E M T A

Bulletin

2005 - EMTA's 15th Anniversary Year

4th Quarter 2005 Volume 2005: No. 4

Peru's Finance Minister Fernando Zavala to Deliver Keynote Address at EMTA's Annual Meeting

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Peru's Finance Minister Fernando Zavala will deliver the keynote address at EMTA's Annual Meeting on Thursday, December 1, 2005. Citigroup will once again host the event at its headquarters at 388 Greenwich Street in downtown Manhattan. Invitations were sent to EMTA members in mid-November.

Previous keynote speakers at EMTA's Annual Meeting include Venezuelan Finance Minister Tobias Nobrega, Argentine Finance Secretary Guillermo Nielsen, U.S. Treasury Undersecretaries for International Affairs John Taylor and Tim Geithner, Mexican Finance Ministers Francisco Gil-Diaz and Guillermo Ortiz, Brazilian Central Bank President Arminio Fraga, Brazilian Finance Minister Pedro Malan, Panamanian Finance Minister Guillermo Chapman and Argentine Finance Minister Domingo Cavallo.

The Annual Meeting will also include two panel discussions focusing on current events in the Emerging Markets. Participants will include Sarvjeev Sidhu (Aegon), Don Hanna (Citigroup), Kasper Bartholdy (CSFB), Paulo Leme (Goldman Sachs), Joyce Chang (J.P. Morgan), Dave Rolley (Loomis Sayles), Tulio Vera (Merrill Lynch), Hari N. Hariharan (NWI Management), Art Steinmetz (Oppenheimer) and Michael Gavin (UBS Investment Bank).

For more information, please contact Jonathan Murno of EMTA at (646) 637-9105 or at jmurno@emta.org.

The Golden Age of EM Debt Trading?

EMTA was formally incorporated in December 1990, in the wake of the so-called LDC Debt Crisis and the pioneering Brady Bond restructurings by Mexico and Venezuela. To help mark EMTA's 15th Anniversary, EMTA's Bulletin this year has been featuring a series of articles on the early periods of EMTA's history.

The 2nd Quarter Bulletin reprinted Bruce Wolfson's recollections of the informal meetings of traders beginning in 1989 that, with some encouragement from then-FRBNY President Gerald Corrigan, eventually led to EMTA's formation as the LDC Debt Traders Association. The 3rd Quarter Bulletin reprinted Tom Winslade's article on EMTA's Early Years (1992 and 1993), when it emerged as an independent trade association with a growing agenda of activities.

The series continues this Quarter with Michael Chamberlin's perspective on the evolution of the EM trading markets and the growth and diversification of EMTA's activities during the period from 1994 through 1998. Formerly a Partner at Shearman & Sterling with a law practice split between public and private sector Latin American debt restructurings and capital market transactions, Michael Chamberlin led Shearman & Sterling's representation of the international banking community in Mexico's Brady Bond restructuring and worked on many financings, refinancings and debt swaps in the 1980's and early 1990's. He became EMTA's principal outside legal counsel in 1990 and its Executive Director in early 1994.

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This article entitled The Golden Age of EM Debt Trading is attached as an Annex to this Bulletin.

EMTA Survey: Emerging Markets Debt Trading at US$1.328 Trillion in Third Quarter of 2005

Trading in Emerging Markets debt instruments stood at US$1.328 trillion in the third quarter of 2005, according to EMTA's Third Quarter Debt Trading report published on November 21, 2005. This represents a 1% decrease from the US$1.342 trillion EMTA reported in the third quarter of 2004 and a 3% decrease from US$1.363 trillion in the second quarter of 2005.

"Emerging Market debt spreads continued to tighten in the third quarter of 2005, even while investors began to display marginally higher levels of risk aversion towards the quarter's end," noted Tulio P. Vera, Managing Director and Global Head of Emerging Markets Debt Research at Merrill Lynch. Vera added, "The key driver of the market has remained a strong technical position, the result of still-ample global liquidity conditions and improving credit fundamentals, which are due to ongoing liability management and high oil prices."

Brazil Trading at US$407 Billion

EMTA Survey participants reported trading US$407 billion in Brazilian debt, making Brazilian instruments the most frequently traded. This compares to US$448 billion in the third quarter of 2004 (a 9% decline) and US$432 billion in the second quarter of 2005 (down 6%). Political speculation dominated the headlines in Brazil during much of the quarter.

Trading in the industry's benchmark, the Brazil 2040 bond, stood at US$144 billion, vs. US$81 billion in the third quarter of 2004 (up 77%) and US$182 billion in the second quarter of 2005 (down 21%). The 2040 bond alone accounted for 11% of total reported Survey volumes, vs. a 13% share in the previous quarter. Brazil's C-Bond, formerly a leading industry benchmark, accounted for $10 billion in its last full quarter of trading before being redeemed in mid-October, as compared to US$60 billion a year earlier.

Brazilian instruments accounted for 31% of total reported volume. In the third quarter of 2004, Brazilian debt transactions had accounted for 33% of EMTA Survey volume.

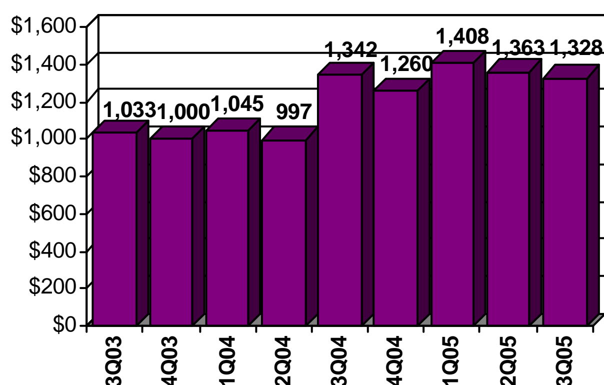
Mexico Volumes at US$196 Billion

Mexico volumes stood at US$196 billion, off 35% vs. the US$303 billion reported by Survey participants in the third quarter of 2004 but 7% ahead of second quarter 2005 trading of US$183 billion. 77% of Mexico volumes involved local instruments, compared to 80% in the third quarter of 2004 and 74% in the second quarter of 2005. Mexico credits were the second most frequently traded instruments in the Survey, accounting for 15% of overall Survey volume (vs. 23% in the third quarter of 2004).

The third most frequently traded instruments were Turkish bonds, at US$95 billion (vs. US$61 billion in the third quarter of 2004 and US$126 billion in the second quarter of 2005). Transactions in Turkish assets equaled 7% of total trading, compared with a 5% share in the third quarter last year.

In fourth position were Argentine issues, at US$94 billion. This compares with US$38 billion in the third quarter of 2004 and US$59 billion in the second quarter of 2005, increases of 148% and 61%, respectively. Argentine trading accounted for 7% of Survey trades, its highest market share since the country's December 2001 debt default. Vera speculated that "Argentina's reappearance, after its restructuring and its reintroduction to industry indices, probably helped it reclaim much of its dormant volume away from Brazil."

Aggregate Trading Volume
(in US$billions)



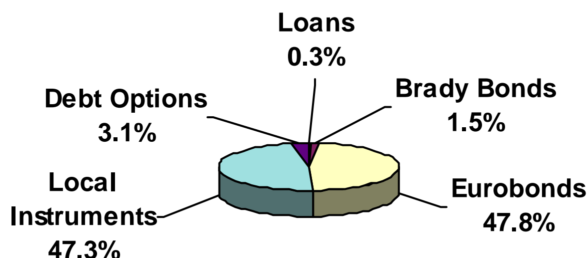
EMTA Volume Survey (continued)

Russian volumes, sixth overall, dropped to US$71 billion from US$106 billion in the third quarter of 2004 and from US$108 billion in the second quarter of 2005; and as a result Russian market share fell to its lowest level in six years at 5% of total volume. "As the country moves further into investment-grade territory and the narrow spreads become less and less appealing-and with the expected Ruble appreciation-many investors are moving from sovereign debt into other types of Russian exposure," Vera commented.

Eurobond Volume at US$635 Billion

Survey participants reported US$635 billion in Eurobond trades in the third quarter, vs. US$578 billion in the same quarter in 2004 and US$638 billion in the second quarter of 2005. Eurobonds accounted for a 48% share of reported Emerging Markets debt trading (vs. 43% in the third quarter of 2005 and 47% in the second quarter of 2005). The majority of Eurobond trades included sovereign issuances, amounting to 81% of Eurobond transactions. Brazilian issues were the most frequently traded Eurobonds, at US$263 billion, followed by those issued by Turkey (US$58 billion), Russia (US$57 billion), Venezuela (US$45 billion) and Mexico (US$35 billion).

Slightly below Eurobond transactions were local instrument trades, at US$628 billion (compared to US$656 billion in the third quarter of 2004 and US$653 billion in the second quarter of 2005). Local markets trades accounted for 47% of reported volumes, down from 49% a year ago. The most frequently traded local treasury instruments were those from Mexico (US$152 billion), Brazil (US$110 billion), Poland (US$78 billion), Argentina (US$48 billion) and Turkey (US$35 billion).



Options volumes stood at US$41 billion, vs. US$26 billion in the third quarter of 2004, and comprised 3% of trades. Brady Bonds, at US$20 billion (vs. US$79 billion in the third quarter of 2004), accounted for 2% of volume. Participants also reported US$4 billion in loan assignments (less than 1% of volume).

Improving Fundamentals Support Investor Interest

Going forward, Vera expects Emerging Markets debt to continue to attract attention from new investors as its general creditworthiness increases. "Clearly the asset class has become less risky, so in an environment still characterized by search for yield, there are bound to be inflows into a 'safer' asset class with higher relative yields than the alternatives," he affirmed.

