

## AU-C Section 920

# ***Letters for Underwriters and Certain Other Requesting Parties***

**Source:** SAS No. 122; SAS No. 125; SAS No. 129; SAS No. 140.

**Effective for comfort letters issued on or after December 15, 2014, unless otherwise indicated.**

## **Introduction**

### **Scope of This Section**

**.01** This section addresses the auditor's responsibilities when engaged to issue letters (commonly referred to as *comfort letters*) to requesting parties in connection with a nonissuer entity's financial statements included in registration statements filed with the Securities and Exchange Commission (SEC) under the Securities Act of 1933 (the 1933 Act) (for example, inclusion of the non-issuer entity's financial statements as required by either Rule 3-05 or 3-09 of Regulation S-X) or included in other securities offerings.

**.02** Auditors' services include audits or reviews of financial statements included in securities offerings. In connection with the securities offerings, auditors are often requested to issue comfort letters to certain requesting parties. The auditor is not required by generally accepted auditing standards (GAAS) to accept an engagement to issue a comfort letter.

**.03** The service of providing letters for underwriters developed following the passing of the 1933 Act. Section 11 of the 1933 Act provides that underwriters, among others, could be liable if any part of a registration statement contains material omissions or misstatements. The 1933 Act also provides for an affirmative defense for underwriters if it can be demonstrated that, after a reasonable investigation, the underwriter has reasonable grounds to believe that no material omissions or misstatements existed in a securities offering. An auditor issuing a comfort letter is one of a number of procedures that may be used to establish that an underwriter has conducted a reasonable investigation. Consequently, underwriters may request auditors to assist them in developing a record of reasonable investigation.

**.04** The subjects that may be covered in a comfort letter include

- the independence of the auditor.
- whether the audited financial statements included in the securities offering comply regarding form, in all material respects, with the applicable accounting requirements of the 1933 Act and the related rules and regulations adopted by the SEC.
- unaudited financial statements, condensed interim financial information, capsule financial information, pro forma financial information, financial forecasts, management's discussion and analysis (MD&A), and changes in selected financial statement items during a period subsequent to the date and period of the latest financial statements included in the securities offering.

- tables, statistics, and other financial information included in the securities offering.
- negative assurance about whether certain nonfinancial statement information included in the securities offering complies regarding form, in all material respects, with Regulation S-K.<sup>1</sup>

## Effective Date

.05 This section is effective for comfort letters issued on or after December 15, 2012.

## Objectives

.06 The objectives of the auditor, when engaged to issue a letter to a requesting party in connection with an entity's financial statements included in a securities offering, are to

- a. address appropriately the acceptance of the engagement and the scope of services; and
- b. issue a letter with the appropriate form and content.

## Definitions

.07 For purposes of this section, the following terms have the meanings attributed as follows:

**Capsule financial information.** Unaudited summarized interim financial information for periods subsequent to the periods covered by the audited financial statements or unaudited interim financial information included in the securities offering. Capsule financial information may be presented in narrative or tabular form and is often provided for the most recent interim period and for the corresponding period of the prior year.

**Change period.** The period ending on the cut-off date and ordinarily beginning, for balance sheet items, immediately after the date of the latest balance sheet in the securities offering and, for income statement items, immediately after the latest period for which such items are presented in the securities offering.

**Closing date.** The date on which the issuer of the securities or selling security holder delivers the securities in exchange for the proceeds of the offering.

**Comfort letter.** A letter issued by an auditor in accordance with this section to requesting parties in connection with an entity's financial statements included in a securities offering.

**Comparison date and comparison period.** The date as of which, and period for which, data at the cut-off date and data for the change period are to be compared.

**Cut-off date.** The date through which certain procedures described in the comfort letter are to relate.

**Effective date.** The date on which the securities offering becomes effective.

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<sup>1</sup> Regulation S-K, "Standard Instructions for Filing Forms Under Securities Act of 1933, Securities Exchange Act of 1934 and Energy Policy and Conservation Act of 1975."

**Entity.** The party whose financial statements are the subject of the engagement.

**Negative assurance.** A statement that, based on the procedures performed, nothing has come to the auditor's attention that caused the auditor to believe that specified matters do not meet specified criteria (for example, that nothing came to the auditor's attention that caused the auditor to believe that any material modifications should be made to the unaudited interim financial information for it to be in accordance with generally accepted accounting principles).

**Requesting party.** One of the following specified parties requesting a comfort letter, which has negotiated an agreement with the entity:

- An underwriter
- Other parties that are conducting a review process that is, or will be, substantially consistent with the due diligence process performed when the securities offering is, or if the securities offering was, being registered pursuant to the 1933 Act, as follows:
  - A selling shareholder, sales agent, or other party with a statutory due diligence defense under Section 11 of the 1933 Act
  - A broker-dealer or other financial intermediary acting as principal or agent in a securities offering in connection with the following types of securities offerings:
    - Foreign offerings, including Regulation S, Eurodollar, and other offshore offerings
    - Transactions that are exempt from the registration requirements of Section 5 of the 1933 Act, including those pursuant to Regulation A, Regulation D, and Rule 144A
    - Offerings of securities issued or backed by governmental, municipal, banking, tax-exempt, or other entities that are exempt from registration under the 1933 Act
  - The buyer or seller in connection with acquisition transactions in which there is an exchange of stock (Ref: par. .A1)

**Securities offerings.** One of the following types of securities offerings:

- Registration of securities with the SEC under the 1933 Act
- Foreign offerings, including Regulation S, Eurodollar, and other offshore offerings
- Transactions that are exempt from the registration requirements of Section 5 of the 1933 Act, including those pursuant to Regulation A, Regulation D, and Rule 144A
- Offerings of securities issued or backed by governmental, municipal, banking, tax-exempt, or other entities that are exempt from registration under the 1933 Act

- Acquisition transactions in which there is an exchange of stock

**Underwriter.** As defined in the 1933 Act

any person who has purchased from an issuer with a view to, or offers or sells for an issuer in connection with, the distribution of any security, or participates or has a direct or indirect participation in any such undertaking, or participates or has a participation in the direct or indirect underwriting of any such undertaking; but such term shall not include a person whose interest is limited to a commission from an underwriter or dealer not in excess of the usual and customary distributors' or sellers' commission. As used in this paragraph, the term "issuer" shall include, in addition to an issuer, any person directly or indirectly controlling or controlled by the issuer, or any person under direct or indirect common control with the issuer.

Except when the context otherwise requires, the word *underwriter*, as used in this section, refers to the managing, or lead, underwriter, who typically negotiates the underwriting agreement or purchase agreement (hereafter referred to as the *underwriting agreement*) for a group of underwriters whose exact composition is not determined until shortly before a securities offering becomes effective. [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

.08 References in this section to information that is *included* in a document are to be read to also encompass information that is *incorporated by reference* in that document.

## Requirements

### Engagement Acceptance

.09 The auditor should determine whether to accept an engagement to issue a comfort letter in connection with financial statements included in a securities offering. The auditor is neither required to accept such an engagement nor required to provide comfort on every matter requested when accepting an engagement to issue a comfort letter. [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

.10 The auditor should provide a comfort letter in connection with financial statements included in a securities offering only to

- underwriters.
- other parties meeting the definition of a *requesting party* in paragraph .07.

.11 The auditor should request the requesting party to provide either

- a written opinion from external legal counsel that the requesting party has a statutory due diligence defense under Section 11 of the 1933 Act; or (Ref: par. .A2)
- a representation letter that
  - is addressed to the auditor;
  - contains the statement, "The review process applied to the information relating to the issuer of the securities is (will

be) substantially consistent with the due diligence process that we would perform if this securities offering were being registered pursuant to the Securities Act of 1933. We are knowledgeable with respect to that due diligence process."; and (Ref: par. .A3–.A4)

iii. is signed by the requesting party. [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

**.12** If a requesting party, other than an underwriter, requests a comfort letter but does not provide the legal opinion or representation letter described in paragraph .11, the auditor should not provide negative assurance on the financial statements as a whole, or on any of the specified elements, accounts, or items thereof. In such circumstances, the comfort letter should include the following statements: (Ref: par. .A5)

- a. It should be understood that we have no responsibility for establishing (and did not establish) the scope and nature of the procedures enumerated in the preceding paragraphs; rather, the procedures enumerated therein are those that the requesting party asked us to perform. Accordingly, we make no representations regarding questions of legal interpretation or regarding the sufficiency for your purposes of the procedures enumerated in the preceding paragraphs; also, such procedures would not necessarily reveal any material misstatement of the amounts or percentages previously listed as set forth in the [*offering memorandum*]. Further, we have addressed ourselves solely to the foregoing data and make no representations regarding the adequacy of disclosures or whether any material facts have been omitted. This letter relates only to the financial statement items previously specified and does not extend to any financial statement of the company as a whole. (Ref: par. .A6)
- b. The foregoing procedures do not constitute an audit or a review conducted in accordance with generally accepted auditing standards. Had we performed additional procedures or had we conducted an audit or a review of the company's [*give dates of any interim financial statements*] consolidated financial statements in accordance with auditing standards generally accepted in the United States of America, other matters might have come to our attention that would have been reported to you.
- c. These procedures should not be taken to supplant any additional inquiries or procedures that you would undertake in your consideration of the proposed offering.
- d. This letter is solely for your information and to assist you in your inquiries in connection with the offering of the securities covered by the [*offering memorandum*]. It is not to be used, circulated, quoted, or otherwise referred to for any other purpose, including but not limited to, the registration, purchase, or sale of securities, nor is it to be filed with or referred to in whole or in part in the offering document or any other document, except that reference may be made to it in any list of closing documents pertaining to the offering of the securities covered by the offering document.
- e. We have no responsibility to update this letter for events and circumstances occurring after [*cut-off date*]. [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

**.13** The auditor should not provide a comfort letter to any parties other than a requesting party as defined in this section. (Ref: par. .A7)

**.14** When issuing a letter in accordance with this section, the auditor should not circumvent the requirements of this section by issuing any additional letters or reports to a requesting party in connection with the securities offering in which the auditor comments on items for which commenting is otherwise precluded by this section.

### **Agreeing Upon the Scope of Services**

**.15** The auditor should obtain an understanding of the specific matters to be addressed in the comfort letter. (Ref: par. .A8)

**.16** The auditor should ask to meet with the requesting party and the entity to discuss the procedures to be followed in connection with an engagement to issue a comfort letter. (Ref: par. .A9–.A10)

**.17** The auditor should clearly communicate that the auditor cannot provide any assurance regarding the sufficiency of the procedures for the requesting party's purposes. (Ref: par. .A11–.A14) [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

**.18** The auditor should provide the requesting party with a draft of the form of the letter the auditor expects to furnish. To the extent possible, the draft should deal with all matters to be covered in the final letter and should use exactly the same terms as those to be used in the final letter, subject to the understanding that the comments in the final letter cannot be determined until the procedures underlying it have been performed. The draft letter should be identified as a draft to avoid giving the impression that the procedures described therein have been performed. (Ref: par. .A15) [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

**.19** In both the draft and final forms of the comfort letter, the auditor should clearly describe the procedures performed by the auditor. The auditor should not state or imply that the auditor is carrying out such procedures as the auditor considers necessary because such statements or implications may lead to misunderstanding about the responsibility for the sufficiency of the procedures for the requesting party purposes.

**.20** If the auditor has been unable to have a discussion with the requesting party about the auditor's planned procedures, the auditor should describe in the draft letter those procedures specified in the draft underwriting agreement that the auditor is willing to perform. (Ref: par. .A16–.A17)

**.21** Situations may exist in which one or more component auditor's report is included in the securities offering. When comfort letters are issued to requesting parties by those component auditors, the auditor of the group financial statements should read those comfort letters. The auditor of the group financial statements should state in the comfort letter that the procedures relating to those components consisted solely of reading the component auditors' comfort letters. [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

**.22** When comfort letters are requested from more than one auditor, the requirements of this section apply to each auditor. (Ref: par. .A19)

**.23** In competitive bidding situations in which legal counsel for the requesting party acts as the requesting party's representative prior to opening and acceptance of the bid, the auditor should carry out the discussions and other communications required by this section with the legal counsel until the requesting party is selected. In such circumstances, the auditor should not agree

to provide a comfort letter addressed to the entity, legal counsel, or a nonspecific addressee, such as "any or all underwriters to be selected." If the auditor agrees to provide a draft comfort letter, the draft comfort letter should include a legend describing the letter's purpose and limitations. (Ref: par. .A20–.A23)

## Format and Contents of Comfort Letters

### Dating

.24 The letter should state that the inquiries and other procedures described in the letter did not cover the period from the cut-off date to the date of the letter. (Ref: par. .A24–.A25)

.25 When an additional letter, dated at or shortly before the closing date, is requested, the auditor should carry out the specified procedures and inquiries as of the cut-off date for each letter. The subsequent letter should relate only to information in the securities offering as most recently amended. (Ref: par. .A26)

### Addressee

.26 The letter should be addressed only to the requesting party, or both the requesting party and the entity, and should not be provided to any other parties. (Ref: par. .A27)

### Introductory Paragraph

.27 The letter should contain an introductory paragraph that identifies the financial statements and the securities offering.

### Auditor's Report

.28 The auditor should, in the comfort letter, make reference to, but not repeat, the report on the audited financial statements included in the securities offering. (Ref: par. .A28)

.29 When the auditor's report on the audited financial statements included in the securities offering contains an emphasis-of-matter or other-matter paragraph or a separate section in the auditor's report addressing matters other than consistency of application of accounting policies,<sup>2</sup> the auditor should refer to that fact in the comfort letter and discuss the subject matter of the paragraph. In those instances in which the SEC accepts a modified opinion on historical financial statements, the auditor should refer to the modification in the opening paragraph of the comfort letter and discuss the subject matter of the modification. (Ref: par. .A29–.A30) [As amended, effective for comfort letters issued on or after December 15, 2021, by SAS No. 140.]

.30 The auditor should not provide negative assurance regarding the auditor's report or regarding financial statements that have been audited and are reported on in the securities offering by other auditors. (Ref: par. .A31)

.31 In the introductory paragraph of the comfort letter, if the auditor refers to reports that the auditor has previously issued other than the report on the audited financial statements included in the securities offering, the auditor should not repeat the reports in the comfort letter or otherwise imply that the auditor is reporting as of the date of the comfort letter or assuming responsibility for the sufficiency of the procedures for the requesting party's purposes. (Ref: par. .A32–.A33)

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<sup>2</sup> See section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*.

[.32] [Paragraph deleted, effective for the auditor's written communications issued on or after December 15, 2012, by SAS No. 125.]

.33 The auditor should not mention, refer to, or attach to the comfort letter any report or other auditor's written communication that includes an alert that restricts the use of the auditor's written communication, in accordance with section 905, *Alert That Restricts the Use of the Auditor's Written Communication*, or any restricted use reports issued in accordance with Statements on Standards for Attestation Engagements or Statements on Standards for Accounting and Review Services. (Ref: par. .A34) [As amended, effective for the auditor's written communications issued on or after December 15, 2012, by SAS No. 125.]

### **Representations**

.34 The auditor should refer in the comfort letter to the requesting party's representations when the representation letter described in paragraph .11 has been provided. (Ref: par. .A35)

### **Independence**

.35 The auditor should state in the comfort letter that the auditor is independent, or the date through which the auditor was independent, with respect to the entity, and identify the applicable independence rules. (Ref: par. .A36–.A38)

### **Compliance With SEC Requirements**

.36 If the auditor is requested to include an opinion in the comfort letter on whether the financial statements covered by the auditor's report comply as to form with the pertinent accounting requirements adopted by the SEC, the auditor's opinion should refer to compliance as to form, in all material respects, with the applicable accounting requirements of the 1933 Act and the related rules and regulations adopted by the SEC. (Ref: par. .A39–.A41)

.37 Certain financial statements may be incorporated in a registration statement under the 1933 Act by reference to filings under the Securities Exchange Act of 1934 (the 1934 Act). If the auditor is requested to include an opinion in the comfort letter on whether the financial statements covered by the auditor's report comply as to form with the pertinent accounting requirements adopted by the SEC, the auditor's opinion should refer to whether the audited financial statements incorporated by reference in the registration statement comply as to form, in all material respects, with the applicable accounting requirements of the 1934 Act and the related rules and regulations adopted by the SEC. However, the auditor should not opine on compliance with the provisions of the 1934 Act regarding internal control over financial reporting.

.38 If the auditor has been requested to include an opinion in the comfort letter on whether the financial statements covered by the auditor's report comply as to form with the pertinent accounting requirements adopted by the SEC, and a material departure from the pertinent rules and regulations adopted by the SEC exists, the auditor should disclose the departure in the comfort letter. (Ref: par. .A42)

.39 The auditor should express an opinion on compliance as to form with requirements under the rules and regulations adopted by the SEC only with respect to those rules and regulations applicable to the form and content of financial statements that the auditor has audited. When the financial statements or financial statement schedules have not been audited, the auditor is limited to providing negative assurance on compliance as to form.



.40 The auditor should not comment in a comfort letter on compliance as to form of MD&A with rules and regulations adopted by the SEC. (Ref: par. .A43)

## Commenting in a Comfort Letter on Information Other Than Audited Financial Statements

### General

.41 When commenting in a comfort letter on information other than audited financial statements, the auditor should

- a. describe the procedures performed by the auditor, as required by paragraph .19. (Ref: par. .A44–.A46)
- b. describe the criteria specified by the requesting party.
- c. state that the procedures performed with respect to interim periods may not disclose matters of significance regarding certain matters about which negative assurance is requested. (Ref: par. .A47–.A48)

.42 The auditor should not, in the comfort letter

- a. make any statements, or imply, that the auditor has applied procedures that the auditor determined to be necessary or sufficient for the requesting party's purposes.
- b. use terms of uncertain meaning (such as *general review*, *limited review*, *reconcile*, *check*, or *test*) in describing the work unless the procedures encompassed by these terms are described in the comfort letter.
- c. make a statement that nothing else has come to the auditor's attention that would be of interest to the requesting party as a result of carrying out the specified procedures. (Ref: par. .A49)

.43 When the report on the audited financial statements in the securities offering is a modified report, the auditor should consider the effect on providing negative assurance in the comfort letter regarding subsequent interim financial information included in the securities offering or regarding an absence of specified subsequent changes. The auditor should also follow the requirements of paragraph .29. (Ref: par. .A50)

### Knowledge of Internal Control

.44 The auditor should obtain an understanding of the entity's internal control over financial reporting for both annual and interim periods when commenting in a comfort letter on

- a. unaudited interim financial information, including unaudited condensed interim financial information;
- b. capsule financial information;
- c. a financial forecast when historical financial statements provide a basis for one or more significant assumptions for the forecast; or
- d. subsequent changes in specified financial statement items. (Ref: par. .A51)

### Unaudited Interim Financial Information

.45 The auditor should provide negative assurance on unaudited interim financial information included in the securities offering only if the auditor has

conducted a review of the interim financial information in accordance with GAAS applicable to reviews of interim financial information. If the auditor has not conducted a review in accordance with GAAS applicable to reviews of interim financial information, the auditor is limited to reporting procedures performed and findings obtained. (Ref: par. .A52)

**.46** The negative assurance provided regarding such unaudited interim financial information should be about whether

- a. any material modifications should be made to the unaudited interim financial information for it to be in accordance with the applicable financial reporting framework, and
- b. the unaudited interim financial information complies as to form in all material respects with the applicable accounting requirements of the 1933 Act and the related rules and regulations adopted by the SEC, if applicable. [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

**.47** If the auditor states in the comfort letter that the auditor has issued a review report on the unaudited interim financial information, the auditor should attach the review report to the letter unless the review report is already included in the securities offering. (Ref: par. .A53) [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

**.48** The auditor should specifically identify, in the comfort letter, any unaudited interim financial information and should state that the auditor has not audited the interim financial information in accordance with GAAS and does not express an opinion concerning such information. (Ref: par. .A54–.A55)

### ***Capsule Financial Information***

**.49** The auditor should not provide negative assurance regarding whether the selected capsule financial information is in accordance with the applicable financial reporting framework unless

- a. the auditor has performed a review of the financial statements underlying the capsule financial information in accordance with GAAS applicable to reviews of interim financial information, and
- b. the selected capsule financial information is in accordance with minimum disclosure requirements of the applicable financial reporting framework for interim financial information.

