

CONSULTATION ON A MARKET RECLASSIFICATION PROPOSAL FOR THE MSCI ARGENTINA INDEX

Potential Reclassification from Frontier to
Emerging Markets

June 2016

RECLASSIFICATION PROPOSAL

- MSCI proposes to reclassify the MSCI Argentina Index from Frontier Markets to Emerging Markets
 - The proposed reclassification would be reflected in all relevant global and regional composite indexes
 - The proposal is to implement the potential reclassification in one step coinciding with the May 2018 Semi-Annual Index Review
- MSCI will consult with market participants on this reclassification proposal as part of the 2017 Annual Market Classification Review
 - MSCI will announce its decision in June 2017
- Please note that this proposal may or may not lead to any changes to the MSCI Indexes

HISTORICAL BACKGROUND

- The MSCI Argentina Index was excluded from the MSCI Emerging Markets Index in May 2009 as a result of the continued restrictions to inflows and outflows of capital in the Argentinian equity market
- In addition, MSCI considered only American Depositary Receipts (ADRs) of Argentinean companies as eligible securities for inclusion in the MSCI Argentina Index

RATIONALE FOR PROPOSAL

- In December 2015, Argentina lifted capital controls and allowed the peso to float more freely. Changes include:

Restrictions	Prior to December 2015	Current
Minimum period during which investments must stay in the country	365 days	120 days
Mandatory cash deposit applied to USD inflows	30%	Removed
Maximum limit for repatriation of funds from the sale of equity securities	USD 500,000 per month	Removed
Approval from the Central Bank for repatriation of funds	Required and with certain conditions	Removed as long as minimum term requirement is met (i.e. 120 days)

MARKET ACCESSIBILITY

Market Accessibility Assessment	AR
Openness to foreign ownership	
Investor qualification requirement	++
Foreign ownership limit (FOL) level	++
Foreign room level	++
Equal rights to foreign investors	+
Ease of capital inflows / outflows	
Capital flow restriction level	+
Foreign exchange market liberalization level	+
Efficiency of the operational framework	
Market entry	
Investor registration & account set up	-/?
Market organization	
Market regulations	+
Information flow	+
Market infrastructure	
Clearing and settlement	-/?
Custody	++
Registry / Depository	++
Trading	+
Transferability	+
Stock lending	-/?
Short selling	-/?
Stability of institutional framework	-/?

- **Capital Flow Restriction: “-/?” to “+”:** Eliminated the maximum limit for the repatriation of funds from the sale of equity securities and the need for approval from the Central Bank for repatriation of funds. The minimum period during which investments must stay in the country remained, however, but was reduced from 365 days to 120 days.
- **Foreign Exchange Market Liberalization Level: “-/?” to “+”:** The mandatory cash deposit applied to USD inflows was eliminated and the peso was allowed to float.
- **Investor Registration & Account Setup:** Registration is mandatory and all documents must be filed in Spanish. The full process can take up to ten days.
- **Information Flow:** Detailed stock market information is not always disclosed in English.
- **Clearing and Settlement:** There is an absence of a real Delivery vs Payment (DVP) system and overdraft facilities on the Merval (Mercado de Valores de Buenos Aires).
- **Stability of Institutional Framework:** There have been instances of government intervention that challenged the stability of the “free-market” economy, including with respect to investment activities of foreign investor.

SIMULATED CONSTITUENTS FOR MSCI ARGENTINA IMI

Company	Full Mcap*	FIF Mcap*	FIF**	Size-Segment
YPF D ADR	7,802	3,511	0.45	Standard
Banco Macro B ADR	4,269	2,721	0.65	Standard
Grupo Fin Galicia B ADR	4,058	2,852	0.9	Standard
BBVA Banco Frances ADR	4,046	1,012	0.25	Standard
Telecom Argentina B ADR	3,653	1,571	0.9	Standard
Pampa Energia ADR	1,513	1,286	0.85	Small Cap
Adecoagro	1,403	1,123	0.8	Standard
Petrobras ARG B ADR	1,351	473	0.35	Standard
Globant	1,133	850	0.75	Standard
Transportadora Gas B ADR	1,084	526	1	Small Cap
Arcos Dorados Holdings A	882	547	1	Small Cap
Irsa ADR	878	307	0.35	Small Cap
Edenor B ADR	737	355	1	Small Cap
Cresud ADR	564	367	0.65	Small Cap

- In the event of a reclassification, MSCI proposes to include local listings among the eligible securities for the MSCI Argentina Index, provided that they meet the necessary liquidity requirements. Note that based on the simulated results, there are no local listings eligible for inclusion as of now.

