
2020 Market Classification Results

Poland to be reclassified as a developed market.

Morningstar Indexes

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Contact Us

Americas +1 312 384-3735

As part of the Morningstar Indexes 2020 market classification review, Poland will be reclassified as a developed market. There is no change in the market classification of South Korea, which shall remain an emerging market. There is also no change for Argentina, which continues to be unclassified. The updated market classification has been approved by the Morningstar Index Product Committee and will be effective at the June 2021 reconstitution.

2020 Review Results

Poland

Poland is currently included as an emerging market in Morningstar indexes and will be reclassified as a developed market for inclusion in the Morningstar equity index series. The inclusion decision was backed by the continuous improvement in the country's economic and investment conditions over the past few years. Stable growth in gross national income per capita resulted in its classification in a High rating category, along with improvements in trading and settlement areas. This has prompted the upgrade to developed markets.

The availability of announcements and exchange documents in English is an area that needs improvement, but this does not diminish the investability of the Polish equity market. On the trading and settlement front, Poland has a solid and stable auction mechanism, including trade at last function, which works similarly to developed European countries. Along with the T+2 settlement system implemented earlier, Poland also put in place a modern clearinghouse that has reduced the risk of counterparty default on a systemic basis.

Acknowledging the strong economic growth and financial stability displayed by Poland over the past three years, in addition to the progress it has made in facilitating trade and settlements for investors, Morningstar Indexes has decided to reclassify Poland as a developed market.

South Korea

South Korea will continue to be classified as an emerging market by Morningstar Indexes owing to no material development in the past year to warrant a developed-market status.

The lack of concrete steps by Korean authorities to resolve the low convertibility of the Korean won is the major issue preventing an upgrade. Although the introduction of omnibus accounts in 2017 was a

positive step, the restrictions on off-exchange and in-kind transactions remain an impediment to reclassification.

With no material progress from past reviews, Morningstar Indexes will continue to classify South Korea as an emerging market and will discontinue the market from its review list for 2021.

Argentina

Argentina will remain unclassified by Morningstar Indexes and thus will not be included in the Emerging Markets Index. This decision is prompted by the reintroduction of capital controls, macroeconomic issues that plague the country, and the low liquidity of the local exchange.

Argentina's previous government had taken notable strides toward opening the economy to foreign investors, including ending a required holding period for foreign capital to attract investment while the country is mired in recession. The government passed a decree allowing foreign investors to pay lower Argentine capital gains rates depending on the type of asset and the currency. The rate of the corporate income tax has been gradually reduced.

Capital controls were reintroduced in the country to prevent the crashing peso and to halt a slump in foreign currency reserves of the country. Companies will now need permission from the central bank to access the foreign exchange market to purchase foreign currency and make transfers abroad. All companies must request permission to distribute dividends abroad or to buy dollars in the foreign exchange market. Argentina defaulted on sovereign debt for the ninth time in its history after failing to make a \$500 million interest payment on foreign debt, as the economy tussles with a new cycle of economic contraction, runaway inflation, and a hard-currency squeeze exacerbated by the coronavirus pandemic.

These issues need to be addressed for the country to gain traction among foreign investors. Until the capital controls are fully removed and there is a demonstration of sustained currency accessibility prior to promotion, Argentina's inclusion as an emerging market looks improbable.

Morningstar will continue to monitor Argentina as part of its review list for 2021.

2021 Review List

As part of the 2021 annual review, the Morningstar Index Committee will continue to monitor the following countries/market segments for potential reclassification.

China A-shares	Potential inclusion of small-cap securities and increase in the partial inclusion factor.
Turkey	Potential reclassification from emerging market to frontier market.
Argentina	Potential reclassification from unclassified market to emerging market.

