Integrating Government Financial Management Processes and Financial Statements into the Sovereign Rating Framework

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Overview Sovereign Rating Frameworks

- Current credit rating agency frameworks do not adequately reflect the importance of government transparency and accountability.
- A significant leap forward in sovereign credit ratings would be to include a significant weighting percentage in the sovereign ratings frameworks.
- Factors to include in evaluation (in alphabetical order) are quality of accounting principles, audit, budget, financial statements, fiscal management index, fiscal oversight, and human capital.
- Ratings frameworks should include seven key balance sheet metrics.
- Given the importance of government financial transparency and accountability, this factor should be given a 20% weighting.

Credit Rating Agency Objectives

Moody's	S&P
Aim is to enable issuers, investors and other interested market participants to understand how Moody's assesses credit risk and explain how key quantitative and qualitative risk factors map to specific rating outcomes. 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.	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 independent opinion about the creditworthiness of individual sovereigns. Ratings agencies help reduce the information asymmetry between issuers and investors.
Fitch	**DBRS**
Sovereign Issuer Default Ratings (IDRs) are a forwarding-looking assessment of a sovereign's capacity and willingness to honour its existing and future obligations in full and on time. Fitch's approach to sovereign credit risk analysis is a synthesis of quantiative and qualitative judgements that capture the willingness as well as the capacity of the sovereign to meet its debt obligations.	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 to assess the government's ability and willingness to service its debt obligations.

Relative Weightings of Sovereign Rating Frameworks

Moody's			S&P	
Four Factors	**Weight**		**Five Factors**	**Weight**
#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%

Fitch			DBRS	
Four Factors/Variables	**Weight**		**Six Factors**	**Weight**
#1. Macroeconomic Policies and Performance	10.3%		**#1. Fiscal management and Policy**	16.67%
			#2. Debt and liquidity	16.67%
#2. Structural Features	47.4%		**#3. Economic structure and performance**	16.67%
#3. Public Finance	25.4%		**#4. Monetary policy and financial stability**	16.67%
#4. External Finances	16.9%		**#5. Balance of payments**	16.67%
			#6. Political environment	16.67%

CRA Sovereign Debt Rating Formula Details: Moody's

Four Factors	Weight*
#1. Economic Strength	12.5%
a. Growth Dynamics	
b. Scale of the Economy	
c. National Income	
d. Adjustment Factors	
#2. Institutional Strength	12.5%
a. Institutional Framework and Effectiveness	
b. Policy Credibility and Effectiveness	
c. Adjustment Factor	
#3. Fiscal Strength	25%
a. Debt Burden	
b. Debt Affordability	
c. Adjustment Factors	
#4. Susceptibility to Event Risk	50%
a. Political Risk	
b. Government Liquidity Risk	
c. Banking Sector Risk	
d. External Vulnerability Risk	

*Given asymmetrical scale among factors, % is an estimate.

CRA Sovereign Debt Rating Formula Details: S&P

“The process helps the committee to form its opinion of an issuer's overall ability to repay obligations in accordance with their terms.”

Five Factors	Weight
#1. Political Score (institutions and policy making)	25%
a. Delivering Sustainable public finances	
b. promoting balanced economic growth	
c. Responding to economic and political shocks	
d. transparency	
e. reliability of data and institutions	
f. Potential geopolitical risks	
#2. Economic Score	25%
a. Income levels	
b. Growth prospects	
c .Economic diversity	
d. Volatility	
#3. External Score	17%
a. Status of a sovereign's currency in international transactions	
b. Sovereign's external liquidity	
c. External indebtedness, which shows residents asset and liabilities relative to the rest of world	
#4. Fiscal Score (sustainability: fiscal flexibility, long-term fiscal trends, vulnerabilities, debt structure, funding access, and potential risk of contingent liabilities)	17%
a. Fiscal performance and flexibility	
b. Debt burden	
#5. Monetary Score (MA: Monetary Authority)	17%
a. MA's ability to use monetary policy to address domestic stress, particular through control of money supply and domestic liquidity conditions	
b. Credibility of monetary policy as measured by inflation trends	
c. Effectiveness of mechanisms for transmitting the impact of monetary policy decisions to the real economy, largely a function of the depth and diversification of the domestic financial system and capital markets	

