

## IMPORTANCE OF ACCOUNTING DISCLOSURE FOR COMMERCIAL BANKS IN LENDING LISTED COMPANIES IN VIETNAM

Nguyen Tien Dat  
Banking Academy

ARTICLE INFO		ABSTRACT
<b>Received:</b>	<b>16/4/2021</b>	In Vietnam, accounting disclosure for commercial banks' needs has been received less attention from scholars and researchers, compared to a large number of researches on the investors' information needs. Meanwhile, listed companies in Vietnam remain a tendency of using bank loans rather than approaching financial sources in the stock market, mainly because the capital scale of the Vietnam stock market is not sufficient for listed companies' finance needs. Hence, this article aims to clarify whether accounting information plays an essential role in analyzing the credit-trustworthy of listed companies and to determine which one of three main financial statements is the most useful for bank loan officers. The data used for the research was collected through questionnaire surveys sent to credit officers of commercial banks in Vietnam. The questions were designed with a five point Likert-scale. The research results showed that bank loan officers mainly used accounting disclosure as the most important information source when deciding whether or not to provide loans to listed companies and all three main financial statements had particularly significant importance in lending decisions.
<b>Revised:</b>	<b>30/5/2021</b>	
<b>Published:</b>	<b>31/5/2021</b>	
<b>KEYWORDS</b>		
Accounting disclosure		
Listed companies		
Commercial banks		
Usefulness		
Creditworthiness		

## TẦM QUAN TRỌNG CỦA THÔNG TIN KẾ TOÁN CÔNG BỐ ĐỐI VỚI NGÂN HÀNG THƯƠNG MẠI KHI CHO VAY DOANH NGHIỆP NIÊM YẾT TẠI VIỆT NAM

Nguyễn Tiến Đạt  
Học viện Ngân hàng

THÔNG TIN BÀI BÁO		TÓM TẮT
<b>Ngày nhận bài:</b>	<b>16/4/2021</b>	Tại Việt Nam, thông tin kế toán công bố phục vụ nhu cầu thông tin của các ngân hàng thương mại nhận được ít sự quan tâm của các nhà nghiên cứu, nhưng số lượng các nghiên cứu phục vụ nhu cầu của những nhà đầu tư trên thị trường chứng khoán lại rất nhiều. Trong khi đó, các doanh nghiệp niêm yết tại Việt Nam vẫn duy trì xu hướng sử dụng các khoản vay ngân hàng nhiều hơn so với tiếp cận nguồn vốn từ thị trường chứng khoán, phần lớn là do quy mô vốn hóa của thị trường chứng khoán Việt Nam chưa đáp ứng đủ nhu cầu vốn của các doanh nghiệp. Do đó, mục tiêu của bài báo này là làm rõ vấn đề liệu rằng các thông tin kế toán có đóng vai trò quan trọng trong việc thẩm định tín dụng khách hàng doanh nghiệp niêm yết hay không và xác định xem rằng trong số các báo cáo tài chính của doanh nghiệp thì báo cáo nào là hữu ích nhất cho việc thẩm định này. Dữ liệu sử dụng cho nghiên cứu được thu thập từ khảo sát bảng hỏi, được gửi đến cho các cán bộ thẩm định ở các ngân hàng thương mại tại Việt Nam. Các câu hỏi được thiết kế theo thang đo 5 điểm của Likert. Kết quả nghiên cứu cho thấy, với khách hàng doanh nghiệp niêm yết, thông tin kế toán công bố là nguồn thông tin quan trọng nhất khi quyết định có hay không phê duyệt khoản vay cho doanh nghiệp và cả 3 báo cáo tài chính đều có tầm quan trọng lớn trong quá trình phê duyệt này.
<b>Ngày hoàn thiện:</b>	<b>30/5/2021</b>	
<b>Ngày đăng:</b>	<b>31/5/2021</b>	
<b>TỪ KHÓA</b>		
Công bố kế toán		
Công ty niêm yết		
Ngân hàng thương mại		
Hữu ích		
Đáng tin cậy		

DOI: <https://doi.org/10.34238/tnu-jst.4375>

Email: [ntdat.roi90@gmail.com](mailto:ntdat.roi90@gmail.com)

<http://jst.tnu.edu.vn>

220

Email: [jst@tnu.edu.vn](mailto:jst@tnu.edu.vn)

## 1. Introduction

After 20 years of establishment and development, the Vietnam stock market has made great achievements and played an increasingly important role in providing capital to listed companies. However, the Vietnam stock market is still too small compared to the capital needs of businesses. Listed companies remain to rely heavily on commercial loans. According to the World Bank's statistics, bank credit accounted for 63.40% of capital provided to corporates in 2019. However, there have been very few studies related to banks' information needs [1]. This article helps to increase the number of researches on the information needs of commercial banks to make accounting disclosure of listed companies meet the information needs of commercial banks in Vietnam.

