

# **MSCI India Domestic Financials and Global Fintech 50 Index Methodology**

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## 1 Introduction

The MSCI India Domestic Financials and Global Fintech 50 Index (the “Index”) aims to represent the performance of the securities from MSCI India Domestic IMI, as well as US listed securities of the companies in the MSCI ACWI IMI Index selected as below:

- The 30 largest securities from MSCI India Domestic Financials IMI which pass a set of filters
- The 20 largest US listed securities associated with the development of new products and services as a result of technological innovation in the financial sector from MSCI ACWI IMI.

Additionally, capping is applied as per the MSCI Capped Indexes Methodology<sup>1</sup> to reduce concentration in the Index.

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<sup>1</sup> For more details, please refer to the MSCI Capped Index Methodology at <https://www.msci.com/index-methodology>.

## **2 Constructing the MSCI India Domestic Financials & Global Fintech 50 Index**

MSCI India Domestic Financials & Global Fintech 50 Index is constructed in following steps:

- Constructing the MSCI India Domestic IMI Financials Select Component
- Constructing the MSCI US listed Global Fintech Select Component
- Combining the Components
- Applying the Capping

### **2.1 CONSTRUCTING THE MSCI INDIA DOMESTIC IMI FINANCIALS SELECT COMPONENT**

The MSCI India Domestic IMI Financials Select Component is constructed in following steps:

- Identifying the applicable universe
- Applying liquidity filter
- Applying the mean impact cost filter
- Selecting securities with largest market cap
- Security Weighting

#### **2.1.1 IDENTIFYING THE APPLICABLE UNIVERSE**

The applicable universe for the India component is the MSCI India Domestic Financials IMI Index<sup>2</sup>.

#### **2.1.2 APPLYING LIQUIDITY FILTER**

Securities with a 6-month Frequency of Trading<sup>3</sup> equal to or greater than 80% are eligible for index inclusion.

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<sup>2</sup> Prior to September 2016, GICS® Industry Group Real Estate is excluded from the applicable universe with the exception of GICS® Subindustry Mortgage REITs

<sup>3</sup> For more details on the Frequency of Trading, please refer to the MSCI Global Investable Market Indexes Methodology at <https://www.msci.com/index-methodology>

### 2.1.3 APPLYING THE MEAN IMPACT COST FILTER

Securities with a mean impact cost<sup>4</sup> equal to or less than 1% over the previous 6 months are eligible for inclusion in the Index.

### 2.1.4 SELECTING SECURITIES WITH LARGEST MARKET CAP

All the remaining eligible securities are ranked based on their domestic free float adjusted full market capitalization and the top 30 securities are selected.

If the number of securities in the eligible universe is below 30, all the securities in the universe are selected for inclusion in the index.

### 2.1.5 SECURITY WEIGHTING

Selected securities are then weighted according to their domestic free float-adjusted market capitalization.

## 2.2 CONSTRUCTING THE MSCI US LISTED GLOBAL FINTECH SELECT COMPONENT

The MSCI US Listed Global Fintech Select component is constructed in following steps:

- Identifying the applicable universe
- Constructing the eligible universe
- Applying the US exchange and sector filters
- Selecting securities with largest market cap
- Security weighting

### 2.2.1 IDENTIFYING THE APPLICABLE UNIVERSE

The Applicable Universe is comprised of companies which are assessed to have high exposure to business activities such as –

- Digital or Mobile payments
- Digital payments infrastructure
- Online tax and loan platforms

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<sup>4</sup> For more details on the mean impact cost, please refer to the mean impact cost description at [https://www.bseindia.com/markets/equity/EQReports/impact\\_cost.htm](https://www.bseindia.com/markets/equity/EQReports/impact_cost.htm)

- Fintech and credit platforms.

Please refer to Appendix 2 for details on calculation of relevance score.

**2.2.2 CONSTRUCTING THE ELIGIBLE UNIVERSE**

Securities with a relevance score below 60% are excluded from the eligible universe.

**2.2.3 APPLYING THE US EXCHANGE AND SECTOR FILTERS**

Securities listed on US exchanges, which are classified in the Information Technology, Financials, and Industrials GICS<sup>®5</sup> Sectors are eligible for selection in the final universe.

**2.2.4 SELECTING SECURITIES WITH LARGEST MARKET CAP**

All the remaining eligible securities are ranked based on their free float adjusted market capitalization and the top 20 securities are selected.

If the number of securities in the eligible universe is below 20, all the securities in the universe are selected for inclusion in the index.

**2.2.5 SECURITY WEIGHTING**

Selected securities are then equal weighted.

