# Emerging Markets Traders Association

## 1999 Annual Report

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Formed in 1990, the Emerging Markets Traders Association is dedicated to promoting the orderly development of fair, efficient and transparent trading markets for Emerging Markets instruments and to helping integrate the Emerging Markets into the global capital markets.

# Letter from the Co-Chairs

"As the Emerging Markets continue their transformation, EMTA is also changing."

Despite its ominous beginnings (with Brazil's devaluation occurring in the aftermath of Russia's crisis), 1999 was a year of substantial market recovery, and steady economic progress in a number of countries. While industry trading volumes remained well below 1998 levels, asset prices recovered (as measured by the EMBI+'s 27% increase), new Eurobond issuance, though sporadic, surpassed US$70 billion and, particularly recently, Emerging Markets debt has shown encouraging signs of being less volatile than more established asset classes. Y2K helped to suppress market activity in the waning months of the year, but widespread computer problems, as elsewhere, failed to materialize in the Emerging Markets.

Although a number of investors and dealers, discouraged by past crises, have left the active trading market in the past two years, it appears more obvious now than ever before that there is significant value in the Emerging Markets debt market. With the market's rebound from the depths of 1998, economic indicators in many Emerging Markets countries continue to improve, important reform measures have been approved (notably in Brazil), and analysts widely expect strong GDP growth throughout Latin America. Some backsliding may occur, of course, but events such as Ecuador's Brady Bond default and Cote d'Ivoire's overdue Brady payments have been treated as special situations by the market, rather than catalysts for indiscriminate contagion.

The surprisingly quick announcement of Russia's new London Club deal in February 2000 (and its smooth completion in August), the decision by Moody's to raise Mexico's credit rating to investment grade, and, more recently, clean elections and an upcoming transition of administrations in Mexico underscore the economic and political progress being made throughout the Emerging Markets.

As far as our marketplace has developed in the last ten years, it still faces many challenges. While Emerging Markets asset values have staged a strong recovery, trading activity has not, and there are widespread concerns about overall market liquidity, dealer commitment and investor confidence. Of course, much of the market's malaise over the past two years has been due to exogenous factors such as the bearish nature of the fixed-income markets generally, and as noted above, the economic reforms, and restructuring initiatives, undertaken by a number of E M countries justify considerable optimism for Emerging Markets investing.

As the Emerging Markets continue their transformation, the marketplace, and EMTA, are also changing.

EMTA was created in 1990 by the dealer community but strives to represent the entire Emerging Markets debt industry - an industry that is diverse and whose constituents may at times have varying interests.

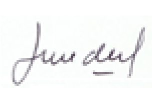
While the majority of EMTA's work is of equal value to both dealers and investors, we are determined that our Membership, as well as our Board of Directors, more accurately reflect the Emerging Markets debt industry. Going forward, EMTA will accelerate its effort to reach out to the Buy-side of the market.

EMTA has taken a number of recent steps to broaden its appeal to investors. During 1999, EMTA chaired a series of meetings between Ecuador and a Consultative Group of creditors. At the same time, we continued to advance the industry's positions in the public discussion on "burden sharing," and published several policy papers advocating our views. Of course, many of our on-going activities such as issuing market practices on defaulted bonds, disseminating market information and developing proposals for trading Mexican Value Recovery Rights should be of equal interest to both the Buy and Sell sides of the market.

To ensure that EMTA can develop and implement an appropriately broad policy agenda going forward, the Buy-side representation on EMTA's Board of Directors has recently been expanded, with the election of five new investors: Mohamed El-Erian of PIMCO, Abby McKenna of Morgan Stanley Asset Management, John Cleary of INVESCO, Michael Sonner of DIT and Keith Gardner of WAMCO. They join our previously serving Directors Mark Coombs (Ashmore Investment Management) and Peter Geraghty (Darby Overseas Investments). We are enthusiastic about working with our new Buy-side colleagues, and are confident that their input and ideas will enable us to substantially increase our contributions to the Emerging Markets investor community.

On a related note, EMTA has recently assisted in the initial organization of the Global Equity Markets Association (GEMA). While it is too early to know how active this fledgling organization will become, we look forward to having a sister association that shares our orientation towards the Emerging Markets.

Finally, we note that four long-serving EMTA Directors, Manuel Mejia-Aoun (Deutsche Bank and previously Merrill Lynch), Guido Mosca (JP Morgan), Gail Segal (Bank of America) and Paul Masco (Salomon Smith Barney) recently left the EMTA Board. We thank them for their many years of dedication and service to EMTA and its goals, and we reaffirm EMTA's commitment to making our marketplace as orderly and professional as possible.



Juan del Azar

Modesto Gomez

# Letter from the Executive Director

"Positive trends abound throughout the Emerging Markets this year, and even market morale seems transformed."

The theme of EMTA's Annual Report for 1999 is 'Transformation in the Emerging Markets' because there are continuing, and sometimes remarkable, economic, political and legal reforms occurring in many EM countries, new technologies available to modernize our marketplace and salutary changes occurring within EMTA. By highlighting such positive trends as reform, change and new technology, we recognize how far our market has come since 1998 when, against the backdrop of the Russian financial crisis, the cover of EMTA's prior Annual Report could only announce hopefully that 'There's Life in the Emerging Markets'.

