EMTA

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# EMTA 2001 ANNUAL MEETING

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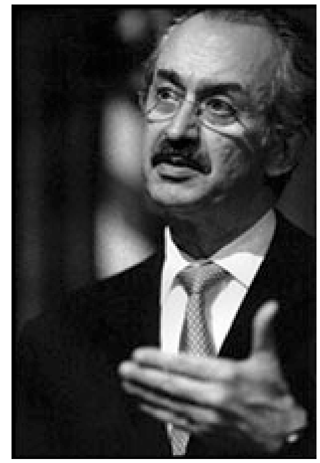
MMC Remarks Re: IMF Sovereign Bankruptcy Proposal

## *Mexico's Finance Minister Gil Diaz Discusses Mexican Economic Performance in 2001 and Outlook for 2002*



Mexico's Finance Minister Francisco Gil Diaz delivered the keynote address at EMTA's Annual Meeting on December 5, 2001. The event, which drew a crowd of approximately 350 Emerging Markets professionals, was held at the offices of Salomon Smith Barney in New York City.

Minister Gil Diaz began his presentation by discussing Mexican economic performance in 2001, noting that the Finance Ministry was projecting flat Mexican GDP growth in 2001 vs. 4.5% growth projections earlier this year. Minister Gil Diaz attributed weaker than expected performance in 2001 to a number of factors, including the slowdown in the global economy (especially the United States), volatile oil pricing, reduced capital flows to emerging countries, and the effects of the events of September 11th. Despite such weakness in the Mexican economy, the Minister reaffirmed his commitment to fiscal discipline, calling it "the cornerstone of Mexico's economic program," and noting that the country has cut spending by MXP13.2 billion to offset lower than anticipated revenue. He strongly reaffirmed that Mexico would meet its fiscal deficit target for the year.

Minister Gil Diaz also stressed the maturing of the Mexican economy and its increasing integration with its NAFTA trading partners. "For the first time in a generation, Mexico is experiencing a traditional business cycle," he stated, noting that "in contrast to previous episodes, the slowdown has not been accompanied by a crisis but has occurred in a context of financial and price stability." He stressed that Mexico's economic cycle is now increasingly linked to those of its two main trading partners, the United States and Canada.

Minister Gil Diaz then discussed his goals for the Mexican economy in 2002. He described his plan as having two main guidelines, a solid fiscal stance and the promotion of structural reforms. Assuming US GDP growth of 0.3% and a $17 average price for a basket of Mexican oil, Gil Diaz projected that the Mexican economy would grow 1.7% in 2002, with an annual inflation rate of 4.5%.

# Annual Meeting Continued...

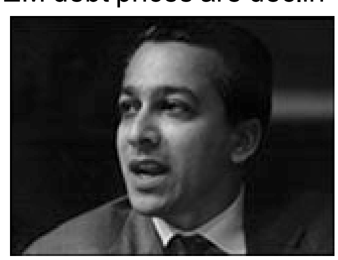
As for capital markets activity in 2002, the Minister announced that, "external debt policy will concentrate on liability management in terms of both cost and maturity." He noted that external debt would show no net increase in 2002. The Minister also noted that the government would continue to act to extend the average maturity of local debt.

Finally, Minister Gil Diaz also indicated, in response to audience questions regarding the outlook for oil pricing, that Mexico was likely to join other oil exporting countries in reducing oil production in order to bolster oil pricing. He also asserted that the country's fiscal reform bill would be passed by year-end.

## *Investors Upbeat on Potential Return for EM Debt in 2002, Highlight Low Volatility*

Speakers at EMTA's Annual Meeting were largely upbeat on the asset class's potential performance in 2002. Hari Hariharan (NWI Investment Management) pointed out that EM debt has performed remarkably well over the last six years, and stated that in 2002, "from a competing asset class perspective, I don't see anything else very interesting." Amer Bisat (Morgan Stanley Investment Management) declared that he felt comfortable with forecasts of 10-15% returns for EM debt in 2002, and added that he also believed that EM equities would perform well, possibly even competing with EM debt for portfolio allocations. Mark Dow (MFS Investment Management) spoke positively not only of potential total return, but also noted that long-term volatility of EM debt compares favorably to other asset classes such as the S&P 500. Dave Rolley (Loomis Sayles) gave the most optimistic estimate for 2002 returns, possibly being higher than 15%, "unless Brazil hurts us very badly."

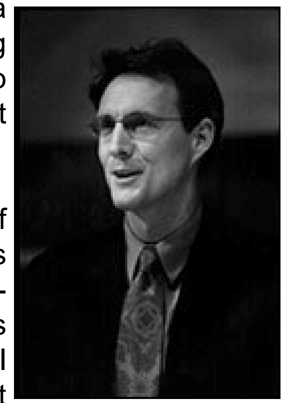
Bisat listed what he considered to be very important structural transformations that have occurred in the EM marketplace recently: the increase in information, and increased transparency from the IFIs; diversification of the investor base as a result of the growing roles of European, Japanese and local investors; the reduced role of leveraged financing; and the rise in crossover investing. Bisat said that as a result of these transformations, the marketplace has broadened to include investors with different risk appetites, who may not be index-constrained, and which may include new investors which have "adopted" countries that were previously "orphans." This has acted to reduce market volatility at the same time that correlations between EM debt prices are declining. Bisat argued that this was "not a one-off phenomenon but rather a fundamentally-driven trend that will continue over the medium-term," and called it an "extremely healthy development in our asset class."



Panelists were largely positive and enthusiastic in their discussion of the market's recent "de-coupling" from the Argentine economic crisis. However, Hariharan cautioned the audience about "too much hubris" on the relative lack of contagion from Argentina's anticipated default, suggesting effects had been largely mitigated because the Argentine crisis had been "telegraphed" long in advance. "I believe that an unanticipated quick body blow…would still put this asset class into a huge spin."

