Emerging Markets Traders Association

Bulletin

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With the stabilization of general interest rates and positive political developments in Mexico and Brazil, our marketplace's economic environment improved considerably over the course of the summer months, and trading activity and investor interest (as well as the spirits of market participants) seem to have revived. The remainder of the year brings the expected closing of the Poland and Ecuador debt deals. This, along with the continued broadening of the market, should result in a prolonged period of growth which could extend well into 1995.

The third quarter saw the completion of several key EMTA initiatives, some of which were a full year in the making. The successful reduction of the loan trade backlog, publication of EMTA's second annual debt trading Volume Survey and its Master Agreement for Options and, finally, the release of EMTA's first Annual Report are just some of the recent highlights.

Against this backdrop (and without Baseball to distract us), we look forward to continued progress on several important fronts that will make our marketplace even more efficient and transparent.

1993 Debt Trading Volumes Near U.S. $2 Trillion

On August 15, EMTA announced that 1993 Emerging Markets debt trading volumes had reached nearly U.S. $2 trillion, well over twice the trading volume recorded in 1992. Reflecting the ongoing securitization of LDC bank loans under the Brady Plan, the volume of Brady bond trading was almost four times that of loan trading, whereas in 1992 the two categories were roughly equal. Brady bond trading increased 400% in 1993 to over U.S. $1 trillion, compared with U.S. $248 billion in 1992. Other highlights included a 275% gain in derivatives trading, totaling U.S. $57.4 billion (up from U.S. $15.3 billion in 1992), and a 3500% increase in Russian asset trading.

The overall increase in volume in 1993 can be attributed to various factors: completion of Argentina's Brady deal in April 1993, last year's progress toward debt restructuring in Brazil and other nations, widespread economic and political reform throughout Latin America and in Russia/Eastern Europe, the North American Free Trade Agreement (NAFTA), as well as low U.S. interest rates throughout 1993. As the fundamental characteristics of the Emerging Markets, such as dedication to market-oriented economic reforms, remain largely intact, this high level of investor interest and market growth should continue, despite the sharp downturn in market prices that occurred earlier this year.

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The 1993 results underscore the continued growth of the Emerging Markets trading industry, especially outside of the traditional area of Latin American debt instruments. This rapid growth suggests a continuing need to seek ways to increase the efficiency and transparency of the marketplace. The multilateral netting facility and electronic trade confirmation and matching projects described elsewhere in this Bulletin represent contributions that EMTA is making in this regard, but there remains no substitute for continuing efforts by each Member to upgrade its own systems and procedures and to keep its personnel as well-trained and knowledgeable as possible about sound market practices.

With Price Waterhouse's assistance, EMTA collected data from more than 70 major financial institutions worldwide, reflecting trading in 40 countries, up from 58 institutions and 25 countries in 1992. The 1994 Volume Survey questionnaire will be distributed in December, and all Members are urged to participate. For more information, please contact Moraima Pares at (212) 235-2901.

Backlog in Settling Assignments of Loan Assets is Reduced

As should by now be apparent to most market participants, the large backlog in the settlement of loan trades that accumulated earlier this year has been substantially reduced through a combination of market forces and efforts by individual trading houses and by EMTA to net and settle outstanding trades.

EMTA’s multilateral netting facility for U.S.$-denominated Vnesheconombank loans was completed on September 9 under this facility, eleven major market participants settled a total of 136 outstanding loan trades aggregating over U.S. $341 million in face amount. A similar facility for DM-denominated Russian loans was completed on October 7, and multilateral netting of remaining Russian loans, as well as Peru and Panama loans, is also expected to be completed shortly.

EMTA is very pleased with the industry’s response to this challenge and encourages all Members to continue their efforts to promptly settle all loan trades and thus avoid the build-up of unsettled positions. Key leaders in the effort to develop this facility included Marc Helie, Manuel Mejia-Aoun (Merrill Lynch), Kathleen Wells (J.P. Morgan), Ellie Winberg (Chase) and Bob Salvador (Chemical).

Because trading volumes remain at high levels, EMTA has decided to extend and expand the multilateral netting facility to include more market participants who wish to net their loan trades for specified assets on a regular basis. More details about this expanded facility will be distributed in the near future.

