



FEBRUARY 2023

Submissions report:

Guidance and expectations for keeping proper accounting records

Summary of key themes from feedback on proposed guidance and expectations for keeping proper accounting records and notes our responses to that feedback

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Introduction

In October 2022 we published a consultation paper, [Proposed guidance and expectations for keeping proper accounting records](#), seeking input from FMC reporting entities and their directors, auditors, and other interested parties.

The guidance is aimed at helping FMC reporting entities to meet their statutory requirement to keep proper accounting records at all times.

We received 10 submissions from a range of entities. We would like to thank all submitters for their feedback and appreciate the points raised and the effort put into each submission.

This feedback has been used to help us refine and finalise our guidance and expectations for keeping proper accounting records.

This report summarises (and provides our response) to some key themes raised in these submissions:

1. The permitted location for accounting records should include overseas cloud and external storage providers
2. Materiality assessments
3. Timely basis for updating registers
4. Inclusion of some additional matters in Principle 1
5. Users of accounting records and whether records should be held in a central repository
6. How long records must be kept in relation to goodwill and the type of records to be kept for longer than seven years

We have also included an overview of some additional specific points raised by submitters and our response to them.

The list of submitters and submissions we received are included in the appendix of this document.

Summary of themes and our response

1. The permitted location for accounting records should include overseas cloud and external storage providers

Four submitters raised an issue in relation to Principle 10 regarding the requirement to keep documents in New Zealand that enable the preparation of financial statements in accordance with the FMC Act. They requested that section 456(2) of the FMC Act be widened to provide for overseas cloud and external storage providers. FMC reporting entities consider that compliance with this requirement means they have to keep duplicate records in New Zealand, which is an inefficient use of time, resources and leading to unnecessary compliance costs.

FMA response

We are aware of this issue. However, the location of accounting records is set out in section 456(2) of the FMC Act, so we are unable to address it in the guidance. We have referred this matter to MBIE to consider legislative amendment.

2. Materiality assessments

Three submitters considered in relation to Principle 4 that it was not clear where and how materiality fits within the guidance. One submitter commented that materiality judgements are not always sufficiently documented by preparers of financial statements to the extent required. One submitter considered that there is a lack of understanding of qualitative and quantitative factors and entities fail to distinguish between known errors and judgements. As a result the submitter suggested that we expand on this as part of a separate project.

FMA response

We will consider this matter further and explore whether FMA guidance or other market engagement would be helpful on this particular topic.

3. Timely basis for updating registers

Three submitters considered that clarification as to what a “timely basis” is for updating registers would be helpful in Principle 5. In the guidance the reference is to a register with details of all related party relationships and transactions.

FMA response

We are not persuaded that clarification is required. Our approach in Principle 5 is to set out that entities should prepare accounting records in a timely manner and, where applicable, keep them maintained throughout the year. Principle 5 sets out that entities should regularly update any registers they keep and uses the example that a register with details of all related party relationships and transactions should be

maintained in a timely basis as relevant activity occurs. We consider that as the “timely basis” is linked to “as relevant activity occurs” this provides sufficient clarity.

4. Inclusion of some additional matters in Principle 1

Two submitters considered that the wording in Principle 1 referring to “Board, and/or any other person”, in the context of keeping records should include a record of discussions between management and the Board, and/or any other person, is too broad.

One submitter requested that we include considered alternative views including the consideration of any counterfactual facts, circumstances or arguments. The submitter also requested inclusion of a reference to needing evidence of how entities have complied with the accounting requirements in the guidance.

FMA response

We agree and have changed Principle 1 to link discussions between management and the Board, and/or any other person to when they are of relevance to financial reporting decision-making that has an impact on the content of the financial statements.

We agree and have changed Principle 1 to include details of considered alternatives and why they are not applicable. We have also made a change under the *Areas of significant judgements and critical accounting estimates* section of the guidance to include compliance with applicable accounting standards.

5. Users of accounting records and whether records should be held in a central repository

Two submitters requested clarity about the words “who uses” in Principle 3 in the context of records being written in a way that is easy to understand and interpret without previous knowledge, by anyone who uses and/or is required to inspect those records.

A submitter considered that it is not practicable for entities to hold all accounting records in one central repository.

FMA response

We agree this clarity would be helpful. We have changed Principle 3 by deleting the wording “uses and/or” so it now reads as: “This includes records being written in a way that is easy to understand and interpret without previous knowledge, by anyone who is required to inspect those records, and extends to any considerations, inputs and assumptions used as part of the financial reporting process (for example, forward-looking information), regardless of when these records were prepared.”

We agree and have changed Principle 3 to set out that entities should consider maintaining a repository for accounting records as part of their control system.

6. How long records must be kept in relation to goodwill and type of records to be kept for longer than seven years

Two submitters requested that we clarify the goodwill example in Principle 9 that sets out that 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.

Two submitters considered that we need to clarify the length of time and one submitter asked if there will be further guidance as to what information will need to be kept longer than seven years under Principle 9.

FMA response

We agree and have made a change to Principle 9 by deleting the words "the goodwill is no longer on the balance sheet" so now reads as: "For example, if an entity acquires a business and records this transaction as 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 no longer relevant."

We do not agree that further guidance is required for what records need to be kept longer than seven years. Principle 9 allows for this as entities need to consider on a case-by-case basis if specific records should be kept for longer.

7. Additional specific points

The guidance should clarify that the FMC reporting entity's accounting records should include sufficient information to assess it is a going concern.

FMA response

We will consider this matter further and explore whether FMA guidance or other market engagement would be helpful on this particular topic.

Further explanation of the term "readily available" in the guidance.

FMA response

We agree and have clarified this by deleting the term "readily available" from the guidance and replacing it with "available at all reasonable times" to align with the wording in section 459 of the FMC Act.

The guidance should remain as guidance and not become a formal regulation or rule.

FMA response

The purpose of the guidance is to set out the principles and the FMA's expectations of how to comply with the legislative requirement in Part 7 of the FMC Act for keeping proper accounting records at all times.

Change the reference to 'auditors' to 'internal auditors' in Principle 5 to be clear that it is not a reference to external auditors.

FMA response

We have updated Principle 5 to make clear the process should include other dependencies. We consider that no change to the guidance is required as the reference to auditors allows for both internal and external auditors in this context.

Requested the Principles of Protection and safeguards and Controls over the accounting records be moved as they are critical to the integrity of the accounting records.

FMA response

We agree and have moved them to after Principle 6 in the guidance.

