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FTSE Classification of Fixed Income Markets – FTSE Fixed Income Country Classification Announcement March 2024

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The inclusion of nominal and inflation-linked local currency government bond markets in global FTSE fixed income indices is governed by the [FTSE Fixed Income Country Classification Framework](#).

A core feature of this framework is the assignment of Market Accessibility Levels, which are reviewed on a semi-annual basis. The transparent nature of the Market Accessibility Levels allows FTSE Russell to seek feedback from international investors on their practical investment experiences and to engage with relevant authorities in markets which are under review for potential reclassification.

Index inclusion changes due to market size and credit rating are also assessed as part of the FTSE Fixed Income Country Classification process.

The results of the March 2024 FTSE Fixed Income Country Classification Review can be found in the remainder of this announcement.



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Addition of Portugal to the FTSE World Government Bond Index

As part of each semi-annual FTSE Fixed Income Country Classification Review, objective index inclusion criteria for market size and credit rating are assessed to ensure a consistent approach to market inclusion in FTSE global government bond indices. As of the March 2024 review, the local currency fixed-rate Portuguese government bond market meets all three eligibility criteria (market size, credit rating¹ and a minimum Market Accessibility Level of “2”) for entry into the FTSE World Government Bond Index (WGBI). FTSE Russell therefore announces that Portugal will be added to the FTSE WGBI effective with the November 2024 index profiles.

As of the March 2024 index profiles, 17 EUR-denominated Portuguese government bonds with EUR 144.9 par amount outstanding (USD 158.5 billion, JPY 23.2 trillion) are projected to enter the FTSE WGBI, representing 0.61% of the index on a market value weighted basis. Portugal will also be included in indices that derive their membership from the FTSE WGBI, including the FTSE European Government Bond Index (EGBI), and alternatively weighted versions, including the FTSE Climate Risk-Adjusted WGBI.²

Status of Watch List Markets

South Korea

South Korea will remain on the FTSE Fixed Income Country Classification Watch List for the potential reclassification of its Market Accessibility Level from 1 to 2, and consideration for inclusion in the FTSE WGBI.

In September 2022, South Korea was placed on the FTSE Fixed Income Country Classification Watch List for a potential upgrade to a Market Accessibility Level of 2, and consideration for inclusion in the FTSE WGBI.

Local market authorities continue to progress initiatives intended to improve the accessibility of South Korean government bonds for international investors, which would facilitate the fulfilment of the criteria for a Market Accessibility Level of 2. FTSE Russell notes the following developments since its last review in September 2023:

- **International Central Securities Depository (ICSD) Connectivity:** in August 2023, the Korean Securities Depository (KSD) announced that it had signed contracts with Clearstream and Euroclear to establish a link between the KSD and these ICSD platforms. In December 2023, it was further announced that the service is expected to be available by the end of June 2024. FTSE Russell notes that a prerequisite for the use of these platforms by international investors is a seamless withholding tax exemption process for South Korean government bonds. This appears to require further focus by the market authorities to resolve outstanding issues in the application process for certain investors.
- **Transition from the Investor Registration Certificate (IRC) to the Legal Entity Identifier (LEI) registration scheme:** regulatory approval was passed on 05 June 2023 for the IRC abolishment. The implementation of Legal Entity Identifier (LEI) was implemented on 14 December 2023. Initial feedback received by FTSE Russell has generally been positive, although difficulties in corroboration have also been noted for certain types of funds.

¹ Prior to the March 2024 FTSE Fixed Income Country Classification Review, Portugal did not meet the minimum credit rating threshold for entry in the FTSE WGBI (A3 by Moody's and A- by S&P). The long-term local currency debt rating for Portugal was upgraded to A3 by Moody's in November 2023 and to A- by S&P on 01 March 2024.

² For related or custom indices that incorporate the FTSE Fixed Income Emerging Markets definition as part of the index inclusion criteria, FTSE Russell confirms that Portugal is classified as a Developed market.

- **Foreign Exchange (FX) market reforms:** the necessary approvals to enhance the foreign exchange market were approved by the National Assembly and revisions of relevant laws were finalised in 2023. A six-month pilot period for third-party FX commenced in early January 2024. FTSE Russell understands that participation is currently limited, but increasing. The planned implementation for relevant changes, including the extension of Korean won trading hours, is expected to extend through the second half of 2024.

FTSE Russell acknowledges the meaningful progress over the last six months, which is in line with the announced implementation target dates. FTSE Russell also recognises the commitment of the South Korean market authorities to address investor feedback regarding practical issues in the implementation of its reforms. Ahead of its next scheduled review in September 2024, FTSE Russell will continue to monitor the positive developments in the South Korean government bond market towards the successful fulfilment of the criteria for Market Accessibility Level 2.

Switzerland

Switzerland will be removed from the FTSE Fixed Income Country Classification Watch List for the potential reclassification of its Market Accessibility Level from 1 to 2, and consideration for inclusion in the FTSE WGBI.

Switzerland was originally placed on the FTSE Fixed Income Country Classification Watch List in September 2021, for a potential upgrade to a Market Accessibility Level of 2, and consideration for inclusion in the FTSE WGBI.

Based on feedback from international investors, FTSE Russell determined that the withholding tax reclamation process for Swiss government bonds did not satisfy the Taxation Regime requirement for a Market Accessibility Level of “2” specified in the FTSE Fixed Income Country Classification Framework. FTSE Russell monitored proposed legislative reforms to abolish the withholding tax applied to international investors, which failed to pass in late 2022. FTSE Russell is not aware of any subsequent or planned reforms to the domestic taxation regime that would potentially result in a Market Accessibility Level reclassification. As such, Switzerland will be removed from the FTSE Fixed Income Country Classification Watch List.

India

India will remain on the FTSE Fixed Income Country Classification Watch List for the potential reclassification of its Market Accessibility Level from 0 to 1, and consideration for inclusion in the FTSE Emerging Markets Government Bond Index (EMGBI).

In March 2021, India was added to the FTSE Fixed Income Country Classification Watch List for the potential reclassification of its Market Accessibility Level from 0 to 1, and for consideration for inclusion in the FTSE EMGBI. This followed the introduction of the Fully Accessible Route (FAR).

Since its last review, FTSE Russell acknowledges areas of progress in the accessibility of the Indian government bond market with additional flexibility afforded to custodians relating to margin financing, which has now been more widely adopted. This has helped to improve certain aspects of the trade settlement process. However, there continue to be criteria for a Market Accessibility Level of 1 that the market does not satisfy, including the documentary requirements to fulfil the Foreign Portfolio Investor (FPI) registration, increased regulatory reporting, the inflexible length of the settlement cycle and the tax clearance process.

FTSE Russell intends to continue its valuable dialogue with the Reserve Bank of India and welcomes feedback from an expanding cohort of international investors entering the Indian government bond market on the practicalities of their investment experience.

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