

CONSULTATION ON CHINA A-SHARES INDEX INCLUSION ROADMAP

June 2015

Updated Post 2015 MSCI Market Classification Review

BACKGROUND

- In March 2014, MSCI launched the Consultation on China A-Shares Index Inclusion Roadmap
- Substantial progress has been made toward the opening of the Chinese equity market and China A-shares remain on track for potential inclusion into the MSCI Emerging Markets Index
 - Investors, however, expect further liberalization on quota allocation process, capital mobility restrictions and clarification on beneficial ownership of investments
- **MSCI is maintaining the proposed roadmap for a 5% partial inclusion of China A-shares into the MSCI Emerging Markets Index** and will form a joint working group with CSRC to address remaining market accessibility issues
- MSCI may potentially announce the inclusion as soon as the highlighted accessibility issues are resolved
 - The potential inclusion of China-A shares will remain an independent decision by MSCI

KEY HIGHLIGHTS OF 2015 ASSESSMENT

- Since the 2014 Annual Mark Classification Review announcement, MSCI has continued to observe positive market-opening developments in the Chinese capital market.
 1. Successful launch of the Shanghai-Hong Kong Stock Connect program (“Stock Connect”)
 2. Expansion of RQFII program from four cities to 12 cities
 3. Clarification of the capital gains tax.
- The upcoming launch of the Shenzhen-Hong Kong Stock Connect program and potential further liberalization of the QFII program could further improve the overall accessibility of the China A-shares market for international institutional investors.

REMAINING CONCERNS TO BE ADDRESSED

- Quota Allocation Process (QFII/RQFII)
 - Ability to access quota commensurate with the size of assets under management
 - Ability to secure additional quota with certainty should the need arise
 - A more streamlined, transparent and predictable quota allocation process
- Capital Mobility Restrictions (QFII/RQFII/Stock Connect)
 - Extension of daily liquidity for to all investment vehicles, including open-ended funds, ETFs and separate accounts
 - Removal of capital lock-up and repatriation restrictions on QFII/RQFII
 - Elimination of potential trading uncertainty due to daily limit on the Stock Connect
- Beneficial Ownership (Separate Accounts):
 - Clarification on the Stock Connect beneficial ownership issue is a welcome development
 - Recognizing clear title to ownership in separate accounts is a crucial concern that requires urgent resolution

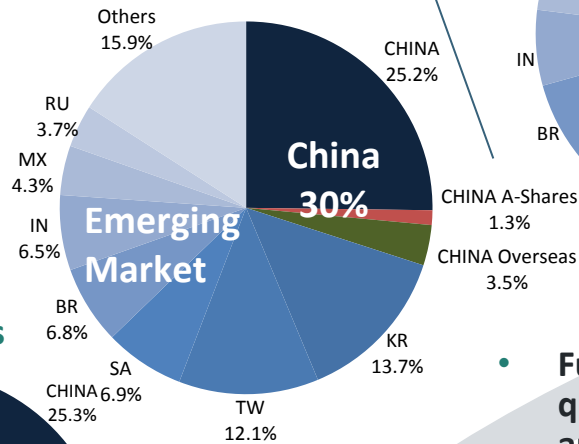
PROPOSAL FOR 5% INITIAL INCLUSION REMAINS INTACT

- **MSCI is maintaining its proposal to include China A-shares in the MSCI China Index in steps starting with a partial Inclusion Factor of 5%**
 - The inclusion in the MSCI China Index would be reflected in its corresponding composite indexes, **including the MSCI Emerging Markets Index**, simultaneously
 - The pro forma MSCI China Index would be constructed based on **one integrated China equity universe** comprising A-shares, B-shares, H-shares, Red-chips, P-chips and Overseas listed China companies
 - An **5% Inclusion Factor** would be applied to the FIF-adjusted market capitalization of China A-shares in the pro forma MSCI China Index
 - The free float-adjusted market capitalization of China A-shares would be evaluated based on the Foreign Inclusion Factor (FIF) subject to a **30% Foreign Ownership Limit (FOL)**
 - The implementation of this proposal would coincide with the **May 2017 Semi-Annual Index Review**
 - Any subsequent increase in the Inclusion Factor of China A-shares in the MSCI Emerging Markets would be subject to positive market liberalization developments and public consultation with market participants
- Please note that this proposal may or may not lead to any changes to the MSCI Indexes

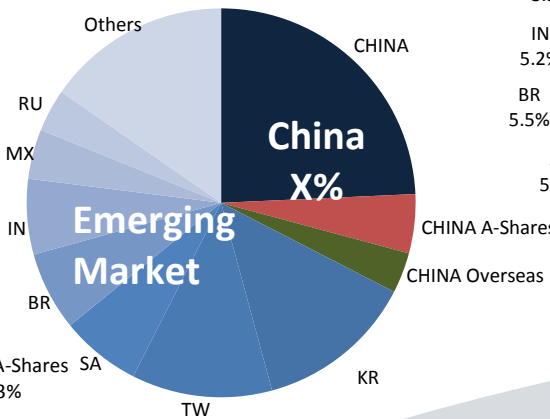
POSSIBLE INDEX INCLUSION ROADMAP OF CHINA A-SHARES

