

# How EU Member States Can Win the “Trust and Confidence” of Global Capital Markets Key Stakeholders

**Paul B. Kazarian**

**JAPONICA PARTNERS**

**THE CHARLES & AGNES KAZARIAN FOUNDATION**

**Public Financial Management Challenges for Portugal**

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**ISCTE**  **Business School**  
INSTITUTO UNIVERSITÁRIO DE LISBOA

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# Outline of Comments

- Section A: Background Observations
- Section B: Best Practices to Win the Trust and Confidence of Capital Markets
- Section C: Who Should be Held Accountable for Worst Practices that Undermine Trust and Confidence in the Government, which Increase Volatility and Risk?
- Section D: 4 Immediate Action Items to Win the Trust and Confidence of Capital Markets

# Quick Facts on Japonica and Kazarian

- **Japonica Partners** was founded in 1988 with our core competency of rejuvenating (turning around) multinational conglomerates that most see as un-savable.
- **Our skillsets** include improving employee performance through extensive education and training programs, and winning the trust and confidence of key stakeholders with transparency of financial results. Our track record is one of the best in the world.
- **We extended our reach** in summer 2012 to an underperforming EU country with a major investment in Greek government bonds.
- **Our efforts in the EU have gained professional recognition**, including winning the 2016 William Pitt the Younger award for our work in strengthening democracy through government financial management.

# Section A: Background Observations

- General
- European Union
- Portugal
- Greece (see Section C  
Accountability for Worst Practices)

# **General Background Observations**

# General Background Observations

1. Markets are **globally interconnected** and with the EU trends of both more integration and separation require internationally comparable government financial statements.
2. Governments are often over a **majority of the economy** and have **massive balance sheets**.
3. Absence within government of **professional managers and management processes**.
4. Lack of government transparency of internationally comparable financial statements, especially **no balance sheets**.
5. The focus on headline debt (FFV) and cash deficits cultivates **destructive short-termism and misleading reporting** schemes.
6. There is a significant and increasingly destructively **lack of trust and confidence** in government and government financial reporting.
7. Governments all too often aid capital market forces seeking to profit from **market volatility and biased commentary** by focusing their presentations on political considerations and headline economic soundbites.

# EU Member State General Governments are a Very Significant Part of the Economy with Total Expenditures an Average 46% of GDP

		Total Expenditure % of GDP			Total Expenditure % of GDP
SN	Country	% of GDP	SN	Country	% of GDP
1	Finland	58%	15	Germany	44%
2	France	57%	16	Malta	43%
3	Denmark	56%	17	Spain	43%
4	Greece	55%	18	United Kingdom	43%
5	Belgium	54%	19	Czech Republic	43%
6	Austria	52%	20	Luxembourg	42%
7	Hungary	51%	21	Poland	41%
8	Italy	51%	22	Bulgaria	40%
9	Sweden	50%	23	Cyprus	40%
10	Portugal	48%	24	Estonia	40%
11	Slovenia	48%	25	Latvia	37%
12	Croatia	47%	26	Romania	36%
13	Slovakia	46%	27	Ireland	35%
14	Netherlands	45%	28	Lithuania	35%
				<b>Average:</b>	<b>46%</b>

# The Focus on Headline Debt (FFV) and Cash Deficits Cultivates Destructive Short-Termism and Misleading Reporting Schemes: Examples

- Focus on debt at future face value (FFV) and cash balances are two of the **most easily manipulated** financial numbers.
- Focus on FFV **ignores changes in Taxpayers' Equity**, which is vastly more meaningful.
- Focus on cash balances increases pressure to **spend more money on vote buying** (consumption) and less on capital expenditures (e.g., infrastructure).
- Focus on FFV and cash **increases pressure to sell government assets** rather than increase value through better management.



# Market Forces Profit from Volatility and Risk Assessment Swings

## Hedge funds:

- Increases trading profits
- Increases frequency of trading
- Create relational profit anomalies
- Improves CDS profit opportunities

## Investment Banks:

- Wider bid-ask spreads
- Increases the price of liquidity
- Increases trading commissions

## Media

- Volatility sells papers and generates profitable internet activity

# A Growing Consensus Among Voters as to the Reasons Government Will Not Publish a Balance Sheet in Accordance with International Standards

- #1. Exposes hidden **vote buying**
- #2. Exposes **incompetence**
- #3. Don't want to be compared based on **financial facts**
- #4. Don't want to be held **accountable** for financial underperformance
- #5. Exposes **corruption**

# **European Union Background Observations**

# EU Member State Governments Aggregated have an Estimated €45 Trillion in Assets and Liabilities, €88,354 per Citizen

(31 December 2015; €, billions)

<u>SN</u>	<u>Balance Sheet Item</u>	<u>Amount</u>	<u>% of Total Assets and Liabilities Combined</u>	<u>% of GDP</u>
1.	Financial Assets	€ 4,569	10%	31%
2.	Non-Financial Assets	€ 10,576	23%	72%
3.	Total Assets	€ 15,145	33%	103%
4.	Financial Liabilities	€ 12,484	28%	85%
5.	Non-Financial Liabilities	€ 17,390	39%	119%
6.	Total Liabilities	€ 29,874	67%	204%
7.	Net Worth (Taxpayer's Equity)	-€ 14,729		-101%
8.	GDP			€ 14,635

# Over the Past Ten Years, Total Capital Formation by EU Member State Governments Aggregated

## Decreased 1% while Other Primary Expenditures Increased 24%

SN		2007 to 2016 Change		2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
		(%)	(Euros)										
1.	Fixed Consumption	1%	€ 4	€ 421	€ 428	€ 409	€ 402	€ 411	€ 430	€ 449	€ 455	€ 445	€ 417
2.	Other Fixed	-8%	-€ 11	€ 123	€ 149	€ 148	€ 148	€ 200	€ 148	€ 203	€ 175	€ 184	€ 134
3.	Total Fixed	<b>-1%</b>	-€ 7	€ 544	€ 577	€ 557	€ 550	€ 611	€ 578	€ 653	€ 630	€ 629	€ 551
4.	Total Revenue	17%	€ 973	€ 6,657	€ 6,593	€ 6,315	€ 6,145	€ 6,014	€ 5,807	€ 5,574	€ 5,348	€ 5,725	€ 5,684
5.	Total Fixed as % of Total Revenue	-1.5%		8.2%	8.8%	8.8%	8.9%	10.2%	10.0%	11.7%	11.8%	11.0%	9.7%
6.	Primary Expenditure	22%	€ 1,192	€ 6,652	€ 6,609	€ 6,376	€ 6,225	€ 6,201	€ 6,024	€ 6,054	€ 5,852	€ 5,692	€ 5,460
7.	Primary Expenditure as % of Revenue	3.9%		99.9%	100.2%	101.0%	101.3%	103.1%	103.7%	108.6%	109.4%	99.4%	96.1%
8.	Primary Expenditure less Total Fixed	<b>24%</b>	€ 1,199	€ 6,108	€ 6,032	€ 5,820	€ 5,675	€ 5,590	€ 5,446	€ 5,402	€ 5,222	€ 5,063	€ 4,909
9.	Primary Expenditure less Total Fixed as % of Revenue	5.4%		91.8%	91.5%	92.2%	92.4%	92.9%	93.8%	96.9%	97.6%	88.4%	86.4%
10.	Interest Expense	-6%	-€ 19	€ 322	€ 335	€ 354	€ 365	€ 386	€ 381	€ 342	€ 317	€ 351	€ 341
11.	Interest Expense as % of Revenue	-1.2%		4.8%	5.1%	5.6%	5.9%	6.4%	6.6%	6.1%	5.9%	6.1%	6.0%

Notes: EC AMECO data accessed 28 July 2016. Fixed Consumption is "Gross fixed capital formation"; Primary Expenditure is "Total expenditure excluding interest".

