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# FTSE Equity Country Classification Interim Announcement, March 2023

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## 1. Classification of Markets

A formal interim review of country classification within the FTSE global equity indices is conducted every March using a comprehensive, transparent, and consistent methodology. This interim review ensures that investors are informed of the progress of markets that were placed on the Watch List in the preceding September, when the annual review is published.

## 2. FTSE Equity Country Classification Watch List

To provide investors with visibility of the potential movement of markets between classifications, FTSE Russell maintains a Watch List of markets that are under review and being monitored for reclassification.

The following markets were members of the Watch List following the September 2022 Annual Equity Country Classification Review:

- **Nigeria:** possible reclassification from Frontier to Unclassified.
- **Vietnam:** possible reclassification from Frontier to Secondary Emerging.

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## 3. Progress of Watch List Markets Since September 2022

### Frontier Watch List

#### Nigeria

Nigeria was added to the Watch List from September 2022 for possible reclassification from Frontier to Unclassified market status. This was due to reports received from index users and market participants from 2020 onwards of significant, ongoing delays to the repatriation of capital from Nigeria. Consequently, FTSE Russell has not implemented certain corporate events for Nigerian constituents of FTSE Russell equity indices since September 2022.

With the support of the FTSE Equity Country Classification Advisory Committee, FTSE Russell has conveyed its concerns to the Nigerian market authorities regarding the delays to the repatriation of capital and the execution of foreign exchange (FX) transactions. Despite open and constructive engagement with the key capital markets institutions in Nigeria, the geopolitical and macroeconomic factors affecting the market are such that international institutional investors have yet to report any improvement to the queues to repatriate capital from Nigeria, with delays now exceeding 18 months. Consequently, FTSE Russell has downgraded the 'No objection to or significant restrictions or penalties applied to the investment capital or the repatriation of capital and income' criterion for Nigeria from a rating of 'Restricted' to 'Not Met,' effective from March 2023.

FTSE Russell will continue to engage with the capital markets institutions in Nigeria and provide an update on Nigeria's Watch List status by 30 June 2023.

### Secondary Emerging Watch List

#### Vietnam

Vietnam is currently classified as a Frontier market and was added to the Watch List from September 2018 for possible reclassification to Secondary Emerging market status.

Vietnam has yet to meet the 'Settlement Cycle Delivery for Payment (DvP)' criterion, which is currently rated as 'Restricted'. This is due to the market practice of conducting a pre-trading check to ensure the availability of funds prior to placing a trade order. In addition, improvements to the process for the registration of new accounts are required, as the current arrangement can result in the extension of the registration process. The introduction of an efficient mechanism to facilitate trading between non-domestic investors in securities that have reached, or are approaching, their foreign ownership limit is also seen as important.

Since September 2022, FTSE Russell has been unable to identify tangible progress with respect to the central counterparty model, although FTSE Russell notes that discussions have taken place between key market authorities and local market working groups. User acceptance testing of the new trading system, an important building block in the new market ecosystem, began in February 2023, and will run for approximately 40 days between the Vietnam Securities Depository and Clearing Corporation (VSDCC) and its members. Evidence also suggests that work on the introduction of the Non-Voting Depository Receipts (NVDR) scheme has commenced, the purpose of which is to allow non-domestic investors to trade in securities without being concerned about the foreign ownership limit.

FTSE Russell continues to maintain a constructive relationship with the State Securities Commission (SSC), the World Bank Group, and Ernst & Young, institutions which are supporting the wider market reform

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programme and other key market authorities. The work to finalise the roles and responsibilities within the central counterparty model, required to reflect the implementation of the new legislation, remains a critical next step. Clear guidance on the likely timeframe would also be viewed favourably by international market participants.

**Vietnam will remain on the Watch List as a Frontier market** and will be reviewed for possible reclassification to a Secondary Emerging market within the FTSE Equity Country Classification scheme at the September 2023 annual review. It is important to note that FTSE Russell remains concerned about the lack of clarity regarding the timing of the market reforms; should this remain unclear or extensions to the timelines are material in nature, before September 2023, FTSE Russell may need to reconsider Vietnam's Watch List membership.

## 5. Other Markets

### **Bangladesh, Ghana, Kenya, and Sri Lanka (Frontier market status)**

Effective from the September 2022 index review, certain corporate events have not been implemented for Ghanaian, Kenyan, and Sri Lankan constituents of FTSE Russell equity indices due to reports from market participants and index users of significant delays to the repatriation of capital from these markets. Consequently, the 'No objection to or significant restrictions or penalties applied to the investment of capital or the repatriation of capital or income' criterion for these markets was downgraded to a 'Restricted' rating.

With the support of the FTSE Equity Country Classification Advisory Committee, FTSE Russell has engaged with relevant capital market authorities in Ghana, Kenya, and Sri Lanka to establish when the delays will be addressed. Feedback from market participants indicates that international institutional investors are continuing to experience delays to the repatriation of capital from Ghana and Kenya. Consequently, and until further notice, certain corporate events will not be implemented for Ghana and Kenya within FTSE Russell equity indices.

