

## S&P Dow Jones Indices' Annual Country Classification Consultation

**NEW YORK, JUNE 15, 2017:** S&P Dow Jones Indices ("S&P DJI") is conducting its annual country classification consultation with members of the investment community. S&P DJI's Global Equity Indices are divided into three major country classifications – developed, emerging, and frontier. Certain countries do not fall into one of these three categories and are considered "stand-alone" countries for index construction purposes. A number of factors are used in determining each country's classification, both quantitative and qualitative in nature.

Additionally, the opinions and experiences of institutional investors are critically important in determining whether a market should be classified as developed, emerging, or frontier. In that regard, S&P DJI is seeking feedback on the countries and markets covered by this consultation.

Your participation in this consultation is important as we gather information from various market participants in order to properly evaluate your views and preferences. Your responses will be kept confidential. Please respond to this survey by **October 31, 2017**. After this date, S&P DJI will no longer accept survey responses. Prior to the Index Committee's final review, S&P DJI will consider the issues and may request clarifications from respondents as part of that review. Alternative options to the proposed questions after the deadline require that the consultation be re-opened to the public.

To participate in this consultation, please respond to [www.surveymonkey.com/r/SPDJICC2017](http://www.surveymonkey.com/r/SPDJICC2017).

Please contact S&P DJI at [index\\_services@spglobal.com](mailto:index_services@spglobal.com) for any questions regarding this consultation.

*Please be advised that all comments from this consultation will be reviewed and considered before a final decision is made; however, S&P DJI makes no guarantees or is under any obligation to comply with any of the responses. The survey may result in no changes or outcome of any kind. If S&P DJI decides to change the index methodology, an announcement will be posted on our website.*

Thank you for taking the time to complete this survey.

For more information about S&P Dow Jones Indices, please visit [www.spdji.com](http://www.spdji.com).

### **Process**

S&P DJI uses quantitative data to initially assess market eligibility for the developed, emerging and frontier country classifications. Countries must meet certain initial criteria to be considered for S&P DJI's Developed, Emerging, or Frontier indices; they must meet a certain number of additional criteria to be considered specifically for the developed and emerging classifications, and must withstand a final measure of country economic status to be classified as developed. The country classification requirements are summarized in the following table.

## Country Classification Requirements

Please review Appendix A at the end of this document for a detailed explanation of the criteria listed below.

S&P DJI's Country Classification Criteria	Frontier	Emerging	Developed
<b>Initial Eligibility Criteria</b>			
Full domestic market capitalization over \$2.5B	Minimum of two ✓	✓	✓
Domestic annual turnover value over \$1B		✓	✓
Exchange development ratio over 5%		✓	✓
<b>Additional Criteria</b>			
Full domestic market capitalization over \$15B	Minimum of three ✓	✓	✓
Settlement period of T+3 or better		✓	✓
Sovereign Debt rating of BB+ or above		✓	✓
Non-occurrence of hyperinflation		✓	✓
No significant foreign ownership restrictions		✓	✓
Freely traded foreign currency		✓	✓
<b>GDP Criteria</b>			
GDP (PPP) per capita greater than \$15K			✓

✓ - Required criterion

For further information, please refer to S&P Dow Jones Indices' Country Classification Methodology available [here](#).

### Frontier Markets

Unless there is significant data availability or accuracy issues, existing S&P DJI frontier market indices will continue to be calculated even if they fail to meet the requirements detailed above.

### Consultation

S&P DJI is seeking feedback on several countries and markets described below which have been identified as either potential candidates for classification changes, or which warrant continued monitoring for possible future changes in classification. General information about the markets is included below. Any feedback is appreciated; please include any additional information in your response that may not have been considered.

### Countries and Markets under Review

- China A-Shares
- Argentina
- Saudi Arabia
- Kuwait
- Eastern Europe

In addition to those listed above, S&P DJI is also currently reviewing the situation in Nigeria. Limited foreign exchange liquidity has caused replicability issues for many investors, as the official interbank rate may not be representative of the rate that market participants are able to convert the Nigerian currency (NGN). A full consultation will be forthcoming in the weeks ahead.

## CONSULTATION

## China A-Shares

**Overview.** China A-Shares have been under review for possible inclusion in S&P DJI's Global Benchmark Indices for the last several years as market accessibility has gradually improved. As a country, China represents a large portion of the global economy, second only to the United States. As such, investors are keen to have it accurately represented in global investment portfolios. Historically, Chinese capital markets have been relatively inaccessible to foreign investors but have begun to transition towards a more open and global investor-friendly environment over recent years. For many years, the only way for foreign investors to access this market was through the QFII and RQFII programs. But over the last few years, the stock exchanges and regulators have introduced the Stock Connect facilities, which give investors significantly more unrestricted access to these securities. These recent developments have been encouraging.

