Emerging Markets Traders Association

Bulletin

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The marketplace continues to feel the effects of the sharp downturn in market values that began after general interest rates increased in February. Many experienced market participants believe that, unfortunate as it may have seemed, the 1st Quarter's market correction was inevitable and has laid a good foundation for a prolonged period of stable market growth during the remainder of 1994 and thereafter.

EMTA has been very active during this challenging time and has an ambitious agenda for the rest of 1994. Unlike some prior years, EMTA expects a great deal of activity over the remaining summer months (in addition to the World Cup), as described below:

June 7 EMTA Board Meeting in London

EMTA's Board of Directors held its third regular meeting for 1994 on June 7 at Morgan Grenfell in London. In addition to reviewing EMTA's finances and approving several major initiatives, the Board approved Bruce Wolfson (Bear Stearns) to replace Peter Albano (also Bear Stearns) as a Director. In addition, the Board accepted with regret the resignation of Bernardo Lanardonne (Banco Rio de la Plata) as a Director.

The principal focus of the Board meeting was on a series of reforms that, when fully implemented, should greatly change the way our marketplace operates. The recent past has shown a compelling need for our marketplace to become more efficient, transparent and professional. As the market continues both to grow and mature, it must move beyond some of the practices and procedures that could be tolerated in the past when it was smaller and a less significant part of the global capital markets. The successful completion of these reforms will better enable the industry to direct its energies and resources outward toward the continued growth of the Emerging Markets as an integral part of the global marketplace. If we are unable to look beyond the vested interests of the status quo, and fail to make these reforms, our industry stands to lose credibility with its investor base and with its regulators.

The market reforms approved by EMTA's Board can be implemented before the end of 1994, however, your support and participation are critical in making our marketplace as efficient, transparent and professional as possible.

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Backlog in Settling Assignments of Loan Assets

As described in the last EMTA Bulletin, one of the major challenges facing our industry is how to efficiently process the continuing high volume of loan trading, which has now led to a large backlog of unsettled trades. This backlog is a source of increased risk for each market participant and of potential systemic risk for the marketplace as a whole. Although much effort has been addressed to this problem, more can be done, both to reduce the current backlog and to ensure that future backlogs do not recur.

More aggressive bilateral and tripartite netting, along with lower trading volumes during the 2nd Quarter, have helped to reduce the current backlog. At its June 7 meeting, EMTA's Board established both the elimination of the current backlog and the prevention of its recurrence as high-priority industry goals.

As a further step to eliminate the current backlog, EMTA's Board authorized Manuel Mejia-Aoun and Marc Hèlie of Merrill Lynch to lead an immediate effort by major market participants to develop and implement a multilateral netting facility. This effort is now underway. With the assistance of Price Waterhouse, data regarding unsettled Russian Loans has been collected from ten major market participants with a view to completing the multilateral netting of these Loans in July. Similar efforts are planned in August with respect to loans to Morocco, Peru and Ecuador (and possibly others).

During the summer, a separate, major effort will be made to ensure that future backlogs do not accumulate. These efforts will include the introduction and strengthening of Market Practices designed to encourage the prompt settlement of loan assignments and the development of Standard Terms for Assignments of Loan Assets (including a standard confirmation and standard unwind and buy-in provisions). These Standard Terms should go a long way toward simplifying, and reducing the time now taken in, the process of preparing and negotiating assignment documentation. The Standard Terms, together with the 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 provisions.

Preliminary work on these developments is already underway, and this project could be completed in early fall. While these projects will not make loan trading as efficient as bond trading, they hold the potential for making loan trading a much more efficient process in the future than ever before.

Until these projects are completed, all market participants are urged to make their best efforts during the remaining summer months to reduce settlement backlogs and prevent their recurrence, by trading responsibly and devoting maximum resources to the settlement process. Continued efforts to implement netting arrangements with major counterparties and to use participations, when appropriate, with customers is 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.

