EMTA
10 Years

Bulletin

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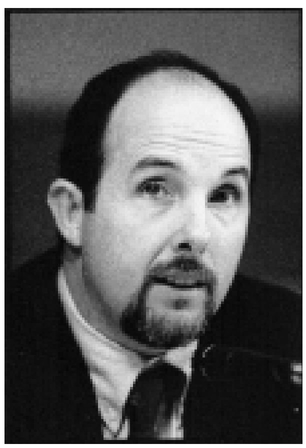
Arminio Fraga and Daniel Marx Address EMTA's 2000 Annual Meeting

In this Issue:

EMTA's 2000 Annual Meeting was held on December 7, 2000 at Salomon Smith Barney's offices in Tribeca, New York City. Over 350 market participants attended the event, which capped EMTA's tenth anniversary year. Brazil Central Bank President Arminio Fraga and Argentina's Secretary of Finance Daniel Marx gave the keynote addresses.

Fraga, who previously participated at EMTA's 1996 and 1998 Annual Meetings as an Investor Panelist during his tenure at Soros Fund Management, discussed crisis prevention and lessons learned from the past. "My read on crises, having been on both ends of them in my career," noted Fraga, "is that the thing that gets us in the end is weak balance sheets, at the government level or at the private sector level." Fraga added that for those involved in Emerging Markets finance, "We have to look for what leads to the sort of situation we so often find—*i.e.,* countries that are borrowing a lot of short term debt, or banking systems that are running huge mismatches, etc."



Weak macroeconomic regimes are a major part of the problem, according to Fraga, who then described Brazil's key reform legislation and currency float. In addition, he stated that the country must improve its banking sector and corporate governance. He noted that, while not a panacea, better information flow helps. "I have been on your side demanding from governments better information, and I think, sitting where I sit now, it's obvious that it is in our interest to respond to that, because we allow for good fundamental analysis," Fraga told the assembly.

Fraga also discussed private sector involvement in Emerging Markets financial crises. He commented that, although the debate originally polarized the official and private financial sectors, there appeared to be greater convergence towards flexible rules. Fraga opined that there appears to be a consensus that "those who do well will be supported…It's a bit fuzzy, but probably the way it should be." In discussing exchange rate regimes, Fraga pointed out that he has come to accept the "polar view" that only pure floats or very strong pegs work.

Annual Meeting continued...

Argentina Finance Secretary Marx immediately followed Fraga and spoke while the market speculated on the size of Argentina's international rescue package; Marx apologized for not being able to discuss specifics of the deal, which was in fact unveiled eleven days later. Like Fraga, Marx also reiterated the importance of information being provided to the private sector, and spoke of the progress in information flow that Argentina has made in recent years.

Regarding Mercosur, Marx stated that, "We are making Mercosur work. It is becoming a really integrated market place." He added that Mercosur countries were unanimous in their desire to expand the trade grouping; and that Mercosur authorities should begin to negotiate lower trade barriers with the rest of the world.

Marx addressed the issue of low local confidence in the Argentine economy by suggesting that the De La Rua coalition government had been working its way along a learning curve, and that although "confusing signals" had caused a decline in local sentiment, more recently there had been increased "coherence and a consensus on strategic views" in the government.

Other topics discussed by Secretary Marx included reforms in the pension sector, domestic banking reform and Argentina's Convertibility Law. He concluded by noting that, "Progress is never done in a straight line, but I am pretty confident that the bigger the challenge, the better…the results."

Sellside Panelists Generally Upbeat, Discuss Source of New Inflows

J.P. Morgan's Jose Luis Daza, again leading EMTA's Sellside Panel, started the discussion by commenting that 2000 was a "decent" year for the asset class, although he noted that much of the EMBI+'s returns in 2000 could be attributed to rebounds in Ecuador and Russia and U.S. interest rates. Looking forward to 2001, panelists were generally upbeat on investment prospects albeit using a variety of arguments.

Asked where new investment money would come from in the future, panelists emphasized different segments of the markets. Some panelists saw European investors as having a potentially increased appetite for EM debt in 2001, while others concentrated on rising interest by crossover investors. The panel did agree, however, that participation by dedicated funds was likely to remain "essentially stagnant" in the near future. Joyce Chang (Chase Securities) noted that the generally improving credit ratings of EM debt issuers is attracting 'high grade crossover investors' while also pointing out that weaker countries will not benefit from additional flows. Arturo Porzecanski (ABN Amro) commented that, because of recent dealer consolidation, the "good old days of liquidity" are unlikely to return even in a bullish market.

When asked whether the Mexican success story could be attributed to good luck (including oil and geography) or strong policies, most analysts responded that Mexican performance was a result of some combination of both. Paulo Leme (Goldman Sachs) was vocal in his praise of the current Mexican economic team, noting that although passage of legislation may prove difficult, conditions are good for executing the "right policies."

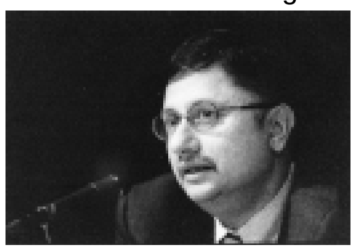
Sellside Panelists were also largely bullish on Brazil, seeing the risks to Brazil as mostly being external, while also keeping an eye on the 2002 presidential elections.

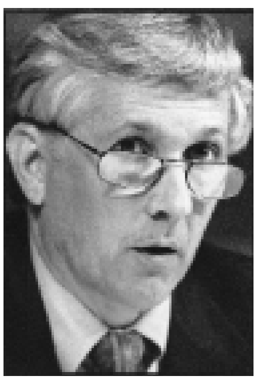
Annual Meeting continued...

Investors Call for Expanded Benchmarks, Increased Input in Restructurings

Investor panelists stated that continued work to expand benchmark indices was necessary. Mark Siegel (Babson Mass Mutual) referred to current benchmarks as "the product of the historical profligacy of developing market governments, which are no longer in power," while Abigail McKenna (MSDW Investment Management) noted that existing indices are an important factor in deterring new money from entering the markets.

