Greece's Huge Competitive Advantage: Seven Questions & Answers

[Working Draft]

Presentation by:

JAPONICA PARTNERS

Athens, 18 December 2014

AMERICAN-HELLENIC CHAMBER OF COMMERCE

Opening Observations

1. Under international accounting standards, at year-end 2013 Greece Net Debt was 18% of GDP and only one-third of other EU program countries.
2. Under international accounting standards, at year-end 2013 Greece cash interest expense as a percent of revenue was only one-third of other EU program countries.
3. Debt measured based on face value (Maastricht) is a political decision with no basis in economic, financial, or accounting reality.
4. Not using international accounting standards to accurately measure Greece debt leads to destructive consequences.
5. Yes, there are international accounting standards for governments, they are called IPSAS.

Yes, the value of debt can be changed by changing its cash flows.

Most simply, a euro paid 45 years from now is worth vastly less than a euro paid today.

Greece has a huge competitive advantage

Greece Net Debt is 18% of GDP not 175%

Visit *www.freegreece.info* to get educated.

GET EDUCATED TO ANSWER THE FOLLOWING SEVEN QUESTIONS:

1. What was Greece net debt under international accounting standards (IPSAS/IFRS) on 31 December 2013?
2. What was the IPSAS/IFRS adjustment impact on the €275 billion face value of Greece concessionary and modified debt?
3. What was the Maastricht adjustment impact on the €275 billion face value of Greece concessionary and modified debt?
4. What are Greece IPSAS/IFRS net debt and net cash interest expense ratios compared to other EU countries?
5. Why is it imperative that the Greece government use IPSAS/IFRS to quantify the impact on net debt and net worth prior to making major financial decisions?
6. Why can the Greece government effectively implementing IPSAS/IFRS create 200,000 to 400,000 new sustainable jobs within the next 24 months?
7. How do you educate key stakeholders on Greece's huge competitive advantage?

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IPSAS: International Public Sector Accounting Standards
IFRS: International Financial Reporting Standards
Maastricht: Maastricht Treaty

Η Ελλάδα έχει ένα τεράστιο ανταγωνιστικό πλεονέκτημα

ΤΟ ΚΑΘΑΡΟ ΧΡΕΟΣ ΤΗΣ ΕΛΛΑΔΑΣ ΑΝΕΡΧΕΤΑΙ ΣΕ ΠΟΣΟΣΤΟ 18% ΤΟΥ ΑΕΠ ΚΑΙ ΟΧΙ ΣΕ 175%

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ΕΝΗΜΕΡΩΘΕΙΤΕ ΓΙΑ ΝΑ ΑΠΑΝΤΗΣΕΤΕ ΣΤΙΣ ΕΠΟΜΕΝΕΣ ΕΠΤΑ ΕΡΩΤΗΣΕΙΣ:

1. **Πόσο ήταν το καθαρό χρέος της Ελλάδας σύμφωνα με τα διεθνή λογιστικά πρότυπα (IPSAS/IFRS) στις 31 Δεκεμβρίου 2013;**
2. **Ποιά ήταν η επίπτωση (προσαρμοσμένη σύμφωνα με τα IPSAS/ IFRS) στο με ευνοϊκούς όρους (concessional) και αναδιαταγμένο (rescheduled) χρέος ονομαστικής αξίας €275 δις;**
3. **Ποιά ήταν η επίπτωση (προσαρμοσμένη σύμφωνα με το Maastricht) στο με ευνοϊκούς όρους (concessional) και αναδιαταγμένο (rescheduled) χρέος ονομαστικής αξίας €275 δις;**
4. **Ποιό είναι το ποσοστό επί τη βάσει των διεθνών λογιστικών προτύπων (IPSAS/IFRS) του καθαρού χρέος της Ελλάδας και των καθαρών δαπανών σε τόκους σε σύγκριση με άλλες χώρες της Ευρωπαϊκής Ένωσης;**
5. **Γιατί είναι επιτακτικό για την ελληνική κυβέρνηση να χρησιμοποιήσει τα διεθνή λογιστικά πρότυπα (IPSAS/IFRS) προκειμένου να προσδιορίσει την επίπτωση επί του καθαρού χρέους και επί της καθαρής θέσης, προτού λάβει σημαντικές οικονομικές αποφάσεις;**
6. **Γιατί η αποτελεσματική εφαρμογή των διεθνών λογιστικών προτύπων (IPSAS/IFRS) από την ελληνική κυβέρνηση μπορεί να δημιουργήσει 200.000 έως 400.000 νέες βιώσιμες θέσεις απασχόλησης εντός των επομένων 24 μηνών;**
7. **Πώς εκπαιδεύεις τους βασικούς ενδιαφερόμενους φορείς σχετικά με το τεράστιο ανταγωνιστικό πλεονέκτημα της Ελλάδας;**

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IPSAS: International Public Sector Accounting Standards
IFRS: International Financial Reporting Standards
Maastricht: Maastricht Treaty

Question 1:
What was Greece net debt under international accounting standards (IPSAS/IFRS) on 31 December 2013?

What is IPSAS?

IPSAS: International Public Sector Accounting Standards

- IPSAS is the only international accounting standards for governments
- IPSAS is the public sector version of IFRS, the international accounting standards used by leading companies globally
- Accrual-based standards used by public sector entities around the world in the preparation of financial statements
- Independent standards setting board

Goals of IPSAS?

#1. Improve Decision-Making (improves financial performance).

* Before (internal stakeholders) and after (external stakeholders)

#2. Increase Transparency (minimizes corruption)

* Provides details to the public that empower investigative analysis

#3. Strengthen Accountability (combats kleptocracy risks)

#4. Facilitate Global Comparability (contributes to stability and sustainability)

BENEFITS of IPSAS – Stakeholders

(See BENEFITS Testimonials handout)

1. **Better information** improves decision-making. 2. **Better information** increases transparency.	1. **Financing competitiveness** decreases borrowing costs. 2. **Financing competitiveness** increases global access.
1. **Economic efficiencies** through better balance sheet management. 2. **Economic efficiencies** through better cost management.	1. **Investor confidence** through comparable financial statements. 2. **Investor confidence** through credible financial management.
1. **Net debt reduction** is the top priority financial metric. 2. **Net debt reduction** summarizes financial performance.	1. **Tax relief** through better financial management. 2. **Tax relief** through economic prosperity.
1. **Education** strengthens accountability. 2. **Education** minimizes expectation gaps.	1. **Sustainable growth** through sound financial management. 2. **Sustainable growth** through minimizing risk.

IPSAS/IFRS for Setters of International Statistics

Entity	Supported Statistics Reporting System	Accounting Standard for Entity Financial Statements	Auditor
EU	ESA 95 / ESA 2010 / PSDS / EDS / SNA 2008	EC: IPSAS EFSF: IFRS	EC: European Court of Auditors EFSF: PWC
IMF	GFSM / PSDS / EDS / BPM6 / SNA 2008	IFRS	Deloitte
OECD	SNA 2008 / PSDS / EDS	IPSAS	Cour des comptes
UN	SNA 2008 / PSDS / EDS	UN-SOs: IPSAS	UN Board of Auditors
WB	SNA 2008 / PSDS / EDS	US GAAP	IDA Audit Committee
The Commonwealth	PSDS / EDS	IPSAS	Deloitte

ESA 95 / ESA 2010: *European System of Accounts*
EDS: *External Debt Statistics Guide for Compilers and Users*
GFSM: *Government Finance Statistics Manual*
PSDS: *Public Sector Debt Statistics*
SNA 2008 *: System of National Accounts 2008.*
UN-SOs: *United Nations System Organizations*

The Commonwealth *: The Commonwealth of Nations is a voluntary intergovernmental association of 53 member sovereign states.*

Major Organizations Support IPSAS

- **IMF:** IPSAS are <u>the only</u> international accounting standards designed for the public sector. (January 2014)
- **EC:** IPSAS is currently <u>the only</u> internationally recognized set of public sector accounting standards. (June 2013)
- **WB:** As <u>the only</u> available international financial reporting standards for governments that are based on generally accepted accounting principles, IPSAS can contribute to greater quality, consistency, and comparability of governmental financial information within and between jurisdictions. (February 2004)
- **FEE:** International standards (IPSAS) already exist. They are <u>the only</u> recognized set of international standards. (March 2014)
- **IFAC:** High-quality and timely accrual-based financial reporting in the public sector can be achieved through the adoption of globally-accepted, high quality reporting standards developed <u>specifically for the public sector</u>, i.e., IPSASs. (April 2014)

Sea Change in Government Accounting

- 1995: Three major public sector entities had accrual accounting (New Zealand, Sweden, and World Bank)
- Today and in the near future: over 40 have accrual accounting
- Includes: UK, France, Austria, Portugal, Spain, Ireland, Estonia.
- EU Examples: Austria IPSAS Financials, UK IFRS Financials, Portugal IPSAS report.

