

## S&P Dow Jones Indices' 2019 Country Classification Consultation – Updated

**NEW YORK, AUGUST 13, 2019:** 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. S&P DJI will make responses to consultations freely available upon request.<sup>1</sup> If you do not want your response to be made available, you must clearly state that in your response. Please respond to this survey by **October 15, 2019**. 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 visit the online survey available [here](#).

For further information about this consultation, please contact S&P Dow Jones Indices at [index\\_services@spglobal.com](mailto:index_services@spglobal.com).

*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

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<sup>1</sup> Individual and company names as well as contact details will be redacted.

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.

<b>S&amp;P DJI’s Country Classification Criteria</b>	<b>Frontier</b>	<b>Emerging</b>	<b>Developed</b>
<b>Initial Eligibility Criteria</b>			
<ul style="list-style-type: none"> <li>• Full domestic market capitalization over US\$ 2.5B</li> <li>• Domestic annual turnover value over US\$ 1B</li> <li>• Exchange development ratio over 5%</li> </ul>	Minimum of two ✓	✓ ✓ ✓	✓ ✓ ✓
<b>Additional Criteria</b>			
<ul style="list-style-type: none"> <li>• Full domestic market capitalization over US\$ 15B</li> <li>• Settlement period of T+3 or better</li> <li>• Sovereign debt rating of BB+ or above</li> <li>• Non-occurrence of hyperinflation</li> <li>• No significant foreign ownership restrictions</li> <li>• Freely traded foreign currency</li> </ul>		✓  Minimum of three ✓	✓ ✓ ✓ ✓ ✓ ✓
<b>GDP Criteria</b>			
<ul style="list-style-type: none"> <li>• GDP (PPP) per capita greater than US\$ 15K</li> </ul>			✓

✓ - Required criterion

For further information, please refer to S&P DJI’s 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 the countries below which have been identified as candidates for a possible change 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 Under Review for Potential Classification Change**

- Iceland
- Poland

## Iceland

**Overview.** Iceland was removed from applicable S&P DJI benchmark indices in December 2008 following the imposition of capital controls during the country's severe financial crisis. Over the past few years, most capital controls have been removed paving the way for the reopening of the country's equity market to foreign investors. As a result, S&P DJI is seeking market feedback on potentially classifying Iceland as a frontier market and adding Icelandic securities to S&P DJI's frontier market indices effective with the March 2021 frontier markets reconstitution.<sup>2</sup>

**Key Developments.** Over the last several years, Iceland has worked to recover from the 2008 financial crisis and its economy has had stable growth and low inflation. On March 14, 2017, most of the capital controls involving foreign exchange transactions, foreign investment, hedging and lending activity were lifted. In 2018, the special reserve requirement was reduced and the lock-up period was eliminated. In 2019, the special reserve requirement was eliminated altogether. However, the offshore market for Krona no longer exists and foreign exchange restrictions remain on derivatives trading for non-hedging purposes.

Year	Full Domestic Market Capitalization (US\$ B)	Domestic Turnover Value (US\$ B)
2018	9	4.73

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

Benchmark Index	Current Weight	Estimated Weight
S&P Frontier BMI	--	2.92%

### Estimated Constituent Count and Float-Adjusted Market Capitalization ("FMC") of the S&P Iceland BMI<sup>3</sup>

Constituent Count	FMC (US\$ M)
10	5,861.64

<sup>2</sup> Considering the Full Domestic Market Capitalization, Iceland would potentially be classified as a Tier 3 market per the S&P Frontier Indices Methodology available [here](#).

<sup>3</sup> Information as of June 24, 2019.

