

20 April 2021

Governmental Accounting Standards Board  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116  
Via email: [director@gasb.org](mailto:director@gasb.org)

Re: Project 3-20 (Proposed Concepts Statement - Recognition of Financial Statement Elements)

Below is the prepared Testimony of Japonica Partners Paul B. Kazarian for 20 April 2021 at 14:00 EDT.

1. My name is Paul B. Kazarian. I am the Chairman and CEO of Japonica Partners and the Charles & Agnes Kazarian Foundation.
2. **Sequence:** Thank you GASB for the invitation and opportunity to testify on the topic of US government financial statements and reporting models. The sequence of my comments is in eight segments, leaving 50% of the time for your Q&A.
3. **Topic #1 - Overview Comments:** We offer our advice from three perspectives: (i) as an investor in sovereign bonds (Japonica Partners was one of the largest and most successful investors in GGBs), (ii) as managers of transformational investments (which includes our work in Greece and the EU), and (iii) as founder of the Kazarian Center for Public Financial Management.

4. As we sit here on 20 April 2020, this is what we see from a financial perspective: (1) explosive and largely unregulated growth of cryptocurrencies, (2) pervasive speculative bubbles in financial assets with markets and price-to-sales ratios at a life-time high, (3) abject disregard of financial fundamentals with new adaptations of audited financials to reflect the so-called financial reality, (4) unstinted government spending, and (5) nominal to negative borrowing costs for many governments hiding the cost of debt. These five traits of current financial reality have put the US global best practice leadership and national security into a very serious focus. It is not the “hard power” of the US military strength that is mostly unquestioned, but the “soft power” of the USA dollar as the world’s reserve currency. There should be no question that the next financial crisis is on the horizon and will be magnitude larger than those of the past.
5. For well over 100 years, the US has been considered the world leader in democratic and best practice government – the US “soft power”. And since WWII, the US dollar has been the reserve currency of choice for worldwide commerce. Internationally, this is now under serious threat. GASB should understand that moving away from international public sector accounting standards will be seen by the world as the US retreating from global best practices and is a worst practice.
6. You may not fully appreciate the international implications of a move away from international best practices on the international standing of the US. Whatever your thought process had been before these five developments cited above, the world has changed, and you should now proudly display global leadership and embrace international public sector best practice accounting standards.
7. Any actions to the contrary will damage the international reputation of the US and will – indeed – have an impact on the security of the US and those who aspire to the US government democratic model.
8. **Topic #2 – Introduction:** Our advice is based on the wisdoms we have gained since founding in Japonica in 1987. We have built a track record by creating transformational investments with low risk and high return. Our culture is to see what others do not see

and to use “education-education-education” to accomplish what others believe is impossible.

9. We established the Kazarian Center for Public Financial Management. Our non-profit foundation has over US\$1/4 billion in spending since founding plus 2020 assets.
10. Our transformational investments include vastly complex multinationals and the Greece government.
11. Our five transformational investments total US \$10 billion.
12. Japonica’s investment track record is an average 94% IRR and 4.6x return multiple on its equity and fixed income investments with an initial downside return of 1.9x.
13. **Topic #3 - GASB Preparation:** By way of background, in preparation for this GASB testimony, our team read the two exposure drafts, analyzed the CAFRs listed here; reviewed the comment letters, testimony, and hearing Q&A for Shelia Weinberg and Bill Bergman; and reviewed the comment letters of IVES, HOWARD, AND SKIBA.
14. Should you have any micro-technical questions, we will pass them along of the appropriate team member technical specialist.
15. **Topic #4 - Importance of Government Financials:** To show the importance of government financial statements based on international public sector accounting standards, I provide the following exhibit. These slides were used in a class I recently taught to chief financial officers on “Transformational Investments: CFO as Value Creator within a Stakeholder Framework” in a Columbia University executive education program.
16. Major reserve currency economies general government expenditures as a percentage of GDP projected for 2020 are an average 58%. To many of us, this is a remarkably high number. And, this number does not include the cost of regulation.

