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Via e-mail: clientservice@msci.com
MSCI Equity Index Committee
7 World Trade Center
250 Greenwich Street
New York, NY 1007

Re: MSCI Consultation on the treatment of non-voting shares in the MSCI equity indexes

We are responding to the MSCI consultation on a proposal on the treatment of non-voting shares in the MSCI GIMI and MSCI US Equity Indexes.

CFA Institute believes that Company rules should ensure that each share has one vote. A structure that permits one group of shareowner's disproportionate votes per share creates the potential for a minority shareowner to override the wishes of most owners for personal interest.

CFA Institute[1] appreciates the opportunity to offer comments to S&P Dow Jones on their voting rights consolation concerning whether to include issuers with zero voting shares in their indices. CFA Institute represents the views of those investment professionals who are its members before standard setters, regulatory authorities, and legislative bodies worldwide about issues affecting the practice of financial analysis and investment management, education and licensing requirements for investment professionals, and on issues affecting the efficiency, integrity and accountability of global financial markets.

Index providers S&P Dow Jones and FTSE Russell recently went through a similar consultative process and have both decided to limit the ability of companies with limited voting rights to be included in their indices.

FTSE Russell will require companies to give unconnected investors a minimum 5% voting rights to be in their indexes.

S&P Dow Jones stated that going forward they will not allow companies with dual-class share structures to be part of some of their high-profile indexes, such as the S&P 500 Index and its small cap and midcap brethren. Companies that already have dual-class share structures can be grandfathered in.

[1] CFA Institute is a global, not-for-profit professional association of more than 151,000 investment analysts, advisers, portfolio managers, and other investment professionals in 157 countries, of whom nearly 145,500 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 148 member societies in 73 countries and territories.

<u>Summary and Background</u>

On March 3, 2017, following SNAP's IPO of only non-voting Class A common shares, MSCI sought feedback on the continuing eligibility of companies that do not have any listed voting shares for potential inclusion into the MSCI Global Investable Markets Indexes (GIMI) and MSCI US Equity Indexes.

During this period, some market participants indicated that non-voting securities should not be included in the MSCI GIMI and MSCI US Equity Indexes since increased number of such listings may lead to deterioration in corporate governance. Others indicated that non-voting shares should not be considered as equity altogether.

MSCI opened a consultation on a proposal on the treatment of non-voting shares in the MSCI GIMI and MSCI US Equity Indexes. MSCI welcomes feedback until August 31, 2017. During the period of the consultation, potentially newly eligible companies without any listed voting shares, such as SNAP, will not be eligible for inclusion.

The consultation may or may not result in changes in the MSCI Equity Indexes.

<u>Proposal for treatment of non-voting shares</u>

For new potential constituents: To address the growing concern pertaining to listings of only non-voting shares, MSCI proposes not to include non-voting shares in the MSCI GIMI and the MSCI US Equity Indexes in the cases when company level "voting power" of listed shares is less than 25% ─ Where "Voting power" is defined as the voting rights of listed shares over total voting rights of the company ─ Special purpose non-voting instruments, such as NVDRs in Thailand or CPOs in Mexico would continue to be eligible

For existing constituents: Existing non-voting index constituents would be maintained in the index if the company listed "voting power" is above 2/3rd of 25%, i.e., 16.67%. Such "buffer" would reduce potential reverse turnover resulting from borderline cases

<u>Questions:</u>

- Should MSCI exclude companies with only non-voting listed shares, like SNAP?

Yes, we believe they should be excluded. We do not believe that shares with no voting rights should be included in an index.

- Do you agree with excluding non-voting shares in cases where listed voting power is low? Is the proposed threshold of 25% for new constituents appropriate?

We believe the stronger message sent by S&P Dow Jones is the appropriate one. We therefore suggest that MSCI not allow companies with dual class share structures into the indices covered by this consultation. Now that such a high standard for shareowner rights has been set for the inclusion in S&P indexes, we believe it appropriate for MSCI to send the same message by adopting an identical policy.

Simulated impact for the MSCI ACWI index

Existing constituents would remain in the indexes for a period of one year and be subsequently removed from the indexes, unless appropriate capital structure changes are implemented

Questions:

− Is the suggested compliance period for existing constituents appropriate? Should MSCI retain securities if the company has announced plans to change the capital structure or to submit such change to shareholder vote?

− Should MSCI apply grandfathering for existing constituents (i.e., retain existing constituents)?

We believe it is reasonable to allow companies currently in the index to be grandfathered in to remain in the index. We do not believe that this grandfathering should be indefinite however. Companies currently in the index who would not qualify under new index rules should be given a couple years to change their voting structure to qualify under the new rules.

Non-voting shares maintained in MSCI ACWI Index

Under the current proposal, non-voting shares of companies with other listed voting shares may be retained if the company listed voting power is above the threshold of 16.67%

Questions:

- Should all non-voting shares be considered as "nonequity" and excluded even if the company listed voting power is high? Currently, around 60 securities in the MSCI ACWI Index (index weight of 2.4%) have no voting rights.

We believe that these securities should not be included in the index.

Other companies with low listed voting power

Under the current proposal, securities with voting rights would be retained, irrespective of the level of company listed voting power. Such level can be low if a large portion of capital remains unlisted or if the securities have less votes per share compared to other listed share classes.

Questions:

- Should companies with low listed voting power be consistently removed (both voting and non-voting lines)? Currently, around 20 securities in the MSCI ACWI Index (index weight of 0.3%) have voting rights but listed voting power below 25%.
- Should calculation of voting power exclude shares held by strategic investors (even if listed)?

We believe it is appropriate to exclude all companies with dual class voting structures from listing in the MSCI ACWI index.

Additional ESG Considerations for Discussion

Currently the MSCI GIMI aims to reflect the full investable opportunity set, while providing a free float-adjusted market capitalization weighting scheme. ESG factors are not explicitly reflected in the MSCI GIMI construction process.

ESG criteria are incorporated in the MSCI ESG Indexes, such as the MSCI ESG Leaders or the MSCI ESG Universal Indexes, that aim to incorporate various ESG considerations. The MSCI ESG Leaders Indexes exclude companies with lower ESG ratings, and the MSCI ESG Universal Indexes maintain the parent index universe mostly unchanged, but overweight companies with higher ESG scores.

Feedback over the recent years suggested that some severe ESG issues may have become more important at the investment policy level.

Questions:

- Should the MSCI GIMI Indexes over time take steps towards reflecting potential ESG issues, such as corporate governance problems or specific unacceptable business involvement, such as controversial weapons? Should other global broad benchmarks be created that would address this emerging trend?
- Should Indexes evolve to exclude companies that do not follow Global Norms. Such a policy could exclude companies involved in very serious violations of international norms represented in numerous widely accepted global conventions, including the

Universal Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Global Compact

We believe that MSCI ESG indices can currently offer MSCI clients a wide array of options when looking to find an index that reflects the ESG integration goals of that client. We encourage MSCI to engage in dialogue with their clients to better understand the positions of investors on these issues to determine if there are issues that would rise to the level of company exclusion from indices.

Concluding Remarks

CFA Institute welcomes the opportunity to offer comments on the issue of shareowner voting rights. Please do not hesitate to contact us should you have any questions concerning our comments.

Yours faithfully,

/s/ James Allen, CFA

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