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<sup>5</sup> GICS, the Global Industry Classification Standard jointly developed by MSCI and S&P Global.

### 2.3 COMBINING THE COMPONENTS

The MSCI India Domestic Financials and Global Fintech 50 Index Methodology is constructed by combining the two component indexes in the below weighted proportions. The weight of the securities in the combined index are calculated as described in the Appendix I. In between the index reviews, the weights of securities fluctuate according to the market movements:

Component	Component Name	Component Weight
Component 1	MSCI India Domestic IMI Financials Select Component	70%
Component 2	MSCI US Listed Global Fintech Select Component	30%

### 2.4 APPLYING THE CAPPING

The maximum weight of the securities in the Index is capped at 20% as per the MSCI Capped Indexes Methodology.

## **3 Maintaining the MSCI India Domestic Financials and Global Fintech 50 Index Methodology**

### **3.1 SEMI ANNUAL INDEX REVIEWS**

The MSCI India Domestic Financials and Global Fintech 50 Index is rebalanced using the rules defined in Section 2 on a semiannual basis effective at the open of the last business day of June, and December.

The pro forma Index is, in general, announced nine business days before the effective date.

In general, MSCI uses the company business segment names, business description and revenue data as of the rebalancing date for the Semi-Annual Index Review.

#### **3.1.1 BUFFER RULES**

To reduce index turnover and enhance index stability, buffer rules are applied while selecting top securities based on market capitalization for the MSCI India Domestic IMI Financials Select Component. For example, a buffer of 20% is applied while selecting 30 securities in the MSCI India Domestic IMI Financials Select Component. Eligible securities with a market capitalization rank at or above 24 are added to the MSCI India Domestic IMI Financials Select Component on a priority basis. The existing constituents that have a rank between 25 and 36 are then successively added until the number of securities reaches 30. If the number of securities is below 30 after this step, the remaining eligible securities with highest rank are added until the number of securities in the component reaches 30.

### **3.2 QUARTERLY INDEX REVIEWS**

The MSCI India Domestic Financials and Global Fintech 50 Index is also reviewed on a quarterly basis, effective at the open of the last business day of March, and September.

For the MSCI India Domestic IMI Financials Select Component, the mean impact cost filter as detailed in the Section 2.1.3 and the security capping are applied.

For the MSCI US Listed Global Fintech Select Component, the weight of the current securities in the index is reset to equal weight. The weight of this component is reset to 30% of the final index weight.



### 3.3 APPLYING THE CAPPING

Weight of the MSCI US Listed Global Fintech Select component in the Index is checked at the open of the last business day of each month and is capped at 32.3% if it is more than 34%.

### 3.4 ONGOING EVENT-RELATED CHANGES

The following section briefly describes the treatment of common corporate events within the MSCI India Domestic Financials and Global Fintech 50 Index.

No new securities will be added (except where noted below) to the indexes between Index Reviews. For cases where additions are noted below, securities will be added to the indexes only if added to the Parent Index. Parent Index deletions will be reflected simultaneously.

#### EVENT TYPE

#### EVENT DETAILS

#### **New additions to the Parent Index**

A new security added to the Parent Index (such as IPO and other early inclusions), will not be added to the index.

#### **Spin-Offs**

All securities created as a result of the spin-off of an existing index constituent will be added to the index at the time of event implementation.

#### **Merger/Acquisition**

For Mergers and Acquisitions, the acquirer's post event weight will account for the proportionate amount of shares involved in deal consideration, while cash proceeds will be invested across the index.

If an existing Index constituent is acquired by a non-Index constituent, the existing constituent will be deleted from the index and the acquiring non-constituent will not be added to the index.

**Changes in Security Characteristics** A security will continue to be an index constituent if there are changes in characteristics (country, sector, size segment, etc.). Reevaluation for continued inclusion in the index will occur at the subsequent Index Review.

Further detail and illustration regarding specific treatment of corporate events relevant to this index can be found in the MSCI Corporate Events Methodology book. The MSCI Corporate Events methodology book is available at:  
<https://www.msci.com/index-methodology>

## Appendix I: Determining the Weight of the Constituents in the Combined Index

At each rebalance, the weight of each of the securities in the combined Index is determined based upon:

- the security’s weight in each underlying Component;
- the weight of each underlying Component in the Index.

