

# CONSULTATION ON A MARKET RECLASSIFICATION PROPOSAL FOR THE MSCI ARGENTINA INDEX

## Potential Reclassification from Frontier to Emerging Markets

*This consultation may or may not lead to the implementation of any or all of the proposed changes in MSCI's 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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# RECLASSIFICATION PROPOSAL

- MSCI announced that it is maintaining the MSCI Argentina Index on the review list for a potential reclassification to Emerging Markets status as part of the 2018 Annual Market Classification Review.
  - The proposed reclassification 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 May 2019 Semi-Annual Index Review
- MSCI will consult with market participants on this reclassification proposal as part of the 2018 Annual Market Classification Review
  - MSCI will announce its decision in June 2018
- Please note that this proposal may or may not lead to any changes to the MSCI Indexes

# BACKGROUND

- The MSCI Argentina Index was excluded from the MSCI Emerging Markets Index in May 2009 as a result of the continued restrictions to inflows and outflows of capital in the Argentinean equity market
- In addition, MSCI considered only American Depositary Receipts (ADRs) of Argentinean companies as eligible securities for inclusion in the MSCI Argentina Index
- Since December 2015, the Argentinian Central Bank has abolished foreign exchange restrictions and the capital controls that had been in place for a number of years. These changes have resulted in, among other things: (1) a floating currency, (2) the elimination of cash reserves and monthly repatriation limits affecting the equity market and (3) the abolishment of the capital lock-up period for investments.
- Although the Argentinian equity market meets most of the accessibility criteria for Emerging Markets, the consistency and persistence of the relatively recent changes as measured in practice still remains to be assessed.

# MARKET ACCESSIBILITY REVIEW 2017

Market Accessibility Assessment	AR
Openness to foreign ownership	
Investor qualification requirement	++
Foreign ownership limit (FOL) level	++
Foreign room level	++
Equal rights to foreign investors	+
Ease of capital inflows / outflows	
Capital flow restriction level	++
Foreign exchange market liberalization level	+
Efficiency of the operational framework	
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	-/?
Stability of institutional framework	-/?

Note: ++: No Issue; +: No Major Issues, improvements possible; -/? : Improvements needed / extent to be assessed

- **Capital Flow Restriction: “+” to “++”:** On January 2017, all capital flow restrictions imposed in 2011 have been removed.
- **Foreign Exchange Market Liberalization Level: “-/?” to “+”:** There is an absence of an efficient offshore currency market.
- **Investor Registration & Account Setup:** Registration is mandatory and all documents must be filed in Spanish. The full process can take up to ten days.
- **Information Flow:** Detailed stock market information is not always disclosed in English.
- **Clearing and Settlement:** There is no nominee status in the market. Overdraft facilities remain prohibited.
- **Stability of Institutional Framework:** There have been instances of government interventions that challenged the stability of the “free-market” economy, including with respect to investment activities of foreign investor.

# SIMULATED CONSTITUENTS FOR MSCI ARGENTINA IMI

Company	Full Mcap*	FIF Mcap*	FIF**	Size-Segment
GRUPO FIN GALICIA B ADR	9,966	7,195	0.90	Standard
YPF D ADR	9,942	4,474	0.45	Standard
TELECOM ARGENTINA B ADR	7,783	4,318	0.85	Standard
BANCO MACRO B ADR	7,600	5,230	0.70	Standard
BBVA BANCO FRANCES ADR^	5,232	1,831	0.35	Standard
PAMPA ENERGIA ADR	5,147	4,117	0.80	Standard
TRANSPORTADORA GAS B ADR	3,737	1,830	1.00	Standard
GRUPO SUPERVIELLE B ADR	2,969	1,934	0.90	Standard
EDENOR B ADR	2,709	1,313	1.00	Standard
ARCOS DORADOS HOLDINGS A	2,047	1,208	0.95	Small Cap
HOLCIM ARGENTINA^^	1,777	444	0.25	Small Cap
IRSA ADR	1,707	683	0.40	Small Cap
GLOBANT	1,671	1,337	0.80	Standard
TRANSENER B^^	1,395	684	1.00	Small Cap
BOLSAS Y MERCADOS	1,298	714	0.55	Small Cap
ADECOAGRO	1,221	977	0.80	Small Cap
CRESUD ADR^	1,038	727	0.70	Small Cap
CENTRAL COSTANERA B	800	200	0.25	Small Cap
PETROLERA PAMPA^^	726	291	0.40	Small Cap

- Following the reclassification, MSCI proposes to include local listings among the eligible securities for the MSCI Argentina Index, provided that they meet the necessary liquidity requirements.
- Based on simulated result, 3 locally listed securities meet the liquidity requirements
- In addition, 2 current constituents (ADRs) have local listings that now meet the EM liquidity requirements

Data as of January 22, 2018

The simulation reflects the application of the Semi Annual Index Review methodology, using the Emerging Markets requirements, assuming local listings are eligible

\* USD million

\*\* Foreign Inclusion Factor

^ Local listing now meets the EM Requirements

^^ Local listing

# SIMULATED INDEX CONSTITUENT LIST

## Number of Constituents

	Large Cap	Mid Cap	Standard	Small Cap	IMI
Frontier Markets	9	6	15	20	35
Emerging Markets	6	4	10	9	19