17. The 2019 UK Government Total Balance Sheet confirms that whole of government balance sheets do exist and that financial debt is not the only part but only 21%. The Total Balance sheet is 307% of GDP.
18. Government Total Balance Sheets are rapidly expanding and very large. For example, the UK WGA balance sheet has increased at 4.1x the growth rate of UK GDP from 2010 to 2019.
19. As for the importance of the often controversial GDP, the practical importance of this revenue-like flow is the size of the pie on which to level taxes. As you can see, in the major western economies the government revenue as a % of GDP has stayed very close to the same over the past 20 years.
20. **Topic #5 – Assessment of sovereign government accounting:** Simply put, a debt and deficit (D&D) framework is used, which is both chronically flawed and massively value destructive.
21. Here is a small sampling of the almost countless number of books wrong-focused on government debt.
22. Listed here are what we refer to as the “7 Fs” of the destructively toxic debt & deficit framework.
23. Fiscal illusions (also known as cooking the books) are so rampant with the D&D model that we could write a book or more.
24. The question we and you should ask when trying to understand the horrible situations is: Whose ox gets gored when the debt & deficit framework is replaced.
25. Listed here are eight common comments by the defenders the D&D framework. Upon careful consideration each is baseless and value destructive.

26. **Topic #6 – A New Framework and glossary for understanding government financial position and performance.** You can see the power of knowledge that can be discovered from a government balance sheet that reflects financial reality and is internationally comparable.
27. You may have listened to or read about the Columbia University sponsored debate with Jared Bernstein, now a member of US President's Biden's Council of Economic Advisors, and me. The title was "Government Debt: Myth or Realty".
28. As a post-debate development, Jared asked me if our team would build a table comparing the federal net debt model and the general government total balance sheet. Here is a comparison of US Federal CBO/Kogan-Van de Water Framework vs. US General Government Total Balance Sheet with an International Public Sector Accounting Standards Framework for 2019. Under the KVW framework, the headline is government net debt at 60% of GDP. Of note, KVW balance sheet framework purview is \$16.6 billion and as a % of US Government Total Balance Sheet is only 26%. Under the US general government framework, US Government Total Net worth is a negative 132% with a 100% of the \$64.4 billion balance sheet.
29. Armed with a general government balance sheet, Government Total Net Worth, and an officially certified GDP, you can calculate what we believe to be the most important metric of government position and performance, Citizens Wealth. As you can see Citizens' Wealth is GDP plus Government Total Net worth.
30. You can find a comprehensive glossary with an excel model template at the Charles & Agnes Kazarian Foundation web site.
31. Here is a basic math example that illustrates the Citizens' Wealth calculations as well as the related metrics of Multipliers, Inverse Multipliers, and CW Created (destroyed). Three scenarios are shown.
32. **Topic #7 - Lessons learned during Greek bond (GGB) investment:** Regarding Greece, I will quickly review lessons learned and value created.

33. An early step for us was to understand the landscape of available accounting and statistics standards. You have heard of IPSAS and IFRS. The international statistics guidelines are: SNA 2008, and ESA 2010. And, then there is the IMF's framework, GSFM 2014.
34. We identified the government benchmarks with financial statements prepared in accordance with international accounting rules. Seven shown here.
35. We also identified the public sector benchmarks with financial statements prepared in accordance with international accounting rules. Six shown here.
36. Within the EU, we identified four states within Germany that were PFM benchmarks.
37. A major discovery was the "New Zealand Model" of public financial management, which is vastly superior to the debt & deficit model.
38. The New Zealand PFM model provides significantly more powerful benefits than the debt & deficit model. Here, we list them under the corresponding letters to the word BENEFIT.
39. Through relentless education we helped the EU and Greece embark on a financial transformation.
40. True to our culture, we assisted Greece and its stakeholders to create value. Here is an abbreviated list of the accomplishments.
41. Among those accomplishments we are most proud of is the transformation in Greece quarterly reporting. From "worst in EU" and "Greek accounting" used as term to describe accounting fraud. To best in EU quarterly reporting and a strong advocate for quality government accounting and PFM.
42. I share with you the results of an EY government monthly financial reporting comparison. Summary rankings.

