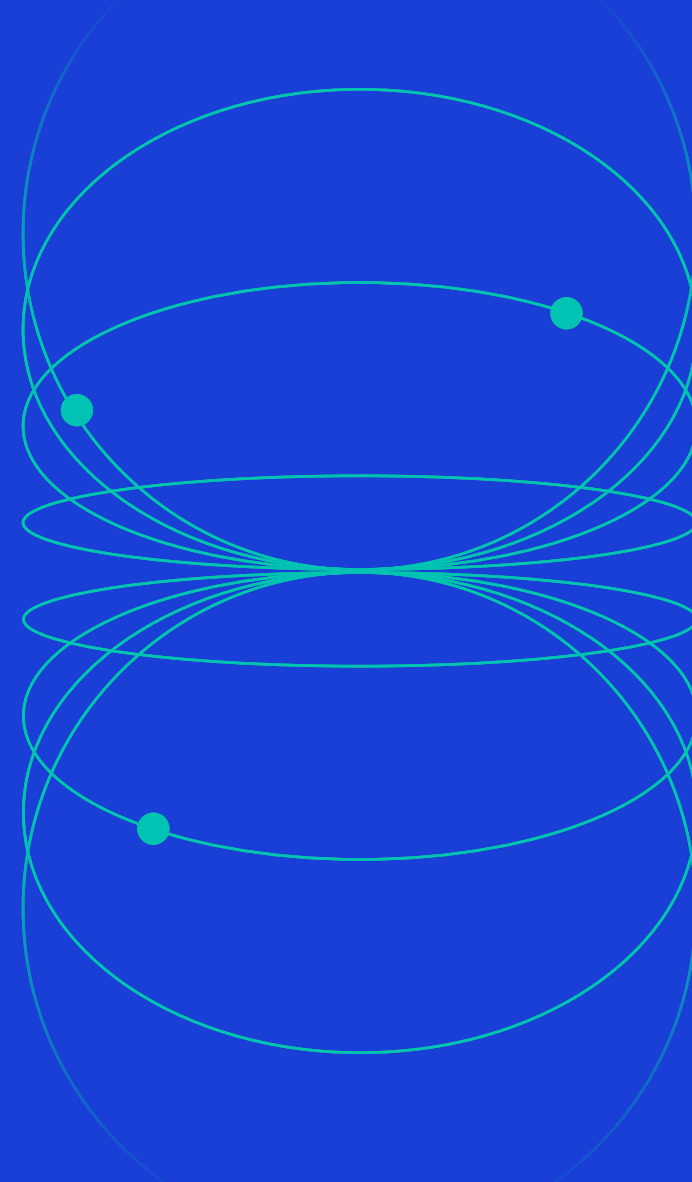




# Consultation on the Treatment of Capital Gains Tax on Indian Stock Dividends

JULY 2025



This consultation may or may not result in the implementation of any or all of the proposed changes in MSCI Indexes. Consultation feedback will remain confidential. However, MSCI may publicly disclose feedback if specifically requested by specific market participants. In such case, the relevant feedback would be published along with the final results of the consultation.

# Consultation Proposal Summary

**Primary proposal:** MSCI proposes to not include capital gains tax on Indian Stock Dividends in the calculation of the MSCI Indexes. This approach aims to align the performance across MSCI Price, Gross, and Net Daily Total Return (DTR) Indexes.

**Implementation:** MSCI will implement stock dividends in India by applying a Price Adjustment Factor (PAF) based on the terms of the event. Under this methodology, no negative reinvestment will be applied in the MSCI Net DTR Indexes. MSCI Price and Gross Indexes will continue with the current treatment of not reinvesting a negative amount.

**Alternate Proposal:** Alternatively, MSCI proposes to include 7.5% capital gains tax on Indian Stock Dividends in the calculation of the MSCI Indexes across MSCI Price, Gross, and Net Daily Total Return (DTR) using a detached security.

**Implementation:** MSCI will implement stock dividends in India by applying a Price Adjustment Factor (PAF) based on the terms of the event. Additionally, MSCI will apply a reduced capital gain tax rate of 7.5%, representing the difference between long-term (20%) and short-term (12.5%) capital gains tax rates in India. Capital gains tax will be consistently applied across MSCI Price, Gross, and Net DTR Indexes by using a detached security. The detached security will be added to MSCI Indexes as of the close of the cum-date of the stock dividend and then deleted as of the close of ex-date at a negative price equivalent to 7.5% of the value of the stock dividend.

MSCI invites feedback from market participants by August 15, 2025 & will announce the results of consultation on or before August 29, 2025.

***Please note:** Any potential changes to the methodology will be implemented with sufficient advance notice. These changes will apply only to future stock dividends for which an ex-date has not been announced as of the effective date of the new proposal, which will be communicated at the time of the publication of the consultation results.*

# Background

## Current treatment:

MSCI applies a Price Adjustment Factor (PAF) to the market price of the security on the ex-date of the event and increases its number of shares as of the close of the ex-date (effective next business day).

