

*EMTA was formally incorporated in December 1990, in the wake of the so-called LDC Debt Crisis and the pioneering Brady Bond restructurings by Mexico and Venezuela. To help mark EMTA's 15<sup>th</sup> Anniversary, EMTA's Bulletin this year has been featuring a series of articles on the early periods of EMTA's history.*

*The 2<sup>nd</sup> Quarter Bulletin reprinted Bruce Wolfson's recollections of the informal meetings of traders beginning in 1989 that, with some encouragement from then-FRBNY President Gerald Corrigan, eventually led to EMTA's formation as the LDC Debt Traders Association. The 3<sup>rd</sup> Quarter Bulletin reprinted Tom Winslade's article on EMTA's Early Years (1992 and 1993), when it emerged as an independent trade association with a growing agenda of activities.*

*The series continues this Quarter with Michael Chamberlin's perspective on the evolution of the EM trading markets and the growth and diversification of EMTA's activities during the period from 1994 through 1998. Formerly a Partner at Shearman & Sterling with a law practice split between public and private sector Latin American debt restructurings and capital market transactions, Michael Chamberlin led Shearman & Sterling's representation of the international banking community in Mexico's Brady Bond restructuring and worked on many financings, refinancings and debt swaps in the 1980's and early 1990's. He became EMTA's principal outside legal counsel in 1990 and its Executive Director in early 1994.*

## **EMTA 1994-98: The Golden Age of EM Debt Trading?**

**By Michael M. Chamberlin**  
**EMTA Executive Director**

The EMTA that I joined over the Christmas Holidays in late 1993 (tucked away in an unused corner of JP Morgan's rabbit warren at 37 Wall Street) could not have been more different in size or scope of activities from the one that existed by the time of the Russian debt debacle in August 1998. The rapid evolution in EMTA's agenda and staffing mirrored the substantial changes that occurred throughout the Emerging Markets and the EM debt marketplace in the mid-1990's.

**Evolution of the EM Trading Markets.** During the 1990's, the market for Emerging Markets debt rapidly grew not only in volume, but also in the types of instruments traded, the number of trading houses and investors involved, and the size of the market in relation to others worldwide. The investor base for EM instruments expanded from its traditional investors to include many cross-over investors from the more mainstream high-yield and high-grade investment areas.

Investors were drawn to the Emerging Markets during this period by high yields and high growth potential, as well as by a general market trend toward positive economic and political reforms and improving economic performance in many Emerging Market countries. Despite these encouraging trends, however, investments and trading opportunities throughout the Emerging Markets continued to share certain characteristics that presented common risks. In addition to the customary risks stemming from the issuer's economic or financial performance and its capacity to service its payment obligations, these common risks included a variety of cross-border risks such as legal and regulatory uncertainties, enforcement difficulties, foreign exchange fluctuations and restrictions and changes in government or government policies, including the risk that a country's willingness might fall short of its capacity to honor its debt.

Despite a continuing trend that saw the transformation of most EM debt from the form of loans to bonds (first to Brady bonds and then to more traditional Eurobonds), with the creditor base shifting from commercial banks to other institutional investors, these risks and the volatility that they brought to the marketplace for EM debt, together with a number of weaknesses in trading infrastructure, in many respects kept the Emerging Markets separated from the trading and investment mainstream.

**Market Events; Tequila Crisis.** 1994 saw the completion of Brazil's Brady Plan restructuring, the last of the major Latin American restructurings coming out of the LDC debt crisis of the 1980's. Despite improving fundamentals in many EM countries (accompanied by numerous credit rating upgrades), the growth of the EM trading markets was punctuated by several market events that highlighted the potential volatility and riskiness of Emerging Markets investments. A long period of growth in both trading volumes and asset values was interrupted in 1994, first by the market's adverse reaction to rising interest rate levels in the Spring and then by the sharp decline in investor confidence that occurred after Mexico's peso devaluation in December. The Mexican devaluation, which now seems almost as long ago and remote as the LDC debt crisis and the Brady bonds that largely resolved it, set in motion a so-called "Tequila effect" of contagion that depressed market values throughout the Emerging Markets during early 1995. Following the massive rescue package organized for Mexico by the US and other G-7 nations, however, investor confidence in the Emerging Markets rebounded by mid-1995, and trading volumes and asset prices, as well as capital flows, showed considerable growth for the next several years.