Other Market Reforms

Other market reforms approved by EMTA's Board include:

(1) <u>Leverage Guidelines</u>. It is generally accepted that, in some cases, excessive extension of credit by some market participants to their customers has contributed to the size and speed of the decline in market values during the first part of 1994. Market volatility caused by excessive extension or use of credit by market participants is undesirable and does not serve the interests of an orderly market.

Such extensions or use of credit are subject to guidelines and restrictions under the laws and regulations of various jurisdictions and under the rules of various self-regulatory organizations. Such guidelines and restrictions are not uniform, and their applicability depends in part on such factors as the location of the market participants or their customers and the type of instrument against which such credit is extended. All market participants are urged to review and comply with all such guidelines and restrictions that apply to them and their activities.

In addition, however, and without intending to diminish the effect of any such existing guidelines and restrictions, EMTA has recommended that the initial extension of credit by market participants to their customers in connection with the purchase of Emerging Markets instruments, at least in circumstances where high reliance is placed on the market value of such instrument, not exceed the following voluntary guidelines (which are expressed as a range in order to accommodate differentiation of assets within each asset category):

	Loan Assets	Brady(and other) Bonds	Short-Term Debt Instruments*
Initial Margin Requirement (as a % of purchase price):	25-50%	20-40%	15-35%

* less than 2 years in duration

These guidelines are being recommended as an initial measure only, and EMTA intends to devote further study to this area. While not currently recommending specific guidelines, EMTA expects all market participants to establish and enforce on-going maintenance requirements as they deem appropriate as part of their normal risk management policies and procedures, taking into consideration such factors as the individual and category (including nationality) of counterparties, type of instrument, and identity and home jurisdiction of issuer and obligor.

Similarly, because trades of Brady Bonds on a when-issued basis may not settle for an extended period of time after the trade date, such trading may involve credit and other risks for market participants and their counterparties that are significantly greater than those arising in connection with ordinary bond trading. Accordingly, EMTA has recommended that all market participants consider where appropriate, in addition to complying with all applicable legal and regulatory requirements, refundable downpayments (such as from 5% to 10% of market value), on-going mark-to-market cash payments and maximum use of bilateral netting in connection with their when-issued Brady Bond trading activities.

(2) Normal Trading Hours. Many market participants have expressed concern about the unavailability of bona fide two-way price quotations and trading during business hours in times of market stress. Other market participants have suggested that mechanisms be developed within the Emerging Markets trading industry to halt trading of one or more instruments under certain circumstances such as order imbalances or extra-wide trading spreads.

EMTA's Board has recommended that Normal Trading Hours for the trading of Emerging Markets instruments should be considered to begin at 8:30 a.m. (local time in the applicable jurisdiction) and to end at 4:30 p.m. (local time in the applicable jurisdiction). All major market participants are expected to make themselves generally available to participate in the marketplace continuously during such Normal Trading Hours. Trading activities outside of these Normal Trading Hours are not discouraged, so long as they are subject to adequate recordkeeping and other management controls. See Code of Conduct B(2) (h) "Trading After Business Hours or Off-Premises".

Although trading halts can play a useful role in promoting a fair and orderly market under certain adverse circumstances such as severe imbalance of orders or inadequate dissemination of market, issuer or instrument information, EMTA does not believe that such trading halts would be appropriate at this time absent a greater market surveillance capability by EMTA or some other body. Similarly, although market-makers play an important (and in some cases indispensable) role in the operation of some marketplaces, there is currently no adequate existing regulatory or market framework for the creation of market-making responsibilities for the over-the-counter trading of Emerging Markets instruments.

As further discussed under "Code of Conduct/EMTA Enforcement Authority" below, it is possible that the regulatory framework necessary to establish specific rules regarding trading halts or market-making functions may be developed in the near future.

Code of Conduct/EMTA Enforcement Authority

In view of such circumstances as the market's performance in the first part of 1994, the accumulation of significant loan trade settlement backlogs and the occasional inability of the marketplace to function smoothly even in ordinary trading conditions, some major market participants have concluded that, in the interests of fair, orderly and efficient markets, EMTA should develop greater rule-making and enforcement powers. EMTA currently is a trade association without such powers; accordingly, EMTA works to promote greater market efficiency and professionalism by developing consensus and recommending voluntary trading principles and Market Practices, as well as standard documentation.

