

Q&A: Reclassification of Pakistan to Frontier Markets

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1 INTRODUCTION

On September 7, 2021, MSCI announced that it will reclassify the MSCI Pakistan Index from Emerging Markets to Frontier Markets. MSCI will include the MSCI Pakistan Index in the MSCI Frontier Markets Index in one step coinciding with the November 2021 Semi-Annual Index Review (SAIR).

The purpose of this document is to address commonly asked questions related to changes in the MSCI Equity Indexes.

2 **Reclassification of Pakistan from Emerging Markets to Frontier Markets**

2.1 **General Questions on the Reclassification of Pakistan**

What will be the key impact of the reclassification of Pakistan?

As a result of the reclassification, the MSCI Pakistan Indexes will be added to the MSCI Frontier Markets (FM) Indexes and simultaneously deleted from the MSCI Emerging Markets (EM) Indexes as well as the MSCI ACWI Indexes, which include both Emerging Markets and Developed Markets.

When will the reclassification of the MSCI Pakistan Indexes take place?

The MSCI Pakistan Indexes will be added to the MSCI Frontier Markets Indexes in one step as part of the November 2021 Semi-Annual Index Review (SAIR), to be implemented as of the close of November 30, 2021.

Why did MSCI decide to reclassify Pakistan from Emerging Markets to Frontier Markets?

Although the Pakistani equity market meets the requirements for Market Accessibility under the classification framework for Emerging Markets, it no longer meets the standards for Size and Liquidity. More specifically, index continuity rules, as described in section 2.4 of the MSCI Global Investable Market Indexes Methodology as of September 2021, have been applied since the November 2018 Semi-Annual Index Review to maintain the required three constituents in the MSCI Pakistan Index. Since the November 2019 SAIR, there have been no securities in the MSCI Pakistan equity universe that meet the Emerging Markets Size and Liquidity criteria within the MSCI Market Classification Framework.

Following a consultation with global investors, MSCI decided to reclassify Pakistan from Emerging Markets to Frontier Markets.

Does MSCI provide an indicative list of Pakistan securities that will be added to the MSCI Frontier Markets Indexes?

Yes. The simulated list of securities in the MSCI Pakistan Indexes based on proforma data for the August 2021 Quarterly Index Review can be found in the table below.

Simulated List of Securities in the MSCI Pakistan Indexes

Company	Full Mcap (USD mn)	FIF Mcap (USD mn)	FIF	Size-Segment
Oil & Gas Development	2,401	336	0.14	Standard
Lucky Cement	1,614	646	0.40	Standard
Pakistan Petroleum	1,337	267	0.20	Small Cap
Mari Petroleum	1,232	246	0.20	Small Cap
MCB BANK	1,177	412	0.35	Standard
Habib Bank	1,104	442	0.40	Standard
Engro Corporation	1,018	509	0.50	Small Cap
United Bank	890	356	0.40	Small Cap
Fauji Fertilizer Co	811	324	0.40	Small Cap
Pakistan Oilfields	667	233	0.35	Small Cap
Indus Motor Company	644	129	0.20	Small Cap
Hub-Power Co	624	499	0.80	Small Cap
Engro Fertilizers	619	248	0.40	Small Cap
Pakistan State Oil Co	611	275	0.45	Small Cap
Systems	593	297	0.50	Small Cap
Trg Pakistan	527	395	0.75	Small Cap
Bank Al-Habib	454	318	0.70	Small Cap
Abbot Lab (Pakistan)	448	90	0.20	Small Cap
National Bank Pakistan	432	86	0.20	Small Cap
Millat Tractors	374	224	0.60	Small Cap
Bank Alfalah	348	139	0.40	Small Cap
Searle Pakistan	329	132	0.40	Small Cap
Packages	270	94	0.35	Small Cap

Data as of August 31, 2021. Simulated results reflect the application of requirements for Smaller, average Liquidity Frontier Markets.

2.2 Index Maintenance of the MSCI Pakistan Indexes

How will MSCI rebalance the MSCI Pakistan Indexes at the time of the November 2021 SAIR?

MSCI will apply the index maintenance rules of the MSCI GIMI methodology on the MSCI Pakistan Indexes using Frontier Markets size and liquidity requirements as part of the November 2021 SAIR.

Are there differences in the index maintenance requirements applied to the MSCI Pakistan Indexes prior to and after the reclassification?

Yes. Following the reclassification, the MSCI Pakistan Indexes will be rebalanced using size and liquidity requirements for Smaller, average liquidity Frontier Markets instead of the current Emerging Markets requirements.

Will there be changes in the Global Minimum Size References that will be applicable to the MSCI Pakistan Indexes post reclassification?

Yes. The Global Minimum Size References for Smaller Frontier Markets, which is 25% of the Developed Markets Global Minimum Size References will be used for the MSCI Pakistan Indexes starting at the November 2021 SAIR.

What free float-adjusted market capitalization requirement will be applicable to the MSCI Pakistan Indexes post reclassification?

