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Factors affecting the application of international financial reporting standard on financial instruments in banks

Huong Nguyen Thi Quynh[1], Oanh Vu Thi Kim[2*]
[1,2]Banking Academy of Vietnam, Vietnam; huongntq@hvnh.edu.vn (H.N.T.Q.) oanhvtk@hvnh.edu.vn (O.V.T.K.).

Abstract: The International Financial Reporting Standard (IFRS) is a global accounting language adopted in over 160 countries. The research illuminates the level of IFRS application on financial instruments at Vietnamese commercial banks and explores the impact factors of the IFRS transition. The study is based on data collected from accounting staff and chief accountants working in 28 Vietnamese commercial banks during February 2024. Besides the qualitative method (expert survey), the research uses Principal Component Analysis and logistic regression analysis to test the impacts of factors on IFRS implementation. The findings show that the legal accounting system, the capacity of accountants, the implementation staff, financial capacity, and information technology are the five decisive factors affecting the IFRS application in Vietnam, while the development of the market and the support of managers do not show significant impacts on the implementation of IFRS. The results are of great importance as 2025 is the milestone for commercial banks in Vietnam to apply IFRS. The insights from the research suggest that commercial banks adopt appropriate strategies to successfully apply IFRS on financial instruments.

Keywords: *Commercial banks, Financial instruments, IFRS on financial instruments, IFRS.*
JEL Classification: *G2; M1; M4.*

1. Introduction

Accounting is considered a business language, so applying internationally recognized accounting standards is necessary. This helps all the stakeholders, as management agencies, owners, and investors, especially foreign investors, have a basis to evaluate and compare financial information of enterprises in a common language so that they can make appropriate economic decisions, especially in the context of deep international economic integration. The Decision No. 345/2020/QD-BTC dated March 16th, 2020, of the Ministry of Finance approving the Project on applying IFRS in Vietnam with a concrete roadmap has marked Vietnam's deep international accounting integration. Accordingly, 2025 is the mandatory time for enterprises in Vietnam, including commercial banks, to apply IFRS in their accounting practice.

In Vietnam, the presentation and disclosure of information on the financial statements of Vietnamese commercial banks are currently governed by the Accounting Law, Accounting Standards, and Accounting Regime. However, compared to IFRS, there are still many incompatibilities, especially the lack of Vietnamese Accounting Standards (VAS) on corresponding financial instruments, which is the primary accounting subject of commercial banks. According to Nguyen and Nguyen [1] financial instruments account for over 96% of total assets at the top 10 reputable commercial banks in Vietnam. The group of international standards directly related to financial instruments (IFRS 13 - Fair Value Measurement, IFRS 9 - Recognition and Measurement of Financial Instruments, IAS 32 - Presentation of Financial Instruments, IFRS 7 - Disclosure of Financial Instruments) is considered a complex group

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* Correspondence: oanhvtk@hvnh.edu.vn

of standards with many abstract concepts and principles. This makes it difficult for commercial banks to record, measure, and disclose information about financial instruments.

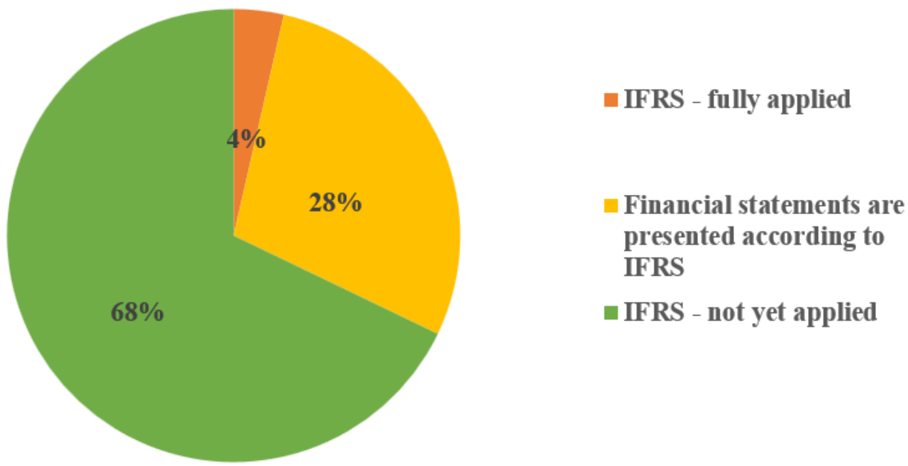

Figure 1.
IFRS application at Vietnam's commercial banks.