The requirement to document and keep “Any discussions with the external valuer” might contradict the requirement to keep a sufficient level of detail.

FMA response

We agree, so have updated the Example: Engagement of external valuer in the guidance by making it clear that it relates to key discussions with the external valuer relevant to methods, material inputs and assumptions as well as the accounting treatment needing to be documented and kept.

The Appendix: Examples of accounting records in the guidance should be expanded to include reference to a board pack.

FMA response

We agree and we have updated the guidance to add in references to “board/committee papers.”

The requirement in Principle 2 to ensure that links and formulas in spreadsheets (especially complex ones) will continue to work for that whole period could be challenging. Accordingly, the wording should be changed to accommodate good faith or best endeavours.

FMA response

We do not agree. Section 459 of the FMC Act requires that entities must make the accounting records available for inspection so there is no element of good faith or best endeavours, so no change to Principle 2.

Does the “regardless of when these records were prepared” wording in Principle 3 mean this requirement will be retrospective?

FMA response

The guidance is intended for FMC reporting entities and covers the principles and expectations relating to keeping and maintaining proper accounting records and what section 455 of the FMC Act entails and this is not a new requirement.

The guidance should highlight the situations where the FMA would expect an entity to engage an external expert to compile technical accounting papers for complex accounting standards.

FMA response

Inadequate accounting records forms part of the key drivers for the guidance. The purpose of the guidance is not to address the level of understanding in the complex areas but to provide guidance on what section 455 of the FMC Act entails. Principle 5 sets out that where there is a complex technical accounting issue or complex accounting standards then entities should consider engaging with their technical experts and auditors. However, we cannot generally prescribe or highlight when entities would expect to engage an external expert as there is no standard requiring this.

Change the wording in Principle 7 to “may consider” as an entity can meet the requirement to maintain appropriate accounting records without having separate policies relating to the altering of accounting records.

FMA response

We do not agree. Principle 7 refers to FMC reporting entities having policy on altering accounting records. Maintaining records is covered in Principle 5 and entities should maintain an audit trail.

The guidance makes accounting records the sole responsibility of management rather than the Board and do not agree with this approach.

FMA response

We do not agree. The guidance is clear that the accounting records is the responsibility of the Board.

The guidance should be reviewed every 12 months.

FMA response

We have an open door for FMC reporting entities and their advisers to contact us if any issues arise in relation to the guidance, but we consider it is not an effective or efficient use of FMA resources to commit to an annual review of the guidance. The guidance may be reviewed if legislative requirements relevant to Part 7 of the FMC Act change or if there is a need to update the Principles to address any market practices or issues identified.

The concept of “reasonableness” should be applied broadly across all principles in the guidance.

FMA response

We do not agree. This would not be consistent with the legislative requirements.

The Appendix: Examples of accounting records should be expanded to include management of accounting activity, such as budgeting, rolling forecasting, and analytical reports or business intelligence reporting.

FMA response

The Appendix is non-exhaustive list of examples of accounting records. We do not agree with including management accounting activity in the listed examples. The focus of the guidance is on section 455 of the FMC Act which is limited to keeping accounting records that correctly record transactions, ensure financial statements comply with NZ GAAP (i.e. accounting standards) and ensure financial statements can be audited. Significant estimates and judgements that relate to, for example, forecasting, are limited to key assumptions and inputs being supportable and reasonable which should be documented and evidenced. This is explained in the guidance.

The guidance should include additional principles of “compliance” and “accountability”

FMA response

We consider compliance and accountability are already addressed in the guidance with Principles 1, 3 and 8 and the Appendix: Legislative requirement to keep proper accounting records.

Appendix: Submissions received

1. ANZ Bank New Zealand Limited
2. Argosy Property Limited
3. BDO Auckland (IFRS Advisory)
4. CPA Australia and Chartered Accountants Australia and New Zealand (joint submission)
5. Financial Advice New Zealand
6. Insurance Council of New Zealand
7. Office of the Auditor-General
8. PricewaterhouseCoopers New Zealand
9. Property For Industry Limited
10. Trust Investments Management Limited



31 October 2022

Financial Markets Authority
PO Box 1179
Wellington 6140

By email: consultation@fma.govt.nz

To whom it may concern

Consultation Paper: Proposed guidance and expectations for keeping proper accounting records

Thank you for the opportunity to comment on the proposed consultation paper.

ANZ NZ Bank New Zealand Limited (**ANZ**) is one of New Zealand's largest financial institutions. ANZ and other companies within its group are Financial Markets Conduct Act (**FMC**) reporting entities, including ANZ New Zealand Investments Limited - a licensed managed investment scheme manager and New Zealand's largest KiwiSaver provider.

Overall, we agree with the majority of the comments in the proposed guidance and we believe that it will help reporting entities understand their ongoing obligations with respect to accounting record keeping. Whilst we have no significant concerns with the proposed guidance at this time we do have the following comments for your consideration:

Question 1. *Do you agree there is more clarity with the provided guidance/ is it sufficient?*

Proposed Guidance	Response
8. Records kept in a location outside entity's registered office	Further clarification in the guidance would be beneficial around the use of electronic or cloud based storage methods, as we expect most FMC reporting entities will have moved to a greater use of those storage methods (including through internationally based cloud service providers).

Question 6. *Do you consider there will be any unnecessary compliance costs associated with the guidance?*

Proposed Guidance	Response
3. Easy to access, use and understand. To support easy and timely access, entities should consider maintaining a central repository for all accounting records, as part of their control system.	The guidance should equally acknowledge that for some entities, including many large or complex corporates, it is not practicable to hold all accounting records in <i>one</i> central repository. For example invoices would usually be held in a separate accounts payable system.
5. Preparing accounting records in a timely manner and regularly maintaining them. Entities should regularly update any registers they keep. For example, a register with details of all	Further clarification in the guidance relating to the timely manner of updating the registers would be helpful. For instance, an annual update of the register would seem appropriate for an entity that is only required to report related party transactions annually in their financial statements in accordance with IAS 24: <i>Related Party Disclosures</i> .

related party relationships and transactions should be maintained in a timely basis as relevant activity occurs.	We also note there is a difference in the definition of related parties in accordance with IAS 24 and the Financial Markets Conduct Act 2013.
9. Protection and safeguards As part of this, entities <i>should</i> include authorisation policies on altering accounting records.	We acknowledge the importance of maintaining appropriate accounting records. However, an entity can meet this requirement without having separate policies relating to the altering of accounting records. Consequently, it would seem appropriate for the guidance to provide that an entity " <i>may consider</i> " having separate authorisation policies relating to the altering of accounting records.