EMTA's Survey includes secondary market trading activity in sovereign and corporate bonds, local instruments, Brady bonds, debt options, warrants and loans from over 90 Emerging Markets countries. The Survey's participants include 64 major dealers, banks and money management firms around the globe.

For a copy of EMTA's Third Quarter 2005 Debt Trading Volume Survey, please contact Jonathan Murno at jmurno@emta.org or +1 (646) 637-9105.

EMTA Board Meeting on November 2, 2005

EMTA's fourth Board Meeting for 2005 was held on November 2 at the offices of JPMorgan Chase in New York City and Merrill Lynch in London, with the usual video and teleconferencing links.

At the beginning of the meeting, Soroosh Shambayati (Citigroup) was elected to the Board to replace Andrew Alter, who left Citigroup this past Summer, and Larry Goodman (Bank of America) was elected to the Board to replace Richard Prager.

In addition to reviewing EMTA's preliminary financial results for the first nine months of 2005 against budget, the Board continued its discussions of LCH.Clearnet's proposed EM clearing facility and its continued viability in light of Refco's recent dificulties. The Board also discussed Venezuela's Oil Obligations payments and related trade settlement backlog. Although several directors expressed their impatience with the limited progress made to date in settling outstanding positions, as well as the need to develop a comprehensive resolution of the backlog, Board firms were encouraged to continue assessing their own warrant positions, and reconciling, resolving and settling their bilateral positions wherever possible on a case-by-case basis with their counterparties, pending further discussion of a more specific action plan for addressing the overall backlog (see page 10).

The next meeting of EMTA's Board is scheduled to be held on January 24, 2006.

EMTA Fall Forum Panelists Debate whether External Debt Over-Valued, Interests in Local Instruments Justified

EMTA's Fall Forum on October 6, 2005 attracted a crowd of 125 attendees despite market volatility and an EMBI+ widening of 20 basis points. The event was held at the offices of UBS Investment Bank in midtown Manhattan, with many in the audience seeking commentary from market sages on the recent sell-off.

Moderator Michael Gavin (UBS Investment Bank) prefaced the Forum's panel discussion by explaining that each speaker had been pre-assigned a bullish or bearish position on various topics, which did not necessarily reflect the speaker's own opinion. Turning immediately to the subject on everyone's mind, Gavin requested that the panel debate whether Emerging Market external debt was over-valued. Guillermo Mondino (Lehman Brothers) and Amer Bisat (Rubicon Fund Management) were selected as bears, while George Estes (GMO) and Paulo Vieira Da Cunha (HSBC) were asked to present the bullish viewpoint.

Estes asserted that "last week clearly the market was over-valued when the EMBI+ spread reached 235; but this week above 250, I would say the opposite." He argued that the general narrowing of spreads in the asset class in recent years has been based upon four factors: (1) global economic conditions – low interest rates, low inflation and "pretty good growth in the US and other countries," which has translated into strong demand for emerging country exports; (2) specific economic conditions in emerging countries, e.g., high commodity pricing, economic growth, and current account surpluses; (3) market conditions in the asset class, with new money continuing to enter while the amount of leveraged flows is less than in the late 1990s; and (4) the economic policies being carried out in the emerging world, such as the adoption of flexible exchange rates, liability management operations, greater fiscal responsibility and the completion of 2005 financing needs by many sovereigns, with many also tapping the markets for 2006 pre-financing.

Estes observed that some spread compression was strictly due to technical factors, such as the retirement of higher-spread Brady issues, and the Argentine restructuring, which itself led to a 50 basis point EMBI index narrowing. He also lauded increased market efficiency due to the growth in liquidity in the credit default swap, option and repo markets.

Vieira Da Cunha buttressed the bullish position by calling attention to the structural changes that have occurred in most of Latin America. He echoed Estes' comments on rebounding economic growth and greater fiscal responsibility, while highlighting the improved credibility of many central banks and their increased ability to manage monetary policy.

Bearish Bisat expressed concern that some new investors in the asset class did not really understand Emerging Markets, noting that it should give long-timers pause when new entrants use the same convergence arguments that "we used to use twenty years ago." Bisat predicted that, "when they realize the volatility associated with Emerging Markets, they are going to run to the door, and today is a very good example." On a fundamental basis, Bisat pointed out that inflation is picking up globally while growth is slowing. If this trend continues, it will be a "disaster" for Emerging Markets.

Fall Forum (continued)

Mondino disclosed that he was actually optimistic on the market's long-term prospects, but, fulfilling his obligation to make the bearish argument, he criticized the market's dramatic tightening in the previous month, describing it as hard to defend. September 2005 was a month of "normalization" of economic conditions after some macroeconomic "deteriorations" in the Philippines and Ecuador, rather than a month of progress that would have justified narrower spreads. Mondino reminded the audience that much of the compression has been described as a result of strong oil pricing, but cautioned that investors didn't seem to be discriminating between those countries which would actually be helped by higher oil prices, and those which might be harmed. "Oil is a very powerful story for Russia and Venezuela, but it's no longer a very powerful story for Colombia, much less for Ecuador, Indonesia, Brazil or Turkey," he stressed. He compared US AAA corporate bond prices to Russian sovereign debt and questioned whether money managers truly believed that the latter should be priced 55 bps tighter than the US prices.

Gavin next invited panelists to debate whether local instrument investment was the next "internet investment of the late 1990s" or the much-heralded "wave of the future."

Bisat, assigned the bullish position, argued that emerging sovereigns have accepted the "original sin" argument espoused by Professors Ricardo Hausmann and Barry Eichengreen, and that many are now moving to issue debt in local currency. These obligations are attractive to investors as real yields are still very high, because they continue to include an inflation volatility premium despite the fact that inflation volatility has actually declined. "Those who buy are saying 'we believe in the credibility of the monetary policy makers; and we are going to bet that they are going to continue meeting their inflation targets well into the future'," he explained. In addition, bulls believe that emerging currencies are still quite undervalued.

Bisat added that there is a "fundamental paradigm shift"; policymakers have "bought into fiscal responsibility and monetary policy credibility, and there is no reversibility of those policies." He concluded that "this is the only asset class that is impervious to the sudden and certain slowdown in global growth."

Estes threw cold water on Bisat's enthusiasm by countering that local instrument buyers are merely assuming the "original sin" risk from the issuer. He cited custody issues, taxation issues, and a possible change in the regulatory environment as other reasons to reconsider the local debt craze. "In contrast to the developments in external debt, in local markets you have very wide bid-ask spreads," he warned, and added it is often difficult to finance or short local debt, or purchase derivative instruments. Estes concluded that countries have "two chances to default on local instruments…There is the regular default, i.e., not meeting payment terms, and in addition you have devaluations."

Mondino responded that market risks in local markets were diversifiable. The strong correlation between local market debt and credit means that, most of the time, credit instruments can be used to hedge local market risk. He added that the counterparty risks one has in the local markets today are the same risks one has in the external markets, since local pension funds and local asset managers have increasingly become external debt owners. He questioned greater investor comfort with debt governed by foreign law, commenting, "what we have learned with the Argentine default is that the value of international courts as a mechanism to protect creditor claims is not as great as we had originally thought it was." Mondino acknowledged that local markets might be a "fashion or a fad," but as the multilaterals are now convinced that the resolution of "original sin" will add stability to emerging economies, these countries will increasingly issue local debt.

Fall Forum (continued)

Vieira Da Cunha was allowed the final "bear" rebuttal. "The danger, of course, is that, if push comes to shove, you can inflate that debt away. So the question is, can investors effectively and economically hedge their currency exposure?" Because of incomplete markets, they are often not able to do so, or they have to "pay through the roof" to offset local currency risk, he asserted.

Gavin solicited panelist feedback on how far the search for return in local markets could go. Bisat responded that "there is a massive information failure in many exotic countries such as the Dominican Republic, Egypt, Mozambique…but a little bit of digging can buy you quite a bit of value" if one is willing to go through the documentation. He advised that, "precisely because no one looks at some of these countries, they can be extremely attractive and good diversifying tools."

The panel took a number of questions from audience members. Prompted to estimate the return for EM debt over the next year, Bisat predicted 6-8% for external debt and possibly double digit returns in local Turkish, Argentine and Brazilian debt. Mondino seconded Bisat's 6-8% forecast on external debt, and recommended Argentine, Brazilian, Venezuelan and Turkish debt. Vieira Da Cunha suggested that Mexico should appeal to investors who think US Treasury bond prices will rise and oil prices will fall, but recommended Brazil, Colombia and Peru for those expecting the current economic climate to persist. Estes declined to provide a specific forecast, but believes that over the longer term Emerging Markets debt will prove relatively attractive vis-à-vis other asset classes.

Finally, called upon by a fellow panelist to offer his assessment of Mexico, Gavin remarked that "the risk of political noise [from the upcoming presidential race] is very high in Mexico, but the fundamental political risks are relatively low." He noted that in 2006 watching the presidential race will be a market "obsession," and, although the race is likely to be a close one, voters will ultimately not support "changes in the political framework that will worry you." A contested election result is possible, but he suggested this would likely prove a buying opportunity.

Bond & Warrant Trading & Settlement

Argentina
GDP-Linked Securities Detachment

GDP-Linked Securities (the "GDP's") were attached to each of the Argentina Par, Discount and Quasi-Par Bonds for 180 days following the 'Settlement Date' of June 2, 2005. The 180-day period expired at the end of the business day on November 29, 2005.

