EMTA

Bulletin

20 YEARS

2010--EMTA's 20th Anniversary Year

3rd Quarter 2010 Volume 2010: No. 3

EMTA Survey: Emerging Markets Debt Trading at US$1.551 Trillion in Second Quarter 2010

Inside

(click on topic for link to page):

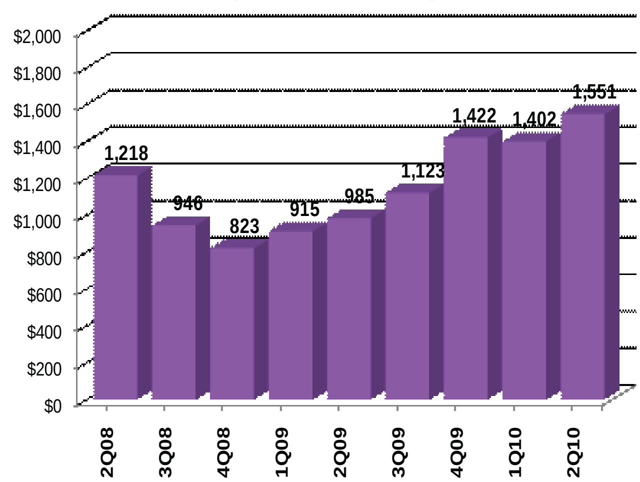
Emerging Markets debt trading volumes stood at US$1.551 trillion in the second quarter of 2010, according to a report released on August 12, 2010 by EMTA. This represents an increase of 57% compared to second quarter 2009 volumes of US$985 billion, and an 11% increase over the US$1.402 trillion reported to EMTA in the first quarter.

Richard Segal, Emerging Markets Fixed Income Strategist at Knight Capital, commented "Trading activity was exceptionally strong on aggregate during the second quarter, though the increase was concentrated in corporate bonds--in the case of the hard currency sector--and local currency debt."

EMTA's Survey includes trading volumes in debt instruments from over 90 Emerging Market countries, as reported by more than 50 leading investment and commercial banks, asset management firms and hedge funds.

Aggregate Trading Volume

(in US$billions)



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Trade Association for the Emerging Markets

Local Market Instruments at 69% of Volume

Turnover in local market instruments stood at US$1.076 trillion in the second quarter, representing 69% of total reported volume. This represents a 79% increase compared to trading of US$600 billion in the same quarter last year, and a 12% increase over first quarter 2010 volume of US$960 billion.

Brazilian instruments were the most frequently traded local markets debt, at US$183 billion. Other frequently traded local instruments were those from Mexico (US$144 billion), Hong Kong (US$125 billion), South Africa (US$120 billion) and India (US$71 billion).

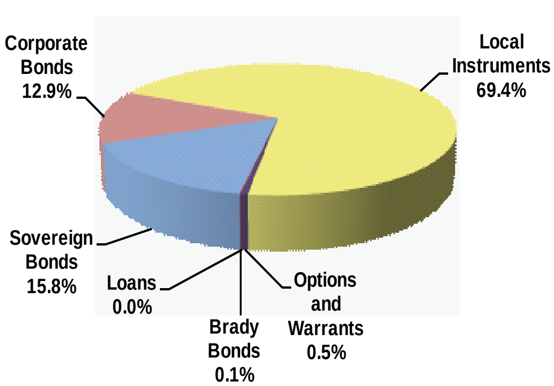
Eurobond Volumes at US$465 Billion

Eurobond trading stood at US$465 billion in the second quarter. This compares to US$374 billion in the second quarter of 2009 (up 24%) and US$426 billion in the first quarter of 2010 (a 9% increase).

Only 53% of Eurobond activity involved sovereign debt issues, compared with a 60% share in the prior quarter, with Survey participants reporting US$245 billion in sovereign Eurobond turnover, compared with US$255 billion in the previous quarter, representing a 4% decrease. Segal noted that, "despite the sizeable inflows into dedicated Emerging Market funds, activity in the sovereign sector has stagnated, though more for supply than demand reasons."

Conversely, corporate Eurobond trading stood at US$201 billion, compared to US$158 billion in the previous quarter, or a 27% increase. Sovereign Eurobond activity accounted for 16% of overall Survey volumes, with corporate rising to 13% of the total Survey.

Volume by Type of Instrument, 2Q 2010



The most frequently traded individual EM Eurobonds in the first quarter included Russia's 2030 bond (US$19 billion in turnover), Brazil's 2040 bond (US$9 billion), Venezuela's 2027 bond (US$6 billion) and Russia's new 2020 issue (US$5 billion).

In addition to local markets bonds, and sovereign and corporate Eurobonds, the Survey also includes turnover in warrants, options, loans and Brady bonds. Survey participants reported US$8 billion in warrant and option trades (1% of volume), US$900 million in Brady trades (less than one percent of volume), and US$600 million in loan assignments (also less than 1% of Survey turnover).

Brazil, Mexico and Hong Kong Instruments Most Frequently Traded

Brazilian instruments were the most frequently traded instruments overall according to Survey participants, with US$243 billion in turnover. This compares with US$188 billion in the second quarter of 2009 (a 28% increase). Brazilian volumes accounted for 16% of total Survey trading.

Mexican instruments were the second most frequently traded instruments in the EMTA report, at US$186 billion, according to Survey participants. This represents a 280% increase on the US$49 billion reported in the second quarter of 2009. Mexican volumes accounted for 12% of total reported volume.

Third were Hong Kong assets, at US$143 billion in turnover. This compares to US$71 billion in the second quarter of 2009, a 102% increase. Hong Kong instrument trading accounted for 9% of Survey volume.

Other frequently traded instruments were securities from South Africa (US$126 billion), Russia (US$88 billion), and Argentina (US$76 billion).

For a copy of EMTA's Second Quarter 2010 Debt Trading Volume Survey, please contact Jonathan Murno at jmurno@emta.org or +1 (646) 289-5413.

EMTA Survey: Emerging Markets CDS Trading at US$1.191 Trillion in 2009

Trading in Emerging Markets Credit Default Swaps (CDS) stood at US$1.191 trillion in 2009, according to a Survey introduced on July 13, 2010 by EMTA.

EMTA collected data from 11 major international banks and broker-dealers on CDS contracts. Participants were asked to report their CDS volumes on 19 Emerging Markets countries and 10 EM corporate issuers.

