
FTSE Fixed Income Country Classification September 2019 Announcement

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Results of September 2019 FTSE Fixed Income Country Classification Review

The FTSE Fixed Income Country Classification Framework¹ assigns a “Market Accessibility Level” (2, 1, or 0) for local currency, fixed-rate government bond markets and synchronizes the application of objective criteria (market size and credit rating) in index methodologies on an annual review cycle. Effective from March 30, 2019, minimum Market Accessibility Levels were incorporated into the eligibility criteria of the FTSE World Government Bond Index (WGBI) and the FTSE Emerging Markets Government Bond Index (EMGBI). A level of 2 is required for inclusion to the FTSE WGBI and a minimum level of 1 is required for inclusion to the FTSE EMGBI.

FTSE Russell maintains a Watch List of local currency fixed-rate government markets that are under consideration for potential reclassification of their Market Accessibility Level.² Countries may be added to the Watch List either because they fail 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 evolution of FTSE Russell indexes, and to support engagement with market authorities regarding how local investment conditions fulfill the stated criteria of each FTSE Market Accessibility Level based on feedback from practitioners.

This announcement provides further details on the results of the September 2019 annual review, including index inclusion changes and a status update for countries included to the Watch List.

¹ Full details of the process are available on <https://www.ftse.com/products/indices/country-classification-fixed-income>.

² The Watch List may be updated in March and September each year, following the 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.

1. Status of Watch List Markets

After the inaugural March 2019 review, FTSE Russell published a Watch List of markets under review for potential reclassification of their Market Accessibility Level (see Figure 1).

Figure 1. FTSE Fixed Income Watch List as of September 2019 Review

Region	Country	Currency	EM vs DM Designation	Preliminary Market Accessibility Level	FTSE WGBI Inclusion	FTSE EMGBI Inclusion	Index Credit Rating	Market Size (USD bn)*	Watch List Consideration
APAC	Malaysia	MYR	Emerging	2	•	•	A	82.5	Potential Downgrade to 1
	China	CNY	Emerging	1		•	A+	1,387.3	Potential Upgrade to 2

Note: Market Size refers to the par amount of index eligible bonds only. Data are as of August 31, 2019.

Results from the September 2019 Watch List review:

2. China will be retained on the Watch List for potential upgrade to Market Accessibility Level 2.

FTSE Russell have engaged extensively with global investors with regard to the accessibility of the Chinese government bond market. There have been positive enhancements to the investment conditions for foreign investors in China including greater access to CNY, removal of the quotas in the QFII and RQFII access schemes, the release of a consultation paper on the ability to transfer bond investments from the quota schemes to CIBM Direct and Bond Connect, and extension of the bond settlement cycle.

These enhancements have been welcomed by market participants and mark significant progress towards China achieving a Market Accessibility Level of 2 in the FTSE Fixed income Country Classification Framework. To fully meet the outstanding criteria, index users have provided feedback that they would like to observe further improvements to secondary market liquidity, and increased flexibility in FX execution and the settlement of transactions.

FTSE Russell acknowledges the co-operation received from the People's Bank of China to date with respect to the FTSE Russell Country Classification Framework and looks forward to engaging with the PBoC further on how the outstanding criteria might best be addressed.

3. Malaysia will be retained on the Watch List for potential downgrade to Market Accessibility Level 1.

FTSE Russell has been engaging with Bank Negara Malaysia (BNM) and index users to understand the practical impact of the initiatives that were announced earlier this year by BNM to improve market liquidity and accessibility.

FTSE Russell and index users are encouraged by the efforts and engagement of the Malaysian authorities to address the deficiencies of the market in meeting the requirements for Market Accessibility Level 2 as stated in the FTSE Fixed Income Country Classification Framework.

In the light of these initiatives, FTSE Russell has determined to retain Malaysia on the Watch List and not downgrade Malaysia to Market Accessibility Level 1 at this review. FTSE Russell will continue to monitor conditions in the bond and FX markets in order to assess the efficacy of the reforms.

No other changes will be made to the FTSE Fixed Income Watch List. FTSE Russell will provide a status update after its interim review in March 2020, which may include an update to the Watch List countries.³

³ Reclassification of Market Accessibility Levels and resulting index inclusion changes can be taken after the annual September review only.

4. Inclusion of Israel to FTSE Fixed Income Indexes

Israel was assigned a Market Accessibility Level of 2 as part of the March 2019 review, at which time the market also met the minimum market size and credit rating inclusion criteria for the WGBI. As of the September 2019 review, Israel continues to meet all three eligibility criteria and effective from April 2020, Israeli local currency government bonds will be added to the FTSE World Government Bond Index. Thirteen ILS-denominated bonds (\$68.2 billion in market value) qualify for the index as of August 2019 month-end and would comprise 0.29% of the index on a market value weighted basis. Further details on the projected impact are provided in Figure 2.

Israeli government bonds will also be included in the indexes that derive their membership from the FTSE WGBI or are alternatively weighted based off of it, including the recently introduced FTSE Climate Risk-Adjusted WGBI.