Up to the end of the business day on November 29, 2005, Bonds and their related GDP's were required to be traded together as a Unit, each of which had its own ISIN code for settlement purposes. Beginning on November 30, 2005, the GDP's were automatically given their own separate ISIN code, and then they traded independently from the Bonds, which have their own separate ISIN codes. Accordingly, the GDP's could not be traded on a 'spot' basis, nor independently from their related Bond, until November 30, 2005.

To aid the market in the orderly trading and settlement of the forward GDP trades, the Unit trades, the detached GDP and Bond trades, and the forward trades of the Bonds, EMTA distributed a Primer in connection with the GDP detachment, which contains Market Practice recommendations (see below), detachment procedures developed together with Euroclear, and timelines of the EMTA recommended trading and settlement dates referenced in the Market Practice section of the Primer.

EMTA Market Practice Recommendations
Unless otherwise agreed:

(1) The last trade date of the Forward GDP Trades shall be November 29, 2005 and such Forward GDP Trades shall be entered into the appropriate clearing system before 6 pm (BXL time) on November 29, 2005 for settlement on December 2, 2005, or, if the GDP detachment has not occurred by November 29, 2005, three business days after the GDP detachment date, all subject to the expiration date of March 1, 2006.

(2) The last trade date of the Units shall be November 24, 2005, with settlement instructions entered into the appropriate clearing system before 6 pm (BXL time) on November 29, 2005.

(3) The first trade date of the detached GDP's shall be November 30, 2005 for settlement on December 2, 2005.

(4) The first trade date of the detached Bonds shall be November 30, 2005 for settlement on December 2, 2005.

(5) The first trade date of the forward trades of the Bonds shall be November 25, 2005 for settlement on December 2, 2005.

Detachment Procedures

(1) For accountholders' positions in Units, conversion of the Units into separate Bonds and GDP's will be made automatically by Euroclear and Clearstream in accordance with ratios referenced in an exhibit to the Primer.

(2) For any pending or failed trades of the Units, Euroclear and Clearstream will also automatically convert the Unit trades into separate Bonds and GDP's in accordance with the same ratios referenced above. Bond settlements will be made DVP against the original purchase price for the failed Unit trade, while GDP settlements will be made free of payment. Both matched and unmatched trades will be subject to this automatic conversion.

Brazil C-Bonds

Brazil redeemed its Front-Loaded Interest Reduction with Capitalization Bonds due 2014 (C-Bonds) on October 15, 2005. Click Here for the Fiscal Agent's notice.

Bond & Warrant Trading & Settlement (continued)

Mexico VRR Payment

The September 30, 2005 payment was made to Series D VRR holders of record as of September 15, 2005, and EMTA recommended that trades be settled 'ex-dividend' on September 13. Click Here for the Fiscal Agent's notice regarding the VRR payment's calculation.

The December 31, 2005 payment is expected to be made to Series D VRR holders of record as of December 16, 2005, and EMTA has recommended that trades be settled 'ex-dividend' on December 14. (A copy of the Fiscal Agent's notice regarding the VRR payment's calculation will be published in the New Development's area of EMTA's website as soon as it is made available.)

The VRRs have been 'in-the-money' for the last thirteen consecutive quarterly payment periods (the last time no payment was due on the VRRs was September 30, 2002).

Numerous claims among market participants for these payments are expected.

Click Here for EMTA's Revised Primer on Mexico VRR's, revised to include an updated history of prior payments and information regarding the redemption of the Discount and Par Bonds.

Venezuela Oil Obligations and Nigeria Payment Adjustment Warrants

Fails in settlements of Venezuela's Oil Obligations and Nigeria's Payment Adjustment Warrants (collectively, "Warrants") have been a continuing problem, similar to the VRR fails in Mexico.

Adequate and accurate reconciliation among market participants continues to be the key to resolving disputes regarding failed Warrant transfers.

Market participants are strongly encouraged to continue their efforts to reconcile internally and with their counterparties (including with custodians) their individual accumulated failed Warrant transfers, so that net bilateral positions can be ascertained and settled. This reconciliation process, which is necessary as a precondition to permit the development and implementation of any comprehensive solution (such as multilateral netting) to the settlement backlog, has been reviewed monthly.

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The major dealers all reported in the most recent EMTA monthly conference calls that their internal reconciliation efforts, as well as the reconciliation of their positions to those of the private clearing firms and the settlement systems, are nearly complete. However, it appears that several more months of reconciliation among dealers, as well as reconciliation with custodians and customers, will be necessary before the dealer reconciliation effort with their counterparties is substantially completed by all of the major dealer firms.

In the interests of an orderly market, EMTA wishes to remind all market participants that, although progress has been made toward the industry goal of resolving this settlement backlog satisfactorily, until this reconciliation is substantially completed, and a strategy to address the current problem comprehensively (such as a global multilateral netting facility) can be developed and implemented, a certain amount of patience and forbearance in dealing with counterparties is likely to contribute a great deal more to the successful resolution of the overall settlement backlog than the aggressive pursuit of individual payment and settlement claims.

To assist market participants in better understanding Venezuela's Oil Obligations, and the background of the settlement and payment backlog, EMTA has prepared a Revised Primer (June 17, 2005), which includes the formula for determining the number of Oil Obligations related to the USD Par and Discount Bonds and a history of prior payments.

Bond & Warrant Trading & Settlement (continued)

Also, to aid the market in its efforts at reconciliation, EMTA is requesting that firms send EMTA contact information (including telephone number and e-mail address) for their custodians, as well as for the person(s) at their firm responsible for the reconciliation. EMTA's compiled list of such contacts will be distributed to the firms that contributed such information.

EMTA will continue to monitor the Warrants fails situation and schedule monthly conference calls among market participants to review the market's progress in the recordkeeping and reconciliation efforts underway in many firms, with a view to determining what alternatives may present themselves for future solutions to this issue.

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The October 15, 2005 payment was made on October 17 to holders of record as of September 30, 2005, and EMTA has recommended that trades be settled 'ex-dividend' on September 28. Click Here for the Fiscal Agent's notice regarding the payment's calculation.

The Oil Obligations came 'into-the-money' for the first time on October 15, 2004. The payment was made on March 3, 2005 to holders of record as of March 1, 2005. The April 15, 2005 payment was made on time.

Numerous claims among market participants for these payments are expected.

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Click Here for EMTA's Revised Primer on Nigeria's Payment Adjustment Warrants, which includes the formula for determining the number of Warrants related to the Bonds and a history of prior payments.

Click Here for the Fiscal Agent's notice regarding the November 15, 2005 payment's calculation.

The Payment Adjustment Warrants came 'into-the-money' for the first time on November 15, 2000 and then again on May 15, 2001. The May 15, 2001 payment was made on November 15, 2001 with default interest (no separate payment was due for the November 15, 2001 period). No further payments were due until November 15, 2004. The November 15, 2004 payment was made (with default interest) on April 14, 2005 to Payment Adjustment Warrant holders of record as of March 30, 2005. The May 15, 2005 payment was made on time.

Numerous claims among market participants for these payments are expected.

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For further information, please visit the New Developments area of EMTA's website or contact Aviva Werner at awerner@emta.org or (646) 637-9110.

FX and Currency Derivatives

In the Pipeline

In early fall 2005, EMTA outlined an agenda and a timetable for initiatives in the FX and Currency Derivatives area. Out of those discussions arose an extensive list of potential projects which are described below. Over the next calendar year we plan to work on a number of these projects at various times and in various forums. Member input is always welcome.

Nomenclature Shift

To better describe EMTA's expanding efforts in the NDF market, EMTA has decided to use the broader term "FX and Currency Derivatives". This broader term is intended to encompass not only NDF products, but also non-deliverable currency options, as well as other types of currency derivative products of interest to the Emerging Markets. Members and website subscribers will begin to see the incorporation of this new term into EMTA's materials and on its website.

Website Updates

EMTA plans to update the many areas of its website that are relevant to the FX and Currency Derivatives market, including a reorganization of the Documentation area, updates to the NDF Market Practices area (to become "FX and Currency Derivatives Market Practices") and updates to the website section entitled "EMTA Rate Quotation Services" to reflect its additional efforts in this area.

CLP, COP and PEN Template Terms Now Under Discussion

EMTA has begun work to standardize template terms for Chilean Peso, Colombian Peso and Peruvian Sol NDF transactions. These three are the last remaining currencies in Latin America that trade in the non-deliverable market needing standardized documentation.

NDOs to Get Their Due

Efforts have begun to develop standardized terms for non-deliverable option products and to define certain market practices to enable their more efficient trading and documentation. For the last several years, the NDO has been the neglected stepsister of the NDF, wearing the documentation equivalent of hand-me-downs. We have now brought this project to the front burner and will be working to develop documentation and market practices.

Joint EMTA-ISDA Working Group

This group has decided that its first focus will be on developing documentation for a non-deliverable swap product for Latin America, and work is now underway.

NDF Master Agreement Under Consideration

Discussions have begun among EMTA, the FXC and The Foreign Exchange Joint Standing Committee (FXJSC) of the Bank of England regarding the possible development of a master agreement for NDF trading.

Updated Compendium Published

The Compendium to Annex A to the 1998 FX and Currency Option Definitions was updated to include the recently amended rate source definitions for the Romanian Leu and the Chinese Renminbi. The Compendium is a chronological (not conformed) collection of amendments to Annex A since its first publication in September 2000 and may be found on the websites of its co-sponsors, EMTA, ISDA and the FXC.

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For further information regarding the above, as well as FX and Derivatives matters generally, please contact Leslie Payton Jacobs at lpjacobs@emta.org or (646) 637-9103.

