



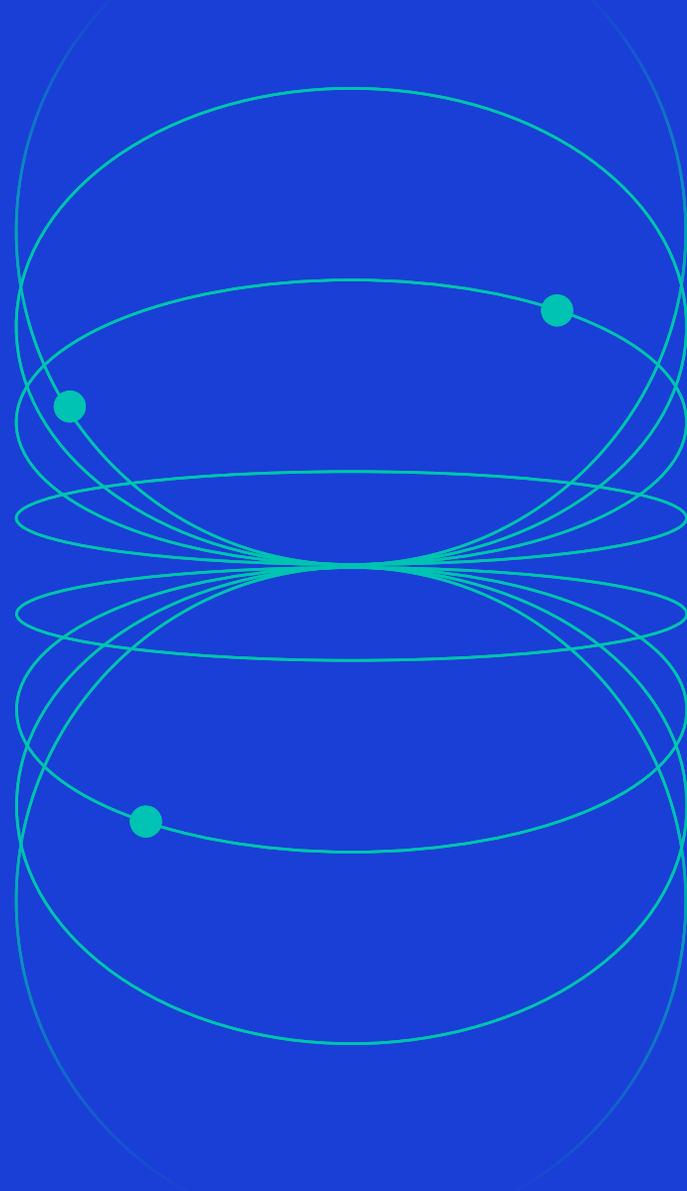
Consultation on Certain Topics Related to Free Float

MSCI GLOBAL INVESTABLE MARKET INDEXES

September 2025

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Executive Summary

- MSCI has launched a consultation on specific topics related to the estimation of free float. The consultation addresses the classification of certain shareholders types and the treatment of certain synthetic transactions.
- The MSCI Global Investable Market Indexes (GIMI) are based on free float-adjusted market capitalization. Free float is defined as the portion of shares available for trading in the open market. MSCI applies a Foreign Inclusion Factor (FIF) to each security to reflect its free float-adjusted capitalization. As investor objectives are not always disclosed, shareholdings are classified as free float or non-free float depending on the type of shareholder.
- **Proposals:** In order to bring further consistency to the free float methodology and minimize size-based exceptions MSCI proposes:
 - a. For holdings of insurance companies in specific markets
 - i. In **France, Germany and Italy** to **remove the 2% threshold** and classify all insurance holdings as free float in the absence of board representation, strategic alliances, or other signals of strategic ownership.
 - ii. In **Japan**, to **retain the 2% threshold**, with insurance holdings above this level classified as non-free float.
 - b. For holdings of **Sovereign Wealth Funds (SWF) outside of country of domicile** to **remove the 7% threshold** currently applied to non-domicile SWF holdings. Instead, holdings would be assessed based on indicators such as board representation, strategic alliances, or other signals of strategic ownership.
- Additionally, MSCI seeks feedback on the appropriate treatment of certain types of synthetic transactions such as Equity Total Return Swaps within the free float methodology.
- MSCI welcomes feedback from market participants until December 31, 2025. The results of the consultation will be announced on or before January 30, 2026. Should the proposals be adopted, the changes would be implemented in one step at the May 2026 Index Review, together with the enhancement to the Free Float Adjustment Factor Methodology as announced on February 28, 2025.

