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MSCI

# MSCI Global Market Accessibility Review

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# I - Introduction

The 2014 MSCI Global Market Accessibility Review includes updated market accessibility assessments for all markets MSCI covers as well as comparisons to the 2013 review. This permits analysis of the evolution of Developed, Emerging, Frontier and Standalone Markets in terms of market accessibility.

The MSCI Global Market Accessibility Review aims 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 standards and for which improvement would be welcomed by international institutional investors.

Consistent with prior years, the 2014 MSCI Global Market Accessibility Review provides a detailed assessment of market accessibility for each country market included in the MSCI Indexes. In particular, it provides an evaluation of the 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.

MSCI uses 18 distinct accessibility measures for the assessment of these four criteria. The evaluation of the accessibility measures is mainly based on investor experience. MSCI sought feedback from multiple participants in all markets including active and passive asset managers, asset owners, brokers, custodians, stock exchanges and regulators.

The individual measures are absolute in the sense that the analysis and the assessment were performed in the same way across all countries regardless of their current market classification. The aggregate assessment of where a market stands with respect to the four criteria allows MSCI to determine if a country's market accessibility level meets Developed, Emerging or Frontier Market standards.

The 2014 MSCI Global Market Accessibility Review includes the Burkina Faso, Ivory Coast and Senegal equity markets which are currently represented in the recently launched standalone MSCI Select West African Economic and Monetary Union (WAEMU) Countries Investable Market Index (IMI).

MSCI welcomes feedback from the investment community to ensure that its market accessibility assessment continues to reflect international institutional investors' experience of investing in a given market. The MSCI Global Market Accessibility Review is updated annually in June with interim updates released as necessary.

## II - Assessing Accessibility

This section describes the rationale underlying each of the accessibility criteria and related measures and the principles used in their assessment. In some cases, the existence (or the lack of) certain practices systematically defaults to a negative assessment in the relevant category.

### 1. Openness to Foreign Investors

In general, one of the most desirable features that international investors would like to see in a market is that no distinction is made between local and international investors. In order to assess this level of openness the following characteristics need to be analyzed and measured.

- 1.1 Investor Qualification Requirement:** The international standard for Developed Markets is the absence of any investor qualification requirement. Near the other end of the spectrum, a qualified foreign institutional investor (QFII) license system is highly problematic as it discriminates not only between domestic and foreign investors, but also among different international investors. The requirement of a QFII license would lead to a low assessment.
- 1.2 Foreign Ownership Limit Level:** Ideally, international investors would like to see no difference in the opportunity set available to them and to local investors. Foreign ownership restrictions tend to be placed on specific industries which may result in an important sector bias in the opportunity set for foreign investors. MSCI has also considered the proportion of a market that is restricted to assess the materiality of the restrictions. In its assessment, more than ten percent of a market being closed to foreign investors has resulted in a negative rating, between ten and three percent has been considered as a matter of some concern while less than three percent has been considered as not being a material issue. These levels were set after analyzing the different market impacts resulting from the foreign ownership limits across all countries.
- 1.3 Foreign Room Level:** When the foreign ownership limit is reached, investors are faced with a serious problem. In some cases, the most recent buyers may be forced to sell, but more generally the crossing of the limit leads to unfair treatment between existing investors and new investors as managers may not be able to offer the same amount of shares across funds. This can be mitigated by the presence of a foreign board or by the listing of depositary receipts in another market where foreign investors could trade with each other, but these solutions may introduce another layer of problems as transactions tend to take place at a premium over the official listing. To assess the materiality of the problem, MSCI has considered the impact on the respective country Investable Market Index resulting from the exclusion or partial exclusion of securities from such index due to low foreign room. More than one percent impact on the MSCI country IMI Index has resulted in a negative rating, between one and 0.3 percent impact has been considered as a matter of some concern while less than 0.3 percent impact has been considered as not being a material issue. These levels were set after analyzing the different impacts of low foreign room across all markets.
- 1.4 Equal Rights to Foreign Investors:** Restrictions on foreign investors can take the form of separate share classes with those with reduced voting rights being the only ones available to foreign investors. International investors seek equal treatment in terms of economic and voting rights. As a practical matter, the exercise of equal economic rights requires, among other things, equal treatment in the case of corporate actions which implies proper access to information in English. Equality of voting rights is impacted not only by voting restrictions specific to foreign investors, but

also by other limitations imposed on minority shareholders in general. Low foreign ownership limits, generalized use of share classes with different voting rights to facilitate the control of companies, other forms of discrimination against foreign and minority shareholders, as well as major corporate governance problems, generally would lead to lower ratings in this measure.

## 2. Ease of capital inflows and outflows

International investors want to be in a position to move capital in and out of a market without disruption, delay and cost inefficiency. This is measured by the following:

**2.1 Capital Flows Restriction Levels:** Countries that currently impose, or have a record of recent imposition of capital controls to restrict inflows or outflows of capital into or from their equity markets are rated negatively.

**2.2 Foreign Exchange Market Liberalization Level:** In Developed Markets, the standard is the existence of a fully convertible currency, which includes an active offshore deliverable currency market. Developed Markets investors are used to the simultaneous execution of all their FX trades with the counterparty of their choice, based on best execution. The absence of an offshore currency market leads to a negative assessment, as it forces parties to transact onshore at a higher cost, very often through a limited choice of intermediaries, and therefore often not on the basis of best execution. Currency shortages are also problematic.

## 3. Efficiency of the Operational Framework

This category reflects the features an international investor views as necessary to ensure that its holdings are well identified and well protected, that operational risks are mitigated as much as possible, and that the various aspects of trading, clearing, settlement and custody work appropriately and on a cost effective basis. In particular, in the context of Developed Markets, the levels of efficiency achieved have made possible the provision of equity funds managed on an extremely cost effective basis, with the natural corollary that preserving this efficiency, rather than diluting it with the addition of less cost effective markets, has become a very strong requirement of an important part of the investment management industry.

**3.1 Investor Registration & Account Set Up:** The number and the type of required documents as well as the time to complete the full process are the key considerations for this measure. The time to complete the process includes the preparation of the documents. These requirements can be extremely onerous for asset owners with multiple mandates and for asset managers with multiple funds.

**3.2 Market Regulations:** In addition to the level of advancement of the legal and regulatory framework governing the financial market, the stock exchange and the various other entities involved in the financial markets, an important weight is assigned to: ease of access (including in English), lack of ambiguity in and prompt enforcement of laws and regulations. Lack of consistency and unexpected changes in policy, in particular targeting foreign investors, are rated negatively.

**3.3 Competitive Landscape:** In Developed Markets, a number of measures have been taken over the years to foster competition in the provision of financial services and products. While differences exist between countries which have allowed the creation of alternative trading venues (e.g., multi-trading facilities and MTFs in the USA and Europe) that compete with incumbent exchanges and other countries where the exchange monopoly is still in place, it is at least an established principle in

all Developed Markets – and most Emerging Markets – that legal or natural monopolies should not abuse their position by imposing anti-competitive clauses in their provision of stock market data. These anti-competitive clauses typically restrict investors' access to derived information, data and investment products, including, for example, the provision of independently calculated indexes or the creation of baskets of securities used in the creation of financial products. The existence of these anti-competitive practices leads to a negative assessment.

- 3.4 Information Flow:** Good information flow is a key ingredient in respect of shareholder rights, in sound investment decisions and more generally in overall market efficiency. Quality, timeliness, availability in English and affordability play a role in this assessment. In addition, the quality of local accounting standards, as assessed, for example, by the adoption of International Financial Reporting Standard (IFRS), is also important for international investors.
- 3.5 Clearing and Settlement:** A well-functioning clearing and settlement system based on international standards including Delivery Versus Payment (DVP), the absence of pre-funding requirements/practices, the possibility of using overdrafts and the availability of real omnibus structures are considered in this category.
- 3.6 Custody:** An important requirement is an efficient mechanism that prevents brokers from having unlimited access to the investor's accounts and that guarantees the safekeeping of the investor's assets. The level of competition among custodian banks within each market is measured by the number of active custodian banks as well as the presence of global custodian banks.
- 3.7 Registry / Depository:** The existence of a well-functioning central registry or of independent registrars and a central depository are important characteristics. A central depository acting as a central registry is also considered as a standard feature. Registration at the issuer level or instances where a custodian (or some other financial institution) acts as a central registry are not desirable.
- 3.8 Trading:** An important desired feature is the ability to execute grouped trades at the same price for the various accounts of a fund manager. The level of competition amongst brokers is also measured by the number of active brokers, the presence of global brokers ensuring high quality services and competitive fees.
- 3.9 Transferability:** There are significant cost savings and efficiency gains associated with the possibility of off-exchange transactions and "in-kind" transfers. These are important in case of manager transitions, mergers of funds and in the creation and redemptions of ETF shares, an increasingly important segment of the investment management industry.
- 3.10 Stock Lending/Short Selling:** The existence of active stock lending and short selling practices has become a clear standard in Developed Markets in support of direct hedging practices and quantitative asset management. More broadly, they have become a recognized ingredient in the efficiency of markets, by allowing arbitrage between different instruments (futures, ETFs, etc.).

