

## Cautious Optimism Expressed at EMTA's Summer Forum in London

In the midst of market conditions that continue to be unsettled, EMTA's Annual Summer Forum in London was held on 8 July at the offices of Salomon Smith Barney. EMTA Vice Chair Juan del Azar (Merrill Lynch) welcomed the crowd of 160 people with a brief overview of EMTA's recent activities.



*Juan del Azar (Merrill Lynch), EMTA Vice Chair, welcomes the audience.*

Jerome Booth (Ashmore Investment Management) moderated a panel featuring sell-side analysts Robin Hubbard (Chase), Philip Poole (ING Barings) and Karim Abdel-Motaal (JP Morgan). The panel agreed that Argentina's Convertibility Plan was unlikely to be scrapped, and voiced support for the IMF despite some misgivings that G-7 political considerations influence IMF policy decisions. There was a general consensus that US interest rates would not be raised more than once in the near term and that spreads on Emerging Markets bonds would tighten by the end of 1999, although some panelists remained markedly more pessimistic than others.

A second panel of investors was led by Salomon Smith Barney's Mark Franklin. Panelists included Maryam Ettehadieh (Credit Suisse Asset Management), Tom Fallon (Fortis Investment Management), Simon Treacher (Morgan Grenfell Asset Management and an EMTA Director) and Ingrid Iversen (Rothschild Asset Management).

Most panelists expressed cautious optimism that Ecuador would avoid a Brady default and discounted the contagion effect of a possible Chinese yuan devaluation. There was considerable debate about how easily Russian debt could be restructured, and whether Brazil's economic recovery would continue unhindered. Panelists also discussed the effects of new market indices, economic performance in Mexico, convergence plays in Eastern Europe, cross-over investors and high rates on Turkish local debt.



*Mark Franklin (Salomon Smith Barney) leads a panel.*

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## **EMTA Board Meetings**

**E**MTA held its second and third Board meetings for 1999 on May 13 and July 13, respectively.

At the May 13 meeting, which was held at Salomon Smith Barney's offices in New York City and London, EMTA Directors discussed various uncertainties regarding the IDB screens after Daiwa completes its exit from the clearing business (see page 5) and authorized development of contingency plans for any possible failure of the IDB screens whether due to Y2K problems or otherwise (see page 4). The Board also accepted with regret the resignations of Wayne Lyski (Alliance Capital), Mark Coombs (formerly at ANZ and now at Ashmore Investment Management) and Chip Seelig (Goldman Sachs) and elected Fran Bermanzohn to replace Mr. Seelig.

At the July 13 meeting, which was held at J.P. Morgan's offices in New York City and in London, the EMTA Board reviewed EMCC's membership status and continued its discussion of the IDB screens and their clearing arrangements. In addition, the Board reviewed EMTA's June 30 financial statements and proposed Y2K contingency plan, expressed its support for the Emerging Markets Benefit for Children's Charities, which will be held on December 9 in New York City, and elected David Mayes (CSFB) and Bill Geisler (Lehman) as EMTA Directors.

The next EMTA Board meeting is scheduled to be held on Wednesday, October 20.

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## **Non-Deliverable Forwards (NDF's) Generally**

### **S.W.I.F.T. Communication Re: MT300 Usage for NDF's**

**O**n June 1, 1999, S.W.I.F.T. distributed a communication strongly recommending that NDF market participants adopt the 1998 FX and Currency Option Definitions for the purpose of confirming NDF's. The S.W.I.F.T. US National Group's Cash and Treasury Subcommittee further recommended that NDF market participants use field :72: of the MT300 to tag FX transactions as NDF's and include information as to Valuation Date, Settlement Rate Options and Settlement Currency. The communication sets forth detailed instructions regarding the use of this field. By including this information in the S.W.I.F.T. message, NDF market participants can reduce the risk of unconfirmed transactions. Market participants are encouraged to use this message format for confirming NDF's as soon as practicable.

For a copy of this communication, please contact your local S.W.I.F.T. support center, or Felita Tate at (212) 908-5026 or ftate@emta.org.

