

January 2024

Public Minutes

FTSE Equity Country Classification Advisory Committee

Tuesday 16 January 2024



**FTSE
RUSSELL**
An LSEG Business

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Attendees

Members: fifteen (15); apologies: eight (8)

FTSE Russell: five (5) 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 Tuesday 05 September 2023 were approved as presented.

1.2.2 The public minutes of the meeting held on Tuesday 05 September 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. **September 2023 Watch List**

2.1 Summary of progress of the September 2023 Watch List markets (presented for discussion):

2.1.1 **Egypt:** 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. The 'repatriation of capital' criterion was also downgraded from a 'Pass' to a 'Restricted' rating effective from September 2023, while index changes have been suspended since June 2023, effective until further notice.

2.1.1.1 FTSE Russell invited the committee members to comment on whether there had been any improvement on the repatriation delays. The committee members provided their feedback.

2.1.2 **Pakistan:** currently classified as a Secondary Emerging market 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 existing status.

2.1.2.1 Pakistan failed the minimum size requirement threshold for retaining Secondary Emerging market status as of June 2023 month-end, however, at December 2023 month-end, Pakistan passed the minimum size threshold. It was noted that the index weight of Pakistan and all other Emerging markets is expected to decrease following the implementation of the second tranche of [the China A Shares Stock Connect Expansion](#) in conjunction with the March 2024 semi-annual review.

2.1.2.2 A discussion took place, and the committee members shared their comments.

2.1.2.3 **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 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. Additionally, improvements to the process for the registration of new accounts are required, as market practice can result in the extension of the registration process. The introduction of an efficient mechanism to facilitate trading between non-domestic investors in securities that have reached, or are approaching, their foreign ownership limit is also seen as important. A discussion took place, and the committee members provided their comments.

2.2 Other markets (presented for discussion):

2.2.1 **Bangladesh:** index changes for Bangladesh 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 does not operate a floor price.

2.2.1.1 The Dhaka Stock Exchange (DSE) reported that the floor price was initially implemented by the regulator, the Bangladesh Securities and Exchange Commission (BSEC), in March 2020 due to the COVID-19 pandemic. It was subsequently reimposed in July 2022 to protect investors, given the current macroeconomic environment. The DSE indicated to FTSE Russell that it expected the restriction to be lifted by year-end 2023 or early 2024, after the General Election. FTSE Russell had been unsuccessful in its efforts to arrange a meeting with the BSEC.

2.2.1.1.1 **Post-meeting note:** on 18 January 2024, a committee member informed FTSE Russell via email that the BSEC had announced the partial removal of the floor price effective immediately for all stocks except for 35 securities. N.B. 17 of the remaining 35 securities are constituents of the FTSE Frontier Index.

2.3 Summary of recent market engagement meetings (presented for information): the market engagement summary was duly noted. FTSE Russell highlighted the following markets:

2.3.1 **Kazakhstan:** has two eligible trading venues, the Kazakhstan Stock Exchange (KASE) and the Astana International Exchange (AIX). The AIX asked FTSE Russell if it would be feasible to evaluate Kazakhstan based on the AIX trading venue only. FTSE Russell informed the AIX that a market with different trading venues is assessed as one market within the FTSE Equity Country Classification framework. The AIX subsequently asked FTSE Russell to bring the topic to the advisory committee for feedback. A discussion ensued and the committee members shared their comments.

2.3.2 **Ethiopia:** is scheduled to establish its first stock exchange in Q3 2024.

2.3.3 **Nigeria:** three custodian committee members confirmed that the FX queue had not cleared. Only the forward contracts associated with some repatriations had been cleared by the central bank.

2.3.4 **Ghana:** following feedback from committee members at the June 2023 meeting that pending FX queues had cleared, FTSE Russell commenced index changes for Ghana from the September 2023 index review. FTSE Russell said that they had received market reports that intermittent delays had returned and invited the committee members to provide their feedback.

3. **Equity Country Classification Framework**

3.1 Proposed evaluation of the FTSE Quality of Markets criterion 'fair and non-prejudicial treatment of minority shareholders' (presented for discussion): to ensure consistent assessment of all markets for this criterion, FTSE Russell reviewed all markets where 'physical attendance is required at the shareholder meeting for a vote to be registered, or a Power of Attorney (PoA) is required for a proxy to represent and vote on behalf of a foreign shareholder at a shareholder meeting'. The results were included in the meeting materials.

3.1.1 A discussion ensued on the assessment process for this criterion; committee members shared their comments.

4. Quality of Markets matrix

4.1 Proposed Quality of Markets matrix criteria rating changes for individual markets, ahead of final recommendations at the March 2024 committee meeting (for discussion): the advisory committee reviewed the recommendations and provided their comments. Ratings changes have no immediate impact on the classification of markets.

5. AOB

5.1 USA equity market migrating to Trade Date (T) +1 Settlement at the end of May 2024: at the September 2023 meetings, FTSE Russell invited the views of the regional equity advisory committees on this change and whether there were any measures that should be considered by FTSE Russell to support index users in their ability to replicate US benchmark changes at the June 2024 index review. FTSE Russell did not receive any comments; there were no comments from the committee members.

5.2 'Recognising a developed market' criterion: FTSE Russell said that it would circulate a paper to the advisory committee for their feedback on this topic in the near future.

6. Meeting dates

6.1 The meeting dates for 2024 were included in the agenda and duly noted.

6.1.1 2024: 05 March / 04 June / 03 September

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