Bank Loan Loss in Vietnam:

A Dialectical View

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Declaration of Originality

I certify that except where due acknowledgement has been made, the work is that of the author alone; the work has not been submitted previously, in whole or in part, to qualify for any other academic award; the content of the thesis is the result of work which has been carried out since the official commencement date of the approved research program; any editorial work, paid or unpaid, carried out by a third party is acknowledged; and, ethics procedures and guidelines have been followed.

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Thi Ngoc Anh Huynh

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Dedication

For my wonderful husband, HOANG XUAN HAI

In recognition of his generous love, support and encouragement (and forbearance)

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List of Abbreviations

BCBS	Basel Committee on Banking Supervision
CAR	Capital Adequacy Ratio
CIC	Credit Information Centre
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
JSCBs	Joint-Stock Commercial Banks
NPLs	Nonperforming Loans
ODA	Overseas Development Assistance
RWA	Risk-Weighted Assets
SBV	State Bank of Vietnam
SEGs	State Economic Groups
SOCBs	State-Owned Commercial Banks
SOEs	State-Owned Enterprises
TPP	Trans-Pacific Partnership
VAMC	Vietnam Asset Management Company
VAS	Vietnamese Accounting Standards
VDB	Vietnam Development Bank
WTO	World Trade Organization

Definitions of Key Terms

Basel Accords: a set of agreements set by the BCBS, which provides recommendations on banking regulations concerning capital risk, market risk and operational risk.

Capital adequacy ratio (CAR): the ratio of a bank's capital to its risk, known as the bank Tier 1 and Tier 2 capital to risk-weighted assets.

Tier 1 capital: the nominator component of the CAR. It is determined as the core capital that includes equity capital and disclosed reserves.

Tier 2 capital: the nominator component of the CAR. It includes hybrid capital instruments, loan loss and revaluation reserves as well undisclosed reserves. This capital is supplementary funding since it is not as reliable as Tier 1 capital.

Risk-weighted assets: the denominator of the CAR. It is measured as bank's assets or off-balance-sheet exposure, weighted according to risk.

Nonperforming loan (NPL): a loan on which the scheduled payment has not been made.

NPL ratio: the ratio of NPLs to total outstanding loans.

Loan loss provision: loan loss impairment from asset impairment testing.

Loan loss recognition: loan loss classification, provision and disclosure.

Loan loss communication: communication related to loan loss recognition between an organisation and individuals such as bank regulators, bank management and the government. The communication can be expressed via the regulation documents providing guidance on the ways in which loss loan is recognised, the disclosure of loan loss from different organisations and their related discussions. In this thesis, the communication data were collected from published sources, such as regulations, bank financial reports, statements, speeches in internet and newspapers.

Abstract

Loan loss recognition and communication have been contentious issues in Vietnam recently. Before 2012, the State Bank of Vietnam and commercial banks continuously signaled that the banking system was under control, with the nonperforming loans (NPLs) ratio below 3%. However, a belief expressed through newspapers and other media was that the NPL ratio was much higher under international standards. This ratio became controversial when different figures were disclosed from different sources, and it has fluctuated strongly since 2012. The acceleration of NPLs in 2012 froze credit flows and the economy. Later, the NPL ratio steadily decreased until it reached the benchmark of 3%, which was announced as the safety level, and it has remained thus since 2014. However, many believe that the published figure of 3% represented just a part of the NPL iceberg. Most recently, the National Financial Supervisory Commission announced that the NPL was 9.5% at the end of 2017, while according to the banking industry's report it was below 3%. Accompanying the different NPL numbers is the continuous change from 2012 to date in accounting regulation on debt classification and provisioning.

That constant change represents the embarrassment of bank regulators in regulating loan loss recognition. It raises the research question why loan loss recognition and communication are contentious issues in the Vietnamese context. Answering this question is expected to equip Vietnam's bank regulators with a theoretical basis for their decision-making in regulating loan loss recognition, and improve transparency in loan loss recognition as well.

Seemingly, loan loss recognition used to be controversial in many other countries, such as Japan, the United States and China before, during and after their financial crisis. It led to the issuance of bank regulations such as Basel Accords I and II as well as new accounting standards - IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures and IFRS 9 Financial Instruments - to resolve that controversy. Nevertheless, the phenomenon is repeated in Vietnam. It leads to the following subresearch questions: 'Is Vietnam experiencing the same issue that occurred in other countries?' and 'Has Vietnam learned from history given that the country has been equipped with those new rules?'

A review of the current literature shows that loan loss recognition and communication have been controversial in other countries and not only in Vietnam despite the issuance of various international regulations on loan loss recognition. It is because loan loss accounting can be treated differently from different perspectives, such as accounting, bank regulation, tax and other macro links, such as procyclicality or political views. Young (1995) and Chahed (2014) concluded that the meaning of 'right' accounting has shifted in various ways depending on the interaction between the actors in the accounting environment. Few studies have examined this phenomenon in terms of loan loss recognition, although it has a critical relationship with the political and economic environment. The present research partly bridges that gap by examining the appropriate meaning of loan loss recognition and communication in the Vietnamese-specific context. Since the current international regulations on loan loss recognition derive from the developed countries, the Vietnamese context, a developing country with distinctive features, is selected to understand loan loss recognition from an alternative perspective.

To answer the research questions, it is necessary to understand fully how particular ways of bank loan loss recognition and communication have emerged in the context of Vietnam by moving beyond the boundaries of the organisation and examine the phenomenon in light of the economic, social and political contexts rather than simply from the technical perspective, as common in the current literature. There is now an urgent need for research in this regard.

Underpinning this perspective is a focus on the interplay between the way to recognise loan loss in Vietnam and the ways to manage its organisations and society. It requires an understanding of how changes in the society shaped a change in loan loss recognition and how that accounting change has affected the Vietnamese society. From this view, the study examines the communication among bank regulators, bank managements, foreign partners and specialists in terms of regulating loan loss recognition rather than just studying how loan loss is identified and recorded.

While several previous studies focused on organisational processes of regulating loan loss recognition (macro level), some others switched towards a focus on bank management role in loan loss recognition (micro level). The present research argues that examining these macro-level and micro-level positions alone is problematic for understanding the dynamics of organisational power in loan loss recognition and communication. Instead, adopting a sociological analysis of accounting that could blend both concerns would improve the understanding of the ways in which the two are mutually implicative and coproductive. The mix of both levels currently ‘remains largely an aspiration’ but is a challenge for researchers because it is ‘not even clear what concepts and issues would guide such a research agenda’ (Walker 2016, p. 42). In this study, loan loss recognition and communication is expected to be a rich issue for bridging the gap because of its profound effects on both micro and macro levels.

For that purpose, the study adopted an interpretive paradigm and dialectical theory as a theoretical framework to gain more in-depth information and new perspectives in the area of loan loss communication. The content analysis was conducted on the data collected from the published records of regulations and practices in loan loss recognition in Vietnam, including background data, banking regulations, accounting standards, bank reports and public discussions.

It was found that the dialectical contradiction of the Government and market control was underlying the regulation on loan loss recognition. Separation and neutralisation were the main styles of response to that contradiction. Those response styles caused confusion in loan loss communication because the contradictions in loan loss recognition were not resolved thoroughly. Vietnam has not learned well from international experiences in regulating loan loss recognition because it was embarrassed in responding to specific contradictions that were not common in a developed market. Hence, for bank regulators in Vietnam, the appropriate accounting for loan loss recognition should be the one that responds well to the contradictions in the Vietnamese context.

The aforementioned finding is the rationale to equip bank regulators and the related parties with not only the knowledge of international standards in terms of loan loss recognition, but also the necessary skills to respond to the conflicts in the adoption of those standards in the Vietnamese context. For that purpose, International Financial Reporting Standards, Basel Accords and credit risk management towards international practices should be included in the bank training curriculum. The training and discussion of how to respond to the related contradictions should be a

critical section in the curriculum. Further studies of how to react suitably to contradictions in loan loss recognition should be conducted. The present research also contributes to the dialectical theory literature by showing how this theory can be adopted to understand the communication among organisations in terms of loan loss recognition. Further research in dialectical theory adoption appears a promising research area.

Key words: regulation, accounting standards, nonperforming loans, capital adequacy, dialectics, communication.

Conferences

The preliminary empirical findings of the thesis have been presented at the conferences below:

Huynh, T. N. A., Abraham, A. & Humphreys, P. 2014, 'Bank loan losses in a quasi-market economy: the case of Vietnam', paper presented at *26th Asian-Pacific Conference on International Accounting Issues and 2014 Accounting Theory and Practice Conference*, Taipei, Taiwan, 26–29 October.

Huynh, T. N. A., Abraham, A. & Humphreys, P. 2014, 'Bank loan losses in Vietnam: A challenge for a developing economy', paper presented at *The World Finance & Banking Conference*, Singapore, 12–14 December.

Chapter 1: Introduction

1.1 Research Background

Recently, loan loss recognition, which is mainly based on nonperforming loans (NPLs), has become a hot topic in Vietnam because it is believed to exacerbate the economic depression by downgrading the country's global credit rating (Dang Duc Thanh 2015) and invalidating bank supervision, which partly led to a series of recent extremely large bank scandals (Diep Binh 2017). The following paragraphs present the public confusion as regards the different and constantly changing NPL ratio as well as the embarrassment of Vietnam's bank regulators, who have been extremely concerned since 2011, in regulating loan loss recognition and communicating loan loss.

The NPL amount is an important figure because it is the base for measuring bank loan losses. In the country, loan loss provisions are mainly driven by NPLs (Decision 493 issued in 2005). In particular, NPL in Vietnam is the sum of three riskiest groups of 3, 4 and 5 with the highest provision rates[1], thus critically determining the extent of the bank loan loss and being the key risk factor in addressing credit quality of loan portfolios.

In addition, the measurement of NPLs is also of particular concern in relation to the NPL ratio, which is the ratio of NPLs to total outstanding loans. NPL ratio is

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[1] Under Decision 493, THE GOVERNOR 2005. Quy định về phân loại nợ, trích lập và sử dụng dự phòng để xử lý rủi ro tín dụng trong hoạt động ngân hàng của tổ chức tín dụng; 'Regulation on the debts classification, provisioning and use of provisions against credit risks in the banking activity of credit institutions'. *In:* VIETNAM, S. B. O. (ed.) *493/2005/QD-NHNN*. Hanoi, Vietnam: State Bank of Vietnam., which has been updated by Circular 02 THE DEPUTY GOVERNOR 2013. Quy định về phân loại tài sản có, mức trích, phương pháp trích lập dự phòng rủi ro và việc sử dụng dự phòng để xử lý rủi ro trong hoạt động của tổ chức tín dụng, chi nhánh ngân hàng nước ngoài 'Providing on classification of assets, levels and method of establishing risk provisions, and use of provisions against credit risks in the banking activity of credit institutions, foreign banks' branches'. *In:* VIETNAM, S. B. O. (ed.) *02/2013/TT-NHNN*. Hanoi: State Bank of Vietnam, loans are classified into five groups based on their risk degree: standard debt, debts which need special attention, substandard debt, doubtful debt and potentially irrecoverable debt. The risk degree can be measured based on past due date, called the quantitative method, in which group 1 are current debts, and groups 2, 3, 4,and 5 are overdue for less than 90 days, 180 days and 360 days and more than 360 days, respectively. Alternatively, the risk can be assessed relying on banks' internal credit rating system, which is named qualitative method. The different risk levels lead to different loan loss provision rates applied for each group: group 1—standard, 0%; group 2—special attention, 5%; group 3— substandard, 20%, group 4—doubtful, 50%; group 5—loss, 100%).

commonly considered in Vietnam a key indicator representing the banking industry's financial health. Vietnamese bank regulators consider the 3% threshold safe according to international practices (Dang Duc Thanh 2015; Vov.vn 2012; Vu Thanh Tu Anh et al. 2013; Zing.vn 2015).

It is believed that the measurement of NPLs and NPL ratio, being a part of bank regulation, has improved towards international practices (State Bank of Vietnam [SBV] 2007) to implement the Doi Moi policy[2] raised by the Government since 1986 (Decision No. 136/2001/QD-TTg of 2001). It aims to build the capital and monetary market institutions for market development and global integration (Decision No. 136/2001/QD-TTg of 2001).

However, over several years, many banking specialists and press releases have continuously claimed that NPLs had been underestimated in Vietnam, and the gap between Vietnamese standards and international standards in NPL estimation has been attributed to the difference in NPL figures (Ha 2010; Suiwah 2009; Vietbiz24 2012; Vietnam Investment Review 2011; Vietnam News 2011). The confusion as regards NPL measurement and communication was so severe at the end of 2011 that the Governor of the SBV, Nguyen Van Binh, had to express his opinion at the National Assembly meeting session in November 2011. He seemed to disagree that the difference in NPLs was problematic. In his answer, the Governor explained about that gap as follows:

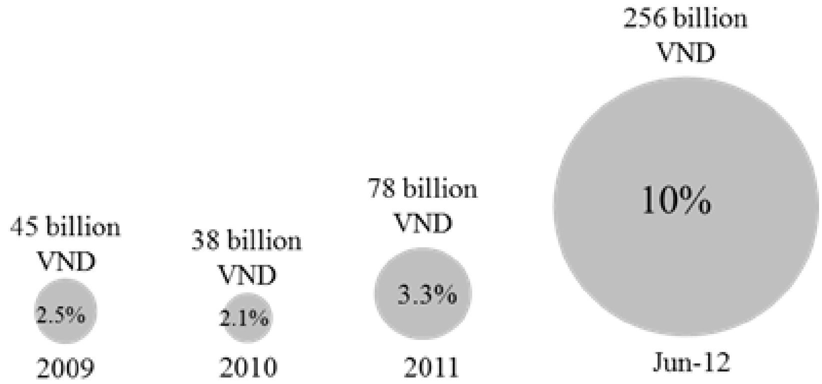
> Some Members of Parliament have questioned that the current NPL ratio is much higher under international standards or according to some international organisations. However, it is very hard to say that. There are different international standards, and we have to mention clearly which standard is used to compare. (INFO.VN-NEWS 2011; translated by the author)

It can be noted that his speech does not offer a clear explanation about what the differences between Vietnamese standards and international standards are in the estimation of NPLs and whether this gap distorts the NPL ratio in Vietnam.

[2] 'Doi Moi' mean Renovation in Vietnam. Doi Moi policy is the top-down economic reform to divert Vietnam's command economy to a free market economy. The reform was initiated in Vietnam in 1986 following the 6th National Congress of the Communist Party of Vietnam. It is a high-ranking political reaction to a severe economic crisis the country was facing, as the result of a centrally planned economy and Soviet aid decrease, which intensified Vietnam's international isolation (Dang 2015).

Therefore, the explanation was vague and could not solve the debate on loan loss communication. However, the NPLs disclosed at about 3% for many years seemed to be correct until the Banking Supervision Agency informed that the NPL ratio was 8.6% as at 31 March 2012.

Then, NPLs suddenly accelerated to 256 billion dong, accounting for 10% of outstanding loans in Vietnam in the first six months of 2012; the most notable is the group of potentially irrecoverable debts3 (Figure 1.1). Before that time, NPLs fluctuated only between 38 to 78 billion dong during the three years of 2009, 2010 and 2011, accounting for about 3% of total outstanding loans. The confusion around NPLs suddenly increased when the bank governor disclosed the NPL ratio of 10% at the end of quarter 2, 2012 (Hoang L 2012). NPLs of the Vietnamese banking industry tripled after just three months with the dramatic increase in NPLs of many banks in comparison with the figures at the end of 2011 (e.g., Vietinbank (+139%), Vietcombank (+40%) and Sacombank (+40%)) (Hoang L 2012).



Source: Le Van Tu (2012)

Figure 1.1: NPLs surged in 2012

At that time, the NPL ratio became controversial when there were different figures disclosed from different sources and it fluctuated strongly in a short period (see Figure 1.2). SBV's estimation was different from the data reported by commercial banks. As stated in Figure 1.2, SBV data said that NPL ratio had reached 8.86%,

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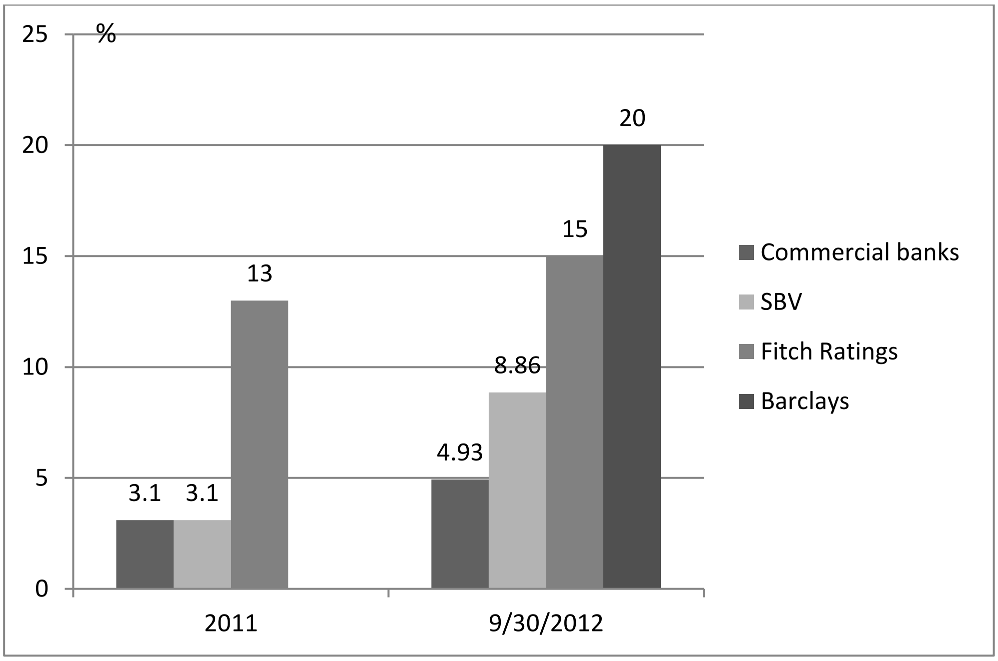
[3]In Vietnam, loans are classified into five groups based on their risk degree: standard debt, debt which needs special attention, substandard debt, doubtful debt and potentially irrecoverable debt (Decision No. 493/2005/QD-NHNN).

twice as much as reported by commercial banks. There was also a large gap between SBV and international rating agencies (e.g., Fitch Ratings and Barclays) in the estimation of this ratio. At the time that SBV revealed the NPL ratio of 8.86%, Fitch Rating and Barclays stated it was 15% and 20%, respectively, which was much higher than the SBV's figure (Figure 1.2).

The Governor tried to calm the public's concern on that issue by implying that the existence of the gap in determining NPL ratio was normal. Binh said at the interrogation session of National Assembly Standing Committee on 21 August 2012:

> I have been working in the banking system for 30 years. Over the last 30 years, there have always been two figures. One figure is given by credit institutions under the regulations of the central bank, while another figure comes from the central bank through an assessment of NPLs at commercial banks. (Vietnamnet 2012; translated by the author)



Source: Trung Tam Thong Tin Du Lieu (2013)

Figure 1.2: NPL ratio of Vietnam from different sources

The Governor's explanation was still confusing, since it did not mention the meaning of each figure so that users could use the information to determine how to use different figures for their decision-making. It is also questionable why that difference was not disclosed for over 30 years. Why was it disclosed now?

Regarding the high NPL ratio issued by Fitch Ratings compared with the SBV estimation, he said this credit rating agency counted group 2 of debt classification under Decision 493 as NPLs while it was not included in NPLs under SBV estimation, which considered the last three groups of 3, 4 and 5 (Business Times 2012). In addition, the Governor asserted that the SBV's disclosure of NPL ratio should be considered the formal one rather than any other figure (Business Times 2012). That explanation, without clarifying the meaning of each classification, led to more confusion in NPL communication in Vietnam at that time. The information users did not know clearly which figure was more appropriate to represent loan loss incurred and the financial health of the Vietnamese banking industry at that time and why.

Therefore, regardless of the Governor's disclosure and explanation, many banking specialists and financial journalists still believed that both NPL ratio and loan loss are underestimated in the Vietnamese banking industry based on the extremely high NPL ratio estimated by the international credit rating agencies (Ha 2010; Suiwah 2009; Vietbiz24 2012; Vietnam Investment Review 2011; Vietnam News 2011; World Bank 2002).

In addition, loan loss provisioning in Vietnam has been questioned many times in terms of capital adequacy ratio (CAR) measurement. Although the current mandatory ratio of 9% under Circular No. 13/2010/TT-NHNN is higher than the minimum requirement under international practices (Basel II–International Convergence of Capital Measurement and Capital Standards: A Revised Framework), many press releases insisted that this ratio would be much lower if loan loss provision was recalculated under International Accounting Standards (IAS) (Ha 2010; Suiwah 2009; Vietbiz24 2012; Vietnam Investment Review 2011; Vietnam News 2011; World Bank 2002). If this claim were true, the Vietnamese banking industry might be at risk that its capital is inadequate to absorb its loss.

Different from the view above, Le Hong Giang (2012), a financial specialist from TGM Fund in Australia, argued that there were no international standards for measuring NPLs. He said:

> One very common misunderstanding in the Vietnamese press and among many experts is that the Vietnamese NPLs standards are different from that of

> international standards... First, it should be clear that the world has not yet had a standard set for NPLs classification; perhaps there are some practices adopted by many countries and a number of guidelines recommended by international organisations (e.g., BIS and IMF). Decision 493 issued by SBV also applies those practices for measuring NPL, so one cannot say ‘standard of NPLs’ in Vietnam is poor compared with ‘international standards’. (Le Hong Giang 2012; translated by the author)

The controversy over the identification of NPLs has become increasingly acute as bank regulators become embarrassed in adjusting the accounting regulation for NPL measurement and loan loss provisioning. In this regard, bank regulators need reliable figures on NPLs to address the high acceleration of NPLs since it is believed to constrain credit growth and then economic growth since 2012 (Do 2012; Giaothongvantai 2014; Saigontiepthi 2012). Being concerned about what was the right NPL amount, the Governor, Nguyen Van Binh, questioned the SBV supervision department, *‘Can the supervisors operate effectively when they are not sure about the figure* [NPL amount]*?’* (Thuy Mien 2013; translated by the author).

Conversely, bank regulators are concerned that if NPLs are fully acknowledged, a huge amount of NPLs will be recognised, leading to a substantial loss for the banking industry that can cause bankruptcy followed by financial system instability, as discussed in Chapter 5.

Because of that embarrassment as regards revealing or concealing loan loss, Vietnam has witnessed constant changes in regulation on loan loss recognition from 2012 up to the present. Bank regulators have been fluctuating between information and disinformation on bank loan loss, which has caused many debates. In particular, as presented in Appendix 1, loan loss recognition was allowed to be delayed under Decision 780 dated 23/04/2012 by SBV. Then, it was required to be more transparent in terms of international practices following the issuance of Circular 02 dated 21/01/2013 by SBV. Later, the implementation of Circular 02 was postponed with the extension of Decision 780 until June 2014 so that commercial banks could delay their recognition of loan loss for a longer period. Next, Circular 02 came into effect in June 2014 but loan loss recognition has remained far from IAS with the stipulation of the Vietnam Asset Management Company (VAMC) mechanism that has sharply increased the confusion regarding loan loss.

Specifically, the creation of the VAMC mechanism according to Circular 19/2013/TT-NHNN on 6 September 2013 allowed commercial banks to clean up NPLs on their balance sheet by selling NPLs to the VAMC. VAMC was a firm established by the Government and run by the SBV for solving NPLs by buying them from commercial banks. Those arrangements are similar to debt factoring transactions that can be with or without recourse. Thus far, most of the NPLs have been sold with recourse, meaning that the sold debts would be returned to commercial banks after five years if VAMC could not collect from borrowers. Banks were required to make provision for those NPLs but were allowed to spread the provision over five years to avoid creating a huge cost burden at once for banks.

Selling NPLs to VAMC was the critical reason for the quick reduction of NPLs in commercial banks to the 3% threshold since 2014 as the Government expected (Khanh Nhi 2015; Mai Ngoc 2016). However, many believed that *'NPLs of 3% was just a decoration'* (Phuong Lam 2015). Doctor Le, a financial specialist from TGM Fund in Australia, criticised, 'VAMC is actually just a form of "accounting tricks" to put NPLs off the balance sheets' (Ngan Giang 2016; translated by the author) while the NPLs still reflect the relationship between the banks and their borrowers (Dang Duc Thanh 2015). He claimed that loan loss was late in recognition because the amortisation of loan loss provision relating to NPLs sold to VAMC help banks to *'spread their loan loss recognition over several years rather than recording the whole loss at once'* (Ngan Giang 2016; translated by the author).

Expressing the same concern, a lawyer, Truong Thanh Duc, worried that the delay in loan loss recognition could lead to delay in taking corrective actions, and thus restrain the economy's development, similar to the period called the lost decade in Japan:

> The incorrect NPL figures numbers led to a leisurely work psychology, resting on the belief that the market would soon recover, and that, thus, security assets' value will be restored and enterprises will repay their debt. However, the reality can be exactly the opposite: that it goes not in a cycle of 10 years as asserted by Mr Sheehan [referring to Japan's lost decade], but in a longer period, one and a half or doubled. (Thuy Mien 2013; translated by the author)

In addition, Dang Duc Thanh (2015) believed that the big gap in adopting international standards for recognising loan loss and the drastic increase of NPLs negatively affected Vietnam's credit rating for borrowing abroad. Within the country, the delay of loan loss recognition led to dividend distribution in loss-making banks (Dang Duc Thanh 2015), thus threating bank safety.

Especially, owing to the lack of transparency on NPLs, the SBV and market participants could not evaluate the banks' performance and take timely, appropriate actions. That weakness led to several loss-making banks continuing to operate and adopting different ways to cover up their increasing loss from the public until the SBV bailed them out in 2015 when their loss had accumulated to result in large negative equity and extremely high NPL ratio. As at July 2015, Vietnam Construction bank (VNCB), OceanBank and GPBank had NPL ratios of 99.6%, 59.7% and 48.3% and negative equity of 24,000 billion dong, 7,143 billion dong and 9,195 billion dong, respectively (Thu Pham 2017; Tuyen Phan 2017).

Specifically, Nguyen Xuan Thanh, an economic specialist of Fulbright university, said that if the SBV had restructured VNCB or allowed it to file for bankruptcy in 2012, it could have limited the bank loss to 11,100 billion dong in 2012 rather than 40,000 billion dong in 2015 (Thu Pham 2017). Similarly, the SBV had discovered many weakness and risks in the operation of GPBank since 2011 (Thu Pham 2017). Not until the SBV purchased GPBank compulsorily did it announce to the press the bad financial health of GPBank as of April 2015 with a negative equity and a record of high NPL ratios of 45.37% (Thu Pham 2017). OceanBank's financial reports continued reporting profit for the years 2010–2014 until before being compulsorily purchased by the SBV.

The three typical examples above show that the banks' financial situation has been bad with large NPLs and negative equity in some years previously but was not fully disclosed to the public for earlier action when the loss was still low. The specialist Nguyen Xuan Thanh regretted the delay, stating that had the state acted in 2011, the loss in 2015 when the SBV purchased those weak banks would have been much lower (Thu Pham 2017). The lack of transparency in loan loss not only reduced the efficiency of the SBV's supervision over the weak banks but also invalidated the market control over those banks, offering them opportunities to continue raising money from the market for financing their inefficient activities, thus leading to a larger loss and worsening the economic depression (Dang Duc Thanh 2015).

Surprisingly, loan loss recognition was still delayed once more by 10 years under Circular 08 dated 16/06/2016 in spite of these concerns. However, most recently, it has seemed that the bank regulators would like to improve the transparency of loan loss recognition to meet international standards by stipulating Resolution 42 on 21 June 2017. Under that regulation, NPLs that occurred before 15 August 2017 under the VAMC mechanism were guided to be settled at market value rather than just transferring the NPLs from a bank's books to the VAMC book at their historical value for 'book decoration' as before.

In brief, since 2011, bank regulators have been very confused, passive, lacking a plan and inconsistent in communicating loan loss and regulating loan loss recognition. Specifically, bank regulators are inconsistent in the disclosure of NPLs with continuous change of disclosed figures and confusion in explaining their disclosures on comparing with the other sources. The NPLs incurred in the past and being revealed currently are much larger than those being disclosed by the SBV earlier. The regulation on loan loss recognition was embarrassingly revised many times in terms of the level of transparency on loan loss.

Considering the negative effects of lacking transparency in loan loss recognition as aforementioned as well as the embarrassment of bank regulators, loan loss recognition and communication in Vietnam is the topic of the present research. The research question and research aim within this topic are discussed in the next section, seeking solutions for bank regulators to improve their performance.

1.2 Research Question and Research Aim

The phenomenon that loan loss recognition has become a hot discussion topic for many interested parties, with different suggested figures of NPLs, and the fact that bank regulation on loan loss recognition is changed constantly raise the research question:

Why are loan loss recognition and communication contentious issues within the Vietnamese context?

Actually, the phenomenon of delay in loan loss recognition and the confusion in loan loss recognition and communication as described above is not new in the current literature. The U.S. Savings and Loan crisis and the Japanese banking crisis are two cases often cited in this context.

The postponement of loss recognition was believed to provide insufficient warning of the significant deterioration of the value of U.S. mortgage loans in the late 1980s (Linsmeier 2011). Under the historical cost approach adopted in U.S. thrifts and banks, adverse economic conditions including the interest rate volatility and falling real estate prices were not recognised as indicators of impairment loss although they caused financial difficulties for banks and thrifts at that time. The underestimation of loan loss did not send sufficient signals for stakeholders for taking prompt actions to prevent bank managers from increasing investments that were riskier because of the adverse economic conditions, thus amplifying loss level later.

More significantly, the postponement in loan loss recognition was claimed to be one of reasons that caused the banking industry crisis in Japan and then its lost decade of the 1990s (Fujii & Kawai 2010). For a long time, the historical cost accounting model applied in Japan had failed to reflect loan loss as the result of decreases in real estate price from historical cost to market value. Hence, for over a decade, bank managers continued to take more risk by continuing to lend to inefficient or ‘zombie’ companies, which need bailouts to operate, without signaling to the bank stakeholders the need to take appropriate actions, thus reducing the country’s productivity growth.

Learning from the past crises, new accounting standards were issued, such as International Financial Reporting Standards (IFRS) 7–Financial Instruments: Disclosures and IAS 39–Financial Instruments: Recognition and Measurement, in which loan loss was measured at amortised cost value. Although amortised cost is still a historical cost model, it is more forward-looking than the traditional approach applied earlier. This improvement is discussed in detail in the literature review in Chapter 2. In 2011, IAS 39 was then replaced by IFRS 9–Financial Instruments that requires loan loss to be estimated under the fair value approach rather than historical cost model so that loan loss can be recognised earlier. In addition, the global banking industry has moved on from Basel I–International Convergence of Capital

Measurement and Capital to Basel II–International Convergence of Capital Measurement and Capital Standards: A Revised Framework, which provides recommendations on a higher level of bank capital adequacy as a reserve for covering expected and unexpected credit loss. These rules are believed to address the financial crisis issues that occurred over the past 20 years as the result of the delay in loan loss recognition.

Although those rules have not been explicitly mentioned in Vietnamese regulations, they have been adopted gradually. The adoption of Basel I and II was observed in the stipulation of minimum CAR for commercial banks (Section 5.2.2) and the SBV's request of an increase in that ratio over time as analysed in Chapter 5. The estimation of loan loss based on both quantitative and qualitative data rather than mainly based on quantitative data under Decision 493 stipulated in 2005 was another reflection of loan loss measurement under IAS 39 and the internal ratings-based approach under Basel II (see Chapter 5). IFRS 9 had not been applied in Vietnam until 2015 when the 2015 Accounting Law stipulated that fair value should be applied in measuring financial (Luật kế toán [Accounting Law] No. 03/2003/QH11, Article 28). Those adoptions of international accords and standards have provided guidance on accounting for financial instruments including bank loans in Vietnam.

However, in 2012, surprisingly, loan loss recognition and NPL measurement became a critical social concern in Vietnam with the confusion of bank regulators in regulating loan loss provision. It raises the questions 'Is Vietnam experiencing the same issue that has occurred in other countries?' and 'Has Vietnam learned from history given that it is equipped with Basel Accords I, II, IFRS 7 and IAS 39?'

The review of current literature shows that loan loss recognition and communication has been a common debatable topic worldwide because it has a significant impact on various aspects, such as accounting (Beatty & Liao 2014; Bouvatier & Lepetit 2012b; Cortavarria-Checkley et al. 2000; Laurin & Majnoni 2003; Laux & Leuz 2010; Ryan SG 2008), bank regulation (Balla & McKenna 2009; Beatty & Liao 2011; Bouvatier & Lepetit 2008, 2012a, 2012b; Bushman 2014; Bushman & Williams 2012; Clerc, Drumetz & Jaudoin 2001; Cortavarria-Checkley et al. 2000; Crockett 2003; Fujii & Kawai 2010; Gaston & Song 2014; Glormann 2007; Harris et al. 2013; Herz 2010; Iannotta & Kwan 2014; Karacadag & Taylor 2000; Laurin & Majnoni 2003; Laux &

Leuz 2009; Nicoletti 2015; Young 1995), tax and other macro links (e.g., procyclicality or politics; Beatty & Liao 2011; Bouvatier & Lepetit 2008, 2012a, 2012b; Bushman 2014; Bushman & Williams 2012; Chahed 2014; Cortavarria-Checkley et al. 2000; Greenawalt & Sinkey 1988; Karimiyana, Alifiah & Nasserinia 2014; Ozili & Outa 2017; Saurina 2009).

Its wide influence causes different treatments in loan loss accounting from different perspectives, such as accounting practices or bank regulatory. This specific phenomenon is consistent with a general conclusion in accounting by Young (1995) and Chahed (2014) that the meaning of 'right' accounting shifted in various ways that are the results of the interaction between the actors in the accounting environment. Few studies explore the 'right' meaning of accounting in different contexts (Chahed 2014; Walker 2016), especially in relation to countries other than the developed ones that have established most of the current international regulations in accounting.

Therefore, studying the meaning of loan loss accounting in a different context may assist in understanding it from an alternative perspective. In particular, the present study aims to examine the confusion in loan loss recognition and communication in Vietnam in light of its economic, social and political contexts rather than simply from the technical view as common in the current literature (Ezzamel & Xiao 2011).

The context of Vietnam is chosen for the study because it has distinctive features that may affect loan loss recognition. Vietnam is a developing country that is different from developed countries such as Japan and the United States. Vietnam is also different from other developing countries because it has a quasi-market that comprises both control and capital factors. It is building a free market towards strong global integration for a high economic growth rate (Hoang, N. H. 2016). Conversely, Vietnam tries to maintain and protect the monopoly control of a single-party state using the sizable presence of state-owned enterprises (SOEs) even though those enterprises are inefficient with high leverage (Ministry of Information and Communication 2016). In addition, developing a free market while maintaining monopoly leads to a conflict in which Vietnam has to balance between the economic growth objective and social and political stability that still is a priority for the monopoly control by a one-party state (Suiwah 2009).

In terms of the Vietnamese banking industry, the existence of multiple specific conflict objectives in regulating loan loss recognition is a critical challenge for bank regulators in Vietnam where the SBV is not only responsible for controlling the nation's monetary policy but also for implementing the Government's economic, political and social policy. Regarding the tensions SBV faces with multiple inconsistent objectives, Victoria Kawakawa, the World Bank's Vice President for the East Asia and Pacific Region, asserted that 'Some of the factors that limit the effective operation of the central bank is that it has too many objectives and less independence' (Baomoi 2016).

The struggle of regulators with those conflicts was supposed to lead the communication in regulating loan loss recognition, a controversial issue in Vietnam, based on Katz and Kahn (1996), Lait and Wallace (2002) and Putnam's (1986) claim that 'unclear and incongruent messages are organizationally and personally problematic' (Tracy 2004, p. 120). Those conflicts were believed to be actually the 'stuff of organizing' (Trethewey 1999, p. 142) that makes it 'messier, less logical, and more inconsistent unfolding practices of the moment' (Baxter & Montgomery 1996, p. 46).

Considering that consequence, this thesis addressed the research question by examining the conflicts in regulating loan loss recognition in Vietnam and the related responses to explain the contentious issues in loan loss communication. Much of the discussion is concerned with the role of the SBV as the principal regulator in the Vietnamese banking sector (SBV 2013c).

Since conflicts were spread over and occurred regularly in the Vietnamese context as well as in the ongoing process of regulating loan loss recognition, the dialectical theory is adopted to understand loan loss communication in Vietnam in terms of regulation activities. Dialectical theory emphasises the ongoing dynamic interplay of oppositional forces in contradictions that act on social relationships (Baxter 1990; Baxter & Montgomery 1996).

Within a dialectical contradiction, two oppositional forces are interdependent and negate each other simultaneously (Baxter & Erbert 1999). In their ongoing dynamic interplay, two oppositional forces push–pull on each other like a rubber band as they implicate each other (Putnam, Fairhurst & Banghart 2016). For example, our understanding of information closeness in social situations is partly defined by how we come to understand information openness. The dialectical theory conceptual framework is discussed in Chapter 3.

This research is a dialectical analysis to explore the ongoing contradictions that constitute the process by which the Government/bank regulators attempt to shape the regulation on loan loss recognition by fixing 'meanings in ways that resist and/or reproduce extant relations of power' (Mumby 2005, p. 22). Specifically, the goal of this study is to understand how the Government/bank regulators in Vietnam 'engage with, resist, accommodate, reproduce and transform the interpretive possibilities and meaning systems' (Mumby 2005, p. 22) that constitute day-to-day loan loss recognition and communication among related partners (e.g., bank management, investors and foreign institutions)

While the current literature presents a fairly good understanding of the multiple conflicts in accounting regulation (Nguyen Loc, Hooper & Sinclair 2013; Phuong NC & Richard 2011; Piotroski & Wong 2012) and loan loss communication (Kane 2000), we know less about how the Government/bank regulators communicated in the ongoing processes of managing those conflicts. Further, little empirical data are available on the ways in which the Government/bank regulators react to conflicts. It suggests that a dialectical framework is fruitful for analysing conflict experiences and understanding ongoing tensions in the regulation on loan loss recognition.

1.3 Research Contribution

The investigation of the contentious issue in loan loss communication is justified in terms of both its contribution to theory and its practical benefit to organisations, banks and investors.

1.3.1 Theoretical contribution

Research on conflicts in the organisational environment (Putnam, Fairhurst & Banghart 2016) has become dominant, but the dialectical theory has been adopted infrequently in the empirical investigation of organisational conflicts (Erbert 2014). In terms of regulation and loan loss recognition, organisational conflict has been addressed from various theoretical orientations, such as public interest theory, economic interest group theory, capture theory, institutional theories and political economic theories. Each theory may provide ‘accurate predictive statements about some aspects of organisational structure and process within delimited time periods and institutional locations’ (Benson 1977, p. 17), but formed ‘isolated lines of research’ with ‘compartmentalization of perspectives that do not enrich each other’ (Van de Ven & Poole 1995, p. 510).

Adopting a dialectical theory to address organisational conflicts bridges that literature gap by going beyond such formulations to inquire into the relationships of theories in loan loss recognition regulation and organisational realities—considering the ‘reality-defining’ potential of a theory (Benson 1977, p. 17). From this approach, the research investigates the process of regulators’ knowledge-creating activities, not just the outcomes. A series of ‘relative truth’ can be created via that process and the absolute truth may never be found or exist (Nonaka & Toyama 2002). Therefore ‘it is this process that is important, rather than whether one can reach the absolute truth or not’ (Nonaka & Toyama 2002, p. 1006). It is a way to approach a reality to come close to ‘the elusive “absolute truth” through the process of examining and denying the series of ‘relative truth”’ (Nonaka & Toyama 2002). By adopting the dialectical framework, the thesis is expected to approach the true meaning of loan loss communication in the specific context of Vietnam.

In that way, the thesis provides strong empirical evidence in the dynamics of the change process in accounting and banking regulation in a quasi-market country. Hence, it is expected to partly bridge the gap in the current literature that needs ‘a more detailed examination of the dynamics in the process of change’ taking into consideration specific factors, such as political factors, ideological factors or the poorly trained accounting personnel in Vietnam (Ezzamel & Xiao 2011). Ezzamel and Xiao (2011) expected this story of the accounting change in Vietnam to be ‘interesting and insightful’ (p. 634) and have significant practical implications for the country because the banking area has a high impact on capital utilisation in Vietnam, where banks, rather than the financial market, play a leading role in allocating capital via lending activities and overseeing the utilisation of such capital.

By adopting the dialectical theory as the theoretical framework in this study, the research aims to study the analytical power of this theory in explaining the confusion in communication of loan loss in the Vietnamese-specific context. It is hoped that this research would lead to the door open for further dissertations that explain the confusion in other economic areas in Vietnam using the dialectical theory because there have been more and fiercer conflicts when Vietnam attempts to build a market economy with socialism orientation and enhance its global integration. According to Peng and Nisbett (1999), those conflicts are more likely to be framed as dialectical contradictions in the Eastern culture in which both contradictory oppositions are moderately accepted rather than polarised as in the Western culture. As Vietnam has a strong Eastern culture, dialectical theory is believed to be a useful framework to understand the Vietnamese method of thinking and acting in facing conflicts.

1.3.2 Practical implications

Bank stimulus has been a key factor behind economic expansion in emerging economies, but it could soon become a reason for its downfall if bank loan loss is not recognised in time for bank regulators and the market to monitor the bank lending activities as occurring in Vietnam since 2011. Considering this aspect, this research examines the contentious issues in loan loss recognition and communication in Vietnam to offer assistance in policymaking. In particular, this study would contribute rich data around the conflicts in regulating loan loss recognition. This knowledge is expected to be valuable for the policymaking of bank regulators, accounting standards setters, bankers and investors because regulating loan loss recognition is critical from the perspectives of accounting practices as well as bank regulations.

This research also aims to offer direction for bank regulators towards a theoretical basis for responding to conflicts in regulating loan loss recognition. It is expected to improve their knowledge and necessary skills to understand loan loss recognition from different perspectives in the context of emerging economies and devise a better response to such conflicts.

1.4 Research Method

This study adopts an interpretive paradigm to gain more in-depth information and new perspectives in the area of communication in regulating loan loss recognition. Since bank regulation in Vietnam is supposed to be significantly determined by multiple conflicts, the dialectical theory is utilised as a theoretical framework adopted to guide the analysis.

According to Baxter and Montgomery (1996), a dialectical approach is not searching for the '*happy mediums* of compromise and balance, but instead focuses on the messier, less logical, and more inconsistent unfolding practices of the moment.' (p. 46). Thus, the adoption of a dialectical approach in examining regulation on loan loss recognition is expected to explain partly why loan loss communication is a contentious issue in the Vietnamese context.

In the existing literature, dialectical theory is used more frequently in communication of various life contexts, such as dating, marriages, relationships and friendships (Baxter 1993; Baxter & Montgomery 1996; Hampsten 2012; Koschmann & Laster 2011; Rawlins 1992; Werner & Baxter 1994). Few studies have analysed organisational conflicts from a dialectical framework (Erbert 2000, 2014) although Van de Ven and Poole (1995) and Nonaka and Toyama (2002) considered dialectical theory framework valuable for explaining changes or knowledge creation of an organisation. In the current organisational literature, the dialectical theory has been adopted to study the conflicts within an organisation (Erbert 2014; Tracy 2004) rather than the conflicts between an organisation and its environment, whereas Van de Ven and Poole (1995) and Nonaka and Toyama (2002) emphasised that the dialectical framework was useful for studying both internal and external conflicts.

In particular, according to Van de Ven and Poole (1995), the dialectical theory explains that changes in organisations occur when those opposing values, forces or events mobilise sufficient power to confront and engage the status quo of organisation. These oppositions can be internal or external to the organisation (Van de Ven & Poole 1995). Internal conflicts arise when an organisation has 'several conflicting goals or interesting groups competing for priority' (Van de Ven & Poole 1995, p. 517). External conflicts occur in case one organisation 'pursues directions that collide with the direction of other organizations' (Van de Ven & Poole 1995). In addition, Nonaka and Toyama (2002) claimed that knowledge was created in dynamic interactions among not only individuals within an organisation but also an organisation and its environment 'including competitors, customers, suppliers, related firms, local communities, the Government and so on' (p. 1001).

In line with views of these studies, this research attempted to extend the adoption of dialectical theory in communication to examine the conflicts in communication between an organisation and its environment. Specifically, within the area of regulating loan loss recognition, the thesis focuses on the communication between bank regulators from the SBV and its environment, including the Government, international institutions (e.g., World Bank and IMF), investors, bankers, depositors and financial specialists.

Regarding the research data, the research uses a large source of published records about loan loss communication and other related topics. The content analysis of those published records is used to draw inferences. The data are manually coded and grouped taking into consideration developing themes or emerging patterns and meanings. Diagrams are prepared to link the various themes for searching emerging patterns, following Ryan B's (2002) guidance. The focus of the data analysis in this study is to understand and explain the specific aspects to develop patterns rather than to produce statistical generalisations (Ryan B 2002).

1.5 Organisation of the Thesis

Following this introduction, Chapter 2 reviews the literature related to loan loss communication. It is recognized that loan loss recognition is a complicated topic with different approaches in international practice and how their adoption in developing countries can be problematic. Within the specific context of Vietnam, multiple conflicts are identified in regulating loan loss recognition towards international practices adoption that is supposed to make its communication a controversial issue.

Chapter 3 discusses the dialectical theory and ways in which it can be applied to understand how bank regulators communicate with their environment (e.g., the Government, international institutions, investors, bankers, depositors and financial specialists) in resolving multiple organisational conflicts. This chapter aims to present a comprehensive theoretical framework for analysing the communication of regulation on loan loss recognition in Vietnam from a dialectical view.

Chapter 4 outlines the major aspects of the research methodology applied during the study. It includes the rationale for the interpretive paradigm, the research setting and research site. The method of content analysis is also presented in this chapter.

Chapter 5 adopts the theoretical framework built in Chapter 3 to identify the specific contradictions related to regulating loan loss recognition and the manner in which the Government/bank regulators responded to those contradictions in communication with its environment.

Chapter 6 provides the findings and their discussion, adopting the dialectical theory to address the research question.

The thesis ends with Chapter 7, which presents the conclusions and a discussion on directions for further research.

1.6 Chapter Conclusion

This chapter explained the foundation for the thesis. It introduced the research background and justified the need of research implementation. The research questions, research aim, research contribution, research method and the structure of the thesis were outlined to set the foundation to proceed the research through detailed descriptions.

Chapter 2: Literature Review

2.1 Introduction

To understand the contentious phenomena of loan loss recognition and communication, Section 2.2 reviews how developments in accounting practice and bank regulations in terms of loan loss recognition affected loan loss recognition and communication. Section 2.3 examines the current literature on what is the right accounting for loan loss recognition. The Vietnamese-specific context is examined in Section 2.4 to determine how the country learned from others’ lessons by adopting revised regulations on loan loss recognition for improving loan loss communication. Section 2.5 concludes.

2.2 Development of Loan Loss Recognition Regulation

This section provides a detailed discussion about the conflicts in regulating loan loss recognition highlighted in the current literature, which can make the recognition and its communication a contentious issue. Regulating loan loss recognition is a complex topic that plays an important role in the literature on accounting practice (Section 2.2.1) and bank regulation (Section 2.2.2) within the two areas of asset impairment testing and capital adequacy process for prudentiality, respectively. Section 2.2.3 represents how the conflict has been reconciled thus far in the current literature.

2.2.1 Accounting practice: Asset impairment

Within accounting practice in a bank, loan loss provision is the largest accrual that represents loan asset impairment loss or loan loss (Beatty & Liao 2014). Loan loss can differ depending on whether the backward-looking criterion (historical cost approach) or forward-looking criterion (fair value, often called the market value approach) is applied in loan classification for valuation purpose.

In many countries, bank loans are usually classified into several groups with various categories of performance, such as standard (sound fundamentals), special mention (performing but have potential weaknesses), substandard (well-defined weaknesses), doubtful (collection in full is highly questionable and improbable) and loss (uncollectible) (Laurin & Majnoni 2003). Traditionally, such loan classification worldwide is driven by NPLs (Bouvatier & Lepetit 2012b; Laurin & Majnoni 2003). Standard loans are those that are not yet due. The loans are commonly classified as special mention, substandard and doubtful if they are overdue for less than three months, six months and one year, respectively, and as loss if overdue for above one year. Although this classification solely based on the quantitative information of past due days, which is termed the quantitative method, is preferred owing to its simple implementation, it has been criticised as being backward-looking, thus being late in recognising loan loss and hence overvaluing loan assets (Laurin & Majnoni 2003).

To overcome that weakness, other than past due dates, multiple qualitative criteria that are more forward-looking, which is commonly termed the qualitative method, are applied to determine the appropriate classification. According to Laurin and Majnoni (2003), the improvement is conducted in two different ways. Banks in developed countries are usually allowed to conduct loan classification themselves based on their complex internal models. In contrast, in many developing countries, bank regulators set a standard loan classification for all banks owing to the lack of capability to build their own internal credit rating system.

Although adopting different criteria in bank classification, many banks converge to the classification of the five groups, namely, standard, special mention, substandard, uncollectible and loss, following the guidance in 2006 by the Basel Committee on Banking Supervision (BCBS). Different provision rates are applied for those groups and vary according to country (Laurin & Majnoni 2003). BCBS (2006a) does not guide the provision rate for each group. The rates of 20%, 50% and 100% are found commonly applied for the three groups of special mention, substandard and loss, respectively (Cortavarria-Checkley et al. 2000).

Seeking to standardise loan loss recognition globally towards the fair value approach for earlier loan loss recognition, the International Accounting Standards Board (IASB) issued IAS 39–Financial Instruments: Recognition and Measurement (IASB 2004) in which economic volatility was reflected in loan loss provision levels. Different from the traditional historical cost approach, which is driven by NPLs, loan loss provision under IAS 39 is determined based on a loan impairment test that applies the value-in-use approach. Value-in-use (or amortised cost) is the net present value of a cash flow or other benefits that an asset generates for a specific owner under a specific use. The impairment loss on loans is determined as the difference between the loan's book value and the discounted cash flow or amortised cost (IASB 2004, para. 63). Thus, value-in-use is more forward-looking than the traditional historical cost approach because it focuses on future cash flows. In particular, the evidence of loan loss event under IAS 39 is extended to various economy volatilities rather than being confined to past due or default as under the traditional historical cost approach. IASB (2004) states that, 'An adverse change in national or local economic conditions [economic volatility] … should be used as a basis for determining that there is a measurable decrease in their estimated cash flows' (para. 59). In other words, not only past due but also various economic triggers are allowed as an indicator that impairment loss may be present. Thus, loan loss recognition under IAS 39 is earlier than under the traditional historical cost approach that recognises impairment loss based on NPLs only (Bouvatier & Lepetit 2012b).

In addition, impairment loss under IAS 39 comprises not only individual loan impairment but also group loans impairment. The recognition of group impairment loss is another piece of evidence supporting the earlier loan loss recognition approach under IAS 39 compared with traditional historical cost. When individual impairment cannot be identified yet, group loans impairment is required to recognise, for example, 'when national or local economic conditions that correlate with defaults on the assets in the group' (IASB 2004, para. 59).

Although IAS 39, issued by IASB (2004), allowed recording loan loss earlier compared with the historical approach, it has two significant weaknesses. First, IAS 39 requires the use of management judgement that is difficult to implement or verify. For example, a 'loss event' is defined as being presented by vague evidence that 'significant financial difficulty of the issues or obligor' is detected (IASB 2004, para. 59). The definition of the financial difficulty concept and the significant level of financial difficulty are left for banks to determine themselves. It provides bank management a high degree of discretion in loan loss provisioning, especially with debt restructuring that is not specified as a 'loss event' under IAS 39. Hence, it is a challenge for a developing country such as Vietnam to apply because its accounting practitioners are not experienced in accounting judgement (Phuong NC & Richard 2011).

Second, while IAS 39 may appear to be forward-looking with earlier recognition of loans impairment, it is still based on historical cost or a variation of historical cost (Ryan SG 2008) because the future cash flow is estimated based on evidence of loan loss events that have occurred rather than future evidence (IASB 2004, para. 59) to ensure the reliability of asset measurement. As guided by that principle, loan loss is recognised in the income statements when it is probable rather than temporary (Laux & Leuz 2010).

In addition, because of the same reason, the estimated cash flow is discounted using risk-adjusted discount rates from the time when debts are originated rather than current discount rates (IASB 2004, para. 63). IASB (2004) emphasises that 'losses expected as a result of future events, no matter how likely, are not recognized' (para. 59). As a result, IAS 39 still applies the incurred model that is based on past events and the current condition rather than risks and losses that have not yet occurred at the balance sheet date even if these have a high degree of probability of occurrence.

Thus, the issuance of IAS 39 does not satisfy the proponents of fair value, who argue in favour of timeliness and transparency by representing asset value at the current market conditions, which is reflected in fair value, for prompt corrective action (Laux & Leuz 2009). In addition, the proponents believe that historical cost does not inform the fundamental value of an asset (Laux & Leuz 2009) and fair value accounting is more 'real', and hence reduces the gap between accounting figures and economic measures (Young 1995). In addition to highlighting the implementation problem of the fair value approach, the supporters of historical cost say that the historical approach is suitable for loans because these are likely held until maturity rather than sold in the market (Laux & Leuz 2009). However, the proponents of fair value may counter that even when banks tend to hold loans, they may still be concerned about the current value of loans for taking action (Laux & Leuz 2009). The focus on the incurred loss model rather than expected loss of IAS 39 within accounting practices is also criticised by bank regulators who favour a forward-looking approach. This issue is discussed in the next section.

2.2.2 Bank regulation: Prudenciality and macro links

Accounting standard setters and bank regulators both spend considerable time evaluating loan loss provision with different focuses driven by their different objectives (Balla & McKenna 2009; Gaston & Song 2014; Glormann 2007; Herz 2010). While accounting standard setters focus on faithfully representing loan asset value up to a point of time and fairly stating impairment loss for a period (Gaston & Song 2014), bank regulators are responsible for ensuring financial system stability. These differences casue the variations in loan loss measurement.

Accounting standard setters focus on loan loss provision as a dominant indicator in asset impairment, which is probably incurred rather than temporary, for the measurement period as aforementioned in section 2.2.1. In contrast, bank regulators have to align banks' risk-taking with bank capital provision reserves, in which loan loss provision is a part, to ensure banks are operating in a safe and sound manner (Gaston & Song 2014; Glormann 2007), regardless of whether the risk has been incurred or not. For that purpose, the effects of future expected losses are permitted to be considered in an ongoing risk assessment, which may require earlier recognition of credit losses (Fujii & Kawai 2010).

Further, from the bank regulation perspective, loan classification is not only the base for measuring loan loss provision, but also provides information on NPLs, which is a critical implication of bank lending quality and systematic risk (Beatty & Liao 2011; Bushman & Williams 2012; Iannotta & Kwan 2014). Although the notion of NPLs is widely used in many countries to assess bank asset quality and bank system prudentiality, that term is defined in different ways. NPLs can be considered impaired loans in some countries, while these mean past due loans in others (Laurin & Majnoni 2003). Nevertheless, NPLs are rather widely mentioned as more than 90 days past due and include three groups of substandard, uncollectible and loss loans, which is a critical indicator for bank regulators worldwide to assess bank asset quality and bank system prudentiality (Cortavarria-Checkley et al. 2000; Laurin & Majnoni 2003).

From this viewpoint, a more forward-looking or fair value approach is favoured for loan classification and loan loss recognition to ensure bank regulators have timely information to monitor the current market condition before it deteriorates irretrievably (Laux & Leuz 2009; Young 1995). This suggests a potential conflict between bank regulators and accounting standard setters in the timing of loan loss recognition (Nicoletti 2015). Bank regulators focus on expected loss, and are thus forward-looking in credit risk assessment, while accounting standard setters strictly implement the backward-looking provisioning rules based on the incurred loss model required even by IAS 39. The incurred loss model under the accounting approach has been challenged from the bank regulation perspective by stating that it identified ‘problem loans’ with loss already incurred rather than expected loss (Bouvatier & Lepetit 2012b). Specifically, Bouvatier and Lepetit (2012b) argued that under the incurred loss model, loans are not recognised as problematic until it can document that a loss is probable and reasonably estimated or already incurred. From this view, the incurred loss model is based more on quantitative criteria of the quantitative method, which are likely past due dates, than on qualitative information for credit risk assessment, which is commonly considered a qualitative method, as also mentioned in Section 2.2.1. The provision of credit loss under an incurred loss model is a poor predictor of expected credit losses (Bouvatier & Lepetit 2012b; Harris 2013) that are a major concern of bank regulators.

2.2.3 Reconciliation of accounting and regulation approaches

To reconcile the different approaches, bank regulators step in to impose additional provisions. For this purpose, general provision is required in many countries to complement the provision specifically related to each loan group as described earlier (specific provision) (Cortavarria-Checkley et al. 2000). While specific provision is made for possible loan loss that can be identified via objective evidence of past events and current conditions, general provision is set for possible or latent losses that have not yet identified but have been determined based on past loss experience (Cortavarria-Checkley et al. 2000). In that method of setting, general provision may cover a grey area between incurred loss under historical cost approach and expected loss under fair value approach. With that purpose, general provision is more common for provisioning under the historical approach and quantitative method in which incurred loss is measured mainly based on past due dates, thus leading to the omission of other losses that are more difficult to identify. The expected loss model and qualitative method can identify losses more fully by assessing both quantitative and qualitative information related to debts via a credit rating system.

In addition, bank regulators stipulate capital adequacy requirement, which is known as Basel Accords. Those regulations require commercial banks to maintain sufficient capital reserves to not only absorb the expected loan losses not covered by loan loss provision reserve under the backward-looking provisioning system, but also unexpected loss (Bouvatier & Lepetit 2012b). Capital adequacy requirement is critical for bank regulators to lower the risk of bank insolvency that can lead to banking system risk. In this respect, regulatory capital regulation is a bank specification (Beatty & Liao 2014).

For the purpose of prudentiality, provision and capital can be used interchangeably (Gaston & Song 2014). To deal with the risk of lacking coverage for loan loss, bank regulators will consider increasing either provision or equity. Provision is preferred to equity because it is believed to improve loan quality transparency. As provision for loan loss is likely estimated inaccurately, there are banks with large equity that are actually weak because of the hidden underlying weakness in their loan portfolio (Gaston & Song 2014). If these banks make higher provision for their loan portfolio, it would reduce their equity. Consequently, the overstatement of capital as the result of insufficient provision may lead to 'higher dividends, taxes, and a higher risk of insolvency later' (Gaston & Song 2014, p. 18).

According to Gaston and Song (2014), the option to raise capital has the advantage of being easier to understand for investors than increase of provision with complicated estimates. In addition, raising provision will have an adverse effect on credit ratings. The more the provision made, the lower the credit rating of the borrower, which increases banks' concerns about their continued lending.

Capital adequacy requirement is usually expressed as a CAR of equity that a bank must hold as a percentage of risk-weighted assets (RWA) to ensure it does not take on excess leverage and become insolvent (BCBS 2006a). Generally, banks are required to hold total capital equivalent to at least 8% of their RWA. The numerator of CAR comprises the primary equity capital (Tier I: equity capital, disclosed reserves and retained earnings) and the complementary equity capital (Tier II:

undisclosed reserves, revaluation reserves, hybrid debt or equity capital instruments and subordinated term debt instruments) (BCBS 2006a). A part of general provision can be considered Tier II capital because of its hybrid nature of incurred and expected loss as discussed earlier. Given the importance of retained earnings in determining the recorded value of equity, loan loss provision has a significant impact on regulatory CAR calculation.

