

## S&P Dow Jones Indices' 2018 Country Classification Consultation

**NEW YORK, JUNE 13, 2018:** 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, 2018**. 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 the 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.

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 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 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<sup>2</sup>**

- China A-Shares
- Argentina
- Kuwait

<sup>2</sup> A separate country classification consultation for Saudi Arabia was issued on May 6, 2018 and is available [here](#).

## China A-Shares

**Overview.** Historically, China A-Shares have been excluded from S&P DJI's Global Benchmark Indices due to limited foreign investor access. However, the introduction and subsequent expansion of the QFII and RQFII schemes, along with the more recent establishment of the Stock Connect programs, have allowed for increased foreign investment in these shares. Given the size of China's economy and equity markets, global investors are eager to have it properly represented in their investment portfolios. Market regulations and policies have continued to evolve towards alignment with international standards. These positive developments support the current review of the status of China A-Shares.

**Key Developments.** Notable developments regarding China A-Shares that have occurred over the past year include:

- **QFII and RQFII Quota Increases.** Quota amounts have continued to increase across the various methods available for foreign investment. For QFII, the quota amount granted was recently as high as US\$ 99.5 billion. RQFII quotas of almost US\$ 95 billion have also been approved for almost 200 entities as of the beginning of 2018. These increases will help support the ability of investment managers to effectively manage portfolios.
- **Stock Connect Daily Limit Increases.** The daily quotas for both the Northbound and Southbound channels of the Stock Connect Programs have increased to about US\$ 8 billion and US\$ 6.5 billion, respectively, providing access to around 80% of the A-Share market capitalization.
- **Market Stabilization.** Chinese equity and currency markets have stabilized. These characteristics should increase investor confidence in the markets and facilitate more investment.

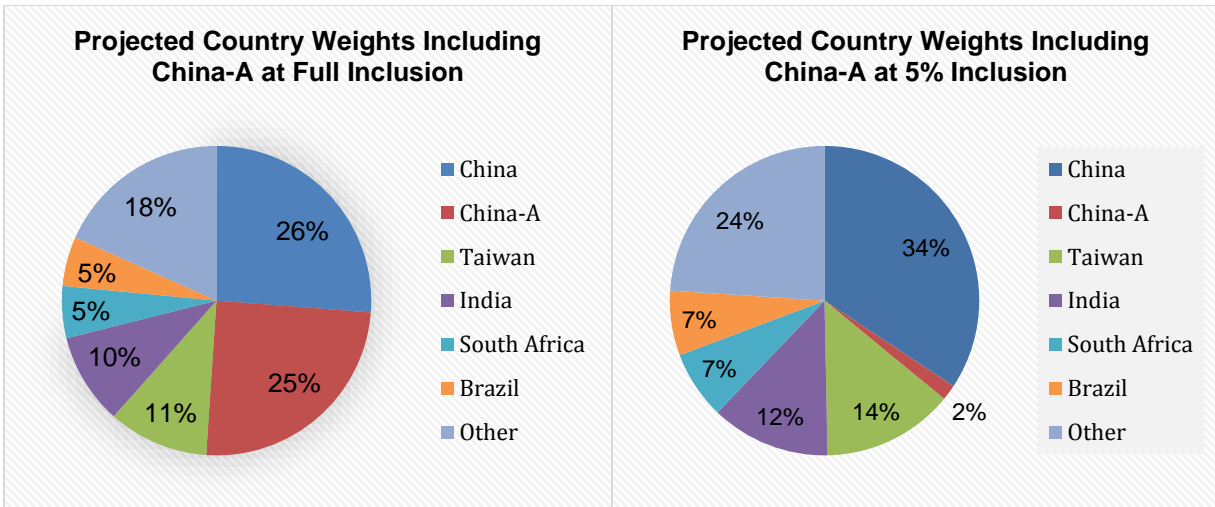
**Other Considerations.** The expansion of the investment avenues available to foreign investors for China A-Shares has been encouraging. However, some concerns remain, including the currency repatriation limits for foreign investors, the high amount of voluntary stock suspensions in the Chinese market, and the ease of quota application for QFII and RQFII investors. The growing size and importance of China in the global economy, along with the opening of its markets to foreign investment, has intensified the need for transparent and well-defined market guidelines and oversight to facilitate their inclusion in global benchmark indices.

