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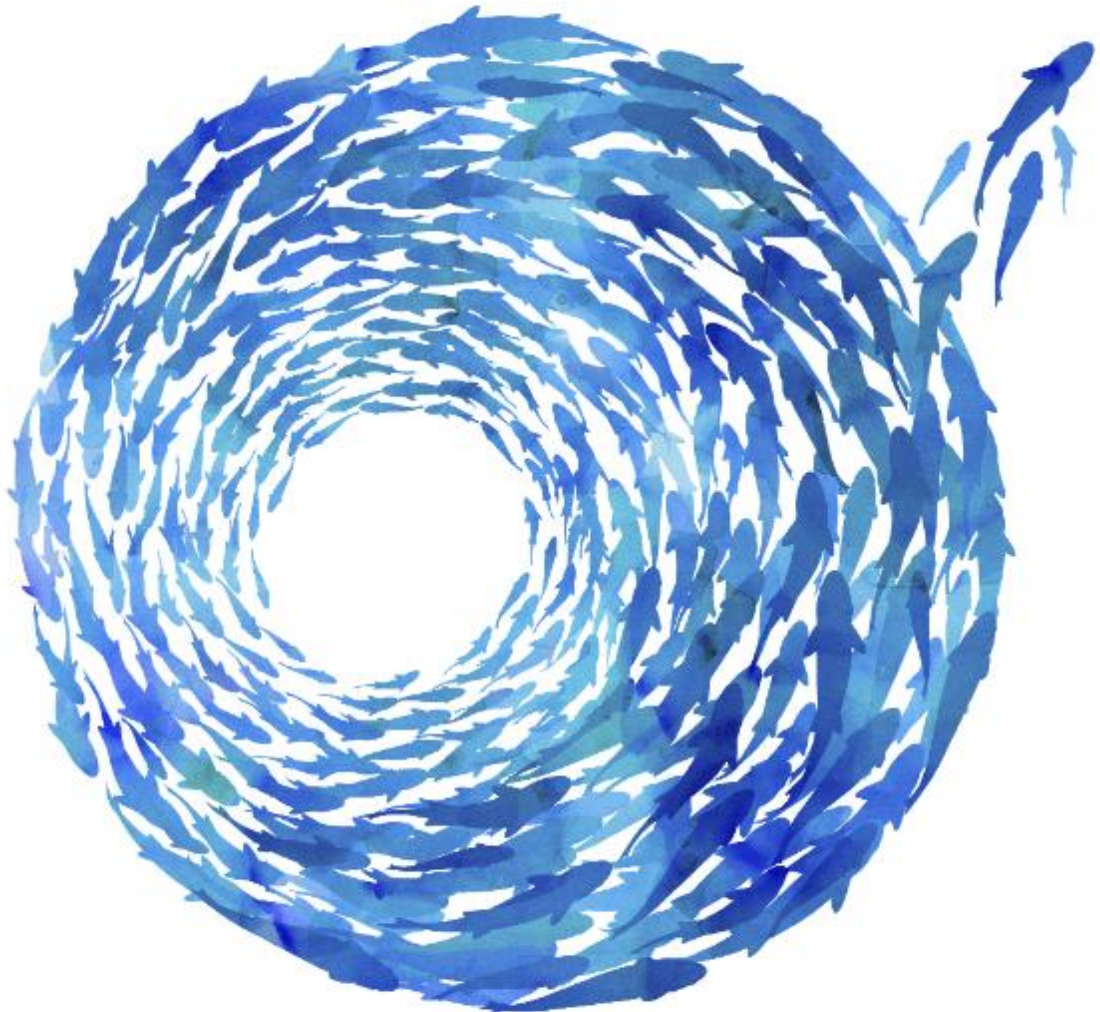


Strategic choices on the conversion to IFRS

Volume 2: Beyond compliance

Introduction

Decision No. 345/QD-BTC: Approval "Scheme for application for financial reporting standards in Vietnam" dated March 16, 2020 of the Ministry of Finance has proposed the deadlines and roadmaps for application IFRS in Vietnam, with the aim of implementing compelled application of IFRS to enable following enterprises to prepare consolidated financial statements:

- Parent companies of state-owned economic groups; parent companies which are listed companies;
- large-scale public companies which are unlisted parent companies; and
- other large-scale parent companies after 2025.

The decision comes with great challenges but also creates unique opportunities for businesses when implementing IFRS conversion.

To overcome these challenges, we at Deloitte believe that Vietnamese businesses must make an efficient and effective on transition to IFRS. At the most basic level, the businesses must gain an understanding of the measurement, classification and disclosure principles of IFRS; at the human resources level, developing and retaining IFRS-competent individuals – from line and staff positions to the boardroom.

A great and unforeseen challenge is the prolonged impact of the Covid-19 pandemic, leading to general difficulties for businesses when accessing financial resources to successfully implement the conversion to IFRS. A disciplined process focusing on significant issues and resolving them in a practical manner (as outlined briefly in publication 1: "**The scope of influence**" of this series) should be at the heart of every conversion plan.

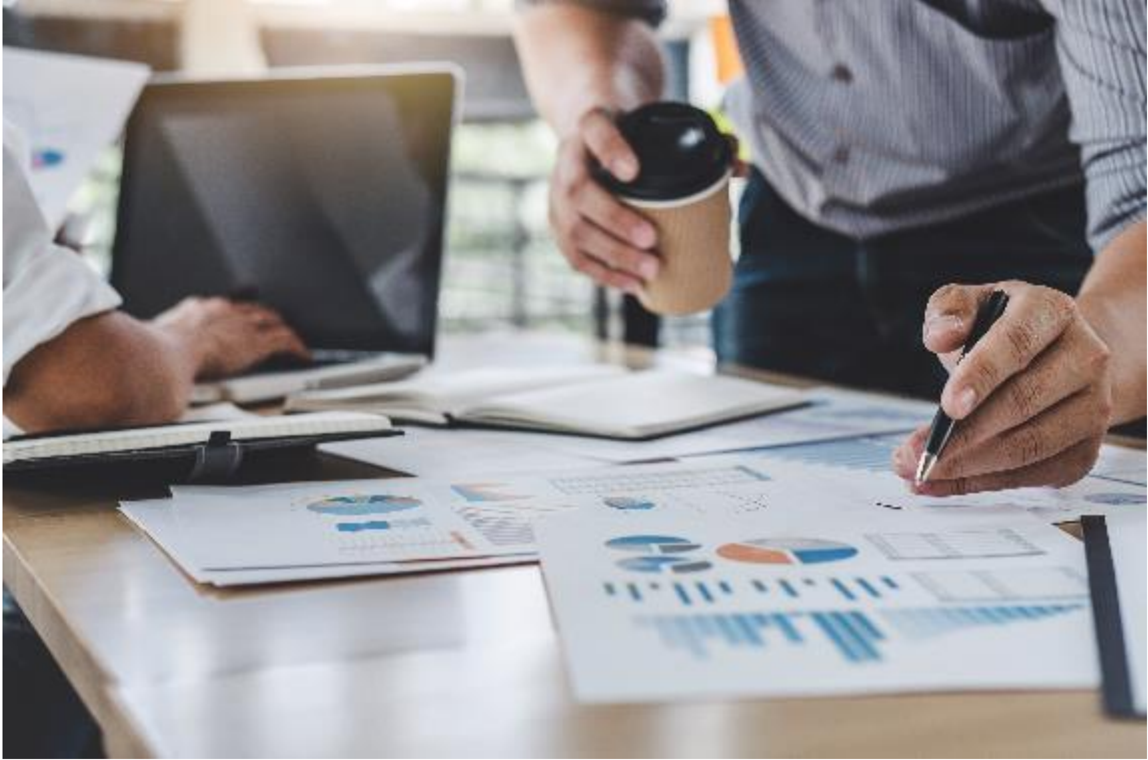
Besides the existing challenges, the transition to IFRS will bring businesses great strategic opportunities if they know how to take advantage and choose how reasonable conversion. Strategic choices are those that influence the value of the entity by affecting users' expectations of the entity's future earnings, either by changing their amounts or their classification, or by modifying their recognition timing or by increasing their volatility.