Standard Terms for Loan Assignments

A separate, major EMTA effort to ensure that future backlogs do not accumulate has included the preparation of a model unwind clause that will be included in a set of Standard Terms for Assignments of Loan Assets scheduled for completion in October. The Standard Terms, which will also include a standard form of confirmation and buy-in provisions, will permit loan assignments to be documented by incorporating the Standard Terms by reference into trade confirmations.

When completed, the Standard Terms, together with new and strengthened Market Practices, will provide mechanisms and incentives to ensure that loan trades are promptly settled, either by payment against delivery or simply in cash, if need be, through the use of pre-negotiated cash unwind and buy-in/sell-out provisions. In the meantime, EMTA continues to urge all market participants to trade responsibly and devote maximum resources to the settlement process in an effort to reduce settlement backlogs and prevent their recurrence. Netting arrangements with major counterparties and appropriate use of participations are also strongly encouraged. EMTA is also actively considering other mechanisms to promote greater liquidity in the loan trading market, such as the securitization of certain loans.

September 13 EMTA Board Meeting in New York

EMTA's Board of Directors held its fourth regular meeting for 1994 on September 13 at Chemical Bank in New York. In addition to reviewing EMTA's finances, the Board reviewed the status of the multilateral netting facility and development of Standard Terms for Loan Assignments, as well as the electronic confirmation and matching project. After reviewing the Standard Terms and electronic matching projects, the Board approved two resolutions that relate to these projects.

> First, following a motion by Bruce Wolfson (Bear Stearns), the Board restated its commitment to the maintenance of orderly and efficient markets and resolved to remind all Members that trades must be settled on a timely basis. Any Member that fails to settle a trade in accordance with its terms shall be subject to buy-in, sell-out or other remedies in accordance with market practice including, in the case of assignments of loan assets, those remedies recommended from time to time by EMTA. As noted above, it is expected that EMTA's Standard Terms for Loan Assignments, which should be available for general distribution to the market during October, will include a recommended buy-in/sell-out remedy.
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> Second, upon the proposal of the group of operations personnel that is implementing the electronic matching project, the Board approved a recommendation to the market that all Brady bonds be traded on a "Series specific" basis. Currently, most oral trades are made generically, without reference to the specific Series (if any), which is later designated prior to settlement (which can only be made on a "Series specific" basis). Several of the principal advantages of the proposed electronic confirmation and matching system -- real-time confirmation and matching and a link between this system and settlement through the clearing systems -- would be lost if oral trades continue on a generic basis. Efforts will be made to encourage the transition to "Series specific" trading over the next several months so that it can become fully effective by year end.

In addition, the Board considered various revisions to EMTA's Code of Conduct to give effect to the market reforms previously approved at its June Board meeting, and, after approving them in principle, resolved to consider making the Code contractually binding on all EMTA Members at the November Board meeting. Finally, the Board discussed the need to ensure that interest payments made on loan assets are promptly transmitted throughout the marketplace on an "on-demand" basis, in accordance with EMTA's existing market practice. Specifically, the Board authorized EMTA to arrange a facility, with the assistance of Price Waterhouse, to settle all such payments due on Argentina GRA and Brazil MYDFA.

The next EMTA Board Meeting is scheduled for November 9.

Some Recent Market Developments/The Country Debt Process Evolves

On October 5, the Russian Government and its Bank Advisory Committee (led by Deutsche Bank) announced a breakthrough in the creation of a legal framework to permit the finalization of a Russian debt deal. This announcement is very encouraging and, together with recent progress in Poland and Ecuador, reminds us of how important these debt deals are to our marketplace, not to mention how important the restoration of normal bank creditor and debtor relationships are to the economies of the Emerging Market countries generally.

While EMTA has never taken a position on their specific commercial terms, EMTA has strongly supported each of the country debt deals announced to date because they have brought value to our marketplace, on a short-term and long-term basis, and have helped to strengthen the global economy.

To date, the role of our marketplace in the negotiations that have led to these deals has been largely reactive. Only recently have there been signs that some investors in the secondary markets wanted a larger role in formulating the terms of these deals.

