Operating Highlights

	For the Year Ended December 31,				
	1996	1995	1994	1993	1992
Market trading volume (in billions of U.S.$)	**$ 5,297**	$ 2,739	$ 2,766	$ 1,979	$ 734
Brady Bonds	**2,686**	1,580	1,684	1,021	248
Non-Brady Eurobonds	**658**	233	164	177	23
Loans	**249**	175	244	274	229
Local Markets Instruments	**1,188**	571	518	NA	NA
Number of Members at year end:					
Full	**63**	60	83	75	64
Associate	**35**	43			
Affiliate	**51**	43	69	43	14
Local Markets	**5**				
Total Members	**154**	146	152	118	78
Revenue					
Membership dues	**$1,652,167**	$1,337,250	$1,364,250	$ 894,500	$ 677,528
Fees for program services	**1,711,782**	2,212,351	1,434,922	—	—
Directors' support (assessments and donated services, facilities and supplies)	**1,151,250**	1,170,000	1,312,500	787,949	171,423
Other	**416,137**	148,620	30,675	13,203	10,371
Total revenue	**4,931,336**	4,868,221	4,142,347	1,695,652	859,322
Expenses					
Staff	**2,490,805**	1,763,810	1,269,064	366,983	117,174
Office	**372,247**	309,775	201,987	91,436	54,619
Communications	**251,085**	335,653	260,433	11,241	—
Professional services	**1,198,475**	2,153,877	1,945,580	839,169	767,051
Conferences, receptions and travel	**240,713**	235,549	196,415	250,707	1,049
Total expenses	**4,553,325**	4,798,664	3,873,479	1,559,536	939,893
Increase (decrease) in net assets	**378,011**	69,557	268,868	136,116	(80,571)
Net assets:					
Beginning of year	**425,858**	356,301	87,433	(48,683)	31,888
End of year	**$ 803,869**	$ 425,858	$ 356,301	$ 87,433	$ (48,683)

During 1996, EMTA worked to strengthen market infrastructure, including development of the Emerging Markets Clearing Corporation (EMCC). Other major projects included:

(a) its Local Markets initiative, with several projects underway involving Argentina, Mexico, Poland and Brazil;

(b) continuing operation of EMTA's Multilateral Netting Facility for loans, and for stale Argentina interest claims. A total of 873 trades of Russian loans, aggregating U.S.$3.2 billion principal amount, were netted and closed in 1996. The first stage of Argentina interest netting was completed in December 1996 (interest obligations aggregating U.S.$5.7 million);

(c) the Match-EM electronic post-trade matching and confirmation system, which is expected to be integrated into EMCC during 1997;

(d) publication of monthly average prices for the most active Brady Bonds and Loan Assets and the annual EMTA Debt Trading Volume Survey. In addition, EMTA began disseminating daily Match-EM volume and average prices to the marketplace via major wire services in 1996; and

(e) Various Market Practices and standard documentation.

Membership in EMTA increased by eight members (or 5%) during 1996, as the total number of Members at year-end 1996 reached 154. This included an increase of three Full Members, and the addition of the Local Markets category, which included five Members in 1996.

Revenue

Overall revenue in 1996 remained nearly unchanged from 1995 at $4.9 million. A 23% decrease in revenues from program services (Multilateral Netting Facility and Match-EM) of $500,000 (from $2.2 million in 1995 to $1.7 million in 1996) was offset by increased Membership dues of $315,000 and in other revenue of $268,000, as more fully described below.

Membership dues rose by 24%, to nearly $1.7 million in 1996, due to increases both in the level of annual dues for each Membership category and in the number of Members.

The two individual components of revenue from program services both fell from 1995 levels. Fees from the Multilateral Netting Facility declined $400,000 from $1.5 million to $1.1 million as the backlog in Russian loan settlements was substantially reduced by prior nettings. These fees are projected to further decline in 1997, as the Russian loan restructuring is expected to result in a decline in trading volumes and in improved efficiencies in the process of trade settlement. The projected decline in revenue from netting of Russian loan trades is expected to be partially offset by an increase in nettings of stale interest claims. The fees from Match-EM usage declined by $123,000 in 1996, from $693,000 to $570,000.

EMTA continued to reduce Director assessments, as the basic assessment on non-officer Directors declined from $30,000 in 1995 to $27,500 in 1996. The total revenue from Board assessments also declined, by $19,000, to $1.15 million.

