



We power investors globally  
with objective insight

# Consultation on China A-Shares Index Inclusion Roadmap

March 2014

This consultation is part of the 2014 MSCI Market  
Classification Review

*Proposed Index  
Inclusion Roadmap  
for China A-shares*

# Objective

- In June 2013, MSCI initiated the review of China A-shares for a potential inclusion into the MSCI Emerging Markets Index following the implementation of a series of positive market opening measures
- The Chinese authorities have continued with the market liberalization efforts. Notable positive developments include:
  - The expansion of the RQFII program to London and Singapore
  - The doubling of the size of aggregate QFII and RQFII quota
  - The shortening of the repatriation restriction from monthly to weekly for QFII open-ended funds
  - The acceleration of investment license requests and quota approvals
- As part of the 2014 MSCI Market Classification Review, MSCI is now consulting on a proposed roadmap for a potential inclusion of China A-shares in the MSCI Emerging Markets Index
  - The results of the 2014 MSCI Market Classification Review, including the decision on the potential inclusion of China A-shares in the MSCI Emerging Markets Index, will be announced in June 2014

# Proposed Index Inclusion Roadmap for China A-shares

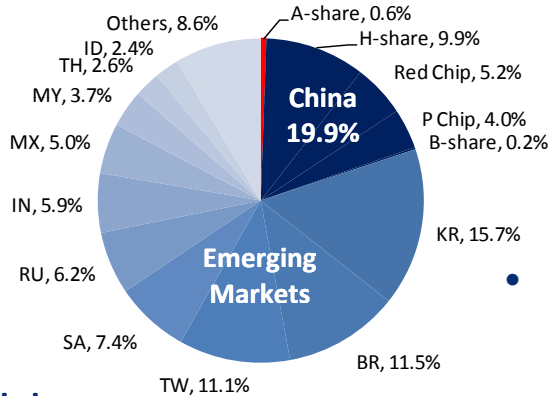
- MSCI proposes to include China A-shares in the MSCI China Index in steps starting with a partial Inclusion Factor of 5% to be implemented in 2015
- The inclusion in the MSCI China Index would be reflected in its corresponding composite indexes, including the MSCI Emerging Markets Index, simultaneously
  - The pro forma MSCI China Index would be constructed based on one integrated China equity universe comprising A-shares, B-shares, H-shares, Red-chips, and P-chips
  - An 5% Inclusion Factor would be applied to the FIF-adjusted market capitalization of China A-shares in the pro forma MSCI China Index
  - The implementation of this proposal would coincide with the May 2015 Semi-Annual Index Review
- A series of provisional indexes related to this transition would be provided by June 2014
- Any subsequent increase in the Inclusion Factor of China A-shares in the MSCI Emerging Markets would be subject to positive market liberalization developments and public consultation with market participants
- ***Please note that this proposal may or may not lead to any changes to the MSCI Indexes***

# Rationale for the Proposed Index Inclusion Roadmap

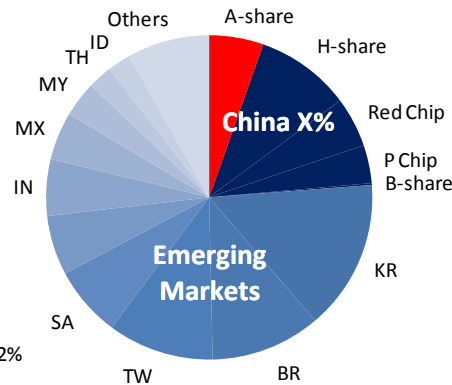
- The objective of the MSCI Global Investable Market Indexes is to comprehensively reflect the investable opportunities of global equity markets
  - Over the past several decades, the MSCI Indexes have added new countries/markets as they open up to global investors
- As the China A-share market liberalization continues, the qualified investor base expands
  - Over the past 12 months, the number of qualified investors increased by 33% to 317 and the total quota allocated increased by 56% to US\$82 billion
  - More and more global investors now have exposure to China A-shares, to the extent that some large investors are increasingly finding themselves dealing with benchmark misfit due to the non-index inclusion of China A shares
- However, there remain significant market accessibility restrictions in the China A-share market. Hence, progressive inclusion starting with a small Inclusion Factor would match the gradual path of market opening and reflect the actual investability over time

# An Illustrative Index Inclusion Roadmap of China A-Shares

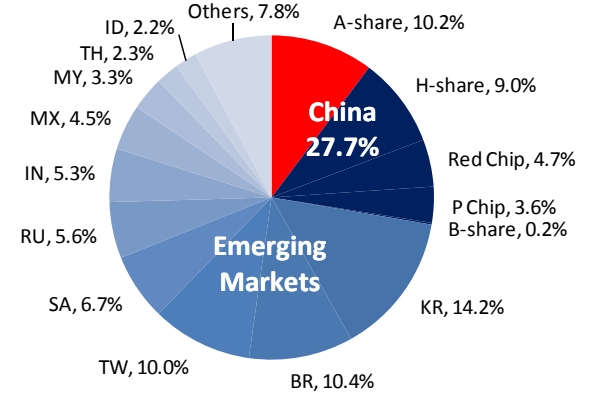
**Potential Initial Step:  
Partial Inclusion (5%\*)**



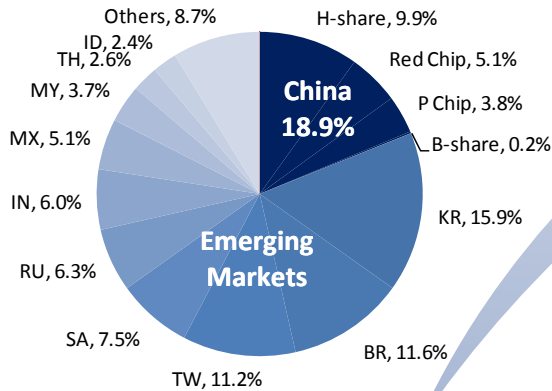
**Potential Additional Steps:  
Partial Inclusion (>5%\*)**



