

MINISTRY OF EDUCATION AND TRAINING MINISTRY OF FINANCE
ACADEMY OF FINANCE

NGUYEN THI QUYNH HOA

**IMPROVING THE ACCOUNTING FOR FINANCIAL
ASSETS IN VIETNAMESE COMMERCIAL BANKS**

Major : Accounting

Code : 9.34.03.01

SUMMARY OF ECONOMIC THESIS

HANOI - 2021

**The dissertation has been completed
at The Academy of Finance**

***Supervisors:* 1. Assoc.Prof. Dr. Mai Ngoc Anh
2. Assoc.Prof. Dr. Nguyen Thi Hong Nga**

Reviewer 1:
.....

Reviewer 2:
.....

Reviewer 3:
.....

**The dissertation will be defended at the Approval and grading
of the dissertation at the Academy level, the Academy of Finance**

At..... hour..... date..... month..... year.....

**Dissertation can be found at the National Library
and the Library of the Academy of Finance**

INTRODUCTION

1.1. Reasonale

In economic integration, in order to survive and develop in a fiercely competitive business environment, commercial banks' managers need to have knowledge and especially, information: information about the bank itself and information about competitors.

For banks and financial institutions, the core service has always been lending with revenue and interest expenses always accounting for the majority of the bank's total revenue and expenses. Appropriate measurement, recognition and presentation of information related to this activity in the Bank's Report plays a key role in the transparency of financial information, serving the needs of its users.

Research on accounting for bank's credit operation, especially in accordance with international standards, leads the candidate to a more general concept of financial assets. Through the process of research, the candidate realized that accounting for financial assets is actually one of the main tasks of the accounting system at banks and similar financial institutions, and quality of accounting information depends significantly on classification, measurement and recognition of financial assets. Meanwhile, the accounting for financial instruments in general and financial assets in particular at Vietnamese commercial banks is still inadequate and different from international accounting standards. Recent assessment reports of international financial institutions also show that the main limitation of VAS and current regulations for the banking sector lies in financial instruments and the concept of fair value.

From the above issues, it can be seen that the improvement of the accounting for financial assets in Vietnamese Commercial Banks in accordance with international standards and practices, ensuring the true and fair financial information of these institutions is meaningful both theoretically and practically. This is the reason for the PhD candidate to decide to choose the topic for the doctoral thesis is "*Improving the accounting for financial assets in Vietnamese Commercial Banks*".

1.2. Relevant researches

A summary of the results of relevant researches shows:

First, in terms of financial asset classification. Some researches based on the characteristics of the instrument and the purpose of holding to

classify the financial assets while the commercial banks often manage the portfolio of assets at a higher level of synthesis of the business model. Some researches have mentioned the criteria of business model when classifying financial assets as well as recognized the confirmation of this classification criteria but in general none of research has gone into in-depth analysis to highlight the advantages and disadvantages of the classification criteria in relation to measurement and disclosure.

Second, in terms of financial asset measurement. Some researches studied only a small area such as credit risk provision accounting for loans or accounting for derivatives and securities investment activities. Therefore, there is almost no mention on basic concepts for the formulation of accounting methods of financial instruments, for example the values used to serve as the basis for the measurement of financial assets.

Some researches discuss the values used in measuring financial instruments in addition to the original cost, such as fair value. However, the definition, principles and techniques of determining the fair value have not been specifically discussed. In addition, fair value is not the only value that appropriately measures financial instruments, there are still other values such as amortised cost. In such researches, the authors do not have specific interpretations of the nature and determination of the amortised cost.

The other researches are mainly focused on the financial instruments of businesses in general, so there is almost no mention of specific instruments in the banking sector.

Third, in terms of financial asset recognition. Measurement and recognition are two issues that have correlation, so the said above measurement limitations will entail limitations on recognition. In addition, the timing of recognition is also one of the important factors in the financial asset recognition process. In the above researches, the timing of recognition has not been discussed thoroughly but almost only refers to the recognition at trade date. While financial asset is a specific asset that sometimes at the trade date, legal procedures for transferring ownership of assets may not be completed, it is necessary to have regulations on the time of recognize the asset in these cases.

Fourth, in terms of financial asset impairment. Most of the domestic researches related to financial instruments in general and financial assets in particular in Vietnam so far were carried out relatively long time ago. The

impairment of financial assets has barely been addressed in a clear and comprehensive way. Especially credit risk provision is determined under model of incurred credit losses which is considered as too little and too late credit losses model. With overseas researches, the study focuses on demonstrating that the expected credit loss model yields more useful information in measuring and recognizing expected credit losses in the future than explaining the nature of the model and how credit losses are determined when applying the model.

Fifth, in terms of presentation and disclosure of information. Presentation and disclosure of information result mainly from the process of classifying, measuring, recognizing and provisioning for losses. Limitations of the above elements of the accounting process will lead to limitations of the presentation and disclosure of information.

Based on the analysis of the results of previous researches, PhD candidate believe that related to the financial asset accounting applied to Vietnamese Commercial Banks including classification, measurement, recognition, impairment, presentation and disclosure, there are still aspects need to be studied and improved.

1.3. Research objectives

The main research objective of the thesis is to study the theory of accounting for financial asset and current practices of financial asset accounting at Vietnamese Commercial Banks.

