

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

**NEW YORK, JANUARY 14, 2022:** S&P Dow Jones Indices (“S&P DJI”) is conducting 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.

Under the current methodology, the country classification analysis utilizes a series of quantitative conditions and qualitative factors while seeking to incorporate opinions from a broad group of global market participants.

To align the methodology and associated reviews with developing market trends as efficiently and transparently as possible, S&P DJI is proposing changes to the methodology, specifically regarding criteria and metrics, timeframe, and implementation dates. Details of the proposed changes are provided below and on the following pages.

### **CRITERIA ENHANCEMENTS**

The current quantitative criteria used to identify markets for potential consultation and reclassification are quite rigorous. At times, some of these requirements might not be completely fulfilled and this can de facto penalize a market in terms of its status.

S&P DJI is proposing a new framework, which includes three broader categories of metrics and a different scoring system. These categories reflect 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 remain in the methodology and still be considered and accounted for in the review.

The tables on the following page show the current and proposed quantitative market classification criteria.

**Current**

**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

**Proposed**

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

<sup>1</sup> At least two consecutive years

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

<sup>3</sup> Calculated on GNI

**METRIC CHANGES**

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

Specifically, S&P DJI is proposing to 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 exchange development ratio. The World Bank uses GNI per capita as a proxy for

**CONSULTATION**

economic well-being<sup>1</sup> and several studies have demonstrated that there is a strong correlation between the proportion of stock market capitalization in GNI levels and more developed economies.<sup>2</sup> Additionally, 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 is also considering changing the liquidity screen so that it utilizes median daily value traded (“MDVT”) instead of average daily value traded (“ADVT”). This proposal aims to apply a more rigorous liquidity screen and to diminish the effect of outliers on the liquidity measure.

The table below summarizes the proposed metric changes.

Metric	
Current	Proposed
GDP (PPP) per capita of greater than US\$ 15,000	GNI per capita (World Bank Atlas Method) greater than US\$ 15,000 <sup>1</sup> 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\$ 1bn	Domestic MDVT greater than US\$ 10 mn

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

## IMPACT – CRITERIA ENHANCEMENTS AND METRIC CHANGES

Please note that if the proposed changes were applied to date, there would be no changes to the current market classifications of the countries covered by S&P DJI.

## MODEL REVIEW AND CLIENT CONSULTATION TIMELINE

In order to diminish the risks caused by significant market events and increase transparency, S&P DJI is proposing to add a level of flexibility to the current timeframe stated in the methodology. This proposal would allow the Committee to approve the execution of off-cycle reviews when circumstances require an immediate revision of the status of a market, without changing or replacing the standard annual timeframe.

Methodology	
Current	Proposed
At the discretion of the Committee, the model review and client consultation timeline could be changed.	Off-cycle reviews can be conducted as needed at the discretion of the Committee.

## ANNUAL REVIEW IMPLEMENTATION DATES

Currently, changes resulting from the annual country classification review are implemented during annual reconstitutions in September of the following year for developed and emerging markets or March of the following year for frontier markets.

In an effort to ease index replication, but still provide an adequate minimum notice period, S&P DJI is considering implementing country classification changes in conjunction with the nearest reconstitution (regardless of market type) with a minimum notice period of nine months.

As an example, S&P DJI [announced](#) the decision to reclassify Iceland from standalone to frontier in November 2020, but due to the relatively short time between the announcement date and the March 2021 reconstitution deadline, the implementation of this change was pushed out to March 2022.

<sup>1</sup> See <https://datahelpdesk.worldbank.org/knowledgebase/articles/378831-why-use-gni-per-capita-to-classify-economies-into>.

<sup>2</sup> See <https://core.ac.uk/reader/268106711> for an example.

## CONSULTATION

If the proposed rules had been in effect, the change for Iceland could have been implemented with the September 2021 reconstitution.

## **IMPLEMENTATION TIMING**

S&P DJI is proposing to implement the previously described methodology changes, if adopted, in conjunction with the upcoming 2022 annual country classification review.

For additional information on the current country classification methodology and processes please refer to the [Country Classification Methodology](#).

## **QUESTIONS**

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

- 1. Do you agree with the new proposed country classification criteria enhancements?**
- 2. Do you agree with the new proposed metric changes?**
- 3. Do you agree with the introduction of an off-cycle review process when market circumstances require, as determined by the Committee?**
- 4. If the proposed off-cycle review process is established, what is the most appropriate implementation timing regarding changes resulting from off-cycle reviews?**
  - **Implement at the next quarterly rebalancing, subject to a minimum four-week notice period**
  - **Implement within six months of the decision in conjunction with the nearest quarterly rebalancing, subject to a minimum four-week notice period**
  - **Implement at a different time (please specify)**
- 5. Which do you prefer regarding the proposed annual review timing enhancement?**
  - **Implement annual changes (regardless of market type) in conjunction with the nearest reconstitution, subject to a minimum nine-month notice period**
  - **Implement annual changes (regardless of market type) at the next September reconstitution**
  - **Keep the current implementation timing**
  - **Implement annual changes at a different time (please specify)**
- 6. Should any of the proposed changes be adopted, do you agree with the proposed implementation date (i.e. with the upcoming 2022 annual country classification review)?**
- 7. Do you have any other comments or feedback regarding the proposals outlined above?**

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 **March 14, 2022**. 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](mailto:SPDJI_Index_Governance@spglobal.com).

## **CONSULTATION**

*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.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<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.spglobal.com/spdji](http://www.spglobal.com/spdji).

### FOR MORE INFORMATION:

**S&P Dow Jones Indices**

[index\\_services@spglobal.com](mailto:index_services@spglobal.com)