The existence of rules and regulations governing these activities is not a sufficient condition to meet international standards. Stock lending and short selling activities also need to be efficient and well tested.

## 4. Stability of Institutional Framework

Long term investors make long term commitments to the market of a country and hence stability is very important to them. The track record of government interventions and the current level of foreign investment restrictions are used as indicators of the stability of the “free-market” economic system. This assessment is not a forward looking statement but rather, it considers a country’s history as an indicator of a potential risk that foreign investors may be impacted by discriminatory measures in times of crisis.

### III - Review Summary

The MSCI Global Market Accessibility Review provides an assessment of each individual market as well as a summary of changes in market accessibility across markets. The methodology applied by MSCI for this review is consistent with the prior year review.

Although in general, Developed Markets continue to register good market accessibility levels, exceptions are found under openness to foreign ownership, market organization, market infrastructure level, and stability of institutional framework, as shown in Exhibit 1.

Emerging and Frontier Markets continue to follow a similar distribution for levels of openness to foreign ownership, ease of capital inflows/outflows, market entry and market organization. As already highlighted in previous Market Accessibility Reviews, the market infrastructure criterion in Frontier Markets continues to exhibit the most shortcomings.

Exhibit 1: Summary Assessment Table (number of countries)

	Developed Markets			Emerging Markets			Frontier Markets			Standalone Markets		
	++	+	-/?	++	+	-/?	++	+	-/?	++	+	-/?
Openness to foreign ownership												
Investor qualification requirement	23	-	-	21	2	-	22	2	-	10	1	1
Foreign ownership limit (FOL) level	20	3	-	11	3	9	17	-	7	9	-	3
Foreign room level	22	-	1	18	-	5	21	-	3	11	-	1
Equal rights to foreign investors	22	1	-	2	18	3	10	13	1	5	6	1
Ease of capital inflows / outflows												
Capital flow restriction level	23	-	-	21	2	-	18	4	2	11	-	1
Foreign exchange market liberalization level	23	-	-	11	4	8	9	5	10	4	6	2
Efficiency of the operational framework												
Market entry												
Investor registration & account set up	23	-	-	9	7	7	8	7	9	4	4	4
Market organization												
Market regulations	23	-	-	11	12	-	12	10	2	2	7	3
Competitive landscape	23	-	-	19	3	1	11	-	1	1	1	1
Information flow	21	2	-	9	11	3	9	6	9	1	5	6
Market infrastructure												
Clearing and Settlement	22	1	-	5	11	7	5	5	14	-	6	6
Custody	23	-	-	20	2	1	14	1	9	7	1	4
Registry / Depository	23	-	-	19	4	-	15	8	1	8	3	1
Trading	23	-	-	19	4	-	9	7	8	2	1	9
Transferability	23	-	-	8	8	7	6	5	13	-	1	11
Stock lending	22	1	-	7	9	7	-	-	24	-	-	12
Short selling	21	2	-	4	11	8	-	-	24	-	-	12
Stability of institutional framework	20	3	-	4	15	4	-	19	5	-	7	5

++: no issues; +: no major issues, improvements possible; -/? : improvements needed / extent to be assessed

Competitive landscape for some Frontier and Standalone Market countries is still being assessed.

As one might expect in the case of most Developed Markets, there have been very few substantial changes in the past year which have resulted in minimal changes in accessibility levels. Ireland



successfully exited from the IMF, European Commission and European Central Bank (Troika) bailout last December 2013, signaling an improvement in economic and political stability. Given this, the Stability of Institutional Framework measure for Ireland has been upgraded from “+” to “++”.

Under a proposed regulation by the European Commission issued on March 7, 2012, the settlement cycle is to be harmonized to T+2 across Europe for all securities traded. Target compliance is expected by October 2014. While this development did not lead to any changes in accessibility for this year, this development bodes well for international investors as it is expected to improve the interoperability of markets across Europe.

Similar to last year, there are several notable developments in Emerging Markets. In Russia, the improvements in market infrastructure towards global standards continued during the last year. The expected transfer from the T+0 settlement cycle to T+2 settlement cycle with partial pre-funding (i.e. a certain percentage of the trade must be pre-funded in the investor’s account) on the Moscow Exchange has been successful. As already reported last year, a Central Securities Depository (CSD) has been established (i.e., National Settlement Depository). While multiple registrars still exist, the CSD has had widespread acceptance since introduction. On the other hand, the ongoing developments in Ukraine have increased geopolitical risk in the region affecting general stability. Given this development and related economic sanctions imposed by the US and the European Union, the Stability of Institutional Framework measure for Russia has been downgraded from “+” to “-/?”.

In Greece, the next European Financial Stability Facility (EFSF) instalment of 8.3 billion euros was approved last April 2014. The approval came after the Greek Parliament approved an omnibus bill of Troika required reforms. Given this development, the Stability of Institutional Framework measure for Greece has been upgraded from “-/?” to “+”.

In Egypt, the foreign currency repatriation backlog has been fully addressed as announced by the Central Bank of Egypt in April 2014. The weekly auction system remains in place to manage foreign currency resources. Foreign exchange reserves have been higher since last year due to Gulf Cooperation Council (GCC) aid packages as well as reported improvements in foreign currency sources such as tourism and foreign direct investments. For this year’s review, the foreign exchange market liberalization rating has been retained at “-/?” in order to assess the sustainability of these positive developments. MSCI will continue to monitor developments in the Egyptian foreign exchange market.

In both Qatar and the United Arab Emirates, there are a few companies that have increased their foreign ownership limit. However, as reported by the Qatar Stock Exchange (QSE) in May 2014, the President of the Supreme Council for Economic Affairs has instructed to increase the foreign ownership limits of companies listed on QSE. Non-Qataris, who are not citizens of any of the GCC countries, are permitted to own shares of the Qatari companies listed on Qatar Stock Exchange with a percentage not exceeding 49% of the capital of any of the companies listed on the QSE, subject to the decision of each company to amend its articles of association.

In Frontier Markets, there have been positive developments with regard to market infrastructure in some countries. In the case of Slovenia, exchange transactions settle on a linked DVP system with a gross settlement of securities followed by a multilateral netting of funds. This system has been in place since last year and has been reported as working well. As a result, Clearing and Settlement for Slovenia has been upgraded from “+” to “++”.

In Ukraine, a Central Securities Depository acting also as a Central Registrar has been introduced. The system is reportedly working well. In Kenya, dematerialization was completed in 2013 without major issues. In both instances, the Registry/ Depository measure has been upgraded from “-/?” to “+”.

In the domestic China A-share market (“China A”), Chinese regulators have continued with the market liberalization efforts. The most recent and notable of these is the expansion of the Renminbi Qualified Foreign Institutional Investor (RQFII) program to include London, Singapore and Paris. Further, there has been an increase in the total Qualified Foreign Institutional Investor (QFII) quota limit from US\$80 billion to US\$150 billion since last year. Also, the QFII application and license granting process has been shortened from one year to one month.

While more international institutional investors are now potentially eligible to participate in the China domestic equity market, limited capital mobility, restrictive individual QFII quotas and the lack of clarity on taxation rules continue to be the key market accessibility concerns for foreign institutional investors.

Exhibit 2 shows the market assessment evolution from last year to date by summarizing the total number of upgrades and downgrades in various assessment categories for the analyzed markets. The number of changes for this year is relatively moderate with seven upgrades and two downgrades.

Exhibit 2: Summary of Upgrades/Downgrades Table (number of countries)

	Developed Markets		Emerging Markets		Frontier Markets		Standalone Markets	
	Upgrades	Downgrades	Upgrades	Downgrades	Upgrades	Downgrades	Upgrades	Downgrades
Openness to foreign ownership								
Investor qualification requirement	-	-	-	-	-	-	-	-
Foreign ownership limit (FOL) level	-	-	1	-	-	-	-	-
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	-	-	-	-	-	-	-	-
Competitive landscape	-	-	-	-	-	-	-	-
Information flow	-	-	-	-	-	-	-	-
Market infrastructure								
Clearing and Settlement	-	-	-	-	1	-	1	-
Custody	-	-	-	-	-	-	-	-
Registry / Depository	-	-	-	-	2	-	-	-
Trading	-	-	-	-	-	-	-	-
Transferability	-	-	-	-	-	-	-	-
Stock lending	-	-	-	1	-	-	-	-
Short selling	-	-	-	-	-	-	-	-
Stability of institutional framework	1	-	1	1	-	-	-	-
Total	1	-	2	2	3	-	1	-

Developed Markets continue to exhibit the least amount of changes having only one upgrade in connection with Stability of Institutional Framework.

