

# MSCI Retains Vietnam as a Frontier Market – No Watch-List Inclusion in June 2026 Review

Announced in the early hours of 24 June 2026: Vietnam was not added to the reclassification watch list. An MSCI upgrade is a multi-year process; the 2026–2027 flow catalyst still belongs to FTSE.

THEME: MSCI MARKET RECLASSIFICATION

QUICK TAKE ON THE REVIEW

IMPACT ASSESSMENT	CLASSIFICATION	CRITERIA MET	PASSIVE FLOWS
<p><b>Near-Term Neutral</b></p> <p>MSCI maintains Vietnam in Frontier Markets and has not added it to the watch list. The 2026–2027 flow catalyst remains dependent on inflows from FTSE's reclassification of Vietnam (effective 21 Sep 2026).</p>	<p><b>Frontier</b></p> <p>Unchanged</p>	<p><b>10/18</b></p> <p>Per MSCI report</p>	<p><b>None yet</b></p> <p>Watch-list inclusion is not tied to fund flows</p>

## 1 OUTCOME & IMPLICATIONS

- Consistent with a prudent view. MSCI kept its assessment unchanged and did not add Vietnam to the reclassification watch list – an outcome consistent with a cautious stance. With 10 of 18 criteria met and the remainder still being addressed, further time is required.
- Watch-list inclusion does not yet entail capital flows. Unlike the actual reclassification event (when index funds must rebalance), the absence of a watch-list addition is merely a signal of progress. The impact therefore skews toward near-term expectations and sentiment, rather than genuine passive buying or selling.

## 2 ROADMAP TO IMPROVE MARKET ACCESSIBILITY

### KEY BOTTLENECKS TO ADDRESS

- Foreign Ownership Limits (FOL) & available foreign room – the primary bottleneck.** These directly affect index investability: FOL applies to >10% of market capitalisation, >1% of the MSCI Vietnam IMI, with many blue chips already at their foreign-ownership cap, and no large-scale alternative access mechanism (such as Non-Voting Depositary Receipts – NVDR).
- Foreign-exchange market liberalisation – the most difficult.** This is tied to macroeconomic and monetary policy: there is no offshore FX market, and onshore FX remains linked to securities transactions.
- The remaining criteria** (CCP, account registration, English-language disclosure, securities lending/short selling) are progressing on schedule and pose fewer constraints.

Item	Status	Roadmap Milestone
Non-prefunding mechanism	Implemented	Operational for foreign institutional investors.
KRX trading system	Operational	Platform for new products and services.
Central Counterparty (CCP)	In progress	Expected to be fully operational in Q1 2027.
English-language disclosure	On track	Phased rollout through January 2028.
Remaining accessibility criteria (FOL, FX...)	Ongoing	Part of the upgrade roadmap targeting 2028–2030.

### 3 MSCI ASSESSES MARKETS HOLISTICALLY – EMERGING MARKETS STILL CARRY "-" RATINGS

- Meeting all 18 criteria in full is not required. MSCI evaluates **holistically** across five criteria groups based on investor experience. Per the GMAR 2026, **several criteria across Emerging Markets (EM)** still require improvement (a "-" rating) despite already holding EM status. Matrix by criterion (rows) × representative market (columns):

Factor (MSCI criterion)	China A *	India	Korea	Thailand	Philippines	Saudi Arabia	Kuwait
<b>OPENNESS TO FOREIGN OWNERSHIP</b>							
Foreign Ownership Limit (FOL)	-	-	++	-	-	-	++
Foreign room available	-	-	+	-	-	++	++
Equal rights to foreign investors	+	+	+	-	+	-	+
<b>CAPITAL FLOWS &amp; OPERATIONS</b>							
FX market liberalisation	+	-	-	+	-	++	++
Investor registration & account set-up	+	-	-	++	++	+	+
Clearing & settlement	-	-	-	+	+	+	+
Transferability	-	-	-	++	++	-	-
Stock lending	-	++	++	+	-	-	-
Short selling	-	+	+	+	-	-	-

