

Part 1***General Guidance Regarding Prospective
Financial Information***

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Chapter 1

Introduction

1.01 Prospective financial information is of interest to a broad spectrum of parties, including management, present or potential owners of equity interests, credit grantors, and other informed third parties, government agencies, and the public.

1.02 This Audit and Accounting Guide establishes guidelines for the preparation and presentation of financial forecasts and projections (referred to as *prospective financial statements*). Chapter 23, “Partial Presentations of Prospective Financial Information,” describes how these guidelines apply to the unique aspects of partial presentations of prospective financial information. This guide also is intended to assist the practitioner in performing professional services on and reporting on such information.

1.03 Prospective financial statements are based on assumptions regarding future events. The assumptions are in turn based on a combination of available information and judgment, in which both history and plans play a part.

1.04 Because no one can know the future, and because prospective financial information may be affected by many factors both internal and external to the entity, the Statements on Standards for Attestation Engagements (SSAEs) require the practitioner to exercise professional judgment. This judgment may be used to estimate when and how conditions are likely to change. These judgments subsequently may prove to be unrepresentative of future conditions; thus, the achievability and reliability of prospective financial information can never be guaranteed.

1.05 Prospective financial information is less amenable to objective verification than is historical data. When working with or using prospective information, it is essential to understand its inherent limitations.

Structure of the Guide

1.06 Although the guide covers both financial forecasts and financial projections, its primary focus is on forecasts because they more closely parallel historical financial statements, which are intended to provide the financial information needed by persons making financial decisions who have access to neither the entity’s financial records nor its management. Financial forecasts provide a framework from which principles for financial projections are derived. Thus, the guide first presents the principles relating to financial forecasts and then shows how those principles are modified for financial projections.

1.07 The guidance on forecasted financial information contained in chapters 6–23 generally also applies to projected financial information. Certain paragraphs in those chapters, however, do not apply—partially or fully—to projections. In those instances, readers interested in financial projections should refer to the corresponding *italicized* paragraphs (which bear the same

paragraph numbers followed by the letter P) and consider the modifications discussed in those paragraphs in conjunction with the paragraphs that precede them.

Relationship to Other Literature

1.08 In January 2001, the Auditing Standards Board (ASB) issued SSAE No. 10, *Attestation Standards: Revision and Recodification* (AICPA, *Professional Standards*). AT section 301, *Financial Forecasts and Projections* (AICPA, *Professional Standards*), establishes standards for practitioners' services on prospective financial information. This guide incorporates those standards in the sections on practitioners' services (parts 3 and 4 of this guide). Accordingly, a practitioner who complies with this guide will also be in compliance with the SSAE. The guide also provides additional explanatory and illustrative material to aid the practitioner in applying the SSAE.

1.09 This guide also incorporates the guidance in AT sections 101–701, *Attestation Standards: Revision and Recodification* (AICPA, *Professional Standards*), issued in September 2002; AT section 20, *Defining Professional Requirements in Statements on Standards for Attestation Engagements* (AICPA, *Professional Standards*), issued in December 2005; and AT section 50, *SSAE Hierarchy* (AICPA, *Professional Standards*), issued in November 2006.

1.10 Previous editions of this guide have been superseded but nonetheless provide the basis for much of the guide's content. The superseded editions are

- *Guide for Prospective Financial Statements* (1986), which was based on the Statement on Standards for Accountants' Services on Prospective Financial Information, "Financial Forecasts and Projections," issued by the ASB in 1985.
- *Guide for Prospective Financial Information* (1993), which incorporated three Statements of Position (SOPs) issued at the time by the ASB's Financial Forecasts and Projections Task Force: SOP 89-3, *Questions Concerning Accountants' Services on Prospective Financial Statements*; SOP 90-1, *Accountants' Services on Prospective Financial Statements for Internal Use Only and Partial Presentations*; and SOP 92-2, *Questions and Answers on the Term Reasonably Objective Basis and Other Issues Affecting Prospective Financial Statements*.
- *Guide for Prospective Financial Information* (1997), which revised the 1993 edition to recognize the implications of the Private Securities Litigation Act of 1995 (see paragraph 1.12). The 1997 edition was updated in 1999 to incorporate a number of changes needed to conform to authoritative pronouncements issued after 1997.