In a bank-based market, commercial banks play a vital role in developing Vietnamese enterprises [2]. According to the IASB, implementing IFRS is expected to yield significant benefits to financial institutions, such as reducing fraud in financial statements, enhancing the accountability and transparency of accounting information, and increasing the opportunities for global integration. Therefore, it is necessary to explore why many commercial banks in Vietnam have not applied IFRS if it is because of the national accounting regime that prevents the implementation of IFRS or the specific factors of the commercial bank itself.

Factors affecting the application of IFRS are a topic of great concern to many researchers [3-6]. However, the research on applying IFRS in Vietnam's commercial banks is limited. The previous studies also bypassed specific factors related to certain commercial banks, such as financial capacity, competence of accountants, information technology systems, and databases. These are critical elements affecting the adoption of IFRS [7, 8]. This research aims to understand the level of implementation of IFRS on financial instruments at Vietnamese commercial banks and detect the challenges that Vietnamese commercial banks face in the IFRS implementation process. The research findings could be of great value to policymakers and bank managers in promoting IFRS adoption and enriching the practical understanding of the issues.

The structure of the paper is organized as follows. Section 2 – Literature Review and Hypothesis Development summarizes previous relevant studies to develop a hypothesis. Section 3 - Methodology outlines the data collection process and describes the measurement scales used. Section 4 - Results and Discussion shows the principal component analysis and discusses the findings. In Section 5 – Conclusion, the authors offer recommendations and identify the research limitations and the direction for future study.

2. Literature Review and Hypothesis Development

According to IASB [9] IFRS is a single set of high-quality accounting standards that provides a common global language for business entities to prepare understandable and comparable financial reports across international boundaries. In the context of globalization and international economic integration, implementing IFRS is essential to enhance the quality of financial reporting. The legal accounting system comprises all legal norms and documents governing accounting practices. Many countries have a national accounting regime with clear guiding circulars on recording accounting transactions and preparing financial statements suitable for publication. Many researchers assert the influence of the legal system on the implementation of IFRS Al-Htaybat [10]; Madawaki [11] and Bonito and Pais [12]. Bonito and Pais [12] used a sample of 84 adopters and non-adopters of IFRS for SMEs, both in developed and developing countries, and found that the national accounting regime impedes the adoption of IFRS, while Doan, et al. [13] found a positive impact of national accounting regime on the application of IFRS. In the context of the lack of corresponding Vietnamese accounting standards for financial instruments, further research is necessary to implement IFRS.

Hypothesis 1: A legal system on accounting (LS) with full and clear regulations will facilitate the application of IFRS on financial instruments at Vietnamese commercial banks, thus having a positive impact on the application.

The financial market includes the money and capital markets, the latter of which is the market for trading financial instruments with maturities of more than one year, providing long-term financing for the entities for production and economic growth. The development of the financial market ensures the quality of financial information. The application of IFRS related to financial instruments requires the determination of financial instruments based on the fair value principle, setting aside provisions for future losses, etc.

The financial market is considered to impact the application of IFRS in general and particularly on IFRS related to financial instruments [14, 15]. Therefore, an efficient financial market is needed to provide reliable economic data and parameters to determine fair value or to have all forecasting elements and historical data.

Hypothesis 2: The development of the market (DM) positively impacts the application of IFRS to financial instruments at Vietnamese commercial banks.

One of the many challenges developing countries face when transitioning to and adopting IFRS is the managers' awareness. The conversion of financial statements to IFRS in companies requires consensus and support of the board of managers [16]. The competence and attitude of managers play an essential role in creating favorable conditions for adopting IFRS within an organization [17]. The support of managers has also been identified as one of the factors influencing the adoption of IFRS in Vietnamese enterprises [6].

