# CONSULTATION ON PROPOSED ENHANCEMENTS TO THE CORPORATE EVENTS METHODOLOGY IN THE MSCI INDEXES

**February 2016**

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# SUMMARY OF PROPOSAL

MSCI opens a consultation on a proposal around its Corporate Event Methodology and related treatment with regards to the following:

1) A general adaptation of a 'neutral impact' implementation approach to corporate events within non-cap weighted indexes*
2) Providing a new framework for qualifications of spin-offs in non-cap weighted indexes
3) Implementing enhancements to the treatment of US share offerings and acquisitions
4) Introduction of a 'Share Freeze' window around Index Reviews

MSCI welcomes feedback from the investment community on the proposal. MSCI will announce the results of the consultation on or before April 15, 2016.

Please note that this consultation may or may not result in any changes to the MSCI Indexes or methodologies.

**See Index Categorization slide*

# EVENT IMPLEMENTATION IN NON-CAP WEIGHTED INDEXES

# MSCI INDEX CATEGORIZATION

For the purposes of understanding how corporate events methodology and application may differ within index weighting construct, the categorizations noted below should be considered with regards to the proposal.

***Index weighting frameworks***

1) Market Cap Weighted
   - GIMI Based Indexes
2) Capped (Market Cap) Weighted
   - 10/40;25/50 Based Indexes
   - Selection Based Indexes that may have some 'group' defined cap

*Referred to collectively as* ***Market Cap Weighted***

1) Non Market Cap Weighted/Modified Market Cap Weighted
   - Selected Factor Based Indexes
   - Optimized Indexes
   - Tilt Indexes (Modified Market Cap Weighted)
2) Equal Weighted

*Referred to collectively as* ***Non-Cap Weighted***

# BACKGROUND/PROPOSAL

- Non-cap weighted indexes (those whose constituents are not solely weighted by free-float adjusted market capitalization) should generally only experience market capitalization changes that are borne out of underlying stock price movement.

- The central principles through which non-cap weighted indexes are constructed employ a methodology where constituent weightings should theoretically not be affected by market capitalization changes arising from corporate event implementation.

- This group of indexes are viewed as market capitalization neutral, whereby selective corporate event impact would be 'neutralized' by the presence of a variable weighting factor.

- Additionally, the proposal of a 'market neutral' corporate event methodology for M&A treatment in non-cap weighted indexes will foster an approach that is in line with the true proportionate consideration exchanged in a merger transaction and consequently, replicates investor experience.

# VARIABLE WEIGHTING FACTOR (VWF)

To guide implementation of the aforementioned 'neutral' approach, MSCI proposes the introduction of a new factor into the index weighting calculation for non-cap weighted indexes.

The change in market capitalization that occurs as a result of a relevant corporate event will be offset by a corresponding change in the newly introduced Variable Weighting Factor (VWF).

- The VWF will provide the adjustment factor that can adjust any constituent weighting while maintaining overall index market capitalization.

- The result will be a deferral of significant weighting changes occurring from corporate event implementation and minimize index turnover outside of Index Reviews.

# PROPOSAL IMPACT: VWF APPLICATION WITH SHARE OFFERING/PLACEMENT IN EM RISK WEIGHTED INDEX

| | |
|---|---|
| Index | EM Risk Weighted |
| Constituent | CITIC Securities |
| Corporate Event Type | Private Placement |
| Pre-Event Security Market Cap | 2,104,038,445 |
| Pre-Event Security Weight (%) | .05158 |
| Private Placement Amount | 1,100,000,000 |
| Post-Event Security Market Cap | 4,067,951,480 |
| Post-Event Security Weight (%) | .09962 |
| WEIGHT INCREASE (%) | 93.14 |

# PROPOSAL IMPACT: VWF APPLICATION WITH SHARE OFFERING/PLACEMENT IN EM RISK WEIGHTED INDEX

Under the current corporate event methodology, the weight of CITIC increased 93% as a result of the implementation of the private placement. This change would create portfolio turnover that would likely be reversed at the subsequent index review.