The total number of upgrades equals downgrades in Emerging Markets. On the other hand, there are only upgrades in Frontier and Standalone Markets. The changes are related to Openness to Foreign Ownership, Market Infrastructure, particularly under Clearing and Settlement, Registry / Depository and Stock Lending, and Stability of Institutional Framework.

Exhibits 3 to 6 detail the upgrades and downgrades observed across measurement levels for Developed, Emerging, Frontier and Standalone Market countries, respectively. A total of nine countries exhibited changes in one or more measures.

Exhibit 3: Summary of Upgrades/Downgrades Table for Developed Market Countries

	Ireland
Stability of institutional framework	U

-: No change; U: Upgrade; D: Downgrade

Exhibit 4: Summary of Upgrades/Downgrades Table for Emerging Market Countries

	Brazil	Peru	Russia	Greece
Openness to foreign ownership				
Foreign ownership limit (FOL) level	U	-	-	-
Efficiency of the operational framework				
Market infrastructure				
Stock lending	-	D	-	-
Stability of institutional framework	-	-	D	U

-: No change; U: Upgrade; D: Downgrade

Exhibit 5: Summary of Upgrades/Downgrades Table for Frontier Market Countries

	Slovenia	Ukraine	Kenya
Efficiency of the operational framework			
Market infrastructure			
Clearing and Settlement	U	-	-
Custody	-	-	-
Registry / Depository	-	U	U

-: No change; U: Upgrade; D: Downgrade

Exhibit 6: Summary of Upgrades/Downgrades Table for Standalone Market Countries

	Palestine
Efficiency of the operational framework	
Market infrastructure	
Clearing and Settlement	U

-: No change; U: Upgrade; D: Downgrade

## IV - Developed Markets

The following comments should be read in conjunction with the country-by-country assessment results that can be found on pages 42 and 43.

### Americas

#### Canada

*Foreign Ownership Limits:* Canada exhibits relatively stringent foreign ownership limitations compared to most Developed Markets. The broadcasting, telecommunication and transportation industries are subject to foreign ownership limits ranging from 25 percent to 49 percent. In addition, income trusts are generally also subject to a foreign ownership limit of 49 percent. Currently, these limitations affect more than four percent of the Canadian equity market.

#### USA

*Foreign Ownership Limits:* Airline companies are subject to a 25 percent foreign ownership limit. However, this did not result in a negative assessment due to the very limited impact of these ownership limits on the US market.

### Europe, Middle East and Africa

European airline companies are in general subject to a 50 percent foreign ownership limit for non-European investors but the impact on the different markets is very limited, with the exception of Ireland. Consequently, the presence of these ownership limits did not result in any negative assessments for the individual countries.

#### Ireland

*Foreign Room Level:* The adjustment factor applied to Ryanair Holdings due to low foreign room impacts 8% of the MSCI Ireland IMI Index.

#### **Upgrades**

*Stability of institutional framework:* “+” to “++”. Ireland has successfully exited the Troika bailout signaling an improvement in its financial and political situation.

#### Israel

*Information Flow:* Corporate actions information is occasionally incomplete or not always disclosed in a timely manner.

*Clearing and Settlement:* The settlement cycle is set at T+1 and the DVP mechanism as well as the official trading days on the Tel Aviv Stock Exchange (TASE) are different from international standards.

#### Italy

*Stability of institutional framework:* The financial and political crisis may call into question the stability of the country's institutional framework.

#### Portugal

*Stock Lending:* Is restricted to the Portuguese Stock Index (PSI-20) constituents.

*Short Selling:* Is allowed but with a limited capacity.

*Stability of institutional framework:* The financial and political crisis may call into question the stability of the country's institutional framework.

## Spain

*Short Selling:* Is allowed but is not an established market practice due to the limited capacity.

*Stability of institutional framework:* The financial and political crisis may call into question the stability of the country's institutional framework.

## Asia Pacific

### Australia

*Foreign Ownership Limits:* Australia exhibits relatively stringent foreign ownership limitations compared to most Developed Markets. The telecommunication and transportation industries are partially not investable for foreign investors. These limitations represent more than three percent of the Australian equity market.

### Japan

*Foreign Ownership Limits:* The airlines, media and telecommunications industries are impacted by foreign ownership limits. These limitations represent less than two percent of the Japanese equity market.

*Equal Rights to Foreign Investors:* Company related information is not always readily available in English. In addition, Japan is the only Developed Market where companies' corporate governance standards have often been questioned by international institutional investors.

*Information Flow:* Detailed stock market information is in general disclosed in a timely manner but not always in English. This type of information is either translated with a significant time lag or not translated at all. In addition, Japanese dividends are usually declared in advance by companies but the effective dividend amount may be announced after the ex-date of the dividend which is uncharacteristic of Developed Markets.

## V - Emerging Markets

The following comments should be read in conjunction with the country-by-country assessment results that can be found on pages 44 and 45.

### Americas

#### Brazil

*Equal Rights to Foreign Investors:* Foreign investors are in general limited to the non-voting shares of Brazilian banks and, hence, do not have equal voting rights compared with domestic investors. The general segregation between voting and non-voting shares also negatively impacts the voting rights of minority shareholders due to their limited access to the voting shares. Effective on December 1, 2011, the tax on investment in equities levied for foreign investors of two percent was eliminated. As a reminder, the tax was designed to slow the appreciation of the Brazilian currency and to avoid speculation. Finally, company related information is not always readily available in English.

*Foreign Exchange Market Liberalization Level:* There is no offshore currency market and there are constraints on the onshore currency market (e.g., foreign exchange transactions must be linked to security transactions).

*Investor Registration & Account Setup:* Registration is mandatory and all foreign investors need to appoint a legal and tax representative as well as obtain approval from the Securities and Exchange Commission of Brazil (CVM) prior to entering the market. All documents must be filed in Portuguese.

*Market Regulations:* Not all regulations can be found in English.

*Competitive Landscape:* Existence of restrictions on the use of stock market data.

*Information Flow:* Detailed stock market information is not always disclosed in English.

*Clearing and Settlement:* Overdraft facilities are prohibited.

*Transferability:* In-kind transfers are prohibited.

#### Upgrades

*Foreign Ownership Limits:* “-/?” to “+”. Foreign investors are limited to purchasing non-voting shares (PN) of Brazilian banks. Banco do Brasil is the only exception (foreign investors are allowed to invest in up to 20 percent of the voting capital of this bank). In addition, the media and transportation industries are subject to foreign ownership limits of 49 and 20 percent, respectively. These limitations affect less than ten percent of the Brazilian equity market.

#### Chile

*Equal Rights to Foreign Investors:* Company related information is not always readily available in English.

*Capital Flow Restriction Level:* Due to some administrative requirements, repatriation of funds can take up to two weeks after a minimum period of investment.

*Foreign Exchange Market Liberalization Level:* There is no offshore deliverable currency market.

*Investor Registration & Account Setup:* Registration is mandatory and foreign investors need to provide additional documents to set up local accounts (e.g., power of attorney and letter of good standing from investor's local authority). The process to set up accounts takes in general ten days.

*Market Regulations:* Not all regulations can be found in English.

*Information Flow:* Detailed stock market information is not always disclosed in English.

*Transferability:* In-kind transfers and off-exchange transactions are allowed but are difficult to execute as they are not an established market practice.

*Stock Lending:* Is allowed but is not an established market practice due to collateral requirements (e.g., 125% of the value of the lending amount must be pledged).

*Short Selling:* Is allowed but is not an established market practice due to the limited capacity of the stock lending market and the complex tax system in Chile.

## Colombia

*Equal Rights to Foreign Investors:* Company related information is not always readily available in English.

*Capital Flow Restriction Level:* The country has a history of imposing and removing capital flow restrictions in order to manage its foreign currency policy. The most recent capital flow restrictions were removed only in September 2008.

*Foreign Exchange Market Liberalization Level:* The offshore market is restricted and there are constraints on the onshore currency market (e.g., foreign exchange transactions must be linked to security transactions and registered with the Central Bank).

*Investor Registration & Account Setup:* Registration is mandatory and all documents must be filed in Spanish. The registration process takes in general eight days.

*Market Regulations:* Not all regulations can be found in English.

*Information Flow:* Lack of robustness and enforcement of local accounting standards. In addition, detailed stock market information is not always disclosed in English.

*Clearing and Settlement:* There is no nominee concept as well as a lack of a clear legal basis for omnibus accounts.

*Custody:* The Central Depository currently acts as the single local custodian for the market.

*Trading:* Limited level of competition among brokers which can lead to relatively higher trading costs.

*Transferability:* In-kind transfers and off-exchange transactions are prohibited.

*Stock Lending:* Is allowed but is not an established market practice.