Hari Hariharan (NWI Investment Management) commented that the state of the EM debt markets was good despite concerns about liquidity and tight new issue spreads, and that, with the increased role of local pension fund investors, the "quality of the investor base…is imperceptibly but definitely improving."





David Rolley (Loomis Sayles) stated that, if he were asked to provide his advice to Brazilian officials, his response would be, "Three words: more exports, please," adding that Brazil continues to run a trade deficit despite the effective devaluation of the Brazilian real in 1999.

Investor panelists also discussed their lack of input into recent debt restructurings and the formation of the Emerging Markets Creditors Association, as well as market concerns with the Argentine and Turkish economies.

Transcript of Sellside Panel

Transcript of Investor Panel

Transcript of Remarks made by Arminio Fraga, President of the Central Bank of Brazil, and Daniel Marx, Secretary of Finance, Republic of Argentina

Transcript of Remarks made by EMTA Executive Director Michael Chamberlin

EMTA Board Meeting on February 7

EMTA held its first Board Meeting for 2001 on February 7 at the offices of Salomon Smith Barney in Tribeca NYC, with the usual video and teleconferencing links.

At the meeting, Juan del Azar (Merrill Lynch) and Modesto Gomez (JP Morgan Chase) were re-elected Co-Chairs for 2001. Gaby Szpigiel (Deutsche), Andrew Alter (Salomon Smith Barney) and John Cleary (Invesco) will serve as Vice-Chairs. Jorge Maortua (JP Morgan) resigned in favor of Modesto Gomez, and Geoff Nielsen (UBS Warburg) was elected to replace Al Chinappi. To add to EMTA's growing Buyside representation, EMTA has also invited Tung Siew Hoong (GIC Singapore) and Ruggero de Rossi (Oppenheimer) to join the Board, which will bring the number of EMTA's Buyside Directors to 10 of 25.

In addition to electing Board Officers and new Directors, the Board reviewed EMTA's 2000 financial results and 2001 Budget and discussed and approved EMTA's revised Mission Statement (see pages 8-9). The meeting also included a review of the new Market Practice for Mexico VRR trading (see pages 11-13), as well as proposed developments at EMCC (see page 16).

The composition of EMTA's Board of Directors for 2001 is as follows:

Co-Chairs

Modesto Gomez (JP 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)
Alexis F. Habib (CAI/Spinnaker Capital)
Frank McGuinn (Cantor Fitzgerald)
David A. Mayes (Credit Suisse First Boston)
Peter R. Geraghty (Darby Overseas Investments)
Michael Sonner (DIT)
Michael Pins (Euro Brokers Maxcor)
Tung Siew Hoong (GIC Singapore)
Frances R. Bermanzohn (Goldman Sachs)
Richard M. Johnson (ING Barings)
Willard T. Geisler (Lehman Brothers)
J. Kevin Kenny (Morgan Stanley)
Abigail L. McKenna (MSDW Investment Management)
Ruggero de Rossi (Oppenheimer)
Mohamed el-Erian (PIMCO)
Geoffrey S. Nielsen (UBS Warburg)
Keith J. Gardner (Western Asset Management)

EMTA's First Spring Fling To Take Place April 26, 2001

Building on the popularity of EMTA's recent Annual Meetings in New York and Summer Forums in London, EMTA will hold a Spring Forum on Thursday, April 26, 2001, at the offices of Morgan Stanley at 750 Seventh Avenue between 49th and 50th Streets in New York City. Because it will allow members of the EM trading and investment community to gather, network and share views, EMTA expects that the Spring Forum will become a regular event on EMTA's annual calendar.

The event will include a panel discussion by leading EM analysts and investors. The discussion will be moderated by Jaime Valdivia-Hernandez (Morgan Stanley Dean Witter); panelists will include Walter Molano (BCP Securities), Carl Ross (Bear Stearns), John Cleary (INVESCO), and Keith Gardner (Western Asset Management).

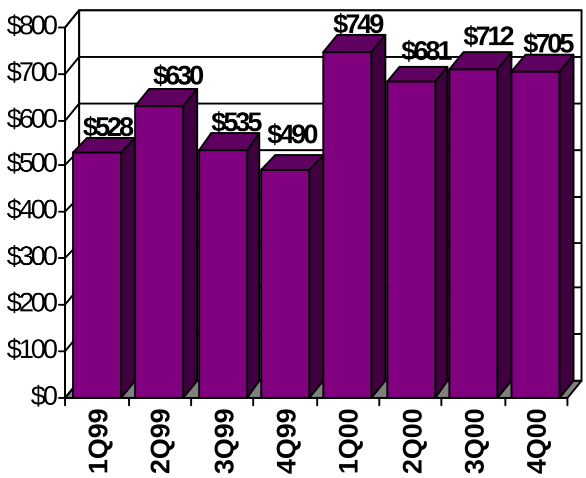
Registration forms, including additional speakers, will be sent out shortly.

For more information, you may contact Jonathan Murno at EMTA at (212) 908-5022 (or jmurno@emta.org).

EMTA Debt Trading Survey: 2000 Annual Volume at US$2.9 Trillion, up 30% from 1999

Annual reported Emerging Markets debt trading stood at US$2.846 trillion in 2000, a 30% increase from the US$2.185 trillion reported in 1999. EMTA Volume Survey participants also reported US$705 billion in volume in the final quarter of 2000, a 44% increase from fourth quarter 1999 trading.

Aggregate Trading Volume
(in US$billions)



Despite the substantial increase in annual trading compared to 1999 volume, turnover remained less than half of that recorded in the industry's most liquid year, 1997, before industry contraction prompted by the Russian Crisis of 1998 as well as by recent consolidation in the financial sector. Carl Ross, Senior Managing Director and Head of Emerging Markets Research at Bear Stearns, explained, "On the buy side, there is less leverage in the asset class and investors seem to have a somewhat longer term view. There is more willingness to hold on to positions. On the sell side, industry consolidation has reduced the number of liquidity providers, and has likely also reduced the overall number and size of proprietary trading positions."

