IPSAS + GREECE

Champion IPSAS and Create 400,000 New Jobs in Greece

In Greece, creating sustainable new jobs should be priority number one. There is a super smart solution to jump start job creation that is right in front of our eyes and ours for the taking. The solution is to champion the adoption by Greece of the International Public Sector Accounting Standards (IPSAS). The adoption of IPSAS (as well as the removal of the ECB's "57% penalty" on Greek government bond collateral) can cut borrowing costs in half, unleash liquidity, spur investment, deliver sustainable growth, and create up to 400,000 new jobs within 24 months. Business and political leaders who champion IPSAS and sustainable new jobs will win the trust and confidence of Greek voters.

For more information on IPSAS as it relates to Greece, see: http://www.japonica.com/NESA_Archive.htm

Jump Start Investments and New Jobs in Greece with Good Government Accounting

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Greece has an opportunity to jump start investments and job creation by implementing international accounting standards. International experience shows that countries managed with international accounting standards have outperformed others—with sustainable economic prosperity. International accounting standards will spark a positive cycle of lower borrowing costs and improved loan availability, and will jump start investments and job creation in Greece.

The crisis in Greece has highlighted the lack of internationally comparable and credible government financial statements. With such financial statements, Greek citizens and foreign investors will be more inclined to trust the government and confidently assess its performance. Proper financial statements attract investors and provide access to the credit markets based on actual performance.

Every year more countries are adopting the only international accounting standards for government, IPSAS (International Public Sector Accounting Standards), to increase transparency, improve decision-making, and strengthen accountability. IPSAS has helped them improve their image and credit ratings, and succeed in capital markets. The production of IPSAS financials by the Greek government will boost access to capital by Greek companies, jump starting investments and job creation.

Even though many countries have seen the benefits of IPSAS, Greece stands out: it has much to gain, but has yet to decide to adopt IPSAS. Greek companies remain handcuffed with higher borrowing costs and have restricted access to capital. They face borrowing costs 400-600 basis points higher than foreign competitors. The result is lower competiveness, lower margins, and fewer resources to invest.

> When accounted for correctly, Greece's net debt-to-GDP is significantly below 60%, not the often-cited figure of 175%.

In addition to the many benefits of implementing IPSAS, Greece has a unique additional benefit. With IPSAS, Greece will report significantly improved credit metrics. When accounted for correctly, Greece's net debt-to-GDP is significantly below 60%, not the often-cited figure of 175%. Greece's cash interest expense as a percent of revenue is about one-third of its peers and average cash borrowing costs are approximately one percent.

IPSAS financials will show Greece's credit metrics are superior to those of credit peers and help remove the ECB "57% penalty" on Greek government bonds (GGBs), which is suffocating growth and job creation. Under this penalty, investors seeking a loan to buy certain Greek assets, such as GGBs, must post ten times the collateral compared to similar assets from peer countries. The "57% penalty" is a significant reason for the lack of liquidity in our country and its higher borrowing costs.

Ignoring these benefits, some say Greece should not report truthful financials using IPSAS because lower debt numbers will be suspect. Is it not wrong-headed to report numbers that do not reflect economic reality? Still others say Greece should not adopt IPSAS, because some citizens and a small number of politicians can't handle the truth that Greece's debt to GDP is significantly below 60%. Is it not equally wrong-headed to cite incorrectly high public debt numbers in order to appease a misguided minority and prevent jump starting job growth in Greece? The adoption of IPSAS is the only way that Greece can build trust and confidence, which will jump start investments and job growth in Greece.

An Unspoken Huge Competitive Advantage

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The growth of logistics and exports during the sovereign debt crisis is an achievement of the Greek economy. The effective communication of Greece's competitive advantages, primarily its geostrategic position, has brought several large foreign investments in logistics and energy.

However, there is an unspoken huge competitive advantage of Greece that can lower its borrowing costs immediately, increase lending, and boost investments, thereby generating growth and creating jobs: Greece's debt-to-GDP ratio is one-third (1/3) of that of its credit peers when measured under modern international accounting standards, and Greece's interest payments as a percentage of revenue are also one-third (1/3) of its credit peers.