## Estimated Composition of the S&P Frontier BMI<sup>4</sup>

Country	# Constituents	Weight
Argentina	30	23.5813%
Vietnam	42	12.6513%
Morocco	19	7.4770%
Nigeria	20	5.4404%
Panama	6	5.0821%
Bangladesh	58	4.5721%
Bahrain	10	4.0245%
Kenya	17	3.8305%
Romania	9	3.6769%
Jordan	13	3.3693%
Iceland	10	2.9254%
Mauritius	25	2.4413%
Oman	14	2.3249%
Jamaica	19	2.2232%
Slovenia	12	2.1835%
Trinidad and Tobago	11	2.1522%
Croatia	16	2.0779%
Lebanon	6	1.6065%
Sri Lanka	28	1.4798%
Kazakhstan	5	1.2929%
Tunisia	53	1.1370%
Cote d'Ivoire	20	0.7244%
Cyprus	13	0.6260%
Botswana	10	0.6112%
Estonia	13	0.5808%
Bulgaria	27	0.5580%
Ghana	12	0.4521%
Namibia	4	0.3971%
Lithuania	16	0.3136%
Zambia	7	0.0978%
Slovakia	2	0.0535%
Latvia	2	0.0356%
<b>Total</b>	<b>549</b>	<b>100.00%</b>

### Consultation Questions

Please answer the following questions and provide S&P DJI with the reasoning behind your answers:

1. What is the most appropriate action to take with regard to Iceland in S&P DJI's global equity indices?
  - Reclassify to frontier market status in March 2021 and add Icelandic securities to the S&P Frontier BMI only
  - Reclassify to frontier market status in March 2021 and add Icelandic securities to all S&P DJI frontier indices including the S&P Frontier BMI, S&P Select Frontier, S&P Extended Frontier 150, and S&P/BNY Mellon New Frontier Indices
  - Keep Iceland as non-classified and do not add Icelandic securities to any S&P DJI global indices
2. Do you have any other comments or feedback regarding the classification of Iceland?

<sup>4</sup> Information as of June 24, 2019. This excludes Kuwait, which will be reclassified to emerging market status in September 2019.

## Poland

**Overview.** Poland is currently classified as an emerging market in S&P DJI's global equity indices. Poland's economy, one of the largest in Eastern Europe, has performed well over the past few years with solid GDP growth and steady inflation. Improvements to market infrastructure implemented over the past several years have also brought the market more in line with developed market standards. As a result, S&P DJI is seeking market feedback on potentially reclassifying Poland to developed market status with implementation at the September 2020 annual reconstitution.

**Key Developments.** Poland's economic growth and stability combined with capital market developments have made it more attractive and accessible to global investors. GDP per capita has increased at a rapid pace and relative improvements in custody arrangements and the availability of stock lending have brought market infrastructure and accessibility more in line with developed market standards. Most recently, the Capital Markets Development Strategy published in 2019 by Poland's Ministry of Finance includes further initiatives related to improving the market's regulatory framework, including the adoption of new technologies, in an effort to further enhance market confidence.

Year	Full Domestic Market Capitalization (US\$ B)	Domestic Turnover Value (US\$ B)
2018	158	52.99

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

Benchmark Index	Current Weight	Estimated Weight
S&P Emerging BMI	1.28%	
S&P Developed BMI		0.14%

### Five Largest Poland Stocks by Float-Adjusted Market Capitalization ("FMC")

Company	FMC (US\$ M) <sup>5</sup>
PKO Bank Polski SA	9,966.76
Polski Koncern Naftowy SA	7,047.32
Powszechny Zaklad Ubezpieczen SA	6,787.31
Bank Pekao SA	4,891.94
KGHM Polska Miedz SA Br	3,791.44

### Estimated Composition of the S&P Poland BMI<sup>5</sup>

Size	Constituent Count	FMC (US\$ M)
Large	11	47,382.69
Mid	8	11,501.26
Small	24	11,044.30
<b>Total</b>	<b>43</b>	<b>69,928.25</b>

<sup>5</sup> Information as of June 24, 2019.