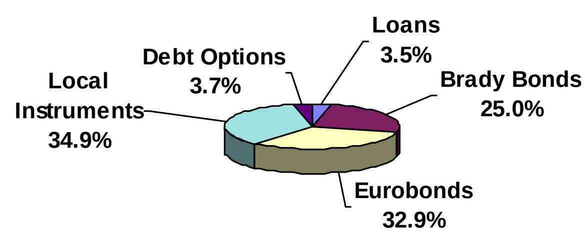
Volume remained fairly even throughout the course of the year, with a high of US$749 billion in the first quarter and a low of US$681 billion in the second quarter.

Mexican Trading Surpasses Brazilian Trading in Fourth Quarter

On an annual basis, Brazilian instruments remained the most frequently traded, at US$769 billion, down 4% from US$802 billion in 1999. However, for the first time in EMTA's quarterly surveys, volume in Brazilian debt instruments was surpassed by Mexican trading in the fourth quarter.

Fourth quarter Mexican volumes stood at US$221 billion (a 29% increase from third quarter volumes of US$171 billion), as investors focused on the transfer of power in Mexico from the PRI party for the first time in seven decades, and continued to speculate on an upgrade by S&P to match the investment grade rating awarded by Moody's in March 2000. Nearly 80% of Mexican volume was composed of trading in local instruments, most notably in Cetes (US$73 billion) and Pagares (US$45 billion). Boosted by volumes in the second half of the year, Mexican volume more than doubled on an annual basis, from 1999's US$313 billion to US$662 billion in 2000. On an annual basis, Mexican assets accounted for 23% of total volume, their highest share since 1993.

Volume by Type of Instrument, 2000



Ross noted, "Although it has a long way to go, Mexico is moving closer to a first world bond market. Its local treasury market is becoming a lot more active relative to its foreign debt. Extension of the local yield curve, relatively transparent monetary policy, and a stable currency make it attractive." In addition, he added that as a result of Mexico's investment grade rating from Moody's, "its investor base has expanded dramatically."

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Survey participants reported that, in the fourth quarter, their Brazilian debt instrument trading stood at one of the lowest quarterly levels in the last four years at US$151 billion, down 22% from the US$193 billion reported in the third quarter. Market sources cited the relative lack of significant news from Brazil during the fourth quarter, in comparison with events in other important Emerging Market countries. On an annual basis, 27% of all Emerging Markets debt trading involved Brazilian instruments (vs. a record high 37% in 1999).

Volume in Argentine assets increased after political uncertainty after the resignation of the vice president in October 2000 and concerns over lower economic growth led participants to speculate on the size and timing of an international rescue package, which was unveiled in mid-December. Fourth quarter Argentine volume stood at US$99 billion, boosting total 2000 volume to US$366 billion (a 15% increase from US$319 billion in 1999).

Russian volumes rebounded to US$241 billion, a 95% increase from the US$123 billion in 1999. Russian Prins were the fourth most frequently traded instrument in 2000 at US$61 billion, despite the fact that the vast majority of Prin loans were exchanged for new Eurobonds in the summer of 2000.

Other frequently traded debt instruments in 2000 included those of Turkey (US$122 billion), South Africa (US$101 billion), Hong Kong (US$98 billion), Venezuela (US$81 billion), South Korea (US$51 billion) and Poland (US$49 billion).

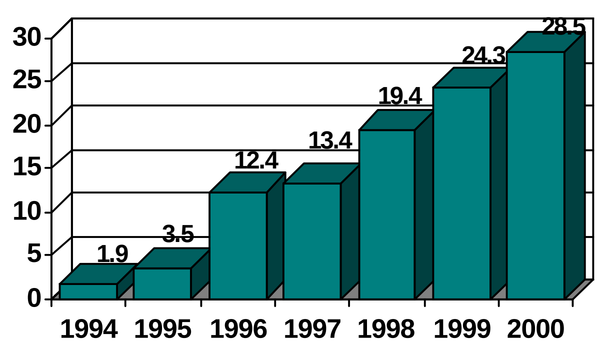
Local Instrument Trading at US$993 Billion in 2000

At US$993 billion, local market instruments accounted for the greatest share of Emerging Markets debt trading in 2000, at 35% of all trades (rising consistently throughout the year, from 24% in the first quarter to 43% in the final three months of the year). Over 41% of local instrument trades in 2000 included Mexican local instruments (US$412 billion); other frequently traded local instruments were those of Brazil (US$107 billion), Hong Kong, Turkey, Argentina and South Africa.

Eurobonds placed second at 33% of annual volume and US$936 billion, followed by once-dominant Brady bonds (a 25% share and US$712 billion in volume), options (4%, and US$106 billion) and loans (3% and US$99 billion).

One country which has shown consistent increases in volume levels since 1996 is Colombia, with turnover rising to US$29 billion in 2000, more than twice the volume during the industry's peak liquidity years in 1996 and 1997. Ross noted, "Colombia used to be a buy-and-hold, safe haven country. Increasingly, however, it is being viewed as a trading vehicle."

Annual Colombian Debt Trading
(In billions of US Dollars)



As with most of his colleagues, Ross is expecting significant positive returns in the Emerging Markets debt market this year. "We are relatively bullish this year, based on a favorable outlook for fixed income products in general. We see a 12-15% total return for the market as a reasonable scenario."

For a copy of EMTA's Fourth Quarter 2000 and 2000 Annual Debt Trading Volume Surveys, please contact Jonathan Murno at (212) 908-5000 or jmurno@emta.org.

EMTA Adds to its Mission

It's official – EMTA's name is now simply "EMTA" (instead of Emerging Markets Traders Association), a change that signifies EMTA's commitment to serve the needs of a broader marketplace.

