



The Mobility Challenges for the California Board of
Accountancy:

*Protection Consumers, Supporting Business Opportunities and
Promoting Equity*

Presentation before the California Board of Accountancy

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This brief was prepared in response to a request from the Assembly Committee on Public Safety for information on sex offender registration practices to guide the committee's analysis and assessment of policy options.

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Good afternoon, Madam President and members of the California Board of Accountancy.

My name is Brian Sala. I am the assistant director of the California Research Bureau, a division of the California State Library. CRB was created in 1992 to provide high-quality, nonpartisan research and reference services to the Legislature, the Governor, Cabinet officials and other constitutional officers.

We were asked by the Senate Business and Professions Committee to provide analytical support to the committee in the summer of 2009 as the committee was considering Senate Bill 691. That bill, as you know, was originally designed to implement the so-called “150-hour rule” in California.

We have continued to assist the committee toward better understanding the goals and implications of various potential changes to licensure requirements, as well as alternative strategies the Board or the legislature might consider for pursuing those goals. Due to a number of staffing changes and losses, we have not yet completed that work for the committee.

I have been asked to talk today about the nature of our work in support of the committee. I would like to acknowledge as well the important roles that Board staff and members have played in helping us to understand the issues facing the Board and the industry. We have been grateful for the proactive, cooperative stance the Board has taken toward our work.

Beginning in June 2009, we convened a series of stakeholder meetings to gather information about SB 691 and associated issues, including the 150-hour rule, practice privilege, mobility, and accountancy licensing in general.

In those meetings, participants identified to us three key themes or lenses through which licensing policies and policies of the Board more generally may be viewed.

- Consumer protection
- Enhancing commerce
- Leveling the playing field

Our subsequent work for the Committee has focused on helping members and staff better understand those three issues, and to help identify key questions that the Committee, and the Board, may wish to consider.

A. Consumer protection

California law specifies consumer protection as the top priority for the Board of Accountancy. But what does consumer protection mean? What is the nexus between consumer protection and licensing or practice policy proposals, such as the 150-hour rule or mobility? If the Board is to pursue a mobility agenda, how would consumer protection be preserved, enhanced, or otherwise addressed? And what are some alternative approaches to pursuing the general goal of enhancing consumer protection?

Accountancy services, like most services, are, in the parlance of economists, “experience goods.” That is, the quality of the service rendered is difficult or impossible to examine in advance of purchase. Indeed, a consumer of accounting services may not learn of the quality of services rendered until well after the fact.

This contrasts with commodities, which often are presented to the marketplace with well-defined, uniform properties. While I was in college,

I worked for a time for a grain elevator company. Farmers who brought their corn in for sale knew that their corn would be tested for moisture content, as this is one of the key properties that shapes price deviations from the market standard.

Service providers, in contrast, cannot easily be judged before-the-fact on the quality of their work for a prospective client. Instead, they depend on reputation and other signals about quality, such as qualifications and experience.

So, what information do consumers need in order to make informed choices about CPAs? Does the marketplace already provide that information uniformly to consumers? If not, what role could the Board play to improve consumers' ability to make informed choices?

The Board may wish to consider options here for developing an analytical framework for answering these questions. Business enterprises and individuals may vary in their ability to identify and compare CPA services.

CRB has not identified strong evidence in the literature to support either the 150-hour rule or a broader mobility agenda as clearly providing greater protection to consumers of CPA services. Lowering the barriers for California CPAs to practice in other states may be a goal desired by California CPAs, but there likely are many different options for achieving that goal.

In each case, CRB would suggest that the Board explicitly draft a plan for evaluating the effects of policy changes on outcomes for consumers. What are the desired outcomes? Are they measurable, or can the Board identify good proxies?

B. Enhancing commerce

Participants in our stakeholder meetings indicated to us that expanding business opportunities for California-licensed CPAs was an important goal.

In particular, they identified adoption of the 150-hour rule as one means for enhancing commerce, by increasing the likelihood that California licenses would be classed as “substantially equivalent” to CPA licenses in other states.

One of the major objections to this perspective raised in our meetings, and largely confirmed by our contacts with other state boards of accountancy, is that adoption of 150-hour rule provisions would not guarantee that California CPAs would in fact be treated as a substantially equivalent class of licensees by all states.

If the Board wishes to consider pursuing as a goal enhancing California CPAs’ ability to compete for out-of-state business opportunities, we would emphasize three points.

First, how important is this goal? We have found very little information to date about the extent of cross-border CPA activity, either outgoing from or incoming to California. The Board may wish to draft a strategy for improving the state of knowledge about the scope of cross-border practice in order to better judge the importance of this policy concern.

Second, if the goal is to lower barriers to cross-border practice while maintaining or enhancing consumer protections, what are the best strategies for achieving that goal – and how would we know whether a policy change is producing the desired outcomes? Better information on the extent of cross-border practice would help equip the Board to evaluate the success or failure of policy changes in this area.

Third, it strikes us that there are, in principle, alternative strategies available to the Board that may be more targeted to achieving this goal than would be unilateral changes in California's licensing standards and practices. For example, the Board could explore the possibility of negotiating agreements with regulators in other states that would guarantee reciprocal treatment of licensees.

We would point out, however, that at present we lack sufficient information to judge whether any such strategy would lead to net economic benefits for California-based CPAs. It could well be the case that any strategy designed to improve the mobility of CPAs to practice across state lines would lead to a net loss in market share for California-based CPAs to CPAs based in other states.

C. Leveling the playing field

The third major frame our meeting participants identified to us for considering licensing issues was whether the proposed adoption of a 150-hour rule would prove to be a barrier to entry to the field that imparted a significant, socially undesirable bias to who becomes a licensed CPA. California of course has since enacted a version of the 150-hour rule through SB 819.

There are two major, competing viewpoints on this concern. Some participants argued that the 150-hour rule could tend to deter students of lesser economic means – who are more likely to be students of color – from entry into the study of accounting and, thereby, entry into the field.

Other participants argued that 150 semester hours of coursework has become the *de facto* professional standard. If true, the new legal standard should prove to impose little or no barrier to entry to the field, because the marketplace had already put that standard into effect for new CPAs.

Unfortunately, we lack in California the data to test whether SB 819 will or has begun to change who studies accountancy, who sits for and passes the Uniform CPA Exam, or who becomes a licensed CPA.

There is evidence in the literature that imposition of a 150-hour rule has had significant effects on the timing and volume of first-time exam takers, as well as pass rates. This work strongly implies that the 150-hour rule has acted as a significant barrier to entry, although that work has become increasingly dated. We do not have strong evidence as to the 150-hour rule's impact on racial, ethnic or gender diversity in the field, however.

Nor do we have strong evidence that the 150-hour rule improves the quality of entrants into the field. Instead, we have evidence that pass rates on the Uniform CPA Exam go up after implementation.

The Board may wish to consider formulating a strategy for evaluating the impact of SB 819 on entry into, diversity in, and quality of CPA licensure in California. Further, the Board may wish to plan for what to do if it finds significant, biasing effects attributable to SB 819.

In summary, CRB's work for the Senate Committee on Business and Professions has led us, as researchers, to conclude that there is much that we do not yet know about the current state of CPA practice in the state of California, with respect to the three key goals or perspectives identified to us by stakeholders: consumer protection, enhancing commerce, and leveling the playing field.

I would be happy to take your questions.