RWA, the dominator, is a bank's assets net of provision (BCBS 2004, para. 52) and off-balance-sheet exposures, weighted according to risk. From the bank regulation approach, capital buffer for expected loss is based more on credit risk assessment and a better understanding of loan portfolio in which the higher the risk assets are, the higher the fraction of those assets that has to be funded with capital.

CAR was first stipulated in Basel I (BCBS 1988) issued by the BCBS, in Basel, Switzerland. Under Basel I, RWA is determined principally based on the generic nature of the borrowers that already incorporates some limited degree of risk sensitivity. Specifically, Basel I is based on simplistic categories of assets (100%: Corporates; 20%: Organisation for Economic Co-operation and Development banks; and 0%: Sovereigns). Thus, all loans to sovereigns are risk weighted at no more than 50% under Basel I regardless of whether the countries are in financial distress owing to high public debts. Alternatively, all loans to banks with a residual maturity of up to one year are risk weighted at 20% regardless of their low credit rating. Therefore, Crockett (2003) criticised Basel I, stating that it does not take account of the differentiation of risk for capital weighting purposes between loans with higher or lower credit rating.

Basel II was introduced in 2004 (BCBS 2004) and presents a fundamental shift in adopting more of a risk-based approach. In addition, unlike Basel I, Basel II deals with not only credit risk but also operational risk and market risk (BCBS 2004, para. 4). Basel II suggests two methods for determining capital requirements for credit risk: the standardised approach and internal ratings-based approach.

Credit risk in the standardised approach is measured by external credit assessments set in a standardised manner (BCBS 2004, para. 50). Under this approach, capital requirement is differentiated based on loan credit ratings. Thus, the standardised approach is expected to ‘promote the adoption of stronger risk management practices by banking industry’ (BCBS 2004, para. 4) to reduce the required capital level for lowering the cost of capital. To reduce the capital requirement, banks can require their customers to lower their credit risk or can restructure the lending portfolio into safer loans. It is advantageous in comparison to the simplistic categories of assets without differentiation of credit rating under Basel I.

The alternative approach allows banks to assess credit risk by using their internal rating systems that are approved by bank supervisors. This method is a significant innovation of Basel II in its encouragement of banks to improve their credit risk management by developing their own internal credit rating. It is stated clearly that the risk weight for an asset will be 100% if it is not assessed by the internal credit rating system (BCBS 2004, para. 214). Thus, banks can lower their RWA by applying their internal credit rating system for all of their loans. Therefore, the internal ratings-based approach is expected to offer banks a strong motivation for improving their risk management (BCBS 2004, para. 4).

Different from Basel I and the standardised approach of Basel II, expected loss can be measured under the internal ratings-based approach using data from the bank internal credit rating system. This system is expected to provide sufficient data to determine probability of default and the related loss given default of a loan for its expected loss measurement (BCBS 2006a, Section iii). Expected loss will then be reconciled with total eligible loan loss provision, including specific and general provisions (BCBS 2006a, para. 374). The difference will be deducted from Tier I and II capital, in case expected loss is higher, or can be recognised as Tier II capital, in case expected loss is lower. Hence, if the loan loss provision system under incurred loss model has not yet made provision for the expected loss, the capital buffer will cover it.

Although it adopts more of a risk-based approach, Basel II was criticised as only being interested in the issue of capital adequacy, and not paying attention to the problem of banking system liquidity that caused many banks to become bankrupt during the 2008 financial crisis (Kolb 2010; Ren-Raw et al. 2013). Hence, Basel III was presented in 2011 to improve financial system stability by requiring commercial banks to meet the regulations on both liquidity and capital adequacy (BCBS 2011).

Capital adequacy reserve creates capital cushions for banks to survive in the long term, while liquidity reserve is to survive in the short term.

Later, Basel III was also criticised for not having addressed the issue of ‘too big to fail’ (Lall 2012; Williams & Conley 2014). In addition, Basel III is believed to merely build on and further expand Basel II, thus inheriting the weaknesses of assessing credit risk by internal or external credit rating systems (Lall 2012). Particularly, the internal credit rating approach was criticised as inconsistent, because it may vary according to banks’ characteristics (e.g., management and quality of assets), and inaccurate, because banks appear to have generally limited data and techniques available for expected loss estimation (Beatty & Liao 2011; Bouvatier & Lepetit 2008, 2012a, 2012b; Bushman 2014; Bushman & Williams 2012; Clerc, Drumetz & Jaudoin 2001; Karacadag & Taylor 2000).

Hence, Basel IV, as it is called by the financial industry, was proposed as a standard following Basel III (Institute of Chartered Accountants in England and Wales [ICAEW] 2014). The former standard is expected to require more stringent capital requirements and greater financial disclosure than the latter so that information users have more information about how bank managements are managing the environment volatility and uncertainty (A World Leader of the Accountancy and Finance Profession 2014).

Although Basel Accords have weaknesses that need to be overcome, the combination of a backward-looking provisioning approach and capital buffer system under the internal ratings-based approach partly eliminates the difference between backward-looking provisioning approach and capital buffer approach by reconciling expected loss to incurred loss. Therefore, the internal ratings-based approach is believed to represent a major step forward in loan loss recognition (BCBS 2006a, para. 12) since it meets objectives of accounting standard setters as well as bank regulators.

However, the backward-looking provision system with capital buffer was criticised for having procyclicality effect. The misevaluation of expected credit risk in the upswing period motivates banks to grant new loans with insufficient loan loss provision. Hence, greater loan loss amount is recognised in the downward period, reducing bank earnings and capital that is intrinsically low under adverse economic conditions. A low capital level potentially causes a bank to reduce its lending to avoid violating the minimum capital requirement regulation, thus amplifying the downturn owing to credit shrinking. Certain studies have observed that the procyclicality effect was common in the U.S. and Japanese financial crises (Beatty & Liao 2011; Bouvatier & Lepetit 2008, 2012a, 2012b; Bushman 2014; Bushman & Williams 2012). From this view in those studies, loan loss is likely not recorded in time under the backward loan loss provisioning system.

To solve the procyclicality problem, a few countries (e.g., Spain, Peru, Colombia and Chile) have developed a dynamic provisioning system that is driven more by credit risk considerations (Ozili & Outa 2017; Saurina 2009). Under the dynamic system, loan loss provision is set higher in the boom period with low credit risk and lower in the burst period with high credit risk. Thus, loan loss provision is expected to be a countercyclical tool to mitigate the procyclicality.

While it remains unclear whether the dynamic system reaches its desired aim in practice, its feasibility is questioned in several aspects, such as the difficulties in foreseeing business cycle development, sufficient provision buffers for a stressed period taking account of its variability depending on the severity and time lag of the recession (Ozili & Outa 2017). In addition, this approach is against the accounting goal of financial statement transparency in which loan loss provision reflects the incurred loss, under historical cost model, or expected loss, which is probable loss under fair value model, rather than abnormal or remote loss in a future period, which is difficult to foresee (Ozili & Outa 2017). The distinguishing features of incurred loss, expected loss and remote loss are outlined in Figure 2.1.

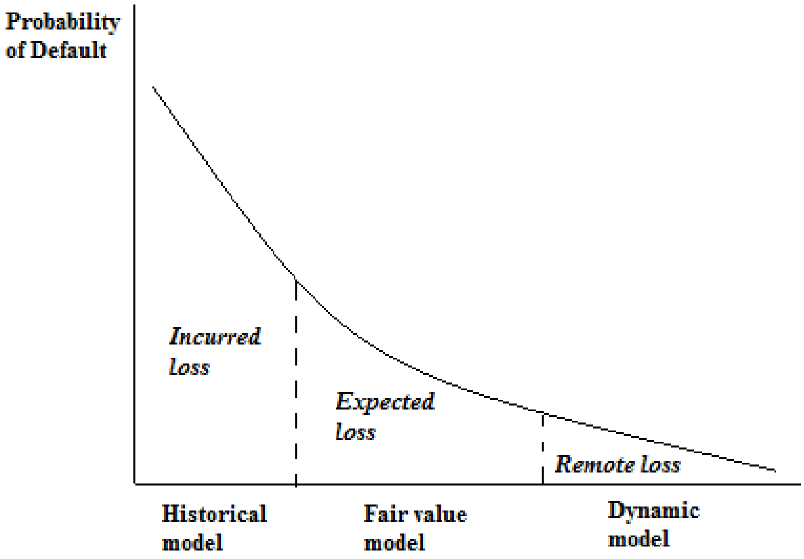


Figure 2.1: Loan loss recognition

As shown in Figure 2.1, loan loss can be classified as incurred loss, expected loss and remote loss based on the probability of default. Incurred loss is loss that has occurred, whereas expected loss is yet to occur but has a high degree of probability of occurring. Remote loss is the variation of expected loss with low degree of probability.

The difference in loan loss provisioning between the historical cost model, fair value model and the dynamic model is characterised by whether all those three types of loss are recognised. As discussed above, in general, only incurred loss is recorded under historical model because that loss can be measured with reliability. That selection towards reliability makes this model late in loan loss recognition. Both incurred loss and expected loss are recognised under fair value model to reflect the current fundamental value of loans. Provision is made for all three losses under dynamic model for the purpose of counter-cyclicality.

On comparison of the three approaches in Figure 2.1, fair value model, which is in between historical cost model and dynamic model, is considered a harmonisation that is not as extreme as the others. Consequently, many studies called for the implementation of a forward-looking provisioning system in which provision is made for expected loss, allowing banks to better absorb it, compared with the historical approach previously adopted, thus reducing the escalation in loan loss reserves that is costly in the downturn. IFRS 9–Financial Instruments was introduced to address this call (IASB 2014). Under IFRS 9, loan loss provision is determined mainly using the forward-looking approach that recognises expected credit loss for future events (IASB 2014).

In addition, the fair value model adopted in IFRS 9 is modified to moderate the multiple approaches of historical cost, fair value and prudenciality. The forward-looking approach applied in IFRS 9 originated from fair value and prudenciality approaches. Conversely, it is limited to a certain time in future (12-month expected credit loss) rather than the whole asset life for low credit risk loans to ensure the reliability of the recognised loss as a requirement of incurred loss model under historical cost.

With the introduction of IFRS 9, recognition of loan loss is now more of an art than a science with significant judgement for estimating expected credit loss. Loan loss recognition can become more debatable than ever because of its more subjective nature. This characteristic could be witnessed significantly even before the introduction of IFRS 9 in that loan loss provision is widely considered an optimal managerial tool for accounting manipulation (Greenawalt & Sinkey 1988; Karimiyana, Alifiah & Nasserinia2014). This issue was solved by the introduction of IFRS 7–Financial Instruments: Disclosures, with several amendments until 2011 (IASB 2011) to enhance the disclosure of financial instruments in which bank loan loss recognition is a part.

On adopting IFRS 7 in terms of loan loss recognition, banks are required to disclose the information that enables users to evaluate ‘the effect of credit risk on the amount, timing and uncertainty of future cash flows’ (IASB 2011, para. 35B). Together with IFRS 9, which is more forward-looking, IFRS 7 required disclosure of information related to expected credit losses to mitigate the uncertainty of the forward-looking approach in loan loss recognition. In particular, a bank needs to disclose its credit risk management practices and their impact on expected loss recognition and measurement (IASB 2011, para. 32B(a)). The disclosed information is both quantitative and qualitative to evaluate expected credit losses (IASB 2011, para. 32B(b)).

However, all of these efforts are still questionable in many respects. From the accounting perspective, since fair value measurement requires a significant extent of judgement that can be utilised to justify manipulation, it is uncertain whether fair value accounting is 'indeed providing transparency' (Laux & Leuz 2009, p. 5). Regulators wonder whether the disclosure of fair value or market value in a distress period can lead banks and firms to undesirable actions that worsen the situation (Laux & Leuz 2009, p. 5). In terms of bank loans, receiving a concerning signal from such disclosure, bank managers rationally tend to be more pessimistic in loan review and classification. Thus, they would increase loan loss provision and reduce lending, thus lowering bank profit (Laux & Leuz 2009). If the depression is prolonged, bank capital will deteriorate, leading to bankruptcy.

Therefore, it is debatable whether not only historical accounting contributes to procyclicality as described above but also fair value approach. In short, the cause and effect of historical and fair value approaches in terms of procyclicality remain indeterminate. The forward-looking approach applied in IFRS is limited to 12 months, as aforementioned, considering the procyclicality effect of fair value approach.

In addition to the procyclicality effect, loan classification, valuation and provision can be direct or indirectly linked to the Government's concern on macro effects (Chahed 2014; Cortavarria-Checkley et al. 2000) that makes these the subjects of macro debates. The NPL amount and ratio are increasingly considered an indicator of national financial security (Cortavarria-Checkley et al. 2000). Regarding national monetary policy, the credit volume of the economy is determined based on loan classification and provisioning, which reflect the quality of the country's credit growth (Cortavarria-Checkley et al. 2000). On the fiscal side, a supportive or restrictive tax treatment of provisions can increase or weaken banks' incentives to make adequate provisions (Cortavarria-Checkley et al. 2000). The Government is concerned about loan loss recognition not only in the local country, but also as a challenge of global competition (Chahed 2014).

In general, it is likely that accounting is not the only element in the universe of loan loss recognition. In addition to banks, accounting professionals, bank supervisors and other government agencies (e.g., finance department and tax officers) are also concerned, from their own perspectives, about how bank loans are classified and valued and provisions made. Hence, what is the 'right' accounting for loan loss recognition considering all its relationships to other elements as described above? The next section reviews the current literature on this aspect.

2.3 'Right' Accounting for Loan Loss

It is obvious that loan loss recognition has implications not only for banks but also for the entire society. Its meaning lies in the accounting role that creates ways in which an organisation or individual 'may be thought about, controlled and directed, and acted upon' (Potter 2005, p. 266). Hence, multiple actors, such as accountants, bank regulators and other government agencies, determine the selection activity of a loan loss accounting treatment. A regulatory space is formed (Young 1995) in which those actors alter the way loan loss is recognised for their own variable purposes. Young (1995) defines the regulatory space as follows:

> An abstract conceptual space constructed by people, organizations and events that act upon accounting and accounting practices. Within this space, various actors discuss, analyze and contest accounting practices and methods. These actors produce the accounting standards, regulations and conventions that govern accounting measurement and classification. (p. 57)

By examining how accounting was changed during the savings and loan crisis, Young (1995) argued that accounting cannot be made right but can be constructed within a particular regulatory space. Specifically, Young (1995) found that the change process occurred during four stages of a crisis. Before the crisis, accounting was designed to 'reveal' the financial health of savings and loans organisations and to provide useful information for regulatory decision-making. During the first part of the crisis, accounting was revised to 'conceal' the financial condition of the entities and justify regulatory inaction to purchase time for the organisations to work through their problem. Despite those efforts, the situation did not improve and time was running out. In the second part of crisis, accounting was altered again to reveal organisational solvency. After the crisis, accounting was set to show not only the organisational financial condition but also to discipline the regulator rather than being a regulatory tool. The function of disciplining the regulators is formed by implementing market value accounting, which removes some regulatory discretion.

With these findings, Young (1995) concluded that during the financial crisis, the meaning of ‘right’ accounting shifted in various ways depending on how the power was allocated to the actors in the space. Prominent among the actors in the regulatory space of the savings and loan crisis were regulators. It is because as bank supervisors, bank regulators have the authority to establish accounting regulations for the banking industry (Braithwaite, Baxter & Harper 1998, Young 1995).

Particularly, according to Young (1995), during the first part of the crisis, the bank regulators impeded free market control by allowing weak banks to continue operating. Their accounting figures were concealed for this purpose. When the crisis was becoming severe, more and more individuals and entities (e.g., Congress, academics, accountant and business press) entered the regulatory space to form another change process of loan loss recognition. Then, market control was enforced once again to discipline those weak banks that could not recover. That desire led to the change in accounting to reveal those banks’ weak performance. The revealed figures can be used to justify regulatory intervention in bank operations. In addition, those numbers may be used in the policy process to obtain the support of the industry, Congress or public.

Further, it is believed that bank regulators must improve their performance to prevent crises and further bailouts in the future (Young 1995). For that purpose, bank regulators must be ‘subject to the discipline of the market’ (Young 1995, p. 75). Accounting moving towards market value in loss recognition is a response to this issue. Market value is more objective and is thus expected to remove the subjectivity of bank regulators in the loss judgement process. ‘The call to the market is also a call to reinject discipline into the regulatory process’ (Young 1995, p. 74).

That change pattern is consistent with Young’s (1994) argument that an accounting change results from a social issue when it is constructed as an accounting problem. During that process, the actors ‘construct or defend their own version of a right accounting and criticize the efforts of others’ (Young 1995, p. 57). ‘Right’ accounting can be that which conceals or reveals the organisational financial condition. In addition, it can be a tool to discipline either organisations or regulators. Thus, accounting has travelled from solving issues (e.g., revealing financial health) to addressing other aspects (e.g., disciplining regulators) rather than being improved to reach a right accounting that is ‘out there’.

In short, by studying the accounting changes in the savings and loan crisis, Young (1995) has highlighted the regulatory space in which accounting change, particularly bank accounting regulation, is the outcome of the interaction among actors there. However, he has not yet identified clearly how such accounting issues originate in a specific context (Potter 2005).

Chahed (2014) partly bridged that gap by investigating ‘the conditions of possibility for innovation in regulatory space’ (p. 1) through assessing the narrative reporting of the British Accounting Standards Board. By raising questions about the ‘emergence of new agenda issues in the first place’ (p. 8), Chahed (2014) described the accounting standard-setting progression as a multidirectional procedure of translating a particular issue into an accounting problem.

Particularly, Chahed (2014) claimed that accounting can be changed in one direction such that a new accounting technique emerges to reflect the change of its social and historical foundations. In another direction, accounting can be revised to support the administration of the government in implementing its policy targets, such as economic efficiency, economic growth or modernisation. Third, accounting change can occur as the result of translating the normalisation of accounting practices across organisations or national boundaries in institutional environments. Finally, the regulation of accounting practices is a combination of all these three directional processes of translation.

Accounting regulation reform occurs in ‘an area in which accounting and the sphere of government are brought together’ (Chahed 2014). Chahed (2014) described the reform process as follows:

> A combination of ‘push’ and ‘pull’—push from powerful actors exercising pressure on standard setters to advance their own interests; pull from standard setters seeking to maintain their legitimacy in politically or economically difficult environments. (p. 25)

Within that pattern, accounting is believed to not change incrementally on the assumption of linearity but more haphazardly as a tinkering, that is, patching with no quick-fix process (Chahed 2014).

By reviewing the literature on the interconnections between accounting and the social control, Walker (2016) called for further research about these interactions. Consistent with Chahed (2014), Walker (2016) emphasised that ‘accounting was to be understood in the context of the distribution of power in society and sets of social relations characterised by class conflict’ (p. 43).

Bischof, Daske and Sextroh (2017) partly addressed this gap by examining how fair value accounting was constructed by the political incentives of regulators and the special interests of related firms during the 2008 financial crisis. Consistent with Young’s (1995) findings, Bischof, Daske and Sextroh (2017) argued that a strong ideological view of the government might spill over to the loan loss recognition debate and orient its accounting treatment. According to Bischof, Daske and Sextroh (2017), in the 2008 financial crisis, politicians who gave prominence to increasing the role of government wished to stop bank bankruptcy by a bailout. The conservatives, who support the free market process and are against government intervention, opposed that solution.

However, in fall 2008, it was commonly believed that a wealth transfer to the troubled banks was clearly unavoidable to obtain financial stability. To overcome the ideological conflict, the conservatives relaxed the fair value accounting rules to offer financial institutions a way to reduce the risk of breaching regulatory capital requirement and avoid a governmental bailout. Hence, the weakness of financial health was concealed temporarily to avoid a bailout. Given such changes in accounting, financial institutions could maintain their regulatory capital at a low cost, which is similar to receiving a wealth transfer but ‘less visible to the general public’ (Bischof, Daske & Sextroh 2017, p. 6). Hence, Bischof, Daske and Sextroh (2017) asserted that a political ideology, especially the belief about the role of government and market, could establish an accounting treatment.

This understanding partly explains why the regulation space is more crowded by regulators in a financial crisis and why bank regulators have the power to influence the patterns of accounting change. However, further research is still needed to understand how the variety of actors in the regulatory space arrive at an agreement on an accounting change (Chahed 2014, p. 13) that reveals or informs some elements and conceals or disinforms others.

Kane (2000) studied the transparency conflict of information and disinformation in loan loss communication on the U.S. savings and loans by linking the four ideas of banking crises, misregulation, disinformation and dialectical change. The study described the dialectical change through the struggle between the warring forces of information and disinformation about banking system income and net worth. According to Kane (2000), that change determined 'the timing and depth of individual banking crises' (p. 286).

Kane (2000) defined disinformation as efforts to 'convince news media to publish' 'false or half-true information' (p. 286) to 'trick less-informed individuals into drawing false conclusion' (p. 287). That disinformation distorted the efficacy of banking regulation, thus inducing a troubled bank into insolvency rather than solving the banking crisis (Kane 2000).

According to Kane (2000), the disinformation started from banks to cover their financial weaknesses. Classification and making provisions mainly based on the schedule of payments was blamed for facilitating the delay in loan loss communication to the public (Kane 2000). Specifically, under this accounting system, a loan was identified as an NPL when it was commonly overdue 90 days or more (Kane 2000). At that time, banks had bad loans whereas the regulators tolerated these loans owing to many reasons, such as inadequate information, defective analysis and competitive pressure (Kane 2000).

Later, when financial stress increased to the extent that it started to expose banking financial weaknesses, the Government or regulators deliberately disinformed or communicated half-true information about the loss because they were sensitive to public criticism about their weak supervision performance (Kane 2000). The disinformation of loss was possible by influencing bank managers to make numerous loans at inappropriately low interest rates to revive NPLs. Those politically directed loans were booked at par as a good loan whereas they were actually bad loans.

By that lending and disinformation mechanism, the loss was compounded over time until it was too large, thus creating doubt whether the Government could provide financial aid to absorb the banks’ losses fully. At that time, a silent run was triggered by the withdrawal of financially aware large depositors. When a silent run spreads over the banking system, ‘the information it produces challenges bank and regulatory disinformation’ (Kane 2000, p. 299). The benefit of disinformation was then reversed by an increase in credibility gap that amplified the severity of the banking crisis.

Although Kane (2000) analysed the accounting change specifically in loan loss recognition and communication, his findings have not yet explained clearly why loan loss recognition and communication become a contentious issue. Kane (2000) has not yet investigated the conflicts among bank regulators and other actors in the regulation space and the ways in which the conflicts are settled so that they arrive at an agreement regarding the information or disinformation. Focusing on the conflicts and their conciliation can reveal the contention in several ways; for example: Who are the actors? What are their interests? How do those interests conflict with each other? Who are the actors with the power to influence the response? What are the types of responses to the conflicts? This knowledge is necessary to understand the contention and find the way to solve it.

Although the answers to these questions can vary in different contexts, the shared experiences and lessons can be suggestions for responding to contradictions in a specific context. From this point of view, the study of the controversial issue in loan loss recognition and communication in Vietnam partly bridges the current literature gap. For this purpose, the next section discusses how the current literature studies loan loss recognition and communication in Vietnam, particularly the transparency conflict of information and disinformation.

2.4 The Specific Context of Vietnam

In the context of Vietnam, the current literature mainly focuses on the impact of the culture factor on the degree to which IFRS standards are adopted. Chu (2004) sought to explore in detail the determinants of the accounting change process in the Vietnamese transition economy focusing on Vietnamese culture, the role of Government and socialist ideology. The data were collected using the ethnography method, participant observation and in-depth interviews. The investigation found that socialist ideology and Vietnamese culture have had a critical impact on the accounting change in Vietnam.

However, adopting a political economy approach to analyse the concepts and related literature, Phuong NC and Richard (2011) argued that scholars paid too much attention to the differences between Anglo-Saxon private accounting and socialist accounting. In fact, overall, socialist accounting was similar to its Western Anglo-Saxon counterpart: capitalist accounting at the service of bureaucrats seeking to maximise their wealth within the framework of state capitalism.

From this view, the transformation of the accounting system generated some difficulties owing to the adaption of a private capitalist accounting system to function in a state-capitalism accounting system. According to Phuong NC and Richard (2011), the difficulties in transformation stemmed from the contradictions between the internationalisation of Vietnamese accounting and the socialist stance. They can be summarised into three conflicting issues related to politics, globalisation and transformation that characterise the specific context of Vietnam. It is proposed that these three conflicts underlie the transparency conflict of information and disinformation (or reveal and conceal) in loan loss recognition and communication in Vietnam. The struggles related to these conflicts in accounting transformation can be expected to explain why loan loss recognition and communication has been a contentious issue in the Vietnamese-specific context.

2.4.1 Political conflicts: Government vs. market control

The political conflict identified was that the Government 'continues to affirm its commitment to state control over the economy' while developing a Western market economy model that considered the Government just a 'market facilitator' (Phuong NC & Richard 2011, p. 708). That difference created a conflict in designing the Vietnamese accounting system because an accounting system emphasises 'the needs of the state' since the Government's desire 'must be significantly different from a system that focuses on the needs of investors in equity' as in a Western model (Phuong NC & Richard 2011, p. 719).

Specifically, the Government would like to maintain the particularities of the current accounting system to serve its tight control over the economy. While developing a new accounting system towards market control, the regulators have always sought ways to maintain the accounting function in helping the Government to ‘control wealth distribution, calculate tax, and implement rewards and punishments’ (Phuong NC & Richard 2011, p. 719). The maintaining of those objectives concurrently in designing the Vietnamese accounting system ‘can harm operational management and the quality of accounting information’ (Phuong NC & Richard 2011, p. 720).

The most significant challenge in adopting the new accounting system was found in the Vietnamese SOE sector because it differs substantially from SOEs in ‘pure capitalist countries’ (Phuong NC & Richard 2011, p. 718). Specifically, the Vietnamese SOEs were imposed by the state to provide public services apart from their commercial function as other enterprises. It created difficulties in applying the same accounting system for all of the Vietnamese SOEs with different operational objectives.

2.4.2 Globalisation conflict: Separation vs. integration

The globalisation conflict in accounting has become a major issue since 1998 when Vietnam was forced by foreign institutions (e.g., World Bank and the Asian Development Bank) to adopt IAS as a critical requisite for receiving financial aid and participating in the World Trade Organization (WTO) (Phuong NC & Richard 2011). Nguyen Loc, Hooper and Sinclair (2013) also emphasised that foreign institutions are new players arriving in the accounting field. These are the World Bank, International Monetary Fund (IMF) and WTO, which are representatives of overseas investors and resources, and thus ‘possess much of the capital both symbolic and economic’ (Nguyen Loc, Hooper & Sinclair 2013). Foreign institutions were considered a powerful party confronting the Government, and their power emerged from Vietnam’s internalisation need of international assistance in capital and technology for its Doi Moi policy. The adoption of international accounting practices is a critical requisite to attract foreign direct investment (FDI).

In particular, the conflict was presented in two aspects of local needs that confronted the global integration requirements. First, the Government needs to maintain the particularities of Vietnam's current accounting system for multiple objectives rather than just the accounting function as aforementioned.

Second, Vietnam lacks competent personnel to implement the globalisation in accounting. According to Phuong NC and Richard (2011), for a long time, Vietnamese accountants have been accustomed to complying with a unified accounting system that 'makes statements clear to state agencies and results in more efficient state management' (p. 717). As a result, they 'have weak professional judgement, have a technical mindset and would like to minimise fluctuations in accounting practices' (p. 718). That lack of qualified accounting professional trained in the context of a market economy was an obstacle for adopting international standards, including concepts and principles that require a high degree of professional judgement to apply in practice.

2.4.3 Transformation conflict: Stability vs. change

Change versus stability was another conflict in the accounting transformation in Vietnam. According to Phuong NC and Richard (2011), 'this process has been shaped by the tensions and power relationship between moderate and radical reformers and the interaction of their reform strategies' (p. 694). The moderate reformers preferred to reform at a gradual and steady speed to ensure stability, whereas the radical called for significant change with more radical or speedy reforms (Phuong NC & Richard 2011). Thus, by considering reform stability and quality, both groups struggled over 'the direction, extent, pace and depth of reforms' rather than whether the reform should be implemented (Phuong NC & Richard 2011, p. 707).

In addition, for making the change, the reformers had to approach not only the conservatives in the Party but also the Vietnamese accountants who 'would like to minimise fluctuations in accounting practices' (Phuong NC & Richard 2011, p. 718). Nguyen Loc, Hooper and Sinclair (2013) studied whether Vietnamese accounting practitioners resisted or changed towards IFRS adoption from Bourdieu's perspective of the 'habitus' in which 'the push by these Anglo-Saxon institutions into Vietnam is not so much about progress as about power and domination' (p. 5).

Nguyen Loc, Hooper and Sinclair (2013) claimed that the Communist Party dominated the Vietnamese accounting field, which thus enabled the party to establish the rules of the game. Vietnamese accountants and bookkeepers were dominated, thus being familiar with accepting *'uniformity systems and procedures'* (p. 9) with *'greater emphasis placed on compliance as against disclosure'* (p. 9) that formed their 'habitus' of compliance. Considering that 'habitus', Nguyen Loc, Hooper and Sinclair (2013) conducted 44 semi-structured interviews in which bookkeepers and others, including accountants and academics, were asked about their 'feelings and thoughts on the possibility of change' (p. 2) towards IFRS adoption. The study found that Vietnamese bookkeepers tended to resist the change. The 'habitus' of compliance formed under the domination of the Communist Party can explain that behaviour (Nguyen Loc, Hooper & Sinclair 2013)

According to Nguyen Loc, Hooper and Sinclair (2013), the accounting field in Vietnam is an arena of conflict between the dominant and the dominated. The Government agencies are the dominant because they hold the majority part of 'the capital both symbolic and economic' (p. 5). Bourdieu (cited in Nguyen Loc, Hooper & Sinclair 2013, p. 14) defined symbolic capital as 'credit founded on credence or belief or recognition'. That credit 'enables forms of domination which imply dependence on those who can be dominated by it' (Nguyen Loc, Hooper & Sinclair 2013, p. 15). Nguyen Loc, Hooper and Sinclair (2013) asserted that the Vietnamese Government can 'maintain tight control on every aspect of life because it enjoys the recognition, belief, esteem and confidence of the people' (p. 15) in addition to its control of large economic capital via SOEs.

The dominated are the accountants and bookkeepers in the country because they do not 'belong to an independent profession' (Nguyen Loc, Hooper & Sinclair 2013, p. 14). Nguyen Loc, Hooper and Sinclair (2013) believed that the dominant–dominated relationship created the habitus of compliance in which the accountants and bookkeepers would like to just focus on complying with the state regulations rather than actively provide quality information to public by following international standards.

2.4.4 Relationship between conflict issues

Piotroski and Wong's (2012) study of behaviours of listed firms in China can be considered a complement to Nguyen Loc, Hooper and Sinclair's (2013) claim since the former described in more detail the causal link between government control and the quality of accounting information. Specifically, Piotroski and Wong (2012) provided evidence and discussed several effects of how the domination of Government harmed the quality of information disclosed to public, and thus reduced market control in China. They revealed the effects as ranging from the reduction in the demand of both state and creditors to the quality of external financial reports from firms. Another effect is the decrease in firms' motivation to disclose that information to public.

In detail, from the perspective of the state, the state's control of the majority of Chinese firms gave the state a private channel for information reporting, thus reducing the state's demand of quality public information from firms. In addition, using only public financial information was insufficient for the Government's need. The state, as the majority owner, had the incentive to manage the firms directly, with multiple economic, social and political objectives. Therefore, the state did not rely solely on public financial information on firm-level profit for monitoring and assessing the firm's performance. It reduced the demand for high-quality external financial reports. Further, even the state could suppress the incentives of firms to provide information to the public market because the state-controlled firms are a part of the state asset management bureau. The bad news disclosed from those firms could ruin the state's prestige as regards its management ability.

In the view of creditors, the state-controlled firms were rarely in bankruptcy because the state would bail them out in financial distress. This implicit insurance from the state directed the depositors and creditors to pay more attention on the firm's political background apart from the firm's financial condition, and thus reduced the need of high-quality public information from the firms. In addition, the state, rather than other creditors, provided firms the prevalence of debt with its private information channel for monitoring the firms' financial condition.

In addition to the low demand for high-quality public information from both state and creditors, the firms also had low incentives to supply that information owing to the state's strong control of capital markets, relying on simple accounting targets. In a weak legal environment, firms intended to manage accounting realisation to reach regulation targets. Because just some areas of Piotroski and Wong (2012) propositions were tested in China, it reveals a need of more testing in Vietnam with a similar political environment.

Despite the study of Piotroski and Wong (2012) being conducted on the Chinese market, it can be a complement to not only the study of Nguyen Loc, Hooper and Sinclair (2013) but also that of Phuong NC and Richard (2011). In particular, it enlightens how the Government control over accounting regulation restrained the adoption of international standards, thus challenging the transformation. Hence, it implies from those studies that three issues, politics, globalisation and transformation, are closely related.

Several proposals can be made about their complicated relationship in the Vietnamese context by combining those three studies. The transformation was problematic because of both politics and globalisation issues. Simultaneously, both transformation and globalisation were political determinations. Concurrently, the transformation was necessary for globalisation. Moreover, the political issue was a challenge for globalisation. Therefore, their related conflicts of Government control–market control, separation–integration and stability–change were proposed to be closely related.

In addition, all of those three conflicts can be related to the transparency conflict of information and disinformation in accounting that was found in both the U.S. 1980s savings and loan crisis and the 2008 international financial crisis, as discussed in Section 2.3. For example, according to Kane (2000), the Government can disinform loan loss to hide the low performance of the state policy. The separation of accounting regulation in Vietnam can disinform loan loss from the world. The information of loan loss to the public can trigger a bank run and then a banking crisis (Kane 2000), thus threatening the stability in Vietnam.

Hence, the complicated relationships among the four issues and their conflicts are expected to explain the contention in the communication for solving those conflicts in Vietnam as mentioned in the summarised Table 2.1.

The Government or regulators in the Vietnamese context were believed to struggle with four conflicts—market control, separation–integration, stability–change and information–disinformation—in regulating loan loss recognition to transform for globalisation while at the same time preserving the tight control of the Government over the economy. The disinformation of loan loss to public can be both a result of, and a means to, react to those conflicts. It was proposed that the contention in loan loss recognition and communication in the Vietnamese context resulted from the dynamic interplay between the opposing forces of those four conflicts.

Table 2.1 Proposed conflicts in loan loss communication of regulators

Issues	**Conflicts**	**Communication among**
Politics	*Government vs. Market control:* Accounting regulation serves Government or market control	Government/regulators and public (e.g., management, investors, depositors and international institutions)
Globalisation	*Separation vs. Integration:* Accounting regulation serves local needs or adopts international standards	Government/regulators and international institutions
Transformation	*Stability vs. Change:* Moderation for stability or acceleration in accounting regulation change process	Radical reformers and moderate reformers (among Government officers/regulators)
Transparency	*Information vs. Disinformation:* Bank accounting regulations are changed for information or disinformation	Government/regulators and public (e.g., investors, depositors and international institutions)

Particularly, the conflict of Government control–market control underlines the issue with Vietnamese politics. Banks in Vietnam exist in a world of two colliding forces, government control and market control, which is called the market economy with socialism orientation. The mixture of Government control and market control, which are opposites, serves the need of free market development while maintaining the monopoly control of the Communist Party in capital allocation. For that purpose, the

Government or regulators have to communicate with the public, especially bank management, to seek ways to maintain this specificity in designing and implementing the new regulations on loan loss recognition.

The conflict of separation–integration arose from the global integration issue in which the Government/regulators desires to integrate the local regulation with that worldwide to attract foreign capital investment and trade with international markets to fulfil the local market economy development objective. Meanwhile, bank regulators tend to resist the adoption of international standards to protect domestic entities of which the maintenance of Government control is critical. These colliding forces are external to the Vietnamese economy in the situation that the domestic drivers compete with the international drivers for dominating the economy. The Government/regulators interacted with foreign institutions for responding to this conflict.

The conflict of stability–change is related to the transformation issue. The Government/regulators debated with each other to consider the speed and scope of the transformation process for increasing the change while considering the economic, social and political stability.

The conflict of information–disinformation arises from the transparency issue. The Government/regulators struggle between information and disinformation on loan loss in communicating with the public in regulating loan loss recognition to reach its different desires.

Those issues and their related conflicts are yet to be examined jointly in the current literature to understand the whole picture of loan loss recognition and communication and the roots of the contentious issue in the specific context of Vietnam. For example, Phuong NC and Richard (2011) and Nguyen Loc, Hooper and Sinclair (2013) focused only on how Government control limited market control in accounting practices. The other directions, namely, that the limitation of market control can harm Government control, is not yet examined to provide a rich story about the conflict between Government control and market control in which both poles can be interdependent.

In addition, Phuong NC and Richard (2011) claimed that the transformation in Vietnam was a relative success with ‘a very cautious and clever accounting policy’ (p. 720) by adopting a compromise response to the conflicts above. Yet, they were concerned that a compromise response could harm operational management and the quality of accounting information without discussion or examination of how the compromise response could cause the destruction. On consideration of that possible detrimental effect, Phuong NC and Richard (2011) emphasised that the future of the accounting situation in Vietnam was less certain, although it seemed to be under control until that time despite the contradictions. This proposition needs to be tested as well.

In short, bridging the aforementioned gaps in the literature on loan loss recognition and communication about its related conflicts is expected to aid in understanding why it is a contentious issue in Vietnam with various participants of Congress, bank regulators, bankers, foreign organisations and business press as described in Chapter 1. That feature is prominent in Vietnam where banking is one of the most sensitive areas in which economic and political changes are closely related (Vo Van Thanh 2006). This is because the banking industry accounts for the majority of lending activities in the market economy while it is predominantly state-controlled. These characteristics are discussed in detail in Section 4.4.

Studying the accounting regulation change from this political economy perspective is interesting and insightful (Ezzamel & Xiao 2011). According to Ezzamel and Xiao (2011), ‘Many studies have examined accounting changes from a technical perspective while neglecting political, ideological and social changes that are part, or determinants, of accounting change’ (p. 635).

Considering the unique aspects of Vietnam and its banking industry, an examination of the loan loss communication requires a theoretical lens that captures the conflicts in contextual complexities and recognises how those conflicts are responded to by examining their related communication. For that purpose, Nonaka and Toyama (2002) suggested a dialectical perspective that stresses the importance of the interplay between the conflicting forces to an organisation in its environment. To the author’s knowledge, the present study is the first attempt to apply dialectical theory in investigating the change process of loan loss recognition. It is expected to partly answer the call of Walker (2016) for broadening the theoretical apparatus to interpret accounting change in relation to society. The dialectical theory is discussed in the next chapter to build the theoretical framework for studying the communication related to regulating loan loss recognition in the specific context of Vietnam.

That approach partly answers the call of Ezzamel and Xiao (2011) for ‘a more detailed examination of the dynamics in the process of change’ on how ‘the political and ideological factors’ affected the choices of accounting change and how ‘the new capitalist concepts and techniques’ were interpreted and customised to respond to the conflicts in a specific context (p. 635). In doing so, ‘the accounting change process would be portrayed as non-linear, dynamic and problematic rather than necessarily smooth’ (Ezzamel & Xiao 2011, p. 635).

2.5 Chapter Conclusion

This chapter reviewed the current literature related to loan loss recognition and communication. In general, loan loss recognition and communication can be contentious because of two reasons. First, loan loss recognition has become increasingly complicated in practice with different approaches within accounting practice and bank regulation. To reconcile the differences, more discretion in loan loss recognition and disclosures has been allowed, which can cause loan loss communication to become a contentious issue in the Vietnamese context in which accountants are more familiar with rule-based accounting rather than using professional judgement.

Second, no ‘right’ accounting has been identified for loan loss recognition in practice so far. Indeed, accounting has been changed following interactions among multiple actors for their own interests in a regulatory space. Generally, it makes an accounting change continuously debatable. The debate can be fiercer with more actors entering the regulatory space when a crisis becomes more severe. It can be more problematic in Vietnam as a transitional country that adopts the international standards from developed countries within its specific context. Specifically, the Vietnamese accounting field is characterised by forces and struggles between the Government/regulators with the public, including business management, creditors, depositors, foreign institutions and specialists. Within that field, loan loss communication can become contentious when the Government/regulators struggle to respond to multiple conflicts at the same time.

Therefore, it was suggested that loan loss communication in Vietnam should be studied deeply in its specific context to understand its specific context outcomes. The organisation behaviours in responding to those conflicts on an ongoing basis can be examined from the lens of dialectical perspective. This content is discussed in the next chapter.

Chapter 3: Theoretical Framework

3.1 Introduction

This section reviews prior studies to set the theoretical framework applying dialectical theory for understanding how the Vietnamese Government/bank regulators communicated with other parties in its environment in regulating loan loss recognition. The dialectical theory is applied in this research to understand regulating loan loss recognition as a dynamic process of dialectical contradictions and thus is expected to provide a better complete picture of loan loss communication in Vietnam. Sections 3.2 and 3.3 provide an overview of the dialectical theory in the existing literature as the background for the theory application. Section 3.4 proposes the theoretical framework for understanding loan loss communication in the specific context of Vietnam. Section 3.5 concludes.

3.2 Organisational Change: A Dialectical View

According to Benson (1977), organisations continue to change as a part of the social world with changes in their major features, such as goals, structure arrangements, technology and relations. Those organisational arrangements are continuously maintained or reproduced in the process of social construction beset by contradictions that cause divergent and incompatible production. That phenomenon is also found in Vietnam through the continuous change of regulation on loan loss recognition. That seemingly nonstop transformation process has resulted in substantial controversy, which the present study suggests is underlined by multiple contradictions as discussed in the previous chapter.

Dialectical theory calls attention to the search for underlying principles of the emergence and dissolution of organisational arrangements process by

> dereifying established social patterns and structures—points out their arbitrary character, undermines their sense of inevitability, uncovers the contradictions and limits of the present order, and reveals the mechanisms of transformation. (Benson 1977, p. 6)

In terms of the transformation process of regulation on loan loss recognition, dialectical theory, therefore, is expected to assist in uncovering the contradiction and searching for the change patterns and change process, and then offering explanations for the present controversy on loan loss recognition.

In that way, studying an organisation from a dialectical approach is different from using a conventional approach. From the conventional view, organisational arrangements are examined through scientific categories and theories that have been accepted by participants (Benson 1977). Instead, the dialectical theory studies the entanglement of those categories and theories in those organisational arrangements (Benson 1977). Within this research, the dialectical view is applicable to understand the entanglement of regulation on loan loss recognition. Particularly, the study examined how accounting theories were interpreted and regulated in a specific context rather than assessing how loan loss was recognised in a country from the view of commonly accepted theories (e.g., IFRS). The dialectical theory can examine the continuous reconstruction of loan loss-related concepts rather than the application of commonly accepted concepts. These pieces of knowledge are expected to equip bank regulators with the understanding of separate, dynamic environments and the suggestions to respond actively to changes.

As stated by Benson (1977), a dialectical view of study is driven by an application of four basic principles: social construction, totality, contradiction and praxis. Human beings continuously reconstruct the social world when they interact with each other, and then establish various social patterns and arrangements (social construction). However, the human creation of social structure is conducted within a social context, thus being influenced and constrained by the context. That dialectical relationship makes social construction a complex process with the intertwinement of its components. From this feature of dialectical theory, social construction is expected to explain the interconnection between accounting and its environment that constituted the complicated change process in regulating loan loss recognition in Vietnam.

Considering the social construction of organisational change, Benson (1977) suggested studying the transformation of social structures with ‘attention to their multiple interconnections’ and ‘any particular structure is always seen as part of a larger, concrete whole rather than as an isolated, abstract phenomenon’ (p. 3). It is the principle of totality (Benson 1977). In accordance with this principle, the change process of accounting in Vietnam should be viewed as being interrelated wholes with other organisational arrangements (Benson 1977).

Contradiction created in social construction is the third principle that explains powerful forces leading to organisational transformation according to Benson (1977). He said, ‘The organization is seen as a concrete, multi-level phenomenon beset by contradictions which continuously undermine its existing features’ (p.1). According to Benson (1977), the most prominent contradiction is ‘the interests of particular groups of people and their power to defend their interests within and established order’ (p. 3). Within the context of Vietnam, there can be contradictions in defending the interests of a particular group of people in terms of the political, globalisation and transformation conflicts related to loan loss recognition as discussed in the previous chapter. Benson (1977) asserted that the struggle of people to go beyond the constraints of current social context to sustain and enhance their interests ‘bring them eventually into conflict with the established arrangements and lead to social change’ (p. 3).

Benson (1997) believed that social change is an ongoing process. The construction process occurs in various social contexts resulting in different and incompatible social structures with little coordination that generates further underlying contradictions following social transformations (Benson 1977). Therefore, the social transformation is a partially autonomous process in which ‘even powerful actors may be unable to maintain an orderly, rationalized system of social relations’ (Benson 1977, p. 4). Simultaneously, according to Benson (1977), the ongoing social construction is a creative process that is directed depending upon human action or praxis with various alternatives to produce and maintain a social structure. People can construct their own social relationships actively or passively. Considering that praxis, Benson (1997) suggested that social science should offer guidance to the process of human social formations. This proposition yields the foundation for this study to contribute in preparing bank regulators to be more active in responding to their related contradiction in regulating loan loss recognition.

Regarding the meaning of specific concepts created through organisational change, Deetz (1982) claimed that ‘the meanings of organizational events are produced and sustained through communication' (p. 132) because 'communication and social interaction become merely the means by which consensus is reached and meaning is shared' (p. 133). This statement gives the rationale for considering loan loss communication and social interaction a means to understand the right meaning of loan loss recognition in a specific context.

According to Deetz (1982), the creation of those specific concepts via communication and social interaction is human knowledge creation. It is a dialectic process in which the meaning of the whole is reflected only through the meaning of the parts, and the meaning of the parts is understood only in terms of that of the whole (Deetz 1982). In such a way, the new created concepts are intelligible to the current organisational members within their own interrelationships, not from the interpretation of application of a priori theoretical concepts to make them relevant (Deetz 1982). Within this research, searching for various meanings of loan loss recognition related concepts is expected to increase the understanding of organisational life in terms of loan loss recognition. That knowledge allows for undistorted discourse or brings out the meaning of loan loss recognition and the related confusion in Vietnam. It is also expected to equip bank regulators with 'a knowledge of how to act appropriately in a variety of situations' or 'practical wisdom' as suggested by Deetz (1982, p. 141) rather than theoretical knowledge.

Van de Ven and Poole (1995) developed Benson's (1977) study to explain the root of organisational change. They believed that 'The organizational entity exists in a pluralistic world of colliding events, forces, or contradictory values that compete with each other for domination and control' (p. 517). They classified contradictions into two types: internal and external. Contradictions may be internal to an organisation when several conflicting goals or interest groups are competing for priority within it. In addition, contradictions may be external to it because an organisation pursues directions that collide with those of other organisations (Van de Ven & Poole 1995). The dialectical theory explains that changes in organisations occur when those opposing values, forces or events mobilise sufficient power to confront and engage the status quo in the organisation (Van de Ven & Poole 1995).

Nonaka and Toyama (2003) studied the dynamic interactions among individuals, the organisation and the environment. According to them, knowledge creation can be conceptualised as a dialectical process of synthesising various contradictions. This view is consistent with that of Deetz (1982) as discussed above. Nonaka and Toyama (2003) called for a re-examination of an organisation's strategy as 'the synthesizing and self-transcending process instead of a logical analysis of structure or action' (p. 9).

Particularly, humans or agents and their environment do not exist independently. Instead, they define and reproduce each other in the way that 'the environment influences agents' and then 'the agents are continuously recreating their environment through social interaction' (Nonaka & Toyama 2003, p. 4). Within those interactions, knowledge is created in a process to transcend and synthesise antithetical concepts or contradictions such as 'order and chaos, micro and macro, part and whole' (Nonaka & Toyama 2003, p. 2). The process is ongoing with creative spirals rather than repeated circles. The next spiral is the innovation that is the reflection of the synthesis in the previous spiral.

Therefore, Nonaka and Toyama (2003) criticised that current organisation studies are based on the static, passive view that considers an organisation 'an information-processing machine that takes and processes information from the environment to solve a problem and adapts to the environment based on a given goal' (p. 3). This approach cannot describe the dynamic process through which 'the organization interacts with the organizational members and the environment' (Nonaka & Toyama 2003, p. 3).

The problem is more significant in the accounting area when accounting has come to be regarded a social practice rather than a mere technical one (Miller 1994; Walker 2016). That transformation requires a greater understanding of the interaction between accounting regulators and the social. However, Burchell, Clubb and Hopwood (1985) believed there is a 'very significant gap' in understanding 'the intertwining of accounting and the social' (p. 382). In particular, accounting research commonly declares and presumes the interdependence between accounting and the social to be a paradigm rather than demonstrates it (Burchell, Clubb & Hopwood 1985; Potter 2005). Considering the interrelationship between accounting and the social, Burchell, Clubb and Hopwood (1985) called for a dialectic view of accounting with a focus on change to identify how the social passes through accounting and how accounting constructs the social. The interplay of accounting and the social is expected to be visible by understanding the mechanism of accounting change (Burchell, Clubb & Hopwood 1985).

Aware of that urgent need, sociologists have frequently posited the relationship between accounting and society and are showing interest in understanding that area (Burchell, Clubb & Hopwood 1985; Hopwood 1983; Walker 2016). Yet, there is little systematic analysis on the mechanism of accounting change (Walker 2016). Among such studies, Burchell, Clubb and Hopwood (1985) and Kane (2000) are the only two empirical studies from a dialectical view on accounting. Burchell, Clubb and Hopwood (1985) contribute an outline of dialectical analysis in value added accounting. However, it is just an initial attempt of connecting accounting changes with social events on the surface that needs further in-depth analysis to conceptualise the change mechanism (e.g., identifying the conflicts and the types of responses to these). Kane (2000) analysed the conflict of information and disinformation of loan loss, but that conflict represents the outcomes of accounting change rather than the conflicts that determine those changes. Therefore, Walker (2016) continued to raise the question 'How can historians explore the roles of accounting in society?' In consideration of this literature gap, the present research attempts to address this need by illustrating how to adopt the dialectical theory as a theoretical framework in understanding the interplay of accounting and society.

Communication is key to organisational formation because as Deetz asserted (1982), the meanings of organisational events are reached and shared through communication. Therefore, it is necessary to review how dialectical theory is developed in communication for adopting it to understand organisational changes through communication.

3.3 Dialectical Theory in Communication

Dialectical theory is commonly used in studies on communication, which focus on dialectical contradictions (Baxter & Montgomery 1996). Dialectical contradictions are defined as 'the dynamic interplay between unified oppositions' (Baxter & Montgomery 1996, p. 8). Unified oppositions are 'two or more themes or forces that are interdependent with one another at the same time that they function to negate and oppose one another’ (Baxter & Montgomery 1996, p. 548). This simultaneous ‘both–and’ dynamic produces an ongoing dialectical tension or interplay between opposites. To dialectical theorists, dialectical tensions keep the relating process vibrant and alive as parties navigate the unity of opposites in an ongoing manner. Therefore, contradictions are not a sign of trouble for a relationship, but are inherent in the process of relating.

According to Erbert (2000) and Putnam, Fairhurst and Banghart (2016), a conflict can be a dialectical or nondialectical contradiction. To consider a contradiction dialectical, a conflict needs to be based on a constant push–pull between its oppositions because it does not have a clear-cut boundary between oppositions such that they can be compatible with each other (Putnam, Fairhurst & Banghart 2016). That dynamic interplay of oppositions becomes a source of energy (Bakhtin 1981) for an ongoing change process in which oppositions are mutually implicative and coproductive (Mumby 2005).

A nondialectical conflict in organisations can have two opposite poles, such as micro–macro or action–structure (Janssens & Steyaert 1999), but their relationships are not necessarily incompatible if they have clear-cut boundaries so that they are not mutually exclusive or opposite (Putnam, Fairhurst & Banghart 2016). A dilemma in making a choice over scare resources is another example of nondialectical conflict because it is typically a one-shot encounter rather than an ongoing contradiction (Putnam, Fairhurst & Banghart 2016). The encounter will end when the actor weighs pros and cons and makes trade-offs (Erbert 2000; Putnam, Fairhurst & Banghart 2016).

In the current literature, dialectical theory is commonly used in communication to help explain how people manage oppositions in various life contexts (Erbert 2014). Three major types of contradictions in interpersonal relationships have been found. They are the dialectic of integration–separation, of expression–no expression and of stability–change prevalent in most studies (Baxter 1993; Baxter & Montgomery 1996; Lusk 2008; Werner & Baxter 1994).

The dialectic of integration–separation represents the union of two distinct individuals, such as marriages. Both oppositions of integration and separation are required to maintain the relationship. Without integration, there is no relationship. Simultaneously, without separate individuals, there is nothing to integrate. The dialectic of expression–nonexpression refers to the ongoing negotiation of revelation and concealment between two partners in their relationship. Openness is necessary to maintain the relationship while it can hurt each party, thus leading to their concealment to protect the relationship. The dialectic of stability and change represents the parties' need of certainty and consistency in opposition to wanting excitement and surprises. The stability opposition is required for their relationship constancy whereas the change keeps the relationship alive with creativity. The dialectic of integration–separation is a contradiction that represents the simultaneous needs to be independent and dependent. Stability and change involves the simultaneous needs for certainty and order versus novelty and change (Conville 1991).

According to (Baxter 1990), there are four basic types of partners' responses to a dialectical contradiction in their relationship. They are selection, separation, neutralisation and reframing. Within a selection response, the parties in the relationship are aware of the co-existence of both oppositions but select one opposition which then dominates the other (Baxter 1990).

Under the separation style, each opposition is separated to be dominant temporarily for topicality. Temporary separation is a cyclic alternation between two oppositions in autonomy from one point in time to another, and topical separation is the separation of domains into those for which one opposition is dominant and those for which the other is dominant (Baxter 1990). Therefore, the separation response is not as extreme as the selection style in which the dominance of one opposition is determined once or for the whole domain of activities. However, the division of two oppositions under the separation response denies the interdependence between the two.

In the neutralisation response, a portion of each opposition is sacrificed to compromise their contradiction (Baxter 1990). Hence, each opposition is enacted in its full intensity at some time or in some domain under the separation response, while the intensity of both oppositions is diluted under the neutralisation response. However, the neutralisation response is similar to the separation response in perceiving the presence of both oppositions but denying their interdependence. Baxter (1990) found two types of neutralisation responses—moderation and disqualification. Whereas the moderation neutralisation is undertaken with explicit evidence (e.g., a small talk), the disqualification neutralisation is handled indirectly, ambiguously or 'off the record' (Baxter 1990, p. 73).

Reframing a response is completely different from the first three types in the way that appreciates the interdependence between two oppositions. It is undertaken by transforming the perception of both oppositions along different dimensions of meaning such that the two oppositions are no longer contrasts (Baxter 1990).

Whereas those studies contributed to the classification of responses, they have not yet identified the factors determining the choice of response to a dialectical contradiction. Peng and Nisbett (1999) partly bridged that gap by studying the impact of culture factor on dealing with contradiction. Five empirical studies were conducted with both White American and Chinese participants. They were asked to classify proverbs as dialectical or nondialectical and offer solutions for contradictions in various topics. Peng and Nisbett (1999) found that Westerners and Easterners differed in terms of their responses to a conflict. When two apparently contradictory propositions were presented, Westerners polarised their views and Easterners were moderately accepting of both propositions (Peng & Nisbett 1999).

A dialectical approach may enable Eastern people to tolerate and even appreciate contradiction, consequently maintaining a view of the big picture (Peng & Nisbett 1999). It is also known as the holistic approach in which people would not 'regard a social conflict as a contradiction', and thus would be 'less likely to take sides in a conflict' (Peng & Nisbett 1999, p. 746).

However, Peng and Nisbett (1999) believed that Easterners with a dialectical approach may accept both contradictional viewpoints even though there is evidence supporting that one of these views is inferior. This trend is named naïve dialecticism that was suspected of being more common than a holistic approach among the Chinese (Peng & Nisbett 1999, p. 746). Several reasons can explain the claim. Chinese philosophy is more likely to assume that 'there can be some truth to both of two opposing propositions and hence implies that no side should win in a debate'

(Peng & Nisbett 1999, p. 747). Chinese culture emphasises harmony rather than debate, which is represented by the lack of proper forums or institutions for debate (Peng & Nisbett 1999).

Although conflicts are mentioned pervasively in the organisational research (Putnam, Fairhurst & Banghart 2016), few studies in dialectical contradictions have examined organisational conflicts (Erbert 2000, 2014). Tracy (2004) believed that the dialectical theory designed to explain contradictions in interpersonal relationships could be helpful to apply as a conceptual framework to enlighten reactions to contradictions in organisational interaction. Developing the studies of Baxter, a leading scholar of dialectical theory in personal relationship, Tracy (2004) analysed and theorised employee reactions to organisational contradictions in two correctional institutions. According to her, employees can react to contradictions in various ways depending on how they can frame the contradictions. Adopting the literature of dialectical theory in communication, Tracy (2004) identified three different ways of framing a contradiction. In particular, a contradiction can be framed as simple contradictions, complementary dialectics and pragmatic paradoxes or double binds (Table 3.1).

Table 3.1 Different responses to a contradiction

Frame	Response	Strength/weakness/consequence
Simple contradiction	Selection	Ignore half of responsibilities
	Target, temporal or topic vacillation	Inconsistent or haphazard
	Source splitting	Usually impossible and pressure
Complementary dialectics	Creative rule-following techniques	Attending to multiple organisational expectation
	Layering and balancing of goals	
Pragmatic paradoxes or double binds	Withdrawal	Avoid the confrontation

Source: Tracy (2004)

She explored the different responses corresponding with each frame of contradiction. Organisational members frame a contradiction as a simple contradiction based on the assumption that they cannot perform two actions at once, but can alternate or choose one. Hence, they can respond to the contradiction by selecting one opposition dominant over the other. Selection is problematic because they ignore half of their responsibilities by just attending to one opposition of organisational contradiction, and essentially do not perform their job.

Alternatively, organisation members can also respond to the contradiction by separating the two oppositions of the contradiction and flexibly switching between opposing organisational norms depending on the time, person with whom they are working or the topic/context. Those responses are named target, temporal and topic vacillation. The target or topic vacillation is the reaction in which members topically segment varying activities to correspond with the two different poles. The temporal vacillation is the reaction in which the organisational members move back and forth between two oppositions, simply alternating the attention paid to them. According to Tracy (2004), all types of vacillation have problematic repercussions because it can cause inconsistent or haphazard behaviours by the organisational member.

Source splitting can be the other type of response by organisational members when they frame it as a simple contradiction. The source-splitting response in Tracy's (2004) study is the reactions by different officers in which they consistently play 'good cop' or 'bad cop' in different domains. Although this reaction presents consistency in the organisational member's behaviour, it is more likely impossible because officers usually work independently.

To avoid that weakness, the employees can frame a contradiction as a complementary dialectic by reframing the elements of the contradiction so that the two contrasts are no longer regarded as opposites. In that way, organisational members understand a contradiction as interrelated and nonmutually exclusive, viewing one pole of an organisational contradiction as a means for achieving the other pole. As the result, multiple organisational expectations can be attended by creative rule-following techniques or layering and balancing of goals. Framing a contradiction as complementary dialectic, therefore, has been found to be correlated with higher satisfaction than other ways of managing contradictions.

