

CONCLUSIONS FROM THE CONSULTATION ON ENHANCEMENTS TO THE FREE FLOAT ADJUSTMENT FACTOR METHODOLOGY

MSCI GLOBAL INVESTABLE MARKET INDEXES

February 2025

Background

- MSCI Global Investable Market Indexes (GIMI) are based on free float-adjusted security market capitalization. MSCI assigns a Foreign Inclusion Factor (FIF) as the free float-adjustment factor to each security*
- MSCI launched the consultation in July 2024 to enhance the Free Float Adjustment Factor Methodology for the MSCI GIMI which was concluded in January 2025
- Most market participants supported the proposals aimed at increasing precision of free float adjustment factor and enhancing index stability. However, some market participants expressed concerns about the complexity of the proposed rounding rules
- Consequently, while MSCI will proceed with the free float adjustment factor methodology change, it will replace the initially proposed rounding approach with a simpler rounding. Specifically, MSCI will:
 - **Introduce three free float levels:** 'high' above 25%, 'low' from 5% to 25% and 'very low' less than 5%
 - **Increase free float adjustment factor precision** by rounding free float adjustment factors to the closest 2.5%, 0.5%, and 0.1%, for the 'high', 'low' and 'very low' free float levels respectively
 - **Enhance Index stability** by introducing buffers of $\pm 2.5\%$, $\pm 0.5\%$, and $\pm 0.1\%$, measured relative to the latest free float adjustment factor, for the 'high', 'low' and 'very low' free float levels respectively
- **Implementation timeline:** MSCI proposes to implement these enhancements in **one step** at the **May 2026 Index Review**
- **Feedback request:** MSCI welcomes any additional feedback from the investment community on this proposed implementation schedule until June 30, 2025
- **Simulated list for the MSCI ACWI Index:** Available at MSCI Index Consultations <https://www.msci.com/index-consultation>



*For Domestic Indexes, MSCI adjusts the market capitalization of each security using a free float adjustment factor referred to as the Domestic Inclusion Factor (DIF). The DIF is not subject to Foreign Ownership Limits (FOL).

Details of the New Methodology

- MSCI will **increase precision and index stability** by assigning free float adjustment factors in the following way:
 - for securities with free float greater than 25%
 - Assign free float adjustment factors by **Rounding to** the closest 2.5% (for e.g., FIF/DIF would be 0.25, 0.275, 0.3 etc.)
 - Apply a buffer of +/- 2.5% by triggering a FIF/DIF change only if the absolute change in free float compared to the current index DIF is at least 2.5%
 - for securities with free float between 5% and 25%
 - Assign free float factors by **Rounding to** the closest 0.5% (for e.g., FIF/DIF would be 0.15, 0.155, 0.16 etc.)
 - Apply a buffer of +/- 0.5% by
 - Triggering a FIF/DIF change only if the absolute change in free float compared to the current index DIF is at least 0.5%
 - for securities with free float less than 5%
 - Assign free float factors by **Rounding to** the closest 0.1% (for e.g., FIF/DIF would be 0.011, 0.012, 0.013 etc.)
 - Apply a buffer of +/- 0.1% by
 - Triggering a FIF/DIF change only if the absolute change in free float compared to the current index DIF is at least 0.1%
- The buffers would not be applicable
 - for additions to the Standard/Small Cap Size-Segments, additions to the Microcap Index and deletions from the Standard Size-Segment as part of the Index Review
 - for Foreign Ownership Limits (FOL) change resulting in a FIF change
 - for corrections

For securities subject to FOL, the FIF will be continued to be capped at lower of Domestic Inclusion Factor (DIF) and FOL
In cases where MSCI applies a Limited Investability Factor (LIF), the free float adjusted for limited investability is defined as the product of the available free float for foreign investors and the LIF

Illustration

The following examples illustrate the FIF calculations as per the current and new free float adjustment factor methodology

Example 1 (High Free Float) :

- Company A is a constituent of MSCI Indexes and as per MSCI Free float methodology free float estimation is 87% at the time of listing
- Below table depicts the FIF calculations as part of the Index Reviews

Company A	Quarter 1	Quarter 2	Quarter 3
Free Float	87.00%	92.00%	89.00%
FIF as per current methodology	0.9	0.95	0.9
FIF as per new methodology	0.875	0.925	0.9
Benefits of the new methodology	More precise FIF	More precise FIF	Reduced reverse turnover due to FIF change

Example 2 (Low Free Float):

- Company B is a constituent of MSCI Indexes and as per MSCI Free float methodology free float estimation is 14.6% at the time of listing
- Below table depicts the FIF calculations as part of the Index Reviews

Company B	Quarter 1	Quarter 2	Quarter 3
Free Float	14.60%	15.70%	14.55%
FIF using current methodology	0.15	0.2	0.15
FIF as per new methodology	0.145	0.155	0.145
Benefits of the new methodology	Conservative and more precise FIF	Reduced turnover due to lower incremental FIF change	Reduced reverse turnover due to FIF change