43. At the core of our investment decision was the comparison of AAA rated France and CCC rated Greece. Our work required us to build proxy balance sheets for Greece and its peers as no such balance sheets existed. Using our 10 Citizens' Wealth metrics, we discovered that Greece had better than or comparable financial position and financial performance from the start of the Eurozone in 2000 to current.
44. For ease of public conversation, we focused on easy to communicate debt related metrics. Here you will see a Greece vs. France comparison. The biggest systemic misconception we discovered and shared with the public was that Greece government net debt was 18% in contrast to the headline 179% debt as a percentage of GDP. Much lower than the 83% for France.
45. You can see the power of knowledge than can be discovered from a government balance sheet that reflects financial reality and is internationally comparable. 1. You can discover systemic misconceptions that do not reflect financial reality. 2. You can discover massive undervaluations based on value gaps with specific nuggets-of-value. 3. You can create extraordinary value using education-education-education to correct systemic misconceptions and change cultures to accomplish what others believe is impossible.
46. **Topic #8 – Insights into general Government Total Net Worth and Citizens' Wealth:**  
This material is sourced from class B8024, a class I co-teach with Professor Shiva Rajgopal at Columbia University. Assessing Sovereign Risk and Performance with Financial Statement Analysis in a World of Recurring Crises.

47. To highlight the remarkable financial performance of the New Zealand government, this slide shows what is called the New Zealand 2 Crown Jewels: #1 Government Net Worth as a % of GDP and #2 Citizens' Wealth per Person. To better appreciate the numbers, we compare to the US change from 2000 to 2019. On Jewel #1: Government Net Worth as % of GDP for New Zealand increased 37 points versus US declined 52 points. On Jewel #2: New Zealand Citizens' Wealth per person increased \$44,668 versus US declined \$25,258. This table has been displayed as a paid public service notice in the Financial Times, Wall Street Journal, and the New York Times.
48. Next, we calculate the United States Citizens' Wealth per person from 2000 to 2020. We provided a 2019 version of this graph to David Walker, former auditor general for the US federal government, which is on page 204 of his new book, [America in 2040: Still a Superpower?: A Pathway to Success](#). An excellent book, well worth the read. 2020 Citizens' Wealth per person declined three times (3X) larger than the largest single year in the past 20 years, which occurred in 2009 following the global financial crisis. In 2000, US Citizens' Wealth was \$10,931 and in 2020 a negative \$27,252. Of note, this is only the US federal government. The better analysis would be general government, which is in process at the Foundation.
49. Here is comparison of the US and Japan Government Total Net Worth and debt metrics. To summarize, you should note the systemically repeated Japan debt to GDP of 238% versus the US at 79%. However, when using international accounting standards and a Government Total Balance Sheet, Japan has a Government Total Net Worth of a minus 85% versus a much lower US government at a minus 132%.

50. At heart of our analyses on government financial position and performance is the 10 Citizens' Wealth metrics. Here we compare Germany and the US. Again, we repeat that general Government Total Balance Sheet numbers are not officially published for either Germany or the US, which requires our team to work countless hours to build credible proxies for these numbers. To sum, the German numbers show a very strong comparison to the US. For example, look at the CW1 per person 2000 to 2019 change. Germany increased 12,241 euros and the US decrease 24,558 dollars.
51. We conclude with a comparison of Citizens' Wealth within Europe. Once again, our team was required to build these numbers as they are not officially or unofficially published. You cannot see financial reality without a Government Total Balance Sheet prepared based on international public sector accounting standards. The top 5 member states in the EU had an increase of 16,884 euros per person , while the bottom 5 member states had a decline of 17,217 euros. We ask what can Europe's increasing financial inequality teach the world?
52. In the remaining time, I welcome your questions. And, we wish you the best with your projects.