# Emerging Markets Traders Association

# 1994 Annual Report

## Mission Statement

The Emerging Markets Traders Association is a not-for-profit corporation dedicated to promoting the orderly development of fair, efficient and transparent trading markets for Emerging Markets instruments.

EMTA's 1994 Annual Report describes EMTA and its activities in the context of visual images that reflect the diversity, complexity and global significance of today's Emerging Markets.

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## Letter from 1994 Chair/ 1995 Co-Chair

**Alexis O. Rodzianko is Co-Chair of EMTA for 1995. He is a Managing Director of Chemical Bank, responsible for proprietary trading. Mr. Rodzianko also heads EMTA's Russia/Eastern Europe Working Group. He was EMTA's Chair in 1994 and an EMTA Vice Chair in 1993.**

1994's rising interest rates and Mexican peso devaluation severely tested our marketplace, ending several years of growth in the value of most Emerging Markets investments. While these developments were discouraging, other events, such as the completion of Brazil's long-awaited Brady refinancing (as well as those for Bulgaria, Poland and the Dominican Republic) and progress in the Russian debt talks, should not be overlooked for their contribution to the long-term viability of our marketplace.

On balance, market participants responded well to 1994's challenges by maintaining orderly markets and processing high transaction volumes with greater efficiency. EMTA played a key role in enabling our marketplace to cope with 1994's difficult environment, and our experience reinforces our confidence in the strategic goals that we set for ourselves at the end of 1993.

In spite of the bear market, overall debt trading volumes increased strongly in 1994, to nearly U.S.$2.8 trillion in face amount from about U.S.$2 trillion for 1993. Our marketplace also showed increased diversity, with trading activity for Options, Local Currency Instruments and Russian and Polish instruments showing particularly strong growth.

In the past year, EMTA implemented several major initiatives and laid the groundwork for others that will help shape our marketplace in the years to come. In response to a growing backlog in loan trade settlements, EMTA's Multilateral Netting Facility has enabled major market participants to net and settle more than 1,400 trades of Russian and Peru loans aggregating over U.S.$3 billion* in face amount. Through this Facility and other efforts, the settlement backlog, and its accompanying risks, were substantially eliminated. EMTA's Standard Terms for Assignments of Loan Assets and strengthened Market Practices will also help make loan trading much more efficient in the future.

EMTA's most far-reaching initiative during 1994 was the successful development and testing of Match-EM, an automated confirmation and matching system for Brady Bond and sovereign loan trades. When fully on-line in mid-1995, Match-EM will permit instantaneous matching of trades and real-time dissemination of market price and volume data. New Working Groups in areas such as Equities and Risk Management, Board representation from a broader segment of the Emerging Markets trading and investment community and the expansion of EMTA's Chair to add Peter Geraghty (ING/Baring) as Co-Chair all signal an even greater EMTA commitment to serving the interests of our marketplace in 1995.

We are pleased at our industry's response to the difficult market of 1994. We believe that the future of the market is bright and look forward to a continued expansion of EMTA's activities for the benefit of our marketplace and its participants.

Alexis O. Rodzianko

*As of April 30, 1995.

## Letter from 1995 Co-Chair

**Peter R. Geraghty was elected Co-Chair of EMTA in January 1995. He is President of ING U.K. Capital and a member of the Global Management Committee of Baring Investment Bank. He served as an EMTA Vice Chair in 1993 and 1994.**

The climate of uncertainty created by Mexico's financial crisis and the resulting ripple effect throughout the world's financial markets has clouded many investors' view of the Emerging Markets. The case for long-term participation remains strong, however, as many Emerging Market economies offer higher growth rates than developed economies.

Our marketplace is remarkably varied. Current political or economic uncertainties in some countries must be viewed in the context of the great progress that has been made in the past decade. Economic fundamentals remain strong throughout entire regions compared with the fragile beginnings of economic and political reform that characterized the Emerging Markets when EMTA was formed in 1990. Market participants must be realistic in their appraisal of the many trading and investment opportunities and in their expectations for the continued economic and political reform process.

The diversity of the Emerging Markets is reflected not only geographically but also by the plethora of investment instruments that are now available. This rich diversity responds to the differing investment characteristics sought by investors but often calls for greater efforts to facilitate the efficiency and transparency needed to create investor confidence in the marketplace.

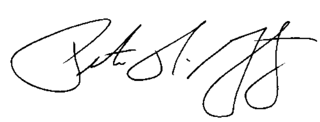
During 1995, EMTA intends to build on past initiatives to improve market efficiency while broadening our efforts to increase transparency, by providing easier and more rapid access to market information. Recent market events underscore the relevance of our agenda. Reducing market inefficiencies is even more critical given current challenges faced by the trading and investment communities. Building transparency addresses the need of investors and other market participants to access reliable market data that (particularly in a turbulent market environment) enhances understanding of the characteristics of individual markets and leads to more informed decision-making and better risk management.

Consistent with these goals, EMTA has developed Match-EM, which offers great potential for increasing transparency in Emerging Markets trading. While Match-EM will have an immediate impact on trading efficiency and risk reduction, the data stream it will eventually generate will facilitate investment decision-making.

EMTA continues to support the remaining country debt restructurings, and we anticipate working closely with Russian financial authorities to facilitate their restructuring, including the use of joint ventures and securitization techniques where appropriate.

Looking ahead, the Emerging Markets continue to offer great opportunity, which EMTA is committed to supporting for all segments of the trading and investment communities. As EMTA seeks to broaden its constituency, the concerns of equity investors will become a critical part of EMTA's 1995 agenda.

I am pleased to join Alex Rodzianko as Co-Chair of EMTA this year as we pursue our ambitious long-term goals of improving market efficiency and transparency and building greater investor confidence in our marketplace.