EMTA Members: To obtain the password for the Members Only area, please e-mail sortiz@emta.org

Website Updates and Additions

Key Industry Views

EMTA continues to recognize publications by leading research analysts and others that highlight noteworthy industry topics. In recent weeks, EMTA has made the following additions to the Key Industry Views area of EMTA's website:

- "Argentina: Lavagna's Replacement Does Not Change Economic Policy Orientation." November 29, 2005 - Vladimir Werning (JP Morgan).
- "Mexico: A First Look at the 2006 Elections." October 21, 2005 - Paulo Leme (Goldman Sachs).
- "'Panda Bonds' to Promote Domestic Capital Markets." October 5, 2005 - Qing Wang and Lawrence Goodman (Bank of America).
- "Focus on Brazil: A Landmark Debt Placement." September 26, 2005 - Michael Gavin (UBS).
- "Myths and Realities." September 2005 - Paul Singer and Jay Newman (Elliott Associates). "Of Judges and Vultures." June 2005 - John Barham (Latin Finance).
- "Latin American Politics: Not Your Old Boogeyman...But Elections Still Matter." September 21, 2005 - Pablo Goldberg, Felipe Illanes and David Beker (Merrill Lynch).
- "Sovereign Report Card: EMBIG." September 19, 2005 - John Chambers and Moritz Kraemer (Standard & Poor's).
- "How ICSID Can Protect Sovereign Bondholders." September 2005 - Peter Griffin and Ania Farren (Baker Botts). *This article first appeared in the September edition of International Financial Law Review.*
- "From Rogue Creditors to Rogue Debtors: Implications of Argentina's Default." Arturo Porzecanski. (Posted with the Permission of the Chicago Journal of International Law, Summer 2005, Volume 6, Number 1).

New Developments

These and other recent news items can be found in the New Developments area of EMTA's website.

- November 29, 2005 - Mexico VRR, Series D, Record Date of December 16 and Payment Date of December 31 Expected. Trades are 'Ex-Dividend' on December 14. Calculations for Payments on the VRR's will be Announced by the Fiscal Agent Shortly.
- November 21, 2005 - EMTA Announces 3Q 2005 Debt Trading Volume Stood at US$1.328 Trillion.
- November 21, 2005 - EMTA Primer for the Detachment of Argentina GDP-Linked Securities, Which Includes Market Practice Recommendations, Detachment Procedures and Timelines.
- November 18, 2005 - Mexico Announces the Results of Its Warrant Issue.
- November 17, 2005 - Fernando Zavala, Minister of Finance, Republic of Peru, to Deliver Keynote Address at EMTA's Annual Meeting on Thursday, December 1, 2005.
- November 9, 2005 - Revised EM Bond Trading Holiday Schedule for US Veterans' Day.
- November 9, 2005 - Holiday Schedule for EM Bond Trades for US Thanksgiving Holiday.

Website (continued)

- October 31, 2005 - Fiscal Agent Notice Regarding November 15, 2005 Payment on Nigeria Payment Adjustment Rights.
- October 26, 2005 - Holiday Schedule for EM Bond Trades for US Veterans Day Holiday.
- October 19, 2005 - FRBNY Releases Statement on Credit Derivatives in Response to Industry Letter.
- October 11, 2005 - EMTA's Annual Meeting in New York City to be Held on December 1, 2005.
- October 5, 2005 - Calculations for Payments on Venezuela Oil Obligations Announced.
- October 3, 2005 - MarketAxess Charity Trading Day, Developed in Partnership with EMTA, Raises $200,000 for Emerging Markets Charities.
- October 3, 2005 - Emerging Markets Benefit to be Held in New York City on December 1, 2005.
- September 28, 2005 - Holiday Schedule for EM Bond Trades for US Columbus Day Holiday.
- September 22, 2005 - List of Live Auction and Silent Auction Items for EM Benefit to Be Held in London on September 30, 2005 Now Available.
- September 21, 2005 - EMTA Market Recommendation Regarding Venezuela Oil Obligations.
- September 19, 2005 - EMTA's Third Quarter Bulletin is Now Available in our Bulletin Section.

Reminders: Visit the *From the Market*, *Litigation* and *Job Opportunities* areas

There are a few new areas of EMTA's website: From the Market in the Activities and Services section, Litigation in the EM Background section and Job Opportunities.

From the Market contains items submitted to EMTA that are deemed of general interest to the Emerging Markets trading and investment community. Decisions to post items are solely in EMTA's discretion, and the responsibility for content of each posted item is solely with its author. Items in a variety of formats such as articles, opinions, transcriptions, and graphics, among other items, are appropriate for this area. To submit postings to this area, please contact Suzette Ortiz at sortiz@emta.org or (646) 637-9106.

Out latest addition, Litigation, is where we post various legal cases that may be of interest to the Emerging Markets trading and investment community. Cases can be viewed alphabetically in the more comprehensive List of Cases, as well as in specific subject matter categories in reverse chronological order. We are committed to keeping this area as up-to-date as possible. If you are aware of any pertinent information which would be useful to post here, please contact Aviva Werner at awerner@emta.org or (646) 637-9110.

The Job Opportunities area includes positions currently available around the globe for members of the Emerging Markets trading and investment community. We especially encourage you to pass along the address of this site to former colleagues who are currently seeking positions in the EM debt industry. If your firm is interested in posting a job listing on the website, please contact Jonathan Murno at jmurno@emta.org or (646) 637-9105. Members will receive special discounted rates.

Events

MarketAxess Raises Over $200,000 for Emerging Markets Charities in Second Annual Charity Trading Day

MarketAxess Holdings Inc., the operator of a leading electronic trading platform for U.S. and European high-grade corporate and Emerging Markets bonds, announced on October 3 that it had raised $202,075 in its Second Annual Emerging Markets Charity Trading Day, which was held on September 21. This year's contribution, which is more than double last year's amount, will benefit charities throughout the emerging world. The MarketAxess Charity Trading Day was developed through a partnership with EMTA.

MarketAxess credited the success of the effort to the strong support from dealers participating in its Emerging Markets trading platform, including ABN AMRO, Banc of America Securities, Barclays PLC, Bear Stearns, BNP Paribas, Citigroup Global Markets, Credit Suisse First Boston, Deutsche Bank Securities, Goldman Sachs, HSBC, ING Financial Markets, JPMorgan, Lehman Brothers, Merrill Lynch, Morgan Stanley, Santander Investment Securities, UBS and Wachovia Securities.

"Once again, our annual charity trading day has exceeded our expectations. With the strong support of our dealers and institutional investor clients, we were able to double last year's contribution to Emerging Market charities," said Rick McVey, Chief Executive Officer of MarketAxess. "We extend our deepest thanks to all that were involved in making this event a success. It is gratifying to see the investment community coming together to support important causes that are geared to help those in need."

"The support that MarketAxess received in its Second Annual Charity Trading Day from dealers and clients is overwhelming and we are honored to receive such a significant donation," stated Elaine Skinner-Reid (RBC), Co-Chair of the London Emerging Markets Benefit. "This much-needed funding will be used to continue to aid organizations in developing economies." Iain Baillie, Head of MarketAxess Europe, presented a check for half of the Charity Trading Day proceeds to Skinner-Reid and Jonathan Murno, Co-Chairs of the London Benefit, at the Benefit in London on September 29. The remaining half of the donation will be presented at the New York industry Benefit on December 1.

The Emerging Market charities that will benefit from this year's donations are: EMPower, a foundation which supports community-based organizations in emerging countries that are expanding access to education, health care, legal rights and economic opportunity; ProMujer, an organization founded to provide Latin America's poorest women with the means to build livelihoods for themselves and futures for their families through micro-lending, business training, and healthcare support; Cotlands, a long-serving South African non-profit agency which continues to meet the needs of children affected by HIV/AIDS; Task Brasil, which funds projects that improve the lives of Brazilian street children and adolescents, allowing them to enter mainstream society; Health Unlimited, an organization that works with indigenous communities and communities affected by conflict and political instability to achieve better health; SOS Children, which provides homes for children without parents, as well as providing education and skill-training in 125 countries around the globe; The Resource Foundation, which cultivates productive relationships between sustainable private development organizations in Latin America and worldwide by leveraging capital and information resources to increase the self-reliance and living standards of the disadvantaged; and World Education & Development Fund, which provides financial, managerial and technical assistance to partner schools in impoverished Latin American neighborhoods.

Events (continued)

London's "Classic Caribbean" Benefit Raises Funds for Emerging Country Charities

At press time, organizers of the annual industry charity gala in London were still tabulating the proceeds of the September 29 "Classic Caribbean" event, but hope is high that the £150,000 ($264,000) raised in 2004 will be surpassed. The Benefit dinner was held at the Old Billingsgate Fish Market building on the River Thames, with all 910 tickets having sold out in a record two days.

MarketAxess donated £57,250 ($101,000) to the Benefit, or half the proceeds from its Second Annual Charity Trading Day held on September 21, 2005 (see page 15 for more information). In addition, Bear Stearns and Standard Bank were major sponsors, with additional support provided by Royal Bank of Scotland and WestLB.

Elaine-Skinner Reid (RBC) and Jonathan Murno (EMTA), Co-Chairs of the EM Benefit in London, accept a check for £57,250 ($101,000) from Iain Baillie, Head of MarketAxess Europe, representing half the proceeds of the MarketAxess Charity Trading Day.

Included on the evening's program were a Caribbean steel band, a salsa band and a salsa dance show, the popular cover band Rain, and a dj. As a result the dance floor remained at capacity all evening long.

