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Regulatory Notes

Optimal approach and timeline for IFRS adoption in Vietnam: Perceptions from accounting professionals

Duc Hong Thi Phan [a,*], Bruno Mascitelli [b]

[a] *University of Economics and Law, Vietnam National University of Ho Chi Minh City, Vietnam*
[b] *Swinburne University of Technology, John Street, Hawthorn, Melbourne, Victoria, Australia*

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A B S T R A C T

The International Financial Reporting Standards (IFRS) is attracting significant scholarly attention especially in markets where decision making on its adoption is approaching. Vietnam is one such market. This paper presents research based perceptions from Vietnamese accounting practitioners and academics with regard to the optimal approach and timeline for IFRS adoption in Vietnam. Extensive research during 2012 was conducted in Vietnam involving over 3000 questionnaires sent to Vietnamese auditors, accountants and accounting academics in relation to perceptions of IFRS and its suitability for Vietnam. A total of 728 useable responses were obtained resulting in a 24% effective response rate. A consolidated cohort from these responses indicated that IFRS adoption should be voluntary and not mandatory. Moreover the results also suggest that a moderated and slow adoption be utilized. A 5 year period of transition and preparation to IFRS implementation to better engage and migrate to the new system rather than a strict implementation deadline emerged as an indicated approach. This research and its findings will provide evidence based outcomes for Vietnam which will better prepare policy makers, accounting practitioners and educators to more effectively implement IFRS.

1. Introduction

To date, approximately 130 countries have adopted International Financial Reporting Standards (IFRS), or are in the process of adopting IFRS, including G20 major economies as well as a further 110 other countries. Nearly all of the 130 countries have made public commitments supporting a vision of a single set of higher quality global accounting standards based on IFRS. In some countries such as Bermuda, the Cayman Islands, and Switzerland, even in the absence of public support from the relevant authority, IFRS are commonly used by listed companies of these countries. The vision of global accounting standards has also been publicly supported by many international organizations, including the World Bank (WB), International Monetary Fund (IMF), Basel Committee, International Organizations of Securities Commissions (IOSCO), and the International Federation of Accountants (IFAC). Approximately 105 countries have fully adopted IFRS. The 105 countries include countries that have adopted IFRS word for word as their national accounting standards (including Australia, Hong Kong, and New Zealand); and other countries which require IFRS reporting for all or most publicly listed companies trade on a regulated market like in Europe. The 105 countries also include four countries that have adopted recent, but not the latest, bound volumes of IFRS, including Macedonia, Myanmar, Sri Lanka, and Venezuela. Those four countries are working to update their adoption to the current version of IFRS (IFRS, 2014).

Close scrutiny of emerging and developing markets indicates that IFRS adoption is increasing. Though currently not a mandated user of IFRS, Vietnam is approaching IFRS in a voluntary manner in which Vietnamese businesses report along a dual reporting basis or where appropriate,

* Corresponding author. Tel.: +61 3 9214 5316; fax: +61 3 9819 5346.
E-mail address: duchongthiphan@swin.edu.au (D.H.T. Phan).

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provide additional disclosure information. In a practical manner, Vietnamese publicly listed companies, especially cross listing companies in overseas stock markets, produce two separate financial statements – one set in accordance with the current mandated Vietnamese accounting standards (VAS) – and a second set of statements for IFRS provisions. Many subsidiary companies of multinational firms in Vietnam are obliged to provide dual reporting to adhere to parent company consolidation reporting needs. The State Bank of Vietnam and other large financial institutions comply with IFRS reporting conventions though the motives for Vietnamese businesses adopting IFRS are still not entirely understood. This paper will provide a clearer set of criteria when addressing the question of what the perceived optimal approach and timeline will be for IFRS adoption in Vietnam.

The debate over the adoption of IFRS or the convergence progress between Vietnamese Accounting Standards and IFRS has been going on over a decade. However, as of this moment, the Ministry of Finance (MoF), the Vietnamese government agency which has the authority to issue accounting legislation, has still not decided on the roadmap or pathway towards IFRS. This is in part due to issues involving the high cost of adoption, the debate over whether IFRS are suitable for financial reporting in Vietnam's context and not to be forgotten, whether Vietnamese accounting professionals are ready for conversion from the VAS which is said to be "rules-based" and "centrally planned economy oriented" to IFRS, which are "principles-based" and "capital market oriented". This is a migration to a set of standards very different from the current Vietnamese accounting regulations and practices.