With the proposed introduction of the VWF, changes in the number of shares and/or FIF as a result of offerings and placements would be treated as market capitalization neutral which would result in the weight of CITIC being unaffected.

**(New) VWF= Current VWF* Pre-Event Security Market Cap/New Security Market Cap**

| | |
|---|---|
| Current VWF (Assumed at 1) | 1 |
| Pre-Event Security Market Cap | 2,104,038,445 |
| New Security Market Cap | 4,067,951,480 |
| New VWF | 0.517223093 |
| | |
| Post Event Full MCAF | 0.477328489 |
| VWF Adjusted Full MCAF | 0.246885317 |
| | |
| **VWF Adjusted Security Mkt Cap** | **2,104,038,445** |
| **Post Event Weight** | **0.0515%** |

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# PROPOSAL IMPACT: VWF APPLICATION WITH RIGHTS OFFERING IN EMU EQUAL WEIGHTED INDEX

| | |
|---|---|
| Index | EMU Equal Weighted |
| Constituent | Raiffeisen Bank Int'l |
| Corporate Event Type | Rights Offerings |
| Pre-Event NOS | 195,783,772 |
| Pre-Event FIF | .25 |
| Pre-Event Security Market Cap | 14,112,065 |
| Pre-Event Security Weight (%) | .68009 |
| Post-Event NOS | 293,257,686 |
| Post-Event FIF | .40 |
| Post-Event Security Market Cap | 24,315,566 |
| Post-Event Security Weight (%) | 1.1718 |
| WEIGHT INCREASE (%) | 72 |

# PROPOSAL IMPACT: VWF APPLICATION WITH RIGHTS OFFERING IN EMU EQUAL WEIGHTED INDEX

Under the current corporate event methodology, the weight of Raiffeisen increased 72% as a result of the rights offering implementation. The Price Adjustment Factor (PAF) and Number of Shares (NOS) increase on ex-date and the fact that constraint factors are maintained in the index caused a constituent weighting change.

Under the proposed methodology, and with the introduction of the VWF, the share increase and price adjustment would be implemented, but the VWF would adjust to ensure no change occurred in security market capitalization due as a result of event implementation.

**(New) VWF= Current VWF* Pre-Event Security Market Cap/New Security Market Cap**

| | |
|---|---|
| Current VWF (Assumed at 1) | 1 |
| Pre-Event Security Market Cap | 14,112,066 |
| New Security Market Cap | 24,315,566 |
| New VWF | 0.580371673 |
| | |
| Post Event Full MCAF | 3.768881262 |
| VWF Adjusted Full MCAF | 2.187351924 |
| | |
| **VWF Adjusted Security Mkt Cap** | **14,112,071** |
| **Post Event Weight** | 0.68106% |

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# MERGERS AND ACQUISITIONS

- Under the current corporate events methodology, treatment of mergers and acquisitions (M&A) in non-cap weighted indexes generally involve a maintenance of the acquiring constituent with a constraint factor that is the weighted average of the pre-event constraint factors. The general assumption is that M&A terms are for shares only.

- With the proposed methodology, M&A implementation would focus on a weighted average calculation that takes into account the actual proportion of cash and share consideration terms. Hence for cash M&A, a security weighting would not change and for any consideration that involved shares, the weighted average calculation would take into account the percentage of shares involved and adjust accordingly. Additionally, there would be modification of treatment with events that involved 'non-index' constituents.

- The proposed change would employ an approach in our non-cap weighted indexes that was effectively market neutral, with no exceptional portfolio adjustments required by investors related to implementation of these types of events.

