

Country Classification *Methodology*

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S&P Dow Jones Indices Country Classification – Equities

Overview

Country classification analysis generally utilizes both quantitative and qualitative factors. S&P Dow Jones Indices uses both criteria as a guide to classifying countries for equities alongside opinions and experiences of global investors, which are equally important. In fact, many of the issues in determining if a market is developed, emerging, frontier or standalone¹ are not amenable to mere quantitative decisions. Regulations, rules and procedures for foreign exchange trading, trade settlement, availability of company financial data and other factors vary from market to market. At the same time, the operating costs stemming from these differences will also vary from investor to investor. While both quantitative and qualitative measures, and a substantial majority of investors, may agree on the classification of some markets, there are many cases that may be viewed by investors differently.

Recognizing all this, S&P Dow Jones Indices uses a modern and comprehensive approach to identify markets for potential consultation and reclassification where not only quantitative and qualitative criteria, but also global investor feedback, are considered side-by-side when evaluating market status. Final decisions on classification are then made by an S&P Dow Jones Indices Committee based on all criteria and conditions, feedback received from clients ahead of formal consultations and, finally, the results of the consultation. The quantitative and qualitative criteria cover a range of factors reflecting macroeconomic conditions, political stability, legal property rights and procedures, and trading and settlement processes. Client feedback and consultation seek to incorporate opinions from a broad group of market participants on a global basis.

Initial Analysis

Equity markets must meet certain basic requirements to be considered for S&P Dow Jones Indices' Global Benchmark Indices. In order to be considered for Developed or Emerging classifications, markets must also meet a final measure of country economic status and a certain number of additional criteria. S&P Dow Jones Indices adopts a framework which includes three broad categories of basic requirements and a 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, such as Economic & Political situation, Investment Conditions and Operational Standards, will be considered integral components of the market status assessment process and complement this framework. Global investor feedback is also an invaluable part of this approach.

Countries identified for potential reclassification will then be subjected to an in-depth client consultation assessing operational standards in those countries before reassigning any of them from their current status. Countries that do not qualify for Developed or Emerging status, but still meet minimum requirements as set forth below, will be eligible for inclusion in the Frontier region.

¹ For more information, please refer to *Appendix A*.

Basic Criteria Framework for S&P Dow Jones Indices' Global Equity Index Series Eligibility

Summary of S&P Dow Jones Indices Basic Country Classification Requirements

S&P DJI's Equity Market Classification Criteria	Frontier	Emerging	Developed
Economic Measures and Institutional Stability			
GNI ² per capita World Bank Atlas Method greater than US\$ 15,000	--	--	Required ³
Sovereign Debt rating of BB+ or above Non-Occurrence of hyperinflation Strong regulatory structure	A minimum of two	A minimum of two	Required
Market Structure and Accessibility			
No significant foreign ownership restrictions Freely traded foreign currency Settlement period of at least T+3 or better ⁴ Ease of Repatriation of Capital or Income	A minimum of two	A minimum of three	Required
Size and Liquidity			
Total domestic market capitalization greater than US\$ 2.5 billion Domestic MDVT greater than US\$ 10 million Exchange development ratio greater than 5% ⁵	A minimum of two ⁶	Required	Required
Total domestic market capitalization greater than US\$ 15 billion	--		

Countries must meet a minimum of two of the following group criteria to be generally considered for the S&P Global Benchmark Indices.

Economic Measures and Institutional Stability

- **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. Sovereign ratings should be BB+ or higher by S&P and Fitch, and Baa or higher by Moody's.
- **Non-occurrence of Hyperinflation.** S&P Dow Jones Indices defines hyperinflation as an annual rate of change in the country's consumer price index of over 25% at the time of the review.
- **Strong Regulatory Structure.** The existence of a strong regulatory authority which plays an important role in regulating the market.

