

DIVIDEND REINVESTMENT FOR RUSSIAN DEPOSITARY RECEIPTS

Proposal for methodology changes.

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BACKGROUND

- As per the current methodology for Russian Depositary Receipts (DRs), MSCI does not reinvest the difference in dividend amounts between the estimated dividend amount announced prior to the ex-date and what is actually paid by the Depositary Bank after the ex-date.
- Not reinvesting such difference is not consistent with the current dividend reinvestment treatment in Korea and Japan.
- The reinvestment of dividends paid to Russian DRs holders may create tracking error if the dividend amounts are different.
- As per current methodology, MSCI does not take into account the fees withheld by the Depositary Banks for Russian DRs, if any.
- Following initial clients' feedback, MSCI is proposing to review its treatment of dividends reinvestment paid by Russian DRs in the MSCI DTR Indexes.
- This consultation may or may not result in any changes to MSCI methodologies or processes.

ENHANCEMENT PROPOSAL 1

- MSCI proposes to continue reinvesting an estimated dividend amount in USD on the ex-dates of the Russian DRs.
- In addition, MSCI would monitor the actual dividend amount announced by the Depositary Bank on or before the pay-date and would reinvest differences, if any, in the MSCI Gross and Net DTR Indexes on the pay-date (provided that the information is captured on time by MSCI's data sources) with at least one business day advanced notice.
- MSCI would reinvest in the MSCI Gross and Net DTR Indexes the dividend amount DR holders actually receive.
- MSCI's dividend reinvestment treatment would be consistent across Indexes (for example: Korea and Japan).

ENHANCEMENT PROPOSAL 2

- MSCI proposes to deduct the fees withheld by the Depositary Bank from the Net dividend amount.
- At the time of the reinvestment of the difference on or around the pay date (see proposal 1), MSCI would also deduct the fees withheld by the Depositary Bank, if any, from the net dividend amount¹ in the MSCI Net DTR Indexes only.
- MSCI would take into account the fees withheld by the Depositary Bank in the net dividend amount to reinvest in the MSCI Net DTR Indexes what DR holders actually receive.

¹ *Net dividend = Gross dividend amount – withholding tax – depositary bank's fees*

MSCI CURRENT METHODOLOGY VS PROPOSAL

Current treatment

- Prior to the dividend ex-date, Russian companies disclose their dividend amounts in Ruble.

MSCI reinvests an estimated dividend amount in Ruble adjusted by DR ratio in the MSCI DTR Indexes on the DR's ex-date.

- Prior to the dividend pay-date, the Depositary Bank discloses the actual dividend amount to be paid to DR holders.

MSCI reinvests the difference in the Indexes, MSCI DTR if the impact breaches the correction threshold of 50bps (which has not happened to date).

New treatment Proposal

MSCI reinvests an estimated dividend amount in USD¹ in the MSCI DTR Indexes on DR's ex-date.

MSCI reinvests in USD all differences in gross and net² dividend amount in the MSCI DTR Indexes on the pay-date³, leaving at least one full business day advanced notice.

Fees withheld by the Depositary bank are deducted from the net dividend amount.

¹ as provided by MSCI data vendors

² Net dividend = Gross dividend amount – withholding tax – depositary bank's fees

³ provided that the information is captured on time by MSCI's data sources

PROPOSAL (EXAMPLE)

Description

Russian company “ABC”

Gross Dividend amount = RUB 50.0 per share

Net Dividend amount = RUB 42.5 per share

Estimated gross dividend amount = USD 0.50 per DR

(i.e. RUB 50/2 = RUB 25; RUB 25/ 50 = USD 0.5)

Estimated net dividend amount = USD 0.425 per DR

*(i.e. USD 50 * (1 - 0.15) = USD 0.425)*

Additional information

Ratio: 1 share : 2 DR

Exchange rate: 50 RUB/USD

Withholding tax rate: 15%

Depository fees = USD 0.01

Ex-date: May10

Pay-date: July 7

- **Prior to the ex-date, the company announces the amount and ex date of its upcoming dividend.**
 - MSCI would reinvest USD 0.50 per DR for company “ABC” on May 10 in the MSCI Gross DTR Indexes.
 - MSCI would reinvest USD 0.425 per DR for company “ABC” on May 10 in the MSCI Net DTR Indexes.

- **Prior to the pay-date, Depository Bank announces the actual amount to be paid to DR holders.**

Gross dividend amount = USD 0.51 per DR

Net dividend amount = USD 0.4235 per DR *(i.e. [USD 0.51 * (1 - 0.15)] – USD 0.01)*

- MSCI would reinvest USD 0.01 (0.51-0.50) per DR for company “ABC” on or around July 7 in the MSCI Gross DTR Indexes.
- MSCI would reinvest USD -0.0015 (0.4235-0.425) per DR for company “ABC” on or around July 7 in the MSCI Net DTR Indexes.

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