

June 2024

Public minutes

FTSE Equity Country Classification Advisory Committee

04 June 2024



**FTSE
RUSSELL**

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Attendees

Members: sixteen (16); apologies: seven (7)

FTSE Russell: six (6) including the Chair and Committee Secretary

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

1. Statutory governance matters and committee information

1.1 Membership changes

1.1.1 None.

1.2 Minutes

1.2.1 The minutes of the meeting held on Tuesday 05 March 2024 were approved as presented.

1.2.2 The public minutes of the meeting held on Tuesday 05 March 2024 were approved as presented.

1.3 Governance

1.3.1 Annual review of the [Statement of Principles](#) (presented for endorsement): the advisory committee raised no objections for the minutes to state that the Statement of Principles continues to meet the purpose for which it was designed. There were no changes to the document apart from the date in the disclaimer.

1.4 Action points and matters arising

1.4.1 South Korea: a review of the market's accessibility criteria. See item 2.2.2.

1.5 Key notices and updates

1.5.1 The methodology notices published since the last meeting were included in the meeting materials. There were no requests for clarification.

2. March 2024 Watch List

2.1 Progress update of the March 2024 Watch List markets (presented for discussion):

2.1.1 Egypt: possible reclassification from Secondary Emerging to Unclassified. Egypt was added to the Watch List in September 2023 due to index users reporting repatriation delays dating back to March 2023. Consequently, index changes for Egypt within FTSE Russell equity indices were suspended since June 2023. Following Egypt securing an investment of USD 35bn from the UAE sovereign wealth fund, ADX, the queues were cleared at the beginning of March 2024.

2.1.1.1 At the March 2024 interim announcement, FTSE Russell announced that Egypt would be retained on the Watch List and would continue to monitor the market. Additionally, that intra-review corporate events for Egypt would be implemented from 01 April 2024. To date, the foreign exchange (FX) queues have remained clear, however, if this were to be a temporary measure and the queues returned, FTSE Russell would discuss potential next steps at the September 2024 committee meeting.

2.1.1.2 FTSE Russell invited the committee members to share their experience on whether they had seen any delays in the ability of international investors to repatriate funds from Egypt since the FX queues were cleared at the beginning of March 2024.

2.1.1.3 A discussion took place, and the committee members provided their comments.

2.1.2 Pakistan: possible reclassification from Secondary Emerging to Frontier. Pakistan was added to the Watch List in September 2023 due to the market failing to meet the minimum size requirement for retaining its current equity country classification market status based on data as of the close on 30 June 2023. The

advisory committee was reminded that effective from March 2024, the minimum securities count requirement for retaining Emerging market status was amended to at least two securities to be eligible for the FTSE Emerging Index (Large and Mid).

- 2.1.2.1 Subject to final ratification from the FTSE Russell Index Governance Board, if Pakistan failed the minimum market size or the securities count requirement, based on data as of the close on 28 June 2024, then Pakistan would be demoted from Secondary Emerging to Frontier market status in conjunction with the September 2024 index review, effective from the open on Monday 23 September 2024. There were no objections from the committee members. *Post-meeting note:* [FTSE Equity Country Classification – Pakistan reclassification Secondary Emerging to Frontier market – Published 03 July 2024](#).
- 2.1.3 Vietnam: possible reclassification from Frontier to Secondary Emerging. Vietnam has yet to meet the 'Settlement Cycle (DvP)' criterion, which is currently rated as 'Restricted' due to the market practice of conducting a pre-trading check to ensure the availability of funds prior to trade execution. Since, by default, the market did not experience failed trades, the 'Settlement – Rare incidence of failed trades' criterion is unrated.
- 2.1.3.1 Consequent to the 28 February 2024 conference led by the Prime Minister who reinforced the commitment of the country's top leaders to elevate Vietnam from a Frontier to an Emerging market status by 2025. On 25 March 2024, the Ministry of Finance (MOF) issued a public consultation in relation to a [draft Circular](#) that proposed to remove the prefunding requirement and allow the negotiation/contract between the foreign indirect investment (FII) and the broker to determine the prefunding ratio.
- 2.1.3.2 FTSE Russell invited the committee to share their views on the MOF's proposed framework to remove the prefunding requirement; the final regulations were expected to be published in mid-June 2024.
- 2.1.3.3 A discussion took place, and the committee members provided their comments.
- 2.2 Other Markets
- 2.2.1 South Korea – current QoM rating assessment (presented for discussion): a follow up to the March 2024 meeting – currently, South Korea has eight 'Restricted' ratings and one 'Not Met' rating, i.e., nine out of 22 QoM criteria were not rated as a 'Pass'.
- 2.2.1.1 It was noted that South Korea was in the process of implementing a financial reform programme which should address a number of the QoM criteria currently marked as 'Restricted'. The reforms cover issues such as the dividend payment process, the foreign exchange market, the registration process, more English language company disclosures, and the introduction of a new omnibus account structure. Several of the enhancements had recently been implemented, while others remain in progress and are scheduled for the second half of 2024. FTSE Russell that it would continue to monitor the implementation of the financial reform programme.
- 2.2.1.2 A discussion took place, and the committee members provided their comments.
- 2.2.2 Bangladesh (Frontier market) – index changes for Bangladesh have been suspended since March 2023, due to the continued imposition of a floor price; as of 07 February 2024, six securities were still subject to a floor price.
- 2.2.2.1 FTSE Russell said that as the number of securities subject to a floor price was being gradually reduced, FTSE Russell would continue to monitor the market and provide an update as part of September 2024 annual review of equity markets. FTSE Russell invited the committee members to share their experience pertaining to the current floor price. A committee member provided their comments.
- 2.2.3 Nigeria – status update (presented for discussion): Nigeria was reclassified from Frontier to Unclassified market status effective from September 2023 due to market participants reporting significant ongoing delays, since 2020, to their ability to repatriate capital. In accordance with the FTSE Equity Country