1.4. Research Questions

Based on the research objectives, the main research questions of the thesis include:

Question 1: The theory of accounting for financial asset in commercial banks?

Question 2: The legal framework and the current practice of financial asset accounting in Vietnamese commercial banks?

Question 3: What are the solutions to improve financial asset accounting after clarifying the answers to the problems raised in Questions 1 and 2?

1.5. Subjects and scope of thesis

1.5.1 Subjects of thesis

The research thesis on financial asset accounting at Commercial Banks of Vietnam covers the basic issues of accounting: Classification,

measurement, recognition, impairment, presentation and disclosure of information on financial assets.

1.5.2. Scope of thesis

- Scope of research content: theoretical basis and practice of financial asset accounting in Vietnamese commercial banks including: classification, measurement and recognition, impairment, presentation and disclosure of information. The thesis will analyze the current accounting principles and methods that are applied to commercial banks, raising recommendations and proposing solutions to improve the quality of accounting information.

Since embedded derivatives and derivatives for hedging purposes are a types with separate accounting methods, within the scope of the thesis, the PhD candidate only study the accounting for derivatives for speculation, not for hedging.

- Scope of research space: Out of 35 commercial banks including 4 commercial banks owned by the state and 31 joint stock commercial banks, this thesis focuses on 30 banks because 4 banks do not publish financial statements and 1 bank only publishes balance sheets and reports results business without publishing financial statements.

- Scope of research time: The thesis uses accounting data as well as the published accounting policies of 30 Vietnamese commercial banks in 2019.

1.6. Research methodology:

The thesis has used methods of analysis, investigation, survey, grouping, expert opinion ...

1.7. New contributions of the thesis

The new contributions of the topic can be analyzed in a number of aspects in both theoretical and practical meanings.

1.8. Structure of the thesis

In addition to the premeditation, conclusions, the list of published researches of the PhD candidate, the list of references, the thesis consists of three parts:

Chapter 1: The theoretical basis for financial asset accounting at commercial banks.

Chapter 2: The practice of accounting for financial assets at Vietnamese Commercial Banks .

Chapter 3: Solutions to improve financial asset accounting at Vietnamese Commercial Banks.

Chapter 1

THEORETICAL BASIS FOR FINANCIAL ASSET ACCOUNTING AT COMMERCIAL BANKS

1.1. DEFINITIONS AND CLASSIFICATION OF FINANCIAL ASSETS

1.1.1. Definitions

Financial asset is an asset of which the name consists of two categories: asset and finance. Therefore, in order to understand the concept of financial assets, it is necessary first of all to understand the concept of assets and finance.

- Assets:

+ *According to the Cambridge Dictionary*, it is a valuable thing that belongs to an individual or an organization and can be used to pay off debts.

+ *According to the Conceptual Framework for Financial Reporting 2010*: is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

+ *According to the Conceptual Framework for Financial Reporting 2018*: A present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits. Thus, the concept of assets under the Conceptual Framework 2018 has emphasized the right attached to assets which in turn brings economic benefits.

These concepts have both similarities and differences:

o "valuable" as defined by the Cambridge Dictionary can also be understood as "economic resources" as defined by the Conceptual Framework for the establishment of financial statements.

o Effect of assets: If the Cambridge Dictionary only refers to the effect of being used to pay for debts, the conceptual framework for financial reporting refers to a broader concept of economic benefits (may be the contractual right of receiving money or other economic resources, exchange of economic resources in favourable conditions, payment of debts, etc).

Finances:

+ *According to the Cambridge Dictionary*: money and how money is managed.

+ *According to Wikipedia and Investopia*, finance is a term for issues related to the creation and management of money and investments.

Thus, the definitions of finance have something in common: finance is related to money and money management.

Combining assets and finances, we have financial assets defined as follows:

As defined by Investopia, financial assets are highly liquid assets whose value arises from contractual rights or owner's rights. Money, stocks, deposits and similar items are examples of financial assets. Unlike land, goods, and other tangible physical assets, financial assets do not always have a natural material value available.

According to the Cambridge Business Dictionary, financial assets are assets such as money, stocks, bonds, etc. it is not an asset of other material form such as a factory or machinery.

According to Wikipedia, financial assets are non-physical assets whose value arises from contractual rights such as savings deposits, bonds, and stocks. Typically, financial assets are more liquid than other tangible assets such as goods or real estate and can be traded in financial markets..

According to international accounting standards IAS32: Financial Instruments - Presentation, a financial **asset** is any asset that is:

- (a) cash;
- (b) the capital instrument of another entity;
- (c) contractual rights to:
 - i. receive cash or other financial assets from another entity; or
 - ii. exchange assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- (d) a contract that will or may be settled in the entity's own equity instruments and is:
 - i. a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments.
 - ii. a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

iii. puttable instruments classified as equity or certain liabilities arising on liquidation classified by IAS 32 as equity instruments.

It can be seen that most of the above definitions mostly covers the concept of assets and finance relatively. Of which, the concept of financial asset under international accounting standards has the widest coverage when including money, rights from ownership in addition to contractual rights in the concept.