# Annual Meeting Continued...

On the resolution of financial crises, Dave Rolley (Loomis Sayles) stated that he missed the approach of former IMF Deputy Managing Director Stanley Fischer "because it mostly worked." He noted that many countries rescued under Fischer's tenure are now investment grade (e.g., Mexico, South Korea, and Thailand) while highlighting the profit the public sector actually made on the Mexican rescue package. Rolley posited that, instead of the positive results of Fischer policy, the new financial architecture has resulted in a tiering effect on the market; he foresaw investment grade and near investment grade credits continuing to have access to capital and continuing to be part of the asset class, BB credits' access not being certain and B credit countries having to determine new methods of financing, such as "creatively collateralized" securities. Rolley noted that support for the ending of the IMF's role as a lender of last resort is widespread in the official sector, meaning "we are not going back…we're going to have to learn to live with this." Hariharan echoed "we've got to live in a new world...the prospect of Stan Fischer announcing big packages…ain't gonna happen!"



Dow suggested that official policy makers will be closely watching the resolution of the Argentine default, and the conclusions they draw will have important implications for the new financial architecture, thereby affecting capital flows to emerging countries. The official sector believes that organized buy-side involvement in restructurings will be difficult to achieve, will not necessarily improve the quality of talks and will retard final resolution, according to Dow, but the question is "how much less efficient is [bondholder organization?]…how much more atavistic are we?" Dow emphasized the paramount importance of bondholders working well together in talks with Argentina, and the orderly advancing of discussions. Bisat added that a paradigm shift is occurring in Washington, with the concept of creditor rights being explicitly recognized, and a subtle recognition that "the cram-down approach to private sector involvement just does not work."

## *Sell-Side Speakers Debate Economic Outlook for Brazil, Mexico and Russia*

Panelists on EMTA's "Economic Outlook for 2002" panel all predicted that the effects of an Argentine default on market giant Brazil would be limited, but often differed on how contagion would be transmitted. Joyce Chang (J.P. Morgan) noted that the effects of contagion could be more politically focused, possibly surfacing when the Brazilian electoral cycle gets underway later this year, "and everybody begins to look at the process of a vicious political cycle." Tulio Vera (Merrill Lynch) opined that "legal-driven" contagion, i.e., the implications of how a restructuring is handled, would prove more significant, and stated that such contagion would affect the whole asset class and not be Brazil-specific. Paulo Leme (Goldman Sachs) stated that the effects of an Argentine default would eventually filter through Brazil's capital account, while a more optimistic Arturo Porzecanski (ABN Amro) posited that the "worst of contagion is over." Underscoring their limited concerns of contagion, the panel was unanimous in including Brazil as one of their major investment recommendations for 2002.

# Annual Meeting Continued...

Jose Luis Daza (Deutsche Bank), moderating the discussion for the fifth year, noted that the panel had discussed the prospect of an investment grade rating for Mexico for several consecutive years, and that such a rating had only thus far been awarded by one of the major ratings agencies. Porzecanski responded that in fact Mexico had proven disappointing. “Mexico has benefited from a lot of one-time inflows of money. There was the Mexican money parked abroad in case the transition to a non-PRI government went wrong… there was regional flight to quality money that came in…there is the privatization money, certainly from Banamex…but if you scratch the surface, you wouldn’t really like everything you see.” Leme concurred “the story is probably not as glowing as it could have been,” praising the short-term microeconomic management of the Finance Ministry, while noting less impressive performance on longer-term issues by the administration.

As for predictions for Russian debt performance in 2002, Chang expects Russia “will be a solid performer, but not necessarily the homerun that it has been the last couple of years.” Vera and Leme concurred that Russia’s 50%+ performance in 2001 would be difficult to repeat, though noting good governance, structural reform and an oil windfall all continue to make Russia a “strong story.” Leme added that one should not forget the positive effects of Russia’s 1998 debt default and currency depreciation on its restructured debt instruments.

The panel differed on Ecuador, with Porzecanski recommending an underweight while Vera said that IMF support should continue, and Ecuadorian debt will likely be one of the year’s “high spread, stable fundamentals stories.” Chang noted that her firm has recently recommended taking profits on Ecuador; while she has fundamental concerns, there is nothing that is an immediate cause of concern for her. Panelist comments on Venezuela were mostly negative, with panelists highlighting the recent political deterioration.

In addition to the prospects for sovereign debt, the panel also discussed the outlook for Emerging Markets corporate issues in 2002. Vera noted that corporate issuers could benefit from increased demand in the future, as the rally in the EMBI during 2001, excluding Argentina, would increasingly force investors to seek out paper with wider spreads. However, a re-opening of the corporate market in 2002 is not a foregone conclusion, Vera added, saying it was a question of “whether risk appetite continues to increase, and it ties into the overall strategy of a recovery in the global economy.”

Responding to Daza’s question of whether the IMF was ending support for fixed exchange regimes, Vera and Leme agreed that Fund policy has definitely shifted towards floating rate regimes. Chang stated that, although the Fund may be issuing more statements praising floating currencies, it is moving away from specific prescriptions for countries in favor of countries developing their own programs hoping to promote local ‘ownership’ of Fund programs with the goal of increased sustainability.

# Annual Meeting Continued...

Finally, the panel discussed the IMF First Deputy Director Krueger's recent proposal for an international bankruptcy court. Chang said that, although it was too early to tell, the complexities of setting up such a process would probably result in a bankruptcy court which would have a less activist role than originally conceived. Leme admitted to being troubled by the unilateral nature of the proposal, noting that IMF officials "should open the dialogue with those that deal with these markets, both the investors and the issuers themselves, to better formulate policies that would avoid the segmentation that is likely to happen, and to avoid increasing the cost of capital."

## *EMTA Executive Director Calls for More Constructive Dialogue with Official Sector*

In his Annual Meeting remarks, EMTA's Executive Director Michael Chamberlin called for a more constructive dialogue between the private and official sectors. Chamberlin noted that the past several years' debate on 'burden-sharing' had, "sadly, distracted us all from the larger picture of how best to meet the financing needs of developing economies." Instead, Chamberlin noted, "it would be better policy for the official sector to promote 'carrot' approaches that would help to catalyze stable private sector flows rather than the 'stick' approaches that only discourage them."

