

MSCI

We power investors globally
with objective insight

Securities under prolonged suspension consultation - September 2014

Agenda

- Background
- Proposal
- MSCI current methodology versus proposal
- Rationale
- Questions
- Appendix
 - Appendix I: Comparisons of current implementation and proposal with November 2013 and February 2014 index reviews
 - Appendix II: Proposed timing of deletion
 - Appendix III: Suspensions related to restructuring

Background

- Prolonged suspensions can create Index replicability issues as securities cannot be traded by existing and new clients.
- MSCI's current methodology focuses on securities suspended due to *financial difficulty* (e.g., liquidity issues, debt repayment issues, companies under legal investigation, etc.). However the financial situation of such companies is often not transparent which leads to securities being maintained in the Indexes for an extended period of time.
- The methodology for prolonged suspensions is not consistent between ACWI and China A.
- MSCI proposes to change the methodology for all Indexes for the treatment of securities under prolonged suspension by simplifying the rules and deleting securities on a more timely basis.

Proposal

- Securities would be deleted if they are suspended for more than:
 - **50 business days** - All Investable Market Index (IMI) constituents.*
 - **100 business days** – Constituents of the MSCI Global Micro Cap Indexes.*
- Evaluate securities for deletion on a **monthly** basis.
 - Securities would be evaluated for deletion 2 business days prior to the last working day of the month and announced on the same day.
 - Deletions would be effective as of the close of the last business day of the month.
 - Securities suspended less than 50 days at the announcement date will be evaluated for deletion in the following month, if the security remains suspended.
- Delete securities regardless of the reasons for suspension, **except:**
 - Securities pending corporate events (may require further public disclosures on the reasons for suspension per Appendix 3 of this document).
- Delete securities at 0.00001 of any local currency (close to zero price).

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

* When an overlap occurs between the IMI and Micro Cap rules, the larger size-segment will apply for deletion at 50 business days.

MSCI current methodology versus proposal

Criteria	Current Methodology		Proposal
	Global Investable Market Indexes (GIMI)	China A	
Applicable threshold	Threshold to review 1) 40 business days <i>if</i> the suspension is due to financial difficulty. 2) <i>However</i> if the financial situation is not transparent, MSCI may maintain the security for a longer period of time and delete the security at a future index review.	Threshold to delete 120 business days	Threshold to delete 50 business days (GIMI, China A) 100 business days (Micro Cap)
Deletion effective date	<i>In practice:</i> coinciding with a regularly scheduled Index Review.	Index Review effective date	As of the close of the last business day of the month
Deletion announcement date	Index review announcement	Index Review announcement	2 business days prior to the last business day of the month.*
Frequency of evaluation	1) Daily a few days before 40 business days. 2) Securities kept for a longer period of time (above) are evaluated on a quarterly basis.	Quarterly	Monthly (end of month)
Deletion price	Lowest quotable price	Lowest quotable price	0.00001 of any local currency (close to zero price)
((Exceptions	Corporate events	None	1) Corporate events and/or restructuring (requires public disclosures). 2) China A: all corporate events and/or restructuring (without further disclosures).

* Securities that are suspended less than 50 days at this date will be evaluated for deletion in the following month.

Benefits of the proposal

The proposal intends to:

- **Simplify the rules for securities under prolonged suspension:**
 - Remove the requirement of “financial difficulty” for deletion.
 - Bring consistency to the rules applied both within GIMI, and between GIMI and China A.
- **Remove suspended securities from the Indexes in a timely manner¹:**
 - Securities that resume trading after deletion for prolonged suspension and meet the eligibility criteria are considered as new companies at the next Index Review.
 - Hence the proposal intends to strike a balance between the risk of securities resuming trading and being added back to the Indexes at the next Index Review (reverse turnover) versus maintaining securities in the Indexes for prolonged periods (replicability)².
- **Allow securities to remain in the Indexes if they are likely to resume trading:**
 - Securities pending corporate events.
 - Securities pending restructuring if the reasons for suspension are publicly disclosed, in order to determine that the companies are not under financial difficulty.
 - For MSCI China A constituents, restructuring is considered a corporate event and does not require further public disclosures³.

¹ Refer to Appendix I in this document for a comparison of past deletions under the current and proposed methodology.

² Refer to Appendix II in this document for details on the proposed thresholds for deletion.

³ Refer to Appendix III in this document for details on restructuring as it relates to China A.

