

CONSULTATION ON A MARKET RECLASSIFICATION PROPOSAL FOR THE MSCI NIGERIA INDEX

Potential Reclassification from Frontier to Standalone

March 2017

RECLASSIFICATION PROPOSAL

- In September 2016, the MSCI Nigeria Index was formally added to the review list for potential reclassification from Frontier Markets to Standalone market status.
 - The proposed reclassification would be reflected in all relevant global and regional composite indexes.
- This decision stemmed from a continuous deterioration of the market accessibility after the introduction of restrictions on foreign currency trading in the first half of 2015 and the resulting reduction of foreign exchange market liquidity.
- MSCI will consult with market participants on this reclassification proposal as part of the 2017 Annual Market Classification Review
 - MSCI will announce its decision in June 2017
- Please note that this proposal may or may not lead to any changes to the MSCI Indexes.

KEY DEVELOPMENTS

- The Central Bank of Nigeria (CBN) pegged the currency at 197 NGN/USD in the first half of 2015.
- This caused FX liquidity to dry out, especially at the beginning of 2016. The CBN's provision of liquidity on weekly basis (which can be also be irregular) was not sufficient to meet the demands.
- Since the initial devaluation of the NGN in June 2016, the official rate has kept steady at the 315 NGN/USD level. However, the parallel market continued to depreciate further, increasing the gap to as high as 205 in mid February 2017 (520 NGN/USD).
- The CBN has recently injected liquidity into the FX market which has led the gap between the official rate and the parallel market rate to decrease. On March 17, 2017, the gap has lowered to around 135 (450 NGN/USD at the parallel market).
- Due to reduced accessibility of the equity market, MSCI currently does not implement selected index review changes as well as selected corporate events for the MSCI Nigeria Indexes, as well as for the selected composite indexes of which Nigeria is a component of.

SIMULATED IMPACT TO MSCI FRONTIER MARKETS INDEX

	Simulated Standard Index		
	Index Market Cap	Weight	# Sec.
FM	102,007	100.0%	102
FM ex GCC	73,915	72.5%	82
Argentina	18,984	18.6%	9
Pakistan	7,739	7.6%	7
Vietnam	9,878	9.7%	13
Morocco	8,959	8.8%	10
Nigeria			
Kenya	4,181	4.1%	4
Romania	4,260	4.2%	5
Lebanon	3,330	3.3%	4
Mauritius	3,103	3.0%	2
Bangladesh	2,477	2.4%	5
Slovenia	1,670	1.6%	2
Kazakhstan	2,180	2.1%	2
Sri Lanka	1,438	1.4%	3
Croatia	1,551	1.5%	2
Jordan	1,584	1.6%	4
Senegal	1,032	1.0%	1
Tunisia	529	0.5%	2
Estonia	435	0.4%	2
Ivory Coast	231	0.2%	1
Serbia	228	0.2%	2
Lithuania	127	0.1%	2
FM GCC	28,092	27.5%	20
Kuwait	20,281	19.9%	8
Oman	3,987	3.9%	8
Bahrain	3,824	3.7%	4

Note: All market caps are in USD millions. Data as of the close of March 17, 2017

SIMULATED IMPACT TO THE MSCI FM 100 INDEX

	Current Index		Simulated Index (ex NG)	
	# constituents	Actual Weight	# constituents	Actual Weight
KUWAIT	13	22.22%	13	21.13%
NIGERIA	11	7.45%	0	0.00%
ARGENTINA	14	19.60%	14	18.87%
PAKISTAN	13	10.95%	14	11.91%
KENYA	5	6.12%	5	6.42%
OMAN	5	4.40%	4	4.10%
MOROCCO	4	6.02%	5	6.69%
ROMANIA	6	4.49%	6	5.15%
VIETNAM	4	3.57%	6	9.76%
KAZAKHSTAN	2	2.12%	2	2.29%
BANGLADESH	6	3.87%	7	4.48%
SRI LANKA	3	2.15%	2	1.90%
JORDAN	2	1.31%	3	1.78%
MAURITIUS	3	4.08%	2	3.79%
ESTONIA	0	0.00%	0	0.00%
SLOVENIA	1	0.27%	1	0.28%
BAHRAIN	1	1.38%	1	1.45%
SERBIA	0	0.00%	0	0.00%
CROATIA	0	0.00%	0	0.00%
LEBANON	0	0.00%	0	0.00%
LITHUANIA	0	0.00%	0	0.00%
TUNISIA	0	0.00%	0	0.00%
Total	93	100%	85	100.0%