Exhibit 1 2020 Morningstar Indexes Market Classification Results

Criteria	Developed	Emerging	Market Reclassification		Potential Addition to Emerging Markets Index
			South Korea	Poland	Argentina
World Bank GNI Per Capita Rating	High (3-Yrs cons.)	High/Middle	High	High	Upper Middle
Degree of Economic Freedom Score	>50	>50	74	69.1	53.1
Credit Quality	—	—	Investment	Investment	Non-Investment
Market Structure & Regulatory Environment					
Regulatory Environment	+	—	+	+	+
Information Availability	+	—	+	●	+
Equitable Treatment	+	—	+	+	+
Market Accessibility	+	+	●	+	—
Market Structure-Equity	+	+	+	+	+
Market Structure-FX	+	+	●	+	●
Trading Conditions					
Ease of Entering Market for Foreign Investors	+	+	+	+	+
Quality of Brokerage	+	+	+	+	—
Market Liquidity	+	+	+	+	—
Capital Flow (Inflow/Outflow)	+	+	+	+	—
Nominal Transaction Costs	+	+	+	+	—
Short Selling Allowed	+	—	+	+	—
Off-Exchange Transactions Allowed	+	—	●	+	—
Stock Lending and Margin Trading	+	—	+	+	●
Transparency	+	+	+	+	+
Taxes	+	—	+	+	+
Settlement					
Clearing and Settlement Cycle	+	+	T+2	T+2	T+2
Quality of Custodian Services	+	+	+	+	+
Delivery Free of Payment Facility Available	+	—	●	+	—
Availability of Omnibus Account Facilities	+	+	+	+	—
Market Capitalization	>\$5 Billion	>\$5 Billion	+	+	+
Ratio of Market Capitalization to GDP	Top 80%	Top 80%	+	+	+
Market Classification Results	—	—	Unchanged	Reclassified	Not added

(+ Pass, — Fail, ● Restricted)

Source: Morningstar.

Appendix I

2020 Classification Summary

As part of the 2020 annual review, the Morningstar Index Committee has approved changes for the following countries/market segments for potential reclassification.

Poland	Reclassified as a developed market, effective June 2021.
South Korea	Continued as an emerging market.
Argentina	Continued as an unclassified market.

Appendix II

Regulatory Environment

The existence of a strong market regulator with a well-established track record; the timely, independent and uniform implementation of regulations; and an overall regulatory structure adhering to global best practices.

Equitable Treatment

The absence (or minimal incidence) of regulations with a bias against foreign owners and minority shareholders and the existence of laws for the adequate protection of their interests.

Market Accessibility

The existence of minimal individual and collective foreign ownership restrictions at the security, sector, and market levels.

Market Structure—Equity

The existence of a well-structured and sufficiently mature equity market along with healthy market depth, breadth, and size.

Market Structure—Foreign Exchange

The existence of a fairly liquid and developed offshore currency market.

Ease of Entering Market for Foreign Investors

The absence of an excessively time-consuming, involved, or restrictive procedure for the registration of foreign investors.

Quality of Brokerage

The existence of a competitive broking landscape with reasonably low costs, smooth execution of orders, and the provision of services like algorithmic trading and dark-pool trading.

Market Liquidity

The existence of highly liquid capital markets in terms of immediacy, volume, and price resilience.

Capital Flow (Inflow/Outflow)

The absence of any significant quantity or time-based restrictions on either the inflow or repatriation of funds.

Nominal Transaction Costs

The existence of a low-transaction-cost environment with greater transparency regarding these costs.

Short-Selling Allowed

The existence of provisions for the short selling of a wide range of securities with minimal restrictions.

Off-Exchange Transactions Allowed

No prohibitive restrictions on both off-exchange and in-kind transactions.

Stock Lending and Margin Trading

The existence of provisions for stock lending and margin trading facilities.

Transparency

The existence of laws for the fair and transparent dissemination of price information and price-sensitive information to all market participants along with an overall regulatory and operational transparency in the market.

Taxes

The existence of unambiguous tax laws and the absence of unreasonably high withholding tax and capital gains tax levels.

Clearing and Settlement Cycle

The existence of a settlement cycle in harmony with globally accepted norms and the existence of a delivery v/s payment (DVP) system to minimize counterparty credit risk.

Quality of Custodian Services

The existence of healthy international and local competition among custodian banks along with low costs and provisions for the adequate protection of client assets against misappropriation.

Delivery Free of Payment Facility Available

The immediate availability of a short-term line-of-credit facility for stock-buying with minimal restrictions.

Availability of Omnibus Account Facilities

The recognition of the concept of an omnibus account and the absence of any operational or regulatory hurdles for its setup.

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For any queries, reach out to us at Indexes@morningstar.com.



22 West Washington Street
Chicago, IL 60602 USA

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