A 5% inclusion of China A-Shares will translate into 1.3% of index weight in the MSCI EM

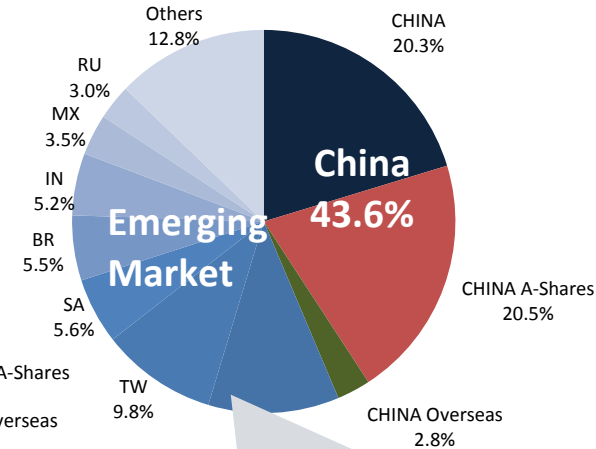
Potential Initial Step: Partial Inclusion (5%*)



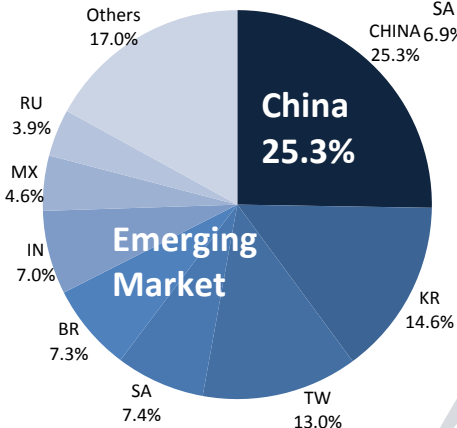
Potential Additional Steps: Partial Inclusion (>5%*)



Potential Full Inclusion (100%*)



Current Status



- Further improvements in quota allocation mechanism and size of overall quota
- Further relaxation on capital mobility and other market accessibility constraints

- Abolishment of the quota system
- Full liberalization of capital mobility restrictions
- Alignment of International accessibility standards

* The percentage number refers to the Inclusion Factor applied to the free float-adjusted market capitalization of China A share constituents in the pro forma MSCI China Index. China A-share securities are subject to a foreign ownership limit of 30%

Overseas listed China companies are will be included in Nov 2015 to May 2016 as announced earlier this year

SIMULATED MSCI CHINA INDEX

- By including China A-shares and Overseas listed China companies in the MSCI China equity universe, the number of constituents of the simulated MSCI China Index would increase from 139 to 522, of which 313 would be China A-shares
- The weight of China A-shares in the simulated MSCI Emerging Markets Index and MSCI China Index would be 1.3% and 4.2% respectively for a 5% partial inclusion

	Current Standard		Pro forma (IF* = 100%)			Pro forma (IF* = 5%)		# Securities	
	Weight	# Sec	Weight	# Sec	1 way Turnover	Weight	1 way Turnover	Add	Del
MSCI China A	100%	526	100%	526	-	100%	-	-	-
MSCI China	100%	139	100%	522	56.3%	100%	21.1%	383	-
A Shares	0.0%	0	47.2%	313	23.5%	4.2%	2.1%	313	-
B Shares	0.4%	2	0.3%	4	0.2%	0.5%	0.2%	2	-
H Shares	55.4%	69	25.1%	87	16.1%	45.4%	6.7%	18	-
Red Chip	23.8%	32	10.8%	40	6.9%	19.5%	2.9%	8	-
P Chip	20.4%	36	10.3%	61	6.4%	18.6%	3.4%	25	-
Overseas#	0.0%	0	6.3%	17	3.2%	11.7%	5.9%	17	-
Weight of A Shares in EM	-	-	20.5%	-	-	1.3%	-	-	-
Weight of China in AC Asia ex Japan	29.9%	-	49.4%	-	-	35.0%	-	-	-
Weight of China in EM	25.3%	-	43.6%	-	-	30.0%	-	-	-
Weight of China in ACWI	2.7%	-	5.9%	-	-	3.3%	-	-	-

Data as of May 29, 2015

*IF refers to Inclusion Factor

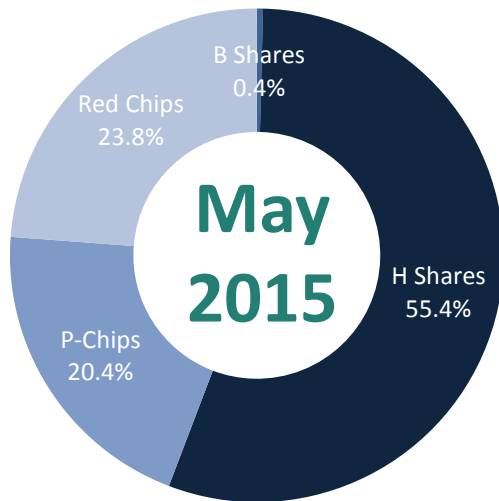
#Represents eligible foreign listed companies to be included in the the MSCI China Indexes in 2 phaes (Nov 2015/May 2016)