1999 saw a rapid turnaround in Brazil, and with it a substantial recovery in market confidence generally. Significantly, a sometimes acrimonious debate about burden-sharing failed to dampen investor appetite for new issues by leading countries, and even Ecuador's default on its Brady bonds did not become the contagious market event that some had feared. Continuing industry consolidation and reduced trading volumes have led to concerns about overall market liquidity.

Formed in late 1990 to help make the Brady bond and sovereign loan trading market more efficient and more professional, EMTA's work has focused largely on the needs of a cross-border inter-dealer market and on a succession of specific country situations and market events. As the market has grown and evolved, EMTA has successfully enabled it to deal with many of its own internal growing pains. Working through EMTA, the Emerging Markets trading industry has been able, by means of voluntary cooperation, to identify or anticipate its own problems and address them itself and thereby avoid imposed solutions. Occasional country crises and market events may recur from time to time, but EMTA has always served a useful role as a forum for market participants to discuss and deal with them.

Over the past ten years, the markets have evolved considerably, and EMTA has completed many notable projects on behalf of the Emerging Markets trading industry, as shown by the attached timeline of Significant Market Events and EMTA Accomplishments. EMTA continued to add to its track record in 1999.

One of our industry's major achievements has been the creation of the Emerging Markets Clearing Corporation, and the history of EMCC's development is a remarkable story of industry cooperation and hard work. In 1995, in the wake of Mexico's 'Tequila' crisis, major market participants first identified the need to work together urgently to develop a mechanism that would help address growing concerns about counterparty credit risk and trade processing capacity and efficiency, particularly during times of acute market stress. By mid-1996, following an industry-wide feasibility study, EMTA entered into a memorandum of understanding with an arm of the National Securities Clearing Corporation (NSCC) to develop and By mid-1997, market participants were already pressing the SEC to approve it, and EMCC began operating in early 1998.

1999 was a watershed year for EMCC as its participant base reached critical mass, a direct trade comparison capability was introduced and steps were taken to begin accommodating electronic trading systems by early 2000. EMCC has already made the Brady and sovereign Eurobond market safer, sounder and more efficient and is an essential building block in the industry's effort to bring greater liquidity to the trading screens.

In the past several years, as our market has evolved, EMTA has increasingly made its resources available, often in collaboration with other trade groups, to meet the needs of various constituencies closely related to our core business, such as Emerging Markets FX derivatives. We expect this trend to continue as EMTA works to identify areas of common interest with other sectors of the Emerging Markets community, most notably our own Buy-side and the Equities area. This diversification of EMTA's agenda is being pursued carefully, and may require changes in how EMTA is governed and financed.

Even as we diversify EMTA's agenda to include related product areas, we expect that EMTA will focus its closest attention on our core business – Emerging Markets fixed income. As in the past, EMTA will stand ready to deal with market events and country situations as and when the need arises. As we have learned from our experiences ranging from Russia W/I trades to Peru loan assignments, one of EMTA's greatest challenges will be to represent the best interests of the broader marketplace in these highly visible and often charged situations.

These experiences, which include defaults by Russia and Ecuador and their subsequent debt restructurings, teach us that, in the new environment of sovereign financial crises, EMTA's sense of the best interests of the marketplace will need to better reflect the interests of broader classes of market participants. Our position papers in 1999 and early 2000 on the topic of burden-sharing have endeavored to do this, by tempering EMTA's traditional view of country debt restructuring as fundamentally a consensus-building process, with the somewhat harder realities of the new investor environment. To remain relevant in a changed and changing market, the positions that EMTA has recently staked out have appropriately placed greater emphasis on market-oriented approaches and the rule of law.

At our December 1999 Annual Meeting, EMTA was pleased to welcome two distinguished, senior officials from the IMF and the US Treasury, whose keynote addresses focused on the search by global policymakers for ‘new financial architecture’ that will better accommodate the current realities of the Emerging Markets’ more-diversified investor base and more-interdependent markets and economies. In what turned out to be a very open exchange of views, their remarks clearly indicated that, while they did not fully agree with EMTA’s positions, they respected them and felt that there was much common ground between our views and theirs. As events unfolded during 1999, there were encouraging signs that both the official and private sectors had moderated some of their earlier positions.

Russia’s rapid VEB debt rescheduling, as well as successful restructuring exchange offers by Pakistan, Ukraine and, most recently, Ecuador, tend to confirm that EMTA’s policy recommendations are correct. Obviously, investors in the Emerging Markets must recognize and accept some risk that, in the event of their debtor’s default, they may be called upon to exchange or reschedule their obligations. But, in addition to urging continued economic reform and stronger financial infrastructure and helping to improve and speed up information flows, the official sector must be prepared to catalyze the flow of private capital to Emerging Market countries, when need be, by providing support at critical times that enables debtor countries to offer their private creditors meaningful investment choices.

To do otherwise – to force private creditors into involuntary debt reschedulings – is not to lock in private capital, but to drive it away from the Emerging Markets when it is most needed.

Where financial crises cannot be prevented, market-oriented approaches provide the best chance of resolving them quickly and fairly so that normal market relationships and operations can be restored. EMTA will continue to represent the interests of the marketplace by putting forward the industry’s views on these and other issues as forcefully and as constructively as we can.