Some contradictions may be more difficult to reframe than others, such as a situation wherein a primary and a secondary injunction are present, as found by Tracy (2004). In that situation, the officers also cannot exit the contradiction by any reaction of selection, vacillation or source splitting. Hence, the contradiction is considered a pragmatic paradox or double bind in which two oppositions countermand each other or conflict directly with one another. Tracy (2004) found that organisational members reacted to that contradiction by withdrawing (e.g., ignoring the rules) to avoid confrontation.

In summary, Tracy (2004) provides a model with a wide range of different responses to these contradictions of organisational members. Most of these responses were developed from the research on communication by Baxter and colleagues to help explain how people manage opposition and contradictions in various life contexts. According to Baxter (1990), selection, separation, neutralisation and reframing are four common techniques to manage dialectical contradictions. Three of them were found by Tracy (2004), excluding neutralisation. This is evidence that the dialectical theory in communication can be applied in understanding communication within the organisational context. This belief is strengthened by Erbert (2014).

Erbert (2014) conducted research to decide whether the dialectical theory is a feasible framework for understanding organisational conflict within an organisation. Adopting the propositions in communication developed by Baxter and her colleagues, Erbert (2014) first examined the perceived importance of five dialectical contradictions in organisations: independence versus separation, stability and change, openness and closeness, judgement versus acceptance and ideal versus real. The first three are similar to the dialectic of integration–separation, of expression–nonexpression and of stability–change, which were common in dialectical communication as aforementioned. Judgement versus acceptance represents the contradiction about the acceptance of work experience and being evaluated or judged (Erbert 2014, p. 142). Ideal versus real refer to the concurrent desires of ‘doing it right’ versus ‘just getting by’ (Erbert 2014, p. 142). Within those contradictions, the social actors struggle with ‘if, when and how to communicate in organizational life’ (Erbert 2014, p. 142).

The study asked 40 organisational employees in-depth questions for over one year to rate the importance of those five contradictions for each conflict episode. The participants were also asked to determine whether those contradictions are dialectical in each conflict episode. Erbert (2014) found that all the five contradictions were perceived moderately important to organisations. In addition, 49% of the conflicts in the test were considered dialectical.

Thus, Erbert (2014) and Tracy (2004) together have implied that the dialectical theory is a viable framework for understanding the ongoing contradictions within organisations. However, the research does not mention how the dialectical theory is applied for understanding the way in which an organisation acts in communication within its society, although firms are considered dialectical beings within their environment as discussed in Section 3.2. The next section discusses communication between organisations from a dialectical view, in terms of loan loss recognition.

3.4 Adoption of Dialectical Theory in Loan Loss Recognition

The dialectical theory adopted in this research answers the call for a dialectical view on the organisational process (Benson 1977; Deetz 1982; Nonaka & Toyama 2002, 2003; Van de Ven & Poole 1995) and on the intertwinement of accounting and its environment (Burchell, Clubb & Hopwood 1985; Kane 2000; Walker 2016).

In addition, to the present researcher's knowledge, this is also the first study attempting to adopt the dialectical theory in the communication between organisations rather than individuals. Both Tracy (2004) and Erbert (2014) adopted the dialectical theory to investigate organisational communication at the micro level in which the theory was applied to understand the contradictions confronted by each employee in their organisation and their responses. Different from them, this research attempts to develop the view (Benson 1977; Deetz 1982; Nonaka & Toyama 2002, 2003; Van de Ven & Poole 1995) that considers an organisation a dialectical being confronted with its social.

The adoption is conducted based on the belief that organisations are also represented by individuals; therefore, the communication between organisations is expected to be similar to that between individuals. Specifically, this research examines the interaction between the Vietnamese Government/SBV, commonly represented by bank regulators, and its social context represented by various agents (bank management, depositors, heads of foreign institutions, etc.) in regulating loan loss recognition. The contradictions and various types of responses found in communication between individuals as discussed above are expected to be found in the communication between organisations.

However, several differences need to be considered in that adoption. First, there is more than one person representing an organisation. Therefore, the contradictions in communication of an organisation derive not only from its external environment but also from its internal members; in this regard, Ven de Ven and Poole (1995) asserted that contradictions can be internal or external to an organisation. In consideration of this difference, the data are collected not only from the debates between organisations but also between members in an organisation.

In addition, when examining the communication between organisations, the concept of ‘totality’ or ‘the whole’, stated by Benson (1977) (p. 3) as discussed, might cover a broader scope compared with communication between individuals. An individual’s relationships are often confined to a narrow range of families, colleagues, friends and some organisations. Conversely, an organisation has a much broader connection that includes the relationships between individuals inside and outside the organisation, between organisations in a system and outside it and local and international entities, among others. Owing to this broad connection, the impact of a reaction on the whole can be more widespread, and thus, there is a longer lag time from the action time to the time of full output.

Hence, a wider range of data should be collected for a longer period to thoroughly understand the communication between organisations. The necessary period for data collection can even be extended because an organisation might take more time than an individual would to decide on a response to a contradiction. The reason is that an organisation is more likely based on consensus to conceptualise and share meaning for decision-making as suggested by Deetz (1982). The extensive influence on society of a response in communication between organisations lends the study on how to respond appropriately to contradictions in this field substantial importance.

Developing the literature review in Chapter 2, it is proposed that the Vietnamese Government was confronted with the contradiction of Government control–market control, integration–separation, stability–change and information–disinformation corresponding with the four conflict issues of politics, globalisation, transformation and transparency. These conflicts are expected to be dialectical contradictions because their relationships have been constantly pushed and pulled since 1986 when the state decided to develop a market economy with socialism orientation as found by Phuong NC and Richard (2011) and Nguyen Loc, Hooper and Sinclair (2013) and as a heritage from Kane's (2000) study. The four contradictions are supposed to be underlying the accounting reform in Vietnam until date. The ongoing interplay of those contradictions is proposed as being the source of energy for the change in Vietnamese accounting regulations in terms of loan loss recognition.

In line with Benson (1977), Deetz (1982), Ven de Ven and Pool (1995) and Nonaka and Toyama (2002, 2003), the Government/regulators can be considered agents that interplay with the environment that is represented by the multiple forces from bank managements, foreign institutions, investors and depositors, among others, in terms of political power, globalisation, transformation and transparency. The Government/regulators as an agent and other parties in its environment have different perceptions on regulating loan loss recognition. Both the Government and its environment continuously interplay in defining and reproducing the perception of each other. Therefore, the regulation on loan loss recognition is supposed as an ongoing change process in which the regulation knowledge is created in a spiral as Nonaka and Toyama (2002, 2003) suggested.

Specifically, external forces, as stated by Ven de Ven and Pool (1995), from the public created by environment changes, such as the economic and politic instability and the globalisation trend, influence the Government perception of transparency in loan loss. Then, the Government takes actions to change the environment as a reflection of its perceptual transformation. By doing so, the Government is continuously recreating its environment through social interaction with the external forces from other organisations or individuals in the environment. The transformation spiral is supposed to include three phases as described in Section 3.4.2. How the Government responds to the related contradictions is predicted in Section 3.4.1 as the foundation for the proposition of the spiral in Section 3.4.2.

3.4.1 Naïve response style

Since Peng and Nisbett (1999) studied contradictions in various topics rather than the interpersonal area only, their findings can be adopted to propose how the Government/bank regulators respond to the contradictions in regulating loan loss recognition in Vietnam. The present study proposes that being in the East, the Vietnamese tend to respond to contradictions from the naïve dialecticism approach similar to the Chinese. The reason is that there are many similarities in culture and philosophy between Vietnam and China. More related evidences are discussed in the next chapter.

This proposition made for the majority of the Vietnamese can also be made for the behaviour of Government/bank regulators in Vietnam because they are more likely making decisions based on consensus rather than based on the views of an arbitrary ruler (Tran Dinh Thien & Luu Bich Ho 2015c). Hence, since it is the general character of the majority of the Vietnamese, the naïve dialecticism is also supposed to be applied in decision-making by the Vietnamese Government/bank regulators.

The policy of market economy with socialism orientation can be considered a typical example of the Government's decision-making using naïve dialecticism. Thus far, no study has investigated that model thoroughly. The decision was made simply owing to the Government's concern: '*The Government was afraid people would suffer if it gave up its control to the market*' (Tran Dinh Thien & Luu Bich Ho 2015a, translated by the author). Specifically, the Government worried that private enterprises under the market economy would exploit labour (Tran Dinh Thien & Luu Bich Ho 2015a). Because of those concerns and its naïve dialectic thinking, the Government proposed to seek a compromise approach of developing the market economy while retaining socialism to repair the weakness of the market. This issue is discussed in detail in the next chapter.

Instead of conducting proper scientific research, the Government's decision was made based on the belief from reasonable thinking that a combination of two oppositions could fix the weaknesses of the market economy. That decision-making style can be similar to the Eastern naïve dialecticism found by Peng and Nisbett (1999). It is the tendency that 'accepts too much as face value, failing to generate counterarguments for a statement and trying to reconcile opposing views' (p. 751) even when one opposition, socialism, is inferior, in terms of the evidence supporting it (Kornai 2000)[4]. Thus, the decision is made based on reasonable thinking rather than a 'logically correct, or true, or effective' proposal or solution (Peng & Nisbett 1999, p. 746). The reasonable thinking is reflected in the naïve thinking that accepts what the Communists like (the beauty of socialism idea) and rejects what the Communist dislike (the dark side of the free market). That response style is proposed to cause confusion in communication related to regulating loan loss recognition because the decision was made with less experience or a lack of complex thinking.

This response style was similar to the separation (or vacillation) and neutralisation found by Baxter (1990) and Tracy (2004) in interpersonal communication. Adopting those styles, people are aware of both oppositions and try to reconcile them simply by responding separately to each pole (separation or vacillation) or respond to both opposition simultaneously but by half (neutralisation). These are naïve responses because these ignored the interdependence between both oppositions (Baxter 1990; Tracy 2004). That consequence can be considered a result of a decision made based on an easy reasonable thinking rather than a thorough assessment, which is termed naïve thinking by Peng and Nisbett (1999).

Responding to the Government control–market control can be exceptional in the way that Government control would be superior to the market control in case it is unable to respond to both at the same time even in part. It is because the Government/regulators as representative of the Communist Party could not voluntarily surrender control. This response style is similar to the selection response in interpersonal communication in that selection is the simplest way to respond to the contradiction by 'making one condition or pole dominant to the exclusion of the other condition' (Baxter 1990, p. 72) or 'selecting one norm to uphold in favour of another' (Tracy 2004, p. 129).

[4] It is evident that the socialist system has collapsed in many countries with the change of system from socialism to capitalism

3.4.2 Dialectical spiral

The studies of Phuong NC and Richard (2011) and Nguyen Loc, Hooper and Sinclair (2013) can be adopted to suggest propositions for the first two phases of renovating regulation. Phase 3 is the period when the regulation was revealed to be problematic. The studies of Kane (2000) and Piotroski and Wong (2012) can be applied to suggest propositions for the contradictions and responses in phase 3.

Phase 1 represents the period when accounting regulation was mainly a heritage of the plan economy (Nguyen 2013a). Particularly, the Government had full control of the regulation on loan loss recognition because it was almost the only owner of the banking industry. At that time, the accounting regulation mainly served the multiple objectives of the state, such as tax accounting and management (Phuong NC & Richard 2011).

Phase 2 is the period when the transformation became clear. Phuong NC and Richard (2011) claimed that the transformation is clever at first glance. The environment changed with the strong growth of the market control force that mainly emerged from foreign institutions. That change influenced the Government to reform the accounting regulation in loan loss recognition towards international practices, similar to the general trend found by Phuong NC and Richard (2011). In addition to serving the state, the regulation is expected to be modified to satisfy the need of emerging economic groups of investors and depositors. However, it may still be more rule based than principles based to suit the ‘habitus’ of compliance but can be overridden by practitioners as claimed by Nguyen (2013a).

In addition, the adoption of naïve dialecticism thinking (Peng & Nisbett 1999) in responding to the conflict between Government and market control can deny the interdependence between the two oppositions. For example, the state control can cause a reduction in supply and demand of high-quality external reports as asserted by Piotroski and Wong (2012), thus limiting the market control owing to lack of transparency and disclosure. Thus, by taking those actions to respond to the change of environment during phase 2, the Government is proposed to continuously recreate its environment as suggested by (Nonaka & Toyama 2003). The new environment is proposed to be formed in which the market control was restrained by the rule-based regulations and the lack of disclosure.

According to Piotroski and Wong (2012), 'the widespread availability of information is a key determinant of the efficiency of resource allocation decisions and growth in an economy' (p. 202). Therefore, the lack of quality information disclosed to the market in phase 2 is supposed to distort the capital allocation leading to the acceleration of NPLs in phase 3, leading to a loss of both economic and symbolic capital to the Government, thus threatening the Government control. It is similar to the dialectical phenomenon stated by Benson (1977): 'People produce a social world which stands over them, constraining their actions' (p. 3). In phase 2, the Government is supposed to cause that loss [of both economic and symbolic capital], thus constraining the Government's control.

In phase 3, responding to that environment change, the Government is supposed to hide NPLs to save its symbolic capital. It is similar to the Government's suppression of bad news stated by Piotroski and Wong (2012) and Kane (2000). Simultaneously, the market control can be stronger because the foreign institutions can have more power when the Government needs financial aid from them to recover the economy. For this reason, the conflict can be fiercer in phase 3 for the Government to maintain its control. With naïve dialecticism thinking, the Government may not know how to respond to the conflict in this phase, thus causing its embarrassment and delay in problem solving.

3.5 Chapter Conclusion

This chapter reviewed the understanding of organisational change from a dialectical view. It is found that organisational transformation is a complex ongoing process of social construction in which people continuously interact with each other in responding to various contradictions underlying differentiated contexts. The change process is partly autonomous because of contextual constraints and reactions and partly human creative (praxis) since people can actively select their responses. Threfore, the change process offers bank regulators a chance to determine appropriate actions to respond to related contradictions in regulating loan loss recognition'

The transformation process constantly creates new concepts that are understandable for organisational members in their specific interrelationships rather than a priori theoretical concepts. In that way, the dialectical view is appropriate for the current research to examine the specific meaning of loan loss recognition in the Vietnamese context with several contradictions that can significantly affect how loan loss is recognised. That understanding is expected to inform the Vietnamese bank regulators and other related parties about the current confusion in loan loss recognition. Specifically, they are the specific meanings of different loan loss figures, of the concerns and debates on those figures and their differences and of the frequent changes in regulations on loan loss recognition. Loan loss communication is considered a critical means to understand the knowledge created and shared through accounting change in loan loss recognition in Vietnam.

Based on that understanding, this chapter provided a theoretical framework for understanding the specific context of Vietnam and analysing the behaviour of the Vietnamese Government/bank regulators in the following chapters. The contradiction themes of Government/market control, stability/change, separation/integration and information/disinformation can be used to code the contradictions in loan loss communication in Vietnam. The model of responses to the contradiction was demarcated into three phases in line with Peng and Nisbett (1999), Kane (2000), Nonaka and Toyama (2002, 2003), Phuong NC and Richard (2011), Piotroski and Wong (2012) and Nguyen Loc, Hooper and Sinclair (2013). The next chapter presents the research design following the theoretical framework proposed in this chapter.

Chapter 4: Research Design

4.1 Introduction

As discussed in the previous chapter, in this study, the communication of regulation on loan loss recognition is viewed as a dialectical contradiction process of a social and institutional practice, instead of merely a static and technical practice. From that dialectical view, organisations do not merely solve problems but create and define problems through actions and interactions (Nonaka & Toyama 2002; Nonaka, Toyama & Nagata 2000). This approach requires an interpretive worldview that combines a quite different set of beliefs about the nature of society. ‘In this case, subjectivism and relativism together with the view that social order is negotiated through social interaction lead to the use of qualitative, naturalistic research methods’ (Ryan B 2002, p. 87). Hence, the paradigm that this research will fit into is the interpretive paradigm. The next section discusses how the interpretive paradigm is designed. The research setting, research site, data collection and content analysis are discussed in the remainder of this chapter.

4.2 Interpretive Paradigm

Burrell (2001) suggested that the interpretive paradigm attempts to understand and explain the social world primarily from the viewpoint of the actors directly involved in the social process. The ultimate reality of the universe lies in ‘spirit’ or ‘idea’ rather than in the data of sense perception. Burrell (2001) asserted that the interpretive paradigm is informed by a concern to understand the world as it is, to understand the fundamental nature of the social world at the level of subjective experience. Those various perspectives from a particular orientation are ‘confusing and senseless’ (Deetz 1982, p. 134) when individuals work together in an organisation or among organisations. Deetz (1982) described as follows that the confusion can be severe in an organisation with contradictions:

> Organizations can be filled with contradictions and formed in such a way as to alienate the individual. Decisions are manipulated, data are distorted, and power is inevitably distributed unequally. Organizational members approach their tasks with special interests, and their perceptions are interested perceptions. Political,

> economic, and community forces and individual interests are inscribed in organizational arrangements, social relations, and in every perception… these inscribed interests result in blockages, repressions, and distorted communication. Meaning structures are filled with privileged interests. (p. 139)

He emphasised that such confusion could distort communication leading to false consensus:

> Systematically distorted communication leads to false consensus, a consensus reached by the power of definition rather than by open discussion by all interested parties of the practical situation at hand. (Deetz 1982, p. 140)

Therefore, interpretive research in organisational communication not only considered interpretation a subjective process in which each individual or organisation forms its own perception from an orientation, but ‘communication and social interaction become merely the means by which consensus is reached and meaning is shared’ and ‘the role of all interpretive research is the undermining of the conditions leading to false consensus’ (Deetz 1982, p. 133).

Considering Deetz’s (1982) claim, the interpretive paradigm would be the best tool for the present research to not only reveal the contentious issue in loan loss communication in the specific context of Vietnam but also ‘to provide appropriate action to overcome’ (p. 140) that problem as suggested by Deetz (1982). In this sense, the culture that consists of a member’s knowledge or belief ‘describes the systems of meaning inscribed’, thus being ‘a necessary foundation for doing interpretive research in organizations’ (Deetz 1982, p. 131, 134). The next two sections present that culture setting within which the study is conducted.

4.3 Research Setting

This research, on the period after the Asian financial crisis of the late 1990s, acts as a continuation of Chu’s (2004) research on accounting changes in Vietnam as a transition economy from 1945. A long period from 1991 to the present offers a suitable opportunity to observe the consequences of the different responses to contradictions in loan loss communication and check the existence frequency and importance level of the dialectical contradictions within this area.

This period is also critical for the study of loan loss recognition in banks since it accounts for the several facts that have significant impact on loan loss recognition. First, learning from the Asian financial crisis, between 2005 and 2007, international banking regulations changed from Basel I (BCBS 1988) to Basel II (BCBS 2006a) with an increase of convergence in accounting for credit loss (e.g., IAS39; World Bank 2002) that increased the gap between Vietnamese and international standards in loan loss recognition. This leads to a concern regarding communicating loan loss in Vietnam to foreign investors because of that increasing gap.

In addition, by joining the WTO in 2007, Vietnam faced increased pressure to adopt international standards in loan loss recognition after the financial market was opened fully as part of its commitment to liberalise its banking industry made upon its entry to the WTO (Vietnamese Diplomatic Missions 2014). Responding to that commitment (Phung 2005), Vietnam moved from the quantitative method under Basel I to the qualitative method under Basel II from 2005 following Decision No. 493/2005/QD-NHNN on the issuance of regulation on the debts classification, provisioning and use of provisions against credit risks in the banking activity of credit institutions, issued by SBV.

Further, the regulation on loan loss recognition has been more significant to study owing to the sudden increase in loan loss since 2008 because of the global financial crisis. Many stakeholders questioned the transparency and representational faithfulness of banks' balance sheets as well as whether commercial banks had adequate provisions for future loan losses. Hence, major changes have been made in the context for regulating loan loss recognition since the Asian financial crisis of the late 1990s not only in Vietnam but also worldwide. The next section discusses the context in detail as the research site for data collection.

4.4 Research Site

In the context of Vietnam, Chu (2004) revealed that the socialist ideology and Vietnamese culture played very influential roles in accounting change in the current transition economy. The study found that the ideological paradox between the socialist economic system and the market system caused numerous serious problems because of Vietnam's move to incorporate market accounting concepts and standards into its current accounting system. These problems included Vietnamising or customising the process of market accounting to adapt to the new environment as well as the need to align regulatory structure, professional development and the education system. Phuong NC and Richard (2011) also found that the accounting system transformation generated some difficulties owing to adapting a private capitalist accounting system to function in a state-dominated market economy. Bearing this in mind, this section provides a systematic review of the Vietnamese context to identify the critical factors that influence regulating loan loss recognition in Vietnam and the reason that Vietnam is a specific context for the examination of such regulation.

4.4.1 Culture and political environment

Vietnam's culture and politics have significant effects on its economy. Historically, China ruled Vietnam for more than 1,000 years, and it finally became independent in 938 (Le Thi Lan 2012). This fact explains why Vietnam was deeply influenced by Chinese culture (Le Thi Lan 2012) of which the Chinese behaviours of dialectical tendency asserted by Peng and Nisbett (1999) can be found in Vietnam. The influence continues until now because China is a large neighbouring country sharing borders with Vietnam. Le Thi Lan (2012) stated that the Vietnamese have the harmonisation culture in which they accept different thoughts and try to reconcile them. Vietnam is known as a nation of many religions and ethnic cultures (Le Thi Lan 2012) but has not experienced a holy war because the Vietnamese accept and tolerate different beliefs (Hoang Huong 2014). Hoang Huong (2014) said, 'In Vietnam, different beliefs dive in, mingle, are not exclusive and do not conflict (translated by the author).' This culture is very close to the Eastern behaviour in responding to a dialectic by accepting both oppositions rather than polarising them, as stated by Peng and Nisbett (1999).

After ending the war with France and the United States in 1975 (Nghiencuuquocte 2015), Vietnam was led by the Communist Party (Vietnamplus 2015). The 'market' or 'capital factor' towards global integration has replaced the monopolistic state providers with competitive independent ones in Vietnam since 1986 (Ministry of Foreign Affairs 2014). It has resulted in a quasi-market that comprises both control and capital factors with many SOEs. The market is 'quasi' because it differs from conventional markets with the existence of many SOEs and banks that operate partly under state control and compete against private banks for users (Le Grand & Bartlett 1993).

Within the quasi-market in Vietnam, the leading role of the Communist Party is still assured in the Government, politics and society (Institute for State Organization Sciences 2014). Below the Communist Party are the National Assembly and then the Government (Figure 4.1). SBV is a ministerial organisation, under the direct control of the Government (Vu Thanh Tu Anh et al. 2013). Under that political structure, SBV is not only subject to political interference of the Communist Party but also operates relying on the Government's guidance (International Business Publications 2009).

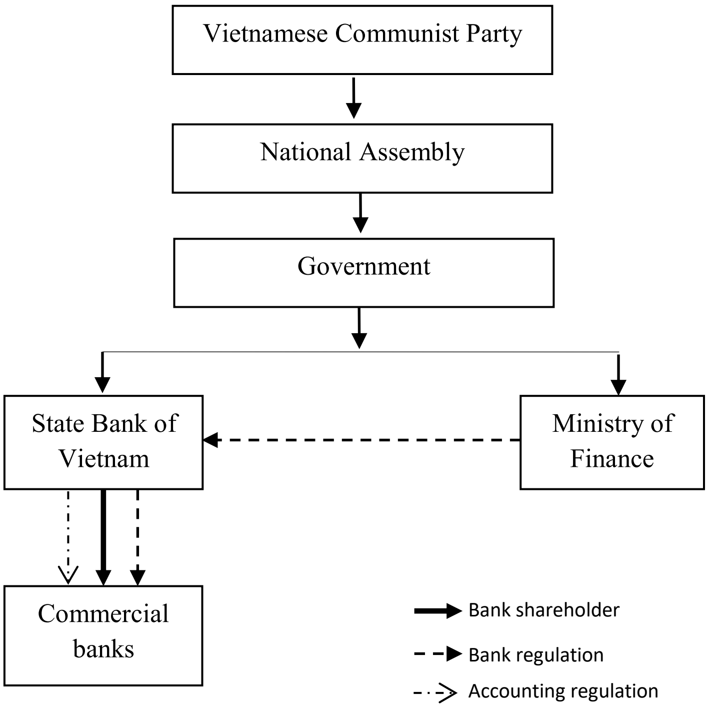


Figure 4.1: Political structure of Vietnam

Source: The outline is drafted based on Sacombank Securities Company (2008), Tran B. (2008), International Business Publications (2009), Nguyen T. (2011), Vu Thanh Tu Anh et al. (2013) and Institute for State Organization Sciences (2014)

Through SBV, the Government can direct how banks allocate capital resources by various regulations and restrictions (Sacombank Securities Company 2008; Tran Bao Toan 2008). Within this political structure, SBV is not only responsible for implementing its primary function of controlling the country's monetary policy, as in developed countries, but also the objective of economic growth that is the primary function of the Government. The first objective is usually found in developed countries whereas the second is the distinctive characteristic of Vietnam. Specifically, SBV is responsible for the target of credit growth and credit structures that facilitates the objective of the Government of economic growth (Nguyen Thi Kinh Thanh 2011).

Further, the banking industry is mainly under the direct management of SBV in finance and accounting as delegated by the Ministry of Finance (Figure 4.1). The Ministry of Finance is more focused on corporations rather than the banking industry. Within loan loss recognition accounting, it is evident that SBV rather than the Ministry of Finance (Appendix 1) directly issued all related accounting regulations. Therefore, SBV has undertaken the task of promulgating the accounting framework for market control. At the same time, SBV represented the party and the Government to exercise the right to control and implement their political, economic and social policies. Holding the two roles of market control and Government control concurrently is supposed to create the contradiction and confusion for bank regulators in SBV in regulating loan loss recognition. It is challenging for bank regulators in Vietnam to understand, adopt, customise and monitor the capitalist accounting and banking regulation system to work in a quasi-market economy. For example, bank regulators are supposed to consider whether improving accounting regulations, which serves market discipline on loan loss recognition, affects the targeted lending growth rate and credit structure of the Government. It represents the contradiction between Government control and market control. The next section examines the economic environment of Vietnam to set the background for the data analysis.

Finally, the bank regulators face contradictions when the SBV, a government agency, is the state shareholder of several commercial banks (Vu Thanh Tu Anh et al. 2013). That organisational structure makes the bank regulators the owner of commercial banks whereas they are the Government representatives and regulators of the financial system. The interest conflict is severe in that authorisation relationship.

4.4.2 Economic environment

The contradiction of Government control and market control arising from the political environment as discussed above has caused confusion and contradiction in the Vietnamese economic environment. The following sections discuss the confusion and contradiction and the manner in which the Government responded to the contradiction in the general economy and the banking industry. The analysis of the general economy is expected to provide the background for understanding the confusion, contradictions and responses within the banking industry of Vietnam.

4.4.2.1 Confusion

Traditionally, Vietnam was an agricultural economy based on wet rice cultivating. The Vietnam War destroyed much of the country's resources. After acquiring power, the Government created a planned economy with full monopoly control of the Communists via a system of 100% SOEs (Dang Phong 2016). The private economic sector was abolished. The state set a plan for all enterprises' activities. Vietnam faced many troubles in recovering and developing the economy because of its political system. The planned economy failed to mobilise the economic potential for development (Dang Phong 2016; Huynh Buu Son 2016).

As a result, learning from China, the Vietnam Communist Party officially introduced economic reforms in 1986 that considered the free market economy elements the cornerstone of strategy for a developing economy and for bolstering the masses' confidence in the Government control (Dang Phong 2016; Huynh Buu Son 2016). This was called the Doi Moi policy for developing an economic socialist-oriented market economy. Despite some minor changes, the Congress documents from 1986 and 2015 generally explain the concept of economic socialist-oriented market economy:

> The economic socialist-oriented market economy is operating following the market mechanism with the management of the state under 'the leadership of the Communist Party' and is 'striving for the goal of prosperous people, a strong country and an equitable, democratic and civilised society'. The economic socialist-oriented market economy has many forms of ownership and many economic sectors in which the state economy plays a key role. The nature of the

> socialist-oriented economy is reflected in the way that the state economic sector plays the role of leading and actively orienting the economy. (Central Economic Committee 2016; translated by the author)

This policy has been controversial to many theoretical, ideological leaders of the Vietnamese Communist Party in that ‘What is socialism orientation?’ The leading economic experts in Vietnam admitted that this question had not been answered clearly over nearly 30 years of Doi Moi in 1986 (Vietnamnet 2015). Although Vietnam has declared its entry to a transition period towards socialism from 1960 (Government 2010), in 2013, the general secretary of the Communist Party Nguyen Phu Trong told the Parliament, *‘To the end of the century, it could not be known when there was complete socialism in Vietnam’* (Thanhnien 2013; translated by the author). Nobody, not even the seniormost political leader knows when the goal can be reached in building the national development plan. People are oblivious of the direction in which the economy is headed.

The director of Vietnam Institute of Economics, Tran Dinh Thien, and the former director of Development Strategy Institute, Luu Bich Ho, stated:

> Every five years, one or more state research programmes are conducted, and in them, there are several addressing the question of defining the market economy with socialism orientation. By assuming that at least five sessions of research programmes were conducted in 25 years, it is possible to estimate the number of research projects that have attempted to answer that question. Further, many other topics that do not have the same title are also being researched to answer that question. It means we have tried hard to find a definition that can make us confident and satisfied. However, the fact is that until now, we have not been clear and still have to find the answer. (Tran D. and Luu, 2015a; translated by the author)

Through these comments, one can imagine how the Vietnamese society has suffered much of the costs related to defining the direction of development over 20 years. Not only the theoretical and ideological leaders, but also the public staff in charge of leadership, and management and administration practitioners have struggled to find ways to explain how the concept of socialism orientation is compatible with the practices.

At the end of 2013, Minister of Planning and Investment, Bui Quang Vinh, was invited to talk about economic issues at the National Political Institute in Ho Chi Minh City (Saigontimes 2014). He frankly stated, '*We keep studying that model and have not yet found it. That model does not exist for seeking*' (Saigontimes 2014, translated by the author). He said he also questioned the scientific community, nearly 30 years ago, what the model was but was yet to receive a reply (Saigontimes 2014).

Many other government officers and consultants (e.g., Luu 2012, 2014; Nguyen Viet Thong 2014; Truong 2015; Vu Van Phuc 2014a) tried to explain the concept of socialism orientation but their explanations were not specific enough for practice. Those studies just restated or repeated information on the policy and Marxism without a new study and regardless of the changes in the world and in Vietnam (Tran Van Tho 2015). No definitions of the key concepts, such as '*orientation*', '*socialism orientation* ' or '*the leading role of state economy*', were offered. The term 'orientation' is also controversial. China identifies its economy directly as a socialist market economy while Vietnam states ambiguously that its economy is a socialist-oriented market economy (Tran Dinh Thien & Luu Bich Ho 2015a). It is confusing how '*a socialist-oriented market economy*' is different from '*a socialist market economy*'. Therefore, the definition of '*socialist-oriented market economy*' stated in the Congress documents is just a statement. It needs to be interpreted into specific mechanisms and institutions for specific actions (Tran Dinh Thien & Luu Bich Ho 2015a).

Because of that confusion, many readers argued against those studies. For example, a reader, named Minh Toan, responded to Truong's (2015) analysis about the market economy with socialism orientation:

> Many thanks for your analysis. However, for our businesses, what we need most is the specific statement for our long-term business orientation. … The country's way to develop needs to be stated clearly for the public to understand. Why was it wavering so that even the general secretary of the Communist Party [Nguyen Phu Trong, as aforementioned] did not know when socialism would be completely built in Vietnam? (Translated by the author)

The voice of practicians became much more powerful when the Prime Minister made a suggestion at the regular meeting of the Government in February 2015: '*What the* *market economy is, and what socialism orientation is about? They need to be specific rather than saying generally all the time*' (Ha Chinh 2015). He made this statement when referring to the major directions to create breakthroughs, promoting social and economic development in 2015 and the following years (Ha Chinh 2015). The Prime Minister is the chief executive who enforces and implements policies. Therefore, his suggestion implied that the current principles of socialist-oriented market economy were not specific enough for operating. This is the first time this confusion was raised by the leader of the Government, which shows the severity of the problem.

The analysis of the confusion raises several questions such as why socialism is necessary in Vietnamese development policy that has been maintained simultaneously with a market economy, leading to the current confusion. Further, why should the state business sector play a leading role in the market that conflicts with the fair competition principle of market economy? These questions are examined in the next section to investigate the contradiction hidden inside the confusion.

4.4.2.2 Politic conflict: Contradiction of Government control–market control

After the war, the Communist Party claimed that socialism continues to be necessary for the Vietnamese development policy because the Communist Party was successful in its leading role in the wartime by upholding the banner of national independence and socialism as an ideology (Luu 2014). Therefore, the Communist Party said that socialism under its leadership is '*a historical choice*' or '*the only best option*' that should be continued in the peacetime for the Vietnamese development policy (Communist Party 2015; Le Nhi Hoa 2016; Luu 2014; Nguyen Thanh Vinh 2015). The Communist Party emphasised its leadership is the prerequisite for obtaining the goal of socialism because it was proven in the wartime (Communist Party 2015; Le Nhi Hoa 2016; Luu 2014; Nguyen Thanh Vinh 2015). This claim implied that the Communist Party would like to rely on not only its historical victory but also the socialism goal to affirm the orthodoxy of its leadership role in Vietnam in the peacetime.

The determination of the Communist Party to defend its right to be the sole leadership, which is justified by the socialism objective, is clearly revealed through its declaration that:

> To continue the implementation of the socialist objective, it is inevitable to maintain the leadership role of the Communist Party, and to reject political pluralism and multiparty opposition, because the leadership of the Communist Party is the prerequisite to achieve the socialism objective. (Luu 2014; translated by the author)

The single-party system, instead of a multiparty political system, is often justified by the stability and high focus on the socialism objective (Luu 2014; Truong 2015). For example, Truong (2015), the former Minister of Commerce explained the necessity of a single-party system in Vietnam:

> Under multiparty political systems, Government policies are not stable and not highly targeted because they depend on each party's policies. When the ruling party changes, the above policies also change (e.g., the regulatory changes...). (Truong 2015; translated by the author)

Hence, history and the socialism ideology was utilised to create 'recognition, belief, esteem and confidence of the people' (Nguyen Loc, Hooper & Sinclair 2013, p. 15), and thus enhance the symbolic capital of the Communist Party that facilitates its monopoly control in Vietnam. As claimed by Nguyen (2013), the Government holds the dominant role in Vietnam because it possesses a significant part of symbolic and economic capital.

Following that direction, the Communist Party conducted nationalisation of assets and implemented a centralised planning mechanism to control the economy in all aspects following the model of socialist countries (Dang 2016). That management style, named socialist solutions, was then recognised as being unsuitable to stimulate economic development as summarised by Dang (2016a): '*Thus, there is a disagreement between the socialist solutions and the real life. The more implementation of socialist solutions, the more negative reactions of life*' (p. 14, translated by the author).

Facing that problem, the Communist Party changed its direction by recognising the necessity to implement a market economy rather than a planned economy. Since then, the Communist Party has combined the concepts of both market economy and socialism as a solution for economic renovation. Hence, the market economy emerged as a force conflicting with the Communist Party control because socialism is represented by the monopoly control of the Communist Party as affirmed by the Government whereas the market economy is characterised by free competition (Tran Van Tho 2015). Dang Phong (2016) described the negation of the Government control following socialism orientation and market control as follows:

> In order to have goods for society, it is necessary to return the freedom for private economy. In order to buy or sell, must accept the market economy. But with that acceptance, what is the socialist regime, what is the central planning mechanism, and what is the socialist goal? (p. 15, translated by the author)

According to Dang Phong (2016), that contradiction is a severe struggle for the policymakers in Vietnam without theoretical guidance for solving it. In particular, these two forces oppose one another in the way that the Communist Party would like to activate its control over the country, including the economy, whereas a market economy operates following market principles rather than Government control. Within the market economy, private enterprises are free to operate and compete in production and sales, and then, the distribution of resources is determined efficiently by market supply and demand based on the win–win solution for both buyers and sellers rather than being directly controlled by the Government (Tran Van Tho 2015). Under the market economy, transparency is the prerequisite for free competition and efficient resources allocation (Tran Van Tho 2015). By contrast, transparency regarding bad performance threatens the Government control as found by Piotroski and Wong (2012).

Conversely, these two forces are unified or interdependent. The Communist Party needs to build a market economy operating under the market mechanism for economic development, rather than the backward planned economy under the full control of the Government, to maintain public confidence in its control as mentioned in the Doi Moi policy.

A market economy also needs the Government as a market facilitator (Phuong NC & Richard 2011), rather than the market dominant, to ensure free competition in the market. These unified oppositions together form a dynamic interplay between Government control and market control.

In general, the contradiction of Government control and market control was found hidden inside the confusion in the economy policy of Vietnam, of which banking industry and its regulation on loan loss recognition is a part. Those two forces meet Baxter and Montgomery's (1996) definition that oppositions are 'two or more themes or forces that are interdependent with one another at the same time that they function to negate and oppose one another'. The contradiction of Government control–market control is 'generated in the larger society' but can 'impose upon the organization' as claimed by Benson (1977).

4.4.2.3 The link among contradictions

While Government control–market control is the contradiction that penetrates the Vietnamese economic context under the Communist Party's leadership, as described above, other contradictions appeared in the debate on loan loss recognition during different economic periods. They link together around the Government control–market control contradiction.

4.4.2.3.1 Phase 1: Closeness and poverty

Before 1986, by adopting a planned economy Vietnam was undergoing many difficulties: The economy was in decline, the gap between import and export was narrowing and inflation had accelerated to over 700%, leading to the country having more than 7 million people facing the threat of starvation

(VnExpress 2015). Economic aid from the socialism group was reduced following the dissolution of the Soviet Union (Luong Ninh 2015). Vietnam faced embargoes not only from countries in the region but also from the rest of the world when Vietnam sent troops to Cambodia from 1979 to 1991 to keep peace in Cambodia (Nguyen Thi Ai Huong 2012). Then, the country fell into an economic crisis that decreased the confidence of the masses in the leadership of the Communist Party and the state (Ministry of Foreign Affairs of Vietnam 2015). That situation led to an urgent need of renovation (Ministry of Foreign Affairs of Vietnam 2015) or change rather than maintaining the current status of a planned economy.

To escape from those challenges, the market force was used as a relief for the existence of the economy, which is the base for leading the opposition to the Communist Party in the Government. The general secretary, Nguyen Van Linh, said '*Without renovation* [the country] *is dead*' (VnExpress 2015; translated by the author) implying renovation is vital to maintain the Government control (Luong Ninh 2015). This strong belief is the rationale for the promulgation of the Doi Moi policy to save Vietnam from its isolation from the world and revive the economy, thus restoring people's confidence in the leadership of the Communist Party. assert renovation. He explained about the Doi Moi policy for renovation purposes, stating that:

> No other way, apart from resolutely abolishing the mechanism of centralisation, bureaucracy and subsidies; implementing the decentralisation of management; adopting the principles of democracy; properly using economic leverages; promoting the role of science and technology; improving efficiency; and expanding foreign economic relationships. (VnExpress 2015; translated by the author)

With that statement, he argued that the economy must be managed by market discipline, *'the principles of democracy ... economic leverages'*, rather than Government direction, '*the mechanism of centralization, bureaucracy and subsidies'* (Nguyen Trong Phuc 2015; translated by the author). It can be seen that the general secretary acted in response to market control instead of the Government's direct control on the economy. He strongly insisted on '*returning the economy to its economic rules*' (Luong Ninh 2015; translated by the author).

The Communist leaders acknowledged the interdependence of two oppositions, stability and change. This is reflected in the slogans mentioned above that '*without renovation,* [the country] *is dead*' (VnExpress 2015; translated by the author), *'Renovation is a vital issue*', or '*Renovation is prerequisite*' (Luong Ninh 2015; translated by the author). The establishment of market control (*change*) was perceived as saving the stability or existence of the country that would be under threat of '*Death*' without change.

Since 1986, the change has been made by developing the multisectorial ownership structure policy, establishing market institutions and a legal framework for market operation. Thanks to that policy, the number of private and foreign businesses has increased sharply representing the growth of free market force (Lan 2003). In contrast, the number of SOEs that represents the monopoly control force has steadily declined. Between 1989 and 2006, thousands of small, loss-making and inefficient SOEs were closed or merged, reducing their numbers from 12,000 to 2,600 (Vo Van Thanh 2006). This evidence proves that the direct intervention of the Government in the economy was reduced, giving way to a self-regulating market with the development of the multisectorial ownership structure policy that encourages the development of the private sector rather than the state sector only.

In addition, the market institution was first established for market operation (Nguyen Van Dang 2015). In terms of banking industry, the separation between the SBV and commercial banks marked the withdrawal of Government control for self-regulating free market in banking businesses. Prior to 1990, there was no separation between commercial and state banking in Vietnam (SBV 2014). The Government controlled both commercial and state banking activities under the SBV (SBV 2014).

In renovation, the Vietnamese banking system was now separated into two tiers as commonly found in a traditional market economy (Dang Duc Thanh 2015). The first tier is the SBV. It plays the role of the central bank that is responsible for conducting monetary policy, supervision and regulation of the banking system. The lending activities were transferred from the SBV to the second tier, including commercial banks, financial companies, credit co-operatives, people's credit funds and insurance companies (Le Minh Tam 2001). The Vietnam Agriculture Bank (Agribank), the Bank for Investment and Development (BIDV), the Foreign Trade Bank of Vietnam (Vietcombank), and the Industrial and Commercial Bank of Vietnam (Vietinbank) were the first four commercial banks detached from SBV in 1992 (Stiftung 2014). Along with the construction of the legal system for market operation, the Government also passed the Ordinance on the SBV State Council, 38-LCT/HĐNN8 (State Council 1990), which provided the first legal framework for the banking industry to operate in the market economy (Stiftung 2014).

The globalisation was initiated in phase 1 and became vigorous in phase 2. From the outset of the Doi Moi policy, it was asserted in Resolution 11 of the periodic government meeting in the 09 January 1999 session that *'Integration is an objective trend of the global development, being the unavoidable requirement for each country in the world today'* (Resolution No. 11/1999/NQ-CP; translated by the author).

The Government was aware that '*how to harmonize inside* [local] *with outside* [global]*' is a matter of delicateness and cleverness…*' (Duy Huu 2015; translated by the author) in responding to the separation–integration contradiction as the result of the internalisation policy. In spite of the challenges in globalisation, the Government asserted that without global integration, Vietnam could not exist because it was '*isolated and embargoed*' (Duy Huu 2015; translated by the author). Then, the Government framed global integration by setting the relationship with other countries as a means for the local renovation or '*our reform*':

> We adjusted our diplomatic global integration policy to reduce tension in the region, especially with the neighbouring countries, to create a peaceful space for the benefit of our reform. (Hoang 2017; translated by the author)

Under Decision No. 136/2001/QD-TTg dated 17 September 2001 by the Prime Minister, the programme implementation of globalisation was divided into two stages: 2001–2005 and 2006–2010. This decision required building the capital and monetary market institution in the first stage. The institution was required to be improved towards market in the next stage of 2006–2010, that is in phase 2.

Following the Doi Moi policy, the trade and technology barriers of the closed and voluntarily controlled economy were removed to help Vietnam use both internal and external resources effectively for its economy's development (Nguyen Duy Quy 2016). This facility has unleashed agriculture, leading Vietnam from a country that imports food to a country that exports rice and gradually becoming one of the leading countries in the world in exporting rice. In 1988, Vietnam continued to import 199.5 thousand tons of food. Suddenly, in 1989, the country exported 1.4 million tonnes of rice and constantly boosted exports in the coming years. Ten years later, in 1999, the country exported 4.5 million tonnes of rice, becoming the world's second largest rice exporter (VietBao 2006). Hence, Vietnam achieved around 8% annual GDP growth from 1990 to 1997. The rise and mobilisation of free market forces with the transition to a market economy and the strengthening global integration and reduction of government control force have successfully changed the overall economy of Vietnam, thus restoring confidence in the government control.

In short, the contradictions of stability–change and separation–integration emerged in phase 1 as a solution to the Government control–market control contradiction in which the Government control was threatened by the poverty and isolation from the world. The Renovation policy was implemented from 1986 as the first response to the dialectic of government control and market control. The significant economic development in phase 1 shows that the Communist Party was successful in framing the tension as a complementary contradiction. The free market opposition was utilised to consolidate the Government control apposition. Economic achievements help the Communist Party repeatedly assert that '*We have made great achievements, which have historical significance*' because of '*the right leadership of Communist Party*' (Nguyen Thanh Vinh 2015; Pham Ngoc Quang 2006; Thai 2016, translated by the author), restoring the people's trust in the Party and maintaining its leadership. The fact represents two contradictions of stability–change and separation–integration rooted in the contradiction of Government control–market control.

4.4.2.3.2 Phase 2: Openness and growth

Phase 2 was characterised by the separation–integration contradiction emerging when Vietnam opened its economy. Generally, it is the conflict between the high speed of international cooperation development versus the Vietnamese low qualification for implementing those agreements as well as the local need versus global demand.

High speed of international cooperation

Specifically, following the Doi Moi policy, the trade and technology barriers from the closed and voluntarily controlled economy were removed to help Vietnam use both internal and external resources effectively for its economy's development (Huynh Buu Son 2016; Nguyen Thanh Tuan 2016). The economic reform in Vietnam towards developing a market economy to integrate with the world is evident through the expansion of international relationships. As summarised in Table 4.1, this process has been marked by the lifting of the U.S. trade embargo (1994) and Vietnam's ASEAN membership (1995). As a member of ASEAN, Vietnam became a member of the ASEAN Free Trade Zone (AFTA), leading to sharp reductions in tariffs on imports from Southeast Asian states. Then, its APEC membership was registered in 1998. The signing of the Bilateral Trade Agreement (BTA) in 2000 between the United States and Vietnam was a significant milestone for Vietnam's economy that provided for Normal Trade Relations status of Vietnamese goods in the U.S. market as the treatment for the most favoured-nations (Donor Working Group 2012). The access to the U.S. market allowed Vietnam to hasten its transformation into a manufacturing-based, export-oriented economy. It also concomitantly attracted FDI to Vietnam, not only from the United States, but also from Europe, Asia and other regions (Stiftung 2014).

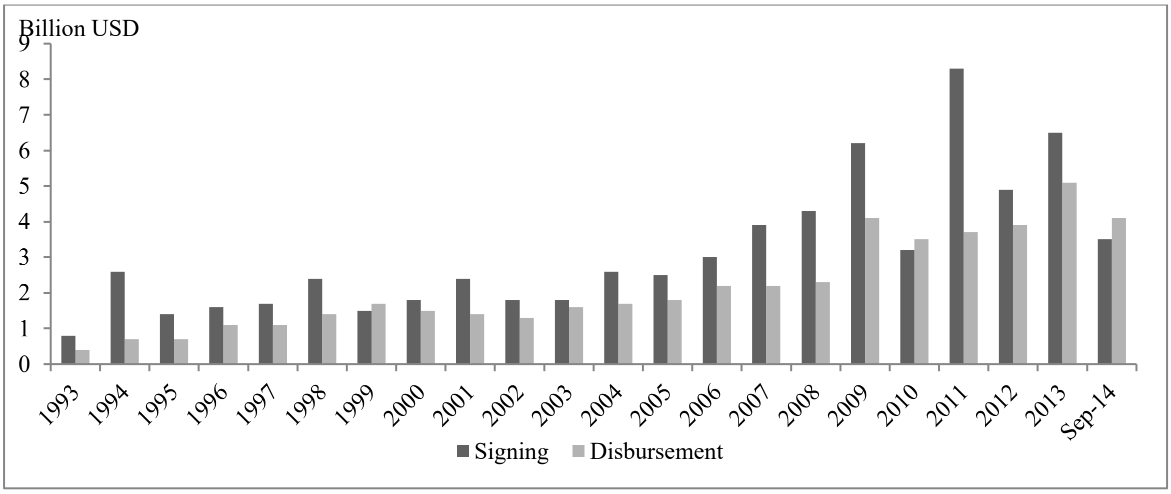
Table 4.1: Global integration process in Vietnam

Time	Events
1994	Lifting of the U.S. trade embargo
1995	ASEAN; AFTA
1998	APEC
2000	BTA—Bilateral Trade Agreement (United States)
2007	WTO
2008	FTA—Free Trade Agreement (Japan)
2010	ASEAN–Australia–New Zealand FTA, ASEAN–China FTA (ACFTA)

Source: The table summarises the events listed in the various sources of Donor Working Group (2012), Huynh (2016), Nguyen H. (2014), Nguyen T. (2016) and Stiftung (2014)

The access to the WTO in 2007 provided an important boost to Vietnam's economy and helped to ensure the continuation of liberalising reforms and creating options for trade expansion. In 2008, Vietnam signed a free trade agreement (FTA) with Japan (Stiftung 2014). In January 2010, both the ASEAN–Australia–New Zealand FTA and the ASEAN–China FTA (ACFTA), of which Vietnam is a member, came into effect (Stiftung 2014).

The global integration process by those events gave Vietnam favourable conditions to access the global trading market and attract foreign capital investments. In addition, Vietnam had a huge foreign capital inflow as the positive result of the international agreements. Vietnam has been Southeast Asia's leading recipient of Western and Japanese overseas development assistance (ODA) in absolute terms. Over the past two decades, the amount of ODA funding has increased almost annually (Figure 4.2). Especially, the access to the WTO event in 2007 strongly boosted the capital inflows into Vietnam from that time (Nguyen H. 2014). By 2011, there were 51 donors (28 bilateral and 23 multilateral) operating regularly in Vietnam, with the World Bank, Japan and the United States as the largest providers of ODA (Stiftung 2014).



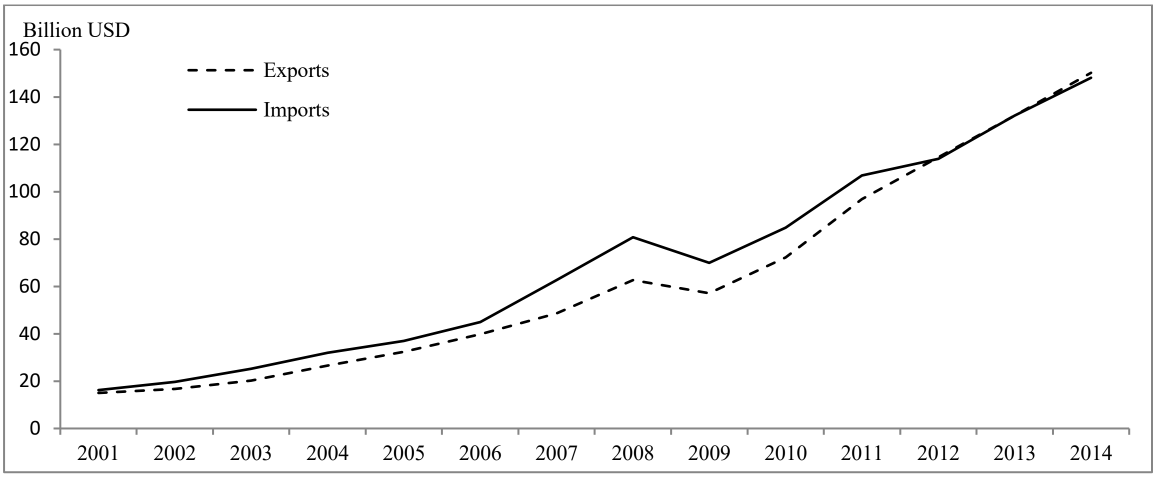
Source: Tapchicongthuong (2008), Minh Ngoc (2010), Nguyen Hoai (2012), VnExpress (2012) and Thuy Hien (2014)

Figure 4.2: Overseas development assistance signed and disbursed amount

The increasingly deeper global integration supported the thriving tendency of the market economy. The trade and technology barriers from the closed and voluntarily controlled economy were removed to help Vietnam use both internal and external resources effectively for its economy's development. As the result, Vietnam continuously increased its imports and exports volume (Figure 4.3). Especially, it doubled in 2008 after Vietnam joined the WTO in 2007, putting it into the top 50 countries with exports and imports as the 50th largest exporter and the 41st largest importer, respectively (Ha 2013).

The expansion of the world market and a strong increase in foreign capital flows facilitated all economic sectors, which were unleashed thanks to the Doi Moi policy, to develop strongly. The Vietnamese economy has not only come out of poverty, but has also continuously developed with a high GDP growth rate (Huynh Buu Son 2016). The size of GDP in 2006, after 20 years of Renovation, had increased 3.7 times compared with that of 1985 (International Monetary Fund 2009). Vietnam achieved around 8% annual GDP growth from 1990 to 1997 and continued at around

7% from 2000 to 2011, becoming one of the world's fastest growing economies (Donor Working Group 2012). There were many optimistic assessments that Vietnam was 'about to become a dragon or tiger' because Vietnam's economic growth rate was less than only that of China (State Audit Office of Vietnam 2016). Vietnam was considered a success story among the transitional economies (Huynh Buu Son 2016; Nguyen Minh Trang 2015; World Bank 2015).



Source: Vietnam Customs Statistics

Figure 4.3: Imports and exports in Vietnam

Those external commitments were also helpful in shaping domestic reforms towards international market practices rather than the Government voluntary control as before. The passing of the Foreign Direct Investment Law (1987) and the Enterprise Law (2000) was regarded as the first concrete step towards economic renovation (World Bank 2008, p. 6). The Vietnam Accounting Law was issued in 2003 to govern the principles, objects and definitions of accounting, conduct, organisational structure, profession and the state control of accounting (Luật kế toán [Accounting Law] No. 03/2003/QH11). The convergence with IAS started when the Ministry of Finance gradually issued, in five phases since 2001, 26 Vietnamese accounting standards (VAS) that are mainly built based on IAS (Vo Van Nhi & Le Hoang Phuc 2011); these standards must be followed by all enterprises, except family and small business, in preparing their financial statements.

Challenges to Government and bank regulators

Those changes create three major challenges for the Government and bank regulators. They are the difficulties in renovating the regulation system, of which banking and accounting regulation is a part, privatisation and resources allocation.

Regulation system

First, the Business Law and Foreign Investment Law have changed frequently every 4 to 5 years with many amendments of terms (Tran Dinh Thien & Luu Bich Ho 2015b). Such temporal vacillation reflected the indecisive attitude towards the contradiction of separation–integration. It led to the loss of much time in building a legal framework and made the investment climate continuously unstable (Tran Dinh Thien & Luu Bich Ho 2015b). The inconsistency caused by the temporal vacillation resulted in a weak institutional foundation that was not well prepared for global integration. This tension can explained for the claim that *'do not see State where it should be'* (Tran Dinh Thien & Luu Bich Ho 2015a; translated by the author) which means the state did not fulfil its responsibilities in defining a framework of law for market operation.

In addition, both of private and state sectors in Vietnam are not strong enough to compete with the FDI sector (FDI enterprises) and to learn from them (Tran Dinh Thien & Luu Bich Ho 2015b). It is evident that technology and business knowledge of FDI enterprises does not spread to the whole economy although the FDI enterprises have been in Vietnam for a long time and accounted for a large proportion of Vietnam's economy with high industrial production ratio (50% in 2014) and high exports ratio (70% in 2014) (Tran Dinh Thien & Luu Bich Ho 2015b). Therefore, Vietnam could not achieve its target of becoming a country with the 'basic industrialization towards modernisation' as set by the Sixth Congress of the Party in 1986 (Thoibaonganhang 2014). This fact shows Vietnam took limited advantage from global integration for developing the local economy. It can be seen that the Government could not frame integration opposition as a complement to respond to separation opposition.

In terms of accounting, it is the requirement to divert the accounting system from a 'socialist' model to a private capitalist accounting one. Whereas the current system mainly serves state management, the new system is required to serve the new players arriving in the accounting field, who are represented by several foreign institutions, such as the World Bank, IMF, WTO and Asian Development Bank. This transformation process generated difficulties in changing accounting principles and preparing a competent human resource as discussed in Chapter 2 (Section 2.4.2).

A unique feature of Vietnamese banking is the state's strong control of banking activities, especially as it pertains to state-controlled commercial banks. For example, rather than leaving decisions to the market or the bank's managers, the Government retains the ultimate power in setting the lending growth rate, NPL ratio, CAR and equity growth. For global integration, the SBV struggled with regulation on CAR and NPL ratio. Bank regulators recognised that a CAR ratio above 8% represents safety (as per Basel I and II mentioned in Chapter 2), which is critical to obtain the global integration objective. However, maintaining the CAR ratio above 8% would limit the lending growth for the economy development objective because the bank capital was currently very low.

To manage that conflict, the bank regulators decided to stop trying to regulate the ratio only, which might have negative effects on the target of lending growth and inflation owing to the current low capital level in banks, and instead decided to focus on managing the denominator and numerator separately to reach multiple objectives simultaneously.

In that way, the denominator of the ratio was managed towards inflation and lending growth that was usually maintained at a high level of 20% on average. Then, the numerator was managed to rise following the increase of denominator to meet the minimum requirement of CAR. This problem-solving approach explains the rationale for the equity growth requirement stipulated by the Government since 2006 when all joint-stock commercial banks (JSCBs) were required to have their legal equity capital at not less than 3,000 dong billion by 31 December 2010 (Nguyen Tan Dung 2006). In addition, the equity growth requirement is another response to the global integration need in which Vietnamese banks must have a higher equity capital level to compete in international trading (Vu Thanh Tu Anh et al. 2013).

It is seen from this fact that the bank management reframed the meaning of CAR regulation to manage the contradiction of separation–integration in which the local identity (low capital but high credit need) conflicted with the international requirement of CAR ratio and the need for equity growth for international competition.

That resolution created strong pressure on many start-up JSCBs with a small size and lack of business experience. Following the policy of multisector business economy development under Doi Moi, this period witnessed the strong growth of the number of commercial banks. There were 12 JSCBs formed during 2005–2008 by converting small rural banks as subjectively requested by the bank regulators to develop the free market for economic development in Vietnam (Vu Thanh Tu Anh et al. 2013). Since many banks were small rural banks with limited capital and rudimentary banking technology, these could not raise enough capital or were not eager to raise more capital because a larger size would exceed their management capacity. Hence, JSCBs did not meet the equity growth requirement deadline of 31 December 2010. Then, on 26 January 2011, the bank regulators delayed the implementation of capital requirement for one year and firmly required banks to increase their capital equity to 3,000 billion dong as at 31 December 2011.

In addition to the requirements of equity growth, the requirement of NPL ratio below 3% was also stipulated to improve the competitiveness of the Vietnamese banking industry for implementing the global integration policy of the Government. The NPL ratio below 3% is critical for the Vietnamese Government to maintain its international credit rating related to its large global borrowings (Vov.vn 2012; Zing.vn 2015). It explains why the bank regulators have required commercial banks to manage this ratio since 2005. This ratio has been more important for commercial banks to manage of late, since bank regulators use it as a criterion to limit activities of commercial banks.

The pressure from the requirement of equity growth and NPL ratio became fiercer in 2011. The Vietnam economy began to fall into a depression period when the stimulus package ended leading to the burst of the securities and real estate markets. Many banks faced the challenge that their NPL ratio went over 3% with the acceleration of NPLs and credit freeze during this time. In addition, it was a big challenge for commercial banks to cope with the requirement of equity growth from SBV within just one year of 2011. At that time, the depression began to spread and the securities market declined since 2008 making it difficult for banks to raise more capital from investors. The efforts to solve that problem can critically affect how bank loan loss is recognised in the commercial banks under severe pressure.

