

Block Sales / Secondary Offerings (outside of the US) consultation – revised proposal - December 2014

Agenda

- Summary feedback
- Initial Proposal
- Revised Proposal – revised thresholds
- Rationale/Benefits
- Questions
- Appendix
 - Appendix I - Current Methodology
 - Appendix II - Country specificities – post event float information
 - Appendix III - Impact of the initial proposal versus the revised proposal

Summary feedback

- On September 18, 2014, MSCI proposed to remove distinction between secondary offerings (outside of the US) and block sales definition to simplify their treatment in the MSCI indexes and to reflect only the largest impacts immediately using certain thresholds.
- While feedback from market participants is positive, it was highlighted that the proposed thresholds were too high and requested to further simplify the rules to implement such events at the time they occur.
- Consequently, MSCI is extending the consultation to a second proposal, under which the thresholds are lowered and simplified.
- MSCI welcomes feedback from the investment community on the amended proposal through December 15, 2014.
- This consultation may or may not lead to any changes to the MSCI Indexes

Initial Proposal

- Remove distinction between secondary offerings (outside of the US)* and block sales definition to simplify their treatment in the MSCI indexes.
 - Current thresholds as described in Appendix I would not be used anymore.
- Timing and implementation:
 - **When the event occurs ** if:**
 - The change in free float-adjusted market capitalization (including updates) is above 0.5 times the Standard Interim Cutoff
 - OR
 - The absolute size of the FIF change is 0.25 or more.
announced at the time of the event and implemented 2 business days later
 - **Else at the following Index Review**
announced with the Index Review announcement

Please note that these proposals may or may not lead to any changes to the MSCI indexes.

* The treatment of secondary offerings is different in the US compared to other countries. This document only concerns secondary offerings treatment outside of the US.

** Once the event is completed and provided sufficient post event information is publicly available. If any uncertainty on the post event free float information, MSCI may decide to postpone the event implementation to the next Index Review. Refer to Appendix II.

Revised proposal

- Remove distinction between secondary offerings (outside of the US)* and block sales definition to simplify their treatment in the MSCI indexes.
 - Current thresholds as described in Appendix I would not be used anymore.
- Timing and implementation:
 - **When the event occurs ** if:**
 - **The change in free float-adjusted market capitalization (including updates) is above USD 500 million for Developed Markets and USD 200 million for Emerging Markets.**
announced at the time of the event and implemented 2 business days later
 - **Else at the following Index Review**
announced with the Index Review announcement

Please note that these proposals may or may not lead to any changes to the MSCI indexes.

* The treatment of secondary offerings is different in the US compared to other countries. This document only concerns secondary offerings treatment outside of the US.

** Once the event is completed and provided sufficient post event information is publicly available. If any uncertainty on the post event free float information, MSCI may decide to postpone the event implementation to the next Index Review. Refer to Appendix II.

Rationale/Benefits

- Clarification of the methodology and clearer definitions used for secondary offerings and block sales aim to provide better transparency regarding communication and implementation of these events.
- The purpose of the proposal is to simplify the current rules for implementation of secondary offerings (outside of the US) and block sales – refer to Appendix I for more details on current rules.
- Large impacts to be reflected in a timely manner in the MSCI indexes - Implementation timing will be based on the size of the change.
- Under the revised proposal, MSCI is changing the Size segment of 0.5 times the Standard Interim Cutoff and absolute size of FIF change thresholds as market participants have a preference for fixed and simple thresholds.

Questions

- **Proposal / replicability:**
 - Do you agree with the new proposal?
- **Thresholds / Float assumption:**
 - Are the new proposed thresholds for implementation at time of event - after the offering is completed - appropriate? Please refer to Appendix III.
 - For offerings where post event float information is not sufficient, should MSCI assume free float and implement changes accordingly giving two full business days notice, even if there is a risk of reverse turnover? Please refer to Appendix II.