*For Domestic Indexes, MSCI adjusts the market capitalization of each security using a free float adjustment factor referred to as the Domestic Inclusion Factor (DIF). The DIF is subject to Foreign Ownership Limits (FOL).

Insurance Companies: Proposal

→ Background:

- Generally, MSCI considers holdings by insurance companies without board representation or other signals of strategic ownership as part of free float.
- In specific cases, MSCI has classified insurance company holdings as strategic for example, where they involve cross-holdings and financial alliances, or government-linked ownership.
- Reflecting these considerations, an exceptional treatment is applied in **France, Germany, Italy, and Japan**, where insurance holdings above 2% are classified as non-free float.
- Given evolving market dynamics and changes in insurance ownership structures, MSCI is reviewing whether this treatment remains appropriate.
- In **India**, government-linked insurance companies are classified as non-free float, and this treatment is **not under review** in this consultation.

→ Proposal (for holdings by insurance companies without board representation or other signals of strategic ownership):

- **France, Germany, Italy:** remove the 2% threshold and classify all insurance holdings as free float.
- **Japan:** retain the 2% threshold, with holdings above this level classified as non-free float.
 - *Alternative:* classify all insurance holdings in Japan as non-free float, reflecting the prevalence of strategic holdings by Japanese insurers.

→ Discussion Points:

- Do you agree with the proposal to consider all insurance holdings as free float for France, Germany and Italy?
- Do you agree with the proposal to retain the 2% threshold for Japan and consider such insurance holdings as non-free float or should all insurance holdings in Japan be considered as non-free float?
- Are there any other markets that may warrant an exceptional treatment for stakes held by insurance companies?

Insurance Companies: Simulated Impact

- Removing insurance company thresholds in France, Germany, and Italy **impacts only one security currently.**
- The table illustrates the top 10 security level impact of the **alternate proposal for Insurance companies in Japan**, taking into account the new float rounding methodology for impacted MSCI ACWI securities.

| Security Name | Country | Current FIF | Proforma FIF* | FIF change | Full Mcap (\$ Millions) | FIF Mcap impact (\$ millions) |
|---------------|---------|-------------|---------------|------------|-------------------------|-------------------------------|
| Covivio | France | 0.5 | 0.55 | 0.05 | 7,285 | 364 |

| Security Name | Country | Current FIF | Proforma FIF* | FIF change | Full Mcap (\$ Millions) | FIF Mcap impact (\$ millions) |
|--------------------------|---------|-------------|---------------|------------|-------------------------|-------------------------------|
| Hitachi | Japan | 1 | 0.95 | -0.05 | 125,245 | (6,262) |
| Itochu Corp | Japan | 0.75 | 0.7 | -0.05 | 88,420 | (4,421) |
| Tokio Marine Holdings | Japan | 0.95 | 0.9 | -0.05 | 83,515 | (4,176) |
| Shin-Etsu Chemical Co | Japan | 0.85 | 0.8 | -0.05 | 61,660 | (3,083) |
| Mitsubishi Electric Corp | Japan | 0.9 | 0.85 | -0.05 | 51,822 | (2,591) |
| Fujitsu | Japan | 0.85 | 0.8 | -0.05 | 50,314 | (2,516) |
| Sumitomo Corp | Japan | 0.9 | 0.825 | -0.075 | 33,370 | (2,503) |
| Bridgestone Corp | Japan | 0.8 | 0.725 | -0.075 | 32,171 | (2,413) |
| Komatsu | Japan | 1 | 0.925 | -0.075 | 31,945 | (2,396) |
| East Japan Railway Co | Japan | 0.85 | 0.775 | -0.075 | 27,328 | (2,050) |

**Reflects the new float factor rounding rules. Kindly refer to the appendix for further details.
Data as of August 27, 2025*

Sovereign Wealth Funds (SWF): Proposal

→ Background:

- MSCI currently categorizes SWF shareholdings 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 depend on the size of the shareholding as outlined below :
 - If an SWF holds **7% or more** in a company, the stake is treated as non-free float until it falls below 5%.
 - Factors such as board representation, strategic alliance, among others are currently not taken into consideration.
- This differentiated treatment reflects the historical reliance on size-based thresholds to identify strategic ownership. However, such thresholds may not fully capture the nature of SWF investments in today's markets.