1.1.2 Characteristics of financial assets

- The value of the property is not tied to its physical form.
- The value of the asset does not depend on the value in use but on market supply and demand.
- Often high liquidity and economic benefits arising from assets are often directly related to money, easily converted into other assets.
- Not directly involved in the production and business process such as tangible, intangible fixed assets or inventory.
- Do not wear out like physically formed assets such as factories, machinery, equipment ...
- Low shipping and storage costs.

These characteristics make financial different from non-financial assets, including tangible assets (land, real estate) and intangible assets such as intellectual property rights (copyrights, patents). Because tangible assets have both physical form and the economic benefit from assets is their value in use. For intangible assets, although it is also a non-physical asset, the economic benefits of the property do not arise from contractual rights (copyrights, patents are usually legal rights). Moreover, the economic benefits of intangible assets are not directly tied to money but are still the value in use of the asset. Neither tangible nor intangible assets are easy to convert into another asset class.

1.1.3 Classification of Financial Assets

1.1.3.1. Classification of financial assets based on the characteristics of the instrument

Based on the characteristics of the instrument, financial assets will be divided into 03 categories:

Financial assets are debt instruments: assets that the holder (or lender) receives fixed payments at the identifiable time of maturity.

- Financial assets are equity instruments: assets that represent the ownership of a part of the invested unit of the holder of the instrument such as.

- Financial assets arising from derivative financial instruments.

1.1.3.2 Classification of financial assets based on the characteristics of the instrument and the purpose of holding.

According to this classification, financial assets will first be classified according to the characteristics of financial assets as debt instruments, equity instruments and derivative instruments. Then based on the purpose of holding, they continue to be classified into one of the following four categories:

- Category 1: At fair value through PL.
- Category 2: Held to maturity
- Category 3: Loans and receivable
- Category 4: Available for sale

1.1.3.3 Classification of financial assets based on cash flow characteristics and business models.

1.1.3.3.1 Contractual cash flow characteristics.

This criterion is often referred to as the **contractual cash flows are solely payments of principal and interest (SPPI)**. To classify financial asset, it is necessary to first assess whether the cash flow of the instrument meets the criterion of SPPI.

Besides evaluating the characteristics of contractual cash flow as a criterion for classifying TSTC as presented above, the second criterion that serves the main classification purpose is to consider the business model to which the asset belongs to.

1.1.3.3.2 Business model

The business model reflects the way to manage **financial asset groups** to achieve specific goals. The business model used will determine the flow of money arising from financial assets primarily from the contractual payment flows of the financial instrument or from the sale of such assets or a combination of the two methods.

1.1.3.3.3 Classification of financial assets based on characteristics of contractual cash flow and business models

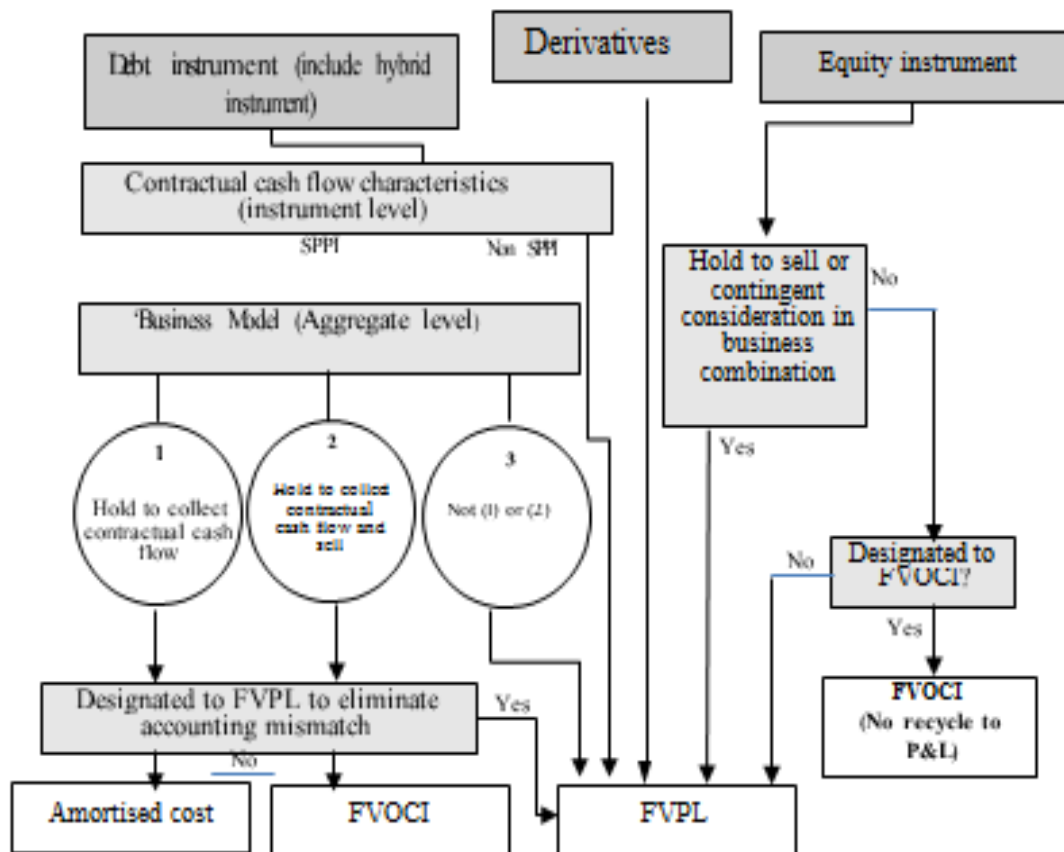
Based on the characteristics of contractual cash flow and business model, financial assets will be classified into one of three categories:

- **Financial assets are measured at amortised cost.**
- **Financial assets are measured at fair value through other comprehensive income - FVOCI:** any change in fair value will be charged directly into Equity.

