

# FTSE Global Equity Index Series Country Classification



## MARCH 2009 UPDATE

### **Market Classification within FTSE Equity Indices**

The classification of markets within FTSE's Global Equity Index Series is assessed and considered on an ongoing basis, with changes in designation between Developed, Emerging and Frontier status applied annually each September. This note provides an update at the midpoint in the 2009 assessment process, for the purposes of keeping investors fully informed.

Although assessment of all markets within FTSE indices is a continuous process, FTSE, in conjunction with its external advisory committee of investment professionals, focuses its activity mainly on working with markets which have been placed on the Watch List. The Watch List comprises a set of markets which international investors believe are close to promotion to the next category, or demotion from its existing category, within FTSE indexes.

### **Progress of Watch List markets since September 2008**

Eleven markets were placed on FTSE's Watch List at the September 2008 review for possible promotion/demotion in September 2009.

#### *Greece*

At the September 2008 review, FTSE retained Greece on the Watch List for further assessment of its market structure. The Greek authorities have, in recent years, introduced a regime of significant regulatory development, including the implementation of MiFID. However, while many of these changes reflect progress in bringing the Greek market in line with other developed markets, international investors have noted that these reforms are not yet fully reflected in market practice, and so FTSE's assessment of the Greek market remains unchanged at this time.

#### *Taiwan*

FTSE has made no changes to its assessment of Taiwan relevant to the Quality of Market criteria at this interim point, but notes that a number of changes have been implemented. We believe that this progress shows that the Taiwanese authorities are aware of the importance attached to these practices by international investors, and are systematically addressing them.

FTSE welcomes the move made by TWSE in February 2009 to lengthen the settlement cycle within its trading environment. International investors report that while this move is helpful, a further extension is required to make the market more readily accessible and in line with practice in developed markets.

#### *Iceland*

Market conditions have significantly changed since Iceland was placed on the Watch List, and while it continues to meet the Quality of Market criteria, it no longer meets the minimum market capitalisation criterion for inclusion in GEIS.

#### *Argentina*

International investors continue to report difficulties in dealing in Argentinean securities because of controls on the movement of capital into and out of the market. It appears especially problematic to access stock locally, and investors advise that they therefore generally use ADRs to hold a position, rather than the underlying stock.

#### *Colombia*

In the 2008 review, we noted three areas in which Colombia did not fulfil the criteria required to be classified as an emerging market - repatriation of capital, availability of a free and well developed equity market and market transparency. FTSE welcomes the strong engagement it has enjoyed with the Chief Executive of the Colombian exchange since September and notes a number of moves made to meet these criteria. At this interim point in the cycle, market transparency has been moved to "pass" status, while the other two criteria have been moved from "not met" to a "restricted" basis.

## Malta

At September's review, two points relating to market structure and settlement were assessed as "not met". FTSE is now satisfied that Malta passes both of these points and meets all criteria for Frontier status.

## Other markets

No changes have been noted in the Kuwait, UAE, Kazakhstan and Ukraine or China 'A' share markets, so their assessment remains unchanged from September 2008.

It is worth highlighting that FTSE has relaxed one measure for Developed markets, in response to the turbulent and unprecedented market conditions which have prevailed recently. Markets which are classified as Developed are required to demonstrate that short selling is permitted. However, since September 2008, FTSE has accepted short term bans on short selling, without penalising markets which have implemented such a measure. However, we expect that all short selling bans placed on Developed equity markets will be removed by the end of 2009 and we will look again at this issue in 2010.

In reaching these interim assessments on the Watch List markets' eligibility against FTSE's country classification criteria, FTSE is grateful to market authorities for their co operation and assistance and to market participants across the industry for sharing their experiences of working in the international equity markets.

Going forward, FTSE welcomes comments from both buy and sell side participants on their experiences and perceptions on trading with all markets, but particularly those on the Watch List. Data collection and analysis for the annual review will close in July and results of the annual country classification review will be announced in September 2009.

These Watch List markets will be assessed again at the next country classification review in September 2009. Markets will remain on the Watch List for a minimum of 12 months before any change is made to their status. FTSE will give investors a minimum of six months' notice prior to any changes being implemented in its indices as a result of a country classification review.

The following markets were placed on the Watch List at the September 2008 Review:

Watch List Market	Details
China "A" Shares:	possible inclusion in FTSE Global Equity Index Series as Secondary Emerging
Greece:	possible change to Advanced Emerging status from Developed
Taiwan:	possible change to Developed status from Advanced Emerging
Iceland:	possible inclusion in FTSE GEIS as Advanced Emerging
Argentina:	possible change to Frontier status from Secondary Emerging
Colombia:	possible change to Frontier status from Secondary Emerging
Kuwait:	possible inclusion in FTSE GEIS as Secondary Emerging
UAE:	possible inclusion in FTSE GEIS as Secondary Emerging
Kazakhstan:	possible inclusion in FTSE GEIS as Frontier
Ukraine:	possible inclusion in FTSE GEIS as Frontier
Malta:	possible inclusion in FTSE GEIS as Frontier

For more information on any of the topics discussed in this paper, please contact [info@ftse.com](mailto:info@ftse.com)

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