If these conditions have not been met, the auditor is limited to reporting procedures performed and findings obtained. (Ref: par. .A56) [Renumbered by the issuance of SAS No. 129, July 2014.]

**.50** The auditor should not provide negative assurance on selected capsule financial information regarding whether the dollar amounts were determined on a basis substantially consistent with that of the corresponding amounts in the audited financial statements unless the auditor has performed a review of the financial statements underlying the capsule financial information in accordance with GAAS applicable to reviews of interim financial information. Otherwise, the auditor is limited to reporting procedures performed and findings obtained. [Renumbered and amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

**.51** When the auditor is requested by the requesting party to provide negative assurance on unaudited condensed interim financial information, or information extracted therefrom, for a period ending after the latest financial statements included in the securities offering, the requirements in paragraphs

.45–.48 apply. When the auditor provides negative assurance on such information, a copy of the unaudited interim financial information should be attached to the comfort letter. (Ref: par. .A57) [Renumbered and amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

### **Pro Forma Financial Information**

**.52** The auditor should not comment in a comfort letter on pro forma financial information unless the auditor has an appropriate level of knowledge of the accounting and financial reporting practices of the entity. (Ref: par. .A58)

**.53** The auditor should not provide negative assurance in a comfort letter on pro forma financial information, including negative assurance on

- the application of pro forma adjustments to historical amounts,
- the compilation of pro forma financial information, or
- whether the pro forma financial information complies as to form in all material respects with the applicable accounting requirements of Rule 11-02 of Regulation S-X,<sup>3</sup> or with the pro forma bases as described in the pro forma financial information, as applicable,

unless the auditor has obtained the required knowledge described in paragraph .52 and has performed

- a. an audit of the annual financial statements, or
- b. a review of the interim financial information, in accordance with GAAS applicable to reviews of interim financial information,

of the entity (or, in the case of a business combination, of a significant constituent part of the combined entity) to which the pro forma adjustments were applied. In the case of a business combination, the historical financial statements of each constituent part of the combined entity on which the pro forma financial information is based should be audited or reviewed. If these conditions are not met, the auditor is limited to reporting procedures performed and findings obtained. (Ref: par. .A59) [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

### **Financial Forecasts**

**.54** When performing procedures agreed to with the requesting party on a financial forecast and commenting thereon in a comfort letter, the auditor should

- a. obtain an understanding of the entity's internal control over financial reporting for both annual and interim periods, as required by paragraph .44;
- b. perform procedures required by AR-C section 80, *Compilation Engagements*, for reporting on the compilation of a forecast;<sup>[4]</sup>
- c. issue a report on the compilation of prospective financial information in accordance with AR-C section 80 and attach the report thereon to the comfort letter;<sup>[5]</sup> and

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<sup>3</sup> Regulation S-X, "Form and Content of and Requirements for Financial Statements, Securities Act of 1933, Securities Exchange Act of 1934, Public Utility Holding Company Act of 1935, Investment Company Act of 1940, and Energy Policy and Conservation Act of 1975."

<sup>[4]</sup> [Footnote deleted, April 2017, to reflect conforming changes necessary due to the issuance of SSAE No. 18 and SSARS No. 23.]

<sup>[5]</sup> [Footnote deleted, April 2017, to reflect conforming changes necessary due to the issuance of SSAE No. 18 and SSARS No. 23.]

- d. perform additional procedures as requested by the requesting party and report the findings in the comfort letter. (Ref: par. .A60–.A61)

[Revised, April 2017, to reflect conforming changes necessary due to the issuance of SSAE No. 18 and SSARS No. 23.]

**.55** The auditor should not provide negative assurance on the results of procedures performed on a financial forecast.

**.56** The auditor should not provide negative assurance with respect to compliance of the financial forecast with Rule 11-03 of Regulation S-X unless the auditor has performed an examination of the financial forecast in accordance with AT-C section 305, *Prospective Financial Information*. [Revised, April 2017, to reflect conforming changes necessary due to the issuance of SSAE No. 18.]

**.57** If a financial forecast that the auditor has not examined is included in the securities offering, the auditor should not issue a comfort letter unless the financial forecast is accompanied by an indication that the auditor has not examined the financial forecast and, therefore, does not express an opinion on it. (Ref: par. .A62) [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

### **Subsequent Changes**

**.58** The auditor should base comments regarding subsequent changes in specified financial statement items solely on the limited procedures performed with respect to the change period as determined by the requesting party. (Ref: par. .A63–.A65)

**.59** The auditor should provide negative assurance in the comfort letter regarding subsequent changes in specified financial statement items only as of a date less than 135 days from the end of the most recent period for which the auditor has performed an audit or a review. (Ref: par. .A66)

**.60** When the requesting party requests negative assurance regarding subsequent changes in specified financial statement items as of a date 135 days or more from the end of the most recent period for which the auditor has performed an audit or a review, the auditor is limited to reporting procedures performed and findings obtained. (Ref: par. .A67) [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

**.61** In commenting on subsequent changes, the auditor should not characterize subsequent changes using ambiguous terms, such as referring to the change as "adverse." The auditor should note in the comfort letter if there has been a change in the application of the requirements of the applicable financial reporting framework. (Ref: par. .A68) [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

**.62** The auditor should comment only on the occurrence of subsequent changes in specified financial statement items that are not disclosed in the securities offering. Accordingly, the auditor should include the phrase *except for changes, increases, or decreases that the securities offering discloses have occurred or may occur* in the comfort letter when it has come to the auditor's attention that a change, increase, or decrease has occurred during the change period, and the amount of such change, increase, or decrease is disclosed in the securities offering. This phrase need not be included in the letter when no changes, increases, or decreases in the specified financial statement items are disclosed in the securities offering. (Ref: par. .A69–.A70)

**.63** The auditor should identify in the comfort letter in both draft and final form the dates as of which, and periods for which, data at the cut-off date and data for the change period are to be compared, whether or not specified in the underwriting agreement. (Ref: par. .A71–.A72)

**.64** If the requesting party requests the use of a change period or periods other than those described in paragraph .07, the auditor should explain to the requesting party the implications of using an earlier date. If the requesting party, nonetheless, requests the use of a change period or periods other than those described in paragraph .07, the auditor is permitted to use the period or periods requested. (Ref: par. .A73)

### **Tables, Statistics, and Other Financial Information**

**.65** The auditor should not comment in a comfort letter on tables, statistics, and other financial information appearing in the securities offering unless the information

- a. is expressed in dollars (or percentages derived from such dollar amounts) and has been obtained from accounting records that are subject to internal control over financial reporting, or
- b. has been derived directly from such accounting records by analysis or computation. (Ref: par. .A74)

**.66** The auditor should not comment in a comfort letter on quantitative information that has been obtained from accounting records unless the information is subject to the same controls over financial reporting as the dollar amounts.

**.67** The auditor should not comment in a comfort letter on tables, statistics, and other financial information relating to an unaudited period unless the auditor has

- a. performed an audit of the entity's financial statements for a period including, or immediately prior to, the unaudited period or completed an audit for a later period, or
- b. otherwise obtained knowledge of the entity's internal control over financial reporting.

**.68** The auditor should not use the term *presents fairly* in comments concerning tables, statistics, and other financial information (Ref: par. .A75) and should not comment on

- a. information subject to legal interpretation, such as beneficial share ownership;
- b. nonfinancial data presented in MD&A, unless the auditor has conducted an examination or review of MD&A in accordance with AT-C section 395, *Management's Discussion and Analysis*; or (Ref: par. .A76)
- c. matters merely because the auditor is capable of reading, counting, measuring, or performing other functions that might be applicable.

[Revised, April 2017, to reflect conforming changes necessary due to the issuance of SSAE No. 18.]

**.69** The auditor's comments in the comfort letter concerning tables, statistics, and other financial information included in the securities offering should include

- a. a clear identification of the specific information commented on;

- b. a description of the procedures performed; and
- c. the findings, expressed in terms of agreement between items compared. (Ref: par. .A77–.A78)

**.70** With respect to the acceptability of methods of allocation used in deriving the figures commented on, the auditor should comment only to the extent to which such allocation is made in, or can be derived directly by analysis or computation from, the entity's accounting records. Such comments, if made, should make clear that

- a. such allocations may be, to a substantial extent, arbitrary.
- b. the method of allocation used is not the only acceptable method.
- c. other acceptable methods of allocation might produce significantly different results.

**.71** The comfort letter should state that the auditor makes no representations regarding

- a. any matter of legal interpretation;
- b. the completeness or adequacy of disclosure; and
- c. the adequacy of the procedures followed, and that such procedures would not necessarily disclose material misstatements or omissions in the information to which the comments relate. (Ref: par. .A79–.A80)

### ***Compliance as to Form With Regulation S-K***

**.72** The auditor should not provide negative assurance about whether certain financial information in registration statements, included because of specific requirements of Regulation S-K, is in conformity with the disclosure requirements of Regulation S-K unless the following conditions are met:

- a. The information is derived, directly or by analysis or computation, from the accounting records subject to internal control over financial reporting.
- b. The information is capable of evaluation against reasonable criteria that have been established by the SEC. (Ref: par. .A81 and .A84–.A87)

**.73** The auditor should not express an opinion on conformity with the disclosure requirements of Regulation S-K. (Ref: par. .A82–.A83)

### ***Concluding Paragraph***

**.74** The comfort letter should include a concluding paragraph restricting the use of the comfort letter for the information of the addressees and to assist the requesting parties in connection with the securities offering. (Ref: par. .A88)

### ***Disclosure of Subsequently Discovered Matters***

**.75** The auditor should inform the entity when the auditor has discovered matters that require mention in the final comfort letter but were not mentioned in the draft letter that has been furnished to the requesting party. If the entity decides that disclosure will not be made in the securities offering, the auditor should inform the entity that the matters will be mentioned in the comfort letter and should recommend that the requesting party be informed promptly. (Ref: par. .A89–.A90)

## Application and Other Explanatory Material

### Definitions (Ref: par. .07)

**.A1** An example of a comfort letter in connection with an acquisition transaction in which there is an exchange of stock is a cross-comfort letter related to a typical Form S-4 or merger proxy situation. An auditor's report on a preliminary investigation in connection with a proposed transaction (for example, a merger, an acquisition, or a financing) is not covered by this section; the guidance in AT-C section 215, *Agreed-Upon Procedures Engagements*, may apply to such engagements. [Revised, April 2017, to reflect conforming changes necessary due to the issuance of SSAE No. 18.]

### Engagement Acceptance (Ref: par. .09–.13)

**.A2** An attorney's letter indicating that a party "may" be deemed to be an underwriter or has liability substantially equivalent to that of an underwriter under the securities laws would not meet this requirement.

**.A3** What is "substantially consistent" may vary from situation to situation and may not be the same as that done in a registered offering of the same securities for the same entity. Whether the procedures being, or to be, followed will be "substantially consistent" is determined by the requesting party on a case-by-case basis. [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

**.A4** Exhibit A, "Illustration of Representation Letter From Requesting Party," contains illustrative wording for a representation letter when the requesting party is not an underwriter.

**.A5** Exhibit B, "Examples of Comfort Letters," contains examples of comfort letters. Example Q, "Letter to a Requesting Party That Has Not Provided the Legal Opinion or the Representation Letter Required by Paragraph .11," of this exhibit provides an example of a comfort letter issued to a requesting party that has not provided the representation letter described in paragraph .11.

**.A6** Interpretation No. 1, "Responding to Requests for Reports on Matters Relating to Solvency" (AT-C sec. 9105 par. .01–.11), of AT-C section 105, *Concepts Common to All Attestation Engagements*, contains guidance on additional statements to be included if this comfort letter is requested in connection with a secured debt offering. [Revised, April 2017, to reflect conforming changes necessary due to the issuance of SSAE No. 18.]

**.A7** Although the auditor is not permitted to provide a comfort letter other than to requesting parties, the auditor, instead, may provide a report on agreed-upon procedures. AT-C section 215 provides guidance on such reports. [Revised, April 2017, to reflect conforming changes necessary due to the issuance of SSAE No. 18.]

### Agreeing Upon the Scope of Services (Ref: par. .15–.23)

**.A8** The underwriting agreement may specify the matters to be addressed in the comfort letter. If the underwriting agreement or draft underwriting agreement is not available or does not specify the matters to be addressed, the understanding of the scope of the comfort letter may be obtained from a description furnished by the entity or requesting party. Obtaining this understanding as early as possible, and before the auditor provides a draft of the form

of the letter the auditor expects to furnish, assists the auditor in determining whether the auditor will be able to furnish a letter in acceptable form.

**.A9** If the requesting party refuses to meet together with the entity, the auditor may consider the implications in determining whether to accept the engagement.

**.A10** During this meeting, the auditor may describe procedures that are frequently followed. Exhibit B provides examples of comfort letters that include these procedures. Because of the auditor's knowledge of the entity, such a meeting may assist the requesting party in reaching a decision about procedures to be followed by the auditor.

**.A11** When financial information in a securities offering has not been audited in accordance with GAAS and, accordingly, is not covered by an auditor's opinion, the nature of the comments that the auditor can properly make with respect to that financial information is limited. As noted in paragraph .03, obtaining a comfort letter from an auditor is one procedure used by a requesting party to establish that the requesting party has conducted a "reasonable investigation," as a defense against possible claims under Section 11 of the 1933 Act. What constitutes a reasonable investigation of unaudited financial information sufficient to satisfy a requesting party's purposes is a matter of legal interpretation. Consequently, only the requesting party can determine what is sufficient for the requesting party's purposes.

**.A12** The assistance that the auditor can provide by way of a comfort letter is subject to limitations. One limitation is that auditors can properly comment in their professional capacity only on matters to which their professional expertise is relevant. Another limitation is that procedures contemplated in a comfort letter, which do not constitute an audit of financial statements, do not provide the auditor with a basis for expressing an opinion. Such limited procedures may bring to the auditor's attention significant findings or issues affecting the financial information, but they do not provide assurance that the auditor will become aware of any or all significant findings or issues that would be disclosed in an audit. Accordingly, a risk exists that the auditor may have provided negative assurance on the absence of conditions or matters that may prove to have existed.

**.A13** Comfort letters are not required under the 1933 Act, and copies are not filed with the SEC. Nonetheless, it is a common condition of an underwriting agreement in connection with the offering for sale of securities registered with the SEC under the 1933 Act that the auditor is to furnish a comfort letter. Some underwriters do not make the receipt of a comfort letter a condition of the underwriting agreement but, nevertheless, ask for such a letter.

**.A14** Exhibit B, example A-1, "Typical Comfort Letter for a 1933 Act Offering," provides an illustration of an appropriate way of expressing that the auditor cannot provide any assurance regarding the sufficiency of the procedures for the requesting party's purposes.<sup>6</sup>

**.A15** By providing a draft letter early in the process, the auditor has the opportunity to clearly show the requesting party what they may expect to receive from the auditor. Thus, the requesting party has the opportunity to discuss further with the auditor the procedures that the auditor expects to perform and to request any additional procedures that the requesting party may desire. If the additional procedures pertain to matters relevant to the auditor's professional

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<sup>6</sup> Paragraph 4 of example A-1, "Typical Comfort Letter for a 1933 Act Offering," in exhibit B, "Examples of Comfort Letters."



competence and the auditor is willing to perform them, a revised draft may be prepared.

**.A16** Acceptance by the requesting party of the draft comfort letter (and subsequently by acceptance of the comfort letter in final form) is an indication to the auditor that the requesting party considers the procedures described to be sufficient for the requesting party's purposes. Clearly describing the procedures to be followed by the auditor in the comfort letter avoids misunderstanding about the basis on which the auditor's comments have been made and assists the requesting party in deciding whether the procedures performed are sufficient for the requesting party's purposes.

**.A17** The following is an example of a paragraph that may be placed on the draft letter for identification and explanation of its purposes and limitations.

This draft is furnished solely for the purpose of indicating the form of letter that we would expect to be able to furnish [*name of requesting party*] in response to their request, the matters expected to be covered in the letter, and the nature of the procedures that we would expect to carry out with respect to such matters. Based on our discussions with [*name of requesting party*], it is our understanding that the procedures outlined in this draft letter are those they wish us to follow. Unless [*name of requesting party*] informs us otherwise, we shall assume that there are no additional procedures they wish us to follow. The text of the letter itself will depend, of course, on the results of the procedures, which we would not expect to complete until shortly before the letter is given and in no event before the cut-off date indicated therein.

If the auditor has not had any discussions with the requesting party about the auditor's planned procedures, the second sentence in this paragraph would be revised as follows: "In the absence of any discussions with [*name of requesting party*], we have set out in this draft letter those procedures referred to in the draft underwriting agreement (of which we have been furnished a copy) that we are willing to follow."

**[.A18]** [Paragraph deleted by the issuance of SAS No. 129, July 2014.]

**.A19** Comfort letters are requested occasionally from more than one auditor, for example, in connection with securities offerings to be used in the subsequent sale of shares issued in recently effected mergers and from predecessor auditors. In such circumstances, it is the entity's responsibility, at the earliest practicable date, to inform any other auditors who may be involved about any letter that may be requested of them and arrange for them to receive a draft of the underwriting agreement so that they may make arrangements at an early date for the preparation of a draft of their letter and for the performance of their procedures. The entity or requesting party is also responsible for arranging for a copy of the comfort letters of component auditors in draft and final form to be provided to the auditor of the group financial statements.

**.A20** In certain circumstances, regulations under the 1933 Act permit companies to register a designated amount of securities for continuous or delayed offerings during an extended period by filing one "shelf" registration statement. At the effective date of a shelf registration statement, the registrant may not yet have selected an underwriter. An entity or the legal counsel designated to represent the underwriting group may, however, ask the auditor to issue a comfort letter at the effective date of a shelf registration statement to expedite the due diligence activities of the underwriter when subsequently designated and to avoid later corrections of financial information included in an effective prospectus. However, as stated in paragraph .A11, only the underwriter can determine the procedures that will be sufficient for the underwriter's purposes.