- **Financial assets are measured at fair value through P/L (FVTPL)**

Thus, in summary, the classification of TSTC is shown through the following diagram:

Figure 1.1: Classification of Financial Assets



Source: self-summarized

Reclassification of financial assets

The reclassification of financial asset is conducted only when changing the business model to manage financial asset.

1.2. COMMERCIAL BANKS AND FINANCIAL ASSETS IN COMMERCIAL BANKS

Commercial bank is a type of bank that is carried out all banking activities and other business activities in accordance with the law in order to target profits.

Commercial banking carries the full functions of a bank. The two main functions are financial intermediaries and payment intermediaries. These functions are expressed into the tasks that the commercial bank performs in the course of its operation such as receiving deposits, lending, investment, other services.

From the business activities of the commercial bank, it is found that most of the bank's activities are related to money and other financial assets. Therefore, majority of the assets in the commercial bank are the financial assets. Moreover, financial assets in commercial banks are often very diversified, the commercial banks have almost all types of financial assets that have been identified and classified in part 1.1. Therefore, the study of TSTC in commercial banks is the study of all TSTC.

1.3. MEASUREMENT OF FINANCIAL ASSET

1.3.1 Values used in measuring financial assets

1.3.1.1 Amortised cost.

$$\begin{array}{r}
 \textit{Amortised} \\
 \textit{cost}
 \end{array}
 =
 \begin{array}{r}
 \textit{Initially} \\
 \textit{recognised} \\
 \textit{amount}
 \end{array}
 -
 \begin{array}{r}
 \textit{Principal} \\
 \textit{repayments}
 \end{array}
 \pm
 \begin{array}{r}
 \textit{Cumulative} \\
 \textit{amortisation, using} \\
 \textit{the effective interest} \\
 \textit{method, of the} \\
 \textit{difference between} \\
 \textit{initial amount and} \\
 \textit{maturity amount}
 \end{array}
 -
 \begin{array}{r}
 \textit{Any write-down} \\
 \textit{for impairment} \\
 \textit{or uncollectibility}
 \end{array}$$

1.3.1.2 Fair value

Typically fair value is defined on the basis of "exit price", which is the price that would be received to sell an asset or paid to transfer a liability and using a "fair value hierarchy", resulting in market-based measurement rather than depending on the specifics of each particular unit. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date,

regardless of whether this price can be observed directly in the market or estimated by another valuation method.

1.3.2 Measurement of Financial Asset

1.3.2.1 measurement of financial classified by characteristics and purpose of holding

Initial measurement:

For financial instruments are debt instruments and equity instruments:

In the majority of cases, the purchase price of financial asset usually reflects the fair value of the asset. Therefore, financial will be initially measured at the purchase price. However, when the purchase price is not fair value, the financial assets should be measured at fair value of the asset. If financial asset's fair value is verified by a quoted prices in active markets for identical assets (Level 1) or determined by valuation techniques using observable market data (some in the cases of Level 2), the difference between the purchase price and fair value will be recorded in the profit/loss. If fair value is determined based on unobservable inputs (Level 3), the difference between fair value and the purchase price will be delayed and recorded as receivable/payable. This deferred interest difference will be allocated and recorded in the incomes/expenses of the periods that the factors change resulting to the inputs becoming observable, or when selling the asset.

In addition, if the purchase of financial incurs transaction costs, transaction costs will be capitalized into the value of the financial assets, unless the assets are measured at fair value through profit and loss, transaction costs will be recognized into expense to ensure the asset is measured at fair value.

For financial are derivatives:

Pure derivatives contracts are derivative contracts that do not have an exchange of money at the time of the validity of contracts such as forward contracts and swaps. Fair value of pure derivative contracts at the beginning is zero.

Impure derivatives contracts are contracts with money exchange at the time of contract validity such as options contracts, the option buyer must pay a fee to enter the contract. The fair value of this contract at the beginning is not zero and is usually the amount exchanged initially, for example with an option contract which is an option fee.

Subsequent measurement.

Group 1: Financial asset at fair value through profit and loss will be measured at its fair value, the change in fair value is recognized in profit/loss. In addition, the interest income of the debt instrument within this group is recognized when received.

Group 2 - Financial asset held to maturity and Group 3 - Loans and receivables: the most suitable measurement basis for these two groups is the amortised cost. Interest income is recognized using effective interest method.

Group 4: Financial asset available for sale: measured at fair value. However, changes in fair value will not be recognized in profit/loss but in other comprehensive incomes.

1.3.2.2 Measurement of financial assets classified by business model and characteristics of contractual cash flow.*Initial measurement*

Similar to the case of financial assets classified by characteristics and purpose of holding, financial asset is initially measured at fair value. If the purchase price is not financial asset's fair value, the difference between the purchase price and the fair value will be recognized in profit/loss or deferral depending on the level of inputs when determining fair value.

Transaction costs will also be capitalized into the value of TSTC, unless the assets at fair value through profit and loss.

