EMTA

EMERGING MARKETS TRADERS ASSOCIATION 1996 ANNUAL REPORT

PROMOTING THE ORDERLY DEVELOPMENT OF FAIR, EFFICIENT AND TRANSPARENT TRADING MARKETS ➤ INTEGRATING THE EMERGING MARKETS INTO THE GLOBAL FINANCIAL MARKETPLACE

1996 ANNUAL REPORT EMERGING MARKETS TRADERS ASSOCIATION

1996

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

Three interrelated themes are essential to understanding the transformation and the dynamics of our marketplace. The first theme is the broadening of the investor base. The second theme is the broadening of the Emerging Markets asset class, both in terms of geographic diversity and different types of assets. The final theme, and one closely related to the first two but in a way very crucial to future EMTA activities, is the transformation of the debt itself.

Part of what lies behind these trends is obviously the change in the investor base, which has moved from traditional investors to crossover investors. Whether the crossover is happening from the high grade side or from the high yield side or from the currency side, it's happening in such a tremendously consistent way that we can no longer talk about a specialized niche market. We must identify Emerging Markets now as very much a part of the investment mainstream.

The broadening of the asset class is associated with the surge in local market activity that has created a subasset class within the Emerging Markets asset class. There is little basis for differentiation from the mainstream Developed Markets other than the obvious credit risk spreads that those instruments carry. This local market activity was the important story for 1996, with foreign nonresident participation exceeding U.S.$8 billion.

Jorge V. Jasson is EMTA's New York Co-Chair. He is Head of Global Emerging Markets at The Chase Manhattan Corporation, responsible for origination, sales, trading and research for all Emerging Market fixed income securities, loans, equities, foreign exchange and derivatives, on a global basis.

Frederic Z. Haller is EMTA's London Co-Chair. He is Head of Emerging Markets at Deutsche Morgan Grenfell. He also serves as a member of the Group Executive Committee of the Deutsche Bank Group and the Management Committee of Deutsche Morgan Grenfell.

A perfect example is Russia. Rising investor interest, and the manner in which the Russian authorities have responded to it by making the investment climate increasingly friendly to the foreign investor, only whets our appetites for the more exotic investment opportunities on the next frontier, what we might call the emerging Emerging Markets.

The third important theme is the transformation of the debt itself. The debt will eventually be repaid, exchanged or bought back in private secondary market transactions, but we no longer have a pipeline of Brady restructurings to feed the market. Brady Bonds are now both the core of our market, while at the same time representing a subset that will diminish over time.

With these three themes in mind, one of EMTA's most important initiatives for 1997 is increased participation in local markets. EMTA is pursuing various projects to address industry concerns by applying our international expertise to the local marketplaces. We've done this very successfully by, among other things, working with local regulators and market participants in developing standard documentation. Local market participants have increased their involvement with EMTA, and we welcome their input and other contributions.

Jorge V. Jasson

Frederic Z. Haller

Measured by some recent standards, 1996 was a relatively calm year for the Emerging Markets. Of course, market performance was strong almost across the board. There were few, if any, surprises.

1994 and 1995 taught us all to expect the unexpected. Difficult market conditions helped make the case for why stronger systems were necessary and desirable. 1996 was a good year for working quietly to build better market infrastructure. Increasingly, we have seen EMTA's role as one of helping to integrate the Emerging Markets more into the mainstream of the global trading and investment marketplace.

Foremost among EMTA's efforts has been the design and construction of an Emerging Markets Clearing Corporation. During 1996, we made great progress toward our goal of bringing EMCC operational by mid-1997, thanks in large part to our strong partners in the National Securities Clearing Corporation complex. Working also with representatives of Euroclear, Cedel and ISMA, 1996 was characterized by the formation of a broad industry consensus that EMCC will significantly reduce risk and improve operational efficiency in the trading of Emerging Markets debt instruments. During 1997, in addition to testing and implementing EMCC for Brady Bonds and related Emerging Markets Eurobonds, we will begin the challenging process of introducing appropriate Local Market instruments into EMCC.

1996 also saw considerable progress toward the long-awaited completion of the country debt restructuring process and in the re-entry of many Emerging Market countries into the voluntary capital markets.

