

Press release

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IFRS 9 implementation will be the key for Vietnamese banks to reach global standards

To support Vietnamese banks in how to best prepare for IFRS 9 implementation, PwC Vietnam, in collaboration with the SAS Malaysia, organised a workshop on the topic: “IFRS 9 implementation - Embracing challenge and opportunity” in both Hanoi and Ho Chi Minh City on 20-21 September.

The workshop attracted more than 100 representatives from the Risk Management and Finance teams of commercial banks currently operating in Vietnam. At the workshop, PwC and SAS experts shared their knowledge of IFRS 9 complexities and offered practical experiences to cope with the challenges of implementing IFRS 9.

Why do Vietnamese banks need to adopt IFRS 9?

While not yet mandatory in Vietnam, many banks are now looking to implement the changes associated with IFRS 9 in order to align with global best practices, strengthen their business through improved reporting and better risk management, and attract foreign investors who may expect IFRS-compliant reporting.

“A scheme is planned to be submitted to the Government for approval wherein Vietnamese companies are divided into three groups: an IFRS-applying group, a Vietnamese Accounting Standards-applying group (VAS will be modified to align with IFRS changes, in accordance with Vietnamese characteristics) and micro, small & medium enterprises (MSMEs) group. The transition process will take place after the approval of the scheme (expected in 2019-2020) and the implementation process will start within a reasonable timeframe to ensure the practicality of these enterprises (expected in 2025-2030)”, said Mr. Luu Duc Tuyen, Deputy Head of the Accounting and Auditing Regulations Department of the Ministry of Finance (MoF) on the direction of the MoF in developing a scheme to implement IFRS in Vietnam.

At the workshop, Ms. Dinh Hong Hanh, Financial Services Consulting Partner at PwC South East Asia Consulting, said the most significant changes for Vietnamese banks will be to the impairment and provisions for credit losses which have been updated to use a more forward-looking calculation.

As IFRS 9 introduces the expected credit loss (ECL) model for all financial instruments subjected to credit risk, banks will have to hold provisions for expected future losses on all credit exposures, as opposed to the IAS 39 standard of holding provisions only for assets that have been classified as impaired.

Addressing the impacts of the new credit risk model, PwC experts foresee impairment losses to be higher moving forward with the shift from an incurred loss to an expected loss model. A recent survey of Malaysian banks based on their first quarter announcement revealed that

provisions have increased by 25% to 50% on the first day of IFRS 9 adoption, which would have direct impact to the retained earnings.

“IFRS 9 implementation will be key for Vietnamese banks wanting to provide comparable and transparent financial application and disclosures at global standards. Some of the implementation challenges will involve assessment of the business model and performance of the Solely for Payment of Principal and Interest (SPPI) test for asset classification, and also making impairment allowances based on the new expected credit loss concept. This may lead to a potential overhaul of current investment and credit management strategies”, said Ching Chuan Ong, Financial Services Leader and Assurance Partner, PwC Malaysia.

Adding to Ong’s point of view, Antonie Jagga, Partner of Financial Risk Management at PwC South East Asia Consulting, said that new expected credit loss models will enable Vietnamese banks to better manage risks in accordance with global best practices. Data quality and availability will be a key success factor for banks in their ability to build accurate and stable credit models. Banks will require robust historical data with a comprehensive list of credit loss drivers. While existing Basel models (if available) can be leveraged, banks will need to make adjustments for current economic conditions to apply to the IFRS 9 ECL calculation.

The maturity of risk management and accounting processes will determine the difficulty of adopting IFRS 9. The increasing complexity of ECL models, the need for a higher level of internal communication and the collaboration between risk management and finance teams will influence the ability to implement IFRS 9.

“IFRS 9 is an opportunity for banks in Vietnam to establish an integrated risk-finance platform to drive compliance and strengthen credit risk management systems. This will promote a sound banking system, and position Vietnam’s banks to compete on the global stage”, said James Clarke, Director of Risk Business Consulting Asia Pacific at SAS.

Comprehensive end-to-end solution for IFRS 9 implementation

“As a market leader in IFRS 9 implementation, PwC Vietnam is bringing a comprehensive end-to-end solution for IFRS 9 to the market. Utilising a global network of experienced professionals, PwC Vietnam can help businesses navigate through the complexities of IFRS 9 and draw on technical experts from both the South East Asian and global PwC offices to support the implementation”, said Ms. Hanh.

Addressing these aforementioned challenges, Ms. Hanh stressed the importance of the end-to-end approach, from providing the initial scoping and gap analysis through to developing a tailored and robust IFRS 9 reporting solution. PwC Vietnam will use advanced analytics to implement an IFRS 9 solution that can be seamlessly transferred into a streamlined reporting process while ensuring businesses have the tools they require to maintain and update their IFRS 9 reporting solution on an ongoing basis.

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Notes to editors:

What is IFRS 9?

After more than five years of deliberation, the International Financial Reporting Standard 9 (IFRS 9) Financial Instruments was published in July 2014. It was designed to address criticism of financial institutions having recognised impairment losses “too little, too late” during the global financial crisis. The new standard replaces IAS 39 as the global standard for financial reporting from the International Accounting Standard Board (IASB).

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