

# CONSULTATION ON PROPOSED CHANGES TO THE CORPORATE EVENTS METHODOLOGY

November 2020

*This consultation may or may not lead to the implementation of any or all of the proposed changes in the highlighted or any other MSCI indexes. Consultation feedback will remain confidential. MSCI may publicly disclose feedback if specifically requested by specific market participants. In that case, the relevant feedback would be published together with the final result of the consultation.*

# ► SUMMARY OF PROPOSALS

MSCI opens a consultation with proposals for changes to the Corporate Event Methodology for the following topics:

1. IMPLEMENTATION OF PARTIAL ACQUISITION AND FIXED PRICE BUYBACKS
2. DELETION PRICE OF THE RIGHTS LINE FOR HIGHLY DILUTIVE RIGHTS ISSUE
3. IMPLEMENTATION OF RIGHTS ISSUE WITH SUBSCRIPTION PERIOD BEFORE EX-DATE
4. DOWNWARD MIGRATION FOLLOWING A RIGHTS ISSUE

**MSCI invites feedback from market participants on or before December 04, 2020 and will announce the results of the consultation on or before December 31, 2020. Changes if any would be implemented with sufficient advance notification.**

# Topic 1 - Implementation of Partial Acquisition and Fixed Price Buybacks

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# BACKGROUND AND OBJECTIVE

- **Current MSCI methodology:**

- Price Adjustment factor (PAF) is applied on ex-date and where the ex-date is not available, the PAF is applied on the first business day after the end of the offer.
- PAF other than 1 is applied if, Premium\* > 20% And Estimated Gain per Share > 5%.
- Number of Shares (NOS) and/or Foreign Inclusion Factor (FIF) change is implemented once the results of the offer are officially announced.

- **Objective of the proposal:**

- To eliminate the uncertainty associated with premium and estimated gain per share based on cum-date price for application of PAF.
- To eliminate the potential tracking error resulting from price movements between the application of PAF and implementation of results.
- The following table provides details of such events over the past 4 years.

Constituents of ACWI** Index	Partial Acquisition	Buyback
PAF other than 1	3 events (Total 94)	2 events (Total 140)
Average gap between implementation of results and ex-date (includes all cases irrespective of PAF value)	7 days	8 days

# ► METHODOLOGY CHANGE PROPOSAL

- **Proposed Implementation:**

- **Always apply a PAF of 1** on the ex-date or first business day after the end of the offer irrespective of the premium and estimated gain per share.
- If the **results\* of the offer are at least 5%, 10% or 25%** of the security's pre-event number of shares for Standard, Small and Micro-cap (as well as listed securities not assigned to any size segment) respectively:
  - Implement the changes in the NOS and/or FIF of the security due to the event after the results of the offer have been publicly announced by giving two business days notice.
- If the **results of the offer are below the 5%, 10% or 25%** threshold as explained above:
  - Changes to be implemented at a subsequent Index reviews subject to the rules applicable for the Index Reviews in accordance with the section 3.2.5 of the MSCI Global Investable Market (GIMI) methodology.
- The proposed methodology will also be applicable for implementation of split-off/exchange offer (PAF, NOS and/or FIF change, if above threshold) and Dutch auction offer (NOS and/or FIF change, if above threshold).

# Topic 2 – Deletion price of Rights Line for Highly Dilutive Rights Issue

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# BACKGROUND AND OBJECTIVE

- **Current MSCI methodology:**
  - MSCI adds, maintains and deletes rights line in “Highly Dilutive Rights Issues\*” using following prices:
    - Addition: Using Market price if available, else intrinsic value
    - Maintenance: Market price when trading. Carry forward last traded price once stops trading. Intrinsic value if not trading
    - Deletion: Carried forward last traded price if available, else intrinsic value
  - Subscription cash is added, maintained and deleted using subscription price.
- **Objective of the proposal:**
  - To address cases where the rights line trades but not all the way till the pay date.
  - For such cases switch to the intrinsic value when the rights line ceases to trade and thereby eliminate potential replicability issues.
- Note – In order to address potential replicability concerns associated with such events, MSCI implemented four recent rights issues using the proposed approach.
  - FINNAIR (FI), SEMBCORP MARINE (SG), HAMMERSON (GB), SAS (SE)

# METHODOLOGY CHANGE PROPOSAL

- Below table summarizes the current and proposed methodology for addition, maintenance and deletion of rights and cash line.
- It also highlights the scenarios where implementation will change.

