

CONCLUSION OF THE CONSULTATION ON SPECIFIC TOPICS RELATED TO CHINA A PARTIAL INCLUSION

October 2017

EXECUTIVE SUMMARY

- MSCI has concluded a consultation related to China A shares inclusion on the following specific topics
- Following client feedback and further analysis, MSCI has revised some of the proposals

Topics	Original Proposal	Final Proposal
Index Offering	<ul style="list-style-type: none"> - Rename of MSCI China A Indexes to MSCI China A Domestic Indexes - Launch of MSCI China A Inclusion Indexes and MSCI China A Indexes 	Revised (see slide 5)
CE Methodology		
- Non Market Neutral Event	- Postpone event implementation on Connect holiday	Remains unchanged
- Dividend Reinvestment	- Reinvest dividend on Connect holiday	Revised (see slide 9)
- Early Inclusion	- All IPO securities will be reviewed for addition at subsequent Index Review according to methodology	Remains unchanged
- Connect Daily Limit Breach	- NOT to postpone the implementation of corporate events and Index Review changes if the daily limit is breached	Remains unchanged
- IR Implementation	- postpone the implementation of Index Review changes by 2 days if the implementation day fall on a Connect holiday	Revised (see slide 12)
- Prolonged Suspension	- Prolonged suspended securities will be deleted on a daily basis as soon as suspension reached 50 business days, irrespective of reason	Remains unchanged
Suspension at Index Reviews	<ul style="list-style-type: none"> - Exclude non-constituent A shares suspended for more than 50 business days in the past 12 months from the investable equity universe - Not implement index inclusion changes for Chinese securities suspended on the Index Review Price Cutoff date 	Revised (see slide 17)
Derived Indexes	- China A securities will be weighted based on the IIF applied on their FIF Mcap	To be announced in due course

KEY DATES

- October 23, 2017** ● - Launch of MSCI China A Inclusion Indexes
- December 1, 2017** ● - Implementation of the methodology changes
 - Rename “MSCI China A International Large Cap Provisional Index” to “MSCI China A Large Cap Provisional Index”
 - Use China A Stock Connect listings for calculation of the MSCI China Provisional Indexes based on offshore RMB exchange rate (CNH)
- Q1 2018** ● - Detailed Q&A document for the China A shares inclusion
- March 1, 2018** ● - Rename “MSCI China A Indexes” to “MSCI China A Onshore Indexes”
 - Launch of MSCI China A Indexes covering only stocks accessible through Stock Connect
- June 1, 2018** ● - Inclusion of A shares in the MSCI Emerging Markets Index with an inclusion factor of 2.5%
- September 3, 2018** ● - Increase in the inclusion factor to 5%

TRANSITION PLAN FOR EXISTING CHINA A INDEXES

ENHANCING CHINA A INDEX OFFERING

- MSCI will enhance the China A index offering by:
 - Launching two **MSCI China A Inclusion Indexes**, designed to track progressive partial inclusion of A shares in Emerging Markets over time, on October 23, 2017. Initially, the constituents of the MSCI China A Inclusion Indexes will be derived from the MSCI China A International Large Cap Provisional Index.
 - **MSCI China A Inclusion Index** calculated using China A Stock Connect listings based on the offshore RMB exchange rate (CNH)
 - **MSCI China A Inclusion RMB Index** calculated using China A local listings based on the onshore RMB exchange rate (CNY)
 - Renaming the current “**MSCI China A Indexes**” to “**MSCI China A Onshore Indexes**” effective March 1, 2018
 - Launching new indexes covering only stocks accessible through **Stock Connect**, which would be named “**MSCI China A Indexes**” on March 1, 2018
- Effective December 1, 2017, the current Provisional indexes that include China A shares, such as the MSCI Emerging Markets Provisional Index, will be calculated using the China A Stock Connect listings based on the offshore RMB exchange rate (CNH). In addition, also on December 1, 2017, the current “**MSCI China A International Large Cap Provisional Index**” will be renamed to “**MSCI China A Large Cap Provisional Index**”.

