

CONSULTATION ON A MARKET RECLASSIFICATION PROPOSAL FOR THE MSCI ARGENTINA INDEX

Potential Reclassification from Frontier to
Emerging Markets

March 2017

RECLASSIFICATION PROPOSAL

- MSCI proposes to reclassify the MSCI Argentina Index from Frontier Markets to Emerging Markets.
 - The proposed reclassification would be reflected in all relevant global and regional composite indexes.
 - The proposal is to implement the potential reclassification in one step coinciding with the May 2018 Semi-Annual Index Review.
- MSCI will consult with market participants on this reclassification proposal as part of the 2017 Annual Market Classification Review
 - MSCI will announce its decision in June 2017.
- Please note that this proposal may or may not lead to any changes to the MSCI Indexes.

HISTORICAL BACKGROUND

- The MSCI Argentina Index was excluded from the MSCI Emerging Markets Index in May 2009 as a result of the continued restrictions to inflows and outflows of capital in the Argentinean equity market.
- In addition, MSCI considered only American Depositary Receipts (ADRs) of Argentinean companies as eligible securities for inclusion in the MSCI Argentina Index.

RATIONALE FOR PROPOSAL

- Since December 2015, Argentina lifted capital controls and allowed the peso to float more freely. Changes include:

Restrictions	Prior to December 2015	Current
Minimum period during which investments must stay in the country	365 days	Removed*
Mandatory cash deposit applied to USD inflows	30%	Removed
Maximum limit for repatriation of funds from the sale of equity securities	USD 500,000 per month	Removed
Approval from the Central Bank for repatriation of funds	Required and with certain conditions	Removed

* Removed in January 2017

MARKET ACCESSIBILITY REVIEW 2016

Market Accessibility Assessment	AR
Openness to foreign ownership	
Investor qualification requirement	++
Foreign ownership limit (FOL) level	++
Foreign room level	++
Equal rights to foreign investors	+
Ease of capital inflows / outflows	
Capital flow restriction level	+
Foreign exchange market liberalization level	+
Efficiency of the operational framework	
Market entry	
Investor registration & account set up	-/?
Market organization	
Market regulations	+
Information flow	+
Market infrastructure	
Clearing and settlement	-/?
Custody	++
Registry / Depository	++
Trading	+
Transferability	+
Stock lending	-/?
Short selling	-/?
Stability of institutional framework	-/?

Note: ++: No Issue; +: No Major Issues, improvements possible; -/? : Improvements needed / extent to be assessed

- Capital Flow Restriction: “-/?” to “+”:** Eliminated the maximum limit for the repatriation of funds from the sale of equity securities and the need for approval from the Central Bank for repatriation of funds. The minimum period during which investments must stay in the country remained, however, but was reduced from 365 days to 120 days¹.
- Foreign Exchange Market Liberalization Level: “-/?” to “+”:** The mandatory cash deposit applied to USD inflows was eliminated and the Peso was allowed to float.
- Investor Registration & Account Setup:** Registration is mandatory and all documents must be filed in Spanish. The full process can take up to ten days.
- Information Flow:** Detailed stock market information is not always disclosed in English.
- Clearing and Settlement:** There is an absence of a real DVP system and overdraft facilities on the Merval (Mercado de Valores de Buenos Aires).
- Stability of Institutional Framework:** There have been instances of government interventions that challenged the stability of the “free-market” economy, including with respect to investment activities of foreign investor.

¹ Fully removed in January 2017

SIMULATED CONSTITUENTS FOR MSCI ARGENTINA IMI

Company	Full Mcap*	FIF Mcap*	FIF**	Size-Segment
YPF D ADR	9,163	4,123	0.45	Standard
BANCO MACRO B ADR	4,843	3,087	0.65	Standard
GRUPO FIN GALICIA B ADR	4,572	3,228	0.90	Standard
TELECOM ARGENTINA B ADR	4,469	1,713	0.80	Standard
PAMPA ENERGIA ADR^	3,578	3,042	0.85	Standard
BBVA BANCO FRANCES ADR	3,261	815	0.25	Standard
ADECOAGRO	1,446	1,157	0.80	Standard
GLOBANT	1,234	926	0.75	Standard
TRANSPORTADORA GAS B ADR	2,245	1,097	1.00	Standard
ARCOS DORADOS HOLDINGS A	1,549	961	1.00	Small Cap
EDENOR B ADR	1,470	714	1.00	Small Cap
IRSA ADR	1,369	479	0.35	Small Cap
GRUPO SUPERVIELLE B ADR	1,143	484	0.65	Small Cap
CRESUD ADR^	980	637	0.65	Small Cap
CENTRAL COSTANERA B^^	628	157	0.25	Small Cap
TRANSENER B^^	290	290	1.00	Small Cap