Greek exporters must be able to compete fairly. But how can they compete when their profit margins evaporate (especially for SMEs) after borrowing at interest rates that are 4-6 percentage points higher than their competitors? Businesses today, including exporters, are handcuffed by the absence of bank lending. The high borrowing cost is a direct result of the extraordinarily high interest rates on Greek government bonds (GGBs). These high rates are a consequence of ECB's unfair "57% penalty" on GGBs, which was intended to be temporary but remains unchanged. The "57% penalty" is essentially freezing bank lending and disqualifying almost all GGB collateral for loans, at a time when Ireland, Spain, and Portugal incur a rate of 5% to 13%.

Greece drove into the crisis with woefully deficient accounting of the government's fiscal position. Not producing internationally-comparable government accounting and financial reports keeps borrowing costs high, restricts bank lending, and hurts both logistics and exports, suffocating job growth. Starting now, Greece must adopt International Public Sector Accounting Standards (IPSAS).

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Exporters can present the benefits of IPSAS to inspire the trust and confidence of our trading partners to the Greek government, and win better terms. Greek exporters are excellent salespeople, but need the tools to sell. We need the handcuffs removed. We can win market share if our partners trust our government's financials. We can significantly grow our exports if the market understands our huge unspoken competitive advantage.

The benefits of IPSAS go well beyond export growth. Households, businesses, and the government will see a decrease in borrowing costs and an increase in loan availability. IPSAS can improve decision-making in the public sector, and build trust and confidence through transparency. It can help reduce taxation, access more attractive financing, reduce public debt, and create jobs.

The benefits, especially creating new jobs, are unquestionably worth the effort. The question now is who will educate the world about Greece and be remembered in history for putting Greece on the path for growth and prosperity. The benefits of IPSAS can start immediately.

The government can publish its net debt-to-GDP ratio under IPSAS and show our trading partners that Greece's net debt is one-third (1/3) of its credit peers. Our low debt is a huge competitive advantage, with huge benefits for everyone in Greece. Give to exports and logistics the tools to build trust and confidence with our trading partners. Give us IPSAS now.

The ECB Collateral for Greece Must be Lowered to 5 percent

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According to reports, the ECB plans to reduce the "57 percent penalty," which is the discount applied to Greek government bonds (GGBs) it holds as collateral. The penalty has kept borrowing costs for all Greeks at astronomical rates and has frozen bank lending to households and small businesses.

Banks must dedicate 57 percent of their GGBs as collateral, in contrast to only 5 to 13 percent applied to Greece's credit peers, even to those with below investment-grade ratings. Even during the peak of the crisis, the ECB penalty on GGBs did not exceed 10 percent. However, the ECB hit Greece with a supposedly temporary "57 percent penalty" in December 2012 that was understood by most reasonable people to mean weeks, not nearly two years.

Greece is in an excellent position to win the 5 percent collateral rate, but the ECB needs to be educated on the actual creditworthiness of Greece. The 5 percent rate could cut borrowing costs in half, unleashing new lending to stimulate the economy. Credible independent estimates indicate the potential impact on job creation at 200,000 to 400,000 jobs in Greece over the next 24 months. This is a badly needed boost to the economy that no one should ignore. What will not create jobs is having Greece's leaders sell fear that the country needs debt relief.

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In addition to Greek citizens being burdened unjustifiably with the consequences of the "57 percent penalty," the country's flagship companies face borrowing costs that are 3 to 5 percentage points above those of their international competitors. These sky-high borrowing costs are a death knell.

The ECB penalty is not the only matter preventing job creation. The Greek government has the option of reporting its financial data according to International Public Sector Accounting Standards (IPSAS). In fact, other EU countries have made excellent progress in implementing IPSAS. Unfortunately, the status quo within Greece has stifled progress with IPSAS. Many concerned Greeks have encouraged the Greek government to implement IPSAS. There are smart and progressive individuals within Greece's leadership who are supporters of IPSAS; however, they have yet to gain sway.