In addition to contributing to the dialogue between the private and official sectors on the important issue of burden-sharing, EMTA was pleased to host several of Ecuador’s meetings in late 1999 and early 2000 with its Creditors Consultative Group and to act as a communications link for the dissemination of economic and financial information to its bondholders. While the extent to which these meetings, as a practical matter, helped to resolve Ecuador’s crisis is debatable, they showed that sovereign debtors and their bondholders share a common interest in keeping their lines of communication open during times of crises.

One conclusion that may tentatively be drawn from the events of 1999 and early 2000 is that the new financial architecture needed to address the financial crises of sovereigns in the current environment of bonds and other widely dispersed instruments is more likely to be developed over time on a case-by-case basis than designed by theoreticians. Additionally, the need for new financial architecture at the conceptual level may be overstated, and an EMTA working group is currently reviewing the market’s recent rescheduling experiences with a view to determining whether any new architecture at the nuts and bolts level is necessary.

EMTA enters the year 2000 leaner and able to communicate and disseminate information more effectively than ever before through its website (www.emta.org). Launched in 1999 and substantially upgraded in early 2000, EMTA’s website has become our primary way to communicate with EMTA Members and the broader marketplace. We are especially pleased with the New Developments area, on which EMTA regularly releases current information relevant to market participants, including market news obtained from other sources as well as EMTA developments. To give greater visibility to industry thinking on the major issues confronting the marketplace, EMTA’s website has also added a Key Industry Views area, which features articles and commentary by market strategists and research economists and other influential industry thinkers. With these enhancements, EMTA expects that its website will become an essential resource for market participants and for others who want to keep abreast of important developments in the Emerging Markets trading and investment area.

Positive trends and opportunities abound throughout the Emerging Markets this year, and even market morale seems transformed. EMTA has been pro-active in adapting to our changing marketplace. Among the most important changes at EMTA is the addition of five new Directors representing leading investor interests, and we look forward to developing a more effective agenda with their input and participation. In the midst of these transformations, what has not changed is EMTA’s continuing commitment to provide a forum that serves the needs of our dynamic marketplace.

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 has risen 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 to current levels in the wake of the Asian and Russian financial crises.

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.

Market participants 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. 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 exceptionally 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 communcations 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.

Beginning of the Inca Trail, Peru

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 now has 111* member institutions, including leading financial institutions worldwide. EMTA's 42* Full Members are firms that actively trade Emerging Markets instruments.**

EMTA's Board of Directors is composed of leaders in Emerging Markets trading 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 full-time staff of 13* professional and support personnel. EMTA also maintains an informal presence in London and in Paris.

### 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 Emerging Markets 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 Emerging Markets trading business is a major challenge. EMTA's efforts have met these needs in the areas of bond, loan and 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 activities with greater confidence, efficiency and safety and helps to reduce systemic risk.

### More Transparency

Bird of Paradise *(Strelitzia reginae)*

Through a variety of projects, including its annual and quarterly Volume Surveys of debt trading 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 230 eligible instruments cleared by EMCC. New Developments in the Emerging Markets, ranging from country and other market announcements to key industry perspectives 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).

*As of May 1, 2000.

# 1999 Project Highlights

Several projects that best represent EMTA's recent contributions to the orderly development of the marketplace for Emerging Markets instruments are (a) sponsorship of the Emerging Markets Clearing Corporation (EMCC), (b) various activities (including responding to Ecuador's debt default) relating to financial crises in the Emerging Markets and (c) an ongoing effort to make documentation and settlement of non-deliverable currency forward transactions (NDF's) more efficient.

## EMCC Reaches Critical Mass

To support screen-based trading, and to address concerns about related counterparty risk, EMTA has sponsored the Emerging Markets Clearing Corporation, which began operations in April 1998 a and reached critical mass of participation during 1999. Affiliated with NSCC and its group of clearing corporations, EMCC brings improved efficiency and reduced counterparty risk to the marketplace Brady bonds and sovereign Eurobonds by assuming and netting matched trades on behalf of major market participants and delivering settlement instructions directly to the Euroclear and Clearstream settlement systems.

The EMCC project provides a good example of EMTA's process of convening industry working groups to identify and address market needs. This process gives market participants the opportunity to be heard on issues of importance, without sacrificing the need for prompt industry action once consensus has been reached.

In its first full year of operation, EMCC successfully processed over 178,000 trade inputs from leading dealers and settled trades in the inter-dealer market with an aggregate face amount of over U.S. $246 billion. By April 1999, EMCC was consistently achieving a matching rate of 90% or more on trade date. As of May 1, 2000, EMCC was clearing trades in over 230 eligible Emerging Markets instruments. During 1999, EMCC successfully implemented a central trade comparison system and added 84 new eligible instruments. To enable EMCC to continue developing new services and to prepare for the task of supporting electronic screen-based trading systems, EMTA invested an additional $132,000 in EMCC in 1999.

EMCC amply demonstrated during 1998's traumatic market conditions that it brings greater operating efficiency and reliability and enhanced creditworthiness to the clearance and settlement of Emerging Markets debt instruments. Looking ahead, EMCC provides an essential building block in the industry's effort to bring greater liquidity, safety and soundness to the operation of its trading screens.

## Ecuador and the Burden-Sharing Debate

Since the onset of Asia's financial woes in 1997, the official sector has been signaling the need for greater private sector participation in resolving financial crises in the Emerging Markets. These signals intensified during 1999, provoking considerable discussion amidst proposed restructurings for Pakistan and the Ukraine about private sector 'burden-sharing' and the need for 'new financial architecture' to accommodate an increasingly diverse Emerging Markets investor base.

