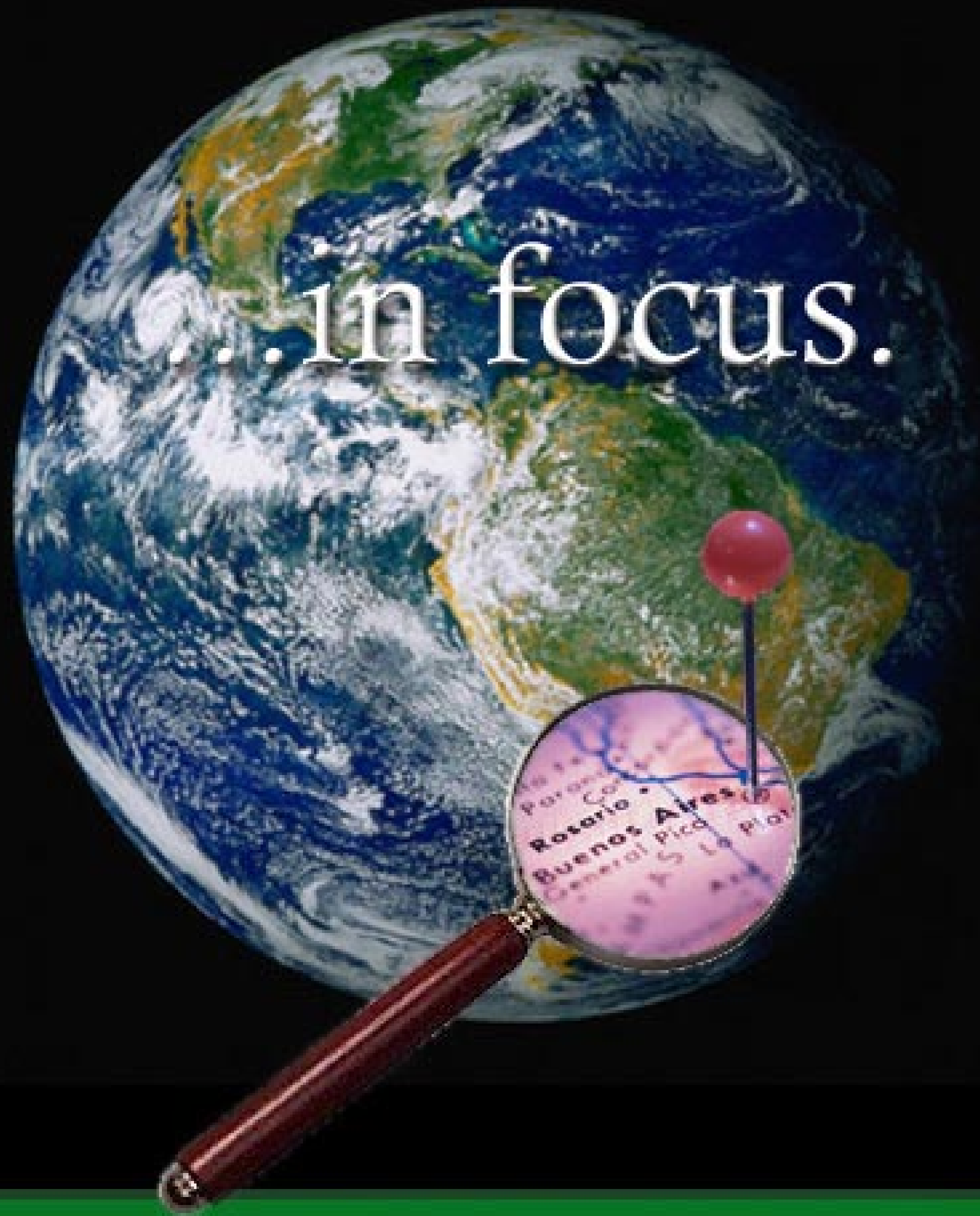
2001 Annual Report

EMTA



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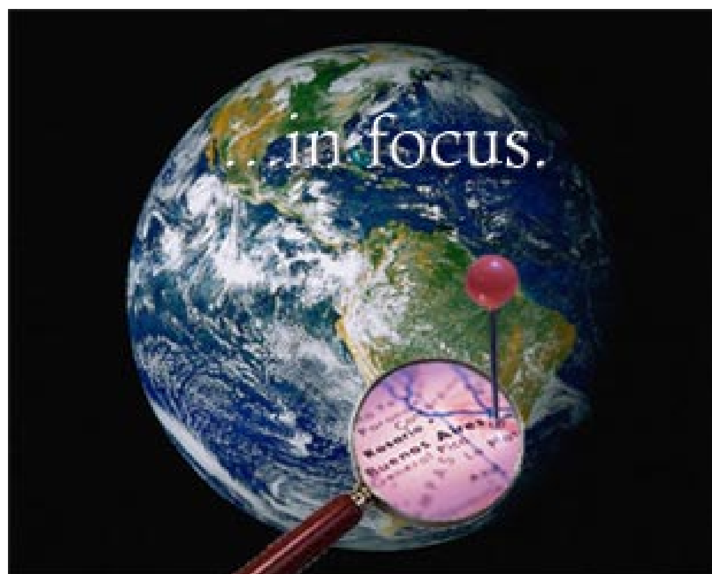
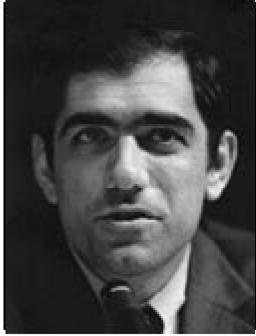


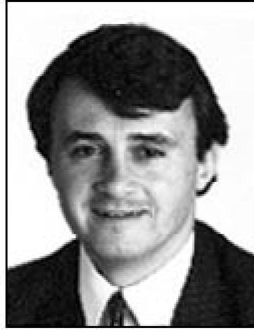
Formed in 1990, EMTA is dedicated to:

- **promoting the orderly development of fair, efficient and transparent trading markets for Emerging Markets instruments,**
- **helping integrate the Emerging Markets into the global capital markets and**
- **building and promoting the Emerging Markets asset class.**

Letter from the Co-Chairs



"Despite 2001 was rewarding Emerging debt



Argentina, a highly year for the Markets industry."

Despite Argentina, 2001 was a highly rewarding year for the Emerging Markets debt industry. Economic growth in emerging economies (up 2.1% according to one estimate) outpaced GDP increases in developed economies (up 1.1%). Significant progress on reforms continued in many countries. Several important credit ratings upgrades were granted. Trading volumes rose 22% from the previous year to US$3.5 trillion, and overall returns for the Emerging Markets were generally above those in other markets.

One of the major success stories of 2001 was undoubtedly Russia, whose GDP rose a robust 5% over the previous year. As the IMF noted in its most recent Article IV consultation, Russia maintained sound macroeconomic policies and accelerated structural reforms in 2001; Moscow made progress in tax, pension, land, labor and judicial reforms and also debated restructuring natural monopolies and the banking sector. The country received two ratings upgrades

from Standard & Poor's (to B+) and three from Moody's (to Baa3). As a result, returns on Russian debt (up 56%) led the EMBI+ for the third consecutive year, and positive investor sentiment remains strong.

Mexico was also a market leader in 2001. Mexico earned IMF praise for its prudent fiscal and monetary policies in the face

of the US economic slowdown. (As Finance Minister Gil Diaz told his audience at EMTA's 2001 Annual Meeting, in fact the greatest challenge facing his country was the eroding US economy). Mexico's Congress passed the fiscal reform bill into law, and by early 2002, Mexico reached investment grade at Standard & Poor's (BBB-) and a notch higher at Moody's. Investors in Mexican debt were rewarded with a 14% return.

In Brazil, FDI reached US $23 billion despite any major privatizations and concerns about volatility, protections for minority shareholders were strengthened (as advocated by Central Bank President Armino Fraga at EMTA's 2000 Annual Meeting), the autonomy of regulatory officials overseeing the stock market was increased and progress towards liberalizing the domestic oil market occurred. Brazil's cautious monetary policy and its swift reaction to the deteriorating external environment in 2001 earned the praise of investors and policy makers.

Besides the individual successes of these key countries, important general trends in the EM debt industry continued

during the year as well. First, there has been a welcome increase in the availability and flow of sovereign economic and financial information. Following the Mexican Tequila crisis of 1995, many EM sovereigns made dramatic moves in increasing the transparency of national accounts. In tandem with this greater information flow, the international financial institutions have also sought greater dialogue and interaction with investors while also working to increase

transparency in their own policies and operations. In April 2001, the Paris Club continued this trend by unveiling its new website, which shows potential as a useful step in this direction. A second important trend is the transformation of the ownership of EM instruments. Participation in the market by those with longer time frames for holding such debt -- local pension funds, crossover investors and European retail investors -- has increased, while the role of leveraged investors has declined. A third important trend is that investors increasingly appear to discriminate between countries with sound economic fundamentals and those that are more problematic. All of these factors have helped to reduce financial contagion and volatility in the EM asset class.

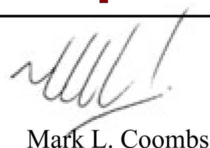
With strong progress in individual countries and other positive factors affecting the marketplace, it should be little surprise that returns for most investors in 2001 were generally very good. While the benchmark EMBI+ index was essentially flat in 2001 (down less than one per cent), this can be attributed almost exclusively to the 67% decline in Argentine bonds as the country fulfilled long held investor expectations that it would suspend commercial debt payments at year-end. However, performance on Argentina's debt contrasts strongly with the across-the-board, positive returns for nearly all other parts of the EM debt universe. Investors that underweighted Argentina (and these were many – a survey of investors conducted by JP Morgan three weeks before the default showed that 81% of the 172 firms which responded were underweight Argentina, and 48% of participants considered themselves to be significantly underweight) were rewarded with double digit returns in 14 of the index's remaining 16 countries. Similarly, of the 27 countries included in the wider EMBI Global Index, only Argentina showed negative returns, while investors experienced double-digit returns in 24 of the remaining 26 countries. Brazil, the country which many investors feared would most seriously suffer any spillover effects from Argentina, was the third weakest performer in the EMBI+…and still managed to post a 7% investment return!