Under the circumstances, greater investor input into the negotiating process is both desirable and inevitable, but it must be accommodated without jeopardizing the two principles that have guided the country debt negotiation process since its earliest days. These principles are:

> (1) Mutual Forbearance. The legal rights of creditors have been clearly recognized and preserved, but legal remedies have not been exercised lightly or as part of the negotiating process. Similarly, the legal rights of debtors have been clearly recognized and preserved, but they have generally not taken actions lightly, or as part of the negotiating process, to unilaterally suspend their payment obligations or impose restructurings.
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> (2) Good Faith Consensus-Building. Creditors have negotiated among themselves and with their debtors in good faith, and individual creditors have yielded to consensus when necessary to avoid stalemate. At the same time, creditor consensus groups and their debtors have worked long and hard to expand the consensus by creatively meeting the legitimate needs of individual creditors.

The first principle has created a fine balance that has permitted the second principle to operate successfully. The result has been a steady progression of ideas and agreements that, in the interest of the greater good, have largely resolved the debt crisis through negotiation rather than confrontation. Lawyers have focused on designing solutions rather than on exercising remedies.

In the absence of a global bankruptcy tribunal, the bank advisory committee process, by adhering to these principles, has functioned remarkably well to meet the shared needs of debtors and creditors alike to restructure their relationships. By providing liquidity, the secondary markets have also played a role in resolving the debt crisis.

EMTA continues to strongly support the country debt process that has evolved to date. At the same time, we are confident that it will further evolve, consistent with the principles of mutual forbearance and good faith consensus-building, to accommodate the entry of new investor classes into the ranks of creditors. To permit this further evolution, which is necessary to avoid a counter-productive backslide into a dark place, will require that existing bank creditors and newer classes of investors both recognize these two principles and observe and apply them.

EMTA 1994 Annual Meeting

EMTA will hold its 1994 Annual Meeting on December 13 at 5:00 p.m. (NYC time) at Chemical Bank (270 Park Avenue, New York City) in the third floor auditorium. Our Annual Meeting has been arranged to coincide with ING's annual Holiday party which begins later that evening. EMTA is currently seeking an appropriate keynote speaker, and further details regarding the Annual Meeting (including a proposed slate of Director nominations) will be disseminated at a later date.

Working Group Reports

Russia/Eastern Europe Working Group

> ***Russia:*** Recommended Market Practices for trading Russian Loans were distributed on August 26, together with a description from J.P. Morgan of certain procedures for loan assignments introduced by Vnesheconombank. EMTA strongly urges market participants who have not yet submitted details of any bilateral Russian Loans that lack a recognized agent to do so now.
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> ***Poland:*** Upon the signing of the bond exchange agreements in Warsaw by Poland and its creditors on September 14, EMTA distributed new confirmation forms for when-issued trading in Poland bonds to be used as of that date. EMTA is closely following the Polish restructuring and anticipates distributing forms for confirming Poland Brady bond trades by the scheduled closing date of October 27. For more information, please contact Sophie Pompea at (212) 235-1725.

Options/Derivatives Working Group

On July 20, EMTA released a Master Agreement for documenting Options (both puts and calls) on Brady bonds and sovereign loans. The Master Agreement, designed to be as consistent as possible with the existing ISDA forms, is accompanied by an explanatory Market Practice Guide, which together will enable Emerging Markets traders to focus on key business terms and permit back-office personnel to handle the increasing transaction volume in options on Emerging Markets debt instruments.

The Master Agreement supplements the Market Practices adopted by EMTA in 1993 for options on Emerging Markets debt instruments and allows parties to enter into one agreement with standard terms covering all options transactions between them. Developed by the Options/Derivatives Working Group led by Peggy Grieve of Chase (now at Barclays) and David Lewis of J.P. Morgan, the Master Agreement also permits Members to elect whether to have certain provisions apply in addition to the standard terms. Alternatively, parties may, if they wish, choose not to enter into a Master Agreement's standard terms and instead use a Stand-Alone Confirmation which incorporates the Agreement's standard terms by reference and makes all options transactions confirmed by these Confirmations subject to such terms, including those relating to close-out, liquidation and netting. For a copy of the Master Agreement and related Market Practice Guide, please contact Cristina von Bargen at (212) 235-2709.

Technology Working Group

At its September 13 meeting, EMTA's Board decided to extend EMTA's pilot project with General Electric Information Services to develop an electronic confirmation and matching system, with a view to bringing it on-line by year end. In addition to the original pilot participants (J.P. Morgan, Chemical, Chase, ING, SBC and Merrill Lynch), new pilot participants include Daiwa, Bank of America Illinois (formerly Continental) and Salomon, and EMTA anticipates increased interest from Members during this final phase of the program. A final decision regarding this project, pending technical and legal input, should be reached by the Board at its November meeting. For further information, please contact Sophie Pompea at (212) 235-1725.