When deciding on a commercial loan, banks need to screen out companies that are not eligible for lending requirements [2]. Making decisions of lending is never an easy task for any bank loan officers, to get rid of the credit risks, building a system to evaluate business customers is essential. The Five Cs approach is a useful tool in evaluating the credit risks of any loan applicant [3].

The 5Cs consists of Character, Capacity, Capital, Conditions, and Collateral. For the first C – Character, bank officers need to refer to the applicant's credit history shown on the credit report, all commercial banks in Vietnam can access this information supplied from CICB – National Credit Information Center of Vietnam. Accounting disclosure helps bank officers have an overview on the 2nd C – Capacity – the applicant's ability to repay loans. Working in the 3rd C – Capital is to determine how much capital the borrower can invest into the business project and evaluate the efficiency of this investment. The statement of financial position is used as a primary source to determine the capital [4]. All external events and factors, that might impact the normal business operation, are evaluated under the Condition section of the approach – the 4th C. It is not easy for bank officers in this section as it requires bankers to have knowledge of macro-economy and information on the field the borrower operates. The last C - Collateral is assets that can be used as a security if the loan applicant defaults on the loan, this step usually requires to value assets based on their fair value.

There is a wide range of information sources that bank loan officers refer to in the progress of making lending decisions. Corporate information can be extracted from accounting disclosure, business proposal, credit agency, bank's internal record, media reports, assets valuation report... Nguyen [5] found out that bank loan officers in Vietnam did not trust the accounting information provided by companies; however, this study was only conducted on Vietnam SMEs, it mainly came from the fact that SMEs' financial statements were not audited and mainly for tax objectives. By the time when this research was conducted, there had been no studies on the importance of accounting disclosure from listed companies in the lending decision.

Moreover, there are some scholars and researchers paying attention to the importance of specific financial statements in the lending decision. The research of Yap conducting on Australian bankers found that the most influencing financial statement was SOPL, followed by SOFP and SOCF [6]. The research conducted by Berry and Robertson in 2006 showed that the SOCF was quite important to the UK's lenders, and in fact, more prominent than the others [7]. Schneider found that commercial lenders in the US rated all three main financial statements roughly equal in importance for lending decisions [8]. These studies mostly were carried out in the developed countries where listed companies relied on finance sources from the stock market, rather than from the commercial bank system.

Due to these research gaps shown above, this article's objective is to answer the three following research questions:

1) *Is listed companies' accounting disclosure used as a primary information source in the lending decision of commercial banks?*

2) *Is there any difference in the usage of the information sources in commercial banks evaluating between listed and unlisted companies?*

3) *Which one of the three main financial statements has the greatest impact on the lending decision of commercial banks?*

## 2. Materials and methods

### 2.1. Materials

As said above, the bank loan officers acquire information sources to make their lending decisions. Commonly used sources for this process are accounting disclosure, business proposal, credit agency, internal record, media report, and asset valuation report. Each source provides a specific type of information: (1) Accounting disclosure provides information users an overview on current years' financial position, business performance, and cash flow of loan applicants. Accounting disclosure consists of the Statement of Financial Position, the Statement of Profit or Loss and the Statement of Cash flow. (2) Business proposal is a detailed description of the usage of the funds, along with any ancillary information about expected and variable costs, the quality of the investment, and its impact on your business. (3) Credit agency - CICB – National Credit Information Center of Vietnam helps commercial banks understand more about the credit history of loan applicants. (4) Bank's internal record – list all transactions between loan applicants and the bank, in the case of existing customers. (5) Media reports provide information on macro-economy conditions that might impact business activities. (6) Asset valuation report provides fair value of collateral assets.

### 2.2. Research method

This research can be classified as behavioral accounting research as it focuses on the making decision process in commercial banks – one of the accounting disclosure users. A questionnaire survey – one of the methods commonly used in behavioral accounting research – is the method that the author used to collect the data for the research, as this method directly focuses on the information needs of the users. The questionnaire survey was designed to be online (Google form) and easy for respondents to answer to increase the willingness to participate.

To assessing the importance of listed companies' accounting disclosure, questions were related to both listed and unlisted companies, so that they could best serve the research purpose. As the aim of this study is to rank the level of impact of information sources and financial statements on the lenders' decision, all of the questions were designed with the 5-point Likert scale from 1 – 5, and the respondents were asked to rate the importance (the impact) of each item. The respondents could respond from 1 (“very influential”) to 5 (very unimportant) (Table 1).