Rights Line	Scenario	Current	Proposed	Status
Addition	Rights Trading on ex-date	Market Price of Rights	Market Price of Rights	No Change
	Rights Not Trading on ex-date	Intrinsic Value of Rights	Intrinsic Value of Rights	No Change
Maintenance	Rights trading on at least one day between ex-date and pay-date	Market Price when trading. Last traded price of rights carried forward once stops trading	Market Price when trading, <b>switch to Intrinsic Value</b> once stops trading	Change
	Rights not trading even once between ex-date and pay-date	Intrinsic Value of Rights	Intrinsic Value of Rights	No Change
Deletion	Rights trading on at least one day between ex-date and pay-date	Last traded (carried forward) price of rights	<b>Intrinsic Value of Rights</b>	Change
	Rights not trading even once between ex-date and pay-date	Intrinsic Value of Rights	Intrinsic Value of Rights	No Change
Cash Line	Scenario	Current	Proposed	Status
Addition	Subscription Price is lower than the market price	Subscription Price	Subscription Price	No Change
Maintenance And Deletion	Subscription Price is lower than the market price	Subscription Price	Subscription Price	No Change
	Subscription Price is higher than the market price	Subscription Price	Subscription Price <b>adjusted (down)*</b> to reflect negative Intrinsic Value of Rights	Change

# EXAMPLE: SEMBCORP INDUSTRIES RIGHTS

SEMBCORP MARINE				Current Methodology		Proposed methodology (followed for this case)		Notes
Date	Price	Subscription Price	Intrinsic Value	Cash Line	Rights Line	Cash Line	Rights Line	
Aug 13 2020	0.245	0.2	0.045	0.2	0.045	0.2	0.045	Ex-date
Aug 14 2020	0.225	0.2	0.025	0.2	0.025	0.2	0.025	
Aug 17 2020	0.22	0.2	0.02	0.2	0.02	0.2	0.02	
Aug 18 2020	0.22	0.2	0.02	0.2	0.02	0.2	0.02	
Aug 19 2020	0.21	0.2	0.01	0.2	0.002	0.2	0.002	Rights Start Trading
Aug 20 2020	0.205	0.2	0.005	0.2	0.002	0.2	0.002	
Aug 21 2020	0.205	0.2	0.005	0.2	0.001	0.2	0.001	
Aug 24 2020	0.205	0.2	0.005	0.2	0.001	0.2	0.001	
Aug 25 2020	0.215	0.2	0.015	0.2	0.001	0.2	0.001	
Aug 26 2020	0.225	0.2	0.025	0.2	0.001	0.2	0.001	
Aug 27 2020	0.21	0.2	0.01	0.2	0.001	0.2	0.001	Rights Stop Trading
Aug 28 2020	0.21	0.2	0.01	0.2	0.001	0.2	0.01	Rather than Last traded price, using Intrinsic Value
Aug 31 2020	0.205	0.2	0.005	0.2	0.001	0.2	0.005	
Sep 01 2020	0.2	0.2	0	0.2	0.001	0.199	0.00001	Intrinsic Value negative or zero, hence adjusting* cash line price
Sep 02 2020	0.2	0.2	0	0.2	0.001	0.199	0.00001	
Sep 03 2020	0.198	0.2	-0.002	0.2	0.001	0.198	0.00001	
Sep 04 2020	0.197	0.2	-0.003	0.2	0.001	0.197	0.00001	
Sep 07 2020	0.199	0.2	-0.001	0.2	0.001	0.199	0.00001	
Sep 08 2020	0.193	0.2	-0.007	0.2	0.001	0.193	0.00001	
Sep 09 2020	0.19	0.2	-0.01	0.2	0.001	0.19	0.00001	
Sep 10 2020	0.182	0.2	-0.018	0.2	0.001	0.182	0.00001	
Sep 11 2020	0.163	0.2	-0.037	0.2	0.001	0.163	0.00001	

- As highlighted above, the key difference between old and proposed methodology will be:
  - Switching to intrinsic value once rights stops trading on Aug 27, 2020
  - Adjusting cash line on days when intrinsic value is zero or negative

# Topic 3 - Implementation of Rights Issue With Subscription Period Before Ex-date

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# BACKGROUND AND OBJECTIVE

- **Current MSCI methodology:**
  - Price Adjustment factor (PAF) is applied on the ex-date. In cases where the security is suspended on ex-date, the PAF is applied on the day the security **resumes trading**.
  - MSCI increases the number of shares (NOS) of the security as of the close of ex-date. If the security is suspended, then NOS is increased as of close of the day when security resumes trading.
- **Objective of the proposal:**
  - To address replication concerns for Rights Issues, where the subscription period ends before the security starts to trade on an “ex-rights” basis and is generally suspended during the subscription period.
- Note – Such rights issue are common in Australia, New Zealand, and China.