- **Other:**

MSCI intends to continue to postpone implementations of missed offerings to the following Index Review. What should be considered missed? Up until how many days after the offering has been priced/completed should MSCI still consider implementing at time of event? One week or more?

Appendix

I. Current Methodology

II. Country specificities – post event float information

III. Impact of the initial proposal versus the revised proposal

Appendix I: Current Methodology

MSCI currently differentiates between the following two types of offerings. The below offerings do not involve issuance of new shares but involve the distribution of current shareholders' existing shares, contrary to public or private placements.

- **Secondary offerings(outside of the US)** are usually pre-announced by the company or by a company's shareholder and open for public subscription during a pre-determined period. These existing shares are generally placed by underwriters to institutional or other non-strategic investors. => **implemented shortly after results of subscription are known, if captured on time, otherwise at Index Reviews**
- **Block sales** of existing shares or large market transaction done by way of immediate book building involving change in strategic ownership are generally announced only when effective or with short advance notice and generally do not include an offer prospectus. => **implemented at Index Reviews**

Block sales or large transactions will be implemented during the Index Review following the completion of the event provided they satisfy one of the following conditions when the event, including potential updates, is completed:

The absolute size of the FIF change is 0.15 or more, or

The change in free float-adjusted market capitalization resulting from the FIF change represents at least:

- USD 1billion for securities classified in the US.
- USD 500 million for securities classified in Developed Markets other than the US.
- USD 200 million for securities classified in the Emerging Markets.

Changes that do not meet the above conditions will be implemented as part of the May Semi-Annual Index Review.

Appendix II: Country specificities – post event float information

As per MSCI's proposal, if uncertainty on the post event information (i.e. float) still remains, MSCI may decide to postpone the event implementation till the next Index Review.

In order to minimize the risk of reverse turnover, where MSCI can not gather sufficient public post event float information to implement the event, MSCI proposes to wait for complete public disclosures. For countries such as Hong Kong and India, for example, where complete post event float is publicly disclosed after a few weeks, MSCI would send an "Acknowledged" or "Undetermined" announcement to let clients know MSCI intends to implement changes intra quarter but with a delay.

Appendix III - Impact of the initial proposal versus the revised proposal

Analysis conducted on past cases (from Mar 1 2013 till July 14 2014): 57 Standard Index constituents and 40 Small Cap Index constituents.

Breakdown by Event type	Current Methodology	Initial proposal	Revised proposal
Block sales	66 cases implemented at Index Review	1) 72 cases deferred to Index Reviews (46 block sales and 26 secondary offerings)	1) 41 cases deferred to Index Reviews (20 block sales and 21 secondary offerings)
Secondary offerings (outside of the US)	31 cases implemented at time of event (giving 2 full business days notice)	2) 25 cases implemented at time of event (20 block sales and 5 secondary offerings)	2) 56 cases implemented at time of event (46 block sales and 10 secondary offerings)

Breakdown by Index Family	Current Methodology	Initial proposal	Revised proposal
Block sales	66 cases implemented at Index reviews (45 Standard Index and 21 Small Cap Index constituents)	1) At Index reviews: 34 Standard + 12 Small Cap 2) At time of event : 11 Standard + 9 Small Cap	1) At Index reviews: 5 Standard + 15 Small Cap 2) At time of event : 39 Standard + 7 Small Cap
Secondary offerings (outside of the US)	31 cases implemented at time of event – giving 2 full business days notice (12 Standard Index and 19 Small Cap Index Constituents)	1) At Index reviews: 8 Standard + 18 Small Cap 2) At time of event : 4 Standard + 1 Small Cap	1) At Index reviews: 3 Standard + 18 Small Cap 2) At time of event : 9 Standard + 1 Small Cap

Appendix III - Impact of the initial proposal versus the revised proposal – Developed Markets – cases qualifying to be implemented at event time (continued)