Hypothesis 3: The support of managers (SM) positively impacts the application of IFRS to financial instruments at Vietnamese commercial banks.

The application of international accounting standards in practice will depend significantly on the qualifications and professionalism of accounting personnel Choi and Meek [18]. Uyar and Güngörmüş [19] investigated the basic knowledge and perceptions of accountants regarding IFRS for SMEs in Turkey and found evidence that the lack of qualified accounting staff is one of the obstacles to implementing IFRS for businesses. Al - Htaybat [10] research identified the relationship between the qualifications of accountants and the adoption of IFRS in companies. Doan, et al. [13] also find the most substantial impact of the accounting team's level and competence on the IFRS application.

Hypothesis 4: Accountants' qualifications and experience (AC) positively impact the application of IFRS on financial financial instruments at Vietnamese commercial banks.

IFRS9 replaces the existing IAS39 from 1 January 2018 and introduces changes in the classification and measurement of financial assets, accounting for changes in own credit risk in financial liabilities, impairment, and hedge accounting. The implementation of IFRS9 will be a significant change to the financial reporting of banks to align with global best practices, strengthen their business and attract foreign investors [20]. However, the transition process is not merely a change in accounting policies; it requires significant changes within the business and understanding and cooperation from various departments [21]. This standard necessitates the involvement of all departments in the bank, such as business units, financial accounting, risk management, and even the bank's leadership. Therefore, there needs to be understanding and collaboration among many departments in the bank concerning IFRS standards in general and IFRS 9 in particular.

Hypothesis 5: The implementation staff (IS) positively impacts the application of IFRS on financial financial instruments at Vietnamese commercial banks.

Transitioning to IFRS is costly and time consuming for many business entities [15, 22]. Initially, the transition process requires costs incurred for staff training, changing information systems and processes, and external advisory services. Marin, et al. [16] surveyed the opinions of 71 certified public accountants in Tunisia and concluded that one of the factors hindering the application of IFRS in Tunisia is cost. Bassemir [23] identified the need to change the information system and training and development of accounting staff as challenges to applying IFRS by businesses in Germany. Al-Absy and Ismail [14] also studied how initial costs affect the application of IAS/IFRS in Yemen. The authors concluded that in Yemen, a lack of competent specialists regarding IFRS and a lack of education level of accounts increase the costs of implementing IFRS.

Hypothesis 6: Financial capacity (FC) positively impacts the application of IFRS on financial instruments at Vietnamese commercial banks.

In the transition to IFRS, especially IFRS 9 on financial instruments, information technology is one of the critical aspects of concern because IFRS9 stipulates the need to apply a credit loss model - provisioning for future losses, calculations will include future forecasting factors rather than relying solely on credit impairment events [24, 25]. Therefore, The availability and quality of data in model construction, macroeconomic data, and high flexibility for customization ensure the success of the transition process. Moqbel, et al. [26] investigated the acceptance of U.S. academics and practitioners to embrace IFRS as a common accounting language. They explored the role of IFRS education, training, and information technology in implementing IFRS. The authors suggested that information technology can significantly assist accounting, finance, and auditing analysts in transitioning to IFRS.

Hypothesis 7: Information technology systems and databases (IT) positively impact the application of IFRS on financial instruments at Vietnamese commercial banks.

3. Research Methodology

Through the characteristics of IFRS on financial instruments, the characteristics of business activities of commercial banks, and previous research, the authors summarized factors affecting the application of IFRS on financial instruments in banks. Then, the authors interviewed experts, including managers, chief accountants, auditors, consultants, and lecturers with at least 10 years of experience in banking, auditing, and accounting. From the results and opinions from the group's discussion, the authors identified factors affecting the application of IFRS on financial instruments at Vietnamese commercial banks, which include the legal system on accounting, market development, support of managers, qualification and experience of accountants, implementation staff, financial capacity, information technology system, and database.