## Estimated Composition of the S&P Developed BMI<sup>6</sup>

Country	Constituent Count	Weight
US	2,891	59.7162%
Japan	1,765	9.1719%
UK	357	5.6075%
Canada	366	3.4628%
France	186	3.3920%
Switzerland	134	2.9759%
Germany	215	2.8296%
Australia	281	2.4407%
South Korea	788	1.8259%
Hong Kong	179	1.2774%
Netherlands	68	1.2029%
Sweden	161	1.0068%
Spain	76	0.9885%
Italy	125	0.8623%
Denmark	51	0.5808%
Singapore	92	0.5249%
Belgium	51	0.4308%
Finland	45	0.4080%
Norway	79	0.3079%
Israel	79	0.2439%
Ireland	27	0.2353%
Poland	43	0.1424%
New Zealand	33	0.1279%
Austria	32	0.1156%
Portugal	15	0.0639%
Luxembourg	10	0.0583%
<b>Total</b>	<b>8,149</b>	<b>100.00%</b>

### Consultation Questions

Please answer the following questions and provide S&P DJI with the reasoning behind your answers:

3. What is the most appropriate action to take with regard to Poland in S&P DJI's global equity indices?
  - Reclassify to developed market status in September 2020
  - Keep classification as emerging market status
4. Do you have any other comments or feedback regarding the classification of Poland?

<sup>6</sup> Information as of June 24, 2019.

## **Other Matters**

### **China A-Shares**

As previously announced, effective prior to the market open on Monday, September 23, 2019, S&P DJI will add China A-Shares to global benchmark indices with an emerging market classification at a 25% inclusion factor.<sup>7</sup>

S&P DJI continues to closely monitor the China A-share market and may consult on further weight increases of A-shares in global benchmarks and/or whether to include China-A shares in other indices after the implementation of the first tranche at the September 2019 Reconstitution.

### **Watchlist**

The following countries are on S&P DJI's watchlist for potential reclassification. Based on the latest review of these countries, S&P DJI is not considering any changes to their classification at this time. In the event there is a material update that could potentially lead to a classification change, S&P DJI will issue a public consultation on the matter.

<b>Watchlist</b>		
<b>Country</b>	<b>Current Classification</b>	<b>Potential Reclassification</b>
Argentina	Frontier	Monitoring <sup>8</sup>
Czech Republic	Emerging	Upgrade to Developed
Hungary	Emerging	Upgrade to Developed
Romania	Frontier	Upgrade to Emerging
Vietnam	Frontier	Upgrade to Emerging

### **Consultation Questions**

Please answer the following questions and provide S&P DJI with the reasoning behind your answers:

- 5. Do you have any comments or feedback regarding weight increases of China A-Shares in S&P DJI's global benchmark indices?**
- 6. Do you have any comments or feedback regarding any of the countries in the above watchlist?**

<sup>7</sup> S&P DJI's 2018 Country Classification Consultation Results are available [here](#).

<sup>8</sup> S&P DJI is monitoring market developments and reviewing their potential impact on the accessibility of Argentina and the replication of indices. Clients are invited to provide feedback on the impact of the recent capital controls in Argentina and their impact on the treatment of Argentinian listed securities in S&P DJI's indices.

## 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 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\$ 15 billion, 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*

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## **Appendix B**

Country weights in S&P DJI's global benchmark indices as of June 24, 2019:

<b>S&amp;P Developed BMI Country</b>	<b>Weight</b>
Australia	2.44%
Austria	0.12%
Belgium	0.43%
Canada	3.47%
Denmark	0.58%
Finland	0.41%
France	3.40%
Germany	2.83%
Hong Kong	1.28%
Ireland	0.24%
Israel	0.24%
Italy	0.86%
Japan	9.18%
Luxembourg	0.06%
Netherlands	1.20%
New Zealand	0.13%
Norway	0.31%
Portugal	0.06%
Singapore	0.53%
South Korea	1.83%
Spain	0.99%
Sweden	1.01%
Switzerland	2.98%
UK	5.62%
US	59.80%