*Short Selling:* Is allowed but is not an established market practice.

*Stability of Institutional Framework:* In the recent past, the government intervened and imposed restrictions that significantly distorted capital inflows and outflows.

## Mexico

*Foreign Ownership Limits:* Restrictions on foreign investment affect a significant proportion of the Mexican equity market. Foreign ownership in a number of companies is only possible through Participation Certificates (CPOs), which, in general, do not provide voting rights.



*Equal Rights to Foreign Investors:* Holders of CPOs have, in general, no voting rights and, hence, are not at par compared with domestic investors. In addition, the general segregation between voting and non-voting shares also negatively impacts the voting rights of minority shareholders due to their limited access to the voting shares.

*Investor Registration & Account Setup:* Registration is mandatory and foreign investors must have a contract with local agents.

*Information Flow:* Detailed stock market information is not always disclosed in English.

*Short Selling:* Is allowed however a stock lending trade must be in place in Valpre (electronic securities lending system managed by the Central Securities Depository) before a short selling transaction can be executed.

## Peru

*Equal Rights to Foreign Investors:* Company related information is not always readily available in English.

*Investor Registration & Account Setup:* Registration is mandatory but the process is efficient. All documents must be filed in Spanish.

*Market Regulations:* Not all regulations can be found in English.

*Information Flow:* Detailed stock market information is not always disclosed in English.

*Clearing and Settlement:* Omnibus structures and nominee concept are not available. In addition, there is an absence of a real DVP system on the Lima Stock Exchange.

*Trading:* Limited level of competition among brokers which can lead to relatively higher trading costs.

*Transferability:* In-kind transfers are prohibited.

*Short Selling:* Is allowed but is not an established market practice due to the limited capacity.

### **Downgrades**

*Stock Lending:* "+" to "-/?". Stock lending through the Lima Stock Exchange (BVL) is only available for highly liquid stocks included in the TVR (Tabla de Valores de Referencia) table. This lending service is not widely used.

## Europe, Middle East and Africa

### Czech Republic

*Equal Rights to Foreign Investors:* Company related information is not always readily available in English.

*Investor Registration & Account Setup:* Registration is not required but the account setup process can take a significant amount of time.

*Market Regulations:* Not all regulations can be found in English.

*Information Flow:* Detailed stock market information is not always disclosed in English and there is no central source for this type of information.

*Clearing and Settlement:* There is no true DVP system on the Prague Stock Exchange. Omnibus structures and nominee status are now available but are not widely used.

*Registry / Depository:* The central depository and custodians act as a central registry. Some uncertainty with regard to efficiency of the registration process persists.

*Stock Lending:* Is allowed but is not an established market practice due to the limited capacity.

*Short Selling:* Is allowed but is not an established market practice due to the limited capacity.

## Hungary

*Equal Rights to Foreign Investors:* Company related information is not always readily available in English.

*Market Regulations:* Not all regulations, particularly recent ones, can be found in English.

*Information Flow:* Detailed stock market information is not always disclosed in English.

*Registry / Depository:* The central depository and custodians act as a central registry.

*Stock Lending:* Is allowed but is not an established market practice due to the limited capacity.

*Short Selling:* Is allowed but is not an established market practice due to the limited capacity.

## Poland

*Equal Rights to Foreign Investors:* Company related information is not always readily available in English.

*Market Regulations:* Not all regulations can be found in English.

*Information Flow:* Detailed stock market information is not always disclosed in English.

*Clearing and Settlement:* There is no nominee status. New legislation, effective January 1, 2012, allows opening omnibus accounts; however, the use of omnibus accounts is not yet a market practice.

*Registry / Depository:* The central depository and financial institutions act as a central registry.

*Transferability:* Off-exchange transactions are allowed but may be subject to a tax.

*Stock Lending:* Stock lending has become a more established market practice. A large proportion of transactions takes place offshore.

*Short Selling:* Short selling has become a more established market practice. Short selling is permitted for the constituents of the WIG20 Index or for non-constituents meeting specific liquidity and size criteria.

## Russia

*Equal Rights to Foreign Investors:* Company related information is not always readily available in English.

*Foreign Exchange Market Liberalization Level:* There is an undeveloped offshore currency market for the ruble and most foreign exchange transactions settle onshore.

*Investor Registration & Account Setup:* Registration is mandatory and requires a significant amount of manual paperwork. Foreign institutional investors must provide a certificate of incorporation/extract from the trade register, charter/articles of association, a list of authorized signatories, a certificate of appointment of the directors and a certificate of legal address. In addition, an approval from the tax authorities is required to open a cash account. The full registration and account setup process may be lengthy.

*Market Regulations:* Legislation updates and related press releases are not always available in English. Also, the rules on corporate events disclosures are not clearly defined in the context of the foreign nominee concept.

*Information Flow:* Stock market information is often not complete as well as not always disclosed in English. There is no central source for this type of information.

*Clearing and Settlement:* A T+2 settlement cycle with partial pre-funding has been introduced for all securities listed on the Moscow Exchange on September 2, 2013. A foreign nominee concept and

omnibus account structures have been introduced but more time is needed to assess their effectiveness and benefits to international institutional investors.

*Registry / Depository:* There is an absence of a central registry.

*Trading:* Limited level of competition among brokers which can lead to relatively high trading costs.

*Stock Lending:* Is allowed but is not an established market practice due to the absence of a formal stock lending regulation.

*Short Selling:* Short selling is allowed, but with some restrictions and it is not yet a common practice.

### **Downgrades**

*Stability of institutional framework:* The financial and political crisis may call into question the stability of the country's institutional framework.

## **Turkey**

*Equal Rights to Foreign Investors:* Company related information is not always readily available in English.

*Investor Registration & Account Setup:* Registration is mandatory but the process is efficient.

*Market Regulations:* Not all regulations can be found in English.

*Competitive Landscape:* Anti-competitive measures or practices partially restrict the use of stock market data.

*Information Flow:* There is a central source for stock market information. The information remains incomplete and it is not always disclosed in English.

*Clearing and Settlement:* There is no nominee status and omnibus structures are not available.

*Short Selling:* Is allowed but is not an established market practice. In addition, there are neither legal nor technical measures preventing naked short selling.

## **Egypt**

*Foreign Ownership Limit Level:* In general, there are no foreign ownership limits, but one of the largest Egyptian companies, Telecom Egypt, applies a 20 percent limit while a few companies are fully closed to foreign investors. These limitations currently affect more than ten percent of the market.

*Equal rights to foreign investors:* Company related information is not always available in English.

*Foreign Exchange Market Liberalization Level:* There is a lack of efficiency on the offshore currency market.

*Investor Registration & Account Set Up:* Introduction of a restricted investors list may delay the registration process. Also, the process of setting up accounts may be lengthy.

*Market Regulations:* There is an absence of clarity in certain areas of market regulation (e.g., formally there are no foreign ownership limits but companies can impose limits in their by-laws).

*Information Flow:* Lack of robustness and enforcement of local accounting standards.

*Clearing and settlement:* There is no functioning nominee status and omnibus structures are not available. In addition, the official trading days are different from international standards.

*Trading:* Limited level of competition among brokers which can lead to relatively higher trading costs.

*Transferability:* In-kind and off-exchange transfers are prohibited.

*Stock Lending:* Is allowed but is not an established market practice due to the limited capacity.

*Short Selling:* Is allowed but is not an established market practice due to the limited capacity.

*Stability of institutional framework:* The financial and political crisis may call into question the stability of the country's institutional framework.

## Greece

*Clearing and Settlement:* There is no nominee status and omnibus structures are not available.

*Transferability:* In-kind transfers and off-exchange transactions are restricted.

*Stock Lending:* Legislation on stock lending and borrowing was approved by the Greek Parliament in 2008. However, stock lending is not an established market practice due to the limited capacity, and it is not available as part of the false trade mechanism.

*Short Selling:* Extremely difficult and onerous short selling practices exist.

### Upgrades

*Stability of institutional framework:* -/? to +. The next European Financial Stability Facility (EFSF) instalment of 8.3 billion euros was approved last April 2014 signaling an improvement in the country's financial and political situation.

## Qatar

*Foreign Ownership Limits:* Listed companies are subject to a foreign ownership limit of 25 percent of the free float (as defined by Qatar Stock Exchange).

*Foreign Room Level:* The equity market is significantly impacted by foreign room issues.

*Equal Rights to Foreign Investors:* The rights of foreign investors are limited as a result of the stringent foreign ownership limits.

*Investor Registration & Account Setup:* Registration is mandatory but the process is efficient.

*Clearing and Settlement:* There is no nominee status and omnibus structures are not available. Overdraft facilities are prohibited. In addition, the official trading days are different from international standards.