Based on the identified factors, the study continues to use quantitative research methods to measure the level of influence of each factor on the application of IFRS on financial statements at Vietnamese commercial banks. Applying IFRS on financial instruments and impact factors is measured on a five-level Likert scale (Strongly Disagree, Disagree, Undecided, Agree, Strongly Agree).

The research's scope is Vietnamese commercial banks. Research data is collected through face-to-face interviews and email interviews with managers and employees working in different positions of 28 Vietnamese commercial banks. Two hundred fifty questionnaires were collected, and after eliminating the invalid questionnaires due to many blank cells, the authors decided to use 223 questionnaires. To test the hypothesis on the factors of IFRS implementation, the authors used the software SPSS 25.

The proposed research model is as follows:

$$AIFRS = \beta 0 + \beta 1*LS + \beta 2*DM + \beta 3*SM + \beta 4*AC + \beta *5IS + \beta 6*FC + \beta 7*IT + \varepsilon$$

In which:

- AIFRS: The application of IFRS on financial instruments at Vietnam commercial banks

LS, DM, SM, AC, IS, FC, and IT represent the law system, market development, support of managers, accountants' capacity, implementation staff, financial capacity, and information technology, respectively.

4. Results and Discussion

4.1. Demographic Indices of Respondents

To assess the impact factors on the IFRS transition in Vietnam, the authors surveyed Vietnamese commercial banks in February 2024. The survey question regarding the level of IFRS implementation was sent to the accounting staff and chief accountants of 28 banks, including 26 joint-stock commercial banks, one state-owned commercial bank, and one foreign bank. The demographic indices of respondents are shown below:

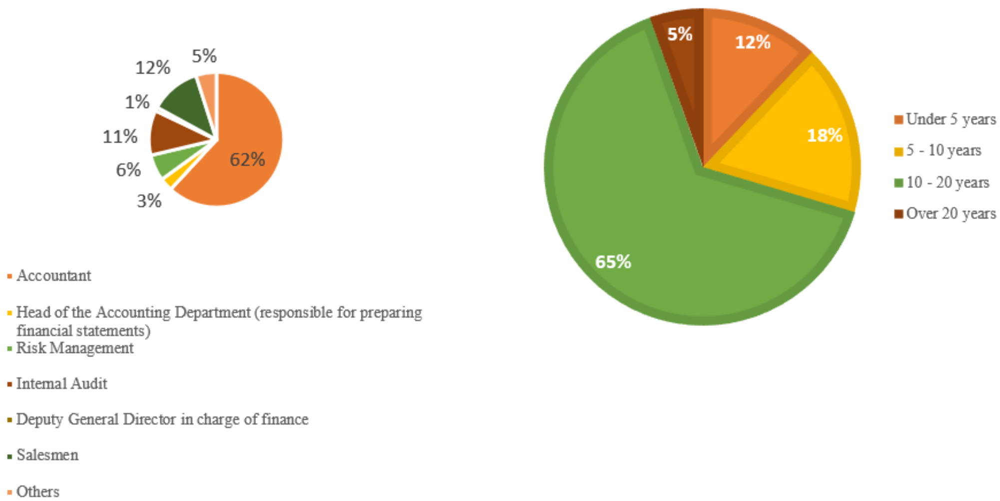

Figure 2.
Demographic indices of respondents.

4.2. Scale Reliability and Data

Given that the research data are aggregated from surveys, and several items explain each scale, the study conducted regression using the partial least squares (PLS) technique with the Kernel method [27]. PLS is a suitable method for analyzing survey data because it can handle situations where variables are correlated with each other and may have missing data. Before building the model, the raw and standardized variables will be tested for their reliability using Cronbach's alpha. The data set is randomly divided into training data (80%) and testing data (20%). The model will be trained on the training data, then verified and re-validated using the testing data. Cross-validation for the root mean square error (RMSE) is also applied to test the model's accuracy. The best model is selected according to the R^2 value of the goodness of fit, that is, according to the proportion of variance explained. To assess the influence of the variables, the study will also consider the values representing the importance of the calculated variables.