Michael Chamberlin, EMTA Executive Director, noted that despite the limited nature of its Survey (which includes data only from major dealers represented on its Board of Directors on a small number of EM sovereign and corporate credits), "this is the starting point for what we hope will become a useful tool for measuring actual trends in trading volumes in Emerging Markets CDS contracts."

H. David Spegel, Global Head of Emerging Markets Strategy at ING Financial Markets LLC and an EMTA Board member, commented, "The data, which investors have long sought, represents the cooperative spirit within the industry to provide an improved level of transparency related to Emerging Markets CDS versus cash bond developments. As the survey develops further, it should go a long way to ease concerns among many industry participants regarding what had once been considered an opaque corner of the credit market."

Among the Survey highlights:

Volume ranged from a low of US$239 billion in the first quarter of 2009 to a high of US$355 billion in the second quarter of 2009.

The most frequently traded sovereign CDS contract in the Survey was on Brazilian sovereign CDS, at US$159 billion. Survey participants also reported trading US$151 billion in Turkish sovereign CDS contracts and US$144 billion in Russian sovereign CDS.

The most frequently traded corporate CDS contracts included in the Survey were those on Gazprom (US$144 billion). This represented more than ten times the volume of the second most frequently traded CDS corporate contract, according to participant data, which was on Pemex (US$13 billion).

For a copy of EMTA's CDS Trading Volume Survey for 2009, please contact jmurno@emta.org or +1 (646) 289-5413.

EMTA Survey: Emerging Markets CDS Trading at US$487 Billion in First Quarter

Following the release of the 2009 Annual Survey, EMTA released 1Q 2010 data a week later on July 21, 2010. Trading in Emerging Markets Credit Default Swaps (CDS) stood at US$487 billion in the first quarter of 2010.

This represented a 103% increase on the US$239 billion in Emerging Markets CDS contracts reported to EMTA in the first quarter of 2009, and a 40% increase compared to fourth quarter 2009 volumes of US$349 billion.

In the first quarter, EMTA collected data from 12 major international banks and broker-dealers on Emerging Market CDS contracts (with one firm joining the Survey since the 2009 annual report). Participants were again asked to report their CDS volumes on 19 Emerging Markets countries and 10 EM corporate issuers.

Jane Brauer, Director and Senior Quantitative Strategist at Bank of America Merrill Lynch, commented, "What is significant about Emerging Markets CDS trading volume is that its rate of growth is much faster than EM hard currency Eurobonds; in fact, the trading volume of EM CDS in the first quarter surpassed that of EM hard currency bonds. Notwithstanding the regulatory overhang on derivatives, the recovery in CDS trading volume provides investors with greater hedging tools and the ability to increase EM exposure when bonds are in short supply." She added, "there continues to be a shortage of broad based, attractive funding, which enhances the value of CDS relative to bonds."

The most frequently traded sovereign CDS contract in the Survey was on Turkish sovereign CDS, at US$84 billion. Survey participants also reported trading US$74 billion in Brazilian sovereign CDS contracts and US$57 billion in Mexican sovereign CDS.

The most frequently traded corporate CDS contracts included in the Survey were those on Gazprom (US$25 billion). Participants also reported volumes of US$12 billion in Pemex CDS and US$2 billion in Cemex CDS trades.

Michael Chamberlin, Executive Director of EMTA, noted that Survey was launched as a starting point to offer greater transparency in the Emerging Markets CDS market. "The data supplied by our EMTA Board firms provides a good surrogate for measuring trends in the overall market," he stated.

For a copy of EMTA's CDS First Quarter 2010 Trading Volume Survey, please contact Jonathan Murno at jmurno@emta.org or +1 (646) 289-5413.

Emerging Markets CDS Trading at US$658 Billion in Second Quarter

Trading in Emerging Markets Credit Default Swaps (CDS) stood at US$658 billion in the second quarter of 2010, according to a report released by EMTA on August 10, 2010.

This represented an 85% increase on the US$355 billion in Emerging Markets CDS contracts reported to EMTA in the second quarter of 2009, and a 35% increase compared to first quarter 2010 volumes of US$487 billion.

Hongtao Jiang, a Director of Emerging Markets Strategy at Deutsche Bank, noted that the data confirms increased liquidity in the CDS markets. “We believe the standardization efforts made by the financial community in 2009 have contributed to better liquidity in the CDS markets. In addition, compared to the cash markets, the rate of increase in EMTA’s reported CDS volumes, which include rollovers and netting executions, also appears much faster as leveraged cash trading remains below pre-crisis levels. Finally, we believe the hedging need caused by Eurozone sovereign risk in April and May, and the subsequent squeeze, have also contributed to the increase in CDS trading volumes in the second quarter of 2010,” he commented.

The most frequently traded sovereign CDS contract in the Survey was on Turkish sovereign CDS, at US$118 billion. Survey participants also reported trading US$92 billion in Russian sovereign CDS contracts and US$69 billion in Brazilian sovereign CDS.

The most frequently traded corporate CDS contracts included in the Survey were those on Gazprom (US$54 billion). Participants also reported volumes of US$10 billion in Pemex CDS and US$1 billion in Petrobras CDS trades.

For its survey, EMTA collected data from 12 major international banks and broker-dealers on Emerging Market CDS contracts. Participants were asked to report their CDS volumes on 19 Emerging Markets countries and 10 EM corporate issuers. For a copy of EMTA’s CDS Second Quarter 2010 Trading Volume Survey, please contact Jonathan Murno at jmurno@emta.org or +1 (646) 289-5413.

EMTA 1994-1998: The Golden Age of EM Debt Trading?

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 20th Anniversary, EMTA's Bulletin this year has been featuring a series of articles on the early periods of EMTA's history.

The 1st 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 2nd 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.

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This article entitled EMTA 1994-1998: The Golden Age of EM Debt Trading? is attached as an Annex to this Bulletin.

GDP-Linked Bonds: A Dialogue with the Market

As described in the 2Q EMTA Bulletin, EMTA is following up on the suggestion made at a meeting of the Commonwealth Secretariat in June for more dialogue by the private sector regarding the use of counter-cyclical financial instruments (for example GDP-linked bonds) that could be useful to ease financial stress in certain emerging markets, or more generally for a variety of issuers.

We have been collecting comments from market participants on a number of issues relating to these types of instruments and would welcome more input. Please contact Starla Griffin at sgriffin@emta.org for a copy of the most recent memorandum summarizing market participant feedback, or for more information about this initiative.