### **NDF Confirmation Standardization Project**

In an effort to facilitate prompt confirmation of Emerging Markets NDF transactions, and to provide greater certainty in the settlement of NDF's, an NDF Working Group is developing (1) standard templates for certain basic NDF transactions; (2) specific Market Practices for the Emerging Markets NDF market; and (3) methodologies for determining final settlement rate sources for NDF's. The NDF Working Group is currently developing a standard template and industry survey methodology for a back-up rate for the Brazilian Real, and is reviewing options for a possible industry survey methodology for a back-up rate for the Hungarian Forint.

### **Brazil**

The Brazil standard template has been distributed for comment to both the Brazil and Lawyer's Subcommittees of the NDF Working Group.

Consensus has nearly been reached by the Brazil Subcommittee on the Brazil Industry Survey Methodology and it will be distributed to the NDF Working Group

## **(NDF'S continued)**

shortly. Meanwhile, EMTA has been requested to begin discussions with the Brazilian Bolsa de Mercadorias & Futuros (BM&F) and the Chicago Mercantile Exchange (CME) to determine whether it is possible to develop consistent back-up procedures to implement in the event that the PTAX is ever not published on any day. Coordination with the relevant futures markets and NDF markets would help market participants minimize basis risk across contracts, and be consistent with the current practice whereby the BM&F, CME and NDF markets all settle their contracts to the PTAX. While we expect that coordination with the BM&F may be possible in the near future, EMTA is nevertheless finalizing the Brazil Industry Survey Methodology in order to make it available for market participants as a Fallback Reference Price in the short term.

For more information, please contact Starla Cohen at (331) 4065-9003 or [scohen@emta.org](mailto:scohen@emta.org), or Brian Morrisroe at (212) 908-5025 or [bmorrisroe@emta.org](mailto:bmorrisroe@emta.org).

### **Poland/Hungary**

A meeting of the Poland/Hungary Subcommittee was held in London on June 16. The group decided that due to the liberalization of the Polish foreign exchange markets, which have resulted in the rise of a deliverable market, no industry survey procedures need to be developed for zloty NDF's. With respect to Hungary, EMTA is currently obtaining information on the methodology used by the National Bank of Hungary for determining the Hungarian Official Rate published daily on Reuters page HUFER to provide to market participants so that they may evaluate whether such a rate is appropriate for use in the inter-dealer NDF markets. At the same time, EMTA is developing a methodology outline for conducting an industry survey in Hungary either to be used on a daily basis, or as a back-up rate if the HUFER is not published.

For more information, please contact Starla Cohen at (331) 4065-9003 or [scohen@emta.org](mailto:scohen@emta.org), or Mandy Sleigh at (44171) 545-3196 or [mandy.sleigh@db.com](mailto:mandy.sleigh@db.com).

### **CME/EMTA Ruble/USD Reference Rate Provides Greater Certainty**

In the on-going absence of a MICEX rate fixing, EMTA and the CME are continuing to publish daily the CME/EMTA Reference Rate for the Russian ruble/U.S. dollar on Reuters page "EMTA."

EMTA recently provided a letter to the CFTC in response to the CFTC's request for comment on the CME's proposal to list additional contract months in the Ruble Futures.

For a copy of the letter, please contact Felita Tate at (212) 908-5026 or [ftate@emta.org](mailto:ftate@emta.org).

Beginning June 29, MICEX replaced the morning session previously reserved for importers and exporters with a new "common" or "unified" session. Commercial banks from all the regions in Russia are permitted to participate in the common session, although certain restrictions still apply. The afternoon session, which has historically been the more liberal session, has remained unchanged. The random surveys for determining the CME/EMTA Reference Rate will continue to be conducted during the afternoon session.

For more information, please contact Mandy Sleigh at (44171) 545-3196 or [mandy.sleigh@db.com](mailto:mandy.sleigh@db.com).

### **Update & Website Publication of Annex A to 1998 Definitions**

EMTA is continuing its efforts to revise Annex A of the 1998 FX and Currency Option Definitions (the 1998 Definitions) in anticipation of its being published on the websites of the sponsoring organizations. In connection with this project, comments on the rate source definitions contained in Annex A are now being collected in order to complete a thorough update of Annex A.

