

# CONSULTATION ON A MARKET RECLASSIFICATION PROPOSAL FOR THE MSCI NIGERIA INDEX

Potential Reclassification from Frontier to  
Standalone

June 2016

# RECLASSIFICATION PROPOSAL

- Following foreign exchange (FX) liquidity issues in Nigeria causing deterioration of equity market accessibility, MSCI proposes to reclassify the MSCI Nigeria Index from Frontier Markets to Standalone market status
  - 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 November 2016 Semi-Annual Index Review
- MSCI will consult with market participants and will announce its decision by end of September 2016
- Please note that this proposal may or may not lead to any changes to the MSCI Indexes

# RECENT DEVELOPMENTS

- The Central Bank of Nigeria (CBN) pegged the currency at NGN 197 to the USD in the first half of 2015.
- This has caused FX liquidity to dry out, especially at the beginning of 2016. The CBN's provision of liquidity on weekly basis (which can be also be irregular) is not sufficient to meet the demands.
- On May 24, 2016, the CBN announced that it is adopting a “flexible exchange rate policy to restore the automatic adjustment properties of the exchange rate”. However, details of the new rules have not yet been published.
- MSCI has not implemented changes resulting from the May 2016 Semi-Annual Index Review and from selective corporate events for the MSCI Nigeria Indexes, as well as for selected composite indexes of which Nigeria is a component.

# SIMULATED IMPACT TO MSCI FRONTIER MARKETS INDEX

	Actual Standard Index			Simulated Standard Index		
	Index Market Cap	Weight	# Sec.	Index Market Cap	Weight	# Sec.
<b>FM</b>	<b>91,584</b>	<b>100.0%</b>	<b>117</b>	<b>81,583</b>	<b>100.0%</b>	<b>101</b>
<b>FM ex GCC</b>	<b>67,651</b>	<b>73.9%</b>	<b>99</b>	<b>57,650</b>	<b>70.7%</b>	<b>83</b>
Argentina	14,731	16.1%	9	14,731	18.1%	9
<b>Nigeria</b>	<b>10,001</b>	<b>10.9%</b>	<b>16</b>			
Pakistan	7,737	8.4%	16	7,737	9.5%	16
Morocco	7,079	7.7%	9	7,079	8.7%	9
Kenya	4,863	5.3%	4	4,863	6.0%	4
Vietnam	3,327	3.6%	8	3,327	4.1%	8
Romania	3,300	3.6%	5	3,300	4.0%	5
Lebanon	3,149	3.4%	4	3,149	3.9%	4
Mauritius	2,925	3.2%	2	2,925	3.6%	2
Bangladesh	2,120	2.3%	5	2,120	2.6%	5
Slovenia	1,982	2.2%	2	1,982	2.4%	2
Sri Lanka	1,472	1.6%	3	1,472	1.8%	3
Croatia	1,318	1.4%	2	1,318	1.6%	2
Kazakhstan	1,253	1.4%	2	1,253	1.5%	2
Jordan	958	1.0%	2	958	1.2%	2
Tunisia	597	0.7%	2	597	0.7%	2
Estonia	459	0.5%	2	459	0.6%	2
Serbia	183	0.2%	2	183	0.2%	2
Lithuania	133	0.1%	2	133	0.2%	2
Bulgaria	66	0.1%	2	66	0.1%	2
<b>FM GCC</b>	<b>23,933</b>	<b>26.1%</b>	<b>18</b>	<b>23,933</b>	<b>29.3%</b>	<b>18</b>
Kuwait	17,339	18.9%	8	17,339	21.3%	8
Oman	3,832	4.2%	7	3,832	4.7%	7
Bahrain	2,762	3.0%	3	2,762	3.4%	3

