

MSCI

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Selected Corporate Events Topics for discussion

September 2014

Introduction

- In a continuous effort to improve the MSCI Corporate Events Methodology, MSCI is seeking to discuss with the investment community the following Corporate Events topics:
 - General treatment of: Tender Offers, Share Placements and Offerings, Float/Number of Shares (NOS) updates.
 - Treatment of US Specifics: US Public and Secondary Offerings, US M&As, US Withholding Tax rate on dividends distributed by US incorporated companies to US domestic institutional investors.
 - Corporate Events Products/Services : Advance Corporate Events (ACE) files and Security Advanced Dividend files.
 - Announcement Policy: Index email announcements.

MSCI does not propose enhancements at this stage

Note: The feedback may or may not result afterwards in MSCI making proposals for changes in the MSCI Corporate Events Methodology. If MSCI decides to make a proposal of change for one or more of these topics, MSCI would launch a public consultation before making any changes to the methodology.

General treatment of: Tender Offers, Share Placements and Offerings, Free Float/NOS updates

Tender Offers

- MSCI currently implements Tender Offers:
 - As of the close of the last offer day when the offer is likely to be successful.
 - Once the results of the offer have been officially communicated if the outcome of Tender Offer is uncertain.

If a security is deleted from an Index while the transaction has lapsed or failed, the security will be reconsidered for Index inclusion at the following regularly scheduled Index Review.

- Over the last 1.5 years, in order to minimize potential reverse turnover (deleting and adding back the security) and as outcomes were uncertain, MSCI has increasingly waited for the results of the tender offers (for 53% of the tender offer cases).

Discussion points:

- Do you systematically participate in Tender Offers?
- Would you prefer MSCI to systematically wait for the results of Tender Offers to be publicly announced before implementing changes to the MSCI Indexes?
 - Would you foresee any issues if MSCI waited for the results of Tender Offers (e.g., a drop in the liquidity or in the target security prices after the end of the offer or a suspension in some previous tender offer cases)?
- Are the factors considered by MSCI for assessing the outcome of a Tender Offer appropriate* (e.g., announcement of the offer as friendly or hostile, Board of Directors recommendation, major shareholders intention, etc.)? Should some of these factors prevail? Should any other additional factors be considered?
- Should MSCI continue using market prices for deletion of a security due to a Tender Offer when the security is trading?

*Refer to the section 2.1.3 of the MSCI Corporate Events Methodology

Share Placements and Offerings (outside of the US)

- Current treatment for primary equity offerings representing at least 5% of the security's Number Of Shares (NOS):
- as of the close of the first trading day of the new shares, if all necessary information is available at that time.
 - as soon as practicable after the relevant information is made available.

By contrast, all offerings representing less than 5% of the security's NOS are implemented at the next regularly scheduled Index Review following the completion of the event.

Discussion points:

- Should MSCI implement all such share placements and offerings at Index Reviews, regardless of impact/size?
 - Would there be any disadvantages in not participating at the time of the event?
 - How do you replicate MSCI's current treatment?
- Alternatively, would it be more appropriate to implement all these events at Index Reviews with the exception of specific large transactions that would be implemented at time of the event, after its completion and results being publicly available? *
- Would it be appropriate to implement all Share Placements and Offerings on a monthly basis?

* *Similarly to what is proposed in the document "Block Sales/Secondary Offerings (outside of the US) consultation – September 2014"*

Corporate Events Methodology: Section 4.1.1

Updates in Free Float and NOS Considered With Corporate Events

As a general rule, changes in Number Of Shares (NOS) are coordinated with changes in the Foreign Inclusion factor (FIF) as part of an event. Any other pending NOS and/or free float changes are implemented simultaneously.

This is aimed at reflecting the investability of the underlying securities on a timely basis and potentially minimizing turnover. However, under certain situations it can lead to unintuitive changes in the Indexes, such as the following examples:

- Event with a share increase (e.g., Public Offering); due to a negative update in shares (cancellation of treasury shares), the final NOS is decreased.
- Event with a FIF increase (e.g., Block Sale); due to an update in float, the final FIF is unchanged or decreased.
- Self replicating event (e.g., Acquisition by shares for 2 constituents of the same size-segment); surviving company is the sum of constituents but due to an update in NOS and/or free float, the event requires further adjustments to replicate.

→ *This does not apply to corporate actions such as (but not limited to) splits, stock dividends and rights issues which do not impact the free float of the security as the event is conducted on a pro-rata basis.*

Discussion points:

- Should MSCI continue to implement all pending free float and NOS updates together with the events?
- Alternatively, would it be more appropriate to instead consider such updates:
 - Externally from the event, and implemented separately on a monthly or quarterly (Index Review) basis?
 - Only for certain event types, such as offerings (primary or secondary), which already require potential trading on the security?
 - Only for events that could potentially lead to reverse turnover during the next Index Review?

MSCI Global Investable Market Indexes (GIMI) Methodology 3.3.3.1

Treatment of US Specifics: US Public and Secondary Offerings, US M&As, US Withholding Tax rate on dividends distributed by US incorporated companies to US domestic institutional investors

US Public or Secondary Offerings

- For US Offerings, MSCI changes the NOS and the FIF resulting from Primary Equity Offerings or from Secondary Offerings representing at least 5% of the security's number of shares as soon as practicable after the offering is priced. MSCI sends intraday index email announcements for these implementations.