*Symbols: ++ : no issues · + : improvement possible · - : improvement needed.*

*(\* ) China A-shares are shares of mainland-incorporated companies, traded in renminbi (CNY) on the Shanghai (SSE) and Shenzhen (SZSE) stock exchanges.*

*Source: MSCI 2026 Global Market Accessibility Review (rating scale ++ / + / -).*

- Why do these markets hold EM status despite multiple "-" ratings on foreign room?**
- MSCI assesses **holistically** based on investor experience; **the EM threshold sits below the Developed Market threshold** so some "-" ratings are accepted.
- Restrictions are typically confined to **select sectors / a small share of market capitalisation**, and do not impede investability across most of the index.
- There are **alternative access mechanisms** for foreign investors: trading links & qualified foreign institutional access (Stock Connect & QFII – China), Non-Voting Depositary Receipts (NVDR – Thailand), the foreign portfolio investor route (FPI – India), and depositary receipts / ETFs (DR/ETF)...
- Markets are **sufficiently large & liquid** for funds to replicate the index.

#### IMPLICATIONS FOR VIETNAM

Vietnam's foreign-room constraints are **more binding** (FOL affects >10% of market cap and >1% of the MSCI Vietnam IMI), and it **lacks a large-scale alternative mechanism** (such as NVDR). Even so, Vietnam **need not satisfy every criterion** to be upgraded, needing only to ease the **key bottlenecks** or add **alternative instruments** for the holistic assessment to reach the EM threshold. We see this as a direction Vietnam could **study and adopt** – particularly the alternative-access mechanisms used by Emerging Markets (**Stock Connect/QFII, NVDR, FPI, etc.**) – to shorten its reclassification path.

*Glossary: Stock Connect – Hongkong – mainland China trading link to buy A-shares; QFII – for qualified foreign institutions to invest directly in A-shares on both the Shanghai (SSE) & Shenzhen (SZSE) exchanges; the investment quota requirement has been removed, though per-company foreign ownership caps still apply (10% per investor, 30% aggregate); NVDR – Non-Voting Depositary Receipt (Thailand), giving economic exposure beyond the FOL cap; FPI – foreign portfolio investor registration to invest in Indian equities; DR/ETF – depositary receipts / ETFs for indirect access.*

#### 4 AN MSCI UPGRADE IS A MULTI-YEAR PATH – LESSONS FROM EMERGING MARKETS GLOBALLY

- **Watch-list inclusion is necessary but not sufficient.** Historically, the interval from watch-list inclusion to actual reclassification has typically taken **around 2 years** in favourable cases, and can extend to **5 years or more** where bottlenecks remain unresolved; index inclusion is, moreover, **phased across multiple reviews**.

Market	Added to Watch List (review)	Reclassification Effective	Duration
Qatar & UAE	2009 review (deferred several times)	Jun 2014	~5 years
Saudi Arabia	Jun 2017 review	2019 (two tranches: May & Aug 2019)	~2 years
Argentina	Jun 2016 review	May 2019	~3 years
Kuwait	Jun 2018 review	Nov 2020 (five tranches; delayed by COVID)	~2.5 years
China (A-shares)	Jun 2013 review	Jun 2018 (partial inclusion)	~5 years

- Vietnam – a medium-term path. Vietnam is not yet on the watch list, so MSCI EM inclusion is realistically a medium-term objective (2028–2030 at the earliest).

*Sources: per MSCI annual Market Classification Review announcements – 2009 (UAE & Qatar), 2013 (China A-shares), 2016 (Argentina), 2017 (Saudi Arabia), 2018 (Kuwait). Reclassification dates from MSCI press releases for each cycle; supplemented by The National (UAE & Qatar, Jun 2014) and Boursa Kuwait (Nov 2020).*

#### 5 THE 2026–2027 CATALYST IS FTSE-DRIVEN INFLOWS

With MSCI keeping Vietnam in Frontier Markets, **the 2026–2027 flow catalyst remains FTSE's reclassification of Vietnam** to Secondary Emerging status (effective **21/09/2026**): passive funds are estimated at **nearly US\$2bn** and begin deploying across multiple tranches (tranche schedule in Section 6). MSCI represents only the "next layer" of a medium-term path. The sections below detail the **FTSE deployment schedule, index weights** and **near-term sector impact**.

