

S&P Dow Jones Indices' 2020 Country Classification Consultation

NEW YORK, AUGUST 19, 2020: S&P Dow Jones Indices ("S&P DJI") is conducting its annual country classification consultation with market participants. 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. Please respond to this survey by **October 15, 2020**. After this date, S&P DJI will no longer accept survey responses. Prior to the Index Committee's final review, S&P DJI may request clarifications from respondents as part of that review.

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 SPDJI_Index_Governance@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.

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 |
|--|--------------------|----------|-----------|
| Initial Eligibility Criteria | | | |
| Full domestic market capitalization over US\$ 2.5B | Minimum of two ✓ | ✓ | ✓ |
| Domestic annual turnover value over US\$ 1B | | ✓ | ✓ |
| Exchange development ratio over 5% | | ✓ | ✓ |
| Additional Criteria | | | |
| Full domestic market capitalization over US\$ 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 | | ✓ | ✓ |
| GDP Criteria | | | |
| GDP (PPP) per capita greater than US\$ 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 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
- Argentina

Iceland

Overview. Iceland was removed from the S&P Global BMI indices effective December 1, 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 the S&P Frontier BMI index effective with the March 2022 frontier markets reconstitution.¹ Please note that downstream indices are not impacted by this. S&P DJI will issue separate consultations for any downstream indices considering a potential change regarding Icelandic securities.

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. Several steps have been taken to remove the capital controls that were imposed in 2008, with almost all restrictions lifted by March 2019. However, the offshore market for Krona no longer exists and restrictions on the following transactions remain in place:²

1. Cross-border transfers of domestic currency due to transactions with offshore Krona assets that are subject to special restrictions;
2. Derivatives transactions involving domestic currency against foreign currency and undertaken for non-hedging purposes, or for hedging purposes in relation to issuance of ISK debt abroad.

| Year | Full Domestic Market Capitalization (US\$ B) | Domestic Turnover Value (US\$ B) |
|------|--|----------------------------------|
| 2019 | 10 | 4.95 |

Weight in S&P DJI's Global Benchmark Indices

| Benchmark Index | Current Weight | Estimated Weight |
|------------------|----------------|------------------|
| S&P Frontier BMI | -- | 2.79% |

Estimated Constituent Count and Float-Adjusted Market Capitalization ("FMC") of the S&P Iceland BMI³

| Constituent Count | FMC (US\$ M) |
|-------------------|--------------|
| 14 | 5,188.19 |

¹ Considering the Full Domestic Market Capitalization, Iceland would potentially be classified as a Tier 2 market per the S&P Frontier Indices Methodology available [here](#).

² See "[Progress of the Plan for Removal of Capital Controls](#)" published by the Minister of Finance and Economic Affairs, June 12, 2020.

³ Information as of April 30, 2020, which is the reference date for the annual reconstitution of the S&P Frontier BMI index.

Estimated Composition of the S&P Frontier BMI including Iceland⁴

| Country | # Constituents | Weight |
|---------------------|----------------|----------------|
| Argentina | 14 | 27.0160% |
| Vietnam | 43 | 11.4864% |
| Morocco | 22 | 8.2156% |
| Nigeria | 18 | 5.0242% |
| Panama | 6 | 3.9734% |
| Romania | 9 | 3.6792% |
| Kenya | 14 | 3.6719% |
| Bahrain | 10 | 3.6555% |
| Bangladesh | 47 | 3.5802% |
| Jordan | 13 | 2.8970% |
| Iceland | 14 | 2.7945% |
| Kazakhstan | 9 | 2.7581% |
| Slovenia | 12 | 2.4118% |
| Oman | 14 | 2.3246% |
| Trinidad and Tobago | 9 | 2.2068% |
| Mauritius | 42 | 2.1447% |
| Croatia | 16 | 2.0087% |
| Jamaica | 28 | 1.8034% |
| Sri Lanka | 45 | 1.4911% |
| Lebanon | 5 | 1.4633% |
| Tunisia | 42 | 1.1861% |
| Cote d'Ivoire | 25 | 0.8767% |
| Estonia | 13 | 0.6314% |
| Botswana | 13 | 0.6262% |
| Bulgaria | 33 | 0.5476% |
| Ghana | 11 | 0.4041% |
| Cyprus | 14 | 0.3864% |
| Namibia | 4 | 0.2962% |
| Lithuania | 14 | 0.2935% |
| Slovakia | 2 | 0.0640% |
| Latvia | 2 | 0.0413% |
| Zambia | 4 | 0.0401% |
| Total | 567 | 100.00% |

