Greece's Secret Huge Competitive Advantage
----The ABCs----

(Working Draft)

-- Presenter--

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JAPONICA PARTNERS

The Greek Economy Conference "The Greek Sovereign Debt: Is It Sustainable? International Accounting Standards & Public Governance"

Athens, December 1-2, 2014

-- Organizer --

AMERICAN-HELLENIC
CHAMBER OF COMMERCE

Greece’s Secret Huge Competitive Advantage

A. How IPSAS can help Greece’s secret huge competitive advantage

B. What is Greece’s secret huge competitive advantage

C. Educating the status quo on Greece’s secret huge competitive advantage

A. How IPSAS Can Help Greece's Secret Huge Competitive Advantage

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

What is IPSAS

IPSAS: International Public Sector Accounting Standards

- IPSAS is the public sector version of IFRS, the international accounting standards used by leading companies world-wide and in Europe
- Full set of 32 accrual standards
- Exposure drafting process
- Independent standards setting board
- Objective and continuously improving

IPSAS Special Supplement in *Business Partners* magazine. Special note of Q&A

Economics of Debt

- Three cash flow streams: interest stream, interest-on-interest stream, and principal stream.
- The economic value of debt is the present value of future cash flows discounted at most comparable market rates.
- The present value is also referred to as fair value or book value, which should not be confused with current market values.

Debt Measurement Within the Frameworks

GLOBAL ACCOUNTING STANDARDS

IPSAS

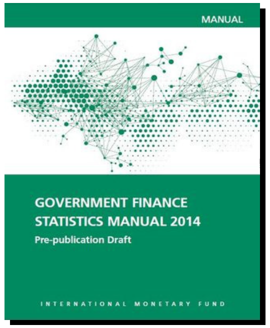
IPSAS 29 – FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

IFRS

IAS 39 – FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

GLOBAL STATISTICS GUIDELINES

GFSM 2014



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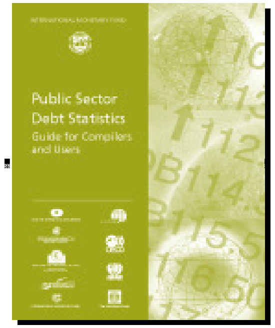
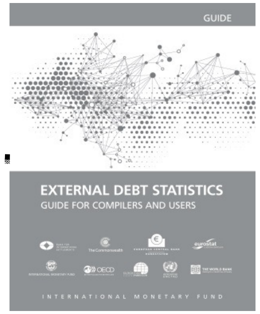
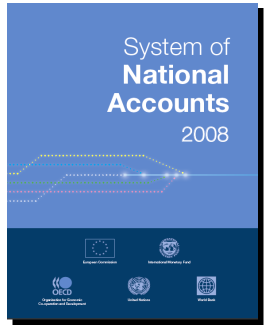


EDS

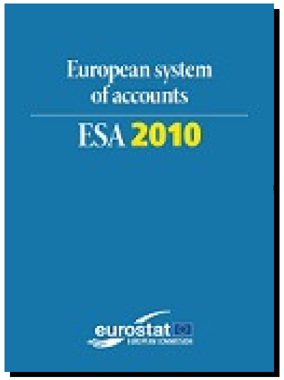


SNA 2008



EUROPEAN STATISTICS GUIDELINES

ESA 2010



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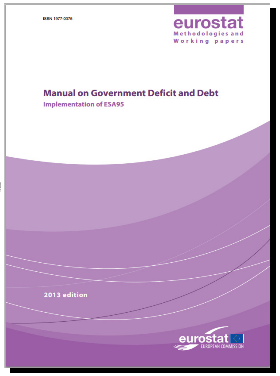

NET DEBT

Maastricht Treaty

Draft v.9.3.S

B. What is Greece's Secret Huge Competitive Advantage

Greece Unique Capital Structure

- €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%.

€340 Billion Wealth Transfer to Greece

Greece creditors have already sustained €340 billion in PV losses from debt relief to provide Greece extremely generous breathing space.

	Creditor Funds Provided	Value of Funds Post Debt Relief	Creditor PV Losses
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.

Greece's Huge Competitive Advantage

- Greece net debt to GDP:
  - Significantly below 60%. (Significantly below.)
  - One-third (1/3) of IPSAS adjusted peers

- Greece cash net interest payments:
  - Close to ZERO.
  - Even gross payments are one-third (1/3) of peers.

Greece debt number third party independently verified using IPSAS.

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.

C. Educating the Status Quo on Greece's Secret Huge Competitive Advantage

- Net debt really matters
- Don't accept baseless excuses
- Action items

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. 20Qs

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.

Greece vs Peer Borrowing Cost Examples (2 of 3)

Greece Borrowing Cost Disadvantage to Peers (bps): 750

Greece Issuer	5yr Borrowing Cost	Net Margin	EU Peer Issuer	5yr Borrowing Cost	Net Margin
Intralot	7.8%	0.7%	**Gtech SpA (Italy)**	1.4%	8.6%
Frigoglass	11.4%	0.6%	**Gerresheimer (Germany)**	1.2%	5.4%
Hellenic Petroleum	7.2%	0.4%	**Neste Oil (Finland)**	1.8%	3.0%
Public Power Corp	8.3%	3.0%	**Swissgrid AG (Switzerland)**	0.3%	5.7%
AVERAGE:	**8.7%**	**1.2%**	**AVERAGE:**	**1.2%**	**5.7%**

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”

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
- Export will increase given new competitiveness
- The value of income producing real estate will increase given lower cap rates

Don’t Accept Baseless Excuses

1. Time-value-of-money doesn’t matter with Greece debt crowd
2. Already know the real Greece debt number
3. Greece’s debt number isn’t that important
4. Greece cannot show an IPSAS debt number
5. We don’t know who is selling negativity about Greece

2. Already Know the Real Greece Debt Number

Ask a few questions:

•What was the Greece net debt number under IPSAS or IFRS at December 31, 2013?

•What was the impact of the concessionary and restructured loans on the balance sheet?

•The difference between total cash outflows over the life Greece debt vs. peer at-market debt?

Action Items

1. Visit www.freegreece.info
2. Champion IPSAS to jump start 200,000 to 400,000 new sustainable jobs within the next 24 months.
3. Educate key stakeholders on Greece's huge competitive advantage to change the status quo.