# EU Annual Accounts – 2011 to 2015 (1 of 2)

(€, millions)

Financial statements are prepared in accordance with **IPSAS** and audited by the European Court of Auditors.

<b>SN</b>		<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>Avg. % Change</b>	<b>Total Change</b>
1.	Net Assets (Net Worth)	-72,442	-58,006	-45,852	-40,416	-33,850		-38,592
2.	Annual % Change	-25%	-27%	-13%	-19%		-21%	
3.	Annual Euro Change	-14,436	-12,154	-5,436	-6,566			
4.	Total Assets and Liabilities	379,835	383,454	355,576	348,432	308,874		70,961
5.	Annual % Change	-1%	8%	2%	13%		5%	
6.	ROA	-9%	-7%	-4%	-4%		-6%	
7.	Financial Assets ( Incl. Cash)	93,913	85,794	74,925	74,966	66,328		27,585
8.	Non-Financial Assets	59,783	76,930	79,937	79,042	71,184		-11,401
9.	Total Assets	153,696	162,724	154,862	154,008	137,512		16,184
10.	Annual % Change	-6%	5%	1%	12%		3%	
11.	Annual Euro Change	-9,028	7,862	854	16,496			
12.	Financial Liabilities	59,703	60,679	59,532	57,247	41,230		18,473
13.	Non-Financial Liabilities	166,436	160,051	141,182	137,177	130,132		36,304
14.	Total Liabilities	226,139	220,730	200,714	194,424	171,362		54,777
15.	Annual % Change	2%	10%	3%	13%		7%	
16.	Annual Euro Change	5,409	20,016	6,290	23,062			

Notes: Consolidated Annual Accounts of the European Union: 2012, 2013, 2014, and 2015. GNI from EC AMECO database accessed 2 August 2016. See next page.

# EU Annual Accounts – 2011 to 2015 (2 of 2)

(€, millions)

Financial statements are prepared in accordance with **IPSAS** and audited by the European Court of Auditors.

<u>SN</u>		<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>Avg. % Change</u>	<u>Cumulative Change</u>
17.	Economic Result of the Year	-13,033	-11,280	-4,365	-5,329	-1,789		-35,796
18.	Annual % Change	-16%	-158%	18%	-198%			
19.	Annual Euro Change	-1,753	-6,915	964	-3,540			
20.	Net Cash Flow	4,126	8,035	-1,164	-8,261	-3,128		-392
21.	Annual % Change	-49%	790%	86%	-164%			
22.	Annual Euro Change	-3,909	9,199	7,097	-5,133			
								<b><u>Total Change</u></b>
23.	Revenue	142,886	153,989	151,693	137,745	130,053		12,833
24.	Annual % Change	-7%	2%	10%	6%		3%	
25.	Expenses	155,919	165,269	156,058	133,953	132,754		23,165
26.	Annual % Change	-6%	6%	17%	1%		4%	
27.	EU GNI	14,621,000	13,972,000	13,576,000	13,477,000	13,237,000		1,384,000
28.	Annual % Change	5%	3%	1%	2%		3%	

Notes: Consolidated Annual Accounts of the European Union: 2012, 2013, 2014, and 2015. GNI from EC AMECO database accessed 2 August 2016.

# Capital Markets will Increasingly Demand Government Financial Transparency upon Recognition of Repercussions of **"Collective Action Clauses"**

- New collective action clauses allow for value destructive changes in bond terms.
- Approval percentage have been reduced to 67% and some would say 50%.
- Investor unfriendly aggregation provisions have been included to essentially eliminate the rights of holders in individual issues.
- Affiliate voting definitions are designed to allow ECB, NCB, systemic banks, and government social security funds to exercise control over voting outcome.



# **Portugal**

## **Background Observations**

# Portugal Background Observations: Documents Analyzed

As background for our Portugal specific commentary, we have **reviewed 2015 and 2016**:

- Rating reports from all four credit rating agencies (Moody's, S&P, Fitch, and DBRS)
- Research reports from seven investment banks
- Debt agency investor presentations and publications
- Invest in Portugal government publications
- IMF Article IVs and transparency reports

# Portugal Background Observations: Findings

1. No discussion of **balance sheet**, other than face value of debt.
2. Little to no discussion of **assets or non-financial liability** management other than cash.
3. No discussion of status and plans of **financial controls and processes**.
4. No discussion of government **human capital management** or professional team and skills building.
5. Very little discussion of efforts to improve government **financial transparency** to win the trust and confidence of all key stakeholders, including voters.
6. No disclosure of government's **Taxpayers' Equity**, annual changes, or impact of the government's largest financial decisions (e.g., billion plus decisions).

**Given the Absence of Portugal General Government Balance Sheet, Japonica Team Working Draft Estimate of Portugal General Government indicates over €700 Billion in Total Assets and Liabilities, €69,857 per Citizen**  
*(€, Billions; as of 31 December 2015)*

<b><u>SN</u></b>	<b><u>Balance Sheet Item</u></b>	<b><u>Amount</u></b>	<b>Assets and Liabilities</b>	<b><u>% of GDP</u></b>
1.	Financial Assets	€ 66	9%	37%
2.	Non-Financial Assets	€ 145	20%	81%
3.	Total Assets	€ 211	29%	118%
4.	Financial Liabilities	€ 208	29%	116%
5.	Non-Financial Liabilities	€ 304	42%	169%
6.	Total Liabilities	€ 512	71%	285%
7.	Net Worth	-€ 301	-42%	-168%
8.	Total Assets and Liabilities	€ 723	100%	
9.	GDP			€ 179

*Notes:* Working draft balance sheet prepared under the direction of Japonica Partners based on IMF, EC, and Eurostat data. Assumes 10% increase in NFA and 33% increase in pension liabilities from 2012 to 2015. 20

# Eurostat: Portugal General Government Financial Assets - Year-End 2015

(€, Millions)

	<u>Consolidated</u>	<u>% of GDP</u>	<u>Non-Consolidated</u>	<u>% of GDP</u>
1. Currency and deposits	€ 18,178	10%	€ 28,431	16%
2. Short-term debt securities	€ 137	0.1%	€ 1,051	0.6%
3. Long-term debt securities	€ 3,273	2%	€ 20,138	11%
4. Short-term - Loans	€ 472	0.3%	€ 2,836	2%
5. Long-term - Loans	€ 8,942	5%	€ 36,833	21%
6. Listed shares	€ 900	0.5%	€ 900	0.5%
7. Unlisted shares	€ 11,960	7%	€ 10,591	6%
8. Other equity	€ 17,127	10%	€ 17,127	10%
9. Investment fund shares/ units	€ 2,768	2%	€ 2,776	2%
10. Insurance, pensions and stand. guar.	€ 18	0.0%	€ 18	0.0%
11. Fin. Deriv. and empl. stock options	€ 2,538	1%	€ 2,538	1%
12. Total Financial Assets	€ 66,314	37%	€ 123,239	69%
GDP	€ 179,379			

Notes: Financial assets data from Eurostat (excludes accounts receivable); GDP from EC AMECO database; accessed 18 October 2016.