Greece has a huge competitive advantage, which has been discussed only in the shadows. Specifically, Greece's public debt-to-GDP, when calculated correctly according to IPSAS, is one-third of its credit peers, and not the 175 percent so often repeated. To be clear, this does not mean that Greek government debt is not high, nor does it mean Greece should pile up more debt. What it means is that this competitive advantage must be communicated to the ECB so that Greece can win what it has rightfully earned: half the current borrowing costs and the release of funds for domestic lending. This ECB policy change is long overdue.

There are two pressing questions for Greeks now. Who among Greece's leaders will sell the country's huge competitive advantage and get a 5 percent rate on the ECB collateral? And who will win the respect and admiration for jump starting the economy with 200,000 to 400,000 new jobs?

IPSAS: The Greek Elephant in the Room

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IS THE CHAIR OF CIPFA INTERNATIONAL AND WAS CHIEF EXECUTIVE OF THE INTERNATIONAL FEDERATION OF ACCOUNTANTS FROM 2002 TO 2013.

The Greek government's failure to adopt international accounting standards means the fiscal opacity that existed before the crisis remains substantially unchanged. The costs to Greece and Europe are high but avoidable. Moving to international accounting standards would be good for Greece and Europe. It was bad government accounting by Greece that triggered the crisis in Europe. The "elephant in the room" is that government accounting in Greece has not changed. What make the lack of progress remarkable are the many benefits that would accrue if Greece were to implement international accounting standards. There are positive benefits that foster sustainable growth and job creation through improved decision making, and protective benefits that safeguard growth from risks and failures of control through increased government transparency and accountability.

Since 1995, the list of governments implementing international accounting standards has grown dramatically, and the benefits are widely communicated. International Public Sector Accounting Standards (IPSAS) have been adopted by many countries in Europe and around the world. These countries report better fiscal decisions resulting from greater understanding of the fiscal position. They also report more sustainable growth, lower taxation, and net debt reduction associated with the need for fiscal responsibility.

International accounting standards increase trust and confidence that facilitate foreign investment. Financially transparent countries earn benefits in the global capital markets, including lower cost of capital, more extended maturity profiles, and greater predictability of financing. A lower cost of capital for the government feeds through into the cost of capital to companies, making them more competitive internationally. International accounting standards will benefit Greece by addressing its unfavorable accounting reputation, and by revealing the government's real debt and performance-related metrics, thus providing a more accurate reflection of economic reality, especially relative to peers. The systems that produce high quality financial information, through transparency and accounting controls, will make corruption more difficult. Also, international accounting standards will prevent decisions based on a picture of the fiscal position that does not reflect economic reality.

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In addition to many countries, major international institutions (The World Bank, IMF, UN, and OECD); key regional organizations (the European Commission, Eurostat, the European Securities and Markets Authority); and international and regional accounting bodies (the International Federation of Accountants, and the European Federation of Accountants) support the call for improved governmental accounting. Many of these institutions—including the EC, OECD, NATO and UN—have adopted IPSAS.

Greece would achieve immediate benefits from announcing its decision to implement IPSAS now. Other institutions must also act in support, especially those having significant roles (and stakes) in restoring the Greek economy. While there is widespread support, it is not being voiced loudly enough by those who wish to see Greece revitalized, and those whose job it is to protect Europe. Now is the time for all stakeholders to demonstrate a greater commitment to good accounting by advocating passionately for the adoption and implementation of international accounting standards. International accounting standards for Greece are good for both Greece and Europe.

Why Asia Should Care About Greece

WASHINGTON SYCIP & IAN BALL
WASHINGTON SYCIP IS FOUNDER OF THE ASIAN INSTITUTE OF MANAGEMENT AND SYCIP GORRES VELAYO & COMPANY AND WAS THE THIRD PRESIDENT OF THE INTERNATIONAL FEDERATION OF ACCOUNTANTS FROM 1983 TO 1985. IAN BALL IS THE CHAIR OF CIPFA INTERNATIONAL AND WAS CHIEF EXECUTIVE OF THE INTERNATIONAL FEDERATION OF ACCOUNTANTS FROM 2002 TO 2013.

