

July 19, 2024

Country of Classification Methodology Consultation

Country of classification (CoC), which is one of the inputs used to determine eligibility for inclusion in Morningstar equity indexes, is typically assigned based on Country of Primary Listing (CoPL) and Country of Incorporation (Col). When those indicators are aligned the CoC is straightforward. Additional metrics are considered when those datapoints do not align, such as whether the company is incorporated in a tax haven, 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](#). These companies are not eligible for inclusion in any Morningstar equity index, regardless of their size.

Morningstar Indexes is considering modifying the CoC methodology to assign a CoC to more large- and mid-cap companies. Under the proposal, when the standard logic is unable to produce a CoC for companies with a market capitalization exceeding that of the minimum threshold of the Morningstar Global Markets Large-Mid Cap Index, the following additional steps would be applied:

1. Set CoC to Country of Operations (CoOP) if:
 - a. At least 75% revenue 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, check if CoHQ = Col AND Col is not a tax haven. If those conditions are met, assign CoC to CoHQ
3. If the previous step fails, check if the CoPL or Country of Secondary Listing (CoSL) is not tax haven AND that security type is eligible for that country. If so, set the CoC to the CoPL or, if those conditions are only met for CoSL, assign the CoC to the CoSL. That treatment would apply even if Col, CoHQ, Revenue/Assets do not point to CoPL/CoSL.
4. If the previous steps fail, leave CoC unassigned.

This would result in some securities being assigned a CoC that differs from the country where they are traded. This leads to a second question of whether it would be appropriate to expand the eligible exchanges for each index to include stocks listed outside the target market with that CoC. If Morningstar Indexes were to leave the eligible exchanges for each index unchanged, many of these newly classified stocks would not qualify for inclusion in their respective single country indexes but may be included in a broader regional or global parent index.

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 July 19, 2024 to August 16, 2024.
- **Decision announcement:** Final decisions will be announced by September 20, 2024.
- **Proposed implementation:** TBD

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, stick with the current approach.
 - c. Other, please explain.
2. If Morningstar Indexes were to implement this new logic, should it be applied to stocks of all sizes, or only large- and mid-cap stocks?
 - a. All cap
 - b. Large- and mid-cap only.
3. If Morningstar Indexes were to implement this new logic, should the eligible exchanges for each index be modified to include stocks listed outside the target market with that Country of Classification?
 - a. Yes
 - b. No
 - c. Other, please explain.
4. 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.

