

FTSE Annual Country Classification Review

1. Classification of Markets 2016 Results

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

Following the September 2016 annual review, FTSE Russell confirms that there will be no Country Classification changes in September 2017.

2. Pending Country Classification Changes

As a reminder, the reclassification of Qatar is being implemented in two 50% tranches; the first tranche of 50% was implemented in conjunction with the September 2016 semi-annual review, while the second 50% tranche of Qatar will be implemented in conjunction with the March 2017 semi-annual review.

3. FTSE Watch List 2016

In order to ensure that the potential, as well as confirmed, movement of markets between classifications is completely transparent to investors, a Watch List of markets being considered for reclassification is maintained.

Following the September 2016 annual review, Argentina, Nigeria and Romania will be added to the Watch List.

Argentina is currently unclassified within the FTSE Country Classification scheme and is being added to the Watch List for possible inclusion as Frontier. The newly-elected government has made progress in a short period of time to address the demands of debt holders and towards returning the country to the international financial markets. Engagement with the Argentinian authorities will continue as they work towards removing the 120 day limit on cash inflows.

Nigeria is currently classified as a Frontier market and is being added to the Watch List for possible demotion from Frontier, to be maintained as a standalone market. Index users have reported continuing delays in their ability to repatriate capital from Nigeria. As a result, index changes for Nigeria constituents of FTSE indexes have been frozen since June 2016. FTSE Russell has sought to convey these concerns to the Nigerian authorities and will continue the engagement process to ascertain the potential longevity of these delays.

Romania is currently classified as a Frontier market and is being added to the Watch List for possible promotion to Secondary Emerging market status. Romania meets eight of the nine Quality of Markets criteria required for attaining Secondary Emerging market status, with recent developments in the infrastructure of the market being received positively by international portfolio investors. The one outstanding criterion is: 'sufficient broad market liquidity to support a sizeable global investment'. The engagement process with the Bucharest Stock Exchange will continue as they work towards improving broad market liquidity.

Progress of Watch List markets since September 2015

Advanced Emerging Watch List

Poland

There have been no changes to the assessment of Poland against the Quality of Markets criteria. FTSE Russell continues to engage with the Warsaw Stock Exchange to address the one outstanding Quality of Markets criterion covering omnibus accounts and the related tax issues. Poland is retained on the Watch List as an Advanced Emerging market, and will be reviewed for possible promotion to Developed status at the annual review in September 2017.

Secondary Emerging Watch List

China A

There have been no changes to the assessment of the China A-share market against the criteria in the Quality of Markets matrix. FTSE Russell continues to work closely with the Chinese authorities and acknowledges their efforts to increase accessibility of the China A-share market for international investors. This includes the recent easing of the Qualified Foreign Institutional Investor (QFII), the Renminbi Qualified Foreign Institutional Investor (RQFII) rules, and the imminent launch of the Shenzhen-Hong Kong Stock Connect scheme.

The ability for China A-share listed companies to suspend trading for extended periods is a concern for foreign institutional investors. FTSE Russell waits to see how the Shanghai and Shenzhen Stock Exchanges guidelines on regulating company suspensions operate in practice.

The China A-share market is retained on the Watch List, and will be reviewed for possible inclusion in the FTSE Global Equity Index Series as a Secondary Emerging market at the annual review in September 2017.

Kuwait

There have been no changes to the assessment of Kuwait against the Quality of Markets criteria. FTSE Russell continues to engage with the Capital Markets Authority (CMA) as the market works towards implementing changes to the settlement cycle and introduce a delivery versus payment process during 2017. Kuwait is retained on the Watch List, and will be reviewed for possible addition to the FTSE Global Equity Index Series as a Secondary Emerging market at the annual review in September 2017.

