

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, other informed third parties, government agencies, and the public.

1.02 This guide establishes guidelines for the preparation and presentation of forecasts and projections (referred to as prospective financial information). This guide also is intended to assist the practitioner in providing professional services related to and reporting on such information.

1.03 Prospective financial information is 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 intentions of managements and owners 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 practitioner is required to exercise professional judgment. This judgment may be used to evaluate 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 This guide consists of three parts:

- Part 1, *General Guidance Regarding Prospective Financial Information* (chapters 1–5), provides an introduction to and the foundation for the rest of the guide. It includes a general discussion of prospective financial reporting, defines terms used in the guide, and describes the guide's structure.
- Part 2, *Guidance for Entities that Issue Prospective Financial Information* (chapters 6–9), discusses the concepts underlying the preparation and presentation of prospective financial information. It establishes the AICPA guidelines for presentation of prospective financial information.
- Part 3, *Guidance for Practitioners Providing Services on Prospective Financial Information* (chapters 10–17), describes the application of professional standards to engagements related to prospective financial information.

Relationship to Other Literature

1.07 In April 2016, the Auditing Standards Board (ASB) issued Statement on Standards for Attestation Engagements (SSAE) No. 18, *Attestation*

Standards: Clarification and Recodification (AICPA, *Professional Standards*), which supersedes the previously existing attestation standards that governed services on prospective financial information. SSAE No. 18 establishes standards for all examination, review, and agreed-upon procedures engagements under the attestation standards and creates standards specific to providing those services on prospective financial information.¹ It is effective for reports dated on or after May 1, 2017.

1.08 In October 2016, the Accounting and Review Services Committee issued Statement on Standards for Accounting and Review Services (SSARS) No. 23, *Omnibus Statement on Standards for Accounting and Review Services—2016* (AICPA, *Professional Standards*), which replaces the previous standards on compilations of prospective financial information (which was a section of the attestation standards), effective for reports dated on or after May 1, 2017. It also establishes new standards for preparation services on such information, effective for prospective financial information prepared on or after May 1, 2017.

1.09 This guide incorporates those standards in the sections on practitioners' services (part 3 of this guide). The guide also provides additional explanatory and illustrative material to aid the practitioner in applying the standards.

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. The 1997 edition was updated in 1999 to incorporate a number of changes needed to conform to authoritative pronouncements issued after 1997.
- *Guide for Prospective Financial Information* (2006), which revised the previous edition to incorporate SSAE No. 10, *Attestation Standards: Revision and Recodification and 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*

¹ Statement on Standards for Attestation Engagements (SSAE) No. 18, *Attestation Standards: Clarification and Recodification*, is contained in the AT-C sections of AICPA *Professional Standards*. The sections that are specifically addressed by this guide are AT-C section 105, *Concepts Common to All Attestation Engagements*; AT-C section 205, *Examination Engagements*; AT-C section 210, *Review Engagements*; AT-C section 215, *Agreed-Upon Procedures Engagements*; and AT-C section 305, *Prospective Financial Information*.

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.

1.11 The 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.

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 had 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.

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