In a number of cases, however, various voluntary Market Practices have not been consistently observed, in some instances by individual market participants and, in other cases, by the general marketplace. EMTA Board members have occasionally been among those market participants not in compliance with EMTA Market Practices. The reasons for this inconsistent compliance with voluntary Market Practices vary from the perceived self-interest of certain market participants to simple lack of discipline. It is clear that, so long as compliance with EMTA's Market Practices is voluntary, such compliance will be inconsistent.

In response to the criticism that EMTA's market practices should be binding, EMTA intends to acquire greater enforcement authority in a series of stages. The development of these stages will require considerable consensus-building within the industry and close consultation with, and the approval of, the industry's regulators and supervisors.

As a first step, it is proposed that EMTA's Board contractually commit to comply with EMTA's Code of Conduct and to certain Market Practices. Some of these Market Practices will be embodied in the Standard Terms for the Assignment of Loan Assets referred to above which, when incorporated in specific loan trades, will become contractually binding on the applicable market participants. These measures would be accompanied by a greater effort to educate members about these Market Practices and their underlying rationales and by the adoption by EMTA of Voluntary Dispute Mediation procedures permitting consenting Members to submit disputes under the Code of Conduct or Market Practices to mediation under EMTA's coordination.

As a second step, it is proposed that all EMTA Members will be asked to agree to be bound by the Code of Conduct and such Market Practices as a continuing condition of membership. Further steps toward greater self-regulatory authority would only be taken as appropriate and in any event would not become effective before mid-1995.

Until EMTA acquires greater enforcement authority, either by contract as described above, or by other means in the future, there are only limited ways available to enforce greater discipline on the marketplace. As noted above, EMTA can be expected to promote its Code of Conduct and Market Practices more actively through educational programs and by the better example and leadership of EMTA's Board.

The best case for greater market discipline is based on the two main goals of EMTA's Code of Conduct and Market Practices--greater market efficiency and professionalism. The continued growth of the Emerging Markets trading industry depends in large part upon a number of factors (such as general macroeconomic conditions and the specific fundamentals of the Emerging Markets) that are outside the industry's control, but also upon certain other factors, such as the credibility that the investor community places in the efficiency and integrity of the marketplace, that are very much within the industry's control. It is in every market participant's self-interest, and the self-interest of every individual in the industry, to promote the market's credibility by aggressively striving toward greater efficiency and professionalism.

1993 Debt Trading Volume Survey

With Price Waterhouse's assistance, EMTA has completed collecting data for the 1993 Debt Trading Volume Survey and is now analyzing the results for publication within the next several weeks. EMTA wants to thank the 80 institutions (up from 58 last year) who submitted data. If you have any questions or suggestions regarding the Volume Survey, please contact Moraima Pares at (212) 235-2901.

Working Group Reports

Russia/Eastern Europe Working Group

With Brady reschedulings pending for Poland and Bulgaria, EMTA's Russia/Eastern Europe Working Group continues to be very active. Forms for confirming when-issued trades of Poland Brady Bonds and recommended Market Practices for trading such bonds and participations in Polish Loans were distributed in May and June, respectively. Market Practices for trading Russian Loans were recently finalized, and market participants are encouraged to send EMTA details of any bilateral Russian Loans that lack a recognized agent so that appropriate agency arrangements can be made. For more information, please contact Sophie Pompea at (212) 235-1725.

Exotics/Loan Trading Working Group

As noted above, a number of the Exotics/Loan Trading Working Group's projects are now directed toward reducing the existing backlog in the settlement of loan assignments. Under the leadership of Tom Winslade (J.P. Morgan), EMTA has been developing Standard Terms for Loan Assignments for incorporation by reference into loan confirmations. The first stage of this project has focused on a standard unwind clause. For more information, please contact Kate Campana at (212) 235-1768.