<b>S&amp;P Emerging BMI Country</b>	<b>Weight</b>
Brazil	8.93%
Chile	1.10%
China	31.92%
Colombia	0.57%
Czech Republic	0.16%
Egypt	0.23%
Greece	0.45%
Hungary	0.30%
India	13.36%
Indonesia	2.48%
Malaysia	2.64%
Mexico	2.83%
Pakistan	0.13%
Peru	0.44%
Philippines	1.38%
Poland	1.28%
Qatar	1.02%
Russia	4.67%
Saudi Arabia	1.47%
South Africa	6.67%
Taiwan	13.26%
Thailand	3.21%
Turkey	0.75%
UAE	0.74%

<b>S&amp;P Frontier BMI Country</b>	<b>Weight</b>
Argentina	19.02%
Bahrain	3.25%
Bangladesh	3.69%
Botswana	0.49%
Bulgaria	0.45%
Cote d'Ivoire	0.58%
Croatia	1.68%
Cyprus	0.50%
Estonia	0.47%
Ghana	0.36%
Jamaica	1.79%
Jordan	2.72%
Kazakhstan	1.04%
Kenya	3.09%
Kuwait	21.71%
Latvia	0.03%
Lebanon	1.30%
Lithuania	0.25%
Mauritius	1.97%
Morocco	6.03%
Namibia	0.32%
Nigeria	4.39%
Oman	1.88%
Panama	4.10%
Romania	2.97%
Slovakia	0.04%
Slovenia	1.76%
Sri Lanka	1.19%
Trinidad & Tobago	1.74%
Tunisia	0.92%
Vietnam	10.20%
Zambia	0.08%

Source: S&P Dow Jones Indices

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<b>S&amp;P/IFCI Composite Index</b>	
<b>Country</b>	<b>Weight</b>
Brazil	7.84%
Chile	0.97%
China	27.53%
Colombia	0.48%
Czech Republic	0.14%
Egypt	0.19%
Greece	0.39%
Hungary	0.27%
India	11.64%
Indonesia	2.14%
Malaysia	2.29%
Mexico	2.52%
Pakistan	0.10%
Peru	0.39%
Philippines	1.21%
Poland	1.11%
Qatar	0.90%
Russia	4.10%
Saudi Arabia	1.11%
South Africa	5.87%
South Korea	13.46%
Taiwan	11.28%
Thailand	2.76%
Turkey	0.64%
UAE	0.65%

<b>Dow Jones Developed Markets Index</b>	
<b>Country</b>	<b>Weight</b>
Australia	2.46%
Austria	0.11%
Belgium	0.42%
Canada	3.48%
Denmark	0.58%
Finland	0.40%
France	3.47%
Germany	2.86%
Hong Kong	1.32%
Ireland	0.22%
Israel	0.18%
Italy	0.85%
Japan	9.22%
Luxembourg	0.05%
Netherlands	1.22%
New Zealand	0.13%
Norway	0.27%
Portugal	0.06%
Singapore	0.54%
South Korea	1.89%
Spain	1.00%
Sweden	0.95%
Switzerland	3.04%
UK	5.66%
US	59.62%

<b>Dow Jones Emerging Markets Index</b>	
<b>Country</b>	<b>Weight</b>
Brazil	8.74%
Chile	1.09%
China	31.52%
Colombia	0.55%
Czech Republic	0.16%
Egypt	0.25%
Greece	0.46%
Hungary	0.31%
India	13.55%
Indonesia	2.49%
Malaysia	2.69%
Mexico	2.80%
Pakistan	0.14%
Peru	0.45%
Philippines	1.39%
Poland	1.29%
Qatar	1.02%
Russia	4.65%
Saudi Arabia	1.49%
South Africa	6.64%
Taiwan	13.46%
Thailand	3.31%
Turkey	0.80%
UAE	0.74%

Source: S&P Dow Jones Indices

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## 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 products based on indices from any other provider in the world. Since Charles Dow invented the first index in 1884, S&P DJI has been innovating and developing indices across the spectrum of asset classes helping to define 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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