**Potential Full Inclusion (100%\*)**



**Current Status**



- Further improvements in quota allocation mechanism and size of overall quota
- Further relaxation on capital mobility and other market accessibility constraints
- Abolishment of the quota system
- Full liberalization of capital mobility restrictions
- Alignment of International accessibility standards

\* The percentage number refers to the Inclusion Factor applied to the free float-adjusted market capitalization of China A share constituents in the pro forma MSCI China Index. China A-share securities are subject to a foreign ownership limit of 30%

Data as of October 18, 2013 based on the pro forma results of November 2013 SAIR

# Construction of the Pro Forma MSCI China Index

- The pro forma MSCI China Index would be constructed by applying the standard MSCI Global Investable Market Indexes (GIMI) Methodology on an enlarged universe where A-shares would be eligible for inclusion
- The pro forma MSCI China equity universe would include A-shares, B-shares, H-shares, Red-chips and P-chips
- The free float-adjusted market capitalization of China A-shares would be evaluated based on the Foreign Inclusion Factor (FIF) subject to a 30% Foreign Ownership Limit (FOL)
- The pro forma MSCI China Index would be based on the new universe size segment cutoffs and the investability criteria of the MSCI Emerging Markets Index
- The inclusion of securities would continue to be evaluated based on security level FIF, free float-adjusted market capitalization and liquidity. Given A-, B- and H-shares represent different parts of a company's full market capitalization, they would all be eligible for inclusion subject to passing the investability requirements
- To reflect limited investability of China A-shares, a 5% Inclusion Factor would be applied to the index weight of the A-share constituents of the pro forma MSCI China Index. The Inclusion Factor has no impact on the index membership at the initial construction and subsequent rebalancings

## Proposed Initial Inclusion Factor of 5%

- There are currently misalignments in the distribution of QFII quota and the size of investors especially within the global manager segment.
- At 5%, some of the large managers may already require more than US\$1 billion of quota
- A small inclusion minimizes the potential market friction resulting from limited quota allocation

Top 30 Asset Owners + Top 30 Asset Managers	Corresponding Estimated EM Allocation* (\$m)	Quota Obtained by Existing QFIIs** (\$m)	Inclusion Factor***	
			100%	5%
			Size of China A Investment (\$m)	
<b>SWF/ Central Bank</b>				
Max	55,273		5,659	313
75 Percentile	33,699	Range: 50 to 1,500	3,450	191
Median	16,241	Median: 750	1,663	92
<b>Pension</b>				
Max	37,851		3,875	215
75 Percentile	13,289	Range: 50 to 600	1,361	75
Median	12,760	Median: 175	1,306	72
<b>Insurance Co</b>				
Max	15,533		1,590	88
75 Percentile	7,835	Range: 50 to 300	802	44
Median	3,354	Median: 200	343	19
<b>Asset Manager</b>				
Max	209,095		21,408	1,186
75 Percentile	44,684	Range: 20 to 600	4,575	253
Median	30,891	Median: 100	3,163	175

Source: P&I 500 data as of December 2012, AI Global 500 data as of November 2013

\*Estimated based on latest financial statements and assuming an EM weight in ACWI of 11.3% as of October 18, 2013

\*\*Based on quota granted to foreign investors as of January 27, 2014

\*\*\*Based on 10.2% weight of the pro forma A-share in EM assuming full inclusion



# Key Discussion Points

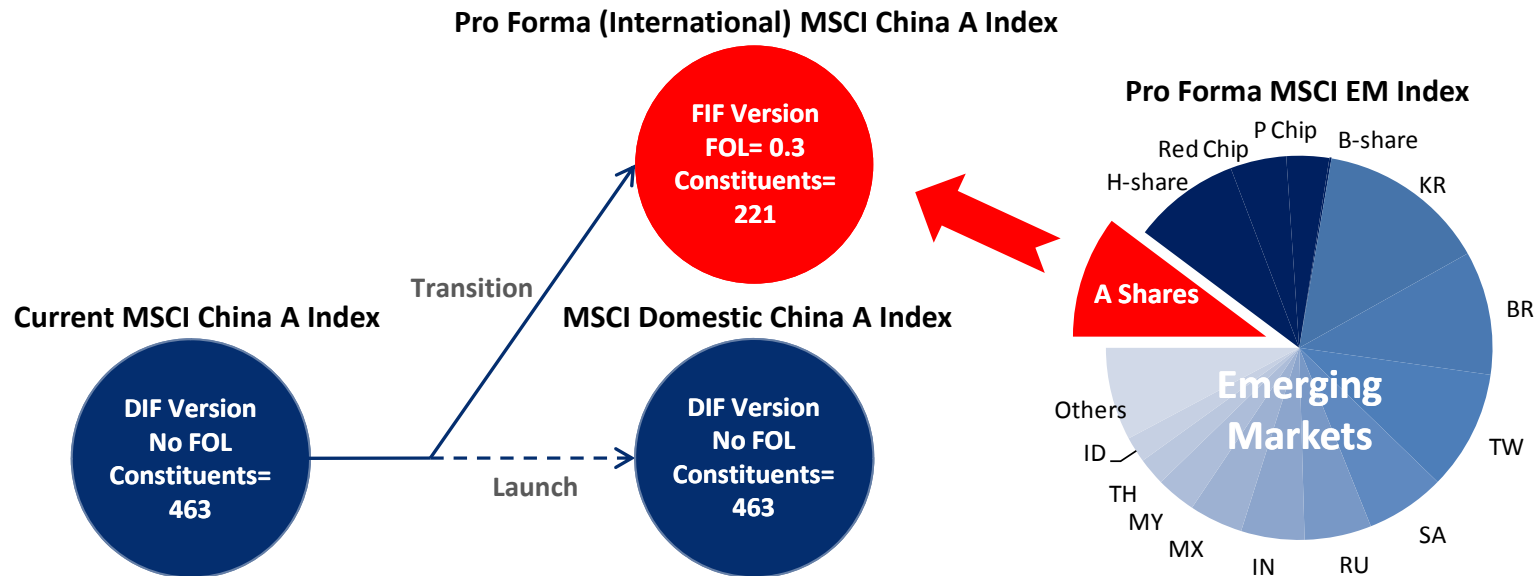
- Does the current accessibility level of China A-shares warrant a small index inclusion?
- Is the initial Inclusion Factor of 5%\* for the pro forma China A-share appropriate?
- Is twelve months a reasonable implementation time frame? Should it be shorter or longer?
- One key challenge in implementing the potential China A-share inclusion with a small weight is the need to spread across a large number of China A-share securities
  - However, a large inclusion weight may potentially creates more frictions for investors who cannot obtain sufficient quota
  - Alternative inclusion approaches/options?

