

Sovereign Accounting and Audits: A User's Perspective

Accountability.Now. Coalition Roundtable

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Comments by:

JAPONICA PARTNERS

Introduction

- Japonica Partners, founded in 1988, is a private entrepreneurial investment firm that makes concentrated investments in underperforming global special situations.
- Historically, Japonica's major investments were multi-billion dollar corporate turnarounds.
- In mid-2012, Japonica began a major investment in Greece government bonds.

Two Points

1. Sovereign financials are at the core of our investment analysis in GGBs.
2. We have found many forces fighting transparency and accountability of government financials.

1. Sovereign financials are at the core of our investment analysis in GGBs.

Our GGB Investment Principles

- For prosperity, especially in Greece, ministers' first priority is to build **trust and confidence** with all stakeholders.
- To build trust and confidence, ministers must make **transparency and accountability** of government finances their most important reform.
- And, the starting point for transparency and accountability is accurate government financial information obtained through **international public sector accounting standards and audits**.

Research Findings

- Sovereign debt is massively mismeasured and mismanaged.
- Too many of the current sovereign accounting and auditing systems fail miserably on transparency and accountability.
- We agree with the view that reducing debt of serial sovereign defaulters does not address the root cause of the problem.

2. We have found many forces fighting transparency and accountability of government financials.

Forces Fighting Transparency and Accountability

- Pervasive miseducation on the benefits of accurate financials despite available resources.
- Key stakeholders don't want transparency of government financials.
- A view that transparency and accountability is good but not for government financials.
- Creative accounting at the heart of many economic policy solutions.
- Accountants not at the table in taskforces or leadership groups. And, a power sharing issue.

Help educate Greece ministers. Ask them the right five questions:

- #1. Was 2013 net debt 18% of GDP and 1/4 of peers?
- #2. Was cash interest expense 3.8% of revenue and 1/3 of peers?
- #3. Does Greece receive €7 billion per year in EU funds and has it avoided over €160 billion of net debt?
- #4. Is the opportunity cost of recent misguided financial management €35 billion to €45+ billion?
- #5. If primary balance as % of GDP equaled the highest of peers, could net debt remain at 18% of GDP?



Appendix: Representative Comments

- “At high levels of transparency, a further increase of transparency would hinder the working of automatic stabilizers too much and is therefore not optimal.”
Macroeconomist, a national central bank in Europe
- ”Decentralization Europeanisation”: A €200 billion per year public investment program and Europe “will not need to pay a single euro toward this European New deal” and will “cost Germany, Holland, etc., nothing.” Greece finance minister
- We assume all the sovereign financial numbers are lies, and they will give us whatever numbers they think we want to see.
Sovereign credit rating agency professional