arrangement

- Due to expected significant challenges, exceptions were granted to the following industries:
  - **Agriculture Industry –** measurement of **bearer biological assets** (IAS 41)
  - **Real Estate Industry –** Recognition of **revenue** (IFRIC 15)
- Entities affected by either/both of IAS 41 and IFRIC 15 are defined as "Transitioning Entities" (TE) by MASB.
- TEs were given an option to not adopt MFRSs on 2012/1/1, before issued are resolved by amendments to IFRSs.
- For financial periods beginning 2018/1/1, TE status expired due to amendment to IAS 41 and issuance of IFRS 15.

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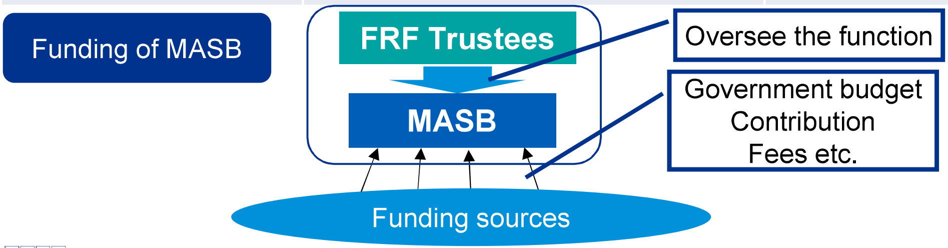
3. Highlight - (3) National Accounting Standards

- In addition to MFRSs, MPERS is applicable in Malaysia as shown below.

	MFRSs	Accounting Standards for Small Enterprises
Who use the set of standards?	All companies	Private Entities
Responsibility of the standards	Almost identical to IFRSs (as issued by the IASB)	MASB
Proximity to IFRSs	Almost 100%	Close to IFRS SMEs
Frequency of changes	Updated as IFRSs is issued or updated	Once a year or more



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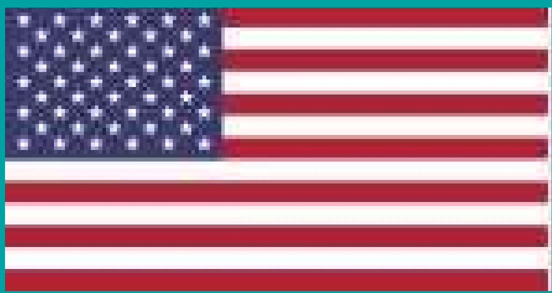
United States



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   (1) Draft IFRS Roadmap issued in 2018
   (2) Maintenance of national accounting standards

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1. Country Profile

a. IFRSs is not permitted for US domestic issuers.

b. IFRSs is permitted for foreign private issuers

- Use of IFRS in US: **About 500 foreign SEC registrants** (**capitalization of US 7 trillion**):

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2. Major Events

Year	Main events
2002	"The Norwalk Agreement" was published to affirm that FASB and IASB will work toward the development of high-quality, globally accepted accounting standard.
2006	**Roadmap** and MoU between the FASB and the IASB were issued.
2007.	**SEC announced end of U.S.GAAP reconciliation for foreign private issuers.**
2008	SEC started to explore whether to require or permit IFRSs for US domestic issuers. .
2011.	SEC Staff Paper " Work Plan for the Consideration of Incorporating IFRS into the Financial Reporting System for U.S. Issuers", which exploring a possible method of incorporation was released.
2012	SEC Staff Paper "Final Staff Report on Work Plan for the Consideration of Incorporating IFRS into the Financial Reporting System for U.S. Issuers " was released.

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3. Highlight - (1) Draft IFRS Roadmap issued in 2008

(Draft Roadmap issued in 2008)

3-year period was anticipated before implementation.

Year	Anticipated timetable
2008	Roadmap was published.
2009	Public Comments were sought.
2011	The Commission was supposed to determine whether to proceed with rulemaking to require that U.S. issuers use IFRS beginning in 2014
2014	IFRS filings was anticipated to begin for large accelerated filers*
2015	Accelerated filers** would begin IFRS filings
2016	Non-accelerated filers***, including smaller reporters, would begin

* Large accelerated filers: Exchange Act reporting company with market value of common equity held by non-affiliates of $700 million or more

**Accelerated filers: Companies with an aggregate market value of voting and non-voting common equity held by non-affiliates of the issuer of $75 million or more.