Discussion points:

- Should MSCI keep implementing these events as of close of the same day the pricing of shares is made public, when possible?
 - Should there be a cut-off time to announce intraday changes if MSCI were to keep implementing these events as of close of the same day the pricing of shares is made public?
- Would it be more appropriate to align the treatment of US offerings with the global offerings implementation (NOS changes and FIF and/or DIFs changes are implemented giving 2 full business days as soon as captured or priced)? Or to reflect them at Index reviews?

Corporate Events Methodology: 4.1.1.2 Country specifics

US M&As

For the vast majority of the US M&As, MSCI uses the date from the delisting notice to delete the target security. If the notice is published late (for example, during the last trading day), MSCI delays the implementation and keeps the target security for one additional day or more in order to give clients sufficient advance notice.

Where the delisting date is not available in advance and the completion of the transaction may be delayed, MSCI waits until the official announcement of the completion of the deal by the company to delete the security and gives clients advance notice before the deletion.

However, if the delisting date is not available in advance and the transaction is not subject to any financing conditions, MSCI deletes such securities shortly after the relevant shareholders' approvals, provided that all other conditions required for completion of the transaction have been met.

Discussion points:

- Would it be more appropriate to systematically wait for the US M&As delisting notice to delete the security, in order to simplify the implementation rules for US M&As?

OR

- Should MSCI use the completion date of the event as announced by the company to delete the security instead of waiting for the delisting date? *

**Similarly to what is proposed in the document “Canadian Acquisitions – consultation September 2014 ”*

Corporate Events Methodology: Section 2.1

US Withholding Tax rate on dividends distributed by US incorporated companies to US domestic institutional investors

Note: this topic applies to the US Equity Indexes (domestic) not to the GIMI methodology (MSCI USA).

Currently, MSCI applies a withholding tax rate of 30% to the calculation of MSCI US Domestic Net DTR Indexes. After further analysis, it has been found that in general, dividends paid to US residents are not subject to withholding tax and that a backup withholding tax of 28% may be applied to US residents who are non compliant with some Internal Revenue Service (IRS) requirements. As a reminder, MSCI uses the maximum withholding tax rate applicable to institutional investors in calculating MSCI net dividends.

Discussion point:

Is the current withholding tax rate applicable to dividends distributed by US incorporated companies to US domestic institutional investors (not foreign) appropriate?

- If no, should MSCI change it to 0% or 28%?

Corporate Events Products/Services and Announcement Policy:
Advance Corporate Events (ACE) files and Security Advanced
Dividend files

Corporate Events and Dividends products: Seeking feedback

MSCI is seeking feedback to improve its Corporate Events/Dividends products and/or announcement policy in order to help clients tracking MSCI indexes.

1) MSCI Advance Corporate Events (ACE) files

- How are you using MSCI Advance Corporate Events (ACE) files?
 - If not used, why?
 - If used, any issues related to format or content?
- Are there any missing data or missing functionality - such as filtering, highlighting changes, other?
- What is your view on the current delivery timing (between 4:00 PM and 6:00 PM EST) for all ACE files?
- Should MSCI create ACE files to be delivered 3 times a day so as to align with Core products files delivery schedule?
- Have you automated processing of ACE files? Externally (out-sourced) or in-house?
- Would you use an “ACE Master” file combining all existing ACE files as a recap of all changes impacting MSCI Indexes?

2) MSCI Advanced Dividend files

- How are you using MSCI Advance Dividend files?
 - If not used, why?
 - If used, any issues related to format or content?
- Are there any missing data or missing functionality?

Corporate Events Announcement Policy: Index email announcements

MSCI Announcement Policy

Corporate Events Methodology: Section 7

■ Index email announcements

- How do you use MSCI Index email announcements?
 - Any issues in terms of format?
 - Do you have a filtering process in place?
 - Do you use the header summary and/or the text? Which information do you use exactly?
- Should MSCI keep sending Index email announcements after market close? Or align Index email announcements with the delivery timing of ACE files, provided ACE files are delivered 3 times a day?
- Should MSCI send intraday announcements at some pre-specified times, such as using one or two time slots during which the intraday announcements would be sent?
 - For example for US offerings which are often sent through intraday announcements, MSCI could use noon EST or another time to send intraday announcements
- Should MSCI send intraday announcements at least 3 hours (or more or less?) before the market, on which the concerned security trades, closes?
- Should MSCI review its announcement policy to increase the volume of Index email announcements?
- What other enhancements would you recommend as enhancements to the MSCI Index email announcements?

Other

Are there any other topics you would like to discuss?

Any other feedback on the MSCI Corporate Events Methodology?

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Americas

Americas	1.888.588.4567 (toll free)
Atlanta	+1.404.551.3212
Boston	+1.617.532.0920
Chicago	+1.312.706.4999
Monterrey	+52.81.1253.4020
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São Paulo	+55.11.3706.1360
Toronto	+1.416.628.1007

Europe, Middle East & Africa

Cape Town	+27.21.673.0100
Frankfurt	+49.69.133.859.00
Geneva	+41.22.817.9777
London	+44.20.7618.2222
Milan	+39.02.5849.0415
Paris	0800.91.59.17 (toll free)

Asia Pacific

China North	10800.852.1032 (toll free)
China South	10800.152.1032 (toll free)
Hong Kong	+852.2844.9333
Seoul	00798.8521.3392 (toll free)
Singapore	800.852.3749 (toll free)
Sydney	+61.2.9033.9333
Taipei	008.0112.7513 (toll free)
Tokyo	+81.3.5290.1555

clientservice@msci.com | www.msci.com



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