EMTA was originally formed as an industry trade association in late 1990 (under the name LDC Debt Traders Association) by a group of major commercial and investment banks to help make the trading markets for Emerging Markets debt instruments more efficient, transparent and professional. Over the years, EMTA's projects have generally been initiated and executed by major Sellside firms. And, as sovereign loans were converted into Brady bonds, and Brady bonds were refinanced with Eurobonds, the trading markets have become much more efficient, transparent and professional.

With the securitization of the EM debt markets, and widespread improvement in credit fundamentals throughout the Emerging Markets, has come an increasingly diversified investor base.

Throughout 2000, EMTA worked to integrate Buyside input more effectively into its agenda. The first step has been to add greater Buyside representation to EMTA's Board of Directors. With the election of five new Buyside Directors last July, and two more at the most recent Board meeting, 10 of EMTA's 25 Directors now represent Buyside firms. And two Buysiders have recently been appointed to EMTA's Executive Committee, the group that guides EMTA between Board meetings.

At its most recent meeting on February 7, EMTA's Board broadened EMTA's mission to include, in addition to promoting the orderly development of the trading market:

(1) Promoting Emerging Markets investor rights; and
(2) Building and promoting the Emerging Markets asset class.

The Board agreed that the Sellside and Buyside shared much common ground in these areas and that EMTA could bring significant value-added to them. Going forward, EMTA's agenda will increasingly focus on these areas.

(1) Promoting Investor Rights will include projects across a variety of financial product areas that would clarify or improve the rights that investors have under EM instruments. Targeting these areas assumes that the rights of EM investors are now compromised, and therefore, their investment appetite is limited, by conditions in or affecting the Emerging Markets (such as their legal or regulatory environment) or by characteristics of EM instruments that could be improved by industry action through EMTA. Past examples of EMTA's work in this area include EMTA's advocacy of private sector views on bond restructurings and burden-sharing, which have been well received by the official sector.

Looking ahead, this type of activity can be expanded to include, for example:

(A) Contract Rights. Prescribing recommended types of clauses to be contained in bond documentation (such as voting provisions, record date setting mechanisms, waivers of immunity, cross-defaults or accelerations) and/or reviewing specific clauses against recommended ones when new issues are announced.

(B) Offering or Restructuring Practices. Reviewing, analyzing or establishing best practices for issuers or agents regarding such matters as the use of exit consents, offering procedures, investor communications and various other matters (see Nuts & Bolts at page 14).

(C) Financial Architecture. Reviewing other proposals or practices (particularly those of the official sector) that affect sovereign restructuring or relate to involving the private sector more effectively in resolving financial crises in the Emerging Markets. EMTA's recent policy paper, "Burden-Sharing in 2001: Now is the Time to Reform the Paris Club", is a good example of EMTA's work in this area. The recent change of U.S. Administration makes projects in this area particularly important. Click here for the Policy Paper.

(D) Insolvency/Bankruptcy Reform. Advocating reform of insolvency and other laws and procedures that affect creditor rights. Although much useful work has been done in this area by the IMF and the World Bank, much more work could be done by the private sector to ensure that necessary reforms are implemented.

(E) Corporate Governance/Accounting Standards. Although these issues have their most direct effect on equity investors, they can also affect creditor rights. EMTA could take a more active role in supporting existing initiatives and in targeting specific problem areas, such as supporting private sector efforts at the local country level to implement insolvency and corporate governance legal and regulatory reforms. Like (D) above, much useful work by other groups needs more support from the private sector.

The recent speech given by Michael Chamberlin at a European hedge fund conference outlines the need for various reforms that will be supported by EMTA in these areas. Click here for the recent speech, "Today's Emerging Markets: Building an Asset Class with More Meaningful Investor Rights."

(2) Building and Promoting the Emerging Markets Asset Class. Despite healthy fundamentals and a strong track record of returns over the past decade that exceeds those of any other class of debt, Emerging Markets debt has seemingly stalled, for the past several years, on the brink of a breakthrough into the investor mainstream. By building and promoting the EM asset class, EMTA will target activities that tend to demonstrate the advantages and clarify or eliminate the disadvantages of investing in the Emerging Markets. Good examples of current or past projects that EMTA has undertaken in this area include publishing on EMTA's website research that compares EM returns and volatility to other high-yield debt, describes liquidity in the market and provides new methodologies for analyzing or managing Emerging Markets risks. Going forward, EMTA will more actively seek out and publicize such research as well as work to develop other ways of promoting the Emerging Markets asset class.

This agenda will benefit all EMTA members. Developing and implementing it will require your support and input. If you have questions or comments regarding EMTA's new mission, please contact Michael Chamberlin at mchamb@emta.org or at (212) 908-5001.

EMTA Attends Hague Conference on Transfers of Interests in Securities

Too often a creditor may extend credit in reliance on a pledge of collateral only to find out after the fact that its security interest is unenforceable. Indeed, many EMTA Member institutions have been incurring costs without the benefit of certainty to discover which law or laws to follow to ensure a valid and enforceable pledge or transfer of interests in securities. Where a lender is lending against a portfolio of global securities, the legal due diligence that must be undertaken to ensure that valid and enforceable security interests have been obtained increases substantially. EMTA participated in an international Working Group meeting at the Hague Conference on Private International Law to address these issues in mid-January.

The Hague Working Group is developing an international conflict of laws convention on the law applicable to transfers of interests in securities held through indirect holding systems. The Working Group participants included country delegations, international organizations and representatives of the international financial community. EMTA's Starla Cohen (together with David Bloom of HSBC and Sandra Rocks from Cleary, Gottlieb, Steen and Hamilton) was present to represent the views of the Emerging Markets trading and investment community.