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

# SIMULATED IMPACT TO THE MSCI FM 100 INDEX

	Actual Index		Simulated Index (ex NG)	
	# constituents	Actual Weight	# constituents	Actual Weight
KUWAIT	13	21.58%	13	21.58%
NIGERIA	9	10.89%	0	0.00%
ARGENTINA	14	18.42%	14	18.42%
PAKISTAN	13	10.22%	13	12.27%
KENYA	5	6.45%	5	7.74%
OMAN	5	4.79%	6	6.00%
MOROCCO	4	5.93%	4	7.12%
ROMANIA	6	4.32%	6	5.18%
VIETNAM	4	3.69%	5	4.82%
KAZAKHSTAN	2	1.76%	2	2.11%
BANGLADESH	6	3.71%	6	4.46%
SRI LANKA	3	2.06%	3	2.47%
JORDAN	2	1.35%	3	2.01%
MAURITIUS	3	3.87%	3	4.65%
ESTONIA	0	0.00%	0	0.00%
SLOVENIA	1	0.33%	1	0.40%
BAHRAIN	1	0.63%	1	0.75%
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%
<b>Total</b>	<b>91</b>	<b>100.00%</b>	<b>85</b>	<b>100.00%</b>

## MSCI FM Index 100 (ex NG) Top 10 Constituents

Security Short Name	Country Name	Simulated New Weight
NATIONAL BANK OF KUWAIT	KUWAIT	6.8%
KUWAIT FINANCE HOUSE	KUWAIT	4.6%
YPF D ADR	ARGENTINA	4.2%
MOBILE TELECOM CO	KUWAIT	3.1%
GRUPO FIN GALICIA B ADR	ARGENTINA	2.8%
MAROC TELECOM	MOROCCO	2.7%
BANCO MACRO B ADR	ARGENTINA	2.6%
SAFARICOM	KENYA	2.3%
TELECOM ARGENTINA B ADR	ARGENTINA	1.8%
NATIONAL BANK OF KUWAIT	KUWAIT	6.8%

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

# KEY QUESTIONS

- Despite recent announcement by the CBN on the potential introduction of a “flexible rate policy” , the currency remains pegged to the USD and continues to cause liquidity issues for foreign investors
  - Does this issue warrant a reclassification of the MSCI Nigeria Index to Standalone Market status?
  - Should MSCI provide more time for the CBN and other market authorities to find a solution?
- Would reclassification of Nigeria strike the right balance between market accessibility and market representation in the MSCI Frontier Market Indexes, noting that the MSCI Pakistan Index will be removed and the MSCI Argentina Index may be removed from this composite?
- In the event of a reclassification, does the November 2016 Semi-Annual Index review represent a reasonable timeframe for implementation or is more lead time needed?
  - Is it appropriate to implement the reclassification in one phase?

# APPENDIX

# BACKGROUND

- The Central Bank of Nigeria (CBN) pegged the currency at 197-199 for around 1 year
  - Parallel market rate, currently trading at 320, has diverged from the official rate following decreasing oil prices increasing to as high as 385-410 at one point
  - Liquidity has dried out and even with the Central Bank providing liquidity on a weekly basis, it is not sufficient to meet the demands
- On May 24, 2016, the CBN announced that it is adopting a “flexible exchange rate policy to restore the automatic adjustment properties of the exchange rate”. Details of the new rules are yet to be published.

## NGN per 1 USD

10 Jun 2014 00:00 UTC - 9 Jun 2016 12:33 UTC

USD/NGN close:198.98000 low:161.00007 high:205.05395



Source: XE.com



# SIMULATED IMPACT ON THE MSCI FRONTIER MARKETS INDEX (EX NG, PK, AR)

	Actual Standard Index			Simulated Standard Index		
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<b>FM</b>	<b>91,584</b>	<b>100.0%</b>	<b>117</b>	<b>59,115</b>	<b>100.0%</b>	<b>76</b>
<b>FM ex GCC</b>	<b>67,651</b>	<b>73.9%</b>	<b>99</b>	<b>35,182</b>	<b>59.5%</b>	<b>58</b>
Argentina	14,731	16.1%	9	0.0%		
Nigeria	10,001	10.9%	16	0.0%		
Pakistan	7,737	8.4%	16	0.0%		
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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%
<b>Total</b>	<b>91</b>	<b>100.00%</b>	<b>85</b>	<b>100.00%</b>

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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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