

# SFbulletin

By Adel Abutarboush, Amanda Balbi, Stephen Barlas

## GOVERNMENT



### Inversion Bill Will Include Accounting Changes

By Stephen Barlas

Sen. Ron Wyden (D.-Ore.), chair of the Senate Finance Committee, hoped to have a bipartisan bill dealing with corporate inversions in place by the end of September. That legislation would touch on accounting rules and earnings stripping, which is a key piece of any sound solution, according to Wyden. Since much of Congress will most likely leave town in October because of the November elections, a September bill would have kicked off a frenzied Congressional legislative effort to pass a tax bill that could become the target of other amendments dealing with issues beyond inversion. For example, in early August, a group of 46 senators from both parties wrote to Wyden and Sen. Orrin Hatch (R.-Utah), the top Republican on the committee, warning them not to move forward with a change that limits business use of cash accounting.

Such a limit was included in the Staff Discussion Draft: Cost Recovery and Accounting that Sen. Max Baucus (D.-Mont.) released in late 2013. Baucus was then the chair of Finance. The Discussion Draft was a broad, bipartisan tax reform proposal drawing on past bills introduced by Republicans and Democrats in previous Congresses. So if the Senate Finance Committee were to include other measures in a tax inversion bill, those measures could be picked out of Baucus's Discussion Draft. Hence the concern of the 46 senators, who referred to the draft's proposal to require all businesses that exceed \$10 million in annual gross receipts to use the accrual

method of accounting. "Requiring more businesses to use the accrual method of accounting would create unnecessary complexity in the tax law and substantially increase compliance costs," the letter said. "In addition, the proposal would create a significant barrier to economic growth by discouraging many small businesses from expanding." Baucus's draft also includes the repeal of the current MACRS (Modified Accelerated Cost Recovery System) and Alternative Depreciation System (ADS) rules. They would be replaced by a single set of depreciation rules that apply to all business taxpayers.

As of this writing, no bill has been introduced, but the U.S. Treasury Department has announced new rules aimed at combating inversions.

### Sherman Turns Up Heat on the FASB

Rep. Brad Sherman (D.-Calif.), cofounder of the Congressional CPA (Certified Public Accountant) Caucus, made his latest foray against the Financial Accounting Standards Board (FASB) lease Exposure Draft at hearings with the Securities & Exchange Commission (SEC) Director of Corporation Finance, Keith Higgins. Higgins pleaded ignorance as to whether the SEC had raised any concerns with the FASB about the May 2013 Exposure Draft, which would require companies with revenues of more than \$10 million to adopt accrual accounting while giving companies with less than \$10 million in revenues a choice of using cash or accrual accounting.

Sherman has written two very detailed letters to the Board eviscerating the draft. Higgins said Sherman should ask the SEC's Chief Accountant, Paul Beswick. Sherman replied that he had called Beswick, but because Beswick was about to leave the Commission, he wasn't able to discuss the issue.

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## BOOKS

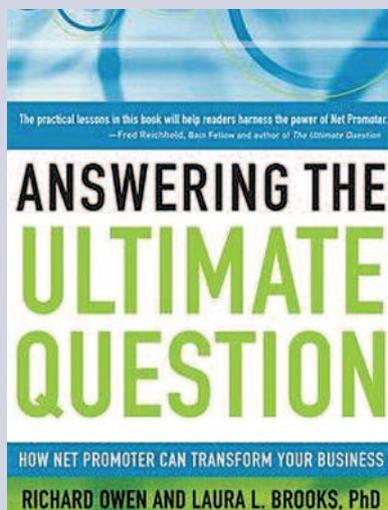


# A Question of Customer Loyalty

Companies frequently use customer surveys as a way to assess customer satisfaction. But asking the right questions is crucial for capturing an accurate understanding. A measure called the Net Promoter Score (NPS) was developed to help companies get a clear picture of how customers view their performance. The foundation of the NPS system was described by head developer Fred Reichheld in his book *The Ultimate Question*. And now, with *Answering the Ultimate Question*, Richard Owen and Laura Brooks—contributors to the NPS—build on Reichheld's work to further help companies gauge customer loyalty.

When customers find your products and services to be “very satisfactory,” are they actually saying they prefer yours over the competition? Reichheld believes that one question works best for most mature and competitive industries to predict customer behavior: “How likely is it that you would recommend our company to a friend or colleague?” This is the ultimate question that enables you to calculate your company's NPS. Those who answer that question with the highest rating are labeled “promoters”—and the more promoters your company has, the bigger its growth.