Total return on the EMBI+ (ex-Argentina) of 20% substantially exceeds other fixed income indices, such as an 8% return in the Lehman US Aggregate Fixed Income index, a 7% return in the Lehman US Treasury index, a 4% return in Merrill Lynch's Master II High Yield Index. The ex-Argentina EMBI+ return also compares favorably with negative total returns last year in many equity markets, including a 13% decline in the S&P 500, a 21% decline in NASDAQ, and comparable double digit drops in the FTSE 100, the Nikkei, and the Hang Seng. Sadly, performance in EM equities was also weak, with the MSCI Latin American equities index dropping 16% (in dollar terms), and the MSCI Emerging Europe/Middle East index down 20% (also in dollar terms).

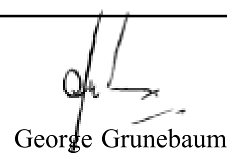
Absent unforeseen developments, 2002 should be a year of continuing progress for the Emerging Markets. The marketplace awaits the return of political and financial stability in Argentina, and an orderly restructuring of Argentine debt. However, it is noteworthy that both Brazil and Mexico floated new debt issues totaling almost US $3 billion two weeks after Argentina's default, underscoring its limited contagion effects. More importantly, this signals that, in our more mature market with greater transparency, greater investor discipline and longer-term investment horizons, the capital markets will remain open to countries judged by investors to be pursuing sound economic policies.

As outlined in Michael Chamberlin's letter and elsewhere in this Annual Report, EMTA's activities remain balanced between the traditional market practices and documentation that keep our market efficient, and longer-term policy issues to ensure that the markets for EM instruments continue to prosper, develop and broaden as places to invest. As our market continues to mature, EMTA can be expected to seek new ways through broader industry collaboration and more aggressive advocacy, for example, to meet the needs of our diverse and changing marketplace.

Juan del Azar



Mark L. Coombs



George Grunebaum

Letter from the Executive Director

"The time spent talking about restructuring bonds has distracted us all from the larger picture of how best to meet the financing needs of developing economies."

EMTA Mission

EMTA was formed in 1990 to help make the trading markets more efficient and more professional for what were then known as LDC loans and Brady bonds. As the market has evolved, EMTA has helped it to deal successfully with many of its internal 'growing pains', and thus, through voluntary self-regulation, has minimized the need for government intervention. By any measure, the EM trading markets are now much more efficient, transparent and professional than they were a decade ago (and perhaps more so now than might have been predicted back then).

Over the years, EMTA's mission has evolved in an effort to meet the needs of a broader marketplace - a marketplace characterized by a more diversified (and more vocal) investor base and by dealer firms that in many cases have integrated Emerging Markets products into their mainstream product groups. As a result, much of EMTA's agenda is now pursued in collaboration with one or more other financial trade associations, and a large part of our resources is now devoted, in one way or another, to clarifying and improving investor rights, or otherwise advocating industry positions.

In my view, EMTA's most significant accomplishment to date is that we have reliably provided a forum that has enabled a diverse Emerging Markets trading and investment community to address a multitude of issues that it has faced over the past decade in a wide variety of product and geographic areas. It is especially important, in this diverse and dynamic environment, that EMTA has been able to help develop and maintain the special Emerging Markets qualities, attitudes and skills that have shaped our industry and enabled it to adapt, and occasionally thrive, under market conditions that are rarely ideal.

EM Marketplace and the Burden-Sharing Debate

During 2001, Argentina's difficulties cast a disproportionately long shadow over the marketplace. As a result, it was easy to forget the sweeping political, economic and legal reforms that have been implemented throughout the Emerging Markets over the past 20 years. Although improved credit fundamentals in many countries largely prevented the type of contagion that swept through the marketplace several years ago, and despite healthy returns on many EM assets, there was still a sense that the markets were in a sort of general malaise.

For some reason, better fundamentals, good yields and a more efficient dealer market, have not made it much easier to be an Emerging Markets investor.

Several years ago, the official sector, concerned about the implications of the widely-held bonds that it had encouraged under the Brady plan, embarked on an effort to involve the private sector more 'effectively' in resolving sovereign financial crises in the Emerging Markets. Private sector concerns about the resulting "burden-sharing" debate came to a head following Ecuador's Brady bond default and subsequent restructuring (private sector commentators have called it 'burden-shifting' and even 'killing the golden goose').

In this debate, the official sector has stated that it can no longer 'bail-out' private sector investors with public moneys, and that such 'bail-outs' create the moral hazard that investors will invest imprudently in the Emerging Markets in reliance on the likelihood of future 'bail-outs'. EMTA and other private sector advocates have countered that investors do not seek so-called 'bail-outs', noting instead that 'bailing in' investors by means of forced bond restructurings will

drive investors away from the Emerging Markets, drive up the cost of capital and ultimately deprive some debtor countries of much-needed access to the global bond markets.

I'm afraid that we were right.

Since the burden-sharing debate began, private sector flows to the Emerging Markets have fallen off sharply, picking up only after the outlook for investments in the US soured. Financial support packages are now routinely referred to as 'bail-outs' and never as the legitimate 'rescues' that they often are. Locked into the lexicon and framework of this debate, the main dialogue between the official and private sectors has revolved around how to restructure bonds more easily, a naturally divisive and contentious topic that discourages stable private sector involvement at a time when it has shrunk and needs to be encouraged. While bondholders were once welcomed as a source of stable capital, the burden-sharing debate tends to paint them all as speculators and potential rogues and may even push them in that direction.

Sadly, the burden-sharing debate, inasmuch as it focuses attention on how to prevent the remaining private sector capital from exiting, rather than on how to encourage new flows, has also tended to divide the private sector, setting the buy-side and sell-side against each other and weakening their common voice.

What is the answer to this dilemma? Perhaps, it would be better policy for the official sector to promote 'carrot' approaches that would help to catalyze stable private sector flows rather than the 'stick' approaches that only discourage them. The time that many have spent thinking and talking about restructuring bonds has distracted us all from the larger picture of how best to meet the financing needs of developing economies. Moral hazard should not be exaggerated to the point where eliminating it becomes the paramount official sector objective. And surely, there is virtue in increasing the investor pool, not merely locking it in at its current level.

Instead of the case-by-case approach to crisis resolution that has been in place since the early 1980's, many in the official and private sectors have called for a more rules-oriented approach that would provide greater certainty. Perhaps, in the interest of good order, a better framework or set of guiding principles can be developed that would apply in extreme cases. In the current polarized environment, however, many proposals have missed the mark widely.

For example, the IMF's recent proposal for a sovereign bankruptcy tribunal is clearly a step in the wrong direction, one that will further discourage private sector creditors from lending to the Emerging Markets, and EMTA has spoken out strongly against it and instead advocated more market-oriented policies and practices.

Effective insolvency regimes normally provide for a reorganization of the debtor's entire business and financial affairs, not just its debts, and, for the sake of legitimacy, any insolvency plan must be approved by a wholly impartial tribunal and perceived as fairly balancing the rights of debtors and creditors. How to apply this type of regime to sovereign debtors is highly problematical, particularly where marshalling of assets, changes in 'management', comprehensive treatment of all creditors, and, if necessary, liquidation may all be out of the question.

Bankruptcy only works as a package. When key elements are missing, it stops working.

The IMF's proposal is deeply flawed, proceeding from the false assumption that the current case-by-case approach leads to disorderly work-outs. In fact, the case-by-case approach has been remarkably effective, evolving over the years as the private sector has applied a high degree of pragmatic creativity to meet the needs of our rapidly changing marketplace.

EMTA in 2002

In the year ahead, EMTA will continue its efforts to build greater credibility and confidence in the Emerging Markets. We intend to work harder, and in closer collaboration with other private sector groups, to engage official sector policymakers in a more constructive dialogue of how best to catalyze stable flows of private sector capital into the Emerging Markets in support of sound economic programs and long-term development. Specifically, in discussing crisis resolution, we must move beyond talking solely about moral hazard, and how to restructure bonds, to more positive discussions of how to restore access of Emerging Markets countries to the benefits, as well as the disciplines, of the international capital markets.

Michael M. Chamberlin

Emerging Markets
Trading & Investment
A Global Marketplace

Emerging Markets debt trading is a global over-the- counter trading market that serves a diverse and sophisticated investor base.

As the Emerging Markets have developed, they have diversified beyond Latin America to include Russia, Central and Eastern Europe, Asia and Africa. Investors have a wider selection of geographically diversified investment opportunities than ever before with a broader spectrum of investment instruments and risk characteristics.

Size and Diversity of the Marketplace

The 1990's saw exceptional growth in the overall size and depth of the trading market for Emerging Markets instruments. Fueled at first by a succession of sovereign reschedulings of commercial bank loans, and later by new bond issuances, total trading volumes for debt instruments alone rose from approximately U.S. $95 billion in 1990 to U.S. $2.2 trillion in 1999, a trend that reflects the importance of Emerging Markets debt to the global trading and investment communities. Trading activity peaked at U.S. $5.9 trillion in 1997 before declining sharply in the wake of the Asian and Russian financial crises.

Trading volumes began to rebound in 2000, however, and overall liquidity is considered excellent in comparison to most other sectors of the fixed income markets.