Subsequent measurement:

The name of each asset category itself reflects its measurement. Financial assets at amortized cost will be measured similarly to Held to Maturity and Loans and Receivables. Financial assets at fair value through OCI similar to Available for sale, while Financial assets at fair value through P/L appears in both method of classification with the same measurement.

1.4. RECOGNITION OF FINANCIAL ASSETS**1.4.1 Recognition and Derecognition****** Initial recognition of financial assets***

An entity shall recognise a financial asset in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument, undertaking to purchase a financial asset, also known as the trade date.

*** Derecognition of financial assets**

An entity will derecognize financial assets if and only if:

- The contractual right to cash flows from the financial assets has expired, or
- The entity has transferred financial assets and the transfer satisfies the derecognition condition.

1.4.2 Account used in accounting for financial assets

To record transactions related to financial assets, it is necessary to use some main accounts as follows:

- The group of accounts reflecting financial assets includes
- Group of accounts reflecting income and expenses.
- In addition, to record transactions related to financial assets, other relevant accounts are used such as: Cash, Payable...

1.4.3 Recognition of financial assets

The recognition of financial assets is summarized through the following diagrams:

Figure 1.2: Accounting financial assets measured at amortized value

Figure 1.3: Accounting for financial assets measured at fair value through OCI

Figure 1.4: Accounting for financial assets measured at fair value through profit and loss

Figure 1.5: Accounting for forward, future, and swap contracts

Figure 1.6: Accounting for options in case the contract's value increases

Figure 1.7: Accounting for options in case the contract's value reduces

1.5. REDUCTION OF FINANCIAL ASSETS

*** Impairment of financial assets under the incurred loss model**

An entity should evaluate, on the balance sheet date, whether there is any objective evidence that financial assets have been impaired. If a financial asset is impaired, the entity needs to determine the impairment loss and a provision must be made.

The credit loss is determined if and only if three conditions are satisfied:

- There is a loss event: A loss event for a financial asset can be understood as an event that occurs after the initial recognition of this asset and there is objective evidence that this event will reduce value of this asset. And

- The loss event creates an impact on the expected future cash flows of a financial asset or group of financial assets.
- The impact of a loss event on the expected cash flows of a financial asset or group of financial assets can be reliably estimated.

**** Impairment of financial assets under the expected loss model***

If in the incurred loss model, the measurement and recognition of credit impairment is only made when the loss event occurs, then with the expected loss model, the credit losses are estimated and recognized without the need for the actual loss event to have occurred.

Measurement of the impairment

Expected Credit Losses (ECLs) is the weighted average of credit losses (ie the present value of all cash shortfalls) with the respective risks of a default occurring as the weights.

A credit loss is the present value of the difference between the contractual cash flows that are due to an entity under the contract and the cash flows that the entity expects to receive.

(a) Lifetime expected credit losses (lifetime ECLs)

IFRS 9 defines expected lifetime expected credit losses as the expected credit losses that result from all possible default events over the expected life of a financial instrument.

(b) 12-month expected credit losses (12-month ECLs)

The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

1.6. DISCLOSURE ON FINANCIAL STATEMENTS

Disclosure of information about financial assets on the Balance Sheet:

Disclose information about TSTC on Comprehensive Income Statement

Disclosure in the Notes to the Financial Statements

Chapter 2
ACCOUNTING FOR FINANCIAL ASSETS
AT VIETNAMESE COMMERCIAL BANKS

2.1. OVERVIEW OF VIETNAMESE COMMERCIAL BANKERS

2.1.1 The establishment and development of Vietnamese commercial banks

Over the past 25 years, Vietnam's commercial banking system has continuously developed strongly, making an important contribution to the development of the economy. As of December 31, 2019, the number of Vietnamese commercial banks in the system of Vietnamese credit institutions is as follows:

Table 2.1: System of Vietnamese credit institutions as of December 31, 2019

STT	Type	2018	2019
1	State Commercial Banks	4	4
2	Compulsorily purchased bank	3	3
3	Bank for Social Policy	1	1
4	Development banks	1	1
5	Joint Stock Commercial Bank	28	28
6	Joint-venture bank	2	2
7	Bank with 100% foreign capital	9	9
8	Foreign bank branch	49	49
9	Non-bank credit institutions	26	26
10	Cooperative Bank of Vietnam	1	1
11	People Credit Fund	1.183	1.182
12	Microfinance institutions	4	4

Source: State Bank of Vietnam

35 Vietnamese commercial banks are included in the research population of the thesis as of December 31, 2019, including: 04 commercial banks with State share of more than 50% of charter capital, 03 compulsorily purchased banks and 28 joint stock commercial banks.

Indicators of total assets and equity shows that Vietnamese commercial banks including State-owned commercial banks and joint-stock commercial banks play an important role in the system of credit institutions in Vietnam. Total assets account for 10.6 million billion VND out of the

total of 12.6 million billion VND of the whole system. The capital accounts for 688 trillion VND out of the total 912 trillion VND of the whole system.

2.1.2 Financial assets in the Commercial Bank of Vietnam

From the data on financial assets in total assets of Vietnamese commercial banks, it can be seen that financial assets are major assets accounting for over 90% of total assets in banks. Therefore, the appropriate valuation of financial assets as well as the operation results arising from the assets will play a decisive role to the quality of the bank's financial information.