Equitisation

Second, the equitisation was conducted as a response to the global integration need. Particularly, Vietnam had to quickly implement the equitisation programme since it was perceived as the 'golden key' to be accepted as a member of the WTO (Sai Gon Giai Phong (SGGP) 2006; translated by the author). According to Pham Chi Lan, the former Vice President of Vietnam Chamber of Commerce and Industry:

> Although there are many challenges, Vietnam still has 'the golden opportunity' to participate in the WTO. The important thing is that we must expend great efforts to take advantage of the opportunity … We need to restructure businesses, including drastically reforming SOEs, rapidly implementing equitisation and reducing the percentage of shares in SOEs equitisation of state, and soon transfer all SOEs to operate under the Enterprise Law. This is a vital element for SOEs to improve themselves and improve competitiveness. (SGGP 2006; translated by the author)

According to Pham Chi Lan, equitisation helps Vietnam to meet the globalisation requirement of developing private business sectors. The equitisation of SOEs sector was expected to mobilise all resources (e.g., capital and human) for the economy's growth because it offered the chance for other business sectors rather than state only to participate in the current SOEs (Hanoingannam 2014). Equitisation was also believed to create business incentives for the state-owned sector's management (Hanoingannam 2014) to improve its current low efficiency that threatened the national financial safety and Government control (VnEconomy 2014).

However, through equitisation, the Government control would be reduced to make room for market control with the growth of other sectors (e.g., private or foreign sectors) taking part in business. The fear of losing the Government control because of '*privatization*' in SOEs limited the depth of equitisation, which is a response to enhance market forces.

Specifically, the equitisation process was very slow. The reason is that the Communist Party still wanted to maintain its control over the equitised enterprises to continue engaging in the economy's operations via the leading role of the SOE sector (United Nations Development Programme 2006). That wish was reinforced in the resolution of the Ninth Party Congress, session 3, dated 24 September 2001:

> State-owned enterprises play a dominant role in the economy... and being the core force of state economic sector to ensure its leading role in the market economy under socialism orientation. (United Nations Development Programme 2006; translated by the author)

The leading role of the state economic sector policy was also repeated in the resolution of the Ten Party Congress:

> The state economic sector plays a key role, being an important material force for the state to orient and adjust the economy, setting the environment and conditions for developing all economic sectors. (Vien Nghien Cuu Phat Trien [HIDS] 2016; translated by the author)

With that desire, the Government responded to both oppositions of Government and market control by interpreting the concept of equitisation as '*equitisation but not privatization*' (Hanoingannam 2014; translated by the author). That slogan revealed the permanent fear of the rise of private sector that could overwhelm the control of the Government (Tran Vinh Du 2015). To prevent that risk, the state applied a specific equitisation strategy that was affirmed by the Deputy Head of Central Innovation and Enterprise Development Committee, Ho Xuan Hung:

> I can confirm that under the Vietnamese approach, equitisation of state-owned enterprises is absolutely not privatisation. Since the state now holds over 50% stake after the equitisation, these are still state-owned enterprises under the Enterprise Law. So, do not worry about whether it is private or state. (Vo Van Thanh 2006; translated by the author)

The contradiction under the policy of *'equitisation but not privatization'* was raised by the Deputy Director of Business Innovation in Government Office, Nguyen Trong Dung:

> The Party and State have advocated the development of a multisector economy, including private sector development. Thus, we are encouraging the development

> of the private economy and why do we have to worry about privatisation (Vo Van Thanh 2007; translated by the author)

The fear of *'privatization'* can be observed more clearly in examining the equitisation in Vietcombank, Vietinbank and BIDV, which are three of big four state-owned commercial banks[5]. Those three banks are running the ongoing transformation of the banking ownership structure by equitisation aiming to introduce a strong commercial orientation to the state-owned commercial banks (SOCBs) (VnEconomy 2012). The equitisation of SOCBs was significant for Vietnam to integrate with the world as asserted by Ho Xuan Hung, the Deputy Head of Central Innovation and Enterprise Development Committee. He claimed:

> The banking sector must be one of the earliest to open next year. Equitisation plans for all state commercial banks were outlined, beginning with Vietcombank and finally the Agribank. (Vo Van Thanh 2006; translated by the author)

Conversely, the Government hesitated to equitise SOCBs since it was considered a *'sensitive area'* (Vo Van Thanh 2006) with their significant role in implementing Government policy. It created a conflict between international pressure and local needs within the equitisation of SOCBs. The Government has to respond to the global requirement for integration while it would like to maintain the national, separate need of direct control on commercial banks' operation.

In consideration of that concern, Vietcombank, with the most progress in equitisation, was almost entirely owned by the Government with 92.5% of ownership in late 2007 (Rosengard & Huynh 2012). This state-owned percentage dropped until the end of 2011 but remained highly significant at 77% (Rosengard & Huynh 2012).

Vietinbank was the second SOCB for equitisation. Its equitisation had not been conducted until 2009. Similar to Vietcombank, the ownership structure of Vietinbank still was state-owned at 89.23% at the end of 2009 (Thuy Linh 2009). This rate was lowered to 80.31% in 2012 (Nguyen Son 2012) and has been still significant at 64.46% since 2013 (Vietibank 2017).

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[5] They are Vietcombank, Vietinbank, BIDV and Agribank.

As the result of the *'equitisation but not privatization'* policy, the process of equitisation in Vietnam is largely a closed process. The state still has a majority stake, holding at least 51% (Hanoingannam 2014). There was no significant change in the ownership structure. In this way, the equitisation had been made by halves. Under that ownership structure, the state has been the major shareholder of SOEs in substance so far.

It represents a neutralisation response in which both oppositions were diluted to compromise their contradiction. In particular, whereas the Government still maintained its control as a major shareholder, its control switched from business management into investment management that gave SOEs more independence in market competition. The development of market was improved to a limited extent, with other business sectors participating in SOEs via purchasing small portions of their stocks. As the result of that partial response, the capital and human resources raised from the other business sectors were limited since the Government still holds a significant amount of shares (Hanoingannam 2014).

Similarly, being a part of SOEs, the shareholder structure of SOCBs shows that SBV, representing the Government, still controls those banks. Therefore, SBV is both the governing body of the banking sector and the representative of the state capital at SOCBs as well. This organisation structure facilitates the use of SOCBs as a tool for bank regulators in SBV with multiple objectives. It is evident that the SBV Governor, Nguyen Van Binh, asserted, *'Vietcombank is a tool of the state to implement and enforce monetary policy besides its mission of running a good business'* (Vietcombank 2015; translated by the author).

As the majority owner of SOCBs, SBV appointed the key officers, such as the chair, CEO and the board members. Most of leaders of SOCBs remain 'Government officials', and SOCBs are closely managed by the Government, and especially by the Communist Party. For example, in Vietcombank, both its board chairperson and CEO are Communist Party members and Government officials, and hence, these executives can be rotated fully to work at SBV, which is the governing body of the banking sector. For example, Mr Thanh, a former CEO of Vietcombank, has been currently appointed the Deputy Bank Governor in SBV. With this organisation model of personnel, the ownership is concentrated in the hand of Government with no clear separation of ownership and control in the organisation.

The state control over SOCBs has not only remained but was also partly extended to JSCBs via cross-shareholding (Dang Duc Thanh 2015, Vu Thanh Tu Anh et al. 2013). According to The Banking Review (2013), cross-shareholding between SOCBs and JSCBs was the Government policy:

> Since the years before the establishment of joint-stock commercial banks, the Government has planted its agents in each bank and large state-owned commercial banks have been instructed to contribute capital to joint-stock commercial banks to become state shareholders in those joint-stock banks. The presence of the state-owned commercial banks is for limiting the activities beyond the legal framework if there are weaknesses originating from the new joint-stock banks that were established. (Banking Review 2013; translated by the author)

Under that pyramid ownership structure, the state also indirectly owns JSCBs through the SOCBs. When the ownership of SOCBs in JSCBs is significant, the problem of state direct control arises in JSCBs as in SOCBs. The JSCBs are also influenced to participate in the funding of projects designated by the Government (Vu Thanh Tu Anh et al. 2013). In such a way, the banking system is intertwined directly or indirectly with the majority of commercial banks in Vietnam being 'relatives' of SBV, the Government and the SOEs (Vu Thanh Tu Anh et al. 2013).

According to Vu Thanh Tu Anh et al. (2013), that cross-shareholding makes those entities consider being in the same interest group. With that thought, banks lack the responsibility to carefully appraise and monitor lending to SOEs. In addition, SOEs have less prudence in borrowing and tend to rely on the Government policy of interest freeze, credit extension or NPL write-off. In addition, bank managers are often forced to give credit priority, with preferential or permissive terms, to businesses or projects under the control of the final owner, which is the Government whereas it is also the regulator of the economy. Therefore, regulations on financial security for bank operations are often overlooked or not fully complied with.

Resource allocation

Third, the Government's intervention in capital allocation and the related invalidation of regulation is more severe when the Government focuses on how to strengthen the local economic entities so that they, especially the state business sector, can compete with foreign investors and the state business sector still maintains its leading role for maintaining the Government control in Vietnam.

As discussed in the previous chapter, the Government supported the leading role of SOEs by giving SOEs privileges in the resource allocation of capital, real estate and training (Huong Duong 2014; Tran Van Tho 2013). It has resulted in the formation of simple, large, capital-intensive state corporations rather than corporations with high technology and modern management. Specifically, keen to emulate the experience of Japan's *keiretsus* and the Republic of Korea's *chaebols*, in 2005, the Government accelerated the process of creating State Economic Groups (SEGs) or General Corporations by consolidating SOEs with similar business interests.

Vinashin is a typical example. It is a large state-owned shipping corporation founded in 2006 following the response mentioned by Nguyen Tran Bat, a financial specialist and CEO of Invest Consult Company:

> There are slightly different motives in this story. There are those who want to establish the leading role for the state economy, but also those who want our economy to be developed quickly in size; there are those who want us to have economic representatives for international talks. Because ultimately a prime minister or a president cannot negotiate a specific economic problem, cannot be the representative of the economy. The corporations are considered the representatives of the economy. (Viet Lam & Khanh Linh 2010; translated by the author)

According to the statement, such SEGs were expected to serve both objectives of enhancing Government control over the economy and the national competition in global integration process. By doing so, the Government defined its control by the leading role of the state economy sector. The key role of the state economy is described by the Congress (2006) of the Communist Party of Vietnam that

> The dominant role of the state economy is not reflected in the number of enterprises more or less, in the proportion of high or low contribution to GDP that in place, but it is an important material force for the state to navigate and regulate

> the economy, providing the environment and conditions for promoting the development of all business sectors. (Nguyen Quang 2010; translated by the author)

According to the definition above, the leading role of the state economy was not reflected in *'the number of enterprises'* or in *'the proportion of contribution to GDP'* anymore because it needs to share the market for the development of other business sectors for developing the market economy and for globalisation. The leading role of the state economy is redefined as the *'important material force'* for *'the State to navigate and regulate the economy'*. This redefinition has two implications in terms of regulation. The state economy sector is designed to be used as a complement for regulations on controlling the economy. Conversely, the support from the Government for the development of this sector is important because the sector is considered an *'important material force'* for the Government to maintain its control. This role is emphasised in Luu's (2014) argument that the Communist Party must take control of both the economic and military force as follows:

> Common theory of political science had shown: for a caste, a social force or an individual, to be able to win, hold and exercise its power, it must have the power of violence, physical or intellectual; in other words, it must have 'gun' and 'money' or knowledge and culture. In spite of knowledge and culture playing an increasingly important role, violence and physical and financial power are still indispensable in today's conditions. (Luu 2014; translated by the author)

This substantive role of the state economy sector was also legitimated by the socialism objective. Particularly, the Communist Party argued that the state business sector should play a leading role in the market economy because it is a precursor to public ownership, which is the goal of socialism orientation (Vu Van Phuc 2014b, 2015).

With that redefinition of the leading role of the state business sector for responding to the Government control pole, the Government stepped up favour lending to SEGs and SOEs through the pyramid cross-shareholding banking system as mentioned above and also via the separate state lending channel that is the Vietnam Development Bank (VDB). VDB is established under Decision No. 108/2006/QD-TTg dated 19 May 2006 by the Prime Minister. According to this decision, VDB is a wholly state-owned bank that has mobilisation functions, receiving capital from domestic and foreign institutions (e.g., ODA) to execute the state development investment and export credit policies as regulated by the Government and guarantees for business loans in commercial sector.

According to Dang (2015), as the result of that preferential credit policy:

> The majority of SOEs are lent mainly without securities, even under ‘orders’ or ‘indications’ [from the Government agencies, politicians, regulators, etc.] with huge amounts and being processed very fast, not as tightly as when banks lend to small and medium businesses. Examples are huge government-mandated loans, such as for Vinashin, Vinaline, Electricity Corporation, Coal Group and Petroleum Group. (Dang 2015, p. 24, translated by the author)

The easy lending policy gives SOEs the chance to borrow large amounts from banks, which is more than 40% of total banking sector loans (Dang 2015). That capital support undermined the market principles that encourage fair competition among business sectors based on real economic efficiency rather than such biased capital allocation. Consequently, huge loans could not be recovered because those SOEs lost their payment capability or deliberately delayed, waiting for the Government’s rescue (Dang 2015). The causal relationships of this phenomenon are examined further through the analysis of loan loss recognition in the next chapter.

From a dialectical view, two contradictions of separation–integration and Government control–market control were found in this phase. By framing the socialism orientation as the public ownership and the leading role of the state economy, the Government supported the state economy sector with many privileges while underplaying the role of the private economy regardless of the low efficiency of the former sector. Because of the unequal competition with SOEs in accessing economic resources, the private enterprise sector lacks the conditions for healthy development (Tran Dinh Thien & Luu Bich Ho 2015a; Tran Van Tho 2015) while that sector is commonly the most dynamic area in a traditional market economy (Tran Van Tho 2015).

By doing so, the Government ignored its responsibility to respond to the market control in which the market should play the role of resource allocation rather than the

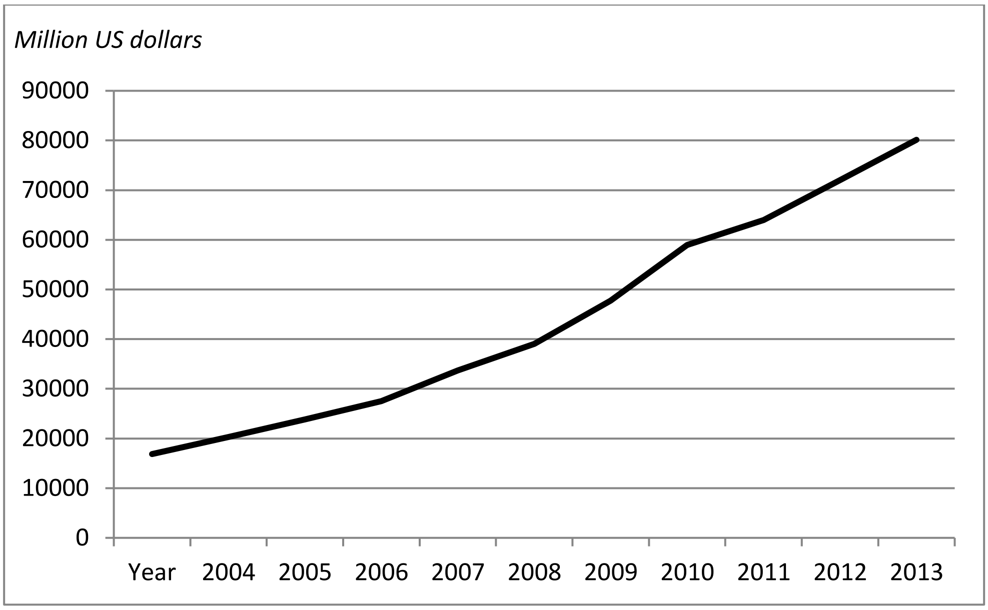
Government. This is problematic given that resource allocation under Government direction is not as efficient as under market control. The topic vacillation also causes haphazard government policy of which it is usually said, 'do not see market where it should be' and 'do not see state where it should be' (Tran Dinh Thien & Luu Bich Ho 2015a; translated by the author). In Vietnam, the first statement means 'do not see the market role in resources allocation'. The second statement means 'do not see the state role in setting and enforcing institutions for the market', which is represented by examining the temporal vacillation response as discussed above. By playing the market role, the Government was believed to confuse the market (Tran Dinh Thien & Luu Bich Ho 2015a). Tran Dinh Thien and Luu Bich Ho (2015a) commented about the state's actions as follows:

> The problem is that the state has not traditionally performed its correct role. Investment is not the state's job, but it still rushes forward into investing. Developing a competitive market but jumping into setting price. Consequently, the more the state does, the more confusion it causes. (Tran Dinh Thien & Luu Bich Ho 2015a; translated by the author)

4.4.2.3.3 Phase 3: Depression

As the result of inefficient resource allocation in the previous phase and the 2008 global financial crisis, from 2012, the Vietnamese banking industry's growth declined with the acceleration of NPLs resulting in economic depression. The Deposit Insurance of Vietnam has never been used for the resolution of NPLs or for troubled banks because it has a weak financial position. According to the World Bank (2014), its financial position is inadequate to assist even in the liquidation of two medium-sized institutions.

In addition, the Government could not bail out the troubled banks because Vietnam's total public debt increased significantly over the past 10 years (Figure 4.4). In 2014, it was over 80 billion USD, accounting for 48% of GDP. However, it would reach approximately 98.2% of GDP, far exceeding the safety threshold of 65% of GDP that was recommended by World Bank for the Euro area (Tapchitaichinh 2014) if SOEs' debts were counted.



Source: Data are collected from Zing.vn (2014)

Figure 4.4: Vietnam's public debt in 10 years

Although the Government does not guarantee a part of SOEs' debts, it cannot avoid that liability in case some large SOEs fall into loss and cannot pay their debts because the Government cannot allow them to become bankrupt given their strategic importance for the Government. Therefore, the impact of poor performance by these large SOEs is better seen as a contingent liability for the Government budget, rather than a direct risk for the banking system. The problem was considered severe when the SOE sector accounted for 70% of NPLs as at 30 September 2012 (Dang Duc Thanh 2015; The Saigon Times 2012; Vu Thanh Tu Anh et al. 2013); thus, the majority of bank losses in case of bankruptcy would be charged to the state budget rather than any other group.

However, the Government could not allow bank bankruptcy since it feared instability for society and politics that might lead to the loss of its control. According to Nguyen Phuoc Thanh, SBV Deputy Governor, SBV tried not to let banks be declared bankrupt because if many depositors were to lose money owing to bank bankruptcy, it would have large effect on politics and society (Thuy Lien 2015, transalted by the author). He stressed:

> We would rather lose money for state bailout to have stability in the society. It would be better than the case that people lose money leading to loss of confidence, stability and other problems that cost more.

The Politburo and the Government also agreed with this policy that did not apply the provisions of the Bankruptcy Act to bankrupt banks in the current period to ensure the stability of macroeconomic, political security and social order and safety (Nhandanonline 2015). Following this policy, the SOCBs, such as BIDV and Vietcombank, were directed by the SBV to support the liquidity for the banking system in restructuring (Dang Duc Thanh 2015; VnEconomy 2011; Vu Thanh Tu Anh et al. 2013). Mr Tran Bac Ha, the Chairman of BIDV, representing for the Government's share in BIDV, asserted that '*In any case, the rights of legitimate depositors will be ensured. Under the political regime of Vietnam, there would be no story that depositors lose money!*' (VnEconomy 2011; translated by the author). Bac Ha desired to communicate the ideological view in which the Government's guarantee was a preeminent of the market socialism regime.

The dilemma is that the depositors could not lose money if banks went bankrupt while there was no source for compensating the depositors. Hence, the dilemma comprises all four conflicts of Government control–market control, stability–change, separation–integration and information–disinformation. The Government had to maintain stability to ensure its control. The revealing of NPLs to the public would cause bankruptcy without other sources for paying depositors, leading to instability. Concealing NPLs would negate the attempt at global integration and prevent market discipline. In addition, the Government's assurance of deposits would neutralise the market penalty for the depositors. The data analysis in Chapter 5 examines how the stability concern and ideological view of the Government spilled over to the debate and oriented loan loss recognition in this period.

4.5 Data Collection

According to Deetz (1982), interpretive studies in organisational communication not only searched for 'what organizational members think is real or how they think and feel' but 'the understanding of the system of meanings from which this situation is composed and connected to the larger sociocultural context' (p. 135, 138). Regarding the regulation on loan loss, the collected communication data in this research included not merely regulation documents but their related discussions and actions to obtain 'more talk and actions' (Deetz 1982, p. 138) for understanding how the perception was manifested in communication and social interaction.

Since the regulations, regulation promulgation process and the general practices of loan loss recognition are publicly available, the study was able to make use of published records as the basis for its data collection. Detailed data related to the practice of loan loss recognition are not published officially, other than bank external reports, but can be obtained abundantly through the speeches and debates on public media about loan loss recognition, which is a current 'hot topic'.

Since the research focuses on the ongoing interplay between the Government/regulators with its environment, the collected data include not only the data related to loan loss recognition but also the background data in which the loan loss communication data occurred. They are the data related to the substantial conflict between government and market control in the economic and political environment that was expected to have critical influence on regulation on loan loss recognition.

Most data were sourced from the internet and included archived documents and speeches (including videos, and newspaper and rating agency reports) from various users of accounting information, such as investors, bankers, politicians, professionals, auditors, rating agencies and related organisations. The selected websites are official websites that represent these agencies. Since this research examined and criticised the Government policy relating to accounting change, the websites that are often considered hostile and reactionary are not chosen to avoid the bias against the Government. Negative criticisms of the Government are collected from Government official websites, formal press releases, key people and specialists acknowledged by the Vietnamese Government.

The remaining data were sourced from hardcopies of newspapers, books, industry journals and regulations. All of those sources are within the public domain; no data used in this study were obtained from banks, except bank external reports, or from any interview with bank officers.

Considering the aforementioned data setting, online searches were performed for the data using several key words not only about NPLs (e.g., 'bad debts', 'non-performing loans', 'debts classification', 'loan loss provision' and 'VAMC') but also about related social interests (e.g., 'Nguyen Van Binh Governor', 'bank supervision', ‘bankruptcy’, ‘bank merger’, ‘SOEs sector’, ‘implementation of Basel Accords’, ‘credit freeze’, ‘cross shareholding’, ‘capital adequacy ratio’, ‘public debts’, ‘global integration’, ‘rescue real estate market’, ‘bank training’ and ‘credit rating’). Moreover, searches were performed using the key words of ideologies and power structure (e.g., ‘socialism orientation’, ‘market economy’ and ‘renovation’).

In Vietnam, the term ‘bad debt’ is commonly used interchangeably with NPLs. In fact, bad debts are only debts that are not expected to be collected, whereas NPL includes bad debts and other debts that might turn into bad debts. In Vietnam, NPLs are classified into five groups as mentioned in Section 1.1 of which bad debts are group 5 ‘potentially irrecoverable debt’. Considering the unique characteristic of communication in Vietnam, the term ‘bad debts’ in the collected communication data was often translated into NPLs during the translation process when the author believed the speakers referred to NPLs rather than bad debts in their statements.

The research design utilised the interpretive paradigm and focused on qualitative data. The data collection included three groups. First, background data were collected from sources such as the World Bank, Bank for International Settlements, IFRS, international credit rating agencies, Ministry of Finance and SBV as well as speeches and press releases. Second, the data on Vietnamese regulation in loan loss recognition were collected from the Vietnamese Ministry of Finance, Vietnamese banking regulations, Vietnam Department of Accounting and Auditing Regulations, SBV, Vietnam Banks’ Association and Vietnam Association of Accountants and Auditors. Third, external reports from commercial banks in Vietnam were collected.

All of these data were created in the communication between the Government/regulators and other related parties in its environment, such as bank management, foreign institutions, investors, depositors and specialists. Therefore, they are called communication data in general.

4.6 Content Analysis

A content analysis of multiple documentary sources in accounting and banking regulation is used in this study to identify the change process and its underlying conflicts in regulating loan loss recognition in Vietnam. This accepted method enables the researcher to include large amounts of textual information (Silverman

2011, p. 64) and systematically identify its properties. This section discusses how the method of content analysis was applied in this study and how to eliminate the textual bias that may occur using that method of data analysis.

4.6.1 Method of content analysis

The purpose of the present interpretive study is to uncover insights on communication of loan loss recognition. From a dialectical view, as guided by Deetz (1982), the formation of the searching knowledge is also a dialectical process of the tension between the whole and the part, in which 'the part has meaning only in terms of the whole, and the meaning of the whole is understood only from the meaning of the parts' (p. 145). Considering this feature, the analysis is organised into three stages. The first is understanding the context [the whole] for examining the part [loan loss recognition and communication] in the next step. The second step is to understand loan loss recognition and communication [the part] within the context [the whole]. In turn, the acquired knowledge aids in clarify the context [the whole] meaning. Finally, the knowledge acquired in the previous two steps are summarised and synthesised to search for the emerged patterns of change. These three stages are conducted in Chapter 4 (Section 4.4), Section 5 and Section 6, respectively.

Specifically, Section 4.4 analyses the data related to the cultural, political and economic context that have multiple interconnections with loan loss recognition. From the dialectical view, the change in loan loss recognition is believed to be a part of a larger, concrete whole of the Vietnamese harmonisation culture in responding to contradiction, the leading role of the Communist Party and the quasi-market environment. The communication data and the related events, related to those issues, are connected to set the context for understanding the change of loan loss recognition in Chapter 5.

Chapter 5 assesses the data directly related to loan loss recognition. Those data are analysed in connection with the findings from the context analysis in Section 4.4. Specifically, the context analysis found three distinct stages in the Vietnamese economy development: (1) closeness and poverty (2) open and growth and (3) depression. That change pattern can be an indicator of the spiral of change from a dialectical view. Therefore, the data of loan loss recognition is also grouped into three phases following the economic change pattern that emerged in the context analysis to understand the corresponding intertwinement between the whole, context, and the part, loan loss recognition.

In both Section 4.4 and Chapter 5, the data are analysed through three steps. First, the data are arranged in topic and time order. Second, the data are combined to make a coherent story that is logical, appropriate, comprehensive and consistent with 'the values, beliefs, and types of actions possible in the organization' for revealing the very meaning of data in their specific context (Deetz 1982, p. 144). The understanding of one part (e.g., a change in a regulation on loan loss recognition) or one phase is utilised for clarifying the meanings of other parts (e.g., the next change of regulation or the following phase).

In particular, Section 4.4 is the story about the Vietnamese cultural, political and economic environment and its changes. Chapter 5 tells the story of changes in loan loss recognition in Vietnam. The two stories are reproduced in coherence with the values, belief and types of actions derived from the current literature such as the types of contradictions, the types of responses to contradictions or the characteristics of the Vietnamese cultural, political and economic environment. The understanding of phases 1 and 2 explain the confusion of loan loss recognition in phase 3.

Third, the contradictions underlying the various conflicts in the stories as well as how the contradictions are responded to are searched. This step is conducted based on the conceptual framework built on the dialectical theory in Chapter 3. This step gives a richer and deeper understanding of the changes in loan loss recognition. It also reveals the misunderstandings of loan loss and the forces of contradictions that sustain them.

The data analysed in Appendix 2 were rearranged following the loan loss recognition story sequence for convenience in keeping track of both Appendix 2 and Chapter 5 at the same time. The arranged data were skimmed to determine the primary conflict issue rather than focusing on multiple conflict issues embedded within each document. Then, they were highlighted and coded into four types of contradictions, namely, stability–change, separation–integration, information–disinformation and Government control–market control, with six response styles of selection, vacillation, source splitting, creative or complementary, layering and balancing, and withdrawal. They are the contradictions and response styles as proposed in the literature review (Section 2.4) and the conceptual framework (Section 3.3–Table 3.1). Those four dialectical contradictions were used as themes to code the entire collected data manually.

In Chapter 6, the dialectical view was applied to identify the emerged patterns of contradictions and responses from the data analysis in Appendix 2 and Chapter 5, comparing with the theoretical framework developed in Chapter 3. The emerged responses were compared with the responses styles in interpersonal communication to search for similarities. The emerged contradictions and responses were summarised in Table 6.1 to view the whole picture of loan loss communication over three phases from a dialectical view.

In addition, the relationship among contradictions was examined to understand the depth of the contentious issue in loan loss communication. Their relationship was reflected in Figure 6.1 and Figure 6.2. Figure 6.1 shows the relationship in a static state, whereas Figure 6.2 displays the relationship in a change process over three phases.

Finally, because it was found that Government control determines market control and vice versa, the transformation process of loan loss communication was analysed as the result of the dialectical interplaying between the two oppositions of Government and market controls. It is described in Figure 6.3 as a line graph in three dimensions, resulting from the ways of response to the Government control–market control contradiction to explain why loan loss communication is a contentious issue in Vietnam.

4.6.2 Textual bias

Loan loss recognition is a sensitive issue because of its close relationship with the country's economic and political situation. Being aware of that, the study prefers to use the primary data, which are considered to consist of all the official documents issued by the Government agencies and bank financial reports, because these are created at about the same time as the event. Because of their special creation time, the primary data are free of the opinions and fictions imposed by later generations.

Although priority is given to the use of official information (data, policy and law), it is necessary to carefully consider other published sources of information in the mass media for understanding from different perspectives the conflicts and contradictions in the communication related to loan loss recognition. They are the secondary resources that include reviews and commentary on publications from the Government, banks, accounting, other regulatory bodies and the wider media. These secondary sources have a major advantage in that the authors were not involved in the event. This allows the authors to analyse the events dispassionately.

Both primary and secondary data have disadvantages. The primary data reflect the authors' prejudices (e.g., containing propaganda designed to pacify the conquered country) or their author might be unaware of relevant facts (e.g., omitting politically inconvenient facts). The disadvantage of using secondary data is that the authors write about what other people said occurred, when they do not have their own experiences to help them understand such events clearly. Thus, the authors might unconsciously emphasise one thing while overlooking the others through their own cultural lens.

To overcome that bias, the communication data were analysed concurrently with the analysis of background data to create a coherent story for understanding the right meaning of communication data in their original context. The knowledge of the context is essential for appropriate content analysis since language is not neutral (Krippendorff 2013). In addition, multiple reviews and commentaries related to one publication were examined at the same time to examine the event from different views to obtain a rich picture of the event. For this purpose, the thesis made extensive use of quotations.

Further, understanding an event from different views as described above is also the property of the dialectical method that 'tries to approach the elusive absolute truth through the process of examining and denying the series of relative truth' (Nonaka & Toyama 2003, p. 9). Nonaka and Toyama (2003) even emphasised the understanding of the different perceptions as a target of dialectical view, saying that 'it is this process that is important, rather than whether one can reach the absolute truth or not' (p. 9).

The dialectical approach applied in this research limited the researcher's subjective meanings by focusing on the view of the big picture, and in this respect, the researcher maintains a reflexive stance to interpret the text meaning. Further, data collected from the multiples sources of primary and secondary resources were verified to ensure data validity or to obtain clarification on any unclear issues. In addition, the contradictions and response patterns found in background analysis are not only the basis of guidelines for analysing the communication on regulating loan loss recognition but confirm the contradiction patterns and responses of bank regulators.

In the first phase of Doi Moi, there were few public arguments on behalf of bank regulators for the fear of capturing the wrong direction of the Communist Party. Most of the debates quoted from this phase are individual speeches (Section 4.4.2.1 and Section 5.2). However, their opinions can represent bank regulators' conflicts because many of these quotes are from the banking journals belonging to the SBV, which is a government agency. The authors of those quotes can be bank regulators or others who have a close relationship to bank regulators, such as researchers, consultants and university lecturers. Because of that close relationship and their academic background, their opinions are believed to have significant impact on bank regulators in decision-making. In that way, the conflicts in the quoted debate are believed to represent the conflict faced by bank regulators.

The auditor's perspective is beyond the scope of this research because of the lack of sufficient public data in this area. Nevertheless, some related data were also found and analysed (e.g., in paragraph 2 and 3 of page 126). How internal credit risk assessment is performed in banks for loan loss recognition is beyond the scope of this research because data related to this topic are not sufficient. The lack of these two areas is believed to not significantly affect the research findings because auditors in Vietnam do not have a strong voice in the accounting regulation setting process (Phan DHT 2014). In addition, only two commercial banks have been applying internal credit risk assessment; the others adopt the standard method stipulated by the Government.

Finally, although most of the data are in Vietnamese and are translated by the author, most of them can be accessed online for evaluating and limiting the translator's bias.

The easy access to data online also helps to verify their validity. In addition, the Vietnamese quotes used in the data analysis are presented in Appendix 4 for accessing the accuracy of author's translation.

4.7 Chapter Conclusion

This chapter provided the rationale for the research process and design of this study. The research decision to use an interpretive paradigm is justified since it provides the right framework and approach for understanding the contentious issue in loan loss communication in terms of regulation. The data were collected based on the period from the launch of the Doi Moi policy in 1986. This study acts as a continuation of Chu's (2004) research on accounting changes in Vietnam as a transition economy from 1945. Most of data were sourced from the internet, including newspapers, reports, speeches and videos. A content analysis of multiple documentary sources in accounting and banking regulation is used to understand the regulation on loan loss recognition in Vietnam from a dialectical view. Data collected from multiple sources were verified and textually analysed to ensure data validity or to obtain clarification on any issues that were unclear. In the following chapter, the thesis provides and discusses the background data analysis.

Chapter 5: Data Analysis

5.1 Introduction

This chapter analysed and linked the communication data on regulating loan loss recognition to create a story related to how loan loss recognition was regulated in the specific context of Vietnam. The analysis in this chapter was conducted concurrently with the data analysis presented in Appendix 2 to identify the contradictions in the communication related to regulating loan loss recognition and the related responses. The data were analysed following three phases of the dialectical spiral as proposed in the conceptual framework in Chapter 3. Each phase was presented in Section 5.2, 5.3 and 5.4 respectively. Section 5.5 concludes.

5.2 Phase 1: 1986–2004

Before actually moving to a market economy as described in Section 4.4.2, the accounting systems of credit institutions in Vietnam were designed to serve the Government control with multiple objectives of macro and micro management. The public or investors were not mentioned as accounting information users as in a market economy because all credit institutions were owned by the state even when they had been separated into two tiers to form a market economy structure, as mentioned in Section 4.4.2. Under this new formation, the state still fully owned and controlled the credit institutions. Under this model, the Government managed commercial banks both at the macro level (economic policy management) and at the micro level as business operators (Phan Le 1998). Therefore, the Government preferred to design an accounting system to serve multiple objectives. They were implementing monetary policy, tax collection and national and operation management (Phan Le 1998). For that purpose, Phan Le (1998) suggested that

> Accounting must meet the requirements of economic management at both macro and micro levels. That is, it must meet the requirements of state management and administration of a business, even in a department of a business. Accounting implements economic management in terms of not only monetary values but also nonmonetary ones, including quantity and quality. (p. 18; translated by the author)

This characteristic was reflected in Article 47 of the Law on the SBV of Vietnam that *'SBV runs accounting operations under the chart of accounts and the documentary-based system in accordance with legal regulations on accounting and statistics'* (Luật Ngân hàng Nhà nước Việt Nam [Law on the SBV] No. 06/1997/QH10 1997b; translated by the author) and Article 86 of the Law on Credit Institutions that *'Credit institutions shall perform accounting based on the system of accounts and financial documents in accordance with the laws on accounting and statistics'* (Luật các tổ chức tín dụng [Law on Credit Institutions] 1997a; translated by the author). Both of the laws stipulated that the accounting system was designed for accounting and statistics objectives. For serving simultaneously many different objectives, the Government represented by the Ministry of Finance holds the function of issuance of the accounting system for enterprises, including credit institutions (Phan Le 1998). Commenting on the accounting system of the banking industry, Ha Cuc (1998) said:

> We easily see that the accounting system for financial institutions is designed very specifically for both financial and management accounting purposes … both serving the state management of monetary policy and maintaining consistency with the sector's business activities (p. 16; translated by the author)

In terms of loan loss recognition, the accounting transformation process from serving government control into market control is discussed in the following paragraphs. The analysis is conducted through the regulation change and the discussions and debates on those changes.

5.2.1 Decision 106 (1992)

Loan loss provision had not been made until 1990 when the Law on the SBV (State Council 1990) was framed, marking the renewal of the organisation and activities of the banking sector, from a one-tier to a two-tier banking system. Under Decision 106, Regulation on Setting Up and Use of Reserves in Credit Institutions, commercial banks were allowed to deduct 10% of net profit to establish a reserve for credit loss until the reserve reaches 100% of charter capital:

> 10% on net profits is established as 'special reserves' for risk prevention. This fund was established until reaching 100% of the actual charter capital at the time of provisioning. (SBV 1992, article 1.1; translated by the author)

Commenting on that stipulation, some worried that reserve funds set aside under the provisions above would be insufficient to offset credit risk that arises because, *'If risk reserve fund is appropriated from the net profit, the bank with no gain or loss will have no risk reserve fund'* (To 1996, p.11; translated by the author).

Since commercial banks must be accounted as an independent business unit when they were separated from the SBV (State Council 1990), To (1996) was concerned the commercial banks would collapse because they did not have sufficient reserves for loan loss. That is the view of a banking regulator responsible for bank safety rather than from the accounting perspective, which focuses on the bank financial health at a point of time.

Consequently, at that time commercial banks commonly did not have enough reserve to cover increasing credit loss, while bank loans accounted for 95% of their total assets (To 1996, p.11). To solve that problem, To (1996) suggested *'the creation of a reserve fund risks need to be counted as an expense'* and *'the risk reserve should be seen as a factor for calculating lending interest rate'* (p. 12; translated by the author).

With this suggestion, To (1996) aimed to ensure that commercial banks had sufficient sources of loan interest revenue for making loan loss provision rather than the limited source of profit. Thus, his recommendation was also from the bank regulation perspective of ensuring bank safety. The accounting approach to represent bank financial situation was not yet a focus.

From the tax accounting perspective, Ba Thanh and Moc Mien (1998) considered *'treating loan loss provision as an expense affects tax revenues'* (p. 18; translated by the author) because it reduced tax payment owing to an increase in expense and 'banks *can use provision to evade taxation'* (p. 18; translated by the author). However, Ba Thanh and Moc Mien (1998) also suggested treating loan loss provision as an expense because *'it* [treating loan loss provision as an expense] *is common in many countries'* (p. 18; translated by the author).

The analysis above shows two conflicts of bank regulators in loan loss recognition. First, it is the conflict between the bank regulation approach and tax accounting approach. In this regard, To (1996) worried about the bank safety and thus preferred loan loss provision to be increased by allowing banks to treat it as an expense rather than a reserve. Conversely, Ba Thanh and Moc Mien (1998) were concerned about the decrease of tax collection and the increase of tax fraud that is a part of bank regulators' duty on supporting the implementation of the Government policy.

Second, the need to integrate with the global environment appeared to signal the conflict between global integration demand and the desire for separation for maintaining the country's distinct institutions. Specifically, the transformation of the banking sector into two tiers operating under the market mechanism raised the difference between the accounting perspective and tax laws in the definition of revenue, expense and profit (Pham Quy Hoa 2002).

From accounting perspective, Ba Thanh and Moc Mien (1998) said *"The objective of setting up a reserve fund for loan loss is also to ensure a bank's profit reflects its business result"* (p. 18; translated by the author). He means without loan loss provision, bank earning is distorted from accounting perspective. By citing the nature and characteristics of loan loss recognition in many countries when compared with that of Vietnam, Ba Thanh and Moc Mien (1998) argued:

> In our country, it was claimed that on making provisions, some currently profitable banks would turn into loss-making ones. If people say so, it means that they were aware of the risk related to the loans that banks issued. If a loan was actually believed to be doubtful, then making provision for it is necessary; there is no need to wait until the real loss is incurred and deducted from interest, affecting business results. Without provisioning, business results shown on the balance sheet reflect incorrectly the financial position of the bank. (p. 18; translated by the author)

Their argument shows the concern on the reliability of bank financial statements on consideration of loan loss provision. This interest stemmed from the need to follow international practices for global integration that was fierce in phase 2 as discussed in the previous chapter (Section 4.4.2).

5.2.2 Decision 48 (1999)

The response above set the foundation for the issuance of Decision 48, Regulations on Classifying Assets, Establishing and Using Reserved Funds for Covering Losses Suffered by Credit Institutions (SBV 1999). It is the first regulation that treated loan loss provision as an expense following international practices.

Learning from international practices, loan loss provision was measured based on loan loss classification. Decision 48 (SBV 1999) classifies bank loans based on their past due with fixed levels of credit risk stipulated for each loan group. Specifically, loans are divided into four groups under the term timescales, including current and restructured debts, debts overdue less than 181 days, debts overdue less than 361 days and debts overdue more than 360 days (SBV 1999, article 5) with the corresponding provision rate fixed at 0%, 20%, 50% and 100% (SBV 1999, article 6).

That Renovation towards global integration caused many debates since bank accounting needs to serve the need for Government control with a variety of objectives as discussed above. Specifically, Vu Minh (1999) estimated *'the figure of [current credit loss] was about 300 billion dong, which was at least double or triple compared to profit of the whole state banking sector'* (p. 25; translated by the author). Therefore, he worried that commercial banks would have no profit remaining after provision under Decision 48:

> If all profit is used for provision making, where is the profit to pay tax to finance the state budget, to modernise banking technology to catch up with the world that is changing hourly and daily and to cover many daily bank expenses for ensuring its normal operation? (Vu Minh 1999, p. 25; translated by the author)

Vu Minh (1999) commented from the perspective of macro management in which the increase in loan loss provision could influence macro policy. Commenting on the issue that bank profit was not sufficient for provision making under Decision 48, Dieu (1999) raised another concern: *'If provision is made exceeding the profit of the current fiscal year, it means financial institutions make provision from nothing'* (Dieu 1999, p. 10; translated by the author). His comment was from the perspective of bank regulators who expect commercial banks to maintain sufficient reserve to cover credit loss when it is incurred.

Under international practices, BCBS issued regulations on minimum capital, which are usually called Basel Accords I, II and III. Those regulations required banks to either add more equity capital or restrict their lending scale to ensure they have sufficient reserve to cover loan loss (Bank for International Settlements 2006; BCBS 1988, 2011). At the time when Decision 48 was issued, Vietnam did not have such minimum capital requirement. The SBV had stipulated Decree 82 since 1998 on the minimum capital requirement but the commercial banks were not required to meet it until 3 years after the effective date (Phan Van Khai 1998). The postponement of minimum capital requirement shows the insufficiency of bank equity not only for its normal operation according to Basel Accords but also for covering loan loss provision at that time.

Facing those challenges that were specific to the context of Vietnam, the bank regulators had to limit the provision requirement, although treating provision as expense is required for prudence and globalisation purposes from the regulation perspective by experts such as To (1996), Ba Thanh and Moc Mien (1998) and Pham (2002) as discussed above. Particularly, provision as an expense is restricted only for credit risk caused by irresistible reasons such as *'natural disasters, fires, epidemics or state policy changes'* (SBV 1999, article 7; translated by the author).

The restriction helped banks avoid a significant reduction in their profit and, in turn, their equity when loan loss provision commenced being treated as an expense under Decision 48. In addition, the tax collection amount was not affected much owing to a limited loan loss provision expense. In other words, the limitation of loan loss provision can be explained by the desire of the Government to alleviate the decline in bank profit and, in turn, the tax collection amount owing to the increase in loan loss provision.

Another explanation is that being the major, or the only, shareholder in banks, the state was very careful in protecting its stake in commercial banks by not easily recognising the loss incurred subjectively by individual customers or bank management. By limiting the provision to be made to credit risk owing to irresistible reasons only, the state preferred to prevent the loss of bank assets through the irresponsibility of bank management and staff. In the cases other than natural disasters, fires, epidemics or state policy changes, the bank management and staff have to do their best to collect the loans rather than writing them off via loan loss provision. This inference is indirectly inferred from similar requirements that aim to assist the Government in protecting its large stake in commercial banks by such administrative rules[6].

Hence, although the accounting change, in which loan loss provision began to be considered an expense, was made towards international practices, its substance was altered to serve Government control. For this reason, Pham Phu Quoc (2000) criticised that making provisions for irresistible reasons alone did not provide the market sufficient information for enforcing discipline in the business relationship between banks and their customers in lending activities.

Pham Phu Quoc (2000) argued against that stipulation:

> In bank lending activities, credit risk owing to subjective reasons, such as customers deliberately not repaying, has the same opportunity to occur as credit risk owing to irresistible reasons, such as customers lacking the ability to repay. Therefore, we think that even when clients deliberately do not fulfil their obligations, banks should reserve the right to cover that risk by loan loss provision. (p. 32; translated by the author)

Pham Phu Quoc's (2000) suggestion relies on the market economy's perspective in which accounting information serves bank management and investors to evaluate the efficiency in lending activities to customers. For that purpose, any loan loss incurred because customers do not pay, for whatever reason, should be recorded as an expense for evaluating bank credit risk management and bank performance. In addition to the restriction above, loan loss provision was required to be reversed at the end of the financial year as follows:

> The remaining balance of loan loss provision, after deducting the actual loss incurred as at 31 December each year, must be reversed to reduce loan loss

[6] For example, under Decision 493, SOCBs have to obtain approval from the Government for writing off NPLs via loan loss provision (Decision No. 493/2005/QD-NHNN in 2005, article 11, para 4). Another example is requirement under Decision 488 for banks to not inform customers when their debt are written off (Decision No. 488/2000/QD-NHNN5 in 2000). Quy định về việc phân loại tài sản 'có', trích lập và sử dụng dự phòng để xử lý rủi ro trong hoạt động ngân hàng của tổ chức tín dụng 'Regulation on the assets classification and use of provisions to deal with risks in the banking activities of credit institutions'. In: VIETNAM, S. B. O. (ed.) 488/2000/QD-NHNN5. Hanoi, Vietnam: State Bank of Vietnam, to prevent customers from refusing to pay their debts as discussed in the next section.

> provision expense made during the year. (SBV 1999, article 7; translated by the author)

Adopting this stipulation, the loan loss provision account had no balance at the end of fiscal year, which may help to easily verify loan loss expenses for tax deduction because loan loss provision was determined based on actual loss rather than bank's judgement from the tax perspective. In addition, according to Le Thi Thanh Nhan (2000), '*Tax authorities are afraid that the stipulation of provision heavily relying on subjectiveness will facilitate banks in overstating expenses for tax reduction*' (p. 14; translated by the author).

Commenting on this specification, Dieu (1999) said:

> It is just as if banks are allowed to establish a reserve for covering credit risk but are not permitted to store the reserve. This paradox makes provisioning meaningless; if there is no difference between having and not having a reserve, the outcome will be the same. (Dieu 1999, p. 10; translated by the author)

The stipulation and Dieu's (1999) comment shows that loan loss provision was considered a loan loss reserve rather than an impairment loss in asset impairment test from the accounting approach. Under Decision 48, a new balance of loan loss provision was made at the beginning of the year to absorb credit loss actually incurred during the year and refunded at the end of year in case that fund was not used up. The refund to close the provision account balance at the end of the year hid the asset impairment loss on the balance sheet because the loan asset was disclosed at the original historical cost. Therefore, Le Thi Thanh Nhan (2000) claimed:

> Provisions under Decision 48, although termed 'provision of assets' in form, have, in substance, absolutely no meaning of 'provision for impairment loss' for representing faithfully the fair value of assets in the financial statement. (p. 13; translated by the author)

In addition, that way of making provision is a direct write-off method rather than accrual accounting, and thus can help the Government monitor tax collection easily based on actual loss. However, its disadvantage is that loan loss was recorded late. Considering that weakness, Dieu commented:

> Such income is likely taking the current financial year profit to make provision for credit risk from the previous year. Paradoxically, this will increase the financial burden for the operations of the current year. (1999, p. 9; translated by the author)

From the accounting perspective, that late loan loss recognition distorted bank earnings. Therefore, Le Thi Thanh Nhan (2000) insisted, *'In our opinion, this* [provision under Decision 48] *is a very big blank in the regulation of the SBV. This issue should be urgently considered*' (p. 13; translated by the author) for two reasons. First, it is *'the trend of economic integration with the region and the world that raises the need to integrate with the international generally accepted accounting practices'* (Le Thi Thanh Nhan 2000, p. 14; translated by the author). Second, it is *'the upcoming birth of the stock market in which the users of financial statements, including local and foreign investors, have the right to ask for accounting information that reflects faithfully business operations'* (Le Thi Thanh Nhan 2000, p. 14; translated by the author).

Le Thi Thanh Nhan's (2000) statements expressed the need for change in regulation on loan loss recognition as an action in response to the pressure of global integration and the development of a market economy leading to the emergence of market force. Investors should be provided information on loan loss from the accounting perspective as a requisition for supporting the growth of market discipline. This was the prerequisite for the introduction of Decision 488 (Decision No. 488/2000/QD-NHNN5) in 2000 one year after Decision 48. The issuance of Decision 488 was a part of the Government's Institutional Reform Program under Decision No. 136/2001/QD-TTg dated 17 September 2001 by the Prime Minister as described in Section 4.4.2.3.1.

5.2.3 Decision 488 (2000)

Decision 488 responded to the demand to include the accounting perspective in loan loss recognition by removing the requirement of reimbursing loan loss provision so that such provision could reflect better bank earnings on the income statement and the carrying value of bank loans on the balance sheet. The restriction on loan loss provision for irresistible reasons only was also eliminated from Decision 488. Instead, some other specifications were added in Decision 488 to protect the state's shareholding in banks, such as '*Credit institutions shall not be entitled to inform their* *customers of the risks that have been dealt with, except for debts that are written off with Government's permission'* (Decision No. 488/2000/QD-NHNN5 in 2000, article 4). This requirement was made to reduce the risk that customers might not repay overdue loans if aware that their debts have been already written off. Another example is the following stipulation:

> In the event that a state-owned credit institution experiences business loss in a year owing to the provisions made in accordance with this regulation, that credit institution must work out a solution plan to submit to the Ministry of Finance and the SBV for consideration. (Decision No. 488/2000/QD-NHNN5 in 2000, article 10)

This requirement can be made to reduce the risk that bank managements are careless in credit risk management thus causing too high loan loss provision. That type of requirements helps the Government to monitor directly commercial banks in making loan loss provision rather than to provide information for market discipline.

The provision under Decision 488 was made primarily based on the classification of loans into four groups according to overdue date and a fixed rate was specified (Decision No. 488/2000/QD-NHNN5 in 2000, article 9). That fixed rate system was criticised as inflexible, and thus, did not represent properly the credit risk level related to each loan. Pham Phu Quoc (2000) believed that the criteria system, although more complicated, was not sufficient for determining credit risk level. Specifically, regarding the rate of 0% applied for group 1, including all loans that have not yet fallen overdue, Pham Phu Quoc (2000) criticised:

> When a loan is not yet due, loss has not yet been incurred, but it does not mean that the loss will not be incurred. For example, if a loan is current but the borrower has completely lost the ability to pay, and the bank does not have any way to recover the debt, it can be observed that the loan will never be paid despite not being due. (p. 31; translated by the author)

The maintenance of defined criteria with a fixed rate of credit risk can be viewed as facilitating the tax accounting supervision purpose as claimed by Le Thi Thanh Nhan (2000) as aforementioned. Such inflexible classification results in excluding potentially value-relevant information from financial statements (Carlin, Finch & Ford 2009), such as signals that a borrower is making losses or can go bankrupt.

Under that classification system, a loan made for a company whose operating results decreased, which reduced its probability to pay back its loan, would be listed in group 1 with 0% credit risk, and thus no provision would be made for it. This case is treated differently under IAS 39 as discussed in Chapter 2. The loans impairment had already occurred in this case because there is objective evidence that the company's probability of payment had declined compared with the lending originating date (IASB 2004, para. 58). As the result, impairment should be recognised through loan loss provisioning for this case. Thus, the past due method under Decision 488 provided insufficient warning of this reduction in asset impairment compared with international practices (IASB 2004, para. 58).

5.2.4 Summary of data analysis in phase 1

By analysing the communication related to the change in loss recognition in phase 1, the accounting change was examined associated with the actual condition to understand how the accounting change reflected the change in the Vietnamese social interests. A comprehensive story emerged that phase 1 marked the first movement towards international practices in loan loss recognition in Vietnam.

Specifically, banks were allowed to establish loan loss provisions first in Decision 106 in 1992 arising from bank regulators' perspective and macro aspect rather than the accounting perspective. From that view, loan loss provision was considered a reserve rather than an expense. It was stipulated for ensuring that banks had reserves to cover loan loss when incurred. Loan loss provision was made from profit after tax to avoid a reduction in the tax amount paid to the Government.

This accounting treatment was then criticised considering that the provision was not sufficient for covering loan loss because the reserve was made only when banks earned profits whereas credit risk presented in all banks. For this reason, loan loss provision was required to be considered an expense that matched interest revenue to ensure that all banks had interest revenue to make such provision. This argument was the rationale for the stipulation of Decision 48 in 1999 that recognised loan loss provision as an expense. However, the total expense was limited to that owing to irresistible reasons to avoid two consequences of recording loan loss provision expense in full. They were the significant reduction in tax and the strong decrease in bank equity. Insufficient equity would put banks in the situation of violating the minimum capital requirement stipulated in 1998.

The limit in loan loss provision expense attracted criticism from the accounting perspective because it did not reflect faithfully bank financial health while Vietnam was preparing for global integration. Consequently, Decision 488 removed the limit on loan loss provision expense to improve loan loss accounting towards international practices.

5.3 Phase 2: 2005–2011

Phase 2 was highlighted by the trend of globalisation leading to the stipulations of Decision 493 and Decision 18 (Section 5.3.1), but then being invalidated through cross-shareholding structure, a weak regulation system (Section 5.3.2), direct intervention by the Government (Section 5.3.3) and separate regulation established for state lending (Section 5.3.4). The consequences, which then are traced to the system failure, are discussed in Sections 5.3.5 and 5.3.6 respectively. Section 5.3.7 concludes.

5.3.1 Decision 493 and Decision 18

In short, the global integration of Vietnam was vigorous during this phase with several international agreements signed, sharp increase in international trading and huge foreign capital inflows. Hence, there was a significant change in regulation with two decisions related to loan loss provisioning in this phase. As shown in Appendix 1, Vietnam moved from Decision 488 to Decisions 493 (Decision No. 493/2005/QD-NHNN) and Decision 18 (Decision No. 11/1999/NQ-CP in 2007) in 2005 to be closer to international best practice in terms of loan grading and provisioning (Cortavarria-Checkley et al. 2000; Laurin & Majnoni 2003).

Particularly, adopting the simple loan categories suggested by BCBS (2006b), debts were reclassified into more groups under Decision 493 and Decision 18 than in the previous phase. There are five groups with different risk levels that lead to different loan loss provision rates (group 1: standard, 0%; group 2: special attention, 5%; group 3: substandard, 20%; group 4: doubtful, 50%; and group 5: loss, 100%) (Decision No. 493/2005/QD-NHNN, article 6). The addition of group 2 requires banks to inform loan loss earlier than before. The provision determined for each group is named specific provision under Decision 493.

In addition, the general provision that was first required under Decision 493 is another evidence of earlier loan loss provisioning compared with the previous phase. General provision was measured as 0.75% of the total value of debts from Group 1 to Group 4 (Decision No. 493/2005/QD-NHNN, article 9). It is defined as 'an amount to be made available to provide against losses that have not yet been determinable during process of specific debts classification', which is similar to group impairment loss under IAS 39 (Decision No. 493/2005/QD-NHNN, article 2).

While the past due was still the critical criterion for loan loss classification for making specific provision, additional factors were included that help to signal loan loss more properly in terms of global practices. This change can be found in the definition of each group that is more general rather than particularly attached to the past due date as before. In detail, group 1–standard includes current debts that banks assess as fully recoverable when falling due. Group 2–special mention are debts that banks assess as fully recoverable, but there are signs that the customer's payment capability is deteriorating; thus, this group of debts need special attention. Group 3–substandard debts are debts that banks assess as not recoverable in due course; thus, a part of these debts are assessed to be likely impaired. Group 4–doubtful debts are debts that banks assess as highly impaired. Group 5–potentially irrecoverable are debts that banks assess as irrecoverable and lost (Decision No. 493/2005/QD-NHNN, article 6).

The change in group definitions allows flexibility in loan loss classification by which banks can chose either the quantitative method (Decision No. 493/2005/QD-NHNN, article 6) or the qualitative method (Decision No. 493/2005/QD-NHNN, article 7) to classify debts for loan loss provisioning and communicating loan loss to the public.

Under the quantitative method, these five groups are determined mainly based on past due (group 1: current debts; group 2: debts overdue less than 90 days; group 3: debts overdue between 90 and 180 days; group 4: debts overdue between 181 and 360 days; and group 5: debts overdue more than 360 days). Although this classification is still based mainly on past due as in phase 1, a number of qualitative factors were added to fix the weaknesses of the quantitative method under Decision 488 as discussed above. These qualitative factors were bank assessment of customers' ability to fulfil committed obligations, interest exemption or reduction, debt restructuring and multiple loans to a single customer (Decision No. 493/2005/QD-NHNN, article 6). Under the quantitative method, Decision 493 and 18 required banks to classify multiple debts to a borrower to a higher risk level group based on banks' self-assessment of borrowers' capability of full payment of current debts and restructured debts (Decision No. 493/2005/QD-NHNN, article 7).

The classification of multiple loans to a single customer was first mentioned in Decision 493 and Decision 18. Provision for loan loss was made earlier for those loans because when a loan is classified as impaired, all other loans to the same customer should be classified in that same category. This was consistent with IAS 39 that the reduction in relevant repayment capacity of a borrower was considered a loss event that affects the estimated future cash flows of all his/her loans.

The restructuring event became the trigger to recognise loan impairment under Decision 483 and Decision 19, thus also resulting in making provision earlier than before (Decision 488). Classifying restructured debts as standard loans with no loss provision under Decision 488 was abrogated probably because it motivated the bank to roll over a past due loan to hide credit risk. It was evidence of an improvement in bank regulations on loan loss recognition towards international standards.

Apart from the quantitative method as discussed above, Article 7 of Decision 493 offered banks the option to use the qualitative method with multiple criteria (e.g., customers' management ability, industry risk and business environment risk) based on the internal credit ranking system to determine appropriate classification. This method was designed to prepare for the application of Basel II under the internal ratings-based approach in the capital adequacy process. Although being more advanced than the quantitative method as regards global integration, the qualitative method is optional rather than compulsory under Decision 493. The reason that it is optional is the low ability of bank management and bank regulators to perform credit risk assessment (Stoxplus 2011).

In addition, bank regulators stipulated the requirement that the credit risk level under the qualitative method should not be lower than that under the quantitative method (Vietcombank annual report 2008, Circular 02/2013/TT-NHNN). This requirement was set to prevent cases of abuse in which banks reduced their loan loss provision (LLP) by taking advantage of the subjectiveness of qualitative criteria in loan loss classification. The introduction of that underlimit did not make sense in terms of improving the appropriateness of loan loss provision because the qualitative method is believed to be an advanced method under Basel II in comparison with the quantitative method. Therefore, it can be inferred that SBV is currently incapable of assessing the appropriateness of the implementation of the qualitative method, which is subjectively based on self-developing an internal credit rating system in each commercial bank. The result of the quantitative method is used as an underlimit that is a complementary to reduce that risk of understating loan loss recognition.

Once again, a separate Vietnamese version of regulation on loan loss recognition resulted in the global integration process because of the low education level as regards credit risk assessment. In turn, the separation pole was responded to at the cost of negating the global integration pole. That is, the underlimit requirement demotivated bank management in building their internal credit rating systems for improvement of credit risk management, which is desired under international standards (e.g., Basel II).