EMTA was formed six years ago – in a very different environment – largely in response to a widespread perception that there was a compelling need for greater efficiency and transparency in the Emerging Markets trading industry. Although our industry has taken great strides toward our goal of an orderly marketplace, it is not quite time for us to declare victory over all inefficiency and disorder. There is much work left to do, but it is a different type of work, to be done under different circumstances.

The continuing integration of the Emerging Markets into the trading and investment mainstream has had broad implications for all market participants. For EMTA, it means that our projects are no longer undertaken solely in reaction to urgent needs of the marketplace. More often than not, EMTA's current efforts are more pro-actively designed to meet the future needs of our industry, by improving market systems and infrastructure on multiple fronts. As our marketplace has matured, EMTA's role has evolved from firefighting to architecture.

Despite this evolution of roles, our methodology has been remarkably consistent. EMTA remains a forum for market participants to identify, discuss and address ways to make our marketplace work better, for the mutual benefit of traders, investors and issuers alike.

Years ago, it was fashionable to compare our marketplace to a frontier town. Recently, things have become a great deal more civilized. The frontiers of our marketplace are now in the Local Markets themselves, as sophisticated investors increasingly look directly to Local Markets for purer risk and higher yields. Many Emerging Markets countries are admirably meeting the challenges of reforming their economies and adapting their capital markets to meet the needs of foreign investors.

For our part, local marketplaces, which are composed of both global and local participants, generally seem to seek, and need, more orderly development to accommodate the capital flows into them. In the past year, EMTA's Local Market projects have concentrated on repos and securities lending, as well as standard documentation for Local Markets FX derivatives. We have also worked to encourage stronger systems for custody, clearance and settlement. In general, marketplaces seem to thrive on greater efficiency, transparency and operational certainty, probably because they help build investor confidence.

Most of these projects cut across various Local Markets; some are specific to a single one. These projects tend to involve fixed income instruments but may, on a case-by-case basis, involve other financial instruments or products as well. Our experience to date confirms that our membership wants more consistent standards and practices, where appropriate, across markets, and improved regulatory and legal environments. All of these projects require the same emphasis on consensus-building that has characterized EMTA's efforts to date.

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

In general, our current vision for EMTA is to help promote the orderly development of the Emerging Markets increasingly at the Local Markets level, and to help integrate the Emerging Markets more closely into the global marketplace, mostly through collaboration with other organizations, whether global or locally based. Much of this work will involve EMTA's acting as a catalyst or coordinator for other groups, with one important goal being to help ensure that the capacity and willingness of these other groups to identify and address the needs of the Emerging Markets trading community are strengthened in the process.

In all these endeavors, we hope and believe that we are still on the right path, but as has often been the case in the past, without a very clear map. As always, we need and welcome our members' input, involvement and support to make sure that we keep moving at the right speed and in the right direction.

Michael M. Chamberlin

"Investors have a wider selection of globally diversified investment opportunities than ever before."

PETER R. GERAGHTY

Managing Director at ING Barings and former EMTA Chairman

Emerging Markets Trading and Investments

Emerging Markets trading has evolved in the past decade from a small group of LDC debt traders into a global over-the-counter trading market for debt instruments that services the needs of a 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 now have a wider selection of geographically diversified investment opportunities than ever before with an ever greater variety of investment instruments and risk characteristics.

Size of the Marketplace

The past few years have seen exceptional growth in the overall size and depth of the trading market for Emerging Markets instruments. Total trading volumes for debt instruments alone have risen from U.S.$734 billion in 1992 to over U.S.$5 trillion in 1996, an increase that reflects the growing importance of Emerging Markets debt to the trading and investment communities worldwide.

Investment Instruments

As the voluntary capital markets have re-opened throughout the Emerging Markets, and the internal capital markets become more highly developed, Brady Bonds have been supplemented by an ever wider variety of local currency instruments, as well as predominantly U.S. dollar and U.S. dollar-indexed securities issued by both public and private sector issuers in the international capital markets. At the same time, the increased need for equity investment throughout the Emerging Markets has created a myriad of opportunities in the rapidly developing private sectors. Along with the rapid increase in the diversity of instruments, and in the development of the marketplace for them, has come greater liquidity, as well as greater innovation in the development of derivative instruments and other hedging techniques to permit better risk management.