2.2. LEGAL FRAMEWORK ON ACCOUNTING FOR FINANCIAL ASSETS AT VIETNAMESE COMMERCIAL BANKS

The accounting for financial assets at Vietnamese commercial banks are governed by the system of relevant current legal documents. So far, those legal documents have been summarized and systemized by the candidate as follows:

* *Accounting Law* No. 88/2015/QH13 in 2015 includes 74 articles, Decree 174/2016/ND-CP in 2016 guiding a number of articles of the Law on Accounting.

* *The system of accounting standards in Vietnam* was issued by the end of 2012 including 26 standards.

* *Consolidation document No. 05/2018/VBHN-NHNN* merges regulations of Decision No. 479/2004/QD-NHNN and amendments and supplements such as Circular No. 10/2014/TT-NHNN, Circular No. Circular No. 22/2017/TT-NHNN: Regulations on the account system of credit institutions, how to account for transactions related to each account.

* *Decision No. 16/2017/QD-NHNN* and amendments and supplements such as Circular No. 49/2014/TT-NHNN guiding the financial reporting regime for credit institutions

* *Official Letter No. 7459/2006/NHNN-KTTC* Guiding the accounting of securities business and investment operations

* *Official Letter No. 7404/2006/NHNN-KTTC* Guiding the accounting of currency derivatives business

* *The current corporate accounting regime* is prescribed in Circular No. 200/2014/TT-BTC and supplemented and amended in accordance with Circulars 75/2015/TT-BTC, Circular No. 53/2016/TT- BTC dated March 21, 2016 of the Ministry of Finance .

* *Official Letter 2601/2009/NHNN-KTTC*: Guidelines for reviewing the classification and basis for provisioning for impairment of financial investments.

* *Circular 48/2019/TT-BTC* Guiding the provision and use of provisions for devaluation of inventories, loss of investments, bad debts and warranties for products, goods and services services and construction works at the enterprise.

In the content of the thesis, the author summarizes the legal framework for financial asset accounting at Vietnamese commercial banks on the aspects of classification, measurement, recognition, presentation and disclosure of information.

2.3. ACCOUNTING FOR FINANCIAL ASSETS AT VIETNAMESE COMMERCIAL BANKS

In order to collect information about the accounting status of financial assets at Vietnamese commercial banks, the candidate first conducts a survey of the audited financial statements in the year 2019 of Vietnamese commercial banks. The examination of the audited financial statements includes examining the presentation of financial assets on the Balance Sheet, Income Statement and Notes to the Financial Statements, as well as examining accounting policies for the financial assets that Vietnamese commercial banks publish in their financial statements, from which helping the candidate to have an overview of the classification, measurement, recognition, provision, and presentation and disclosure of the financial assets at the Vietnamese commercial banks. The result is out of a total of 35 Vietnamese commercial banks in accordance with the list on the State Bank's website as of December 2020, there are 31 commercial banks that have published audited financial statements (excluding 3 banks that are Ocean Bank, One Member Limited Liability Construction Bank, One Member Limited Liability Global Petroleum Bank were acquired by the State Bank at a zero price, and Dong A Commercial Joint Stock Bank which is currently entangled in pending court did not publish financial statements in the past few years). Out of the total 31 remaining banks, Viet A Bank only published the Balance Sheet, Income Statement and Cash Flow Statement but did not disclose the Notes to the Financial Statements, leaving 30 of surveyed banks. Out of these 30 banks, 12 banks do not have investments in trading securities such as TPBank, Lien Viet Post Bank,

Vietnam Thuong Tin, Petrolimex, Saigon Thuong Tin, Saigon Industry and Trade, Vietnam International Bank, Vietnam Citizen Bank, An Binh, Eximbank, Kien Long, Ban Viet, so the survey of accounting policies for trading securities was carried out at the remaining 18 banks. Orient Commercial Bank as of December 31, 2019 had no held-to-maturity investment, so the Bank did not disclosed its accounting policy for this asset and the survey of accounting policies for held-to-maturity was carried out at the remaining 29 banks. With other long-term investments, Baoviet Bank does not have this type of investment, so the number of banks surveyed is 29 banks. For loans, the survey was conducted on 30 banks.

Next, the author conducts in-depth interviews with experts from commercial banks, including 05 experts who hold leadership positions in the Accounting Policy Department or the Financial Accounting Department at the headquarters of Techcombank (Techcombank), Vietnam Prosperity Joint Stock Commercial Bank (VPBank), Joint Stock Commercial Bank for Foreign Trade of Vietnam (Vietcombank), Joint Stock Commercial Bank for Industry and Trade of Vietnam (Vietinbank), Southeast Asia Commercial Joint Stock Bank (Seabank) and 03 officers directly perform transactions related to financial assets such as: 01 credit officer and 01 officer of the Treasury department specializing in performing derivative transactions of Military Commercial Joint Stock Bank (MB) and 01 officer of the Risk Management department of the Joint Stock Commercial Bank for Industry and Trade of Vietnam. Interviewing officers who directly perform transactions related to financial assets at banks helps the author to understand the nature and process of the transaction, thereby making judgements on how to account for those transactions. Interviewing experts from the Accounting Policy Department or the Financial Accounting Department helps the author clarify issues related to financial asset accounting at commercial banks that were not provided by the financial statements.