Holidays in Jamaica, St. Lucia and Turkey; a cooking course in Provence, a private box for twelve at the Royal Albert Hall Grand Masters Tennis Tournament and dinner at the Ivy with BBC World Affairs Editor John Simpson were among the items included in a live auction. The high bid of the evening was the £14,000 paid for a night out with legendary Led Zeppelin guitarist Jimmy Page. Models Vanessa Nimmo and Jamelah were on hand to lend some celebrity glamour.

A silent auction included such goodies as a Les Paul guitar, additional Jamaican holidays, a golf outing, membership at the M1int nightclub, tickets to a taping of "Top Gear," a sailing trip and a professional photo session. Making full use of 2005 technology, the silent auction was conducted this year using mobile phone text messages, with each message itself raising additional funds for charity.

Using a simulator, golfers in the audience competed to make the evening's longest drive, while a massage team of six was on hand to work on tired muscles. A professional photographer snapped candid shots, with revelers advised that incriminating photos may be found at http://www.everybodysmile.biz/instantpix/ using the password London.

At 1 a.m. the party ended. Three hours later the entire setup—which had taken scores of cooks, florists, lighting teams, sound engineers and other workers all day to assemble—disappeared, leaving Billingsgate once again an empty shell.

Proceeds from the evening will support the work of Task Brasil, which provides shelter and training for street children in the favelas of Rio de Janeiro; Cotlands, which provides shelter and health care for HIV+/AIDS orphans in South Africa; SOS Children's educational projects in Barrett Town, Jamaica; and Health Unlimited's work with indigenous populations in Guatemala.

For more information on the 2005 London Benefit, please visit the EMBL's website at www.embl.co.uk.

EMTA congratulates Benefit Committee members Elaine Skinner-Reid (RBC), Clare Turnbull (Bear Stearns), Emma McClintock (BB Securities) and our own Jonathan Murno for another summer of hard work!

Miscellany

Bond Price Transparency Initiative in UK/Europe

EMTA is participating in a committee convened by The Bond Market Association (TBMA) in London to respond to a recent FSA paper analyzing price transparency in the UK and European bond markets. The industry response is due on December 5. The FSA is looking at this topic in order to formulate a policy position on whether the European Union should consider expanding transparency regulations contained within the MiFID (the European Directive on Markets in Financial Instruments) that are currently only applicable to equity securities to non-equity securities, including bonds and credit derivatives. EMTA submitted to TBMA an overview of the EM bond markets, a description of various EMTA-led industry initiatives to address transparency over the years and various policy considerations for the regulators to use as background on the EM sector in TBMA's response. If you would like more information on this initiative, please contact Starla Griffin at sgriffin@emta.org.

Miscellaneous (continued)

Information for Volume Survey Participants

As a reminder, EMTA collects volume data from market participants for its Debt Trading Volume Surveys. Data for the Debt Trading Survey is collected quarterly, and EMTA contacts its survey participants approximately one week before the end of each quarter. Look for the EMTA Volume Survey e-mails! If you are not currently a participant in the EMTA Volume Survey and believe you can contribute data for these purposes, or wish to find out more about being a survey participant, please contact Jonathan Murno at jmurno@emta.org. Individual Survey responses are kept strictly confidential.

EMTA is Your Forum

Questions arise from time to time about EMTA's policies regarding views expressed in items posted on its website or by speakers or panelists at EMTA events.

For the record, EMTA, by long-standing custom, does not necessarily endorse such views. Items posted on EMTA's website and speakers and panelists at EMTA events are selected because EMTA believes that they will be of topical interest to our Members and to the broader market and will contribute to the expression and free exchange of views and information in the marketplace.

At EMTA, we are always interested in getting market feedback on the effectiveness of our website, events and activities generally. Please take the time to let us know whether or not you agree with what you see on our website or hear at one of our events and, most important, whether there is more that EMTA should be doing, or doing differently, to better serve the EM marketplace.

EMTA Membership Update

EMTA's newest Members include **Bank Julius Baer & Co., Cadwalader, Wickersham & Taft, Mizuho Corporate Bank Ltd.** and **S.A.C. Capital Advisors.** If you are interested in EMTA Membership, or if you know of prospective Members, please contact Michael M. Chamberlin at mchamb@emta.org or (646) 637-9101, Starla Griffin at sgriffin@emta.org or (44-207) 996-3165 or Suzette Ortiz at sortiz@emta.org or (646) 637-9106. Also, in the Membership area of EMTA's website, we offer information about our various Membership categories and benefits and about how to join the Association.

SAVE THE DATE!
Tuesday, February 28, 2006

EMTA Winter Forum
in London

EMTA Hotlines

Topic	Contact	Telephone
Argentina	Aviva Werner	(646) 637-9110
Burden-Sharing/CAC's/SDRM	Michael Chamberlin	(646) 637-9100
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EM Benefit Events	Jonathan Murno	(646) 637-9105
EM Bond Charts	Aviva Werner	(646) 637-9110
EM Principles	Michael Chamberlin	(646) 637-9100
EMTA Code of Conduct	Michael Chamberlin	(646) 637-9100
EMTA Membership	Starla Griffin/Suzette Ortiz	(44-207) 996-3165/(646) 637-9106
EMTA Website	Suzette Ortiz/Jonathan Murno	(646) 637-9106/9105
FX/NDF's/Derivatives	Leslie Payton Jacobs/Starla Griffin	(646) 637-9103/(44-207) 996-3165
Global Equities	Bruce Wolfson (Rohatyn Group)/Starla Griffin	(212) 984-2907/(44-207) 996-3165
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Legal/Compliance	Aviva Werner	(646) 637-9110
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Market Information/Research	Jonathan Murno	(646) 637-9105
Market Practices	Aviva Werner	(646) 637-9110
Market Price & Volume Data	Jonathan Murno	(646) 637-9105
Multilateral Netting	Aviva Werner	(646) 637-9110
Paris Club	Starla Griffin	(44-207) 996-3165
Repos/Securities Lending	Aviva Werner	(646) 637-9110
Warrants/VRR's	Aviva Werner	(646) 637-9110

EMTA staff can also be reached through the general telephone number (646) 637-9100, at the following e-mail addresses or through our website.

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EMTA Calendar

Fri., Oct. 7	Recommended 2:00 p.m. (NYC) Early Market Close
Mon., Oct. 10	Recommended Market Close (NYC) Columbus Day Recommended 12:00 Noon (London) Early Market Close
Wed., Oct. 19	Opportunities and Pitfalls in Emerging Markets Restructurings Special Meeting - 12:00 Noon Global Financial Markets Conference Center 360 Madison Avenue, 17th Floor (NYC)
Wed., Nov. 2	**EMTA Board Meeting (NYC/London)**
Fri., Nov. 11	Recommended Market Close (NYC) Veterans Day Recommended 12:00 Noon (London) Early Market Close
Wed., Nov. 23	Recommended 2:00 p.m. (NYC) Early Market Close
Thurs., Nov. 24	Recommended Market Close (NYC) Thanksgiving Day Recommended 12:00 Noon (London) Early Market Close
Fri., Nov. 25	Recommended 2:00 p.m. (NYC) Early Market Close
Thurs., Dec. 1	**EMTA Annual Meeting** **Citigroup, 388 Greenwich Street, NYC** **2005 NYC Emerging Markets Benefit** **Capitale, 130 Bowery (at Bowery and Grand), NYC**
Fri., Dec. 23	Recommended 2:00 p.m. (NYC) Early Market Close
Mon., Dec. 26	Recommended Market Close (NYC/London) Christmas/Boxing Day
Tues., Dec. 27	Recommended Market Close (London) Substitute Bank Holiday (in lieu of Christmas Holiday)
Fri., Dec. 30	Recommended 2:00 p.m. (NYC) Early Market Close
Mon., Jan. 2	Recommended Market Close (NYC/London) New Year's Day
Fri., Jan. 13	Recommended 2:00 p.m. (NYC) Early Market Close
Mon., Jan. 16	Recommended Market Close (NYC) Martin Luther King, Jr. Day Recommended 12:00 Noon (London) Early Market Close
Tues., Jan. 24	**EMTA Board Meeting (NYC/London)**
Wed., Jan. 25	Legal and Compliance Group Meeting - 12:00 Noon Global Financial Markets Conference Center 360 Madison Avenue, 18th Floor (NYC)
Fri., Feb. 17	Recommended 2:00 p.m. (NYC) Early Market Close
Mon., Feb. 20	Recommended Market Close (NYC) Presidents' Day Recommended 12:00 Noon (London) Early Market Close
Tues., Feb. 28*	**Winter Forum (London)**

* **Details TBA**

EMTA was formally incorporated in December 1990, in the wake of the so-called LDC Debt Crisis and the pioneering Brady Bond restructurings by Mexico and Venezuela. To help mark EMTA's 15th Anniversary, EMTA's Bulletin this year has been featuring a series of articles on the early periods of EMTA's history.

The 2nd Quarter Bulletin reprinted Bruce Wolfson's recollections of the informal meetings of traders beginning in 1989 that, with some encouragement from then-FRBNY President Gerald Corrigan, eventually led to EMTA's formation as the LDC Debt Traders Association. The 3rd Quarter Bulletin reprinted Tom Winslade's article on EMTA's Early Years (1992 and 1993), when it emerged as an independent trade association with a growing agenda of activities.

The series continues this Quarter with Michael Chamberlin's perspective on the evolution of the EM trading markets and the growth and diversification of EMTA's activities during the period from 1994 through 1998. Formerly a Partner at Shearman & Sterling with a law practice split between public and private sector Latin American debt restructurings and capital market transactions, Michael Chamberlin led Shearman & Sterling's representation of the international banking community in Mexico's Brady Bond restructuring and worked on many financings, refinancings and debt swaps in the 1980's and early 1990's. He became EMTA's principal outside legal counsel in 1990 and its Executive Director in early 1994.

