
FTSE Annual Country Classification Review

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Headlines

- China A to be assigned Secondary Emerging market status commencing June 2019
- Iceland to be assigned Frontier market status in September 2019
- Romania to be retained on the Watch List as a Frontier market
- New additions to the Watch List: Argentina, Tanzania, Vietnam

Equity

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 included on the Watch List following the March 2018 Interim Country Classification Review:

- **China A:** possible reclassification as Secondary Emerging
- **Iceland:** possible reclassification as Frontier
- **Romania:** possible reclassification from Frontier to Secondary Emerging

At the March 2018 Interim Review, FTSE Russell announced that Saudi Arabia would be designated as a Secondary Emerging market within the FTSE Country Classification scheme commencing with the FTSE GEIS Index Series semi-annual review in March 2019. Full details of the Saudi Arabia implementation are set out in a separate FAQ found at: <https://www.ftse.com/products/indices/country-classification>

3. Progress of Watch List Markets since March 2018

Secondary Emerging Watch List

China A

FTSE Russell is pleased to announce that China A Shares, available via the Northbound Stock Connect route, will be assigned Secondary Emerging market status commencing with the FTSE Global Equity Index Series (GEIS) quarterly review in June 2019.

Since March 2018, FTSE Russell has evaluated the China A market against the three access routes available to foreign investors:

- Stock Connect
- Qualified Foreign Institutional Investor (QFII)
- Renminbi Qualified Foreign Institutional Investor (RQFII)

The Stock Connect market enhancements include:

- The four-fold increase in the Daily Quota Limit which means there is less likelihood of intra-day closures of the Stock Connect facility
- The Special Segregated Account (SPSA) allows for the facilitation of Delivery versus Payment (DvP) via the Stock Connect Northbound program
- Unlike QFII and RQFII, there is no requirement for foreign investors to apply for a licence to trade China A Shares via the Stock Connect program.

China A implementation summary:

- **Stock Selection:** constituents of the FTSE China A Stock Connect Index
- **Size Segments:** large, mid and small securities
- **Portion of China A Shares being added:** 25% of each security's investability weight
- **Implementation Commencing:** June 2019 (nine months' notification)
- **Implementation Schedule:** three tranches - June 2019, September 2019 and March 2020
- **Size Tranche:** 20% in June 2019, 40% in September 2019* and 40% in March 2020*
- **Regional Review:** China to be reviewed separately from Asia Pacific ex Japan.

Full details of the implementation are set out in a separate FAQ found at: <https://www.ftse.com/products/indices/country-classification>

*Implementation of Tranche 2 in September 2019 and Tranche 3 in March 2020 will be contingent upon the successful implementation of Tranche 1 in June 2019.

Following the completion of the initial implementation phase in March 2020, future phases will be discussed with the external advisory committees. Consideration will be given to increases in the QFII and RQFII quota sizes, expansion in the China A Share universe of stocks accessible via Stock Connect, the provision of DvP in QFII and RQFII, and the reduction in the barriers-to-entry via the QFII and RQFII access routes.

FTSE Russell congratulates the Chinese authorities on attaining Secondary Emerging market status for the A share market and acknowledges their significant efforts to improve access for international investors. FTSE Russell will continue to work closely with the Chinese authorities to transition the China A market into FTSE global indexes.

Romania

Romania was added to the Watch List in September 2016 for possible reclassification to Secondary Emerging market status. In September 2018, the FTSE Russell Country Classification Advisory Committee endorsed the following criterion rating changes:

- “Liquidity – Sufficient broad market liquidity to support sizeable global investment” – upgraded from ‘Not Met’ to ‘Restricted’, following an improvement in broad market liquidity.
- “Off-exchange transactions permitted” – upgraded from ‘Not Met’ to ‘Restricted’.

The “Liquidity – Sufficient broad market liquidity to support sizeable global investment” criterion is the single outstanding criterion required for attaining Secondary Emerging market status. This rating has moved up one increment at this review and will next be considered at the March 2019 interim review. 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 2019.

Frontier Watch List

Iceland

FTSE Russell is pleased to announce that Iceland will be assigned Frontier market status within the FTSE Country Classification scheme commencing with the FTSE Frontier annual review in September 2019.

Iceland was added to the Watch List in September 2017 for possible inclusion as a Frontier market following the removal of the capital controls on new investment in Icelandic equities which had been in place since the banking crisis in 2008/2009. Iceland now meets the five FTSE Quality of Markets criteria required for Frontier market status within the FTSE Country Classification scheme.

FTSE Russell congratulates the Icelandic market authorities on attaining Frontier market status and looks forward to working closely with them in the future.

4. New Additions to the Watch List

Following the September 2018 Annual Review, FTSE Russell is pleased to announce that the following markets are being added to the Watch List to commence the engagement process prior to a possible future reclassification:

Argentina is currently classified as a Frontier market and is being added to the Watch List for possible reclassification as Secondary Emerging.