Peter R. Geraghty

## Letter from 1995 Executive Director

**Michael M. Chamberlin joined EMTA as Executive Director in January 1994. Previously, he was a partner of Shearman & Sterling, where he concentrated on international financings, including Mexico's Financing Package under the Brady Plan and global debt offerings for Petróleos de Venezuela.**

In reviewing 1994, it is important to distinguish between market performance and the performance of the marketplace. Market performance is measured by the value of investments, and many investors were disappointed by the market performance of their Emerging Markets investments in 1994. The performance of a marketplace is less easily measured, although one can make judgments based on factors such as efficiency, transparency, liquidity and settlement risk.

Although we can (and do) emphasize the diversity and long-term nature of the many investment opportunities in the Emerging Markets, there is little that EMTA can (or should) do to directly affect market performance. Our purposes may be more mundane, but in recent years EMTA has proven remarkably successful at mobilizing market participants to improve the performance of our marketplace. We can point with pride, particularly during a year of such challenging economic and political developments, to the relatively smooth operation of the marketplace for Emerging Markets instruments that was in significant part due to EMTA's projects and to the forum it provides for market participants to address industry issues.

Foremost among EMTA's accomplishments in 1994 was the development of our Standard Terms and Multilateral Netting Facility for loan trading, which have brought increased efficiency and greatly reduced settlement risk. Of even more importance in the long-term, in our development and testing of Match-EM, we have laid the technological groundwork for a post-trade processing system that will not only reduce settlement risk and create greater back office efficiency for all Brady Bonds and sovereign loans, but also promote market transparency by enabling us to collect and disseminate market price and volume data on a real-time basis.

Match-EM should eventually also have important front-office implications, as we expect that its contributions to more efficient trade matching and settlement will soon lead to more efficient and transparent (and less risky) clearing mechanisms, which will, in turn, promote greater trading liquidity.

Investors are unlikely to enter our marketplace solely because of the greater market efficiency and transparency that EMTA projects provide, but as participants they will share in the benefits of lower transaction costs, reduced risk and better market data and liquidity.

Despite the uncertainties that continue to loom over the Emerging Markets, EMTA's future plans remain ambitious. In addition to Match-EM and its extensions, I would expect to see a broadening of EMTA's activities into more equities- and local markets-oriented projects, across a wider geographic range of markets. But the thrust of our efforts will remain on reducing risk and ensuring maximum efficiency and transparency.

Michael M. Chamberlin

## ABOUT THE EMERGING MARKETS

### Emerging Markets Trading

Emerging Markets trading has grown in the past decade from a mere handful of market participants that engaged in a highly specialized business of negotiating the purchase and sale of sovereign Latin American loans to a large sophisticated trading market for both debt securities and loans. As the Emerging Markets have evolved, they have diversified beyond Latin America to include Russia/Eastern Europe, Asia and Africa — in general, all nations that are not members of the Organization for Economic Cooperation and Development (OECD). Investors now have a broader selection of geographically diversified investment opportunities than ever before with an even greater variety of investment instruments and risk characteristics.

### Size of the Marketplace

The past few years have seen exceptional growth in the overall size and depth of the trading market for Emerging Markets instruments. Total trading volumes for debt instruments have risen from U.S.$734 billion in 1992 to nearly U.S.$2.8 trillion in 1994, reflecting the growing importance of Emerging Markets trading to the financial and investment communities worldwide.

### Diversity of Investment Instruments

As the market continues its steady evolution from loan assets to Brady Bonds, the increasingly innovative Brady refinancings have created an array of high-yield fixed and floating rate debt securities, with or without collateral, denominated in U.S. dollars as well as other major currencies. As the voluntary capital markets re-opened throughout the Emerging Markets, particularly in 1993 and 1994, and the internal capital markets became more highly developed, the various Brady Bonds have been supplemented by an even wider variety of local currency instruments, as well as predominantly U.S. dollar and U.S. dollar-indexed securities issued by both public and private sector issuers in the international capital markets. At the same time, the need for equity investment throughout the Emerging Markets has created a myriad of opportunities in the rapidly developing private sectors. Along with the rapid increase in the diversity of instruments and in the development of the marketplace for them has come greater liquidity, as well as greater evolution in the development of derivative instruments and other hedging techniques to permit the tailoring and management of risk.

### Market Participants

Market participants include the major international commercial, investment and merchant banks and governments, brokers and dealers, multinationals and local companies around the world. In recent years, the market has expanded beyond traditional institutional investors (major insurance companies,

**1982**
Latin America debt crisis begins

**1984**
Emergence of secondary trading market for LDC loans

**1987**
Major U.S. money center banks take increased reserves against LDC loans

**1987–1988**
Rapid expansion of swaps and loan trading market, in part due to debt/equity programs

**1989**
Brady Initiative for Mexico


pension funds and hedge funds) to include broadly-held mutual funds and wealthy individuals.

### Trading and Settlement

The marketplace for Emerging Markets debt instruments is predominantly an over-the-counter market composed of dealers, brokers and investors located worldwide but linked informally through a network of indicative broker screens and normal telecommunications channels. Actual trading in Brady Bonds and loans is conducted orally, either directly between dealers or between dealers and investors or, in the case of Brady Bonds, often through brokers. Settlement in Brady Bonds is normally made through Euroclear, Cedel or DTC.

In general, the trading and settlement of Brady Bonds occurs in accordance with customary international securities practices although a portion of such trading and settlement is subject to domestic U.S. procedures for the U.S. institutional market. Due to the unique origins and characteristics of Brady Bonds and the marketplace for trading them, EMTA has developed numerous Market Practices for Brady Bond trading and settlement. The introduction of Match-EM in mid-1995 is expected to expedite the processing of trades of both Brady Bonds and loans by permitting instantaneous confirmation and matching.

