APACS (Accounting Practitioner Academic Conversion System): Using Securitization to Solve an Emerging Business Education Funding Problem

Gregory L. Krippel, Robert B. Burney, and Sheila J. Mitchell
Wall College of Business Administration
Coastal Carolina University
P.O. Box 261954
Conway, SC 29528, USA

ABSTRACT

The emerging shortage of Ph.D. qualified accounting professors has led to considerable discussion. While changes in AACSB faculty qualification has allowed more "professionally qualified" faculty, Ph.D. qualified faculty are still in short supply.

One relatively recent approach to dealing with this shortage is the introduction of various initiatives designed to encourage existing accounting practitioners to attain the Ph.D. and transition into academic careers. Many obstacles exist to such transitions, but the cost of the transition is a key concern.

While student loans are available to support accounting students, the easily estimated future income stream of an AACSB accredited accounting Ph.D. graduate makes the situation on which could provide the basis for a market based alternative funding program using a securitization format. Essentially, loans to fund this particular type of study would be of high quality and easily characterized in terms of default risk.

Loan Securitization is the process whereby loans with similar characteristics are pooled and then used to back more easily traded securities. The advantage of this approach is the transformation of relatively illiquid claims into a format which can be traded in the more liquid capital markets. Thus, securitization is essentially a method of facilitating the interaction between providers and users of capital. Loan securitization has been used in many different settings. This paper proposes the use of loan securitization as an approach to channeling funds to accounting practitioners in transition to academic careers who are engaged in earning the required Ph.D. in accounting.

THE PROBLEM: INTENSIVE DOCTORAL STUDY OPPORTUNITY COST FOR ACCOUNTING PRACTITIONERS

The emerging shortage of Ph.D. qualified accounting faculty has led to several initiatives intended to encourage and assist certified accounting practitioners in their transition to academic careers. While awareness of the compensation levels for and nature of accounting faculty positions is not high among practitioners, the highest rated concern identified from surveys is the cost of the transition.

One alternative to the current situation would be to develop a system whereby promising candidates could transition from full time practice to a period of full-time graduate study. If a special form of funding were available to support appropriately selected candidates, then most likely, more candidates would move more rapidly through the Ph.D. study process.

The problem with this type of loan is that these loans would be relatively mispriced relative to other types of non-government sponsored student loans. Thus, it would be expected that the emergence of such financing would require some type of special inducement (such as government guarantees) or some specific sponsorship as catalyst (such as an industry group initiative). However, if such loans could be pooled and securitized, the result might well be to gain the attention and participation of the larger capital markets.

LOAN SECURITIZATION

Securitization in the most general sense is the transformation of a financial relationship into a financial transaction [2]. Securitization depends on a claim to a set of future cash flows. If one has rights to a set of future cash flows, one can sell those rights. If the right characteristics are present, the cash flows can be associated with a security which can have significantly different market presence than the relationship which gave rise to the cash flows. While any set of future cash flows might be securitized, market participants are at present most likely familiar with loan securitization.

Loan Securitization is most frequently used when the financing arrangements involve relatively small increments of debt which are created in individual transactions. For securitization to work, the individual debt transactions must be basically similar. At present, securitization is widely used in the repackaging for the larger capital markets of various types of consumer level loans. Securities based on this pooled loan concept currently exist for automobile loans, housing loans, and student loans.

Loan securitization can be seen as freeing financial institutions from the traditional funding role they played in the past. The other roles of financial institutions such as monitoring may persist in the presence of securitization of loans. [9].

The key to securitization is that the individual claims be similar enough to serve as rough substitutes for each other. Thus, the pool of claims upon which the security is based is simply a portfolio of similar, though not necessarily identical, financial instruments. For best results, the underlying claims must be well documented with estimable default and pre-payment rates. Aside from these basic requirements, essentially any type of loan could be used in the process.

The specific characteristics necessary for loans to be appropriate for securitization are generally agreed upon. First, there must be a considerable degree of standardization in the loan product [9]. Second, the cash flows associated with the loans must be clearly defined or readily estimable. Third, the loans should have relatively low risk. Frequently, lower risk loans are associated with assets which readily serve as collateral [9]. However, low risk need not necessarily be associated with collateral.