Tanzania is currently Unclassified within the FTSE Country Classification scheme and is being added to the Watch List for possible reclassification as Frontier.

Vietnam is currently classified as a Frontier market and is being added to the Watch List for possible reclassification as Secondary Emerging.

5. Reminder of Previously Announced Country Classification Changes

- **Kuwait:** reclassification from Unclassified to Secondary Emerging. The first 50% tranche has been implemented in conjunction with the September 2018 semi-annual review and the second 50% tranche will be effective in December 2018.
- **Poland:** reclassification from Advanced Emerging to Developed, has been implemented in conjunction with the September 2018 semi-annual review.
- **Saudi Arabia:** reclassification from Unclassified to Secondary Emerging, commencing from March 2019.

6. September 2018 Watch List

- **Argentina:** possible reclassification from Frontier to Secondary Emerging
- **Romania:** possible reclassification from Frontier to Secondary Emerging
- **Tanzania:** possible reclassification as Frontier
- **Vietnam:** possible reclassification from Frontier to Secondary Emerging

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

7. Fixed Income

Separately, FTSE Russell has consulted with market participants to establish a transparent and evidence-driven country classification framework for its global fixed income benchmarks. The recently agreed process identifies objective criteria to calibrate Market Accessibility Levels, which will be incorporated into the methodology of flagship FTSE government benchmarks including the investment grade FTSE World Government Bond Index (WGBI).

As within the equity framework, a Watch List of countries on the cusp of reclassification will be published and maintained with status updates provided each March and September. Inclusion of a market on the Watch List signals FTSE Russell's intent to engage with governments, central banks and regulators to address specific feedback from investors on the fulfilment of the criteria for the proposed accessibility level.

China government bonds will be added to this Watch List and assessed against the stated criteria of the framework for possible inclusion in FTSE WGBI.

The full FTSE Fixed Income Country Classification framework and a complete Watch List will be published later this year, following meetings of the regional fixed income advisory committees in November.

FTSE classification of equity markets as at September 2018.

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	South Africa	Kuwait*	Croatia
Germany	Taiwan	Pakistan	Cyprus
Hong Kong	Thailand	Peru	Estonia
Ireland	Turkey	Philippines	Ghana
Israel		Qatar	Jordan
Italy		Russia	Kazakhstan
Japan		UAE	Kenya
Netherlands			Latvia
New Zealand		**China A	Lithuania
Norway		***Saudi Arabia	Macedonia
Poland			Malta
Portugal			Mauritius
Singapore			Morocco
South Korea			Nigeria
Spain			Oman
Sweden			Palestine
Switzerland			Romania
UK			Serbia
USA			Slovakia
			Slovenia
			Sri Lanka
			Tunisia
			Vietnam
			****Iceland

*Kuwait reclassified as Secondary Emerging, effective in two tranches: 50% on 24 September 2018 and 50% on 24 December 2018.

**China A to be reclassified as Secondary Emerging, commencing from June 2019.

**Saudi Arabia to be reclassified as Secondary Emerging, commencing from March 2019.

***Iceland to be reclassified as Frontier, effective with the annual review of the FTSE Frontier Index in September 2019.

Source: FTSE Russell as at September 2018. 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 Developed 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 All-World ex Japan World ex Japan All-World ex Asia Developed ex Japan (FTSE Kaigai) 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, New Zealand, India & Pakistan All-World Asean All-World Greater China Emerging Asia Pacific All-World ex UK All-World ex Eurozone Developed ex Eurozone Developed ex UK Developed Europe Developed Europe ex UK Developed Europe ex Eurozone ex UK All-World Europe All-World Eurozone All-World Europe ex UK All-World Europe ex Eurozone All-World Europe ex Eurozone ex UK All-World Eastern Europe 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	•••	••••	••••	••••	•
Kuwait	•••	••••	••••	••••	••
Korea	•••	••••	••••	••••	•
Malaysia	•••	••••	••••	••••	•
Mexico	•••	••••	••••	••••	•
Netherlands	•••	••••	••••	••••	•
New Zealand	•••	••••	••••	••••	•
Norway	•••	••••	••••	••••	•
Pakistan	•••	••••	••••	••••	•
Peru	•••	••••	••••	••••	•
Philippines	•••	••••	••••	••••	•
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Portugal	•••	••••	••••	••••	•
Qatar	•••	••••	••••	••••	••
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South Africa	•••	••••	••••	••••	•
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UAE	•••	••••	••••	••••	••
UK	•••	••••	••••	••••	•
USA	•••	••••	••••	••••	•

Source: FTSE Russell as at September 2018. Past performance is no guarantee of future results. Please see disclaimer for important legal information.

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