This volume 2: "**Beyond Compliance: Strategic choices on the conversion to IFRS**", is our perspective on several topics that we believe may have compelling strategic consequences. These issues have been identified and summarized of Deloitte previous IFRS conversion work with businesses in other countries where IFRS is a reality. However, the contents mentioned in this Publication does not cover all the issues that a business may encounter during the conversion. In addition, there are many potential options to bring strategic value untapped in this Publication.

The issues considered here all involve choices encountered in the conversion to IFRS, for which there are strategic consequences resulting from those choices. It is our view that these choices should be considered not only for their effects on the financial statements, but also for their wider strategic consequences.

The focus of this publication is not only on the technical accounting issues involved in conversion but also on providing insights on certain significant issues so that they can be addressed in a timely. It is not intended to be a substitute for professional advice on these matters and we cannot accept any liability or responsibility for decisions made relying on this document. It is not intended to be a substitute for professional advice on these matters and we cannot accept any liability or responsibility for decisions made relying on this document.

The responsibility for any decisions lies with the preparer who should consult their professional accountant. Nonetheless we believe that these issues should be considered in any comprehensive IFRS conversion plan.



Part 1:
Strategic choices in IFRS 1: Determining choices that could bring significant impacts beyond the financial statements' scope

IFRS 1, First-time Adoption of International Financial Reporting Standards, the standard that governs the first- time application of IFRS to financial statements, contains many specific directions, some prohibitions and numerous disclosure requirements and regulations on what is allowed or not allowed to apply. It also includes some mandatory and elective alternatives to the general rule that financial statements should be retrospectively restated for the application of all IFRS standards upon their initial adoption. .

These elections include such matters as:

- electing the initial date of application of business combination rules, thereby determining the date and manner of computation of goodwill;
- considering the using the fair value of any specific item of property, plant and equipment as its "deemed historical cost";
- electing to "zero-out" deferred actuarial gains and losses on defined benefit pension plans;
- eliminating accumulated foreign currency gains and losses arising from the translation of self-sustaining operations.

The amounts in play may be significant, and on transition may result in charging amounts to opening retained earnings that would otherwise flow through the income statement at some point in the future.

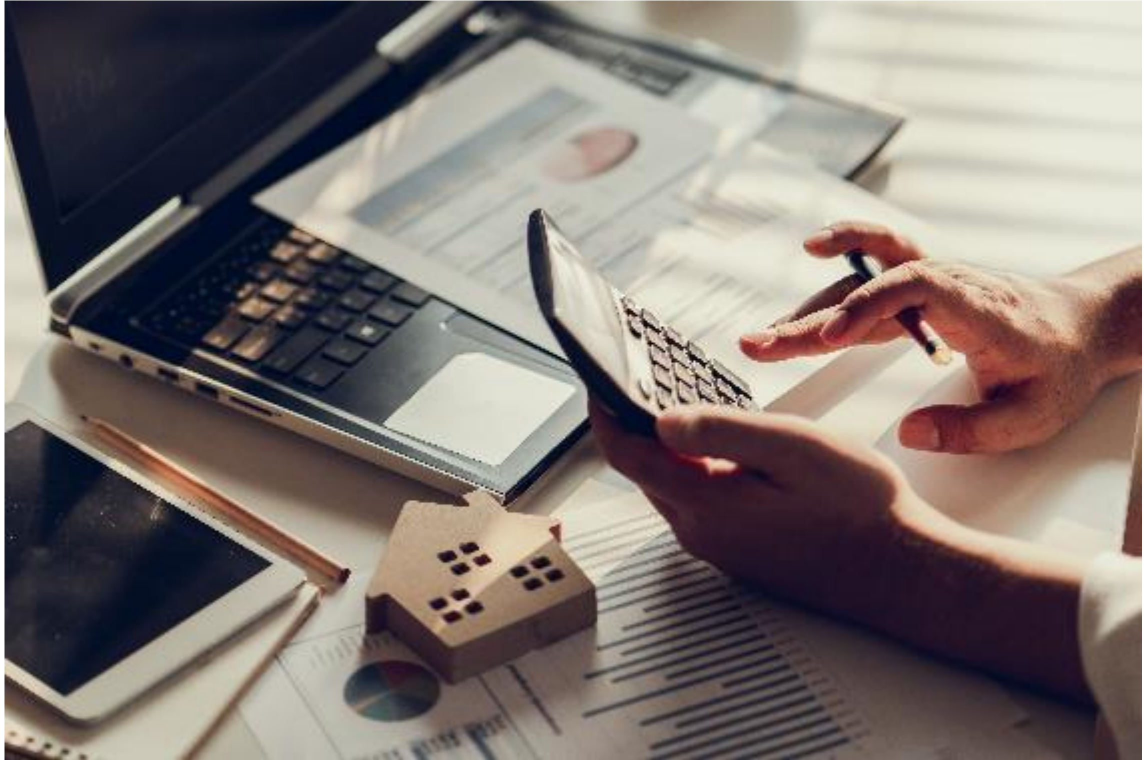
In addition, upon conversion, a specific provision of IAS 8 Accounting Policies, Changes in Accounting Estimates, and Errors permits an entity to electively change any accounting policy which it had previously applied under VAS to any alternative policy that is compliant with IFRS without having to apply the preferability test for such changes that would otherwise be required. This represents a one-time opportunity for an entity to conform its policies with industry practices regardless of their preferability, as long as the policies comply with IFRS.

These options may be of significant practical value, as they may eliminate, for example, the need to retrospectively reconstruct balances of a foreign subsidiary's cumulative translation account under IFRS or reconstruct retrospectively determined actuarial gains and losses in an IFRS compliant manner. The intent of the International Accounting Standards Board (the "IASB", the body that created IFRS standards) in providing the options is to reduce the cost of conversions – one-time cost-saving coupons as an incentive to adopt IFRS.

In addition to their practical value, these choices can provide a business with other important strategic value. In some cases, they could lead to the recognition of additional tangible net worth on the balance sheet, which could provide greater borrowing capacity and enhance future cash flows. In other cases, such as the option to “zero-out” foreign currency translation balances, the effect is to transfer amounts from one reserve account in shareholders’ equity to retained earnings—a change that may have no significance for future cash flows.

There may be tactical accounting considerations in making such elections: if an entity is considering disposing of its foreign operations, the balance of that account would be deemed realized upon the subsidiary’s disposition: a debit balance could reduce a gain or create or increase a loss. Therefore, eliminating that balance on conversion could avoid such consequences.

The transition to IFRS creates not only technical accounting effects but also strategic values for businesses. If external contractual relationships that affect cash flows depend on the balances of certain accounts, such as fixed asset balances that form the basis for borrowing limits and directly affect business future cash flow, accounting adjustments will have a direct effect on the cash flows and valuation of the business. Valuations based on cash flow expectations may also be affected by the manner in which the entity presents the results of operations, as well as by changes in business practices that are driven by the IFRS-determined financial statement consequences of a business policy.



Part 2:
IFRS policies and choices can affected reported cash flows

The process of adopting IFRS has been described by some as the substitution of one accrual accounting system for another, a change that has no impact on the entity's underlying cash transaction streams and thus does not affect the basic economics of the business. If true, the conversion to IFRS should have no impact on the valuation of the entity or its securities. Hence the adoption of IFRS would seem to be of little strategic consequence.

This assertion, however, is built on a series of assumptions that may not hold.

- First, it assumes that there are no cash consequences from the conversion itself (see Issue 4 for circumstances where this may not be true).
- Second, expectations of future cash flows are derived in part from the manner in which the financial statements present those cash flows. Upon conversion to IFRS, there are potentially several changes in the reported amounts of an entity's cash flows. These can arise from:
  - the reclassification of a transaction – such as when a transaction previously classified as an operating expenditure for a good or service is treated as an investing or financing transaction under IFRS; or
  - a reclassification of cash flows within the operating section of the cash flow statement that changes the perception of how the entity generates or uses cash.