The conflict of laws Convention being developed by the Hague Working Group will apply to the proprietary aspects of collateral transactions (e.g., perfection and priority of a pledge or the validity of a title transfer or sale) involving securities. An international Convention on this topic would provide greater certainty and reduce the costs associated with transferring interests in securities held through the complex global network of securities intermediaries. Currently, in the absence of an international standard, there are several possible laws that must be followed in order to ensure a valid pledge or transfer of interests in securities, for example (in the case of a pledge of securities), the law of the place of the pledgor, the pledgee, the issuer of the securities, the securities registrar or the securities intermediary. The proposed Convention would provide that only the law of the place of the relevant intermediary (where the account on which the interest is credited is maintained) will be relevant. This principle is called "PRIMA" (for "place of the relevant intermediary approach").

There were several issues of interest to EMTA Members discussed during the meeting, including determining the place of the relevant intermediary and defining the term securities for purposes of the Convention.

For a more detailed summary of the Hague Working Group meeting and the issues of interest to EMTA, click here. You may also contact Starla Cohen at scohen@emta.org.

Click here for a copy of the report entitled, "The Law Applicable to Dispositions of Securities Held Through Indirect Holding Systems", by Christophe Bernasconi, First Secretary at the Permanent Bureau of the Hague Conference on Private International Law.

Mexico VRR's

New Market Practices Effective on February 1

EMTA's new 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 Practices (together with other related materials, including a revised Mexico VRR Primer) are available on EMTA's website (www.emta.org) under the January 24, 2001 New Developments item.

The Market Practices recommend that, for all USD Discount and Par Bonds trades entered into on and after February 1, 2001 (for settlement on and after February 6, 2001), unless otherwise agreed, Bonds should trade without their related Series A VRR's, but that the Series B-Q VRR's would be included in any such separate Bond trades.

While existing USD Par Bond Units (Series A and Series B), which include Series A VRR's, may still be traded, it is expected that many of the Units will be unwound. Euroclear and Clearstream instructions relating to the unwinding of such Par Bond Units can be located in the January 31 and 26 entries of the New Developments area of EMTA's website.

On January 24, EMTA held an Open Meeting for EMTA Members and their customers to educate market participants about the new Market Practices and the following related operational matters:

- The Series A VRR's should trade, settle and be confirmed in accordance with customary bond practices and in minimum denominations of $250,000 (and integral multiples of $1,000 in excess thereof).

- The settlement consideration paid for any Series A VRR's should be calculated as follows: the screen price (as a percentage) divided by 100 and multiplied by the notional amount of the VRR's traded.

- While EMTA has been informed by Mexico's U.S. legal counsel that Transferor and Transferee Certificates are not technically required for transfers of VRR's separate from their related Bond that are settled through a clearing system, market participants are reminded that purchases of VRR's separate from the related Bond are subject to additional restrictions that may not apply to purchases of Bonds (with or without their related VRR's) (*i.e.*, the form of Mexico VRR's provides that transfers of VRR's may be made only to an Eligible Institutional Investor (as defined in Schedule G to the Fiscal Agency Agreement) within the United States or to a person that is not a US Person (as defined in Schedule F to the Fiscal Agency Agreement) outside the United States).

- The clearing systems have confirmed that no VRR borrowing facilities will be available for the foreseeable future.

EMTA also recommended the following Market Practices for option, forward and repo trades entered into on and after February 1, 2001:

Consistent with the Market Practices in the spot market, (1) USD Discount and Par Bonds should trade without their related Series A VRR's, but the Series B-Q VRR's would be included in any such separate Bond trades and (2) Series A VRR's should trade separately.

In addition, the Market Practices clarified that any option, forward or repo trade of Mexico Discount or Par Bonds entered into before February 1, 2001 with a term that expires on or after that date is subject to the pre-existing Market Practice that Bonds should be transferred together with all their related VRR's.

Although all of the foregoing Market Practices are generally intended to apply only to Mexico USD Discount and Par Bonds and their related VRR's, market participants may wish to adopt analogous practices, to the extent practicable, for trades of Mexico Discount and Par Bonds denominated in non-USD currencies.

Finally, the approach taken under the new Market Practices for Mexico USD Bonds is expected to be extended to Venezuela, Nigeria and Uruguay Brady Bonds in the near future.

The market's reaction to the new Market Practices has been favorable. Volumes of new Series A VRR trades were moderate for the first few days of trading on and after February 1 and tapered off thereafter. Volume is expected to increase as the VRR payment date of March 31 approaches. EMCC has reported that some Series A VRR trades that had initially failed were eventually settled; however, many other VRR trades remain unsettled.

Reconciliation of Old VRR Transfers

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

Market participants are strongly encouraged to continue their efforts to reconcile internally and with their counterparties their individual accumulated failed VRR transfers, and resulting net VRR and VRR payments positions.

The December 31, 2000 payment on the Series A VRR's was made on January 2, 2001 to VRR holders of record and holders of Par Bond Units as of December 15, 2000. (A copy of the Fiscal Agent notice regarding the payment's calculation was published in the New Developments area of EMTA's website on December 21.)

The March 31, 2001 payment on the Series A VRR's is expected to be made on April 2, 2001 to VRR holders of record (and holders of Par Bond Units, if any) as of March 16, 2001. (A copy of the Fiscal Agent notice regarding the payment's calculation was published in the New Developments area of EMTA's website on March 13.)

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

Remedies for Old and New Failed VRR Transfers

At the January 24 Open Meeting, EMTA urged all market participants to exercise prudent caution both in trading (so as to ensure that new VRR trades could be settled), and in their approach to Buy-Ins. In the interests of an orderly market, EMTA recommends that market participants practice restraint in exercising available remedies (including buy-ins) until a reliably liquid VRR market develops and/or EMTA has ascertained the viability of a Multilateral Netting Facility for such failed trades.

At present, EMTA is considering two Multilateral Netting Facilities: one or more Facilities to clean up old VRR fails and a separate Facility that is intended to operate more regularly for new VRR trades. As currently envisioned, neither Facility would require physical settlement:

> The first Facility for old VRR fails would enable the netted VRR fail amounts to be cash-settled based upon an industry-approved methodology for determining the market value of a VRR trade.
>
> The second Facility for new VRR trades would permit participants in the Facility to 'roll' their net VRR obligations into subsequent Facilities.