**.A21** The auditor may agree to furnish the entity or legal counsel for the underwriting group with a draft comfort letter describing the procedures that the auditor has performed and the comments that the auditor is willing to express as a result of those procedures.

**.A22** The following is an example of a legend describing the letter's purpose and limitations.

This draft describes the procedures that we have performed and represents a letter we would be prepared to sign if the managing underwriter had been chosen and requested such a letter. The text of the final letter will depend, of course, on whether the managing underwriter who is selected requests that these and other procedures be performed to meet his or her needs and whether the managing underwriter requests that any of the procedures be updated to the date of issuance of the signed letter.

**.A23** A signed comfort letter may be issued to the underwriter selected for the portion of the issue then being offered when the underwriting agreement for an offering is signed and on each closing date.

## Format and Contents of Comfort Letters

### ***Dating (Ref: par. .24–.25)***

**.A24** The letter ordinarily is dated on, or shortly after, the underwriting agreement is signed.

**.A25** The underwriting agreement ordinarily specifies the date, often referred to as the *cut-off date*, to which certain procedures described in the letter are to relate, for example, a date five days before the date of the letter. A factor in considering whether to accept the engagement is whether the period between the cut-off date and the date of the letter provides sufficient time to allow the auditor to perform the procedures and prepare the letter.

**.A26** Comments included in an earlier letter that relate to information in the securities offering as most recently amended may be incorporated by reference in a subsequent letter. Exhibit B, example C, "Letter Reaffirming Comments as of a Later Date," provides an example of such reference. [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

### ***Addressee (Ref: par. .26)***

**.A27** An example of an appropriate form of address for this purpose is "The Blank Company and XYZ & Company, as Representative of the Several Underwriters." Copies of a comfort letter addressed in accordance with the requirements in paragraph .26 may be provided to the auditor of the group financial statements when a comfort letter related to a component included in group financial statements is issued by a component auditor.

### ***Auditor's Report (Ref: par. .28–.33)***

**.A28** The requesting party might request that the auditor repeat in the comfort letter the report on the audited financial statements included in the securities offering. Because of the significance of the date of the auditor's report, the auditor is not permitted to agree to this request. [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

**.A29** An example of a matter addressed in an emphasis-of-matter or other-matter paragraph in the auditor's report that does not affect the opinion on the basic financial statements is interim financial information accompanying or

included in the notes to audited financial statements.<sup>7</sup> An example of a matter addressed in a separate section in the auditor's report that does not affect the opinion on the basic financial statements is required supplementary information described in section 730, *Required Supplementary Information*.<sup>8</sup> [As amended, effective for comfort letters issued on or after December 15, 2021, by SAS No. 140.]

**.A30** A requesting party may request that the auditor comment in the comfort letter on

- unaudited interim financial information required by item 302(a) of Regulation S-K, or
- required supplementary information.

Section 930, *Interim Financial Information*, applies to unaudited interim financial information, and section 730 applies to required supplementary information. These sections require the auditor to modify the auditor's report on the audited financial statements to refer to such information when

- the scope of the procedures with regard to the information was restricted, or
- when the information appears not to be presented in accordance with the applicable financial reporting framework or, for required supplementary information, applicable guidelines.

Such modifications of the auditor's report in the securities offering would ordinarily be referred to in the opening paragraph of the comfort letter (see also paragraph .43). Additional comments on such unaudited information are, therefore, unnecessary. However, if the requesting party requests that the auditor perform procedures with regard to such information in addition to those procedures performed in connection with the review or audit as prescribed by section 930 and section 730, the auditor may do so and report the findings. [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

**.A31** The requesting party might request negative assurance regarding the auditor's report. Because auditors have a statutory responsibility with respect to their opinion as of the effective date of a securities offering and because the additional significance, if any, of negative assurance is unclear and such assurance may, therefore, give rise to misunderstanding, the auditor is not permitted to provide such negative assurance. [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

**.A32** In the introductory paragraph of the comfort letter, the auditor may refer to the fact that the auditor has issued reports on

- summary financial statements that are derived from audited financial statements.<sup>9</sup>
- interim financial information.<sup>10</sup>
- pro forma financial information.<sup>11</sup>

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<sup>7</sup> Paragraphs .40–.41 of section 930, *Interim Financial Information*. [Footnote amended, effective for comfort letters issued on or after December 15, 2021, by SAS No. 140.]

<sup>8</sup> Paragraphs .07–.09 of section 730, *Required Supplementary Information*.

<sup>9</sup> See section 810, *Engagements to Report on Summary Financial Statements*.

<sup>10</sup> See section 930.

<sup>11</sup> See AT-C section 310, *Reporting on Pro Forma Financial Information*, and AR-C section 120, *Compilation of Pro Forma Financial Information*. [Footnote revised, April 2017, to reflect conforming changes necessary due to the issuance of SSAE No. 18 and SSARS No. 22.]

- a financial forecast.<sup>12</sup>
- MD&A.<sup>13</sup>

**.A33** When the auditor makes reference to having issued a review report on the interim financial information, the auditor is required by paragraph .47 to attach the review report to the comfort letter if the review report is not included in the securities offering. The other reports listed in paragraph .A32 may also be attached to the comfort letter. [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

**.A34** An example of an auditor's written communication that includes an alert that restricts the use of the auditor's written communication that is not permitted to be mentioned, referred to, or attached to the comfort letter is an auditor's written communication issued in accordance with section 265, *Communicating Internal Control Related Matters Identified in an Audit*. Examples of restricted use reports that are not permitted to be mentioned, referred to, or attached to the comfort letter include a report on agreed-upon procedures and any restricted use report issued in connection with procedures performed on the entity's internal control over financial reporting, in accordance with section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*. [As amended, effective for the auditor's written communications issued on or after December 15, 2012, by SAS No. 125; Revised, December 2016, to reflect conforming changes necessary to reflect the issuance of SAS No. 130.]

### **Representations (Ref: par. .34)**

**.A35** Exhibit B, example A-2, "Typical Comfort Letter for a Non-1933 Act Offering When the Required Representation Letter Has Been Obtained," contains a reference to the requesting party's representations.

### **Independence (Ref: par. .35)**

**.A36** Exhibit B, example A-1 contains an illustration of an appropriate statement confirming the auditor's independence under SEC rules and regulations in conjunction with SEC filings.

**.A37** Exhibit B, example A-2 includes an illustration of an appropriate statement confirming the auditor's independence in conjunction with a securities offering when the auditor is independent under AICPA standards.

**.A38** The auditors for previously nonaffiliated entities recently acquired by the registrant would not be required to have been independent with respect to the entity whose shares are being registered. Exhibit B, example B, "Letter When a Short-Form Registration Statement Is Filed Incorporating Previously Filed Form 8-K by Reference," includes an illustration of an appropriate statement concerning the auditor's independence in such a case.

### **Compliance With SEC Requirements (Ref: par. .36–.40)**

**.A39** Although the guidance in this section generally addresses comfort letters issued in connection with securities offerings registered pursuant to the 1933 Act, it also provides guidance on comfort letters issued in other securities transactions. However, the guidance that specifically refers to compliance of the information commented on with SEC rules and regulations, such as compliance

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<sup>12</sup> See AR-C section 80. [Footnote revised, April 2017, to reflect conforming changes necessary due to the issuance of SSAE No. 18 and SSARS No. 23.]

<sup>13</sup> See AT-C section 395, *Management's Discussion and Analysis*. [Footnote revised, April 2017, to reflect conforming changes necessary due to the issuance of SSAE No. 18.]

with Regulation S-X or S-K, generally applies only to comfort letters issued in connection with securities offerings registered pursuant to the 1933 Act.

**.A40** The phrase *rules and regulations adopted by the SEC* is used because auditors are not expected to be familiar with, or express opinions on compliance with, informal positions of the SEC staff.

**.A41** An illustration of an appropriate opinion regarding compliance as to form with pertinent accounting requirements adopted by the SEC is as follows:

In our opinion [*include phrase except as disclosed in the registration statement if applicable*], the [*identify the financial statements and financial statement schedules*] audited by us and included in the registration statement comply as to form in all material respects with the applicable accounting requirements of the 1933 Act and the related rules and regulations adopted by the SEC.

**.A42** Exhibit B, example K, "Alternate Wording When the SEC Has Agreed to a Departure From Its Accounting Requirements," illustrates an appropriate manner of disclosing a material departure from the pertinent rules and regulations adopted by the SEC.

**.A43** The auditor may agree to examine or review MD&A in accordance with AT-C section 395. [Revised, April 2017, to reflect conforming changes necessary due to the issuance of SSAE No. 18.]

## Commenting in a Comfort Letter on Information Other Than Audited Financial Statements

### General (Ref: par. .41–.43)

**.A44** Comments included in the letter will often concern

- unaudited interim financial information.
- capsule financial information.
- pro forma financial information.
- financial forecasts.
- subsequent changes in specified financial statement items.

When the auditor has been requested to provide negative assurance on interim financial information or capsule financial information, the procedures involved in a review performed in accordance with GAAS applicable to reviews of interim financial information need not be specified.

**.A45** Exhibit B, example A-1 contains an illustration of how the procedures performed by the auditor may be described.<sup>14</sup>

**.A46** If the auditor states that the auditor has performed a review in accordance with GAAS applicable to reviews of interim financial information, this does not imply that those procedures are sufficient for the requesting party's purposes. The requesting party may ask the auditor to perform additional procedures. For example, the requesting party may request that the auditor apply additional procedures and specify items of financial information to be reviewed and the materiality level for changes in those items that would necessitate further inquiry by the auditor.

**.A47** The procedures performed with respect to interim periods may not disclose subsequent changes in the specified financial statement items, inconsistencies in the application of the applicable financial reporting framework,

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<sup>14</sup> Paragraph 4 of example A-1 in exhibit B.

instances of noncompliance as to form with accounting requirements of the SEC, or other matters about which negative assurance is requested.

**.A48** An illustration of an appropriate manner of noting the limitations of procedures performed is shown in example A-1 of exhibit B.<sup>15</sup>

**.A49** Because there is no way for the auditor to anticipate other matters that would be of interest to a requesting party, the auditor is precluded, in accordance with paragraph .42, from making a statement that nothing else has come to the auditor's attention that would be of interest to the requesting party.

**.A50** Exhibit B, example I, "Alternate Wording When Auditor's Report on Audited Financial Statements Contains an Emphasis-of-Matter Paragraph," contains an illustration of alternate wording when the auditor's report on audited financial statements is a modified report.

### ***Knowledge of Internal Control (Ref: par. .44)***

**.A51** The auditor may have obtained a sufficient understanding of an entity's internal control over financial reporting for both annual and interim periods through performing an audit on the entity's financial statements for one or more periods.

### ***Unaudited Interim Financial Information (Ref: par. .45–.48)***

**.A52** The SEC requirements specify condensed financial statements. However, the requirements in paragraphs .45–.48 also apply to complete financial statements. For purposes of this section, interim financial information may be for a 12-month period ending on a date other than the entity's normal year-end. [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

**.A53** The auditor may, but is not required to, state in the comfort letter that the auditor has performed a review of interim financial information in accordance with GAAS applicable to reviews of interim financial information, and has issued a report on the review.

**.A54** Exhibit B, example A-1 provides an illustration of a description related to the procedures specified for a review in accordance with GAAS applicable to reviews of interim financial information.<sup>16</sup> Exhibit B, example O, "Alternate Wording When the Procedures That the Requesting Party Has Requested the Auditor to Perform on Interim Financial Information Are Less Than a Review in Accordance With Generally Accepted Auditing Standards Applicable to Reviews of Interim Financial Information," provides an illustration of alternate wording when the procedures that the requesting party has requested the auditor to perform on interim financial information are less than a review in accordance with GAAS applicable to reviews of interim financial information.

**.A55** Exhibit B, example A-1 includes an illustration of an appropriate manner of making clear that the auditor is not expressing an opinion on unaudited interim financial information.<sup>17</sup>

### ***Capsule Financial Information (Ref: par. .50–.51)***

**.A56** In some securities offerings, supplementary capsule financial information comprising unaudited summarized interim financial information for

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<sup>15</sup> See the last three sentences in paragraph 4 of example A-1 in exhibit B.

<sup>16</sup> Paragraphs 4a and 5a of example A-1 in exhibit B.

<sup>17</sup> Paragraph 3 of example A-1 in exhibit B.

subsequent periods accompanies the information shown in the audited financial statements or unaudited interim financial information. This capsule financial information (either in narrative or tabular form) often is provided for the most recent interim period and for the corresponding period of the prior year.

**.A57** The requesting party may ask the auditor to provide negative assurance with respect to the unaudited interim financial information, or unaudited condensed interim financial information that underlie the capsule financial information, and ask the auditor to state that the capsule financial information agrees with amounts set forth in such financial information. Exhibit B, example L, "Alternate Wording When Recent Earnings Data Are Presented in Capsule Form," provides an illustration of the auditor's comments in these circumstances.<sup>18</sup>

### ***Pro Forma Financial Information (Ref: par. .52–.53)***

**.A58** An appropriate level of knowledge of the accounting and financial reporting practices of the entity may be obtained by the auditor auditing or reviewing, in accordance with GAAS, historical financial statements of the entity (or, in the case of a business combination, of a significant constituent part of the combined entity) for the most recent annual or interim period for which the pro forma financial information is presented.

**.A59** Exhibit B, example D, "Comments on Pro Forma Financial Information," provides illustrations of wording regarding negative assurance on pro forma financial information as to compliance with the applicable accounting requirements of Rule 11-02 of Regulation S-X or with the pro forma bases as described in the pro forma financial information. Exhibit B, example O, provides an illustration of wording regarding procedures performed and findings obtained for pro forma financial information. [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

### ***Financial Forecasts (Ref: par. .54–.57)***

[.A60] [Paragraph deleted by the issuance of SAS No. 129, July 2014.]

**.A61** Exhibit B, example E, "Comments on a Financial Forecast," provides illustrations of appropriate wording describing procedures performed on a financial forecast.

**.A62** The attestation standards that apply to financial forecasts provide for examinations of and agreed-upon procedures related to financial forecasts but not reviews. AR-C section 80, *Compilation Engagements*, applies when reporting on the compilation of a financial forecast. If a compilation report on the financial forecast has been issued in connection with the comfort letter, the report need not be included in the securities offering. [Revised, April 2017, to reflect conforming changes necessary due to the issuance of SSAE No. 18 and SSARS No. 23.]

### ***Subsequent Changes (Ref: par. .58–.64)***

**.A63** Comments regarding subsequent changes typically relate to whether, during the change period, there has been any

- change in capital stock;
- increase in long-term debt; or

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<sup>18</sup> Paragraphs 4b and 5b of example L, "Alternate Wording When Recent Earnings Data Are Presented in Capsule Form," in exhibit B.

- decreases in other specified financial statement items.

These comments might also address such matters as subsequent changes in the amounts of

- net current assets or stockholders' equity attributable to the entity.
- net sales and income from continuing operations and of net income or net income attributable to the entity. [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

**.A64** Procedures may include

- reading minutes and discussing with those charged with governance those meetings for which minutes have not been approved, and
- making inquiries of entity officials relating to the whole of the change period and obtaining appropriate written representations of the entity officials to support the answers to the inquiries.

**.A65** Exhibit B, example A-1 provides an illustration of a description of procedures related to subsequent changes.<sup>19</sup>

**.A66** Examples of the application of the requirements of paragraph .59 are as follows:

- When the auditor has audited the December 31, 20X0 financial statements, the auditor may provide negative assurance about changes in specified financial statement items as of any date through May 14, 20X1 (134 days subsequent to December 31).
- When the auditor has audited the December 31, 20X0 financial statements and has also conducted a review of the interim financial information as of and for the quarter ended March 31, 20X1, in accordance with GAAS applicable to reviews of interim financial information, the auditor may provide negative assurance about changes in specified financial statement items as of any date through August 12, 20X1 (134 days subsequent to March 31).

**.A67** An appropriate manner of expressing negative assurance regarding subsequent changes is shown in exhibit B, in example A-1 if there has been no change, increase, or decrease, as applicable, and in example M, "Alternate Wording When Auditors Are Aware of a Decrease in a Specified Financial Statement Item," if there has been a decrease.<sup>20</sup> Example M may be modified when auditors are aware of a change or increase. Exhibit B, example O provides an illustration of reporting procedures performed and findings obtained relating to the subsequent change period. [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

**.A68** In commenting on subsequent changes, the auditor may use terms such as *change*, *increase*, or *decrease*. Terms such as *adverse* are not clearly understood and may cause the comments on subsequent changes to be ambiguous.

**.A69** The comparison for the change period relates to the entire period and not to portions of that period. A decrease during one part of the period may be offset by an equal or larger increase in another part of the period. Because no decrease for the period as a whole existed, the comfort letter would not report

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<sup>19</sup> Paragraph 6 of example A-1 in exhibit B.

<sup>20</sup> Paragraphs 5b and 6 of example A-1 in exhibit B.



the decrease occurring during one part of the period. [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

**.A70** When more than one auditor is involved, the auditor of the group financial statements may comment that there were no decreases in the consolidated financial statement items, when appropriate, despite the possibility that decreases have been mentioned in a comfort letter issued by a component auditor. Exhibit B, example J, "Alternate Wording When Component Auditors Are Involved," contains an illustration of wording when more than one auditor is involved. [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

**.A71** The underwriting agreement usually specifies the dates as of which, and periods for which, data at the cut-off date and data for the change period are to be compared. For balance sheet items, the comparison date is normally that of the latest balance sheet included in the securities offering (that is, immediately prior to the beginning of the change period). For income statement items, the comparison period or periods might be, but are not limited to, the corresponding period of the preceding year or a period of corresponding length immediately preceding the change period.

**.A72** The reasons for identifying the date and period used for comparison are to avoid misunderstandings about the matters being compared, and so that the requesting party can determine whether the comparison period is suitable for the requesting party's purposes.

**.A73** The requesting party might request that the change period begin immediately after the date of the latest audited balance sheet (which is, ordinarily, also the closing date of the latest audited statement of income) in the securities offering, even though the securities offering includes a more recent unaudited balance sheet and statement of income. The use of the earlier date may defeat the requesting party's purpose because it is possible that an increase in one of the items referred to in paragraph .A63 occurring between the dates of the latest audited and unaudited balance sheets included in the securities offering might more than offset a decrease occurring after the latter date. A similar situation might arise in the comparison of income statement items. In these circumstances, the decrease occurring after the date of the latest unaudited interim financial information included in the securities offering would not be reported in the comfort letter. [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

### **Tables, Statistics, and Other Financial Information (Ref: par. .65–.71)**

**.A74** Other financial information appearing in the securities offering does not include financial information that is covered by the auditor's opinion on the financial statements.

**.A75** Because the term *presents fairly*, when used by independent auditors, ordinarily relates to presentations of financial statements, the use of the term in commenting on other types of information may be misleading.