Against this backdrop, Ecuador became the first country ever to default on its Brady bonds, triggering suspicions that it had been encouraged to do so. Ecuador's default tested not only the Brady bond interest default and collateral provisions for the first time but also the appetite of Emerging Markets bondholders for restructuring their bonds.

During 1999, EMTA published several position papers arguing that pushing burden-sharing too far was counterproductive in that it would drive investors away from the Emerging Markets and deprive Emerging Markets countries of much-needed access to the bond markets, one of the most stable sources of capital available to them. While recognizing that private sector burden-sharing is a legitimate goal, EMTA's position papers urged that the official sector focus more attention on crisis prevention and on encouraging more market-oriented approaches toward burden-sharing.

In an effort to begin normalizing its creditor relations, Ecuador invited a group of its bondholders to form a Consultative Group to discuss its financial situation and to provide input on the terms of a restructuring proposal. EMTA was asked to chair the Consultative Group's meetings and to disseminate certain financial information that Ecuador wanted to make available to its bondholders generally. EMTA was pleased to do so, consistent with its role of providing a forum to help discuss and address industry problems. Although its meetings were suspended in December 1999 after Ecuador's political and financial crisis deepened, the Consultative Group brought bondholders together in what was a useful step not only in the effort to resolve Ecuador's financial crisis, but also in the search for new financial architecture to address the needs of a more diversified marketplace.

EMTA's interactions with Ecuador's Consultative Group also reaffirmed EMTA's intention to develop an agenda that better meets the needs of the Emerging Markets Buy-side.

Future World Cup Hopeful - La Boca

## Greater Efficiency in the NDF Market

Because swaps and derivatives documentation did not previously address various Emerging Markets risks, EMTA worked in collaboration with the International Swaps and Derivatives Association (ISDA) and the Foreign Exchange Committee to develop the 1998 FX and Currency Option Definitions, which gave the marketplace a variety of provisions for use in documenting foreign exchange trades, including non-deliverable currency forward transactions (NDF's).

Building on previous experience in the loan and Brady bond markets, EMTA has initiated an effort to bring greater standardization and discipline to the process of documenting and settling NDF trades.

As a result, an EMTA working group has surveyed market trading preferences and is currently developing currency-by-currency confirmation templates and Market Practices for the NDF market. The working group is also exploring proposals for determining primary and secondary rate sources for settling NDF's, for amending or supplementing the 1998 Definitions when need be, and for facilitating orderly industry decision-making when market events or changing circumstances require revisions in the templates or related Market Practices or other market guidance. Many of these proposals are expected to be implemented by the end of 2000.

# 1999 Annual Meeting

*"The main risk: that...governments [will] believe they have room to relax..."*

*Timothy F. Geithner*
*Under Secretary of Int'l Affairs*
*U.S. Treasury*

**EMTA's 1999 Annual Meeting was held on December 9, 1999 at the offices of Salomon Smith Barney in New York City. Following a year in which the G-7 governments and their official sector representatives initiated extensive discussions of how to involve the private sector more effectively in preventing and resolving financial crises in the Emerging Markets, over 400 market participants gathered to hear keynote addresses by Timothy F. Geithner, Under Secretary for International Affairs at the U.S. Treasury, and Stanley Fischer, First Deputy Managing Director of the International Monetary Fund.**

*"Look no further than Russia"*

*Stanley Fischer*
*First Deputy MD, IMF*

**Mr. Geithner's address focused on three major challenges in international finance: how to reduce the vulnerability of Emerging Markets economies; encourage more stable capital flows; and strengthen market-based solutions to financial crises. Mr. Geithner noted that an improved economic outlook may diminish the momentum for reform in many emerging countries, but that perhaps the most important lesson of the 1990's was that Emerging Markets governments "need to plan for the worst:…not to make policy on the expectation that…the G-7 or the IMF will succeed in creating a world of fewer or less severe shocks…"**

**Mr. Fischer, specifically referring to EMTA's policy paper "Is Burden-Sharing Being Pushed Too Far?", warned that private sector participation in country reschedulings was necessary because of moral hazard issues, and the Fund's own limited resources. Reviewing the case history in Romania, Ukraine, Ecuador and Pakistan, Mr. Fischer said that the Fund was drawing lessons from these experiences, but that at least two principles were clear: the official sector must urge debtor countries to service their debts, and that private sector participation may be required when a nation is unable to meet debt obligations.**

**The full text of Mr. Fischer's remarks may be found at: [www.imf.org/external/np/speeches/1999/120999](www.imf.org/external/np/speeches/1999/120999).**

**Preceding the keynote addresses were EMTA's ever-popular Sell-Side and Buy-Side panels, which reviewed market conditions and prospects and offered predictions.**

**Jose Luis Daza (J.P. Morgan) moderated a Sell-Side Panel composed of Joyce Chang (Chase Securities), Paulo Leme (Goldman Sachs), Arturo Porzecanski (ING Barings) and Tulio Vera (Merrill Lynch). Most Sell-Side panelists agreed that growth would be the dominant force in the market in 2000. They also discussed industry confusion over IMF policy vis-à-vis Emerging Market countries, with some panelists urging that the Fund's policies be more clearly spelled out.**

**The Buy-Side panel was moderated by Tom Trebat (Salomon Smith Barney) and included James Barrineau (Alliance Capital Management), Mark Siegel (Mass Mutual), Stuart Waugh (Mitchell Hutchins Asset Management) and Mohamed El-Erian (PIMCO). Several investor panelists commented that despite positive credit fundamentals generally, the strong performance of Emerging Markets debt in 1999 would be difficult to repeat in 2000. They also noted that they expected that Ecuador's negotiations with creditors would be "prolonged, messy and complex," but were treating Ecuador as a special situation rather than changing their investment policies generally.**

# & London Summer Forum

EMTA's Second London Summer Forum, held on July 8, 1999 at the offices of Salomon Smith Barney in London, attracted one hundred and sixty market participants.

