

## Introduction of FTSE Fixed Income Country Classification Framework

FTSE Russell are pleased to announce the incorporation of the FTSE Fixed Income Country Classification Framework into our benchmarking process. The new framework reflects feedback gathered from market participants through a market consultation conducted in 2018<sup>1</sup>. It enables 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. These levels, which will be reviewed each September, are designed for use in both flagship and bespoke index construction. There will be no immediate changes to index membership as a result of the introduction of this framework.

FTSE Russell will publish a Watch List of local fixed income markets that are being considered for potential reclassification of their Market Accessibility Level for either failing to meet the accessibility thresholds of their existing level or are close to meeting the thresholds for a higher level. Inclusion of a market on the Watch List signals our intent to engage with governments, central banks and regulators to address specific feedback from investors on the fulfilment of the criteria for the proposed accessibility level. Importantly, it also provides transparency for index users into future evolution of our benchmarks.

The new process draws inspiration from the evidence-driven, transparent country classification framework FTSE Russell has maintained for its global equity indexes since 2003. Full details of both processes are now available on <https://www.ftse.com/products/indices/country-classification-fixed-income>.

### Incorporation of the Country Classification Framework into FTSE Fixed Income Indexes

The following flagship FTSE indexes, and those that derive their membership from these indexes, will formally incorporate the below minimum Market Accessibility Levels into their respective index methodologies in the place of existing Barriers to Entry criteria, effective from March 30, 2019:

- FTSE World Government Bond Index (WGBI) – Minimum Level 2
- FTSE Emerging Markets Government Bond Index (EMGBI) – Minimum Level 1
- FTSE EMGBI Additional Markets Indexes– Minimum Level 0

Following the September annual review of Market Accessibility Levels, any reclassification decisions and Watch List changes will be formally communicated to the market, along with any resulting index changes. Any entry and exit of local markets due to changes in market size and upgrade of credit rating will be announced at the same time. The notice period between announcement and implementation of index changes will continue to allow for sufficient lead time for index users. Downgraded markets that no longer meet the stated minimum credit rating will continue to exit the indexes at the next monthly rebalance.

In implementing the framework, countries currently included in the WGBI will be assigned a preliminary Market Accessibility Level of “2”; countries currently included in the EMGBI, but not in the WGBI, will be assigned a preliminary Market Accessibility Level of “1”; and countries included in the EMGBI Additional Markets Indexes will be assigned a preliminary Market Accessibility Level of “0”. The preliminary accessibility levels of countries not included in these indexes will be published after an inaugural evaluation, which will take place in March 2019. A

<sup>1</sup> The consultation is available on our website at [www.ftse.com/products/indices/market-consultations](http://www.ftse.com/products/indices/market-consultations).

Watch List of markets that will be reviewed in September 2019, will also be published at that time, and will include China, as previously announced in September of last year<sup>2</sup>. In this and subsequent reviews, we will solicit feedback from regional FTSE Russell fixed income external advisory committee members, as well as the broader market, as to whether the stated accessibility criteria is fully met or partially met for each country. FTSE Russell will calibrate and maintain the Market Accessibility Levels based on each market's fulfillment of the minimum requirements for each level.

FTSE Russell intends to evolve and expand the fixed income country classification process to other fixed income universes, such as inflation-linked bonds and credit sectors. We welcome feedback from all stakeholders on our approach to ensure it continues to meet their needs.

Please contact us at [fi.index@ftserussell.com](mailto:fi.index@ftserussell.com) if you have any questions.

FTSE Russell

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<sup>2</sup> <https://www.ftse.com/products/downloads/FTSE-Country-Classification-Update-2018.pdf>

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