

Public Minutes

FTSE Russell Policy Advisory Board

19 September 2024



**FTSE
RUSSELL**

An LSEG Business

Attendees

Members: sixteen (16); apologies: six (6)

FTSE Russell: eight (8)

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 FTSE Russell welcomed a new member to the advisory board.

1.1.2 FTSE Russell thanked an outgoing member for their contribution to the advisory board.

1.2 Minutes

1.2.1 The minutes of the meeting held on Thursday 20 June 2024 were approved as presented.

1.2.2 The public minutes of the meeting held on Thursday 20 June 2024 were approved as presented.

1.3 Governance

1.3.1 None.

1.4 Action points and matters arising

1.4.1 Russell US reconstitution market consultation: update on next steps: the members duly noted that FTSE Russell was still considering all feedback and conducting internal discussions regarding the potential path forward. An update on the next steps will be shared with the advisory board ahead of any public announcement.

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.

(Items 4 and 5 were discussed first.)

2. Equity index methodology and policy

2.1 UK Financial Conduct Authority's (FCA) Financial Markets Effectiveness Review (presented for information): consequent to the announcement by the FCA on 11 July 2024 regarding changes to the UK Listing regime, FTSE Russell published a [notice](#) on updates to the applicable FTSE UK Index Series Ground Rules documents – the Equity Shares (Commercial Companies) category became the eligible index universe for the FTSE UK Index Series, replacing the Premium Segment, effective on 29 July 2024. There was no material impact to the composition of the indices on the implementation of the new regime due to the automatic mapping exercise conducted by the FCA. However, companies may subsequently decide to apply to transfer to the Equity Shares (Commercial Companies) category which may result in them becoming eligible for the FTSE UK Index Series at the following quarterly index review. There were no comments.

2.2 Russell US Style indexes market consultation on capping the standard series – results (presented for discussion): FTSE Russell conducted a [consultation](#) with market participants in August 2024 in response to the recent increase in concentration within the large and mega cap growth indices. Although the indices themselves were not subject to the 25/5/50 US RIC IRS capping thresholds, clients had requested FTSE Russell to reconsider the capping thresholds applied to index products in recognition of the investable

constraint applied due to the regulation. The aim of the consultation was therefore to obtain index users' feedback on the need to align with regulatory diversification rules and the potential methodology changes impacting style component weighting. Historically, FTSE Russell provided exclusion and regulatory capping methodologies in addition to the index family and maintained the standard index as uncapped to provide an accurate reflection of the US market.

- 2.2.1 FTSE Russell received strong support in favour of capping the standard style index. FTSE Russell also received feedback that a lower target capped weight would be more appropriate to protect against potential drift between the quarterly reviews. Consequently, FTSE Russell proposed to adopt the capping methodology for the existing index series and intended to progress this item internally to the evaluation stage. It was noted that a small number of index users managed portfolios which were not required to adhere to the RIC cap thresholds and therefore, FTSE Russell proposed to provide a new index series that would remain uncapped for their use. Any decisions on methodology changes were subject to approval by the relevant FTSE Russell internal governance forums.
- 2.2.2 FTSE Russell invited the committee members to share their views, particularly on the target capped weight, and any other areas that should be considered. A discussion took place, and the committee members provided their comments.
- 2.2.3 *Post-meeting note:* [Results of the Consultation on Capping the Russell US Style Indexes – Published on 01 November 2024](#)
- 2.3 Enhancements to the free float restrictions methodology and research process (presented for discussion): FTSE Russell equity indices are free float weighted so that only company shares available to public investors are included. Shares where the holders are restricted from selling, locked up, or held by insiders as defined by FTSE Russell are removed. Following the integration of Refinitiv data businesses into LSEG Data & Analytics, FTSE Russell proposed to incorporate the [LSEG Data & Analytics Ownership and Profiles Data](#) product as a primary source in the FTSE Russell free float research process. The target implementation was planned for the June 2025 equity index reviews.
- 2.3.1 FTSE Russell's free float data are currently sourced from beneficial ownership tables within public filings such as annual reports, DEF-14 and 424 filings. Due to the number of securities within FTSE Russell equity indices, FTSE Russell has historically been unable to incorporate updates from non-primary filings, such as Form 4's and Schedule 13G/D's, into the free float calculation. Sourcing shareholder data from LSEG Data & Analytics Ownership and Profiles Data leading up to the review cut-off date would allow FTSE Russell to improve the timeliness, frequency, and precision of free float calculations and reduce the number of queries and corrections during the review query period. For the advisory board's reference, the preliminary index turnover analysis for the June 2024 reviews of the FTSE Global Equity Index Series (GEIS), and the Russell US Indexes was included in the meeting materials. FTSE Russell proceeded to invite the members to share their views on the proposed enhancements to the free float restrictions methodology and research process. A discussion took place, and the committee members provided their comments.
- 2.3.2 *Post-meeting note:* [market-consultation-on-enhancing-the-ftse-russell-free-float-methodology-november-2024.pdf](#)
- 2.4 Update on the treatment of securities with extreme price movements (presented for discussion): an overview of the index analysis being conducted on securities with extreme price movements was included in the meeting materials. FTSE Russell was targeting the end of 2024 to finalise its analysis with the objective of developing a rule-based approach. There were no comments.

