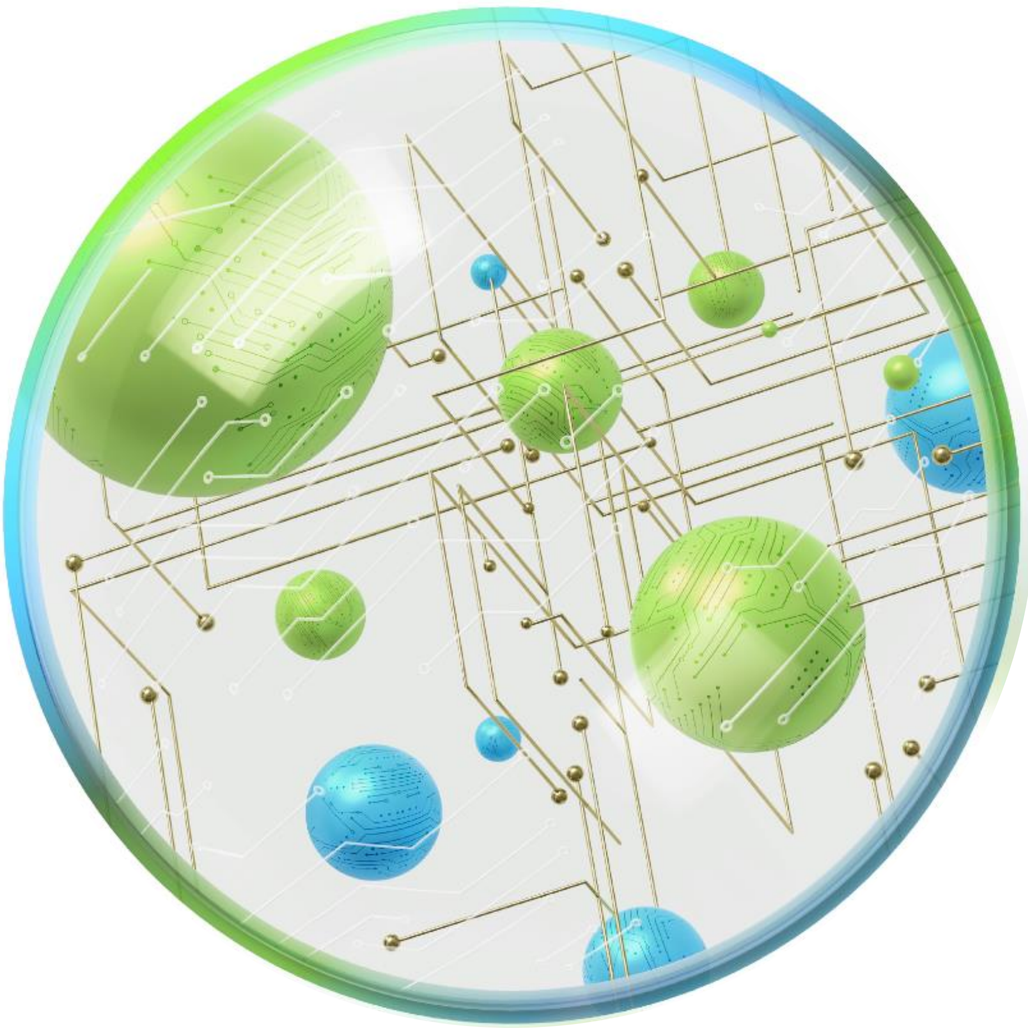


Frequently Asked Questions

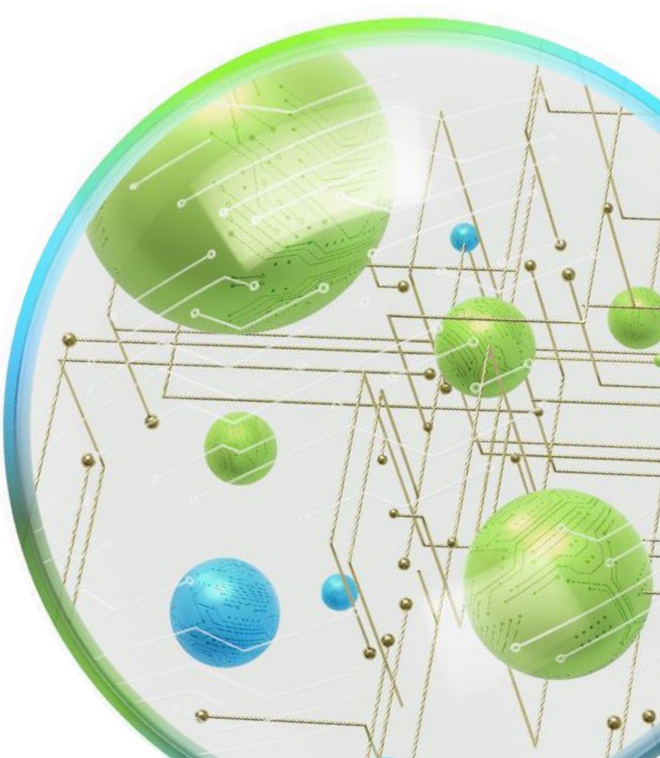
IFRS adoption at enterprises

Preface

Decision No. 345/QD-BTC ("Decision No. 345") dated 16 March 2020 regarding "The scheme for application of financial reporting standards in Vietnam" of the Ministry of Finance ("MOF") laid the foundation for the application of International Financial Reporting Standards ("IFRS") in Vietnam.

This is a gold opportunity for businesses to transform ahead of the future waves. IFRS will help enhance the transparency of financial information of the enterprises, opening the door to access international markets as well as enhancing the competitiveness and attractiveness of businesses to foreign investors.

Alongside opportunities, businesses will also face challenges in their transition to prepare the financial statement complying with IFRS. Understanding the concerns, Deloitte Vietnam has compiled and answered some of the most commonly asked questions regarding the implementation of IFRS.



1. Under Decision No. 345/QD-BTC issued in March 2020 by the MOF, would a FDI company fall into the voluntary application group, and allowed to apply IFRS early?

According to Decision no. 345/QD-BTC, a FDI company may fall into the voluntary group and could apply IFRS in their financial statements early. Companies are required to send a notification letter to MOF and relevant authorities or regulators.

2. Would a company preparing their financial statements under IFRS, regardless voluntarily or mandatorily, be exempted from preparing their financial statements under VAS?

