

28 October 2022

Financial Markets Authority
PO Box 1179

Wellington 6140

By email: consultation@fma.govt.nz

FMA Consultation: Proposed Guidance and Expectations for Keeping Proper Accounting Records.

Thank you for the opportunity to provide feedback on the Financial Markets Authority Proposed Guidance and Expectations for Keeping Proper Accounting Records.

The Insurance Council of New Zealand/Te Kāhui Inihua o Aotearoa (**ICNZ**) represents general insurers and reinsurers that insure about 95 percent of the Aotearoa New Zealand general insurance market. Our members heavily rely on accurate accounting records for both their internal accounting functions and their underwriting of certain liability product lines such as Directors & Officers Liability where financial statements and sets of accounts are required at the beginning of each insurance period.

ICNZ recommends that this proposed guidance remains as simply “Guidance” and does not become a formal regulation or rule. Insurers adhere to specific accountancy and reporting standards, namely International Financial Reporting Standards like IFRS-4 that will be superseded by IFRS-17 from 1 January 2023. If this guidance were implemented as a regulation, then it would likely lead to a duplication in compliance costs as insurers would have to prove compliance while working with the specific reporting standards.

Scope

While the Guidance appendix provides a long list of examples of “accounting records”, it was not clear whether this definition included management accounting activity, such as budgeting, rolling forecasting, and analytical reports or Business Intelligence reporting. For example, insurers generally use analytic reporting to reconcile levy returns, which we think is not part of the accounting record definition.

Our comments below assume these management accounting activities are out of scope. If they were, the impact noted below would be wider (e.g., record of budgeting/rolling forecast assumptions).

Feedback on the Principles

- **Principle 1 – Sufficient, supportable and reliable**
 - It is unclear how materiality fits with this section. Would an accounting judgement relating to a balance of \$1,000 need a dedicated paper to explain that the amount was considered and determined not to be material? This appears burdensome and outside of the intention of the principle.
 - We agree that for significant balances and for significant judgements, documentation is required.
 - Note, however, the threshold of materiality or significant balance may be different for different financial items. For example, a 30 percent overspend on an expense line may be deemed material from management’s perspective, but the dollar value may not be material for accounting purposes. It may not be a clear what material or significant balance is as this can be very subjective.
 - The need to have record of discussions with “Board, and/or any other person” seems too broad and could result in an additional administrative burden. Also, the scope of content seems too broad, especially if papers are being prepared to cover the accounting judgement made.
 - *“The same expectations apply if an entity engages an external expert for accounting purpose.”* Does actuarial work from an external actuarial provider fall under the definition of accounting record? If so, how do management ensure the same level of record keeping occurs at the office of the external provider?
 - Is there a need to perform detailed review and determine the level of support currently in place for each accounting transaction and then assess whether it is sufficient?

- **Principle 2 – Reasonable format**
 - Noting that the minimum length of time for holding a record is seven years, we are concerned that it would be challenging to ensure that links and formulas in spreadsheets (especially complex ones) will continue to work for that whole period. Internal systems changes or even software updates may be changed and unknowingly affect this functionality. Accordingly, it is likely to be a challenge to confirm this will always work, however the intent of this principle is correct. So maybe the wording should be revised to accommodate good faith effort or best endeavours.
 - When receiving input from an external expert, what kind of data or spreadsheet records will need to be kept in-house? Or is would keeping the record of the final outcome be sufficient?

- **Principle 3 – Easy to access, use and understand**

- Technical accounting papers can be difficult to write in a way that is easy to understand for someone “without prior knowledge”. The same applies for accounting records for insurance activities as these can be complex.
- Is the aim to simplify complicated reports or can this requirement be met by explaining the complicated reports in a simplified way when required?
- Would process notes across all areas, including the complicated accounting records, that clearly outline the purpose and assumptions satisfy this requirement to explain the specialist/complicated underlying data?
- It mentions “*regardless of when these are prepared*” – does this mean this requirement will be retrospective?

