



FTSE Annual Country Classification Review

September 2017

1. Classification of Markets

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.

2. FTSE Watch List

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.

The following markets were on the Watch List following the interim review in March 2017:

- **China A-share:** possible inclusion as Secondary Emerging
- **Kuwait:** possible inclusion as Secondary Emerging
- **Mongolia:** possible inclusion as Frontier
- **Nigeria:** possible reclassification from Frontier to Standalone
- **Poland:** possible reclassification from Advanced Emerging to Developed
- **Romania:** possible reclassification from Frontier to Secondary Emerging
- **Saudi Arabia:** possible inclusion as Secondary Emerging

Argentina and Kazakhstan were on the September 2016 Watch List and at the interim review in March 2017 were designated as Frontier markets within the FTSE Country Classification scheme in conjunction with the FTSE Frontier Index Series annual review in September 2017.

3. Progress of Watch List markets since September 2016

Developed Watch List

Poland

FTSE Russell is pleased to announce that Poland will be assigned Developed market status within the FTSE Country Classification scheme in conjunction with the FTSE Global Equity Index Series (GEIS) semi-annual review in September 2018.

Poland has been on the Watch List for possible reclassification to Developed market status since September 2011, with one outstanding criterion: “Custody – omnibus and segregated account facilities available to international investors trading equities”.

Polish law recognises the rights of the beneficial owner (the end investor). However, the rights of the nominee holder (intermediary) are not recognised. Therefore, although omnibus account structures are available in Poland, market practice is to use segregated accounts.

Increased European financial market regulation aimed at ensuring the safekeeping of investor assets has caused a trend towards the use of segregated accounts in Europe. Hence, what were previously considered as inefficiencies in the omnibus account model in Poland are no longer considered to be a significant impediment which should prevent the reclassification of Poland to Developed market status.

Consequently, the FTSE Russell Country Classification Advisory Committee endorsed the following criterion rating change:

- “Custody – omnibus and segregated account facilities available to international investors trading equities” – upgraded from ‘Restricted’ to ‘Pass’.

Poland meets the Gross National Income per capita rating of “High”, required of Developed markets within the FTSE Country Classification scheme.

Secondary Emerging Watch List

China A

Since the 2016 annual review, the Chinese authorities have sought to improve the attractiveness of the Stock Connect programme to international investors. The Shenzhen-Hong Kong Connect route was opened in December 2016 and there are plans for investors to be able to access cross-border IPOs via the Primary Equity Connect initiative.

However, international investors continue to express concerns over certain limitations of the Connect schemes including:

- Daily quota: Northbound RMB 13bn for each Stock Connect (USD 3.8bn total from both); Southbound RMB 10.5bn for each Stock Connect (USD 3.1bn total from both). Once the quota is reached, Stock Connect is suspended for the day. There is a high probability that the quota could be breached at a global benchmark rebalance;
- Securities coverage: limited to securities which are constituents of the Shanghai and Shenzhen Stock Exchange indexes and hence subject to change;
- Trading days: Stock Connect operates when the Shanghai, Shenzhen and Hong Kong stock exchanges are open. Different market holiday schedules mean that Stock Connect will have been closed for 32 trading days during 2017;
- Pre-trade checking of sale orders: funds must transfer shares to brokerage accounts (T-1) before the market opens on the trade date;
- Day trading is prohibited: shares cannot be sold prior to settlement;

- Foreign investors cannot participate in Initial Public Offerings; and
- Foreign ownership restrictions are at 30%.

The Qualified Foreign Institutional Investor (QFII) / Renminbi Foreign Institutional Investor (RQFII) provide alternative access routes for international investors. These schemes also possess certain limitations including:

- Capital controls: the initial principle has to be locked-up for a minimum of three months; and
- T+0 settlement cycle: accessing China A-shares via the QFII/RQFII route requires trades to be pre-funded.

In addition, stock suspensions continue to prove problematic to institutional investors. Approximately 6% of China A-share securities in the FTSE China A All Cap Index continue to be suspended; this equates to approximately 5.1% of the investable capitalisation of the index. The suspensions can be for extended periods.

