

# Consultation on a Market Reclassification Proposal for the MSCI Pakistan Index

**POTENTIAL RECLASSIFICATION FROM EMERGING TO  
FRONTIER MARKETS**

June 2021

# Reclassification Proposal

- MSCI proposes to reclassify the MSCI Pakistan Index from Emerging Markets (EM) to Frontier Markets (FM)
  - This would be reflected in all relevant global and regional composite indexes
  - The proposal is to implement the potential reclassification in one step coinciding with the November 2021 Semi-Annual Index Review (SAIR)
- MSCI proposes to apply the minimum size requirements for Smaller FMs, and the minimum liquidity requirement for Average Liquidity markets (15% Annualized Traded Value Ratio or ATVR)
- MSCI will consult with market participants on this reclassification proposal until August 31, 2021
  - MSCI will announce its decision by September 7, 2021

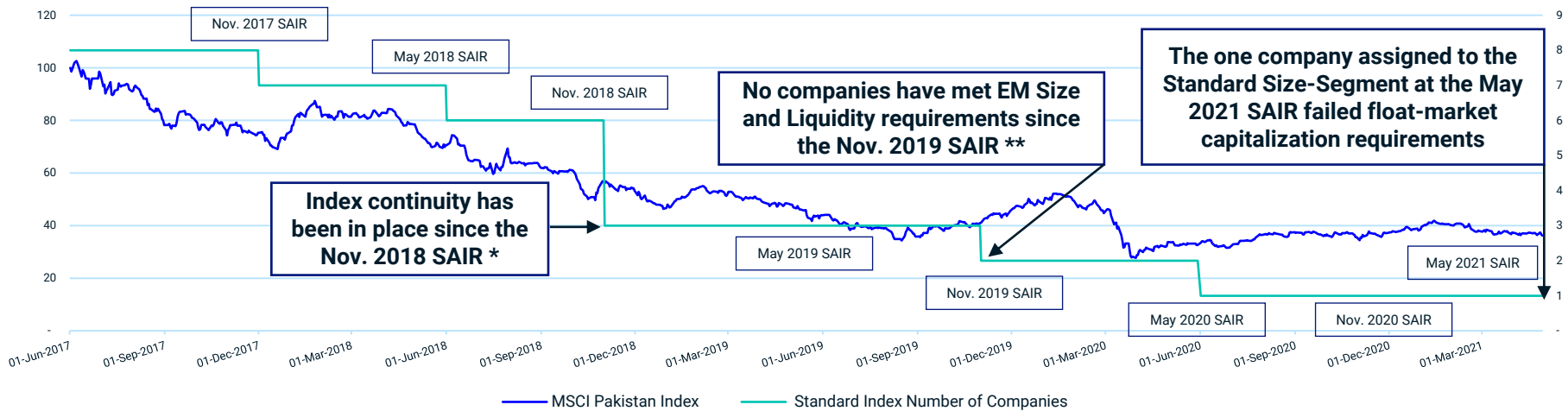
# Background and Rationale

- The number of companies in the Pakistan equity universe that meet the relevant Size and Liquidity criterion of the MSCI Market Classification Framework has declined steadily since 2017
  - Due to declining market capitalizations, this number has consistently been below the minimum of 3 index constituents required for EM
- Index continuity rules have been applied since the November 2018 SAIR to artificially maintain 3 constituents in the MSCI Pakistan Index
- Since the November 2019 SAIR, there have been no securities in the MSCI Pakistan equity universe that meet the EM Size and Liquidity criterion under the MSCI Market Classification Framework
- As the Pakistani market no longer meets EM standards for size, MSCI proposes to reclassify the MSCI Pakistan Index to FM

# Trend in the MSCI Pakistan Index since its reclassification to EM

- The number of companies eligible for the MSCI Pakistan Index has been on a decline since it was reclassified to EM in May 2017

Index Performance and Number of Companies for the MSCI Pakistan Index



\* While the Standard Number of Companies (NOC) was 3 in Nov. 2018, less than 3 securities were eligible for the Standard index at the time and since then, pre-index continuity rules.  
 \*\* While the Standard NOC was 2 in Nov. 2019, there were no securities in the Pakistan equity universe that met EM Size and Liquidity requirements under the MSCI Market Classification Framework at the time and since then.  
 Latest data as of April 19, 2021 (Price Cutoff Date for the May 2021 SAIR).



