

FTSE Global Equity Index Series Country Classification



MARCH 2011 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, Advanced Emerging, Secondary Emerging and Frontier status agreed annually in September.

This note provides an interim update on the 2011 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 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, occasionally, demotion from its existing Country Classification category.

Progress of Watch List markets since September 2010

Developed Watch List

Greece

At the September 2010 review, FTSE retained Greece on the Watch List for possible demotion from Developed to Advanced Emerging status. The Greek authorities have, in recent years, introduced a regime of 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 note continued difficulties in areas of Custody, Settlement and Dealing Landscape. FTSE's assessment of the Greek market remains unchanged at this time.

Advanced Emerging Watch List

Taiwan

FTSE has made no changes to its assessment of Taiwan's market against the Quality of Market criteria at this interim point. Taiwan remains on the FTSE Watch List as an Advanced Emerging market, to be reviewed again for possible promotion to Developed status at the next review in September 2011.

Secondary Emerging Watch List

China A

FTSE has made no changes to its assessment of the China A shares market relevant to the Quality of Market criteria at this interim point.

Colombia

FTSE placed Colombia on the Watch List for possible demotion to Frontier status in 2008 because of concerns over restrictions on the repatriation of funds for foreign portfolio investments. Since repealing these restrictions, Colombia has not re-imposed any form of capital control.

The FTSE Country Classification Committee has noted this progress and upgraded the "No objections or significant restrictions or penalties applied to the repatriation of capital" criterion from a 'Not Met' to a 'Pass'.

The Committee has also noted the progress made in a range of Market and Regulatory Environment, Custody and Settlement and Dealing Landscape categories. Specifically "Free and well-developed equity market", "Free and well-developed foreign exchange market", have been upgraded from 'Not Met' to 'Pass'. "Stock Lending is permitted", "Short sales permitted" and "Liquidity-Sufficient broad market liquidity to support sizeable global investment" have been upgraded from 'Not Met' to 'Restricted'.

FTSE commends officials at the Colombian Stock Exchange for this progress and for their continued engagement on these issues.

Kuwait

FTSE placed Kuwait on the Watch List for admission to Secondary Emerging status in September 2008. The FTSE Country Classification Committee has noted great strides being made by Kuwait on the formation of a Capital Markets Authority (CMA). In February 2010 the Kuwaiti Parliament approved a bill authorizing its creation. In March 2011, the new by-laws were put into effect. An independent Kuwaiti CMA is critical towards the introduction of appropriate regulation for the Kuwaiti Stock Exchange and the protection of the rights of all market participants and its progress will be keenly monitored.

FTSE made no changes to its assessment of Kuwait's market against the Quality of Market criteria at this interim point. Kuwait is retained on FTSE's Watch List for possible addition to the FTSE Global Equity Index Series as Secondary Emerging status, at its next review in September 2011.

Thailand

FTSE placed Thailand on the Watch List for possible promotion to Advanced Emerging from Secondary Emerging.

FTSE has reviewed the current status on the repatriation of capital and income criterion, and noted that there has been no reimposition of capital controls, a view which has been strongly and consistently supported by the Thailand Ministry of Finance. The FTSE Country Classification Committee has changed the status of this criterion from 'Restricted' to 'Pass'. Thailand is retained on FTSE's Watch List for possible promotion to Advanced Emerging status at its next review in September 2011.

Frontier Watch List

Ghana

FTSE placed Ghana on the Watch List for admission to Frontier status and reports successful engagement with the Ghana Stock Exchange.

While it is possible for a country to meet all the quality of markets eligibility criteria to attain a Frontier classification, at least three companies must also pass market capitalisation and liquidity thresholds for an index to be included in the FTSE Frontiers series.

FTSE is currently evaluating the underlying data for Ghana and will announce its formal status in September.

Kazakhstan

FTSE placed Kazakhstan on the Watch List for admission to Frontier status in September 2008. FTSE continues constructive engagement with officials at the Kazakhstan Stock Exchange. One of the key outstanding issues requires reform of the T+0 settlement cycle to international standards.

FTSE has made no changes to its assessment of Kazakhstan's market against the Quality of Market criteria at this interim point. Kazakhstan is retained on FTSE's Watch List for possible addition to the FTSE Global Equity Index Series as Frontier status.

Highlights of Quality of Market changes to non Watch List countries

Brazil

"Fair and non-prejudicial treatment of minority shareholders" criterion has been downgraded from 'Pass' to 'Restricted' status resulting from restrictions imposed on preference shareholders on BM&FBovespa.

"No objection to or significant restrictions or penalties applied on the repatriation of capital and income" criterion has been downgraded from 'Pass' to 'Restricted' status resulting from the imposition of the IOF tax on foreign investors.

South Korea

"Efficient trading mechanism" criterion has been downgraded from 'Pass' to 'Restricted' status because there is no efficient mechanism for foreign investors to trade stocks which have recently reached their foreign ownership ceilings.

For the complete list of quality of markets status changes please refer to the matrix.

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

2011 Annual Review

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 2011.

The following markets were included on the Watch List at the September 2010 Review:

- **China "A" Share** – Possible inclusion as Secondary Emerging
- **Colombia** – Possible demotion from Secondary Emerging to Frontier
- **Ghana** – Possible inclusion as Frontier
- **Greece** – Possible demotion from Developed to Advanced Emerging
- **Kazakhstan** – Possible inclusion as Frontier
- **Kuwait** – Possible inclusion as Secondary Emerging
- **Taiwan** – Possible promotion to Developed from Advanced Emerging
- **Thailand** – Possible promotion to Advanced Emerging from Secondary Emerging

Thailand and Ghana are new additions to the Watch List. The remaining countries above have been retained on the Watch List from previous years. Any additions to the Watch List will also be announced in September 2011.

For more information on any of the topics discussed in this paper, please contact info@ftse.com

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