Chamberlin expressed concerns that the issue of moral hazard may have become "exaggerated to the point where eliminating it becomes the paramount official sector objective." As a result, the official sector has forgotten about "the virtue of increasing the investor pool, not merely locking it in at its current level." Another unfortunate result of the pre-occupation on 'burden-sharing' is that it has tended to divide buy-side and sell-side firms, "weakening their common voice."

Chamberlin also discussed the call by many in both the private and official sectors for a more "rules-based" approach to sovereign debt crisis resolution, and said that a better framework or basic principles could be developed for some cases. However, recent attempts at doing so have "missed the mark," and he expressed his "serious doubts" about the current initiative by the IMF to organize an international bankruptcy court. See page 8

Presentation by Mexico's Finance Minister Gil Diaz

Transcript of Buy-Side Panel

Transcript of Sell-Side Panel

Transcript of Remarks by EMTA Executive Director Michael Chamberlin

# EMTA Board Meeting on January 24, 2002

EMTA held its first Board Meeting for 2002 on January 24 at the offices of J.P. Morgan Chase in both New York City and London, with the usual video and teleconferencing links.

In addition to reviewing EMTA's 2001 finances and 2002 budget, the Board elected George Grunebaum (J.P. Morgan Chase), as a Director and Co-Chair, to replace Modesto Gomez (who has undertaken other responsibilities for J.P. Morgan Chase in London).

The composition of EMTA's Board of Directors for 2002 is as follows:

***Co-Chairs***

George Grunebaum (J.P. Morgan Chase)
Juan A. del Azar (Merrill Lynch)
Mark L. Coombs (Ashmore Investment Management)

***Vice Chairs***

Gabriel E. Szpigiel (Deutsche Bank Securities)
Andrew W. Alter (Salomon Smith Barney)
John Cleary (INVESCO Asset Management)

Richard L. Prager (Bank of America)
Bruce A. Wolfson (Bear Stearns)
Brian Lazell (BNP Paribas)
Redwan Merouani (CAI/IIF)
David A. Mayes (Credit Suisse First Boston)
Peter R. Geraghty (Darby Overseas Investments)
Michael Sonner (DIT)
Michael Krumenacker (Euro Brokers Maxcor)
Tung Siew Hoong (GIC Singapore)
Frances R. Bermanzohn (Goldman Sachs)
Vincent Priolo (ING Barings)
Willard T. Geisler (Lehman Brothers)
Abigail L. McKenna (Morgan Stanley Investment Management)
Ruggero de'Rossi (OppenheimerFunds)
Alexis F. Habib (Spinnaker Capital)
Geoffrey S. Nielsen (UBS Warburg)
Keith J. Gardner (Western Asset Management)

In addition, the Board reviewed EMTA's 2001 financial results and 2002 budget, and the IMF's recent Sovereign Bankruptcy Proposal was discussed. Click Here for the full text of Mr. Chamberlin's remarks on this topic, "The IMF's Sovereign Bankruptcy Proposal and the Quest for More Orderly Sovereign Work-outs". See page 8 for more details on this topic.

Other topics related to Argentina, including the decision to trade Argentina's Brady Bonds and sovereign global and Eurobonds "flat", effective December 24, 2001, and NDF issues, were also discussed. For further information on the work EMTA is doing in this area, please see pages 7 and 8.

Finally, following EMTA's decision to withdraw its support from last year's EM Benefit, the Board discussed the formation of a new Benefit Committee to provide greater input from within the industry and to increase the Benefit's effectiveness. In addition to representatives from EMTA and of EMPower, the new committee will include representatives from a number of leading market participants.

# Argentina Defaults and Devalues

In a series of final steps that were long-feared but expected, Argentina formally defaulted on its debt in late December and devalued the Argentine Peso in early January. Sadly, the financial crisis, which had been developing for months, was accompanied by considerable domestic political turbulence. The crisis has provoked intensive EMTA attention and activity.

### *Argentina Bonds Trade Flat*

Following consultations with major market participants in late December 2001, EMTA recommended that, for all trades entered into on or after December 24, 2001, all Brady bonds and other sovereign global and Eurobonds issued by the Republic of Argentina should, unless otherwise agreed, trade "flat", with settlement at an all-in (or "dirty") price and without an additional payment in respect of accrued interest. Please note that this recommendation excluded provincial, municipal and corporate bonds.

EMTA clarified this Market Practice (with examples) on January 9, 2002 for Argentina 2018 and 2031 Bonds by stating that "flat" trading means that capitalization on such Bonds from and after December 19, 2001 should not be added in calculating the Adjusted Principal Amount until such capitalization has actually occurred as provided under the applicable bond documentation, because capitalization on such Bonds, while automatically scheduled to occur under such bond documents (with the next capitalization expected to occur on June 19, 2002), may not occur for whatever reason (including, without limitation, if the Bonds are restructured or otherwise). EMTA also reminded market participants that, because such capitalizations are scheduled to occur automatically every six months, any such capitalizations may be taken into account when pricing the Bonds (i.e., the 'dirty' price).

The full text of such Market Practices can be found in the Members Only area under Market Practices.

### *Devaluation and Related NDF Developments*

The volatile political and economic situation in Argentina led market participants on December 20 to request that the Chicago Mercantile Exchange conduct a poll of reference dealers in accordance with the CME/EMTA ARS Methodology, dated July 10, 2001 (the "ARS Methodology"). Although the poll resulted in a CME/EMTA ARS Industry Survey Rate (the "ARS Survey Rate") of 1.0000 ARS/USD (which was published under Activities & Services, Market Data, CME/EMTA ARS Industry Survey, Today's Rate), from December 21 to January 10, the FX market in Argentina was closed and survey polling resumed after the FX market re-opened.

During that three-week hiatus, EMTA held a series of conference calls with market participants, which resulted in Market Practice recommendations to defer the Valuation Date for those ARS NDF contracts with Scheduled Valuation Dates during such three-week period. At the same time, EMTA recommended that market participants in the Argentina NDF markets be guided by the principles articulated in the statement issued on January 8, 2002 by the FX Committee of the Federal Reserve Bank of New York, to the effect that the valuation and settlement of outstanding NDF Argentine contracts be further deferred for a reasonable time.