Global Accounting Benchmarks: NZ, AUS, CAN

(See NZ handouts)

- Focus on change in Net Debt and Net Worth
- Integrity of Data – Independent standards and audits
- Timeliness of Data – Annual (3 months) and monthly (6 weeks)
- Full Financial Statements
- Financial Footnotes
- Public Education and Communication

IPSAS 29 / IFRS 39: Highlights

No material differences between the standards on the below.

Objective: IPSAS improves decision-making, increases transparency, strengthens accountability, and facilitates global comparability.

1. **Initial Recognition**
   - **Fair value** of debt is market value (confirming arm's length) at date of event.
   - **Market price/YTM** or most comparable market price/YTM.
   - **If necessary**, PV with maximum use of observable/prevailing market YTM.

2. Substantial Modification
- If PV of cash flows is at least 10% different from PV of original financial liability.
- All financial liabilities utilize the **same market based principles**.

3. Concessionary Loans and Grants
- **Fair value** measurement.
- Recognized existence of **non-exchange transaction** as a subsidy.

4. Subsequent Measurement: At amortized cost using **EIR method** accretion.

Question 2:
What was the IPSAS/IFRS adjustment impact on the €275 billion face value of Greece concessionary and modified debt?

Greece Unique Capital Structure

(As of 31 December 2013)

- €275 billion of Greece €319 billion debt (86%) has concessionary and/or reschedule terms, including:
  - Zero cash interest for 10 years
  - Subsidized interest rates vastly below market
  - Massively extended maturities up to 40 years
  - Debt with interest and principal rebates
  - €30 billion in financial assets funded with Official Sector loans
- 104 debt instruments required IPSAS adjustment
- Italy 0%. Spain 4%. Ireland 31%. Portugal 34%.

Progression of Maastricht Gross Debt to IPSAS Net Debt (1 of 2)

Progressively transforming debt into a more "grant-like" financial instrument by using financial restructuring tools and the physical law of the time-value-of-money.

Progression of Maastricht Gross Debt to IPSAS Net Debt (2 of 2)

(Euros, Billions; as of 31 December 2013)

SN	Type of Debt/Asset	Maastricht Debt (Face Value) 31 Dec 2013	IPSAS Adjustments (Includes Accretion): OSI #1: Loans May 2010	OSI #1: Loan Modification June 2011	OSI #2/PSI #1 Extensive Restructuring Feb/Mar 2012	OSI #3/PSI #2 Modification/Buyback December 2012	Total Adjustments	IPSAS Net Debt (Fair Value) 31 Dec 2013	SN
1.	Modified Securities	€ 62.8	€ 0.0	€ 0.0	€ 36.7	€ 5.8	€ 42.5	€ 20.3	1.
2.	Modified/Concessionary Loans	€ 212.4	€ 11.0	€ 5.7	€ 84.9	€ 51.3	€ 152.9	€ 59.5	2.
3.	Non-Revalued Debt	€ 43.5	€ 0.0	€ 0.0	€ 0.0	€ 0.0	€ 0.0	€ 43.5	3.
4.	Adjustments		€ 11.0	€ 5.7	€ 121.6	€ 57.1	€ 195.4		4.
5.	Total Gross Debt	€ 318.7	€ 307.7	€ 302.0	€ 180.4	€ 123.3		€ 123.3	5.
6.	GDP	€ 182.0						€ 182.0	6.
7.	Debt/GDP	**175%**						68%	7.
8.	Financial Assets Funded w/ Loans							€ 33.6	8.
9.	Other Financial Assets							€ 57.1	9.
10.	Total Financial Assets							€ 90.7	10.
11.	Net Debt							€ 32.6	11.
12.	Net Debt/GDP							**18%**	12.

Concessionary Terms and Modifications: Highlights

OSI #1: Loans May 2010	OSI #1: Loan Modification June 2011	OSI #2/PSI #1 Extensive Restructuring Feb/Mar 2012	OSI #3/PSI #2 Modification/Buyback December 2012
EU Loans: 3M Euribor plus 300-400 bps. Maturities: 5 yrs. Grace period: 1.5 yrs.	**EU Loans** cut to 3M Euribor plus 200-300 bps. Maturities up to 10 yrs. Grace period up to 4.5 yrs.	**EU Loans** cut to 3M Euribor plus 150bps. Maturities up to 15 yrs. Grace period up to 10 yrs.	**EU Loans** cut to 3M Euribor plus 50bps. Maturities extended to 30 yrs.
		EFSF Loans: Cost-of-funding plus 200-300bps. Maturities: 30 yrs.	**EFSF Loans** cut to cost-of-funding. Interest deferred for 10 yrs. Maturities extended to maximum 45 yrs.
		ANFA bonds issued on extant terms with interest and partial principal rebate.	
		SMP bonds issued on extant terms.	**SMP** interest and partial principal rebate.
		GGBs start at 2% coupon with maturities up to 30 yrs.	

Most Comparable Debt Instrument

	OSI #1: Loans May 2010	OSI #1: Loan Modification June 2011	OSI #2/PSI #1 Extensive Restructuring Feb/Mar 2012	OSI #3/PSI #2 Modification/Buyback December 2012
	~400 bps below market YTMs.	Market prices/YTMs reflect GGB high yield status.	Market prices/YTMs reflect GGB high yield status.	Market prices/YTMs reflect GGB high yield status.
Maastricht Debt - Face Value Amount Adjusted	€ 70.8	€ 70.8	€ 275.2	€ 275.2

Note: Simplification for presentation purposes.

Question 3:
What was the Maastricht adjustment impact on the €275 billion face value of Greece concessionary and modified debt?

Debt Measurement Frameworks: Accounting vs. Statistics - Key Traits*

International Accounting	**Macro Statistics**
• “Double-Entry” accuracy	• “Quadruple-Entry” symmetry
• Arm’s length most comparable market data	• Implementation varies based on political agendas
• Performance decision-making	• Fiscal policy decision-taking
• Full financials transparency	• Data output transparency
• Independent audits	• Reliance on submitted data

**Simplification for discussion purposes*

Debt Measurement Frameworks

INTERNATIONAL ACCOUNTING STANDARDS

IPSAS

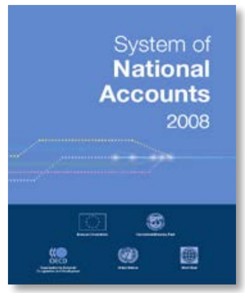
IPSAS 29 – FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

IFRS

IAS 39 – FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

INTERNATIONAL STATISTICS GUIDELINES

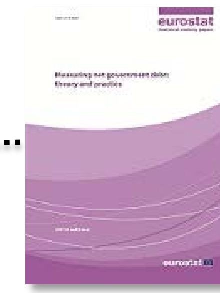
SNA 2008



ESA 2010

MGDD

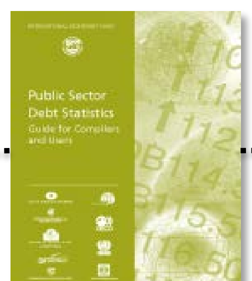
NET DEBT



INTERNATIONAL STATISTICS LENDER COVENANT GUIDELINES

GFSM 2014

PSDS



EDS

Maastricht Treaty

Difference between Debt at Fair Value vs. Debt at Legal Contract Value

IPSAS:

- Fair value at initial recognition or substantial modification.
- Present value of all three future cash flow streams discounted at the prevailing market rates at the time of the event (time-value-of-money).
- Financial assets.

Maastricht debt:

- Contract value for legal covenant purposes.

Maastricht Measurement of Debt

1. Debt measured based on Maastricht Treaty (face value) is a **political decision** in **direct conflict** with the debt valuation principles of both international accounting standards and international statistics reporting systems.
2. Maastricht Treaty totally ignores the existence of either the **time-value-of-money** or market interest rates.
3. Of the **three streams of debt cash flows** (interest, interest-on-interest and principal), Maastricht Treaty considers only principal.
4. Maastricht Treaty even requires a **zero coupon** bond be measured at the principal amount due at maturity.

IPSAS Debt Principles Summary: International Statistics and Maastricht Treaty

Maastricht is a **political decision** in **direct conflict** with the debt valuation principles of both international accounting standards and international statistics reporting systems.

