Discussion of:
How Rules-Oriented Are Accounting Standards?

Discussed by:
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Research Questions

Study 1: Are accounting standards in practice rules or principles oriented?

Study 2: Is there evidence of a negative consequence of rules oriented accounting standards?
Highlights

• Contemporary subject of interest to researchers and regulators
• Unique data-set on occupational characteristics
• Examines both the orientation of standards and a potential consequence
• Introduces economic efficiency perspective to rules vs. principles discussion
• Some areas could be strengthened
Study 1: Design

• Develops prediction model for ‘efficient’ rules-orientation of occupations
• Uses error term from model to estimate the extent to which accounting is rules vs. principles oriented
• Concludes that accounting and auditing are inefficiency rules-oriented
Study 1: Overview

Error=0.45
%ile=91.9
Model Fit

How well does model predict these ‘Complex’ occupations?
Study Design

• Efficiency of orientation
  – Heavily relies on specification of model
  – Error term assumed to represent “barriers”

• Suggestions
  – Consider identifying barriers
  – Model the barriers as predictors of residual
Construct Validity

What level of EVALUATING INFORMATION TO DETERMINE COMPLIANCE WITH STANDARDS is needed to perform your job?

Reviews forms for completeness

Make a ruling in court on a complicated motion

Are decisions based on Rules or Principles?

1
2
3
4
5
6
7

Principles

Rules
Summary Study 1

- Discuss the fit of the model for occupations most similar to accounting and auditing
- Consider explicitly identifying barriers to efficiency (study the error term)
- Re-evaluate interpretation of rules vs. principles measure
Study 2: Design

- Powerful standard setter reduces “intensity of intellectual inquiry”
- Citations in *Accountants Handbook*
  - Cite standard-setters or others
  - Compare switch topics to principle-only topics
- Relative citations to standard setters increased while citations to others decreased
- Concludes standard-setters are crowding others out of the discussion
Intellectual Inquiry

• Use of Accountants Handbook perhaps not strongest source of evidence
  – Guide to practice, not “intellectual inquiry”
  – Documents the output of the inquiry

• Consider examining sources where intellectual inquiry is of primary importance
  – Standard Setters
    • Opinion letters to standard setters
    • Composition of standard setting board
  – Congressional hearing and committee reports
  – Academic research
Crowding Out?

• Assumes that citation count changes are due to ‘crowding out’
  – No model of citation count change (factors contributing)?
  – Difference in difference design not sufficient because of confounding factors associated with new standards

• Consider identifying factors that cause the change
  – New standards differ in their rules/principles orientation
Overall Summary

• Very relevant and timely topic
• Unique data set and analysis
• I appreciated the economic theory of competition between professions
• Could strengthen the paper by
  – Clarifying the construct of interest
  – Explicitly identifying drivers of inefficiency or citation counts
Thank You