If you have any questions please do not hesitate to contact [REDACTED].

[REDACTED]

[REDACTED]

[REDACTED]

2 November 2022

Financial Markets Authority

Submission on proposed guidance and expectations for keeping proper accounting records

I wish to make a submission, on behalf of Argosy Property Limited, regarding the proposed guidance and expectations for keeping proper accounting records, published in October 2022.

We largely agree with the 10 key principles and considerations for keeping proper accounting records. However, it appears that under section 8, where records are stored in a country outside our registered office, the rules will require a duplication of records.

It is common practice for businesses to store information on a cloud service provider, as noted in the consultation paper, for example a cloud-based accounting system. However, it appears that if these records are stored on a server outside of New Zealand, then the data must also be stored on a New Zealand based server. This would result in unnecessary compliance costs and additional administrative work.

We ask the FMA to consider allowing accounting records to be stored in a location outside the country of registered office, as long the records are easily accessible for the required period of time and the country where the records are stored have a similar regulatory and reporting environment to that of New Zealand. The organisation will, however, continue to be ultimately responsible for the records.

Yours sincerely,



Feedback form

Consultation paper: Proposed guidance and expectations for Keeping proper accounting records

Please submit this feedback form electronically in both PDF and MS Word formats and email it to us at consultation@fma.govt.nz with 'Proposed guidance and expectations: Keeping proper accounting records: [your organisation's name]' in the subject line. Thank you. **Submissions close on 31 October 2022 at 5pm.**

Date: 31 October 2022 Number of pages: 3

Name of submitter: [REDACTED]

Company or entity: BDO Auckland (IFRS Advisory)

Organisation type: Accounting Firm

Contact name (if different): N/A

Contact email and phone: [REDACTED]

Question number	Response
<p>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?</p> <p>If not, please outline your reasons.</p>	<p>We broadly agree with the the 10 key principles as listed:</p> <ol style="list-style-type: none">(1) Sufficient, supportable, and reliable.(2) Reasonable format.(3) Easy to access, use and understand.(4) Supportable materiality assessment.(5) Preparing accounting records in a timely manner and regularly maintaining them.(6) Reconcile with financial statements.(7) Length of time.(8) Records kept in a location outside entity's registered office.(9) Protection and safeguards.(10) Controls over the accounting records. <p>These appear to comprehensively address the key legislative and practicable requirements that apply to compiling Accounting Records in a manner that enables them to be reviewed (i.e., Audited/Reviewed/Investigated), including by external stakeholders who will not necessarily have the necessary background facts and circumstances of the transaction or event.</p> <p>The use of terminology that is, for example, consistent with that used by Audit standards (i.e. ISA (NZ), such as "existence", "completeness", and "accuracy") will serve as a "bridge" between the expectations of the FMA (and also the general legal requirements regarding Accounting Records) and the professional obligations of the entity's Auditor.</p>

<p>2. Are there other principles or areas that you consider should be included?</p> <p>If so, please provide details, along with why and how this would help to support the legislative requirement to keep proper accounting records.</p>	<p>Not at this point.</p>
<p>3. Do you agree with the content relating to supporting documentation for the areas of significant estimates and judgements?</p> <p>Do you agree with the examples included?</p> <p>Do you consider any additional examples are required?</p> <p>If so, please provide details.</p>	<p>We agree.</p> <p>Areas of significant estimate and judgement are typically the most consequential to the treatment of transactions and events included in an entity's financial statements, and accordingly there should be comprehensive Accounting Records (of some description) that detail the background, context, analysis, thought process, judgements made, etc. that demonstrate that a complete and accurate determination has been reached by management with respect to the relevant accounting standard(s).</p> <p>The examples on page 10 appear thorough and complete.</p>
<p>4. Have you identified any situations not referenced in this guidance where you have found it difficult to evidence your approach?</p> <p>If so, please provide details</p>	<p>Not at this point.</p>
<p>5. Do you think this guidance will help reporting entities understand their ongoing obligations?</p> <p>Please provide reasons for your answer.</p>	<p>Yes, we believe this guidance will prove invaluable to entities and all other stakeholders.</p> <p>As noted in the Guidance, once published, this guidance will not only be relevant to entities that fall under the FMA's remit, but also any and all other entities that have a legislative requirement.</p> <p>It will ultimately take the form of "best practice" and be actively disseminated through industry via:</p> <ul style="list-style-type: none"> (i) Auditors directly shining a light on the Guidance, and using it as a "tool" to compel their clients to compile and provide such Accounting Records where previously doing so had been contentious and/or with our necessary regularly and/or legal back up. (ii) Directors of entities under the FMA's remit serving on the Boards of other entities.
<p>6. Do you think there will be any unnecessary compliance costs associated with the proposed guidance and expectations for keeping proper accounting records?</p> <p>If so, please provide details.</p>	<p>Arguably, there will be additional compliance costs especially for those entities who do not currently have robust accounting record keeping procedures in place.</p> <p>Ultimately, it is a compliance cost that entities should have been incurring previously.</p> <p>All the Guidance does is shine a light on an entities existing legal obligations are (e.g. for Companies, section 194 of the Companies Act 1993) , and how they may need to go about rectifying this.</p>

<p>7. Are there any additional matters that you think the guidance should address?</p> <p>If so, please provide details.</p>	<p>We believe there is scope within the Guidance for the FMA to expand the guidance supplied and provide needed clarity to entities on several key areas.</p> <p>1. In addition to the example of an “...acquisition of a business...” on page 7:</p> <p>(i) Further (non-exhaustive) examples of “complex” accounting standards,</p> <p>(ii) Reasons why they are complicated, and</p> <p>(iii) (Non-exhaustive) areas that the FMA would expect to be addressed in order to address the principles of existence, completeness, and accuracy.</p> <p>In our experience, a lack of understanding in this area is the primary (practicable) barrier that results in entities:</p> <ul style="list-style-type: none"> • Not proactively identifying that they have a complex area that requires Accounting Records to be complied, or • Compiling inadequate Accounting Records that don't demonstrate that a thorough and robust exercise has been undertaken. <p>For the FMA's information, below are a (non-exhaustive) list of accounting standards that we frequently have found (in certain instances) in practice represent those that are “complex” where the FMA's expectation as such could be expressed in the Guidance:</p> <ul style="list-style-type: none"> • The initial adoption of NZ IFRS for the first time (NZ IFRS 1) • Share-based payments (including Employee Share Option Schemes (ESOPs)) (NZ IFRS 2) • Convertible loans (NZ IAS 32, and NZ IFRS 9) • Revenue recognition (NZ IFRS 15) • Leases (NZ IFRS 16) • Financial asset impairment (NZ IFRS 9) • Non-financial asset impairment testing (NZ IAS 36) • Whether an entity “controls” an investee (i.e., is a Subsidiary) (NZ IFRS 10) • Whether an entity “jointly controls” an investee (i.e., is a Joint Arrangement) (NZ IFRS 11) • Whether a Joint Arrangement is classified as a Joint Venture or Joint Operation (NZ IFRS 11) • Whether an entity has “significant influence” over an investee (i.e., is an Associate) (NZ IAS 28) • Whether Development costs meet the criteria to be capitalised as an intangible asset (NZ IAS 38)
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2. Highlighting the situations where the FMA would expect an entity to engage an external expert regarding the compilation of Technical accounting papers for complex accounting standards.

