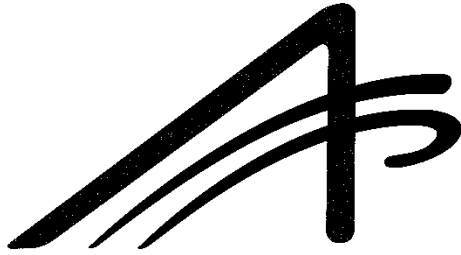




2011 AFP  
Business Outlook **Policy Supplement**  
Report of Survey Results



*Association for  
Financial Professionals*

# 2011 AFP BUSINESS OUTLOOK SURVEY

**POLICY  
SUPPLEMENT**

Key Results

January 2011

# 2011 AFP Business Outlook Survey—Policy Supplement

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## *Introduction*

In December 2010, the Association for Financial Professionals conducted a survey of its members on expected business conditions for 2011. The resulting survey report—also released in December—showed that U.S. financial professionals expect the U.S. economy will grow 2.3 percent in 2011. But they also do not anticipate a strengthening labor market to materialize until after 2011. Even though a significant share of financial professionals—in fact, the largest percentage since December 2006 (as reflected in the *2007 AFP Business Outlook Survey*)—expects their organizations will expand payrolls in 2011, they are expecting a net gain in payrolls of only 800,000.

The *2011 AFP Business Outlook Survey* also revealed that financial professionals are focusing on a number of factors that they think will affect the degree to which the U.S. economy gains strength during the New Year: consumer demand, business investment, access to credit, stability in the housing market and resolving uncertainty in tax policy. Financial professionals also saw limited value in the recently launched second round of quantitative easing by the Federal Reserve (the so-called “QE2”) as well as with any proposed additional fiscal stimulus. You can download the results to the *2011 AFP Business Outlook Survey* at [www.AFPonline.org/outlook](http://www.AFPonline.org/outlook).

The *2011 AFP Business Outlook Survey* also included a number of questions on the role public policy may have on business conditions during the New Year. To supplement these findings, AFP conducted an additional survey to query deeper on two specific areas of policy that could have an impact on 2011 business conditions: taxation of cash that is repatriated from overseas operations and proposals to have money market funds report floating net asset values (NAVs). This report reflects the findings of the original *2011 AFP Business Outlook Survey* along with the results from the supplemental survey.

Financial professionals are unique in that they not only must observe business conditions that affect their organizations and make assumptions on how those conditions will change in both the short and immediate term, but they must also make critical business decisions—including those concerning corporate borrowing and business investment—based on those observations and assumptions. Because financial professionals work in a wide range of industries in public and private organizations of varying sizes, their views are excellent indicators of future business conditions.

## *Policy, Regulation and the Economy*

Nine out of ten financial professionals believe both the uncertainty regarding business income taxes and Washington’s attitude about business (particularly in terms of regulatory and legislative tone) have had a detrimental impact on economic growth in the U.S. Fifty-eight percent regard uncertainty about taxation of business income as being a major detriment while 55 percent feel that a perceived “anti-business” sentiment of policymakers in Washington is hurting economic prospects.

Additional hurdles to economic growth are the growing federal deficit and the volatility in the U.S. dollar. Some analysts have linked the aggressive monetary policies of the Federal Reserve as being both inflationary and harming the value of the dollar. Forty-seven percent of financial professionals indicate that the size of the federal deficit is a major detriment to economic growth. Similarly, 36 percent of survey respondents view the volatility in the U.S. dollar as a major detriment.

**Policy Impact on Economic Growth**  
(Percent Distribution)

	Major detriment	Minor Detriment	Has no impact	Has promoted economic growth in the U.S.
Uncertainty about taxation of business income in 2011 and beyond	58%	33%	9%	*
Washington’s attitude about business in terms of regulatory and legislative tone	55	34	9	2
The size of the federal deficit	47	40	11	2
Uncertainty about taxation of personal income in 2011 and beyond	42	40	17	*
The volatility in the value of the U.S. dollar	36	52	9	3
The taxation of cash repatriated from overseas operations	23	56	17	4

In recent years, the U.S. government enacted a number of fiscal stimuli in the form of increased government expenditures and tax incentives (the highest profile example being The American Recovery and Reinvestment Act of 2009) to stimulate economic activity.

