

Consultation on potential enhancements to the MSCI Frontier Markets 100 Index

April 2020

Background

- The MSCI Frontier Markets 100 Index is based on the MSCI Frontier Markets (FM) Investable Market Index (IMI) (the “Parent Index”)
- Amongst other rules, the current methodology applies the 25/50 overlay to avoid group entity concentration¹ and is designed to align with the US Internal Revenue Code applicable for a "regulated investment company" or "RIC"
- The proposal within this consultation focuses on changing the aggregate group entity capping from 50% to 25% effective with the May 2020 Semi Annual Index Review
- As the MSCI Frontier Markets 100 Index has become more concentrated, the proposed methodology change aims to foster greater alignment with the SEC fund diversification rules²
- MSCI welcomes feedback from market participants on this topic until May 08, 2020 and will communicate the results of the consultation by May 12, 2020
- Note - This consultation may or may not lead to the implementation of any or all of the proposed changes in the highlighted or any other MSCI indexes

¹ The MSCI 25/50 Indexes use the concept of group entities to define the 25% and 50% concentration constraints at the issuer level. Financial accounts of listed companies holding stakes of 20% or more in other listed companies are analyzed to determine whether these stakes are controlling in nature and, consequently, whether both companies should be considered as belonging to the same group entity. In certain cases, even in the absence of consolidated accounts, MSCI may consider two companies as belonging to the same group entity where there is reasonable evidence of control based on other information.

²Investment Companies Act of '40 Act

Details of the proposal

- Change the aggregate group entity capping from 50% to 25%
 - Add a daily constraint check for single and aggregate group entity capping
- Implement the changes starting with the May 2020 Semi Annual Index Review
- All other elements of the methodology would remain unchanged
- The reweighting resulting from group entity capping would take priority over any other methodological requirement (e.g. country capping)

Table: Summary of the proposal

Parameter	Current	Proposed	Change proposed
Single group entity cap (1)	25%	25%	None
Aggregate group entity cap * (2)	50%	25%	Yes
Aggregate group entity threshold * (3)	05%	05%	None
Rebalance buffer (4)	10%	10%	None
Daily constraint check for (1) and (2)	None	Yes	Yes

* Cumulative weight of group entities exceeding the aggregate group entity threshold (3) must not exceed the aggregate group entity cap (2).

Estimated impact of the proposal – one-way turnover

- **One-time implementation of aggregate group entity cap change from 50% to 25%:**
 - Estimated 4.9% one-way turnover based on simulated average over past 4 rebalancing dates (May 2019 SAIR to Feb 2020 QIR)
- **Maintenance turnover:**
 - Estimated 1.3% decrease in full-year one-way turnover (incremental turnover due to daily constraint checks offset by decrease in turnover from quarterly rebalancing, corporate events and phasing) based on simulation from May 2019 to March 2020.

Table: Simulated one-way turnover

Source of turnover	Current capping	Proposed capping	Change
Implementation of capping change	n/a	4.9%	4.9%
Annual maintenance	30.0%	28.7%	-1.3%
Daily constraint checks	n/a	2.4%	2.4%
Other *	30.0%	26.4%	-3.7%
* Includes turnover due to quarterly rebalancing, corporate events and phasing			

Estimated impact of the proposal – aggregate group entity weights

- The proposed 25% aggregate group entity cap would result in aggregate group entity weights reduced to below 22.5% on each of the past 4 rebalancing dates.¹

Table: Aggregate group entity weights

	May 2019 SAIR	Aug 2019 QIR	Nov 2019 SAIR	Feb 2020 QIR
FM100 - Current (50% aggregate group entity cap)	26.0%	36.8%	39.3%	41.2%
FM100 - Proposed (25% aggregate group entity cap)	21.8%	22.3%	19.1%	20.9%

Note: figures as of post-rebalance

Table: Number of group entities exceeding aggregate group entity threshold

	May 2019 SAIR	Aug 2019 QIR	Nov 2019 SAIR	Feb 2020 QIR
FM100 - Current (50% aggregate group entity cap)	4	6	6	6
FM100 - Proposed (25% aggregate group entity cap)	3	3	2	2

Note: figures as of post-rebalance

Discussion points

- Do you agree with the proposed changes ?
- Do you agree to coincide the proposed changes with the May 2020 Semi Annual Index Review ?

Note - This consultation may or may not lead to the implementation of any or all of the proposed changes in the highlighted or any other MSCI indexes. Consultation feedback will remain confidential. MSCI may publicly disclose feedback if specifically requested by specific market participants. In that case, the relevant feedback would be published together with the final results of the consultation.

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Contact us

AMERICAS		EUROPE, MIDDLE EAST & AFRICA		ASIA PACIFIC	
Americas	+1 888 588 4567 *	Cape Town	+ 27 21 673 0100	China North	10800 852 1032 *
Atlanta	+ 1 404 551 3212	Frankfurt	+ 49 69 133 859 00	China South	10800 152 1032 *
Boston	+ 1 617 532 0920	Geneva	+ 41 22 817 9777	Hong Kong	+ 852 2844 9333
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San Francisco	+ 1 415 836 8800			Sydney	+ 61 2 9033 9333
São Paulo	+ 55 11 3706 1360			Taipei	008 0112 7513 *
Toronto	+ 1 416 628 1007			Thailand	0018 0015 6207 7181 *
				Tokyo	+81 3 5290 1555

* = toll free

msci.com
clientservice@msci.com

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