EMTA 1994-98: The Golden Age of EM Debt Trading?

By Michael M. Chamberlin
EMTA Executive Director

The EMTA that I joined over the Christmas Holidays in late 1993 (tucked away in an unused corner of JP Morgan's rabbit warren at 37 Wall Street) could not have been more different in size or scope of activities from the one that existed by the time of the Russian debt debacle in August 1998. The rapid evolution in EMTA's agenda and staffing mirrored the substantial changes that occurred throughout the Emerging Markets and the EM debt marketplace in the mid-1990's.

Evolution of the EM Trading Markets. During the 1990's, the market for Emerging Markets debt rapidly grew not only in volume, but also in the types of instruments traded, the number of trading houses and investors involved, and the size of the market in relation to others worldwide. The investor base for EM instruments expanded from its traditional investors to include many cross-over investors from the more mainstream high-yield and high-grade investment areas.

Investors were drawn to the Emerging Markets during this period by high yields and high growth potential, as well as by a general market trend toward positive economic and political reforms and improving economic performance in many Emerging Market countries. Despite these encouraging trends, however, investments and trading opportunities throughout the Emerging Markets continued to share certain characteristics that presented common risks. In addition to the customary risks stemming from the issuer's economic or financial performance and its capacity to service its payment obligations, these common risks included a variety of cross-border risks such as legal and regulatory uncertainties, enforcement difficulties, foreign exchange fluctuations and restrictions and changes in government or government policies, including the risk that a country's willingness might fall short of its capacity to honor its debt.

Despite a continuing trend that saw the transformation of most EM debt from the form of loans to bonds (first to Brady bonds and then to more traditional Eurobonds), with the creditor base shifting from commercial banks to other institutional investors, these risks and the volatility that they brought to the marketplace for EM debt, together with a number of weaknesses in trading infrastructure, in many respects kept the Emerging Markets separated from the trading and investment mainstream.

Market Events; Tequila Crisis. 1994 saw the completion of Brazil's Brady Plan restructuring, the last of the major Latin American restructurings coming out of the LDC debt crisis of the 1980's. Despite improving fundamentals in many EM countries (accompanied by numerous credit rating upgrades), the growth of the EM trading markets was punctuated by several market events that highlighted the potential volatility and riskiness of Emerging Markets investments. A long period of growth in both trading volumes and asset values was interrupted in 1994, first by the market's adverse reaction to rising interest rate levels in the Spring and then by the sharp decline in investor confidence that occurred after Mexico's peso devaluation in December. The Mexican devaluation, which now seems almost as long ago and remote as the LDC debt crisis and the Brady bonds that largely resolved it, set in motion a so-called "Tequila effect" of contagion that depressed market values throughout the Emerging Markets during early 1995. Following the massive rescue package organized for Mexico by the US and other G-7 nations, however, investor confidence in the Emerging Markets rebounded by mid-1995, and trading volumes and asset prices, as well as capital flows, showed considerable growth for the next several years.

In reviewing the market events of 1994, and the market's reaction to them, EMTA's Annual Reports for 1994 and 1995 noted the distinction between market performance and the performance of the marketplace. Many investors were disappointed by the adverse effect that the events of 1994 and early 1995 had on asset values throughout the Emerging Markets. Performance of the marketplace was less easily measured, although one could make some judgments based on factors such as liquidity, efficiency, transparency and settlement risk. Looking at these factors, market participants responded well to the market's challenges by maintaining orderly markets and by processing higher transaction volumes with greater efficiency.

In the memorable words of Peter Geraghty (one of EMTA's founding directors and a Board member during much of the 1990's), the Emerging Markets established themselves in the mid-1990's as more of a "state of mind" than a separate asset class, in which market events taught one to "expect the unexpected". Difficult market conditions throughout the Emerging Markets in 1994 and early 1995 helped build the case for why stronger systems were necessary and desirable, and why a substantial investment in market infrastructure was worth making. During a very difficult period, EMTA proved remarkably successful at mobilizing market participants to work productively on improving the performance of the EM debt trading marketplace. In its Annual Report for 1994, EMTA was able to point with pride, particularly during a year of market challenges, to the relatively smooth operation of the marketplace that was in significant part due to EMTA's projects and to the forum that EMTA provided to market participants to address pressing industry needs.

What had obviously been a crisis of potentially severe systemic magnitude was averted by decisive official sector intervention (at a particularly fragile time for the fixed income trading markets generally, because of the rising interest rate environment that prevailed during 1994),

and instead of a systemic crisis, the markets treated it largely as a buying opportunity in what proved to be the start of an extended period of improving EM fundamentals and trading market and investment growth. Although a useful reminder of the inherent risks in EM investing, one of the most lasting legacies of the Tequila crisis was the unfortunate lingering perception in the official sector (eventually sowing the seeds of the IMF's Sovereign Debt Restructuring Mechanism proposal in 2001) that investors in the Emerging Markets expected to be 'bailed out' in times of financial crisis.

Asian Flu; Russian Debacle. Sovereigns and other EM issuers generally took advantage of favorable market conditions from 1995 through 1997 to refinance a portion of their stock of debt, and investors generally welcomed the higher yields available in local currency instruments and more market-oriented dollar-denominated assets. EMTA's Annual Report for 1996 noted the considerable progress that had been made toward the successful completion of the restructuring process throughout the Emerging Markets. As a result, by then three themes had become evident—the broadening of the investor base to include cross-over investors, the broadening of the asset class, both in terms of geographical diversity and in the types of available instruments, and the transformation of the debt from Brady bonds to capital markets financings.

Unfortunately, local currency asset values fell sharply following the onset of financial and economic difficulties in Southeast Asia beginning in mid-1997, leading to more general financial problems throughout the region. By the middle of 1998, market contagion had spread these difficulties to Russia (which in August experienced an abrupt and precipitous foreign exchange crisis and resulting default on its internal and external debt), which in turn led to a severe, and more general, contagion throughout the Emerging Markets in the latter half of 1998. The resulting loss of investor confidence eventually led to Brazil's devaluation of the Real in January 1999. These events, and their contagion effects, raised questions regarding the effectiveness of fundamental analysis in isolating potential investment opportunities in the Emerging Markets.

EMTA's Annual Report for 1997 noted that official sector support for the Emerging Markets had fallen short of market expectations, and that policymakers must appreciate that, "in today's world of interconnected global markets, their first responsibility is to provide a stable anchor for market expectations". What was most needed from the official sector was for it to review its role in monitoring economic performance, in encouraging and supporting the reform process, and, when appropriate, in taking decisive action to restore market confidence.

Market trading volumes (as measured by EMTA's Volume Survey) shot up in the mid-1990's from US $ 1.979 trillion in 1993 to a peak of nearly US $ 6 trillion in 1997, before falling off sharply after the Russian default in August 1998, as investors re-evaluated the volatility and returns on EM assets and dealers reduced their trading lines. During this time, face-to-face trading of EM debt between major dealers was almost entirely replaced by anonymous trading through the screens introduced by several interdealer brokers (IDB's) in the early 1990's.

EMTA Tackles Trading Infrastructure Projects as well as New Documentation. EMTA's activities during the mid-1990's responded largely to the needs of the dealer community, which were driven in large part by the increase in trading volumes that occurred as a result of the Brady Plan restructurings for Argentina in 1993 and for Brazil in 1994 and the large increase in investor interest in Russia Vnesheconombank loans. The expanded trading volumes tended to create a backlog in all stages of the processing of executed trades, which substantially increased counterparty risk for market participants. Although EMTA continued to support trading activity in these and other instruments with the recommendation of market practices and trading

documentation, increasingly EMTA's agenda involved the development of trading infrastructure, such as multilateral netting facilities for loan trades, a trade confirmation and matching service (Match-EM) and a feasibility study that led to the launch in 1998 of the Emerging Markets Clearing Corporation. These initiatives all tended to promote the continued expansion of the EM trading market, while improving trade processing efficiency and reducing settlement backlogs and related counterparty and systemic risks.

Standard Terms. With the exception of Russian loans, trading activity in loans, which had comprised almost the entire trading market until the first Brady Plan restructurings were completed in 1990, fell off sharply following the Argentina and Brazil restructurings, and it was replaced by a surge in bond trading. The increase in bond trading volumes, coupled with increased demand for Russian and various exotic loans, highlighted the relative inefficiency of the process of documenting loan trades. This led to the development of standard terms for the assignment of loan assets, which was recommended to the marketplace in 1995. The standard terms for loan assignments, which replaced a frustrating case-by-case negotiation process, proved a great success, and quickly led to the development and recommendation of standard terms for loan participations (in 1996). Under these Standard Terms, counterparties were able for the first time to exchange confirmations that incorporated the standard terms into binding contracts, thus avoiding the need for negotiating the terms of individual trades. These projects were led by Bruce Wolfson (Bear), Kathleen Wells (JPM) and Bob Salvador (Chemical).