Jerome Booth (Ashmore investment Management) moderated a panel featuring sell-side analysts Robin Hubbard (Chase), Philip Poole (ING Barings) and Karim Abdel-Motaal (JP Morgan).

The panel agreed that Argentina's Convertibility Plan was unlikely to be scrapped, and voiced support for the IMF despite some misgivings that G-7 political considerations appear to influence IMF policy decisions. There appeared to be a general consensus that US interest rates would not be raised more than once in the near term and that spreads on Emerging Market bonds would tighten by the end of 1999, although some panelists remained markedly more pessimistic than others.

A second panel of investors was moderated by Salomon Smith Barney's Mark Franklin. Panelists included Maryam Ettahadieh (Credit Suisse Asset Management), Tom Fallon (Fortis Investment Management), Simon Treacher (Morgan Grenfell Asset Management) and Ingrid Iversen (Rothschild Asset Management).

There was also a fair amount of debate between investor panelists on how easily Russian debt could be restructured, and whether Brazil's economic recovery would continue unhindered; but panelists were in agreement in discounting the contagion effect of a possible Chinese yuan devaluation. Other topics addressed included the effects of new market indices, economic performance in Mexico, convergence plays in Eastern Europe, crossover investors and high rates on Turkish local debt.

## Highlights

| | For the Year Ended December 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **1999** | **1998** | **1997** | **1996** | **1995** | **1994** | **1993** | **1992** |
| Market Trading Volume (in U.S.$ billions) | 2,185 | 4,174 | 5,916 | 5,297 | 2,739 | 2,766 | 1,979 | 734 |
| Brady Bonds | 771 | 1,541 | 2,403 | 2,690 | 1,580 | 1,684 | 1,021 | 248 |
| Non-Brady Eurobonds | 626 | 1,021 | 1,335 | 568 | 211 | 159 | 177 | 23 |
| Loans | 69 | 213 | 305 | 249 | 175 | 244 | 274 | 229 |
| Local Market Instruments | 599 | 1,176 | 1,506 | 1,274 | 593 | 524 | NA | NA |
| Derivatives (Options, etc.) | 119 | 223 | 367 | 471 | 179 | 142 | 57 | NA |
| Number of EMTA Members at year end: | | | | | | | | |
| Full | 44 | 60 | 62 | 63 | 60 | 83 | 75 | 64 |
| Associate | 31 | 43 | 36 | 35 | 43 | - | - | - |
| Affiliate | 32 | 39 | 65 | 51 | 43 | 69 | 43 | 14 |
| Local Markets | - | 5 | 6 | 5 | - | - | - | - |
| Total Members | 107 | 147 | 169 | 154 | 146 | 152 | 118 | 78 |
| EMTA Revenue: | | | | | | | | |
| Membership dues | $1,725,916 | $1,981,337 | $1,782,417 | $1,652,167 | $1,337,250 | $1,364,250 | $ 894,500 | $ 677,528 |
| Program services | 553,863 | 1,539,856 | 1,432,037 | 1,711,782 | 2,212,351 | 1,434,922 | - | - |
| Directors' support | 815,000 | 950,000 | 1,137,500 | 1,151,250 | 1,170,000 | 1,312,500 | 787,949 | 171,423 |
| Other | 201,120 | 206,164 | 293,234 | 416,137 | 148,620 | 30,675 | 13,203 | 10,371 |
| Total Revenue | 3,295,899 | 4,677,357 | 4,645,188 | 4,931,336 | 4,868,221 | 4,142,347 | 1,695,652 | 859,322 |
| EMTA Expenses: | | | | | | | | |
| Staff | 2,205,084 | 2,110,905 | 2,577,942 | 2,490,805 | 1,763,810 | 1,269,064 | 366,983 | 117,174 |
| Office | 258,586 | 346,122 | 350,452 | 372,247 | 309,775 | 201,987 | 91,436 | 54,619 |
| Communications | 124,506 | 165,475 | 204,657 | 251,085 | 335,653 | 260,433 | 11,241 | - |
| Professional services | 209,256 | 608,033 | 774,080 | 1,198,475 | 2,153,877 | 1,945,580 | 839,169 | 767,051 |
| Conferences, receptions, travel, etc. | 36,028 | 93,560 | 161,284 | 240,713 | 235,549 | 196,415 | 250,707 | 1,049 |
| EMCC investment | 227,959 | - | - | - | - | - | - | - |
| Total Expenses | 3,061,417 | 3,324,095 | 4,068,415 | 4,553,325 | 4,798,664 | 3,873,479 | 1,559,536 | 939,893 |
| Increase in Net Assets | 234,482 | 1,353,262 | 576,773 | 378,011 | 69,557 | 268,868 | 136,116 | (80,571) |
| Increase (decrease) as % of Total Revenue | 7.1% | 28.9% | 12.4% | 7.7% | 1.4% | 6.5% | 8.0% | (9.4%) |
| Net Assets at Year-End: | $2,968,386 | $2,733,904 | $1,380,642 | $ 803,869 | $ 425,858 | $ 356,301 | $ 87,433 | $ (48,683) |