\*The percentage number refers to the Inclusion Factor applied to the free float-adjusted market capitalization of China A share constituents in the pro forma MSCI China Index. China A-share securities are subject to a foreign ownership limit of 30%

*Transition of the  
Existing MSCI China  
A Index to the  
Proposed  
(International)  
MSCI China A Index*

# Proposed Transition for the Existing MSCI China A Indexes

- If the partial inclusion of China A-shares into the MSCI Emerging Markets Index were to take place in May 2015, the current MSCI China A Index would be simultaneously transitioned to the new (International) MSCI China A Index, constructed based on the China A-share constituents of the pro forma MSCI China Index
- A separate MSCI Domestic China A Index, which is identical to the current MSCI China A Index would be launched as a standalone domestic benchmark for investors who wish to maintain a broad exposure of the China A-share market



Data as of October 18, 2013 based on the pro forma results of November 2013 SAIR

## Pro Forma (International) MSCI China A Indexes

- The transition of the current MSCI China A Index to the pro forma (International) MSCI China A Index would decrease the number of constituents from 463 to 221 with an one-way index turnover of 26.5%
- For the MSCI China A Investable Market Index (IMI), the number of constituents would decrease from 1,879 to 1,553 with an one-way index turnover of 21.7%
- The turnover is primarily attributed to the higher market size segment cutoff and the application of the 30% FOL on the free float-adjusted market capitalization of China A-shares

	Current	Pro forma	# Securities		One-Way Index Turnover
	# Sec.	# Sec.	Add	Del	
<b>MSCI China A</b>	<b>463</b>	<b>221</b>	<b>-</b>	<b>242</b>	<b>26.5%</b>
<b>MSCI China A IMI</b>	<b>1,879</b>	<b>1,553</b>	<b>45</b>	<b>371</b>	<b>21.7%</b>

Data as of October 18, 2013 based on the pro forma results of the November 2013 SAIR

## Simulated Pro Forma MSCI China Index

- By including China A-shares in the MSCI China equity universe, the number of constituents of the pro forma MSCI China Index would increase from 136 to 385, of which 221 would be China A-shares
- The weight of China A-shares in the pro forma MSCI China Index would be 2.9% for a 5% partial inclusion. Correspondingly, the associated one-way index turnover would be 6.1%

	Current Standard		Pro forma (IF* = 100%)			Pro forma (IF* = 5%)		# Securities	
	Weight	# Sec.	Weight	# Sec.	One-Way Turnover	Weight	One-Way Turnover	Add	Del
<b>MSCI China A</b>	<b>100.0%</b>	<b>463</b>	<b>100.0%</b>	<b>463</b>	-	<b>100.0%</b>	-	-	-
<b>MSCI China</b>	<b>100.0%</b>	<b>136</b>	<b>100.0%</b>	<b>385</b>	<b>39.1%</b>	<b>100.0%</b>	<b>6.1%</b>	<b>249</b>	-
A Shares	-	-	37.0%	221	-	2.9%	-	221	-
B Shares	0.7%	4	0.6%	5	-	1.0%	-	1	-
H Shares	52.8%	64	32.4%	72	-	50.0%	-	8	-
Red Chip	27.0%	32	17.0%	40	-	26.3%	-	8	-
P Chip	19.5%	36	12.9%	47	-	19.9%	-	11	-
<b>Weight of A Shares in EM</b>	-	-	<b>10.2%</b>	-	-	<b>0.6%</b>	-	-	-
<b>Weight of China in AC Asia ex Japan</b>	<b>24.7%</b>	-	<b>35.0%</b>	-	-	<b>25.9%</b>	-	-	-
<b>Weight of China in EM</b>	<b>18.9%</b>	-	<b>27.7%</b>	-	-	<b>19.9%</b>	-	-	-
<b>Weight of China in ACWI</b>	<b>2.1%</b>	-	<b>3.5%</b>	-	-	<b>2.3%</b>	-	-	-

Data as of October 18, 2013 based on the pro forma results of the November 2013 SAIR

\*IF refers to Inclusion Factor



## Simulated Pro Forma MSCI China IMI

- Due to the extremely flat structure of the China A-share market, the simulated pro forma MSCI China IMI would see a substantial increase in the number of securities from 484 to 2024
- The weight of China A-shares in the pro forma MSCI China IMI would be 4% and the associated one-way index turnover would be 4.8%

	Current IMI		Pro forma (IF* = 100%)			Pro forma (IF* = 5%)		# Securities	
	Weight	# Sec.	Weight	# Sec.	One-Way Turnover	Weight	One-Way Turnover	Add	Del
<b>MSCI China A IMI</b>	<b>100.0%</b>	<b>1,879</b>	<b>100.0%</b>	<b>1,879</b>	-	<b>100.0%</b>	-	-	-
<b>MSCI China IMI</b>	<b>100.0%</b>	<b>484</b>	<b>100.0%</b>	<b>2,024</b>	<b>46.1%</b>	<b>100.0%</b>	<b>4.8%</b>	<b>1,561</b>	<b>21</b>
A Shares	-	-	45.7%	1,553	-	4.0%	-	1,553	-
B Shares	2.1%	62	1.0%	55	-	1.8%	-	1	8
H Shares	47.1%	103	25.9%	106	-	45.8%	-	6	3
Red Chip	25.9%	82	14.1%	82	-	24.9%	-	-	-
P Chip	25.0%	237	13.3%	228	-	23.5%	-	1	10
<b>Weight of A Shares in EM IMI</b>	-	-	<b>13.7%</b>	-	-	<b>0.8%</b>	-	-	-
<b>Weight of China in AC Asia ex Japan IMI</b>	<b>24.1%</b>	-	<b>36.8%</b>	-	-	<b>24.8%</b>	-	-	-
<b>Weight of China in EM IMI</b>	<b>18.9%</b>	-	<b>30.0%</b>	-	-	<b>19.5%</b>	-	-	-
<b>Weight of China in ACWI IMI</b>	<b>2.1%</b>	-	<b>3.8%</b>	-	-	<b>2.2%</b>	-	-	-

