

# CONSULTATION ON HIGH SHAREHOLDING CONCENTRATION

December, 2015

# BACKGROUND

- The Hong Kong Securities and Futures Commission (SFC) issues notices with respect to the shareholding concentration of certain listed companies that are held by a limited number of shareholders. The SFC states that the price for companies included in the notice “could fluctuate substantially even with a small number of shares traded”
- Recent notifications by the SFC indicate that current stipulated shareholding disclosure requirements in Hong Kong are insufficient to appropriately estimate free float-adjusted market capitalization for some companies. More specifically, as publicly available shareholder structure may contain only shareholders holding more than 5% of a company’s shares, it may significantly diverge from the free float estimation provided by the SFC at the time of the notice
- In order to further enhance investability of the MSCI Global Investable Market Indexes, MSCI proposes to factor in high shareholding concentration notices provided by the SFC. This proposal would impact securities listed in Hong Kong in the MSCI Hong Kong and MSCI China Indexes
- MSCI welcomes feedback from the investment community on the proposal until January 22, 2016
- Please note that this consultation may or may not result in any changes to the MSCI Indexes or methodologies

# PROPOSAL

## **New Index Constituents:**

- MSCI proposes not to add companies included in the SFC's high shareholding concentration notices, unless the SFC subsequently notified the market that high concentration of shareholding is no longer present

## **Existing Index Constituents:**

- MSCI proposes to delete all existing constituents of the MSCI Global Investable Market Indexes included in the SFC's high shareholding concentration notices as part of the February 2016 Quarterly Index Review
- Also under the proposal, index constituents included in the SFC's high shareholding concentration notices after the February 2016 Quarterly Index Review would be deleted from the relevant country indexes with a two-day advance notice
- Deleted companies would remain ineligible indefinitely, unless a public confirmation is made available by the SFC that high concentration of shareholding is no longer present. In addition, such companies would only be considered for re-inclusion into the MSCI Indexes 12 months after an official evidence of increased free float is present

# SIMULATED IMPACT OF THE PROPOSAL

Existing Index Constituents included in the SFC's high shareholding concentration list:

## MSCI China

Company	Full Mkt Cap (USD Million)	FIF	FIF Mkt Cap (USD Million)	Security Weight
IMPERIAL PACIFIC INTL	4,507	0.4	1,803	0.19%
GOLDIN PROPERTIES HLDGS	2,775	0.4	1,110	0.12%
<b>Total:</b>				<b>0.31%</b>

## MSCI China Small Cap

Company	Full Mkt Cap (USD Million)	FIF	FIF Mkt Cap (USD Million)	Security Weight
CHINA JICHENG HOLDINGS	3,405	0.25	851	0.60%
SHUNFENG INTL CLEAN ENER	1,176	0.6	706	0.50%
CHINA NEW CITY COMM DEV	2,372	0.2	474	0.34%
JIANGNAN GROUP	879	0.5	439	0.31%
HONBRIDGE (CN)	1,085	0.4	434	0.31%
BLOOMAGE BIOTECHNOLOGY	767	0.5	383	0.27%
YESTAR INTL HOLDINGS	957	0.35	335	0.24%
ZALL DEVELOPMENT GROUP	1,664	0.15	250	0.18%
HUAJUN HOLDINGS (CN)	490	0.45	220	0.16%
WANDA HOTEL DEVELOPMENT	697	0.3	209	0.15%
WUZHOU INTERNATIONAL	534	0.35	187	0.13%
TIMES PROPERTY HOLDINGS	658	0.25	164	0.12%
<b>Total:</b>				<b>3.29%</b>

## MSCI Hong Kong Small Cap

Company	Full Mkt Cap (USD Million)	FIF	FIF Mkt Cap (USD Million)	Security Weight
EVERGRANDE HEALTH IND	2,808	0.3	843	1.61%
CHINA SMARTER ENERGY GRP	802	0.55	441	0.84%
YUNBO DIGITAL SYNERGY	367	0.3	110	0.21%
IONE HOLDINGS	309	0.35	108	0.21%
<b>Total:</b>				<b>2.87%</b>



Data as of December 1, 2015

# DISCUSSION POINTS

- The SFC currently does not announce when a high shareholding concentration is no longer present. Hence, should MSCI consider re-inclusion of companies previously included in the SFC's high shareholding concentration notices after a certain period of time?
  - If yes, how long should the period be?
- Should such securities be deleted as soon as practicable or can the deletions be deferred to the nearest regular index review?
- Given that selected other markets have similar or even higher shareholder disclosure thresholds, are there any similar investability issues experienced in such markets?

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