More information on these proposed Facilities will be available shortly on EMTA's website in the New Developments section.

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For further information regarding VRR's and the new recommended Market Practices, please visit the New Developments area of EMTA's website or contact Aviva Werner at awerner@emta.org or (212) 908-5003.

Some Nuts & Bolts of New Financial Architecture

An EMTA Working Group has started looking into various questions and concerns that have arisen about the quality and quantity of information flow to the market, and the relative responsibilities of the exchange agent, lead manager, issuer and clearing systems, in connection with recent exchange offers for Argentina, Russia, Ecuador and Brazil.

Some of the issues identified by the Working Group that require EMTA's input are:

- Sensitizing exchange agents, lead managers and issuers (and their legal counsel) to the need for prompt and accurate information to be disseminated to investors and clearing systems (including information about, and reconciliation of, bond positions tendered and new bond amounts to be received, as well as the completion of Letters of Transmittal).

- Clarification from the clearing systems on how and when bond positions are blocked and unblocked, and the mechanics of any extensions of an exchange offer or rescheduling.

- Promoting greater investor input into new bond documentation (including possible changes in notification requirements (*e.g.,* using EMTA's website as a source for information relating to payments, etc.), shortening of record dates and standardization of Transfer Certificates).

In addition, the Working Group is also addressing information flow issues relating to existing bonds, including difficulties in obtaining prompt and accurate information such as rates of interest, amortizations, capitalizations, payment dates and amounts, record dates and any errors in such information previously disclosed.

One proposal is that EMTA assume a greater role in receiving such information from agents and posting it on EMTA's website. In some circumstances (e.g., Mexico VRR's), fiscal agents are already providing EMTA with payment information that can be posted on its website simultaneously with customary newspaper publication.

Finally, the Working Group is also looking into issues relating to delayed or partial payments (e.g., Peru or Ivory Coast), including the feasibility of obtaining more information on a timely basis from issuers, fiscal agents and clearing systems.

For more information concerning work in this area, please contact Aviva Werner at awerner@emta.org or (212) 908-5003.

Website Updates & Additions

In recent months, EMTA has made several important additions to the Key Industry Views website area, including:

- "Today's Emerging Markets: Building an Asset Class with More Meaningless Investor Rights." February 15, 2001 - EMTA Executive Director Michael Chamberlin.
- "Burden-Sharing in 2001: Now is the Time to Reform the Paris Club." February 13, 2001 - EMTA Policy Paper.
- "Principles for Private Sector Involvement in Crisis Prevention and Resolution. " January 24, 2001 - IIF.
- "EM External Debt Trading Volumes." January 12, 2001 - Jonathan Bayliss (Deutsche Bank).
- "Emerging Markets 2000-2001." January 8, 2001 - Mohamed A. El-Erian (PIMCO).
- "Emerging Markets Debt: Year in Review." January 2001 - Joyce Chang (Chase Securities).
- "Emerging Markets Debt: Outlook for 2001." December 22, 2000 - Tulio Vera (Merrill Lynch).
- "Emerging Markets External Strategy: The Year Ahead." December 8, 2000 - Jonathan Bayliss and Anna Titarchuk (Deutsche Bank).
- "MSDW Emerging Markets 2001 Roadshow Poll." December 1, 2000 - Eric Fine (Morgan Stanley Dean Witter).
- "Macroeconomic Outlook for Emerging Economies." November 2000 - Paulo Leme and Federico Kaune (Goldman Sachs).
- "Financial Crises in the Emerging Markets: The Roles of the Public and Private Sectors." November 2000 - Terrence J. Checki (Federal Reserve Bank of New York) and Ernest Stern (J.P. Morgan).

EMTA is now paperless.

Visit

www.emta.org

for the latest information.

EMTA Members: To obtain your password for the Members Only area, just e-mail emtanyc@emta.org

EMCC Pondering Consolidation

The Board of Directors of the Emerging Markets Clearing Corporation is considering a consolidation of EMCC with three domestic U.S. clearing corporations, GSCC (U.S. government securities), MBSCC (mortgage-backed securities) and NSCC (U.S. equities). All four are part of the DTCC family of clearing corporations. EMCC reached critical mass in 1999 and clears most trades of Brady Bonds and Emerging Markets sovereign Eurobonds for major firms in the interdealer market.

EMCC was created in 1997 as a result of a joint venture between EMTA and NSCC, which has since merged with the Depository Trust Corporation to become DTCC. DTCC is now proposing that its four constituent clearing corporations integrate their operations to achieve various synergies and reduce costs.

Although the consolidation, as currently proposed, would preserve the existing four legal entities, the integration would result in unified ownership, and a single Board of Directors, as well as streamlined management, policies and operations. While many details need to be worked out, it is currently envisioned that the integrated operations would be divided into an equities division and a fixed income division (with EMCC being operated as part of the latter). The integration has been approved in broad principle by all of the current Boards of Directors (including EMCC), and is targeted for completion later in 2001 when further details are settled. Paul Masco of Salomon Smith Barney (current chairman of EMCC and a former EMTA Director) and Marie Russo (Merrill Lynch) are the EMCC Directors most closely involved in planning the proposed integration.

The EMCC Board's approval in principle was given with several caveats, including appropriate arrangements to safeguard EM decision-making and international status and to accommodate or modify the current allocation of capital to EMCC's shareholders. A Committee of EMCC's Board is currently looking into these and other aspects of the integration.