***Non-accelerated filers: Companies that does not meet definition of SEC registrants of either "accelerated filer" or "large accelerated filer"

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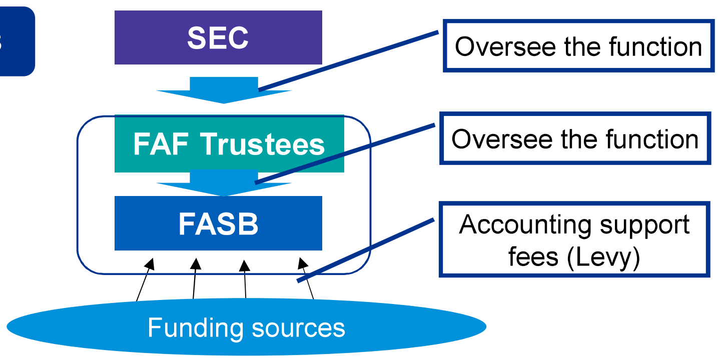
3. Highlight - (2) National Accounting Standards

- Accounting standards: US GAAP
- Responsible party: Financial Accounting Standard Body (FASB)
- Funding mechanism of FASB: Subscription and publication revenue, **accounting support fees** (that is levy to issuers and auditors and largest), and investment income.

Funding of FASB



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Others

1. EU - Use of IFRSs (1/2)

- EU adopted IFRSs in **2005**.
- Use of IFRSs: All **European companies whose securities traded in a regulated market in Europe** are required to adopt IFRSs for the consolidated financial statements.
- Third country companies: Required to use IFRSs, unless local standards are permitted by European Commission (**equivalence assessment**)
- Carve-out: Limited modifications to IFRSs (curve-out of IAS 39 *Financial Instrument: Recognition and Measurement*)
  (*The modifications affect a limited number of companies; the majority of companies state full compliance with IFRSs)
- Translation: Translated into local languages (**24 official languages**)
- IFRS-SMEs: **Not adopted**

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1. EU - Use of IFRSs (2/2)

- Carve-ins / Carve-out
  - Repeated discussion as to whether to allow ‘carve-in’ option
- Stand-alone (non-consolidated) financial statements
  - Some countries permit the use of IFRSs for non-consolidated financial statements, while others not.
- Alignment with financial supervision

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2. Canada - Use of IFRSs (1/2)

- Canada adopted IFRSs for most publicly accountable enterprises since **2011** (‘**Big-bang**’ approach) in accordance with the roadmap published in **2006.**
- Mandatory adoption had been **deferred** for:
  - investment companies and life insurance enterprises until 2014, and
  - entities with rate-regulated activities until 2015
- US SEC registrants are permitted to use US GAAP
- No modifications to IFRSs
- Translated into French (translation is coordinated by the IFRS Foundation)

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2. Canada - Use of IFRSs (2/2)

- Accounting standards for foreign companies: One of the following
  - IFRS, US GAAP or Accounting principles of home jurisdiction
- Developed separate strategies for each type of reporting entities (i.e., Public accountable enterprises, Private enterprises, and Not-for-profit organizations)
- Broadly, three categories:
  - Public accountable enterprises (PAEs): Must use IFRSs
  - Private enterprises: Not required to adopt IFRSs
  - Not-for-Organizations (NPOs): Canadian GAAP

	PAEs	Private Enterprises	NPOs
Accounting standards	IFRSs	Canadian GAAP or IFRSs	Canadian GAAP (for NPOs)

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3. Australia - Use of IFRSs (1/2)

- Decision to adopt IFRSs has made in **2002**

3-year preparation

- Australia has adopted IFRSs since **2005**
- All entities are required to follow Australian Accounting Standards which incorporate all requirements of IFRSs.
- IFRS-SMEs: **Not adopted**
- **Modifications to IFRSs:**
  - At the time of initial adoption in 2005, AASB made a number of changes to IFRSs (deleting some options permitted under IFRSs)
  - In 2007, changes made by the AASB rescinded (some Australian-specific additional disclosures still remain)

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3. Australia - Use of IFRSs (2/2)

- Additional requirements / guidance
  - Additional guidance is provided for for-profit entities (e.g., IFRS 6 *Exploration for and Evaluation of Mineral Assets*)
  - Additional standards required for life and general insurers
  - Additional interpretations (e.g., depreciation of long-lived physical assets, goods and services tax, and tax consolidation accounting)
- Applicable accounting standards

	Tier-I	Tier-II
Scope	Profit entities in the private sector that have public accountability the Government and State, Territory and Local Governments	Profit private sector entities that do not have public accountability Not-for profit private sector entities Public sector entities other than those in Tier I
Accounting Standards	Australian Accounting Standards	Australian Accounting Standards Reduced Disclosure Requirements

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Wrap Up

Wrap Up

- In virtually all capital market in the world, IFRSs is used as a basis of preparing consolidated financial statements, to some extent.
- Yet different countries take different strategies, depending on their relevant situations.
- A big decision is to 'adopt' IFRSs or 'converge' national accounting standards with IFRSs as well as 'to what extent' IFRSs should be applied when IFRSs is adopted.
- Even after 'adopting' IFRSs, many countries maintain national accounting standards, and role of a national accounting standard setter remains important.
- Many countries struggle to locate sufficient funding to support activities of national accounting standard setters, and different countries take different approaches.

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