**.A76** When the auditor has conducted an examination or a review of MD&A in accordance with AT-C section 395, the auditor may agree to trace nonfinancial data presented outside MD&A to similar data included in the MD&A presentation. When the auditor does not perform a review or an examination of MD&A or does not attach or refer to a report on MD&A, the auditor may perform procedures agreed to with the requesting party with respect to items in MD&A subject to internal control over financial reporting. [Revised, April 2017, to reflect conforming changes necessary due to the issuance of SSAE No. 18.]

**.A77** Options for describing the procedures performed and the findings obtained include

- describing them individually for each item of specific information commented on.
- grouping or summarizing some or all of the descriptions, as long as
  - the procedures and findings are adequately described,
  - the applicability of the descriptions to items in the securities offering is clear, and
  - the descriptions do not imply that the auditor assumes responsibility for the adequacy of the procedures.
- presenting a matrix listing the financial information and common procedures employed and indicating the procedures applied to the specific items.
- identifying procedures performed with specified symbols and identifying items to which those procedures have been applied directly on a copy of the securities offering, which is attached to the comfort letter. [As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]

**.A78** Exhibit B, examples F, "Comments on Tables, Statistics, and Other Financial Information—Complete Description of Procedures and Findings," G, "Comments on Tables, Statistics, and Other Financial Information—Summarized Description of Procedures and Findings Regarding Tables, Statistics, and Other Financial Information," and H, "Comments on Tables, Statistics, and Other Financial Information: Descriptions of Procedures and Findings Regarding Tables, Statistics, and Other Financial Information—Attached Securities Offering (or Selected Pages) Identifies Items to Which Procedures Were Applied Through the Use of Designated Symbols," provide illustrations of appropriate ways of expressing comments on tables, statistics, and other financial information.

**.A79** Except with respect to requirements for financial statements and certain Regulation S-K items discussed in paragraph .72, the question of what constitutes appropriate information for compliance with the requirements of a particular item of the securities offering form is a matter of legal interpretation outside the competence of auditors.

**.A80** Exhibit B, example F contains an illustration of an appropriate way of stating the limitations regarding the sufficiency of the auditor's procedures.<sup>21</sup>

### ***Compliance as to Form With Regulation S-K (Ref: par. .72–.73)***

**.A81** The following are the disclosure requirements of Regulation S-K that generally meet the criteria in paragraph .72:

- Item 301, "Selected Financial Data"
- Item 302, "Supplementary Financial Information"
- Item 402, "Executive Compensation"
- Item 503(d), "Ratio of Earnings to Fixed Charges"

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<sup>21</sup> Paragraph 9 of example F, "Comments on Tables, Statistics, and Other Financial Information—Complete Description of Procedures and Findings," in exhibit B.

**.A82** Because information relevant to Regulation S-K disclosure requirements other than those noted previously is generally not derived from the accounting records subject to internal control over financial reporting, it is not appropriate for the auditor to comment on conformity of this information with Regulation S-K.

**.A83** The auditor's inability to comment on conformity with Regulation S-K does not preclude the auditor from performing procedures and reporting findings with respect to this information.

**.A84** Item 305, "Quantitative and Qualitative Disclosures About Market Risk," of Regulation S-K does not meet the criteria in paragraph .65 for the auditor to provide comments on the Item 305 qualitative disclosures because the disclosures are not derived from the accounting records but are descriptive and hypothetical or forward-looking in nature.

**.A85** Item 305 does not meet the criteria in paragraph .72 for the auditor to provide negative assurance on conformity with Item 305. Although some information needed to comply with Item 305 is derived from the accounting records, registrants must also provide a substantial amount of information that is not derived from accounting records subject to internal control over financial reporting.

**.A86** Item 305 requires quantitative disclosures that may be presented in the form of a tabular presentation, sensitivity analysis, or value-at-risk disclosures. The auditor may perform limited procedures related to tabular presentations to the extent that such information is derived from the accounting records subject to internal control over financial reporting.

**.A87** The appendix, "Commenting in a Comfort Letter on Quantitative Disclosures About Market Risk Made in Accordance With Item 305 of Regulation S-K," provides guidance on providing comments on Item 305 quantitative disclosures and examples of very simplified procedures, findings, and limitations related to Item 305 tabular presentation disclosures.

#### ***Concluding Paragraph (Ref: par. .74)***

**.A88** An illustration of an appropriate concluding paragraph is shown in exhibit B, examples A-1, A-2, and B.

#### ***Disclosure of Subsequently Discovered Matters (Ref: par. .75)***

**.A89** Subsequently discovered matters may include changes in specified items not disclosed in the securities offering, as discussed in paragraph .62.

**.A90** The auditor's participation in the meeting may be helpful when the entity and requesting party discuss such matters.

.A91

## Appendix—Commenting in a Comfort Letter on Quantitative Disclosures About Market Risk Made in Accordance With Item 305 of Regulation S-K

**.A91-1** Regulation S-K, Item 305, Quantitative and Qualitative Disclosures About Market Risk, requires certain quantitative and qualitative disclosures with respect to derivative financial instruments, generally as defined in Financial Accounting Standards Board *Accounting Standards Codification* glossary.

**.A91-2** In addition to qualitative (that is, descriptive) disclosures, Item 305 requires quantitative disclosures that may be presented in the form of a tabular presentation, sensitivity analysis, or value-at-risk disclosures. Disclosures generally include a combination of historical and fair value data and the hypothetical effects on such data of assumed changes in interest rates, foreign currency exchange rates, commodity prices, and other relevant market rates. The quantitative and qualitative information required by Item 305 are disclosed outside the financial statements and related notes thereto.

**.A91-3** Item 305 does not meet the criteria in paragraph .65 for the auditor to provide comments on the Item 305 qualitative disclosures because the disclosures are descriptive and are not derived from the accounting records because they are hypothetical or forward-looking in nature.

**.A91-4** Although some information needed to comply with Item 305 is derived from the accounting records, registrants must also provide a substantial amount of information that is not derived from accounting records subject to internal control over financial reporting. As a result, Item 305 does not meet the criteria in paragraph .72 for the auditor to provide negative assurance on conformity with Item 305 of Regulation S-K.

**.A91-5** The three alternative forms of quantitative disclosures under Item 305 reflect hypothetical effects on market risk sensitive instruments and result in differing presentations. The forward-looking information used to prepare these presentations may be substantially removed from the accounting records that are subject to internal control over financial reporting. Further, paragraph .68 also states that the auditor should not comment on matters merely because the auditor is capable of reading, counting, measuring, or performing other functions that might be applicable. Accordingly, an auditor's ability to comment on these disclosures is largely dependent upon the degree to which the forward-looking information used to prepare these disclosures is linked to such accounting records.

**.A91-6** The tabular presentation includes the fair values of market risk sensitive instruments and contract terms to determine the future cash flows from those instruments that are categorized by expected maturity dates. This approach may require the use of yield curves and implied forward rates to determine expected maturity dates, as well as assumptions regarding prepayments and weighted average interest rates.

**.A91-7** The term *sensitivity analysis* describes a general class of models that are designed to assess the risk of loss in market risk sensitive instruments, based upon hypothetical changes in market rates or prices. Sensitivity analysis does not refer to any one, specific model and may include duration analysis or other

"sensitivity" measures. The disclosures are dependent upon assumptions about theoretical future market conditions and, therefore, are not derived from the accounting records.

**.A91-8** The term *value at risk* describes a general class of models that provide a probabilistic assessment of the risk of loss in market risk sensitive instruments over a selected period of time, with a selected likelihood of occurrences based upon selected confidence intervals. Value-at-risk disclosures are extremely aggregated and, in addition to the assumptions made for sensitivity analyses, may include additional assumptions regarding correlation between asset classes and future market volatilities. As a result, these disclosures are not derived from the accounting records.

**.A91-9** Of the three disclosure alternatives, the tabular presentation contains the most limited number of assumptions and least complex mathematical calculations. Furthermore, certain information, such as contractual terms, included in a tabular presentation is derived from the accounting records. Accordingly, auditors may perform limited procedures related to tabular presentations to the extent that such information is derived from the accounting records subject to internal control over financial reporting.

**.A91-10** The modeling techniques and underlying assumptions utilized for sensitivity analysis and value-at-risk disclosures generally will be highly complex. The resultant disclosures may be substantially different from the basic historical financial input derived directly from the accounting records. Due to the hypothetical and forward-looking nature of these disclosures and the potentially limited usefulness of any procedures that may be performed, sensitivity analysis or value-at-risk disclosures do not meet the criteria in paragraph .65 for the auditor to agree to make any comments or perform any procedures related to sensitivity analysis or value-at-risk disclosures.

**.A91-11** When performing procedures related to tabular presentation disclosures, the auditor is required by paragraph .65 to consider whether the entity's documentation of its contractual positions in derivatives, commodities, and other financial instruments is subject to internal control over financial reporting and whether it provides a complete record of the entity's market risk sensitive instruments. In addition, the auditor is not permitted to express positive or negative assurance about the reasonableness of the assumptions underlying the disclosures.

**.A91-12** Item 305 requires registrants to stratify financial instruments according to market risk category, that is, interest rate risk, foreign exchange risk, and equity price risk. Item 305 stipulates that if an instrument is at risk in more than one category, the instrument should be included in the disclosures for each applicable category. The stratifications and the company's determination of market risk categories are not derived from the company's accounting records. Accordingly, the auditor is not permitted to provide any findings that the company's stratifications are complete or comply as to form with Item 305 requirements and should disclaim with respect to the company's determination of market risk categories.

**.A91-13** Item 305 encourages registrants to provide quantitative and qualitative information about market risk in terms of, among other things, the magnitude of actual past market movements and estimates of possible near-term market movements. As market data is not derived from the company's accounting records, the auditor is not permitted to agree to perform any procedures related to such market data.

**.A91-14** Further, the auditor may need to utilize a specialist in performing procedures related to those disclosures.

**.A91-15** The following examples, based on example H, "Comments on Tables, Statistics, and Other Financial Information: Descriptions of Procedures and Findings Regarding Tables, Statistics, and Other Financial Information—Attached Securities Offering (or Selected Pages) Identifies Items to Which Procedures Were Applied Through the Use of Designated Symbols," of exhibit B, "Examples of Comfort Letters," provide very simplified procedures, findings, and limitations related to Item 305 tabular presentation disclosures. In practice, the procedures generally will be substantially more complex.

<i>Symbol</i>	<i>Procedures and Findings</i>
√	Compared with a schedule prepared by the Company from its accounting records. We (a) compared the amounts on the schedule to corresponding amounts appearing in the accounting records and found such amounts to be in agreement, and (b) determined that the schedule was mathematically correct. However, we make no comment as to the appropriateness or completeness of the Company's classification of its market-risk-sensitive instruments into market risk categories, nor as to its determination of the expected maturity dates or amounts. (Note: This is an example of procedures related to tabular presentations of face amounts, carrying amounts, fair values, and notional amounts, which stratify such amounts as to interest rate risk.)
⊗	Compared with a schedule prepared by the Company from its accounting records to calculate weighted average fixed interest rates and weighted average fixed pay and receive rates and found such percentages to be in agreement. We (a) compared the amounts on the schedule to corresponding amounts appearing in the accounting records and found such amounts to be in agreement, and (b) determined that the schedule was mathematically correct. However, we make no comment as to the appropriateness of the Company's methodology in calculating weighted average fixed rates.  (Note: It may be necessary to provide a more complete description of the procedures performed in other circumstances.)  We make no comment as to the appropriateness or completeness of the Company's determination of the Regulation S-K requirements for quantitative and qualitative disclosures about market risks or with respect to the reasonableness of the assumptions underlying the disclosures.

*[The following is an extract from a registration statement that illustrates how an auditor can document procedures performed on a tabular presentation of market risk disclosures made in accordance with Item 305 of Regulation S-K.]*

### **INTEREST RATE SENSITIVITY**

The following table provides information about the Company's derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including interest rate swaps and debt obligations. For debt obligations, the table presents principal cash flows and related weighted average interest rates by expected maturity dates. For interest rate swaps, the table presents notional amounts and weighted average interest rates by expected maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates

are based on implied forward rates in the yield curve at the reporting date. The information is presented in U.S. dollar equivalents, which is the Company's reporting currency. The instrument's actual cash flows are denominated in both U.S. dollars (\$US) and German deutschmarks (DM), as indicated in parentheses.

	<i>Expected maturity dates</i>					<i>Total</i>	<i>Fair Value</i>
	<i>20X2<sup>1</sup></i>	<i>20X3<sup>1</sup></i>	<i>20X4<sup>1</sup></i>	<i>20X5<sup>1</sup></i>	<i>Thereafter<sup>1</sup></i>		
<i>Liabilities</i>							
Long-Term Debt:	<i>(\$US equivalent in millions)</i>						
Fixed Rate (\$US)	\$XXX	\$XXX	\$XXX	\$XXX	\$XXX	\$XXX √	\$XXX √
Average interest rate	XX%	XX%	XX%	XX%	XX%	XX% ⊗	
Fixed Rate (DM)	XXX	XXX	XXX	XXX	XXX	XXX √	XXX √
Average interest rate	XX%	XX%	XX%	XX%	XX%	XX% ⊗	
Variable Rate (\$US)	XXX	XXX	XXX	XXX	XXX	XXX √	XXX √
Average interest rate	XX%	XX%	XX%	XX%	XX%	XX% <sup>1</sup>	
<hr/>							
Interest Rate Derivatives	<i>(\$US equivalent in millions)</i>						
<i>Interest Rate Swaps:</i>							
Variable to fixed (\$US)	\$XXX	\$XXX	\$XXX	\$XXX	\$XXX	\$XXX √	\$XXX √
Average pay rate-fixed	XX%	XX%	XX%	XX%	XX%	XX% ⊗	
Average receive rate-variable	XX%	XX%	XX%	XX%	XX%	XX% <sup>1</sup>	
Fixed to Variable (\$US)	XXX	XXX	XXX	XXX	XXX	XXX √	XXX √
Average pay rate-variable	XX%	XX%	XX%	XX%	XX%	XX% <sup>1</sup>	
Average receive rate-fixed	XX%	XX%	XX%	XX%	XX%	XX% ⊗	

<sup>1</sup> Because these disclosures include either management's expectations of future cash flows or the use of implied forward rates applied to such expected cash flows, such information does not meet the criteria of paragraph .65. Accordingly, the auditor is not permitted to express findings on amounts in these columns.

.A92

## Exhibit A—Illustration of Representation Letter From Requesting Party (Ref: par. .A4)

The following is an example of a letter from a nonunderwriter when the securities offering is not being registered under the Securities Act of 1933. If requested to provide a definition of substantially consistent, the following language may be added to the letter:

What is substantially consistent may vary from situation to situation and may not be the same as that done in a registered offering of the same securities for the same entity. Whether the procedures being, or to be, followed will be substantially consistent is determined by us on a case-by-case basis.

[Date]

Dear ABC Accountants:

[Name of requesting party], as principal or agent, in the placement of [identify securities] to be issued by [name of issuer of the securities], will be reviewing certain information relating to [issuer of the securities] that will be included (incorporated by reference) in the document [if appropriate, identify the document], which may be delivered to investors and utilized by them as a basis for their investment decision. This review process, applied to the information relating to the issuer of the securities, is (will be) substantially consistent with the due diligence review process that an underwriter would perform if this placement [issuance] of securities were being registered pursuant to the Securities Act of 1933 (the Act). We are knowledgeable with respect to the due diligence review process that would be performed if this placement of securities were being registered pursuant to the Act. We hereby request that you deliver to us a "comfort" letter concerning the financial statements of the issuer of the securities and certain statistical and other data included in the offering document. We will contact you to identify the procedures we wish you to follow and the form we wish the comfort letter to take.

Very truly yours,

[Name of Requesting Party]

[As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129.]



.A93

**Exhibit B—Examples of Comfort Letters**

Example A — Typical Comfort Letters **.A93-3–.A93-4**

Example A-1 — Typical Comfort Letter for a 1933 Act Offering **.A93-3**

Example A-2 — Typical Comfort Letter for a Non-1933 Act Offering When the Required Representation Letter Has Been Obtained **.A93-4**

Example B — Letter When a Short-Form Registration Statement Is Filed Incorporating Previously Filed Form 8-K by Reference **.A93-5**

Example C — Letter Reaffirming Comments as of a Later Date **.A93-6**

Example D — Comments on Pro Forma Financial Information **.A93-7–.A93-8**

Example D-1 — Negative Assurance on Pro Forma Financial Information as to Compliance With The Applicable Accounting Requirements of Rule 11-02 of Regulation S-X **.A93-7**

Example D-2 — Negative Assurance on Pro Forma Financial Information as to Compliance With Pro Forma Bases as Described in the Pro Forma Financial Information **.A93-8**

Example E — Comments on a Financial Forecast **.A93-9**

Example F — Comments on Tables, Statistics, and Other Financial Information — Complete Description of Procedures and Findings **.A93-10**

Example G — Comments on Tables, Statistics, and Other Financial Information — Summarized Description of Procedures and Findings Regarding Tables, Statistics, and Other Financial Information **.A93-11**

Example H — Comments on Tables, Statistics, and Other Financial Information: Descriptions of Procedures and Findings Regarding Tables, Statistics, and Other Financial Information—Attached Securities Offering (or Selected Pages) Identifies Items to Which Procedures Were Applied Through the Use of Designated Symbols **.A93-12**

Example I — Alternate Wording When Auditor's Report on Audited Financial Statements Contains an Emphasis-of-Matter Paragraph **A.93-13**

Example J — Alternate Wording When Component Auditors Are Involved **.A93-14**

Example K — Alternate Wording When the SEC Has Agreed to a Departure From Its Accounting Requirements **.A93-15**

Example L — Alternate Wording When Recent Earnings Data Are Presented in Capsule Form **.A93-16**

Example M — Alternate Wording When Auditors Are Aware of a Decrease in a Specified Financial Statement Item **.A93-17**

Example N — Alternate Wording of the Letter for Companies That Are Permitted to Present Interim Earnings Data for a 12-Month Period **.A93-18**

Example O — Alternate Wording When the Procedures That the Requesting Party Has Requested the Auditor to Perform on Interim Financial Information Are Less Than a Review in Accordance With Generally Accepted Auditing Standards Applicable to Reviews of Interim Financial Information **.A93-19**

Example P — Intentionally Omitted (See example A-2)

Example Q — Letter to a Requesting Party That Has Not Provided the Legal Opinion or the Representation Letter Required by Paragraph .11 **.A93-20**

Example R — Alternate Wording When Reference to Examination of Annual Management's Discussion and Analysis and Review of Interim Management's Discussion and Analysis Is Made **.A93-21**

## Introduction

**.A93-1** The contents of comfort letters vary depending on the extent of the information in the securities offering and the wishes of the requesting party. Shelf registration statements may have several closing dates and different underwriters. Descriptions of procedures and findings regarding interim financial information, tables, statistics, or other financial information that is incorporated by reference from previous Securities Exchange Act of 1934 filings may have to be repeated in several comfort letters. To avoid restating these descriptions in each comfort letter, the auditor may initially issue the comments in a format (such as an appendix) that can be referred to in, and attached to, subsequently issued comfort letters.

