

# CONSULTATION ON SPECIFIC TOPICS RELATED TO FREE FLOAT CALCULATION

January 18, 2018

# CONSULTATION BACKGROUND

- MSCI defines strategic and other non-free float shareholdings as stakes held by private or public shareholders whose investment objectives suggest that these holdings are not likely to be freely available in the market. As disclosure requirements generally do not permit a clear determination of these investment objectives, MSCI primarily classifies shareholdings as free float or non-free float based on a categorization of investor types into non-strategic and strategic, respectively.
- In relation to this, MSCI is launching a consultation regarding two specific types of shareholders:
  - **Insurance companies holding securities classified in the MSCI Japan Equity Universe**
  - **Holdings of Sovereign Wealth Funds**
- MSCI is seeking feedback from the investment community until February 23, 2018.
- Should the proposals be adopted, the changes would be implemented in the May 2018 Semi-Annual Index Review as part of the Annual Float Review. Please note that this proposal may or may not result in the changes in the MSCI Global Investable Market 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 results of the consultation.

# TREATMENT OF HOLDINGS BY INSURANCE COMPANIES IN THE MSCI JAPAN EQUITY UNIVERSE

# BACKGROUND AND PROPOSAL

- MSCI generally considers all stakes held by insurance companies as part of free float.
- However, in exceptional cases, stakes held by insurance companies can be treated as strategic due to the structure of equity ownership and the importance of financial alliances for the control of companies. This treatment is currently applied where stakes above **2% in France, Germany, or Italy** and above **5% in Japan** are treated as strategic.
- MSCI **proposes to lower the threshold for Japan to 2%** in order to align with the other markets as well as better reflect the strategic holdings by Japanese insurance companies in the MSCI Japan Equity Universe.
- Discussion Points
  - Do you agree with the proposal to lower the threshold for Japan to 2%?
  - Aside from the four markets Germany, France, Italy and Japan, are there any other markets that may warrant similar treatment?

# SIMULATED INDEX IMPACT (1/2)

## Simulated USD Mcap Impact (in millions) and Index Turnover for the MSCI Japan Indexes:

Size-Segment	Index Mcap^ Impact	Turnover
Standard	(92,093.62)	1.58%
Small	(17,325.65)	1.55%
Micro	(2,208.04)	1.14%

\*Data as of 15<sup>th</sup> Jan 2018

^Mcap stands for Market Capitalization

## Current vs Pro-forma weight of Japan in MSCI World Index:

	Weight
Current Weight	9.10%
Pro-forma Weight	8.90%
Weight Change	-0.20%

\*Data as of 15<sup>th</sup> Jan 2018

- Lowering the threshold to 2% would have had an impact of approximately USD 92 billion on the MSCI Japan Index resulting in a turnover of 1.58%.
- The weight of the MSCI Japan Index in the MSCI World Index would have decreased by approximately 0.20%.

# SIMULATED INDEX IMPACT (2/2)

## Top 10 changes by impact on Index Mcap in the MSCI Japan Indexes:

Security Name	Current FIF <sup>^</sup>	Proposed FIF	Insurance Stake	Index Mcap Impact <sup>~</sup>	Current Weights	Pro-forma Weights
TOYOTA MOTOR CORP	0.80	0.75	3.68%	(11,298)	4.71%	4.52%
MITSUBISHI CORP	0.95	0.85	8.77%	(4,721)	1.17%	1.07%
HONDA MOTOR CO	0.95	0.90	4.98%	(3,263)	1.62%	1.57%
CANON INC	0.80	0.75	2.80%	(2,606)	1.09%	1.04%
DENSO CORP	0.60	0.55	2.73%	(2,525)	0.79%	0.74%
SHIN-ETSU CHEMICAL CO	0.90	0.85	2.47%	(2,368)	1.11%	1.07%
NIDEC CORP	0.80	0.75	2.21%	(2,296)	0.96%	0.92%
EAST JAPAN RAILWAY CO	0.85	0.80	4.11%	(2,021)	0.89%	0.86%
MITSUBISHI ELECTRIC CORP	0.90	0.85	6.68%	(1,954)	0.92%	0.89%
KOMATSU	0.95	0.90	6.24%	(1,942)	0.96%	0.93%