Year	Full Domestic Market Capitalization (\$B)	Domestic Turnover Value (\$B)
2017	5,709 <sup>3</sup>	23,598

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

Benchmark Index	Current Weight	Projected Weight
S&P Emerging BMI (China non-A-Shares)	34.95%	
S&P Emerging BMI (China A-Shares only at 5% inclusion factor)		1.64%
S&P Emerging BMI (China A-Shares only at 10% inclusion factor)		3.23%
S&P Emerging BMI (China A-Shares only at full weight)		25.04%
S&P Emerging BMI (China overall w/ A-Share inclusion at full weight)		51.24%

<sup>3</sup> Full market capitalization of the S&P China BMI.



### Five Largest China A-Share Stocks by Float-Adjusted Market Capitalization (FMC)

Company	FMC (\$)	5% of FMC (\$)
Kweichow Moutai Co Ltd A	43,640,880,830	2,182,044,041
Ping An Insurance (Group) Co of China Ltd A	31,767,591,535	1,588,379,577
China Merchants Bank Co Ltd A	27,876,515,345	1,393,825,767
Agricultural Bank of China Ltd A	19,923,479,888	996,173,994
Industrial and Commercial Bank of China Ltd A	19,431,206,930	971,560,347

### Consultation Questions

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

1. **Should China A-Shares be included in S&P DJI's Global Benchmark Indices?**
2. **If China A-Shares are included, what is the most appropriate course of action to take regarding their inclusion (select all that apply)?**
  - **Include China A-shares in the S&P Global BMI with Emerging classification at their full weight**
  - **Include China A-Shares in the S&P Global BMI with Emerging classification using a reduced weight factor of 5%**
  - **Include China A-Shares in the S&P Global BMI with Emerging classification using a reduced weight factor of 10%**
  - **Include China A-Shares in the S&P Global BMI with Emerging classification using a different reduced weight factor (please specify)**
  - **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)**
  - **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**

3. **When is the most appropriate time to initiate the inclusion of China A-Shares in S&P DJI's Global Benchmark Indices?**
  - **March 2019**
  - **September 2019**
  - **Other (please specify)**
4. **Do you have any other comments or feedback regarding the classification of China A-Shares?**

## 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. In late 2015, Argentina removed capital controls and foreign exchange restrictions which resulted in the elimination of repatriation restrictions, a freely floating currency and other improvements in market accessibility. Despite these improvements, macroeconomic concerns have resurfaced in recent months amid widespread concern around the country's reliance on external financing.

**Key Developments.** In recent years, Argentina has made positive market changes designed to motivate foreign investment, most notably:

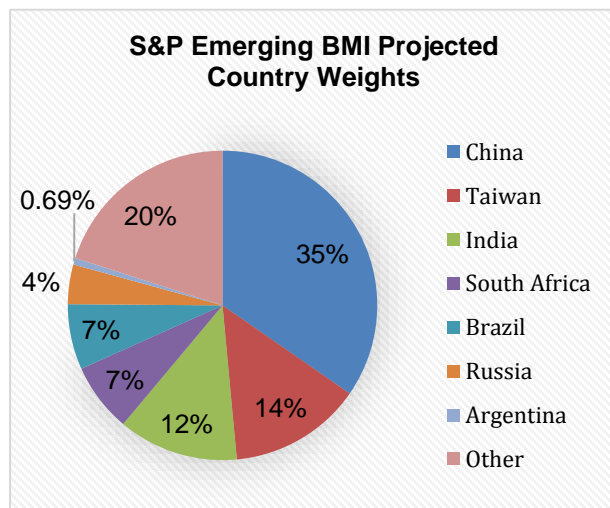
- **Currency Restrictions.** Market regulators have continued to increase the flexibility of the currency markets by lessening restrictions.
- **Capital Markets Access.** The continuation of policies designed to attract more foreign investment and the restoration of the country's ability to access global capital markets.

**Other Considerations.** The overall progress of the policies to improve market accessibility have been positive. However, recent macroeconomic developments have given investors pause. Rising interest rates and a declining currency have led to high inflation. The trend of reform has been underway for some time now, but investors may want to see how the current economic issues play out before demand picks up significantly.