**Table 1.** *The 5-point scale, mean range and verbal interpretation*

Weight / Scale	Mean Range	Verbal Interpretation
5	4.51 – 5.00	Very unimportant
4	3.51 – 4.50	Unimportant
3	2.51 – 3.50	Neutral or do not know
2	1.51 – 2.50	Important
1	1.00 – 1.50	Very important

Here are the questions which were given to respondents:

#### **SECTION 1: THE INFORMATION SOURCES**

Question 1: *Evaluate the level of impact of six information sources on your lending decision in the case of LISTED customers:*

- |                             |                       |                                |
|-----------------------------|-----------------------|--------------------------------|
| (1) Accounting disclosure   | (2) Business proposal | (3) Credit agency              |
| (4) Bank's internal record, | (5) Media reports     | (6) Assets valuation report... |

Question 2: Evaluate the level of impact of six information sources on your lending decision in the case of **UNLISTED** customers:

- (1) Accounting disclosure    (2) Business proposal    (3) Credit agency  
 (4) Bank's internal record,    (5) Media reports    (6) Assets valuation report...

**SECTION 2: THE FINANCIAL STATEMENTS**

Question 3: Evaluate the level of impact of three financial statements on your lending decision in the case of **LISTED** customers:

- (1) SOFP – Statement of Financial Position  
 (2) SOPL – Statement of Profit or Loss  
 (3) SOCF – Statement of Cash Flows

According to Keith G. Stanga and Mike1 G. Tiller, the information needs of bank loan officers do not differ substantially between large and small banks [9]. The number of loan officers related to listed companies was around 120, and most of them had experience in providing loans to both listed and unlisted companies. Therefore, the author decided to send the survey form to bank loan officers who were working for commercial banks in Vietnam, until the number of respondents equals 55 – based on the Cochran formula (1977) with a confidence interval of 90%. After collecting and cleaning the data, the author used the pair sample t-tests to determine whether or not accounting disclosure provide by the listed company has the same level of impact as by an unlisted company in the lending decision of commercial banks, how important the accounting disclosure is in the process of making loans to listed companies.

### 3. Result and discussion

**Table 2.** Descriptive statistics of variables in the 1<sup>st</sup> research question

	Mean	N	Std. Deviation	Std. Error Mean
Accounting disclosure – Listed	1.20	55	0.404	0.054
Business proposal – Listed	1.96	55	0.816	0.110
Credit agency – Listed	2.58	55	0.498	0.067
Bank's internal record – Listed	3.53	55	0.504	0.068
Media reports	4.45	55	0.503	0.068
Collateral valuation report	3.87	55	0.818	0.110

As shown in table 2, variable “accounting disclosure” has the mean of 1.20, this figure is smaller than 1,5, it means that accounting disclosure is the most important source of information for bank loan officers to determine listed companies, followed by the information from business proposal and credit agency, with 1.96 and 2.58 respectively. Meanwhile, internal records, collateral valuation reports, and the bank's internal record have the least influence on the lending decision of commercial banks in Vietnam (means < 3.50). The mean of accounting disclosure is just 1.2 – the lowest mean. It means that in evaluating the credit risks of listed companies, the accounting disclosure is the most influential information source on bank officers' assessment. Accounting information disclosed by listed companies is required to be audited by an independent auditing firm that is accepted by the State Security Commission of Vietnam (SSC). This requirement is one of the efforts to raise transparency and enhance the effectiveness of the Vietnam financial market. Using accounting information with high quality and credibility helps credit officers have a proper assessment of the financial position and business performance of their clients.

From Table 3, the p-value Sig. (2-tailed) of Pair 1, 2, 3, 6 is smaller than 0.1, while the p-value Sig. (2-tailed) of Pair 4, 5 is greater than 0.1. In the paired sample t-test, with the significance level of 0.1, if the p-value Sig. (2-tailed) of each pair is less than 0.1, the difference between the means of two variables is statistically significant, and vice versa. Therefore, it is

clear that the level of influence of information from the bank's internal record or media report does not change, no matter what kind of the company is (listed or not listed). These two information sources are likely to be uninfluential on decisions of bank loan officers, as banks' internal record usually is less up-to-date, while the information on corporate applicants on the media is limited to access. For unlisted companies, the information on the value of collateral assets and their credit history is much more important than other sources. It is understandable as unlisted companies' accounting information is not true and fair, financial statements of these companies mainly are used for the tax objectives, it's difficult for bankers to have a proper assessment [5]. Even bank loan officers often have to help these companies to adjust accounting figures and rationalize business proposals [5]. Therefore, to reduce the inherent credit risk of these companies, commercial banks usually ask them to use assets on the financial statements as collateral and have a good credit history. Meanwhile, accounting disclosure audited by independent auditing firms helps to raise the reliability of the financial information of listed companies. With the reliable accounting disclosure, bank loan officers have a more proper assessment of the client's financial position and business performance, reducing undesirable credit risks.