**.A93-2** A typical comfort letter includes

- a. a statement regarding the independence of the auditor. (Ref: par. .35)
- b. if applicable, an opinion regarding whether the audited financial statements included (incorporated by reference) in the securities offering comply as to form in all material respects with the applicable accounting requirements of the Securities Act of 1933 (the 1933 Act) and related rules and regulations adopted by the Securities and Exchange Commission (SEC). (Ref: par. .36–.40)
- c. negative assurance on whether
  - i. if applicable, the unaudited interim financial information included (incorporated by reference) in the securities offering (Ref: par. .45–.48) complies as to form in all material respects with the applicable accounting requirements of the 1933 Act and the related rules and regulations adopted by the SEC.
  - ii. any material modifications should be made to the unaudited interim financial information included (incorporated by reference) in the securities offering for them to be in conformity with the applicable financial reporting framework.
- d. negative assurance on whether, during a specified period following the date of the latest financial statements in the securities offering, there has been any change in capital stock, increase in

long-term debt, or any decrease in other specified financial statement items. (Ref: par. .58–.64)

Example A-1 contains a typical comfort letter for a 1933 Act offering and example A-2 contains a typical comfort letter for a non-1933 Act offering. Letters that cover some of the items may be developed by omitting inapplicable portions of these examples. Examples B, D–O, and R contain additional or alternate wording for examples A-1 or A-2, as applicable, for various scenarios.

Although the illustrations in this exhibit describe procedures that may be followed by auditors as a basis for their comments, this section does not necessarily prescribe such procedures.

## Example A—Typical Comfort Letters

### *Example A-1—Typical Comfort Letter for a 1933 Act Offering*

**.A93-3** Example A-1 is an example of a letter that the auditor of a nonissuer may provide when a registrant is including the nonissuer's financial statements in a securities offering to be filed with the SEC. Appropriate modifications would be made if additional financial information is covered by the comfort letter. Example A-1 assumes the following circumstances:

- The prospectus includes audited consolidated balance sheets as of December 31, 20X5 and 20X4, and audited consolidated statements of income, stockholders' equity, and cash flows for each year in the three-year period ended December 31, 20X5. Note that the example assumes all the net income is attributable to the company. If that were not the case, the references to net income would be modified, or additional references would be included as appropriate.
- The prospectus also includes an unaudited condensed consolidated balance sheet as of March 31, 20X6, and unaudited condensed consolidated statements of income, stockholders' equity, and cash flows for the three-month periods ended March 31, 20X6 and 20X5, reviewed in accordance with generally accepted auditing standards applicable to reviews of interim financial information; however the review report is not included in the securities offering. If the review report is included in the securities offering, the auditor may state that the auditor has issued a review report on the interim financial information in the introductory paragraph of the comfort letter, as follows:

Also, we have reviewed the unaudited condensed consolidated financial statements as of March 31, 20X6, and for the three-month periods ended March 31, 20X6 and 20X5, as indicated in our report dated May 15, 20X6, which is included (incorporated by reference) in the registration statement.

The cut-off date is June 23, 20X6, and the letter is dated June 28, 20X6. The effective date is June 28, 20X6.

- The auditors are reporting independence under the SEC rules and regulations. If the auditors were not required to be independent under the SEC rules and regulations in conjunction with an SEC filing, paragraph 1 in example A-1 would be replaced with paragraph 1 in example A-2.

The auditor may agree to comment in the comfort letter on whether the interim financial information complies as to form in all material respects with the

applicable accounting requirements of the rules and regulations adopted by the SEC.

The example also assumes that there has been no change in the application of a requirement of generally accepted accounting principles during the interim period. If there has been such a change, a reference to that change would be included in paragraph 5 of example A-1.

Each of the comments in the letter is in response to a requirement of the underwriting agreement. For purposes of example A-1, the income statement items of the current interim period are to be compared with those of the corresponding period of the preceding year.

June 28, 20X6

[Addressee]

Dear Ladies and Gentlemen:

We have audited the consolidated financial statements of The Nonissuer Company, Inc. (the company) and subsidiaries, which comprise the consolidated balance sheets as of December 31, 20X5 and 20X4, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 20X5, and the related notes to the consolidated financial statements, all included in The Issuer Company's (the registrant) registration statement (no. 33-00000) on Form S-1 filed by the registrant under the Securities Act of 1933 (the Act); our report with respect thereto is also included in that registration statement. The registration statement, as amended on June 28, 20X6, is herein referred to as the registration statement.

In connection with the registration statement—

1. We are independent certified public accountants with respect to the company within the meaning of the 1933 Act and the applicable rules and regulations thereunder adopted by the SEC.
2. In our opinion [*include the phrase* except as disclosed in the registration statement *if applicable*], the consolidated financial statements audited by us and included in the registration statement comply as to form in all material respects with the applicable accounting requirements of the Act and the related rules and regulations adopted by the SEC.
3. We have not audited any financial statements of the company as of any date or for any period subsequent to December 31, 20X5; although, we have conducted an audit for the year ended December 31, 20X5, the purpose (and, therefore, the scope) of the audit was to enable us to express our opinion on the consolidated financial statements as of December 31, 20X5, and for the year then ended, but not on the financial statements for any interim period within that year. Therefore, we are unable to and do not express any opinion on the unaudited condensed consolidated balance sheet as of March 31, 20X6, and the unaudited condensed consolidated statements of income, stockholders' equity, and cash flows for the three-month periods ended March 31, 20X6 and 20X5, included in the registration statement, or on the financial position, results of operations, or cash flows as of any date or for any period subsequent to December 31, 20X5.
4. For purposes of this letter we have read the 20X6 minutes of meetings of the stockholders, the board of directors, and [*include*

*other appropriate committees, if any*) of the company and its subsidiaries as set forth in the minute books at June 23, 20X6, of officials of the company having advised us that the minutes of all such meetings through that date were set forth therein and having discussed with us the unapproved minutes of meetings held on [dates]; we have carried out other procedures to June 23, 20X6, as follows (our work did not extend to the period from June 24, 20X6 to June 28, 20X6, inclusive):

- a. With respect to the three-month periods ended March 31, 20X6 and 20X5, we have—
  - (i) Performed the procedures specified for a review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information, on the unaudited condensed consolidated balance sheet as of March 31, 20X6, and the unaudited condensed consolidated statements of income, stockholders' equity, and cash flows for the three-month periods ended March 31, 20X6 and 20X5, included in the registration statement.
  - (ii) Inquired of certain officials of the company who have responsibility for financial and accounting matters whether the unaudited condensed consolidated financial statements referred to in a(i) comply as to form in all material respects with the applicable accounting requirements of the Act and the related rules and regulations adopted by the SEC.
- b. With respect to the period from April 1, 20X6 to May 31, 20X6, we have—
  - (i) Read the unaudited consolidated financial information of the company and subsidiaries for April and May of both 20X5 and 20X6 furnished us by the company, officials of the company having advised us that no financial statements as of any date or for any period subsequent to May 31, 20X6, were available. [*If applicable*: The financial information for April and May of both 20X5 and 20X6 is incomplete in that it omits the statements of cash flows and other disclosures.]
  - (ii) Inquired of certain officials of the company who have responsibility for financial and accounting matters whether the unaudited consolidated financial information referred to in b(i) is stated on a basis substantially consistent with that of the audited consolidated financial statements included in the registration statement.

The foregoing procedures do not constitute an audit conducted in accordance with generally accepted auditing standards. Also, they would not necessarily reveal matters of significance with respect to the comments in the following paragraph. Accordingly, we make no representations regarding the sufficiency of the foregoing procedures for your purposes.

5. Nothing came to our attention as a result of the foregoing procedures, however, that caused us to believe that—

- a.
- (i) Any material modifications should be made to the unaudited condensed consolidated financial statements described in 4a(i), included in the registration statement, for them to be in conformity with generally accepted accounting principles.<sup>1</sup>
  - (ii) The unaudited condensed consolidated financial statements described in 4a(i) do not comply as to form in all material respects with the applicable accounting requirements of the Act and the related rules and regulations adopted by the SEC.
- b.
- (i) At May 31, 20X6, there was any change in the capital stock, increase in long-term debt, or decrease in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown in the March 31, 20X6 unaudited condensed consolidated balance sheet included in the registration statement, or
  - (ii) for the period from April 1, 20X6 to May 31, 20X6, there were any decreases, as compared to the corresponding period in the preceding year, in consolidated net sales or in income from continuing operations or of net income, except in all instances for changes, increases, or decreases that the registration statement discloses have occurred or may occur.
6. As mentioned in 4b, company officials have advised us that no consolidated financial statements as of any date or for any period subsequent to May 31, 20X6, are available; accordingly, the procedures carried out by us with respect to changes in financial statement items after May 31, 20X6, have, of necessity, been even more limited than those with respect to the periods referred to in 4. We have inquired of certain officials of the company who have responsibility for financial and accounting matters whether (a) at June 23, 20X6, there was any change in the capital stock, increase in long-term debt, or any decreases in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown in the March 31, 20X6, unaudited condensed consolidated balance sheet included in the registration statement, or (b) for the period from April 1, 20X6 to June 23, 20X6, there were any decreases, as compared with the corresponding period in the preceding year, in consolidated net sales or in income from continuing operations or of net income. On the basis of these inquiries and our reading of the minutes as described in 4, nothing came to our attention that caused us to believe that there was any such change, increase, or decrease, except in all instances for changes, increases, or decreases that the registration statement discloses have occurred or may occur.

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<sup>1</sup> Section 930, *Interim Financial Information*, does not require the auditor to modify the report on a review of interim financial information for a lack of consistency in the application of accounting policies provided that the interim financial information appropriately discloses such matters.

7. This letter is solely for the information of the addressees and to assist the underwriters in conducting and documenting their investigation of the affairs of the company in connection with the offering of the securities covered by the registration statement, and it is not to be used, circulated, quoted, or otherwise referred to within or without the underwriting group for any other purpose, including but not limited to the registration, purchase, or sale of securities, nor is it to be filed with or referred to in whole or in part in the registration statement or any other document, except that reference may be made to it in the underwriting agreement or in any list of closing documents pertaining to the offering of the securities covered by the registration statement.

***Example A-2—Typical Comfort Letter for a Non-1933 Act Offering When the Required Representation Letter Has Been Obtained***

**.A93-4** Example A-2 is applicable when a comfort letter is issued in a non-1933 Act offering. Example A-2 assumes the following:

- The offerer is not an SEC registrant.
- The requesting party has given the auditor a representation letter as required by paragraph .11 and illustrated in paragraph .A92.
- The securities offering includes audited consolidated balance sheets as of December 31, 20X5 and 20X4, and audited consolidated statements of income, stockholders' equity, and cash flows for each year in the three-year period ended December 31, 20X5. Note that the example assumes all the net income is attributable to the company. If that were not the case, the references to net income would be modified, or additional references would be included as appropriate.
- The securities offering also includes an unaudited condensed consolidated balance sheet as of March 31, 20X6, and unaudited condensed consolidated statements of income, stockholders' equity, and cash flows for the three-month periods ended March 31, 20X6 and 20X5, reviewed in accordance with generally accepted auditing standards applicable to reviews of interim financial information; however, the review report is not included in the securities offering. If the review report is included in the securities offering, the auditor may state that the auditor has issued a review report on the interim financial information. in the introductory paragraph of the comfort letter, as follows:

Also, we have reviewed the unaudited condensed consolidated financial statements as of March 31, 20X6, and for the three-month periods ended March 31, 20X6 and 20X5, as indicated in our report dated May 15, 20X6, which is included (incorporated by reference) in the securities offering.

- The auditor did not perform an audit of the effectiveness of internal control over financial reporting in any period.
- There has not been a change in the application of a requirement of generally accepted accounting principles during the interim period. If there has been such a change, a reference to that change would be included in paragraph 4.

The cut-off date is June 23, 20X6, and the letter is dated June 28, 20X6.

Each of the comments in the letter is in response to a request from the requesting party. For purposes of example A-2, the income statement items of the current interim period are to be compared with those of the corresponding period of the preceding year.

June 28, 20X6

[Addressee]

Dear Ladies and Gentlemen:

We have audited the consolidated financial statements of The Nonissuer Company, Inc. (the company) and subsidiaries, which comprise the consolidated balance sheets as of December 31, 20X5 and 20X4, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 20X5, and the related notes to the consolidated financial statements, all included [or *incorporated by reference*] in the offering memorandum for \$30,000,000 of Senior Debt due May 30, 20Z6. Our report with respect thereto is included in the offering memorandum. This offering memorandum, dated June 28, 20X6, is herein referred to as the Offering Memorandum.

This letter is being furnished in reliance upon your representation to us that—

- a. You are knowledgeable with respect to the due diligence review process that would be performed if this placement of securities were being registered pursuant to the Securities Act of 1933 (the Act).
- b. In connection with the offering of Senior Debt, the review process you have performed is substantially consistent with the due diligence review process that you would have performed if this placement of securities were being registered pursuant to the Act.

In connection with the Offering Memorandum—

1. We are independent certified public accountants with respect to the company under the "Independence Rule" of the AICPA's Code of Professional Conduct and its interpretations.
2. We have not audited any financial statements of the company as of any date or for any period subsequent to December 31, 20X5; although, we have conducted an audit for the year ended December 31, 20X5, the purpose (and, therefore, the scope) of the audit was to enable us to express our opinion on the consolidated financial statements as of December 31, 20X5, and for the year then ended, but not on the financial statements for any interim period within that year. Therefore, we are unable to and do not express any opinion on the unaudited condensed consolidated balance sheet as of March 31, 20X6, and the unaudited condensed consolidated statements of income, of cash flows, and of changes in stockholders' equity for the three-month periods ended March 31, 20X5 and 20X6, included in the Offering Memorandum, or on the financial position, results of operations, or cash flows as of any date or for any period subsequent to December 31, 20X5.
3. For purposes of this letter, we have read the 20X6 minutes of meetings of the stockholders, the board of directors, and [include other appropriate committees, if any] of the company and its subsidiaries as set forth in the minute books at June 23, 20X6, officials of the company having advised us that the minutes of all



such meetings through that date were set forth therein and having discussed with us the unapproved minutes of meetings held on [dates]; we have carried out other procedures to June 23, 20X6, as follows (our work did not extend to the period from June 24, 20X6 to June 28, 20X6, inclusive):

- a. With respect to the three-month periods ended March 31, 20X6 and 20X5, we have—
  - (i) Performed the procedures specified for a review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information, on the unaudited condensed consolidated balance sheet as of March 31, 20X6, and unaudited condensed consolidated statements of income, stockholders' equity, and cash flows for the three-month periods ended March 31, 20X6 and 20X5, included in the Offering Memorandum.
- b. With respect to the period from April 1, 20X6 to May 31, 20X6, we have—
  - (i) Read the unaudited consolidated financial information of the company and subsidiaries for April and May of both 20X5 and 20X6 furnished us by the company, officials of the company having advised us that no financial statements as of any date or for any period subsequent to May 31, 20X6, were available. [*If applicable:* The financial information for April and May of both 20X5 and 20X6 is incomplete in that it omits the statement of cash flows and other disclosures.]
  - (ii) Inquired of certain officials of the company who have responsibility for financial and accounting matters whether the unaudited consolidated financial information referred to in b(i) is stated on a basis substantially consistent with that of the audited consolidated financial statements included in the Offering Memorandum.

The foregoing procedures do not constitute an audit conducted in accordance with generally accepted auditing standards. Also, they would not necessarily reveal matters of significance with respect to the comments in the following paragraph. Accordingly, we make no representations regarding the sufficiency of the foregoing procedures for your purposes.

4. Nothing came to our attention as a result of the foregoing procedures, however, that caused us to believe that—

a.

- (i) Any material modifications should be made to the unaudited condensed consolidated financial statements described in 3a(i), included in the Offering Memorandum, for them to be in conformity with generally accepted accounting principles.<sup>2</sup>

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<sup>2</sup> Section 930 does not require the auditor to modify the report on a review of interim financial information for a lack of consistency in the application of accounting policies provided that the interim financial information appropriately discloses such matters.

- b.*
- (i) At May 31, 20X6, there was any change in the capital stock, increase in long-term debt, or decrease in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown in the March 31, 20X6 unaudited condensed consolidated balance sheet included in the Offering Memorandum, or
  - (ii) for the period from April 1, 20X6 to May 31, 20X6, there were any decreases, as compared to the corresponding period in the preceding year, in consolidated net sales or in income from continuing operations or of net income, except in all instances for changes, increases, or decreases that the Offering Memorandum discloses have occurred or may occur.
5. As mentioned in 3*b*, company officials have advised us that no consolidated financial statements as of any date or for any period subsequent to May 31, 20X6 are available; accordingly, the procedures carried out by us with respect to changes in financial statement items after May 31, 20X6, have, of necessity, been even more limited than those with respect to the periods referred to in 3. We have inquired of certain officials of the company who have responsibility for financial and accounting matters whether (a) at June 23, 20X6, there was any change in the capital stock, increase in long-term debt, or any decreases in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown in the March 31, 20X6 unaudited condensed consolidated balance sheet included in the Offering Memorandum, or (b) for the period from April 1, 20X6 to June 23, 20X6, there were any decreases, as compared with the corresponding period in the preceding year, in consolidated net sales or in income from continuing operations or of net income. On the basis of these inquiries and our reading of the minutes as described in 3, nothing came to our attention that caused us to believe that there was any such change, increase, or decrease, except in all instances for changes, increases, or decreases that the Offering Memorandum discloses have occurred or may occur.
6. This letter is solely for the information of the addressees and to assist the requesting party in conducting and documenting their investigation of the affairs of the company in connection with the offering of the securities covered by the Offering Memorandum, and it is not to be used, circulated, quoted, or otherwise referred to for any purpose, including but not limited to the purchase or sale of securities, nor is it to be filed with or referred to in whole or in part in the Offering Memorandum or any other document, except that reference may be made to it in the Purchase Contract or in any list of closing documents pertaining to the offering of the securities covered by the Offering Memorandum.

[Revised, January 2015, to reflect conforming changes necessary due to the issuance of the revised AICPA Code of Professional Conduct, effective December 15, 2014.]

## Example B—Letter When a Short-Form Registration Statement Is Filed Incorporating Previously Filed Form 8-K by Reference

**A93-5** Example B is an example of modifications to the letter that the auditor of a nonissuer may provide when a registrant has acquired the nonissuer, and the registrant uses a short-form registration statement (for example, Form S-3), which incorporates a previously filed Form 8-K that includes the nonpublic company's financial statements. The auditor was independent of the nonissuer but is not independent with respect to the registrant.

June 28, 20X6

[Addressee]

Dear Ladies and Gentlemen:

We have audited the consolidated financial statements of The Nonissuer Company, Inc. (the company) and subsidiaries, which comprise the consolidated balance sheets as of December 31, 20X5 and 20X4, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 20X5, and the related notes to the consolidated financial statements, all included in The Issuer Company's (the registrant) current report on Form 8-K dated May 15, 20X6, and incorporated by reference in the registration statement (no. 33-00000) on Form S-3 filed by the registrant under the Securities Act of 1933 (the Act); our report with respect thereto is also incorporated by reference in that registration statement. The registration statement, as amended on June 28, 20X6, is herein referred to as the registration statement.