Joint EMTA/World Bank Local Markets Initiative: Nigeria

EMTA hosted the first call between EMTA members and representatives of the World Bank and IFC teams that are focusing on developing the government and corporate bond markets in Nigeria through the GEMLOC and ESMID programs. Research analysts, traders and portfolio managers from twelve EMTA member firms covering Africa joined the call on Friday, September 24, 2010, to be briefed on the World Bank's activities in Nigeria and to share their views on the market. GEMLOC is the World Bank initiative to promote local government bond markets in emerging markets and ESMID, the Efficient Securities Markets Institutional Development program, focuses on the development of local bond markets specifically in Africa.

This call was the first in a joint EMTA/World Bank initiative to promote the efficient development of local markets in sub-Saharan Africa that was launched last February.

EMTA members agreed with the summaries of the bottlenecks and proposed solutions for improving efficiencies in both the government and corporate bond markets as described by the GEMLOC and ESMID teams. The follow-up conversation focused largely on issues in the corporate bond markets; in particular, how to unlock liquidity and limit the regulatory and cost burden for new issuers. Participants also discussed whether current yields meant that local corporates could fund more cheaply in dollars (and how a sovereign benchmark could assist this process), and what other assets could be attractive for investors, such as collateralized debt and securitized assets. Participants did not believe that the government bond issues were crowding out corporate issues in the local market, but they raised other issues that could affect the decision to invest in the Nigerian local market vs. other Emerging Markets, including the one-year holding period for FX and potential interest-rate risk.

All participants agreed that, particularly in the current environment where there is less activity in the local markets by foreign investors, it would be helpful to involve more local banks in the future discussions. For a more complete summary of the call or for more information on this initiative, please contact Starla Griffin at sgriffin@emta.org.

Cote d'Ivoire Discussion Paper

EMTA recently published a discussion paper on "Issues Presented by the Cote d'Ivoire Debt Restructurings," which, among other things, raises concerns about extending Paris Club comparable treatment to local markets instruments. For a copy of this discussion paper, please Click Here.

UNIDROIT Convention on Substantive Rules for Intermediated Securities

Unidroit (the International Institute for the Unification of Private Law) has approved the text of a convention on Substantive Rules for Intermediated Securities, which will be known as the Geneva Securities Convention once ratified. More than 100 countries and trade groups participated in the drafting of the convention which aims to harmonize the commercial law regimes as they apply to intermediated securities. EMTA was represented in the process by Sandra Rocks of Cleary, Gottlieb, Steen & Hamilton, LLP.

EMTA was involved in this initiative because EMTA members that invest in local assets often have securities accounts with local custodians and other intermediaries in local markets throughout the world. For many decades securities market participants and their legal advisors have recognized the legal uncertainty and systemic risk posed by reliance on local commercial law rules for determining rights in intermediated securities that were developed before the rise in intermediated securities holding patterns. For example, current law did not provide clear answers to how rights in intermediated securities could be acquired, the nature of those rights and the enforceability of those rights against other participants in the systems – including the intermediaries themselves.

This convention dealing with substantive law issues follows the approval of the Convention on the Law Applicable to Certain Rights in Respect of Securities Held with an Intermediary (known as the Hague Securities Convention), which deals with conflict of laws – specifically which law applies to the purchase and sale of interests in securities held by intermediaries.

Neither the Hague Securities Convention, nor the newly approved Geneva Securities Convention has yet been ratified, although there has been some activity in Switzerland and the United States supportive of moving in the direction of adopting the Hague Securities Convention, in the first instance.

As these issues may affect rights of EMTA members investing in local markets, it may be interesting to read the overview of the convention provided by Sandra Rocks available in the Local Markets area of EMTA's website and by clicking here. For further information, please contact Starla Griffin at sgriffin@emta.org.

EMTA Working with GBSA to Improve Survey's Coverage of Gulf Markets

EMTA is currently working with the Gulf Bond and Sukuk Association (GBSA) on improving the data for Gulf bond markets in EMTA's quarterly volume surveys.

GBSA, headquartered in Dubai, represents the region's fixed income market and counts as members global and regional banks active in trading Gulf country local and external debt. It recently urged its members to become new participants in EMTA's quarterly Survey in order to better document Gulf market liquidity. Trading in Gulf countries accounted for 1% of volume, according to EMTA's most recent report.

EMTA Provides Amicus Letter to Indonesia Officials

In connection with the ongoing cases involving Indonesian corporations that have defaulted on debt incurred through offshore financing companies, EMTA submitted in September 2010 a letter to various officials in Indonesia on behalf of foreign creditors in support of their position against the use of certain arguments raised by Indonesian corporate plaintiffs regarding such offshore financing companies. The relevant cases (and the arguments made in them) have wide ramifications for many international investments into the Indonesian economy based on debt financing structures using offshore financing companies. Inconsistent rulings in such cases create uncertainty in the interpretation and application of Indonesian legal principles to these offshore financing structures. Permitting Indonesian corporations to avoid their debt obligations by arguing against their own offshore financing structure will severely affect investor confidence in the Indonesian legal system, which is likely to result in reducing the availability of foreign investment in Indonesian business ventures (and/or substantially increasing the cost of such financing).

As noted in EMTA's letter, the debt marketplace is built upon a soundly established framework of commercial and contract law (as well as judicial institutions that uphold this framework), which provides that contracts be honored in accordance with their terms. By promoting investor confidence, this legal framework serves the interests of debtors and creditors alike, as well as the broader economy. Sanctity of contract and the rule of law are cornerstones of the commercial marketplace and fundamentally important to the proper functioning of the capital markets and the development of any country's economy. EMTA is concerned with the possible impact of these cases on both the marketplace for Indonesian instruments and on the further development of Indonesia and its integration into the global marketplace.

Click Here for the complete text of the Amicus Letter, and please contact Aviva Werner at awerner@emta.org for further information.

EMTA Forums

Speakers at EM Corporate Bond Forum Concur EM Corporates Well Supported but Global Factors Remain a Risk

EMTA's Corporate Bond Forum was held at the Parker Meridien Hotel in midtown Manhattan on Wednesday September 22, 2010. ING Financial Markets hosted the event, which drew a standing-room only crowd of 150 market participants. Speakers agreed that the market was well supported on a technical basis, although investors should be diligent in their investment selections.

David Spegel (ING Financial Markets) repeated his moderating duties at the event by summarizing the recovery in EM pricing generally since last year's event, led by the performance in underlying US Treasuries and strong asset class inflows. Spegel then started the discussion by asking speakers for their thoughts on overall market performance. Robert Abad (WAMCO) opined that market psychology has shifted from a global recovery story last year to a debt sustainability story following the Greece crisis ("the problems in Europe are not over, and we all know it.") Based on such a focus on debt sustainability, and not just growth, EM continues to look attractive compared to developed countries, according to Abad.