The result from survey of audited financial statements as well as in-depth interviews with experts have given the candidate a comprehensive and specific view related to issues of financial asset accounting at Vietnamese commercial banks, serving as a basis for the candidate to design the survey questionnaire consisting of 54 questions covering all aspects of classification, measurement, recognition, presentation and disclosure of financial assets at Vietnamese commercial banks. This survey

questionnaire was then sent to the staffs of the Department in charge of accounting policy or the general accountants of the Financial Accounting Department of Vietnamese commercial banks to collect and summarize current status of financial assets accounting at Vietnamese commercial banks. Because the accounting policies applied to financial assets have been disclosed in relative detail in the audited financial statements by auditing firms, most of which are Big 4 companies, the questionnaire is aimed at more detailed and specific information that has not been disclosed in the financial statements. Therefore, in order to answer questions, the respondents need to have a thorough and comprehensive understanding, so when selecting participants, the candidate has relied on the ability to contact the appropriate survey respondents. (need to be the leader of the departments on accounting policy and financial accounting) to conduct the survey to ensure the quality of the answers. As a result, the candidate has selected 12 banks, including 04 state-owned commercial banks, namely Vietinbank, BIDV, Vietcombank, Agribank and many large commercial joint stock banks.

2.3.1. Classification of financial assets at Vietnamese commercial banks

2.3.2. Measurement of financial assets at Vietnamese commercial banks

2.3.2.1 Initial measurement

- * *Trading Securities*
- * *Held-to-maturity*
- * *Available for sale*
- * *Other long-term investments*
- * *Loan*
- * *Derivatives*

2.3.2.2 Subsequent measurement

- * *Trading Securities*

Recognition of interest income from debt securities classified as trading securities

Recognition of dividends from equity securities classified as trading securities

- * *Held-to-maturity*
- * *Other long-term investments*
- * *Loan*
- * *Derivatives*

2.3.3 Recognition of financial assets at Vietnamese commercial banks

2.3.3.1. Time of recognition:

- * *Securities*
- * *Loans*
- * *Derivatives*

2.3.3.2 Accounts used

2.3.3.3 Journalization of financial asset at Vietnamese commercial banks

Initial recognition

- * *Securities*
- * *Loans*
- * *Derivatives*

Subsequent recognition

- * *Securities*
- * *Loans*
- * *Derivatives:*

2.3.4 Impairment and provision

2.3.4.1 Measurement of impairment

a. Securities

For debt securitie

For equity securitie:

b. Held to maturity

c. Other long-term investments

d. Loan

2.3.4.2 Recognition of impairment

2.3.5 Disclosure of financial assets on financial statements.

2.4 ASSESSMENT OF THE ACCOUNTING FOR FINANCIAL ASSETS AT VIETNAMESE COMMERCIAL BANKS

2.4.1 Achievement

First, applying IAS/IFRS in development of accounting principles for some financial instruments.

Second, commercial banks are quite compliant with Vietnamese accounting standards as well as regulations of the accounting system of credit institutions.

2.4.2 Areas for improvement

2.4.2.1 Classification of financial assets at Vietnamese commercial banks

a. Classification of financial assets at Vietnamese commercial banks

b. Classification of financial assets arising from debt purchase, discounting debt notes

2.4.2.2 Measurement of financial assets at Vietnamese commercial banks

a. Initial Measurement

a1. Initial Measurement: Cost or fair value

a2. Initial Measurement of derivatives

b. Subsequent measurement

b1. Effective interest rates, amortized cost and issues related to the subsequent measurement of financial assets.

* Subsequent measurement in the case that at the initial measurement, the original cost of the assets is not equal to the its fair value.

* Subsequent measurement of financial assets with discount and premium.

* Subsequent measurement of loans that interest income is periodically received based on the original principal (also known as add-on loans):

* Subsequent measurement of the purchase of debt instrument (debt purchase)

b2. Measurement of interest and dividend income from trading securities

b3. Subsequent measurement of derivatives

b3.1 Currency forward instrument

b3.2 Currency options instrument

b3.3 Swap

2.4.2.3 Recognition of financial asset at Vietnamese commercial banks

a. Recognition time

b. Journalization of financial assets

b1. Initial recognition

b1.1 Initial recognition of financial assets at cost.

b1.2 Initial recognition of derivatives.

Initial recognition of currency swaps

Initial recognition of interest rate swaps

b2. Subsequent recognition of financial assets

b2.1 Amortised cost and issues related to subsequent recognition of financial assets

* Subsequent measurement in the case that at the initial measurement, the original cost of the assets is not equal to the its fair value.