# MERGERS AND ACQUISITIONS PROPOSAL OVERVIEW: NON-CAP WEIGHTED INDEXES

| CONSIDERATION | CONSTITUENTS | CURRENT METHODOLOGY | PROPOSED METHODOLOGY |
|---|---|---|---|
| **CASH** | INDEX/INDEX | Implementation consistent with share consideration treatment | Maintain Acquirer/Remove Target company in respective index. Cash consideration reinvested across the entire index; no constituent weighting change |
| **SHARES** | INDEX/INDEX | New company is added with a constraint factor that is the weighted average of the two constituents | New company is added with a constraint factor that is the weighted average of the two constituents. |
| **CASH/SHARES** | INDEX/INDEX | New company is added with a constraint factor that is the weighted average of the two constituents (assumes shares are 100% of the consideration). | Weighted average of constraint factors should be proportionately adjusted to take into account share/cash consideration split. As implementation is proportionate, the acquirer's new weight follows an adjustment for the share portion of the consideration, with cash proceeds invested across the index. |
| | | | |
| **ALL TYPES** | INDEX/NON-INDEX | New company is added with a constraint factor that is the weighted average of the two constituents where CF of target=0. Alternatively, if the acquired constituent is not in the Parent index, then the constraint factor does not change. | If an existing Index constituent is acquired by a non-Index constituent *(regardless of consideration)*, the existing constituent should be deleted from the index and the acquiring non-constituent should not be added to the index.<br>If an existing index constituent acquires a non-index constituent for stock, then the existing constituent should remain in the index , the constraint factor should be maintained and the VWF should be recalculated to ensure no change in security market capitalization due to NOS/FIF increase. |

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# PROPOSAL IMPACT: MERGER/ACQUISITION IN USA EQUAL WEIGHTED INDEX NEW METHODOLOGY

| | |
|---|---|
| Index | USA Equal Weighted |
| Corporate Event Type | Merger/Acquisition |
| Consideration | *100% Cash* |
| *Acquirer (Index Constituent)* | Rock-Tenn Co A |
| *Target (Index Constituent)* | Mead-Westvaco |
| New Company | WestRock Company |
| Acquirer Constraint Factor | 3.364645 |
| Acquirer Index Weight (%) | .1478 |
| Target Constraint Factor | 3.816841 |
| Target Index Weight (%) | 0 |
| New Company Constraint Factor | 3.364645 |
| New Company Index Weight (%) | .1478 |

# PROPOSAL IMPACT: MERGER/ACQUISITION IN USA EQUAL WEIGHTED INDEX NEW METHODOLOGY

| | |
|---|---|
| Index | USA Equal Weighted |
| Corporate Event Type | Merger/Acquisition |
| Consideration | *100% Shares* |
| *Acquirer (Index Constituent)* | Rock-Tenn Co A |
| *Target (Index Constituent)* | Mead-Westvaco |
| New Company | WestRock Company |
| Acquirer Constraint Factor | 3.364645 |
| Acquirer Index Weight (%) | .1478 |
| Target Constraint Factor | 3.816841 |
| Target Index Weight (%) | .1484 |
| New Company Constraint Factor | 3.577029 |
| New Company Index Weight (%) | .2918 |

# PROPOSAL IMPACT: MERGER/ACQUISITION IN USA EQUAL WEIGHTED INDEX NEW METHODOLOGY

| | |
|---|---|
| Index | USA Equal Weighted |
| Corporate Event Type | Merger/Acquisition |
| Consideration | *Mixed (80% shares/20% cash)* |
| *Acquirer (Index Constituent)* | Rock-Tenn Co A |
| *Target (Index Constituent)* | Mead-Westvaco |
| New Company | WestRock Company |
| Acquirer Constraint Factor | 3.364645 |
| Acquirer Index Weight (%) | .1478 |
| Target Constraint Factor | 3.816841 |
| Target Index Weight (%) | .1484 |
| New Company Constraint Factor | 3.552169 |
| New Company Index Weight (%) | .2813 |

# PROPOSAL IMPACT: MERGER/ACQUISITION IN WORLD DIVERSIFIED MULTI FACTOR INDEX (INDEX/NON-INDEX)

Under the current corporate event methodology, with a merger/acquisition between index and non-index constituents, the new company is added with a constraint factor that is the weighted average of the two constituents (where the constraint factor of the non-index constituent is assumed to be zero). Alternatively, if the acquired constituent is not in the Parent index, then the constraint factor does not change.

