



FTSE Fixed Income Country Classification Announcement March 2021

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Status of Watch List Markets

China

FTSE Russell is pleased to confirm that Chinese Government Bonds will be included in the FTSE World Government Bond Index (WGBI) with inclusion to be phased into the index over a period of 36 months commencing with an effective date of 29 October 2021. The market accessibility level of China will be reclassified from “1” to “2” as of the March 2021 review.

China will also be added to indexes that derive their membership from the WGBI, including the FTSE World Broad Investment Grade Index (WorldBIG) and thematic offerings such as the FTSE Climate Risk-Adjusted WGBI. Since the September 2020 Fixed Income Country Classification Results Announcement, FTSE Russell has engaged closely with Chinese authorities and key stakeholders to monitor the previously implemented market enhancements and the latest reforms to facilitate easier participation by international investors. These market enhancements include, but are not limited to: the simplification of the account opening process (including the ability to file at legal entity level); the option to transact foreign exchange with third parties; and the freedom to lengthen the settlement cycle beyond T+3.

The extension of the implementation period, compared to the conditional September 2020 announcement, reflects feedback received during the market consultation conducted in February 2021 and comments made at the most recent FTSE advisory committee meetings. In the light of this feedback, it has been determined that a more conservative implementation schedule is appropriate which recognises the passive nature of WGBI mandates and the material monetary inflow emanating from index inclusion. The slight adjustment to the commencement date is in recognition of the one-week long Chinese market holiday in early October; it also acknowledges that some clients may need longer onboarding time to access the market.

FTSE Russell warmly congratulates the People's Bank of China and other Chinese market authorities on the pace and extent of the recent market reforms, which are very much welcomed and widely acknowledged by the international investment community.

Further details of the inclusion schedule are provided in the appendix to this notice. Users of FTSE Russell custom indexes are invited to contact us with any questions regarding CGB inclusion in their indexes.

Malaysia

FTSE Russell is pleased to announce that Malaysia will be removed from the Watch List for potential reclassification of its market accessibility level from "2" to "1" and will retain its membership in the FTSE World Government Bond Index. We commend Bank of Negara Malaysia (BNM) on its previously implemented and ongoing initiatives to address the concerns of foreign investors when accessing the Malaysian government bond market.

We note recent market enhancements that include, but are not limited to:

- **Improving secondary market bond liquidity** through significantly more re-openings in 2021 of Malaysian Government Securities (MGS) issuances, a commitment to switch, as needed, illiquid bonds out and replace with more liquid bonds, making more MGS available via repo thus facilitating a marked increase in trading volumes and introducing physical settlement (with the option of cash settlement) of MGS futures, providing an additional interest rate hedging avenue, whilst aiming to simultaneously boost underlying bond liquidity; and
- **Enhancing the foreign exchange market structure and liquidity** through increased price transparency after local trading hours via the now permanent Appointed Overseas Office (AOO) programme, expanding the dynamic hedging programme to include Japanese trust banks and global custodians and streamlining the FX documentation and due diligence process.

FTSE Russell is grateful for the very constructive engagement that has taken place with BNM and the number of positive initiatives that have been introduced over the last two years. FTSE Russell strongly encourages BNM to continue efforts to enhance the experience of international participants in the Malaysian fixed income market.

India

FTSE Russell announces that India will be placed on the Watch List for potential reclassification of its Market Accessibility Level from "0" to "1", and consideration for inclusion in the FTSE Emerging Markets Government Bond Index (EMGBI).

Feedback from global index users has highlighted an interest in Indian government securities issued through the Fully Accessibility Route (FAR), which was introduced in 2020 and removes any foreign ownership restrictions for all new issuance of government securities with 5-, 10-, and 30-year tenors. To facilitate dialogue with investors on India's Watch List status and provide market transparency for securities issued under the FAR, FTSE Russell intends to launch a version of its FTSE Indian Government Bond Index that tracks this universe of securities in the coming weeks.