Market Structure and Accessibility

- **No Significant Foreign Ownership Restrictions.** Foreign ownership restrictions cause issues in achieving the required exposure to stocks in a given market. While S&P Dow Jones Indices recognizes that stocks in certain industries are commonly restricted, markets should be broadly open to foreign investors.
- **The Country's Currency Should be Freely Traded.** Difficulties buying or selling a domestic currency, or repatriating capital from a market, complicate the process of investing in a given market.
- **Settlement Period of T+3 or Better.** The efficient and rapid settlement of trades is important to investors. Although S&P Dow Jones Indices requires markets to settle trades on a T+3 timescale or sooner, settlement procedures that bear operational challenges for investors will be closely analyzed. Settlement information is always publicly available.
- **Ease of Repatriation of Capital or Income.** Foreign investors can repatriate capital and gains without limitations on holding for specific periods of time, or steep taxes applied on them.

² Gross National Income (GNI)

³ At least two consecutive years. The latest high-income threshold for GNI per capita Atlas method is > US\$ 12,695 (July 1, 2021).

⁴ Settlement procedures that bear operational challenges for investors will also be closely reviewed.

⁵ Calculated on GNI.

⁶ With particular focus on Liquidity and Exchange development ratio.

Size and Liquidity

- **Total Domestic Market Capitalization Greater Than US\$ 2.5 billion.** S&P Dow Jones Indices uses the total market capitalization of all equity securities listed on an exchange's primary market as its measure, sourced from independent data vendors. Float-adjusted market capitalization is not used, as the availability of float information for smaller markets is not of the required standard for consistency across all markets.
- **Domestic median daily value traded (MDVT) greater than US\$ 10 million.** The MDVT of all equity securities listed on a country's domestic exchange should be above this threshold over the previous calendar year to be considered sufficiently liquid. MDVT is used to better align with market practice and diminish the effect of outliers on the liquidity measure.
- **A Market Development Ratio Greater Than 5%.** Many countries have very small equity markets that do not provide a sufficiently robust representation of the domestic market economy. To ensure that only sufficiently developed markets are included, S&P DJI calculates a "market development ratio" by dividing the total domestic market capitalization of the exchange by the country's nominal GNI.

Additional Basic Requirements for S&P Dow Jones Indices' Emerging Market Status

Countries must meet all three of the Size and Liquidity criteria above and must have a total market capitalization of over US\$ 15 billion. In addition, countries must meet a minimum of three of the Market Structure and Accessibility criteria to be considered for emerging market status.

Further Basic Requirements for S&P Dow Jones Indices Developed Market Status

To be considered for developed market status, countries must meet all of the criteria indicated above and have a nominal GNI per capita (WB Atlas Method) greater than US\$ 15,000 for at least two consecutive years in order to recognize genuine changes in an economy's health vs. mere temporary or cyclical fluctuations.

Additional Indicators Used in the Review Process

Where this assessment indicates a possible change of classification, a more in-depth study is undertaken by S&P Dow Jones Indices covering the basic requirements and in addition, the following quantitative and qualitative areas:

Economic & Political

- Further macroeconomic measures, such as the rate and variability of real Gross Domestic Product (GDP) growth and the overall size of the economy.
- Political factors including war, civil disruption and disturbance, and the risk of war or civil unrest.
- Restrictions on investments imposed by other governments.
- Sanctions that impact market accessibility.

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 depository receipts (DRs) or liquid listings on other markets in other countries.
- The number of domestic listings.

Client Feedback and Consultation

Where the S&P Dow Jones Indices full assessment indicates a possible change of classification client feedback will also be solicited, followed by a potential consultation. The feedback sought and the consultation (when launched), aim at primarily assessing operational matters, such as the following:

Regulatory Environment

- **Regulatory Authority.** The existence of official regulatory bodies which ensure the fairness and functionality of the market.
- **Equitable Treatment of Minority Shareholders.** All shareholders receive equal benefits without bias towards domestic versus foreign investors, or large versus small.
- **Ease of Repatriation of Capital or Income.** Foreign investors can repatriate capital and gains without limitations on holding for specific periods of time, or steep taxes applied on them.
- **Ease of Entry for Foreign Investors.** No excessive regulations for registration as foreign investors.

Market Structure

- **Foreign Exchange Market.** Developed trading facilities exist for currencies (FOREX) and that there are sufficient reserves available for trading.
- **Futures and Options Market.** Suitable size and liquidity in a derivatives market, where it exists.
- **Custodial Market.** The presence of many custodians and reasonable custodial costs.