In connection with the registration statement—

1. As of [insert date of the auditor's most recent report on the financial statements of the entity] and during the period covered by the financial statements on which we reported, we were independent certified public accountants with respect to the company under the "Independence Rule" of the AICPA's Code of Professional Conduct and its interpretations.
2. In our opinion, the consolidated financial statements audited by us and incorporated by reference in the registration statement comply as to form in all material respects with the applicable accounting requirements of the Act and the Securities Exchange Act of 1934 and the related rules and regulations adopted by the SEC.
3. We have not audited any financial statements of the company as of any date or for any period subsequent to December 31, 20X5; although we have conducted an audit for the year ended December 31, 20X5, the purpose (and, therefore, the scope) of the audit was to enable us to express our opinion on the consolidated financial statements as of December 31, 20X5, and for the year then ended, but not on the consolidated financial statements for any interim period within that year. Therefore, we are unable to, and do not express any opinion on, the unaudited condensed consolidated balance sheet as of March 31, 20X6, and the unaudited condensed consolidated statements of income, stockholders' equity, and cash flows for the three-month periods ended March 31, 20X6 and 20X5, included in the registrant's current report on Form 8-K dated May 15, 20X6, incorporated by reference in the registration statement, or on the financial position, results of

operations, or cash flows as of any date or for any period subsequent to December 31, 20X5.

4. For purposes of this letter, we have read the 20X6 minutes of the meetings of the stockholders, the board of directors, and [*include other appropriate committees, if any*] of the company and its subsidiaries as set forth in the minute books at June 23, 20X6, of officials of the company having advised us that the minutes of all such meetings through that date were set forth therein, and having discussed with us the unapproved minutes of meetings held on [*dates*]; we have carried out other procedures to June 23, 20X6, as follows (our work did not extend to the period from June 24, 20X6 to June 28, 20X6, inclusive):

With respect to the three-month periods ended March 31, 20X6 and 20X5, we have—

- (i) Performed a review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information on the unaudited condensed consolidated balance sheet as of March 31, 20X6, and the unaudited condensed consolidated statements of income, stockholders' equity, and cash flows for the three-month periods ended March 31, 20X6 and 20X5, included in the registrant's current report on Form 8-K dated May 15, 20X6, incorporated by reference in the registration statement.
- (ii) Inquired of certain officials of the company who have responsibility for financial and accounting matters whether the unaudited condensed consolidated financial statements referred to in (i) comply as to form in all material respects with the applicable accounting requirements of the Securities Exchange Act of 1934 and the related rules and regulations adopted by the SEC.

The foregoing procedures do not constitute an audit conducted in accordance with generally accepted auditing standards. Also, they would not necessarily reveal matters of significance with respect to the comments in the following paragraph. Accordingly, we make no representations about the sufficiency of the foregoing procedures for your purposes.

5. Nothing came to our attention as a result of the foregoing procedures, however, that caused us to believe that—
  - (i) Any material modifications should be made to the unaudited condensed consolidated financial statements described in 4(i), incorporated by reference in the registration statement, for them to be in conformity with generally accepted accounting principles.
  - (ii) The unaudited condensed consolidated financial statements described in 4(i) do not comply as to form in all material respects with the applicable accounting requirements of the Securities Exchange Act of 1934 and the related rules and regulations adopted by the SEC.
6. This letter is solely for the information of the addressees and to assist the underwriters in conducting and documenting their investigation of the affairs of the company in connection with the offering of the securities covered by the registration statement,

and for use of the auditors of the registrant in furnishing their letter to the underwriters, and it is not to be used, circulated, quoted, or otherwise referred to within the underwriting group for any other purpose, including but not limited to the registration, purchase, or sale of securities, nor is it to be filed with or referred to, in whole or in part, in the registration statement or any other document, except that reference may be made to it in the underwriting agreement or any list of closing documents pertaining to the offering of the securities covered by the registration statement.

[Revised, January 2015, to reflect conforming changes necessary due to the issuance of the revised AICPA Code of Professional Conduct, effective December 15, 2014.]

### Example C—Letter Reaffirming Comments as of a Later Date

**.A93-6** If more than one comfort letter is requested, the subsequent letter may, in appropriate situations, refer to information appearing in the earlier letter without repeating such information (see paragraph .25 of this section and paragraph .A93-1 of this exhibit). Example C reaffirms and updates the information in example A-1. In a non-1933 Act offering, the last paragraph in example C would be replaced with the last paragraph in example A-2.

July 25, 20X6

[Addressee]

Dear Ladies and Gentlemen:

We refer to our letter of June 28, 20X6, relating to the registration statement (no. 33-00000) of The Nonissuer Company, Inc. (the company). We reaffirm as of the date hereof (and as though made on the date hereof) all statements made in that letter except that, for the purposes of this letter

- a. The registration statement to which this letter relates is as amended on July 13, 20X6 [effective date].
- b. The reading of minutes described in paragraph 4 of that letter has been carried out through July 20, 20X6 [the new cut-off date].
- c. The procedures and inquiries covered in paragraph 4 of that letter were carried out to July 20, 20X6 [the new cut-off date] (our work did not extend to the period from July 21, 20X6 to July 25, 20X6 [date of letter], inclusive).
- d. The period covered in paragraph 4b of that letter is changed to the period from April 1, 20X6 to June 30, 20X6, officials of the company having advised us that no financial statements as of any date or for any period subsequent to June 30, 20X6, were available.
- e. The references to May 31, 20X6 in paragraph 5b of that letter are changed to June 30, 20X6.
- f. The references to May 31, 20X6 and June 23, 20X6 in paragraph 6 of that letter are changed to June 30, 20X6 and July 20, 20X6, respectively.

This letter is solely for the information of the addressees and to assist the underwriters in conducting and documenting their investigation of the affairs of the company in connection with the offering of the securities covered by the registration statement, and it is not to be used, circulated, quoted, or otherwise referred to within or without the underwriting group for any other purpose, including but not limited to the registration,

purchase, or sale of securities, nor is it to be filed with or referred to, in whole or in part, in the registration statement or any other document, except that reference may be made to it in the underwriting agreement or any list of closing documents pertaining to the offering of the securities covered by the registration statement.

## Example D—Comments on Pro Forma Financial Information

### ***Example D-1—Negative Assurance on Pro Forma Financial Information as to Compliance With The Applicable Accounting Requirements of Rule 11-02 of Regulation S-X***

**.A93-7** Example D-1 is applicable when the auditor is asked to provide negative assurance on (a) whether the pro forma financial information included in a securities offering complies as to form in all material respects with the applicable accounting requirements of Rule 11-02 of Regulation S-X, and (b) the application of pro forma adjustments to historical amounts in the compilation of the pro forma financial information (see paragraphs .52–.53). The material in this example is intended to be inserted between paragraphs 6 and 7 in example A-1 or between paragraphs 5 and 6 in example A-2. The example assumes that the auditor has not previously reported on the pro forma financial information. If the auditor did previously report on the pro forma financial information, the auditor may refer in the introductory paragraph of the comfort letter to the fact that the auditor has issued a report, and the report may be attached to the comfort letter (see paragraphs .A31–.A32). In that circumstance, the procedures in 7b(i) and 7c ordinarily would not be performed, and therefore the auditor would not separately comment on the application of pro forma adjustments to historical financial information because that assurance is encompassed in the auditor's report on pro forma financial information. The auditor may, however, agree to comment on compliance as to form with the applicable accounting requirements of Rule 11-02 of Regulation S-X.

7. At your request, we have—
  - a. Read the unaudited pro forma condensed consolidated balance sheet as of March 31, 20X6, and the unaudited pro forma condensed consolidated statements of income for the year ended December 31, 20X5, and the three-month period ended March 31, 20X6, included in the [registration statement or Offering Memorandum, as applicable].
  - b. Inquired of certain officials of the company who have responsibility for financial and accounting matters about
    - (i) the basis for their determination of the pro forma adjustments and
    - (ii) whether the unaudited pro forma condensed consolidated financial statements referred to in 7a comply as to form in all material respects with the applicable accounting requirements of Rule 11-02 of Regulation S-X.
  - c. Proved the arithmetic accuracy of the application of the pro forma adjustments to the historical amounts in the unaudited pro forma condensed consolidated financial statements.

The foregoing procedures are substantially less in scope than an examination or review, the objective of which is the expression of an opinion or conclusion on management's assumptions, the pro

forma adjustments, and the application of those adjustments to historical financial information. Accordingly, we do not express such an opinion or conclusion. The foregoing procedures would not necessarily reveal matters of significance with respect to the comments in the following paragraph. Accordingly, we make no representation about the sufficiency of such procedures for your purposes.

8. Nothing came to our attention as a result of the procedures specified in paragraph 7, however, that caused us to believe that the unaudited pro forma condensed consolidated financial statements referred to in 7a included in the [registration statement or Offering Memorandum, *as applicable*] do not comply as to form in all material respects with the applicable accounting requirements of Rule 11-02 of Regulation S-X and that the pro forma adjustments have not been properly applied to the historical amounts in the compilation of the unaudited pro forma condensed consolidated financial statements. Had we performed additional procedures or had we made an examination or review of the pro forma condensed consolidated financial statements, other matters might have come to our attention that would have been reported to you.

**Example D-2—Negative Assurance on Pro Forma Financial Information as to Compliance With Pro Forma Bases as Described in the Pro Forma Financial Information**

**.A93-8** Example D-2 is applicable when the auditor is asked to provide negative assurance on (a) whether the pro forma financial information included in a securities offering complies as to form in all material respects with the pro forma bases described in the pro forma financial statements, and (b) the application of pro forma adjustments to historical amounts in the compilation of the pro forma financial information (see paragraphs .52–.53). The material in this example is intended to be inserted between paragraphs 5 and 6 in example A-2.

The example assumes that the auditor has not previously reported on the pro forma financial information. If the auditor did previously report on the pro forma financial information, the auditor may refer in the introductory paragraph of the comfort letter to the fact that the auditor has issued a report, and the report may be attached to the comfort letter (see paragraphs .A31–.A32). In that circumstance, the procedures in 6b(i) and 6c ordinarily would not be performed, and therefore the auditor would not separately comment on the application of pro forma adjustments to historical financial information because that assurance is encompassed in the auditor's report on pro forma financial information. The auditor may, however, agree to comment on compliance as to form with the pro forma bases described in the pro forma financial statements.

6. At your request, we have—
  - a. Read the unaudited pro forma condensed consolidated balance sheet as of March 31, 20X6, and the unaudited pro forma condensed consolidated statements of income for the year ended December 31, 20X5, and the three-month period ended March 31, 20X6, included in the Offering Memorandum.
  - b. Inquired of certain officials of the company who have responsibility for financial and accounting matters about
    - (i) the basis for their determination of the pro forma adjustments, and

- (ii) whether the unaudited pro forma condensed consolidated financial statements referred to in 6*a* comply as to form in all material respects with the pro forma bases described in the pro forma condensed consolidated financial statements.
  - c. Proved the arithmetic accuracy of the application of the pro forma adjustments to the historical amounts in the unaudited pro forma condensed consolidated financial statements.

The foregoing procedures are substantially less in scope than an examination or review, the objective of which is the expression of an opinion or conclusion on management's assumptions, the pro forma adjustments, and the application of those adjustments to historical financial information. Accordingly, we do not express such an opinion or conclusion. The foregoing procedures would not necessarily reveal matters of significance with respect to the comments in the following paragraph. Accordingly, we make no representation about the sufficiency of such procedures for your purposes.

7. Nothing came to our attention as a result of the procedures specified in paragraph 6, however, that caused us to believe that the unaudited pro forma condensed consolidated financial statements referred to in 6*a* included in the Offering Memorandum do not comply in all material respects with the pro forma bases described in the pro forma condensed consolidated financial statements and that the pro forma adjustments have not been properly applied to the historical amounts in the compilation of the unaudited pro forma condensed consolidated financial statements. Had we performed additional procedures or had we made an examination or a review of the pro forma condensed consolidated financial statements, other matters might have come to our attention that would have been reported to you.

## Example E—Comments on a Financial Forecast

**.A93-9** Example E is applicable when an auditor is asked to comment on a financial forecast (see paragraph .54). The material in this example is intended to be inserted between paragraphs 6 and 7 in example A-1 or between paragraphs 5 and 6 in example A-2. The example assumes that the auditor has previously reported on the compilation of the financial forecast and that the report is attached to the letter (see paragraphs .A31–.A32).

7. At your request, we performed the following procedure with respect to the forecasted consolidated balance sheet and consolidated statements of income and cash flows as of December 31, 20X6, and for the year then ending. With respect to forecasted rental income, we compared the occupancy statistics about expected demand for rental of the housing units to statistics for existing comparable properties and found them to be the same.
8. Because the procedure described above does not constitute an examination of prospective financial statements in accordance with standards promulgated by the American Institute of Certified Public Accountants, we do not express an opinion on whether the prospective financial statements are presented in conformity with AICPA presentation guidelines or on whether the underlying assumptions provide a reasonable basis for the presentation.



Had we performed additional procedures or had we made an examination of the forecast in accordance with standards promulgated by the AICPA, matters might have come to our attention that would have been reported to you. Furthermore, there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

**Example F—Comments on Tables, Statistics, and Other Financial Information—Complete Description of Procedures and Findings**

**.A93-10** Example F is applicable when the auditor is asked to comment on tables, statistics, or other compilations of information appearing in a securities offering (paragraphs .65–.71). Each of the comments is in response to a specific request. The paragraphs in example F are intended to follow paragraph 6 in example A-1 or paragraph 5 in example A-2. In a non-1933 Act securities offering, paragraph 9c(iii) generally would not be included.

In some cases, the auditor may choose to combine in one paragraph the substance of paragraphs 7 and 9 shown as follows. This may be done by expanding the identification of items in paragraph 9 to provide the identification information included in paragraph 7. In such cases, the introductory sentences in paragraphs 7 and 9 and the text of paragraph 8 might be combined as follows: "For purposes of this letter, we have also read the following information and have performed the additional procedures stated below with respect to such information. Our audit of the consolidated financial statements. . ."

- 7. For purposes of this letter, we have also read the following, set forth in the [registration statement or Offering Memorandum, as applicable] securities offering on the indicated pages.

<i>Item</i>	<i>Page</i>	<i>Description</i>
<i>a</i>	4	"Capitalization." The amounts under the captions "Amount Outstanding as of May 31, 20X6" and "As Adjusted." The related notes, except the following in Note 2: "See Transactions With Interested Persons." From the proceeds of this offering the company intends to prepay \$900,000 on these notes, pro rata. See "Use of Proceeds."
<i>b</i>	13	"History and Business—Sales and Marketing." The table following the first paragraph.
<i>c</i>	33	"Selected Financial Data."

- 8. Our audit of the consolidated financial statements for the periods referred to in the introductory paragraph of this letter comprised audit tests and procedures deemed necessary for the purpose of expressing an opinion on such financial statements as a whole. For none of the periods referred to therein, or any other period, did we perform audit tests for the purpose of expressing an opinion on individual balances of accounts or summaries of selected transactions such as those enumerated above, and, accordingly, we express no opinion thereon.
- 9. However, for purposes of this letter, we have performed the following additional procedures, which were applied as indicated with respect to the items enumerated above.

<i>Item in 7</i>	<i>Procedures and Findings</i>
a	<p>We compared the amounts and numbers of shares listed under the caption, "Amount Outstanding as of May 31, 20X6," with the balances in the appropriate accounts in the company's general ledger and found them to be in agreement. We compared the amounts and numbers of shares listed under the caption, "Amount Outstanding as of May 31, 20X6," adjusted for the issuance of the debentures to be offered by means of the securities offering and for the proposed use of a portion of the proceeds thereof to prepay portions of certain notes, as described under "Use of Proceeds," with the amounts and numbers of shares shown under the caption, "As Adjusted," and found such amounts and numbers of shares to be in agreement. (However, we make no comments regarding the reasonableness of the "Use of Proceeds" or whether such use will actually take place.)</p>
b	<p>We compared the amounts of military sales, commercial sales, and total sales shown in the securities offering with the balances in the appropriate accounts in the company's accounting records for the respective fiscal years and for the unaudited interim periods and found them to be in agreement. We proved the arithmetic accuracy of the percentages of such amounts of military sales and commercial sales to total sales for the respective fiscal years and for the unaudited interim periods. We compared such computed percentages with the corresponding percentages appearing in the [registration statement or Offering Memorandum, as applicable] and found them to be in agreement.</p>
c	<ol style="list-style-type: none"> <li data-bbox="319 838 966 1046">i. We compared the amounts of net sales and income from continuing operations for the years ended December 31, 20X5, 20X4, and 20X3, with the respective amounts in the consolidated financial statements on pages 27 and 28 and the amounts for the years ended December 31, 20X2 and 20X1, with the respective amounts in the consolidated financial statements for 20X2 and 20X1 and found them to be in agreement.</li> <li data-bbox="319 1055 966 1263">ii. We compared the amounts of total assets, long-term obligations, and redeemable preferred stock at December 31, 20X5 and 20X4, with the respective amounts in the consolidated financial statements on pages 27 and 28 and the amounts at December 31, 20X3, 20X2, and 20X1, with the corresponding amounts in the consolidated financial statements for 20X3, 20X2, and 20X1 and found them to be in agreement.</li> <li data-bbox="319 1272 966 1550">iii. We compared the information included under the heading "Selected Financial Data" with the disclosure requirements of Item 301 of Regulation S-K. We also inquired of certain officials of the company who have responsibility for financial and accounting matters whether this information conforms in all material respects with the disclosure requirements of Item 301 of Regulation S-K. Nothing came to our attention as a result of the foregoing procedures that caused us to believe that this information does not conform in all material respects with the disclosure requirements of Item 301 of Regulation S-K.</li> </ol>

10. It should be understood that we make no representations regarding questions of legal interpretation or regarding the sufficiency for your purposes of the procedures enumerated in the preceding paragraph; also, such procedures would not necessarily reveal any material misstatement of the amounts or percentages listed above. Further, we have addressed ourselves solely to the foregoing data as set forth in the [*registration statement or Offering Memorandum, as applicable*] and make no representations regarding the adequacy of disclosure or regarding whether any material facts have been omitted.

### Example G—Comments on Tables, Statistics, and Other Financial Information—Summarized Description of Procedures and Findings Regarding Tables, Statistics, and Other Financial Information

.A93-11 Example G illustrates, in paragraph 8a, a method of summarizing the descriptions of procedures and findings regarding tables, statistics, and other financial information in order to avoid repetition in the comfort letter. Each of the comments is in response to a specific request. The paragraphs in example G are intended to follow paragraph 6 in example A-1 or paragraph 5 in example A-2. In a non-1933 Act securities offering, paragraph 9a(ii) generally would not be included.

Other methods of summarizing the descriptions may also be appropriately used. For example, the letter may present a matrix listing the financial information and common procedures employed and indicating the procedures applied to specific items.

7. For purposes of this letter, we have also read the following, set forth in the [*registration statement or Offering Memorandum, as applicable*] on the indicated pages.