Data as of October 18, 2013 based on the pro forma results of the November 2013 SAIR

\*IF refers to Inclusion Factor



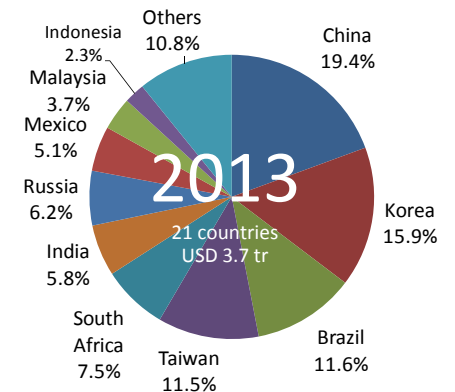
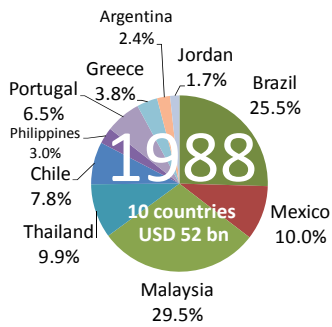
## Questions to Existing MSCI China A Index Clients

- Do you agree with the proposal to transition the existing MSCI China A Index to the pro forma (International) MSCI China A Index?
  - If yes, do you think an early phased-in approach is more appropriate? For instance, to transition 50% of the market capitalization at the November 2014 SAIR and the remaining 100% at the May 2015 SAIR?
- What potential complications do you expect as a result of this transition?

# *Appendix*

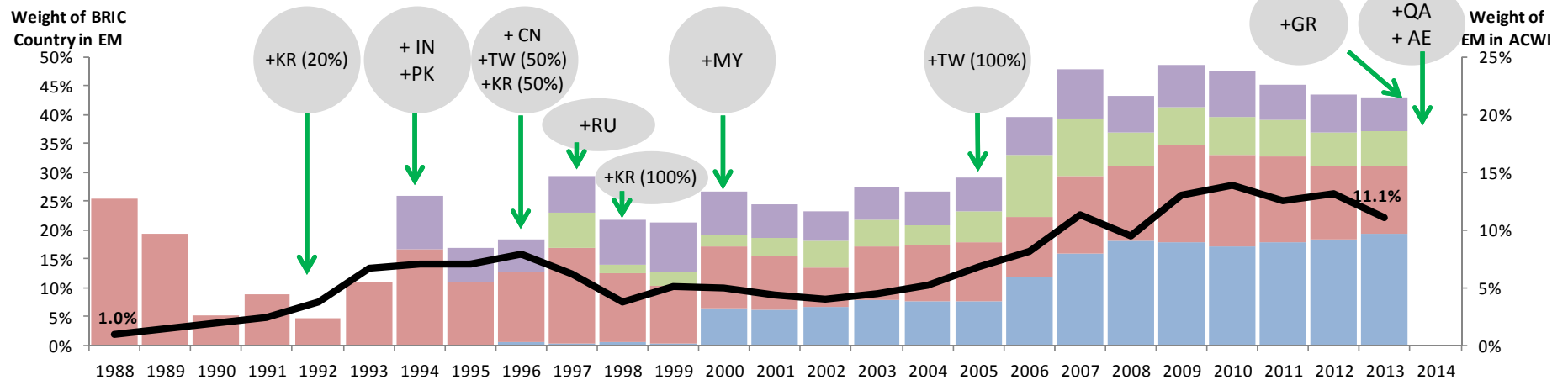


# 25-Year Evolution of the MSCI Emerging Markets Index



Weight of BRIC Country in EM

Weight of EM in ACWI



China in EM (LHS)    Brazil in EM (LHS)    Russia in EM (LHS)    India in EM (LHS)    EM wgt in ACWI (RHS)





Source: MSCI. Annual data is based on December of each year, except in 2013 which is as of September 2013