Multilateral Netting. As one might have anticipated, the increased efficiency in documenting loan assignments, coupled with high agent fees for processing individual assignments and increased counterparty risk as loan trading volumes in certain assets grew, also created additional pressure for greater efficiency in settling loan trades, especially after trading volumes surged in anticipation of the Russian rescheduling in 1997. In response to these needs, EMTA developed forms for bilaterally netting and, in 1994, a facility for multilaterally netting loan trades (with the assistance of Price Waterhouse). This facility became the accepted industry utility for reducing counterparty risk and, by settling a massive spike in trading activity for Russian loans trades, compressed months of painstaking settlement work into several difficult weeks in late 1997, thus facilitating the timely completion of Russia's massive loan rescheduling and continuing EMTA's long tradition of supporting the sovereign debt restructuring process. In connection with this rescheduling, the facility settled over 2,500 bilateral net positions aggregating over US$ 7.3 billion in Russian VEB loans, so-called 'when-restructured' trades of loans and when-issued trades of Interest Notes submitted by 160 market participants. In addition to reducing counterparty risk and expediting settlement, EMTA's multilateral netting facilities for loans also enabled market participants to minimize the payment of costly agent processing fees.

The development of multilateral netting was led by Marc Helie and Manuel Mejia-Aoun (Merrill Lynch), Kathleen Wells (JPM), Ellie Winberg (Chase) and Bob Salvador (Chemical).

Match-EM. Until 1995, loan and bond trades were primarily confirmed by fax, which tended to lead to delays in matching and other uncertainties in the confirmation process. These delays were tolerable in a relatively low volume trading environment, but became increasingly problematic as trading volumes increased, particularly as the trading markets approached the reduction of settlement time from T + 5 to T + 3. In 1994, EMTA began to explore technologies to automate the confirmation and matching of trades with representatives of TRAX, which serves the Eurobond markets out of London. Because EM trading was conducted largely from New York and London, these discussions were eventually abandoned in favor of a joint venture with General Electric Information Services (GEIS) to build a new electronic system that would be

dedicated to the confirmation and matching of EM loan and bond trades. Called Match-EM, the new service, which was launched in May 1995, replaced the delivery of hardcopy confirmations with nearly instantaneous electronic matching and confirmation. Match-EM, whose development was led by Alex Rodzianko and Lou Bonavita (Chemical), became the first step toward more transparent and efficient (and less risky) clearing mechanisms and eventually was incorporated into the Emerging Markets Clearing Corporation as its original matching engine.

EMCC. By 1995, most 'face-to-face' trading directly between dealers had been replaced by trading through screens offered by a number of IDBs. These trading screens, which have remained the primary mechanism for trading in the interdealer market, are not 'live' in the sense of permitting instantaneous electronic execution, but rather anonymously indicate current market bids and offers that must be 'hit' or 'lifted' through oral communication with the IDB. Trades through these screens are generally executed on a 'no-name give-up' basis, with the IDB entering into offsetting transactions with the buying and selling dealers. Seemingly cumbersome, this process resulted in efficient price discovery and promoted considerable liquidity, especially in a number of benchmark instruments, as early as the mid-1990's. Unfortunately, this increase in liquidity also tended to lead to a substantial concentration of counterparty risk in the private firm that provided clearing services to the IDB's, inasmuch as the private clearing firm became the common counterparty for substantially all of the trades entered into through the IDB trading screens prior to their settlement in Euroclear or Clearstream (formerly Cedel).

In 1995, EMTA's Board of Directors, in an effort to support the trading screens but address the resulting concentration of counterparty risk, authorized a working group (led by Joe Willing and Donna Reino of JP Morgan) to study the feasibility of developing a clearing corporation to assume and mutualize this counterparty risk. The resulting feasibility study, published in early 1996 and reviewed and debated for several months, recommended that EMTA sponsor development, in collaboration with the National Securities Clearing Corporation (NSCC), of an industry utility to clear Emerging Markets bond trades through the IDB trading screens. The resulting clearing entity, the Emerging Markets Clearing Corporation (EMCC), which began operations in April 1998, brought improved efficiency and reduced counterparty risk to the marketplace for Brady bonds and sovereign Eurobonds by assuming matched trades and delivering settlement instructions directly to the European settlement systems. EMCC was formed as a stand-alone corporation, subject to regulation by the US Securities and Exchange Commission, and owned primarily by leading market participants and with its own board of directors, while operated and managed as part of the NSCC family of clearing corporations.

From the outset, EMCC's trade matching rates were consistently high, with over 90% of trades successfully matched and assumed on trade date and settled on T + 3. Unfortunately, some of the expected benefits of EMCC (as well as anticipated economies) were never realized because of participation by less than all of the major dealer firms (and EMCC was eventually subsumed into the DTCC corporate structure in 2002 and then dissolved in early 2005).

Nevertheless, EMCC served the EM trading community well by bringing much greater administrative efficiency to the settlement of interdealer bond trades and by reducing counterparty and related systemic risk, particularly during times of real and potential market crisis. During its existence, EMCC's board of directors was chaired first by Joe Willing (JPM) and later by Paul Masco (Salomon Brothers).

New Directions for EMTA. At some point in the mid-1990's, EMTA's Board initiated a more or less continuous process of reviewing EMTA's own activities and performance against its original mission (to enhance market efficiency and professionalism) and market expectations. On several occasions (notably in EMTA's 1995 and 1996 Annual Reports), this somewhat introspective process seemed to lead almost inexorably to the conclusion (again in Peter Geraghty's memorable words) that it was not yet time for EMTA "to declare victory" over the forces of market inefficiency and disorder. There was an increasing appreciation, however, that EMTA's projects were no longer being undertaken solely in reaction to market events and to the resulting emergency needs of the marketplace, but rather, more often than not, more proactively to meet future needs. As the Emerging Markets had evolved, so had EMTA's role—from fire-fighting to architecture.

From Fixed Income to FX Trading. The 1997 Asian financial crisis, which was for the most part quickly resolved, culminated in Russia's massive default in August 1998 (and a resulting wave of contagion) and pointed out the need for the Emerging Markets financial community to pay more attention to disruptions in the foreign exchange markets. In 1997, EMTA began collaborating with the Foreign Exchange Committee of the FRBNY (the FXC) and the International Swaps & Derivatives Association (ISDA) to develop what eventually became the 1998 FX and Currency Option Definitions, which provided the market with an architecture for documenting transactions in EM currencies. Among other things, the 1998 Definitions created a common vocabulary for addressing market disruptions, which enabled market participants to standardize documentation for, and reduce a growing backlog in the settlement of, forward trading in various non-deliverable currencies (NDF's).

Responding to the Russian Ruble crisis in August 1998, EMTA's experience in standardizing NDF language for market disruptions led to a joint project with the Chicago Mercantile Exchange (CME) to develop a back-up survey mechanism for valuing the Ruble/USD exchange rate, which later became the primary settlement rate for the market and provided a model for similar back-up mechanisms for other EM currencies.

EMTA's work in the FX area, which has led to the development of market practices, NDF templates and back-up valuation mechanisms for various EM currencies (as well as providing a forum for responding to market crises), has generally been led by Bill Arnold of JP Morgan Chase and other members of an NDF working group.

Local Markets Initiatives. Investor interest in local market instruments accelerated in the mid-1990's, and EMTA responded with a number of initiatives designed to make the trading of local market instruments more transparent and efficient. Using EMTA's network of contacts within the global trading community and with governmental officials and regulators throughout the Emerging Markets, these projects included the review of local law in major EM jurisdictions relating to netting, bankruptcy and derivatives, as well as a variety of issues related to securities regulation and processing. One thing that EMTA discovered in the context of its work in various local markets was that expertise in one market was often helpful when another market reached a similar stage of development. As a result, EMTA was able to facilitate a certain amount of cross-pollination both within and across regions, with an overall goal of bringing not only better transparency to individual local markets, but also greater consistency of standards and practices among them.

While an interesting characteristic of EMTA's work in the EM local markets was the obvious need to pursue local projects in collaboration with existing trade groups in the relevant local

market, another, less obvious, aspect was the constant tension that existed between investment banks that wanted to pursue projects in various local markets and commercial banks with extensive franchises throughout the Emerging Markets that did not want such projects to amount, in their view, to a transfer of expertise to institutions without such local franchises.

After a promising start (which lasted for several years), EMTA's local markets initiative, with the exception of the FX projects described above, was a casualty of the cutback in EMTA staffing and activities that resulted from trimming expenses in response to the declining trading volumes caused by the Asian crisis and Russian default.

EMTA's Leaders during its Middle Years. There is a great tradition of change in the Emerging Markets and in the trading markets generally. The years from 1994 through 1998 were no exception. During this time, many of EMTA's founding directors stepped down in favor of a new generation of industry leaders.

In 1996, EMTA's first Chairman (and in many ways its guiding spirit), Nick Rohatyn (JP Morgan), resigned from the EMTA Board in favor of Guido Mosca (who by 1999 had become NYC Co-Chair).

Peter Geraghty (ING and ING-Barings) served as EMTA's Co-Chair or Vice-Chair from 1994-1996 and remained on the Board through 1997 (and later returned on behalf of Darby Investments and, more recently, Dresdner Bank).

Alex Rodzianko (Chemical Bank) served as EMTA's Chairman or Co-Chair in 1994 and 1995 and remained on the Board through 1997.

Rick Haller (Morgan Grenfell and later Deutsche Morgan Grenfell) served as Vice-Chair from 1994-96 and as London Co-Chair from 1997-98.

Paul Masco (Salomon Brothers) served on EMTA's Board throughout this period and was a Vice-Chair from 1995-98 (and was later an NYC Co-Chair in 1999).

Jorge Jasson (Chase and later JP Morgan Chase) served as EMTA's NYC Co-Chair from 1996-98.

Other market leaders who served on EMTA's Board as officers during this period included Daniel Canel (Chase and later UBS) and Manuel Mejia-Aoun (Merrill Lynch).