Market Participants

Market participants include the major financial institutions worldwide, as well as a variety of local entities. In recent years, the market has expanded to include an ever-growing range of institutional investors seeking higher yields than are normally available in the developed economies.

Trading and Settlement

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

In general, the trading and settlement of Brady Bonds occurs in accordance with customary international securities practices (including certain procedures for the U.S. institutional markets). Due to the unique origins and characteristics of Brady Bonds and the marketplace for trading them, EMTA has developed numerous Market Practices for Brady Bond trading, including T+3 settlement.

The introduction of EMTA's Match-EM system in 1995 expedited the processing of trades of Brady Bonds and loans by permitting nearly instantaneous electronic confirmation and matching. In mid-1997, EMTA will launch an Emerging Markets Clearing Corporation (EMCC) to reduce counterparty risk and improve operational efficiency in the clearance of Brady Bonds and other Emerging Markets debt instruments.

Loan trading and settlement generally is conducted in accordance with EMTA Market Practices and standard documentation.

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 financial marketplace.

EMTA's Origins

EMTA was formed largely in response to the trading opportunities created by the sovereign debt reschedulings under the Brady Plan. In an effort to develop mechanisms to trade Brady Bonds more efficiently, a small group of debt traders from major international financial institutions pooled their resources to form EMTA in late 1990.

Membership/Structure

EMTA has approximately 168* member institutions, including leading financial institutions worldwide. EMTA's approximately 65* Full Members actively trade Emerging Markets instruments.

EMTA's Board of Directors is composed of leaders in Emerging Markets trading who actively identify and address key industry issues through their participation in various EMTA Working Groups.

Headquartered in New York City, EMTA has a full-time staff of 20 professional and support personnel. EMTA also maintains an informal presence in London.

Better Risk Management and Efficiency

Managing risk in the rapidly evolving Emerging Markets trading business is a major challenge. EMTA's efforts have improved market efficiency and reduced risk by ensuring that trading transactions settle more quickly and, in the case of its standard netting arrangements, by allowing market participants to reduce their aggregate counterparty exposure. EMTA's Match-EM System and the new Emerging Markets Clearing Corporation were developed by EMTA to respond to the need to reduce counterparty risk and improve operational efficiency in the trading of Brady Bonds. Other measures to promote greater efficiency in the trading market for bonds and loans include EMTA's Standard Terms for Assignments of Loan Assets. By facilitating better risk management, EMTA enables individual market participants to conduct their activities with greater confidence, efficiency and safety and helps to reduce systemic risk.

More Transparency

By publishing its annual Volume Survey of debt trading and its Month-End Pricing Survey and by promoting standard Market Practices and a better information flow within the Emerging Markets, EMTA helps to ensure greater market transparency for the benefit of investors and other market professionals. In addition to acting as an information clearinghouse, EMTA's Match-EM system permits EMTA to collect and disseminate market volume and price data on a nearly real-time basis.

Voluntary Self Regulation

EMTA actively promotes the highest standards of integrity and professionalism by providing a forum for voluntary self-regulation. EMTA's Code of Conduct for the trading of Emerging Markets instruments encourages all market participants to have appropriate trading policies to ensure that the marketplace 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 promote appropriate market discipline, as well as greater efficiency and transparency.

* as of March 17, 1997

KATHLEEN M. WELLS

Vice President
J.P. Morgan

ROBERT SALVADOR

Vice President
Chase Manhattan Global Emerging Markets Loan Operations

Co-Leaders of EMTA's Working Group to support the Russian Debt Rescheduling

"EMTA is a forum for market participants to identify, discuss and address key issues necessary to the orderly development of the Emerging Markets trading industry."

EMERGING MARKETS CLEARING CORPORATION

"EMCC will reduce counterparty risk and bring greater operating efficiency to Emerging Markets debt trading."

