



**MSCI EURO - PAN EURO
Consultation on Proposed Methodology
Changes and Transition Plan**

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Background and Introduction

- MSCI Barra has announced that it will enhance its current set of sampled multi-cap international equity indices to create a family of Investable Market Indices with size and style segmentation*
- In particular the Enhanced Standard Index will cover all investable Large and Mid Cap companies and will not include any Small Cap securities
- This change will impact the Euro Pan-Euro products as they are based on the Standard MSCI Europe and MSCI EMU Indices
- In this context, MSCI is currently revisiting the Euro Pan-Euro methodology and is now consulting on a proposed methodology and transition plan for these indices
- MSCI may modify this proposed methodology and transition plan. The final methodology and transition plan will be announced on or before March 31, 2007

MSCI Euro Pan-Euro: Index Objectives

- The current MSCI Euro and MSCI Pan-Euro indices are subsets of the Standard MSCI EMU and MSCI Europe indices, respectively, and aim to capture 90% of the market capitalization of the broader benchmarks
- The indices are designed to include the largest and most liquid securities from the Standard Indices, as they aim to serve as the basis for derivative contracts, exchange traded funds (ETFs) and other index based investment products

Properties of the MSCI Enhanced Standard

- The enhancements to the Standard Indices include a strong emphasis on investability and replicability of the indices through the use of size integrity and liquidity screens. The resulting properties of the Enhanced Standard Index will more closely resemble the properties of the current Euro Pan-Euro products:
 - **Decrease in the number of constituents:** The number of constituents in the MSCI Europe would be reduced from 602 to 460*
 - **Include larger companies:** The average float adjusted market capitalization of the constituents in the MSCI Europe would increase from \$14.3 billion to \$18.5 billion*
 - **High liquidity:** The liquidity of the underlying constituents would be comparable to the liquidity of the current Euro Pan-Euro (average ATVR 161% vs 159%)*

Proposal

- MSCI proposes to evolve the Euro Pan-Euro methodology into the Enhanced Standard methodology
 - The resulting MSCI Pan Euro would be identical to the Enhanced MSCI Europe
 - The resulting MSCI Euro would be identical to the Enhanced EMU
- Proposed adoption of the Enhanced Standard methodology for the MSCI Pan-Euro would result in the following:
 - Increase in the number of constituents from 300 to 460*
 - Decrease in the average market capitalization from \$25.7 billion to \$18.5 billion*
 - Increase in the minimum market cap from \$0.9 billion to \$1.4 billion
 - No tracking error against the MSCI Europe Index*

Alternatives

1) The Euro Pan-Euro methodology evolves into the Enhanced Large Cap methodology

- Enhanced Large Cap methodology would provide similar or improved investability to the current Euro Pan-Euro. As the Large Cap Index would typically cover 70% of the investable universe the adoption of this methodology would result in narrower coverage than the current Euro Pan-Euro which covers close to 77% of the universe. The index would consist of larger securities and there would also be an increased tracking error against the MSCI Europe
 - The number of constituents would be reduced from 300 to 206*
 - The average float adjusted market capitalization of the constituents would increase from \$25.7 billion to \$34.3 billion*
 - The liquidity of the underlying constituents would be comparable to the liquidity of the current Euro Pan-Euro (average ATVR 148% vs 161%)*
 - The tracking error would increase from 0.47% currently to 0.87% under this proposal*

2) Continue with a specific Euro Pan-Euro methodology that ensures more stringent liquidity and ease of trading of the constituents

- This alternative may improve tradability while possibly increasing tracking error against the MSCI Europe index (for instance the tracking error for the Enhanced MSCI Europe ex Greece against the Enhanced MSCI Europe indices is estimated at 0.11%)

Proposed Transition Plan

- Provisional Standard Indices will be made available on or before June 1, 2007
- MSCI is proposing that the transition to the Provisional Standard Index is implemented in one phase on June 1st, 2007
- Based on November 2006 data, the transition for the MSCI Pan-Europe is estimated to result in 174 additions and 14 deletions with a turnover of 10.2%*

Comparing the Alternatives

Number of securities

	Current Pan-Euro	Current Standard	Proposed Enhanced Standard Methodology	Proposed Large Cap Methodology
AUSTRIA	5	17	10	5
BELGIUM	10	20	14	6
SWITZERLAND	18	37	31	14
GERMANY	29	52	49	29
DENMARK	5	22	12	4
SPAIN	15	31	32	14
FINLAND	8	23	12	2
FRANCE	42	63	63	36
UNITED KINGDOM	90	159	121	46
GREECE	7	19	10	1
IRELAND	5	16	9	3
ITALY	19	36	39	16
NETHERLANDS	16	26	19	10
NORWAY	5	23	8	4
PORTUGAL	3	11	7	2
SWEDEN	23	47	24	14
Total	300	602	460	206
Indicative Coverage of the Investable Universe	77%	85%	85%	70%
Market Cap Distribution, USD mln				
Min market cap	\$ 915.40	\$ 270.83	\$ 1,370.26	\$ 2,360.69
Median market cap	\$ 12,284.23	\$ 4,889.15	\$ 8,421.33	\$ 20,505.61
Average market cap	\$ 25,661.84	\$ 14,247.15	\$ 18,484.50	\$ 34,277.11
ATVR** distribution				
Min ATVR	32%	23%	23%	32%
Median ATVR	151%	143%	146%	140%
Average ATVR	161%	159%	159%	148%
Tracking Error against MSCI Standard Index	0.47%***	-	0.00%	0.87%****

*all calculations are as of November 2006, MSCI may modify the proposed methodology and transition plan. The final methodology and transition plan will be announced on or before March 31, 2007
 **ATVR: Annual Traded Value Ratio
 ***Tracking error is estimated against the current MSCI Europe Index
 ****Tracking error is estimated against the Enhanced MSCI Europe Index



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