The normal distribution of the model's residuals will be accepted by their Skewness and Kurtosis because their absolute values are all below 0.5. With the collected data, the authors have calculated: Skewness = 0.02; Kurtosis = 0.33. Thus, it can be concluded that the residuals of the model are normally distributed.

The study evaluated the scale's reliability on the correlation between observed variables in each factor using Cronbach's Alpha test to eliminate inappropriate observed variables when analyzing EFA exploratory factors.

Table 1.
Scale test results.

Independent variable	Raw-alpha	Std. alpha	Dependent variable	Raw-alpha	Std. alpha
LS	0.89	0.89	AIFRS	0.92	0.92
LS1	0.86	0.86	AIFRS1	0.90	0.90
LS2	0.87	0.87	AIFRS2	0.87	0.87
LS3	0.86	0.86	AIFRS3	0.89	0.90
LS4	0.87	0.87	AIFRS4	0.91	0.91
LS5	0.86	0.86	AIFRS5	0.91	0.91
DM	0.87	0.87			
DM1	0.84	0.84			
DM2	0.85	0.85			
DM3	0.82	0.82			
DM4	0.83	0.83			
SM	0.86	0.86			
SM1	0.83	0.83			
SM2	0.81	0.81			
SM3	0.81	0.81			
SM4	0.82	0.82			
AC	0.89	0.89			
AC1	0.88	0.88			
AC2	0.87	0.87			
AC3	0.87	0.87			
AC4	0.87	0.87			
AC5	0.87	0.87			
IS	0.86	0.86			
IS1	0.85	0.85			
IS2	0.83	0.83			
IS3	0.81	0.81			
IS4	0.81	0.81			
FC	0.82	0.82			
FC1	0.76	0.76			
FC2	0.75	0.75			
FC3	0.73	0.74			
IT	0.86	0.86			
IT1	0.84	0.84			
IT2	0.82	0.83			
IT3	0.81	0.81			
IT4	0.83	0.83			

According to George and Mallery [28] the data of the study is reliable enough if the Cronbach's Alpha index is greater than or equal to 0.7. The results showed that the independent and dependent variables groups demonstrate satisfactory internal consistency, as demonstrated by Cronbach's Alpha coefficient.

4.3. Principal Component Analysis

The research model had seven independent variables with 29 observed variables (components). Therefore, Principal Components Analysis (PCA) is applied to summarize the information of the observed variables included in the factor analysis and help reduce many observations into a smaller number of principal factors [29]. These principal factors explained the most information characteristics of all the original observed variables.