EMTA's net assets stood at nearly $3 million at the end of 1999, an increase of $234,000 during the year. The increase in net assets was significantly less than 1998's increase of $1.4 million, largely because of anticipated decreases across almost all major revenue categories, as well as lesser expense savings. A significant contributing factor was EMTA's decision to charge its entire investment in 1999 of nearly $228,000 in EMCC against current operations. EMTA's Net Assets have shown an increase in each year since 1992, when they stood at -$48,683.

**Revenue**

Total revenue decreased by $1.4 million (30%) to $3.3 million in 1999 from $4.7 million in 1998. This compares to a budgeted decrease of $1.6 million. The decline in revenues continued a trend that began in 1997 when netting activity began to fall off.

The largest revenue decline was in fees for program services, which dropped by $986,000 (64%) to $554,000 in 1999 from $1.54 million in 1998; the largest single component of this decline was the Multilateral Netting Facility, which decreased by $649,000 (59%) to $447,000 in 1999 from $1.1 million in 1998. This decline in revenues from Multilateral Netting was anticipated, as market trading activity in Russian VEB 'Restructured Prin' fell off substantially in 1999 from 1998 levels from $183 billion to $38 billion due to continuing market repercussions of the 1998 Russian financial crisis. In addition, combined revenue from Match-EM and the Emerging Markets Clearing Corporation (EMCC) decreased by $338,000 (76%) to $107,000 in 1999 from $445,000 in 1998. EMTA's involvement in Match-EM's activities was phased out as planned in late 1998 after recording fees of $313,000, as its trade comparison and matching functions were assumed by EMCC, although the related fees from EMCC, which totaled $107,000 in 1999, continued until Match-EM's termination in October 1999.

Revenue from Membership dues declined by $255,000 (13%) to $1.73 million in 1999 from $1.98 million in the previous year. This was primarily because the number of Members declined by 40 (27%) from year-end 1998 to 1999, partially offset by increases in Associate and Affiliate annual dues. The decline in Membership during 1999 is believed to have been due mainly to the continuing effects of the Asian financial crisis that began in mid-1997 and spread to Russia and other Emerging Markets by mid- 1998; contributing factors were the continued trend toward consolidation in the global financial industry and EMTA's decreased attention to local markets activities. The increase in annual dues for Associates and Affiliates was introduced to more equitably spread the burden of financing EMTA's activities among Member categories.

For the same reason, assessments for members of EMTA's Board of Directors were reduced by a total of $135,000 (14%) to $815,000 in 1999 from $950,000 in 1998.

**Expenses**

Total expenses declined by $263,000 (8%) to $3.06 million in 1999 from $3.32 million in 1998. This decrease resulted from a continuing emphasis on cost containment and reductions across most expense categories, partially offset by a small increase in staff expenses and a charge of $228,000 against EMTA's income resulting from EMTA's investment in EMCC. EMTA's total expenses have declined in each year since 1995 when they peaked at nearly $4.8 million.

The largest component of the overall decline in expenses was professional services, which decreased by $399,000 (66%) to $209,000 in 1999 from $608,000 in 1998. Most of this decrease came from legal expenses, which dropped by $249,000 (71%) to $104,000 in 1999 from $353,000 in 1998, as EMTA continued to rely increasingly (as it has since 1995) on its staff lawyers to provide legal services in support of EMTA's activities. Program contractors expense also went down significantly, to less than $1,000 in 1999 from $137,000 in 1998, due primarily to the elimination of nearly all Match-EM expenses starting in late 1998 when its operations were absorbed into EMCC.

During 1999, EMTA received 300 shares of Class A voting stock and 132 shares of Class B nonvoting stock in EMCC. The Class A shares were received pursuant to a 1996 Memorandum of Understanding in exchange for various services provided by EMTA during the period 1996 – 1998 in connection with EMCC's development and formation. These services were valued at $95,960 at December 31, 1998. The Class B shares were received in exchange for cash in the amount of $132,000, representing the approximate amount of fee revenue received by EMTA from EMCC during 1998 in connection with its operation of EMTA's Match-EM trade comparison and matching system. Because EMTA did not make its investment in EMCC for commercial purposes, management has determined that it is appropriate to carry such investment at the nominal value of $1, and EMTA charged its entire recorded $227,959 investment in EMCC against 1999 operations and reduced its net assets by this amount.

Total staff costs increased by $94,000 (4%) to $2.2 million in 1999 from $2.1 million in 1998, primarily due to an increase in the average compensation per staff person.

Reductions in office expenses ($88,000 or 25%), communications ($41,000 or 25%), and expenses for conferences, receptions and travel ($58,000 or 61%) also contributed to the overall decline in expenses. These cost reductions resulted primarily from use of more electronic forms of communication and aggressive cost containment.