S/N	IPSAS Debt Principle	International Statistics	Maastricht Definition
1.	Market Value at time of Initial Recognition	YES	NO
2.	Hierarchy of Valuation	YES	NO
3.	Arm's Length Concept	YES	NO
4.	Restructured Debt Acknowledged	YES	NO
5.	Concessionary Debt Acknowledged	YES	NO
6.	Net Debt	YES	NO
7.	Ongoing Market Price Changes	Varies	NO
8.	Audit Integrity	NO	NO

International Statistics: SNA 2008, GFS, and ESA 2010. See Supplemental Details sheet.

International Statistics Systems: Supplemental Details

1. Market Value at Time of Initial Recognition: All three systems use market value for debt that is traded, including discount debt. Non-traded debt, e.g. private placements and loans varies.
2. Hierarchy of Valuation: All three use the same hierarchy of valuation, which are (1st) market prices/YTMs, (2nd) market prices/YTMs of most comparable, and (3rd) market yield-to-maturity of most comparable to determine a present value.
3. Arm's Length Concept: SNA and GFS specifically use the terms arm's length as a part of market valuation. ESA uses the phrase market transaction between two parties.
4. Restructured Debt Acknowledged: SNA is most similar to IPSAS. GFS discusses but deviates from basic principles, even citing policy exemptions. ESA cites difference in value as transfer.
5. Concessionary Debt Acknowledged: All three acknowledge and note underdeveloped status, with varying levels of supplemental disclosure.
6. Net Debt: Each recognizes the concept of net debt, but the focus and the definitions appear to be based on policy not basic principles.
7. Ongoing Market Price Changes: Unlike IPSAS, all three revalue debt that is traded at the date of each balance sheet.
8. Audit Integrity: None of the three international statistics systems require audits based on internationally recognized auditing standards.

Three Streams Comparison

	IPSAS/IFRS		Maastricht	
40-year Bullet Debt	7% "At-Market" Coupon	1% Coupon with Market at 7%	7% "At-Market" Coupon	1% Coupon with Market at 7%
Interest	€187	€27	NA	NA
Interest-on-Interest	€746	€106	NA	NA
Principal (Face)	€67	€67	€1,000	€1,000
Initial Recognition Value	€1,000	€200	€1,000	€1,000
	Market value equals present value of discounted future cash flows		Face value	

€340 Billion Wealth Transfer - Greece

Greece creditors provided €340 billion in debt relief
to provide Greece extremely generous breathing space.

	Creditor Funds Provided	Value of Funds Post Debt Relief	Debt Relief
Private Investors	€ 199 Bil	€ 50 Bil	€ 149 Bil
Official Investors	€ 243 Bil	€ 52 Bil	€ 191 Bil
Total	€ 442 Bil	€ 102 Bil	**€ 340 Bil**
% of GDP			189%

GDP estimate of €180 billion.

Question 4:
What are Greece IPSAS/IFRS net debt and net cash interest expense ratios compared to other EU countries?

Net Debt Really Matters

Canada Public Sector Accounting Standards Board: Net debt and the change in net debt is the single most important performance metric. See Canada 20 Questions Handout.

Australia National Audit Commission: Net debt as the main stock indicator.

New Zealand Treasury: Net debt better reflects the underlying strength.

Austrian Federal Ministry of Finance: Net debt is one of the ratios we discuss first and foremost.

Portugal Ministry of Finance: Portugal will use net debt and not gross debt as a key performance metric.

General Government Maastricht Gross and Net Debt Ratios: 2001 - 2013

	Maastricht Gross Debt to GDP			Maastricht Net Debt to GDP		
	2001	2013	2001-2013 ∆%	2001	2013	2001-2013 ∆%
Eurozone Average	62%	96%	55%	34%	54%	62%
International Accounting Standards Benchmarks that Focus on Net Debt	43%	51%	19%	31%	22%	-30%
Outperformance by Benchmarks:			36 percentage points			92 percentage points

International Accounting Standards Benchmarks include NZ, AUS, CAN.

Greece IPSAS Net Debt as a Percent of GDP is One-Third (1/3) of Peers

(€, billions; 2013 data except as noted.)

		Greece	Peer Average	Ireland	Italy	Spain	Portugal
1.	Maastricht Debt/GDP	**175%**	**120%**	124%	133%	94%	129%
2.	GDP	€ 182		€ 164	€ 1,560	€ 1,023	€ 166
3.	Maastricht Debt (EDP)	€ 319		€ 203	€ 2,069	€ 961	€ 214
	IPSAS/IFRS:						
4.	Gross Debt	€ 124		€ 189	€ 2,069	€ 940	€ 185
5.	Financial Assets	€ 91		€ 65	€ 317	€ 292	€ 69
6.	Net Debt	€ 33		€ 125	€ 1,752	€ 647	€ 116
7.	Net Debt/GDP	**18%**	**80%**	76%	112%	63%	70%
8.	IAS Impacted Debt	€ 275		€ 62	€ 0	€ 41	€ 72
9.	IAS Impacted Debt (%)	86%		31%	0%	4%	34%

GREECE IPSAS/IFRS NET DEBT HAS BEEN INDEPENDENTLY VERIFIED ON 15 AUGUST 2014.

Note: Financial Assets data from Eurostat, Financial Balance Sheets [nasa_f_bs] (as of 31 May 2014) 2013 data, except Ireland, Italy, and Spain (2012); Greece data also noted in the IMF, 5th Review for Greece, June 2014, page 51.

Greece Cash Interest Expense as a Percent of Revenue is One-Third (1/3) of Peers. *(€, billions; as of 31 December 2013)*

		Greece	Peer Average	Ireland	Italy	Spain	Portugal
1.	Revenue	€ 80		€ 60	€ 762	€ 390	€ 76
2.	Interest Expense	€ 7.3		€ 7.7	€ 78.2	€ 34.2	€ 8.5
3.	Interest Expense % of Revenue	**9.2%**	**10.8%**	12.8%	10.3%	8.8%	11.2%
4.	EFSF Non-Cash Interest	€ 1.6					
5.	ANFA/SMP Rebates	€ 2.7					
6.	Cash Interest Payments	€ 3.0		€ 7.7	€ 78.2	€ 34.2	€ 8.5
7.	**Cash Interest Payments % of Revenue**	**3.8%**	**10.8%**	12.8%	10.3%	8.8%	11.2%
8.	Cash Interest Expense % of Debt	**0.9%**	**3.7%**	3.6%	3.8%	3.5%	3.9%

Potential Better Financial Asset Management

10.	€11 Billion Cash Buffer at 500bps above T-bills	€ 0.6
11.	€20 Billion in Bank Investments Earn 8%	€ 1.5
12.	Other Interest Income on Fin. Assets	TBD
13.	Interest Income Subtotal	€ 2.1
14.	Cash Net Interest Payments	**€ 0.9**
15.	**Cash Net Interest Payment % of Revenue**	**1.1%**

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Debt Ranking Comparison of Select Eurozone Countries[1] - Maastricht vs. IPSAS/IFRS

(As of 31 December 2013)

Maastricht Treaty (Legal)
Gross Debt as % of GDP[2]

Rank	Country	Debt as % of GDP
1.	Slovakia	55%
2.	Slovenia	72%
3.	Netherlands	74%
4.	Austria	75%
5.	Germany	78%
6.	France	93%
7.	Spain	94%
8.	Belgium	101%
9.	Ireland	124%
10.	Portugal	129%
11.	Italy	133%
12.	Greece	175%