Loan trading generally is conducted in accordance with EMTA Market Practices and standard documentation. The settlement of loan trades is more complex and time-consuming than for Brady Bonds, largely because of the absence of centralized clearing and settlement mechanisms for loans. Accordingly, the settlement of loan trades (which normally occurs on a T+21 calendar-day basis) is handled individually by dealers and other market participants.

**1990**
Venezuela and Uruguay Brady plans

**1991**
Voluntary capital markets begin to reopen

**1992**
Philippines and Argentina Brady plans

**1993**
Trading volumes reach U.S. $2 trillion

Brazil Brady plan

**1994**
Bulgaria and Poland Brady plans

Russian trading emerges

## OUTLOOK FOR THE EMERGING MARKETS

*The New York Times* recently explored whether "...Fickle markets Now Make Policy" in and toward the Emerging Markets. While this overstates the role of the international capital markets, the chain of events that began with the Mexican peso devaluation has given a much greater visibility both to the international capital markets and to the Emerging Markets themselves.

These events remind us that, for nearly 13 years, many of the Emerging Market countries and their bank creditors, with support from the G-7 governments, the IMF and the World Bank, have been steadily working toward resolving the LDC debt crisis of the 1980s. Widespread progress, particularly in implementing much-needed economic reforms created great expectations and optimism. The Mexican devaluation has clearly shaken investor confidence, and raised important questions about the significance of the Emerging Markets to the developed countries and about the relationship between the Emerging Markets and the international capital markets.

The Brady Plan contemplated that the world's major banks grant debt relief in exchange for marketable financial instruments and that the debtor countries adopt sound economic reforms. Thus far, the Plan has been remarkably successful in diversifying Emerging Markets risk more widely throughout the international financial community and in restoring the access of the debtor countries to the voluntary capital markets. These economic benefits were accompanied by the expansion of commercial trade between the developed nations and the Emerging Markets, increased direct foreign investment and, in many cases, substantial political reforms.

Although it helped end the LDC debt crisis, the Brady Plan did not purport to ensure that all debtor countries would emerge in the same way or that this emergence would be smooth and fail-safe. Many looked to Mexico as a model, and the events surrounding the Mexican devaluation created well-publicized ripple effects throughout the Emerging Markets.

The strong response of the American government to these events was appropriate in light of the economic and political importance of the Emerging Markets. In an increasingly interdependent global economy, another round of financial crises would have put at severe risk the substantial economic and political progress made throughout the Emerging Markets and the resulting benefits that this progress has brought to the developed nations.

In this context, it is important to understand the role of the international capital markets. For many reasons, these markets do not "make" policy. Undeniably, they may exert an influence on policies in the Emerging Markets countries, depending on a variety of factors such as the level of foreign borrowings made by a particular country, and their maturity profile.

Debtor countries that incur large amounts of short-term external debt may, of course, become more dependent on the immediate reaction of the capital markets to their economic policies. Markets will justifiably react to economic policies and political events. By investing in a country, they acquire a stake in its prospects that entitles them to react to changing perceptions of those prospects. In their use of foreign capital, debtor countries may select alternatives that decrease their sensitivity to this market reaction.

To the extent a country must be sensitive to these reactions, the market provides incentives to the country. Policies that are widely perceived as sound will, in a sense, be rewarded; policies, on the other hand, that are unsound will be discouraged. When market participants do not share a common view, the market's message will be mixed. The reaction of the markets to a particular policy can generally be anticipated.

In this way, the likely reaction of the markets can, and should, be a factor in the policy-making process.

Just as the Brady Plan contemplated that debt reduction and economic reforms would be rewarded by access to the voluntary capital markets, market reaction will naturally continue to exert some influence on the nature of future policies. In fact, it was inherent in the Brady Plan that market reaction would provide the incentive that sound policies, once adopted, would be continued. Without this market discipline, it is difficult to envision how the Brady Plan could effectively ensure that debtor countries continue to pursue economic reforms.

As shown by Mexico's devaluation, the effectiveness of these incentives depends upon a transparent market in which material information about the country's economic performance is promptly disseminated throughout the financial community. In this way, the marketplace is able to absorb and act upon this information in an orderly way.

As unpleasant a surprise as the Mexican devaluation and its ripple effects may have been, there are reasons to think that these events may provide a basis for sustained growth in the Emerging Markets and for the attractiveness of investments in them.

Investors have been shown why they should be cautious in their approach to the Emerging Markets. Confidence may not return uniformly and at once, but should be restored if a case-by-case analysis of country fundamentals confirms the continuation of sound policies. Market participants should recognize that taking a global view does not mean linking all of the Emerging Markets together. Uncertainties in some countries must be viewed in the context of the progress that has been made in the past decade. Investors must be realistic in their expectations that this progress will continue.

Countries have been shown how sensitive foreign investors can be to political events and economic policies. This awareness may tend to lessen the dependence of some countries on short-term foreign capital and to encourage them to firmly stay the course in pursuing sound policies. This market discipline should be reinforced by the likelihood that countries in the Emerging Markets will be encouraged to provide better and more timely information about their economic performance.

Finally, the major creditor governments and international financial institutions have been shown the need to strengthen mechanisms that encourage strong economic performance in the Emerging Markets while at the same time catalyzing private sector flows and marshalling timely support to countries that may occasionally need and deserve it.

# ABOUT EMTA

The Emerging Markets Traders Association is a not-for-profit organization dedicated to promoting the orderly development of fair, efficient and transparent trading markets for Emerging Markets instruments and to supporting the globalization and integration of emerging capital markets.

### EMTA's Origins

EMTA was formed largely in response to the trading opportunities created by the Mexican and Venezuelan debt reschedulings under the Brady Plan. In an effort to develop mechanisms to trade the nearly U.S. $50 billion of new debt securities issued under these plans more efficiently, a small group of debt traders from major international financial institutions pooled their resources to form the Association in late 1990.