3. **Equity Country Classification – 2024 annual announcement**

3.1 Recommended treatment of the March 2024 Watch List markets

3.1.1 **Egypt** – remove from the Watch List for possible reclassification from Secondary Emerging to Unclassified market status (presented for support).

3.1.1.1 Egypt is currently classified as a Secondary Emerging market but was added to the Watch List in September 2023 for possible reclassification from Secondary Emerging to Unclassified market status, due to index users reporting delays in their ability to repatriate capital from the market dating back to March 2023. Consequently, index changes for Egypt within FTSE Russell equity indices had been suspended since June 2023. Following an inflow of funds from a UAE sovereign wealth fund, outstanding foreign exchange (FX) queues were cleared at the beginning of March 2024. At the June 2024 index review, quarterly shares in issue and investability weight changes were implemented for Egyptian index constituents. As no FX delays were reported in advance of the September 2024 FTSE GEIS and associated indices review, FTSE Russell [announced](#) that Egyptian securities would be evaluated for index eligibility in accordance with the underlying index rules with all restrictions on index changes lifted.

3.1.1.2 **Summary:** subject to no FX delays being reported, and final ratification from the FTSE Russell Index Governance Board, FTSE Russell will announce, as part of the 2024 annual review of equity markets, the removal of Egypt from the Watch List and for it to be retained as a Secondary Emerging market within the FTSE Equity Country Classification framework. There were no objections from the advisory board.

3.1.2 **Pakistan** – reclassification of Pakistan from Secondary Emerging to Frontier market status in conjunction with the September 2024 index reviews (presented for information).

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

3.1.2.2 On 03 July 2024, FTSE Russell [announced](#) that based on data as of the close on 28 June 2024, Pakistan failed to meet the minimum securities count requirement for retaining Secondary Emerging market status, as there were less than two eligible Pakistani constituents of the FTSE Emerging Index as of the assessment date. Consequently, and in accordance with the FTSE Equity Country Classification framework, effective from the open on Monday 23 September 2024, Pakistan will be reclassified from Secondary Emerging to Frontier market status in conjunction with the September 2024 index reviews of the FTSE Global Equity Index Series and the FTSE Frontier Index Series. There were no comments.

3.1.3 **Vietnam** – retain on the Watch List for possible reclassification from Frontier to Secondary Emerging market status (presented for discussion).

3.1.3.1 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 (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 trade execution. Since, by default, the market does not experience failed trades, the 'Settlement – Rare incidence of failed trades' criterion is unrated.

3.1.3.2 The Prime Minister has reinforced the commitment of the country's top leaders to elevate Vietnam from a frontier market to an emerging market by 2025. On 19 July 2024, the State Securities Commission (SSC) published a draft Circular on the introduction of several provisions for a non-prefunding (NPF) model to facilitate the participation of foreign institutional investors (FII) in the domestic equity stock market. On Thursday 19 September 2024 the regulator [announced](#) the implementation of the new model effective from 02 November 2024, that will allow Foreign institutional investors to place orders to buy shares without

requiring pre-funding (sufficient funds). FTSE Russell will monitor the adoption of the new model and provide an update to the committee at the next meeting.