# Portugal and Peer Balance Sheet Debt and Net Debt (IPSAS/IFRS): 2013-2015

(€, Billions)

		<i>Working Draft Estimate</i>				
		<u>Greece</u>	<u>Ireland</u>	<u>Italy</u>	<u>Portugal</u>	<u>Spain</u>
1.	Balance Sheet Debt	€ 125	€ 190	€ 2,172	€ 208	€ 1,054
2.	Financial Assets	€ 45	€ 76	€ 328	€ 66	€ 312
3.	<b>Balance Sheet Net Debt</b>	<b>€ 80</b>	<b>€ 114</b>	<b>€ 1,844</b>	<b>€ 142</b>	<b>€ 742</b>
4.	GDP	€ 176	€ 215	€ 1,636	€ 179	€ 1,081
5.	Balance Sheet Debt / GDP	71%	88%	133%	116%	97%
6.	Financial Assets / GDP	25%	35%	20%	37%	29%
7.	Balance Sheet Net Debt / GDP	<b>45%</b>	<b>53%</b>	<b>113%</b>	<b>79%</b>	<b>69%</b>
8.	Future Face Value of Debt	€ 312	€ 201	€ 2,172	€ 231	€ 1,072
9.	Future Face Value / GDP	177%	94%	133%	<b>129%</b>	99%

Notes: Balance sheet debt estimates as of August 2016 prepared under the direction of Japonica Partners according to IPSAS/IFRS based on publicly available sources including EC, EFSF, ESM, IMF, and Bloomberg data. Financial asset data from Eurostat as of October 2016.

# Working Draft Estimate Portugal Balance Sheet VCR and ROA: 2012-2015

<u>SN</u>	<u>Balance Sheet Item</u>	<u>2012</u>	<u>2015</u>	<u>% Change</u>
1.	Financial Assets	€ 73	€ 66	-9%
2.	Non-Financial Assets	€ 134	€ 145	8%
3.	Total Assets	€ 207	€ 211	2%
4.	Financial Liabilities	€ 203	€ 208	2%
5.	Non-Financial Liabilities	€ 230	€ 304	32%
6.	Total Liabilities	€ 433	€ 512	18%
7.	Net Worth	-€ 226	-€ 301	-33%
8.	<b>Value Creation Ratio (VCR)</b>		0.1x	
9.	<b>Return on Assets (ROA) - Average</b>		-12%	
10.	GDP	€ 168	€ 179	

Notes: Value Creation Ratio (VCR): Change in GDP divided by change in Net Worth. Return on Assets (ROA): Three year average annual change in net worth as a percentage of 2015 Total Assets. IMF financial liabilities maybe reported at FFV.

# Tool 3 - Performance Gap Framework: Portugal Summary

(€, Billions)

SN		Value Creation KPI		Return on Asset (ROA) KPI	
		<u>Ratio</u>	<u>GDP Increase</u>	<u>Ratio</u>	<u>Net Worth Change</u>
1	Portugal Current (Est.)	0.1x	€ 2	-12%	-€ 25
2	Benchmark KPI	0.8x	€ 17	-5%	-€ 10
3	Performance Gap	0.7x	€ 15	7%	€ 15
4	<b>Performance Gap % of GDP</b>		8%		8%

Notes: Working draft estimates prepared under the direction of Japonica Partners. 2015 GDP of €179.4 billion (EC AMECO accessed 15 October 2016).



# Portugal CRA Key Individuals to be Educated on New Balance Sheet Initiatives to Win Trust and Confidence

<b>Moody's</b>	<b>Standard &amp; Poor's</b>	<b>Fitch</b>	<b>DBRS</b>
Alastair Wilson (Head of Sovereign Ratings)	Moritz Kraemer (Global Chief Rating Officer - Sovereign Ratings)	James McCormack (Committee Chair, MD - Head of Sovereigns)	Roger Lister (Rating Committee Chair, MD, Chief Credit Officer)
Yves Lemay (MD - Sovereign Risk)	Marko Mrsnik (Primary Credit Analyst, Sr Director - Sovereign Ratings)	Ed Parker (Head of Europe Sovereign Group)	Alan G. Reid (Group MD – Financial Institutions and Sovereign Group)
Dietmar Hornung (Associate MD – Europe Sovereign Risk)	Frank Gill (Director of European Sovereign Ratings)	Federico Barriga Salazar (Primary Analyst, Director)	Fergus McCormick (Chief Economist - Co-Head of Sovereign Ratings)
Kathrin Muehlbronner (Lead Analyst, SVP Fin. Inst. Group)	Jaineel Patel (Research Contributor)	Douglas Winslow (Secondary Analyst, Director)	Nichola James (Co-Head of Sovereign Ratings; Head of Europe Sovereign Ratings)
			Michael Heydt (VP – Global Sovereign Ratings)
			Adriana Alvarado (Lead Analyst, VP- Sovereign Risk)

# Thorough First Hand Knowledge of Credit Rating Agency Frameworks Necessary to Accelerate CRA Focus on Relevance of Winning Trust and Confidence Initiative

Moody's	S&P
<p>Aim is to enable issuers, investors and other interested market participants to understand how Moody's assesses credit risk and explain <b>how key quantitative and qualitative risk factors map to specific rating outcomes</b>. In the vast majority of the world's debt capital markets, national governments are the largest borrowers and their credit standing provides a benchmark for other issuers of debt.</p>	<p>Main objectives were to provide market participants with a clearer picture of how we rate sovereigns. Credit ratings agencies can play an important role in providing investors with an <b>independent opinion about the creditworthiness of individual sovereigns</b>. Ratings agencies help reduce the information asymmetry between issuers and investors.</p>
Fitch	DBRS
<p>Sovereign Issuer Default Ratings (IDRs) are <b>a forward-looking assessment of a sovereign's capacity and willingness to honour its existing and future obligations in full and on time</b>. Fitch's approach to sovereign credit risk analysis is a synthesis of quantitative and qualitative judgements that capture the willingness as well as the capacity of the sovereign to meet its debt obligations.</p>	<p>Ratings reflect the probability of default or the likelihood that an obligor's debt will be repaid in a timely manner and in full. DBRS incorporates all meaningful factors that could affect the risk of maintaining timely and full payments of interest and principal in the future. DBRS's methodology looks at a broad array of economic, fiscal, financial and political factors in order <b>to assess the government's ability and willingness to service its debt obligations</b>.</p>

# Rating Agency Factor Weightings Confirm Importance of Success in the Winning Trust and Confidence Initiative

<u>Moody's</u>		<u>S&amp;P</u>	
<u>Four Factors</u>	<u>Weight</u>	<u>Five Factors</u>	<u>Weight</u>
#1. Economic Strength	12.5%	#1. Political Score	25%
#2. Institutional Strength	12.5%	#2. Economic Score	25%
#3. Fiscal Strength	25%	#3. External Score	17%
#4. Susceptibility to Event Risk	50%	#4. Fiscal Score	17%
		#5. Monetary Score	17%
<u>Fitch</u>		<u>DBRS</u>	
<u>Four Factors/Variables</u>	<u>Weight</u>	<u>Six Factors</u>	<u>Weight</u>
#1. Structural Features	53.6%	#1. Fiscal management and Policy	16.67%
#2. Macroeconomic Performance, Policies & Prospects	11.8%	#2. Debt and liquidity	16.67%
#3. Public Finances	16.7%	#3. Economic structure and performance	16.67%
#4. External Finances	17.9%	#4. Monetary policy and financial stability	16.67%
		#5. Balance of payments	16.67%
		#6. Political environment	16.67%

**Section B:**  
**Best Practices to Win the  
Trust and Confidence of  
Capital Markets**

**Centre for European Policy Studies (CEPS)**  
**Balance Sheet Task Force:**  
**Select Slides**

# Why focus on managing government balance sheets?

- Transparency and accountability to win trust and confidence.
- Performance improvement and assessment.
- Global comparability.
- Top priority for institution building.
- More and less EU integration. (International accounting standards to be used in constructing a balance sheet for Brexit.)

