

# UPDATE TO THE CONCLUSION OF THE CONSULTATION ON SPECIFIC TOPICS RELATED TO CHINA A RECLASSIFICATION

November 2017

# TREATMENT OF THE DERIVED INDEXES

# CONCLUSION: IMPLEMENTATION IN MSCI FACTOR, THEMATIC, ESG & CAPPED INDEXES (DERIVED INDEXES)

- As outlined in the consultation, the MSCI Factor, Thematic, ESG and Capped Indexes (derived Indexes) will use the adjusted Parent Index weights (post application of the partial inclusion factor for the China A securities), and then apply the specific rebalancing methodology. No adjustments will be made to the weight of the China A securities, post the rebalancing
- In addition, MSCI will implement the following enhancements to the methodologies using an optimization approach:
  - For the MSCI 25/50 and 35/65 Indexes, the weight of each China A security will be capped at a maximum of three times its weight in the Parent Index
  - For other optimized indexes (Diversified Multi-Factor, Minimum Volatility, Low Carbon Leaders, Low Carbon Target, Factor ESG Target Series, ESG Focus and Minimum Volatility ESG Target), the specific country weight constraint in each methodology will also be applied on China A securities separately, in addition to the usual country weight constraint for China
- MSCI will make available separate versions of non-optimized indexes, that incorporate the application of the partial inclusion factor post the application of derived methodology, upon request starting May 2018
- As outlined in the consultation, all the valuation ratios used in the derived indexes methodologies (e.g. dividend yield, P/E, etc.) will be based on the offshore CNH rate
- For data-points used in certain derived indexes (such as historical sales for the MSCI Value Weighted Indexes), MSCI will use the data from China A local listing where the Stock Connect listing does not have such data
- Custom indexes based on standard index methodologies will take the above treatment outlined for the specific methodologies

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