### Membership/Structure

Today, EMTA has approximately 160* member institutions, including leading broker-dealers, commercial banks and other major financial institutions worldwide. The Association's approximately 70* Full Members are institutions that, directly or through affiliates, actively trade Emerging Markets instruments.

EMTA's Board of Directors is composed of leaders in Emerging Markets trading who, together with its Executive Director and other staff, actively identify and address key industry issues through their participation in various EMTA Committees and Working Groups.

Headquartered in New York City, EMTA has a full-time staff of 15 professional and support personnel.

### Activities

With the continued expansion of trading activities beyond Latin America, and the number and diversity of trading instruments and volumes reaching new levels, EMTA plays an increasingly important role in promoting the orderly development of Emerging Markets trading. In 1994, EMTA expanded its range of activities substantially to include key initiatives that should benefit the Emerging Markets trading industry for years to come.

### Debt Securitization

Much of our industry's growth has been fueled by a series of Brady Plan reschedulings, which since 1990 have converted commercial bank loans into over U.S. $140 billion face amount of more liquid Brady securities. In 1994, Brady reschedulings were successfully completed for Brazil, Bulgaria, Poland and the Dominican Republic. EMTA continues to strongly support the country debt negotiation process, which most recently has included progress in the Russian debt negotiations and the completion of the Ecuador rescheduling, as these transactions bring value to our marketplace and help strengthen the global economy. In addition, EMTA has promoted more liquid and efficient trading markets for both loans and bonds by developing Market Practices and standard documentation.

### Rapid Growth of the Marketplace for Debt Instruments

EMTA's recent Surveys of debt trading volumes illustrate the continued growth and diversity of the Emerging Markets marketplace and are used by investors and other market participants to compare the growth of the trading markets with their individual businesses. These Surveys have demonstrated important market trends such as the transition of the marketplace from loan trading to securities trading, the expanded geographic diversity of instruments traded and the increasing importance of options and local currency instruments.

*As of April 30, 1995.

### Better Risk Management

Managing risk in a rapidly expanding trading business is a major challenge. EMTA's efforts to improve market efficiency have helped reduce risk by ensuring that trading transactions settle more quickly and, in the case of its standard netting arrangements, by allowing market participants to reduce their aggregate counterparty exposure. Through April 1995, EMTA's Multilateral Netting Facility had netted and settled more than 1,400 loan trades aggregating over U.S. $3 billion in face amount. Other measures to promote greater efficiency in the trading market for bonds and loans include EMTA's Standard Terms for Loan Assignments and Match-EM, EMTA's automated trade confirmation and matching system. By facilitating better risk management, EMTA enables individual market participants to conduct their activities with greater confidence, efficiency and safety and helps to reduce systemic risk.

### More Transparency

By promoting standard market practices and a better information flow within the Emerging Markets, EMTA helps to ensure greater market transparency for the benefit of both investors and market professionals. In addition to acting as an information clearinghouse, EMTA's Match-EM System for Emerging Markets debt instruments will eventually permit EMTA to collect and disseminate market volume and price data on a real-time basis. By better enabling market participants to manage their inventories and to comply with the shortened settlement periods for Brady Bond and loan asset trades, Match-EM will revolutionize the efficiency and transparency of our marketplace.


### Market Regulation

Although Emerging Markets trading is well-regulated, EMTA actively promotes the highest standards of integrity and professionalism through voluntary self-regulation. EMTA's Code of Conduct for the trading of Emerging Markets instruments encourages all market participants to have appropriate trading policies to ensure that the marketplace is as professional as possible. The Code continues to be well received by market participants and their regulators and supervisory authorities. Through the adoption of general trading principles and more specific Market Practices, EMTA also strives to develop a better common understanding of market conventions that ensure maximum market transparency and efficiency.

### Industry Advocacy

In addition to more active self-regulation, EMTA has also represented the collective interests of its Members before various legislative and regulatory bodies in such areas as the ratification of the North American Free Trade Agreement (NAFTA) and various legislative and regulatory proposals that affect the Emerging Markets.

## EMTA COMMITTEE/ WORKING GROUP REPORTS


Many of EMTA's activities are conducted through Committees or Working Groups of Emerging Markets industry experts whose time is donated by their Member firms. During 1994, these Committees and Working Groups, and their most significant projects, included:

### European Working Group

EMTA's European Working Group meets periodically in London and Paris to discuss market practices and industry issues relevant to EMTA's European-based Members. During 1994, the European Working Group was chaired by Donald Pierce (Samuel Montagu) and Dean Menegas (Indosuez Capital).

### Exotics/Loan Trading Working Group

Loan trading continues to be an important part of the Emerging Markets trading industry, despite the exchange of many of these loans for Brady Bonds. EMTA's Exotics/Loan Trading Working Group, chaired by Carmen Paracchini (Chase Manhattan), aims to enhance market liquidity for the so-called "Exotic" loans (e.g., Peru and Panama) by developing Market Practices that define these loans and explain how they are affected by the country debt rescheduling process. In 1994, in response to an increasing backlog in the settlement of loan assignments, EMTA launched the industry's first multilateral netting facility, with the assistance of Price Waterhouse, which substantially reduced the settlement backlog. Other initiatives to promote greater efficiency in the loan trading market included the adoption of Standard Terms for Assignments of Loan Assets. The Standard Terms, developed under the leadership of Kathleen Wells (JP Morgan), contain pre-negotiated unwind and other provisions which enable market participants to substantially reduce the paperwork and time necessary to complete the preparation of loan trade documentation.

