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FTSE Classification of Fixed Income Markets – FTSE Fixed Income Country Classification Announcement March 2023

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The inclusion of nominal and inflation-linked local currency government bond markets in 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. FTSE Russell confirms that no index inclusion changes on the basis of market size or credit rating will be made as part of the March 2023 semi-annual review.

The results of the March 2023 FTSE Fixed Income Country Classification Review can be found in the remainder of this announcement. The next update will be provided at the semi-annual review in September 2023.



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1. Status of current 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 the course of 2022 and early 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 investors.

These include:

- The exemption of the withholding tax levied on investment in Korean Treasury Bonds (KTBs) for international investors, effective from January 2023.
- Ongoing engagement between South Korean market authorities and international central securities depositories (ICSDs) to expedite the connectivity between ICSDs and the Korea Securities Depository (KSD) for efficient onboarding purposes and an improved settlement process.
- The proposed abolishment of the Investment Registration Certificate (IRC) scheme and the introduction of the use of Legal Entity Identifiers (LEIs) to improve the onboarding process for international investors.
- Foreign exchange market reforms which are intended to i) allow international financial institutions to participate directly in the onshore South Korean Won foreign exchange market, ii) simplify the process for third-party onshore FX, and iii) extend the market's trading hours to accommodate trading outside local market hours.

FTSE Russell will continue to monitor the implementation of the initiatives detailed above. Certain reforms were introduced recently, while others require relevant local laws and regulation to be amended. With regard to the implementation timeframes for the initiatives, as announced by the market authorities, some may be implemented within the year, while the timeline for others extends into the second half of 2024.

Prior to any reclassification decision relating to South Korea, FTSE Russell will seek evidence from international market participants of the efficacy of the enhancements as the reforms are implemented, and whether the relevant initiatives achieve the intended practical improvements to the market's accessibility.

FTSE Russell intends to continue its engagement with South Korean regulators and market participants.

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 requirements 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.

FTSE Russell continues to note feedback from international investors regarding areas for improvement, including the efficiency of Foreign Portfolio Investor (FPI) registration, as well as operational issues related to the settlement cycle, trade matching, and the tax clearance process.

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

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For over 35 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

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To learn more, visit [lseg.com/ftse-russell](https://www.ftserussell.com); email info@ftserussell.com; or call your regional Client Service team office:

EMEA +44 (0) 20 7866 1810

Asia-Pacific

North America +1 877 503 6437

Hong Kong +852 2164 3333

Tokyo +81 3 6441 1430

Sydney +61 (0) 2 7228 5659

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