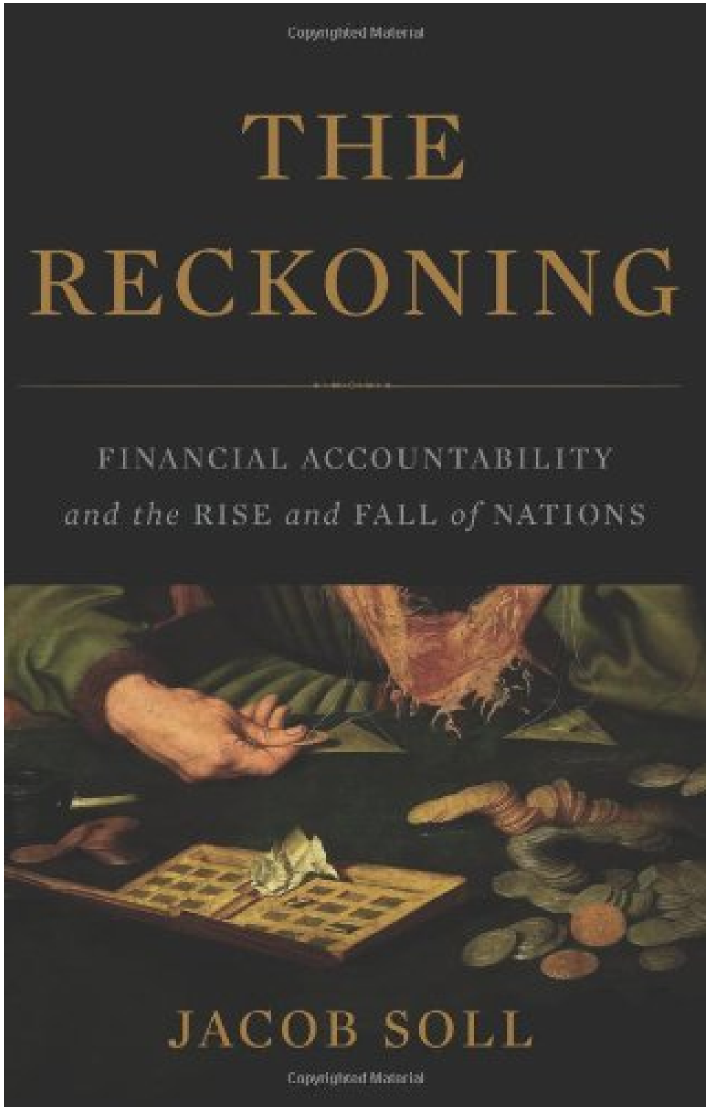
IPSAS/IFRS
Net Debt as % of GDP[2]

Rank	Country	Net Debt as % of GDP
1.	Slovenia	17%
2.	Greece	18%
3.	Slovakia	28%
4.	Netherlands	42%
5.	Austria	42%
6.	Germany	46%
7.	Spain	63%
8.	France	65%
9.	Portugal	70%
10.	Ireland	76%
11.	Belgium	84%
12.	Italy	112%

Notes:
1. OECD Eurozone countries with debt in excess of financial assets.
2. Source: EC AMECO Online and Eurostat databases. Net Debt calculated as Maastricht debt, adjusted according to IPSAS/IFRS where required for any concessionary loans or rescheduled securities, less all financial assets (ex. receivables). IPSAS/IFRS debt adjustments include Greece, Ireland, Portugal, and Spain data. Extensive granular analysis on Greece.

Question 5:
Why is it imperative that the Greece government use IPSAS/IFRS to quantify the impact on net debt and net worth prior to making major financial decisions?

Professor Jacob Soll: “The Reckoning: Financial Accountability and the Rise and Fall of Nations”



Building Trust and Confidence

- Consistent advice from successful global leaders
- The cornerstone of good government
- Starts with highest integrity financial reports
- Taxpayers within Greece
- Globally with investors
- Professor Jacob Soll's book "The Reckoning: Financial Accountability and the Rise and Fall of Nations"

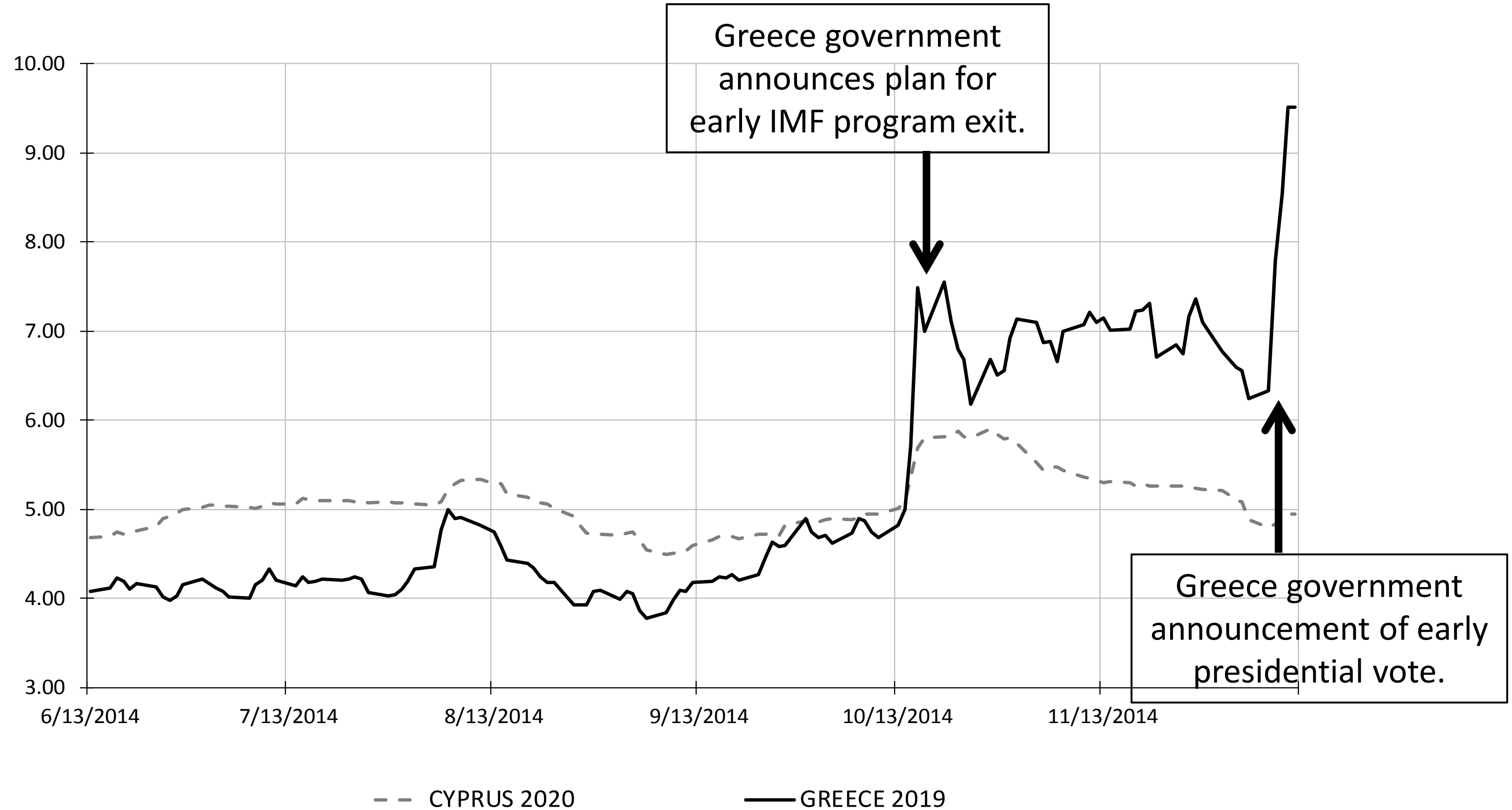
Better Management of Government Finances

- Greece government is responsible for managing
  - €80 billion annual budget
    - 650,000+ employees
    - Approximately 50% of the economy
- Better manage financial and privatization assets and government liabilities
- Better manage spending and revenues
- You cannot manage what is not correctly measured

IPSAS Protects Against Debt-Fueled Growth

- Focus on no increase in net debt
- High integrity net debt numbers
- Monthly net debt numbers within weeks of month-end
- Disclose potential impact on net debt prior to major financial decisions
- Maastricht debt covenant stays in place

Greece vs. Cyprus:
Medium Term Government Borrowing Costs 2H 2014



Yield (%)	**Jun-14**	**Jul-14**	**Aug-14**	**Sep-14**	**Oct-14**	**Nov-14**	**Dec-14**
CYPRUS 2020 (B3/B+/B-/B(low))	5.02	5.06	4.73	4.90	5.75	5.23	4.95
GREECE 2019 (Caa1/B/B/B)	4.22	4.20	4.09	4.74	7.14	7.10	9.52
Δ (bps)	**-80**	**-86**	**-64**	**-15**	**139**	**187**	**457**

5-year yields for peers: Ireland (0.39%), Italy (1.16%), Spain (1.13%), Portugal (1.73%).