EMTA's preliminary view is that, while greater efficiency in EMCC's operation is a worthy goal, the proposed integration is driven largely by domestic U.S. considerations and by the desirability of integrating GSCC and MBSCC. EMCC has less to gain because its operating and risk management systems are the newest and most sophisticated and it has less in common with the other clearing corporations. The EMCC Board's Committee has identified the appropriate risks and is looking into them, to wit:

> (i) EMCC is unique as an internationally owned and controlled clearing corporation built by the EM trading industry on a U.S. technology platform. By virtue of the proposed consolidation, EMCC could become, by ownership and perhaps by orientation and control, less international and more domestic U.S. This could hurt EMCC in attracting new members from outside of the U.S.
>
> (ii) EMCC is now run by, and for, EM personnel. By integrating more closely with the larger domestic clearing corporations, EMCC may lose some ability to set policies and priorities, and conduct operations, as desired by the Emerging Markets trading community.
>
> (iii) EMCC is now owned directly by its EM members. Current EMCC ownership interests would need to be changed (as it is envisioned that direct EMCC ownership would be exchanged for some diluted ownership in DTCC). Whether this will be accepted by EMCC's owner/members remains to be seen.

EMTA will be monitoring the integration proposal as it is developed and welcomes your input. Please contact Michael Chamberlin (mchamb@emta.org) if you have views.

Non-Deliverable Forwards (NDF's)

Latin America

Primary and fallback rate source definitions for determining the exchange rate for ARS/USD NDF transactions were discussed at meetings of the Argentina NDF Working Group on February 14 and February 22. Currently, the Argentine Peso is pegged to the U.S. Dollar 1-to-1. However, the Working Group is developing a market practice to apply for determining the exchange rate in the event the Peso is floated.

It was agreed that the current market practice of using a form of currency reference dealer poll as the primary Settlement Rate Option should continue. However, it was also agreed that more consistency is needed in the currency reference dealer definition used by market participants to ensure that, in the event of a floating of the Argentine Peso, reference dealers would be asked the same polling question. This consistency would reduce basis risk and promote the orderly settlement of NDFs in potentially chaotic circumstances.

The Working Group has preliminarily agreed that the polling provisions in the definition of Currency—Reference Dealers (CURA4) in revised Annex A of the 1998 FX and Currency Option Definitions should be applied to ARS/USD NDF transactions with only minor modifications. It was also agreed that the NDF Market Practice for Business Day on Valuation Date should be modified in the context of the Argentine Peso. The Market Practice states that the only relevant factor for determining whether a day is a Business Day for Valuation Date purposes is whether such day is a Business Day in the Principal Financial Center of the Reference Currency. In the case of Argentina, however, because the primary Settlement Rate option is a reference dealer polling, which will only be meaningful in the event of a de-pegging, all Working Group participants agreed that it would be prudent to require that both New York and Buenos Aires are open for business on a Valuation Date.

Asia

The EMTA Template Terms and related Recommended NDF Market Practices for Chinese Renminbi, Indian Rupee, Korean Won, Philippine Peso and Taiwan Dollar NDF transactions settling in U.S. Dollars became effective on February 5, 2001. Copies of the Template Terms and related NDF Market Practices may be accessed in the Members Only section of EMTA's website under Standard Documentation, FX/Derivatives Documentation Index; and the section entitled NDF Market Practices. Also available in the FX/Derivatives Documentation Index is the Asia Reference Dealer "Reference" List, which includes a list of approved reference dealer institutions provided by participants in the Asia NDF Working Group. Market participants may agree with their counterparties to select reference dealers from the Asia Reference Dealer "Reference" List in the event of a Price Source Disruption.

Indonesia

On January 12, 2001, Bank Indonesia announced that certain foreign exchange transactions involving the Indonesian Rupiah, which is a deliverable currency, would be restricted. In light of much uncertainty about the scope of these restrictions, EMTA endorsed the FX Committtee's February 2 recommendation that market participants seek to bi-laterally close-out outstanding trades that may be affected by the restrictions. A copy of the Singapore Foreign Exchange Markets Committee's methodology for closing-out outstanding IDR transactions on a consensual basis, which is referenced by the FX Committee, is available in the New Developments area of our website.

In another development, a draft IDR NDF template was distributed to participants on the Asia NDF Working Group for their review. Although the IDR NDF market is still very small, several market particpants have requested a standard template. Because IDR NDFs rely on an off-shore exchange rate for the fixing, it is unclear whether a market will develop.

Loan Trading & Settlement

The 2001 Batch Settlement Schedule for certain Class I Loan Assets was distributed in January 2001 and is now available in the Members Only area of EMTA's website (www.emta.org) under Market Practice No. 90.

Miscellaneous

Fourth Annual Emerging Markets Benefit Dinner Raises over $300,000 for Children's Charities

Net proceeds of over $300,000 were raised at the Fourth Annual Emerging Markets Benefit for Children's Charities on December 7, 2000. The event, which was held at the Manhattan Center in New York City, immediately followed EMTA's Annual Meeting and drew a crowd of over 400 Emerging Markets professionals. The evening's theme was "From Russia with Love" and featured Cossack dancers, Russian delicacies and ice sculptures.

In addition to corporate sponsorship and ticket sales to the evening's dinner, a live auction also raised nearly $27,000. Members of the EM debt community bid on items ranging from a pair of boxing gloves signed by boxing champion Muhammad Ali (which brought in $5,000) to fellowships that will be used to help gain the release of abducted children in Uganda and purchase schoolbooks for Haitian children. Since 1997, over $1.5 million has been raised by the event and donated to the evening's three beneficiaries: Save the Children, the Women's Commission for Refugee Women & Children and the Children's Aid Society. EMTA was pleased to help support the Benefit, which was underwritten by BNP Paribas. Sponsors and major donors included Cantor Fitzgerald, Deutsche Bank, ING Barings and J.P. Morgan, Salomon Smith Barney and UBS Warburg. Congratulations to Glenn Grossman and Mary Moglia (BNP Paribas) for yet another year of tireless dedication in spearheading this event.

The Fifth Annual New York Emerging Markets Benefits for Children's Charities will be held on Thursday, December 6, 2001, immediately following the EMTA Annual Meeting. Please visit our website for further details.