Additionally, MSCI reinvests a negative amount on the ex-date of the stock dividend corresponding to the capital gains tax of 20% in the MSCI Net Daily Total Return (DTR) Indexes only.

## Rationale for methodology review:

The current treatment results in a **performance mismatch** between the MSCI Price, Gross, and Net Daily Total Return (DTR) Indexes, as the tax is applied only to the Net DTR Indexes.

Also, the current treatment for stock dividends in India **exceptionally** includes capital gain taxation in the calculation of MSCI Indexes.

Additionally, **capital gains** arising from shares received via stock dividends are partially offset by **capital losses** due to a corresponding decrease in the price of existing shares.

^Note: Stock dividend of BAJAJ FINANCE is used for illustration purposes only. The event was already implemented using the current methodology where a negative amount was reinvested on the ex-date in the MSCI Net Daily Total Return (DTR) Indexes only. The terms of the event were a 2 for 1 stock split followed by a 4 for 1 stock dividend.

## Example: Stock Dividend of BAJAJ FINANCE^ using current treatment

### Cum-Date: June 13, 2025

Security maintained at market price

### Ex-Date: June 16, 2025

Price Adjustment factor of 10 applied to the market price of the security

### As of the close of Ex-Date: June 16, 2025

Negative amount reinvested in MSCI NET DTR Indexes only: -1500.80 INR^^

Number of shares of the security is increased based on terms of the event

Negative amount per share = (Closing price of the security on the ex-date\* Shares Issued\* 20%)/ Shares before

^^Negative amount per share: (938\*8\*20%)/1

# Primary Proposal

## Proposed treatment:

MSCI will **apply a Price Adjustment Factor (PAF)** to the market price of the security on the ex-date of the event and will increase its number of shares as of the close of the ex-date (effective next business day).

MSCI will **not reinvest** a negative dividend corresponding to the capital gain tax in the MSCI Net DTR Indexes.

MSCI Price and Gross Indexes will continue with the current treatment of not reinvesting a negative amount.

## Implementation timing:

MSCI intends to make the new methodology **effective shortly after** the conclusion of the consultation and apply it to all upcoming events for which an ex-date has not been publicly announced.

## Example: Stock Dividend of BAJAJ FINANCE<sup>^</sup> using Primary Proposal

### Cum-Date: June 13, 2025

Security maintained at market price

### Ex-Date: June 16, 2025

Price Adjustment factor of 10 applied to the market price of the security

### As of close of Ex-Date: June 16, 2025

Number of shares of the security is increased based on terms of the event

<sup>^</sup>Note: Stock dividend of BAJAJ FINANCE is used for illustration purposes only. The event was already implemented using the current methodology where a negative amount was reinvested on the ex-date in the MSCI Net Daily Total Return (DTR) Indexes only. The terms of the event were a 2 for 1 stock split followed by a 4 for 1 stock dividend.

# Alternate Proposal

**In line with the Primary Proposal**, MSCI will apply a Price Adjustment factor (PAF) to the market price of the security on the ex-date and increase its number of shares as of the close of the ex-date (effective next business day).

**Additionally**, MSCI will apply a 7.5% capital gain tax, representing the difference between the long-term (20%) and short-term (12.5%) capital gains tax rates in India, in the MSCI Price, Gross and Net DTR Indexes **using a detached security**.

The detached security will be added as of the close of the cum-date of the stock dividend, using the **lowest system price (0.00001 INR)** and thereafter deleted as of the close of the ex-date using a **negative value equivalent to 7.5%** of the distributed amount.

## Implementation timing:

As the implementation **involves the use of a negative price for the detached security**, MSCI intends to provide at least **six months' advance notice** to allow market participants sufficient time to address any operational considerations.

## Example: Stock Dividend of BAJAJ FINANCE^ using Alternate Proposal

### As of close of Cum-Date: June 13, 2025

Security maintained at cum-price  
Detached added at a price of 0.00001  
INR

### Ex-Date: June 16, 2025

Price Adjustment factor of 10 applied to the  
market price of the security

### As of close of Ex-Date: June 16, 2025

Detached **deleted** at a price of **-562.8 INR^^**

Number of shares of the security is increased  
based on terms of the event

Negative amount per share = (Closing price of the security on the  
ex-date\* Shares Issued\* 7.5%)/ Shares before

^^Negative amount per share: (938\*8\*7.5%)/1

^Note: Stock dividend of BAJAJ FINANCE is used for illustration purposes only. The event was already implemented using the current methodology where a negative amount was reinvested on the ex-date in the MSCI Net Daily Total Return (DTR) Indexes only. The terms of the event were a 2 for 1 stock split followed by a 4 for 1 stock dividend.