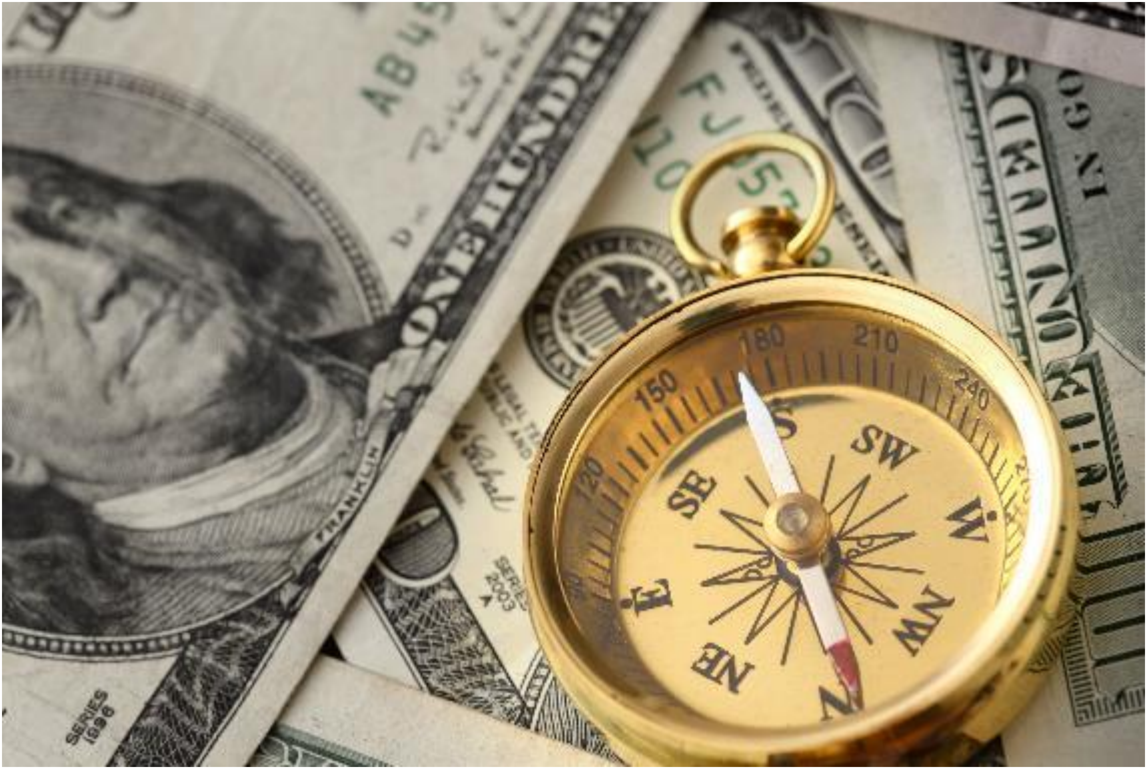
Any changes in the amount, timing or classification of reported cash flows has the potential to change expectations of the timing, amounts and uncertainty related to the cash flows that drive the enterprise value of the entity.

The cash flows reported on IFRS financial statements may differ from those reported in VAS statements for all the reasons described above. IFRS statements are more likely to consolidate entities that under VAS are off-balance sheet, thereby portraying a different volume and composition of consolidated cash flows than under VAS.

IFRS may capitalize leases that were treated by lessees as operating leases under VAS, reclassifying all or part of lease payments previously charged to operations as being repayment of capitalized lease obligations, i.e. as financing transactions rather than operating outflows.

Under IFRS entities may also elect to reclassify the cash flows related to financing charges as elements of financing activities rather than as operating activities, changing the apparent sources of cash from operations. These may influence investors' perceptions of the magnitude of an entity's operating, investing or financing cash flows.

Changing the timing and measurement of accruals made in the financial statements may also change perceptions and expectations of cash flows based on financial ratios that do not follow generally accepted accounting principles. Proxy cash flow measures derived from the income statement, such as EBITDA, funds from operations and distributable cash may change simply because of accruals. To the extent such measures drive the value of the entity, adoption of IFRS and the choices made in doing so can change the valuation drivers of the entity. Even when there may not be any choices involved, these changes should be addressed for potential strategic consequences. Changes in IFRS may require changes in business strategies, not simply accounting policies.



Part 3:
Incorporating EBITDA, operating cash flows and other "non-GAAP measures" into IFRS conversion plans

In addition to those specified by generally accepted accounting principles (GAAP), businesses sometimes use non-GAAP measures, such as "EBITDA" and "operating cash flows" to measure the performance of each business. These measures generally add back to reported earnings the non-cash charges for capital assets and goodwill, deducted when calculating profit following GAAP, for example, in the case of EBITDA, charges for taxes and interest, but do not adjust for the cash effects caused by changes in working capital. It is argued that these measures are proxies for the long-run cash flows used by investors to value the entity or its assets, and are used in addition to GAAP measures.

In many established IFRS regimes – the U.K., the E.U., and Australia, non-GAAP measures are frequently disclosed in IFRS compliant financial statements, although the extent of use varies significantly as a matter of national practice. Examples include their disclosure as measures of segment performance in the operating segment note; subtotals, reconciliations, or separate analyses on the face of the income statement; or as a separate note to the financial statements.

The inclusion of these measures in IFRS financial statements is arguably supported by IAS 1 Presentation of Financial Statements, which states that "an entity shall present additional line items, headings, and sub-totals in the statement of comprehensive income and the separate income statement (if presented) when such presentation is relevant to an understanding of the entity's financial performance. Anecdotal evidence provided by investors, analysts and financial executives indicates that non-GAAP measures – such as EBITDA and underlying earnings computed exclusive of non-recurring items—are relevant to their analyses, and are frequently requested by analysts.

In addition, with the wide usage of non-GAAP items in the financial statements prepared according to VAS, it is likely that such measures provide information of some strategic value to investors. Assuming such practices are not prohibited by regulators in Vietnam, reporting such measures in IFRS financial statements may have strategic value, which is already recognized in other countries. Because of the nature of the measures i.e. the exclusion of certain cash transactions and other items, entities that report such measures should exercise prudence: transparency, comparability, and consistency should govern their usage.

If possible, entities should establish that:

- financial analysts in fact employ such data;
- that measures are employed by the entity in monitoring the results of operations or financial condition, and
- that the measures are carefully and consistently applied, i.e. they are well defined, unbiased in application and do not simply exclude unfavourable items or only include favourable results.

Their use in financial covenants and in other contractual arrangements such as lease agreements would demonstrate their external utility. The values of these items should be reconciled to the IFRS-compliant income statement, if they are not already embedded in the income statement to ensure data reasonableness.

Part 4:
The benefits of using fair value as deemed cost of property, plant and equipment on transition

On first-time transition to IFRS, IFRS 1 permits an entity to use fair value as the deemed cost of any item of property, plant and equipment. This option simultaneously creates opportunity for benefit and anxiety about its use. The opportunity for benefit arises from the fact that many assets carried at historical cost under VAS may be significantly undervalued, even in recessionary times: increasing their carrying value to fair value may generate costless additional borrowing capacity, and thereby change the entity's cash flows. The anxiety may arise from a sense of questionable motive: writing up assets to fair value seems so inconsistent with VAS or the spirit of financial reporting in Vietnam so far.

There are many reasons why assets may be carried at significantly less than their fair value. The asset may have been:

- acquired decades ago; or
- been acquired from related parties and recorded under GAAP at its predecessor's carrying value, even though the fair value of the consideration was significantly higher; or
- acquired by transfer from a government or government entity where it was carried at nominal or no value upon the transferor's books.

