

September 2023

Public minutes

FTSE Russell Policy Advisory Board

21 September 2023



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Attendees

Members: fifteen (15); apologies: nine (9)

FTSE Russell: eight (8) 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 Thursday 22 June 2023 were approved as presented.

1.2.2 The public minutes of the meeting held on Thursday 22 June 2023 were approved as presented.

1.2.3 The minutes of the ad hoc meeting held on Tuesday 15 August 2023 were approved as presented.

1.2.4 The public minutes of the ad hoc meeting held on Tuesday 15 August 2023 were approved as presented.

1.3 Governance

1.3.1 None.

1.4 Action points and matters arising

1.4.1 None.

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. **Equity Index methodology and policy**

2.1 Equity

2.1.1 Russell US Reconstitution draft market consultation (presented for discussion): the draft market consultation paper was included in the meeting materials. FTSE Russell invited the advisory board members to provide feedback on the proposed methodology enhancements to reduce the current trade size on the Russell reconstitution effective day (moving from an annual to a semi-annual index reconstitution frequency and implementation considerations).

2.1.1.1 A discussion ensued and the policy advisory board members provided their comments.

2.1.1.2 *Post-meeting note:* the market consultation was published on 10 October 2023 and can be found [here](#).

2.1.2 FTSE June quarterly review effective date – impact of US Juneteenth holiday (presented for discussion): the FTSE Global Equity Index Series (GEIS) and associated indices reviews have been effective after the close on the third Friday in March, June, September, and December to align with the expiration of stock options, stock index futures and stock index options, commonly referred to as ‘triple witching’, due to the increased volume on this trading day. The Russell US annual reconstitution has historically been effective after the close on the fourth Friday in June.

2.1.2.1 Juneteenth is a US Federal Holiday introduced from 2021 that is observed on the 19 June, with the US stock exchanges closed for trading. At present, Juneteenth has not directly impacted the GEIS and associated indices June quarterly reviews, that have a trade date as of the close on the third Friday in June.

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- 2.1.2.2 FTSE Russell invited the policy advisory board members to provide feedback on whether an alternative date for the June review for the GEIS and associated indices should be considered.
- 2.1.2.3 A discussion ensued and the policy advisory board members provided their comments.
- 2.1.2.4 FTSE Russell thanked the policy advisory board members for their comments and said they would reflect on the feedback provided.
- 2.1.3 US equity market migrating to trade date (T) +1 settlement (presented for discussion): the US equity market is scheduled to migrate from a T+2 to T+1 settlement cycle effective from Tuesday 28 May 2024. Consequently, the first stress test of the US T+1 settlement cycle would be the FTSE Global Equity Index Series (GEIS) index review on the third Friday in June 2024 and the Russell US annual reconstitution on the fourth Friday in June 2024.
- 2.1.3.1 FTSE Russell invited the policy advisory board members to provide feedback on this change and if there were any measures FTSE Russell should consider to support index users in their ability to replicate US benchmark changes from June 2024.
- 2.1.3.2 A discussion ensued and the policy advisory board members provided their comments.
- 3. Equity Country Classification – September 2023 Annual Announcement**
- 3.1 Recommended treatment of the Watch List markets, Nigeria, and Vietnam (presented for support):
- 3.1.1 Nigeria – was classified as a Frontier market and was added to the Watch List in September 2022 for possible reclassification to Unclassified market status. This was due to market participants reporting significant, ongoing delays since 2020 to their ability to repatriate capital. On 08 September 2023, FTSE Russell announced the reclassification of Nigeria from Frontier to Unclassified market status: [Nigeria – Reclassification from Frontier to Unclassified Market Status](#). There were no comments from the policy advisory board members.
- 3.1.1.1 **Summary:** the policy advisory board supported FTSE Russell’s decision to reclassify Nigeria from Frontier to Unclassified market status.
- 3.1.2 Vietnam – 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 (DvP)’ criterion, which is currently rated as ‘Restricted’. This was 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 does not experience failed trades, the ‘Settlement – Rare incidence of failed trades’ criterion is unrated.
- 3.1.2.1 Given the market authorities’ ongoing commitment to reform, although progress has remained slow, FTSE Russell proposed to maintain Vietnam on the Watch List and re-evaluate the continued Watch List status of Vietnam at the March 2024 Interim Review. There were no comments from the policy advisory board members.
- 3.1.2.2 **Summary:** the policy advisory board supported retaining Vietnam on the Watch List.
- 3.2 Delays to the repatriation of capital in other Frontier and Secondary Emerging Markets – follow-up from the June 2023 meeting (presented for discussion): during 2022, several markets experienced intermittent delays related to the ability of international institutional investors to repatriate capital from the market. For some markets, the FX delays existed for an extended period, resulting in FTSE Russell suspending index changes within the FTSE Russell equity indices (see [announcement](#)). FTSE Russell invited the policy advisory board members to provide feedback on their experience in these markets.
- 3.2.1 A discussion ensued and the policy advisory board members provided their comments.

