

# FTSE Global Equity Index Series Country Classification



## MARCH 2010 UPDATE

### Market Classification within FTSE Equity Indices

The classification of markets within FTSE's Global Equity Index Series is assessed and considered on an ongoing basis, with changes in designation between Developed, Advanced Emerging, Secondary Emerging and Frontier status applied annually each September. This note provides an update at the midpoint in the 2010 assessment process, for the purposes of keeping investors fully informed.

Although assessment of all markets within FTSE indices is a continuous process, FTSE, in conjunction with its external advisory committee of investment professionals, focuses mainly on working with markets which have been placed on the Watch List. The Watch List comprises a set of markets which international investors believe are close to promotion to the next category, or demotion from its existing Country Classification category.

### Progress of Watch List markets since September 2009

#### *Greece*

At the September 2009 review, FTSE retained Greece on the Watch List for possible demotion to Advanced Emerging status. The Greek authorities have, in recent years, introduced a regime of regulatory development, including the implementation of MiFID. However, while many of these changes reflect progress in bringing the Greek market in line with other developed markets, international investors have noted that these reforms are not yet fully reflected in market practice, and note continued difficulties in areas of Custody, Settlement and Dealing Landscape. Dealing with these issues has not been made any easier by the impact of the Greek financial crisis. FTSE's assessment of the Greek market remains unchanged at this time.

FTSE commends officials at the Athens Stock Exchange and the Hellenic Capital Markets Commission for continued engagement with FTSE and international securities industry organisations and for participating in forums such as the October 2010 market roundtable held in London, where market participants had an opportunity for open dialogue with Greek market delegates.

#### *Taiwan*

FTSE has made no change to its assessment of Taiwan relevant to the Quality of Market criteria at this interim point, but notes that a number of reforms have been implemented. We believe that this progress shows that the Taiwanese authorities are aware of the importance attached to these practices by international investors and are systematically addressing them.

#### *Czech Republic*

At the September 2009 review, FTSE placed the Czech Republic on the watch list for possible promotion to Advanced Emerging status, and at the same time upgraded its assessment in three market criteria categories: Free and well developed foreign exchange market to "Pass", Custody – Omnibus account facilities available to international investors to "Pass", and Transaction costs – implicit and explicit transaction costs to be reasonable and competitive to "Pass".

Although no further changes were implemented at the March review, international investors do not report any significant custody, settlement or trading issues compared to existing Advanced Emerging markets.

#### *Malaysia*

FTSE has upgraded Malaysia's Quality of Market assessment to "Restricted" status in the area of "non or selective incidence of free and well-developed foreign exchange market" noting that, while mechanisms are in place for foreign investors generally to conduct currency trading efficiently, a 24/7 offshore market in the Malaysian ringgit remains lacking.

FTSE commends the coordinated efforts of the Malaysian stock exchange, government, national bank and regulators in conducting a robust engagement program. Outreach to international investors through media programs, roadshows in the major global financial centres, and one on one meetings with international investors has gained momentum since Malaysia was first placed on the FTSE Country Classification Watch List in September 2009 for possible promotion to Advanced Emerging status.

### *Turkey*

At the September 2009 review, FTSE placed Turkey on the watch list for possible promotion to Advanced Emerging status. At the March 2010 review, FTSE upgraded the Quality of Market assessment of Turkey's foreign exchange market to "Pass" reflecting the views and experiences of international investors actively dealing in that market.

### *China A*

FTSE has made no changes to its assessment of the China A shares market relevant to the Quality of Market criteria at this interim point.

### *Colombia*

FTSE placed Colombia on the watch list for possible demotion to Frontier status because of concerns over recent restrictions on the repatriation of funds. FTSE has moved its rating in this area to "Restricted" following the removal of restrictions, and welcomes continued engagement with the Colombian Stock Exchange. In recent years, there have been a number of progressive statutory and judicial measures along with new disclosure mechanisms aimed at improving transparency and guaranteeing equal treatment for all shareholders. In consequence, FTSE upgraded the Quality of Market assessment for Colombia in the area of "Fair and non-prejudicial treatment of minority shareholders" to "Pass" status.

### *Kuwait*

FTSE placed Kuwait on the watch list for admission to Secondary Emerging status in September 2008. FTSE has made no changes to its assessment of Kuwait relevant to the Quality of Market criteria at this interim point, but notes that in January 2010, the Kuwaiti Parliament adopted a bill underpinning the formation of a Capital Markets Authority (CMA). This is a critical first step towards addressing one of the two "Not Met" criteria, namely the requirement for a "Formal stock market authority that actively monitors the market". The bill, if enacted, would give the prospective Kuwaiti CMA a mandate to independently regulate the Kuwaiti Stock Exchange and protect the rights of market participants. The other major reform required is for the settlement cycle to be extended to 3 days.

### *Kazakhstan*

FTSE placed Kazakhstan on the Watch List for admission to Frontier status in September 2008 and has made no changes to its assessment of Kazakhstan's Quality of Markets criteria at this interim point. However, FTSE, through continued engagement with officials at the Kazakhstan Stock Exchange has learned that plans are being made to launch a new settlement system to address the issue of failed trades, one of the two criteria currently marked as "Not Met". The other outstanding issue requires reform of the settlement cycle to international standards.

### *Ukraine*

FTSE placed Ukraine on the Watch List for admission to Frontier status in September 2008. FTSE has made no changes to its assessment of Ukraine relevant to the Quality of Market criteria at this interim point. There remain three categories which the Ukraine market has not met.

## **2010 Annual Review**

In reaching these interim assessments on the Watch List markets' eligibility against FTSE's country classification criteria, FTSE is grateful to market authorities and market participants across the industry for sharing their experiences of working in the international equity markets.

Going forward, FTSE welcomes comments from both buy and sell side participants on their experiences and perceptions on trading with all markets, but particularly those on the Watch List. Data collection and analysis for the annual review will close in July and results of the annual country classification review will be announced in September 2010.

For further information please refer to the website:

[http://www.ftse.com/Indices/Country\\_Classification/Downloads/FTSE\\_Country\\_Classification\\_Sept\\_09\\_update.pdf](http://www.ftse.com/Indices/Country_Classification/Downloads/FTSE_Country_Classification_Sept_09_update.pdf)

For more information on any of the topics discussed in this paper, please contact [info@ftse.com](mailto:info@ftse.com)

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