In reviewing the market events of 1994, and the market's reaction to them, EMTA's Annual Reports for 1994 and 1995 noted the distinction between market performance and the performance of the marketplace. Many investors were disappointed by the adverse effect that the events of 1994 and early 1995 had on asset values throughout the Emerging Markets. Performance of the marketplace was less easily measured, although one could make some judgments based on factors such as liquidity, efficiency, transparency and settlement risk. Looking at these factors, market participants responded well to the market's challenges by maintaining orderly markets and by processing higher transaction volumes with greater efficiency.

In the memorable words of Peter Geraghty (one of EMTA's founding directors and a Board member during much of the 1990's), the Emerging Markets established themselves in the mid-1990's as more of a "state of mind" than a separate asset class, in which market events taught one to "expect the unexpected". Difficult market conditions throughout the Emerging Markets in 1994 and early 1995 helped build the case for why stronger systems were necessary and desirable, and why a substantial investment in market infrastructure was worth making. During a very difficult period, EMTA proved remarkably successful at mobilizing market participants to work productively on improving the performance of the EM debt trading marketplace. In its Annual Report for 1994, EMTA was able to point with pride, particularly during a year of market challenges, to the relatively smooth operation of the marketplace that was in significant part due to EMTA's projects and to the forum that EMTA provided to market participants to address pressing industry needs.

What had obviously been a crisis of potentially severe systemic magnitude was averted by decisive official sector intervention (at a particularly fragile time for the fixed income trading markets generally, because of the rising interest rate environment that prevailed during 1994),

and instead of a systemic crisis, the markets treated it largely as a buying opportunity in what proved to be the start of an extended period of improving EM fundamentals and trading market and investment growth. Although a useful reminder of the inherent risks in EM investing, one of the most lasting legacies of the Tequila crisis was the unfortunate lingering perception in the official sector (eventually sowing the seeds of the IMF's Sovereign Debt Restructuring Mechanism proposal in 2001) that investors in the Emerging Markets expected to be 'bailed out' in times of financial crisis.

**Asian Flu; Russian Debacle.** Sovereigns and other EM issuers generally took advantage of favorable market conditions from 1995 through 1997 to refinance a portion of their stock of debt, and investors generally welcomed the higher yields available in local currency instruments and more market-oriented dollar-denominated assets. EMTA's Annual Report for 1996 noted the considerable progress that had been made toward the successful completion of the restructuring process throughout the Emerging Markets. As a result, by then three themes had become evident—the broadening of the investor base from to include cross-over investors, the broadening of the asset class, both in terms of geographical diversity and in the types of available instruments, and the transformation of the debt from Brady bonds to capital markets financings.

Unfortunately, local currency asset values fell sharply following the onset of financial and economic difficulties in Southeast Asia beginning in mid-1997, leading to more general financial problems throughout the region. By the middle of 1998, market contagion had spread these difficulties to Russia (which in August experienced an abrupt and precipitous foreign exchange crisis and resulting default on its internal and external debt), which in turn led to a severe, and more general, contagion throughout the Emerging Markets in the latter half of 1998. The resulting loss of investor confidence eventually led to Brazil's devaluation of the Real in January 1999. These events, and their contagion effects, raised questions regarding the effectiveness of fundamental analysis in isolating potential investment opportunities in the Emerging Markets.

EMTA's Annual Report for 1997 noted that official sector support for the Emerging Markets had fallen short of market expectations, and that policymakers must appreciate that, "in today's world of interconnected global markets, their first responsibility is to provide a stable anchor for market expectations". What was most needed from the official sector was for it to review its role in monitoring economic performance, in encouraging and supporting the reform process, and, when appropriate, in taking decisive action to restore market confidence.

Market trading volumes (as measured by EMTA's Volume Survey) shot up in the mid-1990's from US \$ 1.979 trillion in 1993 to a peak of nearly US \$ 6 trillion in 1997, before falling off sharply after the Russian default in August 1998, as investors re-evaluated the volatility and returns on EM assets and dealers reduced their trading lines. During this time, face-to-face trading of EM debt between major dealers was almost entirely replaced by anonymous trading through the screens introduced by several interdealer brokers (IDB's) in the early 1990's.