KEY DISCUSSION POINTS

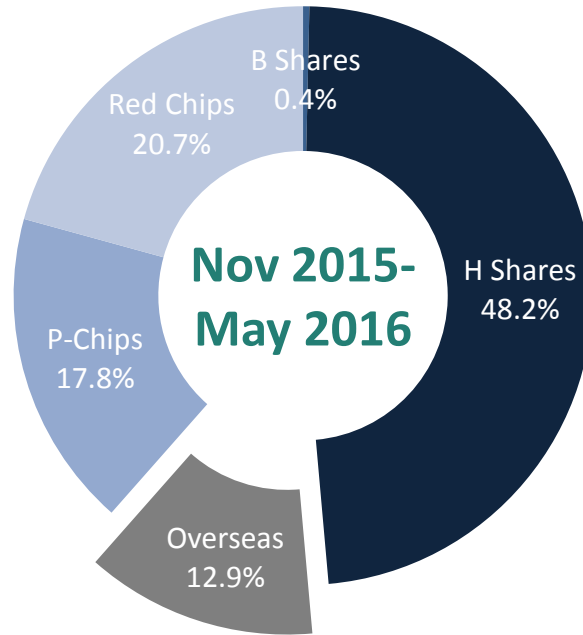
- Do you agree that the key focus should be on major roadblocks that make investment (or increased investment) impossible rather than on technicalities that make investment process more difficult and/or costly?
- Would you support the 5% initial inclusion proposal should there be policy alignments that lead to satisfactory resolution of any/all of the three major concerns highlighted i.e., allocation of quota, capital mobility and beneficial ownerships?
- Given the recent clarification of the Stock Connect's beneficial ownership issue, do you see the Stock Connect being a reasonable access channel if the coverage universe is significantly expanded and the daily quota on the northbound access is removed? If not, what other critical concerns would need to be addressed?
- Is twelve months a reasonable implementation time frame?

*TRANSITION OF THE EXISTING
MSCI CHINA A INDEX TO THE
PROPOSED MSCI CHINA A
INTERNATIONAL INDEX*

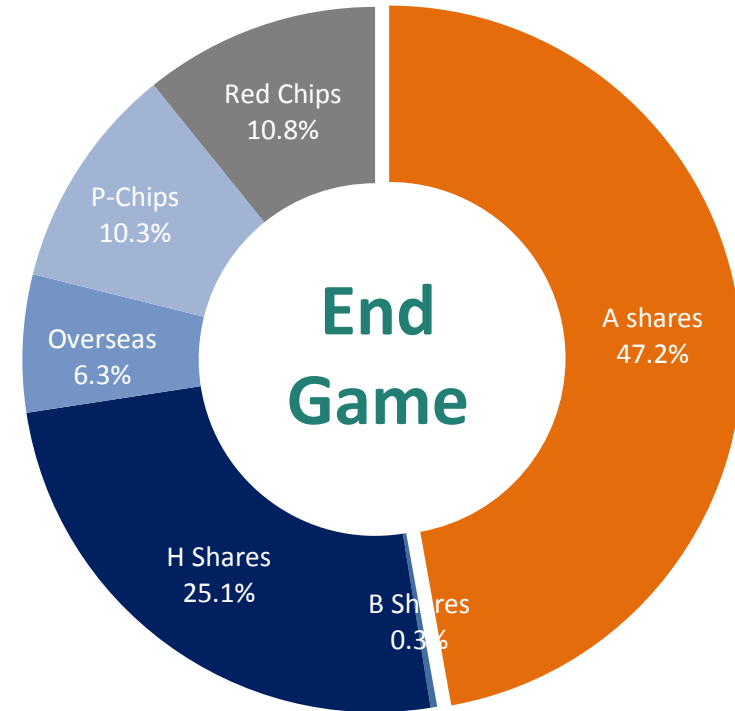
ROADMAP TO A COMPREHENSIVE CHINA EQUITY INDEX



