



FTSE Russell Asia Pacific Regional Equity Advisory Committee

Tuesday 07 March 2023

ATTENDEES

Members: twelve (12); apologies: three (3)

FTSE Russell: ten (10) including the Chairman and Committee Secretary

Members were reminded of their obligations with regard to conflicts of interest, confidentiality and competition law. There were no declarations.

1.0 Statutory Governance Matters and Committee Information

1.1 Membership changes

1.1.1 FTSE Russell welcomed two new members to the advisory committee.

1.1.2 FTSE Russell thanked an outgoing member, for their contribution to the advisory committee.

1.2 Minutes

1.2.1 The minutes of the meeting held on Tuesday 13 September 2022 were approved as presented.

1.2.2 The public minutes of the meeting held on Tuesday 13 September 2022 were approved as presented.

1.3 Governance

1.3.1 Annual Review of the Committee Terms of Reference (presented for endorsement): the updated Terms of Reference included minor housekeeping updates. The advisory committee endorsed the updated Terms of Reference.

1.3.2 Annual Review of the FTSE Global Equity Index Series Ground Rules (presented for endorsement): the committee attested that the rules have been maintained and continue to meet the purpose for which they were designed.

1.4 Action Points and Matters Arising

1.4.1 None.

1.5 Key Notices and Updates

- 1.5.1 Methodology notices published since the last meeting were highlighted for the committee's benefit. There were no requests for clarification.

2.0 Equity Methodology and Policy

- 2.1 Eligibility of companies listed on a Developed-classified market but incorporated elsewhere (presented for discussion): FTSE Russell explained that the topic had arisen as the result of internal analysis, which highlighted that a few companies that, at the time of writing, were constituents of FTSE equity indices contrary to the [Determining Nationality Guide](#): *"If a company is incorporated in a country other than a developed country, has no listing in that country and is listed only in one or more developed countries, that company will only be eligible for FTSE Global Equity Index Series inclusion if the country of incorporation is internationally recognised as having a low taxation status that has been approved by FTSE. For companies incorporated in approved low taxation countries, FTSE will normally assign the company to the developed country with the greatest liquidity"*. The list of [Low Tax Jurisdictions \(LTJs\)](#) includes Bermuda, the British Virgin Isles, the Cayman Islands, Gibraltar, Guernsey, the Isle of Man, Jersey, and the Marshall Islands.

- 2.1.1 FTSE Russell explained that the list of FTSE Russell-approved LTJs was initially drafted in 2016 to reflect the jurisdictions which had been approved by the (now disbanded) FTSE Nationality Committee as acceptable locations of incorporation for constituents of the FTSE UK Index Series. However, the nationality rules did not capture this distinction. To facilitate the review of the anomalies identified within the GEIS Developed index and the associated guidelines, FTSE Russell invited feedback from the advisory committees on whether companies listed in a Developed-classified country must be incorporated in a Developed-classified country, or one of the LTJs.

- 2.1.2 A discussion ensued and the committee members provided feedback.

- 2.1.3 **Summary:** FTSE Russell thanked the committee members for their feedback and comments. If the Determining Nationality Guide is updated to remove the eligibility requirement which specifies that companies listed in a Developed-classified country must be incorporated in a Developed-classified country, or one of the LTJs, this would impact all indices to which the guide applies.

3.0 Equity Country Classification

- 3.1 Progress of the September 2022 Watch List markets, and Frontier markets experiencing delays to the repatriation of capital (presented for discussion)

- 3.1.1 Nigeria – currently classified as a Frontier market within the FTSE Equity Country Classification framework and added to the Watch List in September 2022 for possible reclassification to Unclassified market status. This was due to market participants reporting significant, ongoing delays since 2020 to their ability to repatriate capital. Since being placed on the Watch List, FTSE Russell, with support from the FTSE Equity Country Classification Advisory Committee, conducted a number of engagement meetings with the Nigerian market authorities.

- 3.1.1.1 FTSE Russell said that it would provide an update on the Watch List status of Nigeria as part of the March 2023 interim update, scheduled to be published on Thursday 30 March 2023. Ahead of this update, FTSE Russell invited feedback and comments from the committee.

- 3.1.1.2 **Summary:** there were no comments from the committee members. FTSE Russell said that the March 2023 FTSE Equity Country Classification review results would be announced on 30 March 2023.