We look forward to continued engagement with the Reserve Bank of India to further understand the enhancement programme that is currently being undertaken to improve the accessibility of the local market structure for global investors.

Saudi Arabia

FTSE Russell announces that Saudi Arabia will be placed on the Watch List for potential reclassification of its Market Accessibility Level from "0" to "1", and consideration for inclusion in the FTSE Emerging Markets Government Bond Index (EMGBI).

Since launching a standalone government bond index tracking local currency Saudi Arabian government bonds in September 2020, FTSE Russell has engaged in an active dialogue with index users and local regulators in Saudi Arabia to understand the market structure and investor experiences. In advance of our next country classification review in September 2021, we will seek to continue this valuable interaction with the Saudi Arabian market authorities and participants.

Annual Review of Local Currency Amount Outstanding Minimums as part of the FTSE Fixed Income Country Classification Process

FTSE Russell is also pleased to announce that it will incorporate a formal and scheduled annual review of the local currency amount outstanding minimums used to determine index eligibility. This task will be undertaken each September as part of the fixed income country classification review and the results will be published. This will ensure that the indexes remain representative of the local market structures they are designed to track.

Minimum bond-level amount outstanding amounts are set for each local currency fixed-rated and inflation-linked market that is eligible for a FTSE fixed income index based on prevailing domestic issuance patterns and benchmark sizes. Bond-level amount outstanding amounts are incorporated into respective index methodologies and from time to time may require recalibration to re-align them with contemporary market structures and debt issuance programs. Starting in September 2021, these minimums will be reviewed as part of the fixed income country classification process and may result in recalibrations of local thresholds based on feedback from market participants.

An updated version of the FTSE Fixed Income Country Classification Process document that reflects these enhancements is now available on our website.¹

Eligibility of Swiss Government Bonds in FTSE World Government Bond Index

Effective with the January 2021 profiles, the minimum amount outstanding for Switzerland government bonds was lowered from CHF 4 billion to CHF 2 billion profiles in FTSE fixed income indexes.

As of the March 2021 profiles, 16 bonds with CHF 50.6 billion (USD 55.9 billion) in par amount outstanding are eligible for the FTSE Swiss Government Bond Index.

The potential re-inclusion of Swiss Government bonds to WGBI will be announced as part of the September 2021 review.

Review of Market Size and Credit Rating Criteria for FTSE Fixed Income Indexes

As part of the March review, objective index inclusion criteria for market size and credit rating are assessed to ensure a consistent approach to market inclusion in FTSE global government bond indexes.

FTSE Russell confirms there are no index inclusion changes due to changes in market size and credit rating.

¹ https://research.ftserussell.com/products/downloads/FTSE_Fixed_Income_Country_Classification_Process.pdf

Extension of the FTSE Fixed Income Country Classification Process to Inflation-Linked Government Bond Markets

Since its implementation in 2019, the FTSE Fixed Income Country Classification Process has been used to assign market accessibility levels to fixed-rate, nominal local currency government bond markets tracked by FTSE Russell based on a transparent and objective set of technical criteria. These accessibility levels are incorporated in the index methodology of the FTSE World Government Bond Index (WGBI) and the FTSE Emerging Markets Government Bond Index (EMGBI), with the former requiring the highest accessibility level of “2” and the latter requiring an accessibility level of “1” for a market to be eligible for index inclusion.

FTSE Russell is pleased to announce that effective from March 31, 2021, the fixed income country classification process will be expanded to assign market accessibility levels to the inflation-linked government bond markets tracked by FTSE Russell. In extending the framework, the accessibility levels of each nominal, fixed-rate government market tracked by FTSE Russell will be applied to the corresponding inflation-linked local currency government bond market.

Effective June 30, 2021, a minimum market accessibility level of “2” will be required for a market to be included in the FTSE World Government Inflation-Linked Securities Index (WorldILSI) and a minimum market accessibility level of “1” will be required for a market to be included in the FTSE Emerging Markets Government Inflation-Linked Securities Index (EMILSI). Additionally, owing to the separate and distinct debt management practices of local governments for their nominal and inflation-linked debt, a minimum market size criterion of USD 10 billion will be applied to the WorldILSI as of June 30, 2021.

