

# MSCI Announces the Results of the 2012 Annual Market Classification Review

**Geneva – June 20, 2012** – MSCI Inc. (NYSE: MSCI), a leading provider of investment decision support tools worldwide, including indices, portfolio risk and performance analytics and corporate governance services, announced today that the MSCI Greece Index has been added to the review list for potential reclassification to Emerging Markets and that the MSCI Morocco Index has been added to the review list for potential reclassification to Frontier Markets as part of the Annual Market Classification Review in June 2013. In addition, MSCI also announced that the status of the MSCI Korea Index and the MSCI Taiwan Index as well as the MSCI Qatar Index and MSCI UAE Index will remain unchanged. The MSCI Korea Index and the MSCI Taiwan Index will remain under review for potential reclassification to Developed Markets and the MSCI Qatar Index and MSCI UAE Index will remain under review for potential reclassification to Emerging Markets, at the next Annual Market Classification Review in June 2013. MSCI also released today the 2012 Global Market Accessibility Review for the 78 markets under its coverage.

As a reminder, every June MSCI communicates its conclusions following discussions with the investment community on the list of countries under review and announces the new list of countries, if any, under review for potential market reclassification in the upcoming cycle. MSCI will communicate its decisions resulting from this Annual Market Classification Review in June 2013.

## Review of Markets already in the Review List

### 1) Potential Reclassification to Developed Markets

**Korea:** MSCI will maintain the MSCI Korea Index in Emerging Markets. The MSCI Korea Index will remain under review for a potential reclassification to Developed Markets as part of the 2013 Annual Market Classification Review.

The MSCI Korea Index continues to meet most of the Developed Markets criteria of the MSCI Market Classification Framework. Notably economic development, market size and liquidity and many aspects of the market operational framework are at the level of Developed Market standards. MSCI welcomes the positive developments on the provision of stock market data following the signing of a Market Information Service Agreement between MSCI and the Korean Exchange (“KRX”). However, other significant accessibility issues highlighted in previous annual market classification reviews remain unresolved. In particular the limitations in currency convertibility, absence of an offshore currency market, lack of currency trading outside local market hours, problems with respect to equity and/or foreign exchange trade settlement timing, and issues linked to the rigidity of the ID systems that prevent in-kind transfers and off-exchange transactions remain unchanged and prevent a reclassification of the MSCI Korea Index to Developed Markets.

**Taiwan:** MSCI will maintain the MSCI Taiwan Index in Emerging Markets. The MSCI Taiwan Index will remain under review for a potential reclassification to Developed Markets as part of the 2013 Annual Market Classification Review.

The MSCI Taiwan Index meets many Developed Markets criteria, including economic development and market size and liquidity, but market accessibility issues still prevent the reclassification of the MSCI Taiwan Index to Developed Markets. With respect to currency, there is only a local foreign exchange market and there is no offshore liquidity to trade the Taiwan Dollar outside local market hours. With respect to the equity market, the implementation of a T+2 DVP settlement cycle has not completely eliminated prefunding practices. As settlement can only be done within a short window on the morning of T + 2, market practice remains to pre-fund equity trades on T + 1. In addition, overdraft facilities are not available for foreign investors and even though in-kind transfers and off-exchange transactions are allowed in principle, the rigidity of the ID system makes them very difficult to execute in practice.

**General Comments:** MSCI's reaction to negative feedback provided by institutional investors on the lack of currency convertibility in Korea and Taiwan is not aimed at influencing monetary policy principles that have been in place for a long period. Rather, it is aimed at ensuring that a potential reclassification of the country indices to Developed Markets only happens when all operational issues related to the efficient process of equity and currency trading are resolved and when these two markets are at the same level as other Developed Markets with respect to operational efficiency, which is not the case today.

Developed markets are characterized by highly efficient and mostly standardized operating practices. Introducing non-standard market practices would be forcing a high number of investor to change what is mostly a well run and operationally robust framework. This is of particular concern to large institutions managing thousands of funds and to market participants such as indexers or broker-dealers that are providing investment products that closely replicate indices.