#### 6 TRANCHE-BASED DEPLOYMENT TIMING & ROADMAP

- Passive inflows do not arrive all at once. When FTSE's reclassification of Vietnam takes effect on 21 September 2026, index inclusion is phased across four tranches (September 2026 to September 2027), with investability weight added incrementally; index-tracking funds (ETFs) deploy around each tranche's effective date rather than in a single session. Investors should not expect an immediate inflow.

Tranche (FTSE)	Review	Effective Date	Weight Added	Cumulative
Tranche 1	T9/2026	Monday, 21 Sep 2026	10%	10%
Tranche 2	T3/2027	Monday, 22 Mar 2027	20%	30%
Tranche 3	T6/2027	Monday, 21 Jun 2027	35%	65%
Tranche 4	T9/2027	Monday, 20 Sep 2027	35%	100%

*Investability weight is added incrementally across four semi-annual reviews by FTSE – passive inflows are spread out rather than concentrated. Source: FTSE Russell (tranche-based schedule).*

- **In parallel, market infrastructure continues to advance:** the Central Counterparty (CCP) becomes fully operational in **Q1/2027**, English-language disclosure runs through **01/2028**; the target for meeting MSCI standards is **2028–2030**.

**7 VIETNAM'S WEIGHT ACROSS FTSE INDICES**

FTSE Index	Vietnam Weight (31 Mar 2026)
FTSE Global All Cap	0,034%
FTSE Emerging All Cap	0,329%
FTSE All-World	0,020%
FTSE Emerging	0,192%

*Vietnam's projected weight across the indices; figures as of 31 Mar 2026 per the FTSE Russell interim review. Source: FTSE Russell.*

**8 SECTORS AFFECTED IN THE NEAR TERM**

▸ We view the reaction to MSCI's decision not to add Vietnam to the watch list as primarily near-term sentiment, with no passive flows yet attached:

Sector	Impact	Transmission channel (mainly expectations/sentiment)
Securities firms	High	Highest beta to the reclassification narrative and liquidity expectations; sensitive to MSCI developments even though actual flows derive from FTSE's reclassification of Vietnam.
Blue chips in the FTSE EM basket (~23 names)	Medium	Exposed to near-term sentiment noise but <b>supported by confirmed FTSE inflows</b> (21 Sep 2026) – independent of MSCI.
Large-cap banks (VN30)	Medium	Core EM-index constituents; move with foreign-investor expectations, with fundamentals largely unrelated to the review outcome.
Large-cap real estate & consumer names with foreign room	Medium	EM-index candidates; long-term beneficiaries of reclassification but sensitive to shifts in expectations.
Names at or near their foreign-ownership cap	Low	Limited direct impact from MSCI reclassification, as foreign investors cannot readily increase holdings.
Mid- and small-caps outside the basket	Low	Little connection to the index narrative; affected only indirectly via broad sentiment.

**9 SUPPORTING FACTORS & RISKS TO MONITOR**

**SUPPORTING FACTORS**

- + **FTSE reclassification is a tangible catalyst:** passive inflows begin deploying from **21 Sep 2026** – independent of the MSCI outcome (the magnitude varies by FTSE index; see Section 7).
- + **Reform infrastructure is advancing:** non-prefunding, the CCP roadmap (Q1 2027), and English-language disclosure – narrowing the gap to MSCI standards in future cycles.
- + **The outcome does not reverse the thesis:** the upgrade trajectory is confirmed by FTSE; MSCI is simply the next layer of the path.

**RISKS TO MONITOR**

- **Near-term profit-taking pressure** in names that front-ran the theme, as MSCI upgrade expectations shift to later cycles.
- **Mispriced expectations:** if the market had pre-empted a watch-list addition, the outcome leaves a sentiment gap.
- **Several accessibility criteria** remain in progress against announced milestones (CCP Q1 2027, English disclosure Jan 2028).

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