# Understanding the China Share Classes

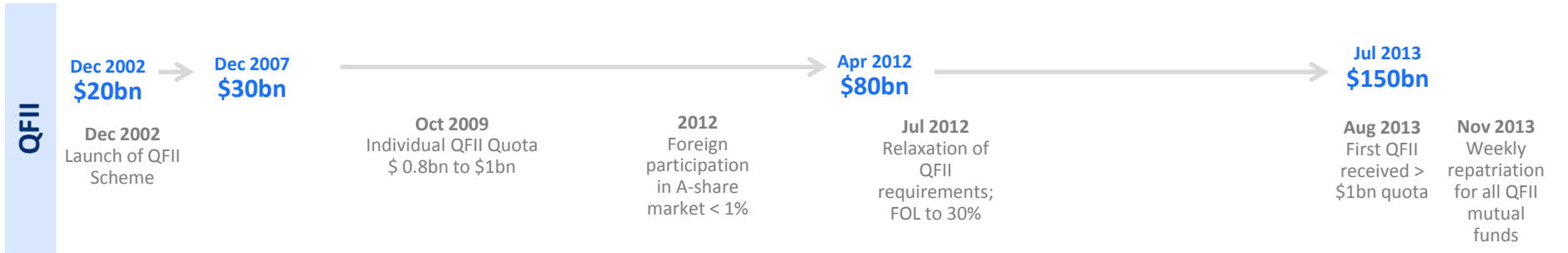
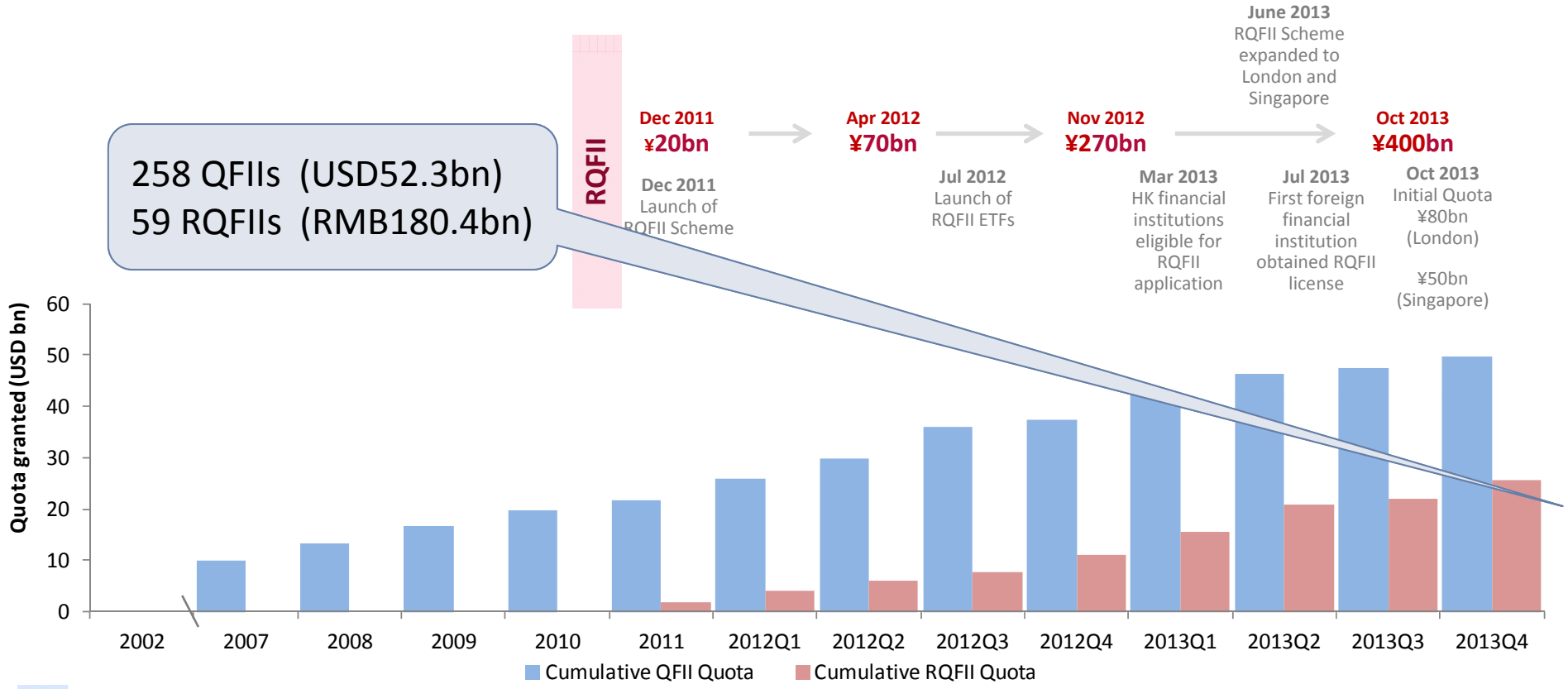
## China Market Overview

SHARE CLASS	DEFINITION	STOCK EXCHANGE (CURRENCY)	MARKET CAP (\$B USD)			
			STANDARD	SMALL CAP		
 <b>A</b>	China securities incorporated in Mainland China, listed on the Shanghai or Shenzhen Stock Exchange and traded in Renminbi (RMB).	Shanghai (RMB) Shenzhen (RMB)	\$879	\$398		
			<b>B</b>	Shanghai (USD) Shenzhen (HKD)	\$7	\$10
					<b>H</b>	Hong Kong (HKD)
<b>Red-Chips</b>	China securities of state-owned companies incorporated outside Mainland China, listed on the Hong Kong Stock Exchange (HKD).	Hong Kong (HKD)	\$203	\$21		
			<b>P-Chips</b>	China securities of non-government owned companies incorporated outside Mainland China, listed on the Hong Kong Stock Exchange (HKD).	Hong Kong (HKD)	\$153
 <b>Listed Overseas**</b>	China securities (including ADRs) incorporated outside Greater China (mainland China, Hong Kong, Macao and Taiwan), listed on the NYSE Euronext–New York, NASDAQ, NYSE AMEX (N-Shares) traded on USD, and Singapore (S-Shares) Exchanges traded on Singapore Dollars (SGD).	New York (USD) Singapore (SGD)				\$76

\*As of Nov. 29, 2013. Market Cap is free float-adjusted. China A market cap is calculated based on Domestic Inclusion Factor (DIF), and the rest are calculated based on Foreign Inclusion Factor (FIF).

\*\* As per the MSCI Overseas China Index Methodology

# Developments of the QFII and RQFII Scheme



Source: SAFE and CSRC, data as of February 28, 2014



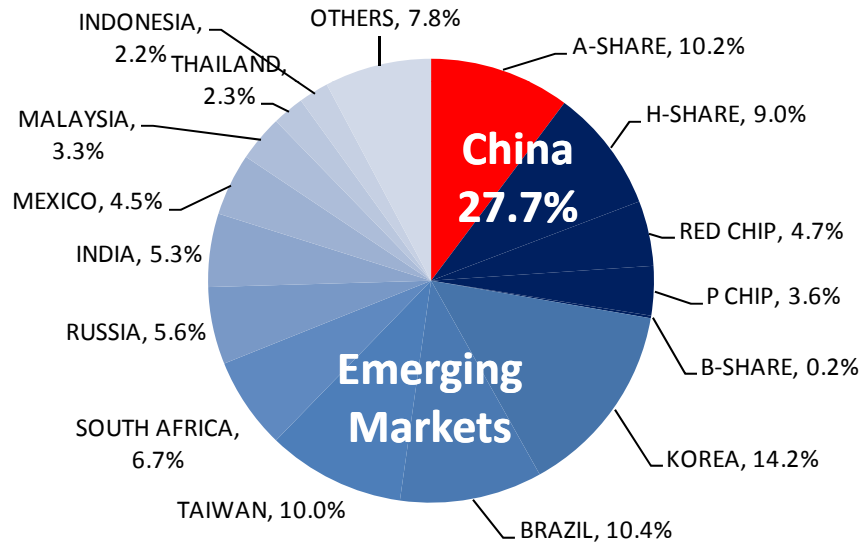
# Market Reforms and Assessments since June 2013