Greece vs Peer Borrowing Cost Examples (1 of 3)

(as of 12 December 2014)

Greece <u>Government</u> 5yr Borrowing Cost Above Peers: *(9.5% vs. 0.9%)*	**860 bps Above**
↓	↓
Greece <u>Corporate</u> Borrowing Cost Above Peers: *(11.3% vs. 1.2%)*	**1,010 bps Above**
↓	↓
Greece <u>Corporate</u> Net Margin Below Peers: *(1.2% vs. 5.7%)*	**450 bps Below**

Greece vs Peer Borrowing Cost Examples (2 of 3)

(as of 12 December 2014)

Greece Borrowing Cost Disadvantage to Peers (bps): 1,010 bps

Greece Issuer	5yr Borrowing Cost	Net Margin	EU Peer Issuer	5yr Borrowing Cost	Net Margin
Intralot	9.0%	0.7%	**Gtech SpA (Italy)**	1.6%	8.6%
Frigoglass	16.3%	0.6%	**Gerresheimer (Germany)**	1.0%	5.4%
Hellenic Petroleum	9.1%	0.4%	**Neste Oil (Finland)**	1.8%	3.0%
Public Power Corp	10.9%	3.0%	**Swissgrid AG (Switzerland)**	0.3%	5.7%
AVERAGE:	**11.3%**	**1.2%**	**AVERAGE:**	**1.2%**	**5.7%**

Greece vs Peer Borrowing Cost Examples (3 of 3)

(as of 12 December 2014)

Greece Borrowing Cost Disadvantage to Peers (bps): 860

Greece Banks	Borrowing Cost	EU Peer Banks	5-year Borrowing Cost
Piraeus (3 yrs)	10.7%	**Bank of Ireland (Ireland)**	1.4%
NBG (5 yrs)	9.3%	**Unicredit (Italy)**	1.1%
Alpha (9 yrs)	11.9%	**Bankia (Spain)**	1.4%
Eurobank (4 yrs)	9.5%	**Banco Comercial Portugues (Portugal)**	3.2%
AVERAGE:	**10.4%**	**AVERAGE:**	**1.8%**

Greece Can Show the Real Debt Number, Now

- IPSAS: **Fair value** of net debt, including **rescheduled and concessionary debt**, should be reported in financials (IPSAS 29/ IAS 39).
- SNA 2008: **Fair value** (3.156-157 (a)). Present value of **rescheduled debt** should be recorded in financial accounts and as a capital transfer (22.106-113) and **concessionary debt** in supplemental tables (22.123-124).
- IMF GFS: **Fair value** (3.113-115). **Refinancing** (A.3.15-16). Present value of **concessionary debt** and transfer disclosed in memo item (7.246 and Table 4A.2.).
- EC ESA 2010: **Exchange value** (1.94-95). Present value change in **rescheduled debt** is a capital transfer (20.236) and **concessional debt** is a capital transfer and memo item (20.236, 20.241-242). Present value of debt disclosed in EDP Table #4.

Question 6:
Why can the Greece government effectively implementing IPSAS/IFRS create 200,000 to 400,000 new sustainable jobs within the next 24 months?

Jump Start 200,000 to 400,000 Sustainable New Jobs Within the Next 24 Months

- Cut borrowing cost in half
- Double liquidity – “40% penalty” reduced to peer 5%
- Small business resurgence
- Construction markets will reawaken
- Exports will increase given new competitiveness
- The value of income producing real estate will increase given lower cap rates

ECB “40% Penalty” on Greece Collateral Compared to Peers 5%

- Potential investors need to commit 8X the collateral to buy Greek bonds compared to peers
- Borrowing costs significantly inflated relative to peers and freezes liquidity.
- Peer collateral adjusted bond yield as more attractive (higher) than Greece bond yields.
- Banks, as big buyers of government bonds, are effectively precluded from buying GGBs
- Suggest you read an ICMA study “Collateral is the New Cash: The Systemic Risks of Inhibiting Collateral Fluidity”

ECB Historical Greece Haircut Matrix for GGBs: 2008-2014

The "40% penalty" for past month is counterproductive and not supporting sustainable growth.

Date	GGB Haircut (10+ year maturities)	Regulation Title	Duration	Ratings
Jan 1, 2008 – May 5, 2010	5.5%	-	-	A1/A/A
MAY 20120 OSI				
May 6, 2010 - Dec 31, 2010	5.5%	ECB/2010/3 Decision on **temporary measures** relating to the eligibility of marketable debt instruments issued or guaranteed by the Greek Government continuing eligibility as collateral by suspending the credit quality threshold	7 Months	A3/BB+/BBB-
Jan 1, 2011 – Feb 27, 2012	10.5%	ECB Biennial Review of Risk Control Measures	14 months	Ba1/BB+/BBB-
MARCH 2012 OSI & PSI NEGOTIATIONS				
Feb 28, 2012 – Mar 7, 2012	Ineligible as Collateral at ECB	ECB/2012/2: Repealing Decision ECB/2010/3 on **Temporary Measures** Relating to the Eligibility of Marketable Debt Instruments Issued or Guaranteed by the Greek Government	<1 month	Ca/SD/C
Mar 8, 2012 – Jul 24, 2012	10.5%	ECB/2012/3: The Eligibility of Marketable Debt Instruments Issued or Fully Guaranteed by the Hellenic Republic in the Context of the Hellenic Republic's Debt Exchange Offer	4 months	C/SD/C
DECEMBER 2012 OSI NEGOTIATIONS				
Jul 25, 2012 – Dec 20, 2012	Ineligible as Collateral at ECB	ECB/2012/4: Repealing Decision ECB/2012/3 on the Eligibility of Marketable Debt Instruments Issued or Fully Guaranteed by the Hellenic Republic in the Context of the Hellenic Republic's Debt Exchange Offer	5 months	C/CCC/CCC
Dec 21, 2012 – Dec 15, 2014	57.0%	ECB/2012/32: **Temporary Measures** Relating to the Eligibility of Marketable Debt Instruments Issued or Fully Guaranteed by the Hellenic Republic	18 months	C/B-/CCC
Dec 16, 2014 – Present	40.0%	ECB/2014/46: Amending Guideline ECB/2014/31 on Additional **Temporary Measures** Relating to Eurosystem Refinancing Operations and Eligibility of Collateral and Amending Guideline ECB/2007/9	<1 month	Caa1/B/B/B

Greece current bond ratings as of 13 December 2014 are Caa1/B/B/B.

ECB "40%" Penalty Limits Bank Investors

Italy 34% vs. Greece 6%

(in € billions, unless otherwise stated)	**ITALY**	**GREECE**
Domestic Holders:		
Domestic MFIs	€430	€15 (Mostly T-Bills)
Domestic Pensions & Insurance	€279	€5
Domestic Sub-Total:	**€709**	**€20**
Total Debt:	**€2,069**	**€319**
Domestic Holdings as % of Total Debt:	**34%**	**6%**

Sources: ECB, IMF, EC (AMECO), Japonica.

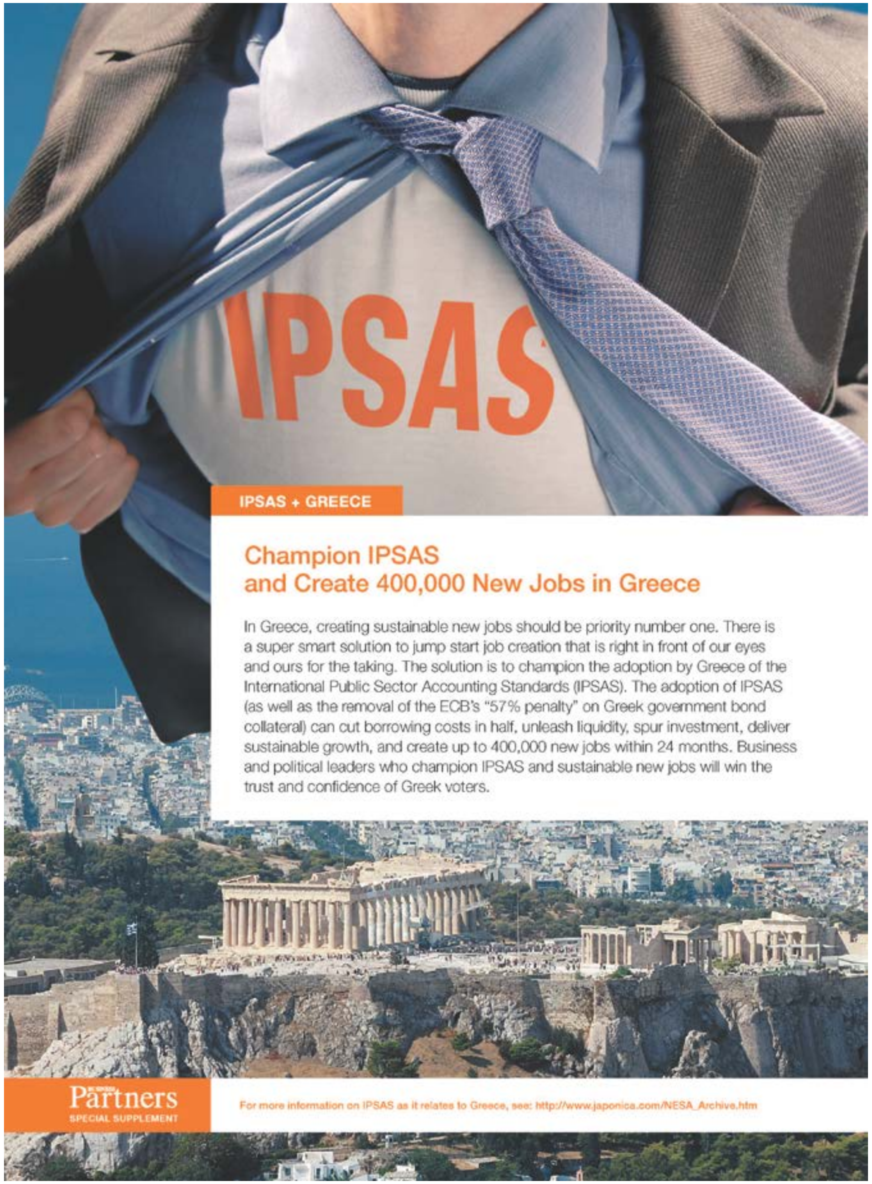
Question 7:
How do you educate key stakeholders on Greece's huge competitive advantage?