## FINANCIAL STATEMENTS

### Consolidated Statements of Financial Position

| | December 31, | |
|---|---|---|
| | **1999** | **1998** |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 4,039,396 | $ 4,094,840 |
| Dues and fees receivable from Members | 14,800 | 65,092 |
| Prepaid expenses and other assets | 8,760 | 8,877 |
| Total current assets | 4,062,956 | 4,168,809 |
| Property and equipment: | | |
| Leasehold improvements | 89,112 | 89,112 |
| Computer equipment and network | 119,601 | 119,601 |
| Furniture and fixtures | 80,607 | 80,607 |
| Telecommunication equipment | 39,931 | 38,312 |
| | 329,251 | 327,632 |
| Less accumulated depreciation | (287,764) | (251,632) |
| | 41,487 | 76,000 |
| Investment in EMCC | 1 | 95,960 |
| Total Assets | **$ 4,104,444** | **$ 4,340,769** |
| **Liabilities and Net Assets** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 939,650 | $ 947,312 |
| Unearned Membership dues | 160,000 | 612,000 |
| Total current liabilities | 1,099,650 | 1,559,312 |
| Deferred rent expense | 36,408 | 47,553 |
| Total liabilities | 1,136,058 | 1,606,865 |
| Net assets | 2,968,386 | 2,733,904 |
| Total Liabilities and Net Assets | **$ 4,104,444** | **$ 4,340,769** |

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

## FINANCIAL STATEMENTS

### Consolidated Statements of Activities

| | For the Year Ended December 31, | |
|---|---|---|
| | **1999** | **1998** |
| **Revenue** | | |
| Membership dues | $ 1,725,916 | $ 1,981,337 |
| Fees for program services | 553,863 | 1,539,856 |
| Directors' assessments | 815,000 | 950,000 |
| Investment income | 183,914 | 171,815 |
| Other | 17,206 | 34,349 |
| Total revenue | **3,295,899** | **4,677,357** |
| **Expenses** | | |
| Compensation and benefits | 2,205,084 | 2,110,905 |
| Occupancy | 137,845 | 139,299 |
| Office supplies and administration | 84,608 | 161,846 |
| Depreciation | 36,133 | 44,977 |
| Telecommunications | 87,302 | 118,732 |
| Shipping and delivery | 33,536 | 43,369 |
| Printing of documents for Member services | 3,668 | 3,374 |
| Legal | 103,948 | 352,610 |
| Program contractors | 806 | 137,446 |
| Public relations and annual report | 72,418 | 71,535 |
| Audit, tax and computer consultants | 32,083 | 46,442 |
| Conferences, receptions and meetings | 4,152 | 11,580 |
| Travel, lodging, meals and other | 31,875 | 81,980 |
| Adjustment to carrying value of investment in EMCC | 227,959 | — |
| Total expenses | **3,061,417** | **3,324,095** |
| Increase in net assets | 234,482 | 1,353,262 |
| Net assets, beginning of year | 2,733,904 | 1,380,642 |
| Net assets, end of year | **$ 2,968,386** | **$ 2,733,904** |

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

## Consolidated Statements of Cash Flows

| | For the Year Ended December 31, | |
|---|---|---|
| | **1999** | **1998** |
| **Cash flows from operating activities:** | | |
| Increase in net assets | $ 234,482 | $ 1,353,262 |
| Adjustments to reconcile increase in net assets to net cash provided by (used for) operating activities: | | |
| Depreciation | 36,132 | 44,977 |
| Adjustment to carrying value of investment in EMCC | 227,959 | — |
| Decrease in dues and fees receivable from Members | 50,292 | 146,905 |
| Decrease in EMCC subscriptions receivable | — | 1,441,193 |
| Decrease in prepaid expenses and other assets | 117 | 8,833 |
| (Decrease) increase in accounts payable and accrued expenses | (7,662) | 265,228 |
| (Decrease) increase in unearned Membership dues | (452,000) | 429,613 |
| (Decrease) in payable to EMCC | — | (3,340,000) |
| (Decrease) in deferred rent expense | (11,145) | (12,111) |
| Net cash provided by operating activities | 78,175 | 337,900 |
| Cash flows from investing activities: | | |
| Investment in EMCC | (132,000) | — |
| Payments for purchases of property and equipment | (1,619) | (14,296) |
| Net cash (used for) investing activities | (133,619) | (14,296) |
| (Decrease) increase in cash and cash equivalents | (55,444) | 323,604 |
| Cash and cash equivalents, beginning of year | 4,094,840 | 3,771,236 |
| Cash and cash equivalents, end of year | **$ 4,039,396** | **$ 4,094,840** |

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

**December 31, 1999 and 1998**

## 1. Organization

Emerging Markets Traders Association ("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 operates 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 (see Note 7).

### Membership Dues and Directors' Assessments

EMTA had three membership categories during 1999:

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 are 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. Balances in these two accounts are included in cash and cash equivalents in the Consolidated Statement of Financial Position.

### 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 $35,000 in 1999 and $25,232 in 1998. The balance in the allowance for doubtful accounts was zero at December 31, 1999 and $87,000 at December 31, 1998.