1.11 The Securities and Exchange Commission (SEC) permits the publication of prospective financial information under certain conditions and has adopted the general policy of encouraging such publication. The SEC has indicated that companies that include prospective financial information in SEC filings or annual reports should meet certain broad standards and disclosure requirements. In addition, the SEC adopted a rule that essentially provides a safe harbor against SEC actions for statements made by or on behalf of companies that issue prospective information or by an independent accountant, unless such statements were (a) made other than in good faith or (b) disclosed without a reasonable basis. See the SEC policies that appear as appendixes A,

“SEC Policy on Projections,” and B, “SEC Safe Harbor Rule for Projections,” of this guide.¹

1.12 The Private Securities Litigation Reform Act of 1995, in addition to other provisions, amends the Securities Act of 1933 and the Securities Exchange Act of 1934 by creating a new safe harbor for forward-looking statements made by an issuer, persons acting on behalf of such issuer, and any outside reviewer retained by such issuer to make a statement on behalf of such issuer. The act reshapes securities laws that professional investors and some class-action lawyers have used against corporations, practitioners, and securities underwriters. The law encourages voluntary disclosure of forward-looking information to investors by establishing a carefully designed safe harbor. Forward-looking statements that include meaningful and cautionary disclosures that identify factors that could alter forecasted results are protected by the safe harbor. However, there are certain notable exclusions to the safe harbor provisions of the act. See appendix D, “Private Securities Litigation Reform Act of 1995,” for the safe harbor provisions of that act.²

1.13 The Department of the Treasury has issued regulations on tax shelter opinions. The regulations provide that if the practitioner provides a *tax shelter opinion*, the practitioner should, if possible, provide (a) an opinion on whether it is more likely than not that an investor will prevail on the merits of each material tax issue and (b) an overall evaluation of the extent to which the material tax benefits are likely to be realized in the aggregate. Those regulations indicate that, if a practitioner provides services on a financial forecast or projection included in tax shelter offering materials, the practitioner may be deemed to have issued a tax shelter opinion. The Treasury Department’s regulations in Circular 230, *Regulations Governing Practice before the Internal Revenue Service*, are included as appendix C, “IRS Regulations Regarding Tax Shelter Opinions (Circular 230),” of this guide.

Effective Date

1.14 The presentation guidelines in the original guide are effective for prospective financial statements prepared on or after September 30, 1986. The guidance on accountants’ services appearing in the original guide is effective for engagements in which the date of completion of the accountants’ services on prospective financial statements is September 30, 1986, or later except for the guidance on agreed-upon procedures in chapters 19–21, which is effective for reports dated after April 30, 1996. The guidance incorporated from SSAE No. 10 is effective for practitioners’ reports issued on or after June 1, 2001. SSAE No. 11, *Attest Documentation* (AICPA, *Professional Standards*, AT sec. 101) (discussed in paragraphs 12.11–18, 15.41–48, and 19.11–18), which expanded the documentation requirements for attestation engagements, is effective for services on prospective financial information for periods ending on or after December 15, 2002. The guidance incorporated from SSAE No. 17, *Reporting on Compiled Prospective Financial Statements When the Practitioner’s Independence is Impaired* (AICPA, *Professional Standards*, AT sec. 301 par. .23), is effective for prospective financial statements for periods ending on or after

¹ AT section 701, *Management’s Discussion and Analysis* (AICPA, *Professional Standards*), sets forth attestation standards and provides guidance concerning the performance of an attest engagement with respect to management’s discussion and analysis (MD&A) prepared pursuant to the rules and regulations adopted by the Securities and Exchange Commission. Paragraphs .25–.26 of AT section 701 discuss the practitioner’s responsibility when the MD&A presentation includes forward-looking information.

² See footnote 1.

December 15, 2010. SSAE No. 17 updated paragraph .23 of AT sec. 301 by permitting accountants to disclose the reason(s) for an independence impairment in a report on compiled prospective financial information (discussed in paragraph 14.05).

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