A potential reclassification of the MSCI Korea Index and MSCI Taiwan Index to Developed Markets before the highlighted outstanding issues on currency and equity trading operational efficiency are resolved would affect different types of institutional investors in varying degrees. Asset managers that employ a passive investment process in managing index funds or exchange traded funds and broker dealers providing products linked to MSCI indices, such as notes, certificates, and total return swaps, are likely to be more severely affected. In these cases, the managers have limited discretion or flexibility with respect to the timing and accuracy of their portfolio construction and rebalancing operations. For these types of institutional investors, it is critical that any market that is included in the MSCI World Index meets the same high standards of operational efficiency as other markets in that index. Were MSCI to include the MSCI Korea Index or the MSCI Taiwan Index in the MSCI World Index before all remaining operational issues are resolved it would likely impose on passive asset managers and product providers changes in their portfolio management processes and practices in order to deal with the additional operational obstacles that are currently present in these markets.

On the other hand, asset managers that employ an active investment process may be less severely affected as their active process allows them to select from a wide range of investments, both within and across markets, and gives them the flexibility to implement their trades over a longer time frame. These managers may be able to adapt more easily to the relatively lower

operational efficiency that currently characterizes the Korean and Taiwan equity and currency markets.

## 2) Potential Reclassification to Emerging Markets

**Qatar:** MSCI will maintain the MSCI Qatar Index in Frontier Markets. The MSCI Qatar Index will remain under review for a potential reclassification to Emerging Markets as part of the 2013 Annual Market Classification Review.

The issue around the very low Foreign Ownership Limit (“FOL”) levels imposed on Qatari companies is expected to be the only remaining impediment to the reclassification of the MSCI Qatar Index to Emerging Markets. The MSCI Qatar Index should meet all requirements for inclusion in the MSCI Emerging Markets Index, provided the false trade mechanism recently introduced on the Qatar Exchange (“QE”) is successfully tested over time.

Qatari authorities have not yet addressed the specific issue around the very low FOL levels. This issue has been put forward as the major impediment to a potential reclassification to Emerging Markets for international institutional investors as it significantly limits the number of shares available to them. Based on current data, the total free float adjusted market capitalization of the MSCI Qatar Index available to foreign investors is USD ten billion. In an extreme scenario, were the Qatari equity market to witness a net foreign capital inflow of USD ten billion or more, the share of free float available to foreign investors would be reduced to zero. This would make all current index constituents ineligible, leading to the discontinuation of the MSCI Qatar Index.

MSCI encourages the Qatari authorities to look at different ways to increase the FOL limits currently applied by Qatari companies. The Qatari authorities could also review how other markets within the current MSCI Emerging Markets Index have resolved similar issues in the past by implementing alternative mechanisms resulting in increased FOL levels. Even if not desirable from a governance perspective as it may disadvantage foreign investors compared to domestic ones, countries have increased the share in their equity market accessible to foreign investors using alternative mechanisms such as increasing the FOL levels in industries deemed to be of less strategic nature (e.g., India) or introducing specific share classes fully open to foreign investors that preserve all economic rights but limit voting rights (e.g., Brazil, Mexico and Thailand).

MSCI also welcomes the positive developments on the Qatari equity market with the implementation of a proper false trade mechanism on May 1, 2012. This new mechanism is expected to remove the requirements for international institutional investors to operate with a dual account structure. The effectiveness of this new mechanism to guarantee the safeguarding of investors’ assets and to allow for the elimination of the dual account structure requirement still needs to be fully assessed by international institutional investors. In addition, the introduction of new regulations allowing for securities borrowing and lending (“SBL”) agreements, which was also raised by market participants as a way to resolve the dual account structure issue, should be enacted in the course of 2012 based on current information.

**UAE:** MSCI will maintain the MSCI UAE Index in Frontier Markets. The MSCI UAE Index will remain under review for a potential reclassification to Emerging Markets as part of the 2013 Annual Market Classification Review.

The MSCI UAE Index meets all requirements besides specific market accessibility issues related to custody and clearing and settlement. Based on current information, the Emirati regulator (Emirates Security and Commodities Authority –“ESCA”), the Dubai Financial Market (“DFM”) and the Abu Dhabi Securities Exchange (“ADX”) have taken the decision to delay the implementation of a proper false trade mechanism that is expected to remove the requirements for international institutional investors to operate with a dual account structure. The implementation of this new mechanism as well as the formal introduction of the regulation governing SBL agreements, which was also raised by market participants as a way to resolve the dual account structure issue, is now expected in 2013.

**General Comments:** As a reminder, international institutional investors often establish segregated custody and trading accounts in Qatar and in the UAE to mitigate the risk from local brokers having unlimited access to the trading accounts. This dual account structure results in significant operational burdens associated with the need to transfer shares from one account to the other prior to trading.