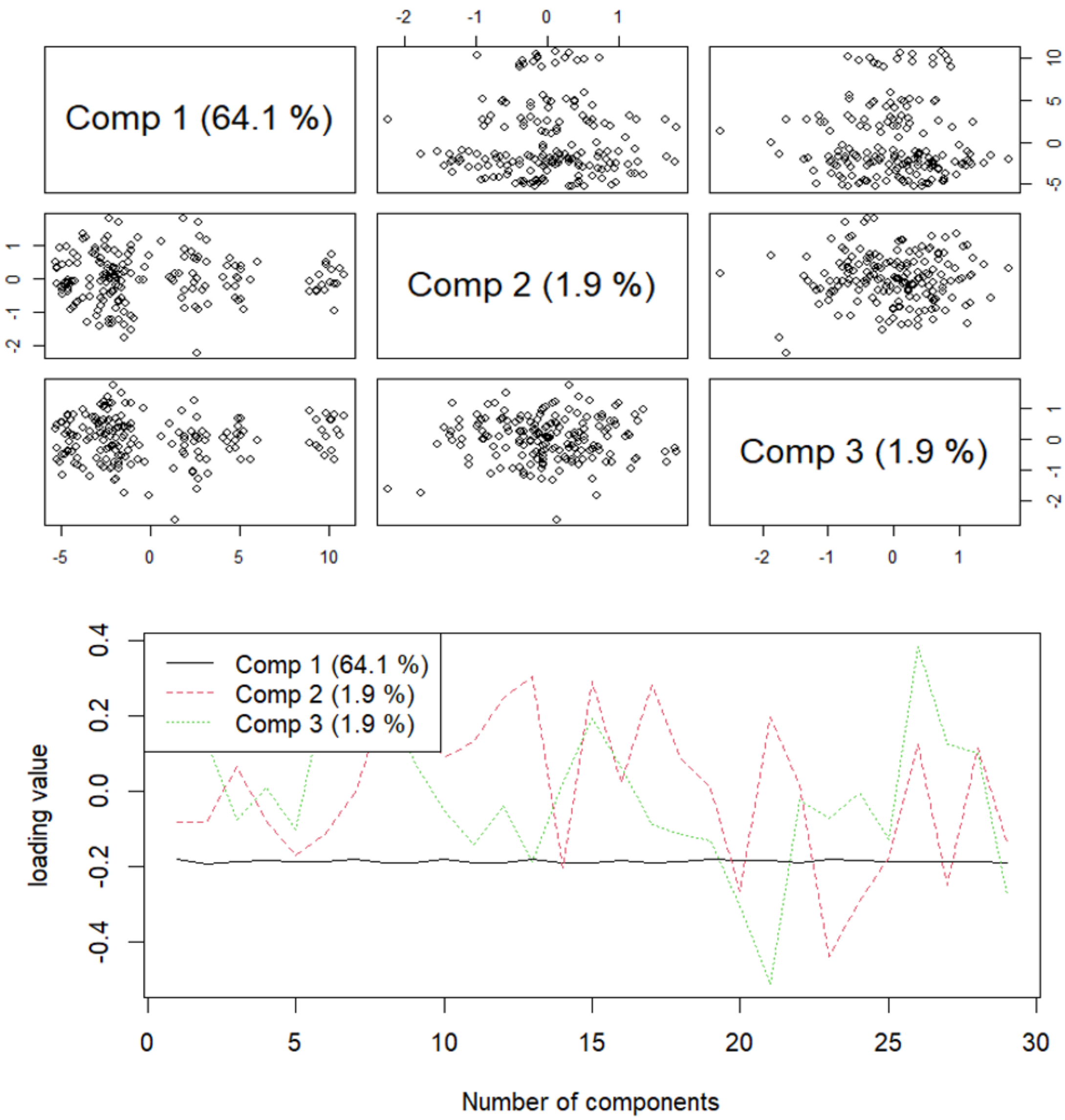

Figure 3.
Model explanation level of principal components.
Note: comp1, comp2, and comp3 are principal components 1, 2, and 3, respectively.

It can be seen that principal component 1 contributes a large proportion in explaining the characteristics of the observed variables. From the second principal component onwards, this contribution is insignificant. Therefore, the model may only need to use 2 or 3 principal components to assess the impact of the observed variables on the dependent variable.

Calculating R^2 will allow us to evaluate the appropriateness of the current model:

Table 2.
R^2 of the model in case of using 1, 2, or 3 principal components.

Number of principal ingredients	**R^2**
Model using one principal component (1)	0.60
Model using two principal components (2)	0.60
Model using three principal components (3)	0.62

The R^2 statistic determines the optimal models based on their maximum values. Due to the indifference in R^2 values of using 1 and 2 principal components, the following paper will focus on evaluating the results of models (2) and (3). This conclusion is also supported by the variance rate explained by using 1, 2, and 3 principal components, presented in the table:

Table 3.
Percentage of variance explained from using 1, 2, and 3 principal components.

Variable	Model		
	1 principal component (1)	2 principal components (2)	3 principal components (3)
Dependent variable	64.09	66.02	67.94
AIFRS1	62.77	66.69	66.85
AIFRS2	85.74	87.28	87.29
AIFRS3	62.39	66.51	67.59
AIFRS4	53.25	55.45	56.04
AIFRS5	55.64	56.15	59.75

These values refer to the percentage of the total variation in the variables (independent and dependent) explained by the principal components of the PLS model. It can be seen that the difference between models (1) and (2) is significantly more significant than the difference between models (2) and (3).

From here, the study will assess the influence of the observed variables on the dependent variable by calculating the variable importance values. The results are presented in the table:

Table 4.
Values representing the importance of variables in models using 2 and 3 principal components.