# It is Essential that Governments Use Change in Net Worth (also known as Taxpayers' Equity) as a KPI in Decision-Making and Performance Assessment

- **Net Worth definition** is Total Assets minus Total Liabilities.
- **All entities** have a Net Worth including governments.
- Government Net Worth is also known as **Taxpayers' Equity**.
- Government Net Worth and changes in Net Worth are **much more robust numbers** than the single balance sheet line item of debt.

# Foundations of Balance Sheet Management

1. Accrual vs. Cash.
2. Double entry vs. single entry autonomous ledgers.
3. International accounting standards to reflect economic reality vs. politically determined rules.
4. Independently audit under international rules vs. expense audits.
5. Used during decision-making and reporting vs. reporting only.



# What are the Traits of Government Consolidated Financial Statements?

- Components: Extensive granularity and comprehensive disclosure.
- Internationally comparable: benchmark to best-in-class.
- Integration: Four fully integrated financial statements.
- Verification: independent audit verification.
- Transparency/accountability: plain language and public friendly.

# A Framework to Understand How Knowledge and Management of a Government Balance Sheet Improve “Functional Areas” of Financial Performance and Risk

	“Functional Areas”	
	Financial Performance	Risk
<b>Knowledge</b> <i>(Stage 1)</i>	To have true and fair <b>internationally comparable knowledge of government financial performance</b> , the balance sheet, the supporting consolidated financial statements, and notes are the starting point for decision-making and accountability.	The balance sheet at the core of consolidated financial statements provides <b>standardized and quantified knowledge of risks</b> (especially large, complex, and expanding liabilities) and helps expose masking of financial risks.
<b>Management</b> <i>(Stage 2)</i>	Capable management using three balance sheet related decision-making tools (T-accounts, financial statements, and performance gaps) <b>can improve financial performance and changes in net worth, and minimize errant decisions.</b>	Early risk management of potential asset impairment or opaque liabilities is an effective process to <b>reduce costs by limiting or avoiding the materialization of these risks and strengthens accountability.</b>

# Government Benchmarks with Financial Statements Prepared in Accordance with International Accounting Rules

US



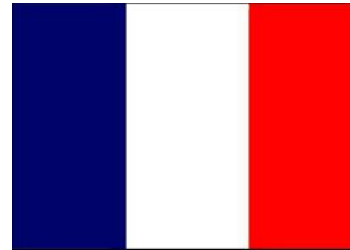
US GAAP

UK



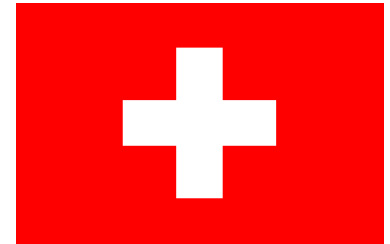
IFRS

FR



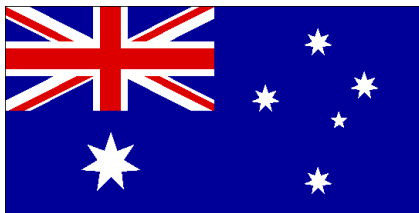
IPSAS/IFRS

CH



IPSAS

AU



IFRS-like

CA



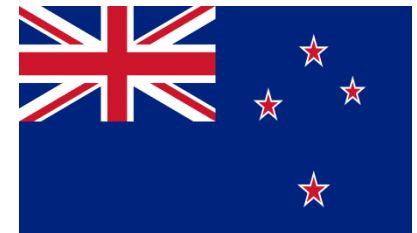
IPSAS-like

IL



IPSAS

NZ



IPSAS

# Public Sector Benchmarks with Financial Statements Prepared in Accordance with International Accounting Rules



European Union  
IPSAS



IFRS



IFRS



US GAAP



IPSAS



IPSAS

# Key Balance Sheet Metrics for Global Benchmarks Highlight Wide Performance Gap

(2001 to 2015)

Benchmarks include AUS, CAN, FRA, ISR, NZL, CHE, GBR, USA.

		<u>Rank #1</u>	<u>Rank #8</u>	<u>Median</u>	<u>Definition</u>
1.	<b>Value Creation Ratio (VCR)</b>	NWI 70% of GDP	0.3x	2.0x	Change in GDP per unit change in Net Worth start point to end point.
2.	<b>Return on Assets (ROA)</b>	4%	-38%	-7%	Average annual change in net worth as a % of total assets.
3.	<b>Net Worth % of GDP - Latest</b>	38%	-158%	-66%	Latest period end net worth as a % of latest year GDP.
4.	<b>Net Worth Annual % Change</b>	19%	-13%	-4%	Average annual percentage change in net worth during period.
5.	<b>GDP Change to Debt Change Ratio</b>	651%	53%	147%	GDP increase per unit of debt increase start point to end point.
6.	<b>Net Debt % of GDP - Latest</b>	3%	64%	30%	As reported balance sheet net debt as a % of GDP.

Notes: 2001 to 2015 data or all available data from this period.

Value Creation Ratio: Full period change in GDP divided by change in Net Worth.

Return on Asset (ROA): Change in net worth as a percentage of assets.

Net Worth as % of GDP - Latest: Latest period end (2014 or 2015) net worth divided by corresponding year GDP.

Net Worth Annual Percentage Change: Annual change in year end net worth.

GDP Change to Debt Change Ratio: GDP increase as a % of debt increase.

Net Debt % of GDP - Latest: Latest period end (2014 or 2015) net debt (debt less financial assets) derived from respective government balance sheets divided by corresponding year GDP.

# Best - Worst Practices Performance Gap: Illustrative Balance Sheet Line Items (1 of 2)

	<b>Best Practice</b>	<b>Worst Practice</b>
	<b>Financial Assets:</b>	<b>Financial Assets:</b>
1.	Internal cost of capital allocation.	Ignore existence of working capital and its cost.
2.	Benchmarking to achieve top quartile performance.	Bottom quartile performance or no benchmarking or management of financial assets.
3.	Better returns and minimized risk exposure on politically influenced loans.	Opacity and large losses on politically influenced loans.
4.	Full disclosure of financial assistance to and returns on SOEs.	Hidden SOE economic burden and risk.
	<b>Non-Financial Assets:</b>	<b>Non-Financial Assets:</b>
5.	Optimal re-investment in and use of real estate assets.	Chronic mismanagement of potentially high value commercial real estate assets.
6.	Charge units market cost of real estate to improve utilization.	Cost of real estate of units limited to maintenance cost and no impairment charges.
7.	Better management of and reinvest in potential asset sales to increase value and Taxpayer's Net Worth.	Fire sales of public assets to gain current cash.
8.	Low and declining single digit percentage fraud in accounts receivable.	Double digit percentage fraud in accounts receivable payments.
9.	Projects built based on lowest cost to financial metrics.	Public private partnerships with private party has required double digit rate of return, including sale-and-leasebacks.
10.	Concessions that both maximize long term value creation and improve value for the money in delivery of services.	Front-end load inflows to fund exiting (or even worse, new promises) annually recurring operating expenditures.
11.	Asset depreciable lives that encourage high ROI program maintenance.	Unrealistically long depreciation lives that short change program maintenance and create larger replacement costs in the future.
12.	Measure and report real estate tax basis appreciation in areas surrounding government infrastructure investments.	Ignore reporting and accountability for impact of infrastructure investments.
13.	Annual impairment reviews of tangible and intangible assets create discipline to protect asset value.	No balance sheet and/or no proper annual review hides asset value destruction.
14.	Measure, manage, and disclose both billed and collected taxes, including on the balance sheet.	Focus on and report only taxes collected not billed, with no balance sheet.