CRA Sovereign Debt Rating Formula Details: Fitch

"Proprietary Sovereign Rating Model (SRM)"

Four Factors	Weight
#1. Macroeconomic Policies and Performance	10.3%
a. Real GDP growth volatility	
b. Consumer price inflation	
c. Real GDP growth	
#2. Structural Features	47.4%
a. Composite governance indicator	
b. GDP per capita	
c. Share in world GDP	
d. Years since default	
e. Money Supply	
#3. Public Finance	25.4%
a. Gross debt for reserve currency sovereigns	
b. Gross debt for non-reserve currency sovereigns	
c. Budget balance	
d. Public foreign-currency debt	
e. Interest payments	
#4. External Finances	16.9%
a. Reserve currency flexibility	
b. Commodity dependence	
c. Official international reserves for non-reserve currency sovereigns	
d. Sovereign net foreign assets	
e. Current account balance plus net foreign direct investment	
f. External interest service	

CRA Sovereign Debt Rating Formula Details: DBRS

Six Factors	Weight
#1. Fiscal management and Policy	16.67%
a. Overall fiscal performance	
b. Government policy management and budget control	
#2. Debt and liquidity	16.67%
a. Debt stock	
b. Maturity structure and liquid assets	
c. Susceptibility to debt shocks	
#3. Economic structure and performance	16.67%
a. Economic growth and productivity	
b. Economic resilience and flexibility	
#4. Monetary policy and financial stability	16.67%
a. Policy credibility	
b. Financial risks	
#5. Balance of payments	16.67%
a. External Balances and adjustment:	
b. Net International Investment Position and foreign exchange liquidity	
#6. Political environment	16.67%
a. Institutional environment	
b. Political Commitment to address economic challenges and service debts	

References to Accounting Related Considerations in Credit Reports on Global Accounting Benchmarks

Benchmark	Number of References	Reports Reviewed
Australia	None found to date	7 reviewed
Canada	None found to date	6 reviewed
France	None found to date	6 reviewed
Israel	None found to date	5 reviewed
New Zealand	None found to date	5 reviewed
Swiss	None found to date	7 reviewed
United Kingdom	None found to date	8 reviewed
United States	None found to date	7 reviewed

Proposed Sovereign Index

Total Ranking: 0-20 (Poor), 20-30 (Fair), 30-40 (Good), 40+ (High)

		Weighting	Ranking
Qualitative Factors		50%	
	Rankings: 0 (Worst), 1 (Poor), 2 (Fair), 3 (Good), 4 (Best)		
1.1	Accounting Principles	7%	
1.2	Audit	7%	
1.3	Budget	7%	
1.4	Financial Statements	7%	
1.5	Fiscal Management	7%	
1.6	Fiscal Oversight	7%	
1.7	Human Capital	7%	
Quantitative Factors		50%	
	Quartile Rankings: 1 (Bottom), 2 (Second), 3 (Third), 4 (Top)		
2.1	Net Worth Value Creation Ratio	7%	
2.2	Net Worth Return on Asset Ratio	7%	
2.3	Net Worth % of GDP - Latest	7%	
2.4	Net Worth Annual % Change	7%	
2.5	Total Liabilities Value Creation Ratio	7%	
2.6	GDP Change to Debt Change Ratio	7%	
2.7	Net Debt % of GDP - Latest	7%	
Total:		100%	

Key Balance Sheet Metrics for Global Benchmarks

(2001 to 2015)

SN		Rank #1	Rank #8	Median	Explanation
1.	**Net Worth Value Creation Ratio**	NWI 69% of GDP	0.2x	2.0x	Change in GDP per unit change in Net Worth start point to end point.
2.	**Net Worth Return on Asset Ratio**	4%	-38%	-7%	Average annual change in net worth as a % of total assets.
3.	**Net Worth % of GDP - Latest**	38%	-158%	-62%	Latest period end net worth as a % of latest year GDP.
4.	**Net Worth Annual % Change**	19%	-13%	-4%	Average annual percentage change in net worth during period.
5.	**Total Liabilities Value Creation Ratio**	1156%	16%	75%	Change in GDP per unit change in Total Liabilities start point to end point.
6.	**GDP Change to Debt Change Ratio**	535%	52%	151%	GDP increase per unit of debt increase start point to end point.
7.	**Net Debt % of GDP - Latest**	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.
Net Worth Value Creation Ratio: Full period change in GDP divided by change in Net Worth.
Net Worth Return on Asset Ratio: 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.
Total Liabilities Value Creation Ratio: Change in GDP divided by Change in Liabilities
GDP to Debt Value Creation 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.