CORPORATE EVENTS AND INDEX REVIEW MAINTENANCE OF STOCK CONNECT SECURITIES

OVERVIEW

- In order to reflect accessibility of securities trading on Stock Connect and keep MSCI Indexes replicable, methodologies need to be enhanced in order to more accurately reflect the investment process of Stock Connect investors.
- MSCI will generally implement corporate events as per the current Corporate Events Methodology for all types of events ***except for cases when Stock Connect is closed but the onshore Chinese domestic market* is trading.***
- MSCI will enhance the current prolonged suspension treatment applied to Chinese securities by transitioning from monthly ***to daily evaluation and deletion from MSCI Indexes.***
- MSCI will implement this methodology for all Indexes where Stock Connect securities are constituents** starting from ***December 01, 2017.***

* Onshore markets pertains to Shanghai and Shenzhen Stock Exchanges where domestic China A shares are listed

** The methodology will be implemented for the MSCI China A Inclusion Indexes effective on the launch date, i.e. October 23, 2017

CONCLUSION: NEUTRAL & NON-NEUTRAL EVENTS

Event implementation *when Stock Connect is closed but the onshore Chinese domestic market is trading:*

- Market neutral events: Will be implemented on ex-date for Stock Connect and onshore securities irrespective of holiday
- Non-Market neutral events:
 1. PAF Event - Onshore will be implemented on ex-date and Stock Connect will be postponed to next trading day
 2. Non-PAF Event - Postponed/Preponed implementation for both Onshore and Stock Connect securities so as to have **same** effective date

	Market Neutral Events	Non-Market Neutral Events*	
Type of events	PAF events	PAF events	Non PAF events
Events covered	<ul style="list-style-type: none"> ✓ Stock Dividend ✓ Split ✓ Consolidation ✓ PAF due to Buyback ✓ PAF due to Partial Acquisition ✓ Rights Issue of non-trading asset (PAF of 1) 	<ul style="list-style-type: none"> ✓ Rights Issue of common shares ✓ Spinoff ✓ Merger ✓ Conversion ✓ Redemption** ✓ Special dividend above 5% and capital repayment** 	All Non PAF events (Excluding suspension, IPO and other early inclusion)
Implementation	Will implement events on their “ex” date irrespective of Stock Connect closure	When Stock Connect is closed -> Ex date will be postponed to the next trading day of Stock Connect. Previous day's price is carried forward for the security.	Will postpone the implementation effective date for both Onshore and Stock Connect securities. However, in some cases such as Delisting, MSCI may implement for both onshore and “Stock Connect” securities prior to the Stock Connect closure.
Ex/Effective date of events	Ex-date for both Onshore and Stock connect securities will be same	In this case, Ex date will be different for Onshore and Stock connect securities	In case of Stock Connect closure, the effective date will be postponed/advanced for both Onshore and Stock connect securities and will have the same effective date.

1) Market neutral events – Do not trigger a change in index weight of the impacted security

2) Non-Market neutral events – Typically result in changes in index weight / index membership. Portfolio adjustment is required to replicate the index change

* PAF events require the application of price adjustment factors while Non-PAF events do not

** Based on feedback for treatment of cash dividends as explained in the next slide

CONCLUSION: CASH DIVIDENDS

Dividend reinvestment when Stock Connect is closed but the onshore Chinese domestic market is trading

- **Reinvestment** due to cash dividend, special dividend, capital repayment and redemption will be postponed to next trading day following Stock Connect closure.
 1. This change compared to consultation proposal (reinvestment on ex-date irrespective of market closure) is based on feedback from market participants, wherein they highlighted operational concerns relating to reinvestment of dividend on a day when Stock Connect is closed.
 2. Unlike non-market neutral PAF event, for regular cash dividends and special dividends below 5% threshold, price on ex-date will not be carried forward considering the minor impact on Index.
- **Exchange Rate for Reinvestment** – Stock Connect securities dividend reinvestment will use the Offshore exchange rate (CNH).

