

## S&P Dow Jones Indices Country Classification Methodology Consultation – Results

**NEW YORK, JUNE 16, 2022:** S&P Dow Jones Indices (“S&P DJI”) has conducted a [consultation](#) with market participants on potential enhancements to the Country Classification Methodology.

The Country Classification Methodology and processes are reviewed on a regular basis to ensure they closely reflect global market trends, as well as meet the practical needs and address the potential constraints of international institutional investors.

In order to align the methodology and associated reviews with developing market trends and make it as efficient and transparent as possible, S&P DJI is changing the methodology criteria and metrics, timeframe, and implementation dates. Details of the changes are provided below and on the following pages.

### CRITERIA ENHANCEMENTS

The criteria used to identify markets for potential consultation and reclassification will remain robust but will be grouped differently and include the metric changes proposed in the consultation.

Therefore, S&P DJI will adopt a new framework, which includes three broader categories of basic requirements and a slightly different scoring system that reflects the market characteristics that are often considered by investors when determining a market’s relative level of development and ease of investment.

Additional qualitative parameters already included in the methodology, such as Economic & Political situation, Investment Conditions and Operational Standards, will become integral components of the market status assessment process and complement this new framework.

The tables on the following page show the previous and updated market classification basic requirements.

Previous

Summary of S&P Dow Jones Indices Country Classification Requirements

S&P Dow Jones Indices' Country Classification Criteria	Frontier	Emerging	Developed
<b>Initial Eligibility Criteria</b>			
Full domestic market capitalization greater than US\$ 2.5 bn	A minimum of two ✓	✓	✓
Domestic turnover value greater than US\$ 1 bn		✓	✓
Exchange development ratio greater than 5%		✓	✓
<b>Additional Criteria</b>			
Full domestic market capitalization greater than US\$ 15 bn		✓	✓ ✓ ✓ ✓ ✓
Settlement period of T+3 or better			
Sovereign Debt rating of BB+ or above	A minimum of three ✓		
Non-occurrence of hyperinflation			
No significant foreign ownership restrictions			
Freely-traded foreign currency			
<b>GDP Criterion</b>			
GDP (PPP) per capita of greater than US\$ 15,000			✓

✓ - Required criterion

S&P DJI's Equity Market Classification Criteria	Frontier	Emerging	Developed
<b>Economic Measures and Institutional Stability</b>			
GNI per capita (World Bank Atlas Method) greater than US\$ 15,000	--	--	Required <sup>1</sup>
Sovereign Debt rating of BB+ or above	A minimum of two	A minimum of two	Required
Non-Occurrence of hyperinflation			
<b>Strong regulatory structure</b>			
<b>Market Structure and Accessibility</b>			
No significant foreign ownership restrictions	A minimum of two	A minimum of three	Required
Freely traded foreign currency			
Settlement period of at least T+3 or better <sup>2</sup>			
<b>Ease of Repatriation of Capital or Income</b>			
<b>Size and Liquidity</b>			
Full domestic market capitalization greater than US\$ 2.5 bn	A minimum of two <sup>3</sup>	Required	Required
Domestic MDVT greater than US\$ 10 mn			
Exchange development ratio greater than 5% <sup>4</sup>			
Full domestic market capitalization greater than US\$ 15 bn	--		

**METRIC CHANGES**

Within the quantitative criteria enhancements described above, S&P DJI will amend certain metrics in order to better represent the economic health of the countries analyzed.

Specifically, S&P DJI will use Gross National Income ("GNI") per capita (WB Atlas Method) instead of GDP PPP per capita (WB) as a requirement to classify countries as developed and to calculate the

<sup>1</sup> At least two consecutive years. The latest high-income threshold for GNI per capita Atlas method is > US\$ 12,695 (July 1, 2021).

<sup>2</sup> Settlement procedures that bear operational challenges for investors will also be closely reviewed.

<sup>3</sup> With particular focus on Liquidity and Exchange development ratio.

<sup>4</sup> Calculated on GNI.

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exchange development ratio. In order to recognize genuine changes in an economy's health vs. mere temporary or cyclical fluctuations, a time condition of at least two consecutive years has been added.

S&P DJI will also change the liquidity screen so that it utilizes median daily value traded (“MDVT”) instead of average daily value traded (“ADVT”) in order to better align with market practice and to diminish the effect of outliers on the liquidity measure.

The table below summarizes the metric changes.

Metric	
Previous	Updated
GDP (PPP) per capita of greater than US\$ 15,000	GNI per capita (World Bank Atlas Method) greater than US\$ 15,000 for at least two consecutive years
Exchange development ratio greater than 5% calculated on GDP	Exchange development ratio greater than 5% calculated on GNI
Domestic turnover value greater than US\$ 1 bn	Domestic MDVT greater than US\$ 10 mn

Please note that there is no impact to date on the current market classifications of countries covered by S&P DJI due to the adoption of these basic criteria enhancements and metric changes. Any potential future market reclassifications will be the result of the standard annual country classification review which will incorporate these changes going forward.

## TIMELINE UPDATE

In order to diminish the risks caused by significant market events and increase transparency, S&P DJI will add a level of flexibility to the current timeframe stated in the methodology. This update allows the Committee to approve the execution of off-cycle evaluations when circumstances require an immediate review of the classification of a market to standalone status, without changing or replacing the standard annual timeframe. The table below summarizes the updated timeline.

Timeframe <sup>5</sup>	Action Item
First Quarter	Data Collection, validation, research and analysis based on S&P DJI's Country Classification Methodology.
Second Quarter	A list of countries for possible reclassification will be presented to the market via a consultation distributed by email and published on S&P DJI's website.
Third Quarter	Consultation period.
Fourth Quarter	Consultation results and announcement of reclassifications, if any, is disseminated.
September of the following year (during the annual reconstitution) <sup>6</sup>	Changes in classification and implementation date.

## ANNUAL REVIEW IMPLEMENTATION DATES

In an effort to ease index replication, but still provide an adequate minimum notice period, S&P DJI will implement country classification changes, arising from the standard annual country classification review, in conjunction with the September annual reconstitution (regardless of market type) with a minimum notice period of at least nine months. This change has been reflected in the Timeframe table shown in the previous section and is summarized in the table on the following page.

<sup>5</sup> The timeframe can be changed, and off-cycle reviews may be conducted as needed, at the discretion of the Committee. Due to the emergency nature of off-cycle reviews, these will mainly focus on potential reclassifications to standalone market status and will be implemented (following a consultation) as soon as circumstances allow or, whenever possible, in conjunction with a quarterly rebalancing, while providing clients sufficient notice. At times, S&P DJI may apply some temporary measures aimed at mitigating the impact of certain market conditions regarded as short- or medium-term, instead of reviewing the market classification.

<sup>6</sup> With a minimum notice period of at least nine months.

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Annual Review Implementation Dates	
Previous	Updated
Market classification changes are implemented in September (for developed and emerging markets) and/or March (for frontier markets) of the following year, coinciding with the respective annual reconstitutions.	Market classification changes for developed, emerging, and frontier markets are implemented in September of the following year (with a minimum notice period of at least nine months), coinciding with the September annual reconstitution. The annual reconstitution for frontier markets whose classification status is not changing will still be carried out in March.

## IMPLEMENTATION TIMING

S&P DJI will implement all of the aforementioned changes in conjunction with the 2022 annual country classification review, which is currently underway. The changes will first be visible to clients with the publication of S&P DJI's 2022 Annual Country Classification Consultation expected to be issued in the near future.

Please note that the Country Classification Methodology on S&P DJI's website is being updated to reflect these changes.

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

## 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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