

MSCI

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# Canadian Mergers and Acquisitions consultation - September 2014

# Agenda

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# Background

- Currently, for Canadian M&As, once all regulatory approvals are received, MSCI generally waits for the actual delisting notice of the target company provided by the stock exchange to implement the deletions of target securities from the indexes.
- As a result, as many delisting notices arrive late, many M&As treatment in Canada are announced as Intradays, giving less than 2 days advance notice to MSCI Clients.
- Also, even if a completion date for the event is publicly available, MSCI does not currently use it and hence, does not send an estimated completion date with an “Expected” status to MSCI Clients. The event status is changed from “Undetermined” to “Confirmed” only after the actual delisting notice has been released by the stock exchange.

# Proposal

MSCI proposes to send “expected” announcements for the deletion of target companies based on the expected completion date (ECD) of the event as announced in companies’ press releases. This would allow clients to better anticipate the implementation of the event.

MSCI also proposes to estimate an expected deletion date using this ECD + 3 business days\*. This expected deletion date from the MSCI indexes for the target company would be announced with an “Expected” status, until the delisting date is announced by the Toronto Stock Exchange (TSX).

MSCI would still use the official delisting date from the TSX to send “Confirmed” announcement and remove the target company from the MSCI indexes. As such, Intraday deletion announcements would not be reduced, or eliminated.

Please note that these proposals may or may not lead to any changes to the MSCI indexes.

\* Based on past cases analysis, MSCI has determined that the expected deletion date was best approximated using the ECD date + 3 business days.

## Proposal (continued)

- 1. Send “Expected” announcement:** Using the expected deletion date calculated from the ECD. Note that “Expected” announcements are generally sent 10 business days before the expected deletion date when feasible, due to companies’ announcement timing.
- 2. Monitor the event and wait for official delisting:** Even if there is an expected announcement with an effective date, MSCI will wait for the official delisting from TSX to send a “Confirmed” announcement in order to delete securities as of the close of the last trading day. As a result, the “Expected” status may remain unchanged even after the effective date has passed, which is an exception to the MSCI current announcement policy.
- 3. Send “Confirmed” announcement only after TSX announces delisting:** Once MSCI receives the TSX Bulletin with the effective delisting date of the security, MSCI will send a “Confirmed” announcement for the deletion of the security from the MSCI Indexes.

# Questions

- Should MSCI use the ECD of the event as announced by the company to delete the target company from the MSCI indexes instead of waiting for the delisting date, even if the potential outcome may be that deletion would occur a few days prior to or after the delisting date?

## For example:

- MSCI would send an “Expected” announcement using the expected deletion date.
- MSCI would send a “Confirmed” announcement 2 days before the expected deletion date, not waiting for the delisting notice from the Stock Exchange.

As per the analysis of past cases conducted on 4 Standard Index Constituents, 1 case would have been deleted at the same time as the TSX delisting date, 1 case would have been deleted after and 2 cases deleted earlier.

- Should MSCI use the ECD (as provided by the company) instead of ECD + 3 business days?
- As mentioned in slide 5, the “expected” status may remain unchanged even after the effective date has passed. Would this exception create any issue?
- More generally, should MSCI use a day other than the last trading day to delete a security from the MSCI indexes?

## Appendix

- I. Current Methodology
- II. Example to illustrate proposal impact
- III. A few metrics using the proposal

# Appendix I: Current Methodology

## MSCI Corporate Events Methodology:

### Section 2.1 Treatment of M&As in the MSCI Universe

As a general principle, MSCI implements M&As as of the close of the last trading day of the acquired entity or merging entities (last offer day for tender offers), regardless of the status of the securities (index constituents or non-index constituents) involved in the event. MSCI uses market prices for implementation, unless stated otherwise.

For Canada M&As in particular, after having all regulatory approvals, MSCI generally waits for the actual delisting provided by the stock exchanges to implement the deletions of securities.



## Appendix II: Example to illustrate proposal impact

Cnooc Limited has announced it will acquire all of the outstanding shares of NEXEN (a Large Cap index constituent) for cash. For each share held, NEXEN shareholders will receive USD 27.50 in cash.

With current MSCI treatment	With proposal
On Sep 17, 2012, MSCI has announced with an “undetermined” status the acquisition of NEXEN by Cnooc.	
On Feb 12, 2013, Nexen Inc. announced an expected completion date (ECD) of Feb 25, 2013.	
MSCI status remains unchanged as “undetermined” as MSCI does not use the ECD of Feb 25, 2013.	MSCI sends an “expected” announcement with an effective deletion date of <u>Feb 28, 2013</u> (T+3 of Feb 25, 2013).
MSCI receives the TSX delisting notice after market close on Feb 26, 2013. Delisting date is as of close of Feb 28, 2013.	
On Feb 27, 2013, MSCI sent an <u>Intraday</u> “confirmed” announcement to delete NEXEN as of close of Feb 28, 2013 (effective <u>Mar 1, 2013</u> ).	

## Appendix III: A few metrics using the proposal

Analysis conducted on 28 cases from January 2011 – March 2013 (4 Standard index constituents and 24 Small Cap index constituents).

	4 Standard Index Constituents	24 Small Cap Index Constituents
“Expected” announcement	Yes, for all 4 cases, using the ECD	Yes, for 14 cases using the ECD. (10 remaining cases to be announced “Confirmed” directly as ECD was released too close to the delisting notice).
“Confirmed” announcement	Yes, Intraday announcement for all 4 cases	Yes, Intraday announcement for more than 85% of cases
Deletion from MSCI Indexes as of close of last trading day	Yes, for all 4 cases	Yes, for all 24 cases

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