### Options/Derivatives Working Group

As with other major financial markets, options and other derivatives products continue to play an important role in enabling investors and financial intermediaries to hedge their risks and otherwise participate in Emerging Markets trading opportunities. In the Summer of 1994, EMTA's Options/Derivatives Working Group, chaired by Peter Geraghty (ING), completed a Master Agreement for documenting

Options on Brady Bonds and sovereign loans. Developed under the leadership of Peggy Grieve (formerly of Chase) and David Lewis (JP Morgan), the Master Options Agreement, together with a detailed Market Practices Guide, enables market participants to focus on key business terms and permits back-office personnel to handle the increasing transaction volume in options on these debt instruments.

### Russia/Eastern Europe Working Group

EMTA formed its Russia/Eastern Europe Working Group in 1993, largely in anticipation of debt reschedulings in Poland, Bulgaria and Russia. Chaired by Alex Rodzianko (Chemical Bank), this Working Group has supported these reschedulings by issuing forms for confirming when-issued trades for Brady Bonds for Bulgaria and Poland and developing various Market Practices for trading Russian and Polish loans. In November 1994, this Working Group helped form a new trade association, affiliated with EMTA, to establish settlement procedures and market practices for trading dollar-denominated Russian Ministry of Finance (MinFin) bonds.

### Technology Working Group

In an effort to make the Emerging Markets trading industry more efficient and transparent, EMTA's Technology Working Group developed the Match-EM automated post-trade confirmation and matching system. Led by Lou Bonavita (Chemical Bank) and developed in conjunction with GE Information Services, the Match-EM system, now operational, will better enable market participants to manage their inventories and to comply with the shortened settlement periods for both Brady Bond and loan asset trades.

### Securities Compliance Working Group

As the trading markets for Emerging Markets instruments continue their rapid expansion and with Brady Bonds assuming a growing proportion of trading volumes, it is increasingly important for broker-dealer compliance personnel to have a forum to exchange views on compliance issues affecting the industry. EMTA's Securities Compliance Group, chaired by Fred Krieger (Salomon Brothers), meets monthly (sometimes together with an EMTA Lawyers Group) to share views and hear presentations by industry experts on topics such as SEC market regulation, margin requirements and NASD equity reporting rules.

### Risk Management Working Group

This Working Group was formed in 1995 (with Katy Briger (Indosuez Capital) and Donna Reino (JP Morgan) as Chairs) to create a forum to review and address issues of common concern to risk managers in the Emerging Markets trading industry. To date, this Group has examined areas of potential risk such as the clearing arrangements used by Brady Bond brokers and failed trades of Emerging Markets instruments.

### Global Equities Working Group

This Working Group was formed in 1994 to address issues concerning the efficiency, transparency and integrity of the secondary markets for Emerging Market equity instruments.

### Global Securities/ Broker-Dealer Regulation Working Group

Recognizing the increasing globalization of the world's securities markets, this Working Group was formed in 1995 to examine issues relating to the global regulation of the marketplace for Emerging Markets debt securities.

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**F I N A N C I A L**

**R E V I E W**

## Operating Highlights

| | For the year ended December 31, | | |
|---|---|---|---|
| | **1994** | 1993 | 1992 |
| Market trading volume (in billions of U.S.$) | **$ 2,766** | $ 1,978 | $ 734 |
| Number of Members at year end: | | | |
| Primary | **83** | 75 | 64 |
| Associate | **69** | 43 | 14 |
| Total Members | **152** | 118 | 78 |
| **Revenue** | | | |
| Membership dues | **$ 1,364,250** | $ 894,500 | $ 677,528 |
| Fees for program services | **1,434,922** | — | — |
| Other | **30,675** | 13,203 | 10,371 |
| Directors' support (assessments and donated services, facilities and supplies) | **1,312,500** | 787,949 | 171,423 |
| Total revenue | **4,142,347** | 1,695,652 | 859,322 |
| **Expenses** | | | |
| Staff | **1,269,064** | 366,983 | 117,174 |
| Office | **201,987** | 91,436 | 54,619 |
| Communications | **260,433** | 11,241 | — |
| Professional services | **1,945,580** | 839,169 | 767,051 |
| Conferences, receptions and travel | **196,415** | 250,707 | 1,049 |
| Total expenses | **3,873,479** | 1,559,536 | 939,893 |
| Increase (decrease) in net assets | **268,868** | 136,116 | (80,571) |
| Net assets: | | | |
| Beginning of year | **87,433** | (48,683) | 31,888 |
| End of year | **$ 356,301** | $ 87,433 | $ (48,683) |

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Following a long period of expansion in trading volumes and increases in price levels for most assets, 1994 was characterized by continuing strong trading volumes, increased volatility and sharp declines in price levels for most Emerging Markets assets. EMTA assisted the Emerging Markets trading industry in responding to these challenges through various projects designed to enhance the efficiency, transparency and integrity of the marketplace. During 1994, EMTA substantially expanded its staff (from 4 to 13) and the scope and level of its activities and took steps toward greater independence from its individual Board Members. New programs included (a) a Multilateral Netting Facility, through which market participants netted and settled 942 trades of loans (primarily Russian) with an aggregate face value of over $2.2 billion, and (b) development of an automated trade confirmation and matching system (Match-EM) for sovereign loans and Brady Bonds, which is expected, beginning in mid-1995, to permit almost instantaneous trade confirmation and matching, as well as the eventual collection and dissemination of market price and volume information on a nearly real-time basis.

### Revenue

Total revenue increased by 144% in 1994 to $4.1 million from $1.7 million in 1993, as a result of increases in each revenue category.

Membership dues increased by 53% to nearly $1.4 million from just under $900,000 in 1993, due to an increase in membership (from 118 to 152) and an increase in annual dues for Primary Members (from $10,000 to $15,000). Membership dues covered 35% of total expenses in 1994, as compared with 57% in 1993.

Fees for program services went from nil in 1993 to over $1.4 million in 1994 because of two new programs, the Multilateral Netting Facility and the Match-EM pilot program, which contributed revenue of approximately $1.3 million and $100,000, respectively. Fees for program services covered 37% of total expenses in 1994, as compared with nil in 1993.