*Custody:* The operational efficiency of the DVP model has been enhanced through the introduction in May 2012 of a proper false trade mechanism (a buyer cash compensation mechanism) that includes securities lending and borrowing facilities. This has mostly eliminated the need for segregated custody and trading accounts which were previously required in order to mitigate the risk deriving from local brokers having unlimited access to trading accounts.

*Transferability:* In-kind transfers and off-exchange transactions are prohibited.

*Stock Lending:* Securities lending and borrowing facilities are currently only available for use by liquidity providers and as a mechanism to prevent settlement failures.

## South Africa

*Clearing and Settlement:* The settlement cycle for equities on the Johannesburg Stock Exchange is set at T+5 which is different from international standards. Restrictions on the use of overdrafts may be applicable to non-residents.

*Transferability:* Off-exchange transactions and in-kind transfers are allowed but with some restrictions.

## United Arab Emirates

*Foreign Ownership Limits:* Listed companies are in general subject to a foreign ownership limit of 49 percent, but companies may choose to set a lower limit.

*Foreign Room Level:* The equity market is significantly impacted by foreign room issues.

*Equal Rights to Foreign Investors:* The rights of foreign investors are limited as a result of the stringent foreign ownership limits.

*Investor Registration & Account Setup:* Registration is mandatory but the process is efficient.

*Clearing and Settlement:* There is no nominee status and omnibus structures are not available. Overdraft facilities for foreign investors are prohibited. In addition, the official trading days are different from international standards.

*Custody:* The operational efficiency of the DVP model has been enhanced through the introduction in May 2013 of a proper false trade mechanism (a buyer cash compensation mechanism). This has mostly eliminated the need for segregated custody and trading accounts which were previously required in order to mitigate the risk deriving from local brokers having unlimited access to trading accounts.

*Transferability:* In-kind transfers are prohibited.

## Asia Pacific

### China (international)

The assessment of the accessibility of the China (international) market takes into account only the Hong Kong listed portion of the China market (e.g., H-shares, Red-Chips and P-Chips).

*Foreign Ownership Limit Level:* The proportion of Chinese companies' share capital freely accessible to foreign investors is in general very limited. Foreign investors can acquire shares of Chinese companies primarily on the Hong Kong Stock exchange. The available portion represents on average 50 percent of the total market capitalization of Chinese companies listed in Hong Kong.

*Equal Rights to Foreign Investors:* Foreign investors have in general limited voting power due to the limited shares available to them.

*Market Regulations:* There is an absence of clarity in the regulations applying the dividend withholding tax.

### India

*Investor Qualification Requirement:* Large investors can apply for a Foreign Institutional Investor (FII) qualification and others need to apply for a FII sub-account. Effective January 2012, the QFI scheme was introduced to provide an additional route for foreign investors to invest in the Indian equity market. However, the QFI scheme was not widely adopted due to the confusion over the eligibility of countries and the complexity of the QFI scheme.

*Foreign Ownership Limit Level:* Most listed companies are subject to foreign ownership limits that run from 0 to 74 percent. These limitations affect more than 60 percent of the Indian equity market.

*Foreign Room Level:* The equity market is significantly impacted by foreign room issues and there is no active formal foreign board allowing foreign investors to trade among themselves. The Reserve Bank of India (RBI) monitors foreign ownership levels and issues a warning once the levels are close to being breached.

*Equal Rights to Foreign Investors:* Rights of foreign investors are limited as a result of the stringent foreign ownership limits.

*Foreign Exchange Market Liberalization Level:* There is no offshore currency market and there are constraints on the onshore currency market (e.g., foreign exchange transactions must be linked to security transactions).

*Investor Registration & Account Setup:* Registration is mandatory and subject to Securities and Exchange Board of India approval which generally takes 14 days. In addition, the FII and QFI schemes have become problematic for foreign investors as disclosure of personal information (such as passport information) is required to be compliant with the Know Your Customer (KYC) requirements which were made effective in January 2012.

*Market Regulations:* The regulatory framework governing foreign investments in India is complex and subject to frequent changes and clarifications.

*Competitive Landscape:* Anti-competitive measures or practices partially restrict the use of stock market data.

*Clearing and Settlement:* There is no nominee status and omnibus structures are not available. In addition, overdraft facilities are prohibited.

*Transferability:* In-kind and off-exchange transfers are prohibited.

*Short Selling:* Is allowed but all transactions must be reported to the Securities and Exchange Board of India.

## Indonesia

*Equal Rights to Foreign Investors:* Company related information is not always readily available in English.

*Foreign Exchange Market Liberalization Level:* The published Indonesia Rupee (IDR) is not a rate practically achievable by foreign investors due to frequent government interventions. In addition, there is no efficient offshore currency market and there are constraints on the onshore currency market (e.g., foreign exchange transactions must be linked to security transactions).

*Information Flow:* Detailed stock market information is not always disclosed in English.

*Clearing and Settlement:* Overdraft facilities for foreign investors are prohibited.

*Transferability:* In-kind transfers are prohibited.

*Stock Lending:* Is allowed but is restricted to a fixed number of stocks and to 90-day lending contracts.

*Short Selling:* Is allowed but is restricted to a fixed number of stocks.

## Korea

*Foreign Ownership Limits:* The aviation, broadcasting, telecommunication and utilities industries are impacted by foreign ownership limits. These limitations affect more than three percent of the Korean equity market.

*Foreign Room Level:* Prolonged low level of foreign room is found in major companies within the telecommunication industry, such as KT Corporation and SK Telecom.

*Equal Rights to Foreign Investors:* Information disclosure in English has improved but is not always readily available. Company related information is not always readily available in English. In addition, the corporate governance standards of Korean companies have often been questioned by international institutional investors.

*Foreign Exchange Market Liberalization Level:* There is no offshore currency market. The recent adjustment of equity market settlement timing to alleviate frictions due to limited onshore currency trading hours is seen as a positive improvement.

*Investor Registration & Account Setup:* Registration is mandatory and requires a significant amount of supporting paperwork (IRC system).

*Competitive Landscape:* Restrictions on real time data usage has been partially lifted resulting in an improving anti-competitive landscape. However, there remain restrictions on the use of stock market data for derivatives product licensing.

*Information Flow:* Information disclosure in English has improved but is not always readily available for all companies. In addition, Korean companies disclose dividend amounts after the ex-date of the dividends, which is different from international standards. The amendment to the “Commercial Act” to encourage companies to determine a dividend amount at a board of directors meeting could potentially help bring this more in line with the international practices. Such a change is yet to be fully assessed by international institutional investors.

*Clearing and Settlement:* Despite the recent revision of the Banking Act to provide additional funding options for foreign investors, overdraft facilities remain unavailable for securities settlement purposes. Omnibus trading for equities is not permissible due to the rigidity of the IRC system. The “Lead IRC” account structure has not effectively addressed the problem.

*Transferability:* The ability to carry out in-kind transfers and off-exchange transactions remains very limited and is impractical due to the rigidity and the approval process.

## Malaysia

*Foreign Ownership Limits:* Industries that are of strategic importance, including the brokerage, insurance and telecommunication industries, are subject to foreign ownership restrictions ranging from 30% to 70%. These limitations affect more than 11 percent of the Malaysian equity market.

*Equal Rights to Foreign Investors:* Foreign investors holding shares that exceed the Foreign Ownership Limits are not treated equally in terms of voting rights compared with domestic investors holding the same shares in the same company.

*Foreign Exchange Market Liberalization Level:* There is an absence of an efficient offshore currency market and there are constraints on the onshore currency market (e.g., foreign exchange transactions must be linked to security transactions).

*Transferability:* Off-exchange transactions are prohibited.

*Stock Lending:* Is allowed but is restricted to a fixed number of stocks.

*Short Selling:* Is allowed but is restricted to a fixed number of stocks.

## Philippines

*Foreign Ownership Limits:* All industries are in general subject to a 40 percent foreign ownership limit. The Philippine Securities and Exchange Commission (SEC) recently issued in May 2013 a final policy circular on the foreign ownership limit. The limitation is applicable to voting shares whether preferred or common as well as to the total number of outstanding shares of stock, regardless of whether they are voting or non-voting.

*Foreign room level:* The equity market is significantly impacted by foreign room issues.

*Equal Rights to Foreign Investors:* Rights of foreign investors are limited as a result of the stringent foreign ownership limits.

*Foreign Exchange Market Liberalization Level:* There is no offshore currency market and there are constraints on the onshore currency market (e.g., foreign exchange transactions must be linked to security transactions).

*Clearing and Settlement:* Overdraft facilities for foreign investors are prohibited.

*Stock Lending:* Is allowed but is not an established market practice due to low capacity.

*Short Selling:* Is allowed but is not an established market practice due to low capacity.

## Taiwan

*Investor Qualification Requirement:* Foreign investors must formally apply for a Foreign Institutional Investor (FINI) or a Foreign Individual Investor (FIDI) qualification but the process is efficient.