# Composition of the MSCI Pakistan Index

## MSCI Pakistan Index

Index Market Capitalization	USD 1,645 million
# of Securities	3
Weight in EM	0.02%

- No companies in the Pakistan equity universe met EM Size and Liquidity requirements at the May 2021 SAIR
  - Oil & Gas Development was assigned to the Standard Size-Segment but failed the final float market capitalization requirement
- All 3 constituents of the MSCI Pakistan Index were thus included due to Index Continuity rules

Security Name	GICS Sub Industry	Issuer Mcap (USD mn)	Index Mcap (USD mn)	Weight in MSCI EM Index	Weight in MSCI Pakistan Index
Lucky Cement	Diversified Banks	1,811	724	0.0086%	44.0%
MCB Bank	Construction Materials	1,340	469	0.0056%	28.5%
Habib Bank	Diversified Banks	1,128	451	0.0054%	27.4%

# Simulated changes to the MSCI Pakistan Indexes

## Number of Constituents

	Large Cap	Mid Cap	Standard	Small Cap	IMI
Emerging Markets (current) *	0	3	3	13	16
Frontier Markets (simulated)	0	4	4	19	23

## Free Float Adjusted Market Capitalization (USD million)

	Large Cap	Mid Cap	Standard	Small Cap	IMI
Emerging Markets (current) *	0	1,645	1,645	4,103	5,748
Frontier Markets (simulated)	0	2,032	2,032	5,026	7,058

## Simulated MSCI Pakistan Index constituents under FM rules

Company	Index Weight
Oil & Gas Development	19.1%
Lucky Cement	35.6%
MCB Bank	23.1%
Habib Bank	22.2%

- Index continuity would no longer apply using rules for Smaller, Average Liquidity Frontier Markets
  - All 4 simulated Standard constituents would meet FM Size and Liquidity requirements
- A full list of constituents in the simulated MSCI Pakistan IMI is available in the Appendix to this document

Data as of April 19, 2021 (Price Cutoff Date for the May 2021 SAIR).

Simulated results reflect the application of the SAIR methodology using requirements for Smaller, Average Liquidity Frontier Markets.

\* Index Continuity rules led to the inclusion of all 3 constituents of the MSCI Pakistan Index at the May 2021 SAIR.

# 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>85,232</b>	<b>100.0%</b>	<b>81</b>	<b>87,264</b>	<b>100.0%</b>	<b>85</b>
Vietnam	26,442	31.0%	20	26,442	30.3%	20
Morocco	9,815	11.5%	10	9,815	11.2%	10
Iceland	7,035	8.3%	3	7,035	8.1%	3
Kazakhstan	5,895	6.9%	3	5,895	6.8%	3
Kenya	5,877	6.9%	3	5,877	6.7%	3
Bahrain	5,595	6.6%	4	5,595	6.4%	4
Romania	5,426	6.4%	4	5,426	6.2%	4
Nigeria	4,304	5.1%	9	4,304	4.9%	9
Slovenia	3,764	4.4%	2	3,764	4.3%	2
Oman	2,097	2.5%	2	2,097	2.4%	2
<b>Pakistan</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>2,032</b>	<b>2.3%</b>	<b>4</b>
Bangladesh	1,556	1.8%	4	1,556	1.8%	4
Mauritius	1,547	1.8%	2	1,547	1.8%	2
Croatia	1,338	1.6%	2	1,338	1.5%	2
Jordan	995	1.2%	2	995	1.1%	2
Sri Lanka	821	1.0%	2	821	0.9%	2
Tunisia	675	0.8%	2	675	0.8%	2
Lithuania	629	0.7%	2	629	0.7%	2
Senegal	628	0.7%	1	628	0.7%	1
Estonia	542	0.6%	2	542	0.6%	2
Serbia	144	0.2%	1	144	0.2%	1
Burkina Faso	106	0.1%	1	106	0.1%	1

