Dear Sir or Madam,

In its edition of 9 September 2016, the German weekly business magazine *Wirtschaftswoche* wrote that the Hamburg-based auditing firm Möhrle Happ Luther withdrew its certification of KTG's annual accounts and the consolidated financial statements for 2015 of the KTG Agrar SE Group. The auditing firm had issued its opinion on these accounts in May of that year.

However, KTG Agrar became insolvent in July 2016, and this led Möhrle Happ Luther to conduct a new audit, which found that the business held a horrendous amount of €80 million in outstanding accounts with grain trader KTK (with a payment period of 400 days), an immense amount considering KTG-Agrar's turnover of €326 million. With the second audit, the firm withdrew its certification. KTK will have to write off its advance payments. Moreover, 500 employees may lose their jobs. The money that 10,000 investors lent to KTG Agrar is mostly gone. A colossal failure.

A report by the so-called Independent Evaluation Office (IEO), "The IMF and the Crises in Greece, Ireland, and Portugal," revealed that even the IMF is failing in its role as a monitoring agency. The high risk debts accumulated in Eurozone currency transactions, including the unlimited purchase of goverment bonds from ailing euro countries, the costs of delaying, and promoting the delay of, sovereign default with additional aid and other liabilities and guarantees, such as the Soffin, EFSF, ESM bank bailout funds, as well as the Target loans, are having an impact on the national budgets of the euro states. The budgets of the individual euro countries do not reflect this, however, since these are treated as special expenditures and excluded so that the losses are not counted against the budgets.

This trick alone permits compliance with the debt-brake requirements. What emerges are bad budgets, a kind of dual budget management. It is astounding that the EFSF and ESM bailout funds, treated as joint stock companies, *Societe Anonyme (SA)* under Luxembourg law, do not show up in the state budgets.

Germany has provided guarantees for about €211 billion of the €780 billion that has already been paid out. The first EFSF funds granted under favourable conditions flowed to Ireland

and Portugal, who would otherwise only be able to obtain very expensive loans from international investors.

Similar conditions apply to the ESM, aside from that fact that the ESM joint stock company may hold more deposits and loans may be granted if the countries who need the money adhere to these conditions. How two joint stock companies, who merely have loan-financed capital guaranteed by banks, can stay in business is unclear.

The EFSF and ESM do not create any products. Their service consists of providing loan guarantees without any capital. Both of these joint stock companies employ people who receive and pay out commissions. From what assets these are paid is unclear, since there is no capital. Another question is whether these commissions benefit the employees (politicians?) instead of the European people. These two joint stock companies, the EFSF and the ESM, manage the loan guarantees of states, none of which have monetary capital, and must take out loans themselves in order to guarantee the contributions. States rely on taxpayers, real property and other assets. It is also not clear how the financial statements of either of these joint stock companies are prepared. They are business enterprises but rely on government (i.e. zero) capital. Neither a business enterprise nor a government should be run this way. However, PricewaterhouseCoopers issued the annual report, which originates from the balance sheet.

The financial statements of the EFSF reported a profit of €16 billion for the participating states. However, under German and international accounting standards, this would have been a loss of €70 billion, because the acquisition values should have been considered instead of market values reduced by depreciation to a lower rate. Accordingly, a loss of €54 billion would be absorbed by 18 members of the Eurozone (recapitalisation). A stability fund cannot work if it is not stable itself.

Germany would have to offset a loss of €18 billion. A deficit of €5.1 billion also results from the amount in shadow budgets exceeding the deficit limits under the Fiscal Compact and the debt brake provision, such as the cloned EFSF, or ESM. Add this to the aforementioned €18 billion in recapitalisation needs for Germany, and the total is more than 23 billion in deficits, instead of the balanced budget in 2020 desired by Finance Minister Schäuble.

Although these funds are not officially reflected in the budget, the losses would have to appear in the following year's national budget at the latest. There is no option of restarting debt at zero (after 2015). This kind of itemisation, used in all of the euro countries, is invalid. Under national and international accounting standards for banks and insurance companies, which necessarily includes the bailout funds, the latter cannot be treated as joint stock companies because they have no capital base and do not operate with private capital. There is no trading with the bailout fund. No country really gets money from the pot. They get loan commitments (loans that are not funded), financed by the other euro countries with more loans, long-term loans that will have to be offset long after the current fraternity of politicians has retired.

By way of example, Germany's national debts currently amount to approximately €15 trillion (implicit and explicit), which represents 750% of GDP. Beyond the budget that complies with the Fiscal Compact (i.e. the bad budget), there is no funding of liability capital. For the official budget, the normal liability options are not enough because the actual liabilities are significantly higher. The fact that there is liability capital in the bailout scheme available for the cloned funding budgets is an indication that the stockholders are not acquiring any shares and are blindly placing their trust in governments, banks and rating agencies, and facing great losses with the planned drop in prices. The EFSF and ESM balance sheets say nothing about this, but the assumption is correct. Moreover, it is linked with the assumption that citizens will be liable in one way or another for the losses of the banks and government budgets, although they have been kept in the dark.

The example of the opinions given both by PricewaterhouseCoopers and Möhrle Happ Luther shows how much our time is determined by fiscal fate, especially when we know that results are falsified and/or lead to ill-advised and irreversible political decisions that mortgage our children's future.

Perhaps this was the "burden" that Angela Merkel referred to in her speech after the CDU was defeated in the Berlin elections (19 September 2016) when she wished she could "turn back the clock" so Germany could better prepare for such a burden. However, it would have been more sensible to prevent such a burden in the first place. This would have required the responsible agencies to be honest and to fulfil their mandate, and perhaps to correct past mistakes just as Möhrle Happ Luther did. Then Berlin would have realised long ago that the euro has failed and the euro countries are bankrupt. The question now is: Do you finally feel a responsibility to explain all of this to the German people or do you want to continue to cover up such practices?

The Alliance for Democracy reports on these political and legal abuses on our website at www.menschenfuerdemo-kratie.de.

Yours faithfully,

The Alliance for Democracy