→ Proposal:

- MSCI proposes to **remove the 7% threshold** for non-domicile SWF holdings and **consider number of factors such as board representation, strategic alliance**, among others for treatment as non-free free-float to bring in further consistency in the treatment of shareholders.
- MSCI will continue to consider investments made by SWFs in their respective country of domicile as non-free float.

→ Discussion Points:

- Do you agree with the proposed treatment to treat non-domicile SWF shareholdings as free float in the absence of factors such as board representation, strategic alliance?
- Should MSCI apply the current thresholds for non-domicile SWF shareholdings along with factors such as board representation, strategic alliance?

SWF: Simulated Impact

- The table illustrates the **top 10 security level impact** if **all SWF holdings are classified as free float or non-free float based on factors such as board representation, strategic alliance etc.**, taking into account the new float rounding methodology for impacted MSCI ACWI securities.

| Security Name | Country | Current FIF | Proforma FIF* | FIF change | Full Mcap (\$ Millions) | FIF Mcap impact (\$ millions) |
|-----------------------|----------------|-------------|---------------|------------|-------------------------|-------------------------------|
| Uber Technologies | USA | 0.95 | 0.875 | -0.075 | 199,351 | (14,951) |
| Standard Chartered | United Kingdom | 0.85 | 1 | 0.15 | 43,228 | 6,484 |
| Iberdrola | Spain | 0.95 | 1 | 0.05 | 125,555 | 6,278 |
| London Stock Exchange | United Kingdom | 0.9 | 0.95 | 0.05 | 66,703 | 3,335 |
| Mercedes Benz Group | Germany | 0.75 | 0.8 | 0.05 | 59,465 | 2,973 |
| Vonovia | Germany | 0.9 | 1 | 0.1 | 27,696 | 2,770 |
| Adyen NV | Netherlands | 0.8 | 0.85 | 0.05 | 52,599 | 2,630 |
| Electronic Arts | USA | 0.95 | 1 | 0.05 | 43,370 | 2,168 |
| Nexon | Japan | 0.4 | 0.475 | 0.075 | 18,516 | 1,389 |
| Equity Residential | USA | 0.95 | 1 | 0.05 | 24,750 | 1,237 |

**Reflects the new float factor rounding rules.
Data as of August 27, 2025*

Synthetic Transactions: Proposal

→ Background:

- MSCI is seeking feedback from market participants on how to appropriately classify certain **synthetic or derivative transactions** in the context of free float calculations.
- Current methodology does not explicitly address some transactions types, and clarity is required to ensure consistent treatment.

→ Scenarios for Consultation:

- Scenario 1: A non-free float shareholder enters into an **Equity Total Return Swap (TRS)** with a free float shareholder, such as a financial institution.
- Scenario 2: A company enters into an **Equity TRS involving its own shares or treasury shares** with a free float shareholder, such as a financial institution.