SIMULATED INDEX CONSTITUENT LIST

Number of Constituents

	Large Cap	Mid Cap	Standard	Small Cap	IMI
Frontier Markets	5	4	9	6	15
Emerging Markets	5	3	8	6	14

Data as of April 19, 2016

The simulation reflects the application of the Semi-Annual Index Review methodology, using either the Frontier Markets or Emerging Markets requirements

Free Float Adjusted Market Capitalization (USD million)

	Large Cap	Mid Cap	Standard	Small Cap	IMI
Frontier Markets	11,666	3,065	14,731	3,387	18,118
Emerging Markets	11,666	2,445	14,112	3,387	17,498

Data as of April 19, 2016

The simulation reflects the application of the Semi-Annual Index Review methodology, using either the Frontier Markets or Emerging Markets requirements

- The MSCI Argentina Index would have eight constituents under Emerging Markets, compared to nine under Frontier Markets
 - The free float-adjusted market capitalization would be 4% lower under Emerging Markets

SIMULATED IMPACT TO MSCI EMERGING MARKETS INDEX

	Actual Standard Index			Simulated Standard Index		
	Index Market Cap	Weight	# Sec.	Index Market Cap	Weight	# Sec.
EM	3,815,890	100.0%	831	3,836,709	100.0%	848
EM Asia	2,680,024	70.2%	552	2,686,731	70.0%	561
China	1,010,836	26.5%	150	1,010,836	26.3%	150
Korea	561,041	14.7%	107	561,041	14.6%	107
Taiwan	443,616	11.6%	90	443,616	11.6%	90
India	308,310	8.1%	74	308,310	8.0%	74
Malaysia	118,018	3.1%	43	118,018	3.1%	43
Indonesia	99,564	2.6%	31	99,564	2.6%	31
Thailand	83,452	2.2%	34	83,452	2.2%	34
Philippines	55,186	1.4%	23	55,186	1.4%	23
Pakistan				6,707	0.2%	9
EM EMEA	638,470	16.7%	163	638,470	16.6%	163
South Africa	280,266	7.3%	53	280,266	7.3%	53
Russia	143,009	3.7%	21	143,009	3.7%	21
Turkey	57,203	1.5%	24	57,203	1.5%	24
Poland	48,922	1.3%	23	48,922	1.3%	23
Qatar	34,909	0.9%	13	34,909	0.9%	13
United Arab Emirates	34,505	0.9%	11	34,505	0.9%	11
Greece	14,781	0.4%	9	14,781	0.4%	9
Hungary	11,547	0.3%	3	11,547	0.3%	3
Czech Republic	6,782	0.2%	3	6,782	0.2%	3
Egypt	6,547	0.2%	3	6,547	0.2%	3
EM Latin America	497,396	13.0%	116	511,508	13.3%	124
Brazil	254,008	6.7%	59	254,008	6.6%	59
Mexico	164,328	4.3%	27	164,328	4.3%	27
Chile	46,671	1.2%	18	46,671	1.2%	18
Colombia	18,649	0.5%	9	18,649	0.5%	9
Argentina				14,112	0.4%	8
Peru	13,741	0.4%	3	13,741	0.4%	3

Note: All market caps are in USD millions. Data as of the close of April 19, 2016

- The simulated MSCI Argentina Index would have a potential weight of 0.4% in the MSCI Emerging Markets Index

Current weight of MSCI Argentina Index in MSCI Frontier Markets Index: 16.1%

SIMULATED IMPACT TO THE MSCI FM 100 (EX AR, PK)

	Actual Index		Simulated Index (ex PK AR)	
	# constituents	Actual Weight	# constituents	Actual Weight
KUWAIT	13	21.58%	14	27.19%
NIGERIA	9	10.89%	11	12.81%
ARGENTINA	14	18.42%	0	0.00%
PAKISTAN	13	10.22%	0	0.00%
KENYA	5	6.45%	5	8.93%
OMAN	5	4.79%	7	7.38%
MOROCCO	4	5.93%	4	8.20%
ROMANIA	6	4.32%	7	6.34%
VIETNAM	4	3.69%	8	6.60%
KAZAKHSTAN	2	1.76%	3	2.72%
BANGLADESH	6	3.71%	12	7.03%
SRI LANKA	3	2.06%	4	3.16%
JORDAN	2	1.35%	5	2.96%
MAURITIUS	3	3.87%	3	5.36%
ESTONIA	0	0.00%	0	0.00%
SLOVENIA	1	0.33%	1	0.46%
BAHRAIN	1	0.63%	1	0.87%
SERBIA	0	0.00%	0	0.00%
BULGARIA	0	0.00%	0	0.00%
CROATIA	0	0.00%	0	0.00%
LEBANON	0	0.00%	0	0.00%
LITHUANIA	0	0.00%	0	0.00%
TUNISIA	0	0.00%	0	0.00%
UKRAINE	0	0.00%	0	0.00%
Total	91	100.00%	85	100.00%