As Emerging Markets countries and companies have re-entered the capital markets and internal capital markets have become more highly developed, Brady bonds have been supplemented by an ever-wider variety of Eurobonds and local currency instruments. At the same time, the increased need for equity investment throughout the Emerging Markets has created a myriad of private sector opportunities. Along with this increase in investment instruments, and in the development of their marketplace, has come greater liquidity and innovation in the use of derivative instruments, including non-deliverable currency forwards and various structured products.

Once dominated by the money-center commercial banks, the Emerging Markets investor base has diversified tremendously, spurred in part by the improving credit fundamentals in many Emerging Markets countries. Market participants now include the world's major commercial and investment banks and various local entities, as well as a wide range of institutional investors.

Risks and Yields

Investors have been drawn to the Emerging Markets by their strong growth potential and by the expectation of higher yields than are generally available in the developed economies. And, over the past decade, such yields have substantially exceeded the returns available in the high-yield or other debt markets. Of course, such yields reflect the different types and higher levels of risk that typically characterize Emerging Markets investments. Volatility in the Emerging Markets debt trading markets has been very high at times, but market participants have generally been able to rely upon considerable liquidity, at least in the market's benchmark instruments, even during periods of market stress.

Trading and Settlement

The marketplace for Emerging Markets debt instruments is an OTC market of dealers and investors located worldwide but linked informally through a network of broker screens as well as normal telecommunications channels. Most trading is conducted orally, either directly between dealers and investors or, in the case of Brady bonds and sovereign Eurobonds, most often through brokers. As in other trading markets, electronic communications networks have recently been introduced and although not yet extensively used by the dealer community, are expected to become an increasingly important market factor within the next several years. Bond settlements are normally made through Euroclear or Clearstream on a T+3 basis.

In general, the trading and settlement of Brady bonds and Eurobonds occurs in accordance with customary international securities practices (including procedures for the U.S. institutional markets). Due to their unique origins and characteristics, EMTA has developed many Market Practices for trading Brady bonds. Since beginning operations in April 1998, the Emerging Markets Clearing Corporation has helped to reduce counterparty risk and improve efficiency in the inter-dealer market by assuming trades and effecting settlement on behalf of most major dealers. Sovereign loan trading and settlement is generally conducted in accordance with EMTA Market Practices and standard documentation.

About EMTA

A Forum for Industry Action

Formed in 1990 in response to the new trading opportunities created by the sovereign debt reschedulings under the Brady Plan, EMTA's membership includes most of the world's leading financial institutions that actively participate in the Emerging Markets.

EMTA's Board of Directors is composed of leaders in EM trading and investment, who meet quarterly to set EMTA policies. Most EMTA projects are developed and implemented through Working Groups composed of industry representatives.

Headquartered in New York City, EMTA has a staff of 12* professional and support personnel. EMTA also maintains an informal presence in Europe.

Integrity and Professionalism

EMTA actively encourages the highest standards of integrity and professionalism by providing a forum for voluntary self-regulation. Developed in the early 1990's, EMTA's Code of Conduct for the trading of EM debt instruments encourages all market participants to ensure that the marketplace remains as professional as possible.

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 help ensure an orderly market.

Better Risk Management and Greater Efficiency

Managing risk and improving operating efficiency in the rapidly evolving EM trading and investment industry is a major challenge. EMTA's efforts have met these needs in the areas of bond, loan and FX derivatives trading by ensuring that trades are confirmed and settled more quickly and, in the case of its netting facilities and documentation, by allowing market participants to reduce their aggregate levels of counterparty exposure.

The Emerging Markets Clearing Corporation (EMCC) was developed under EMTA sponsorship to reduce counterparty risk and improve operational efficiency in the trading of Brady Bonds. Other measures to promote greater efficiency include EMTA's Standard Terms for Assignments of Loan Assets and the 1998 FX and Currency Option Definitions, which were developed in collaboration with the International Swaps and Derivatives Association (ISDA) and the Foreign Exchange Committee. By facilitating better risk management, EMTA enables individual market participants to conduct their trading activities with greater confidence, efficiency and safety and helps to reduce systemic risk.

More Transparency

Through a variety of projects, including its annual and quarterly Volume Surveys of trading activity and Month-End Pricing Survey, EMTA promotes greater market transparency for the benefit of all market participants. EMTA also collects and disseminates market volume and price data on a 'next day' basis for the over 90 eligible instruments cleared by EMCC. New Developments in the Emerging Markets, ranging from country and other market announcements to Key Industry Views and expert market commentary to EMTA's own recommendations, internal news and Quarterly Bulletins are posted daily on EMTA's rapidly expanding website (www.emta.org).

Industry Advocacy

EMTA provides a forum for market participants to develop industry positions and present them to governments and other official sector bodies. Over the years, EMTA has developed substantial expertise and credibility that have given a strong voice to the EM trading and investment community on public policy issues. Most recently, EMTA has developed position papers opposing the IMF's sovereign bankruptcy proposal and calling for greater transparency from the Paris Club and for closer consultations between the official and private sectors on how best to prevent and resolve sovereign financial crises in the Emerging Markets.

*As of May 1, 2001.

2001 Project Highlights

EMTA's work in the non-deliverable forward (NDF) area shifted gears in late 2001 as Argentina's financial crisis (resulting in a series of long-feared but expected steps, including default and a sharp devaluation in early January 2002) provoked great market concern about the appropriate valuation of the Peso. The resulting surge of EMTA activity built upon groundwork laid earlier in the year as, in addition to recommending standard template terms for five Asian currency (CNY, INR, KRW, PHP and TWD) NDF contracts, EMTA also developed template terms for Argentine peso (ARS) NDF contracts, which included a new back-up settlement rate option calculated pursuant to a market-wide survey methodology.

EMTA's NDF work has steadily grown since its beginnings in the mid-1990's, but had never before occupied such a prominent place in our agenda.

NDF contracts are typically documented pursuant to the 1998 FX and Currency Option Definitions developed jointly by ISDA, EMTA and the FX Committee of the Federal Reserve Bank of New York. As market conditions in Argentina gradually became more uncertain during 2001, Annex A to the Definitions was amended on July 10, 2001 to provide for a 'back-up' rate – the CME/EMTA ARS Survey Rate – for use by market participants in valuing their NDF contracts when and if the official exchange rate of 1 to 1 against the US dollar no longer reflected a market rate. The ARS Survey Rate is determined pursuant to an industry-wide survey methodology (the EMTA ARS Methodology), which provides for a polling of on-shore Buenos Aires currency dealers if certain conditions are met.

Argentina's volatile political and economic situation in late December 2001 led market participants to request a daily poll in order to ascertain a more reliable and accurate ARS/USD exchange rate. From December 21, 2001 through January 10, 2002, the FX market in Argentina was closed for an extended unscheduled banking holiday; survey polling resumed on January 11, 2002 when the market was reopened.

During that three-week closing, in a series of conference calls with market participants, EMTA developed several Market Practice recommendations to defer the Valuation Date for those ARS NDF contracts with Scheduled Valuation Dates during the three-week holiday closing. At the same time, EMTA also recommended that market participants in the Argentina NDF markets be guided by principles articulated in a January 8, 2002 statement issued by the FX Committee, to the effect that the valuation and settlement of outstanding NDF Argentine contracts be further deferred for a reasonable time.

Ultimately, recommendations were made by EMTA to settle such ARS NDF contracts on the basis of the ARS Survey Rate as published on EMTA's website on January 11, 2002, as soon as practicable.

The Argentina NDF Market Practices are available in the NDF Market Practices area of EMTA's website.

The ARS Survey Rate (now published daily, on a regular basis) is available under Activities & Services, Market Data, CME/EMTA ARS Industry Survey, Today's Rate. To ensure greater transparency, the list of reference banks and their respective daily quotes is also available (from February 1) under Activities & Services, Market Data, CME/EMTA ARS Industry Survey, Reference Banks and Quotes, and a listing of historical rates (together with the usable quotes and range of such quotes) is under Activities & Services, Market Data, CME/EMTA ARS Industry Survey, Historical Rates. Finally, the EMTA ARS Methodology is available under Activities & Services, Market Data, CME/EMTA ARS Industry Survey, Methodology dated July 10, 2001.

From the onset of Argentina's crisis, EMTA has been monitoring the ARS Survey Rate and working to ensure the continuing integrity of the EMTA ARS Methodology, in part by reviewing survey responses on a daily basis against the changing regulatory and market environment in Argentina. EMTA will continue to follow developments in Argentina closely and expects that work in the NDF area in 2002 will include revisions to the 1998 Definitions, Annex A, the ARS template terms and the EMTA ARS Methodology.

EMTA's work in the NDF area, and especially our focus on Argentina NDF's in the midst of Argentina's financial crisis and collapse, highlights the changing nature of EMTA's role. Originally focused almost exclusively on loan and bond trading, EMTA now provides a forum for discussion and resolution of a much broader spectrum of Emerging Markets trading and investment issues across a wide range of financial instruments.

In the early stages of Argentina's financial crisis, EMTA's activities relating to the fixed income markets were largely limited to recommending that their sovereign bonds trade 'flat' after Argentina had declared a moratorium on debt payments. In what proved to be of more immediate importance to the trading community, the use of EMTA as a forum enabled participants in the FX markets to act quickly and decisively (though not instantaneously) during Argentina's crisis to ensure greater certainty in the valuation of Argentina's peso for purposes of settling outstanding NDF contracts.

Looking ahead, it seems clear that some of the lessons learned during Argentina's crisis about the behavior of the FX markets and the operation of the 1998 Definitions will need to be reflected in the templates for ARS NDF transactions and, eventually, in the templates for other EM currencies and the 1998 Definitions themselves.