Greece IPSAS Relevant Past Events

**Greece has had four failed attempts at implementing government accrual accounting, and one more pending.*

***1:** 1992 – Greek Ministry of Economy pushes for accrual accounting
2003 – Public hospitals in Greece to implement accrual accounting
***2:** 2005 – Greece law passed for public entities to use IAS (IFRS)
2006 – SEV publicly supports adoption of IPSAS
2008 – EC recommends, unofficially, Greece implement IPSAS
***3:** 2009 (March) – Greece self-reports to OECD that it has full accrual based financial statements
2009 – Greece big four accounting firms plus locals form IPSAS committee
2010 – IPSAS Greece government training of low level employees started (not Minister or MP level)
2011 – IPSAS Greece government training stopped prior to certification exams
***4:** 2011/12 – IPSAS Greece projects started
2012 (April) – IPSAS conference in Athens
2013 – IPSAS Greece projects stopped with expiration of funds
2014 (June) – Public tender for computer accrual accounting systems pending
2014 (December) – For the fifth time, Government again promises to adopt IPSAS "next year" ignoring that implementation could start today (not public).

Educational Resources (1 of 2)



Educational Resources (2 of 2)

www.freegreece.info

FREE GREECE

Jump starting new sustainable jobs through International Public Sector Accounting Standards (IPSAS)
Άμεση εκκίνηση νέων βιώσιμων θέσεων εργασίας μέσω της εφαρμογής των Διεθνών Λογιστικών Προτύπων (IPSAS)

About | **Key Data Slides**

Get educated on why Greece Net Debt is 18% of GDP not 175%

Ενημερωθείτε στο γιατί το καθαρό χρέος της Ελλάδας ανέρχεται στο 18% του ΑΕΟΠ και όχι στο 175%

Resources (English Language)

Greece IPSAS Seven Questions

IPSAS and Greece Special Supplement - November 2014

AmCham The Greek Economy Conference Presentation - December 2014:
(1.) Conference Version (2.) Extended Version

PMI Congress Presentation - November 2014:
(1.) Video (2.) Slides

Thought Leader Videos on IPSAS for Greece - 2014

"What Greek accounting woes can teach Asia" - Straits Times - November 2014

Unique Insights into Sovereign Credit Risk using IPSAS Framework - IIF & S&P Conference - November 2014

Greece Competitive Advantage in the Global Supply Chain - Berlin International Conference - October 2014

The Reckoning: Financial Accountability and the Rise and Fall of Nations, by Jacob Soll - April 2014

Πόροι ελληνικά γλώσσα

Ελλάδα Διεθνή Λογιστικά Πρότυπα (IPSAS) - 7 Ερωτήματα

Διεθνή Λογιστικά Πρότυπα (IPSAS) για την Ελλάδα – Ερωτήσεις και Απαντήσεις – Δεκέμβριος 2014

«Τι μπορούν να διδάξουν τα Ελληνικά λογιστικά δεινά στην Ασία» - Straits Times – Νοέμβριος 2014

«Μην αναφέρετε το χρέος», Ian Ball, Public Finance International – Νοέμβριος 2014

«Στην Ελλάδα σιωπούν για το τεράστιο ανταγωνιστικό πλεονέκτημά της», Σπύρος Ολύμπιος, Ναυτεμπορική – Οκτώβριος 2014

Η εγγυοδοσία της Ευρωπαϊκής Κεντρικής Τράπεζας για την Ελλάδα πρέπει να μειωθεί στο 5%, Δημήτρης Τζανίνης, ekathimerini – Οκτώβριος 2014

Other Resources | **Contact**

Breaking the Greece Debt Myth (1 of 2)

Klaus Regling *ESM, Managing Director*	The maturities on Greek debt are so long and the interest rate it pays so low that the scale of the debt pile itself has become "meaningless". Greece enjoys concessional interest rates and long maturities on its debt. (WSJ Interview, 27 Sep 2013) Over the next decade, Greece has no debt overhang. (Economist Conference, 9 July 2014)
Ian Ball *Chairman, CIPFA International*	If you used an international accounting standards measure under International Public Sector Accounting Standards or under international reporting standards, for example, the number would be significantly under 60%, not 175%. And the consequences of that are really significant. (World Congress of Accountants, Video Interview, Nov 2014)
Washington SyCip *SyCip Gorres Velayo & Co Founder & Former IFAC President*	For Greece, IPSAS would reveal a debt-to-GDP ratio not of 175 per cent, but significantly below 60 per cent. In fact, Greece's net debt-to-GDP ratio is one-third that of its credit peers, which is a huge competitive advantage. IPSAS would also show that Greece cash interest payments as a percentage of revenue are one-third that of its peers. (Straits Times, 26 Nov 2014)
Dag Dyrdal *NBIM, Former Chief Strategic Relations Officer*	Below market interest rates, deferred interest payments, and extended maturities are not reflected in the Greece debt-to-GDP figures from Eurostat. While the official figure is 172 per cent, Greece, using international accounting standards, IPSAS-based accounting, has a debt ratio well below 100 percent. (Dagens Naeringsliv, 6 May 2014)
Stuart Gilson *Harvard Business School Professor*	It's astonishing that sovereign debt burdens are based on legal definitions rather than economic definitions of debt. Pure lunacy. (Email Correspondence, 16 Jun 2014)

Breaking the Greece Debt Myth (2 of 2)

Dimitri Tzanninis *Economist, Former IMF staff, and former Chairman of the Council of Economic Advisors in Greece*	Greece has a huge competitive advantage, which to date has been only spoken of in the shadows. Specifically, Greece's public debt as a percentage of GDP – when calculated correctly under international accounting standards – is one-third (yes, 1/3!) of its credit peers Ireland, Italy, Spain and Portugal, and not the 175 percent blindly repeated. (Kathimerini, 21 Oct 2014)
Spyros Olympios *President of the Institute of Logistics and Management Greece (HILME)*	The government can publish its net debt to GDP percentage under IPSAS and free exporters to show our trading partners that Greece net debt is one-third (1/3) of its credit peer countries. Our low debt is a huge competitive advantage, with huge benefits for everyone in Greece.
Yiannis Pehlivanidis *NBG, Former Vice Chairman & Deputy CEO*	Without question, Greece's net debt-to-GDP is well below 100% and may even test 60% when measured accurately using the true and fair, internationally accepted accounting standards. (Kathimerini, 15 Jun 2014)
Eric Reguly *Globe & Mail (Canada's largest-circulation national newspaper), Journalist*	Greek debt is becoming so cheap and its maturities so long that calling it debt is to stretch the definition of the term. The money it owes occupies a netherworld between real debt and free money. The series of maturity extensions and interest rate reductions are giving the debt a rather grant-like flavour. (Globe and Mail, 6 Jun 2014)

From IMF (12 June 2014): NESAS – Athens

Marco Cangiano, Assistant Director of the IMF Fiscal Affairs Department and co-editor of *Public Financial Management and its Emerging Architecture*.