Exotics/Loan Trading Working Group

Ecuador: Ecuador's reconciliation continues to be very active. In its role as agent bank, Lloyds New York has issued statements of principal to all creditors. Interest reconciliation will begin after principal is reconciled. The Ecuador government signed the bond exchange agreements on October 4, 1994 at the IMF/World Bank Annual Meetings, and EMTA distributed new forms for confirming when-issued trades of Ecuador Brady bonds on October 4. Lloyds is hoping for closing by the end of the year unless there is a delay in reconciling interest claims.

Peru, Panama: Proposed Market Practices for Peru and Panama debt instruments were distributed in July. If you have questions or comments about them, please contact Moraima Pares at (212) 235-2901.

Morocco: EMTA would like to thank Members for their efforts in reducing the number of unsettled Moroccan loan assignments. While the backlog has declined substantially, there is still a significant number of unprocessed transactions. For further information regarding the Moroccan loan backlog, please contact Didier Gonel (BNP) at 33-1-4014-8671 or Jonathan Murno (EMTA) at (212) 235-0174.

Miscellany

IMF/World Bank Reception

EMTA hosted a reception entitled "Una Noche en Madrid" on October 2 in Madrid, Spain to kick off the week of IMF/World Bank Annual Meetings. The reception was well attended by members of the Emerging Markets community (especially by representatives of Eastern European governments), and EMTA thanks its Directors and all other Members who were able to attend. Plans are already underway for next year's IMF/World Bank reception, which will be held in Washington, D.C.

EMTA News on Reuters

EMTA now offers its Members up-to-the-minute news electronically on Reuters. By entering "EMTA" on the Reuters screen, subscribers may now access EMTA information on upcoming meetings, conferences and noteworthy developments.

EMTA 1993 Annual Report

EMTA's first Annual Report was distributed to all Members beginning in September. The Annual Report contains EMTA's 1993 financial statements, as well as a description of the evolution of the Emerging Market trading industry, EMTA's 1993 accomplishments and 1994 goals and market commentary by EMTA's 1993 and 1994 chairmen, Nick Rohatyn (J.P. Morgan) and Alex Rodzianko (Chemical), respectively. All Members are encouraged to review the Annual Report and to give it appropriate distribution internally and to customers. If you would like to receive one or more copies, please contact Cristina von Bargen, who coordinated its creation and production, at (212) 235-2709.

EMTA Staff Change

On October 7, Lisa Abrams ended her assignment with EMTA and returned to Chemical Bank. Lisa's contributions to EMTA's membership efforts were notable, and she will be well-remembered. Future EMTA membership recruitment and relations will be supervised by Cristina von Bargen, as part of her general communications responsibilities.

EMTA to Get New Office Space

EMTA has outgrown its current office premises at 37 Wall Street and, during the fourth quarter, is expected to sign a lease for new office space at 63 Wall Street. During 1994, EMTA's activities have expanded substantially and its staff has increased from five to 12, thus straining the capacity of the current offices in a J.P. Morgan building. After an extensive search (which included space that Chemical Bank offered to make available), EMTA decided that more independent offices were desirable and that downtown Manhattan was economically preferable to mid-town. Assuming that final lease negotiations and office construction go as expected, EMTA should be moving to 63 Wall Street sometime during the first quarter of 1995.

Membership Update

EMTA continues to open its doors to new Members. New Members joining EMTA in the third quarter included Alliance Capital, American Express Bank (Cairo), Ashurst Morris Crisp, BB Securities, BfG Bank, Dewey Ballantine, Excel Banco, Hughes Hubbard & Reed, IBI Corporation, Scudder, Stevens & Clark, UBS and Union Bancaire Privee. EMTA continues to attract Members from around the world. If you know of any prospective Members, please contact Cristina von Bargen at (212) 235-2709.

EMTA is Your Association

EMTA continues to need your input to efficiently employ our resources and fulfill our role in the market. Please contact Michael Chamberlin, EMTA's Executive Director, or Cristina von Bargen, EMTA's Communications Manager, at (212) 235-1997, if there is any additional information you would like published in this Bulletin, or if you have a recommendation for an EMTA project.