For example, we would recommend wording to the effect of:

*Ordinary, the engagement of an external expert by the reporting entity to assist with the preparation of a reporting entity's Technical accounting paper would be where the reporting entity **does not have** sufficient internal expertise and/or resource:*

- (i) To identify that a transaction or event relates to "complex" accounting standards.*
- (ii) To identify the which "complex" accounting standards (and other associated interpretations published guidance) that are applicable and must be consider.*
- (iii) That have a working knowledge of the "complex" accounting standards identified in (ii).*
- (iv) That have practical experience in applying the "complex" accounting standards identified in (ii) to the specific transaction or event in question.*

Where an external expert has not been engaged by the reporting entity despite the above, the FMA's expectation would be that this determination, and reasons as to why this is appropriate, is:

- (i) Documented.*
- (ii) Signed and approved by the appropriate level of delegated authority in the reporting entity (for example, the Chairperson of the Audit and Risk Committee, where appropriate).*

3. Expanding on what a Technical accounting paper is expected to include, at a high level.

For example, we believe that for clarity and consistency of documentation processes between entities it would be useful to include guidance around expectations including:

- Reiterating the point on page 6 that a Technical accounting paper should be written and structured in a way that is easy to understand and interpret without previous knowledge of the transaction or event, by anyone who uses and/or is required to inspect those records (including, but not limited to, the reporting entity's external Auditor).
- Highlighting the structure that a Technical accounting paper would ordinarily follow, such as sections on:
 - (i) Purpose
 - (ii) Executive summary
 - (iii) Relevant background facts and circumstances
 - (iv) Relevant areas of the "complex" accounting standard(s) that have been addressed, including significant estimates and judgements made, such as, but not limited to (where relevant):
 - (a) Scope (why has the transaction or event be considered against the accounting standard(s), including whether to prove or rebutted that it is in its scope).
 - (b) Satisfaction of recognition criteria.
 - (c) Satisfaction of classification criteria.
 - (d) Satisfaction of initial measurement criteria.
 - (e) Satisfaction of subsequent measurement criteria.
 - (f) Valuation requirements.
 - (g) Presentation requirements.
 - (h) Disclosure requirements.
 - (v) That with respect to (iv) above, in order to demonstrate completeness and accuracy of, the FMA expects that there would be clear and through cross-referencing back to relevant paragraphs to the relevant accounting stand (or references to other guidance).

Feedback summary –

We welcome the Guidance and commend the FMA for undertaking this project given it is unlikely that such clarifications would have ultimately been included with the various Acts that refer to Accounting Records.

We believe that in the absence of such statutory amendments, the FMA is the next appropriate body with sufficient remit and authority to issue such Guidance.

We feel strongly that in issuing of this Guidance the FMA holds a unique (and perhaps one-off) opportunity to substantively:

- Highlight to reporting entities their legal obligations with respect to Accounting Records, and how these relate to 21st century commerce.
- Compel reporting entities to begin (or improving) the Accounting Records.
- Bridge the expectation gap with respect to Accounting Records that exists between reporting entities and other stakeholders (particularly with external Auditors).

Accordingly, we would encourage the FMA to take adequate time to ensure that the Guidance that is issued is sufficiently complete and thorough, such that it only has to be issued once and with additional subsequent supplementary Guidance (i.e., as gaps in the Guidance emerge once put into practice).

Once issued, we would also encourage the FMA to sufficient publicity of the Guidance, and strongly focus its messaging on the **expectations** that it is setting to reporting entities.

Please note: Feedback received is subject to the Official Information Act 1982. We may make submissions available on our website, compile a summary of submissions, or draw attention to individual submissions in internal or external reports. If you want us to withhold any commercially sensitive or proprietary information in your submission, please clearly state this and note the specific section. We will consider your request in line with our obligations under the Official Information Act.

Thank you for your feedback – we appreciate your time and input.

Feedback form

Consultation paper: Proposed guidance and expectations for Keeping proper accounting records

Please submit this feedback form electronically in both PDF and MS Word formats and email it to us at consultation@fma.govt.nz with 'Proposed guidance and expectations: Keeping proper accounting records: [your organisation's name]' in the subject line. Thank you. **Submissions close on 31 October 2022 at 5pm.**

Date: **31 October 2022**

Number of pages: **2**

Name of submitter: [REDACTED]

Company or entity: **CPA Australia / Chartered Accountants Australia and New Zealand (CA ANZ)**

Organisation type: **Professional Accounting Bodies**

Contact name (if different): [REDACTED]

Contact email and phone: [REDACTED]

Question number	Response
1	<p><i>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.</i></p> <p>Overall, we agree. However, we also urge that Principle 9 'Protection and safeguards' and Principle 10 'Controls over the accounting records' be considered as higher priorities and be repositioned accordingly. We regard these principles as critical to the integrity of the accounting records.</p> <p>We also suggest that the guidance acknowledges that, in addition to compliance with the <i>Financial Markets Conduct Act 2013</i> (FMC Act) and other legislative requirements, the objectives of keeping proper accounting records are to apply good corporate governance principles and to facilitate effective management of an entity's finances and operations.</p>
2	<p><i>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.</i></p> <p>We recommend the guidance also clarifies that the entity's accounting records should include sufficient information to assess its going concern. This is critical as it enables the entity's accounting records to support the financial statements' basis of preparation.</p> <p>This clarification will also assist a reporting entity in demonstrating that it has assessed and satisfied the solvency test as required by the <i>Companies Act 1993</i>, specifically section 108, as part of its proper record keeping responsibility.</p>
3	<p><i>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.</i></p> <p>Yes, we believe this section, including specific examples, will assist preparers of financial statements consider areas of significant judgements and critical accounting estimates.</p>
4	<p><i>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.</i></p> <p>We understand that materiality judgements are not always sufficiently documented by preparers of financial statements to the extent required. Therefore, we recommend the guidance also include:</p> <ul style="list-style-type: none">• How to exercise judgement when assessing materiality, including factors the entity should consider when making materiality judgements.• Materiality judgements on the application of accounting policies (for example, the effects on recognition, measurement, presentation, and disclosure).

