GREECE 2015 DEBT RELIEF TRANSPARENCY MEMORANDUM

Date: March 2016
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IN SUMMARY: The Greece 3rd Programme highly concessional 2015 ESM loans gave Greece €17 billion in debt relief, which decreased Greece balance sheet net debt by €17 billion and increased Greece net worth by €17 billion. All Greece stakeholders who support Western democracy government financial transparency should understand the internationally agreed upon rules for measuring debt relief, balance sheet net debt, and changes in net worth.

During 2015, Greece received €21.4 billion in highly concessional European Stability Mechanism (ESM) loans with a present value of €4.4 billion; the difference of €17 billion is debt relief, which decreased Greece balance sheet net debt by €17 billion and increased Greece net worth by €17 billion. Of the €21.4 billion in ESM loans, €5.4 billion was invested in financial assets (most of which earning 8% interest) and approximately €16 billion was used to refinance debt. From a Greece government balance sheet perspective, the 3rd Programme's €21.4 billion in 2015 loans transformed €16 billion of negative net worth into a positive net worth of €1.0 billion, with a €17 billion decrease in balance sheet net debt and a €17 billion increase in net worth. See T-account diagram in attached Annex.

The present value and debt relief reflect the fact that Greece -- which has Caa3/B-/CCC/CCC(High) sovereign credit ratings -- is receiving highly concessional funding based on the borrowing cost of the Aa1/AAA rated ESM. These highly concessional loans have interest rates below 1%, grace periods of about 18 years, and final maturities of approximately 44 years. Calculating the present value of 3rd Programme loans in accordance with internationally agreed upon rules requires using the yield-to-maturity at date of funding on the most comparable Greek public debt instrument to reflect the economic reality. Following the internationally agreed upon rules, the present value was 20% of the highly concessional loans and therefore 80% was debt relief, which decreased Greece balance sheet net debt and increased Greece net worth. The most comparable debt instrument to the ESM loan was the Greek government bond due 2042, and its yield-to-maturity on the 2015 ESM funding dates was 8.3%, 7.3%, 7.5%, 7.9%, and 7.8%. The highly concessional ESM loans are more like a solidarity grant made to Greece than a loan.

The internationally agreed upon accounting rules for both public and private sector entities, as well as the internationally agreed upon macroeconomic statistics rules, specify that the present value of highly concessional loans should be recognized. The present value reflects the economic reality of the terms and most comparable observable market inputs at the date of funding. The difference between the present value and the future face value is debt relief with a corresponding decrease in balance sheet net debt and increase in net worth. The international accounting rules for financial assets and liabilities (including debt) have been professionally developed in transparent processes over decades and are collectively harmonized. The most comprehensive international debt relief accounting rules are in the International Financial Reporting Standards (IFRS), International Public Sector Accounting Standards (IPSAS), and US Generally Accepted Accounting Principles (US GAAP). The EC made the IFRS debt measurement standards mandatory for all companies listed on major stock exchanges in the EU from 2005. IPSAS based standards are used by global benchmark public sector entities including the European Union financial statements audited by the European Court of Auditors. See list of additional global benchmarks in Annex. The international macroeconomic statistics debt relief rules, which are harmonized with the international accounting rules, are the European System of Accounts (ESA 2010) and System of National Accounts (2008 SNA). The UN, EC, OECD, IMF, and WB unanimously adopted 2008 SNA.

The lack of transparency of the Greece debt relief is largely attributable to the lack of training in internationally agreed upon accounting and macroeconomic statistics rules that measure debt relief, balance sheet net debt, and changes in net worth, which reflect the economic reality. *Going forward, for each euro of loans Greece receives under the 3rd Programme, Greece would immediately recognize approximately 80% in debt relief, which would decrease balance sheet net debt and increase net worth by up to €30 billion between 2016 and 2018 (at current GGB yield-to-maturities).*

As a supplemental note, had the yield-to-maturity on the most comparable Greece government bond (2042) been 100 basis points lower, the increase in Greece government net worth (debt relief) would have been €16.1 billion. A Greece 3rd Programme 2015 debt relief model based on international accounting standards is available at http://mostimportantreform.info/Greece_2015_Debt_Relief_Model.pdf.

ANNEX

In 2015, the ESM 3rd Programme Gave Greece €17 Billion in Debt Relief, Decreased Greece Balance Sheet Net Debt by €17 Billion, and Increased Greece Net Worth by €17 Billion

The below only reflects transactions related to the 2015 ESM concessionary loans.

Before 3rd Programme 2015 ESM Funding				Post 3rd Programme 2015 ESM Funding			
Assets		**Liabilities / Net Worth**		**Assets**		**Liabilities / Net Worth**	
Financial Assets	€ 0.0	Debt	€ 16.0	Financial Assets	€ 5.4	Debt	€ 4.4
		Total Liabilities	€ 16.0			Total Liabilities	€ 4.4
		Net Worth	-€ 16.0			Net Worth	€ 1.0
Total Assets	€ 0.0	Total Liabilities and Net Worth	€ 0.0	Total Assets	€ 5.4	Total Liabilities and Net Worth	€ 5.4

Before 3rd Programme 2015 ESM Funding balance sheet net debt (Debt less Financial Assets) was €16 billion and Post 3rd Programme 2015 ESM Funding balance sheet net debt was negative €1 billion.

During 2015, ESM made five concessionary loans to the Caa3/B-/CCC/CCC(High) rated Greece government for a total of €21.4 billion. The loans have interest rates equal to Aa1/ AAA rated ESM cost of funds, which are below 1%, not the yield-to-maturity of 7% to 8% on the longest maturity publicly traded Greece government bond (2042). The loans have maturities out to 2059, 18-year grace periods, and weighted average lives of 32.5 years. Approximately €16 billion of the proceeds were used to repay maturing debt and €5.4 billion to purchase financial assets of domestic banks, most of which was invested in 8% interest CoCos.

The rules for calculating debt and debt relief are the same as those used in producing the balance sheets of global benchmarks in transparency and accountability. Examples include the European Union, EFSF, IMF, OECD, World Bank, UN, UK, USA, Canada, New Zealand, Australia, Israel, and Switzerland, as well as virtually every major international company in the world. Newly aspiring government benchmarks with financial statements prepared in accordance with international accounting rules include Austria, Estonia, Ireland, the Philippines, Portugal, Romania, the Slovak Republic, and Spain. Even the France government balance sheet is prepared based on business accounting as required in their constitution, and the France government accounting manual specifically references the accounting standards now titled IFRS and IPSAS.

Note: The €21.4 billion of 2015 ESM loans are reported on the balance sheet at initial recognition value (also known informally as present value) which is amortized cost under international accounting rules and increase (accrete) to maturity value (known informally as future face value) each accounting period based on the initial market yield-to-maturity. The subsequent accretion impact to net worth is reduced by appreciation in the financial assets and debt relief from inflows of ESM funds.