139 Stocks
US\$1.02tr



156 Stocks
US\$1.17tr



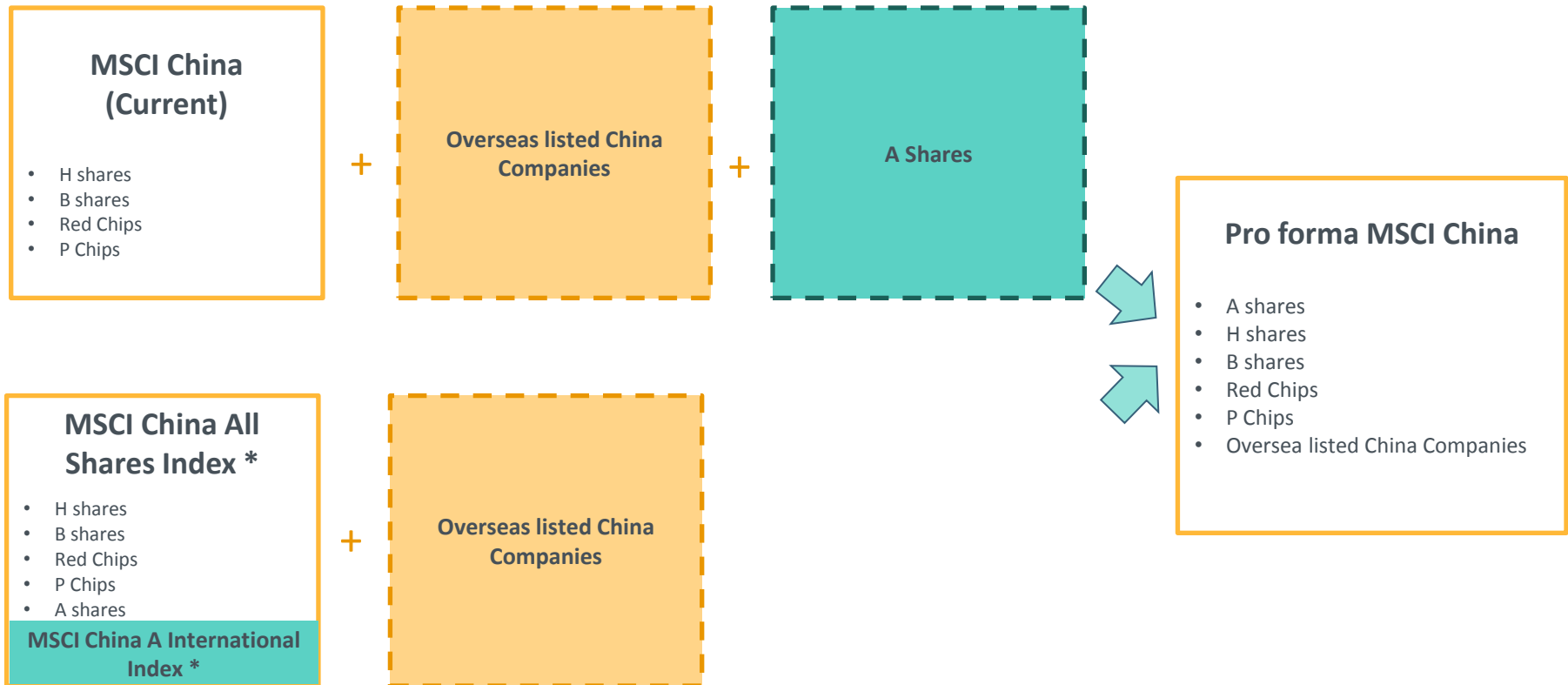
522 Stocks
US\$2.33tr

- Inclusion of overseas listed Chinese companies such as Baidu and Alibaba

- Full inclusion of A shares

Data as of May 29, 2015

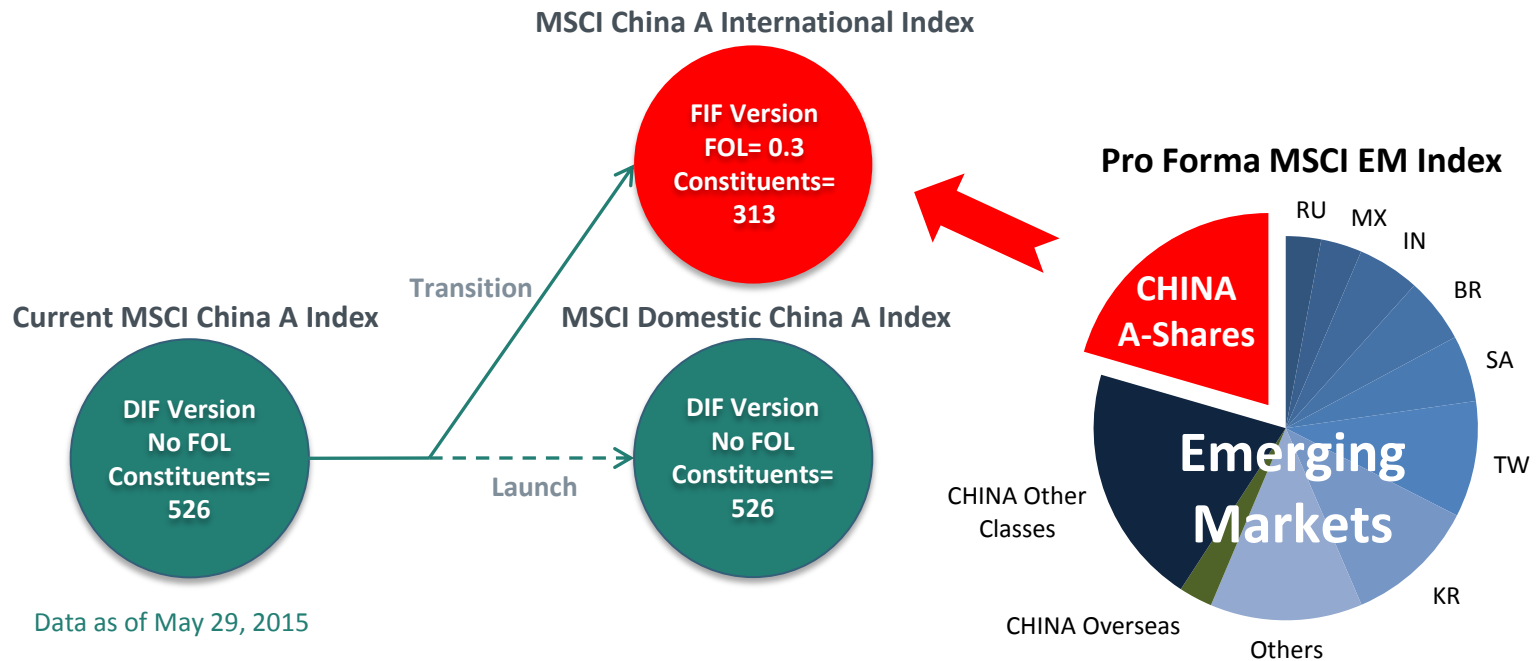
POTENTIAL TRANSITIONS OF MSCI CHINA INDEXES