* Subsequent measurement of loans that interest income is periodically received based on the original principal (also known as add-on loans):

* Subsequent measurement of the purchase of debt instrument (debt purchase)

b2.2 Accounting for discounting the debt note issued by commercial banks on their own.

b2.3 Subsequent recognition of derivatives

Forward contracts, currency futures

Currency options

Currency swap

2.4.2.4 Impairment and provision for financial assets

a. Securities

b. Loans

2.4.2.5 Disclosure of financial assets on financial statements

Chapter 3

SOLUTIONS TO IMPROVE THE ACCOUNTING FOR FINANCIAL ASSETS AT VIETNAMESE COMMERCIAL BANKS

3.1. PRINCIPLES IN IMPROVEMENT OF FINANCIAL ASSETS AT VIETNAMESE COMMERCIAL BANKS

3.2. SOLUTIONS TO IMPROVE THE ACCOUNTING FOR FINANCIAL ASSETS AT VIETNAMESE COMMERCIAL BANKS

3.2.1 Improve classification of financial assets at Vietnamese commercial banks

3.2.1.1 Classification of financial assets in general at Vietnamese commercial banks

3.2.1.2. Classification of financial assets arising from debt purchase and discounting debt notes

3.2.2 Measurement of financial assets at Vietnamese commercial banks

3.2.2.1 Initial measurement of financial assets

a. Initial Measurement: Cost or fair value

b. Initial Measurement of derivatives

3.2.2.2 Subsequent measurement of financial assets

a. Effective interest rates, impairment and issues related to the subsequent measurement of financial assets.

a1. Subsequent Measurement in case at initial measurement the original cost of the asset is not equal to the its fair value.

a2. Subsequent measurement of loans that interest income is periodically received based on the original principal (also known as add-on loans):

a3. Subsequent measurement of the purchase of debt instrument (debt purchase)

b. Measurement of interest and dividend income from trading securities

c. Subsequent Measurement of derivatives

c1. Futures and forwards

c2. Option.

c3. Swap

3.2.3 Recognition of financial assets at Vietnamese commercial banks

3.2.3.1 The time of recognition of unlisted stocks and bonds

3.2.3.2 Journalization of financial assets

a. Initial journalization of financial assets

a1. Initial journalization of financial assets in case the original cost of financial assets is not equal to its fair value.

a2. Initial journalization of derivatives

b. Subsequent journalization of financial assets:

b1. Effective interest rate, amortization and issues related to the subsequent recognition of financial assets.

* Subsequent journalization in case at initial measurement the original cost of the asset is not equal to the its fair value.

* Subsequent journalization of loans that interest income is periodically received based on the original principal (also known as add-on loans):

* Subsequent journalization of the purchase of debt instrument (debt purchase)

b2. Accounting for discounting the debt note issued by commercial banks on their own.

b3 Subsequent recognition of derivatives

b3.1 Subsequent recognition of foreign exchange forward

b3.2 Subsequent recognition of the options

b3.3 Subsequent recognition of the interest rate swap

3.2.4. Impairment and provision.

3.2.4.1 Impairment of securities

3.2.4.2 Impairment of loans (Loan loss provision)

Classification of loans to make loan loss provision in case there are exceptions related to debt classification.

Impairment and loan loss provision

3.2.5 Disclosure of financial asset on financial statements

CONCLUSION

Financial asset accounting is one of the main tasks of the accounting system at commercial banks and similar financial institutions. Therefore, improving the accounting for financial instruments in general and accounting of financial assets in particular at Vietnamese commercial banks is a matter of practical significance.

Chapter 1 of the thesis has summarized and clarified the theoretical content of financial asset accounting at commercial banks.

Chapter 2 of the thesis summarizes the legal framework on accounting for financial assets in Vietnam and the current situation of financial assets accounting in Vietnamese commercial banks. The thesis conducted a survey of the 2019 audited financial statements published by 30 commercial banks to collect information about financial assets as well as accounting policies for financial assets. In addition, the thesis implement a questionnaire survey for 12 banks to collect more detailed information that is not disclosed in the financial statements. From those research and survey results, the thesis makes an assessment on the achievement and ares for improvement of financial asset accounting at Vietnamese commercial banks.

On the basis of the assessments in Chapter 2, the development strategy of Vietnamese commercial banks to 2025, with a vision to 2030 and the principles of the improvement, chapter 3 of the thesis has proposed solutions as suggestion for Vietnamese commercial banks to improve the accounting of financial assets.

Although there have been many efforts made to research both the theoretical and practical perspectives related to financial asset accounting at Vietnamese commercial banks, but due to time constraints as well as the complexity of the subject, the thesis can not avoid shortcomings. The candidate considers this as initial research and wishes to receive recommendation from experts, teachers, managers and friends who are interested in this field so that the candidate can develop the outstandings in the next research.

Sincerely thank.

LIST OF AUTHORIZED WORKS RELATED TO THE THESIS

1. Nguyen Thi Quynh Hoa (2019), *Accounting for investment in securities at Vietnamese commercial banks*, Journal of Auditing Scientific Research, No. 143, p.64-69.
2. Nguyen Thi Quynh Hoa (2020), *Issues for accounting for investment in held to maturity and loans at Vietnamese commercial banks*, Journal of Auditing Scientific Research, No. 147 , p.43-51.
3. Nguyen Thi Quynh Hoa (2020), *Accounting for financial assets at Vietnamese Commercial Banks, the need to adopt the International Financial Reporting Standards*, Journal of Accounting and Auditing, 6/2020.
4. Nguyen Thi Quynh Hoa (2021), *The lagal framework on classification of financial assets at Vietnamese Commercial Banks*, Journal of Accounting and Auditing, No 212, p.85-90.
5. Nguyen Thi Quynh Hoa (2021), *Current classification of financial assets at Vietnamese Commercial Banks and discussions*, Research on Finance and Accounting, No 214.