Please forward comments to Mandy Sleigh at (44171) 545-3196 or [mandy.sleigh@db.com](mailto:mandy.sleigh@db.com), or to Starla Cohen at (331) 4065-9003 or [scohen@emta.org](mailto:scohen@emta.org).

## Y2K Contingency Plan

At the request of EMTA's Board of Directors, an EMTA Working Group has reviewed a number of issues related to Y2K readiness and prepared a draft EMTA Y2K Action Plan. The goal of this Working Group was to identify areas in which EMTA could develop recommendations that would assist the Emerging Markets debt trading industry in ensuring that the risks of potential Y2K problems are minimized or, at least, adequately anticipated and planned for. Aware of various comprehensive Y2K studies by other securities industry groups (such as the SIA Report of the Ad-Hoc Committee on Y2K Contingency Planning (May 25, 1999) and the Global 2000 Coordinating Group of the BIS), the Working Group concluded that EMTA's review should focus on areas of specific concern to Emerging Markets debt trading. The resulting recommendations are, to the maximum extent practicable, consistent with those developed by the other industry groups.

Included in the draft Action Plan are recommendations regarding the year-end Holiday Schedule, the testing by EMCC and market participants of industry screens

and their clearing mechanisms, a proposed contingency plan for screen trading, and the use of EMTA as a forum and clearing house for information regarding Y2K-related issues.

In general, the proposed contingency plan for screen trading currently contemplates a voluntary return to 'face-to-face' trading by the dealer community under certain conditions that involve the failure of one or more IDB screens. To facilitate any such trading, EMTA will be collecting and disseminating contact information for market participants.

The draft Action Plan is now available for industry review and comment. For further information or for a copy of the draft Plan, please contact Brian Morrisroe at (212) 908-5025 or [bmorrisroe@emta.org](mailto:bmorrisroe@emta.org).

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## Loan/Bond Trading

### Russia

In light of the communication from VEB dated May 25, 1999 (sent to creditors by Bank of America, as the Prin Restructuring Agent) requesting a roll-over of the interest payments on Prins and Interest Notes (IAN's), EMTA recommended on May 27 a change in Market Practice for IAN's, which is consistent with its earlier recommendation on November 21, 1998 for Prins, as follows:

Effective for all trades entered into on and after Friday, May 28, 1999, for settlement on and after June 3, 1999, unless otherwise agreed, Russian VEB IAN's will trade "flat." Accordingly, such trades will settle without an additional payment for accrued interest, and the right to receive all accrued interest (including interest due on June 2) will pass to the Buyer.

### Asia

EMTA has also been monitoring the growth in trading activity in certain Asian loans such as Indonesia and Korea. EMTA has offered to work with EMTA Members and Asian market participants to promote consistent trading practices in the secondary market.

If you have any views on EMTA's possible foray into Asia, please contact Brian Morrisroe at (212) 908-5025 or [bmorrisroe@emta.org](mailto:bmorrisroe@emta.org).

### Multilateral Netting

Additionally, EMTA continues to operate its Russia VEB Multilateral Net Delivery Facility twice a month in order to reduce counterparty exposure and transaction settlement costs.

If you are interested in participating in the Facility, please contact Brian Morrisroe at (212) 908-5025 or [bmorrisroe@emta.org](mailto:bmorrisroe@emta.org).

## **IDB Screen Clearing Arrangements - Update**

As previously announced by EMTA, Prudential Securities has apparently agreed to assume the clearing franchise of Daiwa Securities effective September 14, 1999. Pending effectiveness, EMTA understands that Daiwa will continue to support its current clearing customers. To date there has been no public announcement by Prudential or Daiwa regarding the status of their arrangements.

On June 17, EMTA issued a market advisory that reviewed various uncertainties in the situation and recommended, among other things, that market participants pursue membership in the Emerging Markets Clearing Corporation as soon as possible to maximize their ability to respond to various contingencies. In recent months, many dealers have stepped up their efforts to join EMCC, and EMCC reports that ING became a member effective July 1. Various other firms, including UBS, Deutsche Bank, Paribas, Republic and Santander, are expected to join EMCC before year-end.