Anne Milne of Bank of America Merrill Lynch highlighted the strong performance of both EM economies and many of the corporate issuers themselves. She recommended, however, that investors be selective in their purchases. Warren Mar (JPMorgan) offered his assessment that the rally could still have legs, especially on a relative value basis vs. the lower spreads of the US credit.

TIAA-CREF's Katherine Renfrew observed that the markets had recently priced in a higher possibility of a double-dip recession, and she did not expect a quick rebound in the US or developed country economies. However, a recovery looked more likely than not, and she agreed that technically corporates are well-supported, especially with a "crowding-in" effect as sovereigns did not need to tap the market. Value exists but could be short-lived in the event of a market panic, and she acknowledged that she was monitoring Spain closely, as well as Greece.

Spegel revisited the 2009 event discussion of changes in the client base for EM corporates, and questioned panelists on any volatility implications. Mar highlighted the increased demand from retail investors, especially from Asian and LatAm private banking, as well as increased Japanese and cross-over inflows. His firm is currently forecasting $75 billion in new inflows into EM corporates, a dramatic increase from the $45 billion that JPMorgan had previously forecast in January. Additionally, Mar noted that the amount of money now benchmarked to EM indices rose by $100 billion alone in 2010, and $12 billion alone is now benchmarked to the CEMBI. Mar concluded that such "sticky money" is good news for the asset class, adding some level of support.

Issuance year-to-date in 2010 has exceeded forecasts, with approximately $135 billion in corporate paper issued through September, according to ING figures. Milne expected corporate issuance to total $160 billion by year-end, with Latin America and Asia exceeding or closing in on historical records, while Eastern Europe lags. Commodity-related issuances could decline in a slower global growth environment, she advised. Mar predicted an even more aggressive $180 billion in issues, noting that corporations were taking advantage of current market conditions to refinance or pre-fund.

Corporate Bond Forum (continued)

With Brazil now rated investment-grade, Brazilian corporates are increasingly making their way into the Barclays Aggregate index, Renfrew reminded the audience, and this bolsters the importance of such debt as a more regular asset allocation rather than a tactical play. Spegel added that scheduled amortizations and coupons should support at least $100 billion in new issues next year as well, and suggested Argentine corporates might prove more frequent issuers following recent taps from Province of Cordoba and City of Buenos Aires.

Turning to a discussion of defaults, Spegel cited statistics showing average corporate recovery rates besting recent sovereign restructurings, and argued that this suggested corporate spreads should be tighter. Renfrew underscored that legal systems in some EM countries such as Brazil have greater uncertainty than others. “We still haven’t seen how this will work in practice, and how judges will make decisions,” she stated. Additionally, she expressed concern regarding the large role of the public sector in Brazil’s banking sector, and hoped to see the role of BNDES gradually reduced.

Mar seconded the concern about untested bankruptcy regimes. On the positive side, restructurings prompted by the external crisis have generally moved faster and with higher recovery rates and should support the case for buying EM High Yield. He did also warn, however, that the most recent experience should not necessarily be taken as the new order.

The panel concluded with investor recommendations. Abad was positive on the mining, oil and gas, and telecom sectors as “commodities will continue to be a huge story as China remains a net importer, and global urbanization and industrialization is far from over.” He expressed a constructive view of Latin America and Asia and “pockets of the UAE,” while also stating that last year’s crisis underscored the importance of liquidity in corporate issues.

Renfrew saw most value in Korean, Brazilian and Chilean corporates and was concerned with the possible side effects of Mexico’s dependency on oil earnings. Select bank issuances also appealed to her, as did select Asian high-yield debt.

JPMorgan’s year-end target for the Corporate Bond Index predicted a 23 bps tightening from current levels, for an additional 3-4% in total returns over the fourth quarter and Mar envisioned most of that coming from Asian investment grade paper and Latin American high-yielders. Additionally, the Chinese property and Mexican home-building sector offered value. Milne also recommended Mexican home-builders, as well as Brazilian steel (especially CSN) and was less interested in Eastern European issues, due to weak Western European demand. CEMEX could provide some opportunities, Milne added.

Spegel listed a number of specific issues – IMCOPA ‘14s, which appeared to be emerging from a work-out, and IIRSA ‘24s, “which allow investors to take Peru sovereign risk, while picking up substantial spreads over sovereigns.” He also spoke positively on Evraz and Globopar.

The event concluded with a cocktail party, also sponsored by ING.

EMTA’s Corporate Bond Forums are held annually in New York and London. The next Corporate Bond Forum will be held in London on January 25, 2011.

EMTA Forums (continued)

IMF to Discuss Sovereign Risk at EMTA Fall Forum

Peter Dattels of the IMF's Monetary and Capital Markets department will discuss sovereign risk and financial spillovers at the EMTA Fall Forum, to be held on Tuesday, October 19, 2010.

Bulltick Capital will sponsor the Fall Forum, which will be held at EMTA's office at 360 Madison Avenue, 17th Floor, in New York City

Alberto Bernal (Bulltick Capital) will moderate the event's panel discussion on current EM trends. He will be joined on the dais by Marco Santamaria (AllianceBernstein), Gunter Heiland (Gramercy), Luis Oganes (JPMorgan) and Gray Newman (Morgan Stanley).

As there will be limited seating available for this event, EMTA Members are advised to register early to avoid disappointment.

For more information, please contact Jonathan Murno of EMTA at jmurno@emta.org.

EMTA's Fifth Annual Forum in Singapore -- October 27, 2010

EMTA's Singapore Forum will be held on Wednesday, October 27, 2010 at the Fullerton Hotel. The event will include panels of investor and sell side speakers and is being sponsored by ING Commercial Bank.

Tim Condon (ING Financial Markets) will moderate a panel of sell-siders, which will include Martin Hohensee (Deutsche Bank), David Fernandez (JPMorgan), Sanjay Mathur (RBS Global Banking and Markets) and Nizam Idris (UBS).

The investor panel will be led by Aaron Low (Lumen Advisors) and will also feature Barry Field (Ashmore Investment Management), Liew Tzu Mi (Government of Singapore Investment Corporation), Goetz Eggelhoefer (Rohatyn Group) and Rajeev De Mello (Western Asset).

Admission is complimentary for EMTA members; there is a US$500 registration fee for non-members. To register for this event, see the EMTA website homepage.