To calculate NPS, first ask customers to rate the likelihood that they will recommend a product or service to a friend or colleague on a scale of zero to 10, where 10 is extremely likely and zero isn't likely at all. Then take the percent-



age of respondents who selected a rating of zero to six (the detractors) and subtract that from the percentage of respondents who selected a rating of 9 or 10 (the promoters). The result is the NPS.

Owen and Brooks examined hundreds of companies that had implemented the NPS and found that an increase in the NPS led to revenue growth in most companies. They attribute this correlation to four behaviors of loyal customers: They buy more, stay longer, refer friends, and are more willing to provide feedback and ideas.

Owen and Brooks say that perceiving NPS as only a score is a “recipe for disappointment.” While the concept of NPS is very simple, outstanding results call for massive changes: building a customer-focused culture, integrating customer loyalty with product development, and/or customer segmentation. NPS systems require digging deeper to find the

root causes of why customers feel the way they do about a company and its products or services. Once you identify customer issues and concerns, you can resolve them as soon as possible. Since all customers aren't the same, the authors emphasize the importance of understanding customers and their demographics, behaviors, and needs. This is essential for targeting and better serving specific customer groups rather than trying to serve and please everyone.

*Answering the Ultimate Question* contains interesting examples of how customer segmentation helps direct limited resources to serve the most lucrative groups with products and services that provide distinctive value to each group. There are also examples that demonstrate how the NPS can be used to estimate the value of moving customers among NPS segments (from detractors to promoters) and how to evaluate performance by comparing the NPS across business units, functions, or branches.

You can really judge this book by its title—it really does answer the ultimate question. I found this book really satisfactory because it doesn't portray the NPS as a magical wand that solves every business problem and realizes customer loyalty. On the contrary, it proved to be very realistic in its approach. For those of you looking for a promising customer loyalty program, I would certainly recommend reading it!

—Adel Abutarboush, CMA, CIA

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Sherman has assembled a bipartisan group of at least 60 members of the House of Representatives who oppose the Exposure Draft. In one of his letters to the FASB, Sherman wrote: “To my knowledge, virtually all the members of Congress aware of your Exposure Draft have urged you not to adopt it.” Sherman believes the FASB proposal requiring the capitalization of lease obligations presents a significant threat to the balance sheets of American businesses.

An April 18, 2014, letter from the Financial Reporting Committee (FRC) and the Small Business Financial and Regulatory Affairs Committee (SBFRC) of IMA® to the FASB delved deeper into a number of technical issues raised by the Exposure Draft. In the letter, the Committees said: “We continue to support the Board’s decision to reconsider the accounting for leases, and we believe that lessees should reflect an asset and a liability for substantially all leases. We also continue to support convergence. As such, we were disappointed that the tentative decisions reached at the latest meeting would, if adopted as final, lead to significant differences in both lessee and lessor accounting.”

A FASB spokesperson said the primary purpose of the lease project is to enable investors to more easily understand material lease obligations that are currently reported off the balance sheet. The FASB expects to conclude its deliberations on the lease project by the end of 2014. “If

that timeline holds, then we would expect to issue a final standard sometime in 2015,” said the spokesperson. “The Board has not yet decided what the effective dates of the standard would be, but that information will have been decided by the time the final standard is issued.”

Sherman’s letters to the FASB, however, seem to make it clear that he would introduce legislation that would at a minimum roll back any FASB changes suggested by the Exposure Draft and that he would have significant Congressional support for that legislation. But he has gone further and warned that a refusal to at least field test any prospective changes would damage the FASB’s standing in Congress and perhaps endanger its independence.



## SEC to Issue Largest Whistleblower Reward

By Amanda Balbi

On September 22, the Securities & Exchange Commission (SEC) announced it will award an unnamed whistleblower a record amount of at least \$30 million for his/her efforts in uncovering fraud. The individual, who worked in a company outside the United States, supplied the SEC with information about practices within the company that were hurting investors.

According to Andrew Ceresney, SEC enforcement director, “This whistleblower came to us with information about an ongoing fraud that would have been very difficult to detect.” Ceresney also said, “This record-breaking award sends a strong message about our commitment to whistleblowers.”

The award is valued between \$30 million to \$35 million, depending on the amount the SEC collects in the case. The money for the award will come from an investor protection fund established by Congress.

The whistleblower’s identity is protected under the Dodd-Frank Act, which will enable the individual to return to the field without fear of retaliation.

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