Specifically, most banks in Vietnam did not want to apply the qualitative method because it gave them no direct benefit in loan loss recognition but instead led to increased implementation cost. It is evident that five years after Decision 493 was issued, only two banks in Vietnam (BIDV and Vietcombank) established their internal rating system[7] to apply the qualitative method in LLP for public disclosure (Stoxplus 2011). The quantitative method, which is based on the historical cost approach, is still being applied in most of the Vietnamese banks, leading to a significant deficiency in loan loss recognition in the Vietnamese banking industry. This inference is made based on the finding of Linsmeier (2011) that loan loss had

[7] The internal credit rating is beyond the scope of this research because the related data are not sufficient for the public. The exclusion of this area is believed to not significantly affect the research findings because there are only two commercial banks applying the qualitative method and designing their internal credit ranking system for this purpose.

been consistently and dramatically underestimated during the crisis in the United States and Japan under the historical cost approach.

In addition, the introduction of an underlimit for LLP represented a mix of accounting and banking regulations in which bank regulators encouraged bank managements to record more, rather than less, loan loss provision to ensure the safety of the banking system rather than the appropriateness of loan loss recognition from the accounting perspective. The organisation model in which SBV is responsible for banking regulation and accounting regulation for commercial banks simultaneously, as discussed in the previous chapter, can be an explanation for the mixing up of two approaches. The changes in loan loss accounting towards banking regulation and their mix in regulation on loan loss provisioning can be explained in terms of the tendency in which SBV utilised its accounting regulation function to obtain their banking regulation objectives of improving bank credit risk management and prudence.

From a dialectical view, the above fact represents a neutralisation response between two oppositions of separation and integration. The application of the qualitative method responds to the desire for global integration (Basel II) but is modified to meet the national identity of lacking an internal credit rating system. The modification includes treating the qualitative method as optional and setting a floor for LLP to reduce the risk of understating loan loss because of the weakness in credit risk rating.

In short, compared with phase 1, the bank regulators were more vigorous in responding to global integration because the market institution was established at just a rudimentary level in phase 1 whereas Vietnam increasingly integrated deeper into the world. As a result, the regulation on loan loss provisioning in phase 2 has a significant improvement by which loan loss provision is required to be recognised earlier. Nguyen Xuan Thanh (2012) highlighted that change as a renovation:

> Notably, in the 2006–2011 period, the regulatory framework and supervision of banking activities was constantly being modernised. Current regulations of Vietnam on ensuring safe operations of commercial banks cover all content of supervision on capital, credit limit, equity investment limit, solvency ratio, quality classification of debts and provision for risks. (translated by the author)

Specifically relating to loan loss provision, Duong (2009) commented:

> By adopting Decision 493, banks are gradually moving towards the assessment and classification of debts based on qualitative factors and prevention is divided into a general provision and specific provision under the framework of banking risk provisions of Basel 2. (p. 31; translated by the author)

It is consistent with Le Hong Giang's (2012) argument, which was against the views expressed in the press and by many other specialists in 2012, that:

> Decision 493 issued by SBV also applies those practices for measuring NPL, so one cannot say 'standard of NPLs' in Vietnam is poor compared with that of 'international standards'. (Le Hong Giang 2012; translated by the author)

While Le Hong Giang's (2012) comment is correct, the press and many other specialists are also right in terms of how Decision 493 was implemented in practice. The fact that the qualitative method, the most important advance of Decision 493, has been applied in two banks only is one evidence. In addition, Nguyen Xuan Thanh (2012) criticised that this innovation was likely a decoration. He said:

> Banks, but in fact, their investors and economic organisations that own banks, can easily disable all safety regulations, even if these are the rules under international standards. Moreover, that disablement would strictly follow current laws (but violate the spirit of the law). (Nguyen Xuan Thanh 2012; translated by the author)

Next, the invalidation of regulation on loan loss recognition as the result of three issues in the Vietnamese economic context, as referred to in the previous chapter, is discussed. They are the weak legal system, the direct intervention on lending by the Government and the separate regulation set for state lending.

5.3.2 Cross-shareholding structure and weak legal system

The fierce pressure from the requirement of equity growth and NPL ratio as mentioned in the previous chapter motivated bank management to manipulate both equity growth and NPL ratio. Banks managed their capital and loan loss recognition by taking advantage of weak regulations (Bich Diep 2013; Dang Duc Thanh 2015; Tieu Phong 2015; Vu Thanh Tu Anh et al. 2013). The weakness of regulation system is discussed in the previous chapter (Section 4.4.4.3).

According to Vu Thanh Tu Anh et al. (2013), the widespread cross-shareholding structure in the banking system allowed banks to easily find cross-funding sources to raise capital, making the estimated CAR incorrect. In addition, the cross-funding sources were also used to reverse NPLs, making it difficult to measure banks' credit activities and NPL ratio.

Many of the cross-lending transactions between related parties in a cross-shareholding structure were not disclosed because of the weak regulation on related parties' transactions (Dang Duc Thanh 2015; Nguyen Xuan Thanh 2012; Vu Thanh Tu Anh et al. 2013). Specifically, the legal definition of relatives8 does not cover all cases in which the relevant role arises (Law on Credit Institutions No. 47/2010/QH12 in 2010). For example, organisations and individuals have a contractual relationship by which one person represents the other, or a group of people agree to coordinate in the acquisition of shares to control the targeted company or bank.

In addition, the threshold of holding 5% of share capital or above to be considered a relative of a bank is no longer suitable. When the bank capital is at least 3,000 billion dong according to regulations according to Decree 141 (Nguyen Tan Dung 2006), the ownership ratio of 5% is equal to about 150 billion dong. This amount is too large compared with the amounts that many significant shareholders of banks hold. Therefore, the definition ignores many instances where organisations and individuals hold less than 5% but still significantly influence the bank, and thus should be considered bank relatives.

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[8] Law on Credit Institutions, article 4, par 28: *Affiliated person* means an organisation or individual having a direct or indirect relationship with another organisation or individual in any of the following cases:
a/. Parent company with a subsidiary and vice versa; credit institution with a subsidiary and vice versa; among subsidiaries of a parent company or credit institution; manager or Control Board member of the parent company or credit institution, and individual or organisation competent to appoint these persons with a subsidiary and vice versa;
b/. Company or credit institution with its manager or Control Board member, or with company or organisation competent to appoint these persons and vice versa;
c/. Company or credit institution with organisation or individual owning 5% or more of the charter capital or voting share capital of that company or credit institution and vice versa;
d/ Individual with his/her spouse, father, mother, child or sibling;
e/ Company or credit institution with individual defined at Point d of this Clause of manager. Control Board member, capital contributor or shareholder owning 5% or more of the charter capital or voting share capital of that company or credit institution and vice versa;
f/ Individual authorised to represent an organisation or individual specified at Points a, b, c. d and e of this Clause with authorising organisation or individual; among individuals authorised to represent the capital share of an institution.

Further, banks took advantage of weak regulation in recording investment in bonds to roll over overdue loans to avoid recording a loan as overdue (Dang Duc Thanh 2015; Tinmoi 2012). For example, Hoang Anh Gia Lai (HAG) had successfully issued bonds of 850 billion dong on 17 August 2012. The bond buyers were the banks where HAG currently had debts. Cash inflows from bonds issued was used to pay back these debts (Tinmoi 2012).

Consequently, according to Mr Nguyen Huu Nghia, Acting Chief Inspector of SBV, several commercial banks violate regulations on loan classification and provisioning to reduce NPLs and loan loss to meet the regulation requirement and improve their performance (Vu Thanh Tu Anh et al. 2013). The Deputy Governor of SBV also admitted that banks hide a large amount of NPLs and LLP to achieve their profit targets. According to him, six weak banks were disciplined because they hid NPLs. Their disclosed NPLs was not higher than 2.5%, thus meeting the requirement of not exceeding 3%, but SBV inspectors found that their NPLs ranged from 30% to 60% (Thuy Mien 2013).

Unsurprisingly, all banks met the requirement of equity growth rapidly, even in a gloomy security market, by manipulating capital to withdraw from confrontation when the bank management framed the tension as double bind (Nguyen Hoai 2011b; Vu Thanh Tu Anh et al. 2013). NCDT (2013) expressed surprise:

> At that time, there were many controversies that 9% is too high, and that banks are difficult to satisfy. However, most of the banks had a CAR much higher when compared with the minimum, except Agribank, according to the data for 2011. (Translated by the author)

The capital increase based on cross-shareholding distorted the safety of banks that was commonly expected to be reflected in the CAR. Specifically, at the end of 2012, several weak JSCBs had very high CAR ratios (e.g., Bao Viet Bank: 42%, Tien Phong Bank: 40.15%) (NCDT 2013; Vu Thanh Tu Anh et al. 2013). It was so abnormal that the press said sarcastically, 'A high capital adequacy ratio signals unsafety!' (NCDT 2013; translated by the author). A financial specialist, Doctor Nguyen Tri Hieu, explained that situation, stating, '*One of the reasons why banks pushed higher CAR is the trend of hiding debt. If provision were made fully and on* *time, CAR would reduce immediately rather than increase*' (NCDT 2013; translated by the author).

This phenomenon is consistent with Piotroski and Wong's (2012) finding regarding the Chinese market that without *'a strong market infrastructure to guard against manipulations'*, *'the use of accounting-based regulations'* motivated listed firms to manage accounting realisation to meet the regulation targets (p. 221). In the Vietnamese banking industry, loan loss management was accelerated under the pressure of managing the regulation target of CAR ratio, equity growth and NPL ratio. They were handled through cross-shareholding and regulation weaknesses that arose from the local demand of maintaining the Government control and the lack of competency in establishing a proper regulation system to match the development of business sectors other than the state business sector.

Although the SBV asserted that '*Many subjects* [banks and others] *use a number of different techniques for not complying with credit security regulations*' (Vu Thanh Tu Anh et al. 2013), they admitted '*the auditing and inspection to detect and handle the problem is very difficult due to lack of judicial evidence*' (Vu Thanh Tu Anh et al. 2013). Nguyen Xuan Thanh (2012) also recognised these difficulties:

> The current status is using cross-shareholding to dodge, but not violate, the regulation … Many loans over 1,000 billion, which have now become NPLs, were revealed by the supervision, but were not being highlighted because the law was not broken. (Nguyen Xuan Thanh 2012; translated by the author)

Hence, a large gap existed between Vietnamese practices and international standards in loan loss recognition during phase 2 as commonly claimed by the public as mentioned in Chapter 1. That gap seems to derive from the accounting practices in the unique context and institutional setting of Vietnam rather than from Decision 493 and Decision 18 that directly regulate loan loss recognition in the country. Banks shall be penalised by SBV on violating the regulations as described above but it was absolved from a disciplinay action by taking advantage of the weak regulation system. This behaviour was normally found in JSCBs rather than SOCBs because the state economic sector can overcome the requirements from regulation using its own ways (Vu Thanh Tu Anh et al. 2013). These are the Government's direct intervention in regulation (Section 5.3.3) and the separate regulation established for state lending (Section 5.3.4).

5.3.3 Direct intervention by the Government

The following two examples from collected data (Figure 5.1 and Figure 5.2) are supporting evidence for the statement above. Figure 5.1 clearly indicates the delay in loan loss recognition under the Government's direction for lending to Vinashin, a State Economic Group mentioned in Chapter 4. Figure 5.2 is a quote from Notice No. 285/TB-VPCP dated 20 August 2015 from the Government Office (Nguyen Van Nen 2015). With this document, the bank did not make provision for the loans to the state drainage project following directions from the Government.

The banks in the two examples above did not violate the Vietnamese regulations with that accounting exception authorised by the Government. However, nondisclosure of the credit risk related to those loans did not reflect loan loss incurred in Vietnam in time, and thus distorted the efficiency of capital utilisation. The delay to recognise loss from the huge debts of over 80 billion dong from Vinashin certainly caused substantial misleading in loan loss information for market discipline.

The passage of promulgated loan regulations to provide preferential credit to SOEs is criticised by Nguyen Xuan Thanh (2012):

> The first is that although the regulations to ensure safe operation were issued by the state, these are disabled by the state. That is because the Government is the owner of the State Corporations (SOEs) and, simultaneously, the controlling shareholder of state-owned commercial banks (SOCBs), thereby allowing lending activities between the two groups to escape from the regulations... Violation of the monitoring framework resulted in the bad loans that the bank had to suffer directly. That the lending of SOCBs to Vinashin, Vinalines and other major projects of SOEs exceeded safety regulations is obvious evidence. (Nguyen Xuan Thanh 2012; translated by the author)

According to Nguyen Xuan Thanh (2012), the ownership structure in which the Government is the bank owner can explain such invalidation of regulation. Thus, it can be inferred the Government control framed as its direct ownership in commercial banks invalidated the market discipline supported by Decision 493 and Decision 18 in loan loss recognition, thus misleading about the efficiency of capital utilisation.

Many banks such as Habubank and Oceanbank did not make provision for the lending to Vinashin (Tinmoi 2012). This was supported by the Government documents. The audit opinion of Deloitte in the 2011 financial statements of Oceanbank stated:

> 'On 31.12.2011, the bank (i.e., Oceanbank) held deposits, loans and bond investments in Vietnam Shipbuilding Industry (Vinashin) and several companies owned by Vietnam Shipbuilding Industry, which were overdue. However, in 2011, based on the written direction of the State regulators about considering and restructuring the debts of the corporation, Vietnam Shipbuilding Industry, the bank has implemented the directive, maintaining the status quo and not making provision for the debts and receivables above. Currently, banks are continuing to work with Vinashin and the State management agencies to plan the treatment and recovery of the debts and receivables'. (Tinmoi 2012; translated by the author)

Figure 5.1: Vinashin

To solve drainage problems, the Prime Minister instructed BIDV, one of the four biggest SOCBs, to finance the drainage project. The Prime Minister also directed the State Bank of Vietnam to allow BIDV to not comply with the current regulations of safety as mentioned on Notice No. 285/TB-VPCP:

> The State Bank of Vietnam processed specifically BIDV's suggestion that the loans related to that project [the drainage project] would not be counted in complying with the ratios, the requirement of not lending over 15% of the equity capital, excluding from the annual credit growth limit, not classifying in credit risk groups as well as not making provision for risks related to the project. (Nguyen Van Nen 2015; translated by the author)

Figure 5.2: State drainage project

5.3.4 Separate regulation set for state lending

In addition to the direct intervention of the Government that invalidated the regulation, the establishment of VDB with a separate operating mechanism, as briefly stated in the previous chapter, made this issue more serious. The financial mechanism of VDB is executed in accordance with Decision No 44/2007/QD-TTg dated 30th March 2007 by the Prime Minister and Circular No. 111/2007/TT-BTC dated 12nd September 2007 by the Ministry of Finance as follows.

> The Ministry of Finance implements the state management function in finance and guidance, supervision and inspection of the implementation of the financial regime of the Development Bank. (Decision No 44/2007/QD-TTg in 2007)

and

> The Development Bank reports the audited annual financial statements to the Prime Minister and the Ministry of Finance, the SBV, the Ministry of Planning and Investment. (Decision No 44/2007/QD-TTg in 2007, article 29; translated by the author)

Under these stipulations, VDB's financial mechanism is designed and supervised by the Ministry of Finance. At the same time, it is a bank of the Vietnamese banking industry under SBV's supervision, thus having to report to the SBV. Cong Thuong (2013) criticised that this financial mechanism was a critical reason for the high NPLs amount in VDB[9]. He said, '*There are many causes leading to the "very bad" situation in VDB. However, most importantly, it is that VDB is "bipolar", being a bank and also not a bank at the same time'* (Cong Thuong 2013; translated by the author).

Specifically, according to the financial mechanism issued by the Ministry of Finance, loan loss in VDB is recognised at the maximum level of 0.5% of the lending balance, regardless of the risk level (Decision No 44/2007/QD-TTg in 2007, article 3), which is too low compared with the provision rates set by the SBV under Decision 493 and

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[9] According to the inspection results published recently, VDB bad debts had NPLs of 22,600 billion dong at the end of 2010, which accounted for 12.57% of total NPLs of the Vietnamese banking sector Cong Thuong. 2013. *Pha The 'Luong Cuc' Cua VDB. 'Eliminating the "Bipolar" of VDB'* [Online]. Cong Thuong. Available: http://vietbao.vn/Kinh-te/Pha-the-luong-cuc-cua-VDB/2131640423/90/ [Accessed 05/03/ 2016].

Decision 18 (i.e., 0%, 5%, 20%, 50% and 100%). Nguyen Hoai questioned that too-low rate, stating, '*This makes many people think 100% of investment loans and export loans to the State through VDB were almost no risk!'* (Nguyen Hoai 2011a; translated by the author).

Explaining that low rate of provision, Mr Nguyen Quang Dung, the CEO of VDB, said many times:

> The bank is a complete nonprofit organisation, which mainly carries out lending for investment and export activities under the direction of the Government. The problem is that, since it operates without profits, VDB cannot have funds for making provisions. (Nguyen Hoai 2011a; translated by the author)

The CEO's explanation can prove that bank regulators and VDB management were not sufficiently aware of the role of loan loss recognition as a part of the alarm system on lending safety and efficiency. From this perspective, financial professionals have criticised the CEO's explanation as follows:

> Operating lending must have risk, and thus must have risk provisioning. When provision is made, it must be recorded as an expense. If the bank lacks funds to cover that expense, the state must grant it. Without that, where is the reserve to absorb credit loss when incurred? … Especially, reserve for loan loss from DBV has never been mentioned in both short- and long-term financial budgets of the Government. (Phuong NC & Richard 2011; translated by the author)

The specialists made that comment from the bank regulation perspective in which loan loss recognition is necessary to provide information on expected loss for requiring banks to set sufficient capital reserves for credit loss to ensure the safety for the banking industry. Another specialist emphasised:

> One Basel principle for capital adequacy requirement is to make provision corresponding with the level of risk, rather than waiting until the risks incur and record the loss without reserve to cover that loss. (Nguyen Hoai 2011a; translated by the author)

According to Nguyen Hoai (2011a), this problem is serious because 40% of VDB's fund for lending is from ODA capital that Vietnam has to repay in future. Thus she concluded, *'VDB is similar to a time bomb'* (2011a; translated by the author) that could be triggered when the ODA fund falls due, since no provision has been made for credit risk and the amount of NPLs is high.

According to Cong Thuong (2013), the Ministry of Finance might not be adequately aware of that risk because its officials are not specialised in banking unlike those of the SBV:

> The Ministry of Finance acknowledged that, with the current regulations, it is difficult to force the mechanism of autonomy and self-responsibility of VDB leaders because the Finance Ministry cannot supervise the activities of the central bank better than the SBV, but the SBV also could not fully implement this duty. (Cong Thuong 2013; translated by the author)

Since VDB's financial mechanism is not under the supervision of the SBV, it could not access the lending data in VDB for supervision duty. Nguyen Hoai (2011a) offered an explanation for this issue:

> Since the capital fund and operation mechanism of VDB are under the Ministry of Finance 'management', when asking SBV about VDB's funds, how it operates, how much it has disbursed and for which project and how it sets provision for loan loss, all SBV staff, even the highest leaders, all answered 'We do not know'! (Translated by the author)

The disclosure of lending activities and the related risks was insufficient even at the minimum level, as claimed by Nguyen Hoai:

> One other remarkable issue, Decision 44/2007/QD-TTg regulates: 'Within 120 days after the fiscal year end date, VDB shall disclose financial statements in accordance with the provisions of the law'. However, although having already operated for 5 years, the 'Annual Report' on its portal is still blank. (Nguyen Hoai 2011a; translated by the author)

It led to the situation that no sufficient information related to state lending activities was disclosed to the SBV or public. From the accounting perspective, loan loss recognition provides information of assets impairment for lending decision-making based on economic efficiency. Thus, the lack of timely information of loan loss led to the allocation of capital into inefficient businesses that caused NPLs later.

In addition to direct lending with many preferential treatments as directed by the Government without supervision of the public or other parties, VDB and the Ministry of Finance, on behalf of the Government, offered guarantees for SOEs to borrow from commercial banks. Arguing for that policy, the chairman—Minister of the Government Office, Nguyen Van Nen—explained:

> The Government guarantee for the loan business is to create favourable conditions for businesses to raise large funds, for which, sometimes, credit institutions require a Government guarantee as security … Moreover, the cost of the loan guaranteed by the Government will be lower than a normal commercial loan … The issuance of Government guarantees for foreign loans serves urgent investment projects, especially in periods when domestic capital is insufficient to meet the demand for investment and development needs. (Bao Bao 2015; translated by the author)

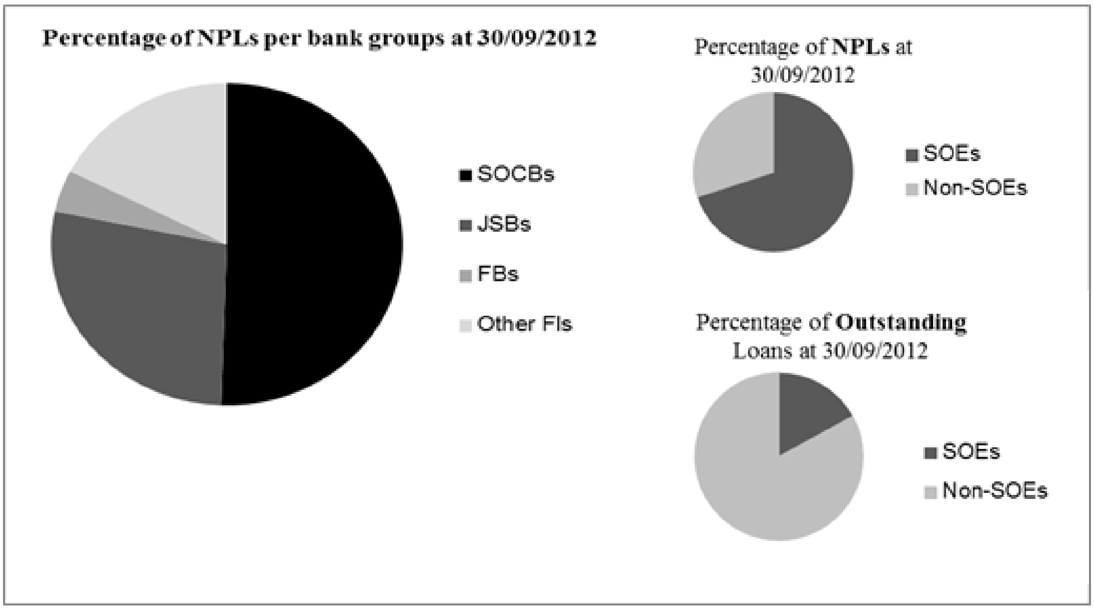
The transfer of capital resources to SOEs under the guarantee of VDB was potentially a high credit risk because of the ease in evaluating the efficiency of investment projects without informing the public or the SBV. The consequence of the insufficient information on loss is discussed in the following paragraphs.

5.3.5 Consequences

As also mentioned in Chapter 5, the Government supported the leading role of SOEs by giving them privileges in resources allocation, especially bank capital lending without sufficient information for market and government control. Taking advantage of that favour and weakness of control, SOEs invested in non-core businesses, such as banking, insurance, securities and real estate, which is one of the major reasons leading to the bankruptcy of Vinashin with large NPLs of 86 trillion dong (approximately 4.6 billion USD at that time; Dang Duc Thanh 2015; Huyen Thu 2013; Vietcombank 2009; Vu Thanh Tu Anh et al. 2013). The loss is substantial compared with the total assets of the Vietnamese Government, which is about 1,000 trillion dong (Vuong Le 2017).

Other SEGs formed joint-stock banks as subsidiaries and raised deposits directly from the public without convincing investors that the project was suitable (World Bank 2008). A large part of the raised money was then invested in real estate during the asset price bubble of late 2007 and early 2008 (Dang Duc Thanh 2015; Vu Thanh

Tu Anh et al. 2013; World Bank 2008). It caused a high level of NPLs in the SOE sector when the real estate bubble shattered in 2011. Figure 5.3 shows a snapshot of the situation one year after the economic downturn started in Vietnam. Because of their careless investment, as at 30 September 2012, although SOEs only accounted for 17% of total outstanding loans, they accounted for 70% of NPLs. Clearly, the expansion of SOEs without the establishment of systems of corporate governance and effective regulations has resulted in the wasteful use of resources.



Source: SBV website

Figure 5.3: Percentage of NPLs per bank group at 30 September 2012

That mechanism of resource allocation caused the inefficiency in capital allocation. According to Duy Phuong (2011), compared with other enterprises, SOEs are holding more resources but their economic output is much lower. In 2009, SOEs held 37.2% business capital and 44.8% of fixed assets and long-term investments of the entire national economy, but only generated 25% of revenues, 37% of profit before tax and 20% of industrial production (Duy Phuong 2011). Similarly, in 2010, SOEs held approximately 70% of total fixed assets of the national economy and dominated 30% of the total national investment capital, 60% of commercial bank credit, 50% of invested capital from state budget and 70% of ODA (Duy Phuong 2011). With such substantial resources, SOEs only contributed 38% of GDP and only created jobs for about 4.4% of the labour force. The labour productivity of SOEs was lower than that of the private sector by 10% to 14% (Duy Phuong 2011).Tran Dinh Thien and Luu

Bich Ho (2015b) claimed that *'Consequently, it is clear that economic efficiency is very low* [by investing in SOEs] ... *This is a huge expense*' (translated by the author).

Some commented that '*Debts of SOEs that were guaranteed by the Government could threaten the national financial security*' (Bao Bao 2015; translated by the author). It is because public debts guaranteed by the Government increased strongly via VDB. According to Bao Bao (2015), at the end of 2014, '*for every $5, the public debt has $1 loan guarantee contract for state-owned enterprises or corporations*' (translated by the author).

5.3.6 System failure

Analysing the reason that system failure occurred, especially the case of Vinashin, professional Nguyen Tran Bat, CEO of Invest Consult, said it was owing to lack of sufficient information for controlling. He said:

> Assuming that we have a good control system, losses or disasters up to the first few trillion might be incurred undetected. However, allowing the loss to extend to 80,000 billion means that the system has problems. We do not have in the Government administration system an alarm mechanism sensitive enough to be able to prevent a disaster at the beginning. So, we definitely have to acknowledge that not only individual faults resulted in this failure, but that it also was a failure of system quality, and that system failure is the lack of an alarm system for the financial risk. The Vinashin phenomenon revealed to the Party, the Government and Parliament that if there were more intelligent thieves, they might make off with all national assets, because we do not have such an alarm system. (Viet Lam & Khanh Linh 2010; translated by the author)

The failure to provide adequate information for controlling the financial risk of SOE lending is so common in Vietnam and so widely influenced by the inefficiency of lending activities and capital allocation that it is considered *'a system failure'* that is *'the lack of an alarm system for the financial risk'.*

The lack of motivation to publish information for the market related to VDB's activities can be explained by considering that the availability of the capital fund from the state budget to VDB minimised its need to publish financial reports for raising funds. This explanation is consistent with the study of Piotroski and Wong

(2012) on China that the prevalence of state debt limited the need of state-controlled listing firms for external reports to accomplish a debt-contracting role.

Similar to VDB, other SOCBs and even JSCBs did not have sufficient motivation to offer information to the market following the revised regulations of Decision 493 and Decision 18. Particularly, because of its multiple and frequently conflicting objectives, as discussed in more detail for phase 1, the Government did not evaluate bank performance by solely using bank financial statements, thus reducing the demand for strictly forcing SOCBs to follow Decision 493 and Decision 18 in terms of loan loss recognition regardless of those regulations being revised in line with international practices.

This inference was made based on Piotroski and Wong's (2012) assertion that the reliance on other measures, rather than profit, when assessing the performance of state-controlled listing firms in China reduces the demand for high-quality external financial reports. The Government's permission for commercial banks to not make provision or classify for credit risk management the debts related to Vinashin (Tinmoi 2012) or the drainage project (Nguyen Thanh Vinh 2015) as discussed above are obvious examples for this claim.

In addition, the state control of SOCBs not only continued but also partly extended to JSCBs via cross-shareholding. Hence, the state concentrated ownership arrangement and the contracting role of accounting in Vietnamese commercial banks, especially SOCBs, are different from that of a commercial bank in a developed market with dispersed ownership.

With that cross-shareholding structure, ownership is concentrated in the hands of the Government with no clear separation of ownership and control in the organisation. Therefore, the banks do not face a serious agency problem that requires the public transparency of accounting information. A similar finding of Piotroski and Wong (2012) for China was that the dominance of the Government in the ownership structure can significantly reduce the demand for, and supply of, transparent information.

Specifically, Piotroski and Wong (2012) found:

> The Government owner of listed state firms can use private channels and their political networks, instead of public accounting and information reported to the markets, to measure and assess managerial performance, thereby reducing the demand for high-quality external information. (p. 219)

That finding is applicable to the banking industry in Vietnam as well. The Government can collect information directly from commercial banks by employing its private channel, as explained by a banking specialist, Le Xuan Nghia:

> SBV builds software for remotely monitoring NPLs independently and objectively. The result is always different from reports of commercial banks. For example, in 2006, commercial banks reported NPLs of 3.7% whereas SBV's figure was 7%. (Le Ha 2015; translated by the author)

That fact can explain the two different figures from credit institutions and SBV—as discussed in Chapter 1, the Governor indicated that this has been the case for more than 30 years (Vietnamnet 2012). The difference was not SBV's concern because it, being the major owner of commercial banks, can collect its own information via its private software for control purposes. The difference was not of significant interest to the public (e.g., bank depositors) either. Vietnamese depositors are less likely to rely on the financial information supplied by the banks when making their depositing decisions, which was also found for China where the major control is with the state (Piotroski & Wong 2012). Instead, the public focuses on the bank's political background.

For example, Agribank is a 100% state-owned enterprise with a key role in implementing Government policy (Agribank 2016). However, it had a bad reputation in risk management owing to a huge NPL amount that accounted for a quarter of the entire banking industry's NPLs at the end of 2012 (Info.net 2014). In particular, the debts in group 5, potentially irrecoverable, accounted for nearly 90% of the bank's charter capital (Info.net 2014). In spite of this fact, its deposits from customers have continued to increase sharply since 2012, making it the leading bank in raising deposits in Vietnam although it offers the same interest rate as the other banks (Nguyen Loc, Hooper & Sinclair 2013; Quan 2017). The local depositors expected the Government to bail the bank, in case it experienced financial distress, because of its critical importance to the Government. As such, the local depositors did not create a demand to the bank for high-quality external reports.

Recognising that the lack of transparency in loan loss recognition amplified the economic inefficiency in capital allocation to SOEs, one expert suggested:

> Should the state disburse credit through the commercial banking system because the risk management structure of commercial banks is safer than that of VDB? Commercial banks have their internal risk management system because they are inspected by the SBV and have to publish their annual financial statements through an independent audit. (Nguyen Hoai 2011b; translated by the author)

That suggestion represented the struggle between the Government control and market control in which more information related to state lending was required to be disclosed for market discipline (public) and for the other party (SBV) to improve its lending efficiency.

In addition to the transparency problem, the framing of public ownership as representing a socialist orientation was considered the root cause for the failure of SOEs, such as Vinashin, in leading the economy. Related to the huge loss of Vinashin and other SOEs, the policy to maintain the leading role of state economy in the market was also re-examined. The former president of the National Assembly, Nguyen Van An, said:

> I believe that Vinashin was the consequence of the global economic crisis but the system error was the root of that phenomenon, the error from the superstructure, from the policy of the Central Executive Committee of the Political Bureau, stemming from the point of view that socialist society must be based on '... the public ownership regime of main production means'. This model derives from the radical theory that private ownership of the production means is the source of exploitation. This extreme theory resulted in an economic model that lacks motivation, and thus was denied in reality. The Government had implemented this policy following the ideology of the Communist Party. (Vietnamnet 2010; translated by the author)

More specifically, VDB's favour lending mechanism to the state business sector was criticised as a manipulation of market discipline. Cong Thuong (2013) claimed that VDB's preferential loans distort market or are 'nonmarket':

> Here, capital fund (from the state budget) is abundant, interest rates are low (owing to the mechanism of subsidised interest rates) and the repayment period and other loan conditions are easier than in commercial banks.... It is time to reconsider the policy of 'special deals' that VDB made because that policy is for a nonmarket economy. (Cong Thuong 2013; translated by the author)

Learning from this lesson, Resolution 01/NQ-CP of the Government, on major tasks and solutions on directing and managing the implementation of the socioeconomic development plan and the state budget plan in 2016, has suggested for the first time, '*It is necessary to study how to transfer gradually the lending guarantees to commercial banks*' (Resolution No. 01/NQ-CP in 2016, article 2; translated by the author). It can be inferred from this statement that the bank regulators have recognised the large risk for the economy when turning commercial debt obligations into national debt obligations through the Government guarantees for lending. Their suggestion is a response to have market control instead of Government control in lending guarantees for SOEs to improve the lending efficiency.

Generally, the regulation on loan loss recognition in phase 2 was neutralised by two channels. First, they were overtaken by the commercial banks, taking advantage of cross-shareholding and regulation weaknesses as discussed in Section 5.3.2. Second, the Government invalidated the regulation as analysed in Sections 5.3.2 and 5.3.3.

The insufficiency of loan loss recognition was undetected until the present when the loss was exposed. For example, according to the Government inspector, in 2009, Vinashin actually lost nearly 5,000 billion dong, which is 3,300 billion dong more compared with its published financial statements audited by KPMG (Tran Nam 2018)[10]. The leader of the Inspection Agency in SBV has now confessed about the difference in NPL ratios in 2012, as mentioned in Chapter 1:

[10] Auditing in loan loss recognition is beyond the scope of this research owing to the lack of sufficient public data in this area.

> The difference between two figures is owing to computational and statistical data obtained from two different sources. Specifically, the NPL ratio of 4.9%, equivalent to 133,060 billion, was reported by the credit institution. The figure of 17.4% was from the inspection authorities after auditing all NPLs hidden in corporate bonds, credit trusts and restructured debts, including two 'shipwrecks', Vinashin and Vinalines. Therefore, the total bad debt *[NPL]* actually amounted to 465,000 billion. (Tieu Phong 2015; translated by the author)

This announcement is a late answer for the question raised in a press conference about the large difference between the two figures: 4.94% (reported by credit institutions) and 17.4% (reported by SBV) as at 9 May 2012. The disclosure was not made until the end of 2015 when it seemed likely that the increase of NPLs had been under the control of SBV with the NPL ratio already pulled down to the safety threshold of 3%, as described in phase 3.

5.3.7 Summary of data analysis in phase 2

In brief, loan loss accounting in phase 2 was intertwined closely with social practices in which the market force grew strongly with the equitisation of SOCBs and the launch of many JSCBs following the implementation of the multisector business sector policy. It resulted in the need for external accounting information to serve investors other than the Government because the state was no longer the only owner of the commercial banks, as in phase 1. The international commitments under the global integration policy were found the major cause of the renovation in regulating loan loss recognition as also claimed by Phuong NC and Richard (2011) and Nguyen Loc, Hooper and Sinclair (2013).

In particular, Decision 493 and Decision 18 classified debts and made provision based on both quantitative and qualitative criteria following international practices. The maintaining both methods of quantitative and qualitative showed the '*cleverness*' of bank regulators in customisation of international standards for adopting in the specific context of Vietnam. In detail, the quantitative method that was based mainly on the overdue date suited the Vietnamese practicians' '*habitus*' of compliance, thus sustaining the dominant–dominated relationship between the Government and the practicians as claimed by Nguyen Loc, Hooper and Sinclair (2013). That habitus helped to enhance the Government control.

The permission for banks to select the qualitative method, which was based on the internal credit rating system, responded well to the need of global integration. By responding in that way, the bank regulators seem to meet both oppositions of Government and market controls simultaneously, consistent with Phuong NC and Richard's (2011) comment that the accounting transformation was a success at the first glance and the modification was a clever compromise. It also explained why there were few criticisms related to Decision 493 and Decision 18. This is another piece of evidence to prove that the current definition of Government control is similar to the 'reframe' response in interpersonal communication in which 'Dialectical theorists have found reframing to be correlated with higher satisfaction than other ways of managing contradictions' (Tracy 2004, p. 137).

However, later, there were many claims that the Vietnamese standard in loan loss recognition was quite different from international standards, thus understating bank loan loss disclosed, and then distorting the capital allocation. The analysis of communication in phase 2 revealed that the difference in loan loss disclosure in Vietnam compared with the international standard was caused by the invalidation of regulation on loan loss recognition (Decision 493 and Decision 18). Both the Government and commercial banks took that action.

The Government directly intervened in loan loss recognition in commercial banks or created a separate set of regulations on loan loss recognition for lending to SOEs or state projects. This finding is complementary in another way to Piotroski and Wong's (2012) discussion about the different ways that reduced the supply of high-quality external reports in Chinese listed firms.

The system error was found to be at the bottom of such behaviour. Specifically, although establishing the multisector economy, the Government would like to develop the state economy sector into the market leader to maintain the Government's direct control over the market economy. This policy was reflected in different ways. It was reflected in the halfway equitisation of SOEs, including SOCBs, in which the firms or banks were still state controlled after equitisation. It is also reflected in the privileges offered to SOEs in resource allocations, especially, lending in spite of their low efficiency.

In terms of loan loss recognition, the privileges were waiving debts classification requirements for a commercial bank and/or provision making related to lending to SOEs. Other privileges included setting a minimal provision for lending to SOEs via VDB under another regulation instead of under Decision 493 and Decision 18, thus making them inefficient and distorting the external disclosure of loan loss.

Whereas that deficiency misled the market discipline, the Government accepted it because the state has low need of external qualitative information that is consistent with Piotroski and Wong's (2012) explanation that the state has its private channel of information collection. In the Vietnamese banking industry, SBV collected information via the direct reports from the commercial banks that were not published. Its Credit Information Centre is another private channel of SBV for collecting information related to credit risk management.

In addition, the Government can obtain the necessary information using its private channel under the state control ownership structure in SOCBs as the result of the halfway equitisation. Being state-controlled, SOCBs work for multiple objectives, other than profit seeking, to implement the Government policy. It promoted the state to establish its private channel of information rather than utilising the firm external financial reports. Similarly, Piotroski and Wong (2012) claimed that the only financial information published by the Chinese listed firms was insufficient for the Government to measure and assess the firms' performance with multiple objectives rather than profit seeking only. Therefore, the external disclosure of loan loss recognition under Decision 493 and Decision 18 would not be necessary to the state. It added to the reduction in the demand of quality information from external sources from the perspective of the government as one of the information users.

The behaviour of the commercial banks in the invalidation of Decision 493 and Decision 18 resulted from three major reasons. These are the low motivation to publish quality information, the high pressure to reach the regulation targets that are simple accounting-based ones and the weak legal environment represented by the prevalence of cross-shareholding and relative transactions. The privileges to SOEs for political purposes led to the situation that depositors cared more about a bank's political background than its published financial information. It reduced the bank's motivation to publish high-quality information of loan loss.

The setting of unaffordable regulation targets, which caused a large burden to small commercial banks, reflected the inexperience of the bank regulators in adopting the international practices related to the capital adequacy process. It was found that commercial banks managed their loan loss recognition to meet regulation targets of NPL ratio and equity growth that were simply determined based on accounting figures without the elimination of cross-transactions among relatives. It is similar to Piotroski and Wong's (2012) assertion that regulation targets based on simple accounting targets, without strong discipline to guard against manipulation, motivated the Chinese listed firms to distort their external accounting reports for reaching regulation targets. This finding is also consistent with Nguyen Loc, Hooper and Sinclair's (2013) claim that the dominated practitioners (commercial banks) tend to override the regulations imposed by the state as the dominant.

Commercial banks took advantage of cross-shareholding and relative transactions to hide NPLs to reach the regulation targets. The cross-shareholding was caused by the half-equitisation in which SOCBs were required to become a shareholder in JSCBs and SOEs purchased stocks of each other to maintain the Government control.

5.4 Phase 3: 2012–present

Phase 3 witnesses the frequent change in regulation related to loan loss recognition as the result of the ongoing negotiation of revelation and concealment in the interaction between the regulators and public. That process is presented in the following sections in relation to the four decisions on loan loss recognition stipulated during this phase. They are Decision 780 that delayed loan loss recognition (Section 5.4.1); Circular 02 that was supposed to properly recognise loan loss (Section 5.4.2); Circular 12 to postpone the implementation of Circular 02 (Section 5.4.3); and Circular 09 to amend Circular 02 (Section 5.4.4) and Circular 19 to help banks clean NPLs on their balance sheets using VAMC special bonds (Section 5.4.5).

5.4.1 Decision 780 (04/2012): the delay of loan loss recognition

By the announcement assuring the safety of depositors' money in troubled banks as described in Section 4.4.2.3, Government insurance for bank deposit was dominant over the market discipline in which depositors can lose money if they are wrong in evaluating bank financial health. Responding in that way reduced the demand for, and supply of, information to the market on commercial banks because the depositors expect the Government to ensure repayment of their deposits. Hence, the power of market control is weakened under that Government intervention. This phenomenon was also found in Chinese market under Government control (He, Wong & Young 2012; Piotroski & Zhang 2014).

In spite of its announcement, the Government had no money to meet its commitment to the depositors in case the banks failed because of the high increasing public debt as mentioned in Section 4.4.2.3. Therefore, the Vietnamese regulations were downgraded by delaying loan loss recognition to avoid bank bankruptcy that would be costly for the state following its commitment to insure bank deposits. Specifically, bank regulators issued Decision 780 dated 23/04/2012, officially allowing banks to keep rescheduled loans in their pre-rescheduled classification groups, resulting in no additional loan loss being recognised that could lead to bank bankruptcy.

In brief, the response was conducted in the way that *stability* was the priority over *change* (bankruptcy) to ensure the existence of the *Government control*. The delay of loan loss recognition was decided for this reason, whereas it is in fact a failure to maintain and develop the market economy mechanism of free competition based on information transparency (*market control*). Hence, the bank regulators decided to respond to the pole of *disinformation* in which loan loss recognition was delayed under Decision 780 to maintain *stability* even if temporarily. That selection response ignores the responsibility of the market in controlling the efficiency of capital allocation. It reduces the *market control* power in the way that investors and depositors do not pay sufficient attention to bank loan loss recognition since they expect a Government bailout in bankruptcy. Attending to just one opposition (*Government control*) of the contradiction explains why loan loss recognition in Vietnam is a regulation rather than a market target, consistent with He, Wong and Young’s (2012) finding.

5.4.2 Circular 02 (01/2013): the intention to improve transparency

The attention was switched to the free market pole after one year of delaying loan loss recognition because it was criticised by several experts and journalists in the media that delaying loan loss recognition could lead Vietnam to a decade of loss, as in Japan (Communist Party 2012; Nguyen Duc Thanh et al. 2013; Nishimura & Asahi 2014; Phan Hoai Hiep 2012). As the result of that argument, following the evolutionary trend before 2012, Circular 02 was issued on 21 January 2013, replacing Decision 493 (also see Appendix 1) with more improvement towards international practices than Decisions 493 and 18. This phenomenon can be summarised as the responsiveness to the disinformation pole then creating pressure to attend to the other pole of information. Specifically, the disinformation of loan loss under Decision 780 encountered the community reactions of fear of adversely affecting economic development [a decade of loss like in Japan]. This reaction led to the state support to the information of loan loss by stipulating Circular 02.

The scope of assets for credit loss provision under Circular 02 is wider than under Decisions 493 and 18. This is an improvement in Circular 02 in comparison to the previous regulations. The assets added to the list of objects of provision under Circular 02 include credit extensions under form of credit card issuance, investment or risk-bearing entrustment in unlisted bonds, credit extension entrustment, deposits (excluding deposit for payment) at domestic credit institutions and foreign banks' branches in Vietnam. The addition of these assets to the list of debts for loss provision stems from the fact that these assets have the same credit risk as loans and their outstanding balance was larger in Vietnam. In addition, Circular 02 requires establishing provision for interbank lending and investment or deposits in other financial institutions since they are or can be debts in substance when those financial institutions utilise them to solve their liquidity risk, manage equity growth requirement or lending to related parties.

Further, the risk extent of banks' self-classification group is required to be not less than the classification result supplied by the Credit Information Centre (CIC). CIC is a state nonprofit organisation under the SBV, which functions in acquisition, storage, analysis, processing and forecasting credit information as required by SBV under Circular 02. Bank regulators would like to monitor banks' loans classification by reconciling bank results to those of CIC to reduce the risk of insufficient loan loss recognition.

The reconciliation requirement shows the state is not confident because of the low quality of information it receives from the commercial banks on loan loss recognition, which is the consequence of invalidating regulation in phase 2 and the delay of loan loss recognition under Decision 780 at the beginning of phase 3. Hence, the CIC reconciliation mechanism under Circular 02 tightened the Government control on loan loss recognition. It also served the market need of improvement in loan loss transparency when commercial banks were suspected to hide loan losses. However, that benefit is limited because CIC is a state organisation directly controlled by SBV, rather than an independent organisation in the market. From that view, the requirement to use CIC data as the base for loans classification serves the control objective of the Government, but reduces the market's role in monitoring and evaluating credit risk. Under that design, the effectiveness of CIC data was criticised to be restricted because of insufficient communication with the market to update the credit rating (Tran Thuy 2013; World Bank 2014).

In particular, although CIC classifies loans into the highest risk groups that are suggested by financial institutions, as stipulated in Circular 02, article 8, there is no effective enforcement mechanism to ensure the data quality and timely update from financial institutions. The credit information from nonbank sectors was not included because customer data were collected mainly from financial institutions only. In addition, credit institutions cannot disclose to the borrowers the reason when their loans are refused basing on adverse credit data from CIC (World Bank 2014). The doubts about the reliability of the rating system can be explained for this restriction in disclosing information to borrowers. Moreover, Tran Thuy (2013) claimed that the enforcement of asset classification based on CIC data conflicted with bank regulators' effort to motivate commercial banks in building and developing their internal credit rating system.

Therefore, the World Bank (2014), which can be considered an international market representative, believed this enforcement is a positive step to reduce discrepancy in loan classification standards across the Vietnamese banks (World Bank 2014). However, the understated loan loss issues remained partly unsolved because of the data insufficiency and the bias towards Government control as discussed above (World Bank 2014).

5.4.3 Circular 12 (05/2013): the postponement of Circular 02

The response was found to have switched towards the Government control pole one more time in responding to the tension between domestic and international drivers. The Government is inconsistent in requiring banks to implement the change under Circular 02. As the economic depression intensified, causing loss to banks, bank regulators issued Circular 12 on 27/05/2013 to delay the implementation of Circular 02 from 01/6/2013 to 01/6/2014 (Appendix 1). The implementation of Circular 02 was suspended until June 2014 (SBV 2013b, VnEconomy 2013b) by the extension of Decision 780 to help the banks delay NPLs disclosures, thus distorting loan loss recognition.

Explaining that delay, at a recent banking conference, many bank managers claimed that if Circular 02 were to be applied, then '*bank NPLs may rise to 10%, 20% or even higher*' (VnEconomy 2013a) because banks have to receive information from the CIC of SBV as a basis for loan classification instead of using their own information. More significantly, a downgrade of debts in just one bank could cause all remaining loans at other banks to become NPLs according to Circular 02. Some people feared that this could increase the NPLs in the banking system, resulting in credit being frozen because borrowers could not borrow more when their credit were downgraded[11], thus making economic recovery even more difficult (VnEconomy 2013a).

Different from bank management in the domestic banks, foreign investors were disappointed with the delay of Circular 02 (Bich Diep 2013). Alain Cany, Co-chair of the Vietnam Business Forum asserted, in a meeting of this Forum in June 2013, that the delay was not good news for foreign investors (Vietnamnet 2014). Tomoyuki Kimura, Vietnam Country Director of Asian Development Bank also expected the Circular would be applied earlier in 2014 instead of on 01 June 2014, as stated in Circular 12 (Vietnamnet 2014). In addition, Mr Tareq Waleed Muhmood, the CEO of ANZ Vietnam insisted that '*We fully support the steps of the SBV in the implementation of Circular 02 to be closer to international standards in risk*

[11] In Vietnam, borrowers whose debts are classified into groups 3, 4 and 5 are more likely not extended borrowing limits and have to wait two to three years for applying for another loan from any bank TAICHINH.ONLINE 2016. CIC là gì? Những thông tin cần biết về CIC 'What is CIC? Facts about CIC'. 2016 ed.: Taichinh.online.

provisioning' in a press meeting with SBV in 16 December, 2013 (Vietnamplus 2013; translated by the author).

Holding the same opinion as the foreign investors, some press believed that Circular 02 was a revolution in the banking industry (Xuan Than 2013) towards the adoption of international practices in loan loss recognition. Therefore, they were afraid that the delay of application would hinder the process of international integration of Vietnam (VnEconomy 2013a; VnExpress 2013). Specifically, the delay could negatively affect the belief in the Government's operating policy and push back the progress of the restructuring of credit institutions as well as the access to the Basel II & III standards, which bank regulators were pursuing (Dan Viet 2014, Lam Thanh 2014).

5.4.4 Circular 09 (03/2014): The amendment of Circular 02

According to the roadmap, Circular 02 would be applied from June 2014 to eliminate the information users' disappointment on transparency. However, financial markets remained difficult in 2014, leading to continuous increase in NPLs and loan loss provision. As mentioned above, if Decision 780 expired and loans were categorised under Circular 02, NPL ratio would be 14.55% rather than the current published ratio of 4.6% (VnEconomy 2013a). More seriously, NPLs of some credit institutions exceeded their equity capital (Vu Dinh Anh 2014) and thus made people worry that those banks might have lost all their equity to NPLs. Thus, many financial institutions proposed further delaying Circular 02 to 2015 (Vu Dinh Anh 2014) since the application of Circular 02 towards international practices was thought to be able to cause the banking system to crash.

In this regard, the press was afraid that if the NPL recognition was to be delayed again, this could lead to the illusion that everything is going well, rather than accepting the reality (Hai Minh 2013). They supported the implementation of Circular 02 in 2014, as committed by the Government, to provide sufficient information for NPL problem solving and restructuring the entire banking system (Bao Tung 2013). They argued that bank regulators had not been aggressive enough to resolve NPLs. If Circular 02 were delayed again, the Government would miss a good opportunity to put a healthier banking system under the market discipline that helps to eliminate inefficient businesses (Nguyen Hang 2013).

These opinions show that it was critical for bank regulators to keep their commitment to implement Circular 02 to maintain the confidence of people, especially foreign investors, on the Government's determination to support market discipline. For that purpose, SBV strongly confirmed that Circular 02 would not be delayed further. In a press meeting on 16 December 2013, Mr Dang Van Thao, Deputy Chief Inspector, was denominated by the SBV Deputy Governor to reply to the question about the possibility of delaying Circular 02. He explained, '*One year postponement of Circular 02 has its historic role as creating favourable conditions for businesses, banks in difficult times ...*' and he insisted that '*... but also cannot be delayed too long. The view of our advisory bodies are still applying Circular 02 on 01 June 2014'* (Vu Hanh 2013). According to the Deputy Chief Inspector, delaying Circular 02 was necessary for saving businesses but should be stopped in 2014 to improve transparency of loan loss.

Conversely, bankers, firms and the business press continually claimed that the application of the original version of Circular 02 from 01 June 2014 could cause difficulty for firms (Nguyen Hang 2013; Nguyen Hoai 2013; Nhue Man 2013; VnExpress 2014). They explained that firms were still in difficulty because the Vietnamese economy was still in the recovery period of 2014 and 2015 (Nguyen Hang 2013; Nhue Man 2013; VnExpress 2014). Once Circular 02 was implemented, banks would have to classify all multiple loans of a customer into one group with risk level not lower than the CIC's classification, leading to double increase in NPLs. A higher risk classification would prevent customers from accessing bank lending because of their downgraded credit rating as explained in note 11 or, at least, would cause a higher financial cost to customers, which could drive them to bankruptcy. With the same thought, Vu Dinh Anh (2014) predicted that thousands of businesses, instead of the current few thousand, would cease operations in a year, if the Circular 02 was applied.

Finally, bank regulators decided to delay the recognition of NPLs once more to implement its political role in maintaining the economic, social and political stability. As the result, banks were allowed to restructure NPLs again for treating these as standard loans. For this purpose, bank regulators issued Circular 09 on 18March 2014 (Appendix 1) stating, '*Circular 02 will still be applied from the landmark date*

01/06/2014, but several criteria and contents are expected to be amended for gradual implementation' (VnEconomy 2013b; translated by the author).

That modified version of Circular 02, Circular 09, provided a compromise solution by which Circular 02 was still applied as announced previously but that implementation would not affect the economy's stability too negatively. The SBV Governor justified such compromise stating, '*It was made in accordance with the actual conditions of the market and the economy of our country*' (SBV 2013d; translated by the author). Specifically, the Governor explained, '*By restructuring, the enterprises were supported by not having to pay penalty rates for overdue loans and by ensuring they could continue borrowing from banks for running their businesses, thus reducing the escalation of NPLs*' (SBV 2013d; translated by the author).

Although Circular 09 delayed the disclosure of loan loss to the market by extending the debt restructuring for lowering the published NPLs and loan loss provision, it required commercial banks to report the debts structuring in detail to SBV for Government control as stated in Annex 01 '*Report on situations of time restructuring for debt payment*' (Circular No. 09/2014/TT-NHNN dated March 18, 2014, p. 7). Thus, the Government required banks to report NPLs to the Government, whereas it helped them to hide a part of it from the market.

From a dialectical view, all four contradictions of Government control–market control, stability–change, separate-integration and information–disinformation were found to co-exist in the above facts. That is, the Government could not ignore its responsibility to disclose loan loss to the market (*information*) following its international commitments (*integration*). However, the Government did not want to disclose loan loss (*disinformation*) because a sharp increase in loan loss recognition, which was a separate feature of Vietnam (*separation*), could activate market discipline (*market control*), leading to a series of bankruptcies (*change*) thus threatening political stability (*stability*), causing the loss of Government control (*Government control*). Market discipline had been easier to activate than in the previous phases because the confidence in the Government bailout dropped significantly owing to a large deficit in the state budget. In addition, the SBV Governor had repeatedly affirmed that *'will not use the state budget for bad debts*

[NPLs] *solving'* (Quang Vu 2014; Vietnamnet 2013; VnEconomy 2013d) because of insufficient funds, which was another distinction of Vietnam *(separation)*.

In addition, a substantial increase in NPL ratio would make it more difficult for Vietnam to borrow abroad (e.g., IMF, World Bank) (*integration*) for covering its budget deficits. It is evident that the Government always targets to control NPL ratio and retain it below 3%, which is considered normal according to international practices (Vov.vn 2012; Zing.vn 2015). This pressure gave the Government a stronger motivation to delay loan loss recognition.

Finally, bank regulators neutralised the contradiction by revealing the partial, not the full, truth of loan loss to the public. The government continuously confirmed it would not delay Circular 02 to keep its commitment to the market; however, it prepared for revising Circular 02 (Vietstock 2014, VnExpress 2014). That is, banks were allowed to delay loan loss recognition one more time via Circular 09. Under this Circular, loan loss recognition was also postponed but the conditions were stricter than the ones under Circular 12 that had first postponed loan loss recognition as mentioned in Section 5.4.3.

Specifically, under Circular 09, restructuring was allowed only once for each debt, except the lending under the Government's direction for restructuring the banking system. Such a compromise of loan loss recognition would be neither full revelation (*information*) nor full concealment (*disinformation*) but somewhere in the middle. Thus, there was no absolute improvement in loan loss recognition towards international standards as was the original expectation, in spite of the implementation of Circular 02. That insufficient transparency distorted the market discipline and thus continued to hide the inefficiency in capital allocation in Vietnam, which hindered the country's growth.

5.4.5 Circular 19 (09/2013): the creation of VAMC mechanism

Concurrently with the postponement of loan loss recognition, the SBV Governor issued Circular 19/2013/TT-NHNN on 06/09/2013 regarding the establishment, organisation and operation of the VAMC. VAMC was assigned, as the central bank-run NPL-solving firm, the function of acquiring NPLs from Vietnamese banks. VAMC is a 100% state-owned limited liability, nonprofit company that issues special bonds to buy a credit institution’s NPLs. According to Circular 19, banks can sell their NPLs to VAMC at market price or convert their NPLs at book value into VAMC special bonds.

Up to 2017, VAMC has almost always purchased NPLs using the second method of converting NPLs to VAMC bonds (Mai Trinh 2017). This method is absolutely new in Vietnam. In particular, VAMC pays for NPLs by issuing special bonds to the selling banks. The bonds are special in some ways. They have a term of five years and the interest rate is 0%. Banks use special bonds only to take financing loans from the SBV or to buy back the NPLs sold to VAMC. The amount collected from the borrower of the debt sold will be used as a source to pay for the discounted amount. If the collected amount from the sold debt’s borrower is insufficient for the payment to SBV, the banks have the responsibility to pay the deficit.

Banks cannot ask VAMC to redeem the bonds upon maturity. VAMC will transfer money to banks if it can collect the NPLs from the borrowers. Meanwhile, banks have to record provision of 20% each year and up to 100% after a five-year term for the special bonds, unless NPLs are recovered during that time. By converting NPLs into special bonds under Circular 19, banks are allowed to classify their NPLs as special bonds on their balance sheet (SBV 2013a), while they continue to bear the credit risk related to the NPLs sold.

Therefore, under this mechanism, VAMC does not share the credit risk related to the NPLs sold although it issues the special bonds to purchase them. Banks, rather than VAMC, still bear all risks related to sold NPLs. Thus, in substance, banks cannot exclude sold debts from their balance sheet because it is a factoring transaction with full recourse. By converting NPLs into VAMC special bonds, banks benefit from hiding their NPLs on their balance sheet so that they can lower their NPL ratio. In addition, the selling banks can extend their loan loss provisioning over five years instead of provisioning immediately, thus improving the bank earnings in form rather than in substance.

Hence, taking NPLs sold to VAMC out of the bank’s balance sheet can be interpreted as a violation of international accounting principles with regard to the recognition of assets and liabilities under IAS 01–Presentation of Financial Statements

(International Accounting Standards Committee 2007) because it is not a real trading or disposing of NPLs to VAMC. This organisation can be interpreted more as a 'warehouse' to help banks temporarily clean their NPLs from their balance sheet (Dang Duc Thanh 2015; Hai Minh 2014), thus distorting credit loss disclosure.

Bank regulators justified the establishment of VAMC by the argument that it is specific to Vietnam and hoped that it will not only help to improve the financial position of the banks with regarding to raising funds, but also force banks to disclose information on NPLs when selling NPLs to VAMC (Saigondautu 2014). The SBV Governor affirmed it was the most viable solution to lift the NPLs 'clot' out of the economy's 'body' (Cong Ly 2015; translated by the author). He explained:

> Now, we want money flowing into production. So just lift 'blood clot', and new blood will flow back into circulation. The picture is very clear. Taking out the 'blood clot' based on the market principle is very easy; just sell bad debts [NPLs] and it is completed. However, there is no market buyer currently, so we just need the state for the last purchase of bad debts [NPLs] sold via the VAMC organisation.… (Cong Ly 2015; translated by the author)

Selling NPLs to the market is a common practice in many countries worldwide, (e.g., the United States, China, East Asian countries and Eastern Europe) by which NPLs were solved by cash outlay at the market price under the Government's management (Dang Duc Thanh 2015; Huynh The Du 2004; Vu Thanh Tu Anh et al. 2013). However, the Governor recalled, *'But we do not have money for bad debts* [NPLs] *purchase*' (Cong Ly 2015; translated by the author). Therefore, the Governor asserted, *'Vietnam cannot handle bad debts* [NPLs] *by the state budget as in many other countries'* (VnEconomy 2013c; translated by the author), and hence, *'solving bad debts* [NPLs] *via VAMC mechanism in Vietnam is much different from [the practice in] other countries because Vietnam does not use the state budget to purchase bad debts* [NPLs]*'* (Quang Canh 2014; translated by the author). Specifically, under the VAMC mechanism, selling NPLs is a sale in form rather than in substance because the state had no money to purchase NPLs. The Governor made it clear that:

> I [VAMC] bought your bad debts [NPLs], but actually, you [banks] mortgaged your bad debts [NPLs] for borrowing from me … You have five years to solve

> your bad debts [NPLs]. I hope that in five years, your business would be better and you have money to pay your borrowings [from VAMC] … That solution can removed the 'blood clot' [NPLs] and the state will not lose money. (Cong Ly 2015; translated by the author)

The purchase of NPLs via VAMC was expected to not only provide commercial banks more funds for their lending activities as mentioned above by the Governor, but also motivate banks to continue lending to the firms holding NPLs. Banks used to be afraid to offer a new loan to those firms because current regulations stipulated a high loan loss provision rate for these firms (Saigondautu 2014). For example, if a firm had an NPL in group 5, a provision of 100% was applied for a new loan to that firm. By selling those NPLs to VAMC, banks can lend more to that firm without loan loss provisioning. Therefore, both banks and firms can unfreeze credit flows. In addition, the sale of debts to VAMC would make NPLs more transparent because banks had to present to VAMC the full records and collaterals related to the debts sold (Saigondautu 2014).

