

CONSULTATION ON A MARKET RECLASSIFICATION PROPOSAL FOR THE MSCI NIGERIA INDEX

POTENTIAL RECLASSIFICATION FROM
FRONTIER TO STANDALONE MARKETS

June 2022

Background and Reclassification Proposal

- Since March 2020, low liquidity in the Nigerian FX market has resulted in severe accessibility issues in the Nigerian equity market
 - A significant gap has emerged between the official and parallel exchange rates for the Nigerian Naira
 - These have led to FX conversion and fund repatriation issues for international institutional investors
- As a result, market participants have continuously expressed concerns related to the investability and replicability of the MSCI Nigeria Indexes and related composite indexes, such as the MSCI Frontier Markets Index
- To alleviate the impact of these issues on the MSCI Indexes, a special treatment to freeze index review and event-related changes has been in place for the MSCI Nigeria Indexes since May 2020
- **Given the above, MSCI proposes to reclassify the MSCI Nigeria Indexes from Frontier Market to Standalone Market status**
 - MSCI will consult with market participants on this proposal until August 31, 2022

Nigeria – Timeline of Events

March 2020

- Central Bank of Nigeria suspends the sale of foreign currency to Bureau De Change operators (BDCs)
- USD liquidity declines significantly at the Investors and Exporters Window (I&E Window), and a gap emerges between the official rate for the Naira and parallel rates

May 2020

- MSCI applies special treatment for securities classified in Nigeria

September 2020

- Central Bank of Nigeria resumes the sale of foreign currency to BDCs
- No significant improvement in USD liquidity at the I&E Window is observed

July 2021

- Central Bank again discontinues the sale of foreign currency to BDCs and halts processing of licenses for new BDC operations

June 2022

- MSCI launches a consultation on a market reclassification proposal for the MSCI Nigeria Indexes

Composition of the MSCI Nigeria Index

MSCI Nigeria Index	
Index Market Capitalization	USD 4,685 million
Number of Securities	9
Current Weight in MSCI FM Index	4.7%

All constituents of the MSCI Nigeria Index trade on the Nigerian Stock Exchange

Security Name	GICS Sector	Issuer Market Cap (USD mn)	Index Market Cap (USD mn)	Weight in MSCI Nigeria Index	Weight in MSCI FM Index
Dangote Cement	Materials	11,470	1,032	22.0%	1.02%
Mtn Nigeria Commu	Communication Services	10,422	834	17.8%	0.82%
Zenith Bank	Financials	1,875	600	12.8%	0.59%
Nestle Foods Nigeria	Consumer Staples	2,658	585	12.5%	0.58%
Guaranty Trust Hldg Co	Financials	1,733	555	11.8%	0.55%
Seplat Energy	Energy	1,393	390	8.3%	0.39%
Nigerian Breweries	Consumer Staples	850	272	5.8%	0.27%
Stanbic Ibtc Holdings	Financials	977	244	5.2%	0.24%
Bua Cement	Materials	5,759	173	3.7%	0.17%



Data as of April 19, 2022 (Price Cutoff Date for the May 2022 SAIR).