Variable	Model									
	2 principal components (2)					3 principal components (3)				
	AIFRS1	AIFRS2	AIFRS3	AIFRS4	AIFRS5	AIFRS1	AIFRS2	AIFRS3	AIFRS4	AIFRS5
LS1	0.045	0.047	0.039	0.036	0.034	0.045	0.047	0.039	0.036	0.034
LS2	0.048	0.051	0.042	0.038	0.037	0.048	0.051	0.042	0.038	0.037
LS3	0.047	0.049	0.040	0.037	0.035	0.047	0.049	0.040	0.037	0.035
LS4	0.046	0.048	0.039	0.036	0.035	0.046	0.048	0.039	0.036	0.035
LS5	0.048	0.050	0.041	0.038	0.036	0.048	0.050	0.041	0.038	0.036
DM1	0.047	0.049	0.040	0.037	0.036	0.047	0.049	0.040	0.037	0.036
DM2	0.045	0.047	0.039	0.036	0.034	0.045	0.047	0.039	0.036	0.034
DM3	0.045	0.047	0.039	0.036	0.034	0.045	0.047	0.039	0.036	0.034
DM4	0.046	0.048	0.040	0.037	0.035	0.046	0.048	0.040	0.037	0.035
SM1	0.044	0.046	0.038	0.035	0.033	0.044	0.046	0.038	0.035	0.033
SM2	0.046	0.048	0.040	0.037	0.035	0.046	0.048	0.040	0.037	0.035
SM3	0.045	0.047	0.039	0.036	0.034	0.045	0.047	0.039	0.036	0.034
SM4	0.042	0.044	0.036	0.034	0.032	0.042	0.044	0.036	0.034	0.032
AC1	0.049	0.052	0.042	0.039	0.037	0.049	0.052	0.042	0.039	0.037
AC2	0.045	0.047	0.039	0.036	0.034	0.045	0.047	0.039	0.036	0.034
AC3	0.046	0.048	0.040	0.036	0.035	0.046	0.048	0.040	0.036	0.035
AC4	0.045	0.048	0.039	0.036	0.035	0.045	0.048	0.039	0.036	0.035
AC5	0.046	0.048	0.039	0.036	0.035	0.046	0.048	0.039	0.036	0.035
IS1	0.044	0.046	0.038	0.035	0.033	0.044	0.046	0.038	0.035	0.033
IS2	0.048	0.051	0.042	0.038	0.037	0.048	0.051	0.042	0.038	0.037
IS3	0.045	0.047	0.038	0.035	0.034	0.045	0.047	0.038	0.035	0.034
IS4	0.048	0.050	0.041	0.038	0.036	0.048	0.050	0.041	0.038	0.036
FC1	0.048	0.051	0.042	0.038	0.037	0.048	0.051	0.042	0.038	0.037
FC2	0.047	0.050	0.041	0.037	0.036	0.047	0.050	0.041	0.037	0.036
FC3	0.047	0.050	0.041	0.038	0.036	0.047	0.050	0.041	0.038	0.036

IT1	0.045	0.047	0.039	0.036	0.034	0.045	0.047	0.039	0.036	0.034
IT2	0.048	0.051	0.042	0.039	0.037	0.048	0.051	0.042	0.039	0.037
IT3	0.045	0.048	0.039	0.036	0.034	0.045	0.048	0.039	0.036	0.034
IT4	0.047	0.050	0.041	0.038	0.036	0.047	0.050	0.041	0.038	0.036

According to the results summarized in the Table, 10 variables have the most decisive impact on the application of IFRS on financial instruments at Vietnamese commercial banks, including:

Firstly, related to the first factor of the Legal Accounting System, 02 variables have the most substantial impact on the application of IFRS on financial instruments at Vietnamese commercial banks. They are an accounting regime that helps banks fully reflect the information required under IFRS on financial statements (LS2) and appropriate financial mechanism provisions for implementing IFRS on financial instruments (LS5). The test results are consistent with the hypothesis and previous studies[14, 15].