Accordingly, 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 therefore announces that the China A-share market is retained on the Watch List, and will be reviewed for possible inclusion as a Secondary Emerging market within the FTSE Country Classification scheme at the Annual Review in September 2018. FTSE Russell acknowledges the efforts of the Chinese authorities to increase the accessibility of the China A-share market for international investors and will continue to work closely with the Chinese authorities towards the inclusion of China A-shares in the FTSE Global Equity Index Series.

Kuwait

FTSE Russell is pleased to announce that Kuwait will be assigned Secondary Emerging market status within the FTSE Country Classification scheme, with inclusion commencing in conjunction with the FTSE GEIS semi-annual review in September 2018. FTSE Russell will confirm whether the inclusion of Kuwait will be conducted in tranches in March 2018, following consultation with index users.

Kuwait has been on the Watch List for possible reclassification to Secondary Emerging market status since September 2008. The outstanding criterion was “Clearing & Settlement – T+2/T+3” which was addressed following the introduction of a T+3 settlement cycle with a Delivery versus Payment (DvP) model in May 2017. The FTSE Russell Country Classification Advisory Committee endorsed the following criteria rating changes:

- “Clearing & Settlement – T+2/T+3” upgraded from ‘Restricted’ to ‘Pass’;
- “Stock Lending is permitted” upgraded from ‘Not Met’ to ‘Restricted’, following the introduction of legislation permitting stock lending. However, only a limited number of stocks are currently permitted; and
- “Short sales permitted” upgraded from ‘Not Met’ to ‘Restricted’, following the introduction of legislation permitting short selling. However, only a limited number of stocks are currently permitted.

Further enhancements to the market include the introduction of a custodian rejection model, removal of the maximum trading limit of 5 million shares per National Investor Number (NIN), and the extension of the closing auction period to ten minutes with a two minute randomised process. Kuwait now meets the requirements to be assigned Secondary Emerging market status within the FTSE Country Classification scheme.

Romania

Romania was added to the Watch List in September 2016 for possible reclassification to Secondary Emerging market status. In September 2017, the FTSE Russell Country Classification Advisory Committee endorsed the following criterion rating change:

- “Stock Lending is permitted” – upgraded from ‘Not Met’ to ‘Restricted’, following the introduction of legislation permitting stock lending.

The single outstanding criterion is “Liquidity – Sufficient broad market liquidity to support sizeable global investment”, which is currently rated as ‘Not Met’. FTSE Russell acknowledges the efforts of the Bucharest Stock Exchange to bring IPOs to the market and to improve liquidity levels on the exchange.

Romania is retained on the Watch List as a Frontier market, and will be reviewed for possible reclassification as a Secondary Emerging market, within the FTSE Country Classification scheme at the Annual Review in September 2018.

Saudi Arabia

Saudi Arabia was added to the Watch List in September 2015 following the introduction of a Qualified Foreign Investor (QFI) scheme.

During 2017, the Capital Market Authority of Saudi Arabia and the Saudi Arabia Stock Exchange (Tadawul) have introduced a number of improvements to the market infrastructure aimed at opening up the domestic market to international investors. These include, but are not limited to: the simplification of the QFI registration process and the introduction of a T+2 settlement cycle with a Delivery versus Payment (DvP) model in April 2017.

Consequently, the FTSE Russell Country Classification Advisory Committee has endorsed the following criteria rating changes:

- “No objection to or significant restrictions or penalties applied to the investment of capital or the repatriation of capital or income” – upgraded from ‘Restricted’ to ‘Pass’;
- “Settlement – rare incidences of failed trades” – upgraded from ‘N/A’ to ‘Restricted’;
- “Custody – Sufficient competition to ensure high quality custodian services” – upgraded from ‘Restricted’ to ‘Pass’;
- “Clearing & Settlement – T+2/T+3” – upgraded from ‘Not Met’ to ‘Restricted’;
- “Stock Lending is permitted” – upgraded from ‘Not Met’ to ‘Restricted’, following the introduction of legislation permitting stock lending. However, only a limited number of stocks are currently permitted; and
- “Short Sales permitted” – upgraded from ‘Not Met’ to ‘Restricted’, following the introduction of legislation permitting short selling. However, only a limited number of stocks are currently permitted.