MSCI FM Index 100 (ex NG) Top 10 Constituents

Security Short Name	Country Name	Simulated New Weight
NATIONAL BANK OF KUWAIT	KUWAIT	6.15%
VIETNAM DAIRY PRODUCT	VIETNAM	5.19%
KUWAIT FINANCE HOUSE	KUWAIT	4.65%
MOBILE TELECOM CO	KUWAIT	3.39%
SAFARICOM	KENYA	3.10%
YPF D ADR	ARGENTINA	3.00%
MAROC TELECOM	MOROCCO	3.00%
BANCO MACRO B ADR	ARGENTINA	2.82%
GRUPO FIN GALICIA B ADR	ARGENTINA	2.78%
PAMPA ENERGIA ADR	ARGENTINA	2.24%

KEY QUESTIONS

- Despite the efforts by Nigerian authorities and the CBN, such as adopting a more flexible exchange rate in June 2016, the situation remained challenging as liquidity issues in the Nigerian FX market as well as the gap between the parallel and official rates persisted and significant delays remain for FX transactions.
 - Does this warrant a reclassification of the MSCI Nigeria Index to Standalone Market status? What should be the appropriate timeline for the reclassification?
- Given the recent move by the CBN move to inject liquidity in the market to ease the growing gap between the official rate and the parallel market, as well as certain other measures:
 - Should MSCI provide more time for the CBN and other market authorities to find a solution?

APPENDIX

BACKGROUND

- The Central Bank of Nigeria (CBN) pegged the currency at 197-199 NGN/USD for around 1 year
 - Official rate was devaluated to the 315 NGN/USD levels and has kept steady
 - Parallel market rate diverged from the official rate following decreasing oil prices increasing to as high as 520 NGN/USD at one point
 - Liquidity has dried out and even with the Central Bank providing liquidity on a weekly basis, it is not sufficient to meet the demands
- The CBN has injected some liquidity into the market and this has led to the decrease in the gap between the official rate and the parallel market rate (450 NGN/USD)



Source: AbokiFX, Bloomberg

SIMULATED IMPACT ON THE MSCI FRONTIER MARKETS INDEX (EX NG, PK, AR)

	Simulated Standard Index		
	Index Market Cap	Weight	# Sec.
FM	75,284	100.0%	86
FM ex GCC	47,192	62.7%	66
Argentina			
Pakistan			
Vietnam	9,878	13.1%	13
Morocco	8,959	11.9%	10
Nigeria			
Kenya	4,181	5.6%	4
Romania	4,260	5.7%	5
Lebanon	3,330	4.4%	4
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	# constituents	Actual Weight	# constituents	Actual Weight
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NIGERIA	11	7.45%	0	0.00%
ARGENTINA	14	19.60%	0	0.00%
PAKISTAN	13	10.95%	0	0.00%
KENYA	5	6.12%	5	9.04%
OMAN	5	4.40%	6	6.55%
MOROCCO	4	6.02%	6	9.83%
ROMANIA	6	4.49%	7	7.61%
VIETNAM	4	3.57%	14	12.38%
KAZAKHSTAN	2	2.12%	3	3.51%
BANGLADESH	6	3.87%	16	9.15%
SRI LANKA	3	2.15%	2	2.67%
JORDAN	2	1.31%	5	3.29%
MAURITIUS	3	4.08%	2	5.34%
ESTONIA	0	0.00%	0	0.00%
SLOVENIA	1	0.27%	2	0.66%
BAHRAIN	1	1.38%	2	2.35%
SERBIA	0	0.00%	0	0.00%
CROATIA	0	0.00%	0	0.00%
LEBANON	0	0.00%	0	0.00%
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VIETNAM DAIRY PRODUCT	VIETNAM	5.51%
SAFARICOM	KENYA	4.37%
MOBILE TELECOM CO	KUWAIT	4.36%
MAROC TELECOM	MOROCCO	4.22%
ATTIJARIWAFI BANK	MOROCCO	2.89%
ROCKCASTLE GLOBAL (ZA)	MAURITIUS	2.75%
MCB GROUP	MAURITIUS	2.59%
BANCA TRANSILVANIA	ROMANIA	2.55%

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