Year	Full Domestic Market Capitalization (\$B)	Domestic Turnover Value (\$B)
2017	78	5.60

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

Benchmark Index	Current Weight	Projected Weight
S&P Frontier BMI	17.36%	
S&P Emerging BMI		0.69%



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

Company	FMC (\$)
Mercadolibre inc	13,896,207,900
Grupo Financiero Galicia B	4,260,060,762
YPF SA D	3,135,860,977
Pampa Energia S.A.	3,019,247,032
Banco Macro SA B	1,595,742,381

### Consultation Questions

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

5. **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 2019**
  - **Keep classification as Frontier**
6. **Do you have any other comments or feedback regarding the classification of Argentina?**

## Kuwait

**Overview.** Kuwait continues to be an important economy in the Middle East region. It is currently classified as a Frontier Market in S&P DJI's Global Benchmark Indices, but has recently taken steps to warrant consideration for a change in classification to Emerging Market status. Over the past few years, market regulators have initiated a phased approach towards aligning Kuwaiti markets with global standards. These reforms should also improve the liquidity of the overall market and make it more conducive to foreign investment.

**Key Developments.** Over the last couple of years, progress has been made towards the goal of aligning the Kuwaiti market with international standards and facilitating more foreign investment. The Kuwait Capital Markets Authority and Kuwait Stock Exchange have implemented many of these reforms as part of their Market Development program, which include:

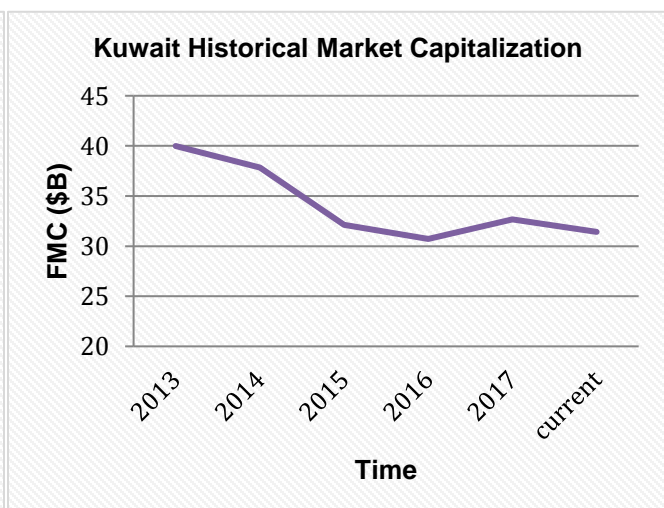
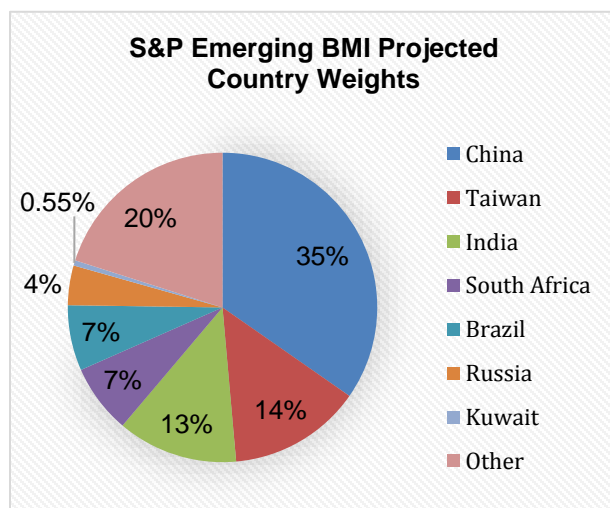
- **Settlement Cycle.** During the first phase, the settlement cycle was changed to T+3 to better align with global standards.
- **Delivery versus Payment (DVP) System.** A DVP system was established with further enhancements planned in order to mitigate trade settlement risk.
- **Segmented Market System.** A segmented market system was initiated whereby each stock is classified into one of three tiers based on multiple criteria in order to promote market liquidity and company quality.

**Other Considerations.** The detailed plan launched by the Kuwaiti market authorities has had success and the market continues to progress. However, many of these changes have only been in place for a short time. The additional phases of the market development plan contain some key objectives that will better align Kuwait with other emerging markets, but these have yet to be implemented.

