Results of March 2019 FTSE Fixed Income Country Classification Review

In January 2019, FTSE Russell announced the incorporation of the FTSE Fixed Income Country Classification Framework into its fixed income benchmarking process. This framework introduces the assignment of a “Market Accessibility Level” (2, 1, or 0) for local currency, fixed-rate government bond markets and synchronizes the application of the objective criteria (market size and credit rating) in index methodologies on an annual review cycle. Minimum Market Accessibility Levels were incorporated into the methodologies of the FTSE World Government Bond Index (WGBI) and FTSE Emerging Markets Government Bond Index (EMGBI), and indexes that derive their membership from these indexes, effective from March 30, 2019.

Review of Market Accessibility Levels

In implementing the framework, countries currently included in the WGBI were assigned a preliminary Market Accessibility Level of “2”; countries currently included in the EMGBI, but not in the WGBI, were assigned a preliminary Market Accessibility Level of “1”; and countries included in the EMGBI Additional Markets Indexes were assigned a preliminary Market Accessibility Level of “0”. These initial assignments were reviewed with our external advisory committees to form a Watch List of countries that will be reviewed in September.

Countries tracked by a FTSE fixed income regional government index, but not included in these indexes were assessed against the country classification framework to assign an inaugural Market Accessibility Level, which can be found in Figure 1.

Figure 1. Assignment of Market Accessibility Levels for non-WGBI, non-EMGBI Eligible Markets

<table>
<thead>
<tr>
<th>Region</th>
<th>Country</th>
<th>Currency</th>
<th>EM vs DM Designation</th>
<th>Market Accessibility Level</th>
<th>Index Credit Rating</th>
<th>Market Size (USD bn)*</th>
<th>Market Size (EUR bn)*</th>
<th>Market Size (JPY trn)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMEA</td>
<td>Czech Republic</td>
<td>CZK</td>
<td>Developed</td>
<td>1</td>
<td>AA</td>
<td>42.6</td>
<td>37.4</td>
<td>4.7</td>
</tr>
<tr>
<td></td>
<td>Israel</td>
<td>ILS</td>
<td>Developed</td>
<td>2</td>
<td>AA-</td>
<td>50.6</td>
<td>44.4</td>
<td>5.6</td>
</tr>
<tr>
<td>APAC</td>
<td>New Zealand</td>
<td>NZD</td>
<td>Developed</td>
<td>2</td>
<td>AA+</td>
<td>36.3</td>
<td>31.8</td>
<td>4.0</td>
</tr>
<tr>
<td></td>
<td>South Korea</td>
<td>KRW</td>
<td>Developed</td>
<td>1</td>
<td>AA</td>
<td>477.4</td>
<td>419.2</td>
<td>53.1</td>
</tr>
<tr>
<td></td>
<td>Hong Kong</td>
<td>HKD</td>
<td>Developed</td>
<td>2</td>
<td>AA+</td>
<td>8.8</td>
<td>7.7</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Note: Market Size includes index eligible bonds only. Data are as of March 1, 2019.

In addition to meeting the market size and credit quality criteria as of March 2019, with a Market Accessibility Level of 2, the Israeli local currency government bond market now meets the minimum requirement for WGBI inclusion. Israel’s market size will be reassessed as of August 2019 month-end ahead of the September 2019

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1 Full details of the process are available on https://www.ftse.com/products/indices/country-classification-fixed-income.
2 Regional indexes include: FTSE Central and Eastern Europe, Middle East, and Africa Government Bond Index (CEEMEAGBI), FTSE Latin America Government Bond Index (LATAMGBI), FTSE Asian Government Bond Index (AGBI), FTSE Asia Pacific Government Bond Index (APGBI). FTSE Russell intends to solicit feedback on the incorporation of Market Accessibility Levels into the methodology of these indexes.
3 To qualify for entry to the FTSE WGBI, the outstanding amount of a market’s eligible issues must total at least USD 50 billion, EUR 40 billion, and JPY 5 trillion of index eligible debt, and a market must have a minimum credit quality of A- by S&P and A3 by Moody’s.
review. Should the market size and credit quality criteria for the WGBI continue to be met, an announcement regarding a resulting index inclusion change and the timetable for implementation, which will include a minimum notice period of six months, will be made shortly thereafter.

The assignment of a Market Accessibility Level of 1 for South Korea and Czech Republic is primarily based on the prevailing taxation regime of these two markets. Ahead of the September 2019 review, FTSE Russell will engage with the taxation authorities in those markets with a view to understand the likely future evolution of the tax environment as it applies to foreign investors. FTSE Russell will provide updates to the inclusion of these markets to the Watch List at the September 2019 country classification review.

Watch List

A Watch List of local fixed income government markets under consideration for potential reclassification of their Market Accessibility Level is part of the country classification framework. Countries may be included either because they are failing to meet the accessibility thresholds of their existing level or because they are close to meeting the thresholds for a higher level. The Watch List is intended to provide transparency for index users into the future evolution of FTSE Russell benchmarks and to support discussions with local market authorities regarding the investment conditions required by foreign investors.

The Watch List may be updated in March and September following semi-annual fixed income country classification reviews. Markets will remain on the Watch List for a minimum of six months. There is no maximum time period for inclusion to the Watch List; however, FTSE Russell will ensure that markets failing to demonstrate sufficient progress towards reform do not remain on the Watch List for a prolonged period. Changes to Market Accessibility Levels may only be made after the September review each year.

The Watch List of markets that will be reviewed in September 2019 based on their preliminary Market Accessibility Level assignment can be found in Figure 2.

Figure 2. FTSE Fixed Income Watch List

<table>
<thead>
<tr>
<th>Region</th>
<th>Country</th>
<th>Currency</th>
<th>EM vs DM Designation</th>
<th>Preliminary Market Accessibility Level</th>
<th>Current WGBI Inclusion</th>
<th>Current EMGBI Inclusion</th>
<th>Index Credit Rating</th>
<th>Market Size (USD bn)*</th>
<th>Watch List Consideration</th>
</tr>
</thead>
<tbody>
<tr>
<td>APAC</td>
<td>Malaysia</td>
<td>MYR</td>
<td>Emerging</td>
<td>2</td>
<td>•</td>
<td>•</td>
<td>A</td>
<td>72.2</td>
<td>Potential Downgrade to 1</td>
</tr>
<tr>
<td></td>
<td>China Onshore</td>
<td>CNY</td>
<td>Emerging</td>
<td>1</td>
<td>•</td>
<td>A+</td>
<td>1,390.0</td>
<td></td>
<td>Potential Upgrade to 2</td>
</tr>
</tbody>
</table>

Note: Market Size includes index eligible bonds only. Data are as of March 1, 2019.

Inclusion of these markets to the Watch List signals our ongoing engagement with market participants and local regulators on the fulfilment of the criteria for the Market Accessibility Levels noted in Figure 2.

New Market Tracking

FTSE Russell intends to introduce tracking for a number of new markets including Saudi Arabia, Nigeria, Vietnam, Argentina and Croatia over the coming months. The inclusion of these markets in the EMGBI will be considered at the September 2019 review. Should these markets meet the minimum market size, credit rating and Market
Accessibility Level criteria, FTSE Russell may subsequently announce their inclusion to the EMGBI. A minimum of six months lead time will be provided for any changes.

Please contact us at fl.index@ftserussell.com if you have any questions.

FTSE Russell