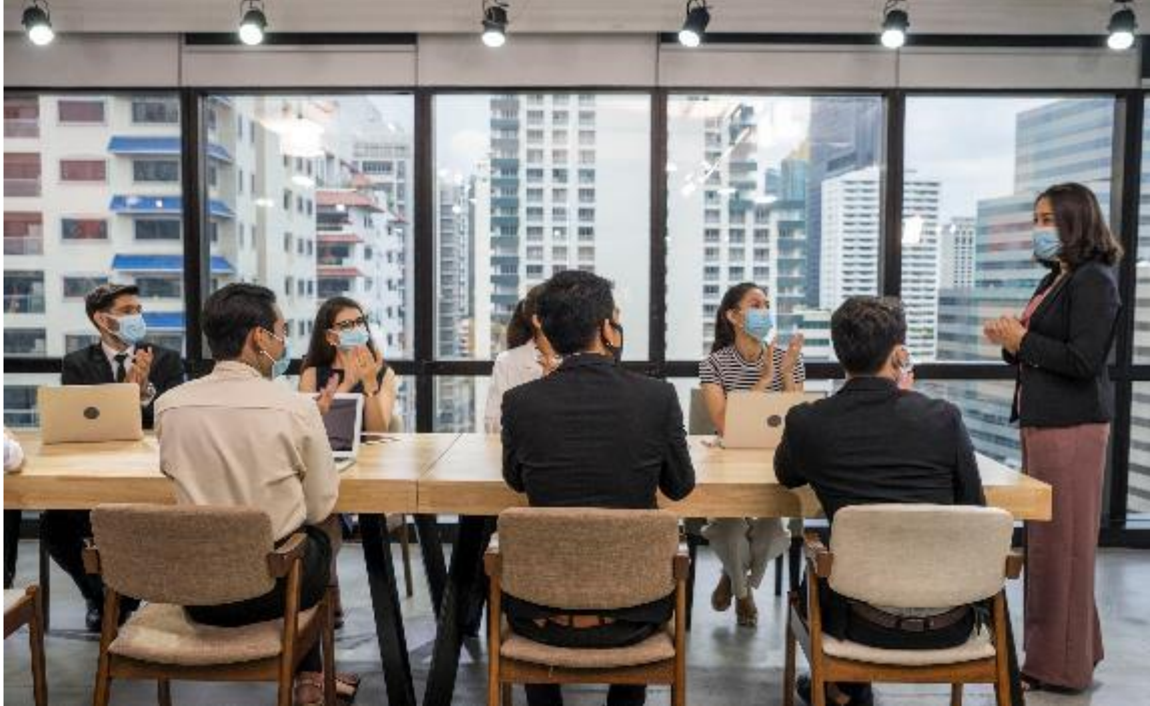
The adjusting entry to use fair value as the deemed cost would be simply a debit to the specific asset within the property, plant and equipment account and a corresponding credit to shareholders' equity in the opening balance sheet. The new "deemed cost" would be the new cost basis for subsequent impairment testing and depreciation expense for depreciable assets.

The benefits of making adjustments from cost to fair value range from the abstract to the highly practical. At the conceptual level, it provides more realistic measures of the value of the assets consumed, which may be highly relevant for determining the entity's "distributable cash" providing depreciation using recent fair values, not historical costs.

There are also the strategic benefits of increasing an entity's reported tangible net worth, which may have a beneficial impact on financial flexibility, as noted above, particularly if covenant compliance is narrow or if the carrying values of other assets are found to be impaired as the result of the first-time application of IFRS impairment tests. An election on transition that could address potential covenant violations and not accelerate debt repayments would have a direct impact on the entity's cash flows.

The determination of the fair value of an asset or group of assets may be simple, or it may incorporate wide-scale determinations. The fair value of a readily-marketable asset for which there is an active market is one end of the spectrum. At the other end of the spectrum are "network assets," where no particular physical asset (other than a very large aggregation) generates cash flows independently of any other. Examples of such networks abound: telecommunications systems, railways, the branch network of financial institutions, and chain stores that are supplied through common distribution centres may all be network-based assets.

Fair values of such productive assets are generally estimated, not directly observed. In determining fair value, the cash flows would include the synergies of network operation but also the expected consequences of technological change embodied in capital investments. An understanding of the relationships between an industry's revenue and cost structures, technology and finances is required to determine the relevant fair value, which is the price at which an arm's length transaction could occur, could be attributed to the specific assets. Entities that use such fair value measures may have a competitive advantage: their use deserves serious consideration. Entities should also assess the additional effort and cost potentially required to obtain reliable fair value.



Part 5: Employee compensation including defined benefit pension plans: important options on conversion

The recognition, measurement and classification of employee compensation expense and obligations in IFRS financial statements may differ substantially from the manner in which it is reported under VAS. While IFRS have IAS 19 that regulates the recognition of employee benefits, VAS does not have an equivalent standard.

This change will affect the balance sheet and income statement. Thus, when applying IFRS, the costs and liabilities arising from the benefit plans and their impact on the financial statements of the enterprise will become one of the most important factors and should be considered to create strategic value for the business when building employee benefits.

Since there is no equivalent standard under VAS, the transition to IFRS would make significant differences in the accounting for employee compensation and benefits funds. The costs of stock compensation plans with graded vesting schemes are recognized on an accelerated basis under IFRS. Certain employee share ownership (ESOP) trusts not consolidated under VAS may be consolidated under IFRS. The shares issued to such trusts would not be reflected as issued capital in the consolidated statements of the sponsor, but rather may be reflected as a credit to a reserve account. The shares would also not be considered as issued for the computation of earnings per share (EPS).

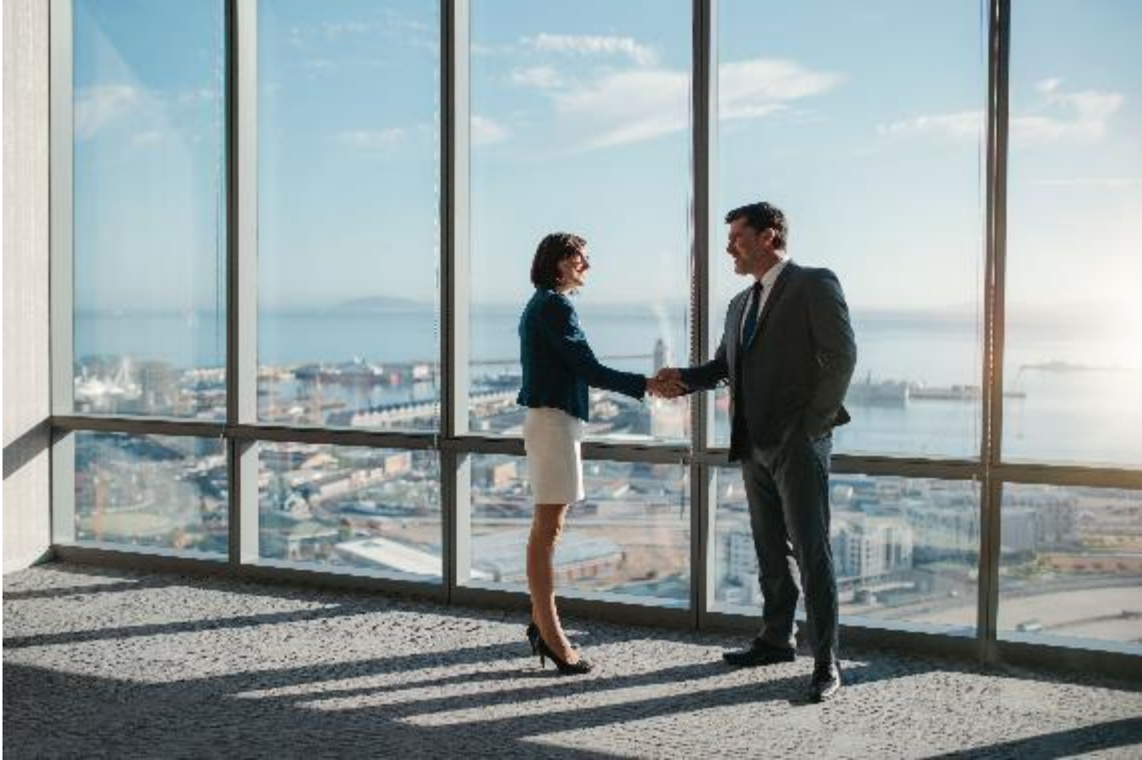
IFRS reporting entities also commonly reclassify elements of defined benefit pension plan expense – such as the unwinding of the discount on the plan liability and the return on plan investments – as financing income and expenses rather than as operating costs. Such re-classifications change the perceptions of the costs of benefits attributable to the current period's operations as opposed to the income and expense arising from the assets and liabilities of the pension plan.