Directors' support (including assessments and donated services, facilities and supplies), which continues to fund the shortfall between EMTA's revenues and total expenses, increased by 67% to $1.3 million from $790,000 in 1993. The form of this support changed in 1994 from predominantly donations of staff and facilities to assessments, as EMTA assumed greater independent responsibility for its operations, including staffing. Revenues from the Multilateral Netting Facility enabled cancellation of the 4th quarter 1994 Directors' assessment. One of EMTA's fiscal goals for 1995 is to fund a greater proportion of its operations from fees for program services and thereby reduce Directors' assessments.

### Expenses

Total expenses rose 148% in 1994 to $3.9 million from $1.6 million in 1993, reflecting substantial increases in staff and in the scope and level of EMTA's activities.

Staff costs increased by 246% in 1994 to $1.3 million from $370,000 in 1993, mainly as a result of the addition of 9 full-time employees during 1994 to supervise and conduct EMTA's activities (including various support functions and in-house legal work to contain outside legal fees).

Professional services increased 132% to $1.9 million in 1994 from $840,000 in 1993. The main reason for this increase was the consulting fees associated with the Multilateral Netting Facility and Match-EM, which went from $40,000 in 1993 to $900,000 in 1994. Legal fees increased 12% in 1994, to $800,000, from $712,000 in 1993. In 1994, legal fees constituted 21% of total expenses, as compared with 46% of total expenses in 1993.

Aggregate office and communications expenses increased 350% in 1994 to $460,000 from $100,000 in 1993, consistent with the increased scope and level of EMTA's activities. Conferences, receptions and travel expenses decreased 22% in 1994 to $200,000 from $250,000 in 1993, primarily due to lower costs for the 1994 IMF reception and a general reduction in EMTA's conference and reception activity in 1994.

## Statements of Financial Position

| | Year ended December 31, | |
|---|---|---|
| | **1994** | 1993 |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 1,236,346** | $ 54,551 |
| Directors' assessments receivable | **—** | 277,753 |
| Dues and fees receivable | **24,331** | 43,000 |
| Total current assets | **1,260,677** | 375,304 |
| Computer equipment, net of accumulated depreciation of $10,699 in 1994 | **21,398** | — |
| Leasehold improvements | **18,612** | — |
| Total Assets | **$ 1,300,687** | $ 375,304 |
| **Liabilities and Net Assets** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | **$ 687,112** | $ 287,871 |
| Payable to Director | **257,274** | — |
| Net assets | **356,301** | 87,433 |
| Total Liabilities and Net Assets | **$ 1,300,687** | $ 375,304 |

The accompanying notes are an integral part of these financial statements.

## Statements of Activities

| | For the Year Ended December 31, | |
|---|---|---|
| | **1994** | 1993 |
| **Revenue** | | |
| Membership dues | **$ 1,364,250** | $ 894,500 |
| Fees for program services | **1,434,922** | — |
| Meeting admission fees | **4,940** | 8,032 |
| Investment income | **25,735** | 5,171 |
| Directors' assessments | **1,312,500** | 277,753 |
| Donated services, facilities and supplies | **—** | 510,196 |
| Total revenue | **4,142,347** | 1,695,652 |
| **Expenses** | | |
| Compensation, benefits and related taxes | **955,725** | — |
| Temporary and seconded staff | **313,339** | 366,983 |
| Rent | **141,600** | 48,000 |
| Office supplies and administration | **49,688** | 43,436 |
| Depreciation | **10,699** | — |
| Telecommunications | **84,709** | 11,241 |
| Shipping and delivery | **83,119** | — |
| Printing of documents for Member services | **92,605** | — |
| Legal | **800,335** | 712,227 |
| Program consultants | **792,620** | 53,772 |
| Public relations and annual report | **327,971** | 57,470 |
| Audit, tax and computer consultants | **24,654** | 15,700 |
| Conferences, receptions and meetings | **118,508** | 182,387 |
| Travel, lodging and meals | **77,907** | 68,320 |
| Total expenses | **3,873,479** | 1,559,536 |
| Increase in net assets | **268,868** | 136,116 |
| Net assets, beginning of year | **87,433** | (48,683) |
| Net assets, end of year | **$ 356,301** | $ 87,433 |

The accompanying notes are an integral part of these financial statements.

## Statements of Cash Flows

| | For the Year Ended December 31, | |
|---|---|---|
| | **1994** | 1993 |
| **Cash flows from operating activities** | | |
| Increase in net assets | **$ 268,868** | $ 136,116 |
| Adjustments to reconcile increase in net assets to net cash provided by (used for) operating activities: | | |
| Depreciation | **10,699** | — |
| (Increase) decrease in Directors' assessments receivable | **277,753** | (277,753) |
| (Increase) decrease in dues and fees receivable | **18,669** | (31,500) |
| Increase in accounts payable and accrued expenses | **399,241** | 53,036 |
| Increase in payable to Director | **257,274** | — |
| Net cash provided by (used for) operating activities | **1,232,504** | (120,101) |
| **Cash flows from investing activities** | | |
| Purchases of computer equipment | **(32,097)** | — |
| Investment in leasehold improvements | **(18,612)** | — |
| Net cash used for investing activities | **(50,709)** | — |
| Increase (decrease) in cash and cash equivalents | **1,181,795** | (120,101) |
| Cash and cash equivalents, beginning of year | **54,551** | 174,652 |
| Cash and cash equivalents, end of year | **$ 1,236,346** | $ 54,551 |

The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS

### 1. Organization

The Emerging Markets Traders Association ("EMTA") is a non-profit service organization, formed in 1990, with the principal objective of enhancing the efficiency, transparency and integrity of the trading markets for Emerging Markets instruments. EMTA's primary sources of income are membership dues, directors' assessments and, starting in 1994, fees for program services.