Recommendations were also made by EMTA to settle such ARS NDF contracts, on the basis of the ARS Survey Rate published on EMTA's website on January 11, 2002, as soon as practicable, but no later than January 15, 2002 (the second business day after the deferred Valuation Date of January 11, 2002).

The FX market in Argentina was again closed from February 4 through February 8. Although this 'Unscheduled Holiday' did not extend beyond eight consecutive days, EMTA recommended that ARS NDF Contracts with Scheduled Valuation Dates from (and including) February 4, 2002 through February 11, 2002 be settled as soon as practicable, but no later than February 13, 2002.

# Argentina Defaults and Devalues (continued)

Members Only may obtain copies of the Argentina NDF Market Practices recommended in December 2001 through February 2002 in the NDF Market Practices area.

The ARS Survey Rate (now published daily, in the absence of holidays) is available under Activities & Services, Market Data, CME/EMTA ARS Industry Survey, Today's Rate. To ensure greater transparency, the list of reference banks and their respective daily quotes is also available (from February 1) under Activities & Services, Market Data, CME/EMTA ARS Industry Survey, Reference Banks and Quotes, and a listing of historical rates (together with the usable quotes and range of such quotes) is under Activities & Services, Market Data, CME/EMTA ARS Industry Survey, Historical Rates.

From the onset of the crisis, EMTA has been monitoring the ARS Survey Rate and working to ensure the continuing integrity of the ARS Methodology, in part by monitoring survey responses on a daily basis against the changing regulatory and market environment in Argentina.

For further information regarding Argentina Bond Market Practices or Argentina NDF's, please visit the New Developments area or contact Aviva Werner at awerner@emta.org or (212) 908-5003.

# Argentine Economy Minister Lenicov Notifies EMTA of its Intent to Open a Dialogue with Creditors

Argentina's Economy Minister Jorge Lenicov issued a letter to EMTA on March 5, 2002, notifying the country's external creditors of its desire to "open a dialogue" concerning the country's suspension of debt payments last December. Lenicov pledged to keep investors informed of the status of external debt matters, and assured EMTA members that he considered "fairness and transparency important principles to be fostered in our on-going dialogue."

Lenicov wrote that Argentina is making every effort to implement a recovery program that will assure the country's return to economic stability. He stated that, to this end, the Republic's principal goals are three-fold: preserving the soundness of the country's financial system (including the rebuilding of the country's internal payments system and access to liquidity for Argentines), adopting a sound national budget, as well as the launching of a dialogue with creditors including the IMF.

The Economy Minister also reaffirmed to EMTA that Lisandro Barry, Argentina's Secretary of Finance, would lead negotiations with foreign creditors. He stated that Secretary Barry is currently discussing plans for talks with bondholders, and will provide an update in the near future, "once the Republic is in a position to have a meaningful discussion."

Please Click Here for the text of Minister Lenicov's letter.

# EMTA Opposes IMF Sovereign Bankruptcy Proposal as "Fundamentally Flawed," Details "More Practical Approach"

EMTA has taken a strong stand in opposition to the IMF's recent proposal for a Sovereign Bankruptcy regime. Under the proposal, which was first articulated by IMF First Deputy Managing Director Anne Krueger on November 26, 2001, debtor countries in financial crises could resort to a temporary debt standstill and a permanent debt restructuring under IMF auspices.

In addresses delivered at a UN Conference on Financing for Development and at J.P. Morgan Chase's Winter Conference on January 23 and 29, respectively, EMTA Executive Director Michael Chamberlin called the IMF proposal "fundamentally flawed" for two reasons: (1) the concept is based on a false presumption that the existing mechanisms for

# EMTA Opposes IMF Sovereign Bankruptcy Proposal (continued)

resolving debt crises do not work because sovereign debt restructurings are too prone to disruption by hold-out (or so-called 'rogue') creditors; and (2) the rights of creditors to enforce their claims would be substantially compromised under the plan, resulting in a severe imbalance between creditor and debtor rights.

In contrast to official policymaker thinking, Chamberlin asserted that existing methods of resolving sovereign defaults, while somewhat cumbersome, are flexible and varied enough to result in effective solutions. Chamberlin also commented that concern that "rogue" creditors would disrupt restructurings has turned out to be "highly exaggerated," and "more theoretical than real."

While a sound bankruptcy regime seeks to strike a balance between the rights of debtors and creditors, an IMF sovereign bankruptcy regime would certainly not provide for the right of creditors to "restructure" the sovereign's business, or allow for enforcement of decisions. As a result, creditors would sharply limit credit, and private capital flows to Emerging Markets countries would decline.

Instead, Chamberlin proposed "a more practical approach" to resolving EM debt crises, which would focus on crisis prevention, financial support packages when appropriate (such as those which have proven successful in countries such as Mexico, Korea and Brazil) and the constructive inclusion of bondholders in the restructuring process. He also urged official sector policymakers to place less emphasis on collective action clauses, which he deemed "not particularly necessary," and added that "as intellectually unsatisfying as it may seem, the case-by-case approach…has worked remarkably well."

Chamberlin had preliminarily discussed EMTA's response to the IMF proposal at EMTA's 2001 Annual Meeting. See page 5

On February 6, 2002, EMTA joined four fellow trade associations in issuing a letter addressed to IMF Managing Director Horst Koehler detailing the private sector's concerns over the IMF's new approach to sovereign debt crisis resolutions. In addition to EMTA, the document was signed by the Securities Industry Association (SIA), the International Primary Market Association (IPMA), the International Securities Markets Association (ISMA), as well as The Bond Market Association (TBMA).