# Best - Worst Practices Performance Gap: Illustrative Balance Sheet Line Items (2 of 2)

	<b>Best Practice</b>	<b>Worst Practice</b>
	<b>Financial Liabilities:</b>	<b>Financial Liabilities:</b>
15.	International standards and audits.	Incorrectly calculating balance sheet debt.
16.	Report pro-forma impact on financial statements.	Ignoring quantification of debt relief impact on net worth.
17.	Use all three tools to understand economic impact of liability management exercises.	Liability management without consideration of financial statement impact.
	<b>Non-Financial Liabilities:</b>	<b>Non-Financial Liabilities:</b>
18.	Payables paid on exact date due.	Incur and not report interest penalties on arrears.
19.	Disclose impact on financial statements of change in government employee pension terms.	Non-quantification of balance sheet impact of change in government employee pension terms.
21.	Quantifies and proactively manages litigation risk.	Ad hoc post-event handling.
22.	Fully funded civil service pension funds.	Assuming non-government pension liabilities in exchange for cash, and showing cash inflow as revenue while not reporting the corresponding liability.

# Three Basic Decision-Making Tools

1. Modified T-Accounts
2. Financial Statements (Four)
  - Balance Sheet
  - Performance Statement
  - Cash Flow Statement
  - Statement of Changes in Net Worth (Taxpayers' Equity)
3. Performance Gap



# How do these Tools Improve Performance: Examples

- Allow decision makers to see the economic reality of **complex financial transactions and decisions**.
- Provide insights into **prospective liabilities**.
- Assist in **ranking financial impact** of various alternatives.
- Provide accurate information to **better manage financial and fixed assets**.

# Tool 1: Modified T-Account

**Start with one billion plus euro decisions.**

Assets		Total Debts / Net Worth	
Financial Assets		Debt	
		Total Debts	
		Net Worth	
Total Assets		Total Debts and Net Worth	

# **Tool 2: Financial Statement Impact Summary**

<b>Balance Sheet</b>	<b>Performance Statement</b>
<b>Cash Flow Statement</b>	<b>Statement of Changes in Net Worth (Taxpayers' Equity)</b>

# Tool 3: Performance Gap Framework – EU Summary

(€, Billions)

		Value Creation KPI		Return on Asset (ROA) KPI	
<u>SN</u>		<u>Ratio</u>	<u>GDP Increase</u>	<u>Ratio</u>	<u>Net Worth Change</u>
1	EU Current (Est.)	0.3x	€ 309	-8%	-€ 1,212
2	Benchmark KPI	0.8x	€ 825	-5%	-€ 757
3	Performance Gap	0.5x	€ 516	3%	€ 454
4	<b>Performance Gap % of GDP</b>		4%		3%

# VCR and ROA KPIs: Goals, Meaning, and Source of Improvement

## Value Creation Ratio (VCR):

- **Definition:** change in GDP per unit change in Net Worth start point to end point.
- **Goal:** increase GDP and/or reduce cost of generating GDP.
- **Meaning:** value for money.
- **Sources of Improvement:** GDP growth and balance sheet management.

## Return on Assets (ROA):

- **Definition:** annual or average annual change in net worth as a % of total assets.
- **Goal:** improve trends in net worth and/or improve the mix of revenue and expenses, and – importantly – changes in assets and liabilities.
- **Meaning:** performance of balance sheet management.
- **Sources of Improvement:** balance sheet management.

# Financial Impact From Closing Government VCR and ROA Performance Gaps

- **Valuation Creation Ratio (VCR) Increase:** A VCR increase with same change in net worth corresponds to an increase in GDP, which if high value-add GDP, has precedent of yielding 25% to 50% in additional government revenue.
- **Return on Assets (ROA) Increase:** Increases in net worth reported in accordance with international accounting standards can confirm a combination of greater cash inflows on assets, increases in asset values, and reductions in current and future cash outflows.

# Examples of Financial Decisions Benefiting from Understanding Financial Statement Impact

Assess transparency, performance, comparability (globally and historically), and accountability of the following (listed alphabetically by balance sheet section):

	<b>Financial Assets:</b>
1.	Bank sector recapitalizations
2.	Impairment on financial assets
3.	Temporary designations hiding financial transactions
	<b>Non-Financial Assets:</b>
4.	Asset sale vs. reinvestment decisions
5.	Fixed asset deterioration
6.	Leasing vs. buying
7.	Public – private partnerships
8.	Revenue and expense recognition on long-life agreements
9.	Tax waivers
	<b>Financial Liabilities:</b>
10.	Concessional loans
11.	Debt buybacks
12.	Emission premiums to understate debt
13.	Exclusion of debt raised for specific purposes
	<b>Non-Financial Liabilities:</b>
14.	Delaying government payments
15.	Environmental liabilities bail-out
16.	Government employee pension changes
17.	Litigation exposure
18.	Private pension bail-out

# **Section C:**

## **Who Should be Held Accountable for Worst Practices that Undermine Trust and Confidence in the Government which Increase Volatility and Risk?**

**\*Overstating  
Debt**

**\*Not Disclosing  
Debt Relief**

**\*Denying  
Destroyed  
Asset Values**



# Debt Measurement by International Standards/Guidelines

**“The truth only counts when there are agreed rules of evidence.”** Financial Times, 9 October 2016.

Standards / Guidelines	Securities	Loans	Rescheduled Debt	Financial Assets
<b>IPSAS</b>	Amortized cost	Amortized cost	Amortized cost	All financial assets
<b>IFRS</b>	Amortized cost	Amortized cost	Amortized cost	All financial assets
<b>2008 SNA</b>	Market value	Nominal value	Present value	All financial assets incl. receivables
<b>ESA 2010</b>	Market value	Nominal value	Present value	All financial assets incl. receivables
<b>IMF DSA</b>	Concessional debt at 5% discount rate and other at nominal value; requires grant element of 35%+ to qualify			Financial assets corresponding to debt instruments
<b>EDP (Dual)</b>	Face value / PV	Face value	Face value / PV	None

*Note:* Present value at time of transaction using market rates on commercial arms length basis.