Region	MSCI Security code	Country: Security Name	Event type	Family	Current Methodology	Initial Proposal	Revised Proposal	Impact in Free-float Adjusted Market Cap
DM	17361.01JP:	JAPAN TOBACCO	SEC_OFF	Standard	Yes	Yes	Yes	above USD 2 bln
DM	23744.01FR:	EADS	BLK_SALE	Standard		Yes	Yes	above USD 2 bln
DM	67619.01HK:	AIA GROUP	BLK_SALE	Standard		Yes	Yes	above USD 2 bln
DM	18570.01GB:	LLOYDS BANKING GROUP	BLK_SALE	Standard		Yes	Yes	above USD 2 bln
DM	22576.01SE:	NORDEA BANK	BLK_SALE	Standard		Yes	Yes	above USD 2 bln
DM	10695.01DE:	COMMERZBANK	BLK_SALE	Standard		Yes	Yes	above USD 2 bln
DM	23552.02CA:	CI FINANCIAL	SEC_OFF	Standard	Yes	Yes	Yes	above USD 2 bln
DM	67609.01SG:	GLOBAL LOGISTIC PROP	BLK_SALE	Standard		Yes	Yes	above USD 1 bln
DM	35837.01JP:	AOZORA BANK	SEC_OFF	Standard	Yes	Yes*	Yes	above USD 1 bln
DM	24936.01JP:	DENTSU	SEC_OFF	Standard	Yes		Yes	above USD 1 bln
DM	70291.01NL:	ZIGGO	BLK_SALE	Standard		Yes*	Yes	above USD 1 bln
DM	24938.01IT:	SNAM	BLK_SALE	Standard			Yes	above USD 1 bln
DM	23744.01FR:	EADS	BLK_SALE	Standard			Yes	above USD 1 bln
DM	37817.01FR:	REXEL	BLK_SALE	Standard			Yes	above USD 1 bln
DM	22470.01DE:	PROSIEBEN SAT1 MEDIA	BLK_SALE	Standard			Yes	above USD 1 bln
DM	64292.01FR:	EDENRED	BLK_SALE	Standard			Yes	above USD 1 bln
DM	10295.01ES:	BANKINTER	BLK_SALE	Small Cap		Yes*	Yes	above USD 1 bln
DM	71456.01GB:	DIRECT LINE INS GRP	BLK_SALE	Standard			Yes	above USD 1 bln
DM	71275.01DE:	LEG IMMOBILIEN	BLK_SALE	Small Cap		Yes*	Yes	above USD 1 bln
DM	67496.01DK:	PANDORA	BLK_SALE	Standard			Yes	above USD 1 bln
DM	72261.01ES:	LIBERBANK	BLK_SALE	Small Cap		Yes*	Yes	above USD 1 bln
DM	12575.01FI:	SAMPO A	BLK_SALE	Standard			Yes	above USD 1 bln
DM	12566.01FR:	SAINT-GOBAIN	BLK_SALE	Standard			Yes	above USD 1 bln
DM	24939.01JP:	RESONA HOLDINGS	BLK_SALE	Standard		Yes	Yes	above USD 1 bln
DM	23523.01JP:	SUMITOMO MITSUI TRUST	SEC_OFF	Standard	Yes		Yes	above USD 500 mln
DM	67631.01AU:	AURIZON HOLDINGS	BLK_SALE	Standard			Yes	above USD 500 mln
DM	35618.01JP:	NOMURA REAL ESTATE HLD	SEC_OFF	Standard	Yes		Yes	above USD 500 mln
DM	69991.01NZ:	TRADE ME	BLK_SALE	Small Cap		Yes*	Yes	above USD 500 mln
DM	12561.01FR:	SAFRAN	BLK_SALE	Standard			Yes	above USD 500 mln
DM	29360.01IT:	TERNA	BLK_SALE	Standard			Yes	above USD 500 mln
DM	27524.01CA:	ALIMENTATION COUCHE-T. B	BLK_SALE	Standard			Yes	above USD 500 mln
DM	10423.01DE:	HUGO BOSS	BLK_SALE	Standard			Yes	above USD 500 mln
DM	70291.01NL:	ZIGGO	BLK_SALE	Standard			Yes	above USD 500 mln
DM	63547.01NL:	DELTA LLOYD	BLK_SALE	Standard			Yes	above USD 500 mln
DM	29873.01FR:	LIAD	BLK_SALE	Standard			Yes	above USD 500 mln
DM	15859.01PT:	JERONIMO MARTINS SGPS	BLK_SALE	Standard			Yes	above USD 500 mln
DM	62864.01DK:	TDC	BLK_SALE	Standard			Yes	above USD 500 mln
DM	20278.01ES:	NH HOTELES	BLK_SALE	Small Cap		Yes*	Yes	above USD 500 mln
DM	18186.01NO:	STOREBRAND	BLK_SALE	Small Cap		Yes*	Yes	above USD 500 mln
DM	65548.01CA:	DHX MEDIA	SEC_OFF	Small Cap	Yes		Yes	above USD 500 mln