The joint letter included many of the criticisms of this approach which have previously been voiced by EMTA Executive Director Michael Chamberlin at events such as EMTA's Annual Meeting (see page 5) and at the United Nations Global Conference on Financing for Development. In addition to these previously voiced concerns, the letter also points out the "inherent conflict of interest" that would occur if the IMF, a principal creditor itself and an agent of official creditors, decides when to sanction a debt standstill, effectively making it an overseer of the debt restructuring process.

The signatories also stated that "one important lesson that has been learned over the past few years is that sovereign debt negotiations proceed at a faster pace, with less extraneous distractions, when there is trust and dialogue between the official sector and private creditors." They warned that the current proposals could represent a step backward, "driving a wedge between official and private creditors, weakening the basis for co-operation in the future."

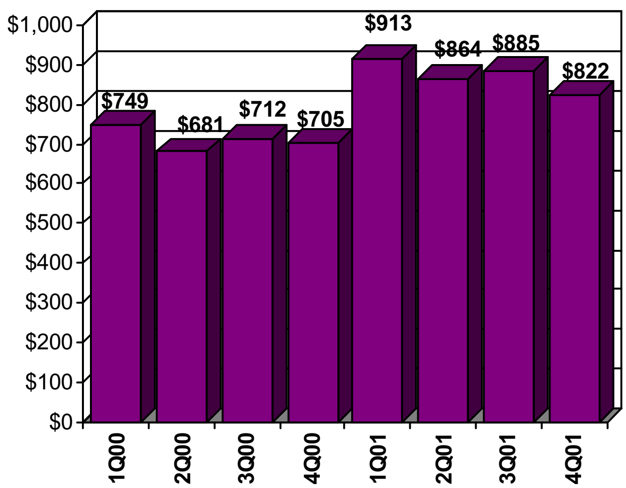
Click Here for the full text of Chamberlin's remarks, and Click Here for the full text of the joint trade association letter.

# 2001 Annual EM Trading Volume Rises 22% from 2000 to US$3.5 Trillion

## Fourth Quarter 2001 Emerging Markets Debt Trading at US$822 Billion

Annual reported trading volume of Emerging Markets debt instruments stood at US$3.484 trillion in 2001, a 22% increase over the US$2.847 trillion reported in 2000, and a 59% jump from the US$2.185 trillion traded in 1999. EMTA noted that turnover rose to its highest annual level since 1998, when the Russian economic crisis led to a sharp contraction in Emerging Markets debt trading activity. EMTA Volume Survey participants also reported US$822 billion in trading in the fourth quarter of 2001. This compares with US$705 billion in the fourth quarter of 2000 (a 17% increase) and US$885 billion in the third quarter (a 7% decrease).

**Aggregate Trading Volume**
*(in US$billions)*



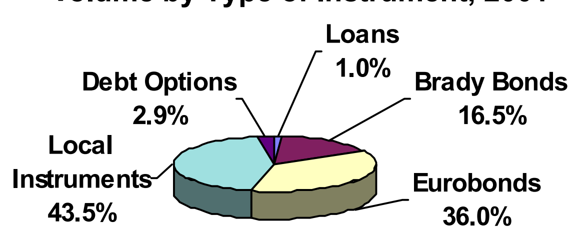

The increase in volume occurred in a year in which almost all components of the benchmark EMBI+ index showed double-digit returns, although a negative return of 67% in Argentine bonds caused the overall index to remain flat for the year. Among the more frequently traded countries, Russian debt returned 56%, Mexico was up 14% and Brazilian instruments gained 7%.

### Mexican Volumes Remain Most Frequently Traded

With turnover of US$216 billion in the fourth quarter, Mexican debt instruments remained the most frequently traded Emerging Markets debt instruments for the fifth consecutive time since surpassing Brazil the final quarter of 2000. Survey participants reported US$298 billion in Mexican volumes in the third quarter and US$221 billion in the fourth quarter of 2000.

Mexican instrument trading in full year 2001 totaled US$1.111 trillion, or 32% of all reported volume, a 68% increase over 2000 annual volume of US$662 billion (when Mexico accounted for 23% of reported trades). Analysts attributed recent strength in Mexican volumes to a number of factors, including speculation on Standard & Poor's joining Moody's in awarding the country an investment grade rating, its reputation as a "safe haven" credit during turbulence in Argentina, and the appeal of Mexican debt for crossover investors. 78% of Mexican instrument trades occurred in Mexican local treasury instruments, including US$336 billion in Cetes trades.

**Volume by Type of Instrument, 2001**




Survey participants reported US$191 billion in Brazilian debt trading in the fourth quarter vs. US$172 billion in the third quarter of 2001 and US$151 billion in the fourth quarter of 2000. Total 2001 Brazilian trading thus stood at US$721 billion, a 6% decrease from the US$769 billion reported in 2000 (and

# EMTA Volume Survey (continued)

US$802 billion in 1999). Brazil's share of market trading, at 21%, was at its lowest level since 1993, as some investors speculated on spillover effects from an Argentine default. Brazil C-Bond trading, the industry benchmark, stood at US$61 billion for the quarter and US$223 billion for the year, compared with US$51 billion in the previous quarter and US$229 billion in the previous year.

Russian trading (US$80 billion) reached its highest quarterly market share since the country's August 1998 economic crisis, at 10% of total volume. Russian debt was the best performing component of the EMBI+ index in 2001, as the country's economy expanded and foreign exchange reserves reached new highs. On an annual basis, Russian debt trading totaled US$299 billion in 2001, a 24% jump from US$241 billion in 2000 and a 143% increase from US$123 billion in 1999. Russia's 2030 eurobond (US$148 billion in annual volume) was the second most frequently traded Emerging Markets debt instrument in 2001, surpassing volume of the Argentine FRB (US$135 billion).

At US$61 billion in the fourth quarter, turnover in Argentine debt was at its lowest levels since EMTA began compiling quarterly statistics. Speculation regarding an Argentine debt default, as well as the removal of large quantities of Argentine debt from the marketplace via swap offers and its dramatically reduced weight in industry indices, caused Argentine trading to drop 29% vs. the prior quarter (US$87 billion) and 38% vs. the fourth quarter of 2000 (US$99 billion). Argentine FRB volume declined 44% compared with the previous quarter, standing at US$16 billion. While Argentine volume actually rose 5% on an annual basis (US$384 billion vs. US$366 billion in 2000), its market share fell to 11%, an annual low.