# Greece 2015 YE Balance Sheet Net Debt, Correctly Calculated in Accordance with International Accounting or Statistics Rules is 45% and 62% of GDP, Respectively: Details

(€, Billions)

1. <b>Rules:</b>	International Accounting Standards (IPSAS/IFRS)	2008 System of National Accounts (2008 SNA)	European System of Accounts 2010 (ESA 2010)	IMF Debt Sustainability Analysis (DSA)	Lisbon Treaty Excessive Deficit Procedure* (EDP)
2. <b>Authority and Benchmarks:</b>	Produced by independent and professional accounting standards boards. Utilised by leading governments globally including the UK, Switzerland, New Zealand, France, and Israel. Debt standards are IPSAS 29 and IFRS 39 and 9. Utilized by all major international publicly traded companies.	Produced and released under the auspices of the United Nations, the European Commission, the OECD, IMF, and the World Bank Group. All countries encouraged to report under 2008 SNA as soon as possible. 2008 SNA Sections 13.59 and 22.106-113.	ESA 2010 was promulgated to achieve the objectives set by the Treaty on the Functioning of the European Union (TFEU) and adopted in the form of a regulation of the European Parliament and of the Council dated 21 May 2013 to give a solid legal basis for Member States. ESA 2010 Sections 5.19-21, 7.67, 20.221 and 20.236.	Series of IMF Staff Guidance Notes and papers from 2007 to 2015. Topics include: public debt limits (effective date June 30, 2015), DSA-LIC frameworks and excel model, unification of discount rates, and Greece DSAs.	Debt definition is in Lisbon Treaty (2007) attached as Protocol 12 on Excessive Deficit Procedure* (EDP). Operative metric is the 60% debt to GDP for Member States. Of note, at year end 2015, the EU average D/GDP was 87% and the EZ average was 93%. EDP Notification Tables require present value of debt.
3. <b>Type of Debt Recalculated from (Future) Face Value:</b>	All debt	Debt reorganizations and debt securities	Debt restructurings and debt securities	Concessional debt	Protocol 12: None; EDP Table 4, Item 4: Debt restructurings and debt securities
4. <b>Framework:</b>	Reflect economic reality and provide most meaningful information for decision-making and accountability.	Statistical framework that provides macroeconomic accounts for policymaking, analysis, and research purposes. Of note, politically influenced rules and application provide numbers that reflect public policy preferences.	To achieve the objective of the Treaty on the Functioning of the EU (TFEU). To provide a set of harmonized and reliable statistics on which to base decisions and policy advice. Of note, politically influenced rules and application provide numbers that reflect public policy preferences.	The present value (PV) of debt is a more relevant indicator as it takes into account the concessionality of debt. For countries where official external financing on concessional terms is a key source of public external financing or has become a normality.	Legal compliance with the Treaty on the Functioning of European Union (TFEU) and Stability and Growth Pact with debt measured at face value. EDP Notification Table 4, Item 4 requires present value of debt.
5. <b>Debt Valuation Reference Points:</b>	Market at initial recognition or substantial modification and then at amortized cost.	Debt reorganizations based on market (PV) at time of transaction, securities at market, and other debt at nominal value.	Debt reorganizations based on market (PV) at time of transaction, securities at market, and other debt at nominal value.	Concessional debt at 5% unification discount rate and other debt at nominal value. Requires grant element of at least 35% to qualify for PV.	Face value and present value.
6. <b>Consolidated Sectors</b>	Controlled entities	Central, EBF, local, SSFs, and non-market SOEs	Central, EBF, local, SSFs, and non-market SOEs	Central, EBF, local, SSFs, and non-market SOEs; and as designated	Central, EBF, local, SSFs, and non-market SOEs
7. <b>Gross Debt</b>	€ 125	€ 155	€ 155	€ 203	FV: € 311 / PV: € 155
8. <b>Gross Debt % of GDP</b>	71%	88%	88%	116%	FV: 177% / PV: 88%
9. <b>Financial Assets</b>	Financial assets	Financial assets, including receivables	Financial assets, including receivables	Financial assets corresponding to debt instruments	NA
10. <b>Net Debt</b>	€ 80	€ 110	€ 110	€ 187	NA
11. <b>Net Debt % of GDP</b>	45%	62%	62%	106%	NA

Notes: \*Japonica Partners collaborative analysis. EC 479/2009 "Whereas (4)" states "The definition of 'debt' laid down in the Protocol on the excessive deficit procedure needs to be amplified by a reference to the classification codes of ESA 95". 2015 GDP of €176 billion from EC AMECO database and financial asset data from Eurostat (accessed 19 July 2016). Net Debt is Gross Debt less Financial Assets.

# ESA 2010 Rules Specify that Restructured Debt is Extinguished and Revalued at Transaction Value

**ESA 2010**

## Debt operations

20.221 Debt operations can be particularly important for the general government sector, as they often serve as a means for government to provide economic aid to other units. The recording of these operations is covered in Chapter 5. The general principle for any cancellation or assumption of debt of a unit by another unit, by mutual agreement, is to recognise that there is a voluntary transfer of wealth between the two units. This means that the counterpart transaction of the liability assumed or of the claim cancelled is a capital transfer. No flow of money is usually observed, this may be characterised as a capital transfer in kind.

### Other debt restructuring

20.236 Debt restructuring is an agreement to alter the terms and conditions for servicing an existing debt, usually on more favourable terms for the debtor. The debt instrument that is being restructured is considered to be extinguished and replaced by a new debt instrument with the new terms and conditions. If there is a difference in value between the extinguished debt instrument and the new debt instrument, it is a type of debt cancellation and a capital transfer is necessary to account for the difference.

## Chapter 5: Valuation

5.19 Financial transactions are recorded at transaction values, that is, the values in national currency at which the financial assets and/or liabilities involved are created, liquidated, exchanged or assumed between institutional units, on the basis of commercial considerations.

5.20 Financial transactions and their financial or non-financial counterpart transactions are recorded at the same transaction value. There are three possibilities:

(c) neither the financial transaction nor its counterpart transaction is a transaction in cash or via other means of payment: the transaction value is the current market value of the financial assets and/or liabilities involved.

5.21 The transaction value refers to a specific financial transaction and its counterpart transaction. In concept, the transaction value is to be distinguished from a value based on a price quoted on the market, a fair market price, or any price that is intended to express the generality of prices for a class of similar financial assets and/or liabilities. However, in cases where the counterpart transaction of a financial transaction is, for example, a transfer and therefore the financial transaction may be undertaken other than for purely commercial considerations, the transaction value is identified with the current market value of the financial assets and/or liabilities involved.

# Greece Government Did Not Disclose Present Value of Debt as Requested by the EC in EDP Table #4, Item #4.

In case of substantial differences between the face value and the **present value** of government debt, please provide information on: (i) the extent of these differences. (ii) the reasons for these differences.

The answers provided by Greece in the table below avoid the disclosure by providing qualitative, not quantitative, responses.

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4 In case of substantial differences between the face value and the present value of government debt, please provide information on

i) the extent of these differences:

Market value of securities much lower than nominal value

ii) the reasons for these differences:

Economic crisis

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# Comparison of International Accounting and Political Definition of Greek Debt Relief and Debt Reduction

Background facts: Greece rated CCC and 25-year bonds YTM approximately 8%. ESM 30-year bond YTM less than 1%.

<b>Debt Operations</b>	<b>Properly Reported as Reduction in Net Debt</b>	<b>Politically Called Debt Relief</b>	<b>Politically Called Debt Reduction</b>
1. €60 billion of 30+ year below 1% loans mostly to refinance existing debt.	Yes	No	No
2. Rebates of interest and principal.	Yes	No	No
3. Concessional loans to purchase financial assets.	Yes	No	No
4. Restructured loans with lower interest, grace period, maturity extensions.	Yes	Yes	No
5. Change terms on bonds to reduce interest rates and extend maturities.	Yes	Yes	No
6. Haircut the face value of debt.	Yes	Yes	Yes
7. Paying more interest by using swaps to change interest rate profile.	No	Yes	No

# Greece 2015 YE Balance Sheet Net Debt, Correctly Calculated in Accordance with International Accounting or Statistics Rules is **45%** and **62%** of GDP, Respectively: Summary (€, Billions)

1. Rules:	International Accounting Standards (IPSAS/IFRS)	2008 System of National Accounts (2008 SNA)	European System of Accounts 2010 (ESA 2010)	IMF Debt Sustainability Analysis (DSA)	Lisbon Treaty Excessive Deficit Procedure* (EDP)	
					FFV	PV
2. Gross Debt	€ 125	€ 155	€ 155	€ 203	€ 311	€ 155
3. Gross Debt % of GDP	71%	88%	88%	116%	177%	88%
4. Net Debt	€ 80	€ 110	€ 110	€ 187	NA	NA
5. Net Debt % of GDP	45%	62%	62%	106%	NA	NA

**Debt metrics for Greece EZ member state peers are not reduced under ESA 2010, 2008 SNA, or IMF DSA as there is no qualifying concessional or reorganized debt; and under IPSAS/IFRS, Portugal, Spain, and Ireland would report lower debt by approximately €23 billion, €18 billion, and €12 billion, respectively.**

*Notes:* Japonica Partners collaborative analysis. \*EC 479/2009 "Whereas (4)" states "The definition of 'debt' laid down in the Protocol on the excessive deficit procedure needs to be amplified by a reference to the classification codes of ESA 95". 2015 GDP of €176 billion from EC AMECO database and financial asset data from Eurostat (accessed 19 July 2016).