SECURITIZATION OF FUTURE INDIVIDUAL EARNINGS STREAMS

In recent years securitization has broadened to include star athletes and musicians. Indeed, plans are currently underway to introduce a formal market for securities based on the future earnings of professional athletes [5]. In the case of the proposed *ASA Sports Exchange*, the securitized cash flows would be 20% of all future sports related earnings. Similar concepts are loose in the European marketplace with at least one hedge fund which runs a portfolio of soccer players. Such approaches have been referred to as the "intellectualization" of pro sports, in which valuations (and salaries) are moving away from the gut estimates of insiders to more formal statistical valuation approaches [5].

More recently, startup company ***Upstart*** began operations in 2013 with a business model which sells rights to a specified percentage of an entrepreneur's unknown future earnings stream over a specified period. The founders of ***Upstart*** currently focus on technology entrepreneurs but recognize the potential for such arrangements to work in other industries [3].

Rock star David Bowie famously securitized his future royalties earnings. However, securitization of intellectual property has not advanced as quickly as was originally anticipated [10]. This may be due in large part to the difficulty of estimating the size and pattern of the associated cash flows.

The limitations to growth in the securitization of future individual earnings cash flow streams appears to arise from the difficulty or ease of estimating the future cash flows. Presumably, if the earnings stream of an individual were readily estimable, securitization of that stream would be relatively straightforward.

EARNINGS PATTERNS IN PROFESSIONAL ACCOUNTANTS AND ACCOUNTING FACULTY

Considerable data is available on expected salaries of certified accounting professionals and accounting Ph.D. in full-time academic positions. Data is also available which demonstrates the salary premium derived from successful completion of professional certification in the accounting field.

OUTLINE FOR THE CREATION OF APACS

The authors propose the creation of a system whereby select accounting practitioners are offered funding for a period of intensive doctoral study as they prepare for full-time faculty positions in accounting. Because of the qualification of the borrowers, their future earnings streams can be easily and accurately estimated. Thus a pool of such loans fulfills the requirements for securitization.

That is, the three major characteristics necessary for securitization are present. In this particular instance, one might most reasonable expect successful introduction of standardized professional doctoral study loans which then in turn could be pooled. Direct securitization of the accounting faculty members' earnings streams for this purpose would most likely await main streaming of the private salary securitization concept. In either case, it is likely that some mechanism (industry based) would be required to both introduce and oversee the loan program. With appropriate planning, securitization could follow.

CONCLUSIONS

This paper has discussed the potential use of securitization in solving the educational funding issue implied by current shortage of Ph.D. accounting faculty. Specifically, the possibility exists for a securitized loan program which would support certified accounting practitioners during their transition through focused Ph.D. programs In the authors' assessment, the characteristics of the individuals involved make future earning streams and certification premiums reasonably estimable. Both direct securitization of future earnings stream premiums and securitization of loans secured by future earnings are discussed. Further development of the conceptualization is left for future research.

REFERENCES

[1] Edmonds, J. (2005). "The CPA Exam in the Digital Age". *Disclosures*. VSCPA.

[2] Fabozzi, F. J. and V. Kothari. (2007). "Securitization: The Tool of Financial Transformation". *Yale ICF Working Paper No. 07-07.*

[3] Gannes, Lizi. (2013). "Former Googlers' Upstart Raises $5.9 M to Back Young People". *All Things D(igital),Aril 22.*

[4] Kothari, V. (2007). "Securitization - A Primer". *Securitization: The Financial Instrument of the New Millennium*. Wiley.

[5] Lewis, M. (2007). "The Jock Exchange". Conde Nast Portfolio, May, 156-68.

[6] Metzler, J. C. (2006). "The CPA Exam: Promoting the Value". *Small Firm Corner*. AICPA website.

[7] Myers, S. R. (2005). "Professors Debate Difficulty of Computerized CPA Exam". *The Trusted Professional*, 8(1).

[8] Rose, P.S. (2000). *Money and Capital Markets*. (7^{th} ed.). Boston, MA: Irwin McGraw-Hill.

[9] Scott, W. L. (1999). *Markets and Institutions*. Cinncinati, Ohio: International Thompson Publishing.

[10] Walsh, P. Securitization of Intellectual Property—An Explosion Still Waiting to Happen? In *IP Value 2006: Building and Enforcing Intellectual Property Value. An International Guide for the Boardroom.* Globe White Page, 2006, p. 34. http://www.buildingipvalue.com/06intro/033_034.htm