Marketplace Copes with September 11 Tragedy

No discussion of the main points (or 'highlights') of EMTA's 2001 activities is complete without reference to the terrible events of September 11 and the effect that they had on the EM marketplace. While EMTA's offices at 63 Wall Street were outside of the immediate vicinity of the World Trade Center, EMTA's ability to function effectively was severely challenged for several weeks following the attack, and the experience created an indelible impression (at least upon EMTA staff) of how EMTA, and the forum it provides, can serve the trading and investment community during a time of crisis, as well as the need for a stronger platform of resources to ensure that those services can reliably be provided.

In addition to devastating losses at the offices of several brokers located in the World Trade Center, the terrorist attack on September 11 created widespread dislocations for all firms throughout lower Manhattan and severely disrupted EM trading. The EM trading market in New York City was effectively closed on the following Wednesday, but managed to reopen, along with the U.S. domestic fixed income markets, on Thursday, September 13. The New York City market observed early closings each day until the middle of the following week.

With communications severely disrupted in lower Manhattan and elsewhere, an intensive effort to seek and share information became particularly important. EMTA represented the Emerging Markets in daily financial industry conference calls with fixed income trading leaders and communicated information to the EM marketplace by e-mail, telephone and through our website daily for nearly two weeks following the attack. During this time, we also stepped up our contacts with the EM media, in an effort to get the word out about the industry's response to the market disruption.

As might have been expected, due to the concentration of brokers' offices in lower Manhattan, the weakest link in the New York City's EM trading infrastructure was the availability of broker screens and the processing of screen trades. It became apparent early on that, despite sharply reduced screen capacity in New York City and occasional outages in London, most dealer firms no longer considered "face-to-face" trading to be a viable alternative. Remarkable efforts by dealers, brokers and clearing firms substantially restored screen availability and processing capacity in New York City by late September.

While mourning the unimaginable, the marketplace for Emerging Markets debt instruments showed great resilience as it re-opened quickly and functioned remarkably smoothly in the aftermath of the September 11 tragedy. Back-up systems and locations worked well, and for several days (longer in some cases), much trading activity and processing was re-directed to London, thus taking some pressure off of New York's capacity to handle transaction flows. By the end of September, trading had returned to pre-September 11 levels and was being processed without incident, though no one in New York was able to describe anything as being 'normal'. For many in the New York City area, memorial services brought a sense of community and enabled market participants to move forward.

In the days immediately following the attack, EMTA worked in close collaboration with The Bond Market Association and other industry groups to review systems readiness, to advise market participants daily of the status of the markets and to ensure that temporary contact information was available throughout the marketplace. EMTA's offices re-opened on Monday, September 17, as did much, but sadly not all, of lower Manhattan.

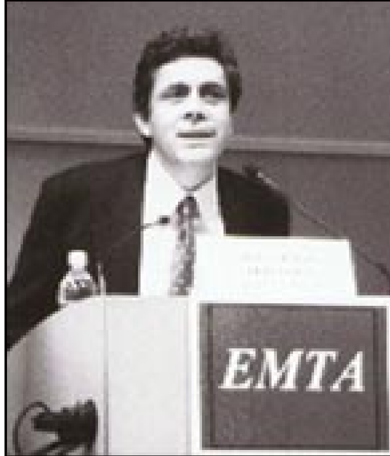
EMTA's 2001 Annual Meeting, which was held on December 5 at the Tribeca offices of Salomon Smith Barney, a few short blocks north of the WTC site, opened with a moment of silence in respect for those lost in the attack (including, among others, EMTA Director Frank McGuinn from Cantor Fitzgerald) and their families.

The market's ability to function in the face of widespread communications disruptions and physical dislocations in part derived from the extensive Y2K contingency planning that had largely proved unnecessary then. EMTA's own back-up systems functioned acceptably well, but were admittedly fragile, leading us to conclude that the need for EMTA services in times of crisis justifies a greater effort, and possibly new strategies, to ensure that stronger systems are put in place and deeper resources made available.

2001 NYC Spring Forum

Analysts Highlight Developments in Argentina at EMTA's First Spring Forum

Argentina was one of the major topics as EMTA held its first Spring Forum on Thursday, April 26 at the offices of Morgan Stanley in New York City. Jaime Valdivia-Hernandez (Morgan Stanley) led a discussion which included panelists Walter Molano (BCP Securities), Carl Ross (Bear Stearns), EMTA Vice-Chair John Cleary (Invesco Asset Management) and EMTA Board Member Keith Gardner (Western Asset Management). Over 100 EM professionals attended the Forum, which also included a cocktail reception.



The panel agreed that Argentina had two options to address its financial crisis: fiscal adjustment or restructuring. Walter Molano said that although the Argentines believed that they were being pressured by outside forces, in fact, "the choice is Argentina's: either they go in and they cut expenditures…or else they will have to do a debt restructuring." He added, "It is well within the power of Argentina to do the right thing."

Carl Ross stressed the importance of Buenos Aires "staying engaged with the Washington community," in addition to Argentina's stretching out of its debt amortization schedule and making a credible commitment to fiscal adjustment "over a reasonable period of time." Argentine officials were on the right path, and their plan had "a good shot of working." Ross noted that he was among those who believed Argentina's current monetary system is consistent with long-term growth.

"I think it's now obvious that the possibility of Argentina just muddling through no longer exists" posited Keith Gardner. He praised Argentine officials for having correctly identified lack of growth as the major economic issue and having taken appropriate measures, but expressed concerns that much of the country's future economic success hinges on confidence.

Asked about ramifications for the EMs should the worse case default scenario arise, John Cleary responded "Argentina or Turkey--or anywhere-- defaulting or restructuring is a problem, it's a hassle, but it doesn't kill the asset class." Cleary opined that the EMs are prone to crisis and that crises can have positive consequences in the long run. He also stressed the broadening of the asset class in recent years, the increasing size of new issues and the rise of euro-denominated issues as important improvements, while noting that returns on G-7 bonds are trending lower, forcing investors to look elsewhere for the yields they may have previously received in countries such as Italy. In the same default scenario, Ross pointed out the possible effects of contagion and of several Latin American countries conceivably "lurching to the left." Gardner noted that restructuring would not address Argentina's biggest problem – lack of growth.

In the event of an Argentine default, both Cleary and Gardner predicted that the EMBI+ could return to 800 bps within a year as recent restructurings have been accomplished at a relatively quick pace, while Ross, who believed the effects could be permanent, offered 1000 bps as his prediction. Molano noted that a restructuring would have beneficial effects on other countries, for which the capital markets have "basically been closed" for much of 2001 because of Argentina's woes.

The panelists all identified Brazilian external debt as one of their top investment choices in the EM debt universe, despite some long-term concerns such as structural issues in the balance of payments and the composition of Brazilian government obligations. Several panelists also spoke positively on Russia, praising President Putin's commitment to reform. In addition, Molano called Colombia "a country on its way back," and Gardner saw "big bounce" potential in Peru.

Opinions were mixed on Ecuador, with Gardner saying he had nothing constructive to say but Ross suggesting that current high yields are attractive despite concerns over continued IMF aid. Opinions also diverged on Mexican paper, with Molano concerned that many investors who have bought Mexican debt as a "safe haven" in recent months will pull out. Ross disagreed, saying that the prospect of S&P investment grade status provided a "carrot" that made Mexican bonds attractive compared to similarly rated debt, especially that of some Asian nations.

Transcript of Panel

2001 London Summer Forum

Cautious Optimism Expressed at EMTA's Summer Forum in London

Approximately 150 Emerging Markets professionals gathered on June 28, 2001 for EMTA's Fourth Annual Summer Forum in London. The event, which was again hosted by Deutsche Bank, included two wide-ranging panel discussions that addressed such issues as the financial crises in Argentina and Turkey, the effects of the US economic slowdown, Bush administration policy vis-à-vis the multilaterals, burden-sharing, oil pricing, capital flows as well as predictions for most EM countries. Jerome Booth (Ashmore Investment Management) led the discussion of sell-side experts while Citigroup Investments' Mark Franklin again chaired EMTA's investor panel.

Sell-Side Panel Adopts Cautious Tone

Eric Fine (Morgan Stanley) summarized the comments of many of the panelists when, noting his cautiousness towards the EMs in general, he commented "we're in a phase of the market that's a pretty risky one…it's being led primarily by inflows, not by improving fundamentals, a very different situation from 1999 and 2000 when we'd be writing pieces and saying here are six good pieces of news."

David Sekiguchi (Deutsche Bank) stated that, because of past and potential tax reforms as well as oil pricing, the outlook on Russia looks as bright as it ever has since the dissolution of the USSR. While some panelists noted the potential risk in owning Russian debt should oil pricing drop, Philip Poole (ING Barings) stressed that this was somewhat mitigated by the broadening of the Russian tax base and reduced tax evasion. Poole warned however that "President Putin has to push forward with a fairly broad range of reforms," if Russia is to continue to grow, and added that the sustainability of growth is also an important risk factor.

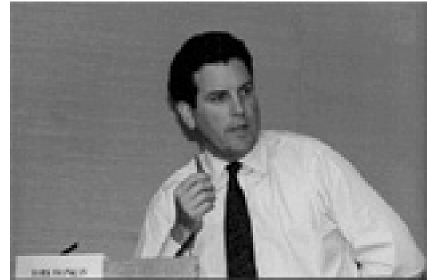
Asked about the prognosis for Argentina, Robin Hubbard (J.P. Morgan) proved prescient in noting that despite the time Buenos Aires had bought by completing a $29.5 billion mega-swap, "in the long term, they're still between a rock and a hard place, in terms of the policy options they have to get the economy growing. You can argue that they need to do more fiscal adjustment, but clearly, fiscal adjustment in a time of no growth is very politically difficult."