*Foreign Ownership Limits:* The media, transportation, telecommunication and utilities industries are impacted by foreign ownership limits ranging from 0 to 50 percent. These limitations affect more than three percent of the Taiwanese equity market.

*Equal Rights to Foreign Investors:* Company related information is not always readily available in English.

*Foreign Exchange Market Liberalization Level:* The New Taiwan Dollar (TWD) is not freely convertible and in particular, there is no offshore currency market.

*Investor Registration & Account Setup:* Registration is mandatory and requires a significant amount of paperwork (ID system).

*Information Flow:* Detailed stock market information is not always disclosed in English.

*Clearing and Settlement:* Overdraft facilities are not available overnight and pre-funding practices may still be used by local brokers even though the authorities implemented a T+2 DVP settlement cycle. In addition, the ID system makes it difficult for investors and brokers to use omnibus structures.

*Transferability:* Off-exchange transactions and in-kind transfers are allowed but in some cases they are difficult to use.

*Stock Lending:* Is allowed but is restricted to designated FINIs.

*Short Selling:* Is allowed but is restricted to designated FINIs.

## Thailand

*Foreign Ownership Limits:* All industries are in general subject to a 49 percent foreign ownership limit. These restrictions affect a very large proportion of the equity market. However, foreign investors can obtain access to Thai companies through Non-Voting Depository Receipts (NVDRs).

*Equal Rights to Foreign Investors:* By definition, foreign investors holding NVDRs are not treated equally in terms of voting rights compared with domestic investors holding common stock in the same company. In addition, company related information is not always readily available in English.

*Foreign Exchange Market Liberalization Level:* There is an offshore currency market but there have been instances of interventions by the authorities restricting the functioning of the foreign exchange market.

*Clearing and Settlement:* There is an absence of a real DVP system on the Stock Exchange of Thailand.

*Stock Lending:* Is allowed but restricted to the stocks included in the SET 100 Index.



*Short Selling:* Is allowed but restricted to the stocks included in the SET 100 Index.

*Stability of Institutional Framework:* There have been instances of government interventions that challenged the stability of the “free-market” economy.

## VI - Frontier Markets

The following comments should be read in conjunction with the country-by-country assessment results that can be found on pages 46 and 47.

Stock lending and short selling are activities that are either not developed or are completely prohibited in all Frontier Market countries and the summary does not highlight these issues on a country-by-country basis.

### Americas

#### Argentina

*Equal Rights to Foreign Investors:* Company related information is not always readily available in English.

*Capital Flow Restriction Level:* Cash reserves requirements are applied to capital inflows and time and size limitations are applied to capital outflows.

*Foreign Exchange Market Liberalization Level:* There is no 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.

*Market Regulations:* Not all regulations can be found in English.

*Competitive Landscape:* Anti-competitive measures or practices restrict the use of stock market data.

*Information Flow:* Detailed stock market information is not always disclosed in English.

*Clearing and Settlement:* There is an absence of a real DVP system and overdraft facilities on the Merval (Mercado de Valores de Buenos Aires).

*Trading:* Limited level of competition among brokers which can lead to relatively higher trading costs.

*Transferability:* In-kind transfers and off-exchange transactions are restricted to domestic investors.

*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 investors. Recently, the Argentinean government has nationalized YPF through the “expropriation” of a 51% stake from the Spanish company Repsol.

### Europe

#### Bulgaria

*Foreign Exchange Market Liberalization Level:* There is no offshore currency market.

*Investor Registration & Account Setup:* The process to set up an account is lengthy due to the requirement to provide several documents in notarized form.

*Information Flow:* Stock market information is occasionally not disclosed in a timely manner.

*Custody:* There is no formal segregation between custody and trading accounts.

*Registry / Depository:* There is a lack of efficiency in terms of communication between the central registry / central depository and the custodians / brokers.

**Croatia**

*Investor Registration & Account Setup:* Registration is mandatory and the process can take up to five days. Additionally, investors are required to open segregated accounts for trading (at nominee level) and for taxation (at beneficiary owner level).

*Clearing and Settlement:* Shares of local credit institutions cannot be held under an omnibus account. In addition, there is an absence of a real DVP system on the Zagreb Stock Exchange.

*Registry / Depository:* The central depository acts as a central registry. Registration of few securities is executed at the issuer level.

*Trading:* Limited level of competition among brokers which can lead to relatively higher trading costs.

**Kazakhstan**

*Foreign Exchange Market Liberalization Level:* There is no offshore currency market and the Kazakh lower house approved in 2009 a bill that could potentially lead to temporary foreign currency restrictions. In addition, liquidity on the onshore currency market has been relatively low in the recent past.

*Investor Registration & Account Set Up:* Registration is mandatory and the process can take up to two weeks.

*Information Flow:* There is a lack of robustness in, and enforcement of, local accounting standards.

*Clearing and Settlement:* The settlement cycle for equities on the Kazakhstan Stock Exchange is set at T+0 and prefunding of trades is required.

*Trading:* There is a limited level of competition among brokers which can lead to relatively higher trading costs.

*Transferability:* In-kind transfers with change of beneficial ownership are possible either through the central depository or the central registry. However, off-exchange transactions are prohibited.

*Stability of Institutional Framework:* There have been instances of government interventions that challenged the stability of the "free-market" economy.

**Romania**

*Equal Rights to Foreign Investors:* Company related information is not always readily available in English.

*Market Regulations:* Not all regulations can be found in English.

*Information Flow:* Detailed stock market information is not always disclosed in English.

*Clearing and Settlement:* There is an absence of a real DVP system on the Bucharest Stock Exchange.

*Custody:* There is no formal segregation between custody and trading accounts.

*Registry / Depository:* There is a lack of efficiency in terms of communication between the central depository and the custodians / brokers.

*Trading:* There is a very limited level of competition among brokers which can lead to high trading costs.

*Transferability:* In-kind transfers and off-exchange transactions are prohibited.

**Serbia**

*Equal Rights to Foreign Investors:* Company related information is not always readily available in English.

*Capital Flow Restriction Level:* Due to some administrative requirements, repatriation of funds can take up to two weeks.

*Foreign Exchange Market Liberalization Level:* There is no offshore currency market.

*Investor Registration & Account Setup:* Registration is mandatory and all foreign investors need to appoint a legal and tax representative. All documents must be filed in Serbian.

*Market Regulations:* Not all regulations can be found in English.

*Information Flow:* Detailed stock market information is not always disclosed in English and occasionally is not disclosed in a timely manner.

*Clearing and Settlement:* Overdraft facilities are restricted to foreign banks.

*Trading:* There is a limited level of competition among brokers which can lead to high trading costs.

*Transferability:* Off-exchange transactions are allowed but require approval from the authorities.

## **Slovenia**

*Trading:* There is a limited level of competition among brokers which can lead to relatively higher trading costs.

### **Upgrades**

*Clearing and Settlement:* “+” to “++”. Exchange transactions are now settled on a linked DVP system with a gross settlement of securities followed by a multilateral netting of funds.

## **Ukraine**

*Equal Rights to Foreign Investors:* Company related information is not always readily available in English.

*Foreign Exchange Market Liberalization Level:* There is no offshore currency market. In addition, liquidity on the onshore currency market has been relatively low in the recent past.

*Investor Registration & Account Setup:* Registration is mandatory and requires a significant amount of manual paperwork. The process is difficult and requires a lot of time to complete.

*Market Regulations:* Regulations are not fully enforced by the supervisory authority resulting in many investors trading over the counter. In addition, not all relevant information can be found in English.

*Information Flow:* Stock market information is often not complete and is often not disclosed in a timely manner. In addition, the information is often not in English.

*Clearing and Settlement:* The settlement cycle is not fixed (from T+0 to T+10) and there are no overdraft facilities on the PFTS Stock Exchange. In addition, there is no nominee status and omnibus structures are not available.

*Custody:* There is no formal segregation between custody and trading accounts.

*Trading:* There is a very limited level of competition among brokers which can lead to high trading costs.

*Transferability:* Off-exchange transactions are allowed but require approval from the authorities.

*Stability of Institutional Framework:* There have been instances of government interventions that challenged the stability of the “free-market” economy.

### **Upgrades**

*Registry / Depository:* “-/?” to “+”. A single Central Securities Depository acting also as a central registrar has been introduced. The new system is reportedly working well albeit with current low volumes.

## Africa

### Kenya

*Foreign Ownership Limits:* Listed companies are subject to a general 75 percent foreign ownership limit.

*Foreign room level:* The equity market is significantly impacted by foreign room issues.

*Capital Flow Restriction Level:* A certificate of foreign currency inflow is required for any capital repatriation.

*Foreign Exchange Market Liberalization Level:* There is no offshore currency market. In addition, liquidity on the onshore currency market has been relatively low in the recent past.

*Investor Registration & Account Set Up:* The process to set up accounts can take up to one week.

