



September 8, 2010

Mr. James Gunn
Technical Director
International Audit and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, NY 10017

Re: Exposure Draft: Proposed International Standard on Assurance Engagements 3420, “Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus”

Dear Mr. Gunn:

The American Institute of Certified Public Accountants (AICPA) is pleased to comment on the International Auditing and Assurance Standards Board’s (IAASB) proposed International Standard on Assurance Engagements (ISAE) 3420, “Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus,” which deals with reasonable assurance engagements undertaken by a professional accountant in public practice to report on the process to compile pro forma financial information (PFI) included in a prospectus, where such reporting is required by securities law or the regulation of the securities exchange in the jurisdiction in which the prospectus is to be issued, or where this reporting is generally accepted practice in such jurisdiction.

This letter provides our responses to the request for specific comments.

1. The AICPA’s Auditing Standards Board (ASB) does not intend to adopt or converge with this exposure draft (ED). Our current standard on reporting on PFI—Chapter 4, “Reporting on Pro Forma Financial Information,” of Statement on Standards for Attestation Engagements No. 10, *Attestation Standards: Revision and Recodification* (AICPA, *Professional Standards*, vol. 1, AT sec. 401)—which we intend to clarify, has served the U.S. environment well. A number of facets in the U.S. environment differ significantly from the prospectus regime in the European Union (EU) such that convergence simply is not possible. These facets include:

- The focus of the ED is to obtain reasonable assurance about the process to compile PFI and not on the PFI itself, whereas AT section 401 deals with obtaining assurance on the reasonableness of management’s assumptions and whether the PFI provides appropriate application and effect to those assumptions. Reporting only on the process to compile would be confusing to users who, at least in the U.S., expect an opinion on the PFI.
- The ED expands on how ISAE 3000, “Assurance Engagements Other than Audits or Reviews of Historical Financial Information,” is to be applied in a reasonable assurance engagement to report on the process to compile PFI included in a prospectus, whereas the applicability of AT section 401 is not limited to PFI included only in a prospectus.

- The ED describes an engagement whereby a practitioner plans and performs procedures designed to obtain reasonable assurance on the process to compile, which may be a higher level of assurance than that obtained by a practitioner on the underlying historical financial information. We do not believe such reporting should be permitted. Under AT section 401, the level of assurance obtained by a practitioner on the PFI, as of a particular date or for a particular period, is limited to the lowest level of assurance obtained on the historical financial statements.

2. We recognize that the objective of the engagement, subject to this ED, is to obtain reasonable assurance on the process to compile and not on the presentation of the result (that is, the PFI). Additionally, we recognize that in some regulatory jurisdictions, this type of reporting is required. Therefore, notwithstanding our concerns expressed in response to question 1, we believe that the work effort set forth in the ED is sufficient and appropriate to express an opinion on the process to compile.

3. We understand that the second alternative (whether the PFI has been properly compiled on the basis stated) has been provided to comply with the specific wording in the EU Prospectus Directive. This alternative may be confusing to users who are unfamiliar with the EU reporting regime because the word “process” is not included in this wording even though the ED, in its entirety, discusses the process to compile PFI. Users who are unfamiliar with the EU reporting regime may inappropriately assume or believe that the practitioner is reporting on the PFI itself rather than on the process to compile the PFI. Therefore, this reporting option should only be permitted where required by law or regulation.

Furthermore, users may also misunderstand the two alternatives to believe that the practitioner is reporting on **both** the process to compile the PFI and on the PFI itself, notwithstanding the reporting language that states, “we have not performed an audit or review of the pro forma financial information and, accordingly, we do not express an opinion on the pro forma financial information.” To better highlight such cautionary language, we suggest that this language be set out in a separate paragraph within the practitioner’s responsibility section.

4. As stated above, this ED would not be responsive to the needs of U.S. users and, as a result, we do not intend to adopt or converge with this ED. We would support the development of an IAASB standard that is comparable to AT section 401 and that contains, at a minimum, requirements and guidance on the following:

- Evidence to support the reasonableness of management’s assumptions and the PFI;
- Underlying historical financial information that has been previously audited or reviewed;
- A reasonable or limited assurance engagement that limits the level of assurance on the PFI to the lowest level of assurance obtained on the historical financial statements; and
- Reporting on the PFI itself.

The IAASB’s decision about whether it should undertake such a project should be based on the needs of the various countries that do not have such a standard. If the IAASB undertakes and issues such a standard, we would seriously consider converging to that IAASB standard, assuming it was comparable to AT section 401.

Additionally, we are concerned about the appropriateness of the IAASB undertaking projects that are jurisdictionally oriented. Although the explanatory memorandum of this ED states that "... the IAASB decided on an approach focused initially on identifying and understanding the reporting issues that arise in the context of one jurisdiction that already has a recognized and established framework, and thereafter expanding the consideration of the issues to other jurisdictions," we believe this ED could set an unintended precedent for the IAASB to undertake other jurisdictional projects, regardless of the perceived validity of the circumstances or need for immediate standards or guidance on a particular topic.

Thank you for the opportunity to comment on this exposure draft. If you have any questions regarding the comments in this letter, please contact Andy Mrakovcic at +1-212-596-6094, amrakovcic@aicpa.org.

Respectfully submitted,

A handwritten signature in black ink that reads "Darrel R. Schubert". The signature is written in a cursive, flowing style.

/s/ Darrel R. Schubert
Chair, Auditing Standards Board