Simulated impact on the MSCI Frontier Markets Index

	Actual Standard Index			Simulated Standard Index		
	Index Market	Weight	# Sec.	Index Market	Weight	# Sec.
	Cap			Cap		
FM	100,669	100.0%	99	95,984	100.0%	90
Vietnam	32,902	32.7%	28	32,902	34.3%	28
Morocco	9,421	9.4%	10	9,421	9.8%	10
Iceland	8,671	8.6%	6	8,671	9.0%	6
Bahrain	8,645	8.6%	4	8,645	9.0%	4
Kazakhstan	6,596	6.6%	3	6,596	6.9%	3
Romania	5,991	6.0%	4	5,991	6.2%	4
Kenya	5,367	5.3%	3	5,367	5.6%	3
Nigeria	4,685	4.7%	9	0	0.0%	0
Bangladesh	4,487	4.5%	7	4,487	4.7%	7
Slovenia	3,231	3.2%	2	3,231	3.4%	2
Oman	2,111	2.1%	2	2,111	2.2%	2
Mauritius	1,837	1.8%	2	1,837	1.9%	2
Croatia	1,212	1.2%	2	1,212	1.3%	2
Jordan	1,101	1.1%	2	1,101	1.1%	2
Pakistan	965	1.0%	3	965	1.0%	3
Estonia	871	0.9%	2	871	0.9%	2
Senegal	654	0.6%	1	654	0.7%	1
Lithuania	606	0.6%	2	606	0.6%	2
Tunisia	565	0.6%	2	565	0.6%	2
Sri Lanka	499	0.5%	3	499	0.5%	3
Burkina Faso	128	0.1%	1	128	0.1%	1
Serbia	124	0.1%	1	124	0.1%	1
Benin	0	0.0%	0	0	0.0%	0
Ivory Coast	0	0.0%	0	0	0.0%	0

Note: All market caps are in USD millions.

There are currently nine Nigerian securities in the MSCI Frontier Markets Index with a combined weight of 4.7%

Simulated impact on the MSCI Frontier Markets 100 Index

Actual versus Simulated FM 100 Index

	Actual Index*		Simulated Index**	
	# Securities	Index Wt	# Securities	Index Wt
VIETNAM	38	30.1%	38	30.1%
ICELAND	14	9.9%	14	9.9%
MOROCCO	8	8.6%	8	9.3%
BANGLADESH	14	8.2%	15	9.3%
BAHRAIN	2	8.0%	2	8.7%
ROMANIA	8	8.0%	8	8.6%
NIGERIA	8	7.2%	0	0.0%
KAZAKHSTAN	3	6.2%	3	6.7%
KENYA	3	5.8%	3	6.3%
JORDAN	4	2.2%	4	2.4%
OMAN	3	2.0%	3	2.2%
PAKISTAN	4	1.6%	9	3.6%
ESTONIA	2	0.8%	4	1.4%
LITHUANIA	2	0.8%	2	0.8%
SRI LANKA	2	0.5%	2	0.6%
TOTAL	115	100.0%	115	100.0%

Simulated Top 10 Constituents

Security Name	Country	Simulated Weight
AHLI UNITED BANK (KW)	BAHRAIN	8.1%
SAFARICOM	KENYA	3.9%
HOA PHAT GROUP JSC	VIETNAM	3.4%
KASPI.KZ GDR	KAZAKHSTAN	3.3%
VINGROUP JSC	VIETNAM	3.0%
BANCA TRANSILVANIA	ROMANIA	3.0%
VINHOMES JSC	VIETNAM	3.0%
MAROC TELECOM	MOROCCO	2.9%
MAREL	ICELAND	2.6%

There are currently eight Nigerian securities in the MSCI Frontier Markets 100 Index with a combined weight of 7.2%

Discussion Points

- Does the current lack of accessibility in Nigeria warrant a reclassification of Nigeria to Standalone Market status?
 - Is there any merit in allowing more time for market forces to play out and/or for Nigerian authorities to solve the FX liquidity issue?
 - If not, when would it be appropriate to implement this reclassification?
 - Would it be appropriate to implement the reclassification in one phase?
- Would the ongoing liquidity issues in the Nigerian FX market pose a problem in terms of replicating a potential reclassification?
 - If yes, would deleting securities from the MSCI Frontier Markets Index at a discount to market prices help facilitate the replicability of the reclassification? What discount would be appropriate?