For further information please contact Leslie Payton Jacobs at lpjacobs@emta.org.

EMTA's Fifth Annual Forum in Hong Kong -- October 29, 2010

EMTA's Fifth Annual Forum in Hong Kong has been scheduled for Friday, October 29, 2010. This lunch-time event will be held at the J.W. Marriott Hotel and will feature a panel discussion moderated by Tim Condon (ING Wholesale Bank). Joining Condon on the panel will be Vijay Kumar Chander (Standard Chartered), Johanna Chua (Citigroup), Jiong Shao (Macquarie Securities) and Suvir Mukhi (Income Partners)

The event is being sponsored by ING Commercial Bank.

Attendance is complimentary for EMTA Members. There is a US$295 registration fee for non-members. For registration information, see the EMTA website homepage.

Please contact Leslie Payton Jacobs of EMTA at lpjacobs@emta.org for further information.

EMTA Forums (continued)

Former Brazilian Central Bank President Pastore to Deliver Keynote at EMTA Annual Meeting

Former Central Bank of Brazil President Affonso Pastore will deliver the keynote address at EMTA's Annual Meeting, which will take place in New York City on Thursday, December 2, 2010. The event will be hosted by Citigroup. Dr. Pastore served as Brazil's Central Bank president from 1983-85 and is a noted economic analyst. Earlier this year, he delivered the keynote address at EMTA's Sao Paulo forum to a standing-room only crowd.

In addition to Dr. Pastore, confirmed speakers include Daniel Tenengauzer (Bank of America Merrill Lynch), Piero Ghezzi (Barclays Capital), Tulio Vera (Bladex Asset Management), David Lubin (Citigroup), Kasper Bartholdy (Credit Suisse), Drausio Giacomelli (Deutsche Bank), Paulo Leme (Goldman Sachs), Joyce Chang (JPMorgan), David Rolley (Loomis Sayles), Hari Hariharan (NWI Management) and Mark Dow (Pharo Management).

Invitations will be sent to members in November. Attendance for members is complimentary; non-members may attend at a registration fee of $1,000.

Emerging Market Benefit NYC Prepares for December 2, 2010 Event

Members of the Emerging Markets Charity Benefit (EMCB) Planning Committee continue to work on the final touches for the industry's New York annual EM charity fundraiser. The event is slated for Thursday, December 2, 2010 immediately following EMTA's Annual Meeting and will again be held at the Marriott Marquis Hotel in Times Square.

Tickets to the event went on sale in July and tables sold out quickly. At press time, booklets of ten general admission tickets remained available at $10,000 if settled by November 1, 2010, or $12,500 thereafter. Please contact Jonathan Murno of EMTA at jmurno@emta.org.

The event will include a silent auction. In addition, attendees may purchase raffle tickets for the chance to win a week's stay in Playa del Carmen, Mexico. Finally, DJ-ing, by popular request, will be JPMorgan's own Vladimir Werning.

The five beneficiaries of the 2010 event are:

- **Empower**, which connects the Emerging Markets trading and investments community with local organizations providing tools and resources to enable at-risk young people to lead healthy and productive lives www.empowerweb.org;
- **Fonkoze**, which offers micro finance services aimed at improving the economic and social conditions in Haiti www.fonkoze.org;
- **NESST**, which provides financial and capacity-building support to social enterprises in Central Europe and Latin America www.nesst.org;
- **WorldFund**, which promotes education in Latin American www.worldfund.org; and
- **Orphaned Starfish Foundation**, which works with orphans and disadvantaged children throughout Latin America www.orphanedstarfish.org.

Earlier this year, Committee members presented checks totaling $407,000 representing proceeds from last year's gala to the 2009 event beneficiaries. The proceeds will be used, among other purposes: to fund 850 micro-grants to women in Burkina Faso for start-up businesses; to provide scholarships for 80 Mexican students and 47 Sri Lankan students for one year; to build a technical and vocational training center for orphaned children in Aleitu, Ethiopia; to upgrade a school for deaf children in Rio de Janeiro, Brazil; to fund teachers' salaries at a school in Bahia, Brazil, as well as improved training of Mexican teachers themselves in English-language instruction; to support social enterprises in Ecuador, Brazil, Peru, Romania and Chile; and to rehabilitate schools and homes for tsunami-affected families in Sri Lanka.

The Planning Committee continues to welcome both silent auction donations and new Committee members. Please contact Jonathan Murno of EMTA at jmurno@emta.org for more information.

London Charity Ball Raises Funds for EM Charities

The Annual Emerging Markets Benefit ball in London was held on Friday, October 1, 2010. One thousand market participants attended the black-tie event at the Grosvenor House Hotel, which had sold out only three days after tickets went on sale in July. Organizers hope that when final tallies are in, the event will have raised over £300,000 for EM charities.

The event was sponsored by Standard Bank, which has been a key supporter since 2004 in the current format, as well as Otkritie Securities. Additional sponsors include Barclays Capital/ABSA Capital, Macquarie Bank and TPCG Group. The event also benefited from MarketAxess' Charity Trading day, which took place on September 23, 2010.

The event was a salute to Turkey, featuring fine Turkish cuisine, and elaborate Turkey-inspired decor. The band formerly known as Rain provided live music, and DJ The It Girls kept the crowd on the dance floor between sets.

Television personality Jonny Gould returned as the event's master of ceremonies and auctioneer, selling off such prizes including holiday stays on Turkey's Turquoise Coast, Istanbul, Tangiers, St. Lucia, St. Vincent, Punta del Este, etc. Also on offer was dinner with Channel Four News presenter Jon Snow, a 3-day Aegean sailing trip, sky-diving, and in keeping with one of the themes of 2010, South African vuvuzelas.

Proceeds from the event will be distributed to five charities in emerging countries working to improve health and education:

- **Children of the Andes**, www.childrenoftheandes.org, which supports street children in Colombia;
- **Cotlands**, www.cotlands.org, which provides support for children affected by the HIV/AIDS pandemic in South Africa;
- **Downside Up**, www.downsideup.org, which provides support and education for children in Russia with Downs Syndrome;
- **EMpower**, www.empowerweb.org,a grant-making foundation which connects the Emerging Markets community with innovative grassroots organizations enabling young people to lead healthy, productive lives; and
- **Health Poverty Action**, www.healthunlimited.org, which provides basic health care to rural communities around the globe.

The event was chaired by Emma McClintock and Judith Wheelan of Barclays Capital, as well as Mike Cook and EMTA's Jonathan Murno. The Committee continues to welcome new sponsors and to speak with those interested in volunteering to help with the 2011 event. Please contact Jonathan Murno at jmurno@emta.org. For more information, visit the event website at www.emball.net.