*Trading:* There is a very limited level of competition among brokers which can lead to high trading costs.

*Clearing and Settlement:* Overdrafts are not allowed for a tenor of less than one year. In addition, there are operational concerns related to the use of omnibus accounts. Moreover, there is still an absence of a true DVP system.

*Transferability:* In-kind transfers and off-exchange transactions are prohibited.

#### **Upgrades**

*Registry / Depository:* “-/?” to “+”. Dematerialization was completed in November 2013.

### Mauritius

*Foreign Ownership Limits:* Listed companies are generally subject to a 51 percent foreign ownership limit. Companies in the sugar business are subject to a foreign ownership limit of 15 percent.

*Equal Rights to Foreign Investors:* Rights of foreign investors are limited as a result of the stringent foreign ownership limits.

*Foreign Exchange Market Liberalization Level:* The onshore currency market is not liquid. No official exchange rate is published and only indicative rates are published daily by commercial banks. In addition, there is no offshore currency market.

*Clearing and Settlement:* There is no nominee status and omnibus structures are not available.

*Trading:* There is a very limited level of competition among brokers which can lead to high trading costs.

*Transferability:* In-kind transfers and off-exchange transactions are prohibited.

### Morocco

*Equal Rights to Foreign Investors:* Company related information is not always readily available in English.

*Capital Flow Restriction Level:* In general, there are no capital flow restrictions but the absence of evidence of foreign currency inflows may result in restrictions on the capital outflows. Repatriation has to be performed only using convertible Moroccan Dirham accounts.

*Foreign Exchange Market Liberalization Level:* There are restrictions on the offshore currency market.

*Market Regulations:* Not all regulations can be found in English.

*Information Flow:* Detailed stock market information is not always disclosed in English.

*Clearing and Settlement:* There is no legal recognition of nominee status. In addition, there are restrictions on overdraft facilities for foreign investors.

*Trading:* The limited level of competition among brokers may lead to relatively higher trading cost.

*Transferability:* Off-exchange transactions are prohibited.

*Stock Lending:* Is prohibited.

*Short Selling:* Is prohibited.

## Nigeria

*Equal Rights to Foreign Investors:* In general, the rights of minority shareholders are negatively impacted by the scarcity of relevant information.

*Capital Flow Restriction Level:* A certificate of foreign currency inflow is required for any capital repatriation.

*Foreign Exchange Market Liberalization Level:* There is no offshore currency market and there are constraints on the onshore currency market (e.g., foreign exchange transactions must be linked to security transactions and interbank foreign exchange rates are set by the authorities). In addition, liquidity on the onshore currency market has been relatively low in the recent past.

*Market Regulations:* Regulations may distort the free functioning of stock market activity (e.g., narrow and frequently changing trading limits). In addition, not all relevant information is readily available to foreign investors.

*Information Flow:* There is a lack of robustness and enforcement of local accounting standards. In addition, the availability of shareholder information for Nigerian banks is limited.

*Registry / Depository:* Registration is executed at the issuer level.

*Trading:* There is a very limited level of competition among brokers which can lead to high trading costs.

*Transferability:* In-kind transfers and off-exchange transactions are prohibited.

*Stability of Institutional Framework:* There have been instances of government interventions that challenged the stability of the "free-market" economy as illustrated by frequently changing market regulations.

## Tunisia

*Foreign Ownership Limits:* Listed companies are subject to a 50 percent foreign ownership limit.

*Foreign Room Level:* The equity market is significantly impacted by foreign room issues.

*Equal Rights to Foreign Investors:* Company related information is not always readily available in English. In addition, the rights of foreign investors are limited as a result of the stringent foreign ownership limits.

*Foreign Exchange Market Liberalization Level:* There is no offshore currency market.

*Market Regulations:* Not all regulations can be found in English.

*Information Flow:* There is a lack of robustness in, and enforcement of, local accounting standards. In addition, detailed stock market information is not always disclosed in English.

*Clearing and Settlement:* There is no nominee status and omnibus structures are not available. Only short-term overdrafts are allowed; however, this is not market practice.

*Custody:* There is no formal segregation between custody and trading accounts. In addition, there is only one active custodian available to foreign investors.

*Trading:* There is a very limited level of competition among brokers which can lead to high trading costs.

*Transferability:* In-kind transfers and off-exchange transactions are prohibited.

## Middle East

### Bahrain

*Foreign Ownership Limits:* Listed companies are generally subject to a 49 percent foreign ownership limit. Some companies are either fully open or fully closed to foreign investments.

*Equal Rights to Foreign Investors:* The rights of foreign investors are limited as a result of the stringent foreign ownership limits.

*Investor Registration & Account Setup:* Registration is mandatory but the process is efficient.

*Information Flow:* Stock market information is often not complete and often is not disclosed in a timely manner.

*Clearing and Settlement:* There is an absence of a real DVP system on the Bahrain Stock Exchange. There is no nominee status and omnibus structures are not available. In addition, the official trading days are different from international standards.

*Custody:* Segregated custody and trading accounts are required in order to mitigate the risk deriving from local brokers having unlimited access to trading accounts.

*Registry / Depository:* Registration is executed at the issuer level.

*Transferability:* In-kind transfers and off-exchange transactions are prohibited.

### Jordan

*Equal Rights to Foreign Investors:* In general, the rights of minority shareholders are limited due to the presence of large strategic shareholders in Jordanian companies.

*Investor Registration & Account Setup:* Registration is mandatory but the process is efficient.

*Information Flow:* There is a lack of robustness in, and enforcement of, local accounting standards. In addition, detailed stock market information is not always disclosed in English.

*Clearing and Settlement:* There is an absence of a real DVP system on the Amman Stock Exchange. There is no nominee status and omnibus structures are not available. In addition, the official trading days are different from international standards.

*Custody:* There is only one active custodian.

*Trading:* There is a limited level of competition among brokers which can lead to relatively higher trading costs.

*Transferability:* In-kind transfers and off-exchange transactions are prohibited.

### Kuwait

*Foreign Ownership Limits:* The banking industry is subject to a 49 percent foreign ownership limit. These limitations affect more than 23 percent of the Kuwaiti equity market.

*Equal Rights to Foreign Investors:* In general, the rights of minority shareholders are limited due to the presence of large strategic shareholders in Kuwaiti companies.

*Investor Registration & Account Setup:* Registration is mandatory and the full process can take up to three weeks.

*Market Regulations:* A formal financial market authority has been created in 2011 and all market participants had to comply with the new regulation by March 2012. The regulator has issued a number of by-laws which had positive implications on the market, including on protection of minority shareholders and listing requirements. MSCI will continue to assess the effectiveness and enforcement of the regulations. In addition, not all relevant information can be found in English.

*Information Flow:* Stock market information is often not complete and is often not disclosed in a timely manner.

*Clearing and Settlement:* There is an absence of a real DVP system and overdraft facilities on the Kuwait Stock Exchange. Omnibus structures are not widely used since there is a lack of a clear legal basis for them. In addition, the official trading days are different from international standards.

*Custody:* Local brokers have unlimited access to trading accounts and local custodians have no control over the securities as part of the settlement cycle.

*Registry / Depository:* In most instances, the central depository acts as a central registry. Few securities are registered at the issuer level.

*Transferability:* In-kind transfers and off-exchange transactions are prohibited.

## Lebanon

*Investor Qualification Requirement:* Israeli nationals are formally prohibited from investing in Lebanese companies.

*Equal Rights to Foreign Investors:* Company related information is not always readily available in English.

*Foreign Exchange Market Liberalization Level:* There is no offshore currency market and there are constraints on the onshore currency market (e.g., foreign investors are not allowed to hold Lebanese pound balances).

*Investor Registration & Account Setup:* Registration is mandatory and may take up to five days.

*Market Regulations:* Not all regulations can be found in English.

*Information Flow:* Detailed stock market information is not always disclosed in English.

*Clearing and Settlement:* There is an absence of a real DVP system on the Beirut Stock Exchange. There is no nominee status and omnibus structures are not available.

*Custody:* Segregated custody and trading accounts are required in order to mitigate the risk deriving from local brokers having unlimited access to trading accounts. In addition, there is only one active custodian available to foreign investors.

*Registry / Depository:* In most instances, the central depository acts as a central registry. Few securities are registered at the issuer level. Not all listed shares are dematerialized.

*Transferability:* In-kind transfers and off-exchange transactions are prohibited.



## Oman

*Foreign Ownership Limits:* Listed companies are in general subject to a foreign ownership limit of 70 percent but companies may choose to set a lower limit.

*Equal Rights to Foreign Investors:* In general, the rights of minority shareholders are limited due to the presence of large strategic shareholders in Omani companies.

*Investor Registration & Account Setup:* Registration is mandatory but the process is efficient.