Trading Environment

- **Broad Market Liquidity.** The ability for investors to trade at will, without restrictive liquidity.
- **Short Sales, Stock Lending and Trading-on-Margin Accounts.** A well-developed market for short sales and stock lending is preferred, and trading-on-margin is permitted.
- **Access to Prices, Trading and Other Market Information.** Transparent and timely information on pricing, corporate actions and other company level news should be equally available to all market participants.
- **Reasonable Transaction Costs.** All costs are reasonable and transparent.
- **Quality of Brokerage Services.** Local brokerage services should be of a suitable quality.
- **Smooth Settlement of Trades.** No or a low percentage of failed trades.
- **Taxes on Capital Gains.** Capital gains taxes should be appropriate, not punitive.

Market Consensus

- **Desire for Change.** There should be a market consensus desiring the change to a country's market status.
- **The Actions of Other Market Participants.** Market participants attempt to incorporate the wishes of the investor community when assessing markets for country classification and investment purposes. Changes in country classifications are of relevance as they reflect changes in the sentiment of both the provider's customers and of the broader market.

Data Sources

The following data sources are among those used during the S&P Dow Jones Indices' country classification review process:

- World Bank website
- International Monetary Fund website
- Stock exchange websites
- Independent data vendors
- Official statements and reports from market regulatory bodies

Model Review & Client Consultation Timeline

S&P DJI conducts annual reviews following the below timeline for data gathering, client consultations, announcements, and implementation of changes, if any. The timeframe can be changed, with off-cycle reviews conducted as needed, at the Committee's discretion.

Timeframe	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 the S&P DJI's Web site.
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) ⁷	Changes in classification and implementation date. ⁸

To better address unexpected investability issues of a market that make indices replicability challenging, S&P DJI generally follows the below guidelines:

- a. S&P DJI addresses an issue(s) as soon as the issue arises by applying temporary special measures aimed at mitigating the impact of certain market conditions initially regarded as short term (for example, suspending the implementation of quarterly share and investable weight factor (IWF) changes; non-mandatory share and investable weight factor (IWF) changes; rights offerings; and additions and deletions of securities otherwise considered eligible/ineligible).
- b. If the issue(s) does not resolve within one calendar year of the date the special measures were applied, S&P DJI reviews the market classification status at the nearest annual review cycle, or sooner if conditions require urgent action. Please note that a consultation is always released as part of the review.
- c. If S&P DJI reclassifies a market to standalone, S&P DJI generally lifts any special measures in place in conjunction with a quarterly rebalancing and/or annual reconstitution, with clients provided prior notice.
- d. If S&P DJI does not reclassify a market to standalone the special treatment may remain in place and another review is conducted at the subsequent country classification annual review cycle.

A market reclassified down at any review is ineligible for reclassification back to a higher level for at least one calendar year, even if the market's general conditions exhibit a positive financial trend or other signs of economic improvements.

This methodology provides guidelines for the classification review process for markets requiring consideration by a Committee on the quantitative and qualitative aspects that meet the respective Status Criteria. By administering S&P DJI's overall governing principles, the Committee seeks to deliver consistency in the evaluation of market status and classification of markets on an ongoing basis.

For more information, please refer [here](#).

⁷ With a minimum notice period of at least nine months.

⁸ Investable Weight Factor (IWF) and share counts for companies that are domiciled in any market which changes status are reviewed and updated regardless of the current market status, unless under a specific restriction.

Appendix A – Market Status Definitions

Status	Definition
Developed	A developed market is the most advanced in terms of economy, financial, and capital markets and satisfies all required classification conditions. Additionally, a majority of market participants perceive the market as developed.
Emerging	An emerging market shares some characteristics of a developed market but does not meet the full criteria necessary for that classification. Emerging markets may become developed markets in the future, or they might have been in the past.
Frontier	A frontier market is a developing economy with generally lower market capitalization and liquidity and/or more restrictions than an emerging market. Frontier markets may become emerging markets in the future, or they might have been in the past.
Standalone	A standalone market is a developing economy that does not meet the required basic conditions for any market status described above. This classification also applies to markets with significant restrictions or other accessibility issues.

