Workshop on Permissible Countries

IFCI Composite Index & Permissible Countries

Presented by

Peter Wall,
IFC Emerging Markets Data Base

CalPERS Board of Trustees

December 13, 1999

International Finance Corporation
Emerging Markets Data Base
www.ifc.org/emdb
Outline

• The IFC Investable Indexes - Selection Criteria
• Permissible Country - Theory
• Permissible Country - Indexers’ Practice
• Permissible Countries & Indices - The Future
• Review of Leading International Indices’ “Permissible Country” Criteria
IFC Investable Index - Purpose

• "The IFC Investable Indexes are designed to measure the type of returns foreign portfolio investors might receive from investing in emerging markets that are legally and practically available to them." - The IFC Indexes: Methodology, Definitions, and Practices, p.28
IFCI Indexes - Market Selection Criteria

- Must be a developing country - Gross Domestic Product (GDP) per capita under World Bank high-income level (1998: $9,361)
- Must be part of IFC Global Composite Index (capable of supporting daily index preparation)
- Must permit foreign institutions to buy and sell stock at local stock exchange
IFCI Index Selection Criteria cont’d.

- Should contain custody suitable to foreign investors
- Should not have significant restrictions on repatriation of capital, capital gains, dividends
- Investable stocks must permit foreign ownership & unrestricted transfer of ownership
- Limits on foreign ownership are reflected in available capitalization for index purposes
IFCI Index Selection Criteria cont’d

- Screen: stocks with “investable” market capitalizations of $50 million or more
- Screen: stocks that traded over $20 million per annum in the past year (to enter) or $5 million (to remain), and 1/2 of all trading days that local stock exchange is open
- “5-Stock Minimum Rule” - a market is open but less than 5 stocks pass size & liquidity screens, 5 stocks will be selected to represent the market.
IFCI Index Selection Criteria
cont’d

• IFCI Index rules drawn up early 1993

• Advisory Panel recommends change screens to increase size and liquidity parameters, possibly disqualify small illiquid markets (June 1999)

• Recommendations not implemented in light of imminent sale of IFC Indexes & Emerging Markets Data Base (EMDB)
IFC's Family of Indexes

**IFC Global (IFCG)**
- Broadest constituent base
- Covers 70-75% of total exchange market capitalization
- No foreign investment restrictions
- Daily calculation
- Industry Indexes monthly

**IFC Investable (IFCI)**
- Foreign investment restrictions incorporated at constituent level
- Size and liquidity screens
- Corporate cross-holding & government ownership adjusted
- Daily calculation
- Industry Indexes monthly

**IFCG Frontier Markets**
- Introduced in 1996
- 18 markets
- Included if trading occurs regularly; activity typically thin
- Graduate to IFCG daily series when liquidity increases