FTSE Classification of Equity Markets



FTSE Equity Country Classification September 2023 Annual Announcement

Published: 28 September 2023

1. Classification of Markets

A formal annual review of country classification within the FTSE global equity indices is conducted every September using a comprehensive, transparent and consistent methodology. This annual review incorporates ongoing equity country classification research and classifies markets as Developed, Advanced Emerging, Secondary Emerging or Frontier within the FTSE global equity indices.

Please refer to the FTSE Equity Country Classification Process document for further details.

2. FTSE Watch List

To ensure that investors have visibility of the potential movement of markets between classifications, a Watch List of markets being considered for reclassification is maintained.

The following markets were members of the Watch List following the FTSE Equity Country Classification March 2023 Review:

- Nigeria: possible reclassification from Frontier to Unclassified.
- Vietnam: possible reclassification from Frontier to Secondary Emerging.

3. Progress of Watch List Markets since March 2023

Frontier Watch List

Nigeria – Reclassification from Frontier to Unclassified market status

Nigeria was added to the Watch List in September 2022 due to international institutional investors reporting an inability to repatriate capital from the market since December 2020. Consequently, index changes for Nigerian constituents of FTSE Russell equity indices were suspended.

Although a number of engagement meetings were conducted with the Nigerian market authorities to discuss the issue, by the end of August 2023, there was no material improvement in the ability of international institutional investors to repatriate capital from Nigeria at a foreign exchange rate that would be used by international investors to replicate index changes within FTSE Russell equity indices.

Consequently, on 08 September 2023, FTSE Russell <u>announced</u> the reclassification of Nigeria from Frontier to Unclassified market status. Nigeria was deleted from FTSE Russell equity indices effective from the open on Monday 18 September 2023 at zero value (0.0001 NGN).

Secondary Emerging Watch List

Vietnam

Vietnam was added to the Watch List in September 2018 for possible reclassification to Secondary Emerging market status. Progress has been slower than anticipated, in part due to Covid-19. Vietnam has yet to meet the 'Settlement Cycle (DvP)' criterion, which is currently rated as 'Restricted' due to the market practice of conducting a pre-trading check to ensure the availability of funds prior to trade execution. Since, by default, the market does not experience failed trades, the 'Settlement – costs associated with failed trades' criterion is unrated.

Additionally, improvements to the process for the registration of new accounts are required, as is the introduction of an efficient mechanism to facilitate trading between non-domestic investors in securities that have reached, or are approaching, their foreign ownership limit.

Although progress on the planned market reforms has remained slow, a recommitment to the work required has been made by senior levels of government. In addition, the State Securities Commission (SSC) has demonstrated renewed energy in seeking a workable solution that would remove the need for pre-funding.

FTSE Russell continues to maintain a constructive relationship with the SSC, the World Bank Group and Ernst & Young who are supporting the wider market reform programme, and other key market authorities.

Finalisation of the required roles and responsibilities, within the settlement model, that are aligned to the new legislation remains a critical next step. FTSE Russell continues to encourage the Vietnam market authorities to provide clearer guidance on the steps and timeframe for implementation.

Vietnam will remain on the Watch List as a Frontier market and reviewed for possible reclassification as a Secondary Emerging market within the FTSE Equity Country Classification scheme at the Interim Review in March 2024.

4. New Additions to the Watch List

Egypt (Secondary Emerging market status)

Egypt will be added to the Watch List for potential demotion from Secondary Emerging to Unclassified market status. Market participants and index users have reported ongoing delays to their ability to repatriate capital from Egypt since March 2023.

As a result, certain index changes for Egyptian constituents of FTSE Russell equity indices have been <u>frozen</u> effective from the June 2023 index review. FTSE Russell has conveyed these concerns to the Egyptian authorities and will continue the engagement process to ascertain the expected duration of the delays and the issues faced by international investors when attempting to repatriate capital.

Consequently, the 'No objection to or significant restrictions or penalties applied to the investment of capital or the repatriation of capital or income' criterion has been downgraded from 'Pass' to 'Restricted'.

FTSE Russell will provide an update on the Watch List status of Egypt as part of the FTSE Equity Country Classification Interim Review in March 2024.

Pakistan (Secondary Emerging market status)

Pakistan will be added to the Watch List for potential demotion from Secondary Emerging to Frontier market status. Over the last few years Pakistan has experienced a steady decrease in its index weight within FTSE Russell global benchmarks, which has now resulted in the market failing to meet the minimum investable market capitalisation exit level threshold required to retain a Secondary Emerging market status.

Based on data as of the close on the 30 June 2023, the total investable market capitalisation of Pakistan in the FTSE Emerging All Cap index was USD 3.01bn, while the minimum investable market capitalisation exit level threshold, required to retain Secondary Emerging market status, was USD 3.49bn. For further details on the minimum investable market capitalisation and securities count thresholds please refer to the FTSE Equity Country Classification Process guide.