On conversion to IFRS, an entity may also elect to eliminate any unamortized balance of actuarial gains and losses in defined benefit plans at the date of conversion. Avoiding the future expenses from any such deferred losses is a powerful incentive for making this election. The opening IFRS balance sheet presentation of defined benefit pension plans by a sponsoring entity may then be simply a liability equal to the excess of the plan's actuarial obligations over the fair value of the plan assets as at the date of the balance sheet (or an asset to the extent there is a useable surplus of assets over the actuarial obligations). The decision to "zero-out" deferred actuarial gains and losses would seem to be a simple one, particularly if an entity has deferred actuarial losses that would otherwise depress future earnings and it would require extensive actuarial calculations to determine the amount to defer. However, there would be no direct change in the cash flow consequences.

A longer-term accounting policy choice, which is not available under VAS, is whether the entity should adopt a policy of deferring actuarial gains and losses, or recognize the amounts in income as they occur, because this option was not previously regulated by VAS. This decision is independent of the decision to "zero-out" balances on conversion. The immediate recognition of such amounts will undoubtedly add volatility to compensation expenses.

However, the deferral of actuarial gains and losses – particularly if losses accumulate year over year – may result in a significant expense overhang. Neither accounting policy changes the cash costs of the plan. But the choice may have strategic consequences: the decision amounts to a trade-off between expense volatility and the potential accumulation of large deferred expenses. As cash flows are not changed, it conceptually should not have an impact on the entity's cost of capital, but the increased income volatility may.

The structure of share-based compensation schemes may also need to be re-examined given their consequences under IFRS. Benefit plan paid in shares awarded under a percentage based on their seniority may be less desirable than the benefit plan shares granted full after a period of time specified when considering IFRS front-end loads their expense in income. As noted, employee share ownership schemes may also result in differing EPS and other per share measures. Strategically designed compensation plans should consider the impact of these effects in determining the optimal package.



Part 6:
Negotiating or renegotiating banking covenants and other GAAP-related agreements on conversion to IFRS: strategic considerations

Covenants in loan agreements or other contractual relationships, such as profit participation agreements or compensation arrangements, frequently refer to financial statement amounts as being "prepared in accordance with GAAP, consistently applied".

Common covenants include:

- tangible net worth tests, referring to the carrying value of property, plant and equipment;
- funded debt limitations referring to the book value of certain debts;
- cash flow adequacy tests computed by comparing interest and finance charges to EBITDA or similar non-GAAP measures based on earnings; and
- liquidity measures computed as working capital ratios utilizing the ratios of the book values of receivables and inventories to payables and other short-term liability accounts.

It is also common to stipulate that if the entity's accounting policies change for any reason, any change to such references may result in the renegotiation of the covenants.

In this context the adoption of IFRS is a simultaneous change in a substantial number of accounting policies. There will likely be changes to covenants that reference GAAP or other financial statement elements requiring the negotiation or re-negotiation of agreements. The general presumption is that existing GAAP references will be replaced with references to amounts determined in accordance with IFRS. These components may not be identical, however, to those they replace.

For example, the conversion to IFRS may change the components of finance charges and finance income, the recognition and measurement of property, plant and equipment, as the result of fair valuation or impairment, the classification of sources of finance as liabilities rather than equity, and the scope of the consolidated statements (assuming the covenant relates to a consolidating entity). All of these may affect the measures commonly referred to in covenants.

There are several strategies to managing the changeover to IFRS and renegotiation of old agreements as well as agreement negotiated in new lending arrangements takes place during the transition to IFRS. One approach is to treat the renegotiation of such contracts as an additional step in the IFRS conversion process, to be undertaken after decisions are made on the adoption of various IFRS compliant accounting principles.

Compliance with covenants would be determined after alternative IFRS policies have been contemplated and determined. This approach simplifies the IFRS conversion process but may have cash-flow consequences if the IFRS statements portray a riskier entity and there are increases in the cost of borrowing, or the covenants are not satisfied under IFRS and the debt needs to be repaid.

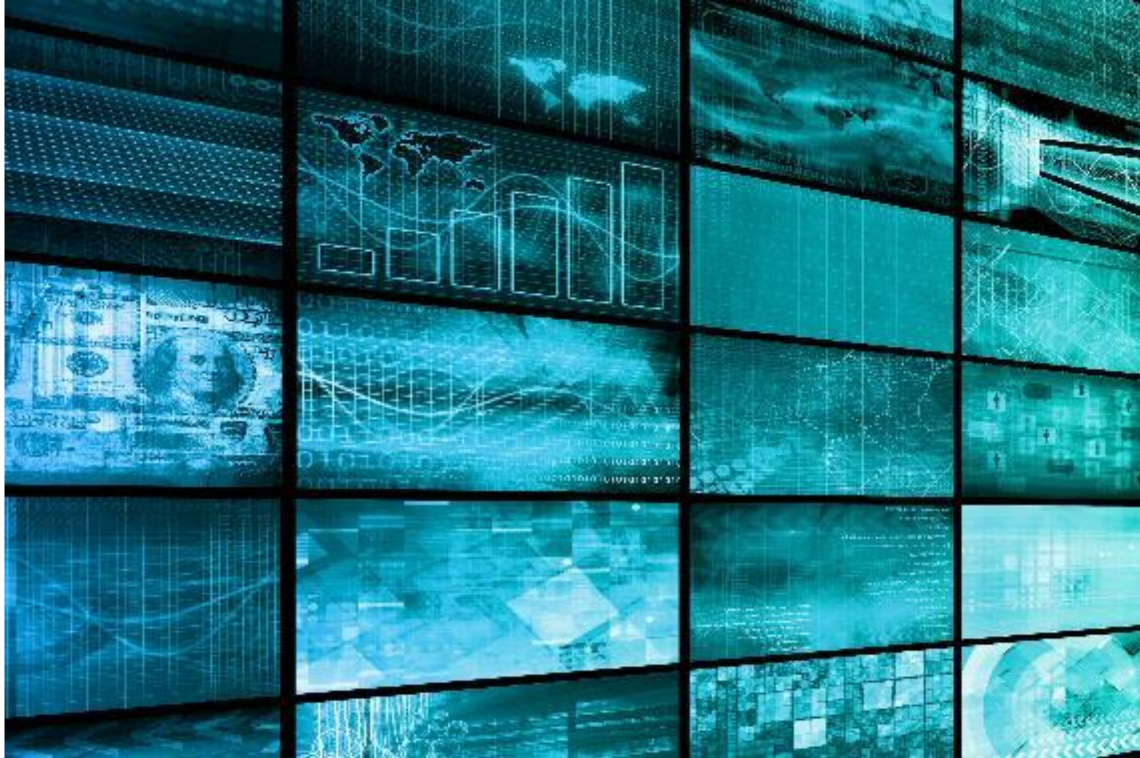
An alternative approach is to view IFRS conversion as a strategic activity, carried out with a focus on maximizing positive cash inflows or minimizing cash outflows. The steps would be:

01. Determine the financial statement consequences of IFRS conversion, including modelling the effects of choices available to the entity, but making no definitive selection;

02. Forecast relevant balances in converted financial statements and their effects on covenants in the various circumstances which may prevail; and

03. armed with a knowledge of the consequences of IFRS conversion options, commence negotiations with a deadline that provides sufficient time for successful completion of negotiations prior to conversion.

If the converted financial statements as of the relevant dates are unpredictable, management may wish to defer negotiations until options such as revaluing property, plant and equipment (and possibly other elections) are known with sufficient certainty. This may not be until after January 2010 or later in that year. The simultaneous assessment of borrowing arrangements and IFRS choices may change the result of both for the better.



Part 7:
An unstable platform: future changes in IFRS and its impact on information conversion and transition process

Reference is frequently made to the costs incurred and benefits experienced by entities in the European Union ("EU") on conversion to IFRS, with the implication that similar costs and benefits (and changeover strategies) may be relevant in Vietnam. The timeline for the conversion of VAS to IFRS appears similar in many respects to the timelines for conversion adopted in other countries, such as the EU.

