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# FTSE Fixed Income Country Classification Announcement September 2023

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The inclusion of nominal and inflation-linked local currency government bond markets in global FTSE fixed income indices is governed by the [FTSE Fixed Income Country Classification Framework](#).

A core feature of this framework is the assignment of Market Accessibility Levels, which are reviewed on a semi-annual basis. The transparent nature of the Market Accessibility Levels allows FTSE Russell to seek feedback from international investors on their practical investment experiences and to engage with relevant authorities in markets which are under review for potential reclassification.

Index inclusion changes due to market size and credit rating are also assessed as part of the FTSE Fixed Income Country Classification Process.

The results of the September 2023 FTSE Fixed Income Country Classification Review can be found in the remainder of this announcement.

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# 1. Status of Watch List Markets

## South Korea

**South Korea will remain on the FTSE Fixed Income Country Classification Watch List for the potential reclassification of its Market Accessibility Level from 1 to 2, and consideration for inclusion in the FTSE World Government Bond Index (WGBI).**

In September 2022, South Korea was placed on the FTSE Fixed Income Country Classification Watch List for a potential upgrade to a Market Accessibility Level of 2, and consideration for inclusion in the FTSE WGBI.

During 2023, the South Korean market authorities have undertaken, or are in the process of undertaking, several initiatives intended to improve the structure and accessibility of the South Korean capital markets for international investors. These include:

- Withholding tax (WHT) exemption: effective from 01 January 2023, with clarifications issued in the form of a Frequent Asked Questions (FAQ) document at the end of June 2023.
- International Central Securities Depository (ICSD) Connectivity: the Korean Securities Depository (KSD) signed agreements with two leading ICSDs in late August 2023, with the intention of building connectivity on an omnibus account structure basis, without the need for an Investment Registration Certificate (IRC) number. The system is expected to start operating by Q2 2024 at the latest.
- Abolishment of the IRC scheme: regulatory approval was passed on 05 June 2023 for the IRC abolishment, with implementation of Legal Entity Identifier (LEI) scheduled for 14 December 2023.
- Foreign Exchange (FX) market reforms: an announcement regarding the enhancement of the FX market was released in early 2023. The planned implementation timetable is H2 2024 after approval by the National Assembly and revisions of relevant laws within the current year. Once passed, a six-month pilot period is planned for early 2024.

FTSE Russell has received feedback that the implementation of the WHT reforms continues to progress but remains an area of focus for international investors, in particular, as it relates to the reliance on brokers, rather than custodians, as the collectors of the relevant information. FTSE Russell intends to continue to understand the extent to which the benefits of the WHT reforms are realised by the investment community.

With respect to the announced, but not yet implemented, reforms in the Korean won FX market, FTSE Russell will continue its dialogue with international investors on the impact of these initiatives in contributing to the fulfilment of the FX Market Structure criteria of the FTSE Fixed Income Country Classification Framework for the South Korean government bond market.

FTSE Russell appreciates the ongoing open and constructive dialogue with the South Korean authorities and intends to continue its engagement with all market participants to determine the efficacy of the enhancements as the reforms are implemented.

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## Switzerland

**Switzerland will remain on the FTSE Fixed Income Country Classification Watch List for the potential reclassification of its Market Accessibility Level from 1 to 2, and consideration for inclusion in the FTSE World Government Bond Index (WGBI).**

In September 2021, Switzerland was placed on the FTSE Fixed Income Country Classification Watch List for a potential upgrade to a Market Accessibility Level of 2, and consideration for inclusion in the FTSE WGBI.

FTSE Russell has assessed the reclamation process for the withholding tax that is applied to Swiss government bonds and has determined that the process does not satisfy the Taxation Regime requirement for assignment of a Market Accessibility Level of 2. The process has remained unchanged following an unsuccessful vote in the Swiss parliament in late 2022 to abolish withholding tax for international investors. FTSE Russell will seek to understand the nature of any subsequent initiatives that may be introduced to improve the taxation system.

## India

**India will remain on the FTSE Fixed Income Country Classification Watch List for the potential reclassification of its Market Accessibility Level from 0 to 1, and consideration for inclusion in the FTSE Emerging Markets Government Bond Index (EMGBI).**

In March 2021, India was added to the FTSE Fixed Income Country Classification Watch List for the potential reclassification of its Market Accessibility Level from 0 to 1, and for consideration for inclusion in the FTSE EMGBI. Areas for improvement in the Indian government bond market structure highlighted by international investors remain largely unchanged from the previous March 2023 review and include the efficiency of Foreign Portfolio Investor (FPI) registration, as well as operational issues related to the settlement cycle, trade matching, and tax clearance process.

FTSE Russell will continue its valuable dialogue with the Reserve Bank of India and seek feedback from market participants on their practical experiences of the evolution of the market structure.

## 2. Annual Review of Local Currency Amount Outstanding Minimums

On an annual basis, as part of the FTSE Fixed Income Country Classification process, FTSE Russell reviews the local currency amount outstanding minimums used to determine index eligibility. This review occurs in September and incorporates feedback from market participants; a recalibration of local thresholds based on issuance trends can occur as a result.

FTSE Russell confirms that no changes will be made to the minimum bond level amount outstanding amounts for local currency fixed-rate and inflation-linked markets eligible for FTSE fixed income indices as part of the September 2023 review.

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### 3. Changes to FTSE Fixed Income Index Emerging and Developed Market Designations

For the purposes of inclusion in FTSE Emerging Markets (EM) hard and local currency fixed income indices, a market is considered to be emerging if it is defined by the International Monetary Fund (IMF) to be among “emerging and developing economies” or if it is defined by the World Bank to be among “low-income economies”, “lower-middle income economies” or “upper-middle-income economies”. Updates to the EM list are made on an annual basis each September based on updated data from the IMF and World Bank.

Croatia has been classified as “high-income” by the World Bank since July 2018. As of the April 2023 IMF report, the status of Croatia has changed from “emerging and developing economy” to “advanced economy”. Based on the FTSE fixed income index EM definition, the designation for Croatia will change from Emerging Market to Developed Market as of October 2023 index profiles. Currently, Croatia is not an eligible market for the FTSE EM local currency indices and no bonds with a Croatia country of risk are eligible for the FTSE Emerging Markets USD Broad Bond Index. It is projected that there will be no impact to index inclusion as a result of this change in designation for Croatia.

## For more information about our indices, please visit [ftserussell.com](https://ftserussell.com).

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