Bond & Warrant Trading & Settlement

Venezuela Oil Obligations Payment

The October 15, 2010 Oil Obligations payment was made to holders of record as of September 30, 2010, and EMTA recommended that trades be "ex-dividend" on September 28. Click Here for the Fiscal Agent notice regarding the calculation of payment.

Nigeria Payment Adjustment Rights Payment

Click Here for the Fiscal Agent notice regarding the calculation of the May 17, 2010 payment.

Uruguay VRR Payment

Click Here for the Fiscal Agent's notice regarding the July 1, 2010 VRR payment's calculation of zero.

To date, no payments have ever become due on the VRRs.

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Please note that all EMTA Documents may be found in the Documentation area of EMTA's website (http://www.emta.org/doc.aspx), including EMTA Primers for Warrants and Market Practices. For further information, please visit the New Developments area of EMTA's website or contact Aviva Werner at awerner@emta.org.

FX & Currency Derivatives

Cross-Currency NDF Working Group Meetings Are in Full Swing

EMTA is leading an industry group that is examining standardization for cross-currency (i.e. non-dollar settled) non-deliverable forward FX contracts. The group has a representatives from the trading, legal and operations departments of a number of market participants in order to include the necessary spectrum of viewpoints on the topic. The group anticipates developing a proposal for standardization that will include some clear recommended best practices and then will solicit larger industry input into the proposal. The group is conscious of the global implications of its effort and plans on coordination with other industry groups to achieve a broad-based industry consensus on issues and approaches.

Work Progresses in Latam Inflation Index NDS Working Group

This working group, comprising representatives from EMTA and ISDA member organizations, has met several times by conference call to identify issues and make proposals to advance the goal of standardization for Latin American inflation-indexed non-deliverable swaps. The inflation indices targeted by this group will include ARS-CER, CLP-UF, COP-UVR, PEN-VACU and MXN-UDI.

Different approaches to the indexed product in the market have been identified and some proposed resolutions are under consideration. Much discussion has taken place regarding the treatment of the index as a currency (or not) for purposes of the swap. The group will continue to examine this topic with a view toward developing an approach generally acceptable to the market. In addition, work is beginning on the development of standard definitions for inflation indices.

EMTA Members interested in this topic are invited to join this working group.

Mexican Holiday Raises Issues For EMTA Members

In mid-September, the government of Mexico declared September 17 a national holiday in celebration of the bicentennial of the country. EMTA members quickly identified a few industry issues for Mexican Peso settlements scheduled for that day. Attempting to respond quickly to the issue, EMTA developed a draft market practice which it circulated to its membership for comment. The proposal suggested that members adjust settlements scheduled for September 17 to the following Monday, September 20, and also suggested that no additional adjustment in price be made on account of the additional days added to the trade. A few EMTA members expressed concern regarding the proposal, a few EMTA members expressed support for it and many did not respond one way or the other. Under the circumstances, it was not possible to conclude that the proposal had received adequate support to warrant its publication as a formal market recommendation, and it was not ultimately published. Nevertheless, the proposal raised some interesting questions for the EMTA membership regarding market practices for EM currencies that are deliverable.

African Currency NDFs To Be Addressed

EMTA Members interested in trading NDFs in some of the African markets have gathered together in an EMTA working group to address documentation and infrastructure issues for these markets. A number of African markets were identified as being of interest to the industry and discussion was had regarding the ripeness of some of those markets for an industry effort. The group weighed adopting an all African currency approach similar to that adopted for the Asian currencies in 2004, against a sequential approach and determined that it made more sense to approach these markets one by one, given the vastly different states of the financial markets in each of the identified countries. The group quickly identified Nigeria and the Nigerian Naira as the first currency to be addressed by the group. Work is underway. EMTA members interested in this topic are invited to join this working group.

* *

For further information regarding the above, as well as FX & Currency Derivatives matters generally, please contact Leslie Payton Jacobs at lpjacobs@emta.org or (301) 838-4552.

EMTA Members:
To obtain a password for the Members Only area, please CLICK HERE

Website Updates and Additions

Key Industry Views

EMTA continues to recognize publications by leading research analysts and others that highlight noteworthy industry topics. In recent weeks, EMTA has made the following addition to the Key Industry Views area of EMTA's website:

- "The End of a Frothy Month". October 4, 2010 - Walter Molano (BCP Securities).
- "Emerging Markets: Revisiting the Investment Thesis in an Era of Debt." September 2010 - Robert O. Abad and Matthew C. Graves (Western Asset Management Company).
- "Africa needs a bond market." August 9, 2010 - Jan Dehn (Ashmore Investment Management).
- "The Crisis & the Euro." July 8, 2010 - George Soros (The New York Review of Books).
- "Reflections on the Sovereign Debt Crisis." July 2010 - Edward Chancellor (GMO).

New Developments

These and other recent news items can be found in the New Developments area of EMTA's website.

- October 4, 2010 - Richards Kibbe & Orbe Memorandum on Recent Denial of Consents to Secondary Loan Assignments.
- September 30, 2010 - Moody's Downgrades Spain's Foreign Currency Government Bond Rating from Aaa to Aa1.
- September 29, 2010 - Peter Dattels, IMF Monetary and Capital Markets Department, to Deliver Keynote Address at EMTA Fall Forum on October 19, 2010. Sponsored by Bulltick Capital Markets.
- September 29, 2010 - Holiday Schedule for EM Bond Trades for US Columbus Day Holiday.
- September 27, 2010 - EMTA's Fifth Annual Forum in Singapore to be Held on Wednesday, October 27, 2010.
- September 28, 2010 - Venezuela Oil Obligations Record Date of September 30 and Payment Date of October 15 Expected. Trades are "Ex-Dividend" on September 28. Calculations for Payments on the Oil Obligations will be Announced by the Fiscal Agent Shortly.
- September 21, 2010 - List of Live Auction and Silent Auction Items for Sale at EM Benefit To Be Held in London on October 1, 2010 Available Now!
- September 20, 2010 - EMTA's Fifth Annual Forum in Hong Kong to be Held on Friday, October 29, 2010.
- September 20, 2010 - MarketAxess, in Partnership with EMTA, Announces Seventh Annual Charity Trading Day.
- September 17, 2010 - UNIDROIT Convention on Substantive Rules for Intermediated Securities.
- September 14, 2010 - Standard & Poor's Upgrades Sri Lanka's Foreign Currency Sovereign Credit Rating from B to B+.
- September 14, 2010 - Davis Polk Memorandum "Treasury Department Issues Iranian Financial Sanctions Regulations".
- September 13, 2010 - Standard & Poor's Upgrades Argentina's Foreign Currency from B- to B.