Market participants have also reported that the delays to the repatriation of capital from Sri Lanka that were reported previously have been cleared. Hence, effective from the March 2023 index review, FTSE Russell will resume the implementation of all corporate events for Sri Lankan constituents within FTSE Russell equity indices.

The extension of the imposition of a 'floor price' on the Dhaka Stock Exchange impacts the ability of international institutional investors to replicate benchmark changes. Consequently, and until further notice, certain corporate events will not be implemented for Bangladesh within FTSE Russell equity indices.

FTSE Russell seeks to continue the engagement process with the relevant capital market authorities and will provide an update on the Frontier market statuses of Bangladesh, Ghana, and Kenya as part of the FTSE Equity Country Classification September 2023 annual review of markets. For further information on the index treatment being applied to Bangladesh, Ghana, and Kenya within FTSE Russell equity indices, please refer to the following [notification](#).

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## India (Secondary Emerging market status)

Following the transition of the final group of Indian securities to a T+1 settlement cycle, which completed in late January 2023, FTSE Russell has engaged with market participants regarding their recent experiences of trading the market and liaised with market authorities to obtain their feedback on the change. Based on market authority and market participant feedback, FTSE Russell has concluded that the market has operated in a stable fashion since the completion of the move to a shortened settlement cycle at the end of January 2023. There was no noticeable increase to the number of trades failing to meet the Obligation Transfer Request (OTR) deadlines and the need to prefund has only been required in exceptional circumstances.

While the robustness of the new processes and systems requires further testing, market authorities and participants appear confident about managing day-to-day market volumes. Conversely, international participants have expressed residual concerns relating to:

- The ability of the market to accommodate very large index rebalances, given the reduced capacity within the broker community due to risk management constraints.
- The available liquidity at the commencement of the foreign exchange market, compounded by the relatively tight window for execution and reporting.
- Given the compressed time frames, how the processes would cope should a significant number of trades fail to meet the OTR cut-off.

FTSE Russell acknowledges that the market authorities are aware of these potential issues and are monitoring the trades that fail to meet the OTR cut-off. FTSE Russell also recognises the considerable efforts that have been expended by many market participants and the authorities to address the concerns of the international investment community, including recent announcements such as the change to the OTR cut-off time to 20:00 IST on T, the settlement process cut-off time to 07:30 IST on T+1, and accommodating the opening of the FX market (09:00 IST on T+1) through modified procedures.

FTSE Russell continues to engage with and solicit feedback from market participants. As part of the engagement process, FTSE Russell will share any feedback received with the Indian capital market authorities.

## Pakistan

Based on data as of the close on 30 December 2022, the aggregate investable market capitalisation of Pakistan within the FTSE Global All Cap Index was USD 3.50bn, while the investable market capitalisation exit level for Secondary Emerging market status was USD 3.31bn.

If, based on data as of the close 30 June 2023, the aggregate investable market capitalisation of Pakistan within the FTSE Global All Cap Index falls below the Secondary Emerging exit level, then Pakistan will be added to the Watch List from September 2023 for possible reclassification from Secondary Emerging to Frontier market status.

For further information on the minimum investable market capitalisation and securities count thresholds, please refer to the [FTSE Equity Country Classification Paper](#).

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## Iceland and Mongolia

FTSE Russell confirms that the final tranche of the reclassification of Iceland to Secondary Emerging market status was effective from the open on Monday 20 March 2023. For further information on the reclassification of Iceland, please refer to the [FAQ](#). As [announced](#) in September 2022, FTSE Russell confirms the reclassification of Mongolia from Unclassified to Frontier market status effective from September 2023.

## 6. The March 2023 Watch List

- **Nigeria:** possible reclassification from Frontier to Unclassified.
- **Vietnam:** possible reclassification from Frontier to Secondary Emerging.

For more information please visit: <https://www.ftserussell.com/equity-country-classification>

## 7. Enhancement to the FTSE Equity Country Classification Scheme

The FTSE Quality of Markets matrix is reviewed on a regular basis to reflect developments in equity capital markets and to ensure that the FTSE Equity Country Classification process continues to meet the needs of global investors when evaluated against a set of objective and transparent criteria.

Effective immediately, the minimum securities count requirement for an Advanced Emerging market to be considered for addition to the Watch List for possible reclassification to Developed market status will be based on five securities meeting the index eligibility requirements for the FTSE Developed Index, which encompasses Large and Mid Cap designated securities.

Previously, the index eligibility requirements were based on the FTSE Global All Cap Index, which encompasses Large, Mid and Small Cap designated securities.

For further information, please refer to the [FTSE Equity Country Classification Process](#) document and the FTSE Russell website: <https://www.ftserussell.com/equity-country-classification>.





## For more information about our indices, please visit [ftserussell.com](https://ftserussell.com).

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