

Paul Kazarian - CEO of Japonica Partners

An investor with a keen sense for government balance sheets

US investor Paul Kazarian was one of the largest private creditors during the Greek financial crisis. In contrast to the EU member states, Kazarian believed that Athens' total government debts were overstated. He made a lot of money with Greek bonds, and now he is fighting for modern accounting rules and better financial management for government

By Heike Wipperfürth | 24 January 2020

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Greece went through a massive economic crisis, but now it is getting better. Japonica Partner's CEO Paul Kazarian had been one of the largest private creditors of the country. (Image Stock & People)

Paul Kazarian is sitting in a conference room at Columbia University. He has just finished his lecture as adjunct professor in the sector of public financial management, but he keeps on talking about his favorite topic: Greece, the bonds of the crisis-ridden country, which is much too heavily in debt. At least, that's how Europe saw it, but Kazarian had a different point of view. "More and more negative and scary news made the headlines," he grumbles, "while we were holding the bonds." In order not to panic as well, his company built and continued to update total government balance sheets for the Greek government and its peer governments and saw that the Greek numbers looked good.

Making money with debt of financially stressed

Paul Kazarian is the President and CEO of Japonica Partners, an investment firm in the United States. His business model consists of buying bonds and debt of financially stressed candidates in order to improve them and resell them for a profit.

The financier is particularly proud of his Greek government bond deal at the height of the crisis. He had achieved a return of 8.9 times the capital invested. According to the billionaire, that was much higher than any other investment that he had made before. To successfully execute the investment plan, the American of Armenian descent enlisted 230 experts and traveled non-stop between Athens, Brussels, and Frankfurt to consult with politicians and financial experts. For months, they made their own calculations of the Greek and its peers' total government net debts - and came to the conclusion that the Greek widely-called debt crisis was "the biggest lie of the century".

Greece's balance sheet debts calculated differently

One reason: The country's financial debt did not amount to 177 percent of the gross domestic product, as the Greek government and international authorities claimed, but at most to 71 percent. Furthermore, Greece's total government net debts and its' related Citizens' Wealth, which were calculations not known outside of Japonica, were vastly better than its peers.

These numbers were much better than other countries that had worse total government balance sheet performance and position and whose bonds were priced much higher, said Kazarian.



Japonica - Chief Paul Kazarian

When asked what he recognized what others had overlooked, he says at the most basic level the answer is simple. The Greek government and the international authorities did not produce proper total government balance sheets and had not calculated the debt relief from the original debt or the offsetting financial assets as required by the International Public Sector Accounting Standards (IPSAS), the accounting standards that leading international public sector auditors use to best reflect economic reality.

The basic idea of IPSAS is to apply the same accounting standards that best reflect economic reality for governments as for companies. For Greece, the decisive factor is therefore not the nominal value of a loan, but the (usually lower) fair value.

Accounting according to IPSAS

If Greece were a company or a leader in government accounting that complied with IPSAS, its debt would have been set much lower. According to Shivaram Rajgopal, a finance professor at Columbia University in New York, Kazarian is leading a crusade against outdated rules - not only to benefit from higher bond prices, but also to make the balance sheets of governments around the world better managed and more transparent. Rajgopal, who teaches a course on hidden government debts and assets together with Kazarian, stated: "He highlights a very difficult and complicated topic that is often ignored, but is highly relevant."

"Crazy genius with business acumen"

When he founded Japonica Partners 31 years ago, Kazarian, a former Goldman Sachs investment banker, would never have thought that he would go on the warpath to fight for better financial management and government accounting. One of his biggest coups was the US\$660 million acquisition of the financially stressed consumer goods company Allegheny International, which he quickly turned into a profitable company.

Harvard professor Steven Fenster called him a "crazy genius" with "incredible" business acumen.

This business acumen brought him to Greece in 2012 in search of financially stressed companies – until he found something better: Not companies, but government bonds at bargain prices. Kazarian acted quickly and ultimately held nearly nine percent of the country's national bonds as one of Athens' largest private creditors.

Manage and disclose total government balance sheets according to international rules

Kazarian sold his Greek bonds, but his foundation continues to fund conferences and research to urge countries embrace better public financial management and produce total government balance sheets according to international rules.

It is not easy for governments to modernize their public financial management or accounting systems. According to Kazarian, Germany shows little transparency or related financial management, since the Federal Republic uses accounting rules dating back to the 18th century. As a result, the real total government net debts are not presented, and what is currently reported has little to do with economic reality.

The EU Commission has openly shown its sympathy (for IPSAS) seeking its own standards abbreviated as EPSAS. However, many EU countries and authorities are reluctant, including the German Federal Audit Office.

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