

IFRS Standards and Vietnam

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Introduction

Ladies and gentlemen, distinguished guests, it is an honour to be with you here in Hanoi. My thanks go to everyone joining us today, and to Deloitte for helping to organise this visit.

My name is Hans Hoogervorst and I serve as Chairman of the International Accounting Standards Board, or IASB. The IASB is responsible for developing international standards for financial reporting, known as IFRS Standards. We also develop a simpler set of accounting requirements for smaller, non-listed companies, known as the *IFRS for SMEs* Standard.

The IASB has been around since 2001 and I have served as Chairman since 2011. Although we are based in London, the IASB is a highly international organisation. Our staff are from around 30 different countries, many of whom are from this region.

In the last 10 years we have seen huge growth in the use of IFRS Standards around the world. Of 140 countries that we have researched, 116 now require the use of our Standards for all or most domestic companies. Most of the remaining countries permit their use. Our work is supported by all of the organisations with responsibility for the world economy, such as the G20, the World Bank, the International Monetary Fund, the Financial Stability Board and International Organization of Securities Commissions, IOSCO.

Importance of IFRS Standards

Why all the fuss about accounting? IFRS Standards may only be a set of accounting standards, but they bring huge value to the global economy. This is best described by our new mission statement, which says:

IFRS Standards bring *transparency* by providing high-quality and comparable information. This helps international investors to make more informed investment decisions.

The Standards improve *accountability* by helping to reduce the information gap between those on the inside of a company and those on the outside. This helps investors and others to hold company management to account.

And they help companies and markets to operate more *efficiently* by having a single, trusted global standard across both developed and emerging economies. It lowers the cost of capital and reduces the costs of reporting.

Transparency, accountability and efficiency are all essential ingredients of a well-functioning global economy. They foster trust, growth and long-term financial stability.

Benefits to Vietnam

This is all highly relevant for emerging and developing economies, such as Vietnam.

Vietnam is already a successful country. The Doi Moi reforms introduced 30 years ago have transformed Vietnam's economy. Modern Vietnam is a young, vibrant place with high levels of literacy and an abundance of natural resources. Your membership of the World Trade Organization (WTO), of Association of Southeast Asian Nations (ASEAN) and most recently the Trans-Pacific Partnership (TPP) provides Vietnam with a wealth of opportunity.

The challenge of today is how to unlock that opportunity, and in doing so to continue to maintain the high levels of economic growth in the coming years.

One of the most obvious ways to achieve this is to make sure that Vietnam is an attractive place for international investors to invest. Looking at both GDP and market capitalisation for the larger ASEAN economies, Vietnam's capital markets are in a developing stage relative to your ASEAN peers. The gap is best explained by relatively low levels of institutional and foreign participation in Vietnam's capital markets. Bringing these levels up to the ASEAN average is a great way to maintain long-term investment in the Vietnamese economy.

IFRS Standards have a very important role to play here.

When a country adopts IFRS Standards, it removes a major obstacle to inward investment. International investors are entirely familiar with the Standards, and that familiarity increases the attractiveness of investing. IFRS Standards allow them to compare and contrast the financial performance of companies on a like-for-like basis across more than 100 different countries.

Academic research shows that most emerging economies adopting IFRS Standards see a reduction in their cost of capital. IFRS Standards provide companies with a passport to gain access to almost every capital market in the world, including those in Europe and the United States.

And when a country adopts IFRS Standards, it is making a public commitment to the highest standards of financial information and investor protection. That is why IFRS Standards are

one of the core international standards recommended by the Financial Stability Board, the World Bank and IOSCO.

These are important messages to long-term investors when deciding where to invest. And these are the main reasons why Vietnam would benefit hugely by plotting a path towards full adoption of our Standards.

The Vietnam Ministry of Planning and Investment and the World Bank reached a similar conclusion when they published a major joint report a few weeks ago. That report, called ‘Vietnam 2035’ recommends that Vietnam accounting standards should become consistent with IFRS Standards, in order to deepen capital markets and to make foreign investment more attractive.

Such a step would bring Vietnam fully in to line with the Vietnam 2035 vision, with ASEAN policy, with many other successful ASEAN economies and with most of the rest of the world.

It would be a huge ‘Welcome to Vietnam’ sign for international investors. Vietnam would join a highly prestigious list of countries that have completed their transitions to IFRS Standards.

Adopt or adapt?

One of the big questions for Vietnam, or indeed any country looking to update its accounting standards, is whether to adopt IFRS Standards, or to modify IFRS Standards to meet local requirements. Most countries consider this question, and the vast majority of countries adopt IFRS Standards without making any changes.

The big reason is economics. If a country adopts IFRS Standards to attract foreign capital, then developing a country-specific version of the Standards makes no sense. International investors just don’t have the time to study local variations to IFRS Standards. Even small changes make them nervous about the quality of the standards. Investors have plenty of investment opportunities around the world. The benefits of adjusting IFRS Standards are tiny when compared to the international recognition that comes with full adoption.

A further reason is one of simplicity. Taking IFRS Standards off the shelf, as more than 100 other countries have done, is much easier and quicker than trying to make your own modifications. We have a technical staff of 90 people trying to get this right. It makes a lot of sense for you to work with us and benefit from these resources, rather than trying to go it alone.

Finally, there is the question of capacity-building. Vietnam has a very young accountancy profession. Developing the profession is going to be a lot easier when you can tap in to a wealth of IFRS materials, resources, training courses and people from around the world.

For these reasons, I strongly encourage Vietnam to join the IFRS family of nations by fully adopting our Standards. You have my commitment as Chairman of the IASB to be with you on every step of that journey. You will be in very good company.