And notably, Juan del Azar (Merrill Lynch) first joined the Board in 1998 (later serving as London Co-Chair from 2000-2005), Bruce Wolfson (Bear Stearns and now at Rohatyn Group) first joined EMTA's Board in 1995 (and reluctantly declined many opportunities to serve as a Vice-Chair) and Mark Coombs (ANZ, and now Ashmore) served on the Board throughout this period (and as a Co-Chair from 2001 to date).

A list of a few other names of individuals who at one time or another served on EMTA's Board during this period reads almost like a Who's Who in EM trading: Vince Perez, Abe Curdumi, Alex McLeod, Hugo Verdegaal, Joe Boyle, Alexis Habib, Jose Pedreira, Ignacio Sosa, Wayne Lyski, Americo DaCorte and Gail Segal, among others.

EMTA's Consensus Approach. EMTA was founded in 1990 on the principle that the size of the trading pie was more important than the size of the individual slices. Competitive positions were, for certain purposes, subordinated to the greater good of the industry (or at least it often seemed that way).

This principle, that all would prosper more as the trading markets became more transparent and efficient (and as a result expanded), evolved over the years into a somewhat unusual consensus approach toward decision-making, which was never itself articulated very transparently or written into any of EMTA's governing documents. Neverthless, it served to determine EMTA's decision-making process from the early 1990's (dating from the last time that Kathy Galbraith asked if there was any objection to her description of a proposed market practice, waited two or three seconds and then announced that the market practice had been adopted) until the present.

Early on, EMTA's founders had determined that EMTA would not have any enforcement or regulatory authority, but would be a voluntary trade association with power only to recommend market practices and documentation, and this approach was reconfirmed several times during the mid-1990's. But the founders had not clearly provided for how EMTA's market recommendations were to be determined.

What ultimately evolved was an informal consensus approach toward decision-making, not unlike that often used informally to govern Bank Advisory Committees in the 1980's and early 1990's, that is neither majority rule nor a unanimous voting requirement, but something falling in between.

Quite intentionally, decisions are not made by a prescribed majority or super-majority vote (EMTA's by-laws are silent on the point). Rather, through a process of explanation and discussion, individual market views and concerns are expressed, considered and addressed, and the marketplace is encouraged through an informal polling process to reach a common view. Above all, reaching consensus within EMTA has always required a balancing of interests. The majority has never overridden a reasonable objection from a significant minority, and a minority has never insisted upon an objection if and when it became clear that it had been raised and fairly considered. Following a process of give and take, concerns are considered, objections incorporated or graciously dropped and consensus forms. While 'talking one's book' certainly occurs in the early stages of the process, it is expected to be set aside in the later stages.

Speed and certainty of result are sometimes sacrificed for the greater legitimacy that comes from a fair consideration of all views. Weighing factors such as the influence of a market participant and the strength of its conviction or the reasonableness of its views requires subjective judgment, and determining when consensus is reached (and sometimes guiding the process toward where consensus can be found) may be more art than science.

Is EMTA's consensus approach toward decision-making infallible? I doubt it, but it has never been challenged. Although EMTA recommendations are advisory only and not binding on market participants, they generally have been followed by the marketplace, in large part because the process has respected concerns and required consensus before any recommendation is made.

The Continuing Warrant Saga. While EMTA has had its share of successes, the exception that may prove the rule has been EMTA and the EM trading community's continuing inability to resolve longstanding difficulties in the trading and settlement of the commodity-oriented warrants that were attached to some of the early Brady bonds (most notably Mexico's Value

Recovery Rights and Venezuela's Oil Obligations). Originally issued in 1990, these warrants were attributed little or no value for many years by the marketplace, which more or less ignored relatively clear market practices for Brady bond and related warrant trading and settlement. As a result, in a great many cases, the failure to submit separate settlement instructions in the early years of Brady bond and related warrant trading led to massive confusion in warrant ownership and a huge backlog in settlement, that only became pressing in more recent years when sharply higher oil prices triggered payments on them and moved them into the money.

Over the years, several EMTA working groups struggled (without much success) with how to reconcile their current ownership and minimize these trading and settlement difficulties going forward. Reconciliation efforts in the mid-1990's failed, and the original market practices (requiring separate settlement instructions) were reaffirmed in 1996, but again did not seem to prevent the proliferation of ownership confusion and settlement backlog. In 1997, EMTA began seeking new approaches to trading and settling warrants and their related Brady bonds that were designed to simplify settlement (eg, by bundling them into units that only required a single settlement instruction), but by then sufficient seeds of confusion had already been sowed to create reconciliation and settlement problems that have continued to the present.

The clear lesson from the warrant debacle is that, in designing market practices (particularly in the case of more exotic trading instruments such as warrants), front and back offices must work together to develop approaches that reconcile the preferences of traders with the practical realities of their back offices.

EMTA's Independence and Growth in Staffing and Activities. At the end of 1993, EMTA had four employees, three seconded from JP Morgan (including its first Executive Director, Tom Winslade) and one from Chemical Bank, on an annual budget of about $1.6 million (and 118 members). By early 1995 (as part of a plan to further confirm its independence), EMTA had moved from JP Morgan's offices at 37 Wall Street to its own space in the old Brown Brothers Harriman building at 63 Wall Street (where its offices, which included terraces with plantings, remained until late 2002), and by the end of that year had expanded to 18 employees on an annual budget of $4.8 million (with 146 members). As intended by its Board of Directors, EMTA had become a fully independent trade association with a diversified array of activities ranging well beyond the recommendation of market practices and standard documentation. In the midst of the severe market contraction that occurred as a result of the Asian crisis and Russian default, EMTA had a staff of 13 at the end of 1998 and had revenues of $4.7 million (but with expenses of only $3.3 million) and 147 member firms.

The Closing of the Frontier Market. Nick Rohatyn, Peter Geraghty, Kathy Galbraith, Stephen Dizard, Alex Rodzianko, Rick Haller, Manuel Mejia-Aoun and the rest of EMTA's founding directors and their firms hoped and expected that their new trade association would help make the EM trading markets more efficient, transparent and professional. By the end of 1998, eight years after EMTA's formation, the Emerging Markets trading industry was well on its way toward joining the trading and investment mainstream, with well-understood and widely observed documentation and market practices (other than those relating to warrants!) and trading infrastructure as safe and sound as that of any established market. Whatever early perceptions there had been that the Emerging Markets were 'cowboy markets' were by then a thing of the past, if not a fading memory.

EMTA's Annual Report for 1996 contained the following paragraphs, which pretty well describe the trends in the Emerging Markets and in the EM trading markets that were evident then (and have continued into the present):

"Years ago, it was fashionable to compare our marketplace to a frontier town. Recently, things have become a great deal more civilized. The frontiers of our marketplace are now in the Local Markets themselves, as sophisticated investors increasingly look directly to Local Markets for purer risk and higher yields. Many Emerging Markets countries are admirably meeting the challenges of reforming their economies and adapting their capital markets to meet the needs of foreign investors.

"…we [at EMTA] hope and believe that we are on the right path, but as has often been the case in the past, without a very clear map. As always, we need and welcome our members' input, involvement and support to make sure that we keep moving at the right speed and in the right direction."

All as true now as it was then.

Seeds of the Burden-Sharing Controversy. As early as 1997, EMTA had advocated a stronger official sector role in the area of encouraging the economic reform process, monitoring performance and preventing sovereign crises. By 1998, concerns in the official sector about the potential budgetary and moral hazard implications of widespread ownership of sovereign bonds on the process of resolving sovereign crises began to be taken seriously by the EM trading and investment communities, as Ecuador's impending economic difficulties became clearly evident.

In its 1998 Annual Report, EMTA acknowledged the important role of the private sector's participation in crisis prevention and management, but expressed concerns that recent signals from the official sector suggested an under-appreciation of the risks, costs and difficulties in forcing such participation. Although rescheduling bonds may sometimes be necessary, EMTA cautioned that the bond markets were among the most stable sources of funds available to the Emerging Markets countries, and that great care should be taken to ensure that this flow of funds was encouraged and not driven away. EMTA further expressed its concerns that any policy that emphasized bond rescheduling more than the need for EM countries to take all measures to avoid them was likely to be counter-productive.

Future events (from 1999 continuing to the present) confirmed a lack of consensus between the official and private sectors on the appropriate balancing of interests among sovereign debtors, their private and public sector creditors and the official sector in resolving sovereign financial crises, but that is a story to be developed in a succeeding chapter of EMTA's history. Suffice it to say that the seeds of this lack of consensus were sowed in the mid-1990's beginning with Mexico's so-called Tequila crisis, and warning signals were apparent soon thereafter.

Conclusion. The Emerging Markets debt trading industry grew rapidly and began to mature in the early and mid-1990's. By 1998, it was apparent that the trading community's heavy investment in stronger systems and infrastructure had paid off. Market losses due to the roller coaster of market events in the mid-1990's were not compounded by systems failures or the breakdown of market practices or liquidity.

EMTA also grew rapidly in the mid-1990's in terms of staff, budget and scope of activities, and survived a severe market shock in 1998 and resulting contraction by shedding expenses well ahead of declining revenues and returning to its core missions of working to make the EM trading markets more efficient and providing a forum to enable market participants to identify,

discuss and resolve industry challenges. During the mid-1990's, the EM trading industry began a process of mainstreaming, which has continued to the present, punctuated by occasional market events that have emphasized that wherever EM may seem to be from time to time in its evolution, it requires its own forum to deal with the twists and turns that make it unique.

By 1998, it had become clear that EMTA would continue to be that forum, but that it would increasingly function in collaboration with the trading and investment mainstream.