
FTSE Russell Policy Advisory Board

Thursday 23 March 2023

ATTENDEES

Members: eighteen (18); apologies: eight (8)
FTSE Russell: ten (10)

Attendees were reminded of their obligations in relation to confidentiality of information, conflicts of interest, and competition law. There were no declarations.

1.0 Statutory Governance Matters and Committee Information

1.1 Membership Changes

1.1.1 Three members were welcomed to the committee.

1.1.2 Two departing members were thanked for their contribution.

1.2 Minutes

1.2.1 The minutes of the meeting held on Thursday 22 September 2022 were approved as presented.

1.2.2 The public minutes of the meeting held on Thursday 22 September 2022 were approved as presented.

1.3 Governance

1.3.1 The Policy Advisory Board endorsed changes to the Policy Advisory Board's Terms of Reference. *Post-meeting note:* the Terms of [Reference were published to the FTSE Russell website](#) shortly after the meeting.

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 Policy Advisory Board's benefit.

2.0 Index Methodology and Policy

2.1 Equity: Country Classification – March 2023 Announcement

2.1.1 Progress of the September 2022 Watch List markets, recommendations for the March 2023 announcement, and related markets (presented for support)

2.1.2 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 several engagement meetings with the Nigerian market authorities. However, no material progress had been made towards addressing the ongoing delays experienced by international institutional investors when seeking to repatriate funds from Nigeria.

2.1.2.1 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 Policy Advisory Board on its proposal to retain Nigeria on the Watch List.

2.1.3 A discussion ensued and the committee member shared their comments.

2.1.3.1 **Summary:** the Policy Advisory Board members supported the retention of Nigeria until June 2023, when the market's status and the conditions in Nigeria would be re-evaluated. FTSE Russell noted that the treatment of Nigeria was subject to final approval by the FTSE Russell Index Governance Board.

2.1.3.2 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. Vietnam had yet to meet the 'Settlement Cycle Delivery for Payment (DvP)' criterion, 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. On a more positive note, FTSE Russell also noted that evidence of activity was observed in the last few months of 2022 and early 2023, including engagement between the various market authorities, the investment community, and senior personnel from the State Bank of Vietnam (SBV) to determine the appropriate new settlement model. FTSE Russell highlighted that the market had made a commitment to a new central counterparty model, with a target implementation date of 01 January 2024.

2.1.3.3 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 from the Policy Advisory Board on its proposal to retain Vietnam on the Watch List.

2.1.3.4 **Summary:** there were no comments; the Policy Advisory Board supported the retention of Vietnam on the Watch List. FTSE Russell said that the March 2023 FTSE Equity Country Classification review results would be announced on 30 March 2023.

2.1.4 Other markets – India (Secondary Emerging):

2.1.4.1 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, with initial feedback suggesting that the underlying day-to-day market processes had coped with the change, although without any material stress testing having taken place. In recent months, FTSE Russell had gathered feedback from market participants, and the Chair of the FTSE Equity Country Classification Advisory Committee's recent trip to India indicated the transition went more smoothly than expected.

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- 2.1.5 Nonetheless, investors and FTSE Russell identified residual concerns following the market's transition to T+1. For example, the OTR (Obligation Transfer Request) cut-off for brokers posed problems for markets participants. The latter pertained to the deadline on brokers to submit their trades, which remained challenging, even though it was extended at the end of 2022 by an hour, to 20:00 (local time) on trade date (T). FTSE Russell said that the FTSE Equity Country Classification Advisory Committee had drawn FTSE Russell's attention to the problems caused by a lack of a netting 'buys and sells', and the absence of a closing auction, which impacts price discovery. FTSE Russell invited the Policy Advisory Board members who had dealt with the transition of Indian equities to T+1 to share their experiences; members who had managed or encountered issues related to this transition were also invited to share their feedback, and all members were asked for their views on FTSE Russell's proposal. A discussion ensued and the committee members shared their comments.
- 2.1.5.1 **Summary:** FTSE Russell said it would keep the Policy Advisory Board abreast of any developments in relation to the Indian equity market and asked the members to continue to share their feedback and experiences with FTSE Russell.
- 2.1.6 Frontier markets – delays to the repatriation of capital and the suspension of index changes (presented for discussion)
- 2.1.6.1 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 since September 2022, and 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 said it would continue to engage with the exchange to determine whether the floor price was likely to be removed.
- 2.1.6.2 FTSE Russell also noted that the situation in Sri Lanka had improved, therefore Sri Lankan index changes had proceeded for the March 2023 index review.
- 2.1.6.3 FTSE Russell invited the Policy Advisory Board members for their feedback on the index treatment detailed in the following [technical notice](#) and the delays faced by certain Frontier markets in general.
- 2.1.6.4 **Summary:** there were no comments from the Policy Advisory Board, and the members supported FTSE Russell's proposals. FTSE Russell said that the March 2023 FTSE Equity Country Classification review results would be announced on 30 March 2023.
- 2.2 Minimum Investable Market Capitalisation and Securities Count: Pakistan (presented for support)
- 2.2.1 Pakistan (currently classified as a Secondary Emerging market): FTSE Russell said that based on data as of the close on 30 December 2022, Pakistan meets the published minimum market investable market capitalisation exit threshold for retaining Secondary Emerging market status. However, based on data as of the close on 28 February 2023, Pakistan had failed the exit level, as it has an aggregate investable market capitalisation (cap) of 3.13bn, while the revised exit level for Emerging is USD 3.30bn. FTSE Russell indicated that it had recently shared its concerns vis-à-vis Pakistan dropping below the exit level with the local market authorities.
- 2.2.2 **Summary:** FTSE Russell stated that based on data as of the close on 30 June 2023, if Pakistan is below the minimum investable market cap exit level for Emerging markets, then at the September 2023 annual review, Pakistan would be considered for addition to the Watch List for possible reclassification from Secondary Emerging to Frontier market status. The Policy Advisory Board supported this proposal.