In brief, by establishing VAMC, the bank regulators expected that it would improve the transparency in loan loss to provide sufficient data for the Government control, via banks reports to VAMC. In addition, it partly met the market expectation with more disclosed loan loss recognition, which was 20% of sold debts each year. At the same time, it did not cause a negative impact on bank performance, lending growth, NPL ratio and the in-deficit state budgets.

In practice, by mainly using the VAMC mechanism, SBV informed that it was successful in solving 90% of NPLs and reduced the NPL ratio to below 3% as at 2015 as targeted (Hai Minh 2014; Khanh Nhi 2015). The Governor stressed, *'The international organizations have agreed the VAMC mechanism is acceptable in this difficult situation'* (Quang Canh 2014; translated by the author). His excuse implied that the VAMC mechanism was just a temporary solution in the short term before solving the NPLs issue. In reality, four years have passed since the issuance of the VAMC mechanism in 2013 and the economy has gradually recovered. In spite of that, thus far, the Government has just finished collecting NPLs into the VAMC store and is unclear about how to handle them (Mai Trinh 2017), whereas NPLs solving was defined as an urgent task:

> Currently, NPLs not only seriously affect the credit system, but also adversely affect the whole economy. Therefore, fast and complete solving of this problem is not only the desire of the banking sector but also the wish of the political system. This is an important, urgent mission to remove the bottlenecks in the economy, creating the conditions that promote economic development. (Tapchitaichinh 2016; translated by the author)

The lack of legal framework related to the NPLs problem solving was considered the major challenge, as concluded from the 10th session of the National Assembly XIII (Quynh Hoa 2016). According to a Member of Parliament, Nguyen Van Thang:

> The key problem is to have a mechanism to remove legal difficulties. 80% of the NPLs remaining at VAMC are mainly debts with difficulties in collection, most of which are related to legal procedures associated with the properties. (Hoang Yen 2016; translated by the author)

In addition to the legal issue, debates on the proposal to use the state budget for handling NPLs remained inconclusive, although many financial experts believed it was an essential work. For example, Dr Nguyen Tri Hieu, a banking and finance expert, argued:

> The bad debt *[NPLs]* will only worsen if not solved. In Vietnam, the number of bad debts *[NPLs]* is too large; thus, only the Government's intervention can solve the 'clot' *[NPLs problem]* for the economy. (Bach Hop 2016; translated by the author)

The specialists called for using the state budget because only that was large enough for purchasing NPLs from commercial banks. They believed that it was necessary to solve the problem as soon as possible '*because the Vietnamese NPL rate is at an alarming level, causing 'congestion' in the market capital flows, which is the major reason that interest rates are unlikely to fall*' (Bach Hop 2016; translated by the author), thus *'reducing the competitiveness of domestic enterprises in the international market'* (Tran Thuy 2016; translated by the author).

However, although those financial experts argued for VMAC to use the state budget for buying NPLs from commercial banks, the state agent in VAMC, Mr Hung, the CEO of VAMC, asserted:

> No need of additional money at this time. VAMC has even not yet used any penny of the amount of 2,000 billion dong already granted by the Government for NPLs solving because no agreement could have been made between VAMC and credit institutions for selling their NPLs to the market. (Bach Hop 2016; translated by the author)

In addition to the lack of a legal framework for forcing the borrowers to repay or for distraining their property as mentioned above, the CEO explained the necessity of a legal framework for a different purpose:

> 'What VAMC needs now is a clear legal framework. Specifically, VAMC needs a debt trading market that it can operate. A legal framework to stipulate clearly the responsibility in case a debt is solved at loss [lower than its book value]. Is that loss sale problematic? Will that loss be allowed to be covered by provision in the credit institution? Will the credit institution be allowed to record the loss gradually over years to reduce financial pressure [as the provision rule currently applied for VAMC debts]?' (Bach Hop 2016; translated by the author)

It is understandable that commercial banks do not want VAMC selling their debts to the market in its NPLs solving process because banks must record all losses incurred immediately instead of making provisioning gradually over years as allowed currently by the Government. According to Ngan Giang (2016), it is likely that the loss would incur in the sale of NPLs stored in VAMC because the banks often pass unrecoverable debts rather than standard debts to VAMC.

Similar to the VAMC CEO, a banking and financial expert, Doctor Can Van Luc, had a concern about *'who would bear the loss incurred in the sale of NPLs'* (Ngan Giang 2016; translated by the author). However, Doctor Le, a financial specialist from TGM Fund in Australia, opposed that concern. He said:

> About VAMC, this organisation does not bear any risk related to the resale of debts purchased earlier. According to the current regulation, all gain or loss from the sale of bad debts *[NPLs]* would be transferred to the banks that sold those debts to VAMC earlier. (Ngan Giang 2016; translated by the author)

Therefore, why is VAMC or others concerned about who bears the risk, thus being afraid of selling debts to the market? Ngan Giang's (2016) statement can offer some clues:

> Banks tend to hide bad debts *[NPLs]* because disclosing bad debts *[NPLs]* and making provision for them will truncate bank equity capital, leading to them being recapitalised by either the issuance of additional shares or no dividend payment. In case their financial health is too bad, leading to the risk of crisis, the Government has to recapitalise them using state budge t... Of course, recapitalisation by the state budget fund can incur a risk of loss that would be charged to taxpayers. That is the price we pay for the neglect of management/supervision by state management agencies giving rise to too risky loans in commercial banks. Therefore, instead of focusing on 'bad debts *[NPLs]* solving', [the authorities] should 'convict' the state agencies/individuals who did not fulfil their previous management responsibilities. (Translated by the author)

An inference can be made from the statement above: The loss incurred in NPLs sold to the market should be charged to not only the related commercial banks but also to the state management agencies, who did not fulfil their regulation and supervision duties. The failure to complete the accountability of the Government was witnessed in phase 2 as discussed above.

Such a way of sharing responsibility for the loss was also raised by several experts and obtained the consensus of participants in the seminar titled *'Dealing with bad loans—The bottlenecks needed to be removed'* held by the SBV coordinating with the Office of the National Assembly, VAMC and *People's Deputies Newspaper* in Hanoi on 26 October 2016 (Thanh Huyen 2016; translated by the author). For example, Doctor Le Xuan Nghia said: *'The blame for the bad debts* [NPLs] *problem is not to be assigned only to firms, or banks, but it is also the fault of the Government, of the policy and of the market economy.*' (Thanh Huyen 2016; translated by the author)

However, it is difficult to identify any specific individual or organisation in the Government who is responsible for that loss. It is often attributed to the whole group rather than any specific person or organisation. For example, in the Parliamentarians Conference on 11 April 2014 on the draft laws of public investment and the related problems (i.e., leakage and waste, spreading and corruption), the President of Congress, Nguyen Sinh Hung, said about the responsibility related to a wrong decision in regulation:

> Parliament is a legislative body; if it makes a wrong decision or policy, it must also recognise the weaknesses, but we cannot discipline the whole Parliament, especially with the criminal discipline. Even the Chairman of the Parliament is not the head but the general coordinator, the chairperson to maintain contact among 500 delegates. So, we cannot discipline 500 delegates or the chairman for their wrong voting … *[He emphasised]* Parliament is the people *[Vietnamese citizens]*, and the people vote and hence must accept the wrong decision rather than seeking who to discipline. (Linh Thu 2014; translated by the author)

Considering the President's view, in case the Government shared the loss with commercial banks and firms, the state budget should be used to cover the loss rather than charging that loss to any specific individual or organisation. It is because a part of the loss stemmed from the system error, as mentioned in Section 5.3.3, which was voted for by the Parliament that represents Vietnamese citizens as asserted by the President.

However, this solution was also strongly opposed. Thus far, the public, many experts and politicians have insisted that *'NPLs are caused by banks and businesses; thus they have to bear'* (Thuy Lien 2016; translated by the author), or *'State budget belongs to People* [Vietnamese citizens], *no matter from taxes or borrowings money; so we cannot force People to pay for what they do not owe. Using state budget to pay for that loss means taking money from the poor to pay for the rich'* (Hoang Long 2016; translated by the author).

In addition, a financial and banking expert, Pham Nam Kim, criticised that using the state budget to save commercial banks violated the market discipline. He said:

> The use of state budget, as well as public money, to 'save' the banks from their own mistake in management is paradoxical. Vietnam has confirmed it will implement the market mechanism; therefore, let the market solve its problems. (Lan Huong 2016; translated by the author)

In fact, while the Government tried to build the market mechanism as committed, it partly invalidated that mechanism simultaneously as discussed in phase 2. Thus, it is obvious that the loss was partly caused by the Government's fault, which is called a 'system error' as discussed in phase 2. However, it is difficult to obtain political consensus for the solution of using the state budget to cover the loss because it faced strong opposition from the public as described above. Using the state budget to cover the loss can greatly reduce people's confidence in the Government control with the revelation of a huge loss caused by its wrong policies, thus damaging the leadership of the Communist Party. In addition, it can cause a large burden for the state budget that is currently in deficit with high public debt, and thus can threaten the national financial security and then the Government control.

Because of that conflict, according to the lawyer Truong Thanh Duc, the nonacceptance of the responsibility sharing between the state budget, commercial banks and businesses is the critical reason hindering the NPL-solving process. He said:

> It *[the Government]* blames only banks for causing bad debts *[NPLs]*, thus treating them as criminals, refusing to amend regulations, not using the state budget to solve bad debts *[NPLs]* …, *[the Government]* should not question why the process of bad debts *[NPLs]* is slow. (Ha Tam 2016; translated by the author)

To avoid that conflict, Nguyen Minh (2016) suggested:

> We believe that the main treatment method is still using net operating income of commercial banks to process *[to make provision]* until when the book value of bad debts *[NPLs]* equals the market valuation. At that time, bad debts *[NPLs]* will be handled by selling/buying through market. (Nguyen Minh 2016; translated by the author)

Accepting this suggestion means delaying the sale of NPLs to the market until bank earnings are sufficient to make full provision for the whole loss. At that time, the net book value of the debt after provision will not be higher than the market value, and thus, the sale of those debts will not cause loss. In this way, commercial banks and the Government can both avoid recognising the loss immediately to avoid incurring undesired responsibilities for both.

Finally, the Government selected that solution by stipulating Circular 08, which came into effect from 1 August 2016 (Nguyen Phuoc Thanh 2016). Circular 08 amended a number of articles of the SBV Governor's Circular No. 19/2013/TT-NHNN of 6 September 2013, which provided the purchase, sale and handling of NPLs by VAMC. Under Circular 08, loan loss provision related to the NPLs sold to VAMC was extended to 10 years instead of 5 years as stipulated in Circular No. 19/2013/TT-NHNN in 2013 to give both commercial banks and the Government more time to delay loan loss recognition while waiting for economy recovery.

In brief, after the Government failed several times to keep its word to improve the transparency of loan loss to the public, the VAMC mechanism was finally found as a 'creative and unique' response that partly resolved the contradictions by responding to a small portion of the market control, integration and change oppositions rather than denying them in full. Specifically, the part of NPLs sold to VAMC was disclosed to the public by declaring VAMC special bonds under long-term investment securities items. The disclosure just partly improved the transparency in loan loss because NPLs were renamed as investment securities, which distorted the substance of that item. Moreover, the provision for their related loss has not been made in full, but is recorded gradually over 10 years as described above (under Circular 08 stipulated in 2016), thus overstating banks earnings and assets but giving banks more time while waiting for the economy to recover so that banks can obtain more resources to make provision. The NPLs were still stored in the VAMC organisation and were not yet settled adopting market discipline, thus freezing the related economic resources. Therefore, no significant change has occurred in loan loss communication in response to the opposition of market control, integration and change.

5.4.6 Summary of data analysis in phase 3

In phase 3, the information of loan loss recognised related to the acceleration of NPLs that threatened the stability of the Government control because it could damage both the economic and symbolic capital of the Government. The reason is that a significant part of NPLs was related to the state economy sector. Therefore, using the state budget to cover that loss would reveal the weaknesses of the Government in its administration because the loss was partly the Government's fault in terms of its policy, which was described as the system error in phase 2.

In addition, the recognition of that loss would place a substantial burden on the state budget while it was in deficit with a high public debt, thus threatening the Government's financial security. In spite of that, the Government could not let the state economy sector go bankrupt without a state bailout, in case loan loss was full recognised. The key economic and political role of the state economy sector determines the Government's symbolic and economic capital; as claimed by Nguyen Loc, Hooper and Sinclair (2013), the Vietnamese Government was the dominant in Vietnam because it held the majority part of the economic and symbolic capital. Therefore, the recognition of loan loss would threaten the Government's dominant role in the economy.

Further, the Government could not let banks become bankrupt since many people would lose their deposits in banks, which would threaten the nation's economic, social and political stability. In addition, the Government could not bail out the banks or the depositors owing to its current weak financial ability.

Although all the facts above support the postponement of loan loss recognition, the Government faced pressure from the market force, represented by the public and foreign organisations, on the transparency of NPLs when they witnessed its acceleration. The public and foreign organisations paid more attention than previously to ensuring that the external quality information was according to international practices in response to the worry that the state budget with high public debt was insufficient for bank rescue in the period of financial distress in spite of the bank's strong political background.

It explained why the difference between the disclosure of SBV and that of commercial banks had been not a concern of the public until phase 3 when doubts arose about the Government's economic capital for bailing out the banking system.

Further, the transparency of information on NPLs of commercial banks was critical to the Government to take control over loan loss recognition in commercial banks. It was not under the Government's control when the regulation was invalidated during phase 2 and relaxed during phase 3. The problem was increased in severity because the acceleration of NPLs was out of the Government's control in phase 3.

Facing those challenges, the Government frequently changed the regulations on loan loss recognition to extend the deadline for banks to make loan loss provision and disclose NPLs to public. The Government repeatedly stipulated new regulations as a promise to force banks to recognise loan loss by adopting international standards in the near future. Those promises temporarily calmed down the public although they were denied by the next promise. Conversely, the Government sustained its control by intensifying its inspection over loan loss recognition in commercial banks and required these banks to report their restructured debts to the CIC as the Government's private channel rather than via public financial reports for market discipline.

Those actions aimed to delay the information of loan loss to the market but enhance the information to the Government, and were thus undertaken to favour the Government interest rather than that of others. That response is consistent with Benson's (1977) claim on studying organisations from a dialectical view that 'in crisis periods, when thoroughgoing change is possible, participants may see their interests more clearly and conform their ideas and actions closely to them' (p. 7).

5.5 Conclusion

This chapter grouped the communication data into three phases and coded and linked them into a story to understand the meaning of data in their contexts from a dialectical view. Then, the found story of changes in loan loss recognition provides further understanding of the related context meaning. Such understanding over three phases forms the foundation for developing themes and emerging patterns in the next chapter.

Chapter 6: **FINDINGS AND DISCUSSION**

6.1 Introduction

The previous chapter provided the story of regulating loan loss regulation in Vietnam from a dialectical view. This chapter analyses that story to summarise the findings and discusses them in comparison to the propositions developed in Chapter 3 from a dialectical view. The analysis above shows that over the three phases, the conflict between Government control and market control was at the bottom of the communication in regulating loan loss recognition in Vietnam. The results are presented in the order of the three phases as stated in the previous chapter. Then the emerged patterns are presented in the following sections.

6.2 Phase 1: Contradictions and Responses

As analysed in Chapter 5, most of the communications in phase 1 are related to the four contradictions of Government control–market control, stability–change, separation–integration and information–disinformation. At the beginning of phase 1, the communication discussed about how bank loan loss provision was regulated to serve different objectives of the Government rather than to disclose information for market control (*information–disinformation contradiction*). The multiple objectives of the Government included tax collection, statistics and direct management.

The debate responded to the Government control opposition rather than the market control opposition because the whole banking industry was state-owned and under the direct control of the Government as the heritage of the planned economy model *(Government control–market control contradiction)*. Therefore, the accounting system was designed to serve the Government as the dominant information user of accounting. This finding is consistent with that of Phuong NC and Richard (2011) that the accounting system in Vietnam was designed to work for multiple objectives of the state, such as tax accounting and management.

The market control was formed when the Government defined the Renovation policy with market development following global integration as a political determination to maintain the Government control in Vietnam. Thus, the market control was originally not considered an opposition to Government control but a means to accomplish the goal of maintaining the Government control.

The relationship between *stability and change* was mentioned as complementary elements when the Government considered the change towards global integration and free market development a critical condition for stabilising the economy, politics and society, which is a requisite for maintaining the Government control. It is the metabolism through which bank regulators decided to change regulation towards global integration and free market to obtain the stability for government control.

Setting regulation by adopting international practices to serve market control development was required for global integration towards internalisation policy *(separation–integration contradiction)* since it was defined as being a part of Government control enhancement. With that determination, the adoption of international practices in regulation was considered an advance step for improving the local regulation rather than a confrontation with separate need.

In terms of regulating loan loss recognition, the market force started to appear obviously at the end of phase 1 when the banking industry was changed by separating it into two tiers, the SBV and the commercial banks, with an independent financial mechanism. That change was a result of the market development policy. Since the commercial banks have to operate relatively independently in the market rather than being subsidised by the state budget as before, it was necessary to establish loan loss provision first, from the banking regulation approach, as a reserve fund to absorb the risk of credit loss.

Then, as the result of the global integration policy, the accounting approach was also mentioned in many suggestions to treat loan loss provision as an expense rather than a reserve to obtain a faithful financial statement under accrual basis accounting as per international practices. Loan loss classification was at first simply applied for measuring loan loss provision and risk management. With those changes in regulation, disclosure of loan loss information to the public commenced, establishing the initial step for providing information to serve market discipline. It is the result of the responses to the other three contradictions rather than a separate response to the contradiction of information–disinformation.

Several implications can be proposed from the findings above. First, the oppositions of the three contradictions of Government control–market control, stability–change and separation–integration were defined as complementary elements in political, renovation and internationalisation issues. The oppositions of market control, change and integration were the means for achieving the oppositions of Government control, stability and separation respectively. This definition was similar to the 'reframe' response found by Baxter (1990) and Tracy (2004) in interpersonal communication. Considering that response, the participants viewed one pole of an organisational tension as a means for achieving the other pole (Tracy 2004) and no longer regarded the two contrasts as opposites (Baxter 1990, p. 73). This pattern is summarised in Table 6.1 (page 172) about the contradictions and responses related to regulating loan loss recognition.

Second, the two relationships of stability–change and separation–integration arose from the perceptual transformation of Government control, which increased the market development towards internalisation. The development of market control with the competition of multibusiness sectors is a critical change for the Government because it played the monopoly role owing to the fact that Vietnam had only the state economy sector at that time. The internationalisation is another substantial change when Vietnam was a closed economy under the monopoly control of the Government rather than relatively free market competition as commonly found in the developed countries.

The perceptual transformation of Government control opposition defined responses to the two relationships of stability–change and separation–integration. In particular, the change and integration poles were selected as responses to the market development towards the internationalisation policy. That policy aimed to improve the national economy by taking advantage of global integration, and thus helping to re-establish political stability and then enhance the Government control.

Thus, the Government control opposition, which used to be associated with the separation and stability oppositions as shown in Figure 6.1, was reframed as being complemented by the development of market control opposition, which was correlated with integration and change. Figure 6.1 shows the relationship between

Government control–market control and two other contradictions as it used to be at the beginning of phase 1 rather than after its unification at the end of phase 1.

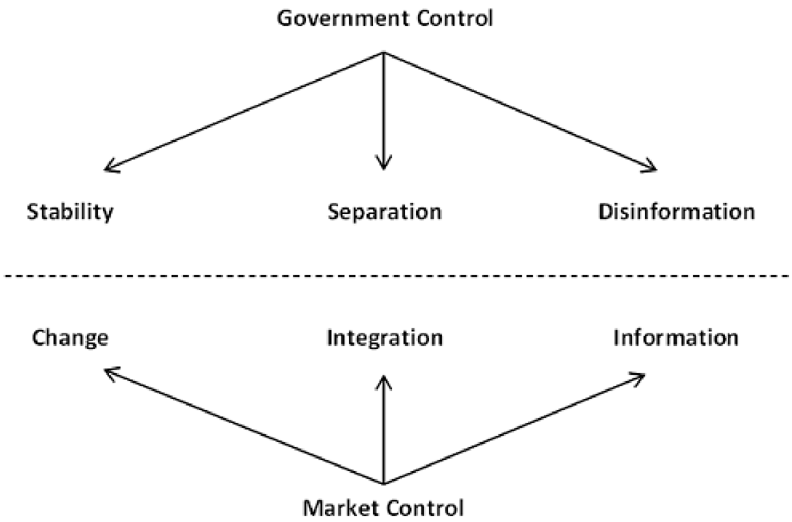


Figure 6.1 Relationship among four dialectics

Third, by taking into consideration the two implications above, it can be inferred that the response to the contradiction of Government control–market control was at the bottom of regulation transformation in loan loss recognition in phase 1. The definition of Government control as market development with internationalisation caused the '*change'* in accounting regulation towards global '*integration*' that resulted in the improvement in loan loss '*information'* to the market. That causal link can be summarised as Change → Integration → Information as shown in Figure 6.2.

Before 1986: Instability	
Phase 1:	Change → Integration → Information
Phase 2:	Separation → Disinformation → Instability
Phase 3:	Stability → Disinformation → Separation
Phase 4 (proposed):	*Change → Integration → Information*

Figure 6.2: Effects of framing Government-control opposition

Table 6.1 Summary of contradictions and responses in three phases

	Politics Issue	Transformation Issue	Internationalisation Issue	Transparency Issue
Phase	**Government Control–Market Control**	**Stability–Change**	**Separation–Integration**	**Information–Disinformation**
1	Considered the development of market operating under market discipline as a means to maintain the Government control (complementary).	Change towards global integration and free market development for stabilising government control (complementary).	Started to simply adopt international standard to build the first national regulation on loan loss recognition (complementary).	Started to inform loan loss for market discipline. (It is the result of the responses for the other three contradictions rather than a separate response for this contradiction.)
2	Defined the Government control being the leading role of state economy sector, the state-controlled ownership structure based on half-equitisation and the regulation targets based on simple accounting figures (neutralisation).		Regulation was much closer to international practices in loan loss recognition but was invalidated directly or by establishing a separate regulation set for state-related lending activities (topic separation or vacillation).	Loan loss was distorted in disclosing to both the market and the Government. (It is the result of the responses for the other two contradictions rather than a separate response for this contradiction.)
3	Government overrode the market discipline by ensuring bank deposits and avoiding bank bankruptcy by delaying loan loss recognition (selection). The Government has taken back the control of loan loss recognition but not disclosed significantly to serve market control (bias neutralisation).	Change was made slowly and was insignificant in loan loss recognition (selection; bias neutralisation).	Little adoption of international practices in regulations on loan loss recognition (selection; bias neutralisation).	Loan loss was mainly closed to the public (selection; bias neutralisation).

Specifically, those responses to two relationships, stability–change and separation–integration with market development towards integration, influenced the accounting regulation in the way that the accounting system designed under a plan economy was strongly criticised as being problematic because it merely attends to the opposition of Government control, which is separated from global integration and ignores the other half of its responsibility to serve market control. The debate led to the transformation of regulation on loan loss recognition at the end of phase 1 towards international practices that better inform loan loss to the market. This trend peaked at the end of phase 1 and the beginning of phase 2 with the stipulation of Decision 493 and Decision 18 as discussed in Chapter 5. This pattern is represented in Figure 6.3 regarding the transformation process of loan loss recognition.

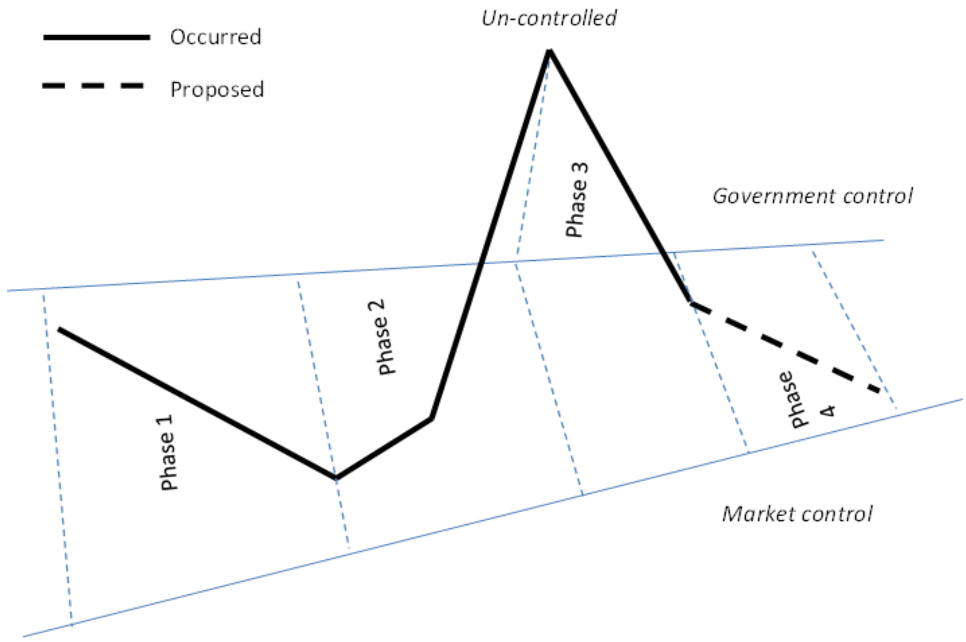


Figure 6.3: Transformation process of loan loss recognition

Finally, although the response to the Government control–market control contradiction determined how loan loss recognition was regulated in phase 1, significant time elapsed before that effect could be observed. It was found that the accounting regulation was not transformed much until the end of phase 1 despite the perceptual transformation of Government control that occurred at the beginning of phase 1 when the Renovation policy was initiated in 1986. The style of decision-making by consensus and the naïve dialectical thinking can explain this long time gap.

6.3 Phase 2: Contradictions and Responses

Several implications can be provided from the data analysis above. First, the communications in phase 2 were mainly about the two contradictions of Government control–market control and separation–integration. The features of those two contradictions were described in Table 6.1 based on the discussion that follows.

Second, the change in the definition of Government control opposition led to the emergence of the separation–integration contradiction and determined the response to it. Particularly, to maintain the Government control in a market economy with multiple business sectors competing with other, the Government control was redefined as the leading role of the state economy sector, the state-controlled ownership structure based on half-equitisation and the regulation targets based on simple accounting figures.

Through that response, the Government intended to fulfil both oppositions, but only partially. Particularly, the Government sacrificed a portion of its monopoly control to accept the existence of multiple business sectors competing with each other under market control. Yet, the market control was also diluted by the dominance of the state economy sector and by the Government's close control via regulation targets or as the major shareholder. This response was made in a similar way as the neutralisation response found by Baxter (1990) in interpersonal communication. The neutralisation style is defined as follows: 'a portion of each contrasting condition is perceived to be "sacrificed" to compromise the contradiction' (Baxter 1990).

That perceptual transformation triggered the contradiction of separation–integration in regulating loan loss recognition. It is the struggle between local needs and international requirements in loan loss recognition for global integration. While the Government desired to have its separate regulation to support the state economy sector to become the market leader, it needed to set regulation adopting international practices to serve market control development that was required for integration.

Government responded to the contradiction of separation–integration by adopting international standards for building regulation on loan loss recognition (*integration*), yet invalidating or setting a separate regulation set for state-related lending activities (*separation*) so that the bank management could understate loan loss related to those debts. The understatement of loan loss helped to hide the inefficiency in lending to state economy sector, thus facilitating the sector in accessing capital resources to become the leading sector for maintaining the Government control as per the Government's expectation, although the sector grew just in size with low efficiency. Hence, it can be concluded that the type of response to the Government control–market control determined the presence of the separation–integration contradiction and the type of reactions to it in phase 2. This relationship between the two contradictions was reflected in Figure 6.1.

Then, the redefinition of Government control and its impact on the separation–integration contradiction, in turn, determined the market control opposition in phase 2. In particular, with the response above to the separation–integration contradiction, the Government took part in the market function in capital allocation related to the lending to the state economy sector. Hence, the lending activities were segmented into two separate areas for different treatments that separately meet the national needs and the global integration requirements. Through that response, the state selected to maintain its control over critical lending activities to SOEs and state projects and gave up its control over the others to the market. Therefore, the response was not as extreme as the response style at the beginning of phase 1 in which the Government control was dominant over the market control. Instead, both the Government and market directly participated in capital allocation in separate areas in phase 2.

This reaction was similar to the topical separation or vacillation style found by Baxter (1990) and Tracy (2004) in interpersonal communication. According to Baxter (1990), through the separation response, people temporarily separated contrasting elements in different activity domains into 'those for which one contrasting pole is appropriate and those for which the other contrasting pole is appropriate' (p. 72). Tracy (2004) described that topical vacillation means that people switch between opposing organisational norms depending on the topic. The contradictions and their related responses in phase 2 were summarised in Table 6.1.

Third, the responses above to both contradictions denied both oppositions of the contradictions. In detail, the responses above caused a reduction in demand and supply of external quality information. Specifically, although the Government was the main investor, it had low demand for such information because the state-controlled ownership structure gave the Government a private channel to collect necessary information for assessing the firm performance on multiple objectives rather than profit only as the main objective of external financial reports. In addition, the privileges offered to the state economy sector, in which the understatement of its loan loss is an example, caused the public to pay more attention to a company's political background rather than its financial health. It caused a low motivation for commercial banks to supply high-quality information to public. The banks even invalidated regulation, taking advantage of the cross-shareholding created by half-equitisation to meet the regulation targets based on simple accounting figures.

As the result of the invalidation by both the Government and commercial banks, the regulations were disabled for market control in lending activities related to the state as well as nonstate sectors. It made loan loss communication in Vietnam completely different from international practices and out of market control. The Government also lost its control over loan loss communication related to the state economic sector when it allowed bank managements to understate the loan loss incurred in this sector as discussed in third inference. In short, loan loss communication moved far from market control when the regulation was invalidated. Despite the fact that the invalidation was made to enhance Government control, loan loss communication gradually went out of the control of both the Government and market at the end of phase 2. This progression was illustrated in the graph in Figure 6.3.

The graph in phase 2 includes two segments. In the first part of phase 2, the communication was gradually being shifted to assist the Government control by invalidating the current regulations for understating the loss disclosed related to state lending activities. Therefore, the lending activities were separated into two areas for loan loss communication under the control of Government and market, respectively. That shift resulted from the new identification of Government control as the leading role of state economy, the half-equitisation and regulation targets based on simple accounting figures.

In the second part of phase 2, that perceptual transformation of Government control not only limited the market control over the state-related debts as mentioned above but also misled the market control as regards the loss communication of other debts by reducing demand and supply of external quality information from commercial banks. Hence, loan loss communication escaped from both Government and market control, reaching an uncontrolled state and causing such communication to be a controversial issue. The uncontrolled status reached the peak at the end of phase 2 with the acceleration of NPLs. At this time, the loan loss communication was most contentious.

This finding proves the existence of the interdependence between the Government and market control oppositions and that overlooking their interdependence by neutralising them in response to their dialectical contradiction can weaken both oppositions. The same result was also found for the contradiction between separation and integration oppositions when separating them in response. Finally, the local need of maintaining the Government control (*separation*) and the need to fulfill global integration requirements (*integration*) were both not met because of the regulation invalidation.

That sequence is another evidence confirming the proposition that the Government/bank regulators can adopt the neutralisation and separation styles with the same weakness illustrated by Baxter (1990) that ‘the parties seek to deny the interdependence of the contrasting elements by “upcoupling” or separating them’ (p. 129). Those neutralisation and separation responses, which ignored the interdependence between the two oppositions leading to the noncontrolling of loan loss recognition, were evidences for the naïve dialecticism as proposed.

Fourth, it can be inferred from the sequence of the events above that the ‘*separation’* in loan loss recognition in practices by invalidating the regulations (Decision 493 and Decision 18) led to the ‘*disinformation*’ in loan loss communication to not only the market but also the Government, thus distorting capital allocation. Finally, it led to the economy’s *‘instability’* with the acceleration of NPLs at the end of phase 2 because the lending activities were out of control of both the market and Government. That progression was summarised in Figure 6.2 as the causal link of *Separation* → *Disinformation* → *Instability*.

Finally, only the two contradictions of Government control–market control and separation–integration emerged in the loan loss communication in phase 2 as summarised in Table 6.1. The reason can be that the transformation policy with the selection of change for obtaining economic stability was determined already in phase 1. The change in phase 2 was an inheritance without debate from that determination. Similarly, transparency or not, as the result of that change determined in phase 1, was not a controversial issue in phase 2. The disinformation and confusion in loan loss communication at the end of phase 2 was the consequence of how the two contradictions of Government control–market control and separation–integration were responded to, rather than a response to the contradiction of information–disinformation.

6.4 Phase 3: Contradictions and Responses

According to the analysis in Chapter 5, the communications in phase 3 were related to all the four contradictions, namely, Government control–market control, stability–change, separation–integration and information–disinformation, which were underlying all the four issues, that is, politics, transformation, internationalisation and transparency.

The information–disinformation of loan loss was found prevalent in the communication of loan loss in phase 3, but indeed, the contradiction of Government control–market control was at the bottom of that phenomenon. The Government control was threatened because of the NPLs information that might lead to instability. To maintain the Government control, the regulation on phase 3 was highlighted with its emphasis on the *stability* objective, leading to the *disinformation* of loan loss, and then placing the regulation in *separation* from the world as the result. This pattern was presented in Figure 6.2 as the causal link of *Stability* → *Disinformation* → *Separation.* The proposed pattern of phase 4 is discussed in the next chapter in Section 7.3.1. In that way, the process of Government control–market control contradiction was found underlying the emergence of the other three contradictions. This relationship was reflected in Figure 6.1.

Facing that difficulty, the Government control was found being redefined as maintaining the economic and then political stability rather than improving the transparency of loan loss. Thus, loan loss recognition was allowed to be delayed by postponing the implementation of debts classification by following CIC standards.

By delaying loan loss recognition, the Government tried to resist that economic transformation to maintain temporal stability, which was considered necessary for ensuring the Government control. That effort triggered the contradictions in transformation, internationalisation and transparency of loan loss communication.

That response is similar to the selection response style found by Tracy (2004), which is ‘selecting one norm to uphold in favour of another’ (p. 129). That style was defined by Baxter (1990) as ‘making one condition or pole dominant to the exclusion of the other condition’ (p. 72). Specifically, the stability–change contradiction was responded to by selecting stability opposition. For reaching that objective, the information–disinformation contradiction was reacted to by selecting the disinformation opposition. Therefore, the contradiction of stability–change was in the middle of the causal link between the Government control–market control contradiction and the information–disinformation contradiction because the Government considered the stability a survival means for ensuring its control temporarily in the economic depression in phase 3. Hence, the regulation on loan loss recognition implemented in this period moved further away from international standards. In other words, the separation–integration contradiction was responded to by selecting separation rather than integration for saving the Government control. These contradictions and the related responses were summarised in Table 6.1 based on the following discussions.

That extreme response of selection was problematic, because the Government just attended to one set of the contradictions and ignored half of its responsibilities, especially when Vietnam had to show its will to adopt international standards in loan loss disclosure. Such adoption was essential to maintain the financial support and trading from the global market for saving the country from financial depression, which was essential for maintaining the Government control as well. In addition, the Government control on loan loss recognition could not be implemented when commercial banks still hid their loan loss from the Government.

The VAMC response is similar to the neutralisation response found by Baxter (1990) in interpersonal communication in which a portion of each opposition was replied to. However, whereas both oppositions of the contradictions were responded to partly under the VAMC technique, the oppositions of Government control, stability, disinformation and separation were responded to much more than the oppositions of market control, change, information and integration in several ways.

First, it showed the public, especially the international institutions, the Government's efforts to be more transparent in loan loss communication and significantly helped reduce the NPL ratio in Vietnam, although such reduction was only in the books. The government interpreted the adoption of international standards in loan loss communication as the disclosure of NPLs via the VAMC special bonds. By taking that action, the Government could improve its symbolic capital to call for financial aid and improve its trade with the world to recover from the financial depression.

Second, with the VAMC mechanism, the loan loss provision for NPLs was continuously delayed with the extension of the deadline for making full provision, thus helping to avoid bankruptcies and reduce economic, social and political instability. Third, the extension implied that banks would delay the sale of NPLs so that they could record the loss gradually, rather than in full, if they were to sell NPLs to the market. Hence, the delay of loan loss recognition can help the Government temporarily avoid facing its responsibility related to the loss incurred in selling NPLs to the market. Finally, the Government now can control NPLs sold to VAMC with related information for value assessment; however, that information is yet to be transparently disclosed for market control. In general, the Government rather than the market has gradually controlled the loan loss recognition and communication more because this information was significantly closed to the market. This pattern was symbolised in Figure 6.3. The graph of phase 4 is discussed in the next chapter in Section 7.3.1.

Therefore, the VAMC technique can also be considered bias neutralisation rather than fair neutralisation. The bias neutralisation is a response technique in which both oppositions are responded to but not at the same level. In VAMC technique, it was found that bias neutralisation was applied as a complement to a selection response to compromise the contradiction when it was too fierce to respond to by only selection. This classification was summarised in Table 6.1.

The frequent changes of the timeline for loan loss disclosure can also be interpreted as evidence that the Government was passive and embarrassed in dealing with the contradiction. The choice of selection response, which was problematic as discussed above, proved that the Government could not identify another, better solution, whereas maintaining the Government control was considered essential.

6.5 Synthesis of Three Phases

Over three phases, all four contradictions of Government control–market control, stability–change, separation–integration and information–disinformation were found underlying the four issues of politics, transformation, internationalisation and transparency, respectively. The Government control–market control contradiction was found prevalent over three phases. The other three contradictions were not equally prevalent across the phases of loan loss recognition and communication. The Government control–market control determined which contradictions were critical and how they were responded to in each phase. The remaining contradictions were the various components in the causal relationship.

This finding is consistent with Stohl and Cheney's (2001) claim when they examined organisations from a dialectical view that the organisation transformation is typically affected by multiple related contradictions. According to Benson (1977), some contradictions may be more decisive than others in determining the fundamental character of an organisation. Those critical contradictions 'define limits which must be exceeded to transform an organization' (Benson 1977, p. 16).

In this study, the Government control–market control contradiction, being the key one, was found to determine the occurrence of the others. This unique feature of the Vietnamese context makes its issue different from the ones of the other countries and thus limits its learning from other countries. Specifically, it was found from the discussion over three phases above that the Government control opposition was often occurring concurrently with stability, disinformation and separation. The reason can be that Government control opposition was more likely sustained by an improvement of stability, disinformation and separation. The economic stability was found to be a requisite to maintain public confidence in the Government control ability. In addition, the disinformation to the public helped the Government hide the inefficiency in its control, which was thus the opposite of the requirements for global integration.

In addition, the market control opposition was found to be correlated with the oppositions of change, disinformation and integration. That explanation for that relationship is that the market control was more likely enhanced by an improvement in change, information and integration. This conclusion was confirmed over the three phases in which the market control was formed and developed when the Government changed its political and economic policy towards market economy following global integration for which sufficient public information of loan loss was a requirement. The classification of the two groups above merely shows the contrast between the two oppositions of government and market control rather than their unification.

In their unification, it was also found that the Government/bank regulators could fluctuate between responsiveness to these opposing demands in the dynamic interplay of those oppositions depending on how the Government defined its control. In particular, change opposition was also found to be concurrent with the oppositions of Government control and stability in phase 1 because the Government considered change a must for maintaining economic stability and then ensuring the Government control.

The facts above show that the dialectic of Government control–market control is the primary contradiction because it is likely that the dynamic interplay of the three others aimed to solve the Government control–market control dialectic. Hence, the right accounting for loan loss recognition in the Vietnamese context should be the one that can unify both oppositions of Government and market control. This conclusion is consistent with Dixon's (2000) claim that 'In Vietnam, the development of elements of the market economy and integration into the global system are taking place under the auspices of a single-party state that continues to affirm its commitment to state control over the economy' (Cited in Phuong NC & Richard 2011, p. 708). It also confirmed Benson's (1977) claim that 'contradictions may be generated also in the larger society and imposed upon the organization' (p. 15).

The conflict of Government and market control is a dialectical contradiction because it is based on the ongoing process of constant push–pull between the two contradictory elements of Government control-market control. The interplay of those two oppositions was continuous over three phases and the Government did not make a choice in a one-shot encounter in which the Government would 'weigh pros and cons and make trade-off' (Erbert 2000). Over time, the very meaning of the Government control opposition is likely to shift depending on bank regulators' perception. That perception transformation was found to be at the bottom of how loan loss recognition was regulated and communicated in Vietnam.

Hence, overall, the perception of the Government/bank regulators had a critical role in determining the responses to contradictions in the regulation of loan loss recognition. This finding is an illustration of Benson's (1977) assertion that 'the construction of the organization depends upon the power of various participants, that is, their capacity to control the direction of events' (p. 7). In the specific context of Vietnam, the Government was found to be in dominant positions (Nguyen Loc, Hooper & Sinclair 2013), thus 'permitting the imposition and enforcement' of its conceptions of reality (Benson 1977, p. 7). Others, especially local bank managements and creditors must act in conformity with the Government's definitions, which is consistent with Nguyen Loc, Hooper and Sinclair's (2013) claim about the habitus compliance of Vietnamese accountants and bookkeepers. With its dominant power, the Government can design the regulation on loan loss recognition as an instrument for serving its specific purposes.

From the discussion of three phases, the Government's responses to the contradictions in regulating loan loss recognition were found to occur in the similar way as different response styles stated in interpersonal communication by Baxter (1990) and Tracy (2004). Notably, the neutralisation was found in a bias form in phase 3. That type of neutralisation has not been mentioned in interpersonal communication.

It was also found, as Nonaka and Toyama (2002) claimed, that human agents and their environment continuously define and reproduce each other. In the social context of instability and monopoly control at the beginning of phase 1, the Government/bank regulators adopted a response that produced the new context of global integration and market development that limited the Government control over capital allocation. As the result, within that produced social context, the Government redefined its control over capital allocation by allowing the understatement of loan loss in the state-related loans. By doing so, the Government reproduced the new context with the segregation of control between state and nonstate-related debts, which then replaced the Government control of loan loss communication as an emergent of the accounting manipulation in loan loss recognition. It means that the segregation of control over loan loss recognition, which was accepted by the Government during phase 2, was then undermined by ongoing acts of the new social context in which the regulation was invalidated in both of state and nonstate sectors. The Government adopted that redefinition based on its peculiar priorities but then it generated another problem that the Government lost its control over loan loss communication as found in phase 2. Hence, 'even powerful actors may be unable to maintain an orderly, rationalized system of social relations in the face of this ongoing process' (p. 4) as claimed by Benson (1977).

Thus, the transformation of loan loss communication was a semi-autonomous process rather than 'a result of goal pursuit and/or need fulfillment' (p. 2) as claimed by Benson (1977) about the production of organisational arrangements from a dialectical view. The process was found to be most autonomous in the second part of phase 2 as described in Figure 6.3. Because a transformation process is unplanned and not coherent at some points of time, Benson (1977) believed that social arrangements are 'complex, interrelated wholes with partially autonomous parts' (p. 4). In this study, despite the efforts of the Government to drive the process, some elements emerged beyond its reach of rationalisation. It explained Ezzamel and Xiao's (2011) claim that the accounting change process in transitional countries would not necessarily be smooth but be 'non-linear, dynamic and problematic' (p. 635). Thus, it also clarifies why loan loss communication has been a controversial issue in Vietnam thus far.

6.6 Conclusion

This chapter discussed the findings and used diagrams to link the various hypotheses for determining emerging patterns by adopting the dialectical theoretical framework developed in Chapter 2. It was found that to maintain its control, the Government desires to develop a free market and increase global integration, which both require transparency in loan loss recognition. Underlying those policies are four main contradictions: government control–market control, stability–change, separation–integration and disinformation–information. The Government/regulators responded to those contradictions mainly by adopting separation and neutralisation styles, thus being inconsistent and haphazard and denying the interdependence between the two oppositions. It led to the delay and contention in communication of loan loss. Next, all the chapters are combined and summarised in the Chapter 7.

Chapter 7: CONCLUSION

7.1 Introduction

This archival study seeks to contribute to the existing literature on bank loan loss by examining why loan loss communication is a contentious issue in the specific context of Vietnam. For that purpose, the communication related to regulating loan loss recognition in the Vietnamese context of quasi-market towards global integration was examined from a dialectical view. The study adopted an interpretive paradigm and dialectical theory. The content analysis was conducted on the data collected from the public communication on regulating loan loss recognition in Vietnam. The next section presents the key findings of the study. Section 7.2 summarises and synthesises the key findings from the previous two chapters. Section 7.3 sets out the significance of the study in both the literature and practice. Section 7.4 states the limitation of the research. Section 7.5 offers suggestions for future research, while Section 7.6 provides a conclusion.

7.2 Key Findings

This study examines ongoing regulation on loan loss recognition in Vietnam to understand why loan loss recognition is a contentious issue in the Vietnamese context. The research found that the contention in loan loss recognition in the Vietnamese context resulted from the dynamic interplay between the oppositions of four related dialectics, namely, Government control–market control, stability–change, separation–integration and disinformation–information.

Particularly, the dialectic of Government control–market control underlines the Vietnamese politics issue. Banks in Vietnam exist in a world of two colliding forces—government control and market control—that is called the market economy with socialism orientation. The mixture of government control and market control opposites in Vietnam serves the need of free market development while maintaining the monopoly control of the Government in capital allocation.

The dialectic of stability–change was found in the transformation issue. Bank regulators have to change regulation to respond to the Doi Moi policy towards the development of market economy with socialism orientation. Yet, the stability of banking industry is one of the requisites for the existence of the Government control.

The dialectic of separation–integration arose from the global integration issue in which bank regulators desire to integrate regulation with global standards to attract foreign capital investment or trade with international markets to achieve the local market economy development objective. Simultaneously, the bank regulators tend to resist the adoption of international standards to protect domestic identities of which the maintenance of government control is critical. These colliding forces are external to the Vietnamese economy in the situation in which the domestic drivers compete with the international drivers for dominating the economy.

The dialectic of disinformation–information arose from the transparency issue. Bank regulators desire to delay loan loss recognition to hide the weak performance of their policy and maintain the economic and then political stability that is critical for the existence of Government control. Yet, transparency of loan loss recognition is a requisite for market development and global integration.

In general, the dialectic of Government control–market control is the primary contradiction because it is likely that the dynamic interplay of the three others aimed to solve the Government control–market control dialectic. Government control is more likely sustained by an improvement of stability, separation and closeness. At the same time, the market control is often enhanced by an improvement in change, integration and information.

The dialectical contradiction of government and market control was prevalent across three phases of regulating loan loss recognition. Over time, the very meaning of the regulations on loan loss recognition and the disclosed loan loss are likely to shift depending on how the Government/bank regulators respond to the contradiction of Government/market control.

The research found that the contention in loan loss communication was mainly resulting from the separation and neutralisation responses to the contradiction of Government and market control. Those response styles ignored the interdependence between the two oppositions, leading to the loss of control of loan loss communication for both the Government and market. The insufficient knowledge of international practices in loan loss recognition and naïve dialecticism thinking in responding to the related contradictions can explain the selection of separation and neutralisation responses.

7.3 Contributions

The research makes several theoretical practical and contributions.

7.3.1 Theoretical contributions

Thus far, the literature provides a fairly comprehensive understanding of how loan loss recognition is regulated in developed countries rather than developing countries. We know less about how the regulation, stemming from developed countries, was adopted in developing countries. Despite the difficulties in adopting a private capitalist accounting system in the specific context of Vietnam raised by Chu (2004) and Phuong NC and Richard (2011), no empirical research was conducted about this issue until date. Specifically, the current trends in the literature focused on a technical perspective while neglecting the political factor that can be the determinant of accounting change (Ezzamel & Xiao 2011). This study bridged this gap by providing empirical evidence to support the claim of Ezzamel & Xiao (2011). A careful search of the literature has indicated that this study represents the only research that provides rich information on how the Vietnamese banking system adopts a private capitalist accounting and banking system for recognising loan loss in the context of a state-dominated market.

Adopting the dialectical theory in examining communication on regulating loan loss recognition, this study bridges the literature gap by showing that the transformation of loan loss recognition and communication is a partially autonomous process, rather than fixed and permanent, with arbitrary patterns being one among many possibilities depending on the perceptions of the Government and other parties in the economic and political environment (see Figure 6.2 and Figure 6.3). That finding strengthens Benson's (1977) assertion about the analytical power of the dialectical theory:

> Dialectical analysis contributes to this process in part by dereifying established social patterns and structures—points out their arbitrary character, undermines

> their sense of inevitability, uncovers the contradictions and limits of the present order, and reveals the mechanisms of transformation. (p. 6)

The Government control versus market control was the fundamental contradiction that fed into that social construction–production process over three phases by providing continuous conflicts, shaping the Government's perception and actions to change the environment, defining the limit of the transformation and producing the crisis at the end of phase 2, which enhanced possibilities for reconstruction in phase 3.

From this view, the transformation of loan loss recognition and communication was the temporary outcome of not only the interpretation and customisation of international standards but also the social construction emergence of the semi-autonomous ongoing interaction between the Government control and market control oppositions. Therefore, attempts to regulate tightly the transformation process of loan loss recognition and communication through authoritative direction towards international standards or ideological manipulation were only partly successful.

The connection between the regulations produced by the Government's acting within a limited context on the basis of its practical concerns and the social context created new concepts of regulation on loan loss recognition for the Government. Those new concepts reorganised the Government's perception about regulation. Those interaction processes found in this study provided an illustration for knowledge-creating activities as in Nonaka and Toyama's study (2003), which claimed that humans or agents and their environment continuously define and reproduce each other, synthesising new knowledge. The transformation of regulation over three phases presented a series of 'relative truths' created via the intertwining in complex ways between the Government's perception and action and its environment. That insight is important for policymakers by 'giving choices that previously were hidden by the accepted knowledge, standard practices, and existing concepts' as claimed by Deetz (1982).

In addition to providing a rich story of loan loss accounting in a developing country from a dialectical view, this study is one of the few that have adopted dialectical theory for understanding communications between organisations. The study confirms that contradictions and responses found in communications between individuals are also found between organisations. It gives the rationale for further adoption of studies in communication between individuals in organisations. In addition, a close and wide intertwinement exists between the whole (context) and the parts (loan loss recognition and communication) that constructed each other. Therefore, understanding organisational change from a dialectical view is meaningful for understanding the society in whole.

7.3.2 Practical contributions

This study provides an understanding of how loan loss was recognised and communicated in Vietnam that is valuable for analysing bank financial statements disclosed by the Vietnamese banking industry. Loan loss provision regulations and bank financial reports in Vietnam should be interpreted and analysed by considering the influence of contradictions in loan loss recognition and communication.

Separation and neutralisation responses were identified as the root cause of the Government's failure in loan loss recognition and communication in the past. It is because those response styles denied the interdependence between the two oppositions of contradiction. Responding partly or separately to each opposition not only missed the complementary between them but also destroyed the effects of each response. It led to the loss of control of both the Government and market over loan loss recognition and communication as found most obviously in phases 2 and 3. In turn, the insufficiency of regulating loan loss recognition and communicating loan loss drove capital to be allocated to inefficient and risky projects in Vietnam. This inference partly addressed the observation made by some experts from World Bank:

> The world includes developed countries, developing countries and undeveloped countries, but Vietnam is perhaps the most distinctive model. It's the country that refuses to develop! So much, so much ODA has been invested in Vietnam, reaching nearly 90 billion USD over 20 years, but so far, it has not developed, it just might be... [it] refused to develop! (Hai Chau 2015; translated by the author)

Vietnam 'refused to develop' because the Western neoliberal and democratic model that supports free market development has been a significant challenge to the reform and development in Vietnam where the Government would like to maintain a single-party rule, high levels of state intervention and significant direct control of production through SOEs. Hence, the change process of loan loss recognition and communication has been shaped by the tensions and power relationship between government control and market control. It can be under the control of, and serve, the Government or market, or even out of control depending on the type of response to the contradiction. Therefore, the regulation transformation in loan loss recognition was not only the policy choice of accounting but also the sequence of economic and political reforms.

Although bank loan loss recognition is a significant part of bank accounting and regulation, it is difficult to regulate in Vietnam because it is full of contradictions in practice. The research leads the bank regulators to be aware of those contradictions and their influence in regulating loan loss recognition. Learning from the mistakes in responding to the Government control–market control contradiction over the three phases and their consequences as discussed above, a suggestion can be proposed for responding to that contradiction in the next phase (phase 4; see Figure 6.2). To avoid those mistakes, the contradiction should be reframed as a complementary dialectic as in phase 1 (Figure 6.2) in which both Government control and market control are no longer regarded as opposites but as mutually complementary. That *change* towards market control is expected to improve the global *integration* with more public *information* of loan loss as described in the causal link of *Change* → *Integration* → *Information* for phase 4 (Figure 6.2).

Specifically, the proposed changes are classified into two groups. First, it is necessary to reframe the Government-control opposition as indirect control over the economy via an effective legal framework rather than direct control. In that model, the Government works as the market facilitator rather than a dominant sector in the market that distorts the market discipline as found in the previous three phases. For that purpose, regulation should be designed by the Government to direct loan loss recognition and communication to serve market discipline rather than to implement the Government policy as before.

As the result, loan loss recognition and communication would gradually shift to the market control as illustrated by the dotted line in Figure 6.3. That model can be obtained by limiting the Government's intervention in bank lending activities (e.g., guarantees for SOEs to borrow from commercial banks), in the credit rating provided by CIC and in loan loss provisioning practices in commercial banks.

The second group of changes aims to strengthen market control opposition that should be perceived as a tool to help the Government to control the economy rather than a force competing with the Government in dominating the economy. For that purpose, in the superstructure of socialism, market control should not be framed as a unique characteristic of capitalism, but an economic mechanism for operating an economy. In terms of bank lending activities, the separate regulation set for state lending should be eliminated so that the state-related lending activities can be monitored directly by the market for efficiency. The stipulation of Resolution 42 in June 2017 (Appendix 1) to implement a pilot settlement of NPLs via a market mechanism rather than storing these in the VAMC warehouse can be considered the first significant attempt towards the suggested direction in phase 4. An increase in privatisation of SOEs could also increase market control over the efficiency of SOEs because a higher percentage of shares issued to the public would break the current state-controlled ownership structure that limited the market demand and bank supply of information related to loan loss, thus restricting the market control as found in phase 2.

Since those changes are in line with international practices, they would help Vietnam progress towards global integration and gain more international business opportunities. Overall, by improving economic efficiency, the Government control could be enhanced automatically, rather than forcing it by setting the SOE sector as a leading sector, which the former general secretary of the Communist Party considered a system error as mentioned in the previous chapter.

A suggestion to provide a professional training course to bank regulators is made based on the finding that bank regulators have insufficient knowledge of international practices in loan loss recognition and lack the skills to respond appropriately to the related contradictions. The knowledge of international standards alone is not sufficient. It is necessary to acquire and teach knowledge of how to apply those standards appropriately in a context of specific contradictions to complement the understanding of international standards.

For that purpose, a proposed syllabus to improve the professional ability of bank regulators in loan loss recognition and communication is presented in Appendix 3. This course, ‘Bank loan loss recognition’, is different from a conventional accounting course in two ways. First, it approaches loan loss recognition from both accounting and regulation views, which are both used by bank regulators in Vietnam. Second, it directs the bank regulators to a critical thinking on the contradictions in practices and ways in which to respond to these.

Specifically, within the two first contents (see Appendix 3), the trainees are guided to assess both the incurred loss for accounting recording, according to IAS 39 and IFRS 9, and expected loss for bank regulation objectives, according to the Basel Accords. The syllabus integrates both approaches of accounting and regulation in loan loss recognition to highlight for bank regulators the differences between those different approaches and the need to reconcile them in regulating loan loss recognition and communicating loan loss. The literature review chapter provides the theoretical base for this training section. The quantitative ability in loan loss measurement is improved in the third content of credit risk assessment from both accounting and regulation approaches.

The fourth content highlights the gap between the Vietnamese and international practices to present the rationale for examining the contradictions within loan loss recognition in the last content. In this content, the trainees are required to consider how to respond to the emerged contradictions to manage the gap issue. This requirement is made based on Tracy’s (2004) assertion that employees can react to contradiction in various ways that have various organisational effects. Therefore, this course is expected to help the trainees in being aware of the contradictions in loan loss recognition, and actively and creatively respond to them to improve their working performance. Several types of responses to a contradiction are also introduced in this content to put an idea into the trainees’ head for their brainstorming session about creative responses to a specific contradiction. Chapter 3 of this research provides the necessary knowledge of dialectical contradictions and responses for this training section.

Those contents will be delivered mainly through interactions between trainers and trainees in lectures and discussions that guide trainees to in-depth thinking on the differences in how loan loss recognition is regulated and communicated in the specific context of Vietnam compared with international practices. Adopting a dialectical view, the trainers would lead trainees to recognise the contradictions underlying those differences and motivate them to brainstorm alternative responses to those contradictions and their consequences on adopting various types of responses discussed in this thesis. The analysis in Chapters 4, 5 and 6 provide suggestions for the application process from a dialectical view.

This learning and teaching strategy would enable trainees to improve their knowledge of how to act appropriately in a variety of situations rather than simply apply the knowledge of international practices in loan loss recognition. From this approach, the international practices 'must be brought to speak again' (Deetz 1982, p. 146) in relevance to a new context with a creation of new concepts rather than just a straightforward adoption. 'Market economy with socialism orientation' and 'VAMC mechanism' are typical examples of new concepts created in the Vietnamese-specific context. Therefore, that strategy is expected to help in developing the students' problem-solving skills in facing multiple contradictions in regulating loan loss recognition and communicating loan loss in the specific context of Vietnam.

In terms of learning outcomes following the learning and teaching strategy described above, upon completion of this course, the trainees are expected to not only understand the international standards related to loan loss recognition and how to assess credit risk from different perspectives, but also to compare and contrast to recognise the gap between the Vietnamese regulation and international practices. In a higher level, the trainees would be able to identify the contradictions underlying the gap and recommend how to respond to them. Finally, it is critical that the trainees comprehend how to recognise and communicate loan loss by considering its underlying contradictions to avoid contention.

With that specialised knowledge in both accounting and quantitative finance, the trainees deserve a dual major certificate in accountancy and quantitative finance. For reaching those learning outcomes, the trainees are required to read a variety of learning resources, including not only the technical knowledge of international and Vietnamese standards in loan loss recognition, but also the literature related to bank loan loss and dialectical theory.