There has been debate about whether the U.S. government should further stimulate the economy through fiscal means—in other words, should there be another “stimulus” program. Some economists and policymakers point to the slow pace of job creation as evidence for the need for additional fiscal stimulus. Others, however, have expressed concern about the effectiveness of fiscal stimulus in general (as well as the recent stimulus programs specifically) and about the impact the current and resulting additional federal deficit will have on long-term growth prospects for the economy. Some support proposals like the one from the National Commission on Fiscal Responsibility and Reform (i.e., the President’s deficit reduction commission)—that include significant expenditure cuts and tax code reforms—as the path to long-term growth.

Financial professionals overwhelmingly do *not* believe that additional fiscal stimulus is necessary or desirable at this stage. Just 15 percent of survey respondents believe that additional fiscal stimulus is necessary given current economic conditions. On the other end of the spectrum, 37 percent of financial professionals believe that the state of the economy and the size of the federal deficit make it imperative to enact proposals like those from the deficit reduction commission. Nearly half of survey respondents believe neither additional stimulus nor drastic budgetary proposals are desirable at this point.

**View on Fiscal Stimulus/Deficit Spending Given Current Economic Conditions**  
(Percent Distribution)

Additional fiscal stimulus is necessary	15%
Additional fiscal stimulus is not necessary. However, the recovery remains too fragile to consider enacting budgetary proposals like those from the deficit reduction committee	48
The state of economy and the size of the federal deficit make it imperative to enact proposals like those from the deficit reduction commission	37

*Taxation on Cash Repatriated Back to the U.S.*

In 2004, Congress passed the American Jobs Creation Act (AJCA) which included the “Incentives to Reinvest Foreign Earnings in United States” provision that was part of the Homeland Investment Act (HIA). This provision allowed U.S. companies to repatriate offshore cash balances at a reduced tax rate. The measure that was signed into law in 2004, temporarily (for one year) reduced the current 35 percent rate and replaced it with a 5.25 percent rate on dividends in excess of normal distributions from foreign subsidiaries. That is, if an American company’s foreign subsidiary turned a profit and wanted to return the profit to the American company as a dividend, the dividend typically is taxed at 35 percent minus any taxes paid abroad. Congress responded by passing legislation that relaxed the tax laws to allow for repatriation of those dividends.

In January 2009, the issue reemerged and AFP weighed in with legislators encouraging them to consider enacting a similar reduction in taxes to allow U.S. corporations to transfer cash earnings from their foreign operations back to the U.S. and invest that cash domestically. AFP argued that enactment of a tax incentive for repatriating foreign earnings would help mitigate the need for many of these companies to take economically harmful actions by providing much needed liquidity. Investments could include new hiring, job retention, job training, capital spending, and research and development, all of which would aid in the recovery of our nation’s struggling economy.

Back during the earlier tax holiday, U.S. companies repatriated an estimated \$300+ billion, generating over \$15 billion in tax revenue for the Federal government. Current estimates have U.S. corporations holding \$1 trillion in cash and cash-like investments outside the United States. With a tax rate as high as 35 percent for bringing that money back into the United States, many U.S. companies face a significant disincentive to repatriate this cash back into the U.S.

Twenty-six percent of survey respondents indicate that their organizations made fewer investments in U.S. operations as a result of the tax placed on cash repatriated from U.S operations.