- **Capital Mobility (significantly improved):**
  - The 70% rule on QFII mutual funds has been removed and global mutual fund managers representing 40% of the deployed QFII quota can now repatriate weekly
  - The RQFII scheme which accounts for 30% of the total quota has expanded beyond HK to London and Singapore. In addition, transporting RQFII beyond the existing RQFII jurisdictions is now possible
- **Quota System (improved):**
  - Total authorized quota (QFII + RQFII) has almost doubled since June last year. The combined quota has increased from \$124bn to \$216bn (+74%)
  - Total number of QFIIs & RQFIIs continues to grow and has reached 258 (+17%) and 59 (+84%) respectively
- **Tax Issue (marginally improved):**
  - There remains little clarity on the tax treatment for most foreign investors but Hong Kong based investors/A-share investment products domiciled in Hong Kong are now exempted from the capital gain tax for holding securities of non-land rich companies

# The End Game

- As market liberalization continues, China A-shares would eventually be included in the pro forma MSCI China Index at full weight

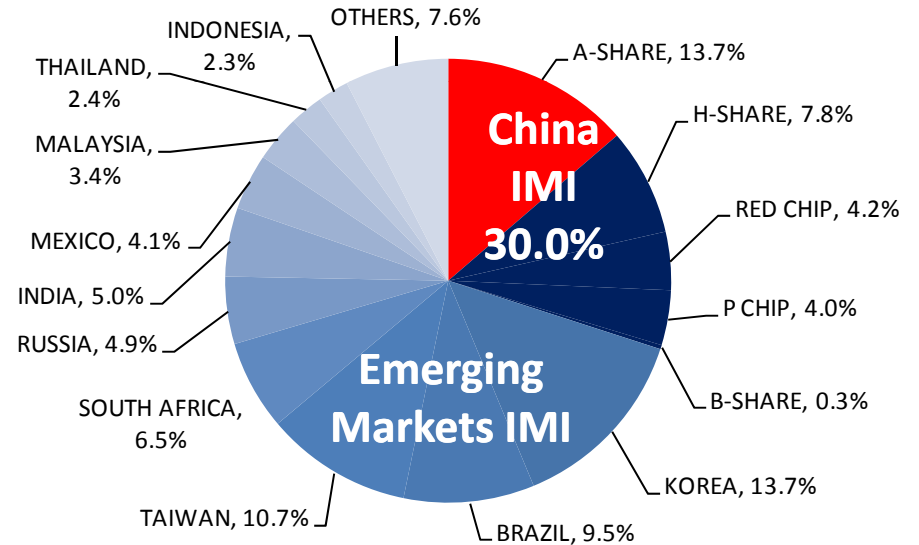
**Pro forma weight of China in the MSCI Emerging Markets Index**



The pro forma index weight of China is 27.7%. Estimated by applying the current GIMI methodology on a combined universe and 30% FOL using data as of Oct 18, 2013 based on the pro forma result of the November 2013 SAIR

# of Constituents; A-Share: 221, H-Share:72, P-Chip: 47, Red Chip: 40, B-Share: 5

**Pro forma weight of China IMI in the MSCI Emerging Markets IMI Index**



The pro forma index weight of China IMI is 30.0%. Estimated by applying the current GIMI methodology on a combined universe and 30% FOL using data as of Oct 18, 2013 based on the pro forma result of the November 2013 SAIR

# of Constituents; A-Share: 1553, H-Share:106, P-Chip: 228, Red Chip: 82, B-Share: 55

# Top 30 Constituents of the Current MSCI China and Pro Forma MSCI China Index

**Current MSCI China Index**

Rank	Security name	Share Type	Weight (%)
1	China Mobile	RED CHIP	8.9%
2	Tencent Holdings	P CHIP	7.6%
3	China Construction Bank H	H	7.6%
4	ICBC H	H	6.9%
5	CNOOC	RED CHIP	5.0%
6	Bank of China H	H	4.7%
7	Petrochina Co H	H	3.3%
8	China Petro & Chem H	H	2.7%
9	China Life Insurance H	H	2.6%
10	Ping An Insurance H	H	1.9%
11	China Overseas Land & Inv	RED CHIP	1.7%
12	China Shenhua Energy H	H	1.4%
13	Agri Bank of China H	H	1.4%
14	China Pacific Ins Grp H	H	1.3%
15	China Merchants Bank H	H	1.2%
16	Hengan Int'l Group Co	P CHIP	1.2%
17	Want Want China Hldgs	P CHIP	1.2%
18	China Unicom	RED CHIP	1.0%
19	China Telecom Corp H	H	1.0%
20	Belle Int'l Hldgs	P CHIP	0.9%
21	Lenovo Group	RED CHIP	0.9%
22	Bank of Communications H	H	0.9%
23	China Mengniu Dairy Co	RED CHIP	0.9%
24	Great Wall Motor H	H	0.9%
25	China Minsheng Bank H	H	0.8%
26	China Resources Land	RED CHIP	0.8%
27	Tingyi Holding Corp	P CHIP	0.7%
28	Brilliance China Auto	RED CHIP	0.7%
29	Kunlun Energy	RED CHIP	0.7%
30	China Resources Power	RED CHIP	0.6%