**EMTA Tackles Trading Infrastructure Projects as well as New Documentation.** EMTA's activities during the mid-1990's responded largely to the needs of the dealer community, which were driven in large part by the increase in trading volumes that occurred as a result of the Brady Plan restructurings for Argentina in 1993 and for Brazil in 1994 and the large increase in investor interest in Russia Vnesheconombank loans. The expanded trading volumes tended to create a backlog in all stages of the processing of executed trades, which substantially increased counterparty risk for market participants. Although EMTA continued to support trading activity in these and other instruments with the recommendation of market practices and trading

documentation, increasingly EMTA's agenda involved the development of trading infrastructure, such as multilateral netting facilities for loan trades, a trade confirmation and matching service (Match-EM) and a feasibility study that led to the launch in 1998 of the Emerging Markets Clearing Corporation. These initiatives all tended to promote the continued expansion of the EM trading market, while improving trade processing efficiency and reducing settlement backlogs and related counterparty and systemic risks.

**Standard Terms.** With the exception of Russian loans, trading activity in loans, which had comprised almost the entire trading market until the first Brady Plan restructurings were completed in 1990, fell off sharply following the Argentina and Brazil restructurings, and it was replaced by a surge in bond trading. The increase in bond trading volumes, coupled with increased demand for Russian and various exotic loans, highlighted the relative inefficiency of the process of documenting loan trades. This led to the development of standard terms for the assignment of loan assets, which was recommended to the marketplace in 1995. The standard terms for loan assignments, which replaced a frustrating case-by-case negotiation process, proved a great success, and quickly led to the development and recommendation of standard terms for loan participations (in 1996). Under these Standard Terms, counterparties were able for the first time to exchange confirmations that incorporated the standard terms into binding contracts, thus avoiding the need for negotiating the terms of individual trades. These projects were led by Bruce Wolfson (Bear), Kathleen Wells (JPM) and Bob Salvador (Chemical).

**Multilateral Netting.** As one might have anticipated, the increased efficiency in documenting loan assignments, coupled with high agent fees for processing individual assignments and increased counterparty risk as loan trading volumes in certain assets grew, also created additional pressure for greater efficiency in settling loan trades, especially after trading volumes surged in anticipation of the Russian rescheduling in 1997. In response to these needs, EMTA developed forms for bilaterally netting and, in 1994, a facility for multilaterally netting loan trades (with the assistance of Price Waterhouse). This facility became the accepted industry utility for reducing counterparty risk and, by settling a massive spike in trading activity for Russian loans trades, compressed months of painstaking settlement work into several difficult weeks in late 1997, thus facilitating the timely completion of Russia's massive loan rescheduling and continuing EMTA's long tradition of supporting the sovereign debt restructuring process. In connection with this rescheduling, the facility settled over 2,500 bilateral net positions aggregating over US\$ 7.3 billion in Russian VEB loans, so-called 'when-restructured' trades of loans and when-issued trades of Interest Notes submitted by 160 market participants. In addition to reducing counterparty risk and expediting settlement, EMTA's multilateral netting facilities for loans also enabled market participants to minimize the payment of costly agent processing fees.

The development of multilateral netting was led by Marc Helie and Manuel Mejia-Aoun (Merrill Lynch), Kathleen Wells (JPM), Ellie Winberg (Chase) and Bob Salvador (Chemical).

**Match-EM.** Until 1995, loan and bond trades were primarily confirmed by fax, which tended to lead to delays in matching and other uncertainties in the confirmation process. These delays were tolerable in a relatively low volume trading environment, but became increasingly problematic as trading volumes increased, particularly as the trading markets approached the reduction of settlement time from T + 5 to T + 3. In 1994, EMTA began to explore technologies to automate the confirmation and matching of trades with representatives of TRAX, which serves the Eurobond markets out of London. Because EM trading was conducted largely from New York and London, these discussions were eventually abandoned in favor of a joint venture with General Electric Information Services (GEIS) to build a new electronic system that would be

dedicated to the confirmation and matching of EM loan and bond trades. Called Match-EM, the new service, which was launched in May 1995, replaced the delivery of hardcopy confirmations with nearly instantaneous electronic matching and confirmation. Match-EM, whose development was led by Alex Rodzianko and Lou Bonavita (Chemical), became the first step toward more transparent and efficient (and less risky) clearing mechanisms and eventually was incorporated into the Emerging Markets Clearing Corporation as its original matching engine.

