
FTSE Equity Country Classification Process Enhancements January 2020

The FTSE Equity Country Classification process involves the assessment of markets against 21 criteria which are referred to as the FTSE Quality of Markets matrix.

The FTSE Quality of Markets matrix is reviewed on a regular basis to reflect developments in equity capital markets and to ensure the FTSE Equity Country Classification process continues to meet the needs of global investors based on a set of objective and transparent criteria.

Following a review, the FTSE Russell Product Governance Board approved the following enhancements to the FTSE Quality of Markets matrix that are effective from January 2020:

- Discontinuation of the 'Developed Equity Market' criterion
- Discontinuation of the 'Liquidity – Sufficient broad market liquidity to support sizeable global investment' criterion
- Introduction of a 'Central Securities Depository' criterion – a requirement for attaining Developed, Advanced Emerging and Secondary Emerging market status
- Introduction of a 'Central Counterparty Clearing House' criterion – a requirement for attaining Developed and Advanced Emerging market status
- Change of the 'Custody – Omnibus and segregated account facilities available to international investors' criterion to 'Account structure operating at the Custodian level (securities and cash)'
- Introduction of a 'Minimum Investable Market Capitalisation and Securities Count Requirement' criterion.

Minimum Size and Securities Count Requirement

To counterbalance the discontinuation of the 'Liquidity – Sufficient broad market liquidity to support sizeable global investment' criterion, a minimum investable market capitalisation (cap) and eligible security count entry and exit thresholds are being introduced to the FTSE Equity Country Classification process for Developed and Secondary Emerging markets. This will ensure the representation of sizeable and liquid markets in the FTSE Global Equity Index Series (GEIS), thereby eliminating the need for index trackers to open trading accounts in very small markets. Markets with a lower investable market cap and a lesser number of eligible securities will continue to be represented in the FTSE Frontier Index Series.

For **Developed** markets, the new minimum investable market cap and securities count requirements are as follows:

- For Entry - the combined investable market cap of the eligible securities is greater than 5 basis points of the FTSE Developed All Cap Index, and a minimum of 5 securities meet the FTSE Global All Cap Index eligibility screens.
- For Exit (i.e. to be placed on the Watch List) - the combined investable market cap of the eligible securities falls below 2.5 basis points of the FTSE Developed All Cap Index, or the number of eligible stocks decreases to 2 or fewer.

Developed	Minimum Stock Requirement	FTSE Developed All Cap	Investable Market Cap*	GNI
Entry	5	5 Basis Points	USD 25.54bn	High
Exit	2	2.5 Basis Points	USD 12.77bn	

*Data as of close 31 December 2019

For **Emerging** markets, the new minimum investable market cap and securities count requirements are as follows:

- For Entry - the combined investable market cap of the eligible securities is greater than 10 basis points of the FTSE Emerging All Cap Index, and a minimum of 5 securities meet the FTSE Global All Cap Index eligibility screens.
- For Exit (i.e. to be placed on the Watch List) - the combined investable market cap of the eligible securities falls below 5 basis points of the FTSE Emerging All Cap Index, or the number of eligible stocks decreases to 2 or fewer.

Secondary Emerging	Minimum Stock Requirement	FTSE Emerging All Cap	Investable Market Cap*	GNI
Entry	5	10 Basis Points	USD 6.03bn	Lower Middle
Exit	2	5 Basis Points	USD 3.02bn	

*Data as of close 31 December 2019

The minimum investable market cap cut-off levels will be calculated semi-annually, as follows:

- Year-end values will be used for assessing markets as part of the March Interim Update
- Last trading day in June values will be used for assessing markets for the September Annual Review.

The 80 markets that are currently covered by the FTSE Equity Country Classification scheme will be evaluated against these enhancements in the FTSE Quality of Markets matrix (detailed in the table below). The results will be published as part of the FTSE Equity Country Classification March 2020 Interim Update that is scheduled to be published after US market close on Tuesday 31 March 2020.

As a result of the enhancements to the FTSE Equity Country Classification process no markets will be immediately reclassified. Any potential changes to the Developed, Advanced Emerging, Secondary Emerging or Frontier classification status of a market will initially involve the market being placed on the Watch List and sufficient advance notification will be provided prior to any reclassification.

Further details on the FTSE Equity Country Classification Process can be assessed using the following link: [FTSE Equity Country Classification Process](#)

CRITERIA	DEVELOPED	ADVANCED EMERGING	SECONDARY EMERGING	FRONTIER
World Bank GNI Per Capita Rating (Atlas Method)				
Credit Worthiness				
Market and Regulatory Environment				
Formal stock market regulatory authorities actively monitor market (e.g., SEC, FSA, SFC)	X	X	X	X
Fair and non-prejudicial treatment of minority shareholders	X	X		
No or selective incidence of foreign ownership restrictions	X	X		
No objection to or significant restrictions or penalties applied to the investment of capital or the repatriation of capital and income	X	X	X	X
No or simple registration process for international investors	X	X		
Foreign Exchange Market				
Developed foreign exchange market	X	X		
Equity Market				
Brokerage - Sufficient competition to ensure high quality broker services	X	X	X	
Transaction costs - implicit and explicit costs to be reasonable and competitive	X	X	X	
Stock lending permitted	X			
Short sales permitted	X			
Developed Derivatives Market	X			
Off-exchange transactions permitted	X			
Efficient trading mechanism	X	X		
Transparency - market depth information / visibility and timely trade reporting process	X	X	X	X
Clearing, Settlement and Custody				
Settlement - Rare incidence of failed trades	X	X	X	X
Settlement Cycle (DvP)	X	X	X	X
Central Securities Depository	X	X	X	
Central Counterparty Clearing House (Equities)	X	X		
Settlement - Free delivery available	X			
Custody-Sufficient competition to ensure high quality custodian services	X	X	X	
Account structure operating at the Custodian level (securities and cash)	X			

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