CONCLUSION: INTRA QUARTER ADDITIONS

IPO: Defer addition to the regular Index Reviews

- “Stock Connect” investors cannot participate in primary offerings.
- Eligibility for (Inclusion in) Stock Connect may not coincide with Onshore exchange.
- All IPO securities will be reviewed for addition at subsequent Index Review according to the methodology.

Other Early Inclusion Events: Addition at the time of the event

- Events such as spinoff, merger, acquisition, etc. except IPO, would lead to addition to the index at the time of event only if:
 1. Security satisfies the inclusion criteria as defined in MSCI methodology, and
 2. The eligibility for (inclusion in) to Stock Connect is announced on or before the day of sending “Confirmed” corporate event announcement for the relevant event.
 3. If the security fails above criteria and is not added at the time of event, it will be considered for addition at subsequent Index Review according to the methodology.

CONCLUSION: DAILY LIMIT BREACH

Stock Connect daily limit breached on the effective implementation date:

- Daily limit breach of Stock Connect can happen anytime during the trading session.
- Given the uncertainty of the timing, MSCI will **NOT** postpone the implementation of corporate events and/or Index Review changes for Stock Connect A shares when the Stock Connect daily limit is breached on the effective implementation date.

CONCLUSION: INDEX REVIEW IMPLEMENTATION

Stock Connect holiday on an Index Review implementation date:

- Following further analysis, MSCI will not postpone the implementation of Index Review changes only for Stock Connect A shares when the effective implementation date of the Index Review is a Stock Connect holiday.
- Instead, MSCI may change the implementation date of the Index Review with advance notice to clients for specific events such as the following:
 1. First time inclusion of A shares to the MSCI Emerging Markets Index, or
 2. Subsequent increase in Inclusion Factor of A shares, or
 3. Further inclusion of A shares such as addition of China A Mid Cap shares

SUSPENSION TREATMENT

CONCLUSION: PROLONGED SUSPENSION TREATMENT

MSCI will monitor Chinese securities (including A shares, B shares, H shares, P Chips, Red Chips and foreign listings) under prolonged suspension **on a daily basis** and delete them at **lowest system price** by giving 2 business days' notice as soon as suspension reaches **50 business days** even if the security has pending corporate event (including restructuring).

- MSCI will review Chinese securities following prolonged suspensions on a daily basis for the MSCI China Indexes, MSCI China A Indexes and MSCI China All Shares Indexes starting from December 01, 2017*.
- All suspended securities breaching the threshold of 50 days until November 28, 2017 will be deleted at lowest system price as of close of November 30, 2017 (effective December 01, 2017) coinciding with November 2017 Semi-Annual Index review (SAIR).
 1. Price Cut-off Date – All securities above 50 day threshold will be considered as deletion for November 2017 SAIR rebalancing and will be reflected in the comparison reports.
 2. November 13, 2017 (Announcement Date) – Preliminary list of securities which has breached 50 days threshold till November 13, 2017 and would be deleted effective December 01, 2017 due to prolonged suspension rule.
 3. November 28, 2017 – Final list of securities (including securities which breached 50 days threshold between Nov 13, 2017 and Nov 28, 2017) that would be deleted effective December 01, 2017 due to prolonged suspension.
 4. MSCI will delete security at market price effective December 01, 2017 rather than lowest system price in case it resumes trading on or before November 29, 2017.

