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American Institute of Certified Public Accountants. Auditing Standards Division

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# AICPA NEWS

## American Institute of Certified Public Accountants

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### CPAs SHOULD NOT ISSUE SOLVENCY LETTERS

NEW YORK CITY, February 25 -- Attestation standards preclude CPA firms from issuing so-called "solvency letters," according to an interpretation just released by the auditing standards division of the American Institute of Certified Public Accountants (AICPA).

Solvency letters are sometimes requested by lending institutions seeking assurances about a prospective borrower in connection with certain secured financings, such as leveraged buyouts and recapitalizations. The lenders are concerned because Federal and state statutes recognize solvency matters as a pivotal factor in determining if a fraudulent conveyance or transfer has occurred.

The division's interpretation of Statements on Standards for Attestation Engagements, Attestation Standards, holds that such assurances are precluded because "...these matters are legal concepts subject to legal definition and varying legal interpretation...not clearly defined in an accounting sense. Consequently, they do not provide the CPA with the reasonable criteria required to evaluate assertions about solvency under the third general attestation standard."

Dan M. Guy, vice president, auditing standards, for the AICPA, pointed out, however, that the interpretation allows CPAs to "...provide clients with various services that may be useful in a financing, such as an audit or review of historical financial information, an examination or review of pro forma financial information, an examination or compilation of prospective financial information, or the application of agreed-upon procedures to historical, pro forma or prospective financial information."

The interpretation also precludes CPAs from "...providing assurance on equivalent or substitute terms for solvency, adequacy of capital, or ability to pay debts that have been defined and agreed upon by parties to the financing... Although these terms may be defined in the context of a particular engagement, experience has shown that the use of lender's definitions by an accountant can be misunderstood as assurance that a particular financing does not include a fraudulent conveyance or transfer."

"That is a legal, not an accounting determination," Guy said.

The AICPA is the national professional organization of CPAs with more than 264,000 members in public practice, industry, government and education. In its continuing efforts to serve the public interest, the organization sets audit standards, upholds the profession's code of ethics, provides continuing professional education and prepares and grades the Uniform CPA Examination.

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