3.1.3.3 **Summary:** subject to final ratification from the FTSE Russell Index Governance Board, FTSE Russell will announce, as part of the 2024 annual review of equity markets, to retain Vietnam on the Watch List for possible reclassification to Secondary Emerging market status. There were no objections from the advisory board.

3.2 Other markets

3.2.1 Bangladesh – continued imposition of a floor price (presented for support).

3.2.1.1 Bangladesh is currently classified as a Frontier market within the FTSE Equity Country Classification framework, however, index changes for Bangladeshi index constituents have been suspended since March 2023, due to the continued imposition of a floor price. This mechanism has resulted in the deterioration of liquidity and inflated valuations when compared to the valuations on the OTC market for Bangladeshi securities, which continue to be subject to said floor price.

3.2.1.2 In advance of the September 2024 meeting of the Equity Country Classification Advisory Committee, the Bangladesh Securities and Exchange Commission (BSEC) announced the removal of the floor price restriction on all but two listed securities on the exchange. Consequently, FTSE Russell [announced](#) that from the September 2024 index review, Bangladeshi index changes, except for the two securities that were still subject to a floor price, will be implemented in line with other eligible equity markets.

3.2.1.3 FTSE Russell said that its original intention was to propose the addition of Bangladesh to the Watch List for possible reclassification from Frontier to Unclassified market status due to the continued imposition of a floor price and a perceived lack of engagement from the market authorities. However, the removal of the floor price on all but two of the listed securities was seen as a positive development. Consequently, subject to final ratification from the FTSE Russell Index Governance Board, FTSE Russell proposed to not add Bangladesh to the Watch List as part of the September 2024 annual equity country classification review, but to continue monitoring the market. There were no objections from the advisory board.

3.2.2 Greece – proposal to add Greece to the Watch List for possible reclassification from Advanced Emerging to Developed market status (presented for support).

3.2.2.1 Greece is currently classified as an Advanced Emerging market within the FTSE Equity Country Classification framework; as of March 2024, the market met the twenty-two FTSE Quality of Markets (QoM) criteria. The FTSE Equity Country Classification guidelines state that in addition to the QoM criteria, a market must also meet: i) the minimum investable market capitalisation and securities count requirement; ii) a World Bank Gross National Income (GNI) per capita rating of 'High' based on the Atlas method; and iii) a Credit Worthiness rating of 'Investment' grade.

3.2.2.2 Greece currently meets the requirement for 'i' and 'ii', but not 'iii' above. At the June 2024 meeting, the Equity Country Classification Advisory Committee agreed that failing Credit Worthiness should not prohibit an equity market from being added to the Watch List for possible reclassification to Developed market status, provided there was a reasonable likelihood of a credit rating upgrade in the near term. FTSE Russell said that following the distribution of the meeting materials, Moody's revised Greece's outlook to 'positive' from 'stable' but retained its 'Speculative' credit rating.

3.2.2.3 FTSE Russell invited the advisory board to share their views on the proposed addition of Greece to the Watch List for possible reclassification from Advanced Emerging to Developed market status. A discussion took place, and the committee members provided their comments.

3.2.2.4 **Summary:** subject to final ratification from the FTSE Russell Index Governance Board, FTSE Russell proposed to announce, as part of the 2024 annual review of equity markets, the addition of Greece to the

Watch List for possible reclassification from Advanced Emerging to Developed market status within the FTSE Equity Country Classification framework. There were no objections from the advisory board.

N.B. Watch List indices reflecting the projected impact of Greece as a Developed market were scheduled to be published in early October 2024.

3.2.3 **South Korea – proposed response to the extension of the short selling ban** (presented for discussion).

3.2.3.1 At the June 2024 meeting, FTSE Russell presented a paper which highlighted the Equity Country Classification conundrum presented by South Korea. Although it now had a 'Not Met' rating for the short selling criterion, the market was in the process of implementing a long-awaited programme of financial reform that would benefit international market participants. A discussion took place, and the committee members provided their comments.

3.2.4 **Markets close to failing the minimum stock requirement to retain Developed or Emerging market status** (presented for information): effective from March 2024, a market would be placed on the Watch List for possible demotion from Developed to Advanced Emerging market status or from Secondary Emerging to Frontier market status when the number of eligible index constituents in the FTSE Developed (Large and Mid-Cap) Index or the FTSE Emerging (Large and Mid-Cap) Index fell below two. Based on data as of the close on 28 June 2024, six markets had eligible index constituents close to two constituents. There were no comments.