Year	Full Domestic Market Capitalization (\$B)	Domestic Turnover Value (\$B)
2017	84	13.16

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

Benchmark Index	Current Weight	Projected Weight
S&P Frontier BMI	13.94%	
S&P Emerging BMI		0.56%





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

Company	FMC (\$)
National Bank of Kuwait	7,301,626,527
Kuwait Finance House	4,555,816,123
Mobile Telecommunications Company	2,882,797,495
Agility	2,182,335,030
Commercial Bank of Kuwait	1,426,602,524

### Consultation Questions

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

7. **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 Global BMI with Emerging classification in 2019
  - Do not add to the S&P Global BMI with Emerging classification
8. **Do you have any other comments or feedback regarding the classification of Kuwait?**

## 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\$ 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, 2018:

<b>S&amp;P Developed BMI Country</b>	<b>Weight</b>
Australia	2.43%
Austria	0.15%
Belgium	0.46%
Canada	3.44%
Denmark	0.61%
Finland	0.41%
France	3.40%
Germany	3.17%
Hong Kong	1.32%
Ireland	0.26%
Israel	0.25%
Italy	0.95%
Japan	10.09%
Luxembourg	0.08%
Netherlands	1.24%
New Zealand	0.12%
Norway	0.32%
Portugal	0.07%
Singapore	0.55%
South Korea	2.16%
Spain	1.08%
Sweden	1.07%
Switzerland	2.59%
UK	6.29%
US	57.49%

<b>S&amp;P Emerging BMI Country</b>	<b>Weight</b>
Brazil	7.05%
Chile	1.46%
China	34.95%
Colombia	0.60%
Czech Republic	0.18%
Egypt	0.24%
Greece	0.44%
Hungary	0.27%
India	12.78%
Indonesia	2.37%
Malaysia	2.87%
Mexico	2.88%
Pakistan	0.26%
Peru	0.45%
Philippines	1.36%
Poland	1.27%
Qatar	0.62%
Russia	4.20%
South Africa	7.03%
Taiwan	13.93%
Thailand	3.06%
Turkey	0.99%
UAE	0.74%

<b>S&amp;P Frontier BMI Country</b>	<b>Weight</b>
Argentina	16.85%
Bahrain	3.08%
Bangladesh	4.06%
Botswana	0.76%
Bulgaria	0.52%
Cote d'Ivoire	0.79%
Croatia	1.88%
Cyprus	1.00%
Ecuador	0.36%
Estonia	0.53%
Ghana	0.64%
Jamaica	1.27%
Jordan	3.11%
Kazakhstan	2.36%
Kenya	4.11%
Kuwait	13.94%
Latvia	0.04%
Lebanon	1.91%
Lithuania	0.32%
Mauritius	2.65%
Morocco	7.30%
Namibia	0.40%
Nigeria	5.98%
Oman	2.32%
Panama	5.00%
Romania	3.25%
Slovakia	0.06%
Slovenia	1.64%
Sri Lanka	1.91%
Trinidad & Tobago	1.60%
Tunisia	1.17%
Vietnam	9.04%
Zambia	0.15%

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	6.06%
Chile	1.26%
China	29.80%
Colombia	0.52%
Czech Republic	0.14%
Egypt	0.17%
Greece	0.36%
Hungary	0.23%
India	10.73%
Indonesia	1.99%
Malaysia	2.36%
Mexico	2.49%
Pakistan	0.17%
Peru	0.38%
Philippines	1.15%
Poland	1.07%
Qatar	0.53%
Russia	3.61%
South Africa	6.07%
South Korea	15.44%
Taiwan	11.48%
Thailand	2.53%
Turkey	0.81%
UAE	0.63%

<b>Dow Jones Developed Markets Index</b>	
<b>Country</b>	<b>Weight</b>
Australia	2.48%
Austria	0.15%
Belgium	0.47%
Canada	3.48%
Denmark	0.61%
Finland	0.41%
France	3.48%
Germany	3.19%
Hong Kong	1.42%
Ireland	0.27%
Israel	0.20%
Italy	0.92%
Japan	10.18%
Luxembourg	0.08%
Netherlands	1.27%
New Zealand	0.14%
Norway	0.27%
Portugal	0.06%
Singapore	0.59%
South Korea	2.26%
Spain	1.07%
Sweden	1.05%
Switzerland	2.64%
UK	6.45%
US	56.88%

<b>Dow Jones Emerging Markets Index</b>	
<b>Country</b>	<b>Weight</b>
Brazil	6.72%
Chile	1.55%
China	33.99%
Colombia	0.65%
Czech Republic	0.17%
Egypt	0.28%
Greece	0.46%
Hungary	0.27%
India	12.90%
Indonesia	2.55%
Malaysia	3.12%
Mexico	2.81%
Pakistan	0.34%
Peru	0.55%
Philippines	1.42%
Poland	1.42%
Qatar	0.62%
Russia	4.20%
South Africa	6.83%
Taiwan	14.02%
Thailand	3.34%
Turkey	1.04%
UAE	0.73%

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 become home to over 1,000,000 indices across the spectrum of asset classes that have helped 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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