Top 20 impacted securities in ACWI

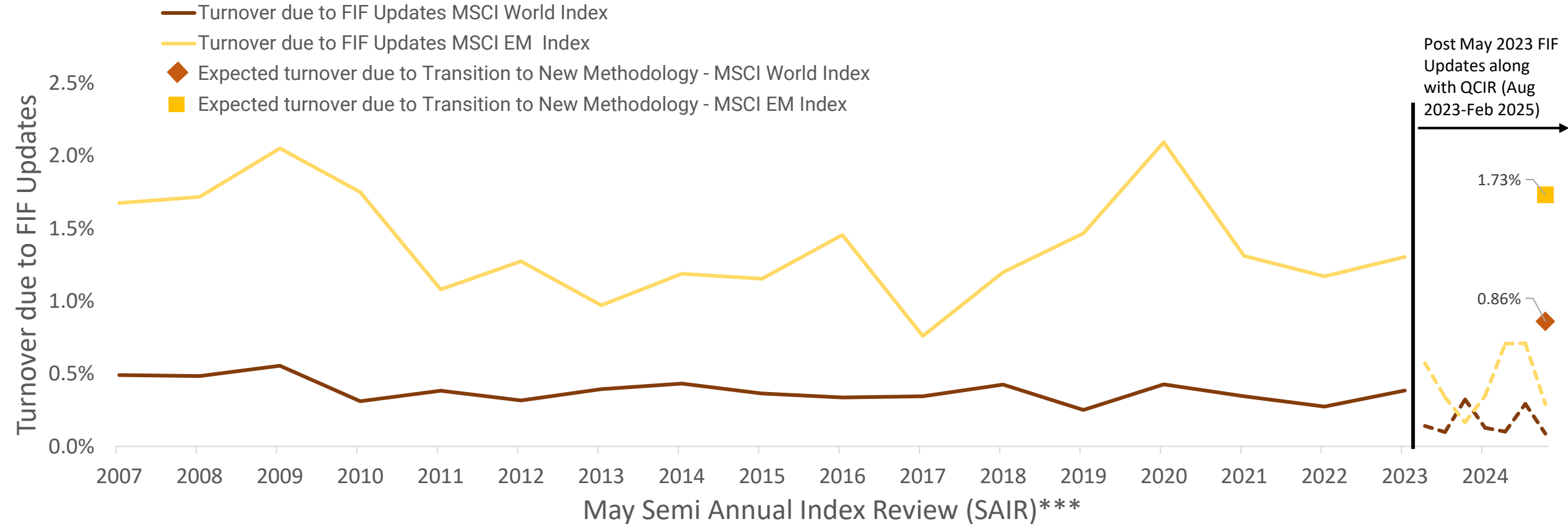
MSCI Security Code	Security Name	Country Name	Market cap \$ Millions	Current FIF	New methodology FIF	FIF Market cap Impact \$ Millions
24946.01	NVIDIA	USA	3,292,191	1.00	0.950	(164,610)
29368.03	ALPHABET C	USA	1,004,864	0.90	0.850	(50,243)
66186.01	TESLA	USA	1,084,358	0.90	0.875	(27,109)
11795.01	LVMH MOET HENNESSY	FRANCE	367,431	0.55	0.500	(18,372)
37000.01	T-MOBILE US	USA	307,726	0.45	0.400	(15,386)
10667.01	COCA COLA (THE)	USA	307,361	0.95	0.900	(15,368)
60794.01	TENCENT HOLDINGS LI (CN)	CHINA	613,901	0.70	0.675	(15,348)
17418.01	HERMES INTERNATIONAL	FRANCE	303,415	0.30	0.250	(15,171)
20668.01	NOVARTIS	SWITZERLAND	238,944	0.90	0.850	(11,947)
96385.01	PDD HOLDINGS A ADR	CHINA	182,401	0.50	0.450	(9,120)
20867.02	DEUTSCHE TELEKOM	GERMANY	179,965	0.70	0.650	(8,998)
24160.01	MITSUBISHI UFJ FIN GRP	JAPAN	157,301	0.95	0.900	(7,865)
29451.01	SALESFORCE	USA	296,479	1.00	0.975	(7,412)
13018.01	TOTALENERGIES	FRANCE	145,694	0.90	0.850	(7,285)
10849.01	DEERE & CO	USA	133,446	0.95	0.900	(6,672)
10402.01	BOEING CO	USA	132,539	1.00	0.950	(6,627)
95551.01	SPOTIFY TECHNOLOGY	SWEDEN	124,741	0.75	0.700	(6,237)
19666.01	APPLOVIN CORP A	USA	124,040	0.70	0.650	(6,202)
16258.01	ASTRAZENECA	UNITED KINGDOM	229,455	1.00	0.975	(5,736)
12561.01	SAFRAN	FRANCE	108,158	0.85	0.800	(5,408)

Data as of March 3, 2025, reflecting the results of the Feb 2025 Index Review (effective March 3, 2025). Not incorporating corporate events implemented post Feb 24, 2025
Price considered for Market cap is as of Feb 21, 2025, accordingly Top 20 is based on FIF Market cap Impact
Simulated list for the MSCI ACWI Index: Available at MSCI Index Consultation <https://www.msci.com/index-consultation>



Historical Turnover due to FIF updates in May Index Reviews

- The below chart represents the actual turnover due to FIF updates in the historical May reviews
- The expected turnover due to transition which is simulated for the February 2025 Index Review at 0.86% for MSCI World Index and 1.73% for MSCI Emerging Market Index and as seen below, historically MSCI Emerging Market Index had already experienced similar turnover while MSCI World had been lower



* Note that turnover measures only turnover resulting from FIF updates and does not consider other index review changes such as additions, deletions, changes in number of shares, etc.
 ** Transition turnover is simulated for the Feb 2025 Index Review
 ***Previously MSCI updated float annually once a year as part of the May Index Review

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