**Key Developments.** Since the 2016 country classification consultation, conditions for foreign investment have progressed in noteworthy ways:

- The Shenzhen-Hong Kong Stock Connect facility opened on December 5, 2016. As a result, in combination with the already established Shanghai-Hong Kong Stock Connect, foreign investors have access to over 1,400 securities by having an established Hong Kong trading account. In addition to increased accessibility, the cost of trading securities through these facilities may be significantly cheaper than other existing programs (QFII and RQFII). Currency repatriation restrictions are also far less restrictive with the Stock Connect facilities.
- Regulations around voluntary stock suspensions have been tightened, resulting in fewer stocks being suspended and for shorter periods of time. Last year, the Shanghai and Shenzhen stock exchanges announced that companies undergoing a major restructuring event must limit the amount of time they are suspended to three months, with few exceptions. Companies conducting private placements are limited to one month stock suspensions. Today, fewer stocks are suspended from trading, leading to greater transparency and improved market liquidity.

**Other Considerations.** Although the progress that has been made in the opening of the Chinese equity markets has been encouraging, some concerns remain. Repatriation restrictions, particularly the 20% monthly QFII limit, remain unchanged. The number of trading suspensions, while reduced from prior years, remains high relative to other emerging markets. In addition, the broad pre-approval requirements for financial products that include A-Shares have also given many institutional investors cause for concern.

Year	Full Domestic Market Capitalization (\$B)	Domestic Turnover Value (\$B)
2016	4,180	21,778

### Weight in S&P DJI's Global Benchmark Indices

Benchmark Index	Current Weight	Projected Weight
S&P Emerging BMI (China non-A-Shares)	30.89%	
S&P Emerging BMI (China overall w/ A-Share inclusion at full weight)		54.13%
S&P Emerging BMI (China A-Shares only at 5% inclusion factor)		2.47%
S&P Emerging BMI (China A-Shares only at full weight)		33.62%

## Consultation Question

1. What is the most appropriate course of action to take with regard to China A-Shares in S&P DJI's Global Benchmark Indices (select all that apply)?

- Do not include any China A-Shares at this time
- Include China A-Shares in the S&P Emerging BMI using a reduced weight factor of 5%
- Include China A-Shares in the S&P Emerging BMI using a different reduced weight factor (please specify in the additional comments section)
- Only include China A-shares that are accessible through the Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect facilities limiting inclusion to Large-Cap or Large- and Mid-Caps only (please specify in the additional comments section)
- Only include China A-shares that are accessible through the Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect facilities without size limitations
- Include China A-shares in the S&P Emerging BMI at their full weight

Additional Comments:

## Argentina

**Overview.** Argentina was classified as an Emerging Market in S&P DJI's Global Benchmark Indices until 2009, when it was downgraded to Frontier status as a result of various prolonged economic, political, and other crises that led to a decrease in market accessibility and liquidity. For an extended period of time, the flow of capital into and out of the country was limited. Recently, conditions have improved due in large part to a restructuring of the country's external debt and a political regime change that has led to more transparency and stability. High inflation is still a concern, though improvements in that measure are a stated priority of the government. Overall, the conditions for investment have become more conducive to higher global investment demand.

**Key Developments.** In recent years, Argentina has made progress towards addressing many of the concerns that global investors have, most notably:

- The government has allowed the currency (Argentine Peso) to float freely.
- Restrictions on the repatriation of currency have been loosened. Earlier this year, the government removed a rule requiring financial portfolio investments to remain in the country for at least 120 days.
- Last year, Argentina was able to renegotiate the terms of much of its outstanding sovereign debt.

**Other Considerations.** While the progress that Argentina has made is encouraging, uncertainty may remain among global investors. High inflation persists which has slowed economic growth, and while the trend is positive, investors may wish to take a wait-and-see approach. Obstacles to market accessibility remain, but have been significantly reduced.