Seventh EM Charity Ball in London Dedicated to Martin Quintin-Archard

The Seventh Emerging Markets Charity Ball will be held at the Grosvenor House Hotel in London on Friday, March 16, 2001. The theme of this year's event will be "The Silk Route." The event will be dedicated to the memory of Martin Quintin-Archard, a former Charity Ball trustee from 1993 to 1998 who passed away tragically last October on the slopes of Mt. Kilimanjaro. As many will know, 'QA' was a larger-than-life pioneer of the Emerging Markets debt trading industry.

A total of over £1.9 million [US$2.85 million] has been raised since the first Charity Ball was held in March 1994, with £1.8 million [US$2.7 million] being distributed to over 75 specific projects at organizations such as Oxfam, CARE and Save the Children. The numerous grant recipients include health and education projects in Malawi, Mali and Mozambique, demining efforts in Angola, HIV education/prevention among the street children of Brazil, drug abuse prevention and rehabilitation in Chile, poverty alleviation in Vietnam, and a childhood immunization program in Burma.

Because of the overflow at the last event, attendance at this event will be limited to 800. Those interested in attending are urged to act quickly to ensure ticket availability.

For further information, please contact Stephanie Field at Lazard at stephanie.field@lazard.com.

Fourth Annual London Summer Forum Set for June 28, 2001

EMTA's Fourth Annual Summer Forum will take place on Thursday, June 28, 2001 in London. Deutsche Bank will again host in their Auditorium at Winchester House, 1 Great Winchester Street in London.

Registration forms for the London Forum will be sent out in the spring. For more information, please contact Jonathan Murno at EMTA at (212) 908-5022 (jmurno@emta.org).

EMTA Paris

As of January 2001, EMTA has taken office space in Paris, from which EMTA's European activities will be managed by Starla Cohen, who has been working for EMTA in Paris since March 1999. The office is located at 253 Rue St. Honore, 4th Floor, 75001, Paris and its telephone number is (+331) 4455-0129; the fax number is (+331) 4455-0128. Starla's e-mail is still scohen@emta.org.

EMTA Membership Update

EMTA's newest members include **UBM-Unicredit Banca Mobiliare** and **The Development Bank of Singapore Ltd.** If you know of other prospective members, please contact Jonathan Murno 212-908-5022 (jmurno@emta.org) or Suzette Ortiz 212-908-5015 (sortiz@emta.org).

EMTA Hotlines

Topic	Contact	Telephone
Clearing Corp. (EMCC)	Keith Kanaga (EMCC)	(212) 855-1675
Code of Conduct	Michael Chamberlin	(212) 908-5000
Corporate Governance	Starla Cohen	(331) 4455-0129
Derivatives/NDF's	Starla Cohen/Aviva Werner	(331) 4455-0129/(212) 908-5003
Electronic Trading	Michael Chamberlin	(212) 908-5000
Foreign Exchange	Starla Cohen/Aviva Werner	(331) 4455-0129/(212) 908-5003
Global Equities	Starla Cohen/Bruce Wolfson (Bear)	(331) 4455-0129/(212) 272-2571
Information/Research	Jonathan Murno	(212) 908-5022
Investor Rights	Michael Chamberlin/Aviva Werner	(212) 908-5003/(212) 908-5000
Legal/Compliance	Aviva Werner	(212) 908-5003
Loan Trading	Aviva Werner	(212) 908-5003
Local Markets	Starla Cohen	(331) 4455-0129
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	Don Goecks/Suzette Ortiz	(212) 908-5010/5015
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 by visiting EMTA's website at www.emta.org.

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Jonathan Murno	jmurno@emta.org	Aviva Werner	awerner@emta.org

EMTA Calendar

Wed., Jan. 24	**EMTA Open VRR Meeting (NYC)**
Wed., Feb. 7	**EMTA Board Meeting (NYC/London)**
Fri., Feb. 16	Recommended 2:00 p.m. (NYC) Market Close
Mon., Feb. 19	Recommended Market Close (NYC) Presidents' Day Recommended 12:00 noon (London) Market Close
Fri., March 16	**London Charity Benefit** **Grosvenor House Hotel, London**
Thurs., April 12	Recommended 2:00 p.m. (NYC) Market Close
Fri., April 13	Recommended Market Close (NYC/London) Good Friday
Mon., April 16	Recommended Market Close (London) Easter Monday
Tues., April 17*	Lawyers' Group Meeting, 8:00 a.m. at Shearman & Sterling (NYC)
Wed., April 25	**EMTA Board Meeting (NYC/London)**
Thurs., April 26	**Spring Fling (NYC)** **Morgan Stanley, 750 Seventh Avenue, NYC**
Mon., May 7	Recommended Market Close (London) May Day Bank Holiday
Fri., May 25	Recommended 2:00 p.m. (NYC) Market Close
Mon., May 28	Recommended Market Close (NYC/London) US Memorial Day/Spring Bank Holiday in London
Tues., June 26*	Lawyers' Group Meeting, 8:00 a.m. at Shearman & Sterling (NYC)
Wed., June 27	**EMTA Board Meeting (London/NYC)**
Thurs., June 28	**London Summer Forum** **Deutsche Bank, 1 Great Winchester Street, London**
Tues., July 3	Recommended 2:00 p.m. (NYC) Market Close
Wed., July 4	Recommended Market Close (NYC) Independence Day Recommended 12:00 noon (London) Market Close
Mon., August 27	Recommended Market Close (London) Summer Bank Holiday
Fri., August 31	Recommended 2:00 p.m. (NYC) Market Close
Mon., Sept. 3	Recommended Market Close (NYC) Labor Day Recommended 12:00 noon (London) Market Close
Fri., Oct. 5	Recommended 2:00 p.m. (NYC) Market Close
Mon., Oct. 8	Recommended Market Close (NYC) Columbus Day Recommended 12:00 noon (London) Market Close
Wed., Oct. 24	**EMTA Board Meeting (NYC/London)**
Thurs., Dec. 6	**EMTA Annual Meeting (NYC)** **NYC Charity Benefit**

*** Tentative Date**