Other revenue increased by $268,000, to $416,000 in 1996. Other revenue includes consulting fees and expense reimbursements of $150,000 relating to EMCC, consulting fees of $200,000 from another trade association, investment income of $57,000 and a small amount for sales of the Debt Trading Volume Survey. Investment income increased by $10,000 in 1996, largely due to increased emphasis on prompt billing and collections and investing excess cash.

Expenses

Total 1996 expenses declined by 5% from $4.8 million in 1995 to less than $4.6 million in 1996. The largest factors underlying this reduction were (a) a decrease in program services expenses because of the lower levels of Match-EM usage and multilateral loan trade nettings, and (b) a continuing shift in professional work from outside service providers to in-house staff (partially offset by increased staff costs).

Staff costs increased by $727,000 (or 41%), largely because of a continuing shift of professional work to in-house staff that was begun in late 1995, including the addition of several staff lawyers. Total staff at the end of 1996 stood at 20, an increase of 4 from the end of 1995.

Expenses for outside professional services decreased by $1 million (or 44%) to $1.2 million in 1996 from $2.2 million in 1995. This decrease included a reduction in outside legal fees of $166,000 due to the fact that more legal work was performed by staff lawyers (partially offset by increased use of non-U.S. law firms in carrying out an increased Local Markets workload that began in the second half of 1996). The program service fees related to Match-EM dropped by $215,000 (or 31%) to $432,000 in 1996. This was due to lower volume through the System, in addition to reduced expenses for add-on consulting projects. Program service expense for the Multilateral Netting Facility dropped to $8,500 in 1996 from $519,000 in 1995. This was due to the fact that software maintenance and repairs to the Facility were performed by EMTA staff in 1996, with no new enhancements being built by the provider. Public relations expense declined by $60,000 in 1996, to $97,000, as some work was moved in-house and the scope of activities was curtailed somewhat. Finally, data collection and production of the Debt Trading Volume Survey was brought in-house in 1996, resulting in a savings of $40,000 from 1995.

Office costs increased by $62,000 to $372,000 in 1996 from $310,000 in 1995 (a 20% rise). Communications expense decreased to $251,000 in 1996 from $336,000 (a 25% reduction). These offsetting changes were caused primarily by moving much of the printing work in-house (thereby moving the expense from communications to office), increased use of broadcast fax in lieu of delivering hardcopy documents, and decreased broadcast fax rates. These changes continue a trend that was begun in 1995.

The conferences, receptions and travel costs increased by 2% from 1995 to 1996, to $240,000. This resulted from offsetting (a) increases in staff travel of $38,000, due mostly to implementation of the Local Markets initiative, and (b) decreases in conferences, receptions and meetings of $33,000, due mostly to the decision to forgo a holiday reception in 1996.

Consolidated Statements of Financial Position

	December 31, 1996	December 31, 1995
Assets		
Current assets:		
Cash and cash equivalents	**$1,979,349**	$ 912,181
Directors' assessments receivable	**68,750**	—
Dues and fees receivable from Members	**149,357**	211,935
EMCC subscriptions receivable	**917,000**	—
Prepaid expenses and other assets	**5,200**	13,112
Total current assets	**3,119,656**	1,137,228
Property and equipment:		
Leasehold improvements	**89,112**	89,112
Computer equipment and network	**95,628**	74,832
Furniture and fixtures	**80,607**	77,761
Telecommunication equipment	**38,000**	30,654
	303,347	272,359
Less accumulated depreciation	**(133,655)**	(61,853)
	169,692	210,506
Total Assets	**$3,289,348**	$1,347,734
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 636,543**	$ 572,407
Unearned Membership dues	**35,000**	297,000
Payable to EMCC	**1,752,500**	—
Total current liabilities	**2,424,043**	869,407
Deferred rent expense	**61,436**	52,469
Total liabilities	**2,485,479**	921,876
Net assets	**803,869**	425,858
Total Liabilities and Net Assets	**$3,289,348**	$1,347,734

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

Consolidated Statements of Activities

	For the Year Ended December 31,	
	1996	1995
Revenue		
Membership dues	**$1,652,167**	$1,337,250
Fees for program services	**1,711,782**	2,212,351
Directors' assessments	**1,151,250**	1,170,000
Investment income	**56,766**	46,830
Other	**359,371**	101,790
Total revenue	**4,931,336**	4,868,221
Expenses		
Compensation, benefits and related taxes	**2,490,805**	1,763,810
Occupancy	**142,847**	147,210
Office supplies and administration	**157,598**	111,411
Depreciation	**71,802**	51,154
Telecommunications	**183,902**	183,750
Shipping and delivery	**53,047**	78,722
Printing of documents for Member services	**14,136**	73,181
Legal	**483,082**	648,818
Program consultants	**441,112**	1,206,572
Public relations and annual report	**203,934**	254,934
Audit, tax and computer consultants	**70,347**	43,553
Conferences, receptions and meetings	**78,838**	112,045
Travel, lodging and meals	**161,875**	123,504
Total expenses	**4,553,325**	4,798,664
Increase in net assets	**378,011**	69,557
Net assets, beginning of year	**425,858**	356,301
Net assets, end of year	**$ 803,869**	$ 425,858