Note: All market caps are in USD millions. Data as of the close of April 19, 2021

- The simulated MSCI Pakistan Index would have a potential weight of 2.3% in the MSCI Frontier Markets Index

# Simulated impact on the MSCI Frontier Markets 100 Index

	Current Index *		Simulated Index **	
	# Securities	Index Wt	# Securities	Index Wt
VIETNAM	34	31.0%	34	31.4%
ICELAND	11	9.0%	9	8.6%
MOROCCO	8	9.0%	8	8.6%
KENYA	4	8.6%	4	7.7%
ROMANIA	7	8.1%	7	7.3%
BAHRAIN	4	7.2%	4	6.4%
KAZAKHSTAN	3	6.9%	3	6.2%
BANGLADESH	10	6.5%	10	5.9%
<b>PAKISTAN</b>	<b>0</b>	<b>0.0%</b>	<b>13</b>	<b>5.8%</b>
NIGERIA	7	6.4%	7	5.7%
OMAN	3	2.3%	3	2.1%
JORDAN	3	1.5%	3	1.3%
SRI LANKA	3	1.1%	3	1.0%
ESTONIA	3	0.9%	3	0.8%
LITHUANIA	2	0.9%	2	0.8%
CROATIA	1	0.4%	1	0.3%
MAURITIUS	1	0.3%	1	0.3%
KUWAIT	0	0.0%	0	0.0%
TOTAL	104	100.0%	115	100.0%

## MSCI FM 100 Index – Simulated Top 10 Constituents

Security Name	Country	Simulated New Weight
AHLI UNITED BANK (KW)	BAHRAIN	4.9%
SAFARICOM	KENYA	4.8%
VINGROUP JSC	VIETNAM	4.7%
HOA PHAT GROUP JSC	VIETNAM	4.4%
MAREL	ICELAND	4.1%
MAROC TELECOM	MOROCCO	3.0%
BANCA TRANSILVANIA	ROMANIA	3.0%
VIETNAM DAIRY PRODUCT	VIETNAM	2.9%
KASPI.KZ GDR	KAZAKHSTAN	2.6%
ATTIJARIWAFI BANK	MOROCCO	2.3%

- Pakistani securities would have a simulated weight of 5.8% in the MSCI Frontier Markets 100 Index



# Discussion Points

- Do you agree with the proposal to reclassify the MSCI Pakistan Indexes from Emerging Markets to Frontier Markets given the lack of companies meeting the EM Size and Liquidity criteria of the MSCI Market Classification Framework?
- If yes, do you agree with the proposal to reclassify in one step at the November 2021 SAIR?
  - Is it beneficial to reclassify Pakistan along with Argentina\* in November 2021 to prevent reverse turnover in the MSCI Emerging Markets Index that would result from reclassifying later?
- If Pakistan is reclassified to FM, would it be appropriate to include it in the list of eligible markets for the MSCI Frontier Markets 100 and MSCI Frontier Markets 15% Country Capped Indexes?

# Appendix

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# Market Accessibility Review 2021

Market Accessibility Assessment	2021
<b>Openness to foreign ownership</b>	
Investor qualification requirement	++
Foreign ownership limit (FOL) level	++
Foreign room level	++
Equal rights to foreign investors	++
<b>Ease of capital inflows / outflows</b>	
Capital flow restriction level	++
Foreign exchange market liberalization level	+
<b>Efficiency of the operational framework</b>	
Market entry	
Investor registration & account set up	+
Market organization	
Market regulations	+
Information flow	++
Market infrastructure	
Clearing and settlement	-/?
Custody	++
Registry / Depository	++
Trading	++
Transferability	++
Stock lending	-/?
Short selling	-/?
<b>Availability of Investment Instrument</b>	++
<b>Stability of institutional framework</b>	-/?

*Foreign Exchange Market Liberalization Level:* There is no offshore currency market and there are constraints on the onshore currency market (e.g., currency can only be bought / sold through a Special Convertible Rupee Account).

*Investor Registration & Account Set Up:* After the implementation of digital onboarding regime for non-resident investors, the account opening process can possibly be completed on the same day at the exchange level. More time is needed to assess the impact of the changes.