EMTA continues to urge all interested firms to review their screen arrangements and to take prompt action, as appropriate, to maximize their options regarding screen trading. Dealers and IDB's interested in EMCC membership should be aware that Y2K-related systems constraints effectively impose an October deadline on the admission of new EMCC members. Accordingly, EMTA urges all firms interested in EMCC membership to initiate and complete the membership and testing process as soon as possible. Detailed information regarding EMCC membership requirements and procedures can be obtained from Keith Kanaga (EMCC) at (212) 701-9701.

For further information, please contact Michael Chamberlin at (212) 908-5000.

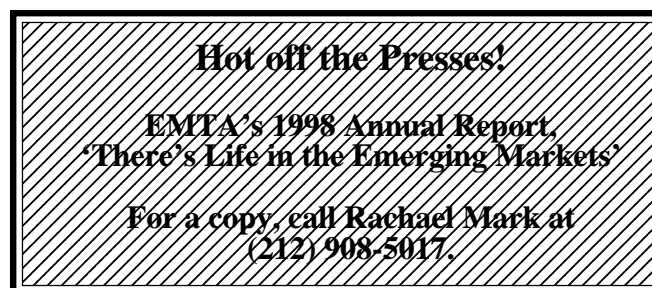
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## **Mexico Brady Bonds**

The Series B Value Recovery Right ("VRR") associated with the Mexico Par and Discount Bonds ("Bonds") issued by the United Mexican States (UMS) became separable as of July 1, 1999. Subsequent series of VRR's (C-Q) become separable every July 1 thereafter through July 1, 2014. Based on the experience of the Series A VRR detachment, which created significant reconciliation and settlement issues for many market participants, the UMS and EMTA believe that automatically separating Series B and subsequent series would adversely affect market efficiency. Also, consistent with EMTA Market Practice since 1992, separated VRR's are not generally expected to trade as separate securities.

Accordingly, Euroclear and Cedel have announced that they will not process requests to separate the Series B or any subsequent series of VRR's from its respective Bond. Should a bondholder wish to separate any VRR series, this may be done outside Euroclear or Cedel by withdrawing the related Bonds from such clearing systems.

Please contact Brian Morrisroe at (212) 908-5025 or bmorrisroe@emta.org with any questions.

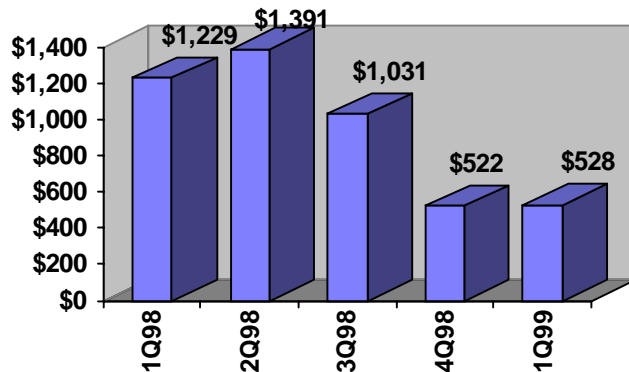


## First Quarter 1999 Emerging Markets Debt Trading Volume Up Slightly From Previous Quarter At US \$528 Billion

EMTA's First Quarter 1999 Debt Trading Volume Survey was completed and distributed to participants on May 17, 1999.

Volume in the first three months of 1999 stood at US\$528 billion, up one percent from trading in the fourth quarter of 1998. The January devaluation of the Brazilian real, weak commodity pricing and the continued after-effects of Russia's devaluation and debt default all contributed to keep Emerging Markets debt trading at low levels in the first quarter of 1999.

**Aggregate Trading Volume**  
In US\$ billions



Paul Masco, EMTA Co-Chair, and Managing Director and Head of Emerging Markets Debt Trading at Salomon Smith Barney noted, "In addition to the uncertainties over Russia and Brazil, the new issue market was essentially shut down during this period, and dealers continued to be affected by merger issues and downsizing."