SIMULATED IMPACT

- Currently, there are 20 and 15 constituents suspended for more than 50 days for the MSCI China A Index and the MSCI China A International Index respectively

	Current Index		Pro forma Index		# Securities		One Way Index Turnover*
	Index Market Cap	# Sec.	Index Market Cap	# Sec.	Add	Del	
MSCI China A Index	2,034,383	879	2,002,437	859	0	20	1.6%
MSCI China A Small Cap Index	538,266	1,258	515,917	1,212	0	46	4.2%

Note: All market caps are in USD millions. Data as of the close of October 17, 2017

	Current Index		Pro forma Index		# Securities		One Way Index Turnover*
	Index Market Cap	# Sec.	Index Market Cap	# Sec.	Add	Del	
MSCI China A International Index	1,104,373	460	1,084,232	445	0	15	1.8%
MSCI China A International Small Cap Index	462,656	1,559	446,516	1,506	0	53	3.5%

Note: All market caps are in USD millions. Data as of the close of October 17, 2017

IMPACTED SECURITIES

MSCI China A Index

Security Name	Company Mkt Cap	Index Mkt Cap	Current Weight
CHINA SHIPBUILDING IND A	17,235	7,756	0.38%
WANDA FILM HOLDING CO A	9,237	2,771	0.14%
CULTURAL INV HLDGS CO A	6,300	1,260	0.06%
JIANGSU SHAGANG CO A	5,377	1,344	0.07%
SUZHOU VICTORY PREC A	3,971	1,390	0.07%
JIANGSU PROTRULY TECH A	3,829	1,340	0.07%
SEARAINBOW HLDG CORP A	3,387	2,371	0.12%
TIANJIN ZHONGHUAN SC A	3,313	1,657	0.08%
AURORA OPTOELECTRONICS A	3,228	1,775	0.09%
SHENWU ENERGY SAVING A	2,789	976	0.05%
GUANGDONG HEC TECH A	2,720	1,632	0.08%
SHANGHAI YUYUAN TOURIS A	2,481	1,489	0.07%
DIGITAL CHINA INFO SVC A	2,436	609	0.03%
COFCO PROPERTY GROUP A	2,193	1,206	0.06%
TONGHUA GOLDEN HORSE A	2,042	817	0.04%
DONGGUAN KINGSUN OPTO A	1,869	841	0.04%
GALAXY BIOMEDICAL INV A	1,789	984	0.05%
BEIJING GEOENVIRON A	1,420	710	0.03%
SHENZHEN SUNRISE NEW A	1,251	500	0.02%
SHANGHAI XINHUA MEDIA A	1,151	518	0.03%

Note: All market caps are in USD millions. Data as of the close of October 17, 2017

MSCI China A International Index

Security Name	Company Mkt Cap	Index Mkt Cap	Current Weight
CHINA SHIPBUILDING IND A	17,235	5,170	0.47%
WANDA FILM HOLDING CO A	9,237	2,771	0.25%
CULTURAL INV HLDGS CO A	6,300	1,260	0.11%
JIANGSU SHAGANG CO A	5,377	1,344	0.12%
SUZHOU VICTORY PREC A	3,971	1,191	0.11%
JIANGSU PROTRULY TECH A	3,829	1,149	0.10%
SEARAINBOW HLDG CORP A	3,387	1,016	0.09%
TIANJIN ZHONGHUAN SC A	3,313	994	0.09%
AURORA OPTOELECTRONICS A	3,228	968	0.09%
SHENWU ENERGY SAVING A	2,789	837	0.08%
GUANGDONG HEC TECH A	2,720	816	0.07%
SHANGHAI YUYUAN TOURIS A	2,481	744	0.07%
DIGITAL CHINA INFO SVC A	2,436	609	0.06%
COFCO PROPERTY GROUP A	2,193	658	0.06%
TONGHUA GOLDEN HORSE A	2,042	613	0.06%

Note: All market caps are in USD millions. Data as of the close of October 17, 2017

CONCLUSION: SUSPENSIONS AT INDEX REVIEWS

- MSCI will implement the following suspension treatment for the MSCI China, the MSCI China A, the MSCI China All Shares, the MSCI China A International Large Provisional, as well as the new MSCI China A Inclusion Indexes starting from November 2017 SAIR:
 - Exclude newly eligible securities (securities that are not current constituents of the Investable Market Indexes) from the investable equity universe if the securities:
 - Are suspended on the Price Cutoff date, or
 - Have been suspended for at least 50 days consecutively in the past 12 months

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