Security weights can be calculated as follows:

$$W_{Sec_i}^{CI} = \sum_{C_j} W_{C_j}^{CI} \times W_{Sec_i}^{C_j}$$

Where:

- $W_{Sec_i}^{CI}$  is the weight of security  $Sec_i$  in the Index
- $W_{C_j}^{CI}$  is the target weight of the Component Index  $C_j$  in the Index
- $W_{Sec_i}^{C_j}$  is the weight of security  $Sec_i$  in the Component Index  $C_j$

For the ongoing maintenance of the Index, a Component Constraint Factor and a Full Market Cap Adjustment Factor is calculated for each Component and the Index constituent respectively, as described below.

### Calculation of the Component Constraint Factor

The Component Index Constraint Factor is calculated for each Component Index as follows:

$$CCF_{C_j}^{CI} = \frac{W_{C_j}^{CI}}{\left( \frac{IndexMcap_{C_j}}{\sum_{C_j} IndexMcap_{C_j}} \right)}$$

Where:

- $CCF_{C_j}^{CI}$  is the Component Index Constraint Factor of the Component Index  $C_j$
- $IndexMcap_{C_j}$  is the index market capitalization of the Component Index  $C_j$

### Calculation of the Security Full Market Cap Adjustment Factor

The Full Market Cap Adjustment Factor for each security in the Composite Index is then calculated as follows:

$$FMCAF_{Sec_i}^{CI} = \sum_{C_j} CCF_{C_j}^{CI} \times FMCAF_{Sec_i}^{C_j}$$

Where:

- $FMCAF_{Sec_i}^{CI}$  is the Full Market Cap Adjustment Factor of security  $Sec_i$  in the Composite Index
- $FMCAF_{Sec_i}^{C_j}$  is the Full Market Cap Adjustment Factor of security  $Sec_i$  in the Component Index  $C_j$

## Appendix II: Thematic Relevance Score Calculation

### The set of relevant words and phrases<sup>6</sup> used for constituent selection

MSCI uses a broad set of relevant words and phrases derived from the Index objective which are important to describing the products and services of companies engaged in the business activities for each component in section 2.1.

### Company level data used for assessing company exposure

The following data is used at the company level:

- Business segment information from company annual reports and vendor data sources: business segment names, assigned SIC codes<sup>7</sup> and related revenue.
- An English language summary description of the company’s business activities from public sources is used.

### Selection on business segments

Company identified business segment names are compared against the set of relevant words. Companies from the Parent Index which include at least one relevant word in their business segment names are included in the eligible universe.

### Selection on company’s summary description

The company’s summary business description is compared against the set of relevant words. Companies from the Parent Index which include at least two distinct relevant words in their summary description are included in the eligible universe.

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<sup>6</sup> For more details on the steps followed to generate the set of relevant words and phrases, please refer to <https://www.msci.com/www/research-paper/indexing-change-understanding/01647260939>

<sup>7</sup> Company’s business segments are assigned with a specific SIC (Standard Industry Classification) description for products and services, used by official agencies within the US government. These descriptions provide additional information on the nature of the segment.

## Selected business segments

‘Selected business segments’ are business segments which include at least one relevant word. These are the business segments based on which stocks are selected as described in section 4.2.1.

## SIC code selection

Company business segments are mapped to a SIC code. The SIC code selection is a set of all the SIC codes which satisfy the following criteria:

- The SIC code is mapped to at least one of the ‘selected business segments’ as described in section 4.2.1.
- The SIC code is assigned to the business segments of at least two different stocks from the eligible universe. The SIC code 9999 is not selected.

## Calculating the stock relevance score

A relevance score for all stocks in the eligible universe is calculated. The relevance score for a company is calculated by taking into account the portion of company’s revenue which is derived from the selected business segments (as described in section 4.2.3) filtered via the SIC code selection (as described in section 4.2.4).

The relevance score is not an explicit measurement or estimate of the proportion of revenue that the company derives from business activities exposed to the theme.

### RELEVANCE SCORE DISCOUNT FACTOR

A stock level relevance score discount factor is calculated by normalizing the cumulative frequency of relevant words in the company’s summary description relative to all companies selected on summary business descriptions as described in section 4.2.2.

At a company’s business segment level, the revenue discount factor is applied on revenue from each selected SIC code as described in section 4.2.4. The revenue discount factor is 1 for revenue derived from ‘selected business segment’.

### RELEVANCE SCORE

Relevance score for stocks in the eligible universe is calculated as follows:

Relevance score = [revenue from the selected business segments (as described in section 4.2.3) + relevance score discount factor \* revenue from the selected SIC code (as described in section 4.2.4)] / Total company revenue.

**The following sections have been modified effective June, 2022:**

Appendix 2 added for details of relevance score calculation and Section 2.2.1 updated to reference Appendix 2 instead of the ACWI IMI Fintech Innovation Methodology.

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