According to Decision no. 345/QD-BTC, it is very likely that a company preparing their financial statements under IFRS either compulsorily or voluntarily would be exempted from preparing their financial statements under VAS. However, this information has not been confirmed yet in the Decision. Therefore, the companies are advised to await further guidance from the MOF.

3. What VFRS (expected to be the replacement of VAS from 2025) will look like?

As far as we could infer from Decision no. 345/QD-BTC, the VFRS will be developed in the direction as close to International standards as possible, with certain modifications to accommodate for Vietnamese market and economy. There will be further guidance on VFRS from the MOF before the compulsory adoption phase begins in 2025 as planned.

4. According to Decision No. 345/QD-BTC, in the second phase of compulsory adoption (after 2025), other large-scale parent companies are included. How is this large scale assessed and by whom, tax authorities or the MOF)?

The MOF has not issued any official list of definitions included in the Decision no. 345/QD-BTC, but we could expect further guidance to be announced in the near future. Regarding the specific definition of large-scale parent company, the MOF is expected to provide further information before the start of phase 2.

5. Will financial statements compliant with IFRS accepted by Tax authorities?

Tax authorities would likely accept the IFRS-compliant financial statements if the company receives approval from the MOF to do so. It is also likely that Tax authorities would consider providing further guidance on IFRS adoption from a Corporate Income Tax ("CIT") perspective to address the gaps between IFRS and tax regulations in order to lessen the burden on taxpayers. The companies are advised to await further guidance from Tax authorities in term of IFRS adoption.

