

Public minutes

Joint meeting of the **FTSE Asia Pacific and Europe, Middle East & Africa Regional Fixed Income Advisory Committees**

12 September 2023



Attendees

APAC Members: ten (10); apologies: six (6)

EMEA Members: fourteen (14); apologies: five (5)

Observers: two (2)

FTSE Russell: thirteen (13) including the Chair and Committee Secretary

Attendees were reminded of their obligations in relation to confidentiality of information, conflicts of interest and competition law. There were no declarations.

1. Statutory governance matters and committee information

1.1 Membership changes

1.1.1 FTSE Russell thanked two outgoing members for their contribution to the advisory committee.

1.2 Minutes

1.2.1 APAC committee

1.2.1.1 The minutes of the meeting held on Tuesday 14 March 2023 were approved as presented.

1.2.1.2 The public minutes of the meeting held on Tuesday 14 March 2023 were approved as presented.

1.2.2 EMEA committee

1.2.2.1 The minutes of meeting held on Wednesday 15 March 2023 were approved as presented.

1.2.2.2 The public minutes of the meeting held on Wednesday 15 March 2023 were approved as presented.

1.3 Governance

1.3.1 Annual review of the [Statement of Principles for FTSE Fixed Income Indices](#) (presented for endorsement): the advisory committee raised no objections for the minutes to state that the Statement of Principles continue to meet the purpose for which it was designed. There were no changes to the document apart from an update to the disclaimer date.

1.3.2 FTSE Actuaries UK Gilts Index Series

1.3.2.1 Annual Review of Ground Rules (presented for endorsement): a summary of the ground rule changes made over the past year and a hyperlink to the methodology page of the website were included in the agenda. The advisory committee was comfortable for the minutes to state that the rules were maintained assiduously and continue to meet the purpose for which they were designed.

1.3.2.2 Tradeweb FTSE Actuaries UK Gilt closing prices – price data report and challenges for the period 01 January to 31 July 2023 (presented for information): there were no comments from the committee members.

1.4 Action points and matters arising

1.4.1 Japan Government Bond market: feedback from the committee members was noted; no further action required from FTSE Russell.

1.5 Key notices and updates

1.5.1 The methodology notices published since the last meeting were included in the meeting materials. There were no requests for clarification.

2. Fixed Income Country Classification

- 2.1 September 2023 Fixed Income Country Classification Announcement: recommended treatment for the Watch List markets – India, South Korea, and Switzerland (presented for support)
- 2.1.1 India – was added to the Watch List from the March 2021 review for possible reclassification from Market Accessibility Level 0 to 1 and potential inclusion of securities issued as part of the Fully Accessible Route (FAR) scheme in the FTSE Emerging Markets Global Bond Index (EMGBI). Since then, FTSE Russell has engaged with local regulators and index users to review the accessibility of Indian FAR bonds.
- 2.1.1.1 FTSE Russell said they understood that minimal progress has been made to address the concerns of the international fixed income community over the last six months, however, there remains a desire within the Reserve Bank of India to address these concerns, where it is able to do so. FTSE Russell proposed to retain India on the Watch List for EMGBI consideration, noting that it will be reassessed at the March 2024 review.
- 2.1.1.2 A discussion took place, and the committee members provided their comments.
- 2.1.2 South Korea – was added to the Watch List from the September 2022 review, for possible reclassification from Market Accessibility Level 1 to 2 and potential inclusion in the FTSE World Government Bond Index (WGBI), following the announcement by the South Korean Ministry of Economy and Finance and the Financial Services Commission on a series of market reforms to enhance market accessibility for international investors. A summary of the latest update on the following areas was provided in the meeting materials.
- 2.1.2.1 As the implementation of the planned enhancements and feedback from market participants to assess whether investors have both observed and experienced the intended benefits of the reforms are still ongoing, FTSE Russell proposed to retain South Korea on the Watch List for WGBI consideration, noting that it will be reassessed at the March 2024 review.
- 2.1.2.2 A discussion took place, and the committee members provided their comments.
- 2.1.3 Switzerland – was added to the Watch List from the September 2021 review for possible reclassification from Market Accessibility Level 1 to 2 and potential inclusion in the WGBI. For a market to be assigned a Level ‘2’ and achieve inclusion in the WGBI, the market structure must be such that investors can access the market with relative ease – this means the tax regime needs to be easily navigable. Although Switzerland was initially removed for failing the market size requirement, the withholding tax (WHT) regime is seen as prohibitive when viewed through the prism of the Fixed Income Country Classification framework.
- 2.1.3.1 Proposed reforms to the WHT regime legislation gained momentum in 2021 and were voted on by the Swiss population in late 2022; 52% of the electorate voted against the changes to the withholding tax, meaning the reform plans were withdrawn. At the time of writing, no next steps have been officially announced by the Swiss Federal Tax Authority. As the next potential steps are still under consideration by the Swiss authorities, FTSE Russell proposed to retain Switzerland on the Watch List for WGBI inclusion, noting that it will be reassessed at the March 2024 review. There were no objections from the committee members.
- 2.1.4 **Summary**: the committee members supported retaining India, South Korea, and Switzerland on the Watch List; the markets will be reassessed at the March 2024 review.
- 2.1.5 *Post-meeting note*: [FTSE Fixed Income Country Classification September 2023 Announcement – Published 28 September 2023](#).
- 2.2 Engagement with Markets (presented for information): a summary of the engagement meetings held with regulators and policy makers in Q2-Q3 2023 was provided for background information and taken as read. There were no requests for further clarification.