Sekiguchi commented that, despite years of reforms, Latin America remains highly dependent on commodity exports—even Chile, he noted, undoubtedly the star of Latin America with 25 years of reform progress and an open economy, still depends largely on copper exports. Such dependency makes Latin countries extremely vulnerable to global slowdowns. While EMTA's panel of Sell-Side experts remained concerned by the implications of the economic slowdown in the US, speakers generally concurred that a potential credit event in Argentina posed a greater risk to EM debt.

Investor Panel Picks Russia and Ecuador as Favorites

Russian and Ecuadorian debt instruments were the most frequently mentioned countries with significant upside potential, according to EMTA's investor panel. Amit Gupta (MN Services) stated he believed that Ecuador was a candidate for tightening by a couple of hundred basis points, while Tom Fallon (Fortis Investment Management) expressed satisfaction that the country's currency board seems to have taken root. Maryam Ettehadieh (Credit Suisse Asset Management) called Russia a "compelling story," but cautioned against "euphoria" while panel moderator Mark Franklin opined that Russian equities and Soviet assets which have not yet been restructured are of the greatest interest to him. Paul Murray-John (Zurich Scudder) offered Venezuela as a country with possible downside risk, based on declining official reserves and capital flows out of the country.

Panelists concurred that it was too early to determine the new US administration policy concerning the international financial institutions, with Franklin commenting "…My instinct is not only will [the new administration's policy] be reactionary to a crisis, I'm not convinced it will necessarily be positive for the markets." Fallon added that despite the rhetoric, policy would likely continue to be made on a case-by-case basis.



Investor panelists suggested that the extreme market negativity towards Argentina might be over-done; Gupta commented that, despite some investors' belief that a default is inevitable, "in reality, this is something, where if you think in terms of a chess game, could be a potential outcome six or seven or eight steps down the road." Murray-John cited support from local investors, and Ettehadieh noted she was "perhaps on the more optimistic side of the entire spectrum of views…because I think that there will be something engineered." Ettehadieh added that it is the portfolio manager's job to constantly be accessing whether the returns on a country's debt is adequate payment for assuming a country's default risk, and suggested that, at the time, spreads might have justified long positions in Argentine debt.

Finally, investors were concerned about possible derailments in emerging European countries joining the EU, and believed that this had not been factored into debt pricing. Fallon was concerned that a delay in Polish accession may force a change in the calendar for other countries such as Hungary. However, Ettehadieh and Murray-John echoed Sell-Side analyst Poole's choice of Bulgaria as one of the most promising credits in the region, while Gupta chose Ukraine as a potential out-performer.

Transcript of Sell-Side Panel

Transcript of Buy-Side Panel

2001 Annual Meeting

Mexico's Finance Minister Gil Diaz Discusses Mexican Economic Performance in 2001 and Outlook for 2002

Mexico's Finance Minister Francisco Gil Diaz delivered the keynote address at EMTA's Annual Meeting on December 5, 2001. The event, which drew a crowd of approximately 350 Emerging Markets professionals, was held at the offices of Salomon Smith Barney in New York City.

Minister Gil Diaz began his presentation by discussing Mexican economic performance in 2001, noting that the Finance Ministry was projecting flat Mexican GDP growth in 2001 vs. 4.5% growth projections earlier this year. Minister Gil Diaz attributed weaker than expected performance in 2001 to a number of factors, including the slowdown in the global economy (especially the United States), volatile oil pricing, reduced capital flows to emerging countries, and the effects of the events of September 11th.

Despite such weakness in the Mexican economy, the Minister reaffirmed his commitment to fiscal discipline, calling it "the cornerstone of Mexico's economic program," and noting that the country has cut spending by MXP13.2 billion to offset lower than anticipated revenue. He strongly reaffirmed that Mexico would meet its fiscal deficit target for the year.

Minister Gil Diaz also stressed the maturing of the Mexican economy and its increasing integration with its NAFTA trading partners. "For the first time in a generation, Mexico is experiencing a traditional business cycle," he stated, noting that "in contrast to previous episodes, the slowdown has not been accompanied by a crisis but has occurred in a context of financial and price stability." He stressed that Mexico's economic cycle is now increasingly linked to those of its two main trading partners, the United States and Canada.

Minister Gil Diaz then discussed his goals for the Mexican economy in 2002. He described his plan as having two main guidelines, a solid fiscal stance and the promotion of structural

reforms. Assuming US GDP growth of 0.3% and a $17 average price for a basket of Mexican oil, Gil Diaz projected that the Mexican economy would grow 1.7% in 2002, with an annual inflation rate of 4.5%.

As for capital markets activity in 2002, the Minister announced that, "external debt policy will concentrate on liability management in terms of both cost and maturity." He noted that external debt would show no net increase in 2002. The Minister also noted that the government would continue to act to extend the average maturity of local debt.

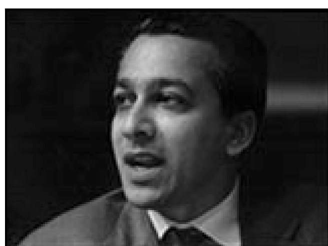
Finally, Minister Gil Diaz also indicated, in response to audience questions regarding the outlook for oil pricing, that Mexico was likely to join other oil exporting countries in reducing oil production in order to bolster oil pricing. He also asserted that the country's fiscal reform bill would be passed by year-end.

Investors Upbeat on Potential Return for EM Debt in 2002, Highlight Low Volatility

Speakers at EMTA's Annual Meeting were largely upbeat on the asset class's potential performance in 2002. Hari Hariharan (NWI Investment Management) pointed out that EM debt has performed remarkably well over the last six years, and stated that in 2002, "from a competing asset class perspective, I don't see anything else very interesting." Amer Bisat (Morgan Stanley Investment Management) declared that he felt comfortable with forecasts of 10-15% returns for EM debt in 2002, and added that he also believed that

EM equities would perform well, possibly even competing with EM debt for portfolio allocations. Mark Dow (MFS Investment Management) spoke positively not only of potential total return, but also noted that long-term volatility of EM debt compares favorably to other asset classes such as the S&P 500. Dave Rolley (Loomis Sayles) gave the most optimistic estimate for 2002 returns, possibly being higher than 15%, "unless Brazil hurts us very badly."

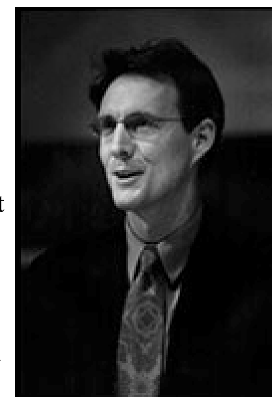
Bisat listed what he considered to be very important structural transformations that have occurred in the EM marketplace recently: the increase in information, and increased transparency from the IFIs; diversification of the investor base as a result of the growing roles of European, Japanese and local investors; the reduced role of leveraged financing; and the rise in crossover investing. Bisat said that as a result of these transformations, the marketplace has broadened to include investors with different risk appetites, who may not be index-constrained, and which may include new investors which have "adopted" countries that were previously "orphans." This has acted to reduce market volatility at the same time that correlations between EM debt prices are declining. Bisat argued that this was "not a one-off phenomenon but rather a fundamentally-driven trend that will continue over the medium-term," and called it an "extremely healthy development in our asset class."



Panelists were largely positive and enthusiastic in their discussion of the market's recent "de-coupling" from the Argentine economic crisis. However, Hariharan cautioned the audience about "too much hubris" on the relative lack of contagion from Argentina's anticipated default, suggesting effects had been largely mitigated because the Argentine crisis had been "telegraphed" long in advance. "I believe that an unanticipated quick body blow…would still put this asset class into a huge spin."

On the resolution of financial crises, Dave Rolley (Loomis Sayles) stated that he missed the approach of former IMF Deputy Managing Director Stanley Fischer "because it mostly worked." He noted that

many countries rescued under Fischer's tenure are now investment grade (e.g., Mexico, South Korea, and Thailand) while highlighting the profit the public sector actually made on the Mexican rescue package. Rolley posited that, instead of the positive results of Fischer policy, the new financial architecture has resulted in a tiering effect on the market; he foresaw investment grade and near investment grade credits continuing to have access to capital and continuing to be part of the asset class, BB credits' access not being certain and B credit countries having to determine new methods of financing, such as "creatively collateralized" securities. Rolley noted that support for the ending of the IMF's role as a lender of last resort is widespread in the official sector, meaning "we are not going back…we're going to have to learn to live with this." Hariharan echoed "we've got to live in a new world...the prospect of Stan Fischer announcing big packages…ain't gonna happen!"



Dow suggested that official policy makers will be closely watching the resolution of the Argentine default, and the conclusions they draw will have important implications for the new financial architecture, thereby affecting capital flows to emerging countries. The official sector believes that organized buy-side involvement in restructurings will be difficult to achieve, will not necessarily improve the quality of talks and will retard final resolution, according to Dow, but the question is "how much less efficient is [bondholder organization?]…how much more atavistic are we?" Dow emphasized the paramount importance of bondholders working well together in talks with Argentina, and the orderly advancing of discussions. Bisat added that a paradigm shift is occurring in Washington, with the concept of creditor rights being explicitly recognized, and a subtle recognition that "the cram-down approach to private sector involvement just does not work."