**With the proposed corporate event methodology:**

- If an existing Index constituent is acquired by a non-Index constituent (regardless of consideration type) the existing constituent will be deleted from the index and the acquiring non-constituent will not be added to the index.
- If an existing index constituent acquires a non-index constituent for stock, then the existing constituent should remain in the index , the constraint factor should be maintained and the variable weighting factor should be recalculated to ensure no change in security market capitalization due to NOS/FIF increase.

**(New) VWF= Current VWF* Pre-Event Security Market Cap/New Security Market Cap**

| | |
|---|---|
| Current VWF (Assumed at 1) | 1 |
| Pre-Event Security Market Cap | 10,863,718,082 |
| New Security Market Cap | 20,285,430,291 |
| New VWF | 0.535542896 |
| | |
| Post Event Full MCAF | 1.289730871 |
| VWF Adjusted Full MCAF | 0.690706206 |
| | |
| **VWF Adjusted Security Mkt Cap** | **10,863,718,082** |
| **Post Event Weight** | **0.0024880** |

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# DISCUSSION POINTS

- Should MSCI adapt a general market-cap neutral methodology and approach to corporate event implementation in its non-cap weighted indexes through the introduction of the variable weighting factor?
- Should the proposed market neutral approach with regards to mergers and acquisitions be universal in application? Should there be certain indexes that neutralize the weight change immediately through a variable weighting factor adjustment (i.e. Equal Weighted treatment/doubling of constituent weight)?
- Are there any classes/categorizations of indexes that should warrant exceptional treatment (i.e. 10/40; 25/50 capped indexes)?
- What is the appropriate timing for implementation of the amended corporate events methodology? Should the new methodological treatment commence with an Index Review?

# SPIN-OFF IMPLEMENTATION IN NON-CAP WEIGHTED INDEXES

# PROPOSAL

- In order to minimize turnover, all ‘new-cos’ resulting from spin offs in non-cap weighted indexes should be added at the time of the event (assuming they are added to the Parent Index) subject to reevaluation at the next Index Review.

- The proposal seeks to achieve an index construct that is sensitive to turnover implications, but avoids the index from including constituents that don’t conform to the theme of the index for an extended period of time.

# DISCUSSION POINTS

- As the proposal may result in certain indexes holding non-compliant companies till the next index review, should a distinction be made for specific thematic indexes (i.e. Islamic, Ex-Controversial weapons, etc.)?
- In cases where the methodology effectively dictates that the ‘new-co’ will likely be excluded at the subsequent index review (i.e. those that rely on extended history of data which would not be available at time of qualification), would it be advisable not to include the ‘new-co’ at the time of the event?
- In certain cases, when the next index review may not occur for a year, would it be acceptable for the index to hold the ‘new-co’ for that period of time without any interim qualification?  Should there be a ‘Time to Next Index Review’ guideline that should be followed?

# US ACQUISITIONS

# BACKGROUND/PROPOSAL

- Current US acquisition treatment as noted in the MSCI Corporate Events Methodology has a dependency on the receipt of delisting notices.
- This often results in a large number of intraday announcements and implementations which can potentially cause replication issues for global investors.
- MSCI proposes to additionally clarify and simplify the methodology for US acquisitions by:

1. Distinguishing treatment for US acquisitions done via tender offer or via agreement.
2. Streamlining the announcement policy related to such events
3. Changing the criteria which determines if an acquisition can be deemed unconditional
4. Eliminating intraday implementation related to these events
5. Provide explicit clarification of index maintenance/deletion prices that are used

# TENDER OFFERS

MSCI proposes to distinguish between hostile and friendly tender offers as follows:

- *For hostile tender offers:*

  **Treatment:**
  MSCI will wait for results to implement changes, if any, and provide 2 full business days of advance notification prior to implementation.

  **Communication:**
  MSCI will send announcements with a “acknowledge” status[1], as soon as practical.

- *For friendly tender offers:*

  **Treatment** – If the offer is deemed likely to be successful, MSCI will implement changes, if any, at the end of the offer period or if necessary, wait for the results and provide 2 full business days of advance notification prior to implementation.

