

# CONSULTATION ON THE TREATMENT OF NON-VOTING SHARES IN THE MSCI EQUITY INDEXES

June 2017

# SUMMARY AND BACKGROUND

- On March 3, 2017, following SNAP's IPO of only non-voting Class A common shares, MSCI sought feedback on the continuing eligibility of companies that do not have any listed voting shares for potential inclusion into the MSCI Global Investable Markets Indexes (GIMI) and MSCI US Equity Indexes.
- During this period, some market participants indicated that non-voting securities should not be included in the MSCI GIMI and MSCI US Equity Indexes since increased number of such listings may lead to deterioration in corporate governance. Others indicated that non-voting shares should not be considered as equity altogether.
- MSCI opens a consultation on a proposal on the treatment of non-voting shares in the MSCI GIMI and MSCI US Equity Indexes. MSCI welcomes feedback until August 31, 2017. During the period of the consultation, potentially newly eligible companies without any listed voting shares, such as SNAP, will not be eligible for inclusion.
- This consultation may or may not result in changes in the MSCI Equity Indexes.

# PROPOSAL FOR TREATMENT OF NON-VOTING SHARES

- **For new potential constituents:** To address the growing concern pertaining to listings of only non-voting shares, MSCI proposes not to include non-voting shares in the MSCI GIMI and the MSCI US Equity Indexes in the cases when company level “voting power” of listed shares is less than 25%
  - Where “Voting power” is defined as the voting rights of listed shares over total voting rights of the company
  - Special purpose non-voting instruments, such as NVDRs in Thailand or CPOs in Mexico would continue to be eligible
- **For existing constituents:** Existing non-voting index constituents would be maintained in the index if the company listed “voting power” is above  $\frac{2}{3}$ <sup>rd</sup> of 25%, i.e., 16.67%. Such “buffer” would reduce potential reverse turnover resulting from borderline cases
- **Discussion points:**
  - Should MSCI exclude companies with only non-voting listed shares, like SNAP?
  - Do you agree with excluding non-voting shares in cases where listed voting power is low? Is the proposed threshold of 25% for new constituents appropriate?
  - Should securities with limited voting rights (e.g. right to vote is only limited to certain circumstances\*) be considered as voting shares?

# SIMULATED IMPACT FOR THE MSCI ACWI INDEX

- SNAP would not be added to the MSCI ACWI Index (and would be deleted from the MSCI US Equity Index)
- There would be six non-voting shares that would be deleted from the MSCI ACWI Index (~0.08% of ACWI) due to low company listed voting power:

Ctry	Security name	Full Mcap	FIF Mcap	ACWI Wgt	Ctry Wgt	Company Listed Voting Power
RU	Transneft Pref (Rub)	21,579	4,725	0.01%	2.83%	0%
DE	Porsche Automobil Vzg	16,751	8,375	0.02%	0.68%	0%
DE	Schaeffler	11,739	2,926	0.01%	0.24%	0%
CA	Shaw Communications B	10,080	8,654	0.02%	0.68%	0%
US	Eaton Vance Corp Nv	5,125	5,105	0.01%	0.02%	0%
CA	Empire Co A	4,139	2,512	0.01%	0.20%	0%

- **Existing constituents** would remain in the indexes for a period of one year and be subsequently removed from the indexes, unless appropriate capital structure changes are implemented
- **Discussion points:**
  - Is the suggested compliance period for existing constituents appropriate? Should MSCI retain securities if the company has announced plans to change the capital structure or to submit such change to shareholder vote?
  - Should MSCI apply grandfathering for existing constituents (i.e., retain existing constituents)?

# NON-VOTING SHARES MAINTAINED IN MSCI ACWI INDEX

- Under the current proposal, non-voting shares of companies with other listed voting shares may be retained if the company listed voting power is above the threshold of 16.67%

Selected Securities in MSCI ACWI Index with No Voting Rights but with Voting Power above Threshold

Ctry	Security name	Full Mcap	FIF Mcap	ACWI Wgt	Ctry Wgt	Company Listed Voting Power
US	Alphabet C	578,042	257,646	0.64%	1.21%	38%
KR	Samsung Electronics Pref	288,547	24,994	0.06%	3.78%	100%
CH	Roche Holding Genuss	220,266	179,545	0.45%	15.81%	100%
BR	Itau Unibanco Pn	74,214	38,564	0.10%	11.54%	100%
DE	Volkswagen Vorzug	74,202	27,114	0.07%	2.19%	100%
BR	Petrobras PN	61,080	17,897	0.04%	5.36%	100%
US	21st Century Fox A	59,607	34,230	0.09%	0.16%	100%
DE	BMW Vorzug	59,384	4,327	0.01%	0.35%	100%
BR	Banco Bradesco PN	56,350	28,319	0.07%	8.47%	100%
DE	Henkel Vorzug	51,825	22,886	0.06%	1.85%	100%

- Discussion point:**

- Should all non-voting shares (including the above securities) be considered as “non-equity” and excluded even if the company listed voting power is high? Currently, around 60 securities in the MSCI ACWI Index (index weight of 2.4%) have no voting rights

# OTHER COMPANIES WITH LOW LISTED VOTING POWER

- Under the current proposal, securities with voting rights would be retained, irrespective of the level of company listed voting power. Such level can be low if a large portion of capital remains unlisted or if the securities have less votes per share compared to other listed share classes.