### *Local Markets Trades 44% of Total Volumes*

Trading in local markets instruments continued to account for the largest share of volume by instrument, at 44% of turnover in the fourth quarter and the same share of trading in full-year 2001. This remained highly concentrated in Mexican treasury instruments (US$868 billion in 2001), although participants also reported heavy annual trading in South African local instruments (US$99 billion), as well as those issued by Brazil (US$82 billion), Poland (US$73 billion) and Hong Kong (US$70 billion). As with the near across-the-board strong returns in bond indices, local market instrument performance in 2001 (in US dollar terms) was mostly positive: the Mexican component of the ELMI+ rose 20%, Poland rose 24%, and Brazil increased 1%. South Africa posted a negative return of 33%.

Eurobond volumes, which accounted for 36% of both fourth quarter and 2001 volumes, stood at US$299 billion in the fourth quarter and US$1.255 trillion in full-year 2001 (vs. US$324 billion in the third quarter and US$936 billion in 2000). Emerging Markets debt issuance stood at US$61 billion in 2001, only slightly below the US$62 billion placed in the previous year, according to Merrill Lynch. Russia's 2030 bond remained the most frequently traded eurobond (US$40 billion in the fourth quarter and US$148 billion annually), followed by the Brazil 2040 (US$19 billion in the fourth quarter and US$68 billion annually) and the Argentina 2008 (US$18 billion in the fourth quarter and US$45 billion annually).

Brady bonds accounted for 16% of trading activity both in the fourth quarter and annually, at US$131 billion and US$ 573 billion respectively. According to J.P. Morgan, US$16 billion in outstanding Brady debt was retired from the marketplace in 2001, leaving outstanding Brady face value at US$83 billion.

Options transactions accounted for 3% of trades, and loan assignments 1% of volumes, both on quarterly and annual bases.

For a copy of EMTA's Fourth Quarter 2001 and 2001 Annual Debt Trading Volume Surveys, please contact Jonathan Murno at (212) 908-5022.

# Igor Kostikov, Chair of Russia's Securities Market Commission, Discusses Reforms in Russian Market

Igor Kostikov, the Chairman of Russia's Federal Commission for the Securities Markets (FCSM), gave a special presentation to EMTA members on February 4, 2002, describing recent reforms in the Russian capital markets. The event, which was hosted by Reuters, drew approximately 100 attendees.

Dr. Kostikov highlighted many of the changes that have been made since he first addressed an EMTA audience shortly after his appointment in June 2000. "When I first spoke here two years ago, and discussed changing the business culture in Russia, no one believed me, everyone was skeptical," he stated. He quickly added that he hoped his work to date has proved his skeptics wrong.

Among the reforms Kostikov described were changes in corporate governance protecting shareholder rights in the event of stock splits, mergers or reorganizations. He also detailed progress in the Russian Duma in passing laws making it a crime to include false statements in prospectuses, to fail to disclose required information, or to trade on inside information.

Dr. Kostikov discussed the recent adoption of the country's first Code of Corporate Governance, a voluntary code which he expects will contribute dramatically to the professionalism of the Russian local market. He noted that the capitalization of the Russian market has increased 58% since the Code was first presented to Western investors; and noted that this occurred during a time of low oil prices, despite the historical link between oil pricing and Russian stock market levels; thus suggesting that the Code had already instilled greater confidence in the market.

Other areas in which progress has been made, according to the FCSM Chairman, include tax reforms, a reduction in bureaucracy and a demonopolization of the broker/dealers industry. He also highlighted a consolidation among registrars and an improvement in registrar services.

Looking forward, "the FCSM will focus on enforcement in 2002 and 2003," stated Kostikov. While cautioning that the agency does not have the enforcement powers of agencies such as the U.S. Securities and Exchange Commission, Kostikov noted that the FCSM does have the power to investigate suspected malfeasance. The Commission will continue to work closely with other Russian agencies such as the tax authority and general prosecutor's office to share information, according to Kostikov.

Click Here for a copy of Dr. Kostikov's presentation.

# Warrant Trading & Settlement

### *Mexico VRR's Reference Prices*

Since March 1, 2001, EMTA has been calculating a composite reference price for Mexico VRR's based upon quotes received from seven Reference Dealers. The methodology used by EMTA in determining such EMTA VRR Reference Price, as well as the most recent weekly EMTA VRR Reference Prices (which are published every Monday for the preceding week) and the historical EMTA VRR Reference Prices to date, can be located in the Activities & Services, Market Data, Mexico VRR Reference Prices area.

### *Market Practices*

As you may be aware, EMTA's Market Practices for the separate trading of USD Discount and Par Bonds and their related Series A VRR's became effective on February 1, 2001. The market's reaction to the Market Practices continues to be favorable and the approach taken under the new Market Practices for Mexico USD Brady Bonds has been extended to Venezuela USD Brady bonds and is expected to be extended to Nigeria and Uruguay USD Brady Bonds in the near future.

### *Payments*

The December 31, 2001 payment was made to VRR holders of record (and holders of Par Bond Units, if any) as of December 15, 2001, and EMTA recommended that trades be settled 'ex-dividend' on December 12. Click Here for a copy of the Fiscal Agent's notice regarding the payment's calculation.

Numerous claims among market participants for the December payment, as well as for previous payments, are expected.

### *Venezuela Oil Obligations*

Fails in settlements of Venezuela's Oil Obligations, which accompany its Par and Discount Bonds, has 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 old failed Oil Obligation transfers.

Market participants are strongly encouraged to continue their efforts to reconcile internally and with their counterparties their individual accumulated failed Oil Obligation transfers, so that net bilateral positions can be ascertained and settled. In addition, EMTA encourages EMCC members to work with EMCC in pairing off as many failed trades as possible so that any buy-ins of those failed trades would be executed in respect of much lower netted Oil Obligation trade amounts.