  **Communication**:
  MSCI will send announcements with a “undetermined” status as soon as practical, regardless if it is deemed likely to be successful or not.

  If the offer is deemed likely to be successful, MSCI will send announcements with a “confirmed” status 2 full business days prior to the end of the tender offer period. Otherwise, MSCI will wait for the actual offer results and provide 2 full business days of advance notification prior to implementation.

[1] “Acknowledge” announcement status only shows the current data of the companies involved in the event.

# AGREEMENTS

MSCI proposes to distinguish between US acquisitions made via agreement in the following manner:

- *For agreements where only a shareholders' meeting is still pending (i.e. no pending regulatory approvals needed):*

  **Treatment**:
  MSCI will implement changes with an effective date of the day after the shareholders' meeting occurs.
  **Communication**:
  MSCI will send announcements with a "undetermined" status as soon as practical.
  MSCI will send announcements with a "confirmed" status 2 days prior to the date of the shareholders' meeting.

- *For agreements where regulatory approvals are pending:*

  **Treatment:**
  MSCI will implement changes when the acquisition can be deemed unconditional[1]
  **Communication**:
  MSCI will send announcements with a "undetermined" status as soon as practical.

  MSCI will send announcements with a "confirmed" status when the acquisition can be deemed unconditional and will provide 2 full business days of advance notification prior to implementation.

[1] pending lawsuits, marketing periods, financial conditions , etc. will not be considered as blocking conditions for the completion of acquisitions via agreement.

# DELETION PRICE

When the target security in a US acquisition is delisted from the Stock Exchange prior to the deletion from the MSCI Indexes, MSCI proposes to:

- Maintain the target security at its last traded price.
- Delete the target security at the offer price.

<u>Example</u>:
On January 18, MSCI announces in a “confirmed” status the deletion of Company A from the MSCI Indexes as of the close of January 20 (effective on January 21), providing 2 full business days advance notice. On January 19, the stock exchange announces it will be Company A’s last trading day.

January 19: Company A is maintained in the MSCI Indexes at today’ s closing market price.
January 20: Company A is maintained in the MSCI Indexes at the offer price[1].
January 21: Company A is deleted from the MSCI Indexes.

[1] the offer price could be a cash amount or a calculated amount based on the closing market price of the acquirer on that day if the acquisition’s consideration includes shares.

# PROPOSAL IMPACT

- MSCI would provide 2 full business days of advance notification prior to implementation of changes and would no longer have intraday announcements and implementations for US acquisitions.
- By providing 2 full business days notice, MSCI would sometimes delete target companies after their delisting from the Stock Exchange.
- MSCI would no longer wait for a delisting notice to deem US acquisitions as unconditional.
- MSCI would no longer send an “undetermined” status announcements with post-event details for hostile tender offers.
- MSCI would no longer send “expected” status announcement for friendly tender offers. Status would be changed from “undetermined” to “confirmed” (or “cancelled”) directly.
- MSCI would implement US acquisitions via agreement with no pending conditions with an effective date the day after the shareholders’ meeting occurs.

# DISCUSSION POINTS

- Do you agree with the proposal for MSCI to provide 2 full business days advance notice to implement US acquisitions?

- Should MSCI announce hostile tender offers in the US using an “Acknowledged” status instead of an “Undetermined” one given the information that will be provided?

- For US tender offers deemed ‘friendly’, should MSCI use only “undetermined” and “confirmed’ announcement statuses and no longer use the “expected” one?

- In cases where the target company is delisted from the stock exchange prior to the deletion of the company from the MSCI Indexes:
  - Should MSCI maintain the company in the Indexes at its last traded price (as proposed) or at the offer price?

# US OFFERINGS

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# BACKGROUND/PROPOSAL

- MSCI currently announces and often implements public and secondary offerings in the US with less than one full business day of advance notification.

- MSCI proposes to implement all US public and secondary offerings with 2 full business days advance notification from the day they are priced.