Secondly, the test results show that the level of bank accountants meeting the requirements for applying IFRS on financial instruments (AC1) also strongly affects the application of IFRS on financial instruments at Vietnamese commercial banks. This is consistent with the hypothesis and studies of Sharif [30]; Li [21]; Choi and Meek [18]; Uyar and Güngörmüş [19]; Al-Htaybat [10] and Doan, et al. [13].

Thirdly, the staff involved in applying IFRS on financial instruments understand the standards (IS2) and cooperate in the implementation process (IS4), which strongly affects the application of IFRS on financial instruments at Vietnamese commercial banks. Thus, this conclusion is also consistent with Daske, et al. [31] and Li [21] hypothesis and other research results.

Fourthly, the study also has the same results as the hypothesis that financial capacity positively affects the application of IFRS on financial instruments at commercial banks, specifically related to the bank's willingness to invest in the implementation of IFRS on financial instruments related to software, projects, training, etc. (FC1); or the bank has available financial capacity for the application of IFRS on financial instruments (FC2); or the bank accepts a decrease in financial capacity for the initial stage of applying IFRS on financial instruments (FC3). This result is also consistent with previous studies by Marin, et al. [16]; Bassemir [23] and Al-Absy and Ismail [14].

Finally, the results of the database factor also show that related variables have a substantial impact on the application of IFRS on financial instruments at commercial banks, such as historical data in banks sufficient for implementing IFRS models on financial statements (IT2) or ensuring consistency between different sources (IT4). This result is consistent with the initial research hypothesis [24-26].

To verify the validity of the analysis results, the study will calculate the correlation coefficients that measure the strength and direction of the linear relationship between the expected value and the observed value of AIFRS in the testing data. All observed values are highly significant ($p < 0.001$), indicating a significant correlation between these two groups of values. This also proves that the analysis results provide a high level of reliability.

Table 5.
Correlation coefficient between expected and observed values of AIFRS variable in testing data.

Dependen variable	Model	
	2 principal components (2)	**3 principal components (3)**
AIFRS1	0.80	0.81
AIFRS2	0.86	0.86
AIFRS3	0.81	0.81
AIFRS4	0.72	0.73
AIFRS5	0.66	0.73

5. Conclusion

The research explores the current situation of IFRS application at Vietnamese commercial banks and the factors hindering the application process. The result shows that only 4% of the commercial banks have fully applied IFRS, while 68% have not yet applied IFRS. This fact raises the importance of the research in understanding the reason for implementing IFRS in Vietnam. By using mixed methods of quantitative and qualitative analysis, the authors confirm the impact of the legal accounting system, competency of accountants, implementation staff, financial capacity, and information technology of the banks on IFRS application in Vietnam. IFRS application is inevitable, and it helps to strengthen the capacity of Vietnamese commercial banks in global economic integration. The findings of the research suggest recommendations for the state authorities and commercial banks to concentrate on certain factors to speed up the IFRS transition: the Government and regulatory agencies should soon issue clear and specific regulations to guide the preparation of financial statements according to IFRS, especially IFRS on financial instruments, commercial banks should have plan to enhance the capacity of the accountant, the cooperation efficiency between departments to ensure smooth operation when implementing the IFRS standards on financial instruments, financial capacity as well as the information technology and databases to facilitate the application process. However, the research still encompasses some limitations: the respondents of the survey are all bank staff and managers, and though the factors of IFRS application include external and internal factors, further research might increase the scope and size of the survey to better capture the factors hindering IFRS application in Viet Nam; quantitative analysis is executed based on data collected from the questionnaire, which might raise biases during the process of designing and responding to the survey and eventually affect the results of the research. In the future, quantitative research methods should be used to achieve comprehensive results.

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Institutional Review Board Statement:
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Transparency:
The authors confirm that the manuscript is an honest, accurate and transparent account of the study that no vital features of the study have been omitted and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.

Competing Interests:
The authors declare that they have no competing interests.

Authors' Contributions:
All authors contributed equally to the conception and design of the study. All authors have read and agreed to the published version of the manuscript.

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