EMTA is exempt from federal income tax under the provisions of Section 501(c)(6) of the Internal Revenue Code. It is exempt from state and local taxes under similar provisions of the relevant tax laws of those jurisdictions.

### 2. Summary of Significant Accounting Policies

#### General

The financial statements of EMTA are prepared on the accrual basis of accounting. Certain 1993 amounts have been reclassified to conform to 1994 presentation.

### Membership Dues and Directors' Assessments

EMTA's membership contained two categories during 1994 and 1993:

*Primary Members* – institutions that directly or through affiliates act as traders, brokers or dealers in emerging markets instruments in the United States or abroad; and

*Associate Members* – institutions that do not directly trade emerging markets instruments, but have an interest in or affiliation with the emerging markets.

EMTA's membership and fiscal years are the same. Dues are billed in the first quarter of the year and are amortized to income throughout the year as earned. Members who do not pay their annual dues within 60 days of billing may be suspended from membership in EMTA. The Board of Directors may levy special assessments on Members to defray certain expenses. Such special assessments are to be equal for all Members of the same class. Additionally, the Board may agree to levy assessments on Directors (payable by the Members that employ them) to meet working capital deficiencies.

### Cash and Cash Equivalents

Excess funds are maintained in either: (a) an interest-bearing money market account with a bank that is also an EMTA Member, or (b) an income-producing mutual fund managed by the same bank. This mutual fund invests in high quality short-term obligations of corporations, governments and banks. Balances in these two accounts are included in cash and cash equivalents in the Statement of Financial Position.

### Fixed Assets

Depreciation of computer equipment is provided on a straight-line basis over estimated useful lives of three years. Amortization of leasehold improvements is provided on a straight-line basis over the shorter of the estimated lives of the improvements or the related lease, beginning at the lease inception date.

### 3. Summary of Expenses

Following is a summary of program and non-program expenses:

| | Year ended December 31, | |
|---|---|---|
| | **1994** | 1993 |
| **Program expenses** | | |
| Direct: | | |
| Multilateral Netting Facility | **$ 690,650** | $ — |
| Match-EM pilot program | **202,620** | 35,611 |
| Documentation and Market Practices | **384,161** | 348,991 |
| Publications, including Trading Volume Survey and asset price quotes | **40,000** | 53,399 |
| Conferences, receptions and meetings | **118,508** | 182,387 |
| Other | **163,477** | 185,179 |
| Indirect (primarily staff and facilities costs) | **1,240,596** | 362,868 |
| Total program expenses | **2,840,012** | 1,168,435 |
| **Non-Program expenses** | | |
| Direct: | | |
| Public relations and membership development | **327,971** | 57,470 |
| General administration | **136,701** | 158,518 |
| Indirect (primarily staff and facilities costs) | **568,795** | 175,113 |
| Total non-program expenses | **1,033,467** | 391,101 |
| Total expenses | **$ 3,873,479** | $ 1,559,536 |

### 4. Summary of Revenue

The individual components of the revenue categories are set forth below:

| | Year ended December 31, | |
|---|---|---|
| | **1994** | 1993 |
| Membership dues: | | |
| Primary | **$ 1,167,750** | $770,000 |
| Associate | **196,500** | 124,500 |
| | **$ 1,364,250** | $894,500 |
| Fees for program services: | | |
| Multilateral Netting Facility | **$ 1,334,596** | — |
| Match-EM pilot program | **100,326** | — |
| | **$ 1,434,922** | — |
| Directors' support: | | |
| Assessments: | | |
| General assessment | **$ 1,312,500** | $144,654 |
| Special assessment: Brazil reception | **—** | 24,376 |
| Special assessment: IMF reception | **—** | 108,723 |
| | **$ 1,312,500** | $277,753 |
| Donations: | | |
| Services | **—** | $428,258 |
| Facilities | **—** | 66,638 |
| Supplies | **—** | 15,300 |
| | **—** | $510,196 |

Prior to 1994, EMTA's activities were carried out primarily by individuals whose services were contributed by Members. Additionally, the office space occupied by EMTA and a large portion of related office expenses were contributed by an EMTA Member. These contributions are included in donated services, facilities and supplies revenue and have been allocated to various expense categories based upon the nature of the expense. On January 1, 1994, EMTA began paying for its own staff, office space and related expenses. During 1994, EMTA occupied office space in a building owned by an EMTA Member and purchased much of its computer equipment and office supplies from that Member. These expenditures consisted of rent expense of $141,600 and purchases of computer equipment of $30,720 and various office services of $149,454. In addition, Members charged EMTA $153,750 in 1994 for the services of two staff individuals for portions of the year, which costs are included in temporary and seconded staff in the Statement of Activity.

### 5. Office Space Lease

In January 1995, EMTA entered into an agreement to lease independent office space in a new location for a period commencing March 1, 1995 and expiring January 31, 2003, with an option to renew for five additional years at a rate of 95% of the fair market rental at July 31, 2002. The annual rent will be $124,614 plus EMTA's proportionate share of increases in property taxes and other building expenses after the first year. In addition, EMTA will pay no rent for six months in 1995 and for three months in 1996. An EMTA Member employing a Director has provided a letter of credit (subject to partial reimbursement by three other Members that also employ Directors) to provide additional security to the landlord of EMTA's performance under the lease.

### 6. Employee Benefit Plan

Effective January 1, 1994, EMTA adopted a non-contributory, defined contribution employee benefit plan for its employees. Employees who have at least 1,000 hours of service in a calendar year are eligible to participate. Balances in participants' accounts are fully vested at all times. Employer contributions may range from 0% to 15% of eligible compensation, at the election of EMTA each year. The 1994 contribution was 7% of eligible compensation, which amounted to $28,493. This amount is included in compensation, benefits and related taxes in the Statement of Activity.

