

CONSULTATION ON A MARKET RECLASSIFICATION PROPOSAL FOR THE MSCI ARGENTINA INDEX

Potential Reclassification from Frontier to
Emerging Markets

June 2017

RECLASSIFICATION PROPOSAL

- MSCI announced that it is maintaining the MSCI Argentina Index on the review list for a potential reclassification to Emerging Markets status as part of the 2018 Annual Market Classification Review.
 - 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 2019 Semi-Annual Index Review
- MSCI will consult with market participants on this reclassification proposal as part of the 2018 Annual Market Classification Review
 - MSCI will announce its decision in June 2018
- Please note that this proposal may or may not lead to any changes to the MSCI Indexes

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
- Since December 2015, the Argentinian Central Bank has abolished foreign exchange restrictions and the capital controls that had been in place for a number of years. These changes have resulted in, among other things: (1) a floating currency, (2) the elimination of cash reserves and monthly repatriation limits affecting the equity market and (3) the abolishment of the capital lock-up period for investments.
- Although the Argentinian equity market meets most of the accessibility criteria for Emerging Markets, the consistency and persistence of the relatively recent changes as measured in practice still remains to be assessed.

MARKET ACCESSIBILITY REVIEW 2017

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 “++”:** On January 2017, all capital flow restrictions imposed in 2011 have been removed.
- **Foreign Exchange Market Liberalization Level:** There is an absence of an efficient offshore currency market.
- **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 no nominee status in the market. Overdraft facilities remain prohibited.
- **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.

SIMULATED CONSTITUENTS FOR MSCI ARGENTINA IMI

Company	Full Mcap*	FIF Mcap*	FIF**	Size-Segment
YPF D ADR	9,269	4,171	0.45	Standard
GRUPO FIN GALICIA B ADR	5,499	3,886	0.90	Standard
BANCO MACRO B ADR	5,331	3,399	0.65	Standard
TELECOM ARGENTINA B ADR	4,978	1,933	0.80	Standard
PAMPA ENERGIA ADR	4,566	3,653	0.80	Standard
BBVA BANCO FRANCES ADR^	3,373	843	0.25	Standard
SIDERAR A^^	3,045	1,218	0.40	Standard
TRANSPORTADORA GAS B ADR	2,451	1,207	1.00	Standard
ARCOS DORADOS HOLDINGS A	1,686	993	0.95	Small Cap
GLOBANT	1,476	1,181	0.80	Standard
EDENOR B ADR	1,394	684	1.00	Small Cap
IRSA ADR	1,360	544	0.40	Small Cap
GRUPO SUPERVIELLE B ADR	1,259	536	0.65	Small Cap
ADECOAGRO	1,233	987	0.80	Standard
HOLCIM ARGENTINA^^	1,018	254	0.25	Small Cap
CRESUD ADR^	976	683	0.70	Small Cap
TRANSENER B^^	725	355	1.00	Small Cap
PETROLERA PAMPA^^	636	255	0.40	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 June 12, 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	14	28
Emerging Markets	5	5	10	8	18

Data as of June 12, 2017

The simulations reflect the application of the Semi-Annual Index Review methodology, using the (1) Frontier Markets and (2) Emerging Markets requirements, in both cases, assuming local listings are eligible

Free Float Adjusted Market Capitalization (USD million)

	Large Cap	Mid Cap	Standard	Small Cap	IMI
Frontier Markets	21,643.92	4,472.10	26,116.02	5,386.56	31,502.59
Emerging Markets	17,041.53	5,435.41	22,476.94	4,304.63	26,781.57

Data as of June 12, 2017

The simulations reflect the application of the Semi-Annual Index Review methodology, using the (1) Frontier Markets and (2) Emerging Markets requirements, in both cases, assuming local listings are eligible

- The MSCI Argentina Index would have ten constituents under Emerging Markets, compared to fourteen under Frontier Markets
 - The free float-adjusted market capitalization would be USD 3.6 billion lower under Emerging Markets

SIMULATED IMPACT ON THE MSCI EMERGING MARKETS INDEX (EX AR)

	Simulated Standard Index		
	Index Market Cap	Weight	# Sec.
EM	4,691,431	100.0%	855
EM Asia	3,403,518	72.5%	567
China	1,301,932	27.8%	152
Korea	725,668	15.5%	112
Taiwan	568,864	12.1%	89
India	417,796	8.9%	77
Malaysia	113,903	2.4%	41
Indonesia	112,074	2.4%	31
Thailand	99,798	2.1%	36
Philippines	57,450	1.2%	23
Pakistan	6,033	0.1%	6
EM EMEA	697,371	14.9%	163
South Africa	315,674	6.7%	53
Russia	153,223	3.3%	22
Poland	59,974	1.3%	22
Turkey	54,445	1.2%	25
United Arab Emirate	35,244	0.8%	10
Qatar	31,471	0.7%	12
Greece	17,565	0.4%	9
Hungary	15,054	0.3%	3
Czech Republic	8,521	0.2%	4
Egypt	6,200	0.1%	3
EM Latin America	590,543	12.6%	125
Brazil	305,518	6.5%	57
Mexico	169,249	3.6%	27
Chile	54,768	1.2%	19
Argentina	22,477	0.5%	10
Colombia	21,619	0.5%	9
Peru	16,912	0.4%	3