As indicated previously, Market Practices for the separate trading of Venezuela's Bonds and Oil Obligations have been recommended and are effective as of January 2, 2002.

Click Here for a copy of the Market Practices, as well as a revised background Primer on Venezuela's Oil Obligations, including the formula for determining the number of Oil Obligations related to USD Par and Discount Bonds.

### *Nigeria Payment Adjustment Warrants*

Market Practices for the separate trading of Nigeria's Bonds and Payment Adjustment Warrants, as well as a background Primer on this topic, are expected to be available shortly.

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For further information regarding VRR's, Oil Obligations and Payment Adjustment Warrants, please visit the New Developments area or contact Aviva Werner at awerner@emta.org or (212) 908-5003.

# Sovereign Immunities ABA Report Pulled

A working group of the International Litigation Committee of the American Bar Association (ABA) proposed last summer certain changes in the U.S. Foreign Sovereign Immunities Act (FSIA). As previously reported, a key proposed change, which would have explicitly provided a temporary stay (initially for 6 months, but extendable up to 3 years) of legal actions against a sovereign upon a showing that the legal action would cause extreme hardship, was withdrawn due primarily to concerns expressed by EMTA and others.

As of January 22, 2002, the International Litigation Committee has also withdrawn its revised report to the ABA, which included other proposed changes to the FSIA that were problematic. EMTA will continue to work with representatives of the Financial Markets Lawyer's Group and the SIA to ensure that concerns of the financial markets (such as any proposed change that would, in effect, overturn the Supreme Court decision in Weltover by requiring a direct and substantial effect in the U.S. for subject matter jurisdiction over a sovereign) are properly reflected in the ABA's final decision regarding recommended changes to the FSIA (now expected in August 2002).

For more information, please contact either Michael Chamberlin at mchamb@emta.org or (212) 908-5000, or Aviva Werner at awerner@emta.org or (212) 908-5003.

# Website Updates & Additions

## Key Industry Views

EMTA continues to recognize publications by leading research analysts that highlight important industry topics. In recent weeks, EMTA has made several important additions to the Key Industry Views area, including:

- "The IMF's Sovereign Bankruptcy Proposal and the Quest for More Orderly Sovereign Work-outs (Revised)." January 29, 2002 - Michael M. Chamberlin (EMTA)
- "Emerging Markets and the Global Economy in the Year Ahead." January 10, 2002 - Jose Luis Daza and Leonardo Leiderman (Deutsche Bank)
- "Emerging Markets Debt: Outlook for 2002." December 17, 2001 - Joyce Chang (J.P. Morgan)
- "2002: The Year Ahead." December 4, 2001 - Tulio P. Vera (Merrill Lynch)

EMTA is paperless.
Visit
**www.emta.org**
for the
latest information.

## Recent Developments

These and other recent news items can be found in the New Developments area.

- Economy Minister Lenicov of Argentina Issues Letter Detailing Efforts to Open a Dialogue with External Creditors
- NDF Market Practices for Argentine NDF Contracts
- 2001 EM Debt Trading Volume Stood at US$3.5 Trillion
- Mexico Upgraded by Standard & Poor's and Moody's
- Joint Trade Association Letter to the IMF Concerning New Bankruptcy Proposal
- Chairman of the Russian Federal Commission for the Securities Markets Igor Kostikov's February 4, 2002 Presentation regarding Russia's changing economy
- EMTA Executive Director Michael M. Chamberlin's remarks regarding IMF's Sovereign Bankruptcy Proposal
- CME/EMTA ARS Industry Survey Rate available starting December 20, 2001
- EMTA Annual Meeting held on December 4
- New Venezuela Market Practices and Revised Primer

# Miscellany

## Save these Dates...

### *Spring Forum*

EMTA's Spring Forum will take place on Thursday, April 11, 2002 in New York City. This year's event will be hosted by Bear Stearns. Panelists will include Carl Ross (Bear Stearns), Eric Fine (Morgan Stanley) and Michael Gavin (UBS Warburg). In addition, Ian Bremmer (President of the Eurasia Group) will discuss political risk in the Emerging Markets.

### *London Summer Forum*

EMTA's Fifth Annual Summer Forum is scheduled for Wednesday, June 26, 2002 in London. Deutsche Bank will once again host the event at its office at 1 Great Winchester Street. Confirmed panelists include Jerome Booth (Ashmore Investment Management), Simon Treacher (Blue Bay), Mark Franklin (Citigroup Investments), John Cleary (Invesco Asset Management) and Eric Fine (Morgan Stanley).

Invitations to both events will be e-mailed to EMTA Members in the coming weeks. For questions regarding these events, please contact Jonathan Murno at jmurno@emta.org or (212) 908-5022.

### *Annual Meeting*

EMTA's Annual Meeting will take place on Wednesday, December 4, 2002 in New York City. Salomon Smith Barney will once again host the event at its office at 388 Greenwich Street. Further information will be available later this year.

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# EMTA Executive Director Speaks at J.P. Morgan Conference

Michael M. Chamberlin, EMTA's Executive Director, further discussed the IMF's Bankruptcy Proposal at the UN Conference on Financing for Development and the J.P. Morgan Emerging Markets Winter Conference. Click Here for the full text of his remarks.

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# Bretton Woods Committee Forms Private Sector Group to Assist Poor Countries

Members of the Bretton Woods Committee, an influential citizen group which works to support and reform the Bretton Woods institutions, recently formed a private sector advisory group. The purpose of the new group is to provide advice to developing countries on steps they can take to encourage capital formation in their local economies. The group will also make critical assessments of World Bank and other multilateral programs designed to encourage private sector development in poor countries.

Known as the "Group to Assist Private Sector Development" (GAPS), the new entity will draw upon the expertise of leaders in business and finance and will work closely with other groups and individuals knowledgeable about private sector development. The Group will serve in a voluntary advisory role for government officials and private sector advocates in developing countries, as well as for multilateral officials. It will seek to foster closer cooperation between the public and private sectors in a selected group of low income countries, offering new ideas to promote private capital formation and private sector solutions to national problems. In addition, it will evaluate the effectiveness of existing programs designed for this purpose and suggest ways to improve them. The Group plans to publish a report highlighting best practices in this area.