	<ul style="list-style-type: none"> • How to make materiality judgements in specific circumstances, namely, how to make materiality judgements about prior-period information, errors, and in the context of interim reporting. • Qualitative factors to be considered when arriving at quantitative materiality thresholds. • Transaction level materiality levels and financial statement level materiality. • Assumptions made in relation to determining the information needs of external stakeholders. • Dealing with publicly available information about the entity. <p>Given the External Reporting Board (XRB) has publications on this topic, we suggest specifically referencing to IFRS Practice Statement 2 Making Materiality Judgements on the XRB's website.</p>
5	<p><i>Do you think this guidance will help reporting entities understand their ongoing obligations? Please provide reasons for your answer.</i></p> <p>The obligations relating to keeping accounting records are likely already familiar to many preparers. In our view the guidance should assist preparers understand their obligations and how to approach more complex estimates and requirements. The types and nature of discussions, including examples, are particularly useful to clarify expectations.</p>
6	<p><i>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.</i></p> <p>We do not believe the proposed guidance introduces new practices or additional requirements. Rather the proposed guidance adds structure and clarity to the existing requirements. We do not consider any reasonable incremental expense as 'unnecessary compliance costs' because the maintenance of proper accounting records is fundamental to high quality financial reporting.</p>
7	<p><i>Are there any additional matters that you think the guidance should address? If so, please provide details.</i></p> <p>We recommend including the following additional material within the guidance to support Principle 1 Sufficient, supportable and reliable':</p> <ul style="list-style-type: none"> • Reviewing accounting records in a holistic manner to not only assess the accuracy and completeness of the accounting records but also to ensure alignment with other non-financial information that may form part of corporate disclosures to the market or to regulators. • Aligning the terminology used in Principle 1 with that used in the auditing standards. For example, ISA (NZ) 500 <i>Audit Evidence</i> refers to two key attributes of audit evidence, sufficiency (quantity) and appropriateness (quality). The attribute 'appropriateness' is about keeping information that is <i>relevant</i>. • When relying on external experts, considering the currency of any reports in light of economic conditions that may have changed significantly from the report's date of issue.
<p>Feedback summary – if you wish to highlight anything in particular</p>	
<p>Please note: Feedback received is subject to the Official Information Act 1982. We may make submissions available on our website, compile a summary of submissions, or draw attention to individual submissions in internal or external reports. If you want us to withhold any commercially sensitive or proprietary information in your submission, please clearly state this and note the specific section. We will consider your request in line with our obligations under the Official Information Act.</p>	
<p>Thank you for your feedback – we appreciate your time and input.</p>	

Feedback form

Consultation paper: Proposed guidance and expectations for Keeping proper accounting records

Please submit this feedback form electronically in both PDF and MS Word formats and email it to us at consultation@fma.govt.nz with 'Proposed guidance and expectations: Keeping proper accounting records: [your organisation's name]' in the subject line. Thank you. **Submissions close on 31 October 2022 at 5pm.**

Date: 30 October 2022

Number of pages: 3

Name of submitter: [REDACTED]

Company or entity: Financial Advice NZ

Organisation type:

Contact name (if different):

Contact email and phone:

Question number	Response
<p>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.</p>	<p>Financial Advice NZ agrees with the 10 key principles for keeping proper accounting records.</p>
<p>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</p>	<p>There are already many legislative requirements to ensure there is adequate record keeping and that management is held account for the decisions that it makes. These legislative requirements are and not limited to; The Companies Act 1993, Taxation laws, Financial Markets Conduct Act 2013, Financial Reporting Act 2013 and the NZX Listing rules.</p> <p>The Companies Act 1993 provides that the business and affairs of a company must be managed by, or under the direction or supervision of, the board of a company.</p> <p>We believe where a Board structure exists this must be the emphasis of the guidelines and not sit solely on the responsibility of management as stated in the guidelines.</p> <p>We are concerned due to the detail in the guidelines that a gap may appear between the guidelines and any changes in the many pieces of legislation which support the reporting framework.</p> <p>For example, if there was a change in the legislative time required to hold financial records from 7 years this would be out of alignment with these guidelines.</p> <p>We would highly recommend that these guidelines are reviewed every 12 months to ensure there is no ambiguity between the legislation and guidelines.</p> <p>We also recommend that in the guideline you reference all the relevant legislation that needs to be considered for proper record keeping for completeness.</p>
<p>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</p>	<p>We disagree with the premise that management is solely responsible to ensure the board has adequate information.</p> <p>The standard imposed by the Companies Act requires that specific account be taken of factors such as the nature of the company, the</p>

<p>you consider any additional examples are required? If so, please provide details.</p>	<p>nature of the decision concerned, the position of the director and the nature of the responsibilities undertaken by him or her.</p> <p>The following guidelines have been adopted by the courts in respect of this duty:</p> <ol style="list-style-type: none"> 1. Directors must understand the nature of the business of the company and the risks to which it is subject 2. Directors are expected to understand the company's financial statements 3. Directors are expected to make informed and independent judgements on matters coming before the board 4. Directors must understand what is needed to adequately monitor the actions of management. <p>Therefore Board Directors have a responsibility which is not stated in the guidelines.</p> <p>In relation to the examples supplied we believe examples are not necessary when the guidelines themselves are simple and relatively clear.</p> <p>The second example Impairment testing – reasonable and supportable cash flows seems a little confusing in how it is expressed and some of the support which is used as an example. We would like to see this example removed.</p>
<p>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.</p>	<p>No</p>
<p>5. Do you think this guidance will help reporting entities understand their ongoing obligations? Please provide reasons for your answer.</p>	<p>As stated in question 2.</p>
<p>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.</p>	<p>We believe that the current legislation in place covers the guidance notes so there should be limited additional compliance costs.</p>
<p>7. Are there any additional matters that you think the guidance should address? If so, please provide details.</p>	
<p>Feedback summary – if you wish to highlight anything in particular</p>	
<p>Please note: Feedback received is subject to the Official Information Act 1982. We may make submissions available on our website, compile a summary of submissions, or draw attention to individual submissions in internal or external reports. If you want us to withhold any commercially sensitive or proprietary information in your submission, please clearly state this and note the specific section. We will consider your request in line with our obligations under the Official Information Act.</p>	
<p>Thank you for your feedback – we appreciate your time and input.</p>	

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.