In making these changes, the WorldILSI and EMILSI will no longer derive their membership solely from membership in WGBI and EMGBI, respectively. Any changes to market inclusion will be reviewed in September 2021 and announced as part of the September 2021 Fixed Income Country Classification Results Announcement.

Appendix

Inclusion of Chinese Government Bonds in the FTSE World Government Bond Index

Inclusion of Chinese Government Bonds in the FTSE World Government Bond Index will commence on 29 October 2021, the first date for the implementation of the November 2021 profile. Inclusion will progress over the ensuing 36 months such that in the profile for each month N, a fraction N/36 of the prevailing amount outstanding of each eligible bond will be included in the index.

To illustrate the impact of the inclusion of Chinese Government Bonds, based on the upcoming April profile and using prices as of 25 March 2021, 47 bonds with an amount outstanding of CNY 8,999bn would enter the FTSE World Government Bond Index; on this basis, Chinese Government Bonds would comprise 5.25% of the index on a market value weighted basis when fully included². Figure 1 provides further details on the projected impact of the change.

Figure 1. Projected Impact of the Inclusion of Chinese Government Bonds in the FTSE WGBI

	No. of Issues	Yield	Modified Duration	Rating	Market Value (Billion USD)	Weight (%) w/o China	Weight (%) with China	Weight Difference
WGBI + China	1,134	0.62	8.45	AA	26,684		100.00	
WGBI	1,087	0.48	8.61	AA	25,283	100.00		
United States	255	0.92	6.64	AA+	9,325	36.88	34.94	-1.94
Japan	256	0.19	12.01	A+	4,288	16.96	16.07	-0.89
France	47	-0.20	9.15	AA	2,221	8.78	8.32	-0.46
Italy	81	0.34	7.78	BBB	2,009	7.94	7.53	-0.41
Germany	54	-0.49	8.19	AAA	1,582	6.26	5.93	-0.33
China	47	3.02	5.43	A+	1,400	0.00	5.25	5.25
United Kingdom	50	0.80	13.32	AA	1,366	5.40	5.12	-0.28
Spain	46	0.09	8.44	A	1,263	5.00	4.73	-0.27
Belgium	30	-0.11	10.47	AA	510	2.02	1.91	-0.11
Australia	27	1.18	7.30	AAA	456	1.80	1.71	-0.09
Canada	32	0.89	6.89	AAA	418	1.65	1.57	-0.08
Netherlands	21	-0.36	9.11	AAA	401	1.59	1.50	-0.09
Austria	27	-0.25	11.31	AA+	319	1.26	1.20	-0.06
Ireland	17	-0.18	8.99	AA-	172	0.68	0.64	-0.04
Mexico	14	6.15	5.12	BBB+	164	0.65	0.61	-0.04
Poland	17	0.61	4.16	A	138	0.55	0.52	-0.03
Finland	21	-0.35	8.24	AA+	135	0.53	0.50	-0.03
Denmark	8	-0.18	9.53	AAA	107	0.42	0.40	-0.02
Malaysia	32	3.25	7.10	A	99	0.39	0.37	-0.02
Israel	15	0.80	6.96	AA-	94	0.37	0.35	-0.02
Singapore	19	1.23	7.58	AAA	91	0.36	0.34	-0.02
Sweden	9	0.01	5.87	AAA	75	0.30	0.28	-0.02
Norway	9	0.99	5.07	AAA	52	0.20	0.19	-0.01

Source: FTSE Russell. Pricing as of 25 March 2021 with settlement on 31 March 2021; based on April 2021 index profile.

²The projected impact reflects the recently announced change to increase the amount outstanding threshold for CGBs issued before 01 January 2020 to CNY 100 billion from the current CNY 35 billion, effective with the July 2021 profiles.

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