**Table 3.** The pair sample t-tests for the 2<sup>nd</sup> research question

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	90% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 (Accounting Disclosure (Listed – Unlisted Companies))	-1.418	0.629	0.085	-1.560	-1.276	-16.714	54	0.000
Pair 2 (Business Proposal (Listed – Unlisted Companies))	-0.564	0.877	0.118	-0.762	-0.366	-4.767	54	0.000
Pair 3 (Credit Agency (Listed – Unlisted Companies))	0.691	1.052	0.142	0.454	0.928	4.871	54	0.000
Pair 4 (Internal Record (Listed – Unlisted Companies))	0.018	0.707	0.095	-0.141	0.178	0.191	54	0.849
Pair 5 (Media Report (Listed – Unlisted Companies))	-0.018	0.757	0.102	-0.189	0.153	-0.178	54	0.859
Pair 6 (Collateral Valuation (Listed – Unlisted Companies))	2.091	1.221	0.165	1.815	2.367	12.697	54	0.000

**Table 4.** Descriptive statistics of variables in the 3<sup>th</sup> research question

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	SOFP - Listed companies	1.44	55	0.501	0.067
	SOFP - Unlisted companies	2.96	55	0.793	0.107
Pair 2	SOPL - Listed companies	1.47	55	0.504	0.068
	SOPL - Unlisted companies	1.84	55	0.788	0.106
Pair 3	SOCF - Listed companies	1.56	55	0.501	0.067
	SOCF - Unlisted companies	2.93	55	0.790	0.107

The result of the question 3 is not too surprising when it is known that accounting disclosure of listed companies has significant impacts on the lending decision of commercial banks (Table

4). All three main financial statements play a decisive role in assessing credit risks of listed companies, however, the SOCF (mean = 1.57) seems to be less influential than the SOCF (mean = 1.44) and the SOPL (with mean = 1.47).

#### 4. Conclusion

Based on the research results, in the process of assessing a listed company who ask commercial banks to provide loans, bank officers always refer to its accounting disclosure as the primary information source, and all three financial statements, especially the SOFP and the SOPL, has great influence on commercial banks' lending decision. Therefore, listed companies need to enhance the quality of accounting information disclosed to the public to access the capital of commercial banks more quickly, helping banks get rid of avoidable credit risks. Besides, it is necessary to have more studies on banks' information needs. Understanding the needs of creditors will help the State Security Commission of Vietnam give solutions to develop further the bond market – one of the main target of the financial market during 2021 -2025, under the decision 242/QĐ-Ttg (2019) [10].

#### REFERENCES

- [1] A. Schneider, "Studies on the Impact of Accounting Information and Assurance on Commercial Lending Judgments," *Journal of Accounting Literature*, vol. 41, pp. 63-74, 2018.
- [2] G. Dell'ariccia and R. Marquez, "Lending Booms and Lending Standards," *Journal of Finance*, vol. 61, no. 5, pp. 2511-2546, 2006.
- [3] B. Credit, "Who is the customer? Revisiting the Five Cs of Credit," *Business Credit*, vol. 113, no. 4, pp. 50-53, 2011.
- [4] P. R. Beaulieu, "Commercial Lenders' Use of Accounting Information in Interaction with Source Credibility," *Contemporary Accounting Research*, vol. 10, no. 2, pp. 557-585, 1994.
- [5] T. B. N. Nguyen, "Improvement financial statements of Vietnam SMEs," PhD. dissertation, Vietnam Academy of Finance, 2019.
- [6] C. Yap, "Users' perceptions of the need for cash flow statements - Australian evidence," *European Accounting Review*, vol. 6, no. 4, pp. 653-672, 1997.
- [7] A. Berry and J. Robertson, "Overseas bankers in the UK and their use of information for making lending decisions: Changes from 1985," *The British Accounting Review*, vol. 38, no. 2, pp.175-191, 2006.
- [8] A. Schneider, "The Effect of Auditor Dismissals and Resignations on Commercial Lending Decisions" In Advances," *Accounting Behavioral Research*, vol.16, pp. 241-262, 2013.
- [9] K. G. Stanga and M. G. Tiller, "Need of loan officers for accounting information from large versus small companies," *Accounting and Business Research*, vol. LIX, pp. 63-70, 1984.
- [10] Prime Minister of Vietnam, *Decision 242/QĐ-Tt, 28/02/2019*, Decision approving the scheme for restructuring securities and insurance markets by 2020 and vision to 2025.