

Consultation on a Market Reclassification Proposal for the MSCI Lebanon Index

November 2020

Background

- The Lebanese equity market continues to exhibit severe accessibility issues caused by capital controls introduced in October 2019.
 - These have resulted in fund repatriation and index replicability issues for international institutional investors, as well as a significant gap between the parallel and official exchange rates for the Lebanese Pound.
 - Recent developments in Lebanon make the timeline for a potential relaxation of such measures unclear.
- Market participants have continuously expressed concerns related to the investability and replicability of the MSCI Lebanon Indexes and related composite indexes, such as the MSCI Frontier Markets Index.
- Consequently, MSCI is launching a consultation to reclassify the MSCI Lebanon Indexes from Frontier Market to Standalone Market status in one step coinciding with the February 2021 Quarterly Index Review (QIR).
- MSCI welcomes feedback from market participants on the reclassification proposal until December 4, 2020. The results of the consultation will be announced by December 31, 2020.

Lebanon – timeline of events

October 2019

June 2020

November 2020

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- Banks introduce capital controls in the form of foreign currency withdrawal restrictions and cross-border transfer limits
 - International institutional investors become unable to repatriate cash proceeds from equity investments trading at the Beirut Stock Exchange
- MSCI applies special treatment for securities classified in Lebanon
- Capital controls remain in place
 - Parallel rate for the Lebanese Pound continues to trade significantly weaker than the official peg

Composition of the MSCI Lebanon Index

MSCI Lebanon Index	
Index Market Capitalization	USD 2,218 million
Count of securities	3 (1 GDR)
Weight in FM	2.11%

- All 3 constituents of the MSCI Lebanon Index trade in USD.
- BLOM BANK GDR trades in London, and is not impacted by bank restrictions.¹

Security Name	GICS Sub Industry	Index Market Capitalization (USD million)	Weights in the MSCI FM Index	Weights in the MSCI Lebanon Index	Primary Exchange
Solidere A	Real Estate Development	1,496	1.42%	67.45%	Beirut Stock Exchange
Solidere B	Real Estate Development	484	0.46%	21.83%	Beirut Stock Exchange
Blom Bank Gdr	Diversified Banks	238	0.23%	10.71%	London Stock Exchange

Data as of September 30, 2020.

Discussion points

- Given the current level of restrictions imposed by banks, is it appropriate to reclassify Lebanon to Standalone Market status?
- Does the discrepancy between the parallel and official exchange rates for the Lebanese Pound significantly impact the replicability of the MSCI Lebanon Index?
- Would the current restrictions imposed by banks pose a problem in terms of replicating the potential reclassification?
- Do you agree with implementing the reclassification coinciding with the February 2021 QIR?
 - Is it warranted to reclassify Lebanon earlier?
 - Alternatively, is it appropriate to implement the reclassification as part of the May 2020 Semi-Annual Index Review?

Appendix

SECTION SUBTITLE GOES HERE

MSCI Market Classification Framework

- Frontier Markets require at least a **partial** level of ease of capital inflows/outflows.

Criteria	Frontier	Emerging	Developed
A Economic Development			
A.1 Sustainability of economic development	No requirement	No requirement	Country GNI per capita 25% above the World Bank high income threshold* for 3 consecutive years
B Size and Liquidity Requirements			
B.1 Number of companies meeting the following Standard Index criteria Company size (full market cap) ** Security size (float market cap) ** Security liquidity	2 USD 700 mm USD 53 mm 2.5% ATVR	3 USD 1,400 mm USD 700 mm 15% ATVR	5 USD 2,801 mm USD 1,400 mm 20% ATVR
C Market Accessibility Criteria			
C.1 Openness to foreign ownership	At least some	Significant	Very high
C.2 Ease of capital inflows / outflows	At least partial	Significant	Very high
C.3 Efficiency of operational framework	Modest	Good and tested	Very high
C.4 Availability of Investment Instrument	High	High	Unrestricted
C.5 Stability of the institutional framework	Modest	Modest	Very high

* High income threshold for 2019: GNI per capita of USD 12,376 (World Bank, Atlas method)

** Minimum in use for the May 2020 Semi-Annual Index Review, updated on a semi-annual basis

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