Note: All market caps are in USD millions. Data as of the close of June 12, 2017

- The simulated MSCI Argentina Index would have a potential weight of 0.5% in the MSCI Emerging Markets Index

Current weight of MSCI Argentina Index in MSCI Frontier Markets Index: 20.1%

SIMULATED IMPACT ON THE MSCI FM 100 (EX AR)

	Current Index*		Simulated Index (ex AR)	
	# constituents	Weight	# constituents	Weight
ARGENTINA	14	20.37%	0	0.00%
KUWAIT	17	19.63%	17	26.74%
VIETNAM	15	12.60%	15	13.26%
MOROCCO	8	7.36%	9	9.38%
BANGLADESH	15	6.38%	18	8.59%
NIGERIA	8	6.16%	8	7.69%
KENYA	5	5.81%	5	7.26%
ROMANIA	6	5.44%	6	6.79%
OMAN	7	4.36%	7	5.45%
MAURITIUS	2	3.51%	2	4.38%
KAZAKHSTAN	2	2.29%	2	2.86%
JORDAN	5	2.01%	5	2.51%
BAHRAIN	3	1.74%	3	2.17%
SRI LANKA	1	1.25%	1	1.57%
SLOVENIA	2	0.71%	2	0.88%
CROATIA	1	0.38%	1	0.47%
SERBIA	1	0.38%	0	0.00%
Total	112	100%	102	100%

MSCI FM 100 Index (ex AR) Top 10 Constituents

Security Name	Country Name	Simulated New Weight
NATIONAL BANK OF KUWAIT	KUWAIT	7.84%
VIETNAM DAIRY PRODUCT	VIETNAM	5.55%
KUWAIT FINANCE HOUSE	KUWAIT	5.53%
MOBILE TELECOM CO	KUWAIT	4.10%
MAROC TELECOM	MOROCCO	3.52%
SAFARICOM	KENYA	3.32%
ATTIJARIWAFABANK	MOROCCO	2.50%
BANCA TRANSILVANIA	ROMANIA	2.42%
MCB GROUP	MAURITIUS	2.31%
KAZMUNAIGAS EXPL GDR	KAZAKHSTAN	2.24%

KEY QUESTIONS

- Given the market's specific issues in accessibility history, do you agree with the proposed timeline for the reclassification of the MSCI Argentina Index to Emerging Markets
 - Should MSCI provide more time before reclassifying the market to Emerging Markets? Are there any other market accessibility concerns that should prevent the reclassification?
 - Will the potential inclusion of local listings in the MSCI Argentina Equity Universe be problematic?

APPENDIX

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

	Current Index*		Simulated Index (ex NG, AR)	
	# constituents	Actual Weight	# constituents	Actual Weight
ARGENTINA	14	20.37%	0	0.00%
KUWAIT	17	19.63%	17	26.74%
VIETNAM	15	12.60%	15	13.26%
MOROCCO	8	7.36%	9	10.76%
BANGLADESH	15	6.38%	18	9.85%
NIGERIA	8	6.16%	0	0.00%
KENYA	5	5.81%	5	8.32%
ROMANIA	6	5.44%	6	7.79%
OMAN	7	4.36%	7	6.25%
MAURITIUS	2	3.51%	2	5.03%
KAZAKHSTAN	2	2.29%	2	3.28%
JORDAN	5	2.01%	5	2.88%
BAHRAIN	3	1.74%	3	2.49%
SRI LANKA	1	1.25%	1	1.80%
SLOVENIA	2	0.71%	2	1.01%
CROATIA	1	0.38%	1	0.54%
SERBIA	1	0.38%	0	0.00%
Total	112	100%	93	100.0%

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

Security Short Name	Country Name	Simulated New Weight
NATIONAL BANK OF KUWAIT	KUWAIT	7.69%
VIETNAM DAIRY PRODUCT	VIETNAM	5.45%
KUWAIT FINANCE HOUSE	KUWAIT	5.43%
MOBILE TELECOM CO	KUWAIT	4.03%
MAROC TELECOM	MOROCCO	3.96%
SAFARICOM	KENYA	3.74%
ATTIJARIWafa BANK	MOROCCO	2.81%
BANCA TRANSILVANIA	ROMANIA	2.73%
MCB GROUP	MAURITIUS	2.60%
KAZMUNAIGAS EXPL GDR	KAZAKHSTAN	2.52%

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