* The two standalone indexes reflect the full inclusion scenario outlined in the "Index Inclusion Roadmap for China A-Shares in the MSCI Emerging Markets Index" consultation proposal as part of 2014 MSCI's Annual Market Classification Review.

PROPOSED TRANSITION FOR THE EXISTING MSCI CHINA A INDEXES

- If the partial inclusion of China A-shares into the MSCI Emerging Markets Index were to take place, the current MSCI China A Index would be simultaneously transitioned to the MSCI China A International Index, constructed based on the China A-share constituents of the MSCI China All Shares Index
- A separate MSCI Domestic China A Index, which is identical to the current MSCI China A Index would be launched as a standalone domestic benchmark for investors who wish to maintain a broad exposure of the China A-share market



MSCI CHINA A INTERNATIONAL INDEXES

- The transition of the current MSCI China A Index to the MSCI China A International Index would decrease the number of constituents from 526 to 313 with an one-way index turnover of 25.3%
- For the MSCI China A Investable Market Index (IMI), the number of constituents would decrease from 1,861 to 1,640, with an one-way index turnover of 21.4%
- The turnover is primarily attributed to the higher market size segment cutoff and the application of the 30% FOL on the free float-adjusted market capitalization of China A-shares

	Current # Sec	International # Sec	# of Securities		One-Way Turnover
			Add	Del	
MSCI China A	526	313	0	213	25.3%
MSCI China A IMI	1,861	1,640	42	263	21.4%

Data as of May 29, 2015

QUESTIONS TO EXISTING MSCI CHINA A INDEX CLIENTS

- Do you agree with the proposal to transition the existing MSCI China A Index to the MSCI China A International Index?
 - If yes, do you think an early phased-in approach is more appropriate? For instance, to transition 50% of the market capitalization at the November SAIR and the remaining 100% at the May SAIR?
- What potential complications do you expect as a result of this transition?

APPENDIX

MSCI CHINA INDEX FAMILY

MSCI Indexes	Methodology/Coverage	Use Cases	Investors
MSCI China *	Methodology: GIMI Construction universe: H, B, R, P Index Representation: H, B, R, P Weighting: FIF based 139 of stocks:	<ul style="list-style-type: none"> The de-facto China benchmark for international investors who use the MSCI ACWI/EM as policy benchmark – its the “no decision” option If, and when, A-shares or other China share classes become eligible, they may be included in this index 	<p><u>ALL INTERNATIONAL INVESTORS</u></p> <p>Asset Owners, Asset Managers, Broker Dealers</p>
MSCI China All Shares *	Methodology: GIMI Construction universe: H, B, R, P, A Index Representation: H, B, R, P, A Weighting: FIF based 505 of stocks:	<ul style="list-style-type: none"> Depicts China opportunity of international investors if A shares are included in the MSCI EM Index – the future MSCI China. For international investors who’s China opportunity set is defined as HK/PRC listed China securities 	<p><u>ALL INTERNATIONAL INVESTORS</u></p> <p>Asset Owners, Asset Managers, Broker Dealers wanting to pre-position for the benchmark inclusion of A shares in the MSCI EM index</p>
MSCI China A International	Methodology: GIMI Construction universe: H, B, R, P, A Index Representation: A only Weighting: FIF based 313 of stocks:	<ul style="list-style-type: none"> Represents the A Share component of the MSCI EM benchmark when the full inclusion happens. Standalone benchmark for China A specialist Mandates (i.e. QFII mandates) 	Asset Owners investing in A-Shares ahead of the benchmark inclusion, and for whom the ACWI consistency matters
MSCI China A	Methodology: GIMI compatible Construction universe: A only Index representation: A only Weighting: DIF based 526 of stocks:	<ul style="list-style-type: none"> The broadest representation of the China A opportunity, as a standalone allocation The broadest benchmark for China A specialist Mandates (e.g. QFII mandates) A share Benchmark for domestic China investors 	Asset Owners investing in A-Shares ahead of the benchmark inclusion, who are comfortable with the benchmark misfit, and want to give more freedom to their managers Private Banks investing for A share exposure Domestic Chinese Investor (e.g. a Chinese Insurance Company)
MSCI Overseas China	Methodology: Select constituent based on GIMI parameters Construction universe: Overseas China (OC) Index representation: OC Weighting: FIF based 14 of stocks:	<ul style="list-style-type: none"> Standalone benchmark for investors seeking investment opportunity of China companies listed in US and Singapore (outside Hong Kong and Mainland PRC) Can be combined with other China indexes to offer global China exposure 	Asset Managers offering China specialist mutual funds/ETFs Private Banks wanting to invest in China companies currently not listed on HK & PRC
MSCI ALL China	Methodology: Composite Index Construction universe: 3 separate universes H, B, R, P / A / OC Index Representation: H, B, R, P, A, OC Weighting: Composite DIF + FIF based 679 of stocks:	<ul style="list-style-type: none"> The broadest opportunity set of all Chinese companies, listed anywhere in the world Benchmark for investors seeking a broad definition of “China” without geographical and benchmark constraints 	Managers offering China specialist mutual funds/ETFs Private Banks wanting to capture the broadest China exposure Potentially as specialist institutional mandates focus on China - as a carve out of EM mandates