Questions

- **Proposal and thresholds:**
 - With regards to suspension, do you have a preference towards deleting securities quickly (enhancing replicability) versus maintaining securities (avoiding reverse turnover)?
 - Do you agree with the 50 day / 100 day thresholds for IMI / Micro Cap securities respectively?
 - In case of overlap between the IMI and Micro Cap thresholds, in your view which should take precedence?
- **Frequency:**
 - The proposal intends to delete securities under prolonged suspension on a monthly basis. Should securities be evaluated on a different frequency (e.g. daily, quarterly)?

Questions

- **Reasons of suspensions:**

- Are the reasons of suspension important:

- Should securities be deleted after meeting the proposed thresholds, regardless of the reasons of suspension (i.e. even corporate events)?
 - Alternatively, is there a case for an additional upper limit at which securities are deleted regardless of the reasons of suspension?

- **After suspensions:**

- Securities deleted due to prolonged suspension that resume trading and pass the respective eligibility criteria are currently considered for addition to the Indexes at the next Index Review. Should a longer period of time be given before such securities can be considered for addition?

Appendix

- I. Comparisons of current implementation and proposal with November 2013 and February 2014 index reviews
- II. Proposed timing of deletion
- III. Suspensions related to restructuring

Appendix I: Comparison of current implementation and proposal

Deletions due to prolonged suspension at February 2014 and November 2013 index reviews:

	Index Review	Country	Security	Size Segment	Start of suspension	Days suspended at deletion effective date (Index Review)	Days suspended at deletion under proposal	Difference in days suspended at deletion
Investable Market Indexes (IMI)	Feb 2014	AU	MIRABELA NICKEL	Small	4-Oct-13	107	65	42
	Feb 2014	CN	RONGFENG HLDG GROUP A	Domestic Small	5-Jul-13	172	Resume trading after 202 days after corporate event.	N/A
	Feb 2014	CN	SHANDONG JINING RUYI A	Domestic Small	26-Jul-13	157	Resume trading after 157 days after corporate event.	N/A
	Feb 2014	CN	SHANG JINFENG INVEST A	Domestic Small	28-Jun-13	177	Resume trading after 188 days after corporate event.	N/A
	Feb 2014	CN	WISON ENGINEERING SVCS	Small	2-Sep-13	131	66	65
	Nov 2013	ID	BAKRIELAND DEV	Small	30-May-13	130	68	62
	Nov 2013	KR	TERA RESOURCE	Small	15-Jul-13	98	57	41
	Nov 2013	MX	CORPORACION GEO B	Small	29-Jul-13	88	70	18
	Nov 2013	MX	URBI DESARROLLOS URBANOS	Small	25-Jul-13	90	72	18
Global Micro Cap Indexes	Feb 2014	GB	HIRCO	Micro	12-Aug-13	146	104	42
	Feb 2014	IT	BANCA POPOLARE DI SPOLE	Micro	18-Sep-13	119	119	0
	Feb 2014	NO	NORSE ENERGY CORP	Micro	20-Sep-13	117	117	0
	Feb 2014	SG	ANWELL TECHNOLOGIES	Micro	6-Aug-13	150	108	42
	Nov 2013	AU	VENTNOR RESOURCES	Micro	3-Apr-13	171	108	63
	Nov 2013	GB	HIBU	Micro	24-Jul-13	91	117	-26
	Nov 2013	GB	SILVERDELL	Micro	1-Jul-13	108	111	-3
	Nov 2013	HK	CHINA ASEAN RESOURCES	Micro	28-Mar-13	175	112	63
	Nov 2013	HK	RUIFENG PETRO CHEM HLDGS	Micro	28-Mar-13	175	112	63
	Nov 2013	SE	MINERAL INVEST INTL	Micro	1-Jul-13	108	111	-3

Appendix II: Proposed timing of deletion

- As there is a tradeoff between replicability and reverse turnover, the proposed threshold is selected at the point where the risk of a security under prolonged suspension resuming trading drops the most.
- Based on a 3 year analysis of suspended securities, this is determined at:
 - 50 business days for IMI securities:
 - This is at the point with the largest reduction in absolute risk of trading resumption (9% drop from 40 days).
 - An increased evaluation period (e.g. 80 business days) has diminishing reductions in risk while increasing the period of potential replication issues.
 - While the proposed threshold has increased (from 40 to 50 days of suspension), note that the frequency of evaluation is also increased from quarterly to monthly. Additionally, the threshold changes from a *threshold to review* to a *threshold to delete*.
 - 100 business days for Micro Cap securities:
 - Increase in evaluation period reflects different characteristics of Micro Cap securities, such as frequent end of suspension between 40-90 business days, reduced liquidity and potential infrequent trading.