Since this is a specialist subject and a professional development issue, this course should be treated as an advance module in the major of accounting and finance that requires trainees to have knowledge of financial accounting and reporting as well as quantitative finance. The dual background is rather weak in Vietnamese universities, especially the education of quantitative finance (Tran Vu Duc 2014a). Currently, banks and companies in Vietnam have utilised finance personnel, who do not study mathematics, or mathematics personnel, who do not have knowledge of finance, to solve quantitative finance issues (Tran Vu Duc 2014b). Therefore, this syllabus should be taught at present as a short course for bank staff and bank regulators who have been trained further after university for both accounting and quantitative finance background rather than to current university students.

The implementation of this syllabus can have a significant implication in Vietnam because the lack of people skilled in both finance and mathematics is problematic for a variety of bank activities, such as bank lending, risk analysis, balance sheet management and product development (Tran Vu Duc 2014b). This can lead to poor professionalism and low efficiency in operation because much of those analyses are both mathematical and finance based. The problem will be more serious when banks develop risk management strategies for implementing Basel II (VnEconomy 2016a) that needs labour with high-level skills in both mathematics and finance. All banks have indicated that the lack of human resources, especially in risk assessment, is one of the challenges (Nguyen Van Tho & Nguyen Ngoc Linh 2015). In addition, the international standards related to loan loss recognition (e.g., IAS 39, IFRS 9, Basel Accords) have not yet been commonly adopted in Vietnam probably because they are complex and require specialised knowledge of financial instruments. The limited competencies and the language barrier of Vietnamese experts and staff are major challenges for Vietnam in adopting international standards (Nguyen Loc 2009).

Especially, in spite of receiving advice on numerous occasions from foreign consultants, the adoption of international standards has been challenging for Vietnamese experts and staff because foreign consultants do not understand the Vietnamese local context (Nguyen Loc 2009), whereas the underlying contradictions make Vietnam become a unique case with contingencies affecting its bank loan loss recognition. From this view, the syllabus can be not only necessary for local experts and staff but also benefit foreign consultants and foreign institutions (e.g., World

Bank and IMF) in understanding the limits of the Vietnamese social structure and purposely rearrange it, thus improving the feasibility of their advice for Vietnam. Benson (1977) believed that 'consciousness of these limits may permit the ultimate of the limits' (p. 5) or accept the limits at their basic or minimum level. Considering that suggestion, with the joining of external parties, this syllabus will be a call for more and wider participation and free speech not subject to the fear of reprisal' (Deetz 1982, p. 140) that can prevent the Vietnamese Government from disinformation of bank loan loss to the market.

For example, foreign institutions can temporarily accept the Government's support to SOEs despite the fact that it can distort free market competition because it is currently considered the ultimate means for the Government to maintain its control, provided that the support is sufficiently disclosed to the market for improving transparency, which is the critical condition for healthy development of market disciplines. According to (Deetz 1982), Individual illusions cannot be overcome without removing conditions which make them necessary' (p. 140). From this view, it can be impossible for the Vietnamese Government to publish its support to SOEs if that action is criticised by foreign institutions, such as World Bank or IMF, who currently provide financial and technical aid to Vietnam.

As the Government and foreign institutions become conscious of contradictions and act to overcome them, they can rationally overcome the tensions in loan loss recognition and communication in Vietnam, thus being more transparent with earlier loan loss recognition, and then can avoid the unexpected acceleration of loan loss that amplified the credit crisis as found in phase 3.

7.4 Limitations

The research was conducted with several difficulties and challenges. The complexity of regulating bank loan loss recognition in nature is the most challenging feature. Acknowledging that feature, the researcher attempted to conduct the research with a certain focus on content. That is the study did not attempt to explain the cause–effect relationships in loan loss communication in Vietnam or test a hypothesis. Adopting a dialectical view, the valuable contribution of this research is a logical explanation of the changes in loan loss recognition and communication from the view of dialectic interplay. The reliability of explanation was obtained by triangulating multiple data, and reinforcing these with information on the social and a study of the current literature to acquire useful knowledge in rendering relationships intelligible (Turner 1986).

It seems that the major limitation of the study is that the investigation is restricted to the case of banking industry in Vietnam. Therefore, the findings will not be representative for the wider population and cannot be generalised to all banking industries in emerging countries. However, this feature cannot be considered a limitation anymore from the dialectical view that believes, 'The absolute truth may never be found. It may never exist' (Nonaka & Toyama 2003, p. 10). The findings in this study show one of the series of 'relative truths' that helps to 'approach the elusive "absolute truth"' (Nonaka & Toyama 2003, p. 10). Specifically, the findings provide a rich understanding about the meaning of 'right' loan loss accounting in the specific context of Vietnam. Even in the same country, that meaning has shifted in various ways depending on the interactions between the Government/bank regulators and the others. That phenomenon has been also observed in other countries as discussed in Section 2.3. Therefore, although the various meanings of loan loss accounting found in Vietnam can be different from that in other countries, this study raises the awareness of the importance of the local context in the application of international standards in accounting and banking regulation as well as the need of dialectical theory application in understanding that context.

7.5 Future Research

The study can be extended by examining the ways in which commercial bank managements respond to the contradiction in loan loss recognition. Those studies would offer significant contributions to understanding loan loss recognition from the perspectives of bank regulators as well as bank managements.

Since the contradiction of free market and Government control dominates the Vietnamese economy and banking industry, the dialectical theory can be adopted to understand the changes and communications within other areas of banking activities (e.g., building internal credit rating systems and lending policies). In particular, the heightened influence of global integration and free market factors when Vietnam joins the Trans-Pacific Partnership commitment (TPP) in 2018 (VnEconomy 2016b) may create further struggles and efforts to cope with ongoing changes in accounting and banking regulation. TPP requires more transparency (e.g., publishing regulations in both Vietnamese and English) and no discrimination between business sectors, which would reduce the Government control factor, especially in favour of the SOE sector (Phan Minh Ngoc 2015). Therefore, research on this contradiction will be valuable for the policy makers and bankers to prepare for TPP in Vietnam.

In addition, since the different responses styles to contradictions in interpersonal communication were also found in the communication between organisations in this research, it calls for further studies for verifying whether the responses to contradictions in interpersonal communication can be applied in organisational areas. If that proposition is true, it is promising that the abundance of dialectical research in the current literature on interpersonal communication can be extended to organisation.

7.6 Conclusion of the Study

The study investigates the communication in regulating loan loss recognition to answer the question why loan loss communication is a contentious issue in Vietnam. The research begins with an in-depth review of the literature on regulating loan loss recognition and contradictions in adopting the international standards within the specific context of developing countries. The theoretical framework is derived from the dialectical theory. Next, the research presents the results of a qualitative analysis of communication on regulating loan loss recognition in Vietnam, a transitional and emerging market economy, and the insights gained about the communication related to regulating loan loss recognition.

The research finds that loan loss recognition is a contentious issue in Vietnam because the contradiction of Government control–market controls is underlying the regulation on loan loss recognition in the specific context of Vietnam. The Government/bank regulators were more likely to react to the contradictions with separation and neutralisation responses. That response style denied the interdependence of two oppositions in each contradiction, resulting in the contention and delay in communicating loan loss, thus misleading capital allocation in Vietnam.

This finding partly addresses the practical question raised by the World Bank experts, ‘Why has Vietnam refused to develop?’ (Hai Chau 2015; translated by the author) in spite of massive capital inflows over 20 years.

Appendix 1: Evolution of Regulation in Loan Loss Recognition

`The years of	Regulations*	Date	Remarks	Impact factors from macro environment	
				World	**Vietnam**
1986 to 2004	Decision 106	09/06/1992	Loan loss provision was required for the first time		The Renovation policy started since 1986. The government issued Decision No. 136/2001/QD-TTg on 17 September, 2001 approving the overall program on state administrative reform, the 2001-2010 period
	Decision 48	06/21/1999	Loan loss provision was treated as an expense		
	Decision 488	27/11/2000	Debts are classified based on overdue status		
			Restructured debts are not required to reclassify to a higher risk level group.		
2005 to 2011	Decision 493	22/04/2005	Bank can select either quantitative methods or qualitative method that is based on internal rating system.	The issuance of Basel II, IAS 39	The government issued Decision No. 136/2001/QD-TTg on 17 September, 2001 approving the overall program on state administrative reform, the 2001-2010 period
	Decision 18	25/04/2007	Restructured debts are classified to a higher risk level group.		Participated in WTO
2012 to present	Decision 780	23/04/2012	Banks are allowed to delay loan loss recognition, plan to be replaced by Circular 02 since 01/06/2014	Negatively impacted by Global financial crisis	Economic downturn, Banking depression, Plan to participate in TPP in 2014
	Circular 02	21/01/2013	Debts must be classified group with higher risk extent in comparison between quantitative and qualitative methods.		
			Banks must refer to the result of debts classification supplied by Credit Information Center		
	Circular 12	27/05/2013	Pending Circular 02 from 01/6/2013 to 01/6/2014		
	Circular 19	06/09/2013	Credit institutions with an NPL of 3% or more will be required by the SBV to sell the NPL to VAMC until the requirement is met, provision is spread over 5 years.		
	Circular 09	18/03/2014	Amending and supplementing a number of articles of Circular 02 dated 21/01/2013: allow to commercial banks to restructure time limit for debt payment and keep intact group of debt until 01/04/2015	World economic recovery	Economy recovery , Plan to participate in TPP in 2014
	Circular 08	16/06/2016	Extend the loan loss provision time for VAMC debts for 10 years rather than 5 years		Economy recovery
	Resolution 42	21/06/2017	Implement a pilot settlement of bad debts of credit institutions		

* All these regulations were issued by SBV except Resolution 42 which was issued by the Parliament.

Decision 106 - Regulation on Setting Up and Use of Reserves in Credit Institutions

Decision 48 - Referring to the Issuance of Regulations on Classifying Assets, Establishing and Using Reserved Funds for Covering Losses Suffered by Credit Institutions

Decision 488 - Regulation on the debts classification, provisioning and use of provisions against credit risks in the banking activity of Credit institutions

Decision 493 - Regulation on the debts classification, provisioning and use of provisions against credit risks in the banking activity of Credit institutions

Decision 18 - The amendment, supplement of several articles of the Regulation on the debts classification, provisioning and use of provisions against credit risks in the banking activity of Credit Institutions issued in conjunction with the Decision No. 493/2005/QD-NHNN dated 22 April 2005 of the Governor of the State Bank

Decision 780 - Classification of rescheduled loans

Circular 02 - Classification of assets, levels and method of setting up of risk provisions, and use of provisions against credit risks in the banking activity of credit institutions, foreign banks' branches

Circular 12 - Mending a number of articles of the circular no. 02/2013/TT-NHNN dated 21/01/2013 of the governor of the state bank of Vietnam providing on classification of assets, levels and method of setting up of risk provisions, and use of provisions against credit risks in the banking activity of credit institutions, foreign banks' branches

Circular 19 - Purchase sale settlement of bad debts Vietnam Asset Management Company

Circular 09 - Regulation on amending and supplementing a number of articles of Circular no. 02/2013/TT-NHNN dated 21/01/2013 of Governor of the State Bank providing on classification of assets, levels and method of setting up of risk provisions, and use of provisions against credit risks in the banking activity of credit institutions, foreign banks' branches

Circular 08 - Amending a number of articles of the State Bank Governor's Circular No. 19/2013/TT-NHNN of September 6, 2013, providing the purchase, sale and handling of non-performing loans by VAMC took effect as from 1 August 2016

Resolution 42 - Regulation on pilot settlement of bad debts of credit institutions

Appendix 2: Data Analysis

(ST: stability, CH: change, SE: separation, IN: integration, DI: disinformation, IF: information, G: government, M: market)

Speakers	Source	Statements	ST	CH	SE	IN	DI	IF	G	M
PHASE 1										
Phan Le (1998a)	Phan Le, 1998, p. 18, translated by the author	Accounting must meet the requirements of economic management at both macro and micro levels. That is, it must meet the requirements of state management and administration of a business, even in a department of a business. Accounting implements economic management in terms of not only monetary values but also nonmonetary ones, including quantity and quality.		Y					Y	
The National Assembly	Article 47 of Law on the SBV (SBV) (The National Assembly, 1997b, translated by the author)	SBV runs accounting operations under the chart of accounts and the documentary-based system in accordance with legal regulations on accounting and statistics.			Y				Y	
The National Assembly	Article 86 of the Law on Credit Institutions (The National Assembly, 1997a, translated by the author)	Credit institutions shall perform accounting based on the system of accounts and financial documents in accordance with the laws on accounting and statistics.			Y				Y	
Banker from Da Nang commercial bank	Ha Cuc, 1998, p. 16, translated by the author	We easily see that the accounting system for financial institutions is designed very specifically for both financial and management accounting purposes … both serving the state management of monetary policy and maintaining consistency with the sector's business activities.			Y				Y	

Speakers	Source	Statements	ST	CH	SE	IN	DI	IF	G	M
SBV	SBV, 1992 1407, article 1.1, translated by the author	10% on net profits is established as 'special reserves' for risk prevention. This fund was established until reaching 100% of the actual charter capital at the time of provisioning.				Y				Y
Staff of SBV	To, 1996, p.11, translated by the author	If risk reserve fund is appropriated from the net profit, the bank with no gain or loss will have no risk reserve fund.				Y				Y
Staff of SBV	To, 1996, p.12, translated by the author	'The creation of a reserve fund risks need to be counted as an expense' and 'the risk reserve should be seen as a factor for calculating lending interest rate.				Y				Y
Bank regulators of SBV	Ba Thanh and Moc Mien, 1998, p. 18, translated by the author	Treating loan loss provision as an expense affects tax revenues.			Y				Y	
Bank regulators of SBV	Ba Thanh and Moc Mien, 1998, p. 18, translated by the author	Banks can use provision to evade taxation.	Y						G	
Bank regulators of SBV	Ba Thanh and Moc Mien, 1998, p. 18, translated by the author	It [treating loan loss provision as an expense] is common in many countries.				Y				Y
Bank regulators of SBV	Ba Thanh and Moc Mien, 1998, p. 18, translated by the author	The objective of setting up a reserve fund for loan loss is also to ensure a bank's profit reflects its business result.				Y				Y

Speakers	Source	Statements	ST	CH	SE	IN	DI	IF	G	M
Bank regulators of SBV	Ba Thanh and Moc Mien, 1998, p. 18, translated by the author	In our country, it was claimed that on making provisions, some currently profitable banks would turn into loss-making ones. If people say so, it means that they were aware of the risk related to the loans that banks issued. If a loan was actually believed to be doubtful, then making provision for it is necessary; there is no need to wait until the real loss is incurred and deducted from interest, affecting business results. Without provisioning, business results shown on the balance sheet reflect incorrectly the financial position of the bank.				Y				Y
Banker from Agribank	Vu Minh, 1999, p. 25, translated by the author	The figure of [current credit loss] was about 300 billion dong, which was at least double or triple compared to profit of the whole state banking sector.	Y		Y				Y	
Banker from Agribank	Vu Minh, 1999, p. 25, translated by the author	If all profit is used for provision making, where is the profit to pay tax to finance the state budget, to modernise banking technology to catch up with the world that is changing hourly and daily and to cover many daily bank expenses for ensuring its normal operation?			Y				Y	
Staff of SBV	Dieu, 1999, p. 9, translated by the author	If provision is made exceeding the profit of the current fiscal year, it means financial institutions make provision from nothing.							Y	
SBV	SBV, 1999, article 10, translated by the author	Natural disasters, fires, epidemics or state policy changes.			Y				Y	

Speakers	Source	Statements	ST	CH	SE	IN	DI	IF	G	M
Lecturer of Banking University	Pham Phu Quoc, 2000, p. 32, translated by the author	In bank lending activities, credit risk owing to subjective reasons, such as customers deliberately not repaying, has the same opportunity to occur as credit risk owing to irresistible reasons, such as customers lacking the ability to repay. Therefore, we think that even when clients deliberately do not fulfil their obligations, banks should reserve the right to cover that risk by loan loss provision.				Y				Y
SBV	SBV, 1999, article 7, translated by the author	The remaining balance of loan loss provision, after deducting the actual loss incurred as at 31 December each year, must be reversed to reduce loan loss provision expense made during the year.			Y				Y	
Le Thi Thanh Nhan	Le Thi Thanh Nhan, 2000, translated by the author	Tax authorities are afraid that the stipulation of provision heavily relying on subjectiveness will facilitate banks in overstating expenses for tax reduction.			Y				Y	
Staff of SBV	Dieu, 1999, p. 10, translated by the author	It is just as if banks are allowed to establish a reserve for covering credit risk but are not permitted to store the reserve. This paradox makes provisioning meaningless; if there is no difference between having and not having a reserve, the outcome will be the same.				Y				Y
Le Thi Thanh Nhan	Le Thi Thanh Nhan, 2000, p. 13, translated by the author	Provisions under Decision 48, although termed ‘provision of assets’ in form, have, in substance, absolutely no meaning of ‘provision for impairment loss’ for representing faithfully the fair value of assets in the financial statement.				Y				Y
Staff of SBV	Dieu, 1999, p. 9, translated by the author	Such income is likely taking the current financial year profit to make provision for credit risk from the previous year. Paradoxically, this will increase the financial burden for the operations of the current year.				Y				Y

Speakers	Source	Statements	ST	CH	SE	IN	DI	IF	G	M
Le Thi Thanh Nhan	Le Thi Thanh Nhan, 2000 1402, p. 13, 14, translated by the author	In our opinion, this [provision under Decision 48] is a very big blank in the regulation of the SBV. This issue should be urgently considered... the trend of economic integration with the region and the world that raises the need to integrate with the international generally accepted accounting practices... the upcoming birth of the stock market in which the users of financial statements, including local and foreign investors, have the right to ask for accounting information that reflects faithfully business operations.				Y				Y
Deputy Governor	Deputy Governor, 2000, article 4	Credit institutions shall not be entitled to inform their customers of the risks that have been dealt with, except for debts that are written off with Government's permission.			Y				Y	
Deputy Governor	Deputy Governor, 2000, article 10	In the event that a state-owned credit institution experiences business loss in a year owing to the provisions made in accordance with this regulation, that credit institution must work out a solution plan to submit to the Ministry of Finance and the SBV for consideration.			Y				Y	
Lecturer of Banking University	Pham Phu Quoc, 2000, p. 31, translated by the author	When a loan is not yet due, loss has not yet been incurred, but it does not mean that the loss will not be incurred. For example, if a loan is current but the borrower has completely lost the ability to pay, and the bank does not have any way to recover the debt, it can be observed that the loan will never be paid despite not being due.				Y				Y
Fulbright financial specialist	Nguyen Xuan Thanh (2012), translated by the author	Notably, in the 2006–2011 period, the regulatory framework and supervision of banking activities was constantly being modernised. Current regulations of Vietnam on ensuring safe operations of commercial banks cover all content of supervision on capital, credit limit, equity investment limit, solvency ratio, quality classification of debts and provision for risks.				Y				Y
PHASE 2										
Staff of SBV	Duong, 2009, p. 31, translated by the author	By adopting Decision 493, banks are gradually moving towards the assessment and classification of debts based on qualitative factors and prevention is divided into a general provision and specific provision under the framework of banking risk provisions of Basel 2.				Y				Y

Speakers	Source	Statements	ST	CH	SE	IN	DI	IF	G	M
Financial specialist	Le Hong Giang, 2012a, translated by the author	Decision 493 issued by SBV also applies those practices for measuring NPL, so one cannot say ‘standard of NPLs’ in Vietnam is poor compared with that of ‘international standards’				Y				Y
Fulbright financial specialist	Nguyen Xuan Thanh (2012), translated by the author	Banks, but in fact, their investors and economic organisations that own banks, can easily disable all safety regulations, even if these are the rules under international standards. Moreover, that disablement would strictly follow current laws (but violate the spirit of the law).			Y					
Press Correspondent	NCDT, 2013, translated by the author	At that time, there were many controversies that 9% is too high, and that banks are difficult to satisfy. However, most of the banks had a CAR much higher when compared with the minimum, except Agribank, according to the data for 2011.			Y	Y	Y			
Press Correspondent	NCDT, 2013, translated by the author	One of the reasons why banks pushed higher CAR is the trend of hiding debt. If provision were made fully and on time, CAR would reduce immediately rather than increase.			Y		Y			
Fulbright Financial specialists	Vu Thanh Tu Anh et al., 2013, translated by the author	Many subjects [banks and others] use a number of different techniques for not complying with credit security regulations.			Y		Y			
Fulbright Financial specialists	Vu Thanh Tu Anh et al., 2013, translated by the author	The auditing and inspection to detect and handle the problem is very difficult due to lack of judicial evidence.			Y		Y			
Financial specialists	Nguyen Xuan Thanh, 2012, translated by the author	The current status is using cross-shareholding to dodge, but not violate, the regulation … Many loans over 1,000 billion, which have now become NPLs, were revealed by the supervision, but were not being highlighted because the law was not broken.			Y		Y			

Speakers	Source	Statements	ST	CH	SE	IN	DI	IF	G	M
Fulbright financial specialist	Nguyen Xuan Thanh (2012), translated by the author	The first is that although the regulations to ensure safe operation were issued by the state, these are disabled by the state. That is because the Government is the owner of the State Corporations (SOEs) and, simultaneously, the controlling shareholder of state-owned commercial banks (SOCBs), thereby allowing lending activities between the two groups to escape from the regulations... Violation of the monitoring framework resulted in the bad loans that the bank had to suffer directly. That the lending of SOCBs to Vinashin, Vinalines and other major projects of SOEs exceeded safety regulations is obvious evidence.			Y				Y	
Deloitte auditor	Tinmoi, 2012, translated by the author	On 31.12.2011, the bank (i.e., Oceanbank) held deposits, loans and bond investments in Vietnam Shipbuilding Industry (Vinashin) and several companies owned by Vietnam Shipbuilding Industry, which were overdue. However, in 2011, based on the written direction of the State regulators about considering and restructuring the debts of the corporation, Vietnam Shipbuilding Industry, the bank has implemented the directive, maintaining the status quo and not making provision for the debts and receivables above. Currently, banks are continuing to work with Vinashin and the State management agencies to plan the treatment and recovery of the debts and receivables.			Y				Y	
Bank regulator, Nguyen Van Nen	Nguyen Van Nen, 2015, p. 4, translated by the author	The SBV processed specifically BIDV's suggestion that the loans related to that project [the drainage project] would not be counted in complying with the ratios, the requirement of not lending over 15% of the equity capital, excluding from the annual credit growth limit, not classifying in credit risk groups as well as not making provision for risks related to the project.			Y				Y	

Speakers	Source	Statements	ST	CH	SE	IN	DI	IF	G	M
Prime Minister	Prime Minister, 2007, article 5, 29, translated by the author	The Ministry of Finance implements the state management function in finance and guidance, supervision and inspection of the implementation of the financial regime of the Development Bank… The Development Bank reports the audited annual financial statements to the Prime Minister and the Ministry of Finance, the SBV, the Ministry of Planning and Investment.			Y				Y	
Press correspondent	Cong Thuong, 2013, translated by the author	There are many causes leading to the “very bad” situation in VDB. However, most importantly, it is that VDB is “bipolar”, being a bank and also not a bank at the same time.			Y				Y	
Press correspondent	Nguyen Hoai, 2011a, translated by the author	This makes many people think 100% of investment loans and export loans to the State through VDB were almost no risk!			Y				Y	
Mr Nguyen Quang Dung, the CEO of VDB	Nguyen Hoai, 2011a, translated by the author	The bank is a complete nonprofit organisation, which mainly carries out lending for investment and export activities under the direction of the Government. The problem is that, since it operates without profits, VDB cannot have funds for making provisions.			Y				Y	
Press correspondent	Nguyen Hoai, 2011a, translated by the author	One Basel principle for capital adequacy requirement is to make provision corresponding with the level of risk, rather than waiting until the risks incur and record the loss without reserve to cover that loss.								
Press correspondent	Nguyen Hoai, 2011a, translated by the author	VDB is similar to a time bomb.			Y		Y			
Press correspondent	Cong Thuong, 2013, translated by the author	The Ministry of Finance acknowledged that, with the current regulations, it is difficult to force the mechanism of autonomy and self-responsibility of VDB leaders because the Finance Ministry cannot supervise the activities of the central bank better than the SBV [SBV], but the SBV also could not fully implement this duty.			Y				Y	

Speakers	Source	Statements	ST	CH	SE	IN	DI	IF	G	M
Press correspondent	(Nguyen Hoai, 2011a, 2011b, translated by the author	Since the capital fund and operation mechanism of VDB are under the Ministry of Finance 'management', when asking SBV about VDB's funds, how it operates, how much it has disbursed and for which project and how it sets provision for loan loss, all SBV staff, even the highest leaders, all answered 'We do not know'!			Y		Y		Y	
Press correspondent	Nguyen Hoai, 2011a, translated by the author	One other remarkable issue, Decision 44/2007/QD-TTg regulates: 'Within 120 days after the fiscal year end date, VDB shall disclose financial statements in accordance with the provisions of the law'. However, although having already operated for 5 years, the 'Annual Report' on its portal is still blank.			Y				Y	
The Chairman - Minister of the Government Office	Bao Bao, 2015, translated by the author	The Government guarantee for the loan business is to create favourable conditions for businesses to raise large funds, for which, sometimes, credit institutions require a Government guarantee as security … Moreover, the cost of the loan guaranteed by the Government will be lower than a normal commercial loan … The issuance of Government guarantees for foreign loans serves urgent investment projects, especially in periods when domestic capital is insufficient to meet the demand for investment and development needs.			Y				Y	
Politics and Economics Specialists	Tran Dinh Thien, Luu Bich Ho, 2015, translated by the author	Consequently, it is clear that economic efficiency is very low [by investing in SOEs] … This is a huge expense.			Y				Y	
Press correspondent	Bao Bao, 2015, translated by the author	Debts of SOEs that were guaranteed by the Government could threaten the national financial security.			S				Y	
Press correspondent	Bao Bao, 2015, translated by the author	For every $5, the public debt has $1 loan guarantee contract for state-owned enterprises or corporations.			S				Y	

Speakers	Source	Statements	ST	CH	SE	IN	DI	IF	G	M
Press correspondent	Khanh Linh, 2010, translated by the author	Assuming that we have a good control system, losses or disasters up to the first few trillion might be incurred undetected. However, allowing the loss to extend to 80,000 billion means that the system has problems. We do not have in the Government administration system an alarm mechanism sensitive enough to be able to prevent a disaster at the beginning. So, we definitely have to acknowledge that not only individual faults resulted in this failure, but that it also was a failure of system quality, and that system failure is the lack of an alarm system for the financial risk. The Vinashin phenomenon revealed to the Party, the Government and Parliament that if there were more intelligent thieves, they might make off with all national assets, because we do not have such an alarm system.			S				Y	
Press correspondent	Le Ha, 2015, translated by the author	SBV builds software for remotely monitoring NPLs independently and objectively. The result is always different from reports of commercial banks. For example, in 2006, commercial banks reported NPLs of 3.7% whereas SBV's figure was 7%.			S				Y	
Press correspondent	Nguyen Hoai, 2011b, translated by the author	Should the state disburse credit through the commercial banking system because the risk management structure of commercial banks is safer than that of VDB? Commercial banks have their internal risk management system because they are inspected by the SBV and have to publish their annual financial statements through an independent audit.			Y				Y	
The former president of the National Assembly, Nguyen Van An	Vietnamnet, 2010, translated by the author	I believe that Vinashin was the consequence of the global economic crisis but the system error was the root of that phenomenon, the error from the superstructure, from the policy of the Central Executive Committee of the Political Bureau, stemming from the point of view that socialist society must be based on '... the public ownership regime of main production means'. This model derives from the radical theory that private ownership of the production means is the source of exploitation. This extreme theory resulted in an economic model that lacks motivation, and thus was denied in reality. The Government had implemented this policy following the ideology of the Communist Party.			Y				Y	

Speakers	Source	Statements	ST	CH	SE	IN	DI	IF	G	M
Press correspondent	Cong Thuong, 2013, translated by the author	Here, capital fund (from the state budget) is abundant, interest rates are low (owing to the mechanism of subsidised interest rates) and the repayment period and other loan conditions are easier than in commercial banks.... It is time to reconsider the policy of ‘special deals’ that VDB made because that policy is for a nonmarket economy.			Y				Y	
Prime Minister	The Resolution 01/NQ-CP of the Government, Prime Minister, 2016, article 2, translated by the author	It is necessary to study how to transfer gradually the lending guarantees to commercial banks.								Y
Press correspondent	Tieu Phong, 2015, translated by the author	The difference between two figures is owing to computational and statistical data obtained from two different sources. Specifically, the NPL ratio of 4.9%, equivalent to 133,060 billion, was reported by the credit institution. The figure of 17.4% was from the inspection authorities after auditing all NPLs hidden in corporate bonds, credit trusts and restructured debts, including two ‘shipwrecks’, Vinashin and Vinalines. Therefore, the total bad debt [NPL] actually amounted to 465,000 billion.			Y		Y			
PHASE 3										
Press correspondent	VnEconomy, 2013a, translated by the author	Bank NPLs may rise to 10%, 20% or even higher								
Press correspondent	Vietnamplus, 2013, translated by the author	We fully support the steps of the SBV in the implementation of Circular 02 to be closer to international standards in risk provisioning.		Y		Y		Y		Y
Deputy Chief Inspector, SBV	Vu Hanh 2013, translated by the author	One year postponement of Circular 02 has its historic role as creating favourable conditions for businesses, banks in difficult times … but also cannot be delayed too long. The view of our advisory bodies are still applying Circular 02 on 01 June 2014.	Y	Y	Y	Y	Y	Y		

Speakers	Source	Statements	ST	CH	SE	IN	DI	IF	G	M
Press correspondent	VnEconomy, 2013b, translated by the author	Circular 02 will still be applied from the landmark date 01/06/2014, but several criteria and contents are expected to be amended for gradual implementation.	Y	Y	Y	Y	Y	Y		
SBV Governor	SBV, 2013d, translated by the author	It was made in accordance with the actual conditions of the market and the economy of our country.	Y		Y		Y		Y	
SBV Governor	SBV, 2013d, translated by the author	By restructuring, the enterprises were supported by not having to pay penalty rates for overdue loans and by ensuring they could continue borrowing from banks for running their businesses, thus reducing the escalation of NPLs.	Y		Y		Y		Y	
SBV Deputy Governor	Circular No. 09/2014/TT-NHNN dated March 18, 2014, SBV, 2014, translated by the author	Report on situations of time restructuring for debt payment					Y		Y	
SBV Governor	Quang Vu, 2014, VnEconomy, 2013c, Vietnamnet, 2013, translated by the author	Will not use the state budget for bad debts [NPLs] solving	Y		Y				Y	
SBV Governor	Cong Ly, 2015, translated by the author	Now, we want money flowing into production. So just lift 'blood clot', and new blood will flow back into circulation. The picture is very clear. Taking out the 'blood clot' based on the market principle is very easy; just sell bad debts [NPLs] and it is completed. However, there is no market buyer currently, so we just need the state for the last purchase of bad debts [NPLs] sold via the VAMC organisation....	Y						Y	

Speakers	Source	Statements	ST	CH	SE	IN	DI	IF	G	M
SBV Governor	Cong Ly, 2015, translated by the author	But we do not have money for bad debts [NPLs] purchase.			Y					
SBV Governor	VnEconomy, 2013c, translated by the author	Vietnam cannot handle bad debts [NPLs] by the state budget as in many other countries.								
SBV Governor	Quang Canh, 2014, translated by the author	Solving bad debts [NPLs] via VAMC mechanism in Vietnam is much different from [the practice in] other countries because Vietnam does not use the state budget to purchase bad debts [NPLs].			Y					
SBV Governor	Cong Ly, 2015, translated by the author	I [VAMC] bought your bad debts [NPLs], but actually, you [banks] mortgaged your bad debts [NPLs] for borrowing from me … You have five years to solve your bad debts [NPLs]. I hope that in five years, your business would be better and you have money to pay your borrowings [from VAMC] … That solution can removed the 'blood clot' [NPLs] and the state will not lose money.	Y		Y		Y		Y	
SBV Governor	Quang Canh, 2014, translated by the author	The international organizations have agreed the VAMC mechanism is acceptable in this difficult situation.			Y		Y		Y	
Press correspondent	Tapchitaichinh, 2016, translated by the author	Currently, NPLs not only seriously affect the credit system, but also adversely affect the whole economy. Therefore, fast and complete solving of this problem is not only the desire of the banking sector but also the wish of the political system. This is an important, urgent mission to remove the bottlenecks in the economy, creating the conditions that promote economic development.		Y				Y		
Member of the National Assembly	Hoang Yen 2016, translated by the author	The key problem is to have a mechanism to remove legal difficulties. 80% of the NPLs remaining at VAMC are mainly debts with difficulties in collection, most of which are related to legal procedures associated with the properties.							G	

Speakers	Source	Statements	ST	CH	SE	IN	DI	IF	G	M
Press correspondent	Bach Hop, 2016, translated by the author	The bad debt [NPLs] will only worsen if not solved. In Vietnam, the number of bad debts [NPLs] is too large; thus, only the Government's intervention can solve the 'clot' [NPLs problem] for the economy.							G	
Press correspondent	Bach Hop, 2016, translated by the author	Because the Vietnamese NPL rate is at an alarming level, causing 'congestion' in the market capital flows, which is the major reason that interest rates are unlikely to fall.		Y						Y
Deputy Chairman of the Economic Committee of the National Assembly	Tran Thuy, 2016, translated by the author	Reducing the competitiveness of domestic enterprises in the international market				Y				Y
Press correspondent	Bach Hop, 2016, translated by the author	No need of additional money at this time. VAMC has even not yet used any penny of the amount of 2,000 billion dong already granted by the Government for NPLs solving because no agreement could have been made between VAMC and credit institutions for selling their NPLs to the market.			Y					
Press correspondent	Bach Hop, 2016, translated by the author	What VAMC needs now is a clear legal framework. Specifically, VAMC needs a debt trading market that it can operate. A legal framework to stipulate clearly the responsibility in case a debt is solved at loss [lower than its book value]. Is that loss sale problematic? Will that loss be allowed to be covered by provision in the credit institution? Will the credit institution be allowed to record the loss gradually over years to reduce financial pressure [as the provision rule currently applied for VAMC debts]?			Y				Y	
Press correspondent	Ngan Giang, 2016, translated by the author	Who would bear the loss incurred in the sale of NPLs.			Y				Y	

Speakers	Source	Statements	ST	CH	SE	IN	DI	IF	G	M
Press correspondent	Ngan Giang, 2016, translated by the author	About VAMC, this organisation does not bear any risk related to the resale of debts purchased earlier. According to the current regulation, all gain or loss from the sale of bad debts [NPLs] would be transferred to the banks that sold those debts to VAMC earlier.			Y					
Press correspondent	Ngan Giang, 2016, translated by the author	Banks tend to hide bad debts [NPLs] because disclosing bad debts [NPLs] and making provision for them will truncate bank equity capital, leading to them being recapitalised by either the issuance of additional shares or no dividend payment. In case their financial health is too bad, leading to the risk of crisis, the Government has to recapitalise them using state budge t... Of course, recapitalisation by the state budget fund can incur a risk of loss that would be charged to taxpayers. That is the price we pay for the neglect of management/supervision by state management agencies giving rise to too risky loans in commercial banks. Therefore, instead of focusing on 'bad debts [NPLs] solving', [the authorities] should 'convict' the state agencies/individuals who did not fulfil their previous management responsibilities.						Y		Y
Press correspondent	Thanh Huyen, 2016, translated by the author	The blame for the bad debts [NPLs] problem is not to be assigned only to firms, or banks, but it is also the fault of the Government, of the policy and of the market economy.						Y		Y
The President of Congress, Nguyen Sinh Hung	Linh Thu, 2014, translated by the author	Parliament is a legislative body; if it makes a wrong decision or policy, it must also recognise the weaknesses, but we cannot discipline the whole Parliament, especially with the criminal discipline. Even the Chairman of the Parliament is not the head but the general coordinator, the chairperson to maintain contact among 500 delegates. So, we cannot discipline 500 delegates or the chairman for their wrong voting … [He emphasised] Parliament is the people [Vietnamese citizens], and the people vote and hence must accept the wrong decision rather than seeking who to discipline.			Y				Y	

Speakers	Source	Statements	ST	CH	SE	IN	DI	IF	G	M
Director of Business Development Research Institute (BDI)	Thuy Lien, 2016, translated by the author	NPLs are caused by banks and businesses; thus they have to bear.								Y
Financial specialist	Nguyen Thoan, 2016, translated by the author	State budget belongs to People [Vietnamese citizens], no matter from taxes or borrowings money; so we cannot force People to pay for what they do not owe. Using state budget to pay for that loss means taking money from the poor to pay for the rich.								Y
Financial specialist	Lan Huong, 2016, translated by the author	The use of state budget, as well as public money, to 'save' the banks from their own mistake in management is paradoxical. Vietnam has confirmed it will implement the market mechanism; therefore, let the market solve its problems.								Y
CEO of VAMC, SBV	Ha Tam 2016, translated by the author	It [the Government] blames only banks for causing bad debts [NPLs], thus treating them as criminals, refusing to amend regulations, not using the state budget to solve bad debts [NPLs] …, [the Government] should not question why the process of bad debts [NPLs] is slow.			S					
Press correspondent	Nguyen Minh, 2016, translated by the author	We believe that the main treatment method is still using net operating income of commercial banks to process [to make provision] until when the book value of bad debts [NPLs] equals the market valuation. At that time, bad debts [NPLs] will be handled by selling/buying through market.					Y		Y	

Appendix 3: Certificates

CERTIFICATE IN ACCOUNTANCY and QUANTITATVE FINANCE

BANK LOAN LOSS RECOGNITION

Pre-Requisites

Financial Accounting and Reporting

Quantitative Finance

Module Outline

This module provides an integrated accounting syllabus in which bank loan loss recognition is studied from different perspectives: accounting, bank regulation, quasi-market and domestic and international drivers. The module aims to develop critical thinking in loan loss recognition in Vietnam from the view of international standards to equip trainees with a forward-looking approach to improve loan loss recognition practices in the country. On completion of this course, trainees will have gained the employability skills of adopting international standards, assessing credit risk and solving problems related to the contradictions in loan loss recognition, as well as the ability to interpret and communicate complex financial information related to loan loss in a form understandable to users of such information.

Indicative Content

Number	Description
1	International standards in accounting for loan loss o IAS 39: Asset impairment test for bank loans (para. 63, 59) o IFRS 9: Asset impairment test for bank loans
2	International standards in capital adequacy process o Basel Accords I, II and III
3	Credit risk assessment o Accounting perspective o Bank regulation perspective
4	Comparison of Vietnamese accounting and bank regulations with IAS 39/IFRS 9 and Basel Accords over different stages

	○ Before Doi Moi ○ First period of Doi Moi ○ Second period of Doi Moi ○ During financial distress to the present
5	a. The contradictions in loan loss recognition in Vietnam and how to react to the contradictions ○ Contradictions ○ Government control versus market control ○ International versus domestic drivers ○ Stability versus change objectives ○ Information versus disinformation on loan loss b. How to respond to a contradiction ○ Selection ○ Target, temporal, or topic vacillation ○ Source splitting ○ Creative rule-following techniques ○ Layering and balancing of goals ○ Withdrawal

Learning and Teaching Strategy

The content of the module will be delivered through a structured programme of tutor-led lectures, followed by seminars that will enable trainees to develop problem-solving skills in responding to contradictions in loan loss recognition in a specific context. For that purpose, trainees are required to discuss and write about four topics in the following sequence:

1. comparing the Vietnamese and international standards in loan loss recognition in each period
2. determining the reasons for the similarities and differences identified in step 1
3. identifying the contradictions underlying the regulation on loan loss recognition in Vietnam
4. suggesting alternative responses to the identified contradictions in each period and comparing and contrasting the consequences of those alternatives.

Learning Outcomes

On successful completion of this module, trainees will be expected to be able to:

	Description
1	Understand international standards in loan loss recognition
2	Understand how to assess credit risk from different perspectives of accounting and bank regulation
3	Compare and contrast the Vietnamese regulations in loan loss recognition with international standards
4	Identify contradictions in loan loss recognition in Vietnam and recommend how to react to the contradictions
5	Use a variety of sources of information and communicate information in a comprehensible manner

Learning Resources

International standards
IAS 39 IASB, 2004. Financial Instruments: Recognition and Measurement http://www.ifrs.org/IFRSs/Pages/Official-Unaccompanied-IFRS-Translations.aspx
IFRS 9 IASB, 2014. IFRS 9 Financial Instruments (replacement of IAS 39) http://www.ifrs.org/IFRSs/Pages/Official-Unaccompanied-IFRS-Translations.aspx
Basel I BIS, B. F. I. S. 1988. International Convergence of Capital Measurement and Capital Standards. BCBS.
Basel II BIS, B. F. I. S. 2006. Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework–Comprehensive Version. BCBS.
Vietnamese standards
Accounting Law (2003)
Vietnamese Accounting Standards (VAS)
Decision 106: Regulation on setting up and use of reserves in credit institutions Decision 48: Referring to the issuance of regulations on classifying assets, establishing and using reserved funds for covering losses suffered by credit institutions Decision 488: Regulation on the debts classification, provisioning and use of provisions against credit risks in the banking activity of credit institutions Decision 493: Regulation on the debts classification, provisioning and use of provisions against credit risks in the banking activity of credit institutions Decision 18: The amendment, supplement of several articles of the Regulation on the debts classification, provisioning and use of provisions against credit risks in

the banking activity of credit institutions issued in conjunction with the Decision No. 493/2005/QD-NHNN dated 22 April 2005 of the Governor of the State Bank

Decision 780: Classification of rescheduled loans

Circular 02: Classification of assets, levels and method of setting up of risk provisions, and use of provisions against credit risks in the banking activity of credit institutions, foreign banks' branches

Circular 12: Amending a number of articles of the Circular No. 02/2013/TT-NHNN dated 21/01/2013 of the Governor of the SBV providing on classification of assets, levels and method of setting up of risk provisions, and use of provisions against credit risks in the banking activity of credit institutions, foreign banks' branches

Circular 09: Amending and supplementing a number of articles of Circular no. 02/2013/TT-NHNN dated 21/01/2013 of Governor of the State Bank providing on classification of assets, levels and method of setting up of risk provisions, and use of provisions against credit risks in the banking activity of credit institutions, foreign banks' branches

Circular 19: Purchase sale settlement of NPLs Vietnam Asset Management Company

Circular 08: Amending a number of articles of the State Bank Governor's Circular No. 19/2013/TT-NHNN of September 6, 2013, providing the purchase, sale and handling of non-performing loans by VAMC took effect as from 1 August 2016

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Appendix 4: Data Translation

No.	*English (Translated data)*	Vietnamese (Original data)
1	*"Some Members of Parliament have questioned that the current NPL ratio is much higher under international standards or according to some international organisations. However, it is very hard to say that. There are different international standards, and we have to mention clearly which standard is used to compare."*	"Một số đại biểu cũng có nói rằng theo thông lệ quốc tế hoặc theo một số tổ chức quốc tế thì nợ xấu của ngân hàng Việt Nam có thể cao hơn rất nhiều. Điều đó cũng hết sức khó nói bởi vì chúng ta phải theo chuẩn nào." (INFO.VN-NEWS, 2011, translated by the author)
2	*"I have been working in the banking system for 30 years. Over the last 30 years, there have always been two figures. One figure is given by credit institutions under the regulations of the central bank, while another figure comes from the central bank through an assessment of NPLs at commercial banks."*	"Thực tế này không phải đến hôm nay mới phát sinh" mà trong 30 năm ông làm ngành ngân hàng, luôn có hai số liệu khác nhau trong nội bộ: một do các tổ chức tín dụng báo cáo, hai do chính NHNN đánh giá." (Vietnamnet, 2012)
3	*"One very common misunderstanding in the Vietnamese press and among many experts is that the Vietnamese NPLs standards are different from that of international standards... First, it should be clear that the world has not yet had a standard set for NPLs classification; perhaps there are some practices adopted by many countries and a number of guidelines recommended by international organisations (e.g., BIS and IMF). Decision 493 issued by SBV also applies those practices for measuring NPL, so one cannot say 'standard of NPLs' in Vietnam is poor compared with 'international standards.'"*	"Một trong những hiểu nhầm rất phổ biến trên báo chí VN và cả nhiều chuyên gia là tiêu chuẩn nợ xấu của VN khác với tiêu chuẩn nợ xấu quốc tế…Trước hết cần nói rõ là trên thế giới không hề có một bộ tiêu chuẩn nào về nợ xấu, có chăng là một số thông lệ được nhiều nước sử dụng và một số guidelines do các tổ chức quốc tế (BIS, IMF) khuyến cáo. QĐ 493 của NHNN cũng áp dụng cách tính NPL theo thông lệ này, bởi vậy không thể nói "tiêu chuẩn nợ xấu" của VN kém "tiêu chuẩn quốc tế". Vấn đề nằm ở chỗ khác." (Le Hong Giang, 2012)
4	*"Can the supervisors operate effectively when they are not sure about the figure [NPL amount]?"*	"Cơ quan giám sát có thể hoạt động hiệu quả không khi mà số liệu không nắm chắc được?" (Thuy Mien, 2013)
5	*"NPLs of 3% was just a decoration"*	"Nợ xấu về 3% chỉ là con số ảo" (Phuong Lam, 2015)
6	*VAMC is actually just a form of "accounting tricks" to put NPLs off the balance sheets*	"VAMC thực chất chỉ là một dạng "thủ thuật kế toán" để đưa nợ xấu ra khỏi bảng cân đối kế toán của các ngân

No.	*English (Translated data)*	**Vietnamese (Original data)**
		hàng." (Ngan Giang, 2016)
7	*"spread their loan loss recognition over several years rather than recording the whole loss at once"*	"giãn được việc ghi nhận lỗ ra vài năm thay vì phải làm ngay một lần" (Ngan Giang, 2016)
8	*"The incorrect NPL figures numbers led to a leisurely work psychology, resting on the belief that the market would soon recover, and that, thus, security assets' value will be restored and enterprises will repay their debt. However, the reality can be exactly the opposite: that it goes not in a cycle of 10 years as asserted by Mr Sheehan [referring to Japan's lost decade], but in a longer period, one and a half or doubled."*	"Con số nợ xấu không chính xác dẫn tới tâm lý "đủng đỉnh", yên tâm rằng thị trường sẽ sớm hồi phục, tài sản bảo đảm phục hồi, doanh nghiệp có thể trả được nợ. Nhưng thực tế hoàn toàn ngược lại khi nó cứ tiếp diễn không phải theo chu kỳ hơn chục năm mới xử lý xong như ông Sheehan khẳng định, mà có thể gấp rưỡi, gấp đôi." (Thuy Mien, 2013)
9	*"The Government was afraid people would suffer if it gave up its control to the market"*	"Nhà nước ta rất sợ buông ra thì thị trường làm khổ dân" (Tran Dinh Thien and Luu Bich Ho, 2015a)
10	*"In Vietnam, different beliefs dive in, mingle, are not exclusive and do not conflict."*	"Các giá trị được lặn vào, dung hòa lẫn nhau; không loại trừ và mâu thuẫn." (Hoang Huong, 2014)
11	*"The economic socialist-oriented market economy is operating following the market mechanism with the management of the state under 'the leadership of the Communist Party' and is 'striving for the goal of prosperous people, a strong country and an equitable, democratic and civilised society'. The economic socialist-oriented market economy has many forms of ownership and many economic sectors in which the state economy plays a key role. The nature of the socialist-oriented economy is reflected in the way that the state economic sector plays the role of leading and actively orienting the economy."*	"Nền kinh tế thị trường định hướng xã hội chủ nghĩa vận hành theo cơ chế thị trường có sự quản lý của Nhà nước, dưới sự lãnh đạo của Đảng Cộng sản nhằm hướng đến mục tiêu "dân giàu, nước mạnh, dân chủ, công bằng, văn minh". Trong nền kinh tế thị trường định hướng xã hội chủ nghĩa có nhiều hình thức sở hữu, nhiều thành phần kinh tế trong đó kinh tế quốc doanh giữ vai trò chủ đạo, dẫn dắt nền kinh tế." (Central Economic Committee, 2016)

No.	*English (Translated data)*	Vietnamese (Original data)
12	*"To the end of the century, it could not be known when there was complete socialism in Vietnam"*	"Đến hết thế kỷ này không biết đã có CNXH hoàn thiện ở Việt Nam hay chưa" (Thanhnien, 2013)
13	*"Every five years, one or more state research programmes are conducted, and in them, there are several addressing the question of defining the market economy with socialism orientation. By assuming that at least five sessions of research programmes were conducted in 25 years, it is possible to estimate the number of research projects that have attempted to answer that question. Further, many other topics that do not have the same title are also being researched to answer that question. It means we have tried hard to find a definition that can make us confident and satisfied. However, the fact is that until now, we have not been clear and still have to find the answer."*	"Cứ 5 năm lại có một hoặc nhiều chương trình nghiên cứu nhà nước. Trong những chương trình ấy, thường có một vài đề tài để trả lời cho câu hỏi thế nào là kinh tế thị trường định hướng XHCN. Cứ cho là ít nhất có 25 năm, tức là 5 đợt làm chương trình thì có thể hình dung đã có bao nhiêu đề tài nghiên cứu phải trả lời: thế nào là kinh tế thị trường định hướng XHCN. Đến đợt này vẫn còn trả lời tiếp. Thậm chí, còn nhiều đề tài khác không có tên ấy nhưng cũng để trả lời câu hỏi đó. Như thế nghĩa là chúng ta đã rất cố gắng để đi tìm một định nghĩa thực sự làm chúng ta thấy tin tưởng và hài lòng. Nhưng thực tế là đến bây giờ chúng ta vẫn chưa rõ, vẫn cứ phải đi tìm câu trả lời." (Tran Dinh Thien and Luu Bich Ho, 2015)
14	*"We keep studying that model and have not yet found it. That model does not exist for seeking"*	"Chúng ta cứ nghiên cứu mô hình đó, mà mãi có tìm ra đâu. Làm gì có cái thứ đó mà đi tìm" (Saigontimes, 2014)
15	*"Many thanks for your analysis. However, for our businesses, what we need most is the specific statement for our long-term business orientation. … The country's way to develop needs to be stated clearly for the public to understand. Why was it wavering so that even the general secretary of the Communist Party [Nguyen Phu Trong, as aforementioned] did not know when socialism would be completely built in Vietnam?"*	"Rất cám ơn phân tích của ông Tuyển. Thế nhưng với doanh nghiệp chúng tôi thì cái cần nhất là sự cụ thể để còn định hướng làm ăn lâu dài… Con đường của ta thì ta có thể nói rõ cho dân biết mà lần theo, sao cứ nhấp nháy cái mà ngay cả Tổng Bí Thư đã từng phát biểu là chưa biết bao giờ xây dựng được?" (Truong, 2015)
16	*"What the market economy is, and how socialism orientation is about? They need to be specific rather than saying generally all the time"*	"Kinh tế thị trường là thế nào, định hướng xã hội chủ nghĩa là thế nào, phải nói cụ thể, không chung chung nữa" (Ha Chinh (2015)

No.	*English (Translated data)*	Vietnamese (Original data)
17	*"To continue the implementation of the socialist objective, it is inevitable to maintain the leadership role of the Communist Party, and to reject political pluralism and multiparty opposition, because the leadership of the Communist Party is the prerequisite to achieve the socialism objective."*	"Tiếp tục thực hiện mục tiêu xã hội chủ nghĩa thì tất yếu phải giữ vững vai trò lãnh đạo của Đảng Cộng sản, không chấp nhận đa nguyên chính trị, đa đảng đối lập, vì đây là nhân tố tiên quyết để thực hiện mục tiêu xã hội chủ nghĩa." (Luu, 2014)
18	*"Under multiparty political systems, Government policies are not stable and not highly targeted because they depend on each party's policies. When the ruling party changes, the above policies also change (e.g., the regulatory changes...)."*	"Do thể chế chính trị đa đảng, các chính sách này không ổn định và tính hướng đích không cao do tùy thuộc vào chính sách của từng đảng. Khi đảng cầm quyền thay đổi thì các chính sách nêu trên cũng thay đổi (mức điều tiết thay đổi…)." (Truong, 2015)
19	*"Thus, there is a disagreement between the socialist solutions and the real life. The more implementation of socialist solutions, the more negative reactions of life"*	"Như vậy là giữa những giải pháp xã hội chủ nghĩa và thực tế cuộc sống có sự không ăn khớp. Càng đẩy tới các giải pháp xã hội chủ nghĩa thì càng vấp phải những phản ứng tiêu cực của cuộc sống." (Dang, 2016, p.15)
20	*"In order to have goods for society, it is necessary to return the freedom for private economy. In order to buy or sell, must accept the market economy. But with that acceptance, what is the socialist regime, what is the central planning mechanism, and what is the socialist goal?"*	"Muốn có sản phẩm hàng hóa cho xã hội thì phải trả lại tự do cho kinh tế cá thể, kinh tế tư nhân. Muốn mua được, bán được thì phải chấp nhận cơ chế thị trường. Nhưng, nếu chấp nhận những biện pháp ấy thì còn gì là chế độ công hữu xã hội chủ nghĩa, còn gì là cơ chế kế hoạch hóa tập trung, còn gì là mục tiêu xã hội chủ nghĩa?" (Dang, 2016, p. 15)
21	*"Without renovation* [the country] *is dead"*	"Đổi mới thì sống, không đổi mới thì chết" (VnExpress,2015)
22	*"No other way, apart from resolutely abolishing the mechanism of centralisation, bureaucracy and subsidies; implementing the decentralisation of management; adopting the principles of democracy; properly using economic leverages; promoting the role of science and technology; improving efficiency; and*	"Không có con đường nào khác là phải kiên quyết xóa bỏ cơ chế tập trung, quan liêu, bao cấp, thực hiện phân cấp quản lý theo nguyên tắc tập trung, dân chủ, sử dụng đúng đắn các đòn bẩy kinh tế, phát huy vai trò của khoa học kỹ thuật, mở rộng nâng cao hiệu quả kinh tế đối ngoại".