DAVID M. KELLY

President and Chief Executive Officer
National Securities
Clearing Corporation

KEITH C. KANAGA

Vice President
International Securities
Clearing Corporation
and CEO of EMCC

EMTA Co-Chair Jorge V. Jasson (Chase) and NSCC President and CEO David M. Kelly sign the EMCC Memorandum of Understanding. Standing (left to right) Joseph C. Willing (J.P. Morgan), Michael M. Chamberlin (EMTA), Guido A. Mosca (J.P. Morgan) and Gary C. Dolan (Merrill Lynch).

On August 7, 1996, representatives of EMTA and the NSCC signed a Memorandum of Understanding to develop the Emerging Markets Clearing Corporation (EMCC), an industry-owned utility that will clear trades of Brady Bonds and other Emerging Markets instruments. EMCC will improve efficiency and reduce counterparty risk throughout the trading marketplace.

The EMCC agreement followed an extensive review by an EMTA working group of the needs of the marketplace in light of the rapid growth of Brady Bond trading volumes and the increasing trend toward the use of broker screens by the interdealer market. This working group, which consisted of a diverse group of industry representatives from all sectors of the Emerging Markets trading community, conducted a thorough study of the technical, financial and political feasibility of the EMCC project.

EMCC, which is expected to begin operations in mid-1997, will initially provide clearing services for Brady Bonds and Emerging Markets Eurobonds. Subsequent instruments are expected to include Local Markets instruments.

The EMCC project is a good example of EMTA's process of convening industry working groups that identify market needs and function as an effective forum for market participants to pool their resources to review alternatives, reach industry consensus, solicit technical expertise and then implement an appropriate response. This process affords all market participants with the opportunity to be heard, without sacrificing the need for decisive action once industry consensus is reached.

In the months since the EMCC agreement was signed, an EMCC policy group, composed of major market participants from both the dealer and broker communities, as well as representatives from NSCC, Euroclear, Cedel and the International Securities Markets Association (ISMA), has worked, in part through operations, risk management and legal/regulatory subcommittees, to design EMCC specifications and policies and to supervise EMCC's construction and implementation by NSCC's technical team. Systems testing began in April 1997, and EMCC's rollout is expected to begin by early Summer.

As soon as EMCC is operationally ready and approved by the U.S. and U.K. regulatory authorities, additional studies will begin to determine which Local Markets instruments should be included. These studies will review such issues as instrument characteristics, trading patterns and settlement methods, as well as counterparty risks and local legal and regulatory feasibility.

Growth in the Local Markets

Investor interest in the Emerging Markets accelerated in 1996, reflecting optimism about recent macroeconomic reforms in many countries. Many Emerging Markets governments have opened their markets to greater foreign participation by liberalizing regulations that had previously inhibited investment.

Although large increases in Emerging Markets trading activity occurred across all asset classes in 1996, there were particularly large gains in the trading of local instruments. According to EMTA's 1996 Volume Survey, the proportionate share of overall trading activity represented by the Local Markets increased for the second consecutive year. EMTA's strategic focus has evolved to meet the needs of this shift in trading activity.

EMTA's Role

EMTA has well-established contacts throughout the Emerging Markets, which are used to clarify and reform local regulations and practices. For example, EMTA has recently worked on a number of projects to improve netting legislation and to promote securities law reform in selected jurisdictions. In addition to supporting legislative reform, EMTA also develops market practices and standard documentation to increase market transparency, liquidity and efficiency.

Expertise acquired by EMTA in one market is often helpful when another market reaches a similar stage of development. This cross-pollination has proven valuable both within and across regions. For example, EMTA will soon apply the results of its securities financing work in Latin America to Central and Eastern Europe, as securities lending and repos become more prevalent there. Through its efforts in selected Local Markets, EMTA promotes reform in the emerging capital markets as a whole.

EMTA's Local Market agenda is set by EMTA's Board through a Local Markets Policy Group. Individual projects are managed by working groups composed of local representatives with input from London and New York members as appropriate. Both local and global participants are involved in project development, ensuring widespread support. EMTA has ongoing projects in a number of product areas, including FX, derivatives, securities financing and local money markets.

Increasingly, EMTA's role in promoting the integration of the Emerging Markets into the global marketplace has led to extensive collaboration with other globally-oriented associations such as PSA-The Bond Market Association (PSA), the International Swaps and Derivatives Association (ISDA) and the International Securities Market Association (ISMA), which bring their experience in specific product areas to benefit market participants in the Emerging Markets.