[REDACTED]

Yours sincerely

[REDACTED]

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.

From: [Consultation](#)
To: [REDACTED]
Subject: FW: Proposed guidance and expectations: Keeping proper accounting records: Office of the Auditor-General
CRM:066808936
Date: Thursday, 20 October 2022 12:32:39 PM

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

From [REDACTED]
Sent: Wednesday, 19 October 2022 1:14 pm
To: Consultation <consultation@fma.govt.nz>
Subject: Proposed guidance and expectations: Keeping proper accounting records: Office of the Auditor-General

Name of submitter: [REDACTED]

Company or entity: Office of the Auditor-General

Organisation type: Public sector auditor

Contact name (if different): -

[REDACTED]

Kia ora

Thank you for the opportunity to comment on the *Proposed guidance and expectations: Keeping proper accounting records*.

Our interest is in public entities that are FMC reporting entities.

We support the FMA's proposals. It is a important initiative which should add rigour to the Board's involvement in preparing the financial statements and provide more evidence to support key judgements in the financial statements.

Ngā mihi

[REDACTED]

Office of the Auditor-General Te Mana Arotake

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Head of Audit and Financial Reporting
Financial Markets Authority
Level 5, Ernst & Young Building
2 Takutai Square
Britomart
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Auckland 1143

By email: consultation@fma.govt.nz

31 October 2022

Subject: Proposed guidance and expectations: Keeping proper accounting records - PwC

We appreciate the opportunity to submit our views on the Financial Markets Authority's (the FMA) Proposed guidance and expectations for keeping proper accounting records (the Guidance Note).

This response is on behalf of PricewaterhouseCoopers New Zealand (PwC NZ). References to "PwC", "we" and "our" refer to PwC NZ only. This submission is not made on behalf of the global network of member firms.

Overall comments

We commend the FMA on this important piece of work. Clarification of what is meant by proper accounting records has been needed for some time.

We support the FMA's proposed guidance and expectations and believe they represent an appropriate response to:

- ensure entities are **accountable** for keeping and maintaining their own accounting records instead of relying on auditors' documentation and analysis of accounting treatments
- improve the quality of the accounting records kept by entities
- improve internal processes around accounting records management, and
- provide information that will assist preparers of general purpose financial statements to understand the expectations of the reviewers of those records such as the FMA or auditors.

We have made some suggestions to help refine the Guidance Note for your consideration in Appendix A.



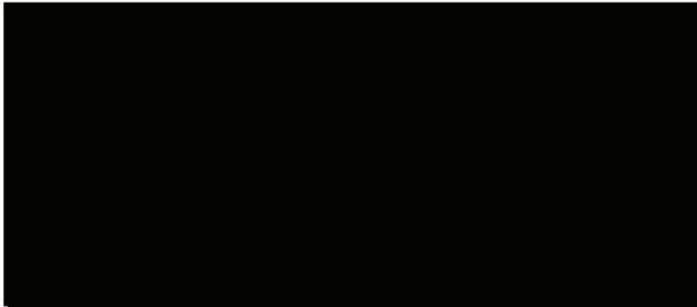
Questions for respondents

Our responses to the specific questions raised in the consultation document are attached in Appendix A.

We appreciate the opportunity to provide feedback on the proposed guidance and expectations.

Please do not hesitate to contact me should there be any matters you would like to discuss further.

Yours sincerely



Appendix A

Feedback form

Consultation paper: Proposed guidance and expectations for keeping proper accounting records

Please submit this feedback form electronically in both PDF and MS Word formats and email it to us at consultation@fma.govt.nz with 'Proposed guidance and expectations: Keeping proper accounting records: [your organisation's name]' in the subject line. Thank you. **Submissions close on 31 October 2022 at 5pm.**

Date: 31 October 2022

Number of pages: 6

Name of submitter: [REDACTED]

Company or entity: PricewaterhouseCoopers NZ

Organisation type: Professional Services

Contact name (if different):

Contact email and phone: [REDACTED]

Question number

Response

Q 1

Yes. The 10 key principles and considerations will assist entities to improve their frameworks for accounting records management. Adherence to these principles should improve the quality of the information retained to support key judgements and estimates made. These key principles and considerations will ensure a better understanding of the expectations around information governance and adhering to them will make the reporting process transparent and robust. It also provides for information to be retained for future use thereby aiding consistency of reporting and better retention of knowledge in an entity.

To improve clarity and ensure better consistency in interpreting these principles, we encourage the FMA to give consideration to the following:

- Adding a brief introductory paragraph before the key principles to explain what is meant by the term and general scope of "accounting records". This will help reporting entities better understand the context and importance of the principles and the considerations that follow. This introductory paragraph can then reference to the Appendix which includes examples of such records.
- Explaining the terms "readily available" and "timely" to help achieve consistency in interpretation and expectation alignment. We understand that the circumstances of each situation may mean that some records are more easily and quickly accessed than others (as we explain below), therefore it is difficult to give definitive timeframes for these terms. As such, the expectations of these should be based on principles. In order to help readers understand the principles, we suggest that the examples included in the