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?
 - Reclassify to frontier market status in March 2022 and add Icelandic securities to the S&P Frontier BMI index
 - Keep Iceland as non-classified and do not add Icelandic securities to the S&P Frontier BMI index
2. Do you have any other comments or feedback regarding the classification of Iceland?

⁴ Information as of June 22, 2020.

Argentina

Overview. Argentina is currently classified as a Frontier market in S&P DJI's global equity indices. On September 11, 2019, due to the imposition of capital controls in Argentina, S&P DJI announced that all share changes for Argentinian listed securities resulting from the September 2019 quarterly rebalance were suspended and would not be implemented.⁵ In consideration of the continued imposition of capital controls and additional restrictions on certain transactions, S&P DJI announced on February 26, 2020, that local listings in Argentina would no longer be eligible for the S&P Frontier BMI Index in conjunction with the Annual Reconstitution, which took effect on June 22, 2020.⁶

As a result of the prolonged imposition of capital controls, S&P DJI is seeking market feedback on potentially reclassifying Argentina as a standalone country and removing it from frontier market indices.

Key Developments. Capital controls, such as residents being restricted from transferring more than US\$ 200 per month in funds to foreign accounts, remain in place. Though index replicability issues have been addressed by limiting eligibility to non-local listings only, continued uncertainty about when capital controls will be lifted, sovereign debt restructuring, and the impact of COVID-19 continue to weigh on Argentina.

| Year | Full Domestic Market Capitalization (US\$ B) | Domestic Turnover Value (US\$ B) |
|-------------|---|---|
| 2019 | 39 | 2.98 |

Weight in S&P DJI's Global Benchmark Indices⁷

| Benchmark Index | Current Weight |
|------------------------|-----------------------|
| S&P Frontier BMI | 27.79% |

⁵ Please see the full announcement available [here](#).

⁶ Please see the full announcement available [here](#).

⁷ Information as of June 22, 2020.

Estimated Composition of the S&P Frontier BMI excluding Argentina⁸

| Country | # Constituents | Weight |
|---------------------|----------------|----------------|
| Vietnam | 43 | 16.36% |
| Morocco | 22 | 11.70% |
| Nigeria | 18 | 7.16% |
| Panama | 6 | 5.66% |
| Romania | 9 | 5.24% |
| Kenya | 14 | 5.23% |
| Bahrain | 10 | 5.21% |
| Bangladesh | 47 | 5.10% |
| Jordan | 13 | 4.13% |
| Kazakhstan | 9 | 3.93% |
| Slovenia | 12 | 3.44% |
| Oman | 14 | 3.31% |
| Trinidad and Tobago | 9 | 3.14% |
| Mauritius | 42 | 3.06% |
| Croatia | 16 | 2.86% |
| Jamaica | 28 | 2.57% |
| Sri Lanka | 45 | 2.12% |
| Lebanon | 5 | 2.08% |
| Tunisia | 42 | 1.69% |
| Cote d'Ivoire | 25 | 1.25% |
| Estonia | 13 | 0.90% |
| Botswana | 13 | 0.89% |
| Bulgaria | 33 | 0.78% |
| Ghana | 11 | 0.58% |
| Cyprus | 14 | 0.55% |
| Namibia | 4 | 0.42% |
| Lithuania | 14 | 0.42% |
| Slovakia | 2 | 0.09% |
| Latvia | 2 | 0.06% |
| Zambia | 4 | 0.06% |
| Total | 539 | 100.00% |

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 Argentina?