- 3.1.2 Vietnam – currently classified as a Frontier market within the FTSE Equity Country Classification framework and added to the Watch List in September 2018 for possible reclassification to

Secondary Emerging market status. At the time of writing, Vietnam had yet to meet the 'Settlement Cycle (DvP)' criterion, which is currently rated as 'Restricted'. This was due to the market practice of conducting a pre-trading check to ensure the availability of funds prior to trade execution.

- 3.1.2.1 FTSE Russell explained that it would provide an update on the Watch List status of Vietnam as part of the March 2023 Interim Update, scheduled to be published on Thursday 30 March 2023. Ahead of this update, FTSE Russell invited feedback and comments from the committee.
- 3.1.2.2 A discussion ensued and the committee members provided feedback.
- 3.1.2.3 **Summary:** FTSE Russell said that the March 2023 FTSE Equity Country Classification review results would be announced on 30 March 2023.
- 3.1.3 Other markets – India:
 - 3.1.3.1 The final tranche of stocks with the largest capitalisation and all “futures and options (F&O) stocks” transitioned to the shortened T+1 settlement mechanism at the end of January 2023. Initial feedback suggested that the underlying market processes had coped with the change, although without any material stress testing having taken place.
 - 3.1.3.2 The OTR (Obligation Transfer Request) cut-off for brokers to submit their trades remained challenging, even though it was extended at the end of 2022 by an hour, to 20:00 (local time) on trade date (T).
 - 3.1.3.3 FTSE Russell invited the committee members who have dealt with the transition of Indian equities to T+1 to share their experiences; committee members who had managed or encountered issues related to this transition were also invited to share their feedback.
 - 3.1.3.4 A discussion ensued and the committee members provided feedback.
 - 3.1.3.5 **Summary:** FTSE Russell said it would ensure the committee is kept abreast of developments regarding India's transition to T+1 and that the March 2023 FTSE Equity Country Classification review results would be announced on 30 March 2023.
- 3.1.4 Frontier markets – delays to the repatriation of capital and the suspension of index changes (presented for discussion)
 - 3.1.4.1 Due to reports of ongoing delays to the ability of international institutional investors to repatriate capital from Ghana, Kenya, and Nigeria, index changes for the aforementioned markets had been suspended within FTSE Russell equity indices for the March 2023 index reviews. Additionally, due to the extended implementation of a floor price limit by the Dhaka Stock Exchange, index changes for Bangladesh had also been suspended within FTSE Russell equity indices for the March 2023 index reviews. FTSE Russell invited the committee members for their feedback on the index treatment detailed in the [technical notice](#) and the delays faced by certain Frontier markets in general.
 - 3.1.4.2 A discussion ensued and the committee members provided feedback.
 - 3.1.4.3 **Summary:** FTSE Russell said that the March 2023 FTSE Equity Country Classification review results would be announced on 30 March 2023.
- 3.2 China A Shares – expansion of eligible stocks within the Stock Connect universe (presented for discussion)
 - 3.2.1 The Stock Exchange of Hong Kong Limited (HKEX) issued a [circular](#) on 19 January 2023 regarding the expansion of eligible stocks within the Stock Connect programme, as well as the introduction of a minimum market cap level and turnover, and differentiated voting rights. This

announcement followed the initial joint announcement on 19 December 2022 from the China Securities Regulatory Commission (CSRC) and the Securities and Futures Commission (SFC).

- 3.2.2 The expansion of the Stock Connect universe to 96% of the eligible universe was expected to result in greater exposure to China A share small cap stocks within the FTSE Global Equity Index Series (GEIS).
- 3.2.3 FTSE Russell asked the advisory committee members to share their feedback on whether, based on this information provided at that stage, the new China A Shares additions resulting from the expanded Stock Connect universe should be implemented in a single tranche or multiple tranches, the members' preferred notice period for implementation, and their thoughts on the inclusion factor.
- 3.2.4 A discussion ensued and the committee members provided feedback.
- 3.2.5 **Summary:** FTSE Russell thanked the committee members for their comments. Subsequent to the discussion at the March 2023 advisory committee meetings, FTSE Russell explained that it intended to publish a market-wide consultation for feedback ahead of presenting the final proposal at the June 2023 advisory committee meetings for support. All consultations would be subject to approval by the FTSE Russell Index Governance Board.

4.0 AOB

- 4.1 There was no other business.

5.0 Actions

- 5.1 None.

6.0 Meeting dates

- 6.1 2023: 07 June / 06 September / 05 December

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