* Qualified as absolute size of FIF change is 0.25 or more

Appendix III - Impact of the initial proposal versus the revised proposal – Emerging Markets – cases qualifying to be implemented at event time (continued)

Region	MSCI Security code	Country: Security Name	Event type	Family	Current Methodology	Initial Proposal	Revised Proposal	Impact in Free-float Adjusted Market Cap
EM	71313.01	PL: BANK ZACHODNI WBK	SEC_OFF	Standard	Yes	Yes	Yes	above USD 2 bln
EM	30079.01	PL: PKO BANK POLSKI	BLK_SALE	Standard		Yes	Yes	above USD 1 bln
EM	19124.01	BR: PAO DE ACUCAR PN	BLK_SALE	Standard		Yes	Yes	above USD 1 bln
EM	38340.02	CN: CHINA PACIFIC INS GRP H	BLK_SALE	Standard		Yes	Yes	above USD 1 bln
EM	22711.01	PL: BANK PEKAO	BLK_SALE	Standard			Yes	above USD 500 mln
EM	69217.01	BR: QUALICORP	BLK_SALE	Standard			Yes	above USD 500 mln
EM	22606.02	MX: GRUPO FIN INBURSA O	SEC_OFF	Standard	Yes		Yes	above USD 500 mln
EM	60815.01	CN: HAIER ELCTRNC S GRP(CN)	BLK_SALE	Standard			Yes	above USD 500 mln
EM	25170.01	CL: BANCO DE CHILE	SEC_OFF	Standard	Yes		Yes	above USD 500 mln
EM	37867.01	BR: KROTON EDUCACIONAL	BLK_SALE	Standard			Yes	above USD 200 mln
EM	28187.01	CN: GEELY AUTOMOBILE HLDGS	BLK_SALE	Standard			Yes	above USD 200 mln
EM	15518.01	TW: ASIA CEMENT CORP	BLK_SALE	Standard			Yes	above USD 200 mln
EM	63613.01	KR: HANWHA LIFE INSURANCE	BLK_SALE	Standard			Yes	above USD 200 mln
EM	69839.02	CN: NEW CHINA LIFE INSUR H	BLK_SALE	Standard			Yes	above USD 200 mln
EM	61632.01	PL: GRUPA AZOTY	BLK_SALE	Standard			Yes	above USD 200 mln
EM	36018.01	MX: GRUPO AERO CENTRO NOR. B	SEC_OFF	Small Cap	Yes			below USD 200 mln
EM	69800.01	TW: CLEANAWAY	BLK_SALE	Small Cap		Yes*		below USD 200 mln

* Qualified as absolute size of FIF change is 0.25 or more

MSCI 24 Hour Global Client Service

Americas

Americas	1.888.588.4567 (toll free)
Atlanta	+1.404.551.3212
Boston	+1.617.532.0920
Chicago	+1.312.706.4999
Monterrey	+52.81.1253.4020
New York	+1.212.804.3901
San Francisco	+1.415.836.8800
São Paulo	+55.11.3706.1360
Toronto	+1.416.628.1007