"Many countries—not only Greece—were caught by surprise during the crisis because of the poor quality of their fiscal reporting systems. **It would therefore be a welcome development if the Greek government decided to move toward developing an accruals-based reporting** framework in the context of their public financial management reform agenda.

Pending the development of European accounting standards, such a decision would have to **be initially anchored to the existing International Public Sector Accounting Standards (IPSAS),** suitably adapted to the Greek context, and implemented on the basis of a realistic timeframe and the need to develop the appropriate skills."

Three Metrics to Measure Greece Government Performance

We use three metrics (3-KPIs) to measure performance of the Greece Government:

1. Number of new sustainable jobs created.
2. Change in general government net debt and net worth.
3. Change in value of country stock market and bond market.

Five Conclusions

1. Greece does not have a debt problem.
2. Greece does not have an interest problem.
3. Greece does have an absence of IPSAS/IFRS financial information upon which to make decisions and build trust and confidence.
4. Greece does have a misguided focus on calls for “debt relief” and cutting interest expense that has cost hundreds of thousands of jobs and tens of billions of investment losses.
5. Greece does have a huge competitive advantage, and immediately implementing IPSAS will create 200,000 to 400,000 sustainable jobs in the next 24 months.

Appendices

Video Presentations

- **Hon. David Walker:** Former US Comptroller General and head of the Government Accountability Office (NESAS-London)
- **Hon. Ruth Richardson:** Former Finance Minister of New Zealand (NESAS-London)
- **Dr. Ian Ball:** Chairman, CIPFA International, former CEO International Federation of Accountants (World Congress of Accountants, 4,000+ senior most accountants)

See www.freegreece.info

Public Sector Accrual Accounting Sea Change 1995 to 2014 (1 of 3)

	Accrual Accounting Standards	
Major Public Sector Entities	1995	2014
Australia	No	Yes
Austria	No	Yes
Canada	No	Yes
China	No	MoF/IPSASB
Czech Republic	No	Yes, 2015
Estonia	No	Yes, 2015
European Commission	No	Yes
France	No	Yes
Germany - Hamburg	No	Yes
Germany - Hessen	No	Yes
Hong Kong	No	Yes
IMF	No	Yes

Source: CIPFA draft (June 2014).

Public Sector Accrual Accounting Sea Change 1995 to 2014 (2 of 3)

	Accrual Accounting Standards	
Major Public Sector Entities	1995	2014
Ireland	No	Yes, Progressing
Israel	No	Yes
NATO	No	Yes
New Zealand	Yes	Yes
Nigeria	No	Yes, 2016
OECD	No	Yes
Portugal	No	Yes, 2015-19
South Africa	No	Yes
Spain	No	Yes, 2015-19
Sweden	Yes	Yes
Switzerland	No	Yes
United Kingdom	No	Yes

Source: CIPFA draft (June 2014).

Public Sector Accrual Accounting Sea Change 1995 to 2014 (1 of 3)

	Accrual Accounting Standards	
Major Public Sector Entities	1995	2014
United Nations	No	Yes
USA	No	Yes
USA - States	No	Yes
USA – Major Cities	No	Yes
World Bank	Yes	Yes

Source: CIPFA draft (June 2014).

Rating Agency Comments on Greece Debt Number

- **DBRS:** First factor that continues to materially constrain ratings, Greece's elevated debt level. The government's still very elevated level of public sector debt is likely to weigh negatively on investor sentiment. (7/14)
- **Fitch:** First weakness listed: Despite both private and public debt restructuring in recent years, general government debt of 175% of GDP far exceeds 'B' and 'BB' medians. Debt sustainability remains far from secure. (6/14)
- **Moody's:** First line is Greece's government **debt** is one of the highest in our rated sovereign universe... First bullet point cites how debt metrics have deteriorated over past two years. (9/14)
- **S&P:** Our long-term rating on Greece balances our view of the government's high (albeit long-dated) **debt** burden and the country's onerous external **debt** position…Six of 16 key statistics relate to **debt**. (3/14). Greece's gen gov debt stock will remain among the highest [177%] of all the sovereigns we rate. Would lower rating if not successful in stabilizing debt to GDP ratio. (9/14).

Can Long Term Debt be Sustainable if Sufficient Accounting and Management Does Not Exist?

- Debt not measured in economic (IPSAS/IFRS) terms
- Net debt not managed
- Net debt changes not reported
- Impact on net debt of major decision not considered or reported to the public
- Highly volatile swings in borrowing costs

IMF and World Bank on Calculating Net Debt

IMF Staff Guidance Note prepared by the IMF and the World Bank (April 2007):

1. Countries that primarily rely on concessional financing, the net present value (NPV) of debt is needed to be informative as a measure of a country's effective debt burden
2. This [debt] burden is best measured using the net present value (NPV) of debt to capture the concessionality of outstanding debt
3. NPV debt ratios are summary indicators of the burden represented by the future obligations of a country and thus reflect long-term risks to solvency

IMF Staff Guidance Note (May 2013):

1. Staff should consider three important issues including gross versus net debt
2. Complementary analysis based on net debt presented to show the impact of risk-mitigating factors
3. The use of a standard statistical definition of net debt in line with the Public Sector Debt Statistics Guide is recommended

Ask the Right Net Debt Integrity Question

Did the Net Debt number earn the following Expert's Opinion statement by a Big Four accounting/auditing firm whose independence is beyond question?

"Nothing has come to our attention that causes us to believe that the calculations of Greece financial liabilities as reported to us as of December 31, 2013 have not been, in all material respects conducted reasonably in accordance with IAS 39 and IFRS 13, which are deemed an appropriate approximation of IPSAS 29, applicable for Greece."

Unintended Consequences of Not Using IPSAS/IFRS Net Debt

- Governments making micro decision-making without understanding financial impact on net debt and net worth.
- Weaken transparency and accountability associated with wealth transfers.
- Governments can use financial assets, especially hidden equity and shares, for kleptocratic purposes.
- Reporting traded government debt at current prices can have perverse relationship between better credit/lower borrowing costs and increased net debt/decreased net worth.
- Unwise debt buybacks based on flawed accounting.
- Unfairly suffocate a country due to inaccurate credit data.

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 for Greece in the table below are qualitative not quantitative: (i) "Market value of securities much lower than nominal value"; (ii) "Economic crisis".

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

Draft v.4.4

Greece YE 2013 & Peers:
General Government* Financial Balance Sheet Breakdown

(€, billions)

EUROSTAT [a]:

Country	Currency & Deposits	Security Other Than Shares	Financial Derivatives	Loans	Shares & Other Equity	Insurance Reserves	FINANCIAL ASSETS
GREECE	**€ 21.6**	**€ 12.2**	**€ 0.0**	**€ 0.8**	**€ 55.9**	**€ 0.0**	**€ 90.7**
IRELAND	€ 24.3	€ 9.1	€ 0.6	€ 6.7	€ 23.9	€ 0.0	**€ 64.6**
ITALY	€ 75.2	€ 26.5	€ 0.0	€ 88.5	€ 125.3	€ 1.4	**€ 316.9**
SPAIN	€ 84.7	€ 4.9	€ 0.0	€ 58.6	€ 143.9	€ 0.0	**€ 292.2**
PORTUGAL	€ 20.8	€ 7.9	€ 0.0	€ 5.7	€ 34.6	€ 0.0	**€ 69.0**

IMF Fifth Review; Sources cited - Ministry of Finance and IMF staff projection [b]:

Country	Currency & Deposits	Security Other Than Shares	Financial Derivatives	Loans	Shares & Other Equity	Insurance Reserves	FINANCIAL ASSETS
GREECE	**€ 21.6**	**€ 12.2**	**€ 0.0**	**€ 0.8**	**€ 55.9**	**€ 0.0**	**€ 90.7**

Notes:

(a) Source: Eurostat, Financial Balance Sheets [nasa_f_bs] (as of 31 May 2014); 2013 data, except Ireland, Italy, and Spain (2012).

(b) Source: IMF, 5th Review for Greece, June 2014, page 51.

* The general government sector consists mainly of central, state and local government units together with social security funds imposed and controlled by those units. In addition, it includes non-profit institutions engaged in non-market production that are controlled and mainly financed by government units or social security funds. (Source: SNA 2.20, 4.9.)

Government Management of Financial Assets 2013-2014 as Reported by the IMF and Eurostat

(€, billions)

	2013[1]	2014	% Change
Financial Assets:			
1. Greece	€ 91	?	?
2. Ireland	€ 65	?	?
3. Italy	€ 317	?	?
4. Spain	€ 292	?	?
5. Portugal	€ 69	?	?