Appendix B – Methodology Changes

Methodology Changes

Methodology changes since 2011 are as follows:

Change	Effective Date (After Close)	Methodology	
		Previous	Updated
S&P DJI's Equity Market Classification Criteria: Economic Measures and Institutional Stability Requirements	09/30/2022	A country must have a GDP (PPP) per capita of greater than US\$ 15,000.	A country must have a GNI per capita (World Bank Atlas Method) greater than US\$ 15,000 for at least two consecutive years.
S&P DJI's Equity Market Classification Criteria: Calculation Metrics for Exchange development ratio	09/30/2022	A country must have an exchange development ratio greater than 5% of GDP.	A country must have an exchange development ratio greater than 5% of GNI.
S&P DJI's Equity Market Classification Criteria: Size and Liquidity Requirements	09/30/2022	Domestic turnover value greater than US\$ 1 billion.	Domestic MDVT greater than US\$ 10 million.
Change of Annual Review Implementation Dates	09/30/2022	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 is carried out in March.

Contact Information

For questions regarding country classifications, please contact: index_services@spglobal.com.

Disclaimer

Performance Disclosure/Back-Tested Data

Where applicable, S&P Dow Jones Indices and its index-related affiliates (“S&P DJI”) defines various dates to assist our clients by providing transparency. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the index is set to a fixed value for calculation purposes. The Launch Date designates the date when the values of an index are first considered live: index values provided for any date or time period prior to the index’s Launch Date are considered back-tested. S&P DJI defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company’s public website or its data feed to external parties. For Dow Jones-branded indices introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed “Date of introduction”) is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index’s public release date.

Please refer to the methodology for the Index for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations.

Information presented prior to an index’s launch date is hypothetical back-tested performance, not actual performance, and is based on the index methodology in effect on the launch date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. In addition, forks have not been factored into the back-test data with respect to the S&P Cryptocurrency Indices. For the S&P Cryptocurrency Top 5 & 10 Equal Weight Indices, the custody element of the methodology was not considered; the back-test history is based on the index constituents that meet the custody element as of the Launch Date. Also, the treatment of corporate actions in back-tested performance may differ from treatment for live indices due to limitations in replicating index management decisions. Back-tested performance reflects application of an index methodology and selection of index constituents with the benefit of hindsight and knowledge of factors that may have positively affected its performance, cannot account for all financial risk that may affect results and may be considered to reflect survivor/look ahead bias. Actual returns may differ significantly from, and be lower than, back-tested returns. Past performance is not an indication or guarantee of future results.

Typically, when S&P DJI creates back-tested index data, S&P DJI uses actual historical constituent-level data (e.g., historical price, market capitalization, and corporate action data) in its calculations. As ESG investing is still in early stages of development, certain datapoints used to calculate certain ESG indices may not be available for the entire desired period of back-tested history. The same data availability issue could be true for other indices as well. In cases when actual data is not available for all relevant historical periods, S&P DJI may employ a process of using “Backward Data Assumption” (or pulling back) of ESG data for the calculation of back-tested historical performance. “Backward Data Assumption” is a process that applies the earliest actual live data point available for an index constituent company to all prior historical instances in the index performance. For example, Backward Data Assumption inherently assumes that companies currently not involved in a specific business activity (also known as “product involvement”) were never involved historically and similarly also assumes that companies currently involved in a specific business activity were involved historically too. The Backward Data Assumption allows the hypothetical back-test to be extended over more historical years than would be feasible using only actual data. For more information on “Backward Data Assumption” please refer to the FAQ. The methodology and factsheets of any index that employs backward assumption in the back-tested history will explicitly state so. The methodology will include an Appendix with a table setting forth the specific data points and relevant time period for which backward projected data was used. Index returns shown do not represent the results of actual

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Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the Index or investment funds that are intended to track the performance of the Index. The imposition of these fees and charges would cause actual and back-tested performance of the securities/fund to be lower than the Index performance shown. As a simple example, if an index returned 10% on a US \$100,000 investment for a 12-month period (or US \$10,000) and an actual asset-based fee of 1.5% was imposed at the end of the period on the investment plus accrued interest (or US \$1,650), the net return would be 8.35% (or US \$8,350) for the year. Over a three-year period, an annual 1.5% fee taken at year end with an assumed 10% return per year would result in a cumulative gross return of 33.10%, a total fee of US \$5,375, and a cumulative net return of 27.2% (or US \$27,200).

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