**Impact on Business Investment of Taxation on Cash Repatriated from Overseas Operations**

(Percent Distribution of Organizations with Non-U.S. Operations\*)

The tax has kept my organization from making investments in U.S. operations	26%
The tax has not kept my organization from making investments in U.S. operations	74

\*- Responses from survey respondents from banks/financial services were not included in the analysis

Proponents of the current tax rates on repatriated foreign earnings say the tax discourages companies from making investments in non-U.S. operations and stems the flow of American-based jobs overseas. Others, however, argue that not only do the taxes on repatriated foreign earnings have little impact of keeping jobs in the U.S., it discourages companies from repatriating the cash from overseas operations that could be used for capital investment and hiring more workers at their U.S. operations.

Two-thirds of respondents to the supplement policy survey that work at organizations that have non-U.S. based operations indicate that the tax on repatriated foreign earnings at current rates have little to no impact on the decision to continue and/or establish operations outside of the U.S. Conversely, nearly two-thirds of survey respondents from similar organizations state that the same tax has discouraged their organization from repatriating cash back to the U.S. and using it to invest in corporate growth (i.e., capital investments, hiring more workers, research & development).

**Impact of Corporate Taxes on Repatriated Foreign Earnings at Current Rates on the Establishment of Operations Outside of the U.S. and on Repatriating Foreign Earnings Back to the U.S.**

(Percent Distribution of Organizations with Non-U.S. Operations\*\*)

	Not at all	To very little extent	To some extent	To a great extent
Discourages organizations from continuing or establishing operations outside the U.S.	40%	27%	28%	5%
Discourages organizations from repatriating those earnings to the U.S. and investing them in corporate growth	22	14	27	37

\*- Responses from supplemental survey conducted in mid-December

A majority of financial professionals tie a reduction in the taxes imposed on repatriated cash from overseas operations to increased capital investment and employment in the U.S., with a greater impact resulting from a *permanent* reduction in the tax. Sixty-one percent of survey respondents link a temporary reduction on the tax levied against repatriated cash to greater capital investment and/or hiring in the U.S. Seventy-four percent foresee a similar positive outcome from a permanent tax adjustment.

Half of the survey respondents tie increased capital investment in the U.S. to a temporary reduction in the tax levied against repatriated cash while 63 percent see a similar positive outcome from a permanent reduction in the tax. Just over a third of respondents link increased employment in the U.S. to a temporary tax reduction in repatriated cash versus 55 percent doing so for a permanent tax reduction.

**Opinion of Reduction in Overseas Tax Resulting in Greater Capital Investment and Domestic Employment**

(Percent Distribution\*)

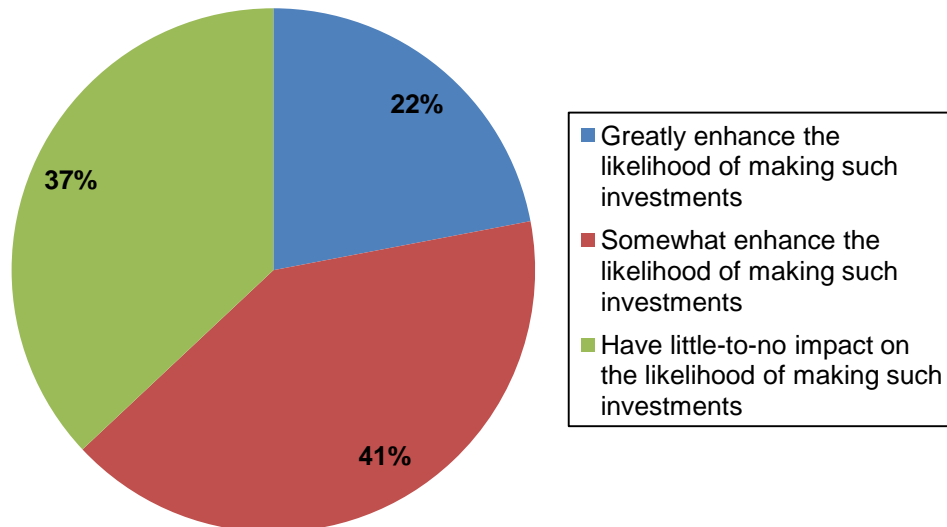
	Greater capital investment in the U.S.	Increase in employment in the U.S.	Greater capital investment and an increase in employment in the U.S.	No impact on capital investment nor employment
Temporary reduction in the tax levied against repatriated cash	26%	11%	24%	39%
Permanent reduction in the tax levied against repatriated cash	19	11	44	26