- Reclassify to standalone status in March 2021 and add local listings back as eligible securities to be included in the standalone index
- Keep Frontier market classification with eligibility limited to developed market listings only

4. Do you have any other comments or feedback regarding the classification of Argentina?

⁸ Information as of June 22, 2020.

Other Matters

China A-Shares

On September 23, 2019, S&P DJI added China A-Shares accessible via the Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect programs to global benchmark indices with an emerging market classification at a 25% partial inclusion factor.⁹

In October 2019, the People's Bank of China and the State Administration of Foreign Exchange announced the elimination of investment quotas for Qualified Foreign Institutional Investors (QFII) and RMB Qualified Foreign institutional investors (RQFII). In May 2020, additional regulations were announced which aim to better facilitate foreign investor participation in China's financial markets by simplifying procedures for both inward remittances and outward repatriation of investment income.

Despite the recent improvements, a number of challenges remain including relatively stringent foreign ownership limits, daily trading limits on Stock Connect facilities, a short settlement cycle, and the lack of complete alignment between the trading days of the Stock Connect facilities and the underlying Chinese exchanges.

S&P DJI continues to closely monitor the China A-share market and welcomes feedback from market participants as to whether recent changes in market accessibility warrant S&P DJI issuing a consultation to consider changes in its current treatment of A-shares in global benchmarks and/or whether to include China-A shares in other indices.

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.

| Watchlist | | | |
|------------------|-------------------------------|-----------------------------------|--|
| Country | Current Classification | Potential Reclassification | Comments |
| Czech Republic | Emerging | Upgrade to Developed | Monitoring market and economic development in the region |
| Hungary | Emerging | Upgrade to Developed | Monitoring market and economic development in the region |
| Poland | Emerging | Upgrade to Developed | Monitoring market and economic development in the region |
| Romania | Frontier | Upgrade to Emerging | Monitoring market and economic development in the region |
| Vietnam | Frontier | Upgrade to Emerging | Monitoring market and economic development in the region |
| Bangladesh | Frontier | Downgrade to Standalone | Monitoring liquidity due to the 'Floor Price' mechanism that was recently introduced |
| Nigeria | Frontier | Downgrade to Standalone | Monitoring the FX market |
| Turkey | Emerging | Downgrade to Frontier | Monitoring market restrictions |

⁹ S&P DJI's 2018 Country Classification Consultation Results are available [here](#).

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 the current treatment 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?**

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 market participants, 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 market participants 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 22, 2020:

| S&P Developed BMI Country | Weight |
|--|---------------|
| Australia | 2.26% |
| Austria | 0.09% |
| Belgium | 0.34% |
| Canada | 3.16% |
| Denmark | 0.69% |
| Finland | 0.40% |
| France | 3.01% |
| Germany | 2.75% |
| Hong Kong | 1.06% |
| Ireland | 0.25% |
| Israel | 0.26% |
| Italy | 0.78% |
| Japan | 9.34% |
| Luxembourg | 0.04% |
| Netherlands | 1.27% |
| New Zealand | 0.14% |
| Norway | 0.24% |
| Portugal | 0.06% |
| Singapore | 0.48% |
| South Korea | 1.76% |
| Spain | 0.77% |
| Sweden | 1.09% |
| Switzerland | 3.09% |
| UK | 4.54% |
| US | 62.13% |

| S&P Emerging BMI Country | Weight |
|---|---------------|
| Brazil | 6.10% |
| Chile | 0.67% |
| China | 41.36% |
| Colombia | 0.32% |
| Czech Republic | 0.11% |
| Egypt | 0.17% |
| Greece | 0.31% |
| Hungary | 0.25% |
| India | 12.22% |
| Indonesia | 1.69% |
| Kuwait | 0.69% |
| Malaysia | 2.47% |
| Mexico | 1.90% |
| Pakistan | 0.09% |
| Peru | 0.25% |
| Philippines | 1.02% |
| Poland | 0.84% |
| Qatar | 0.92% |
| Russia | 3.88% |
| Saudi Arabia | 2.70% |
| South Africa | 4.03% |
| Taiwan | 14.24% |
| Thailand | 2.42% |
| Turkey | 0.68% |
| UAE | 0.68% |