**EMCC.** By 1995, most ‘face-to-face’ trading directly between dealers had been replaced by trading through screens offered by a number of IDBs. These trading screens, which have remained the primary mechanism for trading in the interdealer market, are not ‘live’ in the sense of permitting instantaneous electronic execution, but rather anonymously indicate current market bids and offers that must be ‘hit’ or ‘lifted’ through oral communication with the IDB. Trades through these screens are generally executed on a ‘no-name give-up’ basis, with the IDB entering into offsetting transactions with the buying and selling dealers. Seemingly cumbersome, this process resulted in efficient price discovery and promoted considerable liquidity, especially in a number of benchmark instruments, as early as the mid-1990’s. Unfortunately, this increase in liquidity also tended to lead to a substantial concentration of counterparty risk in the private firm that provided clearing services to the IDB’s, inasmuch as the private clearing firm became the common counterparty for substantially all of the trades entered into through the IDB trading screens prior to their settlement in Euroclear or Clearstream (formerly Cedel).

In 1995, EMTA’s Board of Directors, in an effort to support the trading screens but address the resulting concentration of counterparty risk, authorized a working group (led by Joe Willing and Donna Reino of JP Morgan) to study the feasibility of developing a clearing corporation to assume and mutualize this counterparty risk. The resulting feasibility study, published in early 1996 and reviewed and debated for several months, recommended that EMTA sponsor development, in collaboration with the National Securities Clearing Corporation (NSCC), of an industry utility to clear Emerging Markets bond trades through the IDB trading screens. The resulting clearing entity, the Emerging Markets Clearing Corporation (EMCC), which began operations in April 1998, brought improved efficiency and reduced counterparty risk to the marketplace for Brady bonds and sovereign Eurobonds by assuming matched trades and delivering settlement instructions directly to the European settlement systems. EMCC was formed as a stand-alone corporation, subject to regulation by the US Securities and Exchange Commission, and owned primarily by leading market participants and with its own board of directors, while operated and managed as part of the NSCC family of clearing corporations.

From the outset, EMCC’s trade matching rates were consistently high, with over 90% of trades successfully matched and assumed on trade date and settled on T + 3. Unfortunately, some of the expected benefits of EMCC (as well as anticipated economies) were never realized because of participation by less than all of the major dealer firms (and EMCC was eventually subsumed into the DTCC corporate structure in 2002 and then dissolved in early 2005).

Nevertheless, EMCC served the EM trading community well by bringing much greater administrative efficiency to the settlement of interdealer bond trades and by reducing counterparty and related systemic risk, particularly during times of real and potential market crisis. During its existence, EMCC’s board of directors was chaired first by Joe Willing (JPM) and later by Paul Masco (Salomon Brothers).

**New Directions for EMTA.** At some point in the mid-1990's, EMTA's Board initiated a more or less continuous process of reviewing EMTA's own activities and performance against its original mission (to enhance market efficiency and professionalism) and market expectations. On several occasions (notably in EMTA's 1995 and 1996 Annual Reports), this somewhat introspective process seemed to lead almost inexorably to the conclusion (again in Peter Geraghty's memorable words) that it was not yet time for EMTA "to declare victory" over the forces of market inefficiency and disorder. There was an increasing appreciation, however, that EMTA's projects were no longer being undertaken solely in reaction to market events and to the resulting emergency needs of the marketplace, but rather, more often than not, more proactively to meet future needs. As the Emerging Markets had evolved, so had EMTA's role—from fire-fighting to architecture.

**From Fixed Income to FX Trading.** The 1997 Asian financial crisis, which was for the most part quickly resolved, culminated in Russia's massive default in August 1998 (and a resulting wave of contagion) and pointed out the need for the Emerging Markets financial community to pay more attention to disruptions in the foreign exchange markets. In 1997, EMTA began collaborating with the Foreign Exchange Committee of the FRBNY (the FXC) and the International Swaps & Derivatives Association (ISDA) to develop what eventually became the 1998 FX and Currency Option Definitions, which provided the market with an architecture for documenting transactions in EM currencies. Among other things, the 1998 Definitions created a common vocabulary for addressing market disruptions, which enabled market participants to standardize documentation for, and reduce a growing backlog in the settlement of, forward trading in various non-deliverable currencies (NDF's).

Responding to the Russian Ruble crisis in August 1998, EMTA's experience in standardizing NDF language for market disruptions led to a joint project with the Chicago Mercantile Exchange (CME) to develop a back-up survey mechanism for valuing the Ruble/USD exchange rate, which later became the primary settlement rate for the market and provided a model for similar back-up mechanisms for other EM currencies.