Classification process, a reclassified market must remain in that classification segment for a minimum of one year before it could be reconsidered for addition to the Watch List for another reclassification. At the March 2024 meeting, the committee members confirmed the FX queue (albeit small and intermittent) had returned. FTSE Russell invited the committee members to share their recent experience pertaining to the FX queue.

2.2.3.1 A discussion took place, and the committee members provided their comments.

2.3 Summary of recent market engagement meetings (presented for information): the market engagement summary was duly noted.

3. **FTSE Equity Country Classification Framework**

3.1 Power of Attorney (PoA) renewal timeframe for proxy voting (presented for discussion): at the January 2024 and March 2024 committee meetings, discussions took place on whether a requirement to submit a PoA to be able to register a vote via proxy at a shareholder meeting should be deemed as a negative when evaluating the 'Fair and non-prejudicial treatment of minority shareholders' criterion. The general consensus from the advisory committee was that the need for a PoA for proxy voting was common, however the need to renew the PoA on a regular basis should be deemed as a negative. Consequently, as part of the March 2024 interim update, FTSE Russell announced the downgrade from 'Pass' to 'Restricted' for the 'Fair and non-prejudicial treatment of minority shareholders' criterion for markets with a requirement to renew the PoA. Subsequently, FTSE Russell received a query from a market on whether the renewal of the PoA every five years would be considered acceptable.

3.1.1 A discussion took place, and the committee members provided their comments.

3.2 Canada, Mexico, and USA move to T+1 settlement cycle from the end of May 2024 (presented for discussion): FTSE Russell invited the committee members to share their experience pertaining to the new T+1 settlement cycle. A committee member provided their comments.

4. **Quality of Markets matrix**

4.1 Proposed rating changes for individual markets, ahead of the presentation of final recommendations at the September 2024 committee meeting (presented for discussion): the advisory committee reviewed the recommendations and provided their comments. Ratings changes have no immediate impact on the classification of markets. Final endorsement of the proposed rating changes will be requested at the September 2024 annual meeting.

4.1.1 The advisory committee duly noted the summary of developments in other markets, and markets considering or scheduled to transition to a T+1 settlement cycle.

5. **AOB**

5.1 India: FTSE Russell said that at its recent meeting with the Securities and Exchange Board of India (SEBI), the regulator expressed their interest to have a meeting with the members of the advisory committee in early July 2024 to discuss and understand the concerns from the international investment community on the registration process. FTSE Russell invited the committee members to contact committeesecretary@ftserussell.com if they were interested in joining the meeting with SEBI.

5.2 FTSE Russell thanked an outgoing proxy committee member, for their valuable contribution to the advisory committee.

6. **Meeting dates**: the next meeting date for 2024 was included in the agenda and duly noted.

6.1 2024: 03 September

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