The minimum free float-adjusted market capitalization threshold for the MSCI Pakistan Indexes will be 25% of the Equity Universe Minimum Size Requirement, which is applicable to Smaller Frontier Markets.

What liquidity requirements will be applicable to the MSCI Pakistan Indexes post reclassification?

Pakistan securities will be assessed against Frontier Markets requirements for average liquidity markets. The minimum 12-month Average Traded Value Ratio (ATVR) for newly eligible securities and existing IMI constituents in average liquidity markets is 15% and 2/3 of 15% respectively. In addition, the minimum 12-month Frequency of Trading for newly eligible securities and existing IMI constituents are 50% and 10% respectively.

In case of trading suspensions of individual securities, will the inclusion of the securities in the MSCI Frontier Markets Indexes be postponed?

At the time of the inclusion of the MSCI Pakistan Indexes to the MSCI Frontier Markets Indexes, MSCI will apply suspension treatment from the perspective of the MSCI Frontier Markets Indexes.

2.3 Ongoing Event Maintenance Methodology Impact on the MSCI Indexes

Is MSCI applying any special treatment related to corporate events in the period leading to the inclusion in the MSCI Emerging Markets Indexes?

Yes. As announced on September 7, 2021, in order to minimize reverse turnover at the time of the reclassification, until the effective date of the November 2021 SAIR, MSCI will defer the implementation of corporate events not requiring a Price Adjustment Factor (PAF), such as placements, block sales, recapitalizations and sizable IPOs, and will exceptionally freeze potential migrations due to corporate events for the MSCI Pakistan Indexes.

By contrast, MSCI will continue implementing corporate events requiring PAFs, such as stock splits, consolidations, rights issues, buybacks as well as deletions resulting from delistings, bankruptcies and mergers and acquisitions as well as prolonged suspensions at the time of the event. Sizable corporate events requiring PAFs which are likely to cause potential reverse turnover would be reviewed on a case by case basis. The treatment of such specific corporate events would be announced to all clients with sufficient advance notice through regular Index email announcements.

2.4 Impact of the Inclusion of Pakistan on Selected MSCI Indexes

Will there be any impact on the MSCI Islamic Indexes?

Yes. The MSCI Pakistan Islamic Index will be deleted from the MSCI Emerging Markets Islamic Index and added to the MSCI Frontier Markets

Islamic Index as part of the November 2021 SAIR after applying index maintenance rules as per the MSCI Islamic Index Methodology.

The MSCI Pakistan Islamic Small Cap Index, Pakistan Islamic SMID Cap Index and Pakistan Islamic IMI will be discontinued beginning December 1, 2021.

Will there be any impact on the MSCI Frontier Markets 100 and MSCI Frontier Markets 15% Country Capped Indexes?

As announced on September 7, 2021, MSCI launched a consultation on the potential inclusion of the MSCI Pakistan Index to the MSCI Frontier Markets 100 Index and the MSCI Frontier Markets 15% Country Capped Index as part of the May 2022 SAIR. The results of this consultation will be announced coinciding with the February 2022 Quarterly Index Review (QIR).

Will there be any impact on the MSCI Frontier Emerging Markets Index?

No. New countries included in the MSCI Frontier Markets Index are simultaneously included in the MSCI Frontier Emerging Markets Index. As such, Pakistan will continue to be eligible for this index as part of the November 2021 SAIR.

Will there be any impact on the methodology and maintenance of the MSCI Factor, Capped and Thematic Indexes (“Derived Indexes”)?

There will be no methodology change for the MSCI Factor, Capped and Thematic Indexes following the reclassification. These indexes will use the weights from the underlying MSCI Global Investable Market Indexes. The specific Derived Index rebalancing methodology will then be applied, and no further adjustments will be made to the weight of the Pakistan securities post the Derived Index rebalancing.

The MSCI Pakistan Value and Growth Indexes will be discontinued beginning December 1, 2021.

Will MSCI provide simulated snapshots for the MSCI Factor, Capped and Thematic Indexes?

Yes, simulated snapshots for certain indexes may be available upon client request subject to feasibility.

What should a client do with regard to custom indexes that may be impacted by the inclusion of Pakistan securities?

Clients who do not wish the inclusion or exclusion of Pakistan securities to impact a custom index should contact an account representative for further details and requests for amending the custom index.

What new custom indexes may potentially be created?

On a custom basis, MSCI may provide indexes calculated based on various composites including or excluding Pakistan securities upon request.

2.5 Impact on MSCI Product Files

Will there be any impact on product files?

The delivery of MSCI product files and formats will remain unaffected. Details on content changes to products resulting from the reclassification of Pakistan to Frontier Markets were announced as part of the technical communication sent on September 28, 2021.

When will the changes be reflected in the real time index calculations?

The inclusion of Pakistan securities in the MSCI Frontier Markets Indexes will be reflected at the open of December 1, 2021.

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