Saudi Arabia is to be congratulated on the pace of the recent market reforms which are widely acknowledged as being positive. As a result of these reforms, it is anticipated that Saudi Arabia will meet the requirements for inclusion as a Secondary Emerging market from early 2018 when further enhancements to the Independent Custody Model (ICM) are scheduled to be introduced. Accordingly, FTSE Russell will proceed with the launch of stand-alone Saudi Arabia country indexes and global and regional Saudi Arabia inclusion indexes to assist domestic and international investors who wish to seek early index-based exposure to the market.

Because of the size of the international investor flows that follow a change to a country's classification status, the FTSE country classification process for the FTSE Global Equity Index Series requires that, in addition to meeting the requirements, the practical operation of changes to market structures be demonstrated before a change in a country's classification can be confirmed. Accordingly, FTSE Russell will work closely with the Saudi Arabian authorities and index users over the coming months to ensure the efficacy of the recent and intended reforms, and the readiness of index users and market practitioners. In recognition of the pace of change in Saudi Arabia, FTSE Russell proposes to bring forward the next formal assessment of Saudi Arabia's classification status to March 2018 at which point a further announcement on the timing of Saudi Arabia's inclusion in the FTSE Global Equity Index Series will be made.

In the meantime, Saudi Arabia will be retained on the Watch List for possible reclassification to Secondary Emerging market status.

Frontier Watch List

Mongolia

Mongolia has been on the Watch List for possible inclusion as a Frontier market since September 2012. A T+3 settlement cycle was introduced by the Mongolian Stock Exchange. However, the exchange reverted to a pre-funded model in 2015. Although the exchange is aiming to introduce a T+2 settlement cycle with a Delivery versus Payment (DvP) model from January 2018, evidence suggests that the implementation may be some way off. Therefore, FTSE Russell announces the removal of Mongolia from the Watch List, with the intention of maintaining a dialogue with the Mongolian authorities to monitor the market for possible inclusion to the Watch List at a future date.

Nigeria

FTSE Russell is pleased to announce that Nigeria has been removed from the Watch List for possible reclassification from Frontier to standalone market status. Accordingly, Nigeria will be retained as a Frontier market within the FTSE Country Classification scheme.

Nigeria was added to the Watch List in September 2016 for possible demotion from Frontier, to standalone market status. FTSE Russell index users had reported continuing delays in the ability to repatriate capital in US Dollars from Nigeria. As a result, index changes for Nigeria constituents of FTSE indexes were frozen in June 2016.

In April 2017, the Nigerian authorities introduced the "Investors and Exporters FX Window" which improved liquidity in the Nigerian Naira (NGN). As a result, foreign investors reported that delays in repatriating funds from Nigeria had ended, and the previous backlog of funds awaiting repatriation had cleared. Further, the Investors and Exporters FX rate has since been adopted for exchange rates fixes hence removing a potential source of tracking error for institutional investors.

As a result, index changes for domestically-listed Nigerian securities which had previously been suspended in FTSE and Russell indexes were unsuspended in conjunction with the September 2017 review.

Consequently, the FTSE Russell Country Classification Advisory Committee endorsed the following criterion rating change:

- "No objection to or significant restrictions or penalties applied to the investment of capital or the repatriation of capital or income" – upgraded from 'Restricted' to 'Pass'.

4. New Addition to the Watch List

Following the September 2017 Annual Review, FTSE Russell is pleased to announce that Iceland is being added to the Watch List.

Iceland is currently unclassified within the FTSE Country Classification scheme and is being added to the Watch List for possible inclusion as Frontier. The market has recently removed all capital controls on new investment in Icelandic equities which had been in place since the Icelandic banking crisis of 2008/2009.

5. Summary of changes to the September 2016 Watch List markets:

- **Poland:** reclassification from Advanced Emerging to Developed, effective from September 2018
- **Kuwait:** reclassification from Unclassified to Secondary Emerging, commencing from September 2018
- **Mongolia:** remove from Watch List and retain as Unclassified
- **Nigeria:** remove from Watch List and retain as Frontier

6. The September 2017 Watch List is as follows:

- **China A-share:** possible inclusion as Secondary Emerging
- **Iceland:** possible inclusion as Frontier
- **Romania:** possible reclassification 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>

The table below shows the FTSE classification of markets as at September 2017.