Year	Full Domestic Market Capitalization (\$B)	Domestic Turnover Value (\$B)
2016	51	2.87

### Weight in S&P DJI's Global Benchmark Indices

Benchmark Index	Current Weight	Projected Weight
S&P Frontier BMI	16.36%	
S&P Emerging BMI		0.81%

### Consultation Question

2. What is the most appropriate course of action to take with regard to Argentina in S&P DJI's Global Benchmark Indices?
  - Reclassify from Frontier to Emerging in 2018
  - Keep classification as Frontier

**Additional Comments:**

## Saudi Arabia

**Overview.** Saudi Arabia has been under consideration for inclusion in S&P DJI's Global Benchmark Indices for multiple years due to the size and liquidity of its stock market and the importance of their economy in the Middle Eastern region. For some time, their domestic capital markets have been inaccessible to foreign investors. However recently, several actions have been taken to reduce those barriers and better align with global standards.

**Key Developments.** Over the last year, several important measures have been taken by the stock exchange and market regulators to further improve investment conditions for global investors, including the following:

- The settlement cycle for securities traded was successfully changed from T+0 to T+2, which enables a successful transfer of assets and more closely aligns to the standards set by many other exchanges around the world.
- The introduction of a legitimate delivery versus payment system (DvP) which increases investor confidence in the structure of the market.
- The introduction of securities lending and covered short selling capabilities.
- The overall reduction in restrictions placed on QFI investors, including the ability to participate in IPOs, relaxation of ownership limits, and reduction in the asset level requirement for QFI qualification.

**Other Considerations.** The changes made by Saudi authorities have signaled a willingness to foster an investment environment that is transparent and progressive. Despite these encouraging measures, these changes are very recent, and may need to be tested by global investors.

Year	Full Domestic Market Capitalization (\$B)	Domestic Turnover Value (\$B)
2016	447	239

### Weight in S&P DJI's Global Benchmark Indices

Benchmark Index	Current Weight	Projected Weight
S&P Emerging BMI		3.15%

### Consultation Question

3. What is the most appropriate course of action to take with regard to Saudi Arabia in S&P DJI's Global Benchmark Indices?
  - Add to the S&P Emerging BMI in 2018
  - Add to the S&P Emerging BMI over a three-year period
  - Do not add to the S&P Emerging BMI

**Additional Comments:**

## Kuwait

**Overview.** Kuwait is currently classified as a frontier market in S&P DJI's Global Benchmark Indices. Over the past few years, Kuwaiti authorities have initiated various reforms in order to better align market infrastructure and operational processes with international standards.

**Key Developments.** There are several initiatives in progress, some of which have been implemented and others that are still planned including the following:

- The settlement cycle for securities traded was aligned to T+3 for both international and domestic investors.
- Initial progress has been made towards a full delivery versus payment system (DvP) with completion of all aspects targeted for later in 2017.

**Other Considerations.** The changes made by Kuwaiti authorities have signaled a willingness to foster an investment environment more in line with the standards of other emerging markets. Despite these encouraging measures, these changes are very recent, and many are not yet fully implemented or tested.

Year	Full Domestic Market Capitalization (\$B)	Domestic Turnover Value (\$B)
2016	80	7.07

### Weight in S&P DJI's Global Benchmark Indices

Benchmark Index	Current Weight	Projected Weight
S&P Frontier BMI	12.98%	
S&P Emerging BMI		0.64%

### Consultation Question

4. What is the most appropriate course of action to take with regard to Kuwait in S&P DJI's Global Benchmark Indices?
- Add to the S&P Emerging BMI in 2018
  - Do not add to the S&P Emerging BMI

**Additional Comments:**

## **Eastern Europe**

**Overview.** Most Eastern European markets are classified as Frontier in S&P DJI's Global Benchmark Indices, while a few have been classified as Emerging. S&P DJI recognizes that the characteristics for some of these markets have changed over time and have become more attractive to global investors. Some markets may have changed enough to warrant an updated country classification. We are seeking feedback on the classification of the following countries.

<b>Market</b>	<b>Current Classification</b>	<b>Full Domestic Market Capitalization (\$B)</b>	<b>Domestic Turnover Value (\$B)</b>	<b>Number of listed stocks</b>
Romania	Frontier	18	1.43	86
Hungary	Emerging	23	8.13	61
Poland	Emerging	138	47.14	486
Czech Republic	Emerging	24	5.79	25

### **Consultation Question**

**5. Of the countries listed above, which should be reclassified (select all that apply and please provide rationale for reclassification in the additional comments section)?**

- Romania
- Hungary
- Poland
- Czech Republic

**Additional Comments:**



## Appendix A

### Initial Eligibility Criteria for S&P DJI's Global Equity Indices

Countries must meet a minimum of two of the following three criteria to be considered for inclusion in S&P DJI's Country Indices:

- **Full domestic market capitalization over US\$ 2.5 billion.** Market size is important. S&P DJI uses the full market capitalization of an exchange's primary market as its measure. Float-adjusted capitalization is not used, as the availability of float information for smaller markets is not of the required standard. Thus, we do not have consistency of float information across all markets.
- **Annual turnover value over US\$ 1 billion.** An exchange must have significant turnover so that trading is unlikely to be characterized by a particular difficulty in trading. S&P DJI ascertains the total value of trading in a market's domestic companies over the calendar year prior to the review.
- **A market development ratio over 5%.** Many countries have very small markets that do not provide a sufficiently robust representation of the domestic market economy. To ensure only markets that have developed sufficiently are used, S&P DJI calculates a "market development ratio" by dividing the full domestic market capitalization of the exchange by the country's GDP at purchasing power parity, sourced from the IMF. To be considered for the S&P DJI's Country Indices, this figure must be over 5%.

### Additional Requirements for S&P DJI's Emerging Market Status

Countries must meet all three of the baseline criteria as well as have a full market capitalization over US\$ 15bn, and must meet a minimum of three of the following five criteria to be considered for emerging market status:

- **Settlement period of T+3 or better.** Efficient, rapid settlement of trades is necessary for investors to be able to trade with confidence. S&P DJI requires markets to settle trades on a T+3 timescale or sooner.
- **Major ratings agencies rate the sovereign debt at investment grade.** A company's ability to operate is directly affected by its home country's financial situation. S&P Global Ratings has a team devoted to the analysis of country risk, and its rating of each country's sovereign debt is used to ensure an appropriate level of risk.
- **Non-occurrence of hyperinflation.** Hyperinflation is defined here as an annual average consumer price index rate of over 15% at the time of the review.
- **No significant foreign ownership restrictions.** Foreign ownership restrictions cause issues achieving the required exposure to stocks in a given market. While S&P DJI recognizes that stocks in industries such as defense are commonly restricted, it uses the State Street Global Market Information Database to assess whether additional restrictions might cause investing issues.
- **The country's currency should be freely traded.** Difficulties buying or selling a domestic currency, or repatriating capital from a market, greatly complicates the process of investing in a given market. S&P DJI uses the State Street Global Market Information Database to assess whether there any currency restrictions in place in each market.

## Further Requirements for S&P DJI's Developed Market Status

To be considered for developed market status, countries must meet all eight of the initial and additional criteria and have a Gross Domestic Product per capita, at Purchasing Power Parity, greater than US\$ 15,000.

**Deviations from Baseline.** Where this assessment indicates a possible change of classification, a more in-depth study is undertaken which covers both the primary and additional criteria, as well as the following quantitative and qualitative areas:

- **Economic & Political**
  - Further macroeconomic measures, such as the rate and variability of real GDP growth and the overall size of the economy
  - Political factors including war, civil disruption, and disturbance, as well as the risk of war or civil unrest
  - Restrictions on investments imposed by other governments
- **Related Investment Conditions**
  - Settlement procedures
  - Foreign exchange (FX) access and procedures
  - Rules on short sales, availability of futures contracts, etc.
  - Availability of alternative means of investment in the country's stocks, such as DRs or a large number of listings on other markets in other countries
  - The number of domestic listings
- **Market Consensus**
  - Desire for change
    - There must be a market consensus desiring the change of the country's classification.
  - The actions of other market participants
    - S&P DJI staff is in constant contact with the investor community, and regularly canvases opinions concerning new countries of interest and issues of concern regarding existing countries in S&P DJI's Global Equity Indices.
    - The actions of other index providers are relevant. All index providers attempt to incorporate the views of the investor community when assessing markets for country classification purposes. Changes to country classifications reflect changes in the sentiment of both that provider's customers and the broader market.

### Sources:

*State Street – Guide to Custody in World Markets*

*S&P Sovereign Debt Ratings*

*IMF website*

*World Bank website*

*Stock Exchange websites*

## CONSULTATION

## **Appendix B**

Country weights in S&P DJI's Global Benchmark Indices as of May 31, 2017:

<b>S&amp;P Developed BMI Country</b>	<b>Weight</b>
Australia	2.45%
Austria	0.14%
Belgium	0.52%
Canada	3.42%
Denmark	0.66%
Finland	0.43%
France	3.54%
Germany	3.32%
Hong Kong	1.32%
Ireland	0.27%
Israel	0.30%
Italy	0.95%
Japan	9.74%
Luxembourg	0.08%
Netherlands	1.28%
New Zealand	0.13%
Norway	0.29%
Portugal	0.07%
Singapore	0.55%
South Korea	2.13%
Spain	1.25%
Sweden	1.26%
Switzerland	3.17%
UK	6.47%
US	56.25%