*Market Regulations:* Regulations have frequently changed over the past few years.

*Clearing and Settlement:* Omnibus structures are not available. Direct Overdraft facilities remain prohibited.

*Stock Lending:* Is allowed but is not an established market practice.

*Short Selling:* Is allowed but is not an established market practice.

*Stability of Institutional Framework:* There have been instances of interventions that challenged the stability of the “free-market” economy as illustrated by frequently changing market regulations.

# MSCI 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 1,171 mm USD 88 mm 2.5% ATVR	3 USD 2,343 mm USD 1,171 mm 15% ATVR	5 USD 4,685 mm USD 2,343 mm 20% ATVR
<b>C Market Accessibility Criteria</b>			
C.1 Openness to foreign ownership	At least some	Significant	Very high
C.2 Ease of capital inflows / outflows	At least partial	Significant	Very high
C.3 Efficiency of operational framework	Modest	Good and tested	Very high
C.4 Availability of Investment Instrument	High	High	Unrestricted
C.5 Stability of the institutional framework	Modest	Modest	Very high

\* High income threshold: 2019 GNI per capita of USD 12,536 (World Bank, Atlas method)

\*\* Minimum in use for the May 2021 Semi-Annual Index Review, updated on a semi-annual basis

# Simulated constituents of the MSCI Pakistan Indexes under FM rules (1/2)

Company	Full Mcap (USD mn)	FIF Mcap (USD mn)	FIF	Size-Segment
Oil & Gas Development	2,767	387	0.14	Standard
Lucky Cement	1,811	724	0.40	Standard
Pakistan Petroleum	1,514	303	0.20	Small Cap
Mari Petroleum	1,411	282	0.20	Small Cap
MCB Bank	1,340	469	0.35	Standard
Habib Bank	1,128	451	0.40	Standard
Engro Corporation	1,099	550	0.50	Small Cap
United Bank	953	381	0.40	Small Cap
Fauji Fertilizer Co	872	349	0.40	Small Cap
Pakistan Oilfields	696	244	0.35	Small Cap
Pakistan State Oil Co	669	301	0.45	Small Cap

# Simulated constituents of the MSCI Pakistan Indexes under FM rules (2/2)

Company	Full Mcap (USD mn)	FIF Mcap (USD mn)	FIF	Size-Segment
Hub-Power Co	660	528	0.80	Small Cap
Indus Motor Company	577	115	0.20	Small Cap
Engro Fertilizers	570	228	0.40	Small Cap
Trg Pakistan	548	411	0.75	Small Cap
Bank Al-Habib	462	324	0.70	Small Cap
Abbot Lab (Pakistan)	456	91	0.20	Small Cap
National Bank Pakistan	447	89	0.20	Small Cap
Systems	418	209	0.50	Small Cap
Millat Tractors	395	237	0.60	Small Cap
Searle Pakistan	376	150	0.40	Small Cap
Bank Alfalah	348	139	0.40	Small Cap
Packages	269	94	0.35	Small Cap