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

*Poland to be promoted to Developed market status, effective from September 2018.

**Kuwait to be promoted to Secondary Emerging market status, commencing from September 2018.

Source: FTSE Russell as at September 2017. Past performance is no guarantee of future results. Please see disclaimer for important legal information.

Matrix of markets

	SEGMENTS	AMERICAS	ASIA PACIFIC	EUROPE	MEA
	All-World World Development Advanced Emerging Emerging Secondary Emerging EMEA All-World BRIC All-World ex USA All-World ex NA Developed ex USA Developed ex NA All-World Americas All-World North America All-World Latin America Emerging Latin America World ex Japan All-World ex Asia Developed ex Japan (FTSE Kaigan) Developed Asia Pacific Developed Asia Pacific ex Japan Developed Europe Asia Pacific All-World Europe-Asia Pacific All-World Asia Pacific All-World Asia Pacific ex Japan All-World Asia Pacific ex Japan, India & Pakistan All-World Asia Pacific ex Japan, Australia & New Zealand All-World Asia Pacific ex Japan, Hong Kong, Australia & New Zealand All-World Asia Pacific ex Japan, Australia, N.Zealand, India & Pakistan All-World Asean All-World Greater China Emerging Asia Pacific All-World ex UK All-World ex Eurobloc Developed ex Eurobloc Developed ex UK Developed Europe Developed Europe ex UK Developed Europe ex Eurobloc ex UK All-World Europe All-World Eurobloc All-World Europe ex UK All-World Europe ex Eurobloc All-World Eastern Europe All-World Eastern Europe ex UK All-World Nordic Emerging Europe All-World ex South Africa All-World Middle East and Africa				
Australia	•••	••••	••••••••	••••	•
Austria	•••	••••	••••	••••	•
Belgium/Luxembourg	•••	••••	••••	••••	•
Brazil	•••	•••	••••	•••	•
Canada	•••	••••	••••	••••	•
Chile	•••	•••	••••	•••	•
China	•••	•••	••••••••	••••	•
Colombia	•••	•••	••••	•••	•
Czech Republic	•••	•••	••••	••••	•
Denmark	•••	••••	••••	••••	•
Egypt	•••	•••	••••	•••	••
Finland	•••	••••	••••	••••	•
France	•••	••••	••••	••••	•
Germany	•••	••••	••••	••••	•
Greece	•••	•••	••••	••••	••
Hong Kong	•••	••••	••••••••	••••	•
Hungary	•••	•••	••••	••••	•
India	•••	•••	••••	••••	•
Indonesia	•••	•••	••••	••••	•
Ireland	•••	••••	••••	••••	•
Israel	•••	••••	••••	••••	••
Italy	•••	••••	••••	••••	•
Japan	•••	••••	••••	••••	•
Korea	•••	••••	••••	••••	•
Malaysia	•••	•••	••••	••••	•
Mexico	•••	•••	••••	•••	•
Netherlands	•••	••••	••••	••••	•
New Zealand	•••	••••	••••	••••	•
Norway	•••	••••	••••	••••	•
Pakistan	•••	•••	••••	•••	•
Peru	•••	•••	••••	•••	•
Philippines	•••	•••	••••	••••	•
Poland	•••	•••	••••	••••	•
Portugal	•••	••••	••••	••••	•
Qatar	•••	•••	••••	•••	••
Russia	•••	••••	••••	••••	••
Singapore	•••	••••	••••	••••	•
South Africa	•••	•••	••••	••••	•
Spain	•••	••••	••••	••••	•
Sweden	•••	••••	••••	••••	•
Switzerland	•••	••••	••••	••••	•
Taiwan	•••	•••	••••	••••	•
Thailand	•••	•••	••••	••••	•
Turkey	•••	•••	••••	••••	••
UAE	•••	•••	••••	•••	••
UK	•••	••••	••••	•••	••
USA	•••	•••	••••	••••	•

Source: FTSE Russell as at September 2017. Past performance is no guarantee of future results. Please see disclaimer for important legal information.

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