In addition, MSCI maintains over 20 custom composite indexes that include China A-shares at various weights.

* The inclusion of overseas listed China companies will take place over 2 phases in Nov 2015 and May 2016.

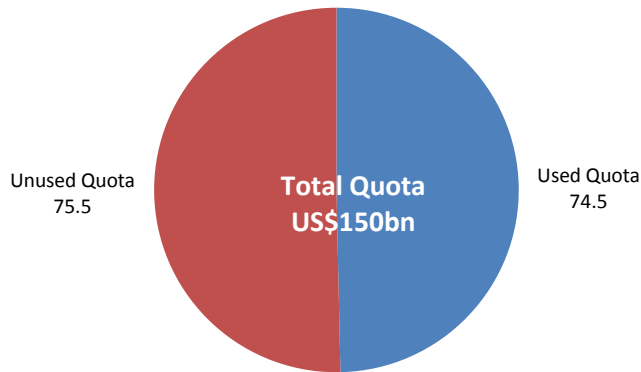
KEY ACCESS CHANNELS TO CHINA A-SHARES

	RQFII		QFII		Stock Connect
Eligible Investors	Institutional investors based in selected eligible locations Individual Quota: None		Institutional investors that meet certain operation and AUM requirements Individual Quota: > US\$ 1 billion for non SWF and Central Bank QFIIs		All investors
Application Process	Need license (CSRC) and quota (SAFE) The process can range from weeks to months				N.A.
Capital Mobility	<u>Open-Ended Funds:</u> -Repatriation: Daily -Lock-up: None -Remit Period: None -Others: Quota required to be used within 1 year upon approval	<u>Others:</u> -Repatriation: Monthly -Lock-up: 1 year -Remit Period: 6 months	<u>Open-Ended Funds:</u> -Repatriation: Weekly -Lock-up: 3 months -Remit Period: 6 months -Others: Monthly repatriation cannot exceed 20% of NAV of previous year	<u>Others:</u> -Repatriation: Monthly -Lock-up: 1 year -Remit Period: 6 months -Others: Monthly repatriation cannot exceed 20% of NAV of previous year	No restriction
Equity Coverage Universe	All securities listed on Shanghai and Shenzhen Stock Exchanges				560+ stocks listed on Shanghai Stock Exchange

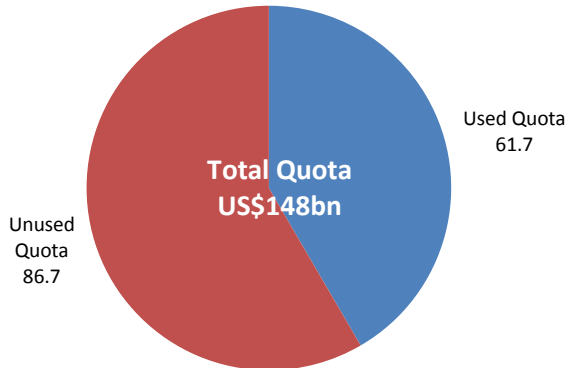
CUMULATIVE QUOTA USAGE OF QFII, RQFII AND STOCK CONNECT

- As of end-May 2015, roughly 50%, 42% and 50% of the QFII , RQFII and Connect quotas were used, respectively

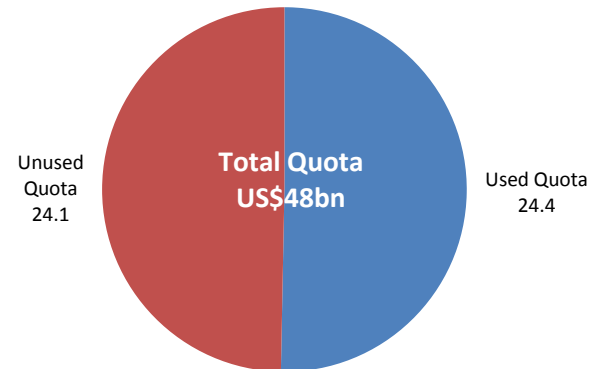
QFII Quotas Usage as of end-May 2015 (USD bn)



RQFII Quotas Usage as of end-May 2015 (USD bn)