**Pro Forma MSCI China Index\***

Rank	Security name	Share Type	Weight (%)
1	China Mobile	RED CHIP	8.3%
2	Tencent Holdings	P CHIP	7.2%
3	China Construction Bank H	H	7.1%
4	ICBC H	H	6.5%
5	CNOOC	RED CHIP	4.7%
6	Bank of China H	H	4.4%
7	Petrochina Co H	H	3.1%
8	China Petro & Chem H	H	2.6%
9	China Life Insurance H	H	2.5%
10	Ping An Insurance H	H	1.8%
11	China Overseas Land & Inv	RED CHIP	1.6%
12	China Shenhua Energy H	H	1.3%
13	Agri Bank of China H	H	1.3%
14	China Pacific Ins Grp H	H	1.2%
15	China Merchants Bank H	H	1.2%
16	Hengan Int'l Group Co	P CHIP	1.1%
17	Want Want China Hldgs	P CHIP	1.1%
18	China Unicom	RED CHIP	1.0%
19	China Telecom Corp H	H	0.9%
20	Belle Int'l Hldgs	P CHIP	0.9%
21	Lenovo Group	RED CHIP	0.8%
22	Bank of Communications H	H	0.8%
23	China Mengniu Dairy Co	RED CHIP	0.8%
24	Great Wall Motor H	H	0.8%
25	China Minsheng Bank H	H	0.8%
26	China Resources Land	RED CHIP	0.8%
27	Tingyi Holding Corp	P CHIP	0.7%
28	Brilliance China Auto	RED CHIP	0.6%
29	Kunlun Energy	RED CHIP	0.6%
30	China Resources Power	RED CHIP	0.6%



Data as of October 18, 2013 based on the pro forma results of the November 2013 SAIR  
 \*Assuming an Inclusion Factor of 5%

# Top 30 Constituents with Multiple Share Classes in the Pro Forma MSCI China Index

No.	Company Name	Weight of H/B-share in the Pro Forma MSCI China Index	Weight of A-share in the Pro Forma China Index*
1	China Construction Bank	7.12%	0.01%
2	ICBC	6.51%	0.06%
3	Bank of China	4.41%	0.02%
4	Petrochina Co	3.13%	0.03%
5	China Petro & Chem	2.58%	0.02%
6	China Life Insurance	2.49%	0.02%
7	Ping An Insurance	1.79%	0.05%
8	China Shenhua Energy	1.35%	0.03%
9	Agri Bank of China	1.28%	0.06%
10	China Pacific Ins Grp	1.21%	0.03%
11	China Merchants Bank	1.15%	0.07%
12	Bank of Communications	0.82%	0.05%
13	Great Wall Motor	0.80%	0.02%
14	China Minsheng Bank	0.78%	0.06%
15	Anhui Cement Conch	0.54%	0.02%
16	China Oilfield Svcs	0.53%	0.01%
17	Huaneng Power Int'l	0.43%	0.01%
18	Tsingtao Brewery	0.37%	0.01%
19	Jiangxi Copper Co	0.34%	0.01%
20	BYD Co	0.33%	0.02%
21	China Coal Energy	0.33%	0.01%
22	China Vanke Co**	0.32%	0.03%
23	Citic Securities Co	0.29%	0.04%
24	China Railway Group	0.28%	0.01%
25	China Railway Const	0.27%	0.01%
26	Weichai Power Co	0.27%	0.01%
27	Haitong Securities Co	0.25%	0.03%
28	New China Life Insurance	0.25%	0.01%
29	Chongqing Changan Auto**	0.19%	0.01%
30	Shanghai Pharm	0.18%	0.01%

Data as of October 18, 2013 based on the pro forma results of the November 2013 SAIR

\*Assuming an Inclusion Factor of 5%

\*\*Currently represented by B-shares in the MSCI China Index

# Determining the Initial Inclusion Factor: Some Key Considerations

Key Considerations	Assessment	What Does This Mean?
Size of country quota vs. investable size of market	The total quota of \$216bn (QFII + RQFII) represents approximately 16.8% of the MSCI China A IMI market cap as of Feb 17, 2014.	Only a fraction of the investable market capitalization of China A shares today can be accessed by qualified investors.
Size of country quota vs. size of MSCI Emerging Markets Index	The total quota of \$216bn represents approximately 5% of the MSCI Emerging Markets IMI.	Assuming the quota of \$216bn is fully distributed, it can only translate into an inclusion weight of no more than 5% for the MSCI Emerging Markets IMI.
Individual quota limit vs. investors' equity AUM	The upper limit of US\$1bn applied to non-SWF/Central Banks investors limits the maximum China A-shares exposure of the portfolio.	To ensure most investors are able to replicate the weight of China A-shares in the index, this number sets the upper limit of the Inclusion Factor.
Actual quota allocation vs. investors' AUM	More than \$80bn of quota have been deployed so far. The actual quota distributed to investors ranges between US\$20mn-US\$1.5bn.	Arguably, the most important consideration in determining the Inclusion Factor.
Size of the Qualified Investor base & the entry requirements	There are currently more than 300 qualified QFII/RQFII investors. The entry barriers are considered to be low enough to allow most investors to participate in the China A-share market.	A large number of institutional investors can now access the China A-share market and the number is expected to continue to grow.
Capital mobility restrictions	Although market accessibility has generally improved, the China A-share market is still NOT on par with most Emerging Markets due to the existence of capital mobility restrictions.	A discount factor is warranted as the China A-share market is still not a freely accessible market for international investors.
Accessibility options	Multiple access platforms exist primarily through the QFII and RQFII schemes.	A discount factor is warranted as the China A-share market is still not a freely accessible market for international investors.



