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SFC and HKEx Joint Press Release

The Morgan Stanley Capital International (MSCI) Rebalancing and its Possible Effect on Hong Kong's Securities and Futures Markets

The Securities and Futures Commission (SFC) and Hong Kong Exchanges & Clearing Limited (HKEx) wish to advise investors of the possibility of heavy securities trading volume and market volatility as a part of the MSCI rebalancing. MSCI has announced changes in the methodology used to calculate its indices and as a result, many institutional investors which use MSCI indices as performance indicators may be rebalancing or adjusting their portfolios.

The SFC and HKEx are aware of the rebalancing and are monitoring the markets. The Hong Kong market may see very heavy trading and may be volatile during the few days leading up to and on 30 November 2001 (as well as slightly after) and significant price movements may occur in the shares that will be rebalanced. Investors should be aware of the rebalancing so that they can make their own investment decisions.

Institutional investors hold portfolios of shares that they manage for clients. These institutional investors will use certain indices as indicators of performance. Index providers typically adjust or rebalance their indices to reflect underlying market developments or as a result of methodological enhancements. Such rebalancings may lead institutional investors to buy or sell shares to reflect changes to the indices. On 10 December 2000, MSCI, one of the world's largest providers of indices announced an enhancement to their methodology. On 19 May 2001, MSCI announced the composition of their indices resulting from these enhancements and the schedule of implementation.

As of the close of 30 November 2001, the first phase of the MSCI rebalancing, covering half of the total changes to each constituent in the indices including new additions, will be implemented. As a large number of institutional investors benchmark their funds to the MSCI indices, these institutional investors may need to buy or sell shares to adjust or rebalance their management portfolios according to the revised weight of the index. As a result, certain shares that are listed in Hong Kong may experience heavy trading volume and significant price movements especially towards the closing of the market at 4:00 p.m. on 30 November 2001. The magnitude of volatility and price movements may continue for the days preceding 30 November 2001 and shortly thereafter. Investors may need to take this into account in their trading, especially towards the end of the trading session, on 30 November 2001.

The Adjustments in the MSCI Indices

It was first announced on 10 December 2000 that MSCI would adjust all its equity indices using a new free float calculation¹ and would increase the target market representation of the indices. Therefore the components would be weighted by their free float adjusted market capitalisation and the target market representation would be increased from 60% to 85% for the MSCI Standard Indices.

On 19 May 2001, MSCI announced the new constituents, their free floats and provisional indices that would be used to phase in the changes. In order for institutional investors using the MSCI indices as a benchmark to rebalance their portfolios, the changes would be implemented in two phases. The first phase will be implemented on 30 November 2001 where approximately half of the total changes resulting from the free float adjustment will be implemented for all existing index constituents. Simultaneously, all the new constituents resulting from the increase in coverage to 85% will be added at approximately half of their free float adjusted market capitalisation and all existing constituents that will not remain in the indices will be removed completely. On 31 May 2002 the second and final phase change in the MSCI indices will be implemented and the remaining adjustments to market capitalisation for all constituent securities will be implemented.

As for the Hong Kong market, there are a number of shares affected by the implementation of MSCIs enhanced methodology, with shares added, deleted and free float weight adjusted. A complete list of the affected shares as of October 2001 as well as a guide to MSCIs enhanced methodology may be obtained at www.msci.com.

¹ MSCI defines free float as the shares outstanding, less shares held by strategic investors such as governments, corporations, controlling shareholders and management, and shares subject to foreign ownership restrictions.