3.3 **Summary of Q3 2024 equity market engagement meetings** (presented for information): the market engagement summary was duly noted.

4. Fixed Income Country Classification – 2024 annual announcement

4.1 **Recommended treatment of the March 2024 Watch List markets**

4.1.1 **South Korea – possible reclassification from Market Accessibility level 1 to 2, and potential inclusion in the FTSE World Government Bond Index (WGBI)** (presented for support): an overview of the progress of market reforms implemented over the last two years to enhance market accessibility for international investors was provided in the meeting materials.

4.1.1.1 In light of the South Korean market authorities' implementation of all proposed market infrastructure changes, FTSE Russell said that it proposed to reclassify South Korea from Market Accessibility Level 1 to 2 and announce its future inclusion into the WGBI in the September 2024 review announcement. With regard to the notice period and implementation approach, the intention was to provide a notice period of one year to the market, with inclusion into the WGBI using a phased-in approach over a period of one year. FTSE Russell asked the advisory board if they had any objections to reclassifying South Korea from Market Accessibility Level 1 to 2. A discussion took place, and the committee members provided their comments.

4.1.1.2 **Summary:** no objections were raised by the Policy Advisory Board on the proposal to reclassify South Korea from Market Accessibility level 1 to 2, and for future inclusion in the WGBI.

4.1.2 **India – possible reclassification from Market Accessibility Level 0 to 1, and potential inclusion in the FTSE Emerging Markets Government Bond Index (EMGBI)** (presented for support): India was placed on the Watch List at the March 2021 FTSE Fixed Income Country Classification Review, subsequent to the launch of the Fully Accessible Route (FAR) scheme, which allowed foreign investors to access a select list of government securities under the category of FAR, without investment ceilings. Since then, FTSE Russell engaged with local regulators and index users to review the market accessibility of Indian FAR bonds.

4.1.2.1 FTSE Russell said that it proposed to reclassify India from Market Accessibility Level 0 to 1 and to announce its inclusion into the EMGBI in the September 2024 review announcement. With regard to the notice period and implementation approach, similar to the implementation approach proposed for South Korea in item 4.1.1, the intention was to provide a notice period of one year to the market, with inclusion into

the EMGBI using a phased-in approach over a period of one year. FTSE Russell asked the Policy Advisory Board if they had any objections to reclassifying India from Market Accessibility Level 0 to 1.

- 4.1.2.2 **Summary:** no objections were raised by the Policy Advisory Board on the proposal to reclassify India from Market Accessibility Level 0 to 1, and for future inclusion in the EMGBI.

Post-meeting note: committee members were requested to not discuss the content of the committee materials with any third-party and if contacted by the media, refer them to the LSEG Press Office.

- 4.2 Summary of Q2-Q3 2024 market engagement meetings (presented for information): the market engagement summary was duly noted.

5. Fixed income index methodology and policy

- 5.1 Tradeweb FTSE Closing Pricing for UK Gilts, European Government Bonds, and US Treasuries (presented for discussion): Tradeweb FTSE closing bond prices were based on executable bid-side and offer-side price quotes supplied by market makers to Tradeweb's electronic trading platform for institutional dealer and clients during a pre-determined collection window each day.

- 5.1.1 FTSE Russell, as the benchmark administrator, was responsible for the governance and oversight of the calculation of these prices by Tradeweb. The closing prices were administered in accordance with the EU and UK Benchmark Regulation and the IOSCO Principles for Financial Benchmarks. The FTSE regional fixed income advisory committees provide external oversight to these methodologies and on occasion may be asked to provide their feedback on methodology changes.

- 5.1.2 Tradeweb and FTSE Russell intended to continue to expand their bond pricing capabilities to cover additional local currency fixed-rate government bond markets eligible for the WGBI. FTSE Russell invited comments from the Policy Advisory Board on the methodology for Tradeweb FTSE closing prices and the appropriateness of their use in the WGBI. A discussion took place, and the committee members provided their comments.

6. AOB

- 6.1 There was no other business.

7. Meeting dates for 2025 were included in the agenda and duly noted.

- 7.1 2025: 20 March / 18 June / 18 September

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