IFRS Standards around the world

Perhaps the best-known region for using IFRS Standards is the European Union. However, analysis shows that use of the Standards is almost total across the rest of Continental Europe. We also have almost total use of IFRS Standards across South America, with countries representing more than 99 per cent of South American Gross Domestic Product requiring the use of the Standards.

Asia too has very high levels of IFRS adoption, with three-quarters of all jurisdictions surveyed now requiring the use of IFRS Standards. However, the remaining quarter includes some of Asia's largest economies.

The good news is that in the last year or so, we have seen substantial progress within these large Asian countries.

In Japan, IFRS Standards have been optional since 2011. The number of companies choosing to adopt the Standards has significantly accelerated and has now doubled in less than two years. Two weeks ago, the Japanese *Nikkei* newspaper announced that more than 100 of Japan's most internationally-oriented companies have now announced their intention to voluntarily adopt IFRS Standards. Those companies represent around 25 per cent of the total market capitalisation of the Tokyo Stock Exchange.

India is in the process of adopting new accounting standards, known as 'Ind AS', that are substantially converged with IFRS Standards. Some differences remain, so we have not included India in the list of 116 countries. However, credit where credit is due, these new Indian standards are very close to IFRS Standards and word-for-word in most cases. These new standards will provide investors with much better information. I was in India last month, and momentum towards full convergence with IFRS Standards is very strong. We are committed to working with the Indian authorities, in order to eliminate the remaining differences between Ind As and IFRS Standards.

Back in 2005, the Chinese authorities agreed to work together to converge Chinese Accounting Standards with IFRS Standards. The agreement, known as the 2005 Beijing Agreement, was modelled on the 2002 Norwalk Agreement between the IASB and the US FASB. Over time, the agreement has led to Chinese Accounting Standards becoming substantially converged with IFRS Standards. Again, because of the remaining differences we have not included China within the list of countries that have fully adopted IFRS Standards.

However, a few months ago the IASB and the Chinese Ministry of Finance jointly announced a substantial update to the 2005 Beijing Agreement. The agreement reaffirms China's ambition to achieve full convergence with IFRS Standards and establishes a joint working

group to explore further use of the Standards in Mainland China, especially by China's most internationally-oriented companies. Moreover, we also understand that the new Asian Infrastructure Investment Bank intends to report using full IFRS Standards.

In addition to developments at a country level, we are encouraged by developments within this region, led by ASEAN. In November 2015, ASEAN published its 'Economic Community Blueprint' that set out to create an open, transparent and predictable investment regime for the region.

We have already discussed how IFRS Standards contribute to openness and transparency. Most of ASEAN's members already require the use of IFRS Standards, so an ASEAN-wide approach to adopting the Standards would make a great deal of sense.

The European Union provides ASEAN with a useful case study of region-wide use of IFRS Standards. Last year, the European Union completed a major review of its decade-long experience of the Standards. The review found that IFRS Standards had helped to create a common language for capital markets across Europe, while European companies and investors all supported the move. We are keen to work with ASEAN in developing their plans. This week, we helped organise an IFRS workshop for regulators from the ASEAN countries to provide support with IFRS implementation issues.

Helping overcome the challenges for emerging economies

There are of course many challenges that come with adopting IFRS Standards, particularly for emerging economies. Keeping up to date with changes in the Standards is not always easy. It can be difficult for smaller countries with fewer resources at their disposal to become involved in our work.

Here in Asia, we are strong supporters of the Asian-Oceanian Standard-Setters Group (AOSSG), of which Vietnam is a founding member. The AOSSG does an excellent job in co-ordinating feedback from across the region, as well as in undertaking research work in collaboration with the IASB. It provides a very effective way for countries such as Vietnam to get involved in our work, and to influence the future direction of IFRS Standards.

Encouraged by the G20, we have also created an Emerging Economies Group, to better understand the particular challenges that such countries have in applying our Standards. To give just one example, the Group has devoted considerable time discussing the pitfalls of fair value accounting in emerging economies. Because in these economies markets are often not fully mature, fair value measurement can be quite challenging. Discussing these issues helped emerging economies in applying our Standards.

These discussions have also really helped the IASB to better understand issues that are important to emerging economies and to make changes to Standards where appropriate. A great example of this is the amendments made to IAS 16 and IAS 41 on *Agriculture: Bearer Plants*, but there are also several interpretations that have resulted from this work.

I have talked a lot about IFRS adoption around the world. Before I close, let me say a few words about our *IFRS for SMEs* Standard. We developed this Standard to meet the need of many countries with large numbers of Small and Medium-sized Entities, hence the name *IFRS for SMEs*. These countries asked us to develop an internationally recognised accounting standard that was simpler to apply than full IFRS Standards. The resulting standard is 250 pages long—about one tenth of the size of full IFRS Standards. We were able to achieve this by limiting the focus of the Standard to private companies.

This Standard has been a remarkable success. The *IFRS for SMEs* Standard is now required or permitted for use by 78 countries. Every year, tens of millions of SMEs around the world report using the Standard. It is not designed for use by listed SMEs, such as those who trade on the Hanoi exchange. But it could provide a very effective, off-the-shelf solution for use by non-listed Vietnamese companies. If this is of interest, then we will happily discuss this with you further.

Close

Ladies and gentlemen, I am grateful for your attention. I have covered a lot of ground during this speech.

I have talked about the economic benefits of IFRS adoption here in Vietnam and how IFRS adoption is fully consistent with the Vietnam 2035 vision and with ASEAN policy. I completely understand that adoption can be challenging for countries such as Vietnam, but we are keen to support you on every step of that journey.

I encourage you to think carefully about how to proceed. Modifying IFRS Standards to local requirements may seem like a simpler option. However, it rarely is. You get the pain of transition without the gain of international recognition. Do learn from the experience of others in the ASEAN region.

I am happy to answer any further questions you have.