# China A-Share Market Accessibility Review

Considerations	China A	Other EM	Assessment	Remarks
<b>Capital Mobility</b>	<b>The 70% rule on QFII mutual funds has been removed. RQFII is now accessible by global investors domiciled in HK, SG and UK. Transportation of RQFII quota is also permitted.</b>			
<b>Repatriation Frequency</b>	QFII funds – Weekly RQFII funds – Daily Others – Monthly	Chile - repatriation can take up to 2 weeks.	<b>Improved</b>	Become less critical as at least 26% (QFII AMs) of the combined deployed quota can do weekly and 28% (RQFII AMs) can do daily. This is less of a concern for long term investors.
<b>Secondary Concern: Lock-up Period</b>	QFII funds – 3months RQFII funds - none Others – 1 year	Not found in other EM Countries	No improvement	Any lock up is not desirable and may pose problems for immediate redemptions and short term investors. However, 3-month lock up is not a deal breaker for mutual funds and less of a concern for long term investors.
<b>Quota Remit Period</b>	RQFII funds - none Others – 6 months		No improvement	Inflexible if there is a change in their investment view. Taiwan had the same restriction before. Alternatively, go for the RQFII route.
<b>Quota System</b>				
<b>Country Quota QFII + RQFII</b>	# of QFIIs/RQFIIs = 317 (+33%) Total quota = \$216bn (+73%) Deployed quota= \$82bn (+56%) RQFII to be expanded to TW (\$17bn)	Not found in other EM Countries	<b>Improved</b>	USD216bn represents 17% of the China A investable market cap. Size is large enough to support a small China A inclusion. In addition, the size of quota can be addressed by adjusting the weight of inclusion.
<b>Primary Concern: Individual Quota</b>	Technically, no ceiling for RQFIIs and SWF and Central Banks under QFII. Others remain @ \$1bn		<b>Significant misalignment exists between quota distribution and AUM.</b>	Large investors, notably asset managers, continued to be denied quota. The concern is unlikely to be resolved instantly but can be mitigated by applying an Inclusion Factor. <b>AO's quota could be managed by AMs.</b>
<b>Tax Issue</b>	Except the new development in HK. Generally, no further clarity on the tax treatment	Minor tax issue in India	Marginal improvement	Not a key obstacle to reclassification

# China A-Share Market Accessibility Review (Con't)

Considerations	China A	Other EM	Assessment	Remarks
<b>Registration Process</b>	2 weeks to 1 month.	Russia: < 1 month Chile: > 2 weeks India (FII/QFI): > 2 weeks Korea (IRC system) : < 1 week Taiwan (FINI/FIDI): < 4 days	No change. Other EM countries have more complex and lengthy process.	One-off problem – need to allow investors time to apply for a license. Regulators have simplified and sped up the process.
<b>Qualifications Requirements</b>	QFII: Average of 2 years experience & \$500m AUM. Hedge funds remain not allowed.  RQFII: Expanded to include institutions in SG and UK	No major investor qualification requirements for other EM countries	No change	Not ideal but most global investors (P&I Top 500) satisfy the minimum requirements. TW & KR had similar requirements at the time of inclusion.
<b>Currency Convertibility</b>	Yuan is not fully convertible but has offshore convertibility in HK, SG and UK.	Most EM currencies are not fully convertible (i.e., TW, KR, IN, ID etc) and have no offshore markets.	Improving with the establishment of offshore RMB centers	China is already ahead of other EM countries. Additionally, the regulators already made clear that Yuan will be fully convertible in the future.
<b>FOL/Foreign Room Issues</b>	30% FOL Potential foreign room issues	Most EM countries have FOL and foreign room issues.	No change but these are common in EM.	Size of the quota today is not causing any foreign room issues.
<b>Market Infrastructure</b>	<ul style="list-style-type: none"> <li>•No DVP</li> <li>•T + 0</li> <li>•No Overdraft</li> <li>•No OTC &amp; in-kind transfer</li> <li>•No margin trading/short selling</li> </ul>	Most EM countries face similar restrictions except for T+0 settlement cycle.		Russia was T+0 when included. Just recently changed to T+2.
<b>Competitive Landscape</b>	Restrictive use of stock market data	Examples of EM countries that have restrictions: BR, IN, and KR		Restrictive use of stock market data may potentially hamper the development of financial products



Data as of February 2014

# MSCI 24 Hour Global Client Service

## Americas

Americas	1.888.588.4567 (toll free)
Atlanta	+1.404.551.3212
Boston	+1.617.532.0920
Chicago	+1.312.706.4999
Monterrey	+52.81.1253.4020
New York	+1.212.804.3901
San Francisco	+1.415.836.8800
São Paulo	+55.11.3706.1360
Toronto	+1.416.628.1007

## Europe, Middle East & Africa

Cape Town	+27.21.673.0100
Frankfurt	+49.69.133.859.00
Geneva	+41.22.817.9777
London	+44.20.7618.2222
Milan	+39.02.5849.0415
Paris	0800.91.59.17 (toll free)

## Asia Pacific

China North	10800.852.1032 (toll free)
China South	10800.152.1032 (toll free)
Hong Kong	+852.2844.9333
Seoul	00798.8521.3392 (toll free)
Singapore	800.852.3749 (toll free)
Sydney	+61.2.9033.9333
Taipei	008.0112.7513 (toll free)
Tokyo	+81.3.5290.1555

[clientservice@msci.com](mailto:clientservice@msci.com) | [www.msci.com](http://www.msci.com)

MSCI

# Notice and Disclaimer

- This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the “Information”) is the property of MSCI Inc. or its subsidiaries (collectively, “MSCI”), or MSCI’s licensors, direct or indirect suppliers or any third party involved in making or compiling any Information (collectively, with MSCI, the “Information Providers”) and is provided for informational purposes only. The Information may not be reproduced or disseminated in whole or in part without prior written permission from MSCI.
- The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indexes, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.
- The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.
- Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors.
- Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.
- None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.
- You cannot invest in an index. MSCI does not issue, sponsor, endorse, market, offer, review or otherwise express any opinion regarding any investment or financial product that may be based on or linked to the performance of any MSCI index.
- MSCI’s subsidiaries Institutional Shareholder Services Inc. (“ISS”) and MSCI ESG Research Inc. are Registered Investment Advisers under the Investment Advisers Act of 1940. Except with respect to any applicable products or services from ISS or MSCI ESG Research, neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and neither MSCI nor any of its products or services is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.
- The MSCI ESG Indexes use ratings and other data, analysis and information produced by MSCI ESG Research Inc. Issuers mentioned or included in any MSCI ESG Research materials may be a client of MSCI, ISS, or another MSCI subsidiary, or the parent of, or affiliated with, a client of MSCI, and may also purchase research or tools from MSCI ESG Research Inc. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indexes or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body.
- Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, IPD, FEA, InvestorForce, and other MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor’s. “Global Industry Classification Standard (GICS)” is a service mark of MSCI and Standard & Poor’s.

© 2014 MSCI Inc. All rights reserved.

Feb 2014