# Simulated impact on the MSCI Emerging Markets Index

	Actual Standard Index			Simulated Standard Index		
	Index Market Cap	Weight	# Sec.	Index Market Cap	Weight	# Sec.
<b>EM</b>	<b>8,423,942</b>	<b>100.0%</b>	<b>1,425</b>	<b>8,422,297</b>	<b>100.0%</b>	<b>1,422</b>
<b>EM Asia</b>	<b>6,724,268</b>	<b>79.8%</b>	<b>1,160</b>	<b>6,722,623</b>	<b>79.8%</b>	<b>1,157</b>
China	3,235,943	38.4%	748	3,235,943	38.4%	748
Taiwan	1,174,771	13.9%	86	1,174,771	13.9%	86
Korea	1,139,508	13.5%	103	1,139,508	13.5%	103
India	766,578	9.1%	101	766,578	9.1%	101
Thailand	143,753	1.7%	44	143,753	1.7%	44
Malaysia	111,625	1.3%	36	111,625	1.3%	36
Indonesia	101,169	1.2%	22	101,169	1.2%	22
Philippines	49,277	0.6%	17	49,277	0.6%	17
<b>Pakistan</b>	<b>1,645</b>	<b>0.0%</b>	<b>3</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>
<b>EM EMEA</b>	<b>1,077,750</b>	<b>12.8%</b>	<b>163</b>	<b>1,077,750</b>	<b>12.8%</b>	<b>163</b>
South Africa	322,920	3.8%	37	322,920	3.8%	37
Russia	255,214	3.0%	25	255,214	3.0%	25
Saudi Arabia	230,860	2.7%	36	230,860	2.7%	36
United Arab Emirates	55,149	0.7%	9	55,149	0.7%	9
Qatar	55,124	0.7%	12	55,124	0.7%	12
Poland	54,190	0.6%	14	54,190	0.6%	14
Kuwait	40,894	0.5%	6	40,894	0.5%	6
Turkey	21,024	0.2%	11	21,024	0.2%	11
Hungary	16,490	0.2%	3	16,490	0.2%	3
Greece	11,114	0.1%	4	11,114	0.1%	4
Czech Republic	8,750	0.1%	3	8,750	0.1%	3
Egypt	6,021	0.1%	3	6,021	0.1%	3
<b>EM Latin America</b>	<b>621,924</b>	<b>7.4%</b>	<b>102</b>	<b>621,924</b>	<b>7.4%</b>	<b>102</b>
Brazil	386,916	4.6%	54	386,916	4.6%	54
Mexico	147,128	1.7%	24	147,128	1.7%	24
Chile	46,551	0.6%	13	46,551	0.6%	13
Peru	17,658	0.2%	3	17,658	0.2%	3
Colombia	13,160	0.2%	5	13,160	0.2%	5
Argentina	10,511	0.1%	3	10,511	0.1%	3

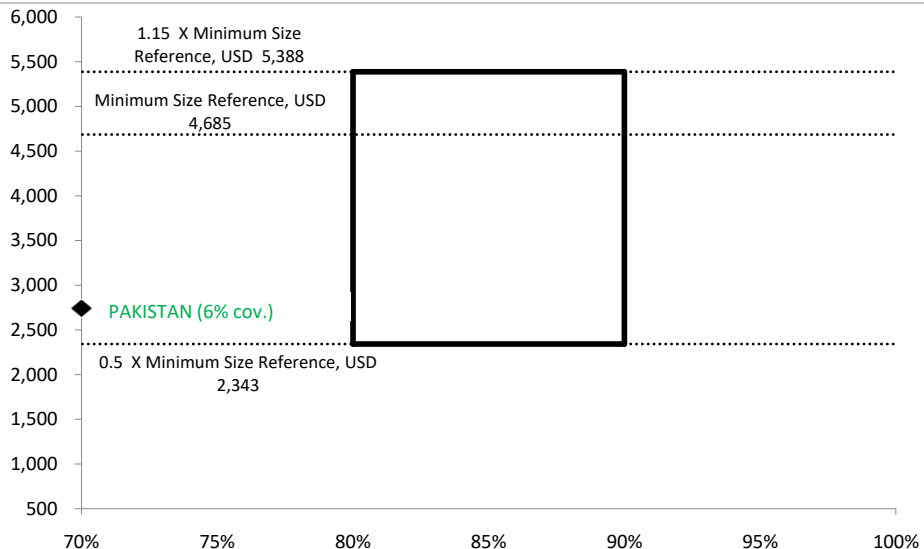
Note: All market caps are in USD millions. Data as of the close of April 19, 2021

- Given the low weight of the MSCI Pakistan Index in the MSCI Emerging Markets Index (0.02%), there would be no significant impact on other country weights following a reclassification