EMTA's work in the FX area, which has led to the development of market practices, NDF templates and back-up valuation mechanisms for various EM currencies (as well as providing a forum for responding to market crises), has generally been led by Bill Arnold of JP Morgan Chase and other members of an NDF working group.

**Local Markets Initiatives.** Investor interest in local market instruments accelerated in the mid-1990's, and EMTA responded with a number of initiatives designed to make the trading of local market instruments more transparent and efficient. Using EMTA's network of contacts within the global trading community and with governmental officials and regulators throughout the Emerging Markets, these projects included the review of local law in major EM jurisdictions relating to netting, bankruptcy and derivatives, as well as a variety of issues related to securities regulation and processing. One thing that EMTA discovered in the context of its work in various local markets was that expertise in one market was often helpful when another market reached a similar stage of development. As a result, EMTA was able to facilitate a certain amount of cross-pollination both within and across regions, with an overall goal of bringing not only better transparency to individual local markets, but also greater consistency of standards and practices among them.

While an interesting characteristic of EMTA's work in the EM local markets was the obvious need to pursue local projects in collaboration with existing trade groups in the relevant local

market, another, less obvious, aspect was the constant tension that existed between investment banks that wanted to pursue projects in various local markets and commercial banks with extensive franchises throughout the Emerging Markets that did not want such projects to amount, in their view, to a transfer of expertise to institutions without such local franchises.

After a promising start (which lasted for several years), EMTA's local markets initiative, with the exception of the FX projects described above, was a casualty of the cutback in EMTA staffing and activities that resulted from trimming expenses in response to the declining trading volumes caused by the Asian crisis and Russian default.

**EMTA's Leaders during its Middle Years.** There is a great tradition of change in the Emerging Markets and in the trading markets generally. The years from 1994 through 1998 were no exception. During this time, many of EMTA's founding directors stepped down in favor of a new generation of industry leaders.

In 1996, EMTA's first Chairman (and in many ways its guiding spirit), Nick Rohatyn (JP Morgan), resigned from the EMTA Board in favor of Guido Mosca (who by 1999 had become NYC Co-Chair).

Peter Geraghty (ING and ING-Barings) served as EMTA's Co-Chair or Vice-Chair from 1994-1996 and remained on the Board through 1997 (and later returned on behalf of Darby Investments and, more recently, Dresdner Bank).

Alex Rodzianko (Chemical Bank) served as EMTA's Chairman or Co-Chair in 1994 and 1995 and remained on the Board through 1997.

Rick Haller (Morgan Grenfell and later Deutsche Morgan Grenfell) served as Vice-Chair from 1994-96 and as London Co-Chair from 1997-98.

Paul Masco (Salomon Brothers) served on EMTA's Board throughout this period and was a Vice-Chair from 1995-98 (and was later an NYC Co-Chair in 1999).

Jorge Jasson (Chase and later JP Morgan Chase) served as EMTA's NYC Co-Chair from 1996-98.

Other market leaders who served on EMTA's Board as officers during this period included Daniel Canel (Chase and later UBS) and Manuel Mejia-Aoun (Merrill Lynch).

And notably, Juan del Azar (Merrill Lynch) first joined the Board in 1998 (later serving as London Co-Chair from 2000-2005), Bruce Wolfson (Bear Stearns and now at Rohatyn Group) first joined EMTA's Board in 1995 (and reluctantly declined many opportunities to serve as a Vice-Chair) and Mark Coombs (ANZ, and now Ashmore) served on the Board throughout this period (and as a Co-Chair from 2001 to date).

A list of a few other names of individuals who at one time or another served on EMTA's Board during this period reads almost like a Who's Who in EM trading: Vince Perez, Abe Curdumi, Alex McLeod, Hugo Verdegaal, Joe Boyle, Alexis Habib, Jose Pedreira, Ignacio Sosa, Wayne Lyski, Americo DaCorte and Gail Segal, among others.

**EMTA's Consensus Approach.** EMTA was founded in 1990 on the principle that the size of the trading pie was more important than the size of the individual slices. Competitive positions were, for certain purposes, subordinated to the greater good of the industry (or at least it often seemed that way).