	<p>Appendix and the Areas of significant judgements and critical accounting estimates section specifically explain what would be a reasonable timeframe for information in those examples to be readily available and timely. Depending upon facts and circumstances there will be a range of views on how to interpret “<i>readily available</i>” and “<i>timely</i>”. For example, an invoice should be accessible within a day, whilst retrieving all historical data and documentation that relates to a complex accounting transaction that happened in the past might take longer. A range of examples would be helpful in understanding this spectrum.</p> <ul style="list-style-type: none"> • Explaining the meaning of “<i>sufficient details</i>” will assist reporting entities in understanding the extent of documentation that should be retained e.g. including guidance as to which minutes of discussions with external valuers to retain. We suggest that the examples included in the Appendix and Areas of significant judgements and critical accounting estimates section are used to demonstrate how compliance with the principles can be achieved with reference to the terms used in the key principles and considerations for keeping proper accounting records section. • Clarification of the “<i>Length of time</i>” principle, as confusion might arise with section 458 of the Financial Markets Conduct Act 2013 (FMC Act), which makes reference to the completion of the transaction rather than the point in time when a balance is no longer present in the balance sheet. For example, an entity may need to rely on information older than 7 years to support a balance such as goodwill that is still present on the balance sheet. • The proposed guidance includes controls over accounting records as one of the key principles and considerations. We concur with the view that it is important that entities have a robust framework for business processes, document process flows and have controls in place to ensure that accounting records are appropriately created and maintained. However the FMA may want to consider including specific expectations on the minimum control processes for accounting records by providing examples which include amongst other things retention rules for superseded versions. In our experience, process flow and controls documentation is often not in place and issues arise with multiple versions of documents and lack of version control. Historical versions sometimes get overwritten and not retained as a copy. • Being more specific about the level of experience and knowledge required for the user where the guidance states that records should be written in a way that “<i>is easy to understand and interpret without previous knowledge, by anyone who uses and/or is required to inspect those records</i>”. For example, in an audit context, ISA (NZ) 230 refers to an “<i>experienced auditor having no previous connection with the audit</i>”. As the guidance is currently written, the “<i>anyone who uses</i>” standard will require extensively more documentation to explain principles commonly understood by people experienced in financial reporting. • The proposed guidance includes the requirements around the “<i>details of considered accounting alternatives and why they are not applicable</i>” within the examples in the Appendix. We suggest that consideration of alternative views including the consideration of any counterfactual facts, circumstances or arguments form part of the 10 key principles and considerations section due to its importance.
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	<ul style="list-style-type: none"> • When referring to accounting records we would suggest incorporating greater emphasis on their integrity, completeness and accuracy. • The guidance states <i>"processes should factor in information dependencies (for example, input required from finance and legal team, key operational management, auditors, external experts) and any other relevant aspects."</i> We suggest updating the reference to internal auditors to be clear that this is not a reference to the external auditors. <p>We also recommend separating considerations from principles to emphasise the difference between them. This will likely make it clearer that entities should follow an agreed set of overarching principles for better information governance and improved reporting. Other considerations would further help with the records management depending on the facts and circumstances of each entity. <u>The Generally Accepted Recordkeeping Principles</u> published by ARMA International is a good example of the framework of good practices for records management.</p>
Q2	<p>We believe that the guidance may be expanded to cover:</p> <ul style="list-style-type: none"> • The principle of compliance, and • The principle of accountability. <p>The proposed guidance states <i>"...when an entity applies significant estimates and judgements, the entity should document why it has used the approach, details of the inputs and assumptions, and rationale for why it is reasonable"</i>. We believe that supporting evidence and documentation of how accounting standards or prescribed requirements have been complied with is equally important. There should be a clear linkage between available guidance and conclusions reached. This is supported by part 7 of the FMC Act which requires FMC reporting entities to keep proper accounting records at all times that enable the entity to prepare financial statements that comply with generally accepted accounting practice and any prescribed requirements.</p> <p>The proposed guidance states that <i>"In case of changes to key financial reporting staff or Board members, accessibility and understandability of the accounting records need to be maintained and remain uncompromised."</i> We agree and have seen instances of knowledge being lost in these circumstances. We believe that having a separate principle of <i>"accountability"</i> will emphasise the importance of having an executive body responsible for making sure accounting records are maintained and remain uncompromised.</p>
Q3	<p>We agree with the content relating to supporting documentation for the areas of significant estimates and judgements and are supportive of the proposed guidance. However, we believe that an assessment of compliance with accounting and reporting requirements should be part of the documentation. This will ensure that entities will follow the <i>"compliance"</i> principle referenced above.</p> <p>We agree that examples are a good way to illustrate how principles and considerations should be followed in practice. However, the link between the 10 key principles section of the document and the examples included is not clear. We suggest the examples are expanded by a conclusion section to demonstrate how the fact pattern within the illustrative example was considered and complied with the proposed guidance.</p>

	<p>The Engagement of external valuer example includes extensive requirements including the requirement to document and keep <i>"any discussions with the external valuer"</i> which might contradict with the requirement to keep sufficient level of detail. Entities have numerous conversations with valuers arranging site visits amongst many things. The inclusion of <i>"any"</i> is beyond what is needed to support the key judgements in the financial statements. We believe that adding a conclusion section or a comment next to each paragraph within the examples provided to show linkage between the proposed guidance will assist entities to better understand the requirements and expectations of the FMA. This will also help entities better understand the terms used (e.g. <i>"accounting records"</i>, <i>"readily available"</i>, <i>"timely"</i>, <i>"reliable"</i> and <i>"sufficient"</i>) that we referenced above.</p> <p>We also suggest that the Appendix is expanded to include the examples of an acceptable format (e.g. hard copy, scanned copy, original document, a copy of the document) and level of source data required (e.g. a board resolution vs minutes of the meeting vs board pack), given the significant variety of forms that have developed over time. We believe that limiting the requirement to what is important to retain is critical. The Guidance Note will be more helpful if there is more clarity around which level of hierarchy of documents is sufficient, as different interpretations might arise.</p>
Q4	<p>There are situations where there is no clear guidance available in the accounting standards and entities refer to market or industry practice as supporting evidence. In such instances we believe that the same principles and documentation requirements should apply. Entities should keep a record of an assessment of the available guidance first, even if limited, and then considerations and the research of the industry practice that supports the conclusions reached. Concluding that this is common practice in New Zealand for similar transactions may not be sufficient and may not provide evidence that generally accepted accounting practice (GAAP) has been applied appropriately.</p> <p>The guidance states that <i>"records should include a record of discussions between management and the Board, and/or any other person, where that discussion impacted the content of the financial statements."</i> However, in an agile working environment, especially when multiple functional workshops or meetings between functional working groups (for example, actuaries in an insurance entity) take place it becomes difficult to capture all discussions that may impact financial reporting. Consideration should be given to including only substantive discussions or discussions resulting in decisions. <i>"Accountability"</i> principle we suggested above may assist in such situations.</p> <p>There are likely circumstances when it will be impracticable to comply with some of the proposed guidance, for example the challenges that entities were facing when dealing with accounting for SaaS arrangements subsequent to the IFRIC agenda decisions. It can be particularly difficult when, as a result of a clarification or a new accounting standard, entities need to recreate records that were not previously available.</p>