Figure 2. Pro forma Impact of Inclusion of Israeli Government Bonds to the FTSE WGBI

	WGBI			Projected WGBI + ILS			Difference		
	Count	Market Value*	MV%	Count	Market Value*	MV%	Count	Market Value*	MV%
United States	243	9,135.1	38.6	243	9,135.1	38.5	-	-	-0.11
Japan	263	4,548.2	19.2	263	4,548.2	19.2	-	-	-0.06
France	45	1,915.7	8.1	45	1,915.7	8.1	-	-	-0.02
Italy	70	1,722.8	7.3	70	1,722.8	7.3	-	-	-0.02
Germany	50	1,235.2	5.2	50	1,235.2	5.2	-	-	-0.01
United Kingdom	43	1,191.2	5.0	43	1,191.2	5.0	-	-	-0.01
Spain	40	1,082.3	4.6	40	1,082.3	4.6	-	-	-0.01
Belgium	28	482.5	2.0	28	482.5	2.0	-	-	-0.01
Australia	23	377.6	1.6	23	377.6	1.6	-	-	-0.00
Canada	33	367.6	1.6	33	367.6	1.5	-	-	-0.00
Netherlands	19	357.7	1.5	19	357.7	1.5	-	-	-0.00
Austria	22	269.5	1.1	22	269.5	1.1	-	-	-0.00
Mexico	15	146.4	0.6	15	146.4	0.6	-	-	-0.00
Ireland	15	138.5	0.6	15	138.5	0.6	-	-	-0.00
Poland	17	110.6	0.5	17	110.6	0.5	-	-	-0.00
Finland	18	110.3	0.5	18	110.3	0.5	-	-	-0.00
South Africa	13	103.0	0.4	13	103.0	0.4	-	-	-0.00
Denmark	7	102.5	0.4	7	102.5	0.4	-	-	-0.00
Malaysia	35	88.2	0.4	35	88.2	0.4	-	-	-0.00
Singapore	20	77.6	0.3	20	77.6	0.3	-	-	-0.00
Israel	-	-	-	13	68.2	0.3	13	68.2	0.29
Sweden	8	64.1	0.3	8	64.1	0.3	-	-	-0.00
Norway	8	44.1	0.2	8	44.1	0.2	-	-	-0.00
Total	1,035	23,670.7	100.0	1,048	23,738.9	100.0	13	68.2	100.0

*in USD billions. Source: FTSE Russell. Data are as of August 31, 2019.

The FTSE World Inflation-Linked Securities Index (WorldILSI) tracks global inflation-linked government markets. Effective from April 2020, Israeli local currency, inflation-linked government bonds will be added to the WorldILSI. Eleven ILS-denominated bonds (\$57.7 billion in market value) qualify for the index as of August 2019 month-end and would comprise 1.78% of the index on a market value weighted basis. Further details on the projected impact are found in Figure 3.

Israeli inflation-linked government bonds will also be included in the indexes that derive their membership from the FTSE WorldILSI.

Figure 3. Pro forma Impact of Inclusion of Israeli Inflation-Linked Government Bonds to the FTSE WorldILSI

	WorldILSI			Projected WorldILSI + ILS			Difference		
	Count	Market Value*	MV%	Count	Market Value*	MV%	Count	Market Value*	MV%
United States	40	1,383.9	43.4	40	1,383.9	42.6	-	-	-0.77
United Kingdom	28	891.6	27.9	28	891.6	27.5	-	-	-0.50
France	15	266.4	8.4	15	266.4	8.2	-	-	-0.15
Italy	10	178.8	5.6	10	178.8	5.5	-	-	-0.10
Mexico	7	89.9	2.8	7	89.9	2.8	-	-	-0.05
Germany	4	76.4	2.4	4	76.4	2.4	-	-	-0.04
Japan	8	75.8	2.4	8	75.8	2.3	-	-	-0.04
Spain	6	64.2	2.0	6	64.2	2.0	-	-	-0.04
Canada	8	63.1	2.0	8	63.1	1.9	-	-	-0.04
Israel	-	-	-	11	57.7	1.8	11	57.7	1.78
South Africa	10	39.4	1.2	10	39.4	1.2	-	-	-0.02
Australia	8	35.0	1.1	8	35.0	1.1	-	-	-0.02
Sweden	7	25.2	0.8	7	25.2	0.8	-	-	-0.02
Total	151	3,189.8	100.0	162	3,247.5	100.0	11	57.7	100.0

* in USD billions. Source: FTSE Russell. Data are as of August 31, 2019.

5. Expansion of the FTSE Fixed Income Country Classification Framework to Inflation-Linked Government Markets

FTSE Russell is consulting index users on extending the FTSE Fixed Income Country Classification Framework to incorporate local currency inflation-linked government markets. Inflation-linked government markets will be assessed separately from their nominal counterparts to assign a Market Accessibility Level under the expanded framework. FTSE Russell will also solicit feedback from index users on the application of a minimum market size to the FTSE World Inflation-Linked Securities Index (WorldILSI) and the FTSE Emerging Markets Inflation-Linked Securities Index (EMILSI).

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

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