Saudi Arabia

Saudi Arabia was added to the Watch List in September 2015 following the introduction of a Qualified Foreign Investor (QFI) scheme. FTSE Russell continues to engage with the Tadawul and acknowledges the recent easing of QFI rules, and the planned introduction of a T+2 settlement cycle, a delivery versus payment process, stock lending and short selling during 2017. Saudi Arabia is retained on the Watch List, and will be reviewed for possible addition to the FTSE Global Equity Index Series as a Secondary Emerging market at the annual review in September 2017.

Frontier Watch List

Kazakhstan

Following the recommendation of the FTSE Country Classification Advisory Committee, the criterion 'Clearing & Settlement – T+2/ T+3' has been upgraded from "Not Met" to "Restricted", due to the introduction of a T+2 settlement cycle in June 2016. However, the T+2 settlement cycle continues to be supported by a partial pre-funding requirement of 15% to 40% depending upon the volatility of the underlying security.

Until July 2016, brokerage fees were not reflected in trade settlement reports, a fact which discouraged foreign portfolio investors from trading this market. The Kazakhstan Stock Exchange reports that a trading system upgrade has now been implemented to include brokerage fees in the settlement report. However, FTSE Russell has not been able to substantiate this in practice and will await confirmation from market practitioners that the new facility is fully operational before considering the reclassification of Kazakhstan to Frontier market status. Kazakhstan is retained on the Watch List, and will be reviewed for possible addition to the FTSE Global Equity Index Series as a Frontier market at the annual review in September 2017.

Mongolia

There have been no changes to the assessment of Mongolia against the Quality of Markets criteria. FTSE Russell continues to engage with the Mongolian Stock Exchange as they work towards implementing changes to their settlement cycle. Mongolia is retained on the Watch List, and will be reviewed for possible addition to the FTSE Global Equity Index Series as a Frontier market at the annual review in September 2017.

Other Markets

Egypt

FTSE index users have reported significant delays in their ability to repatriate capital in the form of US Dollars from Egypt since the move to a weekly foreign exchange auction. FTSE Russell will seek to engage with the Egyptian authorities to convey the concerns of foreign portfolio investors, ascertain the potential longevity of these delays and any remedial actions the Egyptian authorities are considering. FTSE Russell will provide an update on the status of Egypt in the March 2017 FTSE Country Classification Interim Update.

The Watch List from September 2016 is as follows:

- **Argentina** – possible inclusion as Frontier
- **China A-shares** – possible inclusion as Secondary Emerging
- **Kazakhstan** – possible inclusion as Frontier
- **Kuwait** – possible inclusion as Secondary Emerging
- **Mongolia** – possible inclusion as Frontier
- **Nigeria** – possible demotion from Frontier to Standalone
- **Poland** – possible promotion from Advanced Emerging to Developed
- **Romania** – possible promotion from Frontier to Secondary Emerging
- **Saudi Arabia** – possible inclusion as Secondary Emerging

For more information please visit <http://www.ftse.com/products/indices/country-classification>

FTSE Classification of Markets

The tables below show the FTSE classification of markets as at September 2016. The promotion of Qatar from Frontier to Secondary Emerging market status is being implemented in two tranches: the first tranche of 50% was implemented in conjunction with the September 2016 semi-annual review, and the second 50% tranche will be implemented in conjunction with the March 2017 semi-annual review.

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	India	Côte d'Ivoire
Finland	Mexico	Indonesia	Croatia
France	Poland	Pakistan	Cyprus
Germany	South Africa	Peru	Estonia
Hong Kong	Taiwan	Philippines	Ghana
Ireland	Thailand	Qatar	Jordan
Israel	Turkey	Russia	Kenya
Italy		UAE	Latvia
Japan			Lithuania
Netherlands			Macedonia
New Zealand			Malta
Norway			Mauritius
Portugal			Morocco
Singapore			Nigeria
South Korea			Oman
Spain			Palestine
Sweden			Romania
Switzerland			Serbia
UK			Slovakia
USA			Slovenia
			Sri Lanka
			Tunisia
			Vietnam