# METHODODOLOGY CHANGE PROPOSAL

- **Proposed Implementation:**

- To not wait for security to resume trading for application of PAF and to increase NOS.
- To apply a PAF on effective date\* **using the intrinsic value of rights, no later than the last day of subscription.**
  - Since the security will be suspended during subscription period, MSCI will always give two business days notice unless the subscription close is earlier.
- To maintain the security using **theoretical ex-price** from the effective date of rights issue till the date security resumes trading.
- Post application of PAF, MSCI will follow the current **process of Highly Dilutive Rights Issue\*\*** for implementing such rights issue.

## EXAMPLE: PROPOSED METHODOLOGY IMPLEMENTATION

Event Details		Implementation	Current	Notes	Proposed	Notes
<b>Event Timeline</b>		<b>Dates</b>				
Rights Announcement Date	10-Aug-20	MSCI Announcement Date	10-Aug-20	-	10-Aug-20	-
Suspension start date	11-Aug-20	Effective date	17-Aug-20	-	13-Aug-20*	Security is suspended on this date.
<b>Terms</b>		<b>Price</b>				
Subscription period Starts	11-Aug-20	Price on 10th Aug 2020	5.39	Market Price	5.39	Market Price
Subscription period Ends	14-Aug-20	Price on 11th Aug 2020	5.39	Carried forward	5.39	Carried forward
Suspension end date	14-Aug-20	Price on 12th Aug 2020	5.39	Carried forward	5.39	Carried forward
Trading Resumption Date	17-Aug-20	Price on 13th Aug 2020	5.39	Carried forward	5.26	Theoretical price
Listing date of new shares	24-Aug-20	Price on 14th Aug 2020	5.39	Carried forward	5.26	Theoretical price
		Price on 17th Aug 2020	5.31	Market Price	5.31	Market Price
		<b>PAF</b>				
Shares Before	5.15	PAF Date	17-Aug-20	-	13-Aug-20*	-
Shares Acquired	1.00	PAF formula	$\begin{aligned} &\text{If Issue P is } < \text{P(t) then} \\ &[(\text{P(t)} * (\text{Shares Before} + \\ &\text{Shares Issued)} - \text{Shares} \\ &\text{Issued} * \text{Issue P}) / \text{Shares} \\ &\text{Before}] / [\text{P(t)}] \\ &\text{else PAF}=1 \end{aligned}$		$\frac{[\text{P(t)} + \text{Right per Share P(t)}] / [\text{P(t)}]}$	Same as Highly Dilutive Rights Issue
Subscription Price	4.56	PAF Value	1.027425	-	1.025681	-
<b>Theoretical Price Computation</b>		<b>Other points</b>				
Market Price: 10-Aug-2020	5.39	Like all Highly Dilutive Rights (HDRTS), MSCI will be adding Rights and Cash line as of the close of the ex-date (13th Aug in this example)				
Market Price: 17-Aug-2020	5.31	Rights line to be added and maintained using intrinsic value of rights				
Theoretical Price	5.26	Cash line to be added and maintained using fixed price based on subscription price				
Intrinsic Value of Right	0.70	Like all HDRTS, MSCI will be deleting Rights and Cash line as of the close of the pay-date (24th Aug in this example)				

- As highlighted above, the key difference between old and proposed methodology will be:
  - The effective date will be during suspension period
  - Usage of Theoretical price for PAF and Index Calculation
  - PAF formula will be the one used for Highly Dilutive Rights Issue

# Topic 4 –Downward Migration Following A Rights Issue

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# BACKGROUND AND OBJECTIVE

- **Current MSCI methodology:**
  - Rights Issue are analyzed for size segment migration when the change in full market capitalization of the company is +50%/-33% compared to the pre-event market capitalization. Resultant downward migrations, if any, are implemented as follows:
    - **as of close of cum date**, if 2 business days' notification can be given.
    - **as of close of ex-date**, if 2 business days' notification cannot be given.
- **Objective of the proposal:**
  - To eliminate potential tracking error caused because of gap between close of ex-date (when security is downward migrated) and pay-date.

# METHODODOLOGY CHANGE PROPOSAL

- **Proposed Implementation:**

- For downward migrations wherein the security cannot be migrated as of the close of the cum-date:
  - The security migration will be evaluated **as part of the index review following the ex-date** of the rights issue in accordance with the **index review rules** stated in the MSCI Global Investable Market Indexes methodology.
- Example:
  - If ex-date (2<sup>nd</sup> July) is prior to price cut-off date (23<sup>rd</sup> July) for August Quarterly Index review (QIR), then security will be reviewed for downward migration (if any) as part of August QIR.
  - If ex-date (25<sup>th</sup> July) is after price cut-off date (23<sup>rd</sup> July) for August QIR, then security will be reviewed for downward migration (if any) as part of November Semi Annual Index Review (SAIR).

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