- Following the reclassification, MSCI proposes to include local listings among the eligible securities for the MSCI Argentina Index, provided that they meet the necessary liquidity requirements.
- Based on simulated result, 2 locally listed securities meet the liquidity requirements
- In addition, 2 current constituents (ADRs) have local listings that now meet the EM liquidity requirements.

Data as of March 17, 2017

The simulation reflects the application of the Semi-Annual Index Review methodology, using the Emerging Markets requirements, assuming local listings are eligible

* USD million

** Foreign Inclusion Factor

^ Local listing now meets the EM Requirements

^^ Local listing

SIMULATED INDEX CONSTITUENT LIST

Number of Constituents

	Large Cap	Mid Cap	Standard	Small Cap	IMI
Frontier Markets	9	5	14	13	27
Emerging Markets	4	5	9	7	16

Data as of March 17, 2017

The simulation reflects the application of the Semi-Annual Index Review methodology, using either the Frontier Markets or Emerging Markets requirements assuming local listings are eligible

Free Float Adjusted Market Capitalization (USD million)

	Large Cap	Mid Cap	Standard	Small Cap	IMI
Frontier Markets	19,582.33	4,254.50	23,836.83	4,996.84	28,833.67
Emerging Markets	12,151.71	7,036.44	19,188.15	3,721.21	22,909.36

Data as of March 17, 2017

The simulation reflects the application of the Semi-Annual Index Review methodology, using either the Frontier Markets or Emerging Markets requirements assuming local listings are eligible

- The MSCI Argentina Index would have nine constituents under Emerging Markets, compared to fourteen under Frontier Markets.
 - The free float-adjusted market capitalization would be USD 4.6 billion lower under Emerging Markets.

SIMULATED IMPACT TO MSCI EMERGING MARKETS INDEX

	Simulated Standard Index		
	Index Market Cap	Weight	# Sec.
EM	4,445,694	100.0%	848
EM Asia	3,150,256	70.9%	561
China	1,194,007	26.9%	149
Korea	657,938	14.8%	107
Taiwan	540,173	12.2%	88
India	385,035	8.7%	77
Indonesia	109,833	2.5%	31
Malaysia	107,040	2.4%	43
Thailand	97,105	2.2%	36
Philippines	51,387	1.2%	23
Pakistan	7,739	0.2%	7
EM EMEA	690,665	15.5%	162
South Africa	312,866	7.0%	54
Russia	165,746	3.7%	21
Turkey	46,695	1.1%	24
Poland	55,640	1.3%	22
Qatar	35,227	0.8%	12
United Arab Emirates	33,987	0.8%	10
Greece	13,822	0.3%	9
Hungary	12,879	0.3%	3
Egypt	5,762	0.1%	3
Czech Republic	8,042	0.2%	4
EM Latin America	604,773	13.6%	125
Brazil	337,734	7.6%	58
Mexico	159,501	3.6%	27
Chile	53,480	1.2%	19
Colombia	18,475	0.4%	9
Argentina	18,984	0.4%	9
Peru	16,599	0.4%	3

Note: All market caps are in USD millions. Data as of the close of March 17, 2017

- The simulated MSCI Argentina Index would have a potential weight of 0.4% in the MSCI Emerging Markets Index.