However, a significant difference between those two timelines is the fact that the EU's timeline was accompanied by an agreement by the IASB to provide a stable platform of IFRS. The IASB abstained from introducing new accounting standards into IFRS for the two year period leading up to the EU changeover date. This stable platform agreement also included an option that permitted first-time adopting entities to forgo restatement of the initial application of financial instruments standards, including IAS 39 Financial Instruments: Recognition and Measurement that was implemented in the changeover year.

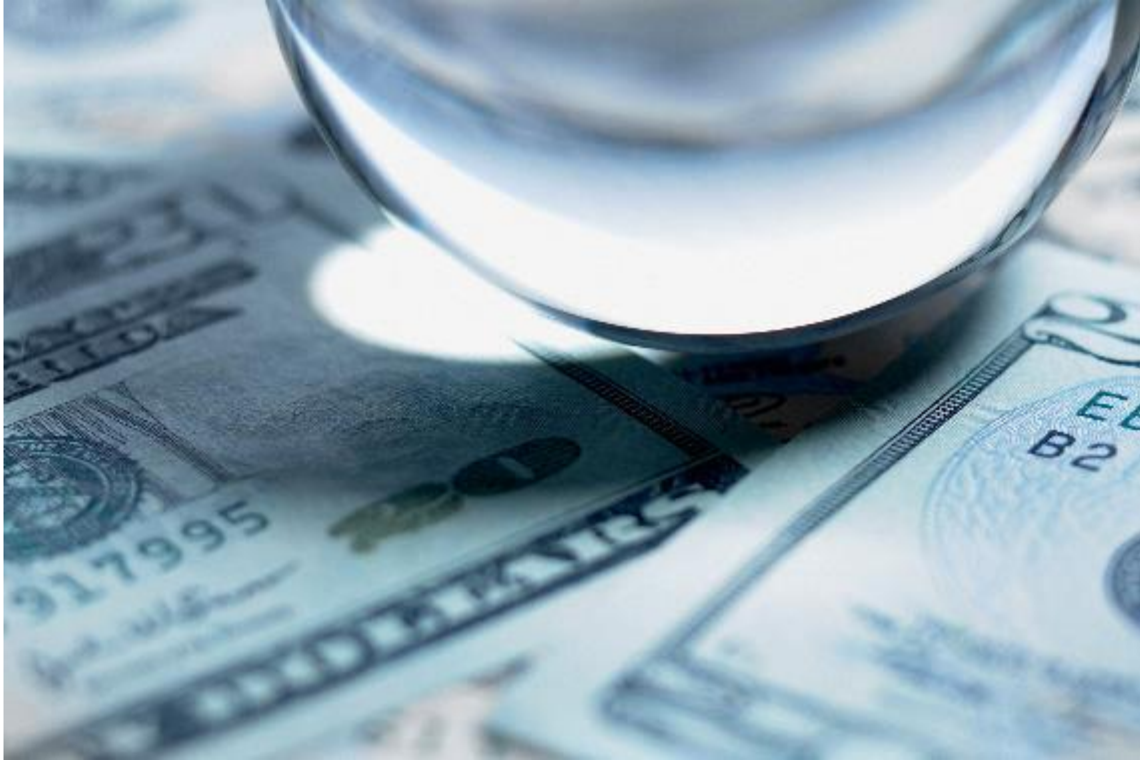
The Vietnamese conversion process does not involve such stable platform protocols, and in fact may feature the reverse — the incorporation of IFRS during the transition period, including updating content related to standards on insurance contracts, financial statement presentation, business combinations, etc... — will create a platform with more fluctuations and challenges when Vietnamese enterprises perform the transition to IFRS.

However, in the period before the transition, the Ministry of Finance will also study, develop and issue VFRS - Vietnamese Financial Reporting Standards to replace the current VAS, in order to be consistent with the highest level of IFRS, thereby minimizing the impact of the adoption of new IFRS at the transition date.

Assuming the IASB adheres to its normal policy of providing at least one year's lead time before mandating the application of new accounting policies, the list of IFRS standards applicable on December 31, 2026 should be known on or about January 1, 2026.

This uncertainty has consequences not only for planning the conversion process, but also for the communication of information about the consequences of the adoption of IFRSs for its financial statements to users prior to the conversion date. It would be preferable for an entity to publish only one set of expectations to the user community rather than to publish a series of changing targets that are subject to further adjustment as IFRS standards evolve. In light of these circumstances, several entities are currently disclosing no quantitative data and only generally state that subsequent changes to IFRS that took effect before the date of transition could have a significant impact on an entity's financial statements.

When other uncertainties about the conversion process are considered, the likelihood of early completion of the changeover process diminishes. A communication approach that addresses these issues is considered in Issue 9. Such uncertainty will affect the approach an entity may adopt to deadlines as well, considering that changes in IFRS may change not only the content but the strategic consequences that follow from the converted financial statements.



Part 8: Approaching the principle of disclosure of capital costs and key management personnel salary and incentives: the selections and their messages

IFRS disclosure requirements include elements that are beyond the scope of matters that are normally included in financial statements prepared in accordance with VAS. Two examples of such disclosures are

- the disclosure of discount rates based on the entity's cost of capital that are used to value impaired assets valued under the value-in-use method, and
- and the disclosure of the compensation of key management personnel in Vietnam which has been updated in Article 15 – Point 2 – Decree No. 156/2020/ND-CP issued by the Government and effective from 1 January 2021.

IFRS requires an entity using the value-in-use methodology to measure impairment of assets to disclose, among other things, the discount rates used to determine value in use – "the weighted average cost of capital for the operations using the asset in question". The value of the discount rate announced by the business is unique because it is generally not an observable economic parameter, but is internally-estimated.

In Vietnam, although VAS does not have specific regulations, the disclosure of compensation level of key management personnel at public companies has also been updated in Article 15 – Point 2 – Decree No. 156/ 2020/ND-CP issued by the Government and effective from 01/01/2021.

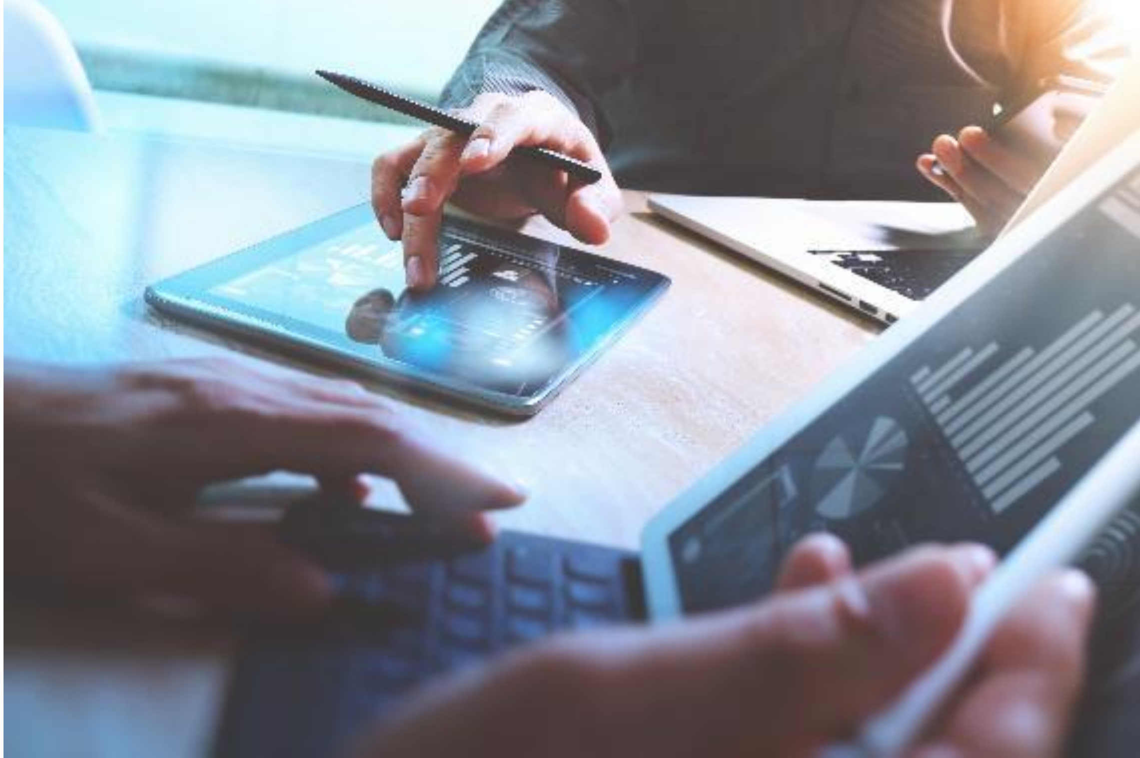
Unlike the proxy disclosure, the IFRS financial statement disclosure does not stipulate the measure to be used for that compensation. This is not a trivial omission as regulators have struggled at length to determine whether among other things stock option compensation should be reflected at the fair value of the grant at the grant date, or the fair value thereafter. It is a conundrum: if the fair values of options are continuously adjusted and the values fall, this may result in negative compensation, an illogical outcome.