# REPORT OF INDEPENDENT ACCOUNTANTS

**To the Board of Directors of the Emerging Markets Traders Association:**

In our opinion, the accompanying statements of financial position and the related statements of activities and of cash flows present fairly, in all material respects, the financial position of the Emerging Markets Traders Association (the "Association") at December 31, 1994 and 1993, and the results of its activities and its cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Association's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP

New York, New York

February 24, 1995

## BOARD OF DIRECTORS

**Joseph W. Boyle***
Chase Manhattan Bank

**Mark L. Coombs**
ANZ Grindlays

**Abelardo S. Curdumi**
The First National Bank of Chicago

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ING/Baring Securities

**Richard E. Greer**
Baring Securities

**Alexis F. Habib**
Indosuez Capital

**Frederic Z. Haller, EMTA Vice Chair**
Morgan Grenfell

**Wayne D. Lyski**
Alliance Capital

**Paul A. Masco**
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Goldman Sachs

**Alexandra P. McLeod**
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**Alexis O. Rodzianko, EMTA Co-Chair**
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**Nicolas S. Rohatyn, EMTA Vice Chair**
JP Morgan

**Angel Santamarina**
Banco Santander

**Hugo P. Verdegaal**
Citicorp Securities

**Bruce A. Wolfson**
Bear Stearns

*Replaced in February 1995 by Jorge V. Jasson (Chase Manhattan).

†Replaced in January 1995 by Jose Pedreira (Merrill Lynch).

**Pictured at EMTA's 1994 Annual Meeting in New York City are EMTA Directors:**

*(Seated, left to right)*
**Joseph W. Boyle** (Chase Manhattan), **Angel Santamarina** (Banco Santander), **Nicolas S. Rohatyn** (JP Morgan), **Alexis O. Rodzianko** (Chemical Bank), **Peter R. Geraghty** (ING/Baring Securities), **Manuel Mejia-Aoun** (Merrill Lynch), **Bruce A. Wolfson** (Bear Stearns).

*(Standing, left to right)*
**Alexandra P. McLeod** (Bank of America), **Richard E. Greer** (Baring Securities), **Abelardo S. Curdumi** (The First National Bank of Chicago), **Michael M. Chamberlin** (EMTA), **Vicente S. Perez** (Lazard Frères), **Daniel M. McEvoy** (Goldman Sachs), **Alexis F. Habib** (Indosuez Capital), **Wayne D. Lyski** (Alliance Capital).

## 1994 ANNUAL MEETING

EMTA held its Annual Meeting on December 13, 1994 at the offices of Chemical Bank in New York City. In addition to electing 1995 Directors, the Meeting featured a presentation by keynote speaker Alexander N. Shokhin, former Russian Deputy Prime Minister and Minister of the Economy, who described Russia's current economic and financial situation, noting that:

"There are now many new opportunities for Emerging Markets traders. ...We in Russia are very interested in working together with EMTA to demonstrate the role of the Russian financial markets and Russian debt instruments in the world marketplace."

ALEXANDER N. SHOKHIN

EMERGING MARKETS TRADERS ASSOCIATION

## Full Members*

**Alliance Capital Management**
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New York City

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London

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New York City

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New York City

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London

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**AIG Financial**
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**Allen & Overy**
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**Baker & McKenzie**
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**Cleary Gottlieb Steen & Hamilton**
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Moscow

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**Simpson Thacher & Bartlett**
New York City

**Slaughter and May**
London

**Tandem Trading, Inc.**
Rye, New York

**Whitman, Breed, Abbott & Morgan**
Washington, DC

*Full Members are institutions that, directly or through affiliates, act as traders or broker-dealers of Emerging Markets Instruments.

**Associate Members are institutions which trade or are broker-dealers of Emerging Market Instruments but which are smaller and less active than Full Members.

†Affiliate Members are persons or entities not eligible for membership as Full or Associate Members.

# KEY ADVISORS

**Many of EMTA's activities are guided by outside advisors, whose counsel and support have been integral to the success of these activities. These advisors provide technical and legal advice and market insight and assist in the development and dissemination of market practices and standard documentation. Together, they have a wealth of experience and expertise. EMTA is very grateful to these individuals and their institutions for their ongoing advice and support.**

**Joining EMTA's Co-Chair Alexis O. Rodzianko, Executive Director Michael M. Chamberlin and Deputy Director & Legal Counsel Kate Campana are EMTA's key outside advisors:**

*(from left to right)*

**Michael M. Chamberlin** (EMTA), **John Kramer** (Shearman & Sterling), **John Welch** (GE Information Services), **E. Wilson Davis** (Price Waterhouse), **Kate Campana** (EMTA), **James A. Marren** (Ogilvy Adams & Rinehart), **Alexis O. Rodzianko** (Chemical Bank).

*Not pictured:* **Christopher F.I. Saul** (Slaughter and May)

## EMTA Professional Staff

**Michael M. Chamberlin**
Executive Director

**Kate Campana**
Deputy Director & Legal Counsel

**Donald Goecks**
Director of Finance

**Sophie Pompea**
Director of Project Development, Russia/Eastern Europe

**Cristina von Bargen**
Director of Public Affairs

**Hillary Ellner**
Communications Coordinator

**Mary Ellen Martinelli**
Membership Coordinator

**Jonathan Ladd**
Legal Counsel & Special Projects Coordinator

**Moraima Pares**
Analyst

**Jonathan Murno**
Analyst

**Design**
**Shari Finger**

**Photographic Illustration**
**Ralph Mercer**

**Executive Photography**
**Ed Eckstein**

**Printing**
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**Markets**
**Traders**
**Association**

63 Wall Street
20th Floor
New York, NY 10005
Tel (212) 293-5000
Fax (212) 293-5039