Sell-Side Speakers Debate Economic Outlook for Brazil, Mexico and Russia

Panelists on EMTA's "Economic Outlook for 2002" panel all predicted that the effects of an Argentine default on market giant Brazil would be limited, but often differed on how contagion would be transmitted. Joyce Chang (J.P. Morgan) noted that the effects of contagion could be more politically focused, possibly surfacing when the Brazilian electoral cycle gets underway later this year, "and everybody begins to look at the process of a vicious political cycle." Tulio Vera (Merrill Lynch) opined that "legal-driven" contagion, i.e., the implications of how a restructuring is handled, would prove more significant, and stated that such contagion would affect the whole asset class and not be Brazil-specific. Paulo Leme (Goldman Sachs) stated that the effects of an Argentine default would eventually filter through Brazil's capital account, while a more optimistic Arturo Porzecanski (ABN Amro) posited that the "worst of contagion is over." Underscoring their limited concerns of contagion, the panel was unanimous in including Brazil as one of their major investment recommendations for 2002.

Jose Luis Daza (Deutsche Bank), moderating the discussion for the fifth year, noted that the panel had discussed the prospect of an investment grade rating for Mexico for several consecutive years, and that such a rating had only thus far been awarded by one of the major ratings agencies. Porzecanski responded that in fact Mexico had proven disappointing. "Mexico has benefited from a lot of one-time inflows of money. There was the Mexican money parked abroad in case the transition to a non-PRI government went wrong… there was regional flight to quality money that came in…there is the privatization money, certainly from Banamex…but if you scratch the surface, you wouldn't really like everything you see." Leme concurred "the story is probably not as glowing as it could have been," praising the short-term microeconomic management of the Finance Ministry, while noting less impressive performance on longer-term issues by the administration.

As for predictions for Russian debt performance in 2002, Chang expects Russia "will be a solid performer, but not necessarily the homerun that it has been the last couple of years." Vera and Leme concurred that Russia's 50%+ performance in 2001 would be difficult to repeat, though noting good governance, structural reform and an oil windfall all continue to make Russia a "strong story." Leme added that one should not forget the positive effects of Russia's 1998 debt default and currency depreciation on its restructured debt instruments.

The panel differed on Ecuador, with Porzecanski recommending an underweight while Vera said that IMF support should continue, and Ecuadorian debt will likely be one of the year's "high spread, stable fundamentals stories." Chang noted that her firm has recently recommended taking profits on Ecuador; while she has fundamental concerns, there is nothing that is an immediate cause of concern for her.

Panelist comments on Venezuela were mostly negative, with panelists highlighting the recent political deterioration.

In addition to the prospects for sovereign debt, the panel also discussed the outlook for Emerging Markets corporate issues in 2002. Vera noted that corporate issuers could benefit from increased demand in the future, as the rally in the EMBI during 2001, excluding Argentina, would increasingly force investors to seek out paper with wider spreads. However, a re-opening of the corporate market in 2002 is not a foregone conclusion, Vera added, saying it was a question of "whether risk appetite continues to increase, and it ties into the overall strategy of a recovery in the global economy."

Responding to Daza's question of whether the IMF was ending support for fixed exchange regimes, Vera and Leme agreed that Fund policy has definitely shifted towards floating rate regimes. Chang stated that, although the Fund may be issuing more statements praising floating currencies, it is moving away from specific prescriptions for countries in favor of countries developing their own programs hoping to promote local 'ownership' of Fund programs with the goal of increased sustainability.

Finally, the panel discussed the IMF First Deputy Director Krueger's recent proposal for an international bankruptcy court. Chang said that, although it was too early to tell, the complexities of setting up such a process would probably result in a bankruptcy court which would have a less activist role than originally conceived. Leme admitted to being troubled by the unilateral nature of the proposal, noting that IMF officials "should open the dialogue with those that deal with these markets, both the investors and the issuers themselves, to better formulate policies that would avoid the segmentation that is likely to happen, and to avoid increasing the cost of capital."

EMTA Executive Director Calls for More Constructive Dialogue with Official Sector

In his Annual Meeting remarks, EMTA's Executive Director Michael Chamberlin called for a more constructive dialogue between the private and official sectors. Chamberlin noted that the past several years' debate on 'burden-sharing' had, "sadly, distracted us all from the larger picture of how best to meet the financing needs of developing economies." Instead, Chamberlin noted, "it would be better policy for the official sector to promote 'carrot' approaches that would help to catalyze stable private sector flows rather than the 'stick' approaches that only discourage them."

Chamberlin expressed concerns that the issue of moral hazard may have become "exaggerated to the point where eliminating it becomes the paramount official sector objective." As a result, the official sector has forgotten about "the virtue of increasing the investor pool, not merely locking it in at its current level." Another unfortunate result of the pre-occupation on 'burden-sharing' is that it has tended to divide buy-side and sell-side firms, "weakening their common voice."

Chamberlin also discussed the call by many in both the private and official sectors for a more "rules-based" approach to sovereign debt crisis resolution, and said that a better framework or basic principles could be developed for some cases. However, recent attempts at doing so have "missed the mark," and he expressed his "serious doubts" about the current initiative by the IMF to organize an international bankruptcy court.

Presentation by Mexico's Finance Minister Gil Diaz

Transcript of Buy-Side Panel

Transcript of Sell-Side Panel

Transcript of Remarks by EMTA Executive Director Michael Chamberlin

Highlights

	For the Year Ended December 31,						
	2001	**2000**	**1999**	**1998**	**1997**	**1996**	**1995**
Market Trading Volume (in U.S.$ billions)	3,484	2,847	2,185	4,174	5,916	5,297	2,739
Brady Bonds	573	712	771	1,541	2,403	2,690	1,580
Non-Brady Eurobonds	1,255	936	626	1,021	1,335	568	211
Loans	37	99	69	213	305	249	175
Local Market Instruments	1,517	993	599	1,176	1,506	1,274	593
Derivatives (Options, etc.)	102	106	119	223	367	471	179
Number of EMTA Members at year end:							
Full	36	43	44	60	62	63	60
Associate	27	30	31	43	36	35	43
Affiliate	24	27	32	39	65	51	43
Local Markets	10	—	—	5	6	5	—
Total Members	97	100	107	147	169	154	146
EMTA Revenue:							
Membership dues	$1,411,250	$1,633,750	$1,725,916	$1,981,337	$1,782,417	$1,652,167	$1,337,250
Program services	—	375,400	553,863	1,539,856	1,432,037	1,711,782	2,212,351
Directors' support	650,000	765,000	815,000	950,000	1,137,500	1,151,250	1,170,000
Other	191,278	343,828	202,620	206,164	293,234	416,137	148,620
Total Revenue	2,252,528	3,117,978	3,297,399	4,677,357	4,645,188	4,931,336	4,868,221
EMTA Expenses:							
Staff	2,188,846	2,272,580	2,205,084	2,110,905	2,577,942	2,490,805	1,763,810
Office	224,465	256,737	258,585	346,122	350,452	372,247	309,775
Communications	27,728	73,810	124,507	165,475	204,657	251,085	335,653
Professional services	(155,875)	64,991	209,255	608,033	774,080	1,198,475	2,153,877
Conferences, receptions, travel, etc.	34,200	40,942	37,527	93,560	161,284	240,713	235,549
EMCC investment	—	—	227,959	—	—	—	—
Total Expenses	2,319,364	2,709,060	3,062,917	3,324,095	4,068,415	4,553,325	4,798,664
Increase in Net Assets	(66,836)	408,918	234,482	1,353,262	576,773	378,011	69,557
Increase (decrease) as % of Total Revenue	-3.0%	13.1%	7.1%	28.9%	12.4%	7.7%	1.4%
Net Assets at Year End:	$3,310,468	$3,377,304	$2,968,386	$2,733,904	$1,380,642	$ 803,869	$ 425,858

Highlights (continued)

	1994	1993	1992
Market Trading Volume (in U.S.$ billions)	2,766	1,979	734
Brady Bonds	1,684	1,021	248
Non-Brady Eurobonds	159	177	23
Loans	244	274	229
Local Market Instruments	524	NA	NA
Derivatives (Options, etc.)	142	57	NA
Number of EMTA Members at year end:			
Full	83	75	64
Associate	—	—	—
Affiliate	69	43	14
Local Markets	—	—	—
Total Members	152	118	78
EMTA Revenue:			
Membership dues	$1,364,250	$ 894,500	$ 677,528
Program services	1,434,922	—	—
Directors' support	1,312,500	787,949	171,423
Other	30,675	13,203	10,371
Total Revenue	4,142,347	1,695,652	859,322
EMTA 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, travel, etc.	196,415	250,707	1,049
EMCC investment	—	—	—
Total Expenses	3,873,479	1,559,536	939,893
Increase in Net Assets	268,868	136,116	(80,571)
Increase (decrease) as % of Total Revenue	6.5%	8.0%	(9.4%)
Net Assets at Year End:	$ 356,301	$ 87,433	$ (48,683)

Management's Discussion and Analysis

EMTA net assets stood at $3.3 million at the end of 2001, a decrease of about $67,000 (or 2%) from a year earlier. Despite this decrease in net assets (EMTA's first since 1992), EMTA's financial results were nearly $200,000 more favorable than expected per the 2001 budget, mostly because expense savings that were implemented in anticipation of expected revenue declines were augmented by unbudgeted savings of $200,000 in respect of past accruals for legal expenses.

Revenue
2001 revenue of $2.3 million represented a decrease of $865,000 (28%) from 2000 revenue of $3.1 million, as specified below:

The largest individual component of this revenue decline was a decrease, as expected, of $375,000 in fees for program services, which was caused by the discontinuance of the Multilateral Netting Facility for Russian VEB loan assets in September 2000. Disappointingly, revenue from membership dues declined across all membership categories by an aggregate of $223,000 (14%) to $1.4 million reflecting continuing consolidation in the financial industry and some continuing contraction in the EM trading industry. Efforts to recruit new Buy-side members were not overly successful. In a newly-created Membership category, EMTA gained ten new Investor Members in 2001, but not all of them paid dues in 2001. Assessments on members of the Board of Directors declined by $115,000 (15%) to $650,000 in 2001. This was due to a reduction in the number of board members assessed, somewhat offset by a small increase in individual assessments. Investment income declined by $97,000 (38%) to $160,000 because of 2001's lower interest rate environment. Other revenue declined by $55,000 (64%) because of the non-recurring nature of 2000 consulting revenue.