<b>S&amp;P Emerging BMI Country</b>	<b>Weight</b>
Brazil	7.49%
Chile	1.55%
China	30.89%
Colombia	0.72%
Czech Republic	0.19%
Egypt	0.23%
Greece	0.52%
Hungary	0.32%
India	13.02%
Indonesia	2.75%
Malaysia	3.00%
Mexico	3.74%
Peru	0.55%
Philippines	1.67%
Poland	1.50%
Qatar	0.81%
Russia	4.20%
South Africa	7.19%
Taiwan	14.39%
Thailand	2.92%
Turkey	1.40%
UAE	0.94%

<b>S&amp;P Frontier BMI Country</b>	<b>Weight</b>
Argentina	16.36%
Bahrain	3.36%
Bangladesh	3.76%
Botswana	0.70%
Bulgaria	0.35%
Cote d'Ivoire	0.89%
Croatia	1.76%
Cyprus	2.00%
Ecuador	0.26%
Estonia	0.40%
Ghana	0.36%
Jamaica	0.85%
Jordan	2.88%
Kazakhstan	2.17%
Kenya	3.11%
Kuwait	12.97%
Latvia	0.05%
Lebanon	1.97%
Lithuania	0.24%
Mauritius	1.67%
Morocco	6.39%
Namibia	0.35%
Nigeria	5.63%
Oman	2.73%
Pakistan	9.53%
Panama	3.49%
Romania	2.94%
Slovakia	0.05%
Slovenia	1.31%
Sri Lanka	1.86%
Trinidad & Tobago	1.38%
Tunisia	0.55%
Vietnam	7.54%
Zambia	0.13%

Source: S&P Dow Jones Indices

<b>S&amp;P/IFCI Composite Index</b>	
<b>Country</b>	<b>Weight</b>
Brazil	6.48%
Chile	1.29%
China	26.11%
Colombia	0.60%
Czech Republic	0.14%
Egypt	0.18%
Greece	0.39%
Hungary	0.29%
India	10.69%
Indonesia	2.29%
Malaysia	2.47%
Mexico	3.26%
Peru	0.41%
Philippines	1.42%
Poland	1.21%
Qatar	0.71%
Russia	3.61%
South Africa	6.23%
South Korea	15.86%
Taiwan	11.99%
Thailand	2.40%
Turkey	1.17%
UAE	0.80%

<b>Dow Jones Developed Markets Index</b>	
<b>Country</b>	<b>Weight</b>
Australia	2.48%
Austria	0.12%
Belgium	0.49%
Canada	3.45%
Denmark	0.65%
Finland	0.42%
France	3.59%
Germany	3.31%
Hong Kong	1.40%
Ireland	0.26%
Israel	0.25%
Italy	0.91%
Japan	9.83%
Luxembourg	0.08%
Netherlands	1.30%
New Zealand	0.14%
Norway	0.23%
Portugal	0.07%
Singapore	0.59%
South Korea	2.22%
Spain	1.24%
Sweden	1.17%
Switzerland	3.22%
UK	6.54%
US	56.07%

<b>Dow Jones Emerging Markets Index</b>	
<b>Country</b>	<b>Weight</b>
Brazil	7.21%
Chile	1.54%
China	30.14%
Colombia	0.76%
Czech Republic	0.18%
Egypt	0.27%
Greece	0.54%
Hungary	0.33%
India	12.98%
Indonesia	2.97%
Malaysia	3.34%
Mexico	3.58%
Peru	0.60%
Philippines	1.74%
Poland	1.63%
Qatar	0.80%
Russia	4.24%
South Africa	6.92%
Taiwan	14.64%
Thailand	3.20%
Turkey	1.47%
UAE	0.92%

Source: S&P Dow Jones Indices

**CONSULTATION**

## ABOUT S&P DOW JONES INDICES

S&P Dow Jones Indices is the largest global resource for essential index-based concepts, data and research, and home to iconic financial market indicators, such as the S&P 500<sup>®</sup> and the Dow Jones Industrial Average<sup>®</sup>. More assets are invested in products based on our indices than based on any other provider in the world. With over 1,000,000 indices and more than 120 years of experience constructing innovative and transparent solutions, S&P Dow Jones Indices defines the way investors measure and trade the markets.

S&P Dow Jones Indices is a division of S&P Global (NYSE: SPGI), which provides essential intelligence for individuals, companies and governments to make decisions with confidence. For more information, visit [www.spdji.com](http://www.spdji.com).

### FOR MORE INFORMATION:

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