Pakistan will next be assessed against the minimum investable market capitalisation exit level threshold based on data as of the close on Friday 29 December 2023. FTSE Russell will provide an update on the Watch List status of Pakistan as part of the FTSE Equity Country Classification March 2024 Interim Review.

5. Other Markets

Bangladesh (Frontier market status)

On 28 February 2023, FTSE Russell <u>announced</u> that index changes for Bangladesh constituents of FTSE Russell equity indices would be frozen due to the continued imposition of a 'floor price' on the Dhaka Stock Exchange that impacts the ability of international institutional investors to replicate benchmark changes. Consequently, the 'Efficient Trading Mechanism' criterion for Bangladesh has been downgraded from 'Restricted' to a 'Not Met' rating.

Additionally, FTSE Russell has commenced engaging with the relevant market authorities to establish the longevity of this restriction that has been imposed by the Bangladesh Securities and Exchange Commission (BSEC).

Ghana and Kenya (Frontier market status)

On 31 August 2022, FTSE Russell <u>announced</u> that index changes for Ghana and Kenya constituents of FTSE Russell equity indices would be frozen due to clients reporting a lack of liquidity in local foreign exchange markets, which in turn resulted in significant delays to the repatriation of capital.

Over the last twelve months FTSE Russell, with the support of the FTSE Equity Country Classification Advisory Committee, conducted several productive engagement meetings with the relevant capital market authorities in Ghana and Kenya to discuss the issue.

Market participants reported that for several months the previously experienced delays to the repatriation of capital from these two markets had cleared. Consequently, effective from the September 2023 index reviews, FTSE Russell <u>resumed</u> the implementation of corporate events for Ghana and Kenya index constituents within FTSE Russell equity indices.

FTSE Russell will continue to monitor foreign exchange liquidity and engage with the Ghanaian and Kenyan authorities should any delays reappear.

Mongolia (Frontier market status)

As <u>announced</u> in September 2022, Mongolia is reclassified from Unclassified to Frontier market status effective from September 2023.

6. The September 2023 Watch List

- **Egypt:** possible reclassification from Secondary Emerging to Unclassified.
- Pakistan: possible reclassification from Secondary Emerging to Frontier.
- Vietnam: possible reclassification from Frontier to Secondary Emerging.

For more information please visit: https://www.ftserussell.com/equity-country-classification

The table below shows the markets classified within the FTSE Equity Country Classification scheme as at September 2023:

Developed	Advanced Emerging	Secondary Emerging	Frontier
Australia	Brazil	Chile	Bahrain
Austria	Czech Republic	China	Bangladesh
Belgium/Luxembourg	Greece	Colombia	Botswana
Canada	Hungary	Egypt	Bulgaria
Denmark	Malaysia	Iceland*	Côte d'Ivoire
Finland	Mexico	India	Croatia
France	South Africa	Indonesia	Cyprus
Germany	Taiwan	Kuwait	Estonia
Hong Kong	Thailand	Pakistan	Ghana
Ireland	Turkiye	Philippines	Jordan
Israel		Qatar	Kazakhstan
Italy		Romania	Kenya
Japan		Saudi Arabia	Latvia
Netherlands		United Arab Emirates	Lithuania
New Zealand			Malta
Norway			Mauritius
Poland			Mongolia*
Portugal			Morocco
Singapore			Oman
South Korea			Palestine
Spain			Peru
Sweden			Republic of North Macedonia
Switzerland			Serbia
UK			Slovak Republic
USA			Slovenia
			Sri Lanka
			Tanzania
			Tunisia
			Vietnam

^{*}Mongolia reclassified from Unclassified to Frontier market status effective from September 2023.

Nigeria reclassified from Frontier to Unclassified market status effective from September 2023.

Matrix of Markets

(Source: FTSE Russell as at September 2023. Past performance is no guarantee of future results. Please see disclaimer for important legal information).

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FTSE Russell is a leading global index provider creating and managing a wide range of indices, data and analytic solutions to meet client needs across asset classes, style and strategies. Covering 98% of the investable market, FTSE Russell indices offer a true picture of global markets, combined with the specialist knowledge gained from developing local benchmarks around the world.

FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indices to benchmark their investment performance and create investment funds, ETFs, structured products and index-based derivatives. FTSE Russell indexes also provide clients with tools for asset allocation, investment strategy analysis and risk management.

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EMEA

+44 (0) 20 7866 1810

North America

+1 877 503 6437

Asia-Pacific

Hong Kong +852 2164 3333 Tokyo +81 3 3456 3634 Sydney +61 (0) 2 8823 3521