If the grant date value is used, no recognition is given to subsequent enrichment. Evidence shows that current compliance with these two disclosure requirements in IFRS-compliant financial statements does not always produce precise information.

Frequently cost of capital rates are disclosed as wide ranges (e.g. “pre-tax: 8%-24%..., post-tax: 5%-20%”). Similarly disclosure of compensation practices may span several pages of the financial statements, with details of the valuation parameters of each option grant. The user is required to read through mountains of information to obtain an understanding of compensation.

The objective of the IFRS disclosure requirements in both cases is to provide transparent communication of potentially sensitive information. In the case of the cost of capital, disclosing the rate of return may identify whether the entity used a low discount rate to raise an impaired asset’s carrying value, or used a high rate to provide for unrealistically high future yields. Disclosure serves as a control over such risks in the use of internal estimates. In the case of compensation, the issue is the disclosure of a fundamentally non-arm’s length transaction that may be subject to abuse.

The choice faced by preparers is to provide measures of rates of return and compensation that accomplish these objectives, or ones that merely comply but do not meet the objective of the disclosure. The forthright disclosure of such data would demonstrate that the entity’s management comprehends the principles-based nature of IFRS. It is a choice that reflects more than the accounting principles of an entity.



Part 9:
Communicating the changeover to IFRS

IFRS 1 governs the manner in which an entity converts its financial statements to IFRS. It requires the disclosure of the effects of changes in accounting policies upon conversion, primarily in the form of reconciliations of the opening equity under IFRS to the balances under predecessor GAAP and a reconciliation of the effects of conversion on the entity's income statement for the comparative year. Such reconciliations illustrate for financial statement users the quantitative effects of the various required and elective changes that an entity has applied in the process of conversion to IFRS. An entity should also disclose the nature of the elections that it has made in the course of conversion.

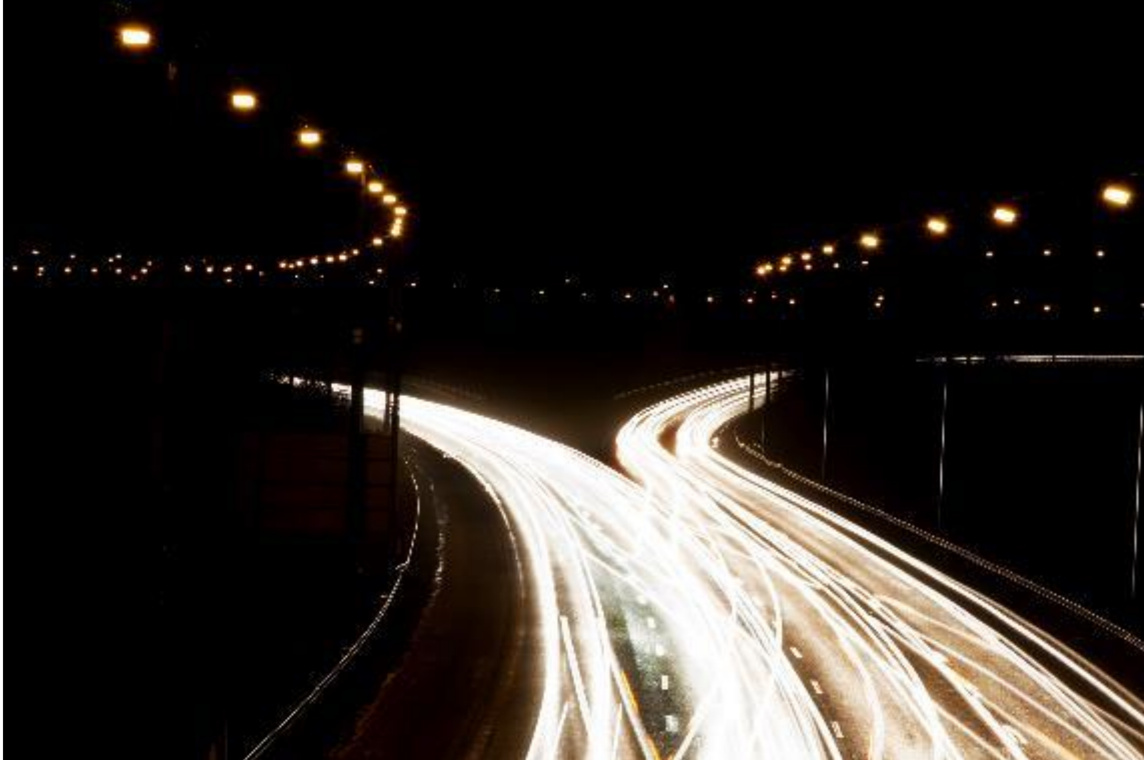
These reconciliations and disclosures do not generally require explanations of the reasons for choices, nor of the consequences of the changes on trends and patterns in the entity's financial results and position. The requirement is to reconcile the income statement of the year prior to the change, not the year of the change. In the 2026 financial statements, investors may not be able distinguish between the changes in IFRS reports that arise from changes in the entity's underlying performance from those that arise from the adoption of IFRS.

Further, prior to the publication of the IFRS compliant financial statements in the beginning of 2026, in most cases a user will be unable to form expectations of 2026 or later performance in IFRS terms. The formation of expectations may be particularly affected by the policies and elections that entity elects on adoption, which need only be completely determined and disclosed in 2026.

To solve these problems, many enterprises may choose to disclose specific data about the impact of changes in the application of IFRS to the extent that the business can estimate and predetermine the transition date. This approach may be frustrated by the lack of completely restated financial information prior to 2026, and a reluctance to publish results that could materially change before completion. A solution to this problem may be drawn from the disclosures of some EU entities which would be a two-step approach: first, publish the 2025 results prepared in accordance with VAS in early 2026. Then, shortly thereafter (or earlier, if available), publish complete packages of IFRS-compliant opening January 1, 2025) balance sheets, quarterly information and full-year restatements of the 2025 year's income. This provides users with a basis for forming quarterly and full-year 2026 expectations in IFRS terms – and the ability to readily assess the results of 2026 as published.

Under this approach, first-quarter 2026 IFRS-compliant financial statements are provided to a fully-informed marketplace, with data for the prior year provided before the publication of the new financial statements. Analysts and other users can formulate their models and expectations for 2026 prior to receiving the first quarter statements.

The alternative—to slowly evolve the reporting package, and provide both Canadian and IFRS data, can lead to the publication of IFRS data that are subject to change as policy choices are made up to the date that the first IFRS-compliant financial statements are published. Experience indicates that changing expectations – even changes resulting from legitimate changes in accounting policy choices – should be avoided. Leaving the publication of any restated data to the first set of IFRS-compliant historical statements may be too late to help form expectations. The Big Bang may be the most effective way to effect change.



Part 10:
Setting strategically relevant conversion deadlines: why January 1, 2026 may not be the date you should most worry about

According to Decision No. 345/QD-BTC: Approval of the Scheme on IFRS application in Vietnam dated March 16, 2020 of the Ministry of Finance, after the voluntary application period from 2022 to 2025 will be the mandatory time to apply IFRS to prepare consolidated financial statements for businesses specifically regulated under this decision. As a result, the IFRS financial reporting date becomes a reality for most businesses whose fiscal year ends December 31. At the same time, for reasons discussed above, matters that may affect conversion and conversion choices themselves may only be resolved on or about December 31, 2025 – just before the conversion date. Although there is still some time left until 2025, businesses should not wait, as a successful IFRS transition involves many processes and choices need to be carefully prepared. Nonetheless, there are good reasons why deadlines, particularly internal discussion points for major components of the IFRS conversion process, should be set much earlier than the deadline for external publication of IFRS.

