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Block Sales / Secondary Offerings (outside of the US) consultation – September 2014

Agenda

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Proposal

- Remove distinction between secondary offerings (outside of the US)* and block sales definition to simplify their treatment in the MSCI indexes.
 - Current thresholds as described in Appendix I would not be used anymore.
- Timing and implementation:
 - **When the event occurs ** if:**
 - The change in free float-adjusted market capitalization (including updates) is above 0.5 times the Standard Interim Cutoff
 - OR
 - The absolute size of the FIF change is 0.25 or more.
announced at the time of the event and implemented 2 business days later
- **Else at the following Index Review**
announced with the Index Review announcement

Please note that these proposals may or may not lead to any changes to the MSCI indexes.

* The treatment of secondary offerings is different in the US compared to other countries. This document only concerns secondary offerings treatment outside of the US.

** Once the event is completed and provided sufficient post event information is publicly available. If any uncertainty on the post event free float information, MSCI may decide to postpone the event implementation to the next Index Review. Refer to Appendix II.

Rationale/Benefits

- Clarification of the methodology and clearer definitions used for secondary offerings and block sales aim to provide better transparency regarding communication and implementation of these events.
- The purpose of the proposal is to simplify the current rules for implementation of secondary offerings (outside of the US) and block sales – refer to Appendix I for more details on current rules.
- Large impacts to be reflected in a timely manner in the MSCI indexes - Implementation timing will be based on the size of the change.

Questions

- **Proposal / replicability:**
 - Do you agree with the proposal?
 - Would there be any disadvantages not to participate in the offering at the time of the offering?
 - How do you replicate MSCI's current treatment?
- **Thresholds / Float assumption:**
 - Are the proposed thresholds for implementation at time of event - after the offering is completed - appropriate? Please refer to Appendix III.
 - For offerings where post event float information is not sufficient, should MSCI assume free float and implement changes accordingly giving two full business days notice, even if there is a risk of reverse turnover? Please refer to Appendix II.

Questions

- Timing of implementation:
 - Alternatively, should MSCI implement all secondary offerings (outside of the US) and block sales at index reviews, regardless of impact/size?
- Other:
 - MSCI intends to continue to postpone implementations of missed offerings to the following Index Review. “What should be considered missed?” – up until how many days after the offering has been priced/completed should MSCI still consider implementing at time of event? one week or more?

Appendix

I. Current Methodology

II. Country specificities – post event float information

III. Impact of the proposal

Appendix I: Current Methodology

MSCI currently differentiates between the following two types of offerings. The below offerings do not involve issuance of new shares but involve the distribution of current shareholders' existing shares, contrary to public or private placements.

- **Secondary offerings(outside of the US)** are usually pre-announced by the company or by a company's shareholder and open for public subscription during a pre-determined period. These existing shares are generally placed by underwriters to institutional or other non-strategic investors. => **implemented shortly after results of subscription are known, if captured on time, otherwise at Index Reviews**
- **Block sales** of existing shares or large market transaction done by way of immediate book building involving change in strategic ownership are generally announced only when effective or with short advance notice and generally do not include an offer prospectus. => **implemented at Index Reviews**

Block sales or large transactions will be implemented during the Index Review following the completion of the event provided they satisfy one of the following conditions when the event, including potential updates, is completed:

The absolute size of the FIF change is 0.15 or more, or

The change in free float-adjusted market capitalization resulting from the FIF change represents at least:

- USD 1billion for securities classified in the US.
- USD 500 million for securities classified in Developed Markets other than the US.
- USD 200 million for securities classified in the Emerging Markets.

Changes that do not meet the above conditions will be implemented as part of the May Semi-Annual Index Review.

Note: under the proposal described on slide 3, the above thresholds would not be used anymore

Appendix II: Country specificities – post event float information

As per MSCI's proposal, if uncertainty on the post event information (i.e. float) still remains, MSCI may decide to postpone the event implementation till the next Index Review.

In order to minimize the risk of reverse turnover, where MSCI can not gather sufficient public post event float information to implement the event, MSCI proposes to wait for complete public disclosures. For countries such as Hong Kong and India, for example, where complete post event float is publicly disclosed after a few weeks, MSCI would send an "Acknowledged" or "Undetermined" announcement to let clients know MSCI intends to implement changes intra quarter but with a delay.

Appendix III - Impact of the proposal

Analysis conducted on past cases (from Mar 1 2013 till July 14 2014): 57 Standard Index constituents and 40 Small Cap Index constituents.

Breakdown by Event type	Current Methodology	Under the proposal
Block sales	66 cases implemented at Index Reviews	1) 72 cases deferred to Index Reviews (46 block sales and 26 secondary offerings) 2) 25 cases implemented at time of event (20 block sales and 5 secondary offerings)
Secondary offerings (outside of the US)	31 cases implemented at time of event (giving 2 full business days notice)	

Breakdown by Index Family	Current Methodology	Under the proposal
Block sales	66 cases implemented at Index Reviews (45 Standard Index and 21 Small Cap Index constituents)	1) At Index Reviews: 34 Standard + 12 Small Cap 2) At time of event: 11 Standard + 9 Small
Secondary offerings (outside of the US)	31 cases implemented at time of event - giving 2 full business days notice (12 Standard Index and 19 Small Cap Index constituents)	1) At Index Reviews: 8 Standard + 18 Small Cap 2) At time of event: 4 Standard + 1 Small

Appendix III - Impact of the proposal (continued)

- On average, based on the past cases analysis, for Standard Index constituents, impact above 2.5 billion USD would be reflected in the Index immediately, whereas for Small Cap Index constituents, impact above 500 million USD would be reflected in the Index immediately.
- Based on MSCI's observations on past cases, more than 80% of secondary offerings (outside of the US) would be postponed to Index Reviews whereas for block sales, only large impact ones (approximately 30%) would be implemented immediately.
- 80% of the secondary offerings (outside of the US) postponed to Index Reviews have an impact on average of 250 million USD and are mainly located in Japan.

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