## Review of Markets added to the Review List

### 1) Potential Reclassification to Emerging Markets

**Greece:** MSCI will be adding the MSCI Greece Index to the list of country indices for potential reclassification to Emerging Markets as part of the 2013 Annual Market Classification Review.

The MSCI Greece Index is structurally no longer in line with Developed Markets size requirements with only two index constituents. If these two remaining index constituents were to experience further decrease in size, MSCI may be forced to discontinue the calculation of the MSCI Greece Index. The weight of the MSCI Greece Index in the MSCI World Index has decreased from 0.16% in May 2010 to 0.03% in May 2012.

In addition, the Greek equity market is the only Developed Market in which in-kind transfers and off-exchange transactions are prohibited and stock lending as well as short selling practices are not well established. This has created significant concerns for market participants and in particular for passive portfolio managers. The Greek authorities have not been receptive to repeated complaints from the international investment community and did not manage to bring equity market regulations and practices in line with the evolving standards of Developed Markets.

MSCI may launch a public consultation on a proposal to reclassify the MSCI Greece Index to Standalone Market status outside of the regular reclassification cycle if the country were to introduce accessibility restrictions to its equity market following a potential exit of the country from the European Monetary Union. More specific information on the treatment of Greece in the MSCI Indices in case of exit from the European Monetary Union can be found on MSCI’s web site at [http://www.msci.com/products/indices/msci\\_greece\\_qa/](http://www.msci.com/products/indices/msci_greece_qa/).

## 2) Potential Reclassification to Frontier Markets

**Morocco:** MSCI will be adding the MSCI Morocco Index to the list of country indices for potential reclassification to Frontier Markets as part of the 2013 Annual Market Classification Review.

The MSCI Morocco Index is more in line with the size and liquidity requirements of Frontier Markets following a significant decrease in liquidity since 2008, which resulted in a simultaneous decrease in the number of constituents in the MSCI Morocco Index.

Currently, the MSCI Morocco Index has only three constituents, of which Maroc Telecom had its weight reduced by 50% due to low liquidity in accordance with the MSCI Global Investable Market Index ("GIMI") methodology.

### Important Developments in Markets not currently on the Review List

**China:** MSCI welcomes the recent positive developments in the Chinese domestic equity ("China A") market. As a reminder, the China Securities Regulatory Commission ("CSRC") introduced in November 2011 a renminbi qualified foreign institutional investor ("RQFII") program, allowing both institutional and retail investors to gain additional exposure to the China A market. In April 2012, CSRC also increased the quotas applied to the qualified foreign institutional investors ("QFII") and RQFII schemes. Despite these encouraging enhancements it is premature for MSCI to initiate a review for a potential reclassification of the MSCI China A Index to Emerging Markets. MSCI would encourage CSRC to significantly broaden the base of international investor participation by lowering the QFII requirements and abolishing certain capital mobility restrictions. Many small to mid-size institutions worldwide would not qualify for a QFII quota at the levels currently set by the Chinese authorities and, hence, would not be able to replicate the index. More information can be found in a Q&A document answering commonly asked questions on the market classification of the MSCI China A Index that has been posted on MSCI's web site at [http://www.msci.com/products/indices/market\\_classification.html](http://www.msci.com/products/indices/market_classification.html).

**Argentina:** MSCI continues to monitor closely the situation in Argentina following the nationalization of YPF through the "expropriation" of a 51% stake from the Spanish company Repsol by the Argentinean government. Any further such government intervention in the "free-market" economic system may force MSCI to launch a public consultation with the investment community on a potential exclusion of the MSCI Argentina Index from the MSCI Frontier Markets Index. As a reminder, the MSCI Argentina Index was reclassified from Emerging Markets to Frontier Markets in 2009 as a result of continued capital flow restrictions in the Argentinean equity market.

**Saudi Arabia:** MSCI announced that it would reintroduce the coverage of the Saudi Arabia equity market after reaching agreement with the Saudi Stock Exchange ("Tadawul") for the provision of market data. MSCI will be reintroducing the calculation of the MSCI Saudi Arabia Domestic Index effective on June 26, 2012. The MSCI Saudi Arabia Domestic Index will be calculated as standalone index. As a reminder, this index is geared towards the needs of Gulf Cooperation Council ("GCC") based investors and is not suited for use by international investors as the Saudi Arabian equity market remains closed to non GCC based investors. Based on current information, non GCC based investors have indirect access to the Saudi equity market through the use of swaps which for institutional investors may cause compliance issues. The introduction of a new scheme allowing direct access for non GCC based investors to the Saudi equity

market may result in MSCI considering the inclusion of Saudi Arabia in Frontier Markets or Emerging Markets, depending on the level of market accessibility.