Asia should care about Greece because it offers two unambiguous and important lessons: "Greek accounting" triggered the European crisis and weakened a very important trading partner to Asia; and, weak Greek government financial management and reporting impaired trust and confidence in governing institutions.

The institutional implications of the Greek experience should not be lost on Asia. Asia must continue its progress in government accounting. Asia should be a global benchmark of international accounting best practices and should call on its European trading partners to do the same.

The realization that the Greek government's numbers were seriously inaccurate shocked financial markets, destroyed trust in its reporting, and triggered the crisis. When a financial reporting failure of this magnitude is uncovered, the first order of business should be to ensure that reliable financial statements are being produced so the mistake is not repeated. For governments, this means adopting International Public Sector Accounting Standards (IPSAS), the "gold standard" for government reporting, which is the public sector equivalent of IFRS.

Powerful voices of support for IPSAS within Greece have made progress but IPSAS has yet to be implemented. IPSAS was recommended by the Troika to Greece and other program countries, but Greece has continued to fall behind Portugal and Ireland in adoption. At the very least, Greece should immediately report net debt and change in net debt, calculated in accordance with IPSAS.

Asia should be a global benchmark of international accounting best practices and should call on its European trading partners to do the same.

The benefits of adopting IPSAS are very clear. They include better fiscal decisions that result from better fiscal information, more sustainable economic growth, lower levels of taxation, and, importantly, net debt reduction. In addition, high quality accounting makes corruption more difficult. IPSAS create greater trust and confidence in the government. This facilitates foreign investment and earns benefits in the global capital markets, including lower cost of capital, extended maturity profiles, and greater predictability of fund raising. A lower cost of capital for the government would lead to a lower cost of capital for companies.

For Greece, international accounting standards would reveal a debt to GDP ratio not of 175%, as often reported, but significantly below 60%. In fact, Greece net debt to GDP ratio is one-third its credit peers, which is a huge competitive advantage. International accounting standards would also show that Greece cash interest payments as a percentage of revenue are one-third of its peers. Recognizing this would make a huge difference to government and corporate costs of capital, and therefore to Greece's prospects for job creation, estimated at 200,000 to 400,000 within 24 months.

A rerun of the Euro crisis would make growth in Asia much harder to sustain. In its own best interest, Asia should take two action items. First, it should press Greece and Europe to fix the accounting problem that led to the last crisis and could lead to the next. Second, Asian governments should learn the lessons of Greece and continue its progress in accounting and financial management winning a place as a global benchmark. Asia should care about Greece.

Greece Has Earned the Right to Compete Fairly

YIANNIS PEHLIVANIDIS
FORMER VICE CHAIRMAN AND DEPUTY CEO, NBG GROUP

Greece has earned the right to compete fairly in the capital markets. However, a counterproductive ECB policy—the so-called "57% penalty"—mandates an excessive collateral requirement on Greek government bonds that inhibits capital market activities and stands in the way of sustainable growth.

In December 2012, the ECB mandated a suffocating collateral penalty on Greek Government bonds, purportedly as retribution for non-compliance with the reform program. The "57% penalty" necessitated a Greece-specific provision, even though the regulations allow an EU country with a below investment-grade rating to have a collateral rate of 13%, or even 5%. The repercussions are felt throughout the economy. Bank liquidity suffers, restricting access to, and increasing the cost of capital for SMEs. In addition, Greek corporations competing internationally borrow from the markets at 3.5-4.5 percentage points higher than those of their international competitors.

Central to the assessments of sovereign credit risk by rating agencies is a country's debt, which is usually calculated on a non-economic, legal basis, ignoring the effects of debt restructuring on the fair value of debt and on financial assets. Debt is much lower when measured accurately using internationally-accepted accounting standards.

