

CONSULTATION ON A MARKET RECLASSIFICATION PROPOSAL FOR THE MSCI NIGERIA INDEX

Potential Reclassification from Frontier to
Standalone

June 2017

NIGERIA RECLASSIFICATION UPDATE

- MSCI announced that it is delaying its decision on a potential reclassification of the MSCI Nigeria Index to stand-alone market status to November 2017 Semi-Annual Index Review
- In September 2016, the MSCI Nigeria Index was formally added to the review list for potential reclassification from Frontier Markets to Standalone market status.
- This decision stemmed from a continuous deterioration of the market accessibility after the introduction of restrictions on foreign currency trading in the first half of 2015 and the resulting reduction of foreign exchange market liquidity.
- On April 21, 2017, the Central bank of Nigeria introduced a new FX trading window for investors and exporters that aimed to facilitate the repatriation of capital. To date, investors seem to be cautiously optimistic on the effectiveness of this new window but still require more time to test it further
- Note that this consultation may or may not result in the implementation of any of the proposals mentioned in this presentation.

KEY FACTS

- The Central Bank of Nigeria (CBN) pegged the currency at 197 NGN/USD in the first half of 2015.
- This caused FX liquidity to dry out, especially at the beginning of 2016. The CBN's provision of liquidity on weekly basis (which can be also be irregular) was not sufficient to meet the demands.
- Since the initial devaluation of the NGN in June 2016, the official rate has kept steady at the 315 NGN/USD level. However, the parallel market continued to depreciate further, increasing the gap to as high as 205 in mid February 2017 (520 NGN/USD).
- On April 21, 2017, the Central Bank of Nigeria (CBN) announced the establishment of the Investors' and Exporters' FX Window (I&E Window) which aims to improve liquidity in the foreign exchange (FX) market. The I&E Window caters to a number of market participants including portfolio investors and will be eligible for a number of transactions such as remittances of dividends and income and capital repatriation.
- Due to reduced flexibility in the equity market, MSCI has not implemented changes starting from the May 2016 Semi-Annual Index Review including selected corporate events for the MSCI Nigeria Indexes, as well as for the selected composite indexes of which Nigeria is a component of.

SIMULATED IMPACT ON THE MSCI FRONTIER MARKETS INDEX (EX NG)

	Simulated Standard Index		
	Index Market	Weight	# Sec.
Cap			
FM	100,830	100.0%	100
FM ex GCC	73,302	72.7%	79
Argentina	22,242	22.1%	10
Vietnam	11,066	11.0%	14
Nigeria			
Morocco	8,784	8.7%	10
Kenya	5,440	5.4%	4
Romania	4,536	4.5%	5
Mauritius	4,209	4.2%	3
Lebanon	3,127	3.1%	4
Bangladesh	2,709	2.7%	5
Kazakhstan	2,146	2.1%	2
Slovenia	1,756	1.7%	2
Sri Lanka	1,683	1.7%	3
Croatia	1,618	1.6%	3
Jordan	1,507	1.5%	4
Senegal	993	1.0%	1
Tunisia	499	0.5%	2
Estonia	400	0.4%	2
Ivory Coast	231	0.2%	1
Serbia	231	0.2%	2
Lithuania	128	0.1%	2
FM GCC	27,528	27.3%	21
Kuwait	18,938	18.8%	8
Oman	3,808	3.8%	8
Bahrain	4,781	4.7%	5

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

SIMULATED IMPACT ON THE MSCI FM 100 INDEX (EX NG)

	Current Index*		Simulated Index (ex NG)	
	# constituents	Actual Weight	# constituents	Actual Weight
ARGENTINA	14	20.37%	14	20.37%
KUWAIT	17	19.63%	17	19.63%
VIETNAM	15	12.60%	15	14.04%
MOROCCO	8	7.36%	8	8.20%
BANGLADESH	15	6.38%	15	7.11%
NIGERIA	8	6.16%	0	0.00%
KENYA	5	5.81%	5	6.48%
ROMANIA	6	5.44%	6	6.06%
OMAN	7	4.36%	7	4.86%
MAURITIUS	2	3.51%	2	3.91%
KAZAKHSTAN	2	2.29%	2	2.55%
JORDAN	5	2.01%	5	2.24%
BAHRAIN	3	1.74%	3	1.94%
SRI LANKA	1	1.25%	1	1.40%
SLOVENIA	2	0.71%	2	0.79%
CROATIA	1	0.38%	1	0.42%
SERBIA	1	0.38%	0	0.00%
Total	112	100%	103	100.0%

MSCI FM Index 100 (ex NG) Top 10 Constituents

Security Short Name	Country Name	Simulated New Weight
VIETNAM DAIRY PRODUCT	VIETNAM	5.77%
NATIONAL BANK OF KUWAIT	KUWAIT	5.65%
KUWAIT FINANCE HOUSE	KUWAIT	3.99%
YPF D ADR	ARGENTINA	3.56%
GRUPO FIN GALICIA B ADR	ARGENTINA	3.28%
MAROC TELECOM	MOROCCO	3.08%
MOBILE TELECOM CO	KUWAIT	2.95%
SAFARICOM	KENYA	2.91%
PAMPA ENERGIA ADR	ARGENTINA	2.87%
BANCO MACRO B ADR	ARGENTINA	2.68%

KEY QUESTIONS

- Has the establishment of the I&E Window helped improve the level of accessibility in terms of access to foreign exchange as well as capital repatriation in Nigeria?
 - Has the liquidity in the FX market improved? Or are there still significant delays or backlogs in FX-related transactions?
- Given the recent developments, is the reclassification of the MSCI Nigeria Index to Standalone Market status still warranted?
 - If yes, what would be the appropriate timeline for the reclassification?

APPENDIX

SIMULATED IMPACT ON THE MSCI FRONTIER MARKETS INDEX (EX NG, AR)

	Simulated Standard Index		
	Index Market Cap	Weight	# Sec.
FM	78,588	100.0%	90
FM ex GCC	51,060	65.0%	69
Argentina			
Vietnam	11,066	14.1%	14
Nigeria			
Morocco	8,784	11.2%	10
Kenya	5,440	6.9%	4
Romania	4,536	5.8%	5
Mauritius	4,209	5.4%	3
Lebanon	3,127	4.0%	4
Bangladesh	2,709	3.4%	5
Kazakhstan	2,146	2.7%	2
Slovenia	1,756	2.2%	2
Sri Lanka	1,683	2.1%	3
Croatia	1,618	2.1%	3
Jordan	1,507	1.9%	4
Senegal	993	1.3%	1
Tunisia	499	0.6%	2
Estonia	400	0.5%	2
Ivory Coast	231	0.3%	1
Serbia	231	0.3%	2
Lithuania	128	0.2%	2
FM GCC	27,528	35.0%	21
Kuwait	18,938	24.1%	8
Oman	3,808	4.8%	8
Bahrain	4,781	6.1%	5

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

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%
ATTIJARIWAFABANK	MOROCCO	2.81%
BANCA TRANSILVANIA	ROMANIA	2.73%
MCB GROUP	MAURITIUS	2.60%
KAZMUNAIGAS EXPL GDR	KAZAKHSTAN	2.52%

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