Building Local Infrastructure

EMTA assists local market regulators as they revise local regulations to better accommodate cross-border investment. Working with market participants and other industry associations, EMTA has been able to offer needed expertise to regulators in Argentina and Poland, for example, as they build better market infrastructure.

According to both local and international market participants, one necessary step for Argentina's integration into the global capital markets is the formation of a viable onshore derivatives market. To accomplish this goal, Argentina has created a Derivatives Market Development Commission to make its regulatory environment more consistent with the needs of the global derivatives markets.

In a recent discussion with EMTA members, J. Andres Hall, Director of the Argentine Securities and Exchange Commission (CNV), highlighted issues to be addressed by the Commission. These issues include netting and margining provisions and

"We look at organizations such as EMTA and ISDA as playing a significant role in helping form our markets."

J. ANDRES HALL

Commissioner of the Argentine Securities and Exchange Commission

"We asked EMTA to coordinate foreign investor comments to our new act on public trade in securities because of EMTA's high level of commitment to its members and our market."

BEATA STELMACH

Director of the Secretariat of the Polish Securities Commission defining tax and accounting treatment for derivatives. The ultimate goal of these reforms is to encourage on-shore derivatives transactions, and in doing so, to open up the Argentine derivatives market to more market participants.

By providing comments and investor perspectives on the CNV's draft regulations and derivatives plans, and by promoting ISDA participation, EMTA and its members have been able to speed the pace of reform and positively influence its direction.

In Poland, local regulators asked EMTA to provide foreign investor input on their new Securities Act. Working with local counsel, EMTA provided a detailed market response to the draft legislation. Of special importance to EMTA members were provisions designed to ease the burden of trading due to lack of recognition of nominee ownership; provisions affecting foreign intermediaries; a provision easing restrictions on issuing Polish securities in the form of ADR/GDRs; and reporting requirements for acquisitions of large holdings by affiliated companies.

Enhancing Transparency

As part of its efforts to promote increased market transparency, EMTA has distributed a series of statements clarifying local Polish regulations and market practices on topics such as powers of attorney, letters of authority, nominee accounts, custodian/brokerage relationships, mirror accounts and Treasury bond trading and settlement issues.

In Latin America, EMTA has worked to develop comprehensive questionnaires on securities financing, derivatives and FX issues for local counsel in Argentina, Brazil and Mexico. Based on their responses, EMTA created a series of explanatory memoranda for global market participants.

In Russia, EMTA has convened a forum to discuss the regulations for Russian S-Accounts and GKO's, which are subject to widely differing interpretations. EMTA also maintains a regular dialogue with the Russian Central Bank, the Moscow Interbank Currency Exchange and the Moscow Fixed Income Association to provide EMTA members with timely information about developments in these markets. In addition, EMTA has been working with global and local market participants to help resolve the market disruptions caused by recent attachments of Ministry of Finance Bonds by the Russian criminal justice authorities.

Promoting Consistency

EMTA works to promote consistency in regulations, infrastructure and market practices across markets. Such consistency is critical for integrating local markets fully and efficiently into the global market.

At EMTA's request, a working group co-sponsored by EMTA, ISDA and the FX Committee of New York is revising the 1992 ISDA FX and Currency Option Definitions to create basic documentation for deliverable and non-deliverable forward and option transactions involving Emerging Market currencies.

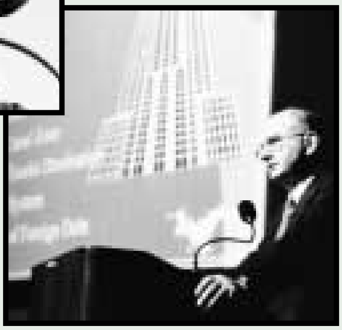
In a project critical to the use of derivatives and repos throughout the Emerging Markets, EMTA (together with ISDA, ISMA and PSA) has explored the enforceability of netting provisions in master documentation with local counsel in Argentina, Mexico, Brazil, Poland, Russia and the Czech Republic. An EMTA working group has also recommended detailed market practices for repos of sovereign instruments.