Large Greek corporations (including banks) have adopted the International Financial Reporting Standards (IFRS) and are familiar with true and fair accounting. The adoption of IFRS was imposed by investor requirements for internationally-comparable financial reporting and modern management techniques. IFRS for the public sector are called International Public Sector Accounting Standards (IPSAS). Over 40 countries have adopted IPSAS, and many others are in the process of doing so. European experts recommend IPSAS for better decision-making, more transparency, and stronger accountability. Until this happens, the EU will continue to measure sovereign debt in non-economic and legal terms, ignoring the time value of money. Eurostat's figure for Greece's debt-to-GDP is based on legal definitions not designed to provide a true and fair view of debt that is comparable internationally. The many concessions Greece obtained when restructuring its debt are totally ignored in the calculations. This is out of line with the practice in the business world.

> A counterproductive ECB policy—the so-called "57% penalty"—mandates an excessive collateral requirement on Greek government bonds that inhibits capital market activities and stands in the way of sustainable growth.

Using internationally-accepted accounting standards, Greece's net debt-to-GDP is one-third of that of its peers. This is the true and fair debt level and can be accurately displayed using IPSAS. Based on the experience of other adopters, IPSAS may take up to 2.5 years to be implemented fully, but is often adopted in phases with debt and financial assets completed in 6 months or less.

For Greece to compete in the capital markets it must have internationally-accepted accounting standards and financial reports. Greece has paid a hefty price to earn the right to compete fairly. The facts are clear and undeniable. Our net debt calculated under IPSAS is one-third of that of its peers. Our cash net interest expense is a fraction of that of the peers. And, our debt maturity profile is significantly better than peers. An ECB collateral rate between 5% and 13%, comparable to Greece's peers, could double Greece's desperately needed liquidity. The "57% penalty" should be removed now.

IPSAS from a Senior Executive Perspective— 10 Questions and Answers

1 Selecting an Accounting Framework

Which accounting framework is recommended for a government that wants to join the World's leaders in public sector accounting? There is only one set of international standards for the public sector: International Public Sector Accounting Standards (IPSAS). IPSAS provides the best in class tools to measure government financial performance and position, especially change in net debt and change in net worth. To be clear, IPSAS strengthens but does not replace statistics guidelines, such as SNA2008, GFS, and ESA2010.

2 Benefits

What are the main benefits of adopting IPSAS? From a macro perspective, using IPSAS can improve decision-making, increase transparency, strengthen accountability, and facilitate global comparability. Honestly implementing IPSAS in decision-making and reporting can have a positive impact on building trust and confidence both within a country and internationally. IPSAS will significantly jump start job creation.

3 Senior Executive Role

What is the role of PMs, FMs, central bank heads, and other senior government decision-makers in using IPSAS? Senior government officials should be the first adopters and champions. You can only effectively manage what you can accurately measure. Especially in a country in financial transition, no major fiscal decision should be made without the basic information on economic impact that IPSAS provides.

4 Cost

How expensive is IPSAS as a framework to assess the major financial impact decisions? To measure the impact on major financial decisions, the costs should be in the low six figures. The cost of full implementation will vary depending on specifics, but when managed professionally, the return will be a multiple of the investment.

5 Implementation Time

How much time would it take to prepare the IPSAS analysis to assess major financial impact decisions? To complete a reasonable analysis would on average take a few weeks to months. To state the obvious, the alternative is making these decisions without knowing the impact on the financial position of the country.

6 Key Metrics

How important is net debt and change in net debt as a measure of performance? Knowing net debt and the change in net debt should be a first order priority. For major financial decisions, the four key performance metrics are: change in net debt, change in net worth, impact on fiscal balance, and impact on cash flow.

7 Public Education

How important is educating the public on the key performance metrics? It is absolutely essential to educate the public on the key performance metrics, especially change in net debt and net worth. To be clear, the education starts at the senior most level of government.

8 Major Obstacles

What are obstacles to adopting IPSAS? The obstacles fall into three broad categories: closed-minded to IPSAS, deliberate efforts to prevent IPSAS to preserve the status quo, and poor executive management decision-making.

9 Potential Shortfalls

What are the shortfalls to be leery of in implementing IPSAS? It is important that IPSAS is used prior to making major financial decisions and not viewed as another administrative burden with endless IT costs.

10 Audits

How important are audits to IPSAS? Independent verification of financials is a best practice, which can range from independent third party verification of single decisions to a complete audit of financial reports.