\*Data as of 15<sup>th</sup> Jan 2018

<sup>^</sup>FIF stands for Foreign Inclusion Factor

<sup>~</sup>in Millions USD

# TREATMENT OF SHAREHOLDINGS BY SOVEREIGN WEALTH FUNDS (SWFS)

# BACKGROUND AND PROPOSAL

- Investment funds are generally classified as non-strategic shareholders and therefore considered as free float. However, Sovereign Wealth Funds (SWFs) may warrant different treatment and be considered as strategic in some circumstances.
- MSCI currently categorizes SWFs as non-free float in all the investments made by such funds in their respective country of domicile. However, when investments are made in other markets outside of their respective country of domicile, the categorization would be made on a case by case basis depending on the analysis of a number of factors such as board representation and strategic alliance, among others.
- The objective of the proposal is to **provide a clearer framework for treatment of SWFs in the context of free float estimation and to better reflect the SWFs holdings** across different markets as detailed in the following slide.



# DETAILED PROPOSAL

- MSCI proposes to apply the following treatment:
  1. In domicile country, continue to treat investments made by SWFs as non-free float
  2. In non-domicile country,
    1. if SWF holds 7% or more of a security, treat the investment as non-free float until it falls below 5% of the security
    2. board representation, strategic alliance and other similar factors will no longer be considered
- MSCI considers Investment made by SWFs in the country of domicile when the country of origin of the SWF and the country of investment are the same.
  - For example: China Investment Corporation (China based SWF), investing in a security in the MSCI China Equity Universe
- Discussion points
  - Should SWFs be treated differently from other investment funds?
  - Should there be a difference in the treatment of sovereign wealth funds on the account of their investments in Domicile/Non- Domicile country ?

# SIMULATED INDEX IMPACT (1/2)

## Simulated Impact on FIF and Turnover on the MSCI Country Indexes:

Country	Number of FIF <sup>^</sup> Changes for IMI	Index Turnover
Sri Lanka	1	3.15%
Portugal	1	1.40%
Ireland	1	0.37%
Argentina	1	0.33%
United Kingdom	5	0.31%
Switzerland	2	0.26%
Spain	2	0.25%
France	4	0.20%
Australia	2	0.17%
Canada	1	0.10%
Germany	2	0.08%
Korea	2	0.07%
Thailand	1	0.07%
Hong Kong	2	0.04%
Netherlands	1	0.03%
China	10	0.03%
Brazil	1	0.03%
USA	9	0.02%
Taiwan	1	0.01%
<b>Grand Total</b>	<b>49</b>	<b>-</b>

\*Data as of 15<sup>th</sup> Jan 2018

<sup>^</sup>FIF stands for Foreign Inclusion Factor

# SIMULATED INDEX IMPACT (2/2)

## Top 10 changes by impact on FIF Mcap:

Name	Country	Sovereign Fund Name	SWF Stake	Domicile of the Fund	Current Treatment	Proposed Treatment	Current FIF	Pro-forma FIF	Index Mcap^ Impact~
STANDARD CHARTERED	United Kingdom	Temasek	16%	Singapore	Free Float	Non-Free Float	1	0.85	(5,562)
GLENCORE	United Kingdom	Qatar Investment Authority	9%	Qatar	Free Float	Non-Free Float	0.85	0.8	(4,069)
TECK RESOURCES B	Canada	China Investment Corporation	10%	China	Free Float	Non-Free Float	1	0.9	(1,775)
DOLLAR GENERAL CORP	USA	Government Of Singapore Investment Corporation	9%	Singapore	Free Float	Non-Free Float	1	0.95	(1,354)
TIFFANY & CO	USA	Qatar Investment Authority	10%	Qatar	Free Float	Non-Free Float	1	0.9	(1,350)
VONOVIA	Germany	Norway Government Pension Fund – Global	7%	Norway	Free Float	Non-Free Float	1	0.95	(1,197)
GOODMAN GROUP	Australia	China Investment Corporation	9%	China	Free Float	Non-Free Float	1	0.9	(1,159)
REPSOL	Spain	Government Of Singapore Investment Corporation	5%	Singapore	Non-Free Float	Free Float	0.8	0.85	1,532
VINCI	France	Qatar Investment Authority	4%	Qatar	Non-Free Float	Free Float	0.85	0.9	3,081
UBS GROUP	Switzerland	Government Of Singapore Investment Corporation	3%	Singapore	Non-Free Float	Free Float	0.95	1	3,780

\*Data as of 15<sup>th</sup> Jan 2018

^Mcap stands for Market Capitalization

~in Millions USD

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