MSCI FM 100 Index (ex PK, AR) Top 10 Constituents

Security Name	Country Name	Simulated New Weight
NATIONAL BANK OF KUWAIT	KUWAIT	9.3%
KUWAIT FINANCE HOUSE	KUWAIT	6.4%
MOBILE TELECOM CO	KUWAIT	4.3%
NIGERIAN BREWERIES	NIGERIA	4.0%
MAROC TELECOM	MOROCCO	3.7%
SAFARICOM	KENYA	3.2%
ATTIJARIWafa BANK	MOROCCO	2.3%
BANCA TRANSILVANIA	ROMANIA	2.3%
GUARANTY TRUST BANK	NIGERIA	2.3%
OMAN TELECOM CO	OMAN	2.2%

Note: The simulation reflects data as of May 18, 2016



*Simulation already considers the exclusion of MSCI Pakistan from Frontier Markets

KEY QUESTIONS

- Should MSCI give more time before reclassification of the MSCI Argentina Index to Emerging Markets given the market's specific accessibility history?
- Will the potential inclusion of local listings in the MSCI Argentina Equity Universe be problematic?
- Are there any other market accessibility concerns that should prevent reclassification?
- Would the reclassification create an undesirable concentration of the MSCI Frontier Markets Index, especially noting the upcoming reclassification of the MSCI Pakistan Index and ongoing consultation on the MSCI Nigeria Index?

APPENDIX

SIMULATED IMPACT ON THE MSCI FM 100 (EX NG, PK, AR)

	Actual Index		Simulated Index (ex NG, PK, AR)	
	# constituents	Actual Weight	# constituents	Actual Weight
KUWAIT	13	21.58%	15	31.55%
NIGERIA	9	10.89%	0	0.00%
ARGENTINA	14	18.42%	0	0.00%
PAKISTAN	13	10.22%	0	0.00%
KENYA	5	6.45%	5	8.45%
OMAN	5	4.79%	7	8.45%
MOROCCO	4	5.93%	4	8.45%
ROMANIA	6	4.32%	7	7.40%
VIETNAM	4	3.69%	13	8.45%
KAZAKHSTAN	2	1.76%	3	3.18%
BANGLADESH	6	3.71%	15	8.45%
SRI LANKA	3	2.06%	4	3.68%
JORDAN	2	1.35%	5	3.45%
MAURITIUS	3	3.87%	3	6.26%
ESTONIA	0	0.00%	0	0.00%
SLOVENIA	1	0.33%	2	0.86%
BAHRAIN	1	0.63%	2	1.36%
SERBIA	0	0.00%	0	0.00%
BULGARIA	0	0.00%	0	0.00%
CROATIA	0	0.00%	0	0.00%
LEBANON	0	0.00%	0	0.00%
LITHUANIA	0	0.00%	0	0.00%
TUNISIA	0	0.00%	0	0.00%
UKRAINE	0	0.00%	0	0.00%
Total	91	100.00%	85	100.00%

FM 100 (ex NG, PK, AR) Top 10 Constituents

Security Short Name	Country Name	Simulated New Weight
NATIONAL BANK OF KUWAIT	KUWAIT	10.5%
KUWAIT FINANCE HOUSE	KUWAIT	7.2%
MOBILE TELECOM CO	KUWAIT	4.9%
MAROC TELECOM	MOROCCO	4.1%
SAFARICOM	KENYA	3.6%
ATTIJARIWafa BANK	MOROCCO	2.6%
BANCA TRANSILVANIA	ROMANIA	2.6%
OMAN TELECOM CO	OMAN	2.5%
MCB GROUP	MAURITIUS	2.5%
ROCKCASTLE GLOBAL (ZA)	MAURITIUS	2.4%

Note: The simulation reflects data as of May 18, 2016

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