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Proposal on Selected Changes to the MSCI Equity Universe

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Potential Exclusion of Business Development Companies from the MSCI USA Equity Universe

Background & Proposal

- Following feedback from selected market participants, MSCI proposes to exclude Business Development Companies (BDCs) from the MSCI USA Equity Universe starting from the May 2014 Semi-Annual Index Review.
- BDCs are a category of closed-end funds that are operated for the purpose of making investments in small and developing businesses as well as financially troubled businesses.
- MSCI welcomes feedback from the investment community on the potential exclusion of BDCs from the MSCI Global Investable Market Indices before April 4, 2014 and will announce its final decision shortly thereafter.
- This proposal may or may not result in changes to the Global Investable Market Indices.

Impact on the MSCI Global Investable Indices

- The exclusion of BDCs from the MSCI USA Equity Universe may result in the deletion of the following securities from the MSCI USA All Cap Indices*:

Small-Cap Segment

American Capital
 Apollo Inv Corp
 Ares Capital Cor
 Blackrock Kelso Cap
 Capital Southwest Corp
 Fifth Street Fin Corp
 Golub Capital Bdc
 Hercules Technology Grow
 Kcap Financial
 Main Street Capital Corp
 Mcg Capital Corp
 Medley Capital
 Mvc Capital Inc
 New Mountain Fin Corp
 Pennantpark Invest.
 Prospect Capital Corp
 Solar Capital
 Tcp Capital Corp
 Thi Credit
 Ticc Capital
 Triangle Capital Corp

Micro-Cap Segment

Fidus Investment Corp
 Firsthand Technology Val
 Full Circle Capital Corp
 Garrison Capital
 Gladstone Cap Co
 Gladstone Invest
 Gsv Capital Corp
 Harris & Harris Group
 Harvest Capital Credit
 Horizon Tech Finance
 Keating Capital
 Medallion Financial Corp
 Monroe Capital Corp
 Ngp Cap Res Co
 Ofs Capital Corp
 Pennantpark Floating
 Saratoga Investment
 Solar Senior Capital
 Stellus Capital Invt
 Whitehorse Finance

	# of Secs	Index Mcap	Index Weight
Small	21	26,944	0.91%
Micro	20	3,159	2.79%
TOTAL	41		

As of January 21, 2014

The final list of BDCs will be provided as part of the May 2014 SAIR

Potential Exclusion of Selected Alert Boards from the MSCI Equity Universe

Background and Proposal

- Since May 2008, MSCI has been excluding securities with the *ST/ST status from the MSCI China Equity Universe. In May 2013, MSCI also started excluding securities trading under the Altered Trading Method (ATM) in Taiwan.*
- The purpose of these exchange boards is to provide a list of companies that may be experiencing issues and that may result in their subsequent long term suspension or delisting. There may be also additional issues associated with trading such securities, such as prefunding.
- MSCI proposes to extend this treatment to other similar exchange boards globally.
- MSCI welcomes feedback from the investment community on the potential exclusion of such trading boards from the MSCI Global Investable Market Indices. MSCI is requesting feedback by April 4, 2014 and will announce its final decision shortly thereafter.
- This proposal may or may not result in changes to the Global Investable Market Indices.

Details of the Proposal

- MSCI has conducted a broad review of all markets covered by the MSCI Global Investable Market Indices and has identified exchange boards listing companies with potential financial or operational issues.
- MSCI proposes to exclude the securities listed on the boards in the table below from the MSCI Equity Universe.
- Securities placed on these boards may potentially be delisted or undergo long-term suspension. In some cases, trading restrictions may also be imposed.
 - By deleting a security from the MSCI Index before it gets suspended, asset managers may be able to unwind their position in the security instead of writing-off the suspended security at the lowest price at which a security can trade.
 - Creating or unwinding a position in a security that trades differently compared to other securities in the exchange can be more difficult and, therefore, may pose a replicability issue.

Country	Exchange	Segment	Trading Restrictions
Estonia	Talinn Stock Exchange	Watch Notation	
Lithuania	Vilnius Stock Exchange	Observation Status	
Malaysia	Bursa Malaysia	PN17 Companies	
Singapore	Singapore Exchange	Watch List	
Thailand	Stock Exchange of Thailand	Companies Facing Delisting	Yes
Vietnam	Ho Chi Minh Stock Exchange	Controlled Securities	Yes



Impact on the MSCI Indices

- Based on the information gathered from the exchanges, the exclusion of these boards may lead to the deletion of the following securities from the MSCI All Cap Indices:

Country	Company	Size Segment	Index MCap	Index Weight*
SG	NEXT-GEN SATELLITE COMM LTD	Micro	25.07	0.20%
SG	DIGILAND INTERNATIONAL LTD	Micro	24.01	0.19%
SG	FEDERAL INT (2000) LTD	Micro	66.63	0.53%
SG	MIYOSHI PRECISION LTD	Micro	17.11	0.14%
SG	PACIFIC HEALTHCARE HOLDINGS LTD	Micro	18.40	0.15%

** Index weights are relative the MSCI Singapore Micro Cap Index*

Proposed Implementation Policy

- MSCI proposes implementation rules, which would be consistent with the current treatment of securities on*ST/ST and ATM boards:
 - MSCI would delete securities of companies that enter ineligible exchange boards specified in this document as of the close of the last business day of each month with a notice period of at least two full business days.
 - In order to minimize potential reverse turnover, securities deleted due to inclusion on such boards would not be added back to the index for a period of 12 months from their deletion.

Discussion Points

- Should MSCI exclude securities listed on exchange boards indicating potential future delisting or long-term suspension?
- Are there other similar boards, not covered in this consultation, whose securities MSCI should exclude from the MSCI Equity Universe?

Appendix



Background: *ST/ST and ATM Securities

Securities that are placed under the ATM or are designated the *ST/ST status are generally companies with financial or operational issues. These securities are excluded from the MSCI Equity Universe.

China: *ST / ST Securities

The Delisting Risk Warning (*ST)	Other Special Treatment (ST)	Impact
<ol style="list-style-type: none"> 1) Net losses over the past 2 years 2) Negative net asset value for the past 1 year 3) Most recent annual operating revenue is less than CNY 10m 4) Disclaimer of opinion by a CPA firm 5) Inaccurate financial reports with 2m of suspension, 6) Non-disclosure of financial reports with 2m suspensions 7) Likely to be dissolved 8) Bankruptcy 9) Not meeting the stock exchange requirements 10) Other circumstances as recognized by the stock exchange 	<ol style="list-style-type: none"> 1) Company business is seriously impacted and not likely to return to normal business within 3 months 2) Main corporate bank account has been frozen 3) Board meeting cannot be held on a normal basis 4) Illegal activities conducted by controlling shareholders 5) Other circumstances as determined by the CSRC or the Stock Exchange 	<ol style="list-style-type: none"> 1) 5% Daily Price Change Limit 2) "ST" is added before the share name

Taiwan: ATM Securities

Altered Trading Method	Impact
<ol style="list-style-type: none"> 1) Net worth of the company is less than 50% of its share capital 2) Shareholding meeting is not held regularly 3) Qualified opinion is expressed by auditors 4) Reporting false material information 5) Unable to meet debt payments 	<ol style="list-style-type: none"> 1) Pre-delivery is required for Sell Transactions 2) Pre-funding is required for Buy Transactions 3) Settlement cycle is effectively changed from T+0 to T+2



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