CONSULTATION ON THE PROPOSED TREATMENT OF SELECTED MSCI CAPPED INDEXES

February 2017
SUMMARY OF PROPOSAL

- MSCI launched a consultation on the proposed treatment of the MSCI Frontier Markets 15% Capped and the MSCI Frontier Markets ex GCC 15% Capped Indexes (“FM Capped Indexes”) in the context of the upcoming reclassification of Pakistan.

- As announced on June 14, 2016, the MSCI Pakistan Index will be reclassified from the MSCI Frontier Markets Index to the MSCI Emerging Markets Index coinciding with the May 2017 Semi-Annual Index Review (SAIR).

- Following the reclassification, constituents of the MSCI Pakistan Indexes will become ineligible for inclusion in the FM Capped Indexes. As a result, the turnover for these Indexes may be higher at the May 2017 SAIR compared to historical Index Reviews.

- In order to maintain the turnover within usual historical levels and to reduce potential market impact, MSCI proposes to phase the May 2017 SAIR changes over four successive months from the end of May 2017 to the end of August 2017.

- MSCI welcomes feedback on the proposed changes by March 23, 2017 and will announce its final decision by March 30, 2017.

- This consultation may or may not lead to any changes to the FM Capped Indexes.
• **Proposal:** MSCI proposes to phase the May 2017 Index Review changes in the FM Capped Indexes over four successive months from the end of May 2017 to the end of August 2017
  – MSCI proposes that a larger proportion (40%) of the changes be implemented at the end of May coinciding with the May 2017 Index Review, and a smaller proportion (20% for each phase) at the end of the months of June, July and August, respectively
PHASE THE MAY 2017 INDEX REVIEW CHANGES

- **Proposed phasing method:**
  - At each phase, calculate the new security weights assuming the May 2017 Index Review changes would be fully implemented (i.e., no phasing)
  - Implement the relevant portion of the weight difference

**Illustration of impact for first phase (40%)**

<table>
<thead>
<tr>
<th>Security Change Type</th>
<th>Current Security Weight</th>
<th>Security Weight post Reclassification</th>
<th>New Security Weight After Phase 1 (40%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Addition</td>
<td>0%</td>
<td>5%</td>
<td>2%</td>
</tr>
<tr>
<td>Deletion</td>
<td>3%</td>
<td>0%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Weight increase</td>
<td>8%</td>
<td>9%</td>
<td>8.4%</td>
</tr>
<tr>
<td>Weight decrease</td>
<td>7%</td>
<td>5%</td>
<td>6.2%</td>
</tr>
</tbody>
</table>

*Details on the proposed phasing method are available in the Appendix*
Is it warranted to apply a phasing of the May 2017 Index Review changes in the FM Capped Indexes? Are the proposed four monthly phases (40%-20%-20%-20%) appropriate?
APPENDIX
PROPOSED PHASING METHOD

- Each phase would involve the following activities:
  1) Determine the security index weights post-reclassification
  2) Calculate the difference between the current security index weights and the security index weights post-reclassification («Weight Difference»)
  3) Calculate the new security index weights after each phase («New Weights»):
     i. Phase 1 (May 2017) => New Weight = Current Weight + (Weight Difference * 40%)
     ii. Phase 2 (June 2017) => New Weight = Current Weight + (Weight Difference * 33.3%)
     iii. Phase 3 (July 2017) => New Weight = Current Weight + (Weight Difference * 50%)
     iv. Phase 4 (August 2017) => New Weight = Post-Reclassification Weight

- The proposed method assumes that all May 2017 SAIR changes are phased:
  o All deletions (including from other countries than Pakistan)
  o All additions
  o All weight changes, including those resulting from FIF/NOS changes
EXAMPLE OF IMPLEMENTATION (PHASES 1 AND 2)

- **Security index weights post reclassification** are calculated in each step assuming no phasing is applied.

<table>
<thead>
<tr>
<th>Security Country</th>
<th>Weight: Step 1</th>
<th>Weight: Step 2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current</td>
<td>Post Reclass</td>
</tr>
<tr>
<td>1 A</td>
<td>0.00%</td>
<td>0.47%</td>
</tr>
<tr>
<td>2 B</td>
<td>0.46%</td>
<td>0.00%</td>
</tr>
<tr>
<td>3 C</td>
<td>10.95%</td>
<td>0.00%</td>
</tr>
<tr>
<td>4 D</td>
<td>6.47%</td>
<td>6.09%</td>
</tr>
<tr>
<td>5 E</td>
<td>2.86%</td>
<td>3.00%</td>
</tr>
<tr>
<td>Others</td>
<td>79.26%</td>
<td>90.45%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

- **Current Weights** in step 2 may be different from the **New Weights** in step 1 due to price movements / corporate events.

\[
0.19\% = 0\% + (0.47\% - 0\%) \times 40\%
\]

\[
5.94\% = 6.02\% + (5.79\% - 6.02\%) \times 33.3\%
\]

- The same process is applied for each Step in the phasing and the **New weights** in Step 4 will be made to converge with the **security index weights post reclassification**.
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10