Website (continued)

- September 6, 2010 - Standard & Poor's Upgrades Uruguay's Long-Term Foreign Currency Sovereign Credit Rating from BB to BB+.
- August 31, 2010 - Save the Date! Fifth Annual EMTA Forums in Asia -- October 27 and October 29.
- August 27, 2010 - -Standard & Poor's Downgrades Ghana's Long-Term Sovereign Credit Rating from B+ to B.
- August 25, 2010 - EMTA Fall Forum in New York to be Held on October 19, 2010. Sponsored by Bulltick Capital Markets. Details TBA.
- August 24, 2010 - Holiday Schedule for EM Bond Trades for UK Summer Bank and US Labor Day Holidays.
- August 24, 2010 - Standard & Poor's Downgrades Ireland's Long-Term Sovereign Credit Rating from AA to AA-.
- August 23, 2010 - Moody's Downgrades Bahrain's Foreign Currency Government Bond Rating from A2 to A3.
- August 12, 2010 - EMTA Announces 2Q 2010 Debt Trading Stood at US$1.551 Trillion.
- August 12, 2010 - Moody's Assigns Moldova a Long-Term Foreign-Currency Issuer Rating of B3.
- August 11, 2010 - EMTA Corporate Bond Forum in New York to be Held on September 22, 2010.
- August 10, 2010 - EMTA Announces 2Q 2010 EM CDS Volume Stood at US$658 Billion.
- August 2, 2010 - Standard & Poor's Upgrades Ecuador's Long-Term Sovereign Credit Rating from CCC+ to B-.
- July 28, 2010 - Fitch Downgrades Vietnam's Long-Term Foreign Currency Issuer Default Rating from BB- to B+.
- July 27, 2010 - Fitch Upgrades Long-Term Foreign Currency Issuer Default Rating from BB- to BB.
- July 26, 2010 - Aurelius Capital Partners v. Argentina.
- July 23, 2010 - Emerging Markets Benefit to be Held in London on October 1, 2010.
- July 21, 2010 - EMTA Announces 1Q 2010 EM CDS Volume Stood at US$487 Billion.
- July 19, 2010 - EM Ltd. and NML Capital v. Argentina: Prof. Hal Scott Amicus Curiae Brief and Various Motions Relating Thereto.
- July 19, 2010 - Moody's Downgrades Ireland's Government Bond Rating from Aa1 to Aa2.
- July 13, 2010 - Emerging Markets Charity Benefit to be Held in New York on Thursday, December 2, 2010.
- July 13, 2010 - EMTA Announces 2009 Annual EM CDS Volumes Stood at US$1.191 Trillion.
- July 13, 2010 - Moody's Downgrades Portugal's Government Bond Rating from Aa2 to A1.
- July 12, 2010 - Fitch Upgrades Argentina's Long-Term Foreign Currency Issuer Default Rating from RD (Restricted Default) to B.
- July 7, 2010 - EMTA's Second Quarter Bulletin is Now Available in our Bulletin Section.
- July 6, 2010 - Fitch Upgrades Ukraine's Long-Term Foreign Currency Issuer Default Ratings (IDRs) from B- to B.
- July 5, 2010 - Standard & Poor's Upgrades Qatar's Long-Term Sovereign Credit Rating from AA- to AA.
- July 2, 2010 - Save the Date! Second Annual Brazilian Presidential Election Event hosted by BM&FBOVESPA in NYC on July 22, 2010.

Website (continued)

Reminders: Visit the *Employment, From the Market* and *Litigation* areas

There are a few relatively new and updated areas of EMTA's website: Employment in the Job Opportunities area, From the Market in the Activities and Services area and Litigation in the EM Background area.

Because of the difficult employment environment resulting from the credit crunch, EMTA has revised the Job Opportunities area of its website to include both:

- listings of employment opportunities in the EM trading and investment community posted (for a fee) by prospective employers (Job Opportunities); and
- summary resumes posted (free of charge) by individuals seeking employment positions in the EM trading and investment industry (Jobs Wanted).

For the sake of accommodating individual preferences and sensitivities, postings may contain as much, or as little, detail as desired, and initial contact between prospective employers and employees may be arranged through EMTA.

The Job Opportunities/Employment area includes opportunities and applicants from around the globe in the EM trading and investment community. We especially encourage you to pass along the address of this site to former colleagues who are currently seeking positions in the EM debt industry.

To post an employment opportunity, please contact Jonathan Murno of EMTA at (646) 289-5413 or at jmurno@emta.org. To post a summary resume, please contact Suzette Ortiz of EMTA at (646) 289-5414 or at sortiz@emta.org.

From the Market contains items submitted to EMTA that are deemed of general interest to the Emerging Markets trading and investment community. Decisions to post items are at EMTA's discretion, and the responsibility for content of each posted item lies solely with its author. Items in a variety of formats such as articles, opinions, transcriptions, and graphics, among others, are appropriate for this area. To submit postings to this area, please contact Suzette Ortiz at sortiz@emta.org or (646) 289-5414.

Litigation is where various legal cases are posted that may be of interest to the EM trading and investment community. Cases can be viewed alphabetically in the more comprehensive List of Cases, as well as by specific subject matter category in reverse chronological order. If you are aware of any pertinent information which would be useful to post here, please contact Aviva Werner at awerner@emta.org or (646) 289-5412.

Miscellaneous

EMTA Membership Update

EMTA's newest members include:

- **Debtwire**
- **Exchange Data International**
- **RZB**
- **Schildershoven Finance B.V.**
- **Schroder Investment Management Limited**

If you are interested in EMTA Membership, or if you know of prospective Members, please contact Michael M. Chamberlin at mchamberlin@emta.org or (646) 289-5411, Jonathan Murno at jmurno@emta.org or (646) 289-5414 or Suzette Ortiz at sortiz@emta.org or (646) 289-5414. Also, in the Membership area of EMTA's website, we offer information about our various Membership categories and benefits and about how to join the Association.

EMTA is Your Forum

Questions arise from time to time about EMTA's policies regarding views expressed in items posted on its website or by speakers or panelists at EMTA events.