Expenses
Overall expenses were reduced by about $390,000 (14%) to approximately $2.3 million in 2001, specifically as follows:

Staff expenses declined $84,000 (4%), primarily because there were two fewer average staff in 2001 than in 2000. This was partially offset by slightly higher compensation levels for several staff members and increases in expenses for insurance and other benefit programs.

Office expense decreased by $32,000 (13%) to $224,000 in 2001. This resulted from decreased building operating costs being passed on to tenants, and lower costs of office supplies and administration due to increased use of e-mail and other forms of electronic communication.

Communications expense was reduced substantially by $46,000 (62%) from $74,000 in 2000. This was due to a continued migration away from paper and telephone, in favor of internet communications. In addition, it was helped by lower telecommunications rates in 2001. Individual components of the cost savings consisted of telecommunications ($23,000), shipping and delivery ($18,000) and printing of documents for Member services ($5,000).

Professional services decreased by $221,000 (340%) to a net credit balance of $156,000 in 2001, due primarily to savings on accruals for legal expenses in prior years. During 2001 and subsequently, EMTA paid $150,000 in legal fees for Emerging Markets industry documentation projects conducted in prior years that management had estimated would cost $350,000. The savings of $200,000 was recorded as a credit to legal expense in 2001.

Consolidated Statements of Financial Position

	December 31, 2001	December 31, 2000
Assets		
Current assets:		
Cash and cash equivalents	$ 4,026,521	$ 4,536,360
Prepaid expenses and other assets	11,119	13,539
Total current assets	4,037,640	4,549,899
Property and equipment:		
Leasehold improvements	89,112	89,112
Computer equipment and network	144,076	141,945
Furniture and fixtures	80,607	80,607
Telecommunication equipment	39,931	39,931
	353,726	351,595
Less accumulated depreciation	(331,449)	(312,459)
	22,277	39,136
Investment in EMCC	1	1
Total Assets	**$ 4,059,918**	**$ 4,589,036**
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 702,007	$ 1,002,126
Unearned Membership dues	35,000	185,000
Total current liabilities	737,007	1,187,126
Deferred rent expense	12,443	24,606
Total liabilities	749,450	1,211,732
Net assets	3,310,468	3,377,304
Total Liabilities and Net Assets	**$ 4,059,918**	**$ 4,589,036**

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

FINANCIAL STATEMENTS

Consolidated Statements of Activities

	For the Year Ended December 31,	
	2001	**2000**
Revenue		
Membership dues	$ 1,411,250	$ 1,633,750
Fees for program services – Multilateral Netting Facility	—	375,400
Directors' assessments	650,000	765,000
Investment income	159,704	257,062
Other	31,574	86,766
Total revenue	**2,252,528**	**3,117,978**
Expenses		
Compensation and benefits	2,188,846	2,272,580
Occupancy	135,715	147,670
Office supplies and administration	68,677	84,372
Depreciation and amortization	20,073	24,695
Telecommunications	25,624	48,778
Shipping and delivery	2,104	19,835
Printing of documents for Member services	—	5,197
Legal	(186,779)	7,547
Public relations and annual report	632	18,893
Audit, tax and computer consultants	30,272	38,551
Conferences, receptions and meetings	10,904	5,936
Travel, lodging, meals and other	23,296	35,006
Total expenses	**2,319,364**	**2,709,060**
(Decrease) increase in net assets	(66,836)	408,918
Net assets, beginning of year	3,377304	2,968,386
Net assets, end of year	**$ 3,310,468**	**$ 3,377,304**

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

Consolidated Statements of Cash Flows

	For the Year Ended December 31,	
	2001	**2000**
Cash flows from operating activities:		
(Decrease) increase in net assets	$ (66,836)	$ 408,918
Adjustments to reconcile (decrease) increase in net assets to net cash (used for) provided by operating activities:		
Depreciation and amortization	20,073	24,695
(Decrease) in deferred rent expense	(12,163)	(11,802)
Decrease in dues and fees receivable from Members	—	14,800
(Increase) decrease in prepaid expenses and other assets	2,420	(4,779)
(Decrease) increase in accounts payable and accrued expenses	(300,119)	62,476
(Decrease) increase in unearned Membership dues	(150,000)	25,000
Net cash (used for) provided by operating activities	(506,625)	519,308
Cash flows from investing activities:		
Payments for purchases of property and equipment	(3,214)	(22,344)
Net cash used for investing activities	(3,214)	(22,344)
(Decrease) increase in cash and cash equivalents	(509,839)	496,964
Cash and cash equivalents, beginning of year	4,536,360	4,039,396
Cash and cash equivalents, end of year	**$ 4,026,521**	**$ 4,536,360**

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

NOTES TO CONSOLIDATED STATEMENTS

December 31, 2001 and 2000

1. Organization

EMTA, Inc. ("EMTA") is a non-profit corporation, formed in 1990 to promote the orderly development of fair, efficient and transparent trading markets for Emerging Markets instruments. EMTA's primary sources of revenue are Membership dues, Directors' assessments and, through its subsidiaries, fees for program services. All revenues and assets are unrestricted.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Operations of Subsidiaries

The consolidated financial statements include the accounts of EMTA and its four subsidiaries described below. Intercompany accounts and transactions are eliminated in consolidation.

The subsidiaries were organized in 1996 to provide services to participating Members, for which they charge fees, in carrying out EMTA's mission. The subsidiaries include: (a) Match-EM, Inc., which operated an electronic post-trade matching and confirmation system, (b) Net-EM, Inc., which operated a multilateral netting and clearing facility for outstanding trades of loans and other instruments, (c) Clear-EM, Inc., which served as EMTA's interface with Emerging Markets Clearing Corporation (EMCC), and (d) EMTA Black Inc., a holding company that is wholly owned by EMTA and that owns 100% of the common stock of the above three subsidiaries. The operations of Match-EM and Clear-EM were discontinued in November 1999 and the operations of Net-EM were discontinued in September 2000.

Membership Dues and Directors' Assessments

EMTA had three membership categories during 2001 and 2000:

- Full Members – active market participants that trade or invest in Emerging Markets instruments;
- Associate Members – market participants that trade or invest in Emerging Markets instruments, but which are smaller and less active than Full Members; and
- Affiliate Members – non-market participants that are nevertheless interested in Emerging Markets trading such as advisors, vendors, law firms, rating agencies and consultants.

Membership dues and Directors' assessments for each calendar year are billed in advance and recorded as unearned in the Consolidated Statement of Financial Position at the beginning of such year. The unearned dues and assessments are then amortized to income throughout the year as earned. Members not paying their annual dues within 60 days of billing may be suspended from membership. 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.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 and is carried at fair value.

Allowance for Doubtful Accounts

The allowance for doubtful accounts provides for the risk of losses arising from non-collection of dues, assessments and fees. Amounts included in the allowance are specifically reserved for, and the offsetting charge is recorded to the applicable revenue caption in the Consolidated Statement of Activities. Any subsequent recoveries are credited to the same caption. The allowance is increased by provisions for doubtful accounts and reduced by write-offs and recoveries of allowances previously provided. Write-offs are recorded when, in the judgment of management, a receivable is considered uncollectible. Such write-offs amounted to $142,500 and zero in 2001 and 2000, respectively.

Property and Equipment

Property and equipment are stated at cost. 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. Depreciation of computer, network and telecommunication equipment is provided on a straight-line basis over estimated useful lives of three years. Depreciation of furniture and fixtures is provided on a straight-line basis over estimated useful lives of five years.

Investments

Investments are carried at cost adjusted for permanent diminutions in value.

Income Taxes

EMTA is exempt from income tax under Section 501(c)(6) of the Internal Revenue Code and similar provisions of state and city tax codes. However, EMTA is subject to tax on any unrelated business taxable income. The operations of EMTA's subsidiaries are also subject to income tax, but taxable income generated since inception in 1996 has not been material.

3. Summary of Membership Dues

The individual components of membership dues are set forth below:

	Year Ended December 31,	
	2001	**2000**
Membership dues:		
Full	$ 876,250	$1,051,250
Associate	415,000	450,000
Affiliate	120,000	132,500
Total Membership dues	**$1,411,250**	**$1,633,750**

4. Summary of Expenses

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

	Year Ended December 31,	
	2001	**2000**
Program Expenses:		
Direct:		
Documentation and Market Practices	$ (194,698)	$ 2,507
Conferences, receptions and meetings	10,904	5,936
Advocacy	8,838	1,721
Indirect (primarily staff and facilities costs)	1,714,785	1,828,742
Total program expenses	1,539,829	1,838,906
Non-Program Expenses:		
Direct:		
Public relations and membership development	632	18,893
General administration	29,353	41,870
Indirect (primarily staff and facilities costs)	749,550	809,391
Total non-program expenses	779,535	870,154
Total expenses	$2,319,364	$2,709,060

In prior years, EMTA had established an accrual for certain legal fees relating to Emerging Markets industry documentation projects that management had estimated would cost $350,000. On final negotiation of amounts due for these projects, this accrual was reduced by $200,000, which was credited in 2001 to the respective expense line in the Consolidated Statement of Activity.