**Israel:** In 2010, MSCI reclassified the MSCI Israel Index to Developed Market status. Based on market participant feedback MSCI however did not include the country index in the MSCI Europe Index but instead created the MSCI Europe + Middle East Index as a new regional Developed Market index. MSCI would like to seek feedback from market participants on whether they still believe that the MSCI Israel Index should not be included in the MSCI Europe Index or whether they consider the MSCI Israel Index as part of their European investment opportunity set.

### **Global Market Accessibility Review**

MSCI released today the results of the 2012 Global Market Accessibility Review, including a year on year comparison, on all the 78 markets it covers. The Global Market Accessibility Review aims to reflect international investors' experience in investing in a given market and provides a detailed assessment of market accessibility for each country market included in the MSCI Indices. In particular, it provides an evaluation of 18 measures in four market accessibility criteria, which are:

- Openness to foreign ownership
- Ease of capital inflows / outflows
- Efficiency of the operational framework
- Stability of the institutional framework

These four criteria are reflective of the views of international institutional investors, who generally put a strong emphasis on equal treatment of investors, free flow of capital, cost of investment and country specific risk.

The assessment is intended to serve as the basis for a comparison of countries' market accessibility levels across investment universes. This review aims also to serve as a tool for international institutional investors to better track the evolution of market accessibility in individual countries as well as for regulators to be informed of the areas perceived as not meeting international investor expectations. MSCI welcomes continuous feedback from the investment community on the Global Market Accessibility Review.

The complete results of the 2012 Global Market Accessibility Review, including the detailed assessment of the different market accessibility measures by country, as well as additional information on the MSCI Market Classification Framework and a summary of recent market reclassifications, can be found on MSCI's web site at [http://www.msci.com/products/indices/market\\_classification.html](http://www.msci.com/products/indices/market_classification.html).

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MSCI will hold two press conference calls to answer questions from the media. Note that these press conference calls are restricted to journalists.

First Conference Call

Date: Wednesday, June 20, 2012

Time: 5.30pm EDT/10.30pm BST/11.30pm CEST

International Dial-In: +1-210-795-1098

Toll Free Numbers:

US: 866-803-2143                      Hong Kong: 800-900-592

UK: 0800-279-3953                      Japan: 00531-12-1857

UAE: 8000-35702379                      S. Korea: 00798-14800-6732

Taiwan: 00801-137-708

Participant passcode: MSCI

Second Conference Call

Date: Thursday, June 21, 2012

Time: 12.00pm BST/1.00pm CEST/3.00pm GST

International Dial-In: +1-210-795-1098

Toll Free Numbers:

US: 866-803-2143                      Hong Kong: 800-900-592

UK: 0800-279-3953                      Japan: 00531-12-1857

UAE: 8000-35702379                      S. Korea: 00798-14800-6732

Taiwan: 00801-137-708

Participant passcode: MSCI

Clients and other interested parties should contact MSCI Global Client Service with any enquiries.

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## About MSCI

MSCI Inc. is a leading provider of investment decision support tools to investors globally, including asset managers, banks, hedge funds and pension funds. MSCI products and services include indices, portfolio risk and performance analytics, and governance tools.

The company's flagship product offerings are: the MSCI indices with approximately USD 7 trillion estimated to be benchmarked to them on a worldwide basis<sup>1</sup>; Barra multi-asset class factor models, portfolio risk and performance analytics; RiskMetrics multi-asset class market and credit risk analytics; MSCI ESG (environmental, social and governance) Research screening, analysis and ratings; ISS governance research and outsourced proxy voting and reporting services; FEA valuation models and risk management software for the energy and commodities markets; and CFRA forensic accounting risk research, legal/regulatory risk assessment, and due-diligence. MSCI is headquartered in New York, with research and commercial offices around the world.

<sup>1</sup>As of June 30, 2011, based on eVestment, Lipper and Bloomberg data.

**For further information on MSCI, please visit our web site at [www.msci.com](http://www.msci.com)**

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| Asia Pacific Client Service | + 852.2844.9333                             |

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