EMTA is working with the Mercado Abierto Electronico (MAE), the Argentine electronic over-the-counter market for fixed income instruments, to develop standard trading documentation, including a Master Agreement for cash-settled forward sales of securities. The MAE is also considering developing a Master Repo Agreement with EMTA input.

These Local Markets activities reflect EMTA's commitment as a forum to help integrate the Emerging Markets into the global financial marketplace.

1996

ANNUAL MEETING



▲ Andrei A. Kozlov
◀ Dr. Augusto P. de la Torre
▼ Dr. Guillermo Chapman

EMTA's Annual Meeting is an opportunity for market participants in Emerging Markets to gather and hear remarks by leading market professionals and government officials of Emerging Market countries. EMTA's 1996 Annual Meeting featured keynote speakers Dr. Guillermo Chapman, Panama's Minister of Planning, Dr. Augusto P. de la Torre, Governor of the Central Bank of Ecuador and Andrei A. Kozlov, Deputy Chairman of the Central Bank of Russia, who described the current economic situation and programs in their respective countries.

"The key idea in the government's proposal is to accelerate the pace of reform. Ecuador has to walk faster in order to be on equal footing with the rest of the region."

Dr. Augusto P. de la Torre
Governor of the Central Bank of Ecuador

"Panama has great potential for investors. Our continued economic reforms, specifically in the banking and financial sectors and trade policy, will maintain Panama's status as one of the leading Emerging Markets."

Dr. Guillermo Chapman
Panama's Minister of Planning

"It is difficult to create a new financial system, but we think it is possible. In a year or two, Russia will have the same principles as the majority of Western countries. We also plan to allow foreigners in 1997 to participate directly as traders or dealers in this market from their terminals without Russian intermediaries."

Andrei A. Kozlov
Deputy Chairman of the Central Bank of Russia









EMTA 1996 Co-Chairs Jorge V. Jasson (Chase) and Peter R. Geraghty (ING Barings) reviewed current market conditions and trends and surveyed EMTA's goals for 1997. EMTA Executive Director Michael M. Chamberlin reaffirmed EMTA's commitment to promoting the integration of the Emerging Markets into the global marketplace.

EMTA PANEL DISCUSSIONS

As part of the Annual Meeting, EMTA presented three panel discussions on issues of critical importance to Emerging Markets professionals. Luis Viada (Standard & Poors) served as Moderator on the Economic Outlook for the Emerging Markets panel. Panelists included Lawrence Brainard (Chase Manhattan) discussing Russia, Paulo Leme (Goldman Sachs) on Mexico, Arturo Porzecanski (ING Barings) on Brazil, Jose Luis Daza (J.P. Morgan) on Argentina and Joyce Chang (Merrill Lynch) on Ecuador, Panama and Peru.

EMTA Director Bruce Wolfson (Bear Stearns) moderated a panel on Regulatory Changes in the Emerging Markets. Panelists included Ricardo Ortiz Certucha (Indeval), Jacek Jonak (Polish Securities Commission) and Igor Bazhan (Russian Federal Commission on Securities Markets).

EMTA Director Wayne Lyski (Alliance Capital Management) moderated a panel discussion on Investor Perspectives on the Emerging Markets and Local Markets Investments. Mr. Lyski posed questions to his panel of experts, which included Ashwin Vasan (Oppenheimer Management Corporation), Mark Siegel (Putnam) and Arminio Fraga (Soros Fund Management).

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	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.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of the

Emerging Markets Traders Association

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 the Emerging Markets Traders Association and its subsidiaries (the "Association") at December 31, 1996 and 1995, and the results of their activities and their cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Association's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material 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.

Price Waterhouse LLP

New York, New York
February 28, 1997

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FULL MEMBERS

Full Members are institutions which, directly or through affiliates, actively trade Emerging Markets instruments.