Trading in Brazilian instruments was down 9% to US\$148 billion from US\$163 billion. Investor confidence in Brazil sagged during the first quarter, following an effective devaluation of the real, the resignations of two Central Bank Presidents and some speculation that the decision in January to raise domestic interest rates in

order to stabilize the currency could lead to hyperinflation and a domestic debt default. Arturo Porzecanski, Managing Director and Chief Economist for the Americas at ING Barings, commented, "The investor and dealer communities kept their heads down for many weeks after the real devaluation until it was clear that Brazil was not, in fact, another Russia-like disaster."

### Debt Instruments

Strong interest in Turkish domestic debt, as well as continued high volume in Mexico's treasury instruments, contributed to local instrument transactions reaching their highest market share ever (33% of total reported volume vs. 27% in the fourth quarter of 1998). In contrast, a slump in Eurobond issuance, which followed the August 1998 Russian GKO default and ruble devaluation, led to a decline in the share of Eurobond trades, to 24% of volume vs. 27% in the previous quarter.

Volumes in South African debt instruments rebounded to US\$21 billion, after falling to a low of US\$7 billion in the final quarter of 1998. However, turnover was still below levels of one year ago when it reached US\$56 billion.

Russian volumes remained at low levels as discussions continued on restructuring defaulted GKO debt, and concerns grew regarding VEB's default on external Soviet-era debt as well. Turnover in Russia dropped 55% from the previous quarter to US\$22 billion.

The Second Quarter 1999 Survey will be available in mid-August. For more information, please contact Jonathan Murno at (212) 908-5022 or [jmurno@emta.org](mailto:jmurno@emta.org).

#### EM Factoid

##### Market Share by Country

Brazil	28.1%
Mexico	16.4%
Argentina	14.2%
Turkey	12.8%
Russia	4.2%

## Save the Date

Get ready for a non-stop Emerging Markets Day on **Thursday, December 9**. The day will kick off with speeches and panel discussions by key industry leaders and strategists, respectively, in the Emerging Markets at EMTA's Annual Meeting. A gala Holiday benefit party will follow the day's events - *a must go* - where caipirinhas will flow and Brazilian music will set the beat at the Emerging Markets Benefit for Children's Charities.

EMTA's Annual Meeting will be held at the offices of Salomon Smith Barney in New York City. Keynote speakers and panelists will be announced soon.

The third annual Emerging Markets Benefit for Children's Charities will take place at the Metropolitan Pavilion in New York City. This year's theme is Brazil, so be prepared for a sumptuous dinner and samba to follow. The Benefit will help raise money for **The Children's Aid Society, Save the Children** and the **Women's Commission for Refugee Women and Children**. Show your support for the Emerging Markets community by purchasing a table or an individual seat. Last year's Benefit raised over \$600,000 for children in the Emerging Markets. With your support, the 1999 Benefit hopes to pass the \$1,000,000 mark.

Put this date on your calendar, make your travel plans and reschedule your Friday morning appointments.

For more information regarding EMTA's Annual Meeting and the Emerging Markets Benefit for Children's Charities, please contact Rachael Mark at (212) 908-5017.

## Membership

EMTA is always on the look-out for prospective Members. If you know of any, please let Rachael Mark know at (212) 908-5017.