- In addition, MSCI proposes to increase the Micro-Cap implementation threshold to 25% (from 5%) for the implementation of public and secondary offerings of in the US to be consistent with the global implementation.

# PROPOSAL

- **Proposal for change in Implementation Timing**
  - MSCI proposes to implement all US Public and Secondary offerings above the 5% threshold giving 2 full business days of advance notification from the day they are priced (assuming all necessary information is publicly available on that day). MSCI will announce changes at the end of day (no Intraday announcements).

  ***=> Rationale is to give 2 full business days advance notice for Index replication to all clients.***

- **Proposal for change in Implementation Thresholds for Micro Caps**
  - MSCI proposes to implement all US Public and Secondary offerings above 25% for micro cap securities at the time of the event. This would be a change from the pre-existing threshold of 5%.[1]

  ***=> Rationale is to align the threshold for US public/secondary offerings for Micro cap securities with the current 'global' micro cap threshold of 25%.***

[1] MSCI expects that the number of implemented public and secondary offerings in the US would decrease by approximately one-half

# US OFFERINGS- PROPOSAL OVERVIEW

| Primary offerings | | | | |
|---|---|---|---|---|
| **Methodology** | **Announcement** | **Advance notification** | **Thresholds for IMI[1]** | **Thresholds for Micro Caps** |
| US (current) | Intraday | Less than 1 day | 5% | 5% |
| *US (proposed)* | *End of day* | *2 full days* | *5%* | *25%* |
| Global | End of day | 2 full days | 5% | 25% |

| Secondary offerings/Block Sales | | | | |
|---|---|---|---|---|
| **Methodology** | **Announcement** | **Advance notification** | **Thresholds for IMI[1]** | **Thresholds for Micro Caps** |
| US (current) | Intraday | Less than 1 day | 5% | 5% |
| *US (proposed)* | *End of day* | *2 full days* | *5%* | *25%* |
| Global | End of day | 2 full days | 1 billion for DM, 500 million for EM | |

[1] IMI: Investable Market Indexes comprises Large, Mid and Small Caps

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# PROPOSAL IMPACT

- **Benefits of the proposal for new implementation Timing**
  - Consistent with the global implementation of offerings/private placements.
  - Clients will be able to replicate changes, regardless their location.

- **Benefits of the proposal for new implementation Thresholds for Micro Caps**
  - MSCI to be consistent in the implementation of all public offerings globally i.e. above 5% for Large, Mid, Small / above 25% for Micro cap securities.

# DISCUSSION POINTS

- Shall MSCI provide 2 full business days advance notice to implement US public and secondary offerings?

- Shall MSCI increase the implementation threshold for US public and secondary offerings for Micro caps from 5% to 25%?

# SHARE FREEZE

# BACKGROUND/PROPOSAL

- MSCI proposes that a "share freeze" should be implemented during each quarterly Index Review. The qualification of what is included in the share freeze should be those events with a confirmed implementation effective date of 5 business days before and 2 business days after the effective date of the Index Review.

- The "share freeze" would pertain strictly to share offerings and placements that are standalone. Corporate event implementation that relates to M&A activity, rights offerings, or the array of 'market neutral' events would be implemented as per usual. Deferred event implementation due to suspensions would also not be affected.

- Corporate Events that are effected by the 'freeze' would be implemented (cumulatively) on the effective date of the respective Index Review.

- The proposed implementation of the share freeze will result in considerably less 'noise' in terms of both trading and announcements; primarily in the time leading up to the Index Review effective date. It will create a cleaner window for the portfolio adjustments executed into the effective date of an Index Review.

# PROPOSAL IMPACT

The following indicates the number of relevant Corporate Events (Standalone Placement/Offerings) that were announced with an effective date of implementation that occurred during the proposed window (t-5/T+2) of a Share Freeze period.

| | | |
|---|---|---|
| ***August 2015 QIR:*** | 1 EVENT | 4,000,000 NOS |
| ***May 2015 SAIR:*** | 8 EVENTS | 60,000,000 NOS |
| ***February 2015 QIR:*** | 21 EVENTS | 297,000,000 NOS |
| ***November 2014 SAIR:*** | 10 EVENTS | 313,000,000 NOS |

# DISCUSSION POINTS

- Should MSCI consider the implementation of a share freeze around Index Review?