6. Does the adoption of IFRS reporting affect existing CIT incentives entitlement (preferential tax rate, tax exemption/ reduction)?

CIT incentives are not likely to be affected by IFRS adoption since these incentives are provided under the tax regulations, provided that the company satisfies certain conditions for incentives.

7. Will Tax authorities accept all adjustments for gaps between IFRS and tax regulations?

Currently, there are certain gaps between IFRS and tax regulations (as is the case with VAS), which might be taken into consideration and accepted by the Tax authorities when IFRS reporting is widely adopted.

8. The common practice in Vietnam is to recognize assets (tangible or intangible assets) whose value exceeds VND 30 million, so it is difficult for our company to keep track of all details to manage the differences between IFRS and VAS. How should Vietnamese companies handle this issue?

In accordance with IFRS (specifically IAS 16 and IAS 38), a company itself can determine the threshold for assets recognition in their accounting policy. Therefore, there could be no difference in asset recognition between IFRS and VAS if the company applies the same threshold for capitalizing assets for both VAS and IFRS reports.

9. Our company does not have sufficient historical financial information or available market information to build models required by IFRS. What should we do to prepare for IFRS conversion in the future?

IFRS is a principle-based set of standards, and as such, companies are given options to develop calculation models using various assumptions and historical data relevant to their businesses. Therefore, the companies should proactively begin to build their own database and assumptions for future models as soon as possible, with reference to specific requirements of each standard such as IFRS 13 - Fair Value Measurement, IFRS 9 - Financial Instruments, IAS 36 - Impairment of Assets.

10. It is difficult to determine the asset specific discount rate (referred to in IFRS 16) in Vietnam, so could we utilize the discount rate being applied by our Group or Parent company (within or outside Vietnam) instead?

The company may apply the Group's discount rate as a basis rate then make additional adjustments on top of it to reflect Vietnamese market, and the asset's specific features.

On the other hand, the company should be aware that different IFRS standards may require different rates to be applied accordingly. For example, IFRS 16 and IFRS 9 both ask for 'discount rate' but the rates used in those 2 standards are likely not the same, and even within IFRS 9, the discount rate for each group of financial instruments may also vary.

11. If my company has prepared IFRS reports in previous years, what should we do to prepare IFRS compliance financial statements now? Can we use previous years' figures, or do we have to retrospectively prepare them?

IFRS standards include IFRS 1 that guides the preparation of the first IFRS financial statements, according to which:

- **Scenario 1** – If the financial statements in previous years were qualified as the first IFRS financial statement, the company could continue using them in the future.
- **Scenario 2** - If the financial statements in previous years were not qualified as the first IFRS financial statement, the company must follow guidance of IFRS 1, including permitted exemptions to full retrospective application.

However, we haven't had information about how the MOF will recognize the companies' first IFRS financial statements yet.