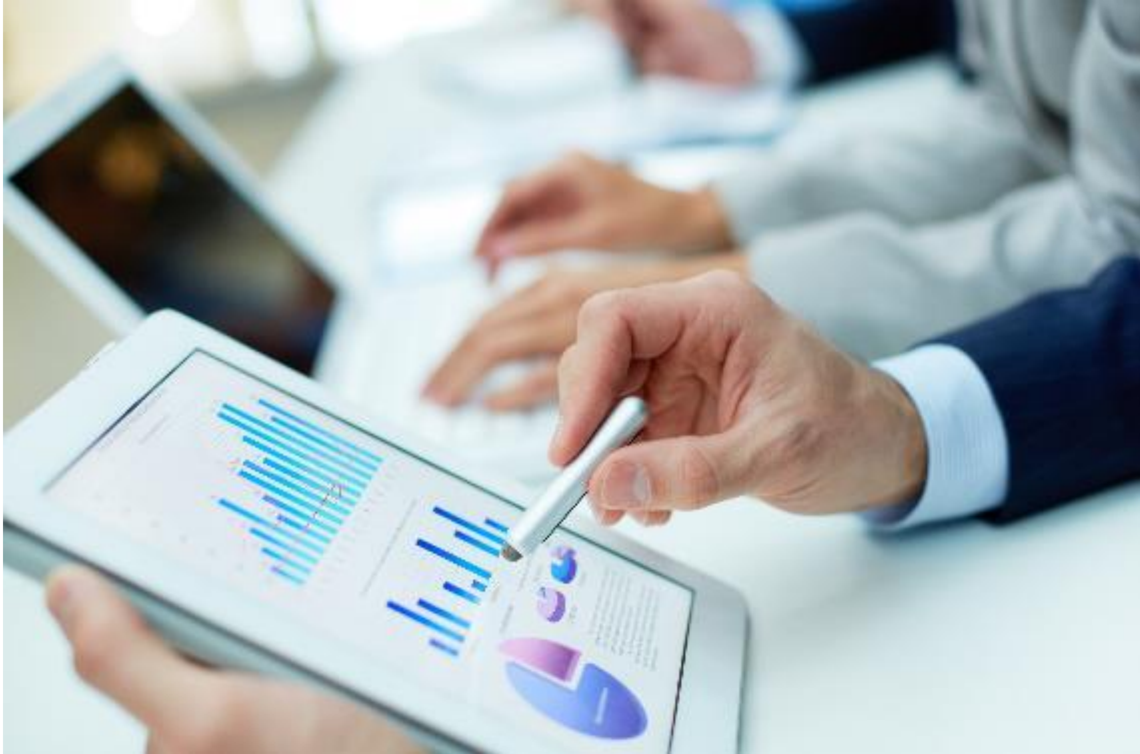
For example, the development of in-house IFRS reporting expertise should clearly exist before the conversion process itself is complete. Similarly, if conversion to IFRS requires changes to IT systems, very long lead times may be necessary for those elements of the conversion process that need to be programmed and tested prior to implementation. These would imply decision points significantly earlier than the external publication date. Other systematic requirements for prospective IFRS compliant data, such as the formal plans, budgets, compensation targets, and other performance benchmarks that are established in advance of the relevant fiscal period, would also imply earlier timelines.

IFRS-compliant data may have consequences for the entity's contracting and business practices (see many of the issues discussed above). In particular, if the adoption of IFRS could have consequences for an entity's business condition, such as from contractual or tax consequences, prudent risk management would dictate that the entity be aware of such consequences in advance of the date the consequences become real. Finding solutions, or at least minimizing adverse consequences by amending or replacing arrangements prior to IFRS becoming effective may accelerate deadlines for completion of all or some of the changeover before January 1, 2026.

Finally, the experience of other jurisdictions indicates that upon conversion there is an increased likelihood of errors upon the initial implementation of IFRS. Even if a specific time and route has been prescribed by the Ministry of Finance for the transition in Vietnam under Decision No. 345/QD-BTC, as further changes in IFRS standards (see Issue 7) may challenge implementation capabilities. The best preventive mechanism would be sufficient time for reflection and quality review prior to publication.

Given the finite (and increasingly limited) amount of time that exists until conversion becomes mandatory, the earlier the deadline for completion of elements of the process logically means the less time there is to complete the conversion work itself. To some extent the reduction in time available can be offset by the expansion of the pool of resources working within that time frame. The inclusion of more individuals in the workstream could also enhance organization-wide comprehension and competencies in IFRS, in addition to reducing the risks of untimely completion.

The general focus on the changeover date of January 1, 2026 does, however, gloss over the fact that it is the financial reporting system (and its collateral activities such as financing, contracting, processing, etc.) that is being converted and not simply the financial statements. A systematic approach recognizing that certain functions have early deadlines is less likely to result in an a less-than-satisfactory result for the whole project.



Part 11:
Strategic options on the conversion to IFRS

While the decisions and activities that occur upon conversion to IFRS are primarily accounting matters, we believe that there are several choices that have potential strategic consequences. Consequently, it is our view that conversion to IFRS is more than an accounting change; it has implications for an entity's perceived performance, its compensation policies and its communication strategies. These decisions deserve careful consideration by senior management and the board of directors as they will affect more than just your financial statements.

The strategic issues we have considered can be categorized by looking at their potential impact on the valuation of the entity, its performance measurement, the construction and interpretations of bank covenants, and on its cost of capital. The following table summarizes these effects.

	Business Valuation	Performance measurement	Bank covenants	Cost of capital
Strategic choices in IFRS 1: identifying elections that may have a significant impact beyond the financial statements	✓	✓	✓	✓
IFRS policies and choices can affect reported cash flows		✓		
Incorporating EBITDA, Operating cash flows, and other Non-GAAP measures into IFRS conversion plans	✓	✓		
The benefits of using fair value as the deemed cost of property, plant and equipment on transition	✓	✓	✓	✓
Employee compensation including defined benefit pension plans: important options on conversion – and after		✓	✓	
Negotiating or re-negotiating bank covenants and other GAAP- related agreements on conversion to IFRS: strategic considerations			✓	✓
An unstable platform: future changes in IFRS and how these may affect your conversion and communications plans	✓	✓	✓	✓
Approaching the disclosure of the cost of capital and key management compensation: the choices and their messages		✓		✓
Communicating the changeover to IFRS		✓		
Setting strategically relevant conversion deadlines: why January 1, 2026 may not be the date you should most worry about		✓		

As you can see, in many circumstances, IFRS conversion may have effects beyond the financial statements. In our view, if you are making IFRS conversion decisions on these matters, you should carefully review the options available and consider their consequences for the financial statements and beyond before making final decisions. Once you have made your decisions, your stakeholders should be informed of what to expect in your first IFRS-compliant reporting. A clear and transparent communications process is invaluable.

There are also many other IFRS conversion matters that are likely to have strategic consequences, but for which an entity has effectively few choices. This document has not highlighted these options, as they are more appropriately considered as matters of compliance and not choice.

For those assessments where there is uncertainty as to the appropriate answer, we recommend that you seek professional counsel.

The professionals of Deloitte that are listed on the back cover of this document can assist in many of these circumstances. The advice provided in this publication cannot contemplate the facts and circumstances relevant to any preparer's situation. Thus, it is not intended that this publication provide guidance but rather it raises issues on which guidance may be sought. As a result, we cannot accept any responsibility for decisions made relying on this document: the advice of appropriately qualified professionals should be sought.

Contact us – Our IFRS Experts

As your organization considers the need to implement IFRS, reflect on how these best practice principles could be incorporated in your approach. The Journey for IFRS adoption for your organization is complex but critical if you want better insights into your organization's performance and desire alignment through a common information foundation.

If your organization is considering converse to IFRS, or has already started on the IFRS adoption journey, and would like to discuss possible approaches, please contact us for more information.

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