| S&P Frontier BMI Country | Weight |
|---|---------------|
| Argentina | 27.79% |
| Bahrain | 3.76% |
| Bangladesh | 3.68% |
| Botswana | 0.64% |
| Bulgaria | 0.56% |
| Cote d'Ivoire | 0.90% |
| Croatia | 2.07% |
| Cyprus | 0.40% |
| Estonia | 0.65% |
| Ghana | 0.42% |
| Jamaica | 1.86% |
| Jordan | 2.98% |
| Kazakhstan | 2.84% |
| Kenya | 3.78% |
| Latvia | 0.04% |
| Lebanon | 1.51% |
| Lithuania | 0.30% |
| Mauritius | 2.21% |
| Morocco | 8.45% |
| Namibia | 0.30% |
| Nigeria | 5.17% |
| Oman | 2.39% |
| Panama | 4.09% |
| Romania | 3.79% |
| Slovakia | 0.07% |
| Slovenia | 2.48% |
| Sri Lanka | 1.53% |
| Trinidad & Tobago | 2.27% |
| Tunisia | 1.22% |
| Vietnam | 11.82% |
| Zambia | 0.04% |

Source: S&P Dow Jones Indices

| S&P/IFCI Composite Index | |
|-------------------------------------|---------------|
| Country | Weight |
| Brazil | 5.40% |
| Chile | 0.61% |
| China | 36.17% |
| Colombia | 0.27% |
| Czech Republic | 0.10% |
| Egypt | 0.14% |
| Greece | 0.27% |
| Hungary | 0.22% |
| India | 10.84% |
| Indonesia | 1.50% |
| Kuwait | 0.32% |
| Malaysia | 2.19% |
| Mexico | 1.74% |
| Pakistan | 0.08% |
| Peru | 0.23% |
| Philippines | 0.92% |
| Poland | 0.75% |
| Qatar | 0.84% |
| Russia | 3.45% |
| Saudi Arabia | 2.40% |
| South Africa | 3.64% |
| South Korea | 12.21% |
| Taiwan | 12.38% |
| Thailand | 2.12% |
| Turkey | 0.58% |
| UAE | 0.62% |

| Dow Jones Developed Markets Index | |
|--|---------------|
| Country | Weight |
| Australia | 2.23% |
| Austria | 0.09% |
| Belgium | 0.33% |
| Canada | 3.15% |
| Denmark | 0.69% |
| Finland | 0.39% |
| France | 3.09% |
| Germany | 2.77% |
| Hong Kong | 1.08% |
| Ireland | 0.25% |
| Israel | 0.19% |
| Italy | 0.77% |
| Japan | 9.35% |
| Luxembourg | 0.05% |
| Netherlands | 1.31% |
| New Zealand | 0.14% |
| Norway | 0.21% |
| Portugal | 0.05% |
| Singapore | 0.48% |
| South Korea | 1.82% |
| Spain | 0.78% |
| Sweden | 1.02% |
| Switzerland | 3.14% |
| UK | 4.53% |
| US | 62.09% |

| Dow Jones Emerging Markets Index | |
|---|---------------|
| Country | Weight |
| Brazil | 5.88% |
| Chile | 0.66% |
| China | 41.98% |
| Colombia | 0.32% |
| Czech Republic | 0.11% |
| Egypt | 0.17% |
| Greece | 0.31% |
| Hungary | 0.24% |
| India | 12.19% |
| Indonesia | 1.71% |
| Kuwait | 0.35% |
| Malaysia | 2.46% |
| Mexico | 1.88% |
| Pakistan | 0.10% |
| Peru | 0.25% |
| Philippines | 1.03% |
| Poland | 0.82% |
| Qatar | 0.92% |
| Russia | 3.82% |
| Saudi Arabia | 2.71% |
| South Africa | 4.00% |
| Taiwan | 14.20% |
| Thailand | 2.44% |
| Turkey | 0.74% |
| UAE | 0.68% |

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[®] and the Dow Jones Industrial Average[®]. 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.

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