

Morningstar Indexes

December 16, 2024

Updated Country of Classification Methodology Consultation

Morningstar Indexes previously issued a [consultation](#) on a proposed enhancement to the logic for assigning security country of classification (CoC) to reduce the number of unclassified companies, making more companies eligible for inclusion in Morningstar equity indexes. Based on feedback and further investigation, we are proposing a slight modification to the proposal and have included a list of new companies that would become eligible for inclusion in the Morningstar Global Markets Index as a result of this change. We are soliciting further client feedback.

CoC is typically assigned based on Country of Primary Listing (CoPL) and Country of Incorporation (CoI). When those indicators do not align, additional data points are considered, such as whether the company is incorporated in a tax haven and the primary business country (based on revenue), among other factors. However, in some cases, it is still not feasible to assign a CoC based on the current [methodology](#).

Morningstar Indexes is considering modifying the CoC methodology to assign CoC. Under the proposal, when the standard logic is unable to produce a CoC, the following additional steps would be applied:

1. Set CoC to Country of Operations (CoOP) if:
 - a. At least 75% revenue is from that country OR
 - b. At least 50% revenue/assets is from a specific country AND country of headquarters (CoHQ) also belongs to that country.
2. If the previous step fails and CoHQ is not a tax haven, assign CoC to CoHQ.
3. If the previous step fails and if the CoPL or Country of Secondary Listing (CoSL) is not a tax haven, assign CoC to CoPL/CoSL (COPL takes precedence unless it is an ineligible market). This treatment would apply even if COI, CoHQ, Revenue/Assets do not point to CoPL/CoSL.
4. If the previous steps fail, leave CoC unassigned.

Securities assigned a CoC from these new incremental rules would only qualify for index inclusion if their float market capitalization is at least twice the small-mid market cap breakpoint of the index families to which they belong (Morningstar Global Markets or Morningstar Target Market Exposure). This is intended to mitigate exposure to securities where the operational complexity of gaining exposure outside the local market may exceed the benefits.

This [spreadsheet](#) summarizes the list of new securities that would be assigned a CoC under this proposal. We are seeking feedback.

Submit your responses and questions

Responses to this consultation can be submitted [here](#).

General questions about the consultation may also be sent to indexes@morningstar.com.

Key dates

- **Consultation:** The consultation will be open for response from December 16, 2024, to January 17, 2025.
- **Decision announcement:** Final decisions will be announced by March 31, 2025.
- **Proposed implementation:** To Be Determined.

Questions

1. Should Morningstar Indexes implement the additional checks to assign Country of Classification when the standard logic does not produce a country assignment?
 - a. Yes.
 - b. No, maintain the current approach.
 - c. Other, please explain.
2. If Morningstar Indexes were to implement this new logic, should there be a materiality threshold to determine eligibility for securities trading outside the market where they are assigned?
 - a. Yes, only consider these securities for inclusion if their market capitalization is at least twice the small-mid cap breakpoint within their respective universe, as proposed.
 - b. No, apply the standard eligibility requirements with no additional materiality thresholds.
 - c. Other, please explain.
3. What other factors should Morningstar Indexes consider in making this decision?

About Morningstar Indexes

Morningstar Indexes has been designing modern solutions for 20 years, but what makes us truly unique has been more than three decades in development. Our rich history began in 1984, when Morningstar was founded on a promise to empower investors with data and research that is independent and objective. Over time, our collection of data has expanded considerably—and so has its application. Today, Morningstar Indexes draws on unique IP to unlock an extensive range of emerging opportunities for investors of every kind, while providing a robust institutional beta platform for core investing.

Contact Us

MorningstarIndexesAlerts@morningstar.com is a no-reply email address. For questions concerning this notification, please contact us at Indexes@morningstar.com.

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