Current weight of MSCI Argentina Index in MSCI Frontier Markets Index: 16.98%

SIMULATED IMPACT TO THE MSCI FM 100 (EX AR, PK)

	Current Index		Simulated Index (ex PK AR)	
	# constituents	Actual Weight	# constituents	Actual Weight
KUWAIT	13	22.22%	15	27.92%
NIGERIA	11	7.45%	7	7.10%
ARGENTINA	14	19.60%	0	0.00%
PAKISTAN	13	10.95%	0	0.00%
KENYA	5	6.12%	5	8.16%
OMAN	5	4.40%	6	5.91%
MOROCCO	4	6.02%	6	8.88%
ROMANIA	6	4.49%	7	6.87%
VIETNAM	4	3.57%	12	12.08%
KAZAKHSTAN	2	2.12%	2	2.90%
BANGLADESH	6	3.87%	13	7.51%
SRI LANKA	3	2.15%	2	2.41%
JORDAN	2	1.31%	5	2.97%
MAURITIUS	3	4.08%	2	4.82%
ESTONIA	0	0.00%	0	0.00%
SLOVENIA	1	0.27%	1	0.36%
BAHRAIN	1	1.38%	2	2.12%
SERBIA	0	0.00%	0	0.00%
CROATIA	0	0.00%	0	0.00%
LEBANON	0	0.00%	0	0.00%
LITHUANIA	0	0.00%	0	0.00%
TUNISIA	0	0.00%	0	0.00%
Total	93	100%	85	100%

MSCI FM 100 Index (ex PK, AR) Top 10 Constituents

Security Name	Country Name	Simulated New Weight
NATIONAL BANK OF KUWAIT	KUWAIT	7.98%
KUWAIT FINANCE HOUSE	KUWAIT	6.03%
VIETNAM DAIRY PRODUCT	VIETNAM	5.57%
MOBILE TELECOM CO	KUWAIT	4.41%
SAFARICOM	KENYA	3.94%
MAROC TELECOM	MOROCCO	3.81%
NIGERIAN BREWERIES	NIGERIA	2.89%
ATTIJARIWafa BANK	MOROCCO	2.60%
ROCKCASTLE GLOBAL (ZA)	MAURITIUS	2.48%
MCB GROUP	MAURITIUS	2.34%

KEY QUESTIONS

- Should MSCI give more time before reclassification of the MSCI Argentina Index to Emerging Markets given the market's specific accessibility history?
- Will the potential inclusion of local listings in the MSCI Argentina Equity Universe be problematic?
- Are there any other market accessibility concerns that should prevent the reclassification?

APPENDIX

SIMULATED IMPACT ON THE MSCI FM 100 (EX NG, PK, AR)

	Current Index		Simulated Index (ex NG, PK, AR)	
	# constituents	Actual Weight	# constituents	Actual Weight
KUWAIT	13	22.22%	15	27.62%
NIGERIA	11	7.45%	0	0.00%
ARGENTINA	14	19.60%	0	0.00%
PAKISTAN	13	10.95%	0	0.00%
KENYA	5	6.12%	5	9.04%
OMAN	5	4.40%	6	6.55%
MOROCCO	4	6.02%	6	9.83%
ROMANIA	6	4.49%	7	7.61%
VIETNAM	4	3.57%	14	12.38%
KAZAKHSTAN	2	2.12%	3	3.51%
BANGLADESH	6	3.87%	16	9.15%
SRI LANKA	3	2.15%	2	2.67%
JORDAN	2	1.31%	5	3.29%
MAURITIUS	3	4.08%	2	5.34%
ESTONIA	0	0.00%	0	0.00%
SLOVENIA	1	0.27%	2	0.66%
BAHRAIN	1	1.38%	2	2.35%
SERBIA	0	0.00%	0	0.00%
CROATIA	0	0.00%	0	0.00%
LEBANON	0	0.00%	0	0.00%
LITHUANIA	0	0.00%	0	0.00%
TUNISIA	0	0.00%	0	0.00%
Total	93	100%	85	100.0%

MSCI FM 100 Index (ex NG, PK, AR) Top 10 Constituents

Security Short Name	Country Name	Simulated New Weight
NATIONAL BANK OF KUWAIT	KUWAIT	7.90%
KUWAIT FINANCE HOUSE	KUWAIT	5.97%
VIETNAM DAIRY PRODUCT	VIETNAM	5.51%
SAFARICOM	KENYA	4.37%
MOBILE TELECOM CO	KUWAIT	4.36%
MAROC TELECOM	MOROCCO	4.22%
ATTIJARIWAFI BANK	MOROCCO	2.89%
ROCKCASTLE GLOBAL (ZA)	MAURITIUS	2.75%
MCB GROUP	MAURITIUS	2.59%
BANCA TRANSILVANIA	ROMANIA	2.55%

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