ABN Amro Hoare Govett

Alliance Capital Management

Australia and New Zealand Banking Group Limited plc

Arab International Bank

Banco Mercantil Venezolano

Banco Safra

Banesco Casa de Bolsa

Bankers Trust

Bank of America

Bank Boston

Banque Nationale de Paris

BB Securities Limited

Bear Stearns

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Exprinter International Bank

Fidelity Investments

Garantia Banking Limited

Goldman Sachs

HBK Investments

Henry Ansbacher

HSBC Midland

Indosuez Capital

ING Barings

Inverworld Securities

J.P. Morgan

Kleinwort Benson

Lazard Frères

Lehman Brothers

Merrill Lynch

Morgan Stanley

Most-Bank

Nikko Europe

Paribas Capital Markets

Prebon Yamane

Refco Securities

Renaissance Capital Group

Republic National Bank of New York

RMJ Securities

Salomon Brothers

Santander Investment

SBC Warburg

Scotia McLeod

Smith Barney Europe

Societe Generale

Standard Bank London

Tradition (North America)

Trigone Capital Finance

Tullet & Tokyo International Securities

UBS Securities

Valores Finamex Internacional

Vnesheconombank

West Merchant Bank

Associate Members

Associate Members are institutions that trade Emerging Markets instruments but are smaller and less active than Full Members.

Banco BMG

Banco Inverlat

Banco Rio de la Plata

Bank Handlowy w Warszawie

Banque Commerciale pour l'Europe du Nord-Eurobank

Banque de Reescompte et de Placement

Banque Worms

Boavista Banking

Chapdelaine Corporate Securities

Compagnies d'Escomptes Financiers

Creditanstalt Bankverein

Del Plata Investment Corporation

Deltec Asset Management Corporation

European Inter American Finance

Excel Banco

Finacor

Financial Portfolio Consulting

Garban International

LAFISE

Lloyds Bank

Lopez Leon Brokers

LTCB International .

Moscow Narodny

NationsBanc Capital Markets

New Alliance Corporation

Nomura Securities

Oppenheimer International

Pactual Overseas Corporation

Prudential Securities

Rigas Komercbanka

Sanvest

Socimer

Tokyo-Mitsubishi Securities

UBAF Asset Trading

Union Bancaire Privee

Wasserstein Perella

Local Market Members

Local Market Members are locally-based market participants that, directly or through affiliates, trade or invest in Local Markets Instruments.

Banco Comafi

Banco Sul America

Banco Tornquist

Financiera Rigton

Affiliate Members

Affiliate Members are institutions that may not trade Emerging Markets Instruments, but have a strong interest in the Emerging Markets trading industry.

Allen & Overy

Arthur Andersen

Ashurst Morris Crisp

Atlantic Security Bank

Banca Nazionale del Lavoro

Bank of Montreal

BFG Bank

Bloomberg Financial Markets

Buteler & Peralta Ramos

Carlsmith, Ball, Wichman, Murray, Case & Ichiki

Cedel Bank

Chicago Mercantile Exchange

Cleary, Gottlieb, Steen & Hamilton

Clifford Chance

Commerzbank

Davis Polk & Wardwell

Dewey Ballantine

Diffusion Finance S.A.R.L.

Dow Jones Telerate

East-West United Bank

EBSCI Industries

Eurasco Zurich

Euroclear

Exis Corporation

Frustum Group

Grantham, Mayo, Van Otterloo & Co.

Hammond Suddards

Hughes Hubbard & Reed

IBS

Intercapital Securities

International Asset Transactions

International Bank of Miami

King & Spalding

Knight-Ridder Financial

Libra Funds Management

Linklaters & Paines

Lovell, White, Durant

Mayer, Brown & Platt

Mellon Trust

MG Finance

Milbank, Tweed, Hadley & McCloy

Montpelier Asset Management Limited

Moody's Investors Service

Offitbank

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Paul Hastings Janofsky & Walker

PIMCO

Price Waterhouse LLP

Private Asset Management

Reuters Information Technology

Richards Spears Kibbe & Orbe

SEI Global Capital Investments

Shearman & Sterling

Simpson Thacher & Bartlett

Slaughter and May

Soros Fund Management

TCW Americas (LA)

TCW Americas Capital

Telekurs

Turan Corporation

Watson, Farley & Williams

Weil, Gotshal & Manges

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Full, Associate, Local Markets and Affiliate Members as of March 17, 1997

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Executive Director

Kate Campana
Deputy Director

Starla Cohen
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Derivatives/FX

Tiffany Cothran
Public Affairs

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Mandy Sleigh
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Aviva Werner
Senior Legal Counsel

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