# Discussion points

**Do you agree with aligning the treatment of Indian stock dividends across MSCI Price, Gross, and Net Daily Total Return (DTR) Indexes?**

- If you **agree**, kindly **provide feedback** on the primary and alternate proposals listed below.
- If you **do not agree**, please **provide additional details** including specific **concerns** with the primary and alternative approaches.

## **Regarding the Primary Proposal:**

- Do you support the proposal to **exclude capital gains tax** on Indian stock dividends in MSCI Index calculations?
- Do you agree that the new treatment should apply only to events for which an **ex-date is not publicly available** as of the effective date of the new methodology?
- If MSCI proceeds with the **Alternate Proposal**, do you foresee any methodology or operational challenges?

## **Regarding the Alternate Proposal:**

- Do you agree with **including capital gains tax** on Indian stock dividends via a **detached security**?
- Do you agree with applying a **differential tax rate of 7.5%**, representing the difference between short-term (20%) and long-term (12.5%) capital gains tax rates?
- Do you foresee any issues with the **use of negative prices** for the detached security?
- Do you support at least **six-month advance notice** period before implementation to allow for operational readiness?

# Appendix

**List of all stock dividends for Index constituents of MSCI EM Index since April 01, 2020, and it's Index impact.**

Security Name	Size Segment	Ex Date	Weight in MSCI EM Index on ex-date	Performance of MSCI EM Index on ex-date	
				Price Index	NET DTR Index
BAJAJ FINANCE	Standard	16-Jun-25	0.35%	0.69%	0.64%
BOMBAY STOCK EXCHANGE	Standard	23-May-25	0.07%	0.48%	0.49%
NMDC	Standard	27-Dec-24	0.03%	-0.17%	-0.14%
WIPRO	Standard	03-Dec-24	0.12%	1.03%	1.02%
RELIANCE INDUSTRIES	Standard	28-Oct-24	1.20%	0.27%	0.15%
PHOENIX MILLS	Standard	20-Sep-24	0.06%	0.57%	0.57%
BHARAT PETROLEUM CORP	Standard	21-Jun-24	0.07%	-0.81%	-0.80%
HINDUSTAN PETROLEUM CORP	Standard	21-Jun-24	0.05%	-0.81%	-0.80%
BERGER PAINTS INDIA	Standard	22-Sep-23	0.04%	0.84%	0.84%
POWER FINANCE CORP	Standard	21-Sep-23	0.06%	-1.51%	-1.51%
POWER GRID CORP OF INDIA	Standard	12-Sep-23	0.16%	-0.18%	-0.18%
SAMVARDHANA MOTHERSON	Standard	03-Oct-22	0.03%	0.04%	0.04%
BHARAT ELECTRONICS	Standard	15-Sep-22	0.08%	-0.41%	-0.39%
BAJAJ FINSERV	Standard	13-Sep-22	0.13%	0.09%	0.08%
GAIL INDIA	Standard	06-Sep-22	0.04%	-0.27%	-0.27%
TORRENT PHARMACEUTICALS	Standard	08-Jul-22	0.03%	0.53%	0.54%
INDIAN OIL CORP	Standard	30-Jun-22	0.04%	-1.24%	-1.22%
AU SMALL FINANCE BANK	Standard	09-Jun-22	0.02%	-0.61%	-0.61%
POWER GRID CORP OF INDIA	Standard	29-Jul-21	0.09%	2.15%	2.15%

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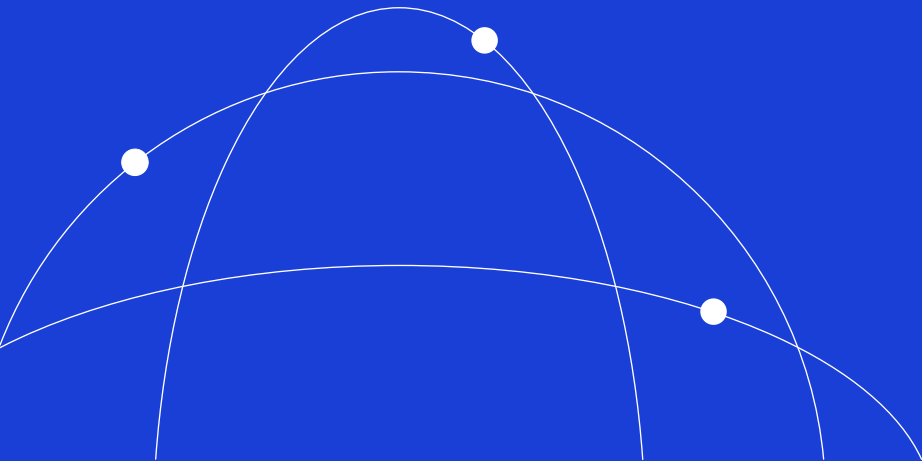
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