

# Consultation on Proposed Methodology Enhancement for China P-Chip Classification

August 2020

## Background

- In order to enhance the country classification framework in the MSCI Global Investable Market Indexes methodology, MSCI proposes to use company headquarters as a condition to classify China P-Chip companies instead of the current nationality criteria and revise current revenue and non-current assets thresholds based on the location of headquarters.
- Currently, to be classified as a China P-Chip, a company should satisfy at least two out of three of the following conditions:
  - Mainland China individuals comprise its largest shareholding
  - It derives more than 80% of its revenue from Mainland China (70% for existing constituents)
  - It allocates more than 60% of its non-current assets in Mainland China (50% for existing constituents)
- MSCI welcomes feedback until September 18, 2020. MSCI will communicate the results of the consultation on or before September 25, 2020.

# Proposal

- MSCI proposes to apply the following conditions for the classification of companies as China P-chip:
  - For a company with **headquarters in Mainland China** –
    - It derives more than 50% of its revenue from Mainland China (40% for existing constituents) or
    - It allocates more than 50% of its non-current assets in Mainland China (40% for existing constituents)
  - For a company with **headquarters in Hong Kong, Macau or elsewhere** –
    - It derives more than 80% of its revenue from Mainland China (70% for existing constituents) and
    - It allocates more than 60% of its non-current assets in Mainland China (50% for existing constituents)

## Discussion Points

- Do you agree with the proposal to use company headquarters as a condition instead of nationality for the classification of companies as China P-Chip? If not, why?
- Do you agree with the proposed thresholds for companies with headquarters in Mainland China? Please provide further comments/feedback to your response.
- Do you agree with the proposed thresholds for companies with headquarters in Hong Kong, Macau or elsewhere? Please provide further comments/feedback to your response.
- Do you have any further comments/feedback on this topic?

## Simulated Impact (1/2)

List of companies\* reclassified to Hong Kong based on proposed conditions from November 2019 SAIR

MSCI Code	RIC	Security Name	Current Classification	Potential classification
94102.01	0612.HK	China Ding Yi Feng (Cn)	CN	HK
36669.01	2678.HK	Texhong Textile Group	CN	HK
91338.01	0799.HK	Igg (Cn)	CN	HK
70771.01	8137.HK	Honbridge (Cn)	CN	HK
76458.01	0108.HK	Gr Properties (Cn)	CN	HK
76457.01	0106.HK	Landsea Green Properties	CN	HK
76463.01	0607.HK	Fullshare Holdings (Cn)	CN	HK
96910.01	0185.HK	Zensun Enterprises (Cn)	CN	HK
64031.01	1004.HK	China Smarter Energy Grp	CN	HK
91343.01	0439.HK	Kuangchi Science (Cn)	CN	HK
62872.01	0030.HK	Ban Loong Holdings	CN	HK

## Simulated Impact (2/2)

List of companies\* reclassified to China P-Chip based on proposed conditions from November 2019 SAIR

MSCI Code	RIC	Security Name	Current Classification	Potential classification
94110.01	0425.HK	Minth Group (Hk)	HK	CN
80426.01	1717.HK	Ausnutria Dairy (Hk)	HK	CN
96901.01	1383.HK	Suncity Group Hldgs (Hk)	HK	CN
91344.01	0853.HK	Microport Sci (Hk)	HK	CN
98386.01	2616.HK	Cstone Pharmaceuticals	HK	CN
98865.01	1873.HK	Viva Biotech Holdings	HK	CN
33611.01	2038.HK	Fih Mobile	HK	CN
97517.01	2552.HK	Hua Medicine	HK	CN
99124.01	0468.HK	Greatview Aseptic (Hk)	HK	CN
96908.01	0877.HK	O Net Technologies (Hk)	HK	CN
74044.01	2283.HK	Tk Group Holdings	HK	CN
94798.01	1651.HK	Precision Tsugami China	HK	CN

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