Europe, Middle East & Africa

Cape Town	+27.21.673.0100
Frankfurt	+49.69.133.859.00
Geneva	+41.22.817.9777
London	+44.20.7618.2222
Milan	+39.02.5849.0415
Paris	0800.91.59.17 (toll free)

Asia Pacific

China North	10800.852.1032 (toll free)
China South	10800.152.1032 (toll free)
Hong Kong	+852.2844.9333
Seoul	00798.8521.3392 (toll free)
Singapore	800.852.3749 (toll free)
Sydney	+61.2.9033.9333
Taipei	008.0112.7513 (toll free)
Tokyo	+81.3.5290.1555

clientservice@msci.com | www.msci.com



Notice and Disclaimer

- This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the “Information”) is the property of MSCI Inc. or its subsidiaries (collectively, “MSCI”), or MSCI’s licensors, direct or indirect suppliers or any third party involved in making or compiling any information (collectively, with MSCI, the “Information Providers”) and is provided for informational purposes only. The Information may not be modified, reverse-engineered, reproduced or disseminated in whole or in part without prior written permission from MSCI.
- The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indexes, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.
- The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.
- Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors.
- Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.
- The Information should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons.
- None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.
- It is not possible to invest directly in an index. Exposure to an asset class or trading strategy or other category represented by an index is only available through third party investable instruments (if any) based on that index. MSCI does not issue, sponsor, endorse, market, offer, review or otherwise express any opinion regarding any fund, ETF, derivative or other security, investment, financial product or trading strategy that is based on, linked to or seeks to provide an investment return related to the performance of any MSCI index (collectively, “Index Linked Investments”). MSCI makes no assurance that any Index Linked Investments will accurately track index performance or provide positive investment returns. MSCI Inc. is not an investment adviser or fiduciary and MSCI makes no representation regarding the advisability of investing in any Index Linked Investments.
- Index returns do not represent the results of actual trading of investible assets/securities. MSCI maintains and calculates indices, but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the index or Index Linked Investments. The imposition of these fees and charges would cause the performance of an Index Linked Investment to be different than the MSCI index performance.
- The Information may contain back tested data. Back-tested performance is not actual performance, but is hypothetical. There are frequently material differences between back tested performance results and actual results subsequently achieved by any investment strategy.
- Constituents of MSCI equity indexes are listed companies, which are included in or excluded from the indexes according to the application of the relevant index methodologies. Accordingly, constituents in MSCI equity indexes may include MSCI Inc., clients of MSCI or suppliers to MSCI. Inclusion of a security within an MSCI index is not a recommendation by MSCI to buy, sell, or hold such security, nor is it considered to be investment advice.
- Data and information produced by various affiliates of MSCI Inc., including MSCI ESG Research Inc. and Barra LLC, may be used in calculating certain MSCI equity indexes. More information can be found in the relevant standard equity index methodologies on www.msci.com.
- MSCI receives compensation in connection with licensing its indices to third parties. MSCI Inc.’s revenue includes fees based on assets in investment products linked to MSCI equity indexes. Information can be found in MSCI’s company filings on the Investor Relations section of www.msci.com.
- MSCI ESG Research Inc. is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc. Except with respect to any applicable products or services from MSCI ESG Research, neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and neither MSCI nor any of its products or services is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Issuers mentioned or included in any MSCI ESG Research materials may include MSCI Inc., clients of MSCI or suppliers to MSCI, and may also purchase research or other products or services from MSCI ESG Research. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indexes or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body.
- Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, IPD, FEA, InvestorForce, and other MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor’s. “Global Industry Classification Standard (GICS)” is a service mark of MSCI and Standard & Poor’s.

© 2014 MSCI Inc. All rights reserved.

May 2014