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

Consolidated Statements of Cash Flows

	For the Year Ended December 31, 1996	1995
Cash flows from operating activities		
Increase in net assets	**$ 378,011**	$ 69,557
Adjustments to reconcile increase in net assets to net cash provided by (used for) operating activities:		
Depreciation	**71,802**	51,154
(Increase) decrease in Directors' assessments receivable	**(68,750)**	—
(Increase) decrease in dues and fees receivable from Members	**62,578**	(187,604)
(Increase) decrease in EMCC subscriptions receivable	**(917,000)**	—
(Increase) decrease in prepaid expenses and other assets	**7,912**	(13,112)
Increase (decrease) in accounts payable and accrued expenses	**64,136**	(114,705)
Increase (decrease) in payable to Director	**—**	(257,274)
Increase (decrease) in unearned Membership dues	**(262,000)**	297,000
Increase (decrease) in payable to EMCC	**1,752,500**	—
Increase (decrease) in deferred rent expense	**8,967**	52,469
Net cash provided by (used for) operating activities	**1,098,156**	(102,515)
Cash flows from investing activities		
Payments for purchases of property and equipment	**(30,988)**	(221,650)
Net cash used for investing activities	**(30,988)**	(221,650)
Increase (decrease) in cash and cash equivalents	**1,067,168**	(324,165)
Cash and cash equivalents, beginning of year	**912,181**	1,236,346
Cash and cash equivalents, end of year	**$1,979,349**	$ 912,181

NOTES TO FINANCIAL STATEMENTS

1. Organization

The Emerging Markets Traders Association ("EMTA") is a non-profit service organization, formed in 1990, with the principal mission of promoting 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.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Operations of Subsidiaries

The 1996 consolidated financial statements include the accounts of EMTA and its four subsidiaries, described in the next paragraph. Intercompany accounts and transactions are eliminated in consolidation. The 1995 financial statements include the accounts of EMTA only, as the four subsidiaries were organized in 1996. Certain 1995 amounts have been reclassified to conform to 1996 presentation.

The subsidiaries were organized to perform the program services to participating Members, for which they charge fees, in carrying out EMTA's mission. The subsidiaries include: (a) Match-EM, Inc., which operates 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, warrants and other instruments, (c) Clear-EM, Inc., which serves as EMTA's interface with Emerging Markets Clearing Corporation (EMCC), a clearing corporation currently being developed; and (d) EMTA Black Inc., a holding company for the three subsidiaries noted above. EMTA Black Inc. owns 100% of the common stock of the other three subsidiaries; EMTA owns 100% of the common stock of EMTA Black Inc.

Membership Dues and Directors' Assessments

EMTA's membership contained four categories during 1996:

Full Members – active market participants that, directly or through affiliates, trade or invest in Emerging Markets instruments;

Associate Members – market participants that, directly or through affiliates, trade or invest in Emerging Markets instruments, but which are smaller and less active than Full Members;

Affiliate Members – non-market participants that are nevertheless interested in Emerging Markets trading such as advisors, vendors, law firms, rating agencies, consultants and individuals; and

Local Markets Members – locally-based market participants that, directly or through affiliates, trade or invest in Emerging Markets instruments.

The Local Markets category was added in 1996 as part of EMTA's focus on several initiatives in South America and Eastern Europe. The other three Membership categories existed in 1995.

EMTA's membership term and fiscal year are the same. Membership dues and Directors' assessments are billed in advance and are recorded as unearned Membership dues and Directors' assessments in the Consolidated Statement of Financial Position at the beginning of the year to which they pertain. The unearned Membership dues and Directors' assessments are then amortized to income throughout the year as earned. Membership dues and the related unearned Membership dues recorded in the prior year's Consolidated Statement of Position have been reclassified to conform to 1996 presentation as described above. Members who do not pay their annual dues within 60 days of billing may be suspended from membership in EMTA. The Board of Directors may levy special assessments on Members to defray certain expenses. Such special assessments are to be equal for all Members of the same class. Additionally, the Board may agree to levy additional 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.