3. Index Policy and Methodology

- 3.1 Emerging Markets Sovereign Defaults and Restructurings (presented for discussion): in August 2022, FTSE Russell [announced](#) a change to the default rules for foreign currency government bonds in the FTSE USD Emerging Market Indices.
- 3.1.1 Since the above-mentioned rule change, there have been several defaulted sovereign markets that have continued to be included in the FTSE Emerging Markets US Dollar Broad Bond Index. FTSE Russell invited the committee members to provide feedback on its approach to tracking these markets and securities issued as part of a restructuring.
- 3.1.2 A discussion took place, and the committee members provided their comments.
- 3.1.3 FTSE Russell thanked the committee members for their comments and said that the feedback received would be considered to determine whether any changes were required to the existing index methodology.
- 3.2 Tradeweb-FTSE Benchmark Administered Prices (presented for information): in October 2016, Tradeweb and FTSE Russell were selected by the UK Treasury to be joint providers for end-of-day prices for UK Gilts and Treasury Bills, following the UK Debt Management Office announcement that they intended to withdraw from the provision of reference prices. Tradeweb calculates the prices based on data from its dealer-to-client trading platform. FTSE Russell as the Benchmark Administrator is responsible for governance and oversight of the calculation process. The closing prices are calculated and administered as Benchmarks, by FTSE Russell, in accordance with IOSCO Principles for Financial Benchmarks. From July 2017, these prices were used in the calculation of the FTSE Actuaries UK Gilts Index Series.
- 3.2.1 FTSE Russell's aim is to offer clients credible reference pricing underpinned by a robust and transparent methodology. Given the evolving nature and use case for third-party bond prices within the financial markets' ecosystem, FTSE Russell invited the committee members to provide feedback on the different approaches to deriving such prices and utility for bond prices administered as benchmarks.
- 3.2.2 A discussion took place, and the committee members provided their comments.
- 3.3 Annual review of the local currency amount outstanding minimums by local currency market (presented for support): no changes were made to the current amount outstanding thresholds. There were no objections from the committee members.
- 3.4 Annual review of Emerging and Developed Market Designations within FTSE Fixed Income Indices (presented for information): updates to the Emerging and Developed markets list are made on an annual basis each September and based on updated data from the International Monetary Fund (IMF) and World Bank. For the purposes of inclusion in FTSE Emerging Markets hard and local currency fixed income indices, a market is considered to be emerging if it was defined by the 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'.
- 3.4.1 Croatia was classified as 'high-income' by the World Bank since July 2018. As of the April 2023 IMF report, the status of Croatia changed from 'emerging and developing economy' to 'advanced economy'. As a result, based on the FTSE fixed income index definition, the designation for Croatia changed from Emerging Market to Developed Market. As of July 2023, Croatia was not an eligible market for the FTSE Emerging Markets local currency indices, and no bonds with a Croatia country of risk were eligible for the FTSE Emerging Markets USD Broad Bond Index (EMUSDBBI). There were no comments from the committee members.

4. Sustainable Fixed Income

4.1 Cash flow assumptions for Sustainability-Linked Bonds (SLBs) (presented for discussion): SLBs are bonds where the structure and returns (i.e., coupon, redemption value) were linked to the achievement of predefined sustainability objectives. SLBs commit explicitly to future improvements in sustainability outcome(s) within a pre-defined timeline, as measured through Key Performance Indicators (KPIs) and assessed against Sustainability Performance Targets (SPTs).

4.1.1 The [FTSE Sustainability-Linked Bond Index](#) was designed to measure the performance of global SLBs which were aligned with International Capital Markets Association (ICMA) Sustainability-Linked Bonds Principles (SLBP). FTSE Russell invited the committee members to provide feedback on the future cash flow for SLB analytic purposes.

4.1.2 A discussion took place, and the committee members provided their comments.

4.1.3 FTSE Russell thanked the committee member for their comments.

5. AOB

5.1 There was no further business.

6. Meeting dates

6.1 The meeting dates for 2024 will be confirmed by the Committee Secretariat in due course.

6.1.1 *Post-meeting note:* 12 March / 03 September

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