For further information, contact Steering Group Members James Orr at (202) 331-1616 or Gary Kleiman at (202) 686-4200.

# Miscellany (continued)

## EMTA Welcomes EMPower

EMTA welcomed EMPower into its offices at 63 Wall Street in early January. EMPower is the not-for-profit organization formed by professionals in the Emerging Markets debt industry which allocates funds to grassroots organizations in Emerging Markets countries. For more information on EMPower, contact Craig Cramer at (212) 908-5025.

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*Although EMTA is not affiliated with, and does not officially support, any particular charitable organization, EMTA does believe in promoting and giving greater visibility to the industry's most worthy efforts to support charitable and other public service activities.*

## EMTA Membership Update

EMTA's newest members are **Blue Border Partners Ltd.**, **Friedberg Mercantile Group, Arab Banking Corporation** and **Pharo Management**. If you are interested in EMTA membership), or if you know of other prospective members, please contact either Jonathan Murno at jmurno@emta.org or (212) 908-5022, or Suzette Ortiz at sortiz@emta.org or (212) 908-5015. Also, in EMTA's Membership area, we now offer information about joining our Association.

On February 13, 2002, EMTA enacted a new Username/Password combination for its proprietary Members Only materials. If you are an EMTA Member in good standing and you did not receive the new login information, please e-mail emtanyc@emta.org.

# EMTA Hotlines

| Topic | Contact | Telephone |
|---|---|---|
| Burden-Sharing | Michael Chamberlin | (212) 908-5000 |
| Clearing Corp. (EMCC) | Keith Kanaga (EMCC) | (212) 855-1675 |
| Code of Conduct | Michael Chamberlin | (212) 908-5000 |
| Corporate Governance | Michael Chamberlin | (212) 908-5000 |
| Derivatives/NDF's | Aviva Werner | (212) 908-5003 |
| Electronic Trading | Michael Chamberlin | (212) 908-5000 |
| Foreign Exchange | Aviva Werner | (212) 908-5003 |
| Global Equities | Bruce Wolfson (Bear) | (212) 272-2571 |
| Information/Research | Jonathan Murno | (212) 908-5022 |
| Investor Rights | Michael Chamberlin/Aviva Werner | (212) 908-5000/(212) 908-5003 |
| Legal/Compliance | Aviva Werner | (212) 908-5003 |
| Loan Trading | Aviva Werner | (212) 908-5003 |
| Local Markets | Aviva Werner | (212) 908-5003 |
| Market Practices | Aviva Werner | (212) 908-5003 |
| Market Price & Volume Data | Jonathan Murno/Lisa Palazzola | (212) 908-5022/5019 |
| Membership | Jonathan Murno/Suzette Ortiz | (212) 908-5022/(212) 908-5015 |
| Multilateral Netting | Aviva Werner | (212) 908-5003 |
| Paris Club | Jonathan Murno | (212) 908-5022 |
| Repos/Securities Lending | Aviva Werner | (212) 908-5003 |
| Warrants/VRR's | Aviva Werner | (212) 908-5003 |
| Website | Lisa Palazzola/Eric Brenner | (212) 908-5019/5013 |

EMTA staff can also be reached through the general telephone number (212) 908-5000, at the following e-mail addresses or through our website.

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# EMTA Calendar

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| **Mon., Feb. 4** | Special Presentation by Igor Kostikov, Chairman of the Russian Federal Commission on the Securities Market |
| **Fri., Feb. 15** | Recommended 2:00 p.m. (NYC) Market Close |
| **Mon., Feb. 18** | Recommended Market Close (NYC) Presidents' Day<br>Recommended 12:00 noon (London) Market Close |
| **Thurs., March 28** | Recommended 2:00 p.m. (NYC) Market Close |
| **Fri., March 29** | Recommended Market Close (NYC/London) Good Friday |
| **Mon., April 1** | Recommended Market Close (London) Easter Monday |
| **Wed., April 3** | Legal and Compliance Group Meeting<br>12:00 noon at Shearman & Sterling (NYC) |
| **Thurs., April 11** | **Spring Forum**<br>**Bear Stearns (NYC)** |
| **Tues., April 23** | **EMTA Board Meeting (NYC/London)** |
| **Mon., May 6** | Recommended Market Close (London) May Day Bank Holiday |
| **Fri., May 24** | Recommended 2:00 p.m. (NYC) Market Close |
| **Mon., May 27** | Recommended Market Close (NYC/London) Memorial Day/Spring Bank Holidays |
| **Wed., June 5** | Legal and Compliance Group Meeting<br>12:00 noon at Shearman & Sterling (NYC) |
| **Wed., June 26** | **Summer Forum**<br>**Deutsche Bank, 1 Great Winchester Street (London)** |
| **Wed., July 3** | Recommended 2:00 p.m. (NYC) Market Close |
| **Thurs., July 4** | Recommended Market Close (NYC) Independence Day<br>Recommended 12:00 noon (London) Market Close |
| **Wed., July 17*** | **EMTA Board Meeting (NYC/London)** |
| **Wed., Aug. 7** | Legal and Compliance Group Meeting<br>12:00 noon at Shearman & Sterling (NYC) |
| **Mon., Aug. 26** | Recommended Market Close (London) Summer Bank Holiday |
| **Fri., Aug. 30** | Recommended 2:00 p.m. (NYC) Market Close |
| **Mon., Sept. 2** | Recommended Market Close (NYC) Labor Day<br>Recommended 12:00 noon (London) Market Close |
| **September**** | **Autumn Forum (NYC)** |
| **Wed., Oct. 2** | Legal and Compliance Group Meeting<br>12:00 noon at Shearman & Sterling (NYC) |
| **Wed., Dec. 4** | **EMTA Annual Meeting**<br>**Salomon Smith Barney, 388 Greenwich Street (NYC)** |

*** Tentative Date**
**** Date TBA**