

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

POTENTIAL RECLASSIFICATION FROM FRONTIER  
TO STANDALONE MARKETS STATUS

June 2023

# Background and Reclassification Proposal

- Severe accessibility issues in the Nigerian equity market emerged in March 2020 due to low liquidity in the Nigerian FX market:
  - A significant gap 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
- In June 2022, MSCI launched a consultation on a proposal to reclassify the MSCI Nigeria Indexes from Frontier Market to Standalone Market status. This consultation was subsequently extended to June 2023
- On June 14<sup>th</sup>, 2023, the Central Bank of Nigeria announced operational changes to the FX Market which were effective immediately. Such changes include, amongst others, the abolishment of the previous FX market segmentation, merging all sectors into the Investors and Exporters Window, and the reinstalment of the "Willing Buyer, Willing Seller" model with no rate cap
- **Given the latest developments, MSCI will continue to consult with market participants on the proposal to reclassify the MSCI Nigeria Indexes until September 29, 2023, and will announce the results of the consultation on or before October 31, 2023**

# Nigeria – Timeline of Events

March 2020

Central Bank of Nigeria(CBN) 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.

September 2022

MSCI continued to welcome feedback and stated that it will communicate the results as part of the MSCI 2023 Market Classification Review in June 2023.



June 2023

CBN announced operational changes to the FX Market which were effective immediately. Such changes include, amongst others, the abolishment of the previous FX market segmentation, merging all sectors into the Investors and Exporters Window, and the reinstalment of the "Willing Buyer, Willing Seller" model with no rate cap.



June 2023

MSCI extends the Consultation until September 29, 2023, and will announce the results on or before October 31, 2023.

# Composition of the MSCI Nigeria Index

MSCI Nigeria Index	
Index Market Capitalization	USD 4,200 million
Number of Securities	9
Current Weight in MSCI FM Index	5.6%

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	9,986	899	21.4%	1.21%
Mtn Nigeria Commu	Communication Services	9,896	792	18.9%	1.06%
Guaranty Trust Hldg Co	Financials	1,606	514	12.2%	0.69%
Zenith Bank	Financials	1,485	475	11.3%	0.64%
Seplat Energy	Energy	1,469	411	9.8%	0.55%
Nestle Foods Nigeria	Consumer Staples	1,859	409	9.7%	0.55%
Nigerian Breweries	Consumer Staples	797	255	6.1%	0.34%
Stanbic Ibtc Holdings	Financials	915	229	5.4%	0.31%
Bua Cement	Materials	7,192	216	5.1%	0.29%



Data as of April 18, 2023 (Price Cutoff Date for the May 2023 Index Review).

# Simulated impact on the MSCI Frontier Markets Index

	Actual Standard Index			Simulated Standard Index		
	Index Market Cap	Weight	# Sec.	Index Market Cap	Weight	# Sec.
<b>FM</b>	<b>74,540</b>	<b>100.0%</b>	<b>98</b>	<b>70,340</b>	<b>100.0%</b>	<b>89</b>
Vietnam	20,328	27.3%	21	20,328	28.9%	21
Morocco	7,685	10.3%	12	7,685	10.9%	12
Romania	6,866	9.2%	5	6,866	9.8%	5
Iceland	6,713	9.0%	7	6,713	9.5%	7
Kazakhstan	5,678	7.6%	3	5,678	8.1%	3
<b>Nigeria</b>	<b>4,200</b>	<b>5.6%</b>	<b>9</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>
Slovenia	4,009	5.4%	2	4,009	5.7%	2
Bangladesh	3,256	4.4%	7	3,256	4.6%	7
Oman	2,997	4.0%	5	2,997	4.3%	5
Kenya	2,930	3.9%	3	2,930	4.2%	3
Mauritius	1,704	2.3%	2	1,704	2.4%	2
Bahrain	1,443	1.9%	3	1,443	2.1%	3
Jordan	1,396	1.9%	3	1,396	2.0%	3
Croatia	1,236	1.7%	2	1,236	1.8%	2
Estonia	775	1.0%	2	775	1.1%	2
Senegal	660	0.9%	1	660	0.9%	1
Tunisia	645	0.9%	2	645	0.9%	2
Lithuania	640	0.9%	2	640	0.9%	2
Sri Lanka	528	0.7%	3	528	0.8%	3
Pakistan	487	0.7%	2	487	0.7%	2
Ivory Coast	205	0.3%	1	205	0.3%	1
Serbia	161	0.2%	1	161	0.2%	1
Benin	0	0.0%	0	0	0.0%	0
Burkina Faso	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 5.6%

# 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	30.14%	40	30.05%
ROMANIA	9	9.86%	9	9.95%
ICELAND	16	9.86%	17	9.95%
<b>NIGERIA</b>	<b>6</b>	<b>9.86%</b>	<b>0</b>	<b>0.00%</b>
KAZAKHSTAN	3	9.46%	3	9.95%
MOROCCO	6	7.74%	6	9.83%
BANGLADESH	11	7.24%	11	9.19%
OMAN	4	4.10%	4	5.21%
JORDAN	4	2.99%	5	4.20%
PAKISTAN	8	2.57%	10	3.84%
KENYA	1	2.05%	1	2.61%
ESTONIA	3	1.50%	3	1.91%
LITHUANIA	2	1.10%	2	1.40%
SRI LANKA	3	0.88%	3	1.11%
BAHRAIN	1	0.63%	1	0.81%
<b>TOTAL</b>	<b>115</b>	<b>100.00%</b>	<b>115</b>	<b>100.00%</b>

## Simulated Top 10 Constituents

Security Name	Country	Simulated Weight
KASPI.KZ GDR	KAZAKHSTAN	5.01%
VINGROUP JSC	VIETNAM	3.45%
ATTIJARIWafa BANK	MOROCCO	3.42%
HOA PHAT GROUP JSC	VIETNAM	3.06%
BANCA TRANSILVANIA	ROMANIA	3.03%
KAZATOMPROM GDR	KAZAKHSTAN	3.00%
VINHOMES JSC	VIETNAM	2.90%
MAROC TELECOM	MOROCCO	2.86%
SAFARICOM	KENYA	2.61%
BANK MUSCAT	OMAN	2.61%

# Discussion Points

- Have the operational changes announced by the Central Bank of Nigeria (CBN) on June 14<sup>th</sup>, 2023, resulted in an increase in USD liquidity at the Nigerian FX market?
- Have you observed progress in the clearance of the FX queue? Are there still significant frictions in capital repatriation?
- Given these developments, is the reclassification of the MSCI Nigeria Indexes from Frontier Markets to Standalone Markets status still warranted?
  - If yes, what would be the appropriate timeline for the reclassification?
  - Would deleting the Nigerian securities from the MSCI Frontier Markets Index at a discount to market price help facilitate the replicability of the reclassification? What discount would be appropriate?

# Appendix

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# Market Classification Framework

Criteria	Frontier	Emerging	Developed
<b>A Economic Development</b>  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>B Size and Liquidity Requirements</b>  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 1,033 mm USD 73 mm 2.5% ATVR	3 USD 2,066 mm USD 1,033 mm 15% ATVR	5 USD 4,133 mm USD 2,066 mm 20% ATVR
<b>C Market Accessibility Criteria</b>  C.1 Openness to foreign ownership C.2 Ease of capital inflows / outflows C.3 Efficiency of operational framework C.4 Availability of investment instruments 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: 2021 GNI per capita of USD 13,205 (World Bank, Atlas method)

\*\* Minimum in use for the May 2023 Index Review, updated on a quarterly basis

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