This principle, that all would prosper more as the trading markets became more transparent and efficient (and as a result expanded), evolved over the years into a somewhat unusual consensus approach toward decision-making, which was never itself articulated very transparently or written into any of EMTA's governing documents. Nevertheless, it served to determine EMTA's decision-making process from the early 1990's (dating from the last time that Kathy Galbraith asked if there was any objection to her description of a proposed market practice, waited two or three seconds and then announced that the market practice had been adopted) until the present.

Early on, EMTA's founders had determined that EMTA would not have any enforcement or regulatory authority, but would be a voluntary trade association with power only to recommend market practices and documentation, and this approach was reconfirmed several times during the mid-1990's. But the founders had not clearly provided for how EMTA's market recommendations were to be determined.

What ultimately evolved was an informal consensus approach toward decision-making, not unlike that often used informally to govern Bank Advisory Committees in the 1980's and early 1990's, that is neither majority rule nor a unanimous voting requirement, but something falling in between.

Quite intentionally, decisions are not made by a prescribed majority or super-majority vote (EMTA's by-laws are silent on the point). Rather, through a process of explanation and discussion, individual market views and concerns are expressed, considered and addressed, and the marketplace is encouraged through an informal polling process to reach a common view. Above all, reaching consensus within EMTA has always required a balancing of interests. The majority has never overridden a reasonable objection from a significant minority, and a minority has never insisted upon an objection if and when it became clear that it had been raised and fairly considered. Following a process of give and take, concerns are considered, objections incorporated or graciously dropped and consensus forms. While 'talking one's book' certainly occurs in the early stages of the process, it is expected to be set aside in the later stages.

Speed and certainty of result are sometimes sacrificed for the greater legitimacy that comes from a fair consideration of all views. Weighing factors such as the influence of a market participant and the strength of its conviction or the reasonableness of its views requires subjective judgment, and determining when consensus is reached (and sometimes guiding the process toward where consensus can be found) may be more art than science.

Is EMTA's consensus approach toward decision-making infallible? I doubt it, but it has never been challenged. Although EMTA recommendations are advisory only and not binding on market participants, they generally have been followed by the marketplace, in large part because the process has respected concerns and required consensus before any recommendation is made.

**The Continuing Warrant Saga.** While EMTA has had its share of successes, the exception that may prove the rule has been EMTA and the EM trading community's continuing inability to resolve longstanding difficulties in the trading and settlement of the commodity-oriented warrants that were attached to some of the early Brady bonds (most notably Mexico's Value



Recovery Rights and Venezuela's Oil Obligations). Originally issued in 1990, these warrants were attributed little or no value for many years by the marketplace, which more or less ignored relatively clear market practices for Brady bond and related warrant trading and settlement. As a result, in a great many cases, the failure to submit separate settlement instructions in the early years of Brady bond and related warrant trading led to massive confusion in warrant ownership and a huge backlog in settlement, that only became pressing in more recent years when sharply higher oil prices triggered payments on them and moved them into the money.

Over the years, several EMTA working groups struggled (without much success) with how to reconcile their current ownership and minimize these trading and settlement difficulties going forward. Reconciliation efforts in the mid-1990's failed, and the original market practices (requiring separate settlement instructions) were reaffirmed in 1996, but again did not seem to prevent the proliferation of ownership confusion and settlement backlog. In 1997, EMTA began seeking new approaches to trading and settling warrants and their related Brady bonds that were designed to simplify settlement (eg, by bundling them into units that only required a single settlement instruction), but by then sufficient seeds of confusion had already been sowed to create reconciliation and settlement problems that have continued to the present.

The clear lesson from the warrant debacle is that, in designing market practices (particularly in the case of more exotic trading instruments such as warrants), front and back offices must work together to develop approaches that reconcile the preferences of traders with the practical realities of their back offices.

**EMTA's Independence and Growth in Staffing and Activities.** At the end of 1993, EMTA had four employees, three seconded from JP Morgan (including its first Executive Director, Tom Winslade) and one from Chemical Bank, on an annual budget of about \$1.6 million (and 118 members). By early 1995 (as part of a plan to further confirm its independence), EMTA had moved from JP Morgan's offices at 37 Wall Street to its own space in the old Brown Brothers Harriman building at 63 Wall Street (where its offices, which included terraces with plantings, remained until late 2002), and by the end of that year had expanded to 18 employees on an annual budget of \$4.8 million (with 146 members). As intended by its Board of Directors, EMTA had become a fully independent trade association with a diversified array of activities ranging well beyond the recommendation of market practices and standard documentation. In the midst of the severe market contraction that occurred as a result of the Asian crisis and Russian default, EMTA had a staff of 13 at the end of 1998 and had revenues of \$4.7 million (but with expenses of only \$3.3 million) and 147 member firms.