Hotlines for Members

The number of inquiries from EMTA Members continues at a high level. To enable us to respond as rapidly as possible, EMTA offers the following hotline numbers:

Topic	***EMTA Contact Person***	***Telephone***
Code of Conduct	Michael M. Chamberlin	(212) 235-0571
Exotics/Loan Trading	Moraima Pares	(212) 235-2901
Eastern Europe/Russia	Sophie Pompea	(212) 235-1725
Technology	Sophie Pompea	(212) 235-1725
Global Securities Regulation	Bruce Wolfson (Bear Stearns)	(212) 272-2571
Equities	Kate Campana	(212) 235-1768
Options/Derivatives	Michael M. Chamberlin	(212) 235-1997
Broker-Dealer Compliance	Fred Krieger (Salomon)	(212) 783-7453
European Committee	Dean Menegas (Banque Indosuez)	331-44-201-954
Legal Issues	Kate Campana	(212) 235-1768
Accounting/Finance	Moraima Pares	(212) 235-2901
EMTA Meeting Schedule	Cristina von Bargen	(212) 235-2709
Emerging Markets Conferences	Jonathan Murno	(212) 235-0174
EMTA Membership Dues	Cristina von Bargen	(212) 235-2709

For general inquiries, please call Kate Campana or Cristina von Bargen at (212) 235-1997.

EMTA October - December Calendar of Events

October 1	Russia/Eastern Europe Working Group. Meeting at Conde Duque Hotel in Madrid, Spain at 3:00 p.m. Contact: Sophie Pompea at (212) 235-1725.
October 2	"Una Noche En Madrid" on Sunday, October 2, 1994, EMTA hosted this event in conjunction with the IMF/IBRD annual meetings in Madrid.
October 3	European Committee. Meeting at Banque Indosuez in Paris, France at 3:00 p.m. Contact: Dean Menegas (Banque Indosuez) at 33/1/4420-1954.
October 24	EMTA Open Meeting in New York City at Merrill Lynch, World Financial Center, North Tower, 3rd Floor, Conference Room A at 5:00 p.m. Contact: Cristina von Bargen (212) 235-2709.
October 24-25	Derivative Pricing, Hedging and Risk Management Conference co-sponsored by EMTA with *Risk Magazine* at the New York Palace in New York. Contact: Cristina von Bargen at (212) 235-2709.
October 26	Broker-Dealer Compliance Working Group. Luncheon meeting at India House, One Hanover Square, New York City at 12:15 noon. Contacts: Sophie Pompea at (212) 235-1725 or Fred Krieger (Salomon) at (212) 783-7453.
October 27	Technology Working Group. Meeting at General Electric, 570 Lexington Avenue, 16th Floor at 3:00 p.m. Contact Sophie Pompea at (212) 235-1725.
October 26	European Committee. Luncheon meeting at Indosuez Capital Securities in London at 12:00 noon. Contact: Dean Menegas (Banque Indosuez) at 33/1/4420-1954.
November 9	EMTA Board Meeting.
November 16	Lawyers Working Group. Breakfast meeting at Shearman & Sterling, 599 Lexington Avenue, New York City, Conference Center at 8:00 a.m. Contacts: Moraima Pares at (212) 235-2901 or David Skoblow (Chemical) at (212) 270-2177.
November 30	Broker-Dealer Compliance Working Group. Luncheon meeting at India House, One Hanover Square, New York City at 12:15 noon. Contacts: Sophie Pompea at (212) 235-1725 or Fred Krieger (Salomon) at (212) 783-7453.
December 7	EMTA Open Meeting in New York City at Merrill Lynch, World Financial Center, North Tower, 34th floor, Dining Room at 5:00 p.m. Contact: Cristina von Bargen at (212) 235-2709.
December 13	EMTA Annual Meeting in New York City at Chemical Bank, Third Floor Auditorium at 5:00 p.m. Contact: Cristina von Bargen at (212) 235-2709.
December 14	Lawyers Working Group. Breakfast meeting at Shearman & Sterling, 599 Lexington Avenue, New York City, Conference Center at 8:00 a.m. Contacts: Moraima Pares at (212) 235-2901 or David Skoblow (Chemical) at (212) 270-2177.