Stock Connect Usage as of end-May 2015 (USD bn)



TOP 30 CONSTITUENTS OF THE CURRENT MSCI CHINA AND PRO FORMA MSCI CHINA INDEX

MSCI China Current

Rank	Security Name	Share Type	Weight(%)
1	TENCENT HOLDINGS LI (CN)	P CHIP	10.2%
2	CHINA MOBILE	RED CHIP	7.9%
3	CHINA CONSTRUCTION BK H	H	7.1%
4	ICBC H	H	6.3%
5	BANK OF CHINA H	H	5.2%
6	PING AN INSURANCE H	H	3.8%
7	CHINA LIFE INSURANCE H	H	3.5%
8	CNOOC	RED CHIP	2.7%
9	PETROCHINA CO H	H	2.5%
10	CHINA PETRO & CHEM H	H	2.2%
11	CHINA OVERSEAS LAND & INV	RED CHIP	1.5%
12	CHINA MERCHANTS BANK H	H	1.4%
13	CHINA PACIFIC INS GRP H	H	1.3%
14	AGRI BANK OF CHINA H	H	1.1%
15	LENOVO GROUP	RED CHIP	1.0%
16	CHINA UNICOM	RED CHIP	1.0%
17	CHINA TELECOM CORP H	H	0.9%
18	CHINA MINSHENG BANK H	H	0.8%
19	CSR CORP H	H	0.8%
20	HENGAN INTL GROUP CO	P CHIP	0.8%
21	CHINA SHENHUA ENERGY H	H	0.8%
22	BANK OF COMMUNICATIONS H	H	0.8%
23	PICC PPTY & CASUALTY H	H	0.8%
24	CHINA MENGNIU DAIRY CO	RED CHIP	0.8%
25	CHINA COMMUNIC CONST H	H	0.8%
26	CHINA RESOURCES LAND	RED CHIP	0.7%
27	CHINA CITIC BANK H	H	0.7%
28	WANT WANT CHINA HLDGS	P CHIP	0.7%
29	GREAT WALL MOTOR H	H	0.7%
30	CHINA TAIPING INSURANCE	RED CHIP	0.6%

Pro Forma MSCI China (Full Inclusion of A-shares)

Rank	Security Name	Share Type	Weight(%)
1	TENCENT HOLDINGS LI (CN)	P CHIP	4.4%
2	CHINA MOBILE	RED CHIP	3.5%
3	CHINA CONSTRUCTION BK H	H	3.1%
4	ICBC H	H	2.8%
5	BAIDU ADR	ADR	2.3%
6	BANK OF CHINA H	H	2.3%
7	PING AN INSURANCE H	H	1.6%
8	CHINA LIFE INSURANCE H	H	1.5%
9	CSR CORP A	A	1.4%
10	ALIBABA GROUP HLDG ADR	ADR	1.2%
11	CNOOC	RED CHIP	1.2%
12	PETROCHINA CO H	H	1.1%
13	CHINA PETRO & CHEM H	H	1.0%
14	PING AN INSURANCE A	A	0.8%
15	CHINA MERCHANTS BANK A	A	0.8%
16	INDUSTRIAL BANK A	A	0.7%
17	SHANGHAI PUDONG DEV BK A	A	0.7%
18	CHINA RAILWAY GROUP A	A	0.6%
19	CHINA OVERSEAS LAND & INV	RED CHIP	0.6%
20	KWEICHOW MOUTAI A	A	0.6%
21	CITIC SECURITIES CO A	A	0.6%
22	CHINA MERCHANTS BANK H	H	0.6%
23	AGRI BANK OF CHINA A	A	0.6%
24	CHINA PACIFIC INS GRP H	H	0.6%
25	CHINA STATE CONST ENGR A	A	0.6%
26	CHINA MINSHENG BANK A	A	0.6%
27	ICBC A	A	0.6%
28	BANK OF COMMUNICATIONS A	A	0.6%
29	CHINA SHIPBUILDING IND A	A	0.5%
30	AGRI BANK OF CHINA H	H	0.5%

Pro Forma MSCI China (5% Inclusion of A-shares)

Rank	Security Name	Share Type	Weight(%)
1	TENCENT HOLDINGS LI (CN)	P CHIP	8.0%
2	CHINA MOBILE	RED CHIP	6.2%
3	CHINA CONSTRUCTION BK H	H	5.6%
4	ICBC H	H	5.0%
5	BAIDU ADR	ADR	4.2%
6	BANK OF CHINA H	H	4.1%
7	PING AN INSURANCE H	H	3.0%
8	CHINA LIFE INSURANCE H	H	2.8%
9	ALIBABA GROUP HLDG ADR	ADR	2.2%
10	CNOOC	RED CHIP	2.2%
11	PETROCHINA CO H	H	1.9%
12	CHINA PETRO & CHEM H	H	1.7%
13	CHINA OVERSEAS LAND & INV	RED CHIP	1.1%
14	CHINA MERCHANTS BANK H	H	1.1%
15	CHINA PACIFIC INS GRP H	H	1.1%
16	AGRI BANK OF CHINA H	H	0.9%
17	CTRIIP COM INTL ADR	ADR	0.9%
18	JD.COM ADR	ADR	0.9%
19	NETEASE COM ADR	ADR	0.9%
20	LENOVO GROUP	RED CHIP	0.8%
21	CHINA UNICOM	RED CHIP	0.8%
22	CHINA TELECOM CORP H	H	0.7%
23	CHINA MINSHENG BANK H	H	0.7%
24	CSR CORP H	H	0.7%
25	HENGAN INTL GROUP CO	P CHIP	0.7%
26	CHINA SHENHUA ENERGY H	H	0.6%
27	BANK OF COMMUNICATIONS H	H	0.6%
28	PICC PPTY & CASUALTY H	H	0.6%
29	CHINA MENGNIU DAIRY CO	RED CHIP	0.6%
30	CHINA COMMUNIC CONST H	H	0.6%