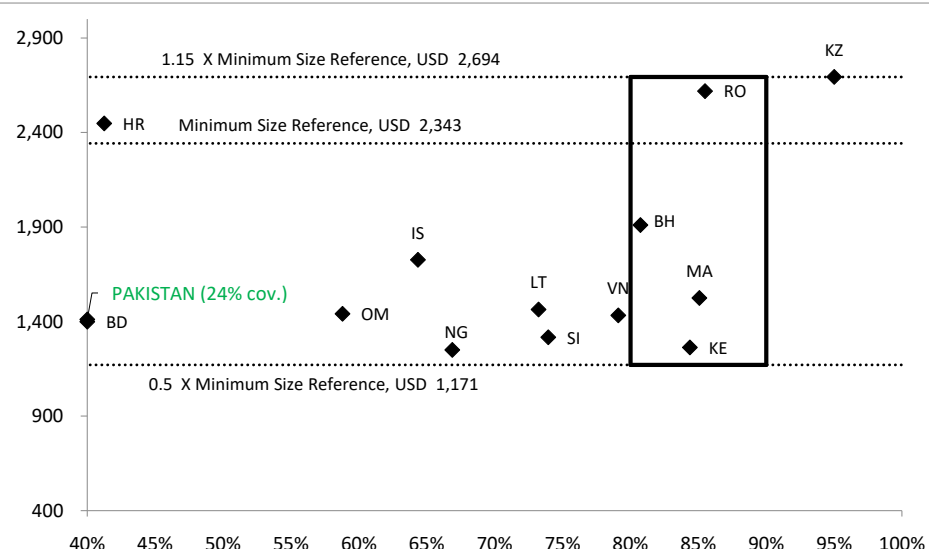
# Size profile of Pakistan

- Smaller Frontier Markets size requirements are more appropriate for the MSCI Pakistan Index to have at least 2 constituents

Larger FM (NOC = 1)



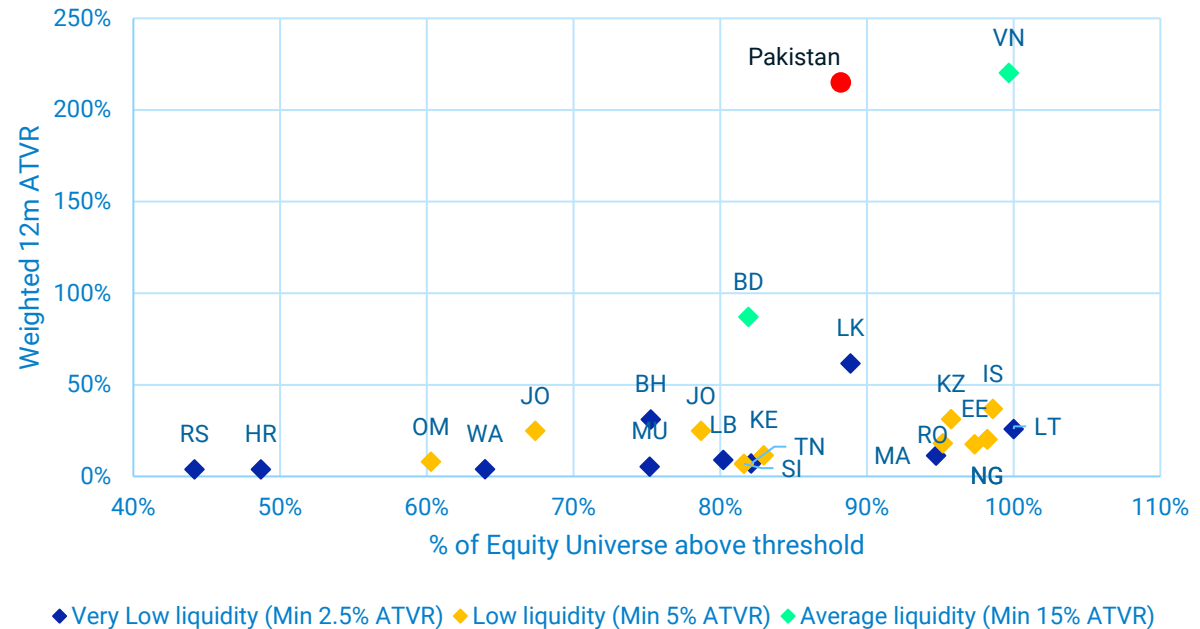
Smaller FM (NOC = 4)





# Liquidity profile of Pakistan

- Pakistan's weighted ATVR is close to other Average liquidity markets
- 88% of Pakistan's Equity Universe meets the minimum of 15% ATVR



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Information Classification: GENERAL

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