	YE 2013	YTD (18.12.2014)	% Change
Stock Market Index:			
6. Greece	1,163	875	-25%
7. Peer Average	-	-	-2%
8. Ireland	4,539	5,158	14%
9. Italy	18,968	19,061	0.5%
10. Spain	9,917	10,391	5%
11. Portugal	6,559	4,914	-25%
Long-Term Government Bond Price (20 -Year Benchmark):			
12. Greece	54	54	1%
13. Peer Average	-	-	30%
14. Ireland	117	142	21%
15. Italy	104	131	25%
16. Spain	113	146	29%
17. Portugal	73	105	43%

Note 1: Financial Assets data from Eurostat, Financial Balance Sheets [nasa_f_bs] (as of 31 May 2014) 2013 data, except Ireland, Italy, and Spain (2012); Greece data also noted in the IMF, 5th Review for Greece, June 2014, page 51.

ANFA and SMP Payments Should Reduce Interest Expense, NOT Inflate Primary Balance

- Government received €2.7 billion in 2013 and budgeted €2.4 billion in 2014 from ECB and NCBs.
- Rebates from interest expense and principal payments paid by the government on its bonds.
- Economic reality and proper accounting: rebates netted to interest expense, not to primary balance.

Technical Definitions of Accounting Device and Fiscal Illusion

- The concept of creative accounting refers to the more or less unorthodox treatment of operations involving the general government, which affects the fiscal balance or public debt <u>but not, or far less, government net worth</u>. OECD paper No. 417
- Measures that temporarily embellish both the headline and the fiscal position <u>without a commensurate improvement in the underlying fiscal position</u>. OECD paper No. 417
- An accounting device that gives the illusion of change <u>without substance</u> or makes the change appear larger. IMF Staff Discussion Note SDN/12/02
- Window dressing and creative accounting that has <u>little overall effect on fiscal policy</u> and could actually hide a worsening of a government's fiscal position. IMF Working Paper WP/00/172
- Creative accounting used by a government to <u>circumvent rules by hiding fiscal policies in less visible positions</u>. Deutsche Bundesbank Discussion Paper No 38/2004

If Face is Always Correct, then?

- How would a bond that pays €20 in interest for 10 years and no principal at maturity go on the books today? At ZERO?
- Do pension funds and retirement benefit obligations in the future go on the books at future value?
- How would you measure the difference between a 20% cut in nominal value versus a 90% cut in interest rates with a maturity extension of 40 years?
- Would a zero coupon bond go on the books at face?
- How do you account for a perpetual debt security?

Comparing the Future Impact of Concessionary/Rescheduled Liabilities on Net Debt

(40-year bonds with 7% market rates.)

Day one values: IPSAS is a present value based on market prices/YTMs. Maastricht Treaty (face value) is a political decision.

	IPSAS						Maastricht Treaty			GDP
	7% Coupon			1% Coupon			1% Coupon			*CAGR:*
	Impact	% Change	Debt/GDP	Impact	% Change	Debt/GDP	Impact	% Change	Debt/GDP	*2%*
1. Day One	100	-	100%	20	-	20%	100	-	100%	100
2. Year 10	197	97%	161%	39	97%	32%	114	14%	93%	122
3. Year 20	387	287%	260%	77	287%	52%	141	41%	95%	149
4. Year 30	761	661%	420%	152	661%	84%	194	94%	107%	181
5. Year 40 (Maturity)	1497	1397%	678%	300	1397%	136%	300	200%	136%	221
6. CAGR	7%			7%			3%			
						Ratio of Debt/GDP *(1% Econ. Acct. to 7% Econ. Acct.)*			Ratio of Debt/GDP *(1% Non-Econ. Acct. to 7% Econ. Acct.)*	
7.						20%			100%	
8.						20%			58%	
9.						20%			36%	
10.						20%			26%	
11.						20%			20%	

Note: Assumes government is running a fiscal deficit and must borrow to pay interest. Non-Economic Accounting CAGR varies among interim periods.

Accounting for Concessionary/Rescheduled Liabilities

Concessionary and rescheduled liabilities result in a day one wealth transfer impacting the country's net worth.

7% Market Rate Liability

Loan	€ 100
Interest Rate	7%

Day One Post-Loan Financial Performance (Flows)

Creditor		Debtor	
Gain	€ 0	Gain	€ 0
Exp.	€ 0	Exp.	€ 0
Surplus/ (Deficit)	€ 0	Surplus/ (Deficit)	€ 0

Pre-Loan Financial Position (Stocks)

Creditor Assets	Creditor Liab./NW	Debtor Assets	Debtor Liab./NW
	Liab.		Liab.
€ 100	€ 0	€ 0	€ 0
	NW		NW
	€ 100		€ 0
€ 100	€ 100	€ 0	€ 0

Day One Post-Loan Financial Position (Stocks)

Creditor Assets	Creditor Liab./NW	Debtor Assets	Debtor Liab./NW
	Liab.		Liab.
€ 100	€ 0	€ 100	€ 100
	NW		NW
	€ 100		€ 0
€ 100	€ 100	€ 100	€ 100

40-Year 1% Coupon Concessionary/Rescheduled Liability

Loan	€ 100
Interest Rate	1%

Day One Post-Loan Financial Performance (Flows)

Creditor		Debtor	
Gain	€ 0	Gain	€ 80
Exp.	(€ 80)	Exp.	€ 0
Surplus/ (Deficit)	(€ 80)	Surplus/ (Deficit)	€ 80

Pre-Loan Financial Position (Stocks)

Creditor Assets	Creditor Liab./NW	Debtor Assets	Debtor Liab./NW
	Liab.		Liab.
€ 100	€ 0	€ 0	€ 0
	NW		NW
	€ 100		€ 0
€ 100	€ 100	€ 0	€ 0

Day One Post-Loan Financial Position (Stocks)

Creditor Assets	Creditor Liab./NW	Debtor Assets	Debtor Liab./NW
	Liab.		Liab.
€ 20	€ 0	€ 100	€ 20
	NW		NW
	€ 20		€ 80
€ 20	€ 20	€ 100	€ 100

Key:
Liab.: Liability
NW: Net Worth

International Accounting Liabilities Standards Matrix

All four world-class accounting standards are very similar

<table>
<tr><th></th><th>IPSAS</th><th>IFRS</th><th>FASB</th></tr>
<tr><td>Initial Recognition</td><td rowspan="4">IPSAS 29 — Financial Instruments: Recognition and Measurement</td><td rowspan="4">IFRS 13 — Fair Value Measurement

IAS 39 — Financial Instruments: Recognition and Measurement (IFRS 9 Financial Instruments)</td><td rowspan="2">FASB 157 — Fair Value Measurements

FAS 140 — Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities</td></tr>
<tr><td>Substantial Modification</td></tr>
<tr><td>Concessionary Loans</td><td>FAS 15 — Accounting by Debtors and Creditors for Troubled Debt Restructurings</td></tr>
<tr><td>Debt Cancellation</td><td rowspan="2">FAS 140 — Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities</td></tr>
<tr><td>In-Substance Defeasance</td><td>IPSAS 28—Financial Instruments: Presentation</td><td>IAS 32 — Financial Instruments: Presentation</td></tr>
</table>

Notes

IPSAS: International Public Sector Accounting Standards

IFRS: International Financial Reporting Standard

FASB: Financial Accounting Standards Board

GASB: Governmental Accounting Standards Board

IAS: International Accounting Standards

Illustrative Examples Where Initial Book Value of Debt Differs From Face Value

If the U.S. were to report the below Brady debt examples according to Maastricht Treaty, its debt would not have been reported as $3.7 billion, but reported as $37.3 billion.

Issuer	Debt Type	Face Value	Initial Book Value	Initial Book Value as % of Face Value	Original Maturity	Initial Yield	Issue Date
U.S. Treasury	Zero-coupon bonds to Mexico for Brady Bonds	$30.0 billion	$3.0 billion	10%	30 years	7.9%	Mar-1990
U.S. Treasury	Zero-coupon bonds to Venezuela for Brady Bonds	$7.3 billion	$0.7 billion	10%	30 years	8.1%	Dec-1990
Burger King	Zero-coupon first 5 years, 11% thereafter	$685.0 million	$401.5 million	59%	8 years	11.0%	Apr-2011
Caterpillar	Zero-coupon bond	$15.0 million	$13.4 million	89%	2 years	5.7%	Jun-1998
Toyota	Zero-coupon bond	$124.5 million	$30.0 million	24%	30 years	4.8%	Mar-2008

Most T-Bills and commercial paper have similar accounting.