- Should MSCI use the Index Review effective date as the date for cumulative implementation of events that are affected by the ‘share freeze’?

- Is the event timing qualification of 5 days prior and 2 days post Index Review a sufficient window for share freeze inclusion?

# SELECTIVE TOPIC DISCUSSION

# SELECTIVE TOPIC DISCUSSION

***UNIVERSAL GLOBAL THRESHOLD FOR SHARE OFFERINGS***

MSCI currently uses different thresholds to determine if an offering qualifies for immediate implementation. Implementations vary depending on the event type, the country and the size segment of the company.

1. Should MSCI consider the application of a universal threshold for all share offerings, block sales, etc. event implementation?

2. If a universal threshold is applied, should it be an absolute threshold (USD amount) or a percentage threshold?

3. In assessing whether a given offering meets the relevant threshold, should MSCI include any FIF/NOS updates to assess if the event qualifies for immediate implementation?

# SELECTIVE TOPIC DISCUSSION

## IPO GREENSHOE OPTION

MSCI currently announces 'fast track' IPO additions to the MSCI Indexes with a "confirmed' status on the 1st or 2nd trading day of a newly issued security. The security is added to indexes as of the close of its 10th trading day. Generally, the greenshoe option is not exercised at the time of the "confirmed" announcement and consequently, MSCI does not reflect this at the time of the addition.

1. In cases where the greenshoe option is exercised between the "confirmed" announcement and the security addition to the MSCI Indexes, should MSCI reflect the greenshoe option?
2. Should there be at least 2 full business days given prior to the effective date of the addition for MSCI to reflect the greenshoe option?

## TIMING OF SIZE MIGRATIONS RELATED TO CORPORATE EVENTS

MSCI Size Segmentation reviews are performed when a company's full market capitalization is changing by at least +50%/-33% due to a corporate event. Based on estimated post-event market capitalizations, the security may qualify to migrate from one size segment to another at the time of the event (e.g. from Small Cap to Mid Cap). Currently, MSCI implements size migrations as of the close of the ex-date of corporate events, such as spinoffs.

1. Should MSCI consider implementing size migrations on another date (e.g. cum-date), when deemed beneficial for replication purposes?

# SELECTIVE TOPIC DISCUSSION

**UNIVERSAL TREATMENT FOR RIGHTS ISSUES IMPLEMENTATION**

Highly dilutive rights issues for new underlying shares (i.e. where terms are 5 for 1 or more) and non-highly dilutive rights issues are currently implemented differently in MSCI Indexes.

- Non-highly dilutive rights issues are implemented with a Price Adjustment Factor (PAF) on the ex-date based on the terms of the rights issue and shares are increased as of the close of the ex- date.
- Highly dilutive rights issues are implemented with a PAF on the ex-date using the market price of the rights if trading (intrinsic value if not trading) and with the additions of subscription cash and rights in the index, through detached securities. Shares are increased as of the close of the pay-date. Upward size segment migrations from the Small Cap to Standard Index resulting from rights issues are also implemented as per the above description.

1. Should MSCI consider a universal application of rights treatment, similar to the current highly dilutive rights issue implementation (i.e. systematically adding the subscription cash and the rights in the index and implementing share increases at the pay-date for all rights issues)?

# ABOUT MSCI

For more than 40 years, MSCI's research-based indexes and analytics have helped the world's leading investors build and manage better portfolios. Clients rely on our offerings for deeper insights into the drivers of performance and risk in their portfolios, broad asset class coverage and innovative research.

Our line of products and services includes indexes, analytical models, data, real estate benchmarks and ESG research.

MSCI serves 98 of the top 100 largest money managers, according to the most recent P&I ranking.

For more information, visit us at www.msci.com.

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