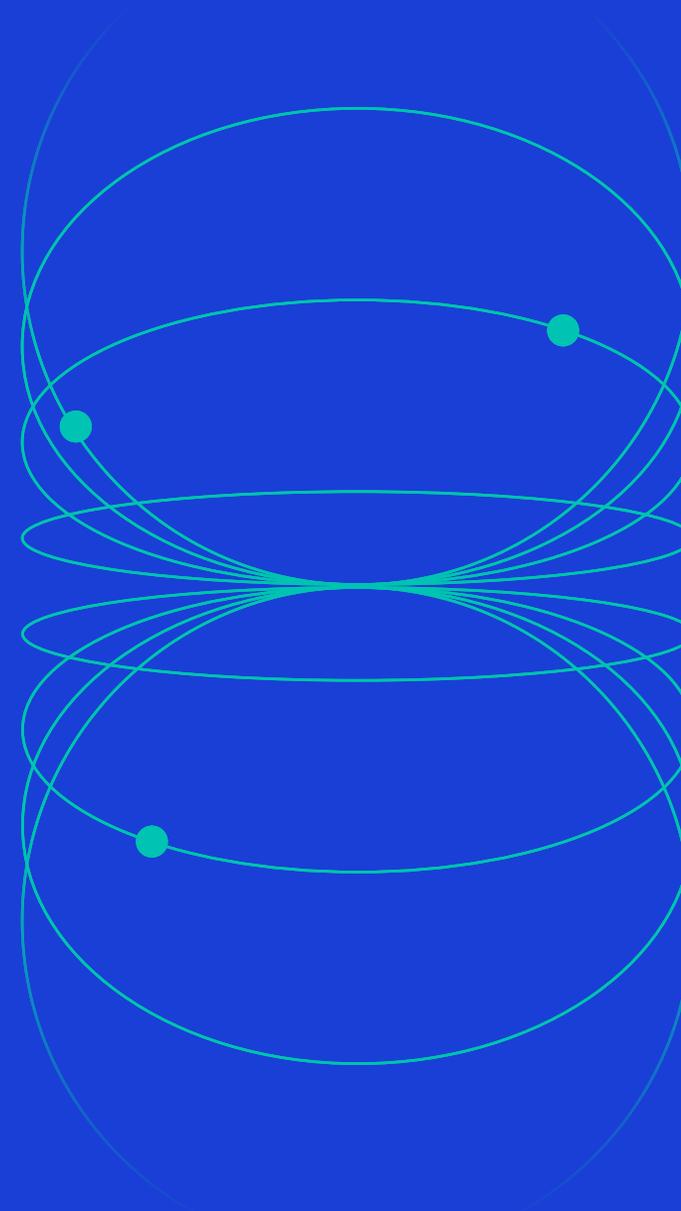
→ Discussion Points:

- In Scenario 1, should the shares be classified as free float or non-free float?
- In Scenario 2, should the shares be classified as free float or non-free float?
- Should MSCI take into account specific factors such as Voting Rights, Economic Exposure, Dividend Rights, among others when determining whether these shares should be treated as free float?
- Are there any other types of synthetic/derivative transactions that warrants further discussion or clarification?



Appendix

New Free Float Adjustment Factor Methodology



New Free Float Adjustment Factor Methodology Background

→ MSCI launched a consultation in July 2024 to enhance the Free Float Adjustment Factor Methodology for the MSCI GIMI which was concluded in January 2025

→ Following this consultation, MSCI will:

- **Introduce three free float levels:** 'high' above 25%, 'low' from 5% to 25% and 'very low' less than 5%
- **Increase free float adjustment factor precision** by rounding free float adjustment factors to the closest 2.5%, 0.5%, and 0.1%, for the 'high', 'low' and 'very low' free float levels respectively
- **Enhance Index stability** by introducing buffers of $\pm 2.5\%$, $\pm 0.5\%$, and $\pm 0.1\%$, measured relative to the latest free float adjustment factor, for the 'high', 'low' and 'very low' free float levels respectively

→ **Implementation timeline:** MSCI will implement these enhancements in **one step** at the **May 2026 Index Review**

Complete presentation is available at MSCI Index Consultations <https://www.msci.com/index-consultation>

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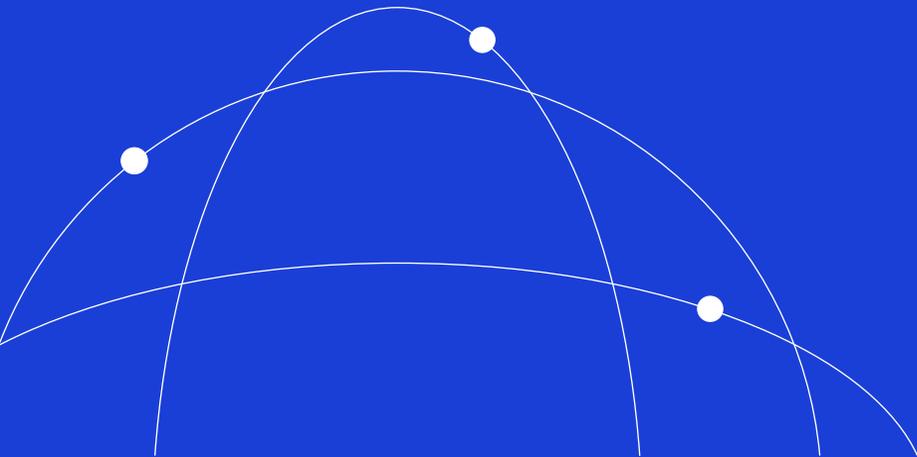
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