TOP 30 CONSTITUENTS WITH MULTIPLE SHARE CLASSES IN THE PRO FORMA MSCI CHINA INDEX

No.	Name	Weight of H/B Share in MSCI Pro Forma China Index	Weight of A Share in MSCI Pro Forma China Index*	No.	Name	Weight of H/B Share in MSCI Pro Forma China Index	Weight of A Share in MSCI Pro Forma China Index#
1	CHINA CONSTRUCTION BK	3.11%	0.13%	1	CHINA CONSTRUCTION BK	5.63%	0.01%
2	ICBC	2.75%	0.56%	2	ICBC	4.99%	0.05%
3	BANK OF CHINA	2.26%	0.18%	3	BANK OF CHINA	4.10%	0.02%
4	PING AN INSURANCE	1.64%	0.85%	4	PING AN INSURANCE	2.98%	0.08%
5	CHINA LIFE INSURANCE	1.53%	0.36%	5	CHINA LIFE INSURANCE	2.78%	0.03%
6	PETROCHINA CO	1.07%	0.27%	6	PETROCHINA CO	1.94%	0.02%
7	CHINA PETRO & CHEM	0.96%	0.23%	7	CHINA PETRO & CHEM	1.75%	0.02%
8	CHINA MERCHANTS BANK	0.60%	0.77%	8	CHINA MERCHANTS BANK	1.09%	0.07%
9	CHINA PACIFIC INS GRP	0.58%	0.42%	9	CHINA PACIFIC INS GRP	1.06%	0.04%
10	AGRI BANK OF CHINA	0.50%	0.59%	10	AGRI BANK OF CHINA	0.91%	0.05%
11	CHINA MINSHENG BANK	0.37%	0.56%	11	CHINA MINSHENG BANK	0.67%	0.05%
12	CSR CORP	0.36%	1.40%	12	CSR CORP	0.66%	0.13%
13	CHINA SHENHUA ENERGY	0.36%	0.26%	13	CHINA SHENHUA ENERGY	0.65%	0.02%
14	BANK OF COMMUNICATIONS	0.36%	0.56%	14	BANK OF COMMUNICATIONS	0.65%	0.05%
15	CHINA COMMUNIC CONST	0.33%	0.15%	15	CHINA COMMUNIC CONST	0.59%	0.01%
16	CHINA CITIC BANK	0.30%	0.13%	16	CHINA CITIC BANK	0.54%	0.01%
17	GREAT WALL MOTOR	0.29%	0.13%	17	GREAT WALL MOTOR	0.52%	0.01%
18	ANHUI CONCH CEMENT	0.22%	0.21%	18	ANHUI CONCH CEMENT	0.40%	0.02%
19	CHINA RAILWAY GROUP	0.22%	0.63%	19	CHINA RAILWAY GROUP	0.40%	0.06%
20	HUANENG POWER INTL	0.20%	0.16%	20	HUANENG POWER INTL	0.37%	0.01%
21	NEW CHINA LIFE INS	0.20%	0.17%	21	NEW CHINA LIFE INS	0.36%	0.02%
22	CITIC SECURITIES CO	0.19%	0.62%	22	CITIC SECURITIES CO	0.35%	0.06%
23	BYD CO	0.19%	0.21%	23	BYD CO	0.35%	0.02%
24	HAITONG SECURITIES CO	0.18%	0.43%	24	HAITONG SECURITIES CO	0.33%	0.04%
25	CHINA RAILWAY CONST	0.16%	0.37%	25	CHINA RAILWAY CONST	0.28%	0.03%
26	CHINA VANKE CO	0.15%	0.29%	26	CHINA VANKE CO	0.27%	0.03%
27	CHINA OILFIELD SVCS	0.14%	0.10%	27	CHINA OILFIELD SVCS	0.26%	0.01%
28	JIANGXI COPPER CO	0.11%	0.11%	28	JIANGXI COPPER CO	0.20%	0.01%
29	ZIJIN MINING GROUP	0.11%	0.23%	29	ZIJIN MINING GROUP	0.20%	0.02%
30	CHINA COAL ENERGY	0.11%	0.08%	30	CHINA COAL ENERGY	0.19%	0.01%

Data as of May 29, 2015

*Assuming an Inclusion Factor of 100%

#Assuming an Inclusion Factor of 5%

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