<b>EMTA Calendar</b>	
<b>Tues., Aug. 17</b>	EMCC Board Meeting
<b>Mon., Aug. 30</b>	Recommended Market Close (London) Summer Bank Holiday
<b>Fri., Sept. 3</b>	Recommended 2:00 p.m. (NYC) Market Close
<b>Mon., Sept. 6</b>	Recommended Market Close (NYC) Labor Day
<b>Tues., Sept. 14</b>	EMCC Board Meeting
<b>Tues., Sept. 28</b>	EMTA Legal and Compliance Meeting
<b>Fri., Oct. 8</b>	Recommended 2:00 p.m. (NYC) Market Close
<b>Mon., Oct. 11</b>	Recommended Market Close (NYC) Columbus Day
<b>Tues., Oct. 19</b>	EMCC Board Meeting
<b>Wed., Oct. 20</b>	<b>EMTA Board Meeting</b>
<b>Wed., Nov. 10</b>	Recommended 2:00 p.m. (NYC) Market Close
<b>Thurs., Nov. 11</b>	Recommended Market Close (NYC) Veteran's Day
<b>Tues., Nov. 16</b>	EMCC Board Meeting & Annual Meeting
<b>Wed., Nov. 24 &amp; Fri., Nov. 26</b>	Recommended 2:00 p.m. (NYC) Market Close
<b>Thurs., Nov. 25</b>	Recommended Market Close (NYC) Thanksgiving Day
<b>Thurs., Dec. 9</b>	<b>EMTA Annual Meeting &amp; Emerging Markets Benefit for Children's Charities</b>
<b>Thurs., Dec. 23</b>	Recommended 2:00 p.m. (NYC) Market Close
<b>Fri., Dec. 24</b>	Recommended Market Close (NYC) Christmas
<b>Mon., Dec. 27</b>	Recommended Market Close (London) Boxing Day
<b>Tues., Dec. 28</b>	Recommended Market Close (London) Bank Holiday
<b>Fri., Dec. 31</b>	Recommended 12:00 noon (NYC) Market Close

Bulletin

## Hotlines

<b><u>Topic</u></b>	<b><u>EMTA Contact Person</u></b>	<b><u>Telephone</u></b>
Accounting/Finance	Don Goecks/Lisa Palazzola	(212) 908-5010/5019
Argentina	Brian Morrisroe	(212) 908-5025
Africa/Asia	Brian Morrisroe/Mandy Sleigh	(212) 908-5025/(44171) 545-3196
Brazil	Brian Morrisroe	(212) 908-5025
Central/Eastern Europe	Mandy Sleigh	(44171) 545-3196
Clearing Corporation (EMCC)	Keith Kanaga (EMCC)	(212) 701-9701
Code of Conduct	Michael Chamberlin	(212) 908-5000
Conferences	Jonathan Murno	(212) 908-5022
Daily Market Price & Volume Data	Jonathan Murno/Lisa Palazzola	(212) 908-5022/5019
Derivatives	Brian Morrisroe/Starla Cohen	(212) 908-5025/(331) 4065-9003
European Working Group	Mandy Sleigh	(44171) 545-3196
Foreign Exchange	Starla Cohen/Aviva Werner	(331) 4065-9003/(212) 908-5003
Global Equities Regulation	Bruce Wolfson (Bear Stearns)	(212) 272-2571
Legal/Compliance	Aviva Werner	(212) 908-5003
Loan Trading	Brian Morrisroe/Aviva Werner	(212) 908-5025/5003
Local Markets	Starla Cohen/Brian Morrisroe	(331) 4065-9003/(212) 908-5025
Market Practices	Brian Morrisroe/Aviva Werner	(212) 908-5025/5003
Match-EM	Don Goecks	(212) 908-5010
Membership	Rachael Mark	(212) 908-5017
Mexico	Brian Morrisroe	(212) 908-5025
Month-End Pricing	Lisa Palazzola	(212) 908-5019
Multilateral Netting	Brian Morrisroe/Lisa Palazzola	(212) 908-5025/5019
Poland	Starla Cohen	(331) 4065-9003
Repos/Securities Lending	Brian Morrisroe/Aviva Werner	(212) 908-5025/5003
Research	Jonathan Murno	(212) 908-5022
Russia	Starla Cohen/Aviva Werner	(331) 4065-9003/(212) 908-5003
Volume Survey	Jonathan Murno	(212) 908-5022
Warrants	Brian Morrisroe	(212) 908-5025
Website	Rachael Mark	(212) 908-5017

All EMTA staff can be reached through the general reception number (212) 908-5000.

EMTA staff can also be reached at the following e-mail addresses or by visiting EMTA's website at [www.emta.org](http://www.emta.org).

Michael Chamberlin	<a href="mailto:mchamb@emta.org">mchamb@emta.org</a>	Jonathan Murno	<a href="mailto:jmurno@emta.org">jmurno@emta.org</a>
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