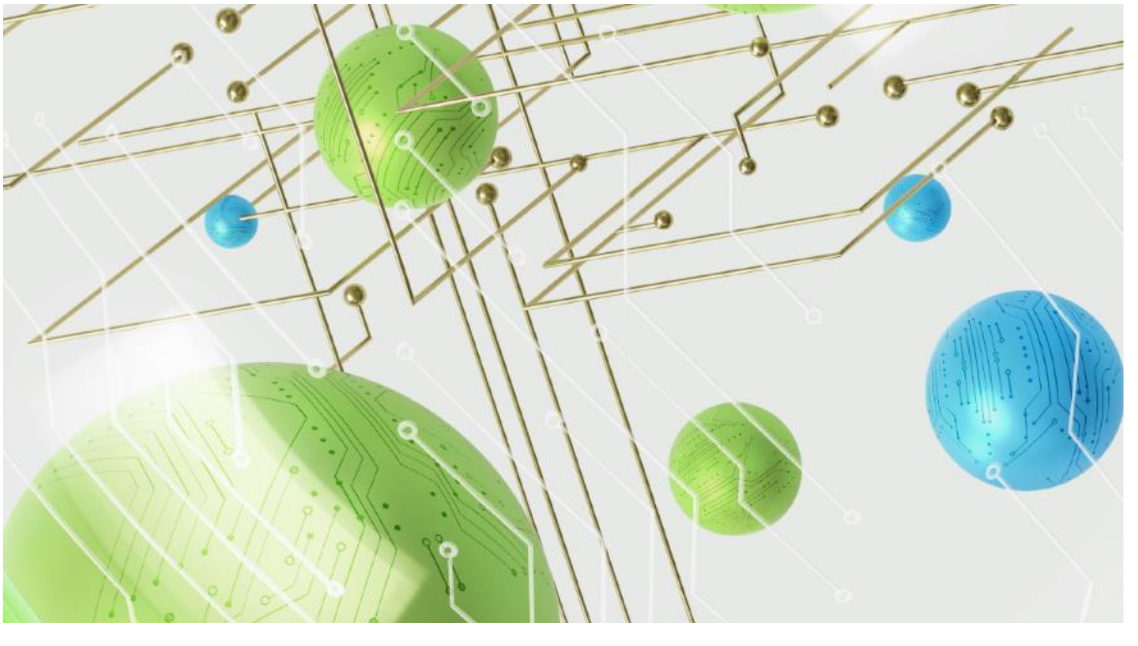
12. Our company is a 100% subsidiary of a company from Japan, and we invested in 3 other subsidiaries in Vietnam. Following Decision 345/QD-BTC, our company will have to adopt IFRS in phase 2 (after 2025) for our consolidated financial statements, whilst our subsidiaries will have to prepare their financial statements under VFRS. Is it the case?

According to Decision no. 345/QD-BTC, in 2025, the MOF will kickstart the application of VFRS in enterprises operating in all fields and economic sectors in Vietnam, except for those already applying IFRS or following accounting framework for micro-enterprises.

During this phase, the MOF will regularly review VFRS and keep it up to date with the IFRS to ensure maximum consistency with international practice.

13. If our company wants to record all transactions both in VAS and IFRS using just one accounting software that is capable of generating reports under VAS as well as IFRS, are the accountants required to record a transactions twice (1 time for VAS and 1 for IFRS)? Could the solution(s) proposed by Deloitte work on existing software or require new software?

The current technology embedded in ERP systems such as SAP or Oracle allows dual reporting, which is an advanced feature enabling enterprises to have two or more parallel ledgers set up in different accounting frameworks for multiple-purpose or multi-jurisdiction reporting. This way, the accountant is not required to record 2 entries for the same transaction in VAS and IFRS, the system will automatically generate one when the other is input. Deloitte would propose the most suitable solution following a comprehensive assessment of your existing and targeted technology capabilities.



Meet our IFRS experts

Bui Van Trinh
Partner
Audit & Assurance
+84 28 710 14025
trabui@deloitte.com

Phan Vu Hoang
Partner
Tax & Legal
+84 28 710 14345
hoangphan@deloitte.com

Doan Yen Chau
Senior Manager
Audit & Assurance
+84 28 710 14101
chaudoan@deloitte.com

Tran Ngoc Minh Tran
Senior Manager
Tax & Legal
+84 28 710 14331
trantran@deloitte.com

Hanoi Office
15 Floor, Vinaconex Tower,
34 Lang Ha Street, Lang Ha
Ward, Dong Da District, Hanoi,
Vietnam
Tel : +84 24 7105 0000
Fax: +84 24 6288 5678
Website: www.deloitte.com/vn

Ho Chi Minh City office
18th Floor, Times Square Building,
57-69F Dong Khoi Street, Ben Nghe
Ward, District 1,
Ho Chi Minh City, Vietnam
Tel: +84 28 7101 4555
Fax: +84 28 3910 0750
Email: deloittevietnam@deloitte.com