The study evaluates the support and opposition in switching from VAS to IFRS by taking into consideration the views of three different accounting stakeholder groups in Vietnam (i.e. public auditors, corporate accountants and accounting academics). The findings of the study are anticipated to provide useful and timely information to the Vietnamese Accounting Standards Boards, formed in 2011, in making favourable decisions affecting accounting practices, which in turn, will support the social and economic development in Vietnam.

This paper will be organized in the following manner. Section 2 will review the literature related to global adoption of IFRS and its trends. Section 3 of the paper will present the research methodology and will be followed by an analysis of the survey findings in Section 4. Section 5 of the paper will offer recommendations to policy makers and standard providers based on the findings of the survey. The paper will conclude indicating the limitations of this research and outcomes and recommendations for future research.

2. Literature review

Empirical studies on the effects of IFRS reporting fall into two categories, depending on whether they analyse voluntary or mandatory adoptions. Recent trends in international accounting research seem to indicate that researchers focused on voluntary adoption of IFRS within the European Union (EU) prior to 2005. Empirical studies on the economic consequences of voluntary IFRS adoptions generally analysed direct capital market effects, such as comparability, liquidity, cost of capital or the capital market effects on various market participants (Kim, Tsui, & Yi, 2011). The evidence on voluntary IFRS adoptions is somewhat mixed, but on balance suggests that voluntary adopters experience positive capital market effects (Barth, Landsman, Lang, & Williams, 2013). However, these results need to be interpreted carefully as some scholars note that significant benefits and cost savings may be evidenced but not all firms adopt IFRS voluntarily (Christensen, 2012). Since it is the firm's choice when to adopt IFRS, it is difficult to attribute any observed economic consequences to the accounting standards itself. It was revealed that some adopters seriously modified their financial reporting strategy after adoption (serious adopter), whereas others used flexibility of IFRS to keep on using their usual financial reporting strategy under the new international label (label adopters) (Daske, Hail, Leuz, & Verdi, 2013). When the two groups of adopters were pooled together, the average effects of adoption resulted in a modest effect (Barth et al., 2013).

Similarly like the voluntary IFRS adoption, many scholars, because of recent momentum, focus on the European Union (EU) members to examine the effects of mandatory IFRS (Pope & McLeay, 2011). The EU has mandated that all EU-listed companies adopt IFRS beginning in 2005. Many studies examined the market consequences of IFRS mandatory adoption on security market analysis. Both desirable and undesirable consequences are reported (Brüggemann, Hitz, & Sellhorn, 2013). The capital market analysts are expected to be key users of financial statements and will benefit the most if reporting under IFRS increases the quality, credibility and transparency of financial figures (Tarca, 2012). Empirical studies on the economic consequences of mandatory IFRS adoption leads to an increase in institutional investor demand for equities (Florou & Pope, 2012). The researchers reached a consensus that mandatory IFRS adoption improves comparability and thus leads to capital market benefits by improving information asymmetry and reducing insiders' ability to exploit private information (Brochet, Jagolinzer, & Riedl, 2013).

A large and growing body of literature has investigated the impact of IFRS adoption, both voluntary and mandatory based on the cost of equity. Empirical research provided mixed evidence. The consequence of IFRS adoption on investors in capital markets is still debated. On the one hand, the researchers argued that IFRS mandatory adoption results in a significantly lower cost of equity capital (Lambert, Leuz, & Verrecchia, 2012; Li, 2010). On the other hand, researchers found limited and mixed evidence of a cost of equity capital reduction from the pre- to post-IFRS periods in the European countries (Lee, Walker, & Christensen, 2010). Impact of IFRS voluntary adoption on cost of equity was also mixed. Karamanou and Nishiotis (2009) reported a reduction in the implied cost of capital from the firms that announced their voluntary IFRS adoption. However, Armstrong, Core, Taylor, and Verrecchia (2011) reported otherwise. An implication of these mixed results is the possibility that firms have considerable discretion in how they adopt IFRS. Economic consequences such as lower cost of capital depend on the extent to which IFRS adoptions represent a "serious" or "label" commitment to transparency