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**SPEECH EMTA 25TH ANNIVERSARY CELEBRATION CONFERENCE
LONDON, MAY 16, 2016**

Good afternoon,

Welcome to the 25th EMTA anniversary conference, London version, which I also call the Hall of Fame of Emerging Market debt trading from the early days of the Mexico debt payments moratorium in August of 1982. We are in for a very special treat today. My name is Martin Schubert and I will be your moderator for the first and second of three panels. We have an exciting and experienced group of panelists to deal with the subject of “Emerging Market or LDC debt trading then and now”, the origin and development of the market, the impact of the Brady plan, the change in the investor base, how debt restructuring has changed, how the Eurobond market and the original LDC debt swap market merged into Emerging Market bond trading of today and other topics as they may arise as the panelists interact with each other and in response to questions and comments from the floor. We will also deal with where the market goes from here in a potentially new developing crisis environment, “a new Argentina”, post holdout settlement and the new CACS clauses in bond agreements, Venezuela on the brink of default, and the Brazil political and economic crisis and more.

We live in dangerous times, politically and economically. Emerging Market debt securities have always proven to be amongst the most volatile in times of crisis, as investors exit. Unsettled currency markets, impending fed rate increases, weak commodity prices and global economic weakness, as we are experiencing now, are the seeds of market price decline.

Like other crisis periods, as I have said many times, “there is just too much debt”.

Our panelists will also discuss, will this prove to be a time of opportunity or a period of exodus.

When I pioneered the “debt swap” in early 1983 in response to the Mexican debt payments moratorium announced by Finance Minister Silva Herzog August 18, 1982, it was to create liquidity for an otherwise frozen LDC debt market and permit banks to rearrange their portfolios by selling one asset for another. There were no mark to mark rules. Swaps were structured to avoid banks taking write-downs of their portfolio, which would have wiped out the capital of many banks worldwide. There were no screens to show prices, nor any transparency, so skilled intermediaries earned significant margins. Volumes were said to be \$5-10 billion the first three years, but not published, as the Fed imposed higher reserves and restrictions.

Prices by the few skilled intermediaries were lowered further and more banks and investment banks entered the intermediary arena.

LDC debt became usable for other purposes than debt for debt trades, such as privatization of physical assets and companies held by governments. We helped privatize Telmex by structuring the deal and buying Telmex debt in the market and helped privatize many other companies in Latin America and Eastern Europe, amongst deals done by a number of institutions. Debt was used also to facilitate debt-for-trade physical barter transactions, M&A deals and tax swaps or tax receipt loans for non-tax receipt loans and fees and debt for nature swaps. Cross border exchanges increased sharply.

In May 1987, under pressure from the Fed, Citibank wrote down their LDC debts and announced a \$3 billion increase in reserves. The “mystic” secondary market in LDC debt came out of the closet, other banks followed and more cash sellers developed, putting more pressure on prices due to the limited liquidity. Most deals were sovereign, few private sector loans.

By end 1987, the arena had clearly widened. Banks throughout the world were debt swappers or cash sellers. Cash buyers emerged at big discounts. Prices began to be published on screens. First by Reuters, then Bloomberg and then banks.

The October 19, 1987 equity market crash put another damper on the LDC debt secondary market. Prices dropped with stocks, but quickly revived. But the market was coming under more regulation. Participants clamored for a trade

organization to deal with trading practices and documentation and to provide information to participants for different credits. Hence the formation of EMTA in 1990.

Hedge funds began to emerge as investment vehicles.

The market was moving towards securitization of the debt, following the failure of the Baker plan. Debtors were determined to take advantage of the write-down of the debt. This they accomplished with the development of the Brady plan in 1990, a system of voluntary debt forgiveness accompanied by new money options securitized by zero coupon U.S. Treasury bonds and comparable collateral in other currencies. In a few years, 18 countries had agreed to Brady deals, resulting in the forgiveness of over 250 billion dollars of claims.

Nevertheless, the plan was filled with conflict concerning the amount of debt forgiveness, new money requested from banks and the pressure put on banks to participate from official sources. Many thought the IMF and international agencies should have provided more funding.

But as a result of the Brady plan, the market had clearly turned a corner. Trading volumes rose sharply and more investors and borrowers entered the market. The market became an important asset class, reaching multi trillion dollars of trading and a secondary market that was devoid of rules was clearly imposing a new discipline on itself.

Perhaps Alan Greenspan was right when he said years ago: "Every 5 or 6 years there must be an Emerging Market debt crisis." The 1984 Tequila crisis and 1997-98 Asian / Russian debt crisis, and 2002 Argentine debt default, finally settled, and various African payment stoppages, for example.

Is this the time, after so long a delay, for a new debt crisis and what documentary changes in bond agreements will become necessary.

According to a legal expert here with us today, "the new ICMA model and "Ranking" (pari passu) clauses, once incorporated into sovereign borrowing documentation, should reduce the risk of disruptive holdout behavior in future sovereign debt workouts. The clauses have already been used by Argentina (in its \$16.5 billion offering last week), Mexico, Chile and a number of other countries.

The new “aggregated” CAC permits the aggregation for voting purposes of multiple series of bonds where the proposed modification would apply uniformly across all series.”

Emerging Market bonds as an asset class have become more volatile, following the trend of commodity prices, interest rates and U.S. equities, creating additional risk. Will this trend continue?

To quote from the Financial Times recently “The easy good times once again have gone; the hard work lies ahead” before we can deal with “life after debt.”

This conference will also deal with the next market crisis event. Venezuela or other and the issue of too much leverage.

The issues we face this time are starting with the private sector. Will public policy be flexible and forward thinking enough to avoid deterioration to the public sector debt and is there the leadership.

I would like to quote from a letter written to me by Angel Gurria many years ago:

“It has become increasingly obvious that the fundamental problem of the debt crisis is that there is too much debt. Therefore, the conventional wisdom solution of “growing out of the debt crisis” is not feasible, because debt service is the most serious impediment for growth.

The market, in its wisdom, is already pointing to a more permanent solution. The secondary market quotations of sovereign debt, albeit imperfectly, indicate roughly the part of the debt which countries can service normally. It is imperative that we now move towards a new stage of sovereign debt management where borrower countries can “capture the market discount” and reduce the stock of debt. It is the only way out.

This will happen inevitably. Therefore, it is best to do so in an orderly fashion. Financial authorities, regulators, accountants, lawyers, banks and debtors can and must agree on market oriented mechanisms which can catch up with the market realities. The alternative is confrontation and strife.

I hope the Conference contributes to move the process in the right direction.”

The letter was written October 16, 1987 and could have just as well been written yesterday.

Now onto Angel's video message and then to our prestigious first panel.

Enjoy yourselves and participate.