### Property and Equipment

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 telecommunications 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. An unused net operating loss carryforward of approximately $96,000 was available at December 31, 1999 and can be used to offset future taxable unrelated business income. This carryforward will expire in 2010 if not used before then. 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 Revenue

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

| | For the Year Ended December 31, | |
|---|---|---|
| | **1999** | **1998** |
| Membership dues: | | |
| Full | $1,090,916 | $1,496,504 |
| Plus recoveries of previously provided doubtful accounts | 25,000 | — |
| Less provision for doubtful accounts | — | (50,000) |
| Subtotal Full | 1,115,916 | 1,446,504 |
| Associate | 447,500 | 403,333 |
| Affiliate | 159,500 | 113,250 |
| Plus recoveries of previously provided doubtful accounts | 3,000 | — |
| Less provision for doubtful accounts | — | (3,000) |
| Subtotal Affiliate | 162,500 | 110,250 |
| Local Markets | | 21,250 |
| Total Membership dues | **$1,725,916** | **$1,981,337** |
| Fees for program services: | | |
| Multilateral Netting Facility | $ 446,600 | $ 921,400 |
| Plus recoveries of previously provided doubtful accounts | — | 173,775 |
| Subtotal Multilateral Netting Facility | 446,600 | 1,095,175 |
| Match-EM | — | 293,532 |
| Plus recoveries of previously provided doubtful accounts | — | 29,163 |
| Less provision for doubtful accounts | — | (10,000) |
| Subtotal Match-EM | — | 312,695 |
| Clear-EM | 107,263 | 131,986 |
| Total fees for program services | **$ 553,863** | **$1,539,856** |
| Directors' assessments | $ 791,000 | 974,000 |
| Plus recoveries of previously provided doubtful accounts | 24,000 | — |
| Less provision for doubtful accounts | — | (24,000) |
| Total Directors' assessments | **$ 815,000** | **$ 950,000** |

## 4. Summary of Expenses

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

| | For the Year Ended December 31, | |
|---|---|---|
| | **1999** | **1998** |
| Program Expenses: | | |
| Direct: | | |
| Multilateral Netting Facility | $ — | $ $ 12,024 |
| Match-EM | 806 | 134,446 |
| Documentation and Market Practices | 6,183 | 305,351 |
| Conferences, receptions and meetings | 4,152 | 11,581 |
| Advocacy | 77,177 | — |
| Indirect (primarily staff and facilities costs) | 2,028,174 | 1,846,656 |
| Total program expenses | 2,116,492 | 2,310,058 |
| Non-Program Expenses: | | |
| Direct: | | |
| Public relations and membership development | 72,418 | 71,535 |
| General administration | 52,671 | 84,676 |
| Indirect (primarily staff and facilities costs) | 819,836 | 857,826 |
| Total non-program expenses | 944,925 | 1,014,037 |
| Total expenses | $3,061,417 | $3,324,095 |

## 5. Office Space Lease

EMTA's office space lease became effective March 1, 1995 and runs through 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 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 $115,222 in 1999 and $120,188 in 1998. 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 $184,133 in 1999 and $171,548 in 1998, 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, derived as the approximate revenue received from EMCC by Clear-EM during 1999. EMTA management has determined that it is appropriate to carry its investment in EMCC at a value of $1.

EMCC began actual operations in the spring of 1998. As part of its commencement of operations, it began paying a royalty to Clear-EM for trades processed through Match-EM and entered into EMCC, which is recorded as fees for program services in the Consolidated Statement of Activities. Such royalties amounted to $107,263 in 1999 and $131,986 in 1998.

Additionally, EMCC assumed responsibility for operating Match-EM, for which it reimburses the transaction costs incurred by Match-EM. These reimbursements amounted to $351,750 in 1999 and $276,869 in 1998 and are recorded as a credit to program contractors expense in the Consolidated Statement of Activities, as if EMCC were legally responsible for liabilities incurred by Match-EM. Starting November 1999, EMCC began accepting trades from Match-EM members directly into its system, essentially replacing the functions of Match-EM. The operations of Match-EM and Clear-EM were discontinued at this time, and EMTA expects to dissolve these two entities in 2000.

## 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 Emerging Markets Traders Association and its subsidiaries (the “Association”) at December 31, 1999 and 1998, and the results of its net activities and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company’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, 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 the opinion expressed above.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

New York, New York
March 14, 2000

# EMTA MEMBERS

## Full Members

ABN AMRO Bank
Ashmore Investment Management
Banco Safra (Bahamas) Limited
Banco Santander
Bank of America
BankBoston
BB Securities
Bear, Stearns
BNP Paribas
Caboto Holding
CAI/Spinnaker Capital
Cantor Fitzgerald
Cargill Financial Services
Chase Securities
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Credit Suisse First Boston
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## Associate Members

AIG Trading Group
Arab International Bank
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Credit Lyonnais Securities
Deltec Asset Management
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Henry Ansbacher
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Nomura Europe
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Allen & Overy
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PricewaterhouseCoopers
Primark Data Company
Reuters Information
Shearman & Sterling
Slaughter and May
Telekurs
Thomson Financial
United Nations Development Programme (UNDP)
Weil, Gotshal & Manges

# SIGNIFICANT MARKET EVENTS & EMTA ACCOMPLISHMENTS

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

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
- Trading volumes drop significantly in the aftermath of the Russian crisis

1997

- New 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 Emerging Markets instruments
- When-Issued trading forms recommended for Brazil Brady bonds
- Market Practices developed for Emerging Markets 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

# BOARD OF DIRECTORS*

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**Co- Chair**

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*As of July 15, 2000.

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