<i>Item</i>	<i>Page</i>	<i>Description</i>
<i>a</i>	4	"Capitalization." The amounts under the captions "Amount Outstanding as of May 31, 20X6" and "As Adjusted." The related notes, except the following in Note 2: "See Transactions With Interested Persons." From the proceeds of this offering the company intends to prepay \$900,000 on these notes, pro rata. See "Use of Proceeds."
<i>b</i>	13	"History and Business—Sales and Marketing." The table following the first paragraph.
<i>c</i>	33	"Selected Financial Data."

8. Our audit of the consolidated financial statements for the periods referred to in the introductory paragraph of this letter comprised audit tests and procedures deemed necessary for the purpose of expressing an opinion on such financial statements as a whole. For none of the periods referred to therein, or any other period, did we perform audit tests for the purpose of expressing an opinion on individual balances of accounts or summaries of selected transactions, such as those enumerated above, and, accordingly, we express no opinion thereon.

9. However, for purposes of this letter and with respect to the items enumerated in 7 above—
  - a.
    - i. Except for item 7a, we have (i) compared the dollar amounts either with the amounts in the audited consolidated financial statements described in the introductory paragraph of this letter or, for prior years, included in the company's accounting records, or with amounts in the unaudited consolidated financial statements described in paragraph 3 to the extent such amounts are included in or can be derived from such statements and found them to be in agreement; (ii) compared the amounts of military sales, commercial sales, and total sales with amounts in the company's accounting records and found them to be in agreement; (iii) compared other dollar amounts with amounts shown in analyses prepared by the company and found them to be in agreement; and (iv) proved the arithmetic accuracy of the percentages based on the data in the above-mentioned financial statements, accounting records, and analyses.
    - ii. We compared the information in item 6c with the disclosure requirements of Item 301 of Regulation S-K. We also inquired of certain officials of the company who have responsibility for financial and accounting matters whether this information conforms in all material respects with the disclosure requirements of Item 301 of Regulation S-K. Nothing came to our attention as a result of the foregoing procedures that caused us to believe that this information does not conform in all material respects with the disclosure requirements of Item 301 of Regulation S-K.
  - b. With respect to item 7a, we compared the amounts and numbers of shares listed under the caption "Amount Outstanding as of May 31, 20X6" with the balances in the appropriate accounts in the company's general ledger at May 31, 20X6, and found them to be in agreement. We compared the amounts and numbers of shares listed under the caption "Amount Outstanding as of May 31, 20X6," adjusted for the issuance of the debentures to be offered by means of the securities offering and for the proposed use of a portion of the proceeds thereof to prepay portions of certain notes, as described under "Use of Proceeds," with the amounts and numbers of shares shown under the caption, "As Adjusted" and found such amounts and numbers of shares to be in agreement. (However, we make no comments regarding the reasonableness of "Use of Proceeds" or whether such use will actually take place.)
10. It should be understood that we make no representations regarding questions of legal interpretation or regarding the sufficiency for your purposes of the procedures enumerated in the preceding paragraph; also, such procedures would not necessarily

reveal any material misstatement of the amounts or percentages listed above. Further, we have addressed ourselves solely to the foregoing data as set forth in the [registration statement or Offering Memorandum, as applicable] and make no representations regarding the adequacy of disclosure or regarding whether any material facts have been omitted.

### **Example H—Comments on Tables, Statistics, and Other Financial Information: Descriptions of Procedures and Findings Regarding Tables, Statistics, and Other Financial Information—Attached Securities Offering (or Selected Pages) Identifies Items to Which Procedures Were Applied Through the Use of Designated Symbols**

**.A93-12** This example illustrates an alternate format, which could facilitate reporting when the auditor is requested to perform procedures on numerous statistics included in a securities offering. Each of the comments is in response to a specific request. The paragraph in example H is intended to follow paragraph 6 in example A-1 or paragraph 5 in example A-2.

7. For purposes of this letter, we have also read the items identified by you on the attached copy of the [registration statement or Offering Memorandum, as applicable] and have performed the following procedures, which were applied as indicated with respect to the symbols explained below:
  - ✓ Compared the amount with The Nonissuer Company, Inc.'s financial statements for the period indicated included in the securities offering and found them to be in agreement.
8. Our audit of the consolidated financial statements for the periods referred to in the introductory paragraph of this letter comprised audit tests and procedures deemed necessary for the purpose of expressing an opinion on such financial statements as a whole. For none of the periods referred to therein, nor any other period, did we perform audit tests for the purpose of expressing an opinion on individual balances of accounts or summaries of selected transactions, such as those enumerated above, and, accordingly, we express no opinion thereon.
9. It should be understood that we make no representations regarding questions of legal interpretation or regarding the sufficiency for your purposes of the procedures enumerated in the preceding paragraph; also, such procedures would not necessarily reveal any material misstatement of the amounts or percentages listed above. Further, we have addressed ourselves solely to the foregoing data as set forth in the [registration statement or Offering Memorandum, as applicable] and make no representations regarding the adequacy of disclosure or regarding whether any material facts have been omitted.

*[The following is an extract from a securities offering that illustrates how an auditor can document procedures performed on numerous statistics included in the securities offering.]*

**Summary Financial Information of The Nonissuer Company, Inc.  
(In thousands)**

Income statement data	The Nonissuer Company, Inc. Year Ended December 31,		
	20X3	20X4	20X5
Revenue from home sales	\$104,110√	\$115,837√	\$131,032√
Gross profit from sales	23,774√	17,099√	22,407√
Income from home building net of tax	7,029√	1,000√	3,425√

### Example I—Alternate Wording When Auditor’s Report on Audited Financial Statements Contains an Emphasis-of-Matter Paragraph

**.A93-13** Example I is applicable when the auditor's report on the audited financial statements included in the securities offering contains an emphasis-of-matter paragraph regarding a matter that would also affect the unaudited condensed consolidated interim financial information included in the securities offering. The introductory paragraph would be revised as follows:

Our report with respect thereto (which contains an emphasis-of-matter paragraph that describes a lawsuit to which the company is a defendant, discussed in note 8 to the consolidated financial statements), is also included in the [registration statement or Offering Memorandum, as applicable].

The matter described in the emphasis-of-matter paragraph would also be evaluated to determine whether it also requires mention in the comments on the unaudited condensed consolidated interim financial information (paragraph 5b of example A-1 and paragraph 4b of example A-2). If it is concluded that mention of such a matter in the comments on unaudited condensed consolidated financial information is appropriate, a sentence would be added at the end of paragraph 5b in example A-1 and paragraph 4b of example A-2 as follows:

Reference should be made to the introductory paragraph of this letter, which states that our audit report covering the consolidated financial statements as of and for the year ended December 31, 20X5, includes an emphasis-of-matter paragraph that describes a lawsuit to which the company is a defendant, discussed in note 8 to the consolidated financial statements.

### Example J—Alternate Wording When Component Auditors Are Involved

**.A93-14** Example J applies when one or more component auditors are involved in the audit of group financial statements, and the group engagement team has obtained a copy of the comfort letter of the component auditors (see paragraph .21). Example J consists of an addition to paragraph 4, a substitution for the applicable part of paragraph 5, and an addition to paragraph 6 of example A-1 and corresponding changes to paragraphs 3, 4, and 5 of example A-2, respectively.

- [4]c. We have read the letter dated \_\_\_\_\_ of [the other auditors] with regard to [the related company].
5. Nothing came to our attention as a result of the foregoing procedures (which, so far as [the related company] is concerned,

consisted solely of reading the letter referred to in 4c), however, that caused us to believe that . . .

6. ...On the basis of these inquiries and our reading of the minutes and the letter dated \_\_\_\_\_ of [*the other auditors*] with regard to [*the related company*], as described in 4, nothing came to our attention that caused us to believe that there was any such change, increase, or decrease, except in all instances for changes, increases, or decreases that the [*registration statement or Offering Memorandum, as applicable*] discloses have occurred or may occur.

### Example K—Alternate Wording When the SEC Has Agreed to a Departure From Its Accounting Requirements

**A93-15** Example K is applicable when (a) there is a departure from the applicable accounting requirements of the 1933 Act and the related rules and regulations adopted by the SEC, and (b) representatives of the SEC have agreed to the departure. Paragraph 2 of example A-1 would be revised to read as follows:

2. In our opinion [*include the phrase except as disclosed in the registration statement if applicable*], the consolidated financial statements and financial statement schedules audited by us and included (incorporated by reference) in the registration statement comply as to form in all material respects with the applicable accounting requirements of the Act and the related rules and regulations adopted by the SEC; however, as agreed to by representatives of the SEC, statements of assets acquired and liabilities assumed and statements of revenues and direct operating expenses of The Nonissuer Company, Inc. have been presented in lieu of separate financial statements required by Rule 3-05 of Regulation S-X.

### Example L—Alternate Wording When Recent Earnings Data Are Presented in Capsule Form

**A93-16** Example L is applicable when (a) the statement of income in the securities offering is supplemented by later information regarding sales and earnings (capsule financial information), (b) the auditor is asked to comment on that information (paragraphs 49–51), and (c) the auditor has conducted a review in accordance with generally accepted auditing standards applicable to reviews of interim financial information of the financial statements from which the capsule financial information is derived. The same facts exist as in example A-1, or for a non-1933 Act filing as in example A-2, except for the following:

- Sales and net income (no extraordinary items) for the six-month periods ended June 30, 20X6 and 20X5 (both unaudited), are included in capsule form more limited than that specified by Financial Accounting Standards Board *Accounting Standards Codification* 270, *Interim Reporting*.
- No financial statements later than those for June 20X6 are available.
- The letter is dated July 25, 20X6, and the cut-off date is July 20, 20X6.

Paragraphs 4, 5, and 6 of example A-1, or paragraphs 3, 4 and 5 of example A-2, would be revised to read as follows; in a non-1933 Act securities offering, paragraphs 4a(ii) and 5a(ii) generally would not be included:

4. For purposes of this letter, we have read the 20X6 minutes of the meetings of the stockholders, the board of directors, and [*include other appropriate committees, if any*] of the company and its subsidiaries as set forth in the minute books at July 20, 20X6, officials of the company having advised us that the minutes of all such meetings through that date were set forth therein and discussed with us the unapproved minutes of meetings held on [*dates*]; we have carried out other procedures to July 20, 20X6, as follows (our work did not extend to the period from July 21, 20X6 to July 25, 20X6, inclusive):
  - a. With respect to the three-month periods ended March 31, 20X6 and 20X5, we have—
    - (i) Performed the procedures specified for a review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information, on the unaudited condensed consolidated balance sheet as of March 31, 20X6, and the unaudited condensed consolidated statements of income, stockholders' equity, and cash flows for the three-month periods ended March 31, 20X6 and 20X5, included in the [*registration statement or Offering Memorandum, as applicable*].
    - (ii) Inquired of certain officials of the company who have responsibility for financial and accounting matters whether the unaudited condensed consolidated financial statements referred to in a(i) comply as to form in all material respects with the applicable accounting requirements of the Act and the related rules and regulations adopted by the SEC.
  - b. With respect to the six-month periods ended June 30, 20X6 and 20X5, we have—
    - (i) Read the unaudited amounts for sales and net income for the six-month periods ended June 30, 20X6 and 20X5, as set forth in paragraph [*identify location*].
    - (ii) Performed the procedures specified for a review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information, on the unaudited condensed consolidated balance sheet as of June 30, 20X6, and the unaudited condensed consolidated statements of income, stockholders' equity, and cash flows for the six-month periods ended June 30, 20X6 and 20X5, from which the unaudited amounts referred to in b(i) are derived.
    - (iii) Inquired of certain officials of the company who have responsibility for financial and accounting matters whether the unaudited amounts referred to in b(i) are stated on a basis substantially consistent with that of the corresponding amounts in the audited consolidated statements of income.



The foregoing procedures do not constitute an audit conducted in accordance with generally accepted auditing standards. Also, they would not necessarily reveal matters of significance with respect to the comments in the following paragraph. Accordingly, we make no representations regarding the sufficiency of the foregoing procedures for your purposes.

5. Nothing came to our attention as a result of the foregoing procedures, however, that caused us to believe that—
  - a.
    - (i) Any material modifications should be made to the unaudited condensed consolidated financial statements described in 4a(i), included in the [registration statement or Offering Memorandum, as applicable], for them to be in conformity with generally accepted accounting principles.
    - (ii) The unaudited condensed consolidated financial statements described in 4a(i) do not comply as to form in all material respects with the applicable accounting requirements of the Act and the related rules and regulations adopted by the SEC.
  - b.
    - (i) The unaudited amounts for sales and net income for the six-month periods ended June 30, 20X6 and 20X5, referred to in 4b(i) do not agree with the amounts set forth in the unaudited condensed consolidated financial statements for those same periods.
    - (ii) The unaudited amounts referred to in 4b(i) were not determined on a basis substantially consistent with that of the corresponding amounts in the audited consolidated statements of income.
  - c. At June 30, 20X6, there was any change in the capital stock, increase in long-term debt, or any decreases in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown in the March 31, 20X6 unaudited condensed consolidated balance sheet included in the [registration statement or Offering Memorandum, as applicable], except in all instances for changes, increases, or decreases that the [registration statement or Offering Memorandum, as applicable] discloses have occurred or may occur.
6. Company officials have advised us that no consolidated financial statements as of any date or for any period subsequent to June 30, 20X6 are available; accordingly, the procedures carried out by us with respect to changes in financial statement items after June 30, 20X6 have, of necessity, been even more limited than those with respect to the periods referred to in 4. We have inquired of certain officials of the company who have responsibility for financial and accounting matters whether (a) at July 20, 20X6, there was any change in the capital stock, increase in long-term debt, or any decreases in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown in the March 31, 20X6 unaudited condensed consolidated balance

sheet included in the [registration statement or Offering Memorandum, as applicable]; or (b) for the period from July 1, 20X6 to July 20, 20X6, there were any decreases, as compared with the corresponding period in the preceding year, in consolidated net sales or in income from continuing operations or of net income. On the basis of these inquiries and our reading of the minutes as described in 4, nothing came to our attention that caused us to believe that there was any such change, increase, or decrease, except in all instances for changes, increases, or decreases that the [registration statement or Offering Memorandum, as applicable] discloses have occurred or may occur.

### Example M—Alternate Wording When Auditors Are Aware of a Decrease in a Specified Financial Statement Item

**.A93-17** Example M covers a situation in which auditors are aware of a decrease in a financial statement item on which they are requested to comment (see paragraphs .58–.64). Example M may be modified when auditors are aware of a change or increase. The same facts exist as in example A-1 or example A-2, as applicable, except for the decrease covered in the following change in paragraph 5b in example A-1 or paragraph 4b in example A-2:

b.

- (i) At May 31, 20X6, there was any change in the capital stock, increase in long-term debt, or any decrease in consolidated stockholders' equity of the consolidated companies as compared with amounts shown in the March 31, 20X6 unaudited condensed consolidated balance sheet included in the [registration statement or Offering Memorandum, as applicable], or
- (ii) for the period from April 1, 20X6 to May 31, 20X6, there were any decreases, as compared with the corresponding period in the preceding year, in consolidated net sales or income from continuing operations or of net income, except in all instances for changes, increases, or decreases that the [registration statement or Offering Memorandum, as applicable] discloses have occurred or may occur and except that the unaudited consolidated balance sheet as of May 31, 20X6, which we were furnished by the company, showed a decrease from March 31, 20X6, in consolidated net current assets as follows (in thousands of dollars):

	Current Assets	Current Liabilities	Net Current Assets
March 31, 20X6	\$4,251	\$1,356	\$2,895
May 31, 20X6	3,986	1,732	2,254

6. As mentioned in 4b, company officials have advised us that no consolidated financial statements as of any date or for any period subsequent to May 31, 20X6, are available; accordingly, the procedures carried out by us with respect to changes in financial statement items after May 31, 20X6, have, of necessity, been even

more limited than those with respect to the periods referred to in 4. We have inquired of certain officials of the company who have responsibility for financial and accounting matters whether (a) at June 23, 20X6, there was any change in the capital stock, increase in long-term debt, or any decreases in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown in the March 31, 20X6 unaudited condensed consolidated balance sheet included in the [registration statement or Offering Memorandum, as applicable]; or (b) for the period from April 1, 20X6 to June 23, 20X6, there were any decreases, as compared with the corresponding period in the preceding year, in consolidated net sales or in income from continuing operations or of net income. On the basis of these inquiries and our reading of the minutes as described in 4, nothing came to our attention that caused us to believe that there was any such change, increase, or decrease, except in all instances for changes, increases, or decreases that the [registration statement or Offering Memorandum, as applicable] discloses have occurred or may occur and except as described in the following sentence: We have been informed by officials of the company that there continues to be a decrease in net current assets that is estimated to be approximately the same amount as set forth in 5b [or whatever other disclosure fits the circumstances].

### **Example N—Alternate Wording of the Letter for Companies That Are Permitted to Present Interim Earnings Data for a 12-Month Period**

**.A93-18** Certain types of companies are permitted to include earnings data for a 12-month period to the date of the latest balance sheet furnished in lieu of earnings data for both the interim period between the end of the latest fiscal year and the date of the latest balance sheet and the corresponding period of the preceding fiscal year. The following would be substituted for the applicable part of paragraph 3 of example A-1:

3. ...was to enable us to express our opinion on the financial statements as of December 31, 20X5, and for the year then ended, but not on the financial statements for any period included in part within that year. Therefore, we are unable to, and do not express any opinion on, the unaudited condensed consolidated balance sheet as of March 31, 20X6, and the related unaudited condensed consolidated statements of income, stockholders' equity, and cash flows for the 12 months then ended included in the registration statement.

### **Example O—Alternate Wording When the Procedures That the Requesting Party Has Requested the Auditor to Perform on Interim Financial Information Are Less Than a Review in Accordance With Generally Accepted Auditing Standards Applicable to Reviews of Interim Financial Information**

**.A93-19** The example assumes that the requesting party has asked the auditor to perform specified procedures on the interim financial information and report

thereon in the comfort letter. The letter is dated June 28, 20X6; procedures were performed through June 23, 20X6, the cut-off date. Because a review in accordance with generally accepted auditing standards applicable to reviews of interim financial information was not performed on the interim financial information as of March 31, 20X6, and for the quarter then ended, the auditor is limited to reporting procedures performed and findings obtained on the interim financial information.