No.	*English (Translated data)*	Vietnamese (Original data)
	expanding foreign economic relationships."	(Hoang Phuong, 2015)
23	*"The mechanism of centralization, bureaucracy, and subsidies"*	"Cơ chế quản lý tập trung quan liêu, hành chính, bao cấp" (Nguyen Trong Phuc, 2015)
24	*"Returning the economy to its economic rules"*	"Hãy trả về cho sản xuất sự vận hành đúng quy luật của nó" (Luong Ninh, 2015)
25	*"Renovation is a vial issue", or "Renovation is prerequisite"*	"Đổi mới là một tất yếu khách quan", "Đổi mới được coi là vấn đề có ý nghĩa sống còn" (Luong Ninh, 2015)
26	*"Integration is an objective trend of the global development, being the unavoidable requirement for each country in the world today"*	"Hội nhập là xu thế phát triển khách quan của tình hình quốc tế, là yêu cầu nội tạicủa mỗi quốc gia trong thế giới ngày nay." (The Government, 1999)
27	*"how to harmonize inside* [local] *with outside* [global]*" is a matter of delicateness and cleverness…"*	"việc xử lý thế nào cho "trong ấm ngoài êm" là vấn đề tinh tế và khôn khéo" (Duy Huu, 2015)
28	*"isolated and embargoed"*	"bị cô lập, phong tỏa" (Duy Huu, 2015)
29	*"We adjusted our diplomatic global integration policy to reduce tension in the region, especially with the neighbouring countries, to create a peaceful space for the benefit of our reform."*	Chúng ta điều chỉnh chính sách ngoại giao để giảm căng thẳng trong khu vực, đặc biệt là với các nước láng giềng, tạo môi trường hòa bình phục vụ cho công cuộc đổi mới của chúng ta. (Hoang ,2017)
30	*"we have made great achievements, has historical significance"*	"chúng ta đã đạt dược những thành tựu to lớn, có ý nghĩa lịch sử" (Pham Ngoc Quang, 2006, Nguyen Thanh Vinh, 2015, Thai, 2016)
31	*"the right leadership of Communist Party"*	"Sự lãnh đạo đúng đắn của Đảng" (Pham Ngoc Quang, 2006, Nguyen Thanh Vinh, 2015, Thai, 2016)

No.	*English (Translated data)*	Vietnamese (Original data)
32	*"do not see market where it should be" and "do not see State where it should be"*	"chỗ nào cần nhà nước thì không thấy nhà nước, chỗ nào cần thị trường thì không thấy thị trường." (Tran Dinh Thien and Luu Bich Ho, 2015a)
33	*"Although there are many challenges, Vietnam still has 'the golden opportunity' to participate in the WTO. The important thing is that we must expend great efforts to take advantage of the opportunity … We need to restructure businesses, including drastically reforming SOEs, rapidly implementing equitisation and reducing the percentage of shares in SOEs equitisation of state, and soon transfer all SOEs to operate under the Enterprise Law. This is a vital element for SOEs to improve themselves and improve competitiveness."*	"Mặc dù có không ít thách thức đặt ra, song VN vẫn có "thời cơ vàng" khi vào WTO. Điều quan trọng là chúng ta phải có năng lực và nỗ lực rất lớn mới có thể tận dụng được… Chúng ta cần phải sắp xếp lại các lực lượng DN, trong đó quyết liệt với việc cải cách DNNN, thực hiện nhanh chương trình cổ phần hóa (CPH), giảm tỷ lệ cổ phần của nhà nước trong DNNN CPH và sớm chuyển toàn bộ DNNN sang hoạt động theo Luật Doanh nghiệp." (SGGP, 2006)
34	*"State-owned enterprises play a dominant role in the economy... and being the core force of state economic sector to ensure its leading role in the market economy under socialism orientation."*	"Doanh nghiệp nhà nước đóng vai trò chủ đạo trong nền kinh tế và ….là lực lượng nòng cốt và chủ yếu của kinh tế nhà nước trong việc đảm bảo vai trò chủ đạo của nó trong nền kinh tế thị trường theo định hướng xã hội chủ nghĩa" (United Nations Development Programme, 2006)
35	*"The state economic sector plays a key role, being an important material force for the state to orient and adjust the economy, setting the environment and conditions for developing all economic sectors."*	"Kinh tế Nhà nước giữ vai trò chủ đạo, là lực lượng vật chất quan trọng để Nhà nước định hướng và điều tiết nền kinh tế, tạo môi trường và điều kiện thúc đẩy các thành phần kinh tế cùng phát triển." (HIDS, 2016)
36	*"equitisation but not privatization"*	"Cổ phần hóa nhưng không được tư nhân hóa" (Hanoingannam, 2014)

No.	English (Translated data)	Vietnamese (Original data)
37	*"I can confirm that under the Vietnamese approach, equitisation of state-owned enterprises is absolutely not privatisation. Since the state now holds over 50% stake after the equitisation, these are still state-owned enterprises under the Enterprise Law. So, do not worry about whether it is private or state."*	"Tôi có thể khẳng định rằng với cách làm của VN, cổ phần hóa các doanh nghiệp Nhà nước hoàn toàn không phải là tư nhân hóa. Với những doanh nghiệp Nhà nước nắm giữ trên 50% vốn sau khi cổ phần, thì theo Luật Doanh nghiệp nó vẫn là doanh nghiệp Nhà nước. Vì vậy không nên băn khoăn nó là tư nhân hay Nhà nước." (Vo Van Thanh, 2006)
38	*"The Party and State have advocated the development of a multisector economy, including private sector development. Thus, we are encouraging the development of the private economy and why do we have to worry about privatisation"*	"Đảng và Nhà nước đã có chủ trương về phát triển kinh tế nhiều thành phần, trong đó có phát triển kinh tế tư nhân. Như vậy, chúng ta đang khuyến khích phát triển kinh tế tư nhân, sao phải lo ngại tư nhân hoá." (Vo Van Thanh, 2007)
39	*"The banking sector must be one of the earliest to open next year. Equitisation plans for all state commercial banks were outlined, beginning with Vietcombank and finally the Agribank."*	"Có thể nói theo WTO thì ngân hàng là một trong những lĩnh vực phải mở cửa sớm nhất, vào năm sau. Kế hoạch để cổ phần hóa tất cả các ngân hàng thương mại Nhà nước đã được vạch rõ, bắt đầu từ Ngân hàng Ngoại thương và sau cùng là Ngân hàng Nông nghiệp." (Vo Van Thanh, 2006)
40	*"Vietcombank is a tool of the state to implement and enforce monetary policy besides its mission of running a good business"*	"Khẳng định nhiệm vụ của Vietcombank là phải kinh doanh tốt, đồng thời là công cụ của nhà nước để thực thi và triển khai chính sách tiền tệ cũng như hoạt động ngân hàng" (Vietcombank, 2015)

No.	*English (Translated data)*	Vietnamese (Original data)
41	*"Since the years before the establishment of joint-stock commercial banks, the Government has planted its agents in each bank and large state-owned commercial banks have been instructed to contribute capital to joint-stock commercial banks to become state shareholders in those joint-stock banks. The presence of the state-owned commercial banks is for limiting the activities beyond the legal framework if there are weaknesses originating from the new joint-stock banks that were established."*	"Từ nhiều năm trước khi việc thành lập hệ thống ngân hàng cổphần được thực thi, Chính phủ đã chủ trương phải có đại diện của mình trong mỗi ngân hàng và các ngân hàng quốc doanh lớn đã được lựa chọn để góp vốn với tư cách cổ đông nhà nước. Sự hiện diệncủa những ngân hàng quốc doanh nhằm mục đích hạn chế những hoạt động vượt ra ngoài khuôn khổ pháp lý nếu có cũng như những yếu kém ban đầu từ phía các ngân hàng cổ phần mới được thành lập." (The Banking Review, 2013)
42	*"There are slightly different motives in this story. There are those who want to establish the leading role for the state economy, but also those who want our economy to be developed quickly in size; there are those who want us to have economic representatives for international talks. Because ultimately a prime minister or a president cannot negotiate a specific economic problem, cannot be the representative of the economy. The corporations are considered the representatives of the economy."*	"Có những động cơ hơi khác nhau trong câu chuyện này. Có những người muốn khẳng định kinh tế nhà nước là chủ đạo, nhưng cũng có những người muốn nền kinh tế của chúng ta trở nên chóng có kích thước, cũng có những người muốn chúng ta phải có những đại diện kinh tế để đối thoại. Bởi vì nói cho cùng một ông Thủ tướng hay một ông Chủ tịch nước không thể đối thoại về những vấn đề kinh tế cụ thể được, mà phải có các đại diện của nền kinh tế. Các tập đoàn được xem như là người đại diện của một nền kinh tế. (Vietnamnet, 2010)" (Viet Lam and Khanh Linh, 2010)
43	*"The dominant role of the state economy is not reflected in the number of enterprises more or less, in the proportion of high or low contribution to GDP that in place, but it is an important material force for the state to navigate and regulate the economy, providing the environment and conditions for promoting the development of all business sectors."*	"Vai trò chủ đạo của nền kinh tế nhà nước không phải thể hiện ở số lượng doanh nghiệp nhiều hay ít, tỷ trọng đóng góp GDP cao hay thấp mà ở chỗ, đó là lực lượng vật chất quan trọng để Nhà nước định hướng và điều tiết nền kinh tế, tạo môi trường và điều kiện thúc đẩy các thành phần kinh tế cùng phát triển." (Nguyen Quang A, 2010)

No.	*English (Translated data)*	Vietnamese (Original data)
44	*"Common theory of political science had shown: for a caste, a social force or an individual, to be able to win, hold and exercise its power, it must have the power of violence, physical or intellectual; in other words, it must have 'gun' and 'money' or knowledge and culture. In spite of knowledge and culture playing an increasingly important role, violence and physical and financial power are still indispensable in today's conditions."*	"Lý luận phổ thông của khoa học chính trị cũng đã chỉ rõ: một giai cấp, một lực lượng xã hội hay một cá nhân, để có thể giành, giữ và thực thi quyền lực, phải có sức mạnh về bạo lực, vật chất hoặc trí tuệ, nói cách khác cần có "súng", có "tiền" hoặc có tri thức, văn hóa. Tuy trí tuệ hay tri thức, văn hóa ngày càng có vai trò quan trọng, nhưng bạo lực và vật chất, tài chính vẫn là sức mạnh không thể thiếu trong điều kiện hiện nay." (Luu, 2014)
45	*"The majority of SOEs are lent mainly without securities, even under 'orders' or 'indications' [from the Government agencies, politicians, regulators, etc.] with huge amounts and being processed very fast, not as tightly as when banks lend to small and medium businesses. Examples are huge government-mandated loans, such as for Vinashin, Vinaline, Electricity Corporation, Coal Group and Petroleum Group."*	"Đa phần các doanh nghiệp nhà nước đều được cho vay ở dạng thế chấp chỉ một phần; phần tín chấp là chủ yếu, thậm chí được vay theo "lệnh", theo "chỉ định" với những khoản vay rất lớn mà thủ tục rất chóng vánh, không chặt chẽ như khi các ngân hàng cho vay khu vực doanh nghiệp nhỏ và vừa. Ví dụ, có những khoản vay do Nhà nước chỉ định, như cho Vinashin, Vinaline, Tập đoàn Điện lực, Tập đoàn Than, Tập đoàn Dầu khí, … vay với những món vay khổng lồ …" (Dang, 2015, p. 24)
46	*"The problem is that the state has not traditionally performed its correct role. Investment is not the state's job, but it still rushes forward into investing. Developing a competitive market but jumping into setting price. Consequently, the more the state does, the more confusion it causes."*	"Vấn đề là xưa nay nhà nước không làm đúng việc của mình. Đầu tư phát triển không phải việc của mình thì cứ xông vào đấy. Chẳng hạn cạnh tranh thị trường mà cứ nhảy xổ vào điều hành giá cả. Kết cục ông càng làm càng rối." (Tran Dinh Thien and Luu Bich Ho, 2015a)
47	*"We would rather lose money for state bailout to have stability in the society. It would be better than the case that people lose money leading to loss of confidence, stability and other problems that cost more."*	"Thà mất tiền (nhà nước chi trả-pv) để có sự bình ổn trong xã hội sẽ tốt hơn nếu người dân mất tiền sẽ dẫn đến niềm tin mất, bất ổn xã hội rồi dẫn đến nhiều vấn đề khác mà mức chi phí đó còn lớn hơn rất nhiều." (Thuy Lien, 2015)

No.	*English (Translated data)*	Vietnamese (Original data)
48	*"In any case, the rights of legitimate depositors will be ensured. Under the political regime of Vietnam, there would be no story that depositors lose money!"*	"Trong bất kỳ trường hợp nào, sẽ đảm bảo bảo mọi quyền lợi của người gửi tiền hợp pháp khi tái cơ cấu. Với chế độ chính trị của Việt Nam, sẽ không có câu chuyện người gửi tiền bị mất tiền!" (VnEconomy, 2011)
49	*"Accounting must meet the requirements of economic management at both macro and micro levels. That is, it must meet the requirements of state management and administration of a business, even in a department of a business. Accounting implements economic management in terms of not only monetary values but also nonmonetary ones, including quantity and quality."*	"Kế toán phải đáp ứng được yêu cầu quản lý kinh tế ở cả tầm vĩ mô và vi mô. Tức là, đáp ứng được yêu cầu quản lý của nhà nước và điều hành ở một doanh nghiệp, thậm chí ở một phòng của doanh nghiệp. Kế toán không những thực hiện quản lý kinh tế bằng giá trị, mà còn quản lý bằng hiện vật, trong đó có số lượng và chất lượng." (Phan Le, 1998a, p. 18)
50	*"SBV runs accounting operations under the chart of accounts and the documentary-based system in accordance with legal regulations on accounting and statistics." and Article 86 of the Law on Credit Institutions that* *"Credit institutions shall perform its accounting based on the system of accounts and financial documents in accordance with the laws on accounting and statistics."*	"Ngân hàng Nhà nước thực hiện hạch toán theo hệ thống tài khoản kế toán và chế độ chứng từ theo quy định của pháp luật về kế toán, thống kê." (The National Assembly, 1997b) "Tổ chức tín dụng phải thực hiện hạch toán theo hệ thống tài khoản, chế độ chứng từ theo quy định của pháp luật về kế toán, thống kê." (The National Assembly, 1997a)
51	*"We easily see that the accounting system for financial institutions is designed very specifically for both financial and management accounting purposes … both serving the state management of monetary policy and maintaining consistency with the sector's business activities."*	"Ta dễ dàng nhận thấy, hệ thống TKKT các TCTD rất đặc thù là thiết lập theo cơ chế kế toán tài chính nhưng có cả tính chất kế toán quản trị (vừa đối nội vừa đối ngoại), hay có thể nói là vừa quản lý Nhà nước về chính sách tiền tệ; đồng thời phải phù hợp với hoạt động kinh doanh của ngành." (Ha Cuc, 1998, p. 16)
52	*"10% on net profits is established as 'special reserves' for risk prevention. This fund was established until reaching 100% of the actual charter capital at the time of provisioning."*	"Trích tỷ lệ 10% trên lợi nhuận ròng lập "Quỹ dự trữ đặc biệt" để dự phòng bù đắp rủi ro. Quỹ này được lập cho đến khi bằng 100% vốn điều lệ thực có tại thời điểm trích lập." (SBV, 1992)

No.	*English (Translated data)*	Vietnamese (Original data)
53	*"*If risk reserve fund is appropriated from the net profit, the bank with no gain or loss will have no risk reserve fund."	"To (1996) lo lắng quỹ dự phòng trích lập theo quy định trên không đủ để bù đắp rủi ro tín dụng khi phát sinh vì "quỹ dự phòng rủi ro được trích lập từ lợi nhuận ròng thì những ngân hàng không có lãi hoặc lỗ sẽ không có quỹ dự phòng rủi ro"" (To, 1996, p.11)
54	"The creation of a reserve fund risks need to be counted as an expense and the risk reserve should be seen as a factor for calculating lending interest rate."	"Việc hình thành quỹ dự phòng rủi ro cần phải được đưa vào chi phí" và "khoản này được coi như một yếu tố để tính vào giá của dịch vụ cho vay (tính vào lãi suất cho vay)" (To, 1996, p. 12)
55	*"Treating loan loss provision as an expense affects tax revenues"*	"Trích lập dự phòng hạch toán vào chi phí có ảnh hưởng đến nguồn thu thuế" (Ba Thanh and Moc Mien, p. 18)
56	*"Banks can use provision to evade taxation"*	"Ngân hàng có thể trích lập dự phòng vượt mức để trốn thuế" (Ba Thanh and Moc Mien, p. 18)
57	*"it* [treating loan loss provision as an expense] *is common in many countries*"	"đây [dự phòng] là một thực tế khách quan và phổ biến ở nhiều nước" (Ba Thanh and Moc Mien, p. 18)
58	*"The objective of setting up a reserve fund for loan loss is also to ensure a bank's profit reflects its business result"*	"Mục tiêu của việc trích lập quỹ dự phòng còn để đảm bảo kết quả kinh doanh là lợi nhuận của ngân hàng" (Ba Thanh and Moc Mien, p. 18)
59	*"In our country, it was claimed that on making provisions, some currently profitable banks would turn into loss-making ones. If people say so, it means that they were aware of the risk related to the loans that banks issued. If a loan was actually believed to be doubtful, then making provision for it is necessary; there is no need to wait until the real loss is incurred and deducted from interest, affecting business results. Without provisioning, business results shown on the balance sheet reflect incorrectly the financial position of the bank."*	"Ở nước ta, có ý kiến cho rằng: nếu trích lập dự phòng thì một số ngân hàng đang có lãi sẽ chuyển thành lỗ. Nếu nói như vậy thì có nghĩa là người ta đã nhận thức được rủi ro của các món vay mà các ngân hàng đã cấp ra. Nếu món vay đã thực sự được dự tính là khó đòi, thì việc trích lập dự phòng là cần thiết, không cần chờ cho đến khi mất thực sự mới trừ khỏi lãi, làm ảnh hưởng cục bộ đến kết quả kinh doanh. Nếu không trích lập dự phòng, kết quả kinh doanh thể hiện trên cân đối phản ánh không chính xác vị thế tài chính của ngân hàng."

No.	*English (Translated data)*	**Vietnamese (Original data)**
		(Ba Thanh and Moc Mien, 1998, p. 18)
60	*"The figure of [current credit loss] was about 300 billion dong, which was at least double or triple compared to profit of the whole state banking sector."*	"Con số 300 tỷ đồng ít ra cũng phải gấp đôi hoặc gấp 3 lần lợi nhuận của cả một hệ thống ngân hàng thương mại quốc doanh" (Vu Minh, 1999, p.25)
61	*"If all profit is used for provision making, where is the profit to pay tax to finance the state budget, to modernise banking technology to catch up with the world that is changing hourly and daily and to cover many daily bank expenses for ensuring its normal operation?"*	"Trích lập dự phòng hết cả lợi nhuận thì còn đâu để nộp ngân sách nhà nước, còn đâu để tính đến chuyện hiện đại hóa công nghệ ngân hàng, bắt kịp với thế giới đang thay đổi từng ngày từng giờ, còn đâu để giải quyết rất nhiều khoản chi phí của NH nhằm đảm bảo hoạt động bình thường." (Vu Minh, 1999, p.25)
62	*"If provision is made exceeding the profit of the current fiscal year, it means financial institutions make provision from nothing."*	"Nếu giá trị trích lập dự phòng rủi ro lớn tới mức vượt quá thu nhập ròng của tài khóa năm hiện hành thì vô hình chung, đơn vị hoặc TCTD dự phòng bằng cái không có." (Dieu, 1999, p. 9)
63	*"natural disasters, fires, epidemics or state policy changes"*	"thiên tai, hoả hoạn, dịch bệnh hoặc do Nhà nước thay đổi cơ chế, chính sách" (SBV, 1999, article 10)
64	*"In bank lending activities, credit risk owing to subjective reasons, such as customers deliberately not repaying, has the same opportunity to occur as credit risk owing to irresistible reasons, such as customers lacking the ability to repay. Therefore, we think that even when clients deliberately do not fulfil their obligations, banks should reserve the right to cover that risk by loan loss provision."*	"Cần thấy rằng, trong hoạt động tín dụng, rủi ro chủ quan, khách hàng cố tình không trả nợ và vì vậy, khoản nợ không được hoàn trả cũng có cùng cơ hội xuất hiện như trường hợp khách hàng không có khả năng trả nợ do các biến cố bất khả kháng, khách quan. Thế nên chúng tôi cho rằng khi khách hàng cố tình không thực hiện nghĩa vụ của họ một cách chủ quan thì TCTD cũng được quyền sử dụng dự phòng để xử lý rủi ro." (Pham Phu Quoc, 2000, p. 32)

No.	*English (Translated data)*	Vietnamese (Original data)
65	*"The remaining balance of loan loss provision, after deducting the actual loss incurred as at 31 December each year, must be reversed to reduce loan loss provision expense made during the year."*	"Số tiền dự phòng sau khi xử lý rủi ro còn lại tại thời điểm 31/12 hàng năm, tổ chức tín dụng phải hoàn lại để giảm số tiền dự phòng đã trích." (SBV, 1999, article 7)
66	*"Tax authorities are afraid that the stipulation of provision heavily relying on subjectiveness will facilitate banks in overstating expenses for tax reduction."*	"Cơ quan thế e ngại việc quy định lập dự phòng mang nặng tính chủ quan sẽ tạo điều kiện cho ngân hàng khai khống chi phí để giảm thuế." (Le Thi Thanh Nhan (2000)
67	*"It is just as if banks are allowed to establish a reserve for covering credit risk but are not permitted to store the reserve. This paradox makes provisioning meaningless; if there is no difference between having and not having a reserve, the outcome will be the same."*	"Điều này chẳng khác gì TCTD được phép trích lập dự phòng rủi ro tín dụng nhưng không được phép dự trữ tài chính trong việc trích lập ấy. Đây là điều nghịch lý làm cho việc trích lập dự phòng trở thành vô nghĩa; có cũng vậy mà không cũng thế, kết cục cũng sẽ như nhau." (Dieu, 1999, p. 10)
68	*"Provisions under Decision 48, although termed 'provision of assets' in form, have, in substance, absolutely no meaning of 'provision for impairment loss' for representing faithfully the fair value of assets in the financial statement."*	"Đối tượng của quy định [Decision 48], mặc dù có hình thức trình bày là "Dự phòng tài sản", nhưng về bản chất, hoàn toàn không mang ý nghĩa "Dự phòng giảm giá" nhằm mục đích làm "Tài sản Có" được thể hiện trung thực và hợp lý theo giá trị có thể thu hồi được trên báo cáo tài chính." (Le Thi Thanh Nhan, 2000, p. 13)
69	*"Such income is likely taking the current financial year profit to make provision for credit risk from the previous year. Paradoxically, this will increase the financial burden for the operations of the current year."*	"Như vậy chẳng khác gì lấy thu nhập tài chính của năm hiện hành để lập "dự phòng" rủi ro tín dụng cho những năm trước. Điều nghịch lý này sẽ làm tăng thêm gánh nặng tài chính cho hoạt động của năm hiện hành." (Dieu, 1999, p. 9)
70	*"In our opinion, this [provision under Decision 48] is a very big blank in the regulation of the SBV. This issue should be urgently considered..."*	"Theo chúng tôi, đây là một khoảng trống rất lớn trong cơ chế của NHNN. Cần phải khẩn trương xem xét vấn đề này…" (Le Thi Thanh Nhan, 2000, p. 13)

No.	*English (Translated data)*	Vietnamese (Original data)
71	*"the trend of economic integration with the region and the world that raises the need to integrate with the international generally accepted accounting practices…"*	"Xu thế hòa nhập với nền kinh tế khu vực và thế giới đặt ra yêu cầu cần phải hòa nhập với các thong lệ kế toán quốc tế được chấp nhận chung." (Le Thi Thanh Nhan, 2000, p. 14)
72	*"the upcoming birth of the stock market in which the users of financial statements, including local and foreign investors, have the right to ask for accounting information that reflects faithfully business operations."*	"Sự ra đời sắp tới của thị trường chứng khoán, đối tượng sử dụng báo cáo tài chính bao gồm các nhà đầu tư trong nước và nước ngoài, có quyền yêu cầu phải được cung cấp những thông tin kế toán trung thực và hợp lý, phản ánh đúng tình hình hoạt động của doanh nghiệp." (Le Thi Thanh Nhan, 2000, p. 14)
73	*"Credit institutions shall not be entitled to inform their customers of the risks that have been dealt with, except for debts that are written off with Government's permission."*	"Tổ chức tín dụng không được thông báo cho khách hàng biết về việc xử lý rủi ro, trừ những khoản nợ đã được Chính phủ cho phép xóa nợ cho khách hàng." (Deputy Governor, 2000, article 4)
74	*"In the event that a state-owned credit institution experiences business loss in a year owing to the provisions made in accordance with this regulation, that credit institution must work out a solution plan to submit to the Ministry of Finance and the SBV for consideration."*	"Trường hợp tổ chức tín dụng Nhà nước thực hiện việc trích lập dự phòng theo Quy định này có thể dẫn tới kết quả kinh doanh của năm đó lỗ thì tổ chức tín dụng đó phải lập phương án khắc phục gửi Bộ Tài chính và Ngân hàng Nhà nước xem xét." (Deputy Governor, 2000, article 10)
75	*"When a loan is not yet due, loss has not yet been incurred, but it does not mean that the loss will not be incurred. For example, if a loan is current but the borrower has completely lost the ability to pay, and the bank does not have any way to recover the debt, it can be observed that the loan will never be paid despite not being due."*	"Một khi khoản tín dụng chưa đến hạn thanh toán thì tổn thất của khoản tín dụng này chưa xảy ra nhưng không có nghĩa là sẽ không có thể xảy ra. Chẳng hạn, một khoản tín dụng dù chưa tới hạn, song nếu TCTD xác định được rằng người đi vay đã hoàn toàn mất khả năng thanh toán; đồng thời TCTD cũng không có biện pháp nào để thu hồi nợ, thì cho dù khoản tín dụng này chưa tới hạn phải thanh toán cũng có thể thấy được rằng nó không bao giờ được thanh toán." (Pham Phu Quoc, 2000, p. 31)

No.	English (Translated data)	Vietnamese (Original data)
76	*"Notably, in the 2006–2011 period, the regulatory framework and supervision of banking activities was constantly being modernised. Current regulations of Vietnam on ensuring safe operations of commercial banks cover all content of supervision on capital, credit limit, equity investment limit, solvency ratio, quality classification of debts and provision for risks."*	"Điểm đáng chú ý là 2006-2011 lại là thời kỳ khung pháp lý và giám sát hoạt động ngân hàng không ngừng được hiện đại hóa. Quy định hiện hành của Việt Nam về bảo đảm an toàn hoạt động của NHTM đã bao trùm hết các nội dung giám sát về vốn, giới hạn tín dụng, giới hạn đầu tư góp vốn cổ phần, tỷ lệ khả năng chi trả, và phân loại chất lượng nợ, trích dựphòng rủi ro." (Nguyen Xuan Thanh, 2012)
77	*"By adopting Decision 493, banks are gradually moving towards the assessment and classification of debts based on qualitative factors and prevention is divided into a general provision and specific provision under the framework of banking risk provisions of Basel 2."*	"Theo Quyết định 493 của NHNN với việc phân loại nợ và trích lập dự phòng rủi ro, các TCTD dần tiến tới những đánh giá phân loại nợ mang các yếu tố định tính và dự phòng được chia thành dự phòng chung và dự phòng cụ thể đã hướng hoạt động ngân hàng theo khuôn khổ dự phòng rủi ro của Basel 2." (Duong, 2009, p. 31)
78	*"Decision 493 issued by SBV also applies those practices for measuring NPL, so one cannot say 'standard of NPLs' in Vietnam is poor compared with that of 'international standards'"*	"QĐ 493 của NHNN cũng áp dụng cách tính NPL theo thông lệ này, bởi vậy không thể nói "tiêu chuẩn nợ xấu" của VN kém "tiêu chuẩn quốc tế." (Le Hong Giang, 2012)
79	*"Banks, but in fact, their investors and economic organisations that own banks, can easily disable all safety regulations, even if these are the rules under international standards. Moreover, that disablement would strictly follow current laws (but violate the spirit of the law)."*	"Tuy nhiên, các ngân hàng, mà thực chất là các nhà đầu tư, tổchức kinh tế sở hữu ngân hàng, có thểdễdàng vô hiệu hóa tất cả các quy định đảm bảo an toàn, cho dù đó là các quy định theo chuẩn mực quốc tế. Hơn thế nữa, việc vô hiệu hóa các quy định này được làm rất đúng luật (nhưng sai tinh thần của luật)." (Nguyen Xuan Thanh, 2012)
80	*"At that time, there were many controversies that 9% is too high, and that banks are difficult to satisfy. However, most of the banks had a CAR much higher when compared with the minimum, except Agribank, according to the data for 2011."*	"Thời điểm đó đã có nhiều tranh cãi cho rằng 9% là quá cao, ngân hàng khó đáp ứng được. Nhưng sau đó, hầu hết các ngân hàng đều ung dung khi mức CAR cao hơn nhiều so với mức tối thiểu, trừ Agribank, theo số liệu năm 2011." (NCDT, 2013)

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81	*"One of the reasons why banks pushed higher CAR is the trend of hiding debt. If provision were made fully and on time, CAR would reduce immediately rather than increase."*	"Một trong những lý do khiến các ngân hàng đẩy CAR lên cao chính là xu hướng giấu nợ. "Nếu trích lập đầy đủ thì ngay lập tức CAR phải giảm xuống chứ không thể tăng lên" (NCDT, 2013)
82	*"Many subjects [banks and others] use a number of different techniques for not complying with credit security regulations."*	"bằng nhiều kỹ thuật khác nhau không ít đối tượng không tuân thủ các quy định an toàn hoạt động tín dụng" (Vu Thanh Tu Anh et al., 2013)
83	*"The auditing and inspection to detect and handle the problem is very difficult due to lack of judicial evidence."*	"việc kiểm tra, thanh tra để phát hiện và xử lý vấn đề sở hữu chéo rất khó khăn do thiếu bằng chứng pháp lý" (Vu Thanh Tu Anh et al., 2013)
84	*"The current status is using cross-shareholding to dodge, but not violate, the regulation … Many loans over 1,000 billion, which have now become NPLs, were revealed by the supervision, but were not being highlighted because the law was not broken."*	"Nợ xấu phát sinh do ngân hàng cho vay rủi ro trái quy đinh và cơ quan quản lý buông lỏng giám sát là không chỉ đúng bệnh. Nhiều khoản cho vay trên 1000 tỷ đồng mà giờ đây trở thành nợxấu đều được các cơ quan giám sát nắm, nhưng vì không phạm luật nên không bị tuýt còi." (Nguyen Xuan Thanh, 2012)
85	*"The first is that although the regulations to ensure safe operation were issued by the state, these are disabled by the state. That is because the Government is the owner of the State Corporations (SOEs) and, simultaneously, the controlling shareholder of state-owned commercial banks (SOCBs), thereby allowing lending activities between the two groups to escape from the regulations... Violation of the monitoring framework resulted in the bad loans that the bank had to suffer directly. That the lending of SOCBs to Vinashin, Vinalines and other major projects of SOEs exceeded safety regulations is obvious evidence."*	"Thứ nhất là việc các quy định đảm bảo hoạt động an toàn do Nhà nước ban hành, nhưng bị chính Nhà nước vô hiệu hóa. Đó là do Chính phủ là chủ sở hữu của các Tập đoàn, Tổng công ty nhà nước (DNNN) đồng thời lại là cổ đông chi phối các ngân hàng thương mại quốc doanh, từ đó cho phép các khoản vay giữa hai nhóm này vượt ra ngoài quy định… Vi phạm khung giám sát, dẫn đến hậu quả là các khoản nợ xấu về sau mà ngân hàng phải gánh chịu trực. Việc các ngân hàng thương mại quốc doanh cho vay Vinashin, Vinalines và nhiều dựán lớn khác của DNNN vượt quy định an toàn là những minh chứng rõ ràng." (Nguyen Xuan Thanh, 2012)

No.	*English (Translated data)*	**Vietnamese (Original data)**
86	*"On 31.12.2011, the bank (i.e., Oceanbank) held deposits, loans and bond investments in Vietnam Shipbuilding Industry (Vinashin) and several companies owned by Vietnam Shipbuilding Industry, which were overdue. However, in 2011, based on the written direction of the State regulators about considering and restructuring the debts of the corporation, Vietnam Shipbuilding Industry, the bank has implemented the directive, maintaining the status quo and not making provision for the debts and receivables above. Currently, banks are continuing to work with Vinashin and the State management agencies to plan the treatment and recovery of the debts and receivables."*	"Ngày 31.12.2011, ngân hàng (tức Oceanbank) nắm giữ các khoản tiền gửi, dư nợ tín dụng và đầu tư trái phiếu của ngân hàng với tập đoàn Công nghiệp tàu thuỷ Việt Nam (Vinashin) và một số công ty thuộc tập đoàn Công nghiệp tàu thuỷ Việt Nam đã quá hạn thanh toán. Tuy nhiên, trong năm 2011, căn cứ vào văn bản chỉ đạo của cơ quan quản lý nhà nước về xem xét khoản nợ, cơ cấu lại các khoản nợ của tập đoàn Công nghiệp tàu thuỷ Việt Nam, ngân hàng đã thực hiện ý kiến chỉ đạo, giữ nguyên trạng thái nợ hiện tại và không trích lập dự phòng với các khoản nợ và phải thu trên." (Tinmoi, 2012)
87	*"The SBV processed specifically BIDV's suggestion that the loans related to that project [the drainage project] would not be counted in complying with the ratios, the requirement of not lending over 15% of the equity capital, excluding from the annual credit growth limit, not classifying in credit risk groups as well as not making provision for risks related to the project."*	"Ngân hàng Nhà nước Việt Nam xử lý cụ thể các kiến nghị của BIDV về việc loại trừ dư nợ cho vay đối với dự án khi tính các tỷ lệ an toàn, cho vay dự án vượt 15% vốn tự có, không tính trong chỉ tiêu tăng trưởng tín dụng hàng năm đối với khoản tín dụng phục vụ cho dự án, không xác định hệ số rủi ro cũng như trích dự phòng rủi ro đối với dự án." (Nguyen Van Nen, 2015)
88	*"The Ministry of Finance implements the state management function in finance and guidance, supervision and inspection of the implementation of the financial regime of the Development Bank"*	"Bộ Tài chính thực hiện chức năng quản lý nhà nước về tài chính và hướng dẫn, kiểm tra, thanh tra việc thực hiện chế độ tài chính của Ngân hàng Phát triển." (Prime Minister, 2007, article 5)
89	*"The Development Bank reports the audited annual financial statements to the Prime Minister and the Ministry of Finance, the SBV, the Ministry of Planning and Investment."*	"Ngân hàng Phát triển phải báo cáo Thủ tướng Chính phủ và gửi cho Bộ Tài chính, Ngân hàng Nhà nước Việt Nam, Bộ Kế hoạch và Đầu tư kết quả kiểm toán báo cáo tài chính hàng năm." (Prime Minister, 2007, article 29)

No.	*English (Translated data)*	Vietnamese (Original data)
90	*"There are many causes leading to the "very bad" situation in VDB. However, most importantly, it is that VDB is "bipolar", being a bank and also not a bank at the same time."*	"Nguyên nhân dẫn đến tình trạng "rất xấu" ở VDB có rất nhiều. Song, quan trọng nhất là, VDB là một thể "lưỡng cực", vừa là một ngân hàng, lại cũng không phải là ngân hàng." (Cong Thuong, 2013)
91	*"This makes many people think 100% of investment loans and export loans to the State through VDB were almost no risk!"*	"Điều này khiến nhiều người nghĩ rằng, 100% dư nợ tín dụng đầu tư và xuất khẩu của Nhà nước qua VDB gần như không có rủi ro!" (Nguyen Hoai, 2011a)
92	*"The bank is a complete nonprofit organisation, which mainly carries out lending for investment and export activities under the direction of the Government. The problem is that, since it operates without profits, VDB cannot have funds for making provisions."*	"Ngân hàng này hoạt động hoàn toàn phi lãi, chủ yếu thực hiện nhiệm vụ cung cấp tín dụng đầu tư và tín dụng xuất khẩu theo chỉ đạo của Chính phủ. Một vấn đề đặt ra, nếu hoạt động phi lãi thì tất nhiên, VDB không thể lấy đâu ra nguồn để trích lập dự phòng rủi ro." (Nguyen Hoai, 2011a)
93	*"One Basel principle for capital adequacy requirement is to make provision corresponding with the level of risk, rather than waiting until the risks incur and record the loss without reserve to cover that loss."*	"Một nguyên tắc của Basel đối với an toàn vốn là phải trích lập dự phòng tương ứng mức độ rủi ro, chứ không phải đợi đến lúc rủi ro xảy ra mới hạch toán vào chi phí thì không thể lấy đâu ra nguồn bù đắp." (Nguyen Hoai, 2011a)
94	*"VDB is similar to a time bomb."*	"VDB không khác gì quả bom nổ chậm." (Nguyen Hoai, 2011a)
95	*"The Ministry of Finance acknowledged that, with the current regulations, it is difficult to force the mechanism of autonomy and self-responsibility of VDB leaders because the Finance Ministry cannot supervise the activities of the central bank better than the SBV, but the SBV also could not fully implement this duty."*	"Bộ Tài chính cũng thừa nhận rằng, với những quy định hiện hành, rất khó buộc được cơ chế tự chủ, tự chịu trách nhiệm của lãnh đạo VDB vì Bộ Tài chính không thể giám sát hoạt động của VDB tốt hơn NHNN, nhưng NHNN lại không được thực hiện đầy đủ quyền này." (Cong Thuong, 2013)

No.	*English (Translated data)*	Vietnamese (Original data)
96	*"Since the capital fund and operation mechanism of VDB are under the Ministry of Finance 'management', when asking SBV about VDB's funds, how it operates, how much it has disbursed and for which project and how it sets provision for loan loss, all SBV staff, even the highest leaders, all answered 'We do not know'!"*	"Tuy nhiên, do nguồn vốn, cơ chế hoạt động trực thuộc Bộ Tài chính "quản" nên nếu có hỏi Ngân hàng Nhà nước rằng: nguồn vốn VDB và cơ chế hoạt động như thế nào, giải ngân bao nhiêu, cho dự án nào, tỷ lệ trích lập quỹ dự phòng rủi ro ra sao thì kể cả lãnh đạo vụ nghiệp vụ đến lãnh đạo cao nhất của Ngân hàng Nhà nước đều trả lời "không biết"!" (Nguyen Hoai, 2011a, Nguyen Hoai, 2011b)
97	*"One other remarkable issue, Decision 44/2007/QD-TTg regulates: 'Within 120 days after the fiscal year end date, VDB shall disclose financial statements in accordance with the provisions of the law'. However, although having already operated for 5 years, the 'Annual Report' on its portal is still blank."*	"Một vấn đề đáng lưu ý khác, Quyết định 44/2007/QĐ-TTg quy định: "Trong thời hạn 120 ngày, kể từ ngày kết thúc năm tài chính, VDB phải công khai các báo cáo tài chính theo quy định của pháp luật". Tuy nhiên, dù hoạt động đã 5 năm nay, nhưng ở mục "báo cáo thường niên" trên cổng thông tin của ngân hàng này vẫn trắng xóa." (Nguyen Hoai, 2011a)
98	*"The Government guarantee for the loan business is to create favourable conditions for businesses to raise large funds, for which, sometimes, credit institutions require a Government guarantee as security … Moreover, the cost of the loan guaranteed by the Government will be lower than a normal commercial loan … The issuance of Government guarantees for foreign loans serves urgent investment projects, especially in periods when domestic capital is insufficient to meet the demand for investment and development needs."*	"Việc Chính phủ cấp bảo lãnh cho các doanh nghiệp vay vốn là để tạo điều kiện cho các doanh nghiệp có thể huy động được nguồn vốn có giá trị lớn mà đôi khi các tổ chức tín dụng đòi hỏi việc thu xếp vốn cho các dự án phải có bảo lãnh của Chính phủ… Bên cạnh đó, chi phí của khoản vay có bảo lãnh của Chính phủ sẽ thấp hơn so với trường hợp doanh nghiệp trực tiếp vay thương mại thông thường… Việc cấp bảo lãnh Chính phủ cho các doanh nghiệp vay vốn nước ngoài thực hiện các dự án đầu tư cấp bách, trọng điểm của Nhà nước có ý nghĩa quan trọng nhất là trong các giai đoạn nguồn vốn trong nước không đủ đáp ứng cho nhu cầu đầu tư phát triển." (Bao Bao, 2015)
99	*"Consequently, it is clear that economic efficiency is very low [by investing in SOEs] … This is a huge expense."*	"Hậu quả rõ ràng là hiệu quả nền kinh tế rất thấp... Đây là một sự trả giá rất lớn." (Tran Dinh Thien, Luu Bich Ho, 2015)

No.	*English (Translated data)*	Vietnamese (Original data)
100	*"Debts of SOEs that were guaranteed by the Government could threaten the national financial security."*	"khoản nợ của các DNNN được Chính phủ bảo lãnh có nguy cơ đe dọa an ninh tài chính quốc gia nếu các doanh nghiệp này hoạt động không hiệu quả, không có khả năng trả nợ." (Bao Bao, 2015)
101	*"For every $5, the public debt has $1 loan guarantee contract for state-owned enterprises or corporations."*	"Cứ 5 đồng nợ công thì có 1 đồng bảo lãnh vay cho tập đoàn, TCT Nhà nước" (Bao Bao, 2015)
102	*"Assuming that we have a good control system, losses or disasters up to the first few trillion might be incurred undetected. However, allowing the loss to extend to 80,000 billion means that the system has problems. We do not have in the Government administration system an alarm mechanism sensitive enough to be able to prevent a disaster at the beginning. So, we definitely have to acknowledge that not only individual faults resulted in this failure, but that it also was a failure of system quality, and that system failure is the lack of an alarm system for the financial risk. The Vinashin phenomenon revealed to the Party, the Government and Parliament that if there were more intelligent thieves, they might make off with all national assets, because we do not have such an alarm system."*	"Thử đặt vấn đề, nếu chúng ta có một hệ thống kiểm soát thật tốt thì cũng có thể thua lỗ, tai họa cũng có thể đến, nhưng đến trong một vài nghìn tỷ đầu tiên. Còn để kéo dài tới tỷ thứ 80.000 thì có nghĩa là hệ thống có vấn đề. Chúng ta không có trong hệ thống nhà nước của mình một cơ chế báo động đủ nhạy cảm để có thể ngăn chặn tai họa ở một giai đoạn đầu tiên. Cho nên, dứt khoát phải khẳng định rằng không có lỗi cá nhân tuyệt đối trong sai lầm này, mà đây là một lỗi có chất lượng hệ thống, và lỗi hệ thống ấy chính là thiếu hệ thống báo động về các tai họa tài chính. Hiện tượng Vinashin bộc lộ cho Đảng, Chính phủ, Quốc hội của chúng ta hiểu rằng, nếu có những tên kẻ trộm thông minh hơn thì nó có thể khoắng hết tài sản quốc gia, bởi vì chúng ta không có hệ thống báo động như vậy." (Khanh Linh, 2010)
103	*"SBV builds software for remotely monitoring NPLs independently and objectively. The result is always different from reports of commercial banks. For example, in 2006, commercial banks reported NPLs of 3.7% whereas SBV's figure was 7%."*	"NHNN xây dựng một phần mềm giám sát nợ xấu từ xa một cách hoàn toàn độc lập và khách quan. Kết quả bao giờ cũng lệch so với báo cáo của các NHTM. Ví dụ, năm 2006, báo cáo nợ xấu NHTM là 3,7%, còn kết quả của NHNN là 7%." (Le Ha, 2015)

No.	*English (Translated data)*	Vietnamese (Original data)
104	*"Should the state disburse credit through the commercial banking system because the risk management structure of commercial banks is safer than that of VDB? Commercial banks have their internal risk management system because they are inspected by the SBV and have to publish their annual financial statements through an independent audit..."*	"Nên giải ngân tín dụng nhà nước thông qua hệ thống ngân hàng thương mại nhà nước vì cấu trúc quản trị rủi ro của ngân hàng thương mại an toàn hơn so với VDB. ngân hàng thương mại có hệ thống quản trị rủi ro nội bộ, chịu sự thanh kiểm tra của Ngân hàng Nhà nước, hàng năm phải công bố báo cáo tài chính qua kiểm toán độc lập…" (Nguyen Hoai, 2011b)
105	*"I believe that Vinashin was the consequence of the global economic crisis but the system error was the root of that phenomenon, the error from the superstructure, from the policy of the Central Executive Committee of the Political Bureau, stemming from the point of view that socialist society must be based on '... the public ownership regime of main production means'. This model derives from the radical theory that private ownership of the production means is the source of exploitation. This extreme theory resulted in an economic model that lacks motivation, and thus was denied in reality. The Government had implemented this policy following the ideology of the Communist Party."*	"Tôi cho rằng Vinashin vừa là hậu quả của khủng hoảng kinh tế toàn cầu, vừa có căn nguyên sâu xa bắt nguồn từ lỗi của hệ thống, lỗi từ gốc, từ chủ trương của Ban Chấp hành Trung ương và của Bộ Chính trị xuất phát từ quan điểm rằng: xã hội xã hội chủ nghĩa phải được xây dựng dựa trên "... chế độ công hữu về tư liệu sản xuất chủ yếu". Mô hình này lại xuất phát từ một lý thuyết cực đoan cho rằng: tư hữu về tư liệu sản xuất là nguồn gốc của mọi sự bóc lột. Từ một lý thuyết cực đoan đi tới một mô hình kinh tế không có động lực mà thực tế cuộc sống đã bác bỏ. Chính phủ là người thực thi chủ trương đó của Đảng về mặt nhà nước." (Vietnamnet, 2010)
106	*"Here, capital fund (from the state budget) is abundant, interest rates are low (owing to the mechanism of subsidised interest rates) and the repayment period and other loan conditions are easier than in commercial banks.... It is time to reconsider the policy of 'special deals' that VDB made because that policy is for a nonmarket economy."*	"Nguồn vốn (từ ngân sách) ở đây dồi dào, lãi suất thấp (do cơ chế được cấp bù lãi suất) và thời gian trả nợ cũng như điều kiện vay đôi khi dễ hơn nhiều so với ở các ngân hàng thương mại…Đã đến lúc cần xem xét lại những chính sách "ưu đãi đặc biệt" về tín dụng mà VDB đang thực hiện. Bởi, những chính sách đó là phi kinh tế thị trường." (Cong Thuong, 2013)
107	*"It is necessary to study how to transfer gradually the lending guarantees to commercial banks."*	"nghiên cứu chuyển dần sang kênh bảo lãnh của các ngân hàng thương mại" (Prime Minister, 2016, article 2)

No.	*English (Translated data)*	**Vietnamese (Original data)**
108	*“The difference between two figures is owing to computational and statistical data obtained from two different sources. Specifically, the NPL ratio of 4.9%, equivalent to 133,060 billion, was reported by the credit institution. The figure of 17.4% was from the inspection authorities after auditing all NPLs hidden in corporate bonds, credit trusts and restructured debts, including two ‘shipwrecks’, Vinashin and Vinalines. Therefore, the total bad debt [NPL] actually amounted to 465,000 billion.”*	“Sở dĩ có 2 tỷ lệ nợ xấu là do được đánh giá, tính toán, thống kê số liệu qua 2 nguồn khác nhau. Cụ thể, tỷ lệ nợ xấu 4,9%, tương đương 133.060 tỉ đồng là theo báo cáo của các tổ chức tín dụng (TCTD) còn con số 17,4% là của cơ quan thanh tra - giám sát sau khi đã soi chiếu nợ xấu cả trong hoạt động mua trái phiếu doanh nghiệp; ủy thác cấp tín dụng; các khoản nợ xấu tiềm ẩn do cơ cấu lại và kể cả nợ của hai “con tàu đắm” Vinashin và Vinalines nên tổng nợ xấu thực chất lên tới 465.000 tỉ đồng.” (Tieu Phong, 2015)
109	*“bank NPLs may rise to 10%, 20%, or even higher”*	“áp Thông tư 02 (nợ xấu) có thể lên 10%, 20%, thậm chí cao hơn.” (VnEconomy, 2013a)
110	*“We fully support the steps of the SBV in the implementation of Circular 02 to be closer to international standards in risk provisioning.”*	"Chúng tôi hoàn toàn ủng hộ các bước đi của Ngân hàng Nhà nước trong việc thực hiện Thông tư 02 nhằm làm cho gần hơn với chuẩn mực quốc tế về dự phòng rủi ro" (Vietnamplus, 2013)
111	*“One year postponement of Circular 02 has its historic role as creating favourable conditions for businesses, banks in difficult times …”* *“but also cannot be delayed too long. The view of our advisory bodies are still applying Circular 02 on 01 June 2014.”*	“Thông tư 02 đã hoãn 1 năm do vai trò lịch sử của nó là tạo điều kiện cho DN, khách hàng, NH trong giai đoạn khó khăn.” “…Tuy nhiên, không thể để hoãn lâu hơn được. Quan điểm của cơ quan tham mưu, cơ quan giám sát tư vấn cho Thống đốc là hoãn đến tháng 6/2014 sẽ áp dụng triệt để Thông tư này.” (Vu Hanh, 2013)
112	*“Circular 02 will still be applied from the landmark date 01/06/2014, but several criteria and contents are expected to be amended for gradual implementation.”*	“Thông tư 02 sẽ vẫn được áp dụng đúng mốc hẹn từ 1/6/2014, nhưng một số chỉ tiêu và nội dung dự kiến sẽ có lộ trình phù hợp để từng bước thực hiện.” (VnEconomy, 2013b)

No.	*English (Translated data)*	Vietnamese (Original data)
113	*"It was made in accordance with the actual conditions of the market and the economy of our country."*	"giải pháp cơ cấu lại nợ không phải là giải pháp duy nhất để xử lý nợ xấu, nhưng đây là một trong các giải pháp quan trọng, phù hợp với điều kiện thực tế của thị trường và nền kinh tế nước ta" (SBV, 2013)
114	*"By restructuring, the enterprises were supported by not having to pay penalty rates for overdue loans and by ensuring they could continue borrowing from banks for running their businesses, thus reducing the escalation of NPLs."*	"thông qua biện pháp cơ cấu lại thời hạn trả nợ, một khối lượng lớn dư nợ tín dụng được giữ nguyên nhóm. Nhờ vậy, doanh nghiệp đã được hỗ trợ giảm bớt khó khăn tài chính do không phải trả lãi phạt và đảm bảo điều kiện tiếp tục có thể vay vốn ngân hàng." (SBV, 2013d)
115	*"Report on situations of time restructuring for debt payment"*	"Báo cáo tình hình thực hiện cơ cấu lại thời hạn trả nợ" (Deputy Governor, 2014, p. 7)
116	*"Will not use the state budget for bad debts* [NPLs] *solving"*	"Không dùng tiền ngân sách xử lý nợ xấu" (Quang Vu, 2014, VnEconomy, 2013d, Vietnamnet, 2013)
117	*"Now, we want money flowing into production. So just lift 'blood clot', and new blood will flow back into circulation. The picture is very clear. Taking out the 'blood clot' based on the market principle is very easy; just sell bad debts [NPLs] and it is completed. However, there is no market buyer currently, so we just need the state for the last purchase of bad debts [NPLs] sold via the VAMC organisation.…"*	"Giờ muốn tiền chảy vào sản xuất, chỉ có cách nhấc "cục máu đông" này ra thì máu mới lưu thông trở lại. Bức tranh rất rõ. Nhưng lấy "cục máu đông" này theo nguyên tắc thị trường thì rất dễ. Chỉ cần bán "béng" đi là xong. Vấn đề thị trường mua-bán nợ không được, không có người mua. Trong khi vai trò Nhà nước phải là người mua bán cuối cùng vì thế VAMC phải đứng ra mua…" (Cong Ly, 2015)
118	*"But we do not have money for bad debts* [NPLs] *purchase"*	"Nhưng ta không có tiền, ngân sách không cho chúng tôi một đồng nào nên không thể mua đứt được." (Cong Ly, 2015)

No.	*English (Translated data)*	Vietnamese (Original data)
119	*"Vietnam cannot handle bad debts* [NPLs] *by the state budget as in many other countries"*	"Việt Nam không thể áp dụng biện pháp xử lý nợ xấu bằng nguồn ngân sách nhà nước như Chính phủ nhiều nước trên thế giới" (VnEconomy, 2013c)
120	*"Solving bad debts [NPLs] via VAMC mechanism in Vietnam is much different from [the practice in] other countries because Vietnam does not use the state budget to purchase bad debts [NPLs]."*	"Ở Việt Nam hiện đang sử dụng phương thức Chính phủ đứng ra xử lý nợ xấu thông qua VAMC. Tuy nhiên, điểm khác biệt lớn nhất so với các nước là Việt Nam không dùng tiền ngân sách để mua đứt bán đoạn nợ xấu." (Quang Canh, 2014)
121	*"I [VAMC] bought your bad debts [NPLs], but actually, you [banks] mortgaged your bad debts [NPLs] for borrowing from me … You have five years to solve your bad debts [NPLs]. I hope that in five years, your business would be better and you have money to pay your borrowings [from VAMC] … That solution can removed the 'blood clot' [NPLs] and the state will not lose money."*	"Tôi mua tài sản này của anh nhưng thực chất là anh thế chấp tài sản này vào đây cho tôi và tôi cho anh vay ra một phần tiền. Theo Nghị định 53 của Chính phủ, các NH có 5 năm để xử lý. Hy vọng trong 5 năm đó tình hình tốt lên, NH có điều kiện trả lại tiền đó và lấy lại tài sản về rồi tự xử lý... Đó là bài toán có thể gỡ được "cục máu đông" mà Nhà nước không mất tiền." (Cong Ly, 2015)
122	*"The international organizations have agreed the VAMC mechanism is acceptable in this difficult situation."*	"các tổ chức quốc tế cho rằng, trong bối cảnh khó khăn sự thành lập và hoạt động VAMC là chấp nhận được" (Quang Canh, 2014)
123	*"Currently, NPLs not only seriously affect the credit system, but also adversely affect the whole economy. Therefore, fast and complete solving of this problem is not only the desire of the banking sector but also the wish of the political system. This is an important, urgent mission to remove the bottlenecks in the economy, creating the conditions that promote economic development."*	"Nợ xấu giờ đây không chỉ ảnh hưởng nghiêm trọng đến hệ thống các TCTD, mà còn ảnh hưởng rất xấu đến cả nền kinh tế. Chính vì vậy, xử lý nhanh, dứt điểm nợ xấu không chỉ là mong muốn của ngành Ngân hàng mà còn là mong muốn của cả hệ thống chính trị. Đây là nhiệm vụ quan trọng và cấp bách để có thể khơi thông những ách tắc trong nền kinh tế, tạo điều kiện thúc đẩy kinh tế phát triển." (Tapchitaichinh, 2016)

No.	*English (Translated data)*	Vietnamese (Original data)
124	*"The key problem is to have a mechanism to remove legal difficulties. 80% of the NPLs remaining at VAMC are mainly debts with difficulties in collection, most of which are related to legal procedures associated with the properties."*	"Vấn đề mấu chốt là phải có cơ chế tháo gỡ về mặt pháp lý. 80% số nợ xấu còn lại tại VAMC chủ yếu là những khoản nợ khó khăn trong xử lý, mà hầu hết là có những vướng mắc về pháp lý, thủ tục do nó gắn liền với các tài sản." (Hoang Yen, 2016)
125	*"The bad debt [NPLs] will only worsen if not solved. In Vietnam, the number of bad debts [NPLs] is too large; thus, only the Government's intervention can solve the 'clot' [NPLs problem] for the economy."*	"Nợ xấu sẽ chỉ ngày càng xấu thêm nếu như không được xử lý. Riêng ở Việt Nam, con số nợ xấu đã quá lớn, cần có sự can thiệp, cần "bàn tay" của nhà nước mới có thể giải quyết được "cục máu đông" này cho nền kinh tế". (Bach Hop, 2016)
126	*"Because the Vietnamese NPL rate is at an alarming level, causing 'congestion' in the market capital flows, which is the major reason that interest rates are unlikely to fall."*	
127	*"reducing the competitiveness of domestic enterprises in the international market."*	"khiến sức cạnh tranh của các doanh nghiệp trong nước bị mất đi." (Thuy, 2016)
128	*"No need of additional money at this time. VAMC has even not yet used any penny of the amount of 2,000 billion dong already granted by the Government for NPLs solving because no agreement could have been made between VAMC and credit institutions for selling their NPLs to the market."*	"VAMC không cần thêm tiền. Bởi với số tiền tươi thóc thật 2.000 tỷ đồng hiện có, VAMC còn chưa đụng tới một đồng nào vì chưa thỏa thuận được với các Tổ chức tín dụng để mua nợ xấu theo thị giá." (Bach Hop, 2016)
129	*"What VAMC needs now is a clear legal framework. Specifically, VAMC needs a debt trading market that it can operate. A legal framework to stipulate clearly the responsibility in case a debt is solved at loss [lower than its book value]. Is that loss sale problematic? Will that loss be allowed to be covered by provision in the credit institution? Will the credit institution be allowed to record the loss gradually over years to reduce financial pressure [as the provision rule currently applied for VAMC debts]?"*	"Điều mà VAMC cần hiện nay là hành lang pháp lý thông thoáng, rõ ràng. Cụ thể, VAMC cần có một thị trường mua bán nợ đã được vận hành. Hành lang pháp lý đảm bảo quy rõ trách nhiệm mua bán dưới giá gốc thế nào cũng như trường hợp thoái vốn Nhà nước, dưới giá gốc có vấn đề gì không? Có cho phép các Tổ chức tín dụng bù đắp quỹ dự phòng rủi ro vào phần thiếu hụt không? Phần thiếu hụt trong trích lập dự phòng rủi ro, Tổ chức tín dụng có được trích trong nhiều năm để giảm áp lực về tài chính?" (Bach Hop, 2016)

No.	*English (Translated data)*	Vietnamese (Original data)
130	*"who would bear the loss incurred in the sale of NPLs"*	"Ai sẽ bù lỗ và chia lãi với VAMC khi mua nợ xấu về?" (Ngan Giang, 2016)
131	*"About VAMC, this organisation does not bear any risk related to the resale of debts purchased earlier. According to the current regulation, all gain or loss from the sale of bad debts [NPLs] would be transferred to the banks that sold those debts to VAMC earlier."*	"Về VAMC tổ chức này hoàn toàn không chịu rủi ro thua lỗ khi bán lại các khoản nợ xấu đã mua về trước đó. Theo quy định, tất cả các khoản lời lỗ từ bán nợ xấu sẽ được chuyển hết cho ngân hàng đã bán khoản nợ xấu đó cho VAMC." (Ngan Giang, 2016)
132	*"Banks tend to hide bad debts [NPLs] because disclosing bad debts [NPLs] and making provision for them will truncate bank equity capital, leading to them being recapitalised by either the issuance of additional shares or no dividend payment. In case their financial health is too bad, leading to the risk of crisis, the Government has to recapitalise them using state budge t... Of course, recapitalisation by the state budget fund can incur a risk of loss that would be charged to taxpayers. That is the price we pay for the neglect of management/supervision by state management agencies giving rise to too risky loans in commercial banks. Therefore, instead of focusing on 'bad debts [NPLs] solving', [the authorities] should 'convict' the state agencies/individuals who did not fulfil their previous management responsibilities."*	"Có điều, các ngân hàng luôn có xu hướng giấu nợ xấu vì nếu công khai và trích lập dự phòng họ sẽ bị cụt vốn, dẫn đến phải tái cơ cấu vốn (recapitalize) thông qua phát hành thêm cổ phiếu hoặc không chia cổ tức. Trong trường hợp quá xấu dẫn đến nguy cơ khủng hoảng, nhà nước mới cần trợ giúp tái cơ cấu vốn bằng tiền ngân sách… Tất nhiên, khi tái cơ cấu vốn bằng tiền ngân sách nhà nước có rủi ro sẽ lỗ và đó đúng là thiệt hại cho tiền thuế của người dân. Đó là cái giá phải trả cho sự lơ là quản lý/giám sát của cơ quan quản lý nhà nước trước đó dẫn đến các NHTM đã cho vay quá rủi ro. Do vậy, TS. Giang cho rằng thay vì cứ chăm chăm "xử lý nợ xấu" cần phải "xử lý" những cơ quan/cá nhân không hoàn thành trách nhiệm quản lý trước đó." (Ngan Giang, 2016)
133	*"The blame for the bad debts [NPLs] problem is not to be assigned only to firms, or banks, but it is also the fault of the Government, of the policy and of the market economy."*	"Nợ xấu không chỉ là tội của DN, hay NH mà trong đó còn có cả lỗi của Chính phủ, lỗi của chính sách, nền kinh tế thị trường." (Thanh Huyen, 2016)
134	*"Parliament is a legislative body; if it makes a wrong decision or policy, it must also recognise the weaknesses, but we cannot discipline the whole Parliament, especially with the criminal discipline. Even the Chairman of the Parliament is not the head but the general coordinator,*	"Quốc hội là cơ quan lập pháp, nếu đưa ra quyết định, chủ trương sai cũng phải nhận khuyết điểm, nhưng không thể đem cả quốc hội ra kỷ luật, nhất là kỷ luật hình sự. bản thân chủ tịch Quốc hội cũng không phải người đứng đầu Quốc hội mà là người điều phối chung,

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	the chairperson to maintain contact among 500 delegates. So, we cannot discipline 500 delegates or the chairman for their wrong voting … [He emphasised] Parliament is the people [Vietnamese citizens], and the people vote and hence must accept the wrong decision rather than seeking who to discipline."	chủ tọa, giữ mối liên hệ 500 đại biểu. vì thế, không thể vì cả 500 đại biểu bỏ phiếu mà kỷ luật cả 500 vị hay kỷ luật ông chủ tịch… Quốc hội tức là dân, dân quyết sai thì dân chịu, chứ kỷ luật ai." (Linh Thu, 2014)
135	*"NPLs caused by banks and businesses, thus they have to bear"*	"Nợ xấu do ngân hàng và doanh nghiệp gây ra,thì ngân hàng và doanh nghiệp phải tự gánh chịu." (Thuy Lien, 2016)
136	*"State budget belongs to People [Vietnamese citizens], no matter from taxes or borrowings money; so we cannot force People to pay for what they do not owe. Using state budget to pay for that loss means taking money from the poor to pay for the rich."*	"Tiền ngân sách là tiền của dân dù là tiền thuế hay tiền đi vay, không thể bắt người dân trả nợ cho cái mà họ không nợ. Như vậy là lấy tiền của người nghèo chia cho người giàu" (Nguyen Thoan, 2016)
137	*"The use of state budget, as well as public money, to 'save' the banks from their own mistake in management is paradoxical. Vietnam has confirmed it will implement the market mechanism; therefore, let the market solve its problems."*	"Dùng tiền của ngân sách, cũng là tiền của người dân để "cứu" các ngân hàng do họ có lầm lỗi khi quản lý là nghịch lý. Hơn nữa, Việt Nam đã khẳng định thực hiện cơ chế thị trường, và theo đó thì thị trường phải tự giải quyết vấn đề của nó." (Lan Huong, 2016)
138	*"It [the Government] blames only banks for causing bad debts [NPLs], thus treating them as criminals, refusing to amend regulations, not using the state budget to solve bad debts [NPLs] …, [the Government] should not question why the process of bad debts [NPLs] is slow."*	"Nếu cứ đổ hết lỗi cho ngân hàng gây ra nợ xấu, xử lý hình sự tràn lan nợ xấu, từ chối sửa luật để xử lý nợ xấu, không dùng ngân sách để xử lý nợ xấu, để ngân hàng "đơn thương độc mã" xử lý nợ xấu… thì "đừng thắc mắc" tại sao việc xử lý nợ xấu lại chậm" (Ha Tam, 2016)

No.	*English (Translated data)*	Vietnamese (Original data)
139	*"We believe that the main treatment method is still using net operating income of commercial banks to process [to make provision] until when the book value of bad debts [NPLs] equals the market valuation. At that time, bad debts [NPLs] will be handled by selling/buying through market."*	"Chúng tôi cho rằng cách thức xử lý chính vẫn là tiếp tục sử dụng thu nhập hoạt động thuần của NHTM để xử lý cho đến khi giá trị sổ sách của nợ xấu giảm xuống bằng với định giá trên thị trường. Và nợ xấu sẽ được xử lý thông qua thị trường mua bán nợ." (Nguyen Minh, 2016)
140	*"The world includes developed countries, developing countries and undeveloped countries, but Vietnam is perhaps the most distinctive model. It's the country that refuses to develop! So much, so much ODA has been invested in Vietnam, reaching nearly 90 billion USD over 20 years, but so far, it has not developed, it just might be... [it] refused to develop!"*	"Trên thế giới chia ra gồm nước phát triển, nước đang phát triển, nước chậm phát triển nhưng Việt Nam có lẽ là mô hình đặc biệt nhất. Đó là nước… không chịu phát triển! Đầu tư nhiều đến thế, ODA nhiều đến thế (20 năm qua lượng ODA đổ vào Việt Nam lên tới gần 90 tỉ USD) nhưng đến bây giờ vẫn không phát triển được thì chỉ có thể là… không chịu phát triển!" (Hai Chau, 2015)

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