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- 3.3 New addition to the Watch List – Pakistan: possible reclassification from Secondary Emerging to Frontier (presented for support): as of the close on 30 June 2023, Pakistan failed to meet the minimum size requirement exit threshold for retaining Secondary Emerging market status. Subject to final ratification by the FTSE Russell Index Governance Board, Pakistan would be added to the Watch List from September 2023 for possible reclassification from Secondary Emerging to Frontier market status. There were no comments from the policy advisory board members.
- 3.3.1 **Summary:** the policy advisory board supported the addition of Pakistan to the Watch List for possible reclassification from Secondary Emerging to Frontier market status.
- 3.3.2 *Post-meeting note:* [FTSE Equity Country Classification September 2023 Annual Announcement – Published 28 September 2023](#).
- 3.4 Summary of recent equity market engagement meetings (presented for information): the market engagement summary was duly noted; there were no queries.
- 4. Fixed Income Country Classification – September 2023 Annual Announcement**
- 4.1 Recommended treatment of the Watch List markets – India, South Korea, and Switzerland (presented for support):
- 4.1.1 India – was added to the Watch List at the March 2021 review for possible reclassification from Market Accessibility Level 0 to 1 and potential inclusion in the FTSE Emerging Markets Government Bond Index (EMGBI), primarily prompted by the launch of the Fully Accessible Route (FAR) scheme, which allows foreign investors to access a select list of government securities under the category of FAR, without investment ceilings. Since then, FTSE Russell has engaged with local regulators and index users to review the accessibility of Indian FAR bonds.
- 4.1.1.1 It was noted by FTSE Russell that minimal progress has been made to address the areas for improvement in the market structure highlighted as part of the March 2023 Fixed Income Country Classification Review. However, FTSE Russell understands that there continues to be a desire within the Reserve Bank of India to address these concerns, where it was able to do so. FTSE Russell proposed to retain India on the Watch List for EMGBI consideration, noting that it would be reassessed at the March 2024 review.
- 4.1.1.2 There were no comments from the policy advisory board members.
- 4.1.2 South Korea – was added to the Watch List from the September 2022 review, for possible reclassification from Market Accessibility Level 1 to 2 and potential inclusion in the FTSE World Government Bond Index (WGBI), following the announcement by the South Korean Ministry of Economy and Finance and the Financial Services Commission on a series of market reforms to enhance market accessibility for international investors. A summary of the latest update on the following areas was provided in the meeting materials.
- 4.1.2.1 As the implementation of the planned enhancements and feedback from market participants to assess whether investors have experienced the intended benefits of the reforms are still pending, FTSE Russell proposed to retain South Korea on the Watch List for WGBI consideration, noting that it would be reassessed at the March 2024 review.
- 4.1.2.2 A discussion ensued and the policy advisory board members provided their comments.
- 4.1.3 Switzerland – was added to the Watch List from the September 2021 review for possible reclassification from Market Accessibility Level 1 to 2 and potential inclusion in the WGBI. For a market to be assigned a Level '2' and achieve inclusion in the WGBI, the market structure must be such that investors can access the market with relative ease – this means the tax regime would need to be easily navigable. Although Switzerland was initially removed for failing the market size requirement, the withholding tax (WHT) regime has been assessed as not meeting the taxation regime criteria of the Fixed Income Country Classification framework.

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- 4.1.3.1 Proposed reforms to the WHT regime legislation gained momentum in 2021 and were voted on by the Swiss population in late 2022; 52% of the electorate voted against the changes to the withholding tax, meaning the reform plans were withdrawn. At the time of writing, no next steps have been officially announced by the Swiss Federal Tax Authority. As the next potential steps were still under consideration by the Swiss authorities, FTSE Russell proposed to retain Switzerland on the Watch List for potential WGBI inclusion, noting that it would be reassessed at the March 2024 review. There were no comments from the policy advisory board members.
- 4.1.4 *Post-meeting note:* [FTSE Fixed Income Country Classification September 2023 Announcement – Published 28 September 2023](#).
- 4.1.5 **Summary:** the policy advisory board members supported retaining India, South Korea, and Switzerland on the Watch List; the markets will be reassessed at the March 2024 review.
- 4.2 Summary of recent fixed income market engagement meetings (presented for information): the market engagement summary was duly noted; there were no queries.
- 5. Fixed Income Index Methodology and Policy**
- 5.1 FTSE Canada Bond Index Series – market structure review for CAD-denominated bonds issued by global entities (presented for discussion): FTSE Russell invited the policy advisory board to comment on the market structure for Maples from an investor standpoint, as well as sentiment among asset managers and asset owners regarding the inclusion of Maple bonds in the FTSE Canada Universe Bond Index. Maple bonds are securities denominated in Canadian dollar issued by non-Canadian issuers (defined based on country of incorporation). The policy advisory board members were asked to provide their feedback on the market structure and definition of Maple bonds within the context of the domestic Canadian capital markets.
- 5.1.1 A discussion ensued and the policy advisory board members provided their comments.
- 5.1.2 FTSE Russell thanked the policy advisory board members for their comments and said they would reflect on the feedback provided.
- 6. AOB**
- 6.1 Two items were raised by the policy advisory board members.
- 7. Meeting dates**
- 7.1 The meeting dates for 2024 were included in the agenda and duly noted.
- 7.1.1 2024: 21 March / 20 June / 19 September

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