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Examples of Third Party Indices Used in Sovereign Ratings

- WEF Global Competitiveness Index
- World Bank Government Effectiveness Index World Bank Rule of Law Index World Bank Control of Corruption Index
- UNDP Human Development Index
- World Bank Doing Business ranking
- Voice and accountability index
- Rule of law index

World-Class ETM Experiences

10+ Years Successful Track Record

- Globally Recognized Impeccable Integrity
- Successful Growth Turnarounds
- Unparalleled Knowledge of Greece Government Financials
- 100-Day Plan Skills
- Skills to Produce Best Practice Balance Sheet ASAP

Executive Turnaround Management

- Trust and Confidence of Sovereign Wealth Funds
- Rating Agency Framework and successes
- Capital Markets Broad Knowledge
- Managed Over 5,000 Employees
- Pro Bono Compensation

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Make 2016 the Year of the "Super Boost" for the Greek Economy as Executive Turnaround Manager

Overview: Make 2016 the year of the "Super Boost" for the Greek economy as Executive Turnaround Manager (ETM) for Greece, designated by key stakeholders. Greece is a classic turnaround. There is a lengthy track record of value destruction and financial mismanagement. At the same time, there are plentiful low hanging fruit opportunities to create value. The starting point is to use correctly calculated, under international rules, Greece and peer government debt numbers, especially balance sheet net debt, annual debt service, net interest payments, debt projections, and debt relief.

Goal: Start the "Super Boost" for the Greek economy by pushing down to zero the Greece government two-year bond yield spread above Portugal. The 22 January 2016 spread of 1297 basis points is suffocating the Greek economy (Greece 13.10% versus Portugal 0.13%). This spread reflects the pervasive use of incorrectly calculated and vastly overstated Greek debt numbers. Correctly calculated debt numbers show a Greek competitive advantage. For example: Greece net debt as a percentage of GDP was 18% versus Portugal at 70%. Greece annual debt service (net interest and principal payments) as a percentage of GDP at 6% versus Portugal at 11%. With good management, the competitive advantage is sustainable.

"Super Boost" Benefits: The benefits of the "Super Boost" include lowering borrowing costs for the government and throughout Greece, increasing the value of real estate and financial assets, reducing NPLs, increasing government revenues without tax increases, and increasing private sector jobs.

100-Day Accomplishments: (A) Presentations using correctly calculated, under international rules, Greece and peer government debt numbers, especially balance sheet net debt, annual debt service, net interest payments, debt projections, and debt relief. (B) Presentations to sovereign wealth funds. (C) Presentations to rating agencies. (D) Verifiable estimate of 2015 Greek government major balance sheet items. Following the 100-Days, manage more institutional turnaround challenges.

Qualifications: 1. Minimum ten years of turnaround related experience with impeccable professional integrity. 2. Several successful "growth" turnarounds. 3. Managed over 5,000 employees. 4. Unparalleled knowledge of Greek and other EU government financial numbers. 5. Fluent in international accounting standards and macroeconomic financial statistics reporting rules. 6. Success with credit rating agencies and detailed knowledge of sovereign rating methodologies. 7. Has the trust and confidence of sovereign wealth fund executives.

Preliminary Terms: Open-ended term of service. Pro bono compensation.

Submission Process: Inquiries, candidate nominations, and applicant CVs should be sent to CEO@japonica.com. To build the best ETM designation process, Japonica Partners will forward both nominations and CVs to key stakeholders. To gain greater insight into Greece, visit: www.MostImportantReform.info.

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