<p>Q5</p>	<p>Yes, we are fully supportive of this guidance. The proposed guidance is useful and will:</p> <ul style="list-style-type: none"> ● encourage entities to improve their record management processes ● improve the quality of the information held and reporting ● promote better compliance with financial reporting obligations and the FMC Act ● assist entities in understanding their ongoing accounting record keeping obligations ● align expectations between all parties involved in preparing, auditing and regulating the financial reporting process ● help ensure consistency in its application through the illustrative examples provided. <p>We have raised suggestions in our responses to questions 1 to 4 above which could assist entities in the practical application of the key principles in the Guidance Note for your consideration.</p>
<p>Q6</p>	<p>No, we don't believe that there will be unnecessary costs given the benefits expected from the proposed guidance. Improving information governance may result in some cost savings in the long run due to better decision making and record keeping.</p> <p>We anticipate that some entities will need to invest more time and effort to meet these requirements (for example, the difficulties faced by entities when adopting SAAS or entities that do not have an established practice of documenting key judgements and estimates). Costs of compliance will vary depending on the circumstances of each entity.</p>
<p>Q7</p>	<p>We have identified the following additional matters for the FMA to consider:</p> <ul style="list-style-type: none"> ● Materiality: Reference to the International Accounting Standards Board (IASB) practice statement <i>Making Materiality Judgements</i> is very useful as it includes principles that can be used to determine a materiality framework for entities considering both quantitative and qualitative factors. This guidance is not followed in practice and not all entities maintain a formal materiality assessment and a register that captures all materiality decisions. There is sometimes a lack of understanding of qualitative and quantitative factors and entities fail to distinguish between known errors and judgements. We are supportive of inclusion of the materiality consideration in the proposed guidance and encouraging entities to follow IASB guidance. Given the lack of understanding in this area, the FMA may want to expand on this as part of a separate project. ● Examples in the Appendix are very helpful in understanding the meaning of accounting records. The FMA may want to consider expanding the non-exhaustive list with the following additional examples: <ul style="list-style-type: none"> ○ Reconciliations ○ Process flow documents ○ Financial Statements mapping ○ Covenant compliance testing records ○ Key correspondence with bankers.

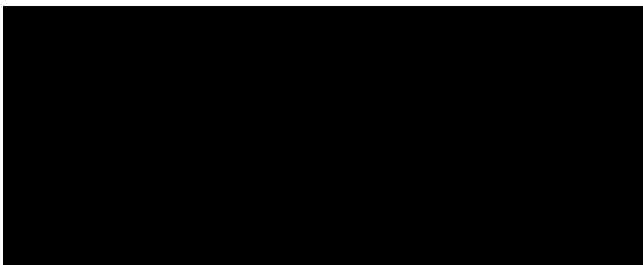
Feedback summary – We agree and encourage the publication of this guidance. We have raised some matters above which could assist entities in the practical application of the key principles contained in the guidance in particular:

- better linkage between the proposed guidance and the examples included would assist in its application by reporting entities, and
- an emphasis on compliance and accountability should be included.

Please note: Feedback received is subject to the Official Information Act 1982. We may make submissions available on our website, compile a summary of submissions, or draw attention to individual submissions in internal or external reports. If you want us to withhold any commercially sensitive or proprietary information in your submission, please clearly state this and note the specific section. We will consider your request in line with our obligations under the Official Information Act.

Thank you for your feedback – we appreciate your time and input.

From: [Consultation](#)
To: [REDACTED]
Subject: FW: Proposed guidance and expectations for keeping proper accounting records
Date: Monday, 7 November 2022 1:50:12 PM
Attachments: [image001.jpg](#)
[image002.png](#)
[image003.png](#)
[image004.png](#)
[image005.png](#)
[image006.png](#)
[image007.png](#)



From: Consultation
Sent: Wednesday, 2 November 2022 12:12 pm
To: [REDACTED] <[REDACTED]>
[REDACTED] for keeping proper accounting records

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Subject: Proposed guidance and expectations for keeping proper accounting records

Thanks for your proposed guidance and expectations for keeping proper accounting records. By and large these make sense, save for this item on page 8:

*8. Records kept in a location outside entity's registered office
Where an entity keeps its accounting records in a location outside its registered office (for example, with an outsourced accounting services provider or other cloud service provider in New Zealand), it needs to ensure the records are kept following all the key principles and considerations and are accessible for the required period of time. The reporting entity and its directors remain responsible for the records.*

*Although original accounting records can be stored overseas, **the entity must send, and keep documents in in New Zealand** that enable the preparation of financial statements in accordance with the FMC Act. This includes any other documents annexed to the financial statements that give information required by any enactment.*

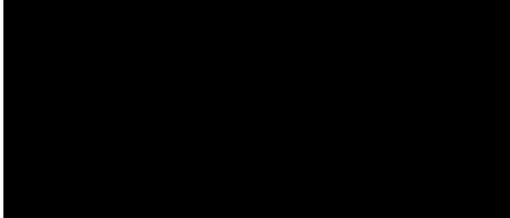
Thinking of our own circumstances, we use a property management and accounting system that is

hosted on servers based overseas. Data is then extracted from this and used to create reporting, including financial statements, which are stored on servers also based overseas. I would imagine that this is a relatively common construct, as many global financial systems, and products like Microsoft Azure which host company's servers, are all based exclusively overseas.

I trust that any final guidance will reflect this reality which will be faced by many FMC reporting entities.

Please contact me at the details below if you would like to discuss.

Kindest regards,



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31 October 2022

Financial Markets Authority

SUBMISSION ON PROPOSED GUIDANCE AND EXPECTATIONS FOR KEEPING PROPER ACCOUNTING RECORDS

I write in response to the recently issued proposed guidance as mentioned above.

Whilst most of the guidance is straightforward and already complied with a question arises in respect of Section 8 – Records kept in a location outside the entity’s registered office.

As you note it is common for an organisation to have an outsourced software provider or cloud based provider where records are stored offshore. Whilst these records are easily accessible, our interpretation of the proposed guidance is that data must, effectively, be duplicated by being stored on a second server based in New Zealand.

I would propose the FMA gives consideration to storage of data, provided they remain readily accessible, in a jurisdiction outside New Zealand so long as the country has a similar regulatory and reporting framework to New Zealand (such as Australia). A “white list” of allowable jurisdictions could be prepared.

This in no way diminishes the need for the organisation and the Directors to remain responsible for the records and to ensure that are kept following all key principles and considerations and are accessible for the requisite period of time.

Allowing electronic storage of records off shore, will prevent the need to duplicate records onshore, leading inefficient use of server space and resources.

Thankyou for your consideration,

Yours faithfully