# Greece-ESM 3rd Programme Debt Relief, Debt Reduction, and Interest Savings: 2015 and 2016

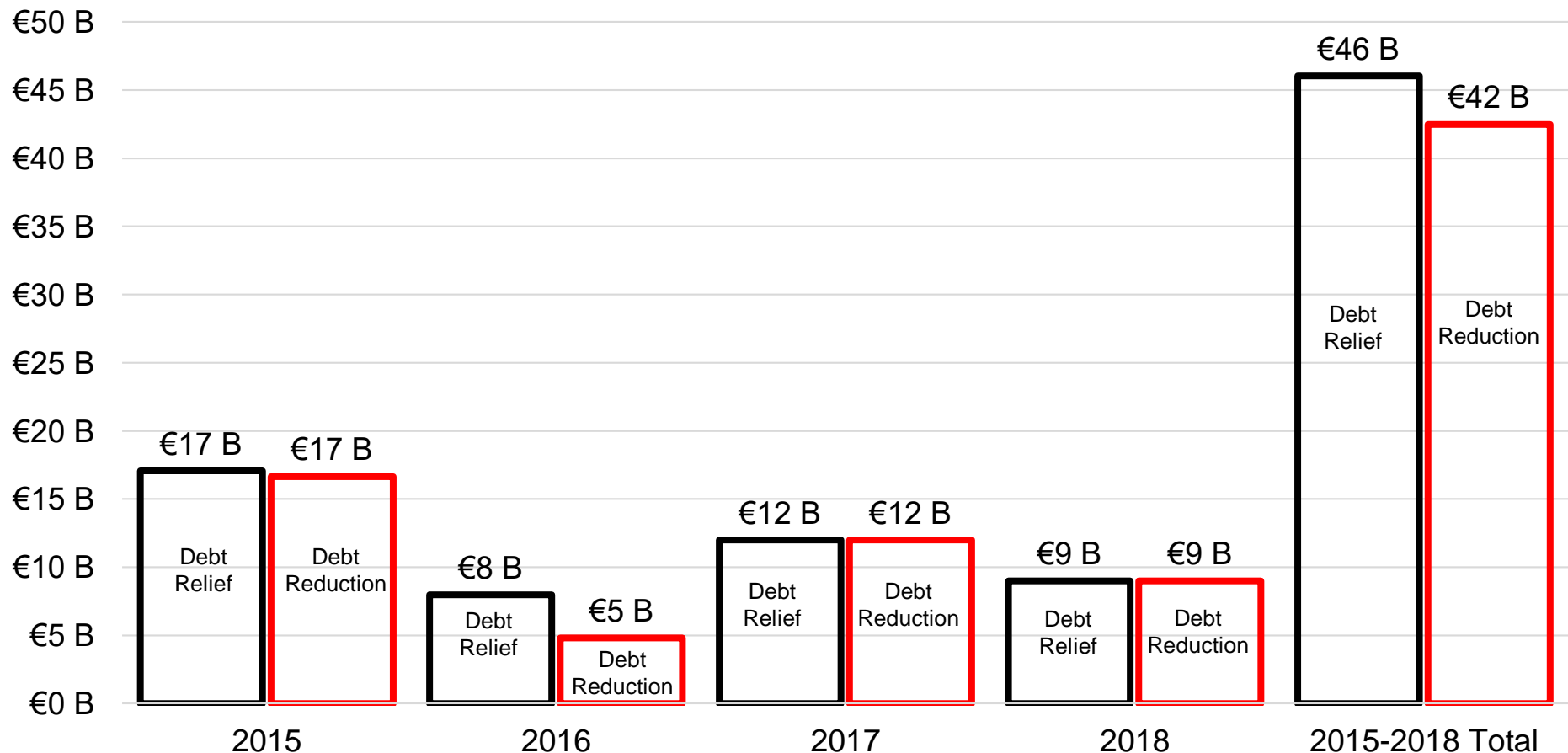
(€, Millions)

- ESM 3rd Programme concessional loans have interest rate of approximately 1%, grace periods of 18 years, and final maturities of 43 years.
- Greece long-term bonds yield approximately 8% and have average credit rating of CCC.
- International rules utilized are the world-class International Public Sector Accounting Standards (IPSAS) and the International Financial Reporting Standards (IFRS).

SN	Distribution Date	Loan Disbursed	Debt Relief	Balance Sheet Debt	Net Debt Reduction	Annualized Interest Saving
1.	20 Aug 2015	€ 13,000	€ 10,486	€ 2,514	€ 10,086	€ 910
2.	24 Nov 2015	€ 2,000	€ 1,536	€ 464	€ 1,536	€ 140
3.	1 Dec 2015	€ 2,720	€ 2,112	€ 608	€ 2,112	€ 190
4.	8 Dec 2015	€ 2,710	€ 2,142	€ 568	€ 2,142	€ 190
5.	23 Dec 2015	€ 1,000	€ 780	€ 220	€ 780	€ 70
6.	21 Jun 2016	€ 7,500	€ 5,687	€ 1,813	€ 3,887	€ 525
7.	21 Oct 2016	€ 1,100	€ 853	€ 247	€ 853	€ 77
8.	21 Oct 2016	€ 1,700	€ 1,318	€ 382	€ 0	€ 119
9.	Total	€ 31,730	€ 24,914	€ 6,816	€ 21,395	€ 2,221
<i>Inputs:</i>						
ESM Interest Rate:			1%			
Market Interest Rate			8%			
Present Value of Est. Disbursements:			20%			

Notes: Prepared under the direction of Japonica Partners based on ESM and Bloomberg data as of 14 October 2016. Use of proceeds: SN1./SN2./SN5.: €400 million for arrears; SN3./SN4. bank recap; SN6. €1.8 billion for arrears; SN7. debt service; SN8. arrears.

# Who Will be Held Accountable for Not Recognizing the **€46 Billion** of Debt Relief and the **€42 Billion** of Debt Reduction from the 3rd Programme Concessionary Loans?



Notes: Prepared under the direction of Japonica Partners based on ESM and Bloomberg data as of 14 October 2016. 2017 estimate assumes present value of 22% of €15.7 billion disbursement; 2018 estimate assumes present value of 27% of €12.9 billion disbursement. 2017-2018 debt reduction estimates may require adjustment upon further disclosure of use of proceeds.