EMTA also encourages the documentation units of the largest trading houses to work more closely together to settle outstanding trades. Toward that end, under the leadership of Marc Hèlie (Merrill Lynch), EMTA is sponsoring a multilateral netting facility for loans.

This Group is also in the process of formulating Market Practices for Peru and Panama debt instruments. Forms for confirming when-issued trades of Equador Bonds were distributed in June. For more information, please contact Moraima Pares at (212) 235-2901.

EMTA continues to work with Banque Nationale de Paris (BNP) to reduce the number of unsettled loan assignments of Moroccan loans. While the backlog has declined substantially, there is still a significant number of unprocessed transactions. If you have not yet subscribed to BNP's service informing creditors of the status of pending transactions, EMTA recommends that you do so. For further information on this service or other questions regarding the Moroccan loan backlog, please contact Didier Gonel (BNP) at 33-1-4014-8671 or Jonathan Murno (EMTA) at (212) 235-0174.

Options/Derivatives Working Group

Under the leadership of Peggy Grieve (Chase) and David Lewis (J.P. Morgan), the Options/Derivatives Working Group recently completed a recommended form of Master Agreement and Standard Terms for Options on Emerging Markets Instruments. On July 15, the completed Master Agreement was distributed together with a detailed Market Practices Guide. For a copy, please contact Moraima Pares at (212) 235-2901.

Technology Working Group

EMTA's pilot project with General Electric Information Services to develop an electronic confirmation and matching system has been extended until the end of August to permit further evaluation and additional participants. During the pilot, EMTA is investigating other available options with a view toward implementing a system by the end of 1994. The long-term goal of this project is to enable market participants to confirm and match all loan and bond trades almost instantaneously, and eventually permit collection and dissemination of volume and price information on a real-time basis. For further information, please contact Sophie Pompea at (212) 235-1725.

European Working Group

The London Documentation Committee has been reconstituted as the European Working Group, and is now chaired by Dean Menegas (Banque Indosuez). For further information, please contact Dean Menegas at 331-44-201-954.

Miscellany

EMTA *Staff Additions*

As of July 1, EMTA welcomes Kate Campana as Deputy Director and Legal Counsel. Before joining EMTA, Kate was employed by Volunteers in Overseas Cooperative Assistance as Regional Director for East and North Africa. Previously, she was an Associate at Shearman & Sterling in the areas of International Finance and Mergers and Acquisitions. At EMTA, Kate will assume responsibility for coordinating many of EMTA's substantive projects, with special emphasis on the development of EMTA's activities in the equities area.

Also as of July 1, Cristina von Bargen joins EMTA as Communications Manager. Before joining EMTA, Cristina worked at Burson-Marsteller as Manager of Client Service and International Liaison. Cristina, who is fluent in Spanish and Portuguese, will be responsible for all of EMTA's external communications.

IMF Reception

EMTA will be hosting *"Una Noche En Madrid"* on Sunday, October 2, 1994, in conjunction with the IMF/IBRD annual meetings in Madrid. All EMTA Members are welcome and will shortly receive invitations. For further information, please call Lisa Corinne Abrams at (212) 235-0423.

Membership Update

EMTA's membership now exceeds 145 institutions-- 85 Primary Members and 62 Associate Members. During the 2nd Quarter of 1994, new members include Daiwa Securities America as a Primary Member, and Creditanstalt Bankverein, IBS, Nafinsa Securities, NatWest Markets and Reuters America, as Associate Members. EMTA strives to attract Members from around the world. If you know of any prospective Members, please contact Lisa Corinne Abrams at (212) 235-0423.