Factors	Security deleted after x business days of suspension						
	40	50	60	70	80	90	100
Proposed timing of deletion for Investable Market Index (IMI) constituents under suspension							
Risk of trading resumption	72%	63%	60%	56%	49%	49%	47%
Decrease in risk from 10 day increase	N/A	-9%	-3%	-4%	-7%	0%	-2%
Proposed timing of deletion for Micro Cap Index constituents under suspension							
Risk of trading resumption	85%	78%	78%	67%	67%	67%	56%
Decrease in risk from 10 day increase	N/A	-7%	0%	-11%	0%	0%	-11%

Appendix III: Suspensions related to restructuring

- Restructuring is generally considered negatively in many global markets, in a similar line with financial difficulty.
 - MSCI's proposal requires further public disclosures when the suspension is due to restructuring.
 - In the absence of such disclosures, MSCI will not consider it as a corporate event and the security will be considered for deletion.
- In the domestic China market, the majority of long term suspensions are related to restructuring. However, restructuring is not related to financial difficulty.
 - Over a 3 year period, all suspensions related to restructuring resulted in a corporate event (e.g. M&A, placements) or were subsequently cancelled and the security resumed trading.
 - Companies that experience financial difficulty are assigned with the “special treatment” or ST status which are ineligible in the MSCI Equity Universe per Appendix XI of the MSCI Global Investable Market Indexes Methodology.
 - MSCI proposes to maintain China A securities that are suspended due to “restructuring” as they can be considered as corporate events.

MSCI 24 Hour Global Client Service

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
New York	+1.212.804.3901
San Francisco	+1.415.836.8800
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



Notice and Disclaimer

- This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the “Information”) is the property of MSCI Inc. or its subsidiaries (collectively, “MSCI”), or MSCI’s licensors, direct or indirect suppliers or any third party involved in making or compiling any Information (collectively, with MSCI, the “Information Providers”) and is provided for informational purposes only. The Information may not be modified, reverse-engineered, reproduced or disseminated in whole or in part without prior written permission from MSCI.
- The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indexes, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.
- The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.
- Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors.
- Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.
- The Information should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons.
- None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.
- It is not possible to invest directly in an index. Exposure to an asset class or trading strategy or other category represented by an index is only available through third party investable instruments (if any) based on that index. MSCI does not issue, sponsor, endorse, market, offer, review or otherwise express any opinion regarding any fund, ETF, derivative or other security, investment, financial product or trading strategy that is based on, linked to or seeks to provide an investment return related to the performance of any MSCI index (collectively, “Index Linked Investments”). MSCI makes no assurance that any Index Linked Investments will accurately track index performance or provide positive investment returns. MSCI Inc. is not an investment adviser or fiduciary and MSCI makes no representation regarding the advisability of investing in any Index Linked Investments.
- Index returns do not represent the results of actual trading of investible assets/securities. MSCI maintains and calculates indices, but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the index or Index Linked Investments. The imposition of these fees and charges would cause the performance of an Index Linked Investment to be different than the MSCI index performance.
- The Information may contain back tested data. Back-tested performance is not actual performance, but is hypothetical. There are frequently material differences between back tested performance results and actual results subsequently achieved by any investment strategy.
- Constituents of MSCI equity indexes are listed companies, which are included in or excluded from the indexes according to the application of the relevant index methodologies. Accordingly, constituents in MSCI equity indexes may include MSCI Inc., clients of MSCI or suppliers to MSCI. Inclusion of a security within an MSCI index is not a recommendation by MSCI to buy, sell, or hold such security, nor is it considered to be investment advice.
- Data and information produced by various affiliates of MSCI Inc., including MSCI ESG Research Inc. and Barra LLC, may be used in calculating certain MSCI equity indexes. More information can be found in the relevant standard equity index methodologies on www.msci.com.
- MSCI receives compensation in connection with licensing its indices to third parties. MSCI Inc.’s revenue includes fees based on assets in investment products linked to MSCI equity indexes. Information can be found in MSCI’s company filings on the Investor Relations section of www.msci.com.
- MSCI ESG Research Inc. is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc. Except with respect to any applicable products or services from MSCI ESG Research, neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and neither MSCI nor any of its products or services is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Issuers mentioned or included in any MSCI ESG Research materials may include MSCI Inc., clients of MSCI or suppliers to MSCI, and may also purchase research or other products or services from MSCI ESG Research. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indexes or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body.
- Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, IPD, FEA, InvestorForce, and other MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor’s. “Global Industry Classification Standard (GICS)” is a service mark of MSCI and Standard & Poor’s.

© 2014 MSCI Inc. All rights reserved.

May 2014