\*- Responses from survey respondents from banks/financial services were not included in the analysis

Most nations have corporate tax rates that are well below the U.S. tax rate on repatriated earnings. Arguably, this provides U.S. companies with foreign operations an incentive to keep income from overseas operations of the U.S. Some proposals have setting the tax on repatriated foreign earnings at the corporate tax rate of the country where the earnings were generated. Twenty-two percent of survey respondents from organizations with overseas operations state that adjusting the tax on

repatriated earnings to a rate that is similar to corporate tax rate in the country where the earnings were generated would greatly enhance the level of investment inside of the U.S. as earnings are repatriated back to the U.S. Another 41 percent believe the proposal would “somewhat enhance” such investments.

**Expected Impact on Organizations' U.S. Investments (e.g., Hiring, Plants, Equipment) of Lowering the Tax Rate on Repatriated Foreign Earnings to Tax Rates Similar to Those in the Country Where the Earnings Were Generated\***



\*- Responses from supplemental survey conducted in mid-December

*Money Market Funds*

In January 2009, the Securities and Exchange Commission (SEC) voted to adopt new rules to strengthen money market funds (MMFs). The new rules focus on limiting risks associated with those funds, increasing protection of investors, improving fund operations, and enhancing fund disclosures.

One of the most notable changes is that for the first time MMFs are required to report their "shadow" net asset value (NAV) on a 60-day delay basis. The first reports will be made public on February 7, 2011. The reported shadow NAV of the funds could deviate from the stated \$1.00 per share value.

Three out of five survey respondents (59 percent) indicate that releasing the 60-day shadow net asset value (NAV) will have an impact on their organizations' investment decisions related to MMFs. This was a significant increase from the 43 percent of financial professionals who held this view in May of 2010 (and reported in the *2010 AFP Liquidity Survey*), and perhaps reflects a greater understanding of the impact of the new reporting rules. Thirty-nine percent of survey respondents anticipate their organizations will either reduce or completely eliminate MMFs from their short-term investment portfolios because of the possibility of a NAV falling below \$1.

**Impact of the Potential Shadow NAVs Reported to Be Under \$1  
on Organization's Use of MMFs  
(Percent Distribution\*)**

It will have no bearing	41%
Organization will monitor it and will sell funds that report a NAV that falls below \$1	20
Possibility of reporting NAV below \$1 would cause us to reduce MMF holdings	27
Possibility of reporting NAV below \$1 would cause us to stop investing in MMFs	12

\*- Responses from survey respondents from banks/financial services were not included in the analysis

Some financial professionals believe that MMFs should drop the \$1.00 fixed asset value of the funds for a floating NAV. They argue that such a move would provide for greater transparency for investors. Others, however, suggest that the move would introduce significant volatility to the funds, making them less viable as a short-term investment vehicle for companies.

In late October 2010, the President's Working Group (PWG) on Financial Markets issued a report suggesting more reforms to ensure the resiliency of money market funds during periods of financial crises. In the report, the PWG indicated that switching money-market funds to a floating net asset value, or NAV, could reduce risk, but gave only measured support for such a change. Switching to a floating NAV "would have potential benefits, but those benefits would have to be weighed carefully against the risks that such a change would entail," the report said.

Still, a majority of financial professionals—54 percent—would *not* support dropping the \$1.00 fixed asset value for money market funds for the implementation of a floating NAV. Just 14 percent would support such a move.