The following would be substituted for paragraphs 4–6 of example A-1 or paragraphs 3–5 of example A-2. In a non-1933 Act securities offering, the two statements in paragraph 4(a)(ii) with respect to compliance as to form, in all material respects, with the applicable accounting requirements of the Act and the related rules and regulations adopted by the SEC, would not be included. Example O assumes there has not been a change in the application of a requirement of generally accepted accounting principles during the interim period. If there has been such a change, a reference to that change would be included in subparagraph *a*(ii) that follows:

4. For purposes of this letter, we have read the 20X6 minutes of meetings of the stockholders, the board of directors, and [*include other appropriate committees, if any*] of the company and its subsidiaries as set forth in the minute books at June 23, 20X6, officials of the company having advised us that the minutes of all such meetings through that date were set forth therein and having discussed with us the unapproved minutes of meetings held on [*dates*]; we have carried out other procedures to June 23, 20X6, as follows (our work did not extend to the period from June 24, 20X6 to June 28, 20X6, inclusive):
  - a. With respect to the three-month periods ended March 31, 20X6 and 20X5, we have—
    - (i) Read the unaudited condensed consolidated balance sheet as of March 31, 20X6, and the unaudited condensed consolidated statements of income, stockholders' equity, and cash flows for the three-month periods ended March 31, 20X6 and 20X5, included in the [*registration statement or Offering Memorandum, as applicable*], and agreed the amounts included therein with the company's accounting records as of March 31, 20X6, and for the three-month periods ended March 31, 20X6 and 20X5.
    - (ii) Inquired of certain officials of the company who have responsibility for financial and accounting matters whether the unaudited condensed consolidated financial statements referred to in *a*(i): (1) are in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited consolidated financial statements included in the [*registration statement or Offering Memorandum, as applicable*], and (2) comply as to form, in all material respects, with the applicable accounting requirements of the Act and the related rules and regulations adopted by the SEC. Those officials stated that the unaudited condensed consolidated

financial statements (1) are in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited consolidated financial statements, and (2) comply as to form, in all material respects, with the applicable accounting requirements of the Act and the related rules and regulations adopted by the SEC.

b. With respect to the period from April 1, 20X6 to May 31, 20X6, we have—

- (i) Read the unaudited consolidated financial information of the company and subsidiaries for April and May of both 20X5 and 20X6 furnished us by the company, and agreed the amounts contained therein to the company's accounting records. Officials of the company have advised us that no financial statements as of any date or for any period subsequent to May 31, 20X6, were available. *[If applicable: The financial information for April and May of both 20X5 and 20X6 is incomplete in that it omits the statements of cash flows and other disclosures.]*
- (ii) Inquired of certain officials of the company who have responsibility for financial and accounting matters whether (1) the unaudited consolidated financial information referred to in b(i) is stated on a basis substantially consistent with that of the audited consolidated financial statements included in the *[registration statement or Offering Memorandum, as applicable]*; (2) at May 31, 20X6, there was any change in the capital stock, increase in long-term debt, or any decrease in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown in the March 31, 20X6 unaudited condensed consolidated balance sheet included in the *[registration statement or Offering Memorandum, as applicable]*; and (3) for the period from April 1, 20X6 to May 31, 20X6, there were any decreases, as compared with the corresponding period in the preceding year, in consolidated net sales or in income from continuing operations or of net income.

Those officials stated that (1) the unaudited consolidated financial information referred to in 4b(i) is stated on a basis substantially consistent with that of the audited consolidated financial statements included in the *[registration statement or Offering Memorandum, as applicable]*; (2) at May 31, 20X6, there was no change in the capital stock, no increase in long-term debt, and no decrease in net current assets or stockholders' equity of the consolidated companies as compared

with amounts shown in the March 31, 20X6 unaudited condensed consolidated balance sheet included in the [registration statement or Offering Memorandum, as applicable]; and (3) there were no decreases for the period from April 1, 20X6 to May 31, 20X6, as compared with the corresponding period in the preceding year, in consolidated net sales or in income from continuing operations or of net income.

- c. As mentioned in 4b(i), company officials have advised us that no financial statements as of any date or for any period subsequent to May 31, 20X6, are available; accordingly, the procedures carried out by us with respect to changes in financial statement items after May 31, 20X6, have, of necessity, been even more limited than those with respect to the periods referred to in 4a and 4b. We have inquired of certain officials of the company who have responsibility for financial and accounting matters whether (a) at June 23, 20X6, there was any change in the capital stock, increase in long-term debt, or any decreases in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown in the March 31, 20X6 unaudited condensed consolidated balance sheet included in the [registration statement or Offering Memorandum, as applicable], or (b) for the period from April 1, 20X6 to June 23, 20X6, there were any decreases, as compared with the corresponding period in the preceding year, in consolidated net sales or in income from continuing operations or of net income. Those officials stated that (1) at June 23, 20X6, there was no change in the capital stock, no increase in long-term debt, and no decreases in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown in the March 31, 20X6 unaudited condensed consolidated balance sheet, and (2) for the period from April 1, 20X6 to June 23, 20X6, there were no decreases, as compared with the corresponding period in the preceding year, in consolidated net sales or in income from continuing operations or of net income.

The foregoing procedures do not constitute an audit or a review conducted in accordance with generally accepted auditing standards. We make no representations regarding the sufficiency of the foregoing procedures for your purposes. Had we performed additional procedures or had we conducted an audit or a review of the company's March 31, April 30, or May 31, 20X6 and 20X5 condensed consolidated financial statements, other matters might have come to our attention that would have been reported to you.

5. At your request, we also—
  - a. Read the unaudited pro forma condensed consolidated balance sheet as of March 31, 20X6, and the unaudited pro forma condensed consolidated statements of income for the year ended December 31, 20X5, and the three-month period ended March 31, 20X6, included in the [registration statement or Offering Memorandum, as applicable].

- b. Inquired of certain officials of the company and of XYZ Company (the company being acquired) who have responsibility for financial and accounting matters as to whether all significant assumptions regarding the business combination had been reflected in the pro forma adjustments and whether the unaudited pro forma condensed consolidated financial statements referred to in (a) comply as to form in all material respects with the [*applicable accounting requirements of Rule 11-02 of Regulation S-X or pro forma bases described in the pro forma condensed consolidated financial statements, as applicable*].

Those officials referred to above stated, in response to our inquiries, that all significant assumptions regarding the business combination had been reflected in the pro forma adjustments and that the unaudited pro forma condensed consolidated financial statements referred to in (a) comply as to form in all material respects with the [*applicable accounting requirements of Rule 11-02 of Regulation S-X or pro forma bases described in the pro forma condensed consolidated financial statements, as applicable*].

- c. Compared the historical financial information for the company included on page 20 in the [*registration statement or Offering Memorandum, as applicable*] with historical financial information for the company on page 12 and found them to be in agreement.

We also compared the financial information included on page 20 of the [*registration statement or Offering Memorandum, as applicable*] with the historical information for XYZ Company on page 13 and found them to be in agreement.

- d. Proved the arithmetic accuracy of the application of the pro forma adjustments to the historical amounts in the unaudited pro forma condensed consolidated financial statements.

The foregoing procedures are less in scope than an examination or review, the objective of which is the expression of an opinion or conclusion on management's assumptions, the pro forma adjustments, and the application of those adjustments to historical financial information. Accordingly, we do not express such an opinion or conclusion. We make no representation about the sufficiency of the foregoing procedures for your purposes. Had we performed additional procedures or had we made an examination or review of the pro forma financial information, other matters might have come to our attention that would have been reported to you.

**Example P—Intentionally Omitted (See example A-2)<sup>3</sup>****Example Q—Letter to a Requesting Party That Has Not Provided the Legal Opinion or the Representation Letter Required by Paragraph .11**

**.A93-20** This example illustrates the letter to be provided in accordance with paragraph .11 in which the auditor does not provide negative assurance. This example assumes that these procedures are being performed at the request of the placement agent on information included in an offering memorandum in connection with a private placement of unsecured notes. The letter is dated June 30, 20X6; procedures were performed through June 25, 20X6, the cut-off date. The statements in paragraphs 4–8 of the example are illustrative of the statements required to be included by paragraph .12.

This example may also be used in connection with a filing under the 1933 Act when a party other than a named underwriter (for example, a selling shareholder) has not provided the auditor with the representation letter described in paragraph .11. In such a situation, this example may be modified to include the auditor's comments on independence and compliance as to form of the audited financial statements and financial statements schedules with the applicable accounting requirements of the 1933 Act and the related rules and regulations adopted by the SEC. Paragraph 1a(ii) may include an inquiry, and the response of company officials, on compliance as to form of the unaudited condensed interim financial information.

June 30, 20X6

[Addressee]

Dear Ladies and Gentlemen:

We have audited the consolidated financial statements of The Nonissuer Company, Inc. (the company) and subsidiaries, which comprise the consolidated balance sheets as of December 31, 20X5 and 20X4, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 20X5, and the related notes to the consolidated financial statements, all included in the offering memorandum for \$30,000,000 of notes due June 30, 20Z6. Our report with respect thereto is included in the offering memorandum. The offering memorandum dated June 30, 20X6, is herein referred to as the Offering Memorandum.

We are independent certified public accountants with respect to the company under the "Independence Rule" of the AICPA's Code of Professional Conduct and its interpretations.

We have not audited any financial statements of the company as of any date or for any period subsequent to December 31, 20X5; although, we have conducted an audit for the year ended December 31, 20X5, the purpose (and, therefore, the scope) of the audit was to enable us to express our opinion on the consolidated financial statements as of December 31, 20X5, and for the year then ended, but not on the financial statements for any interim

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<sup>3</sup> Example P, "A Typical Comfort Letter in a Non-1933 Act Offering, Including the Required Underwriter Representations," in AU section 634, *Letters for Underwriters and Certain Other Requesting Parties*, was moved to example A-2, "Typical Comfort Letter for a Non-1933 Act Offering When the Required Representation Letter Has Been Obtained," in this section when AU section 634 was redrafted for clarity, and is intentionally blank to retain the letters assigned to the other examples.



period within that year. Therefore, we are unable to, and do not express any opinion on, the unaudited condensed consolidated balance sheet as of March 31, 20X6, and the unaudited condensed consolidated statements of income, stockholders' equity, and cash flows for the three-month periods ended March 31, 20X6 and 20X5, included in the Offering Memorandum, or on the financial position, results of operations, or cash flows as of any date or for any period subsequent to December 31, 20X5.

1. At your request, we have read the 20X6 minutes of meetings of the stockholders, the board of directors, and *[include other appropriate committees, if any]* of the company as set forth in the minute books at June 25, 20X6, officials of the company having advised us that the minutes of all such meetings through that date were set forth therein and having discussed with us the unapproved minutes of meetings held on *[dates]*; we have carried out other procedures to June 25, 20X6, as follows (our work did not extend to the period from June 26, 20X6 to June 30, 20X6, inclusive):
  - a. With respect to the three-month periods ended March 31, 20X6 and 20X5, we have—
    - (i) Read the unaudited condensed consolidated balance sheet as of March 31, 20X6, and the unaudited condensed consolidated statements of income, stockholders' equity, and cash flows of the company for the three-month periods ended March 31, 20X6 and 20X5, included in the Offering Memorandum, and agreed the amounts included therein with the company's accounting records as of March 31, 20X6, and for the three-month periods ended March 31, 20X6 and 20X5.
    - (ii) Inquired of certain officials of the company who have responsibility for financial and accounting matters whether the unaudited condensed consolidated financial statements referred to in a(i) are in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited consolidated financial statements included in the Offering Memorandum. Those officials stated that the unaudited condensed consolidated financial statements are in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited consolidated financial statements.
  - b. With respect to the period from April 1, 20X6 to May 31, 20X6, we have—
    - (i) Read the unaudited condensed consolidated financial information of the company for April and May of both 20X5 and 20X6, furnished us by the company, and agreed the amounts included therein with the company's accounting records. Officials of the company have advised us that no financial statements as of any date or for any period subsequent to May 31, 20X6, were available. *[if applicable: The financial information for April and May of both 20X5 and 20X6 is incomplete*

in that it omits the statements of cash flows and other disclosures.]

- (ii) Inquired of certain officials of the company who have responsibility for financial and accounting matters whether (1) the unaudited condensed consolidated financial information referred to in *b(i)* is stated on a basis substantially consistent with that of the audited consolidated financial statements included in the Offering Memorandum; (2) at May 31, 20X6, there was any change in the capital stock, increase in long-term debt, or any decrease in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown in the March 31, 20X6 unaudited condensed consolidated balance sheet included in the Offering Memorandum; and (3) for the period from April 1, 20X6 to May 31, 20X6, there were any decreases, as compared with the corresponding period in the preceding year, in consolidated net sales or in income from continuing operations or of net income.

Those officials stated that (1) the unaudited condensed consolidated financial information referred to in *b(ii)* is stated on a basis substantially consistent with that of the audited consolidated financial statements included in the Offering Memorandum; (2) at May 31, 20X6, there was no change in the capital stock, no increase in long-term debt, and no decrease in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown in the March 31, 20X6 unaudited condensed consolidated balance sheet included in the Offering Memorandum; and (3) there were no decreases for the period from April 1, 20X6 to May 31, 20X6, as compared with the corresponding period in the preceding year, in consolidated net sales or in income from continuing operations or of net income.

- c. As mentioned in *1b*, company officials have advised us that no financial statements as of any date or for any period subsequent to May 31, 20X6, are available; accordingly, the procedures carried out by us with respect to changes in financial statement items after May 31, 20X6, have, of necessity, been even more limited than those with respect to the periods referred to in *1a* and *1b*. We have inquired of certain officials of the company who have responsibility for financial and accounting matters whether (i) at June 25, 20X6, there was any change in the capital stock, increase in long-term debt, or any decreases in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown in the March 31, 20X6 unaudited condensed consolidated balance sheet included in the Offering Memorandum, or (ii) for the period from April 1, 20X6 to June 25, 20X6, there were any

decreases, as compared with the corresponding period in the preceding year, in consolidated net sales or in income from continuing operations or of net income.

Those officials referred to above stated that (i) at June 25, 20X6, there was no change in the capital stock, no increase in long-term debt, and no decreases in consolidated net current assets or stockholders' equity of the consolidated companies as compared with amounts shown in the March 31, 20X6, unaudited condensed consolidated balance sheet, and (ii) there were no decreases for the period from April 1, 20X6 to June 25, 20X6, as compared with the corresponding period in the preceding year, in consolidated net sales or in income from continuing operations or of net income.

2. For purposes of this letter, we have also read the items identified by you on the attached copy of the Offering Memorandum and have performed the following procedures, which were applied as indicated with respect to the symbols explained below:
  - ✓ Compared the amount with the company's financial statements for the period indicated and found them to be in agreement.
  - ✗ Compared the amount with the company's financial statements for the period indicated included in the Offering Memorandum and found them to be in agreement.
  - ⊖ Compared with a schedule or report prepared by the company and found them to be in agreement.
3. Our audit of the consolidated financial statements for the periods referred to in the introductory paragraph of this letter comprised audit tests and procedures deemed necessary for the purpose of expressing an opinion on such financial statements as a whole. For none of the periods referred to therein, nor for any other period, did we perform audit tests for the purpose of expressing an opinion on individual balances of accounts or summaries of selected transactions, such as those enumerated above, and, accordingly, we express no opinion thereon.
4. It should be understood that we have no responsibility for establishing (and did not establish) the scope and nature of the procedures enumerated in paragraphs 1–3 above; rather, the procedures enumerated therein are those the requesting party asked us to perform. Accordingly, we make no representations regarding questions of legal interpretation<sup>4</sup> or regarding the sufficiency for your purposes of the procedures enumerated in the preceding paragraphs; also, such procedures would not necessarily reveal any material misstatement of the amounts or percentages listed above as set forth in the Offering Memorandum. Further, we have addressed ourselves solely to the foregoing data and make no representations regarding the adequacy of disclosures or whether any material facts have been omitted. This letter relates only to the financial statement items specified above and does not extend to any financial statement of the company as a whole.

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<sup>4</sup> Paragraph .A6 of this section.

5. The foregoing procedures do not constitute an audit conducted in accordance with generally accepted auditing standards. Had we performed additional procedures or had we conducted an audit or a review of the company's March 31, April 30, or May 31, 20X6 and 20X5 condensed consolidated financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you.
6. These procedures should not be taken to supplant any additional inquiries or procedures that you would undertake in your consideration of the proposed offering.
7. This letter is solely for your information and to assist you in your inquiries in connection with the offering of the securities covered by the Offering Memorandum, and it is not to be used, circulated, quoted, or otherwise referred to for any other purpose, including but not limited to the registration, purchase, or sale of securities, nor is it to be filed with or referred to, in whole or in part, in the Offering Memorandum or any other document, except that reference may be made to it in any list of closing documents pertaining to the offering of the securities covered by the offering document.
8. We have no responsibility to update this letter for events and circumstances occurring after June 25, 20X6.

[Revised, January 2015, to reflect conforming changes necessary due to the issuance of the revised AICPA Code of Professional Conduct, effective December 15, 2014.]

### **Example R—Alternate Wording When Reference to Examination of Annual Management's Discussion and Analysis and Review of Interim Management's Discussion and Analysis Is Made**

**.A93-21** This example is applicable when the auditor is making reference to an examination of annual MD&A and a review of interim MD&A. The same facts exist as in example A-1, except for the following:

- The auditor has examined the company's Management's Discussion and Analysis (MD&A) for the year ended December 31, 20X5, in accordance with AT-C section 395, *Management's Discussion and Analysis*.
- The auditor has also performed reviews of the company's unaudited condensed consolidated financial statements in accordance with generally accepted auditing standards applicable to reviews of interim financial information and the company's MD&A for the three-month period ended March 31, 20X6, in accordance with AT-C section 395.
- The accountant's reports on the examination and review of MD&A have been previously issued, but not distributed publicly; none of these reports is included in the securities offering. In this example, the auditor has elected to attach the previously issued reports to the comfort letter (see paragraph .A32).

Appropriate modifications would be made to the opening paragraph of the comfort letter if the auditor has performed a review of the company's annual MD&A.

The following would be substituted for the first paragraph of example A-1.

We have audited the consolidated financial statements of The Nonissuer Company, Inc. (the company) and subsidiaries, which comprise the consolidated balance sheets as of December 31, 20X5 and 20X4, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 20X5, the related notes to the consolidated financial statements, and the related financial statement schedules, all included in The Issuer Company's (the registrant) registration statement (no. 33-00000) on Form S-1 filed by the registrant under the Securities Act of 1933 (the Act); our reports with respect thereto are also included in that registration statement. The registration statement, as amended on June 28, 20X6, is herein referred to as the registration statement. Also, we have examined the company's Management's Discussion and Analysis (MD&A) for the year ended December 31, 20X5, included in the registration statement, as indicated in our report dated March 28, 20X6; our report with respect thereto is attached. We have also reviewed the unaudited condensed consolidated financial statements as of March 31, 20X6 and 20X5, and for the three-month periods then ended, included in the registration statement, as indicated in our report dated May 15, 20X6, and have also reviewed the company's MD&A for the three-month period ended March 31, 20X6, included in the registration statement, as indicated in our report dated May 15, 20X6; our reports with respect thereto are attached.

The following paragraph would be added after paragraph 3 of example A-1:

4. We have not examined any MD&A of the company as of or for any period subsequent to December 31, 20X5; although we have made an examination of the company's MD&A for the year ended December 31, 20X5, included in the registration statement, the purpose (and, therefore, the scope) of the examination was to enable us to express our opinion on such MD&A, but not on the MD&A for any interim period within that year. Therefore, we are unable to and do not express any opinion on the MD&A for the three-month period ended March 31, 20X6, included in the registration statement, or for any period subsequent to March 31, 20X6.

[As amended, effective for comfort letters issued on or after December 15, 2014, by SAS No. 129. Revised, April 2017, to reflect conforming changes necessary due to the issuance of SSAE No. 18.]

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