Selected Voting Securities in MSCI ACWI Index with Low Company Listed Voting Power (<25%)

Ctry	Security name	Full Mcap	FIF Mcap	ACWI Wgt	Ctry Wgt	Company Listed Voting Power
CN	Jd.Com Adr	44,901	21,033	0.05%	1.78%	13%
CN	China Telecom Corp H	39,469	6,768	0.02%	0.57%	17%
US	Vmware A	37,922	6,168	0.02%	0.03%	4%
US	Estee Lauder Cos A	31,070	18,847	0.05%	0.09%	13%
US	Dish Network A	29,525	14,387	0.04%	0.07%	9%
US	Hershey Co (The)	23,186	15,735	0.04%	0.07%	20%
US	Workday A	16,489	10,160	0.03%	0.05%	14%
US	First Data Corp A	14,120	4,982	0.01%	0.02%	6%
CN	Cgn Power Co H	14,036	3,275	0.01%	0.28%	25%
US	Universal Health Svcs B	12,066	11,159	0.03%	0.05%	11%

- Discussion points:**
  - Should companies with low listed voting power be consistently removed (both voting and non-voting lines)? Currently, around 20 securities in the MSCI ACWI Index (index weight of 0.3%) have voting rights but listed voting power below 25%.
  - Should calculation of voting power exclude shares held by strategic investors (even if listed)?

# ADDITIONAL ESG CONSIDERATIONS FOR DISCUSSION

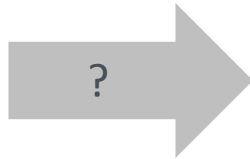
- Currently the MSCI GIMI aims to reflect the full investable opportunity set, while providing a free float-adjusted market capitalization weighting scheme. ESG factors are not explicitly reflected in the MSCI GIMI construction process.
- ESG criteria are incorporated in the MSCI ESG Indexes, such as the MSCI ESG Leaders or the MSCI ESG Universal Indexes, that aim to incorporate various ESG considerations. The MSCI ESG Leaders Indexes exclude companies with lower ESG ratings, and the MSCI ESG Universal Indexes maintain the parent index universe mostly unchanged, but overweight companies with higher ESG scores.
- Feedback over the recent years suggested that some severe ESG issues may have become more important at the investment policy level.
- Should the MSCI GIMI Indexes over time take steps towards reflecting potential ESG issues, such as corporate governance problems or specific unacceptable business involvement, such as controversial weapons? Should other global broad benchmarks be created that would address this emerging trend?

# POTENTIAL GLOBAL BROAD BENCHMARK EVOLUTION

Should broad benchmarks evolve to reflect ESG factors?

## BROAD BENCHMARKS

ACWI



ENHANCED ACWI/NEW BENCHMARKS?

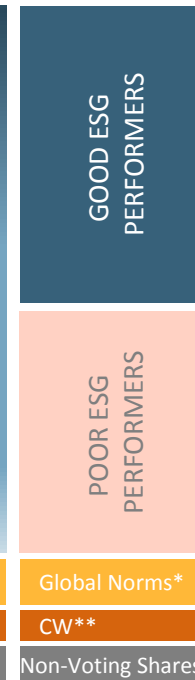


## ESG BENCHMARKS (post proposal on non-voting shares)

ACWI ESG UNIVERSAL



ACWI ESG LEADERS



\*Global Norms = Exclusion of companies involved in very serious violations of international norms represented in numerous widely accepted global conventions, including the Universal Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Global Compact

\*\*CW = Exclusion of companies involved in Controversial Weapons. MSCI already provides the MSCI Global ex Controversial Weapons Indexes (launched in 2011)

Less ESG

More ESG



# APPENDIX

# SECURITIES WITH LIMITED VOTING RIGHTS

- Some securities may have limited voting rights. For example, shareholders may be allowed to vote only on specific matters, or votes per share may be very low compared to other classes of shares of the company

Selected Securities in MSCI ACWI Index with Limited Voting Rights

Ctry	Security name	Full Mcap	FIF Mcap	ACWI Wgt	Ctry Wgt	Company Listed Voting Power	Limitation Details
MX	Coca-Cola Femsa L	14,801	3,551	0.01%	2.20%	24%	<i>Vote only on selected matters</i>
US	Universal Health Svcs B	12,066	11,159	0.03%	0.05%	11%	<i>Very low voting rights</i>
US	Scripps Networks Inter A	10,118	6,346	0.02%	0.03%	74%	<i>Vote only on 1/3rd of Board of Directors</i>

## Discussion points:

- Should calculation of company listed voting power consider securities for which voting rights are limited to only specific matters as non-voting shares? (e.g. for Coca-Cola Femsa and Scripps Networks Interactive the resulting company listed voting power would be 0%, which may result in removal of the securities)
- Should securities with very low voting rights compared to the other share classes be treated similarly to non-voting shares and potentially excluded? (e.g. Universal Health Services listed B shares have 0.1 vote per share, while unlisted C shares have 100 votes per share)

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