For the record, EMTA, by long-standing custom, does not necessarily endorse such views. Items posted on EMTA's website and speakers and panelists at EMTA events are selected because EMTA believes that they will be of topical interest to our Members and to the broader market and will contribute to the expression and free exchange of views and information in the marketplace.

EMTA is always interested in getting market feedback on the effectiveness of our website, events and activities generally. Please take the time to let us know whether or not you agree with what you see on our website or hear at one of our events and, most important, whether there is more that EMTA should be doing, or doing differently, to better serve the EM marketplace.

Information for Volume Survey Participants

As a reminder, EMTA collects volume data from market participants for its Debt Trading Volume Surveys on a quarterly schedule. EMTA contacts its survey participants approximately one week before the end of each quarter. Look for the EMTA Volume Survey e-mails!

If you are not currently a participant in the EMTA Volume Survey and believe you can contribute data for this purpose, or wish to find out more about being a survey participant, please contact Jonathan Murno at jmurno@emta.org or (646) 289-5413. Individual Survey responses are kept strictly confidential.

EMTA Hotlines

Topic	Contact	Telephone
Asia	Jonathan Murno/Leslie Payton Jacobs	(646) 289-5413/(301) 838-4552
Bond/Loan Trading	Aviva Werner	(646) 289-5412
Clearing Corp.	Michael Chamberlin/Starla Griffin	(646) 289-5410/(44-207) 996-3165
Corporate Bonds	Jonathan Murno/Leslie Payton Jacobs/ Aviva Werner	(646) 289-5413/(301) 838-4552/ (646) 289-5412
Credit Derivatives	Leslie Payton Jacobs/Aviva Werner	(301) 838-4552/(646) 289-5412
EM Bond Charts	Aviva Werner	(646) 289-5412
EM Charity Benefits	Jonathan Murno	(646) 289-5413
EM Litigation	Aviva Werner	(646) 289-5412
EMTA Annual Meeting/Forums	Jonathan Murno	(646) 289-5413
EMTA Governance	Michael Chamberlin	(646) 289-5410
EMTA Rate Quotation Services	Leslie Payton Jacobs	(301) 838-4552
FX and Currency Derivatives	Leslie Payton Jacobs	(301) 838-4552
International Financial Architecture	Michael Chamberlin	(646) 289-5410
Investor Issues	Michael Chamberlin/Aviva Werner	(646) 289-5410/5412
Legal/Compliance	Aviva Werner	(646) 289-5412
Library and Archive Requests	Evelyn Ramirez	(646) 289-5415
Local Markets	Aviva Werner/Leslie Payton Jacobs/ Starla Griffin	(646) 289-5412/(301) 838-4552/ (44-207) 996-3165
Market Information/Research	Jonathan Murno	(646) 289-5413
Membership	Jonathan Murno/Suzette Ortiz	(646) 289-5413/5414
Netting Facilities	Aviva Werner	(646) 289-5412
Paris Club	Starla Griffin	(44-207) 996-3165
Press Inquiries	Jonathan Murno	(646) 289-5413
Repos/Securities Lending	Aviva Werner	(646) 289-5412
Volume Surveys	Jonathan Murno	(646) 289-5413
Warrants/VRR's	Aviva Werner	(646) 289-5412
Website	Suzette Ortiz	(646) 289-5414

EMTA staff can also be reached through the general telephone number (646) 289-5410, at the following e-mail addresses or through EMTA's website (www.emta.org).

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Jonathan Murno	jmurno@emta.org
Suzette Ortiz	sortiz@emta.org
Leslie Payton Jacobs	lpjacobs@emta.org
Evelyn Ramirez	eramirez@emta.org
Aviva Werner	awerner@emta.org

EMTA Calendar

Fri., July 2	Recommended 2:00 p.m. (NYC) Early Market Close
Mon., July 5	Recommended Market Close (NYC) Independence Day Recommended 12:00 Noon (London) Early Market Close
Mon., August 30	Recommended Market Close (London) Summer Bank Holiday
Fri., Sept. 3	Recommended 2:00 p.m. (NYC) Early Market Close
Mon., Sept. 6	Recommended Market Close (NYC) Labor Day Recommended 12:00 Noon (London) Early Market Close
Wed., Sept. 22	**Corporate Bond Forum (NYC) Le Parker Meridien 119 West 56th Street (NYC) Sponsored by ING Financial Markets LLC**
Fri., Oct. 1	**Emerging Markets Benefit London Grosvenor House Hotel Park Lane (London)**
Mon., Oct. 11	Recommended Market Close (NYC) Columbus Day Recommended 12:00 Noon (London) Early Market Close
Tues., Oct. 19	**Fall Forum (NYC) Global Financial Conference Center 360 Madison Avenue, 17th Floor (NYC) Sponsored by Bulltick Capital**
Wed., Oct. 27	**EMTA Singapore Forum Fullerton Hotel 1 Fullerton Square (Singapore) Hosted by ING Commercial Bank**
Fri., Oct. 29	**EMTA Hong Kong Forum JW Marriott Pacific Place, 88 Queensway (Hong Kong) Salon 6 - Level 3 JW Marriott Ballroom Hosted by ING Commercial Bank**
November*	**Board Meeting (NYC/London)**
Thurs., Nov. 11	Recommended Market Close (NYC) Veterans' Day Recommended 12:00 Noon (London) Early Market Close

***Details TBA**

EMTA Calendar (continued)

Thurs., Nov. 25	Recommended Market Close (NYC) Thanksgiving Day Recommended 12:00 Noon (London) Early Market Close
Fri., Nov. 26	Recommended 2:00 p.m. (NYC) Early Market Close
Thurs., Dec. 2	**EMTA Annual Meeting** **Citigroup, 388 Greenwich Street (NYC)** **2010 Emerging Markets Benefit (NYC)** **New York Marriott Marquis** **Broadway Lounge** **1535 Broadway (NYC)**
Thurs., Dec. 23	Recommended 2:00 p.m. (NYC) Early Market Close
Fri., Dec. 24	Recommended Market Close (NYC) Christmas Day (observed)
Mon., Dec. 27	Recommended Market Close (London) Christmas Day (observed)
Tues., Dec. 28	Recommended Market Close (London) Boxing Day
Fri., Dec. 31	Recommended 2:00 p.m. (NYC) Early Market Close
Mon., Jan. 3, 2011	Recommended Market Close (London) New Year’s Day (2011)

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 20th Anniversary, EMTA's Bulletin this year has been featuring a series of articles on the early periods of EMTA's history.

The 1st 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 2nd 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 crossborder 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 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 firefighting 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. Neverthless, 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.