

FTSE Fixed Income Country Classification – March 2020 Interim Update

The FTSE Fixed Income Country Classification Framework¹ assigns a Market Accessibility Level for local currency, fixed-rate government bond markets. These Market Accessibility Levels are incorporated to the index inclusion rules for the FTSE World Government Bond Index (WGBI), FTSE Emerging Markets Bond Index (EMGBI) and indexes that derive their membership from them.

To ensure transparency, markets that are being considered for potential reclassification of these Market Accessibility Levels are placed on a Watch List. The FTSE Fixed Income Country Classification Process allows for an annual review of the investment conditions in Watch List markets each September, after which reclassification decisions may be taken and resulting benchmark inclusion changes may be announced. The process also provides for an interim March update; however, no changes are made to Market Accessibility Levels outside of the September review.

As part of the March 2020 Interim Review, FTSE Russell has consulted with members of the Regional Fixed Income Advisory Committees and the Policy Advisory Board on the investment conditions for local currency, fixed-rate government markets tracked by FTSE indexes. Feedback on markets currently assigned to the Watch List was considered at a meeting of the FTSE Russell Product Governance Board and FTSE Russell announce the following results.

China

China will be retained on the Watch List as of the March 2020 review for possible reclassification from Market Accessibility Level 1 to 2.

FTSE Russell acknowledges the recent announcements from Chinese regulators, including the People's Bank of China (PBoC), the State Administration of Foreign Exchange (SAFE) and the China Securities Regulatory Commission (CSRC), and from Chinese fixed income infrastructure providers that are intended to improve the accessibility of the China Government Bond market to international investors. Recently announced enhancements designed to increase market accessibility include, *inter alia*, the ability for investors to trade FX with up to three banks, the ability to choose a longer settlement cycle, expanded participation in the treasury futures market, and flexibility in the handling of failed trades. FTSE Russell also notes the planned increase in re-openings of existing issues according to the Ministry of Finance 2020 issuance calendar which is intended to address considerations related to secondary market liquidity.

In the time between the March 2020 interim review and the September 2020 annual review of market accessibility levels, FTSE Russell will monitor the practical effectiveness of these enhancements with its fixed income advisory committees and other stakeholders in the FTSE World Government Bond Indices.

¹ For further details, please see: <https://www.ftserussell.com/fixed-income-country-classification>.

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Malaysia

Malaysia will be retained on the Watch List as of the March 2020 review for possible reclassification from Market Accessibility Level 2 to 1.

FTSE Russell acknowledges the initiatives instigated by Bank Negara Malaysia (BNM) to improve the accessibility of the Malaysian government bond market for foreign investors. Enhancements already implemented, or that are in progress, which are intended to increase secondary market liquidity include further work to establish a Debt Management Office, an improved Auction Calendar that offers more re-opening of prior issues, and a greater number of Malaysian Government Securities (MGS) available via repo. FTSE Russell also notes the current efforts to enable physical delivery of MGS futures and to enhance foreign exchange liquidity through the current Appointed Overseas Office (AOO) Pilot Programme.

FTSE Russell will continue to engage with its fixed income advisory committees and other stakeholders to determine the practical improvements that emanate from these important initiatives.

Please contact us at fi.index@ftserussell.com with any comments and questions.

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