Data as of January 22, 2018

The simulations reflect the application of the Semi-Annual Index Review methodology, using the (1) Frontier Markets and (2) Emerging Markets requirements, in both cases, assuming local listings are eligible

## Free Float Adjusted Market Capitalization (USD million)

	Large Cap	Mid Cap	Standard	Small Cap	IMI
Frontier Markets	32,914.85	6,583.29	39,498.14	9,251.42	48,749.56
Emerging Markets	27,165.03	6,413.79	33,578.81	5,926.50	39,505.31

Data as of January 22, 2018

The simulations reflect the application of the Semi-Annual Index Review methodology, using the (1) Frontier Markets and (2) Emerging Markets requirements, in both cases, assuming local listings are eligible

- The MSCI Argentina Index would have ten constituents under Emerging Markets, compared to fifteen under Frontier Markets
  - The free float-adjusted market capitalization would be USD 5.92 billion lower under Emerging Markets

# SIMULATED IMPACT ON THE MSCI EMERGING MARKETS INDEX (EX AR)

	Pro forma Standard Index		
	Index Cap	Weight	# Sec.
<b>EM</b>	<b>5,854,011</b>	<b>100.0%</b>	<b>857</b>
<b>EM Asia</b>	<b>4,251,528</b>	<b>72.6%</b>	<b>573</b>
China	1,783,064	30.5%	153
Korea	843,903	14.4%	113
Taiwan	667,597	11.4%	90
India	497,989	8.5%	79
Malaysia	134,940	2.3%	46
Thailand	131,599	2.2%	35
Indonesia	125,217	2.1%	29
Philippines	62,537	1.1%	23
Pakistan	4,680	0.1%	5
<b>EM EMEA</b>	<b>870,520</b>	<b>14.9%</b>	<b>164</b>
South Africa	404,080	6.9%	52
Russia	202,754	3.5%	22
Poland	79,141	1.4%	23
Turkey	59,385	1.0%	25
United Arab Emirates	36,984	0.6%	11
Qatar	32,596	0.6%	12
Greece	19,716	0.3%	9
Hungary	19,110	0.3%	3
Czech Republic	10,289	0.2%	4
Egypt	6,466	0.1%	3
<b>EM Latin America</b>	<b>731,963</b>	<b>12.5%</b>	<b>120</b>
Brazil	410,941	7.0%	53
Mexico	169,527	2.9%	26
Chile	70,925	1.2%	19
<b>Argentina</b>	<b>33,579</b>	<b>0.6%</b>	<b>10</b>
Colombia	24,279	0.4%	9
Peru	22,713	0.4%	3

Note: All market caps are in USD millions. Data as of the close of January 22, 2018

- The simulated MSCI Argentina Index would have a potential weight of 0.6% in the MSCI Emerging Markets Index

Current weight of MSCI Argentina Index in MSCI Frontier Markets Index: 23.7%

# SIMULATED IMPACT ON THE MSCI FM 100 (EX AR)

	Current Index*		Simulated Index (ex AR)	
	# constituents	Weight	# constituents	Weight
ARGENTINA	14	23.46%	0	0.00%
KUWAIT	17	17.24%	17	22.57%
VIETNAM	16	15.87%	21	17.43%
MOROCCO	9	7.57%	11	10.39%
BANGLADESH	17	6.25%	17	8.17%
NIGERIA	6	4.95%	9	9.45%
BAHRAIN	4	3.93%	4	5.14%
OMAN	7	3.34%	5	3.78%
KENYA	5	6.28%	5	8.22%
ROMANIA	7	5.42%	8	7.34%
MAURITIUS	1	0.86%	1	1.12%
LEBANON	0	0.00%	0	0.00%
SRI LANKA	1	0.97%	2	1.59%
JORDAN	5	1.81%	5	2.37%
SLOVENIA	2	0.68%	1	0.41%
CROATIA	1	0.40%	1	0.52%
KAZAKHSTAN	2	0.96%	2	1.25%
<b>Total</b>	<b>114</b>	<b>100.00%</b>	<b>110</b>	<b>100.00%</b>

## MSCI FM 100 Index (ex AR) Top 10 Constituents

Security Name	Country Name	Simulated New Weight
NATIONAL BANK OF KUWAIT	KUWAIT	6.56%
VIETNAM DAIRY PRODUCT	VIETNAM	5.51%
KUWAIT FINANCE HOUSE	KUWAIT	4.98%
SAFARICOM	KENYA	4.08%
AHLI UNITED BANK (KW)	BAHRAIN	3.82%
MAROC TELECOM	MOROCCO	3.37%
MOBILE TELECOM CO	KUWAIT	3.21%
ATTIJARIWAFABANK	MOROCCO	2.65%
VINGROUP JSC	VIETNAM	2.58%
GUARANTY TRUST BANK	NIGERIA	2.27%



# KEY QUESTIONS

- Given the market's specific issues in accessibility history, do you agree with the proposed timeline for the reclassification of the MSCI Argentina Index to Emerging Markets
  - Should MSCI provide more time before reclassifying the market to Emerging Markets? Are there any other market accessibility concerns that should prevent the reclassification?
  - Will the potential inclusion of local listings in the MSCI Argentina Equity Universe be problematic?

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