- **Principle 4 – Supportable materiality assessment**

- While we agree that documentation of materiality assessments is sensible, it is not clear at what point this documentation is needed if the value of the relevant transactions is not material. More clarification on this point would be helpful.

- **Principle 5 – Timely manner and regular maintenance**

- Assessing the impact of standards that have been issued, but are not currently in effect, but which will soon come into effect will be complex and difficult to achieve. For example, IFRS17 is due to come into effect but not all impacts of the standard can be calculated with the certainty this principle seems to suggest.
- A register with all related party transactions is challenging in large organisations as many small transactions that may be affected that are recorded in the accounting records but not in a register.

- **Principle 6 – Reconcile with financial statements**

- We have no comment on Principle 6.

- **Principle 7 – Length of time**

- We note that the wording is “*at least 7 years*” and assume this will accommodate holding accounting records for long-tail events, such as the Canterbury earthquakes. Will there be further guidance as to what information will need to be kept longer than 7 years?
- Records showing “goodwill calculations” may need to be kept in perpetuity.
 - As an example, if an entity acquires a business and records this transaction as a business combination including the goodwill, if any, the entity should keep documentation supporting the

acquisition and the goodwill that forms part of the entity's assets until the goodwill is no longer on the balance sheet.

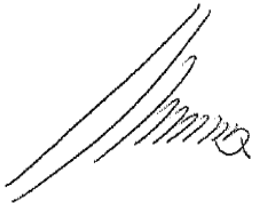
- Given that Insurers no longer amortise Goodwill (and some other indefinite life intangible assets), this implies an indefinite time period to retain the relevant accounting record.

- **We have no comment on Principles 8 (Records kept outside entity's registered office) 9 (Protection and safeguards) and 10 (Controls over accounting records).**

- **Areas of significant judgements and critical accounting estimates**
 - We would comment that sensitivity analysis can be challenging and of potentially limited value when a judgement option is clear.

If you have any questions, please also contact John Lucas john@icnz.org.nz or phone him on 0274411283.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Lucas', written in a cursive style.

John Lucas
Insurance Manager

APPENDIX ONE

Consultation Questions

1. Do you agree and think there is clarity with the 10 key principles and considerations for keeping proper accounting records that have been identified in the guidance? If not, please outline your reasons.

We believe that, overall, the 10 principles seem reasonable (subject to comments in our main submission). There is a key question with respect to Directors/ Board's involvement on significant/critical judgement and estimates.

2. Are there other principles or areas that you consider should be included? If so, please provide details, along with why and how this would help to support the legislative requirement to keep proper accounting records.

No other principles are required. As noted in our submission, we are seeking clarity regarding the FMA's view on the determination of materiality for record keeping of accounting judgements.

3. Do you agree with the content relating to supporting documentation for the areas of significant estimates and judgements? Do you agree with the examples included? Do you consider any additional examples are required? If so, please provide details.

Aside from the comments in the submission, we are comfortable with the content relating to supporting documentation. The examples provided are acceptable.

As mentioned in prior comments, we would like more guidance for specific items such as the treatment of an Actuarial Model developed by an external consultant. What kind of detail do we need to keep in-house or what we can rely for the consultant to store offsite?

4. Have you identified any situations not referenced in this guidance where you have found it difficult to evidence your approach? If so, please provide details.

No.

5. Do you think this guidance will help reporting entities understand their ongoing obligations? Please provide reasons for your answer.

Subject to the clarifications and modifications suggested, we do believe this guidance will be useful. Clarity from regulators is good.

As noted in the submission, we recommend this document remain as "guidance", rather than being promulgated as a Regulation.

Consultation Questions

6. Do you think there will be any unnecessary compliance costs associated with the proposed guidance and expectations for keeping proper accounting records? If so, please provide details.

There will be additional compliance costs to meet some of the matters raised.

7. Are there any additional matters that you think the guidance should address? If so, please provide details.

It might be useful to apply the concept of “reasonableness” broadly across all the principles as the entity makes its assessment of record keeping needs. We would like clarity that reasonableness is defined as from the point of view of the reporting entity as opposed to reasonableness from the point of view of FMA.