

# Q&A

Results of the Unequal Voting Structures Consultation

**October 2018**

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## INTRODUCTION

The purpose of this document is to address commonly asked questions regarding the results of the consultation on the treatment of unequal voting structures in the MSCI Equity Indexes, which were released on October 30, 2018. The content of this Q&A may be revised as new information becomes available.

Following the consultation, MSCI announced that it will retain the MSCI Global Investable Market Indexes unchanged and launch a new index series reflecting the preferences of investors on unequal voting structures.

The Press Release is available at:

<https://www.msci.com/index-consultations>

## Q&A ON THE RESULTS OF THE UNEQUAL VOTING STRUCTURES CONSULTATION

### MSCI GLOBAL INVESTABLE MARKET INDEXES

**Will there be any changes to the MSCI Global Investable Market Indexes methodology following the consultation?**

The methodology for the MSCI Global Investable Market Indexes will remain unchanged. Therefore, there will be no update to the MSCI Global Investable Market Indexes methodology book.

**Will all companies with unequal voting structures be eligible for inclusion in the MSCI Global Investable Market Indexes, including companies with zero voting power such as Snap Inc (NYSE: SNAP)?**

Yes, all companies with unequal voting structures will be eligible for inclusion in the MSCI Global Investable Market Indexes.

**When will MSCI start adding unequal voting structures to the MSCI ACWI IMI?**

Securities of companies exhibiting unequal voting structures will be eligible for addition to the MSCI ACWI IMI and other relevant indexes effective March 1, 2019. Therefore, potential addition of such securities during Index Reviews will resume at the February 2019 Quarterly Index Review (QIR), while early inclusion of such securities due to initial public offerings (IPOs) will resume on March 1, 2019.

Since November 2, 2017, MSCI has exceptionally treated any securities of companies exhibiting unequal voting structures as ineligible for addition to certain MSCI Equity Indexes such as the MSCI ACWI IMI. A document with more details on this temporary treatment is available at

<https://www.msci.com/documents/1296102/5603800/TemporaryTreatment>

**What rules will be used to assess potential addition of unequal voting structures to the MSCI ACWI IMI at the February 2019 Quarterly Index Review (QIR)?**

To be added to the MSCI ACWI IMI at the February 2019 QIR, unequal voting structures will need to meet all the relevant requirements for addition to the MSCI Standard equity indexes.

As described in section 3.2.2 of the MSCI Global Investable Market Indexes, during QIRs, securities that are currently not constituents of the IMI are added to the Standard Index if they meet the following requirements:

- All investability requirements described in section 2.2 (except for the Minimum Length of Trading Requirement)
- A full market capitalization that exceeds 1.8 times the Interim Market Size-Segment Cutoff
- A free float-adjusted market capitalization that exceeds 1.8 times one-half the Interim Market Size-Segment Cutoff

**What rules will be used to assess potential addition of unequal voting structures to the MSCI ACWI IMI at the May 2019 Semi-Annual Index Review (SAIR)?**

At the May 2019 SAIR, securities of companies with unequal voting structures which are not included in the MSCI ACWI IMI will be assessed using the same requirements as any other newly eligible securities.

Please refer to section 3.1 of the MSCI Global Investable Market Indexes for details on the maintenance rules applicable to the MSCI Global Investable Market Indexes during SAIRs.

**NEW INDEX SERIES**

**When will the new index series be launched?**

MSCI plans to launch the new index series in Q1 2019. The exact launch date will be communicated in advance of the launch.

**What will be the set of indexes offered at launch?**

The indexes will initially be available for the ACWI index series in the Standard Size-Segment (Large Cap and Mid Cap securities). The list of indexes that will be offered will be provided in advance of the launch.

**What are the key methodological rules used for the construction and maintenance of the New Index Series?**

The new indexes will be similar in all respects to the MSCI Global Investable Market Indexes, except that the weights of unequal voting structures will reflect company level listed voting

power in addition to free float. The new indexes will generally follow the methodology described in the last consultation proposal available at

<https://www.msci.com/index-consultations>

**How will MSCI adjust the weight of companies with unequal voting structures in the New Index Series?**

When the voting power available to the free float shareholders (i.e., company level listed voting power) is lower than the corresponding economic interest (i.e., company free float), the weight of the company’s securities will be adjusted down to reflect the misalignment.

In case the voting power is zero, the company will not be eligible for inclusion in the New Index Series.

**When will MSCI publish the methodology book for the New Index Series?**

The methodology book will be released on or before the launch.

**CONSULTATION**

**Can you summarize how this decision was made?**

The decision to retain the MSCI Global Investable Market Indexed unchanged and create a new index series incorporating voting rights considerations follows an extensive, global 18-month long consultation which highlighted the divide in opinions among international institutional investors.

While the one share one vote principle gathered overwhelming support from participants in the consultation, the treatment of unequal voting structures in equity benchmarks, has proven to be a polarizing question among international institutional investors. For instance, while many participants felt strongly that benchmarks should be adjusted to reflect unequal voting structures, other participants highlighted that the question of unequal voting rights should be addressed holistically by the stakeholders that are responsible for operating, regulating and investing in equity markets.

MSCI continues to believe that global market benchmarks, such as the MSCI Global Investable Market Indexes, should aim to represent the broadest investment opportunity set available to international institutional investors based solely on the investability of the underlying markets. Investable market benchmarks should not be constrained by specific investor opinions, preferences or constraints including governance issues.

Recognizing the increasing importance of voting rights for many equity investors, MSCI will create an additional index series that will specifically include voting rights in the eligibility criteria and construction methodology as described in the last consultation proposal.

**What sort of market participants have you consulted with during the process?**

MSCI always consults with a broad and global market participant base that includes Asset Owners, Passive and Active Managers, Broker/Dealers and Consultants.

**What do you say to investors who are concerned about continued inclusion of unequal voting structures in the MSCI Global Investable Market Indexes?**

As of today, we do not believe that preferences and constraints on voting rights, among other governance considerations, should impact the definition of the investable universe underpinning these benchmarks as equity securities with no or unequal voting rights are still investable for most investors.

Recognizing the increasing importance of voting rights for many equity investors, MSCI will create an additional index series that will specifically include voting rights in the eligibility criteria and construction methodology as described in the last consultation proposal. This new series could be used as a substitute to the MSCI Global Investable Market Indexes and offer choice and flexibility to international institutional investors who wish to reflect voting rights in their equity benchmarks. MSCI plans to launch the new index series in Q1 2019.

MSCI recognizes that the investment community will need more time to agree on a single approach to address the divisive question on the treatment of unequal voting structures. The views of market participants on this topic will continue to evolve over time and MSCI will actively seek feedback from market participants on this issue. More information on this topic will be shared as and when appropriate.

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

MSCI serves 99 of the top 100 largest money managers, according to the most recent P&I ranking.

For more information, visit us at [www.msci.com](http://www.msci.com).



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