5. Office Space Lease

EMTA's office space lease became effective March 1, 1995 and runs through January 31, 2003. The annual payments for rent are $124,614 ("base") plus EMTA's proportionate share of increases in property taxes and other building expenses after the first year ("escalation"), except that EMTA made no payments for six months in 1995 and for three months in 1996. Annual rent expense consists of the year's ratable share of the total base amount to be paid over the life of the lease plus the escalation amount for the year, which totaled $113,056 in 2001 and $122,568 in 2000. 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 Plans

EMTA has two Plans, descriptions of which are set forth below:

- a 401(k) Plan, whereby participants are allowed to contribute up to 15% of taxable compensation, subject to statutory limitations. EMTA matches the first 4% of such contributions. All employees are eligible to participate, and balances in participants' accounts are fully vested at all times; and
- a SEP-IRA arrangement, whereby EMTA contributes a certain percentage of eligible compensation each year, at the election of EMTA and subject to statutory limits. All staff employed at year-end are eligible to participate, and balances in participants' accounts are fully vested at all times.

Contributions to the above two Plans totaled $158,867 in 2001 and $174,327 in 2000, which are included in compensation and benefits in the Consolidated Statement of Activities.

7. Emerging Markets Clearing Corporation (“EMCC”)

In 1996, EMTA entered into an agreement with a subsidiary of National Securities Clearing Corporation (“NSCC”) to develop EMCC, which clears trades of Emerging Markets debt instruments. EMTA coordinated industry decision-making regarding EMCC’s development. In this connection, EMTA provided management and legal expertise and certain administrative services, including billing and collection of EMCC’s initial funding requirements.

In March 1999, EMTA received a minority interest of 300 shares of Class A voting stock in EMCC in exchange for various services rendered by EMTA during the period 1996–1999 in connection with EMCC’s development. The recognized cost of this investment in EMCC of $95,960 is attributable primarily to unreimbursed staff expenses incurred in 1997.

In the fall of 1999 EMTA made an additional cash investment in EMCC of $132,000 representing 132 Class B non-voting shares (an amount derived from the approximate revenue received from EMCC by Clear-EM during 1998).

During 1999, EMTA management determined that the appropriate carrying value of its investment in EMCC was $1, and a one-time charge of $227,959 was taken at that time.

In connection with a plan by EMCC to become a wholly-owned subsidiary of Depository Trust & Clearing Corporation, EMTA entered into an agreement with EMCC in November 2001 to sell its shares of EMCC common stock back to EMCC in early 2002 (the “Agreement”). Because the consummation of the Agreement was contingent on its being completed by March 31, 2002, no gain was accrued in the financial statements at December 31, 2001.

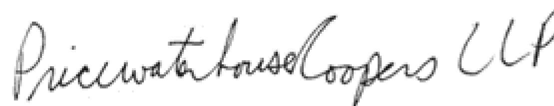
8. Subsequent Events

Pursuant to the Agreement, EMTA received proceeds of $602,504 from EMCC in March 2002 for EMCC shares tendered.

EMTA may be eligible for certain government grant programs in connection with the September 11, 2001 terrorist attack on lower Manhattan. Management is reviewing these programs and will apply in 2002 for any that appear available and appropriate.

Report of Independent Accountants

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and of cash flows present fairly, in all material respects, the financial position of EMTA, Inc. and its subsidiaries (the “Association”) at December 31, 2001 and 2000, and the results of their net activities and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. 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 auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 our opinion.



PricewaterhouseCoopers LLP

January 25, 2002, except for Note 8,
as to which the date is March 1, 2002.

EMTA MEMBERS*

Full Members

ABN AMRO Bank
AIG Trading Group
Bank of America
The Bank of Foreign Affairs of the USSR (Vnesheconombank)
Barclays Capital
BB Securities
Bear Stearns
BNP Paribas Securities
Caboto Holding
CAI/IIF
Cargill Financial Services
Credit Suisse First Boston
Deutsche Bank Securities
The Development Bank of Singapore Ltd.
Dresdner Kleinwort Wasserstein
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Merinvest
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Commerzbank
Deltec Asset Management
The International Bank of Miami
Lloyds TSB Bank
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Royal Bank of Scotland Financial Markets
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Emerging Markets Clearing Corporation (EMCC)
Euroclear
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International Swaps and Derivatives Assn. (ISDA)
King & Spalding
Loan Market Assn. (LMA)
Loan Syndications and Trading Assn. (LSTA)
PricewaterhouseCoopers
Reuters Information
Shearman & Sterling
Slaughter and May
Standard & Poor's
Telekurs
Thomson Financial
United Nations Development Programme (UNDP)

***As of May 1, 2002.**

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*As of May 1, 2002.

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Finance

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Senior Legal Counsel

Suzette Ortiz
Office Coordinator

Lisa Palazzola
Systems

Eric Brenner
Website & Communications

Mandy Sleigh
European Coordinator

EMTA is grateful to Shearman & Sterling, Slaughter and May and PricewaterhouseCoopers for their advice and ongoing commitment to serving its members.

SIGNIFICANT MARKET EVENTS & EMTA ACCOMPLISHMENTS

2001

- Large bond exchanges, austerity proposals, return of Domingo Cavallo and other measures fail to stem financial crisis in Argentina. President De La Rua resigns and Argentina defaults on its external debt
- Mexico redeems its Series A USD Discount Bonds
- EMTA calls for greater investor rights, more transparency at Paris Club
- Paris Club launches website
- Market Practice separates trading of Mexico Brady bonds and VRR's
- EMTA calls for more constructive dialogue with official sector to catalyze private capital flows into the Emerging Markets
- IMF proposes sovereign bankruptcy regime
- Mexico's Finance Minister Gil-Diaz addresses EMTA's Annual Meeting
- Annual EM trading volumes rebound to U.S. $3.5 trillion

2000

- Arminio Fraga, President of the Central Bank of Brazil, and Daniel Marx, Secretary of Finance of Argentina, address EMTA Annual Meeting
- Brazil closes U.S. $5 Billion exchange offer
- Ecuador reschedules 97% of its Brady bonds
- EMTA upgrades its Website, adding New Developments and Key Industry Views areas
- Mexico upgraded to an investment grade rating by Moody's
- Russia completes London Club restructuring Ecuador adopts dollarization
- Ecuador adopts dollarization
- ECN's introduce all-electronic trading of Brady bonds and Eurobonds
- Vicente Fox elected President in Mexico's fairest election; PRI turns over power after seven decades

1999

- Emerging Markets community debates 'Burden-Sharing'
- Brazil effectively devalues the Real/Market confidence restored following support package
- Ecuador defaults on its Brady bonds and convenes a Consultative Group chaired by EMTA
- EMTA helps develop cross-product netting agreement with BMA and ISDA
- EMCC reaches critical mass
- U.S. Treasury official Timothy Geithner and IMF deputy head Stanley Fischer address EMTA Annual Meeting
- Annual EM trading volumes bottom out at U.S. $2.2 trillion

1998

- EMCC launched in April
- EMTA introduces 'batch settlement' for Russian Loans
- EMTA helps develop 1998 FX and Currency Option Definitions in collaboration with ISDA and FX Committee
- EMTA develops Ruble/U.S.$ exchange rate in collaboration with CME after Russian ruble is devalued and Russia defaults on a number of debt instruments
- Emerging Markets community debates dollarization
- EM trading volumes plummet in the aftermath of the Russian crisis

1997

- New EMTA Market Practices for Repos, Warrant trades and Russian loans
- Asian economic crisis begins
- EMTA Netting Facility helps to close Russia VEB debt restructuring
- Netting Facility also addresses Argentina interest 'tails'
- Russian Deputy Finance Minister Kasyanov addresses EMTA Annual Meeting
- Annual trading volume reaches nearly U.S. $6 trillion for 1997
- South Korean recovery package announced

1996

- EMTA releases Feasibility Study for Emerging Markets Clearing Corporation (EMCC)
- EMTA helps launch the Loan Syndications and Trading Association (LSTA)
- Deputy Secretary of the Treasury Lawrence Summers addresses EMTA Members
- EMTA issues forms for trading Russian loans W/R (when-restructured)
- Standard Terms for Loan Participations developed
- EMTA issues Clarification Statements on Polish Securities Markets

1995

- Mexican rescue package stabilizes markets
- Bond markets begin settling on T+3 basis
- EMTA launches Match-EM trade comparison and matching system
- EMTA recommends Standard Terms for Assignments of Loan Assets
- Mexican Finance Minister Ortiz and Brazilian Finance Minister Malan address EMTA Annual Meeting
- Revised EMBI and EMBI+ Indices are introduced

1994

- Emerging Markets react to general interest rate increases
- EMTA develops facility for multilaterally netting loan trades
- Master Options Agreement issued
- Brazil introduces the Real Plan, ending its hyper-inflation
- Brady Plan rescheduling completed for Brazil
- NAFTA takes effect
- EMTA introduces month-end pricing report
- Mexico devalues peso in December ("Tequila Crisis")

1993

- EMTA adopts Code of Conduct for trading EM instruments
- When-Issued trading forms recommended for Brazil Brady bonds

1993 (continued)

- Market Practices developed for EM Options
- EMTA lobbies for passage of NAFTA
- Brady Plan rescheduling completed for Argentina

1992

- EMBI Index introduced by J.P. Morgan
- EMTA adopts Market Practices for Argentina Brady bonds
- Argentina Finance Minister Cavallo addresses EMTA Annual Meeting
- First EMTA Annual Volume Survey shows 1992 trading volumes of U.S. $734 billion

1991

- Argentina adopts the Convertibility Plan, linking the peso to the U.S. $ and ending its hyper-inflation
- First EMTA Annual Meeting, with FRBNY President Gerald Corrigan as keynote speaker
- EMTA issues first Market Practices

1990

- Brady Plan restructurings completed for Mexico and Venezuela
- Confirmation forms developed for Mexico and Venezuela Brady bonds
- EMTA formed in December 1990

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