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.

Software Development Costs

Costs associated with the development of the computer program for the Multilateral Netting Facility are expensed as incurred and are recorded as program consultants expense in the Consolidated Statement of Activity. Such costs were nil in 1996 and approximately $289,000 in 1995.

3. Summary of Expenses

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

	Year ended December 31,	
	1996	1995
Program expenses		
Direct:		
Multilateral Netting Facility	**$ 31,483**	$ 394,309
Match-EM	**474,826**	820,469
Clear-EM	**212,123**	—
Documentation and Market Practices	**173,806**	239,023
Publications, including Trading Volume Survey and asset price quotes	**400**	59,083
Conferences, receptions and meetings	**78,838**	112,045
Other	**7,033**	253,853
Indirect (primarily staff and facilities costs)	**2,223,888**	1,721,375
Total program expenses	**3,202,397**	3,600,157
Non-Program expenses		
Direct:		
Public relations and membership development	**203,934**	254,934
General administration	**94,871**	132,204
Indirect (primarily staff and facilities costs)	**1,052,123**	811,369
Total non-program expenses	**1,350,928**	1,198,507
Total expenses	**$4,553,325**	$4,798,664

4. Summary of Revenue

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

	Year ended December 31,	
	1996	1995
Membership dues:		
Full	**$1,156,667**	$ 912,000
Associate	**317,500**	302,250
Affiliate	**153,000**	123,000
Local Markets	**25,000**	—
	$1,652,167	$1,337,250
Fees for program services:		
Multilateral Netting Facility	**$1,141,868**	$1,518,858
Match-EM	**569,914**	693,493
	$1,711,782	$2,212,351

Income Taxes

EMTA is exempt from federal income tax under the provisions of Section 501(c)(6) of the Internal Revenue Code. However, EMTA is subject to tax on any unrelated business taxable income. Similar provisions of tax codes of state and local jurisdictions also apply. The operations of EMTA's subsidiaries are subject to income tax; however, 1996 operations generated no taxable income.

5. Office Space Lease

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

EMTA occupied office space in a building owned by an EMTA Member and purchased much of its computer equipment and office supplies from that Member until March 31, 1995. These expenditures consisted of rent expense of $28,200 and various office services of $18,913 in 1995.

6. Employee Benefit Plans

Effective January 1, 1994, EMTA adopted a non-contributory, defined contribution employee benefit plan for its employees. Employees who have at least 1,000 hours of service in a calendar year are eligible to participate. Balances in participants' accounts are fully vested at all times. Employer contributions may range from 0% to 15% of eligible compensation, at the election of EMTA each year. The 1996 and 1995 contributions were 12% and 9% of eligible compensation, which amounted to $155,710 and $83,775, respectively. These amounts are included in compensation, benefits and related taxes in the Consolidated Statement of Activity.

Effective January 1, 1997, EMTA adopted a 401(k) Plan, whereby participants are allowed to contribute up to 15% of taxable compensation to the Plan, subject to statutory limitations. EMTA matches the first 4% of such participant contributions. EMTA contributions are made in the calendar quarter following the participant contributions. All employees are eligible to participate, and all balances in participants' accounts are fully vested at all times.

7. Commitments – Emerging Markets Clearing Corporation ("EMCC")

In 1996, EMTA entered into an agreement with a subsidiary of National Securities Clearing Corporation (NSCC), an unrelated entity, to develop EMCC, which is to perform clearance, multilateral netting, and risk management for trades of Emerging Markets debt instruments. EMTA is primarily responsible for coordinating industry decision-making regarding EMCC development, ownership and funding. In this connection, EMTA, through its subsidiary Clear-EM, Inc., has provided management and legal expertise and certain administrative services, including billing and collection of EMCC's initial funding requirements. These receivables are recorded as EMCC subscriptions receivable, and the related credit is recorded as payable to EMCC, in the Consolidated Statement of Position. The total amount to be billed for EMCC subscriptions is estimated at $3.65 million, of which $2.5 million was billed in 1996. The proceeds are to be used for development and implementation of EMCC, including approximately $3 million in payments to the NSCC subsidiary, of which $750,000 was paid in 1996. In addition, Clear-EM, Inc. earned $150,000 in 1996 for its EMCC consulting work, which is recorded as other revenue in the Consolidated Statement of Activities. It is expected that EMTA will ultimately own a minority interest in EMCC, with the other shares owned by various EMTA Members and NSCC.