# Since 2010, Greece Has Received €356 Billion in Debt Relief, which is 17 Times More than the EZ Programme Country Average

(€, Billions)

<u>SN</u>		Greece	Greece Multiple of Peers	Peer Average	Portugal	Ireland	Spain	Cyprus
1.	Total Debt Relief/Forgiveness % of GDP	203%	17x	12%	16%	7%	2%	24%
2.	Months in Programme(s)	77+		28	37	36	18	22
	Official Sector Debt Relief:							
3.	Pre-Third Programme	€ 182		€ 17	€ 29	€ 14	€ 21	€ 4
4.	Third Programme (to Date)	€ 25		NA	NA	NA	NA	NA
5.	Total Official Sector Debt Relief	€ 207		€ 17	€ 29	€ 14	€ 21	€ 4
6.	Private Sector Debt Forgiveness	€ 149		€ 0	€ 0	€ 0	€ 0	€ 0
7.	Total Debt Relief and Forgiveness	€ 356		€ 17	€ 29	€ 14	€ 21	€ 4
8.	Southern Axis EU Member States Contribution to Greece	€ 91						
9.	2015 GDP	€ 176		€ 373	€ 179	€ 215	€ 1,081	€ 17

Notes: Japonica Partners collaborative analysis. Based on EC, IMF, and Bloomberg data. Debt relief calculated as of 31 October 2016 according to IPSAS/IFRS.

# Analysis Indicates that **€69 Billion**, or on Average **€625 Million Per Week**, of Greece Government Asset Value was Lost from 2014 to August 2016

<u>SN</u>	<u>Greek Government</u>	<u>2014</u>	<u>2016</u>	<u>Identified Value Lost</u>	
				<u>Amount</u>	<u>Percentage of 2014</u>
1	Financial Assets	€109 Billion	€71 Billion	€40 Billion	37%
2	Non-Financial Assets	€115 Billion	€86 Billion	€29 Billion	25%
3	Total Assets	€224 Billion	€157 Billion	<b>€69 Billion</b>	<b>31%</b>
4	Value Lost Per Week			<b>€625 Million</b>	
5	Value Lost Per Greek Citizen			<b>€ 6,275</b>	

*Notes:* Japonica Partners collaborative analysis. Identified Value Lost may differ from change in Financial Assets due to additions and disposals. From 30 June 2014 to 3 August 2016 or closest date of data available. Per week calculation based on 109 weeks. Based on population of 10.9 million from EC AMECO database and unconsolidated general government financial asset data from Eurostat (accessed 3 August 2016). Non-Financial Assets estimate based on data from Japonica Partners 30 April 2016 USC Global Leadership Summit presentation: [mostimportantreform.info/MAGARIAN\\_USC\\_20160430.pdf](http://mostimportantreform.info/MAGARIAN_USC_20160430.pdf).

# Greece Government Identified Financial Asset Value Lost from 2014 to August 2016

<u>SN</u>	<u>Identified items</u>	<u>Financial Asset Value Lost</u>	
1.	Pre-2015 Recap Bank Equity	€ 19,400	Million
2.	SMP/ANFA Rebates	€ 7,010	Million
3.	Unlisted Shares (excl. Bank CoCos and Supranational Entities)	€ 4,296	Million
4.	Deficit Spending: 30 Jun 2014 - 3 Aug 2016	€ 3,807	Million
5.	2015 Bank CoCos	€ 1,718	Million
6.	Listed Shares (excl. Bank Shares)	€ 1,093	Million
7.	2015 Recap Bank Equity	€ 848	Million
8.	Late Payment Directive 2011/7/EU	€ 730	Million
9.	PSI GGBs	€ 654	Million
10.	2014 GGB Issues	€ 103	Million
11.	<b>Identified Financial Asset Value Lost</b>	<b>€ 39,658</b>	<b>Million</b>

Notes: Japonica Partners collaborative analysis. From 30 June 2014 to 3 August 2016 or closest date of data available. Based on unconsolidated general government financial asset data is from Eurostat accessed 3 August 2016.

# Greece Has Been Given a Significant Debt Competitive Advantage, with a **Debt Burden of About 50% of Investment Grade EZ Member State Peers**, but Earns Worse Ratings and Higher Borrowing Costs

(% of GDP, except as otherwise indicated)

SN		August 2016 Credit Ratings <i>(M/S&amp;P/F/D)</i>	Balance Sheet Net Debt	2016 Annual Debt Service	2016 Net Cash Interest	Next 5-Years Unfunded Debt Service	3-Year Govt Bond Yields (YTM)
							<i>Delta vs. Peer Avg.:</i>
1	<b>Greece as % of Peers</b>		<b>57%</b>	<b>50%</b>	<b>57%</b>	<b>27%</b>	<b>8.72%</b>
2	<b>Greece</b>	Caa3/B-/ CCC/CCCH	45%	6%	2.0%	16%	8.78%
3	<b>Ireland</b>	A3/A+/ A/AH	54%	9%	2.8%	46%	-0.45%
4	<b>Spain</b>	Baa2/BBB+/ BBB+/AL	69%	13%	2.9%	58%	-0.09%
5	<b>Italy</b>	Baa2/BBB-/ BBB+/AL	113%	15%	4.0%	74%	-0.04%
6	<b>Portugal</b>	Ba1/BB+/ BB+/BBBL	79%	11%	4.6%	61%	0.81%

*Notes:* Japonica Partners collaborative analysis. Future Face Value of Debt (Maastricht) as a percentage of GDP: Greece 177%, Ireland 94%, Spain 99%, Italy 133%, Portugal 129% (EC AMECO data accessed 3 August 2016). Based on EC, Eurostat, IMF, Member State MOFs, and Bloomberg data.

# Why are Greek Government Bond Yields so Much Higher than Cyprus and Portugal? It's not the Debt. It's not the Need for More Debt Relief. It's not QE. And, it's not the Credit Ratings. Could it be a Lack of Trust and Confidence in Greek Leadership and Crying Wolf for More Debt Relief Claiming the Country is Bankrupt?

		<u>Greece</u>	<u>Portugal</u>	<u>Cyprus</u>
	<b>Bond Yields:</b>			
1.	10-Year YTM	8.19%	3.19%	3.34%
2.	3-Year YTM	8.26%	0.77%	1.49%
3.	T-Bill Yield-at-Issue	2.97%	-0.01%	0.47%
4.	<b>Net Debt % of GDP (2015)</b>	45%	79%	45%
5.	<b>QE Eligible</b>	No	Yes	No
	<b>Credit Ratings:</b>			
6.	Moody's	Caa3	Ba1	B1
7.	DBRS	CCCH	BBBL	B
8.	Fitch	CCC	BB+	B+
9.	Standard & Poor's	B-	BB+	BB

Notes: YTM data from Bloomberg as of 19 October 2016. T-Bill data is yield-at-issue from most recent sale (Portugal: 1 year, Cyprus: 3 month, Greece: 6 month). Net Debt calculated under the direction of Japonica Partners as IPSAS/IFRS debt valued according to IPSAS 29/IFRS 39 less financial assets (excluding accounts receivable); debt calculation based on EC, ESM, and IMF data and financial assets data from Eurostat; data accessed 11 October 2016.

**Section D:**

**4 Immediate Action Items to  
Win the Trust and Confidence  
of Capital Markets**

# 4 Immediate Action Items to Win the Trust and Confidence of Capital Markets

1. **Senior leadership must take ownership** and win the trust and confidence of key stakeholders with transparency and accountability of government financial management.
2. **Designate a team of best-in-world professionals** with decades of successful experience in finance, accounting, and management who can convincingly educate and train key stakeholders, including government officials and their staff.
3. **Disclose impact on taxpayers' equity** of all financial decisions with a value of over one billion euros in accordance with international accounting standards.
4. **Sponsor two-day off-site workshops** to teach government officials and their staff how to use the three tools for better decision-making.