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 new 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 to increase. To respond more rapidly,
EMTA offers the following hotline numbers:

Topic	EMTA Contact Person	Telephone
Options/Derivatives	Michael M. Chamberlin	(212) 235-1997
Exotics/Loan Trading	Moraima Pares	(212) 235-2901
Russia/Eastern Europe	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
Broker-Dealer Compliance	Fred Krieger (Salomon)	(212) 783-7453
European Working Group	Dean Menegas (Banque Indosuez)	331-44-201-954
Legal Issues	Kate Campana	(212) 235-1768
Accounting/Finance	Moraima Pares	(212) 235-2901
EMTA Volume Survey	Moraima Pares	(212) 235-2901
EMTA Meeting Schedule	Moraima Pares	(212) 235-2901
Emerging Markets Conferences	Lisa Corinne Abrams	(212) 235-0423
EMTA Membership Dues	Tony Iglesias	(212) 235-2113

For general inquiries, please call Kate Campana or Cristina von Bargen at (212) 235-1997. For membership information, call Lisa Corinne Abrams, at (212) 235-0423.

EMTA July-October Calendar of Events

July 13	EMTA Open Meeting in New York City at Merrill Lynch, World Financial Center, North Tower, 34th floor, Dining Room (5:00 p.m. NYC time).
July 20	Lawyers Working Group. Breakfast meeting at Shearman & Sterling, 599 Lexington Avenue, New York City, Conference Center (8:00 a.m. NYC time). Contacts: Moraima Pares at (212) 235-2901 or David Skoblow (Chemical) at (212) 270-2177.
July 21-22	Latin American Issuers Forum Conference at The Parker Meridien, New York. Presented by Emerging Markets. For further information, please call (212) 995-9595.
July 27	Broker-Dealer Compliance Working Group. Luncheon meeting at India House, One Hanover Square, New York City (12:15 noon NYC time). Contacts: Sophie Pompea at (212) 235-1725 or Fred Krieger (Salomon) at (212) 783-7453.
July 28-29	Latin American Securities: Compliance, Clearance and Settlement Conference, at The Parker Meridien, New York City. Presented by International Business Communications. For further information, please contact (508) 481-6400.
August 10	Lawyers Working Group. Breakfast meeting at Shearman & Sterling, 599 Lexington Avenue, New York City, Conference Center (8:00 a.m. NYC time). Contacts: Moraima Pares at (212) 235-2901 or David Skoblow (Chemical) at (212) 270-2177.
August 17	EMTA Open Meeting in New York City at Merrill Lynch, World Financial Center, North Tower, 34th floor, Dining Room (5:00 p.m. NYC time).
August 31	Broker-Dealer Compliance Working Group. Luncheon meeting at India House, One Hanover Square, New York City (12:15 noon NYC time). Contacts: Sophie Pompea at (212) 235-1725 or Fred Krieger (Salomon) at (212) 783-7453.
September 14	EMTA Open Meeting in New York City at Merrill Lynch, World Financial Center, North Tower, 34th floor, Dining Room (5:00 p.m. NYC time).
September 21	Lawyers Working Group. Breakfast meeting at Shearman & Sterling, 599 Lexington Avenue, New York City, Conference Center (8:00 a.m. NYC time). Contacts: Moraima Pares at (212) 235-2901 or David Skoblow (Chemical) at (212) 270-2177.
September 28	Broker-Dealer Compliance Working Group. Luncheon meeting at India House, One Hanover Square, New York City (12:15 noon NYC time). Contacts: Sophie Pompea at (212) 235-1725 or Fred Krieger (Salomon) at (212) 783-7453.
September 28-30	Pre-IMF Institutional Investor Summit Conference in Madrid, Spain. EMTA will co-sponsor this event with the World Economic Development Congress. Contact: Lisa Corinne Abrams at (212) 235-0423.
October 2	"Una Noche En Madrid" on Sunday, October 2, 1994, EMTA will host this event in conjunction with the IMF/IBRD annual meetings in Madrid. All EMTA Members are welcome and will shortly receive invitations. Contact: Lisa Corinne Abrams at (212) 235-0423.

October 24-25 Derivative Pricing, Hedging and Risk Management Conference at the New York Palace in New York. EMTA will co-sponsor this event with Risk Magazine. Contact: Lisa Corinne Abrams at (212) 235-0423.