Appendix



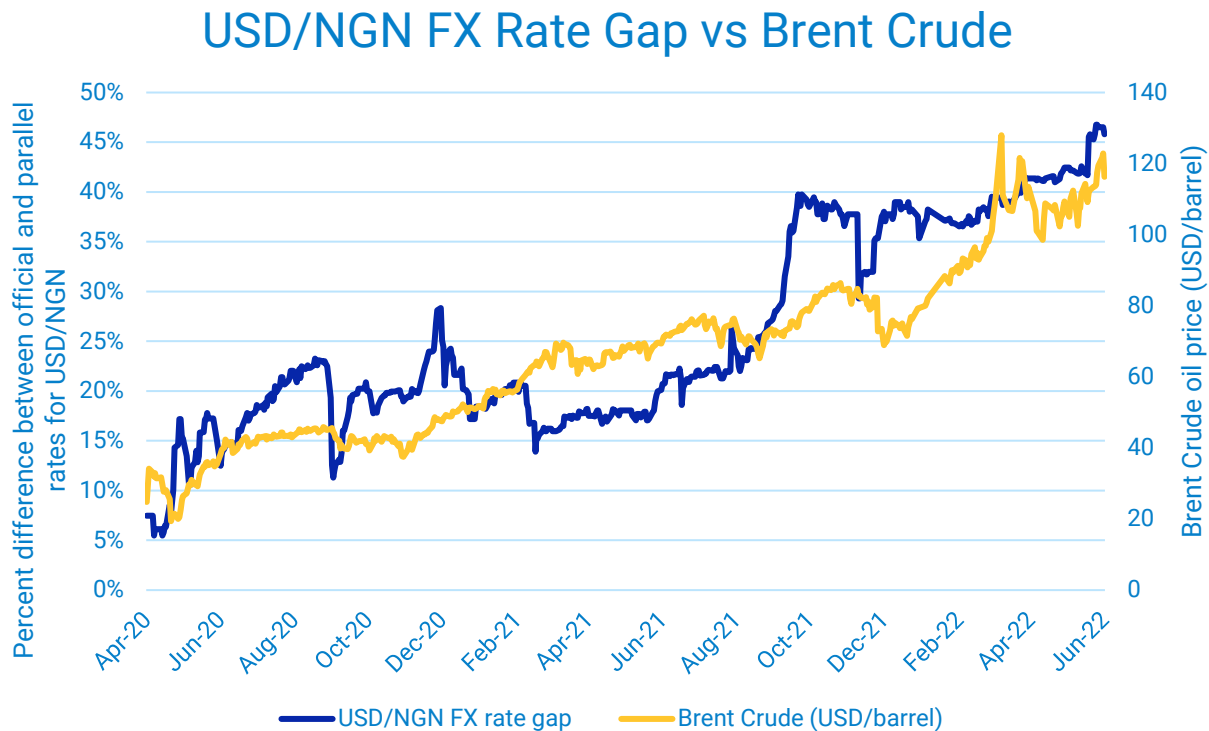
Market Classification Framework

Criteria	Frontier	Emerging	Developed
A Economic Development A.1 Sustainability of economic development	No requirement	No requirement	Country GNI per capita 25% above the World Bank high income threshold* for 3 consecutive years
B Size and Liquidity Requirements B.1 Number of companies meeting the following Standard Index criteria Company size (full market cap) ** Security size (float market cap) ** Security liquidity	2 USD 1,070 mm USD 91 mm 2.5% ATVR	3 USD 2,139 mm USD 1,170 mm 15% ATVR	5 USD 4,278 mm USD 2,139 mm 20% ATVR
C Market Accessibility Criteria C.1 Openness to foreign ownership C.2 Ease of capital inflows / outflows C.3 Efficiency of operational framework C.4 Availability of Investment Instrument C.5 Stability of the institutional framework	At least some At least partial Modest High Modest	Significant Significant Good and tested High Modest	Very high Very high Very high Unrestricted Very high

* High income threshold: 2020 GNI per capita of USD 12,695 (World Bank, Atlas method)

** Minimum in use for the May 2022 Semi-Annual Index Review, updated on a semi-annual basis

Naira FX Rate Gap versus Brent Crude



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Information Classification: GENERAL

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