**Agreement on a Move to a Floating NAV for MMFs  
(Percent Distribution\*)**

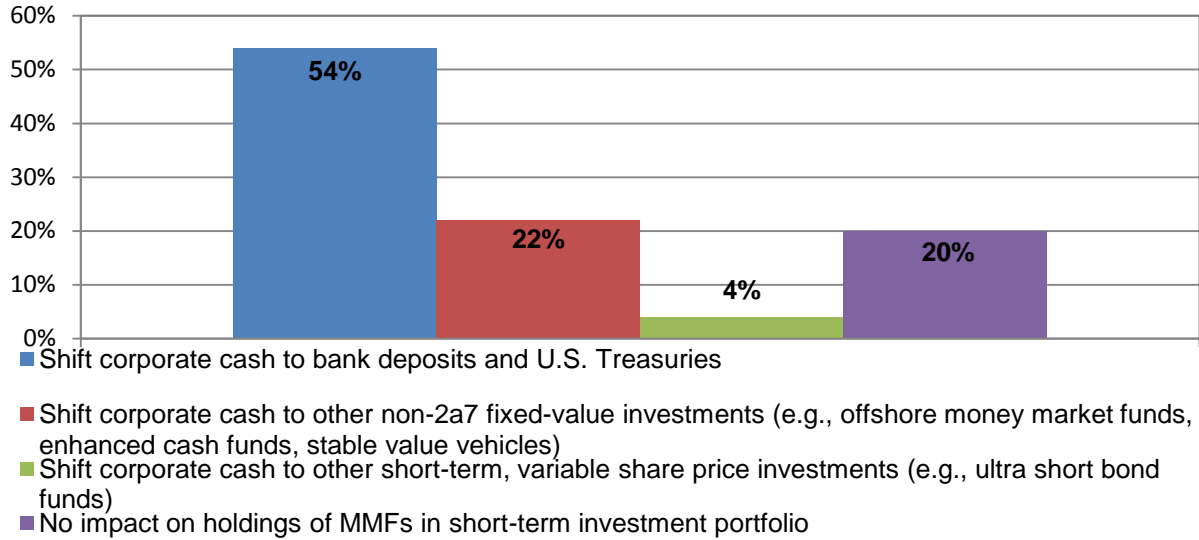
Strongly Agree (5)	3%
(4)	11
(3)	31
(2)	24
Strongly disagree (1)	30

\*- Responses from survey respondents from banks/financial services were not included in the analysis

Four out of five organizations that currently include MMFs in their short-term investment portfolios would likely move at least some of these funds out of MMFs as a result of a shift to a floating NAV. Fifty-four percent of survey respondents indicate that their organizations would shift corporate cash into bank deposits and U.S. Treasury securities. Twenty-two percent would move funds out of MMFs and into non-2a7 fixed-value investment vehicles (such as, offshore money market funds, enhanced cash funds and stable value vehicles). Four percent of survey respondents anticipate their organization would move funds currently in MMFs into other short-term, variable share price investments (e.g., ultra short bond funds).

### Anticipated Impact of a Shift to a Floating NAV for MMFs

(Percentage Distribution of Organizations that Use MMFs in Their Short-Term Investment Portfolio)



\*- Responses from supplemental survey conducted in mid-December

#### *Dodd–Frank Wall Street Reform and Consumer Protection Act*

Signed into law in July 2010, the Dodd–Frank Wall Street Reform and Consumer Protection Act represented the most significant reform of the financial services industry in decades. The landmark legislation overhauled U.S. financial services by enacting new controls on large and interconnected financial firms, tougher capital and operating standards for banks, and implementing a new regime for the regulation of the over-the-counter derivatives markets. The law also enacts new requirements and oversight of credit rating agencies making additional disclosures mandatory and putting in place practices that attempt to mitigate conflicts of interests throughout the ratings process.

Financial professionals do not believe that Dodd-Frank will have a significant impact on many organizations' interactions with the financial system. Just over half of survey respondents do not believe the law will impact either corporate or consumer access to credit, nor will it impact an organization's management of its bank relationships. Approximately three out of ten survey respondents fear a negative impact resulting from the law on credit access.

Financial professionals are most likely to expect seeing a positive impact resulting from Dodd-Frank in terms of mitigating system risk to the banking system (49 percent) and improving the quality of analysis provided by the credit rating agencies (41 percent).