**The Closing of the Frontier Market.** Nick Rohatyn, Peter Geraghty, Kathy Galbraith, Stephen Dizard, Alex Rodzianko, Rick Haller, Manuel Mejia-Aoun and the rest of EMTA's founding directors and their firms hoped and expected that their new trade association would help make the EM trading markets more efficient, transparent and professional. By the end of 1998, eight years after EMTA's formation, the Emerging Markets trading industry was well on its way toward joining the trading and investment mainstream, with well-understood and widely observed documentation and market practices (other than those relating to warrants!) and trading infrastructure as safe and sound as that of any established market. Whatever early perceptions there had been that the Emerging Markets were 'cowboy markets' were by then a thing of the past, if not a fading memory.

EMTA's Annual Report for 1996 contained the following paragraphs, which pretty well describe the trends in the Emerging Markets and in the EM trading markets that were evident then (and have continued into the present):

"Years ago, it was fashionable to compare our marketplace to a frontier town. Recently, things have become a great deal more civilized. The frontiers of our marketplace are now in the Local Markets themselves, as sophisticated investors increasingly look directly to Local Markets for purer risk and higher yields. Many Emerging Markets countries are admirably meeting the challenges of reforming their economies and adapting their capital markets to meet the needs of foreign investors.

"...we [at EMTA] hope and believe that we are on the right path, but as has often been the case in the past, without a very clear map. As always, we need and welcome our members' input, involvement and support to make sure that we keep moving at the right speed and in the right direction."

All as true now as it was then.

**Seeds of the Burden-Sharing Controversy.** As early as 1997, EMTA had advocated a stronger official sector role in the area of encouraging the economic reform process, monitoring performance and preventing sovereign crises. By 1998, concerns in the official sector about the potential budgetary and moral hazard implications of widespread ownership of sovereign bonds on the process of resolving sovereign crises began to be taken seriously by the EM trading and investment communities, as Ecuador's impending economic difficulties became clearly evident.

In its 1998 Annual Report, EMTA acknowledged the important role of the private sector's participation in crisis prevention and management, but expressed concerns that recent signals from the official sector suggested an under-appreciation of the risks, costs and difficulties in forcing such participation. Although rescheduling bonds may sometimes be necessary, EMTA cautioned that the bond markets were among the most stable sources of funds available to the Emerging Markets countries, and that great care should be taken to ensure that this flow of funds was encouraged and not driven away. EMTA further expressed its concerns that any policy that emphasized bond rescheduling more than the need for EM countries to take all measures to avoid them was likely to be counter-productive.

Future events (from 1999 continuing to the present) confirmed a lack of consensus between the official and private sectors on the appropriate balancing of interests among sovereign debtors, their private and public sector creditors and the official sector in resolving sovereign financial crises, but that is a story to be developed in a succeeding chapter of EMTA's history. Suffice it to say that the seeds of this lack of consensus were sowed in the mid-1990's beginning with Mexico's so-called Tequila crisis, and warning signals were apparent soon thereafter.

**Conclusion.** The Emerging Markets debt trading industry grew rapidly and began to mature in the early and mid-1990's. By 1998, it was apparent that the trading community's heavy investment in stronger systems and infrastructure had paid off. Market losses due to the roller coaster of market events in the mid-1990's were not compounded by systems failures or the breakdown of market practices or liquidity.

EMTA also grew rapidly in the mid-1990's in terms of staff, budget and scope of activities, and survived a severe market shock in 1998 and resulting contraction by shedding expenses well ahead of declining revenues and returning to its core missions of working to make the EM trading markets more efficient and providing a forum to enable market participants to identify,

discuss and resolve industry challenges. During the mid-1990's, the EM trading industry began a process of mainstreaming, which has continued to the present, punctuated by occasional market events that have emphasized that wherever EM may seem to be from time to time in its evolution, it requires its own forum to deal with the twists and turns that make it unique.

By 1998, it had become clear that EMTA would continue to be that forum, but that it would increasingly function in collaboration with the trading and investment mainstream.