

June 2024

Public minutes

FTSE Russell Policy Advisory Board

20 June 2024



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Attendees

Members: fifteen (15): apologies – seven (7)

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 21 March 2024 were approved as presented.

1.2.2 The public minutes of the meeting held on Thursday 21 March 2024 were approved as presented.

1.3 Governance

1.3.1 Annual review of the [Statement of Principles for FTSE Russell Equity Indices](#) (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.

1.3.2 Annual review of the [Statement of Principles for FTSE Fixed Income Indices](#) (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 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 Russell US reconstitution market consultation – update on next steps (presented for information): the Policy Advisory Board was informed that FTSE Russell is still considering all feedback and conducting internal discussions regarding the potential path forward. A material update on next steps will be shared at the September 2024 meeting.

3. **Equity Country Classification**

3.1 Progress of the March 2024 Watch List markets, and other markets (presented for information)

3.1.1 **Egypt** – 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 repatriation delays dating back to March 2023. Consequently, index changes for Egypt within FTSE Russell equity indices were suspended since June 2023.

3.1.1.1 As part of the [March 2024 FTSE Equity Country Classification interim announcement](#), FTSE Russell announced that Egypt had cleared the outstanding FX queues, but would be retained on the Watch List to continue monitoring the market. In terms of index treatment, FTSE Russell recommenced implementing

intra-review corporate events for Egyptian index constituents from 01 April 2024. At the June 2024 index review, quarterly shares in issue and free float changes were implemented. There were no comments.

- 3.1.2 **Pakistan** – currently classified as a Secondary Emerging but was added to the Watch List from 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 the 30 June 2023.
- 3.1.2.1 Subject to final ratification from the FTSE Russell Index Governance Board, if Pakistan fails the minimum market size and securities count requirement assessment (based on data as of the close on 28 June 2024), then Pakistan would be demoted from Secondary Emerging to Frontier market status effective in conjunction with the September 2024 index review, effective from the open on Monday 23 September 2024. *Post-meeting note:* [FTSE Equity Country Classification – Pakistan reclassification Secondary Emerging to Frontier market – Published 03 July 2024](#).
- 3.1.3 **Vietnam** – currently classified as a Frontier market and was added to the Watch List for possible reclassification from Frontier to Secondary Emerging market status from September 2018. The market 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.
- 3.1.3.1 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 market to an emerging market by 2025, there have been a number of activities in the market. FTSE Russell invited the committee to share their view of the recent progress made by the market authorities. Committee members shared their views.
- 3.2 Other markets
- 3.2.1 **Bangladesh** (Frontier market) – index changes for Bangladesh have been suspended since March 2023 due to the continued imposition of a floor price; six securities were still subject to said floor price. FTSE Russell would continue to monitor the market and provide an update as part of September 2024 annual review of equity markets. There were no comments.
- 3.2.1.1 A discussion took place, and the committee members provided their comments.
- 3.2.2 **South Korea (Developed)** – 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'.
- 3.2.2.1 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'. Several of the enhancements had recently been implemented, while others remain in progress and are scheduled for the second half of 2024. FTSE Russell said that it would continue to monitor the implementation of the financial reforms. There were no comments.
- 3.2.3 September 2024 annual review of equity markets: FTSE Russell invited the committee members to contact FTSE Russell if they wished FTSE Russell to evaluate any other markets ahead of the September 2024 annual review.
- 3.2.4 Middle East and Africa (MENA) region – cut-off thresholds: FTSE Russell highlighted the recently published notice regarding an amendment to the cut-off thresholds for the Middle East and Africa (MENA) region from 1.00% to 0.50% effective from the September 2024 index review: [FTSE Global Equity Index Series – Ground Rule Update – Published 23 May 2024](#). This was due to the investable market capitalisation inclusion level increasing to approx. USD 875m, due to recent reclassifications of Kuwait, Qatar and Saudi Arabia, thereby having a higher barrier to entry for new companies for this region compared to the other

regions. FTSE Russell added that due to the methodology update, there may be additional inclusions at the September 2024 index review for the MENA region. There were no queries.

3.3 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 which came into effect from 28 May 2024. FTSE Russell said that current feedback from index users suggested that the move to T+1 had progressed smoothly, without any material issues. The next stress test for the T+1 settlement would be the June 2024 review for FTSE and Russell US indices. There were no comments.

3.4 Summary of recent equity market engagement meetings (presented for information): the market engagement summary was duly noted; there were no queries.

4. Sustainable Investment

4.1 Approach to controversial conduct assessments (presented for discussion): controversy screens have been applied to the majority of FTSE Russell's Sustainable Investment (SI) indices since the market consultation and launch of the index 'baseline exclusions' overlay in 2023, which included controversies exclusions.

4.1.1 The assessments of controversy exclusions are provided by third-party vendors. In most situations, those exclusions fulfil index/client requirements, however in some situations this approach could be less effective e.g., when 'headline risk' emerges rapidly and the individual controversy datasets are not able to capture the risk in real time, if at all. Given the growing expectations and scrutiny of controversy data sets by index clients, FTSE Russell was considering options for enhancing the way in which controversial companies / issuers are identified, and the removal of exposure to those companies / issuers from the SI indices.

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

5. AOB

5.1 There was no other business.

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

6.1 2024: 19 September

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