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- 2.2.3 Greece (currently classified as an Advanced Emerging market) (presented for support)
- 2.2.4 FTSE Russell said that the Athens Stock Exchange had engaged with FTSE Russell regarding the criteria which must be met by the Greek equity market in order to be considered for addition to the Watch List for possible reclassification to Developed market status. Greece met the twenty-two Quality of Markets criteria and the GNI rating of 'High'. Based on data as of the close on 30 December 2022, Greece did not meet the minimum investable market capitalisation entry level requirements that could justify the addition of the Watch List for possible reclassification to Developed market status. The committee members shared their comments.
- 2.3 China A Share market update – market developments and the path to full inclusion (presented for discussion)
- 2.3.1 FTSE Russell highlighted the market developments that would need to be evidenced by the Chinese authorities prior to a further increase in the inclusion factor.
- 2.3.2 Regarding the Stock Connect expansion, FTSE Russell explained that 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). The committee members discussed the recent market developments.
- 2.4 A summary of recent equity market engagement meetings was also presented for information. There were no comments.
- 2.5 FTSE Fixed Income Country Classification – March 2023 announcement and September 2022 Watch List markets (all presented for support)
- 2.5.1 India
- 2.5.1.1 FTSE Russell proposed to retain India on the Watch List for possible reclassification from Market Accessibility Level 0 to 1 and potential inclusion in the FTSE Emerging Markets Global Bond Index (EMGBI).
- 2.5.1.2 **Summary:** there were no comments; Policy Advisory Board members did not voice any objections to the retention of India on the Watch List for possible reclassification from Market Accessibility Level 0 to 1 at the March 2023 Review. FTSE Russell said that India would be re-assessed at the September 2023 Review. Any decisions concerning India were described as subject to approval by the relevant FTSE Russell internal governance forums.
- 2.5.1 South Korea
- 2.5.1.1 FTSE Russell proposed to retain South Korea on the Watch List for possible reclassification from Market Accessibility level 1 to 2, and potential inclusion in the WGBI. The Ministry of Economy and Finance (MOEF) and the Financial Services Commission (FSC) announced a series of market reforms to enhance market accessibility for international investors, and included the following: i) [exemption of withholding tax effective from 01 January 2023](#), ii) ICSD connectivity with [Euroclear](#) and [Clearstream](#) – MOUs signed in December 2022, iii) [abolishment of the Investor Registration Certificate \(IRC\) scheme](#) – expected to be implemented within 2023 after revision of relevant regulations, and iv) [enhancements to the FX market](#) with the implementation planned for 2H 2024, with a six-month pilot period, at the time of writing.
- 2.5.1.2 FTSE Russell sought committee feedback on additional market enhancements that may be required for the South Korean government bond market to be assigned a Market Accessibility Level of 2.

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- 2.5.1.3 **Summary:** there were no comments; the Policy Advisory Board members did not voice any objections to the retention of South Korea on the Watch List for possible reclassification from Market Accessibility Level 1 to 2. FTSE Russell explained that South Korea would be re-assessed at the September 2023 Review. Any decisions concerning South Korea were described as subject to approval by the relevant FTSE Russell internal governance forums.
- 2.5.1.4 Switzerland
- 2.5.1.5 FTSE Russell proposed to retain Switzerland on the Watch List for possible reclassification from Market Accessibility Level 1 to 2, and potential inclusion in the WGBI. FTSE Russell noted that the cumbersome nature of the Swiss taxation regime for local currency government bonds was the main factor contributing to its failure to meet the criteria for Market Accessibility Level 2. Switzerland was removed from the WGBI for failing to meet the market size requirement several years ago, and its assessment against the FTSE Fixed Income Country Classification framework for re-entry (subsequent to a recalibration of the bond-level amount outstanding threshold) resulted in the market continuing to be ineligible based on the Market Accessibility criteria for the WGBI.
- 2.5.1.6 **Summary:** there were no comments; the Policy Advisory Board members did not voice any objections to the retention of Switzerland on the Watch List for possible reclassification from Market Accessibility Level 1 to 2. FTSE Russell explained that Switzerland would be re-assessed at the September 2023 Review. Any decisions concerning Switzerland were described as subject to approval by the relevant FTSE Russell internal governance forums.
- 2.5.2 A summary of recent equity market engagement meetings was also presented for information. There were no comments.
- 3.0 AOB**
- 3.1 Two items of business were discussed relating to cannabis-related names in FTSE Russell indices and recent market developments in the banking space.
- 4.0 2023 Meeting Dates**
- Thursday 22 June at 15:00 BST / Thursday 21 September at 15:00 BST

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