**Anticipated Impact Resulting from Dodd–Frank Wall Street Reform and Consumer Protection Act**  
(Percent Distribution\*)

	Significantly Improve (5)	(4)	No significant impact (3)	(2)	Significantly worsen (1)
Mitigation of systemic risk to the banking system	5%	44%	41%	8%	2%
Quality of analysis provided by credit rating agencies	5	36	49	8	2
Bank relationship management	3	24	57	14	2
Corporate access to credit	2	15	55	25	3
Consumer access to credit	2	15	50	27	6

\*- Responses from survey respondents from banks/financial services were not included in the analysis.

### *Conclusions*

Overall, financial professionals anticipate the U.S. economy will continue to strengthen, albeit at a modest pace, in 2011, with nearly half of financial professionals expecting growth in gross domestic product (GDP) of between 2.0 and 2.9 percent. While the largest percentage of financial professionals since December 2006 is anticipating their organizations will add staff to their payrolls in 2011, financial professionals are expecting a net gain in payrolls of only 800,000 for the entire U.S. economy. Financial professionals are focusing on a number of factors that they feel will affect the degree to which the U.S. economy is able to pick up steam in 2011: consumer demand, business investment, access to credit, stability in the housing market and resolving uncertainty in tax policy.

In addition, financial professionals believe a reduction in the tax levied on cash repatriated from overseas operations—particularly a permanent reduction—would be an effective way to spur business investment in the U.S. and generate jobs. Further, a majority of financial professionals would not support a move to a floating net asset value (NAV) for money market funds (MMFs) and indicate that their organizations would likely move much of the funds in its short-term investment portfolios away from MMFs.

### *Methodology*

On November 29, 2010 AFP sent a 24-question survey to corporate practitioner members and prospective members that asked about their thoughts about and expectations of business conditions. Through December 10<sup>th</sup>, AFP received 706 responses generating a response rate of approximately nine percent (adjusted for undelivered email). Surveys also were sent to members who work for financial institutions and other vendor organizations. This generated 102 additional responses. The total 808 responses to the survey are the basis of this report.

AFP conducted a second survey in mid-December to inquire on several policy-related issues. That survey sent to senior-level corporate practitioner members of AFP on December 13<sup>th</sup> and generated 258 responses through December 17<sup>th</sup>.

The characteristics of the survey respondents mirror those of AFP's membership with wide coverage across all major industry groups. The typical respondent is employed by an organization with annual revenues of \$1.9 billion. Forty-eight percent of respondents work for a publicly traded organization.

## **AFP EconWatch**

*AFP EconWatch* is a weekly newsletter featuring a summary of the latest economic data released over the previous week—tracking everything from prices and output to interest rates and business confidence. Designed to provide financial professionals with a roundup of the latest economic trends that could affect their organizations, this quick read is published every Monday and is emailed to subscribers and also is available on AFP’s Research page at [www.AFPonline.org/research](http://www.AFPonline.org/research).

## **About AFP Research**

AFP Research provides financial professionals with proprietary and timely research that drives business performance. The AFP Research team is led by Managing Director of Research and Strategic Analysis, Kevin A. Roth, Ph.D., and is joined by four research analysts. AFP Research also draws on the knowledge of the Association’s members and its subject matter experts in areas that include bank relationship management, risk management, payments, and financial accounting and reporting. AFP Research reports on a variety of topics, including AFP’s annual compensation survey, are available online at [www.AFPonline.org/research](http://www.AFPonline.org/research).

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The Association for Financial Professionals (AFP) serves a membership of more than 16,000 treasury and finance professionals. Headquartered in Bethesda, Maryland, in the U.S., AFP provides members with news, economic research and data on the evolving world of treasury and finance, as well as world-class treasury certification programs, networking events, financial analytical tools, training, and public policy representation to legislators and regulators. AFP is the daily resource for treasury and finance professionals.

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