*Information Flow:* Stock market information is often not complete as well as not disclosed in a timely manner.

*Clearing and Settlement:* There is an absence of a real DVP system on the Muscat Stock Exchange. There is no nominee status and omnibus structures are not available. In addition, the official trading days are different from international standards

*Custody:* There is a risk deriving from local brokers having unlimited access to trading accounts. In addition, there are only two active custodians available to foreign investors.

*Transferability:* In-kind transfers and off-exchange transactions are prohibited.

## Asia Pacific

### Bangladesh

*Capital Flow Restriction level:* The repatriation of the principal amount invested in listed securities is restricted within the first year remittance.

*Foreign Exchange Market Liberalization Level:* There is no efficient offshore currency market and there are constraints on the onshore currency market (e.g., foreign exchange transactions must be linked to security transactions).

*Investor Registration & Account Set Up:* There is a need to apply for a registration certificate with a relatively heavy documentation requirement.

*Market Regulations:* Not all regulations can be found in English.

*Clearing and Settlement:* Overdraft facilities are prohibited.

*Custody:* There are only two active custodian available to foreign investors.

*Trading:* There is a limited level of competition among brokers which can lead to higher trading costs.

*Transferability:* Off-exchange transactions are prohibited.

### Pakistan

*Foreign Exchange Market Liberalization Level:* There is no offshore currency market and there are constraints on the onshore currency market (e.g., currency can only be bought / sold through a Special Convertible Rupee Account).

*Investor Registration & Account Set Up:* The process to set up accounts can take from four to five business days.

*Market Regulations:* Regulations have frequently changed over the past few years. In particular, trading on the Pakistani equity market was practically suspended for five months following the implementation of a price floor rule in August 2008.

*Clearing and Settlement:* Nominee status and omnibus structures are available. Overdraft facilities remain prohibited.

*Stability of Institutional Framework:* There have been instances of interventions that challenged the stability of the “free-market” economy as illustrated by frequently changing market regulations.

## Sri Lanka

*Investor Qualification Requirement:* International institutional investors are required to obtain an approval from the Sri Lanka Securities Exchange Commission (SEC) prior to entering the market.

*Foreign Exchange Market Liberalization Level:* There are constraints on the onshore currency market (e.g., foreign exchange transactions must be linked to security transactions).

*Investor Registration & Account Setup:* Registration is mandatory and the account setup requires approval from the Central Depository for Securities. The full process can last up to three weeks.

*Clearing and Settlement:* There is an absence of a real DVP system and overdraft facilities on the Colombo Stock Exchange.

*Trading:* There is a very limited level of competition among brokers which can lead to high trading costs.

*Transferability:* Off-exchange transactions are prohibited and in-kind transfers require prior approval from the SEC.

## Vietnam

*Foreign Ownership Limits:* Listed companies are generally subject to a 49 percent foreign ownership limit. However, the banking industry is subject to a lower limit set at 30 percent.

*Foreign Room Level:* The equity market is significantly impacted by foreign room issues.

*Equal Rights to Foreign Investors:* Company related information is not always readily available in English. In addition, the rights of foreign investors are limited as a result of the stringent foreign ownership limits imposed on both total as well as individual foreign investors.

*Foreign Exchange Market Liberalization Level:* There is no offshore currency market and there are constraints on the onshore currency market (e.g., foreign exchange transactions must be linked to security transactions). In addition, liquidity on the onshore currency market has been relatively low in the recent past.

*Investor Registration & Account Setup:* Registration is mandatory and account setup requires the approval of the Vietnam Securities Depository for Securities (VSD). All documents must be filed in Vietnamese.

*Market Regulations:* Not all regulations can be found in English.

*Information Flow:* Stock market information is not always disclosed in English and occasionally is not detailed enough.

*Clearing and Settlement:* There is no formal clearing house and the VSD acts as the clearing agent. In addition, there are no overdraft facilities and the prefunding of trades is required.

*Transferability:* Off-exchange transactions are prohibited and in-kind transfers are significantly restricted (e.g., in cases of the closing of an account, gifting or an inheritance).

## VII - Standalone Markets

The following comments should be read in conjunction with the country-by-country assessment results that can be found on page 48.

Standalone Markets include all markets covered by MSCI but not included in the MSCI International Indexes. This category includes potential candidates for the MSCI Frontier Markets Indexes that currently do not meet the minimum liquidity requirements as well as markets that are currently partially or fully closed to foreign investors such as the China A market.

Stock lending and short selling are activities that are either not developed or completely prohibited in all Standalone Market countries and the summary does not highlight these issues on a country-by-country basis.

### Americas

#### Jamaica

*Market Regulations:* Information on regulations is not centralized.

*Clearing and Settlement:* There is no formal clearing house and the Jamaica Central Securities Depository Limited acts as the clearing agent.

*Registry / Depository:* There is no central registry.

*Trading:* There is a very limited level of competition among brokers which can lead to high trading costs.

*Transferability:* Off-exchange transactions are limited and not an established market practice.

#### Trinidad and Tobago

*Foreign Exchange Market Liberalization Level:* There is an absence of an offshore currency market and there are constraints on the onshore currency market (e.g., foreign exchange transactions must be executed by the local custodian).

*Investor Registration & Account Setup:* Registration is mandatory and approval from the Ministry of Finance is required. The process can take up to five days.

*Market Regulations:* Information on regulations is not centralized.

*Information Flow:* Stock market information is occasionally not disclosed in a timely manner.

*Clearing and Settlement:* There is an absence of a real DVP system and overdraft facilities on the Trinidad and Tobago Stock Exchange. In addition, there is no nominee status and omnibus structures are not available.

*Custody:* The Trinidad and Tobago Central Depository is the only registered custodian.

*Registry / Depository:* Registration is executed at the issuer level. It can take up to eight weeks for investors to have their shares registered.

*Trading:* There is a very limited level of competition among brokers which can lead to high trading costs.

*Transferability:* Off-exchange transactions are prohibited and in-kind transfers are restricted.

## Europe, Middle East and Africa

### Bosnia and Herzegovina

*Foreign Exchange Market Liberalization Level:* There is no offshore currency market.

*Market Regulations:* Not all regulations can be found in English.

*Information Flow:* Stock market information, including dividend information, is often not complete and is not always disclosed in English. There is no central source for this type of information.

*Clearing and Settlement:* There is an absence of a real DVP system and the prefunding of trades is required in Republic of Srpska.<sup>1</sup>

*Trading:* There is a very limited level of competition among brokers which can lead to high trading costs.

*Transferability:* In-kind transfers and off-exchange transactions are prohibited.

### Botswana

*Foreign Exchange Market Liberalization Level:* There is no offshore currency market. In addition, liquidity on the onshore currency market has been relatively low in the recent past.

*Market Regulations:* Regulations are not always enforced by the financial authority (e.g., the use of omnibus structures is permitted in practice even if regulations do not formally allow them).

*Information Flow:* Stock market information is occasionally not disclosed in a timely manner.

*Clearing and Settlement:* There is an absence of true omnibus structures.

*Registry / Depository:* Registration is executed at the issuer level.

*Trading:* There is a very limited level of competition among brokers which can lead to high trading costs.

*Transferability:* In-kind transfers and off-exchange transactions are prohibited.

### Burkina Faso

*Equal Rights to Foreign Investors:* Company related information is not always readily available in English.

*Foreign Exchange Market Liberalization Level:* There is no offshore currency market.

*Investor Registration & Account Setup:* The process of setting up accounts may be lengthy.

*Market Regulations:* Not all regulations can be found in English.

*Information Flow:* Lack of robustness and enforcement of local accounting standards. In addition, detailed stock market information is not always available in English.

*Clearing and Settlement:* There is no nominee status and omnibus structures are not available.

*Trading:* There is a very limited level of competition among brokers which can lead to high trading costs.

*Transferability:* Off-exchange transactions are prohibited. In-kind transfers are possible, but must be approved by the stock exchange.

### Ghana

*Foreign Exchange Market Liberalization Level:* There is no offshore currency market. In addition, liquidity on the onshore currency market has been relatively low in the recent past.

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<sup>1</sup> Bosnia and Herzegovina consists of two independent regions, Federation of Bosnia and Herzegovina and Republic of Srpska, which have separate stock exchanges, central depositories and regulation.

*Investor Registration & Account Setup:* Registration is mandatory and requires a significant amount of manual paperwork. The process can last up to ten days.

*Information Flow:* Lack of robustness and enforcement of local accounting standards.

*Clearing and Settlement:* There is an absence of a true DVP system.

*Custody:* Lack of segregation between custody and brokerage (i.e., accounts).

*Trading:* There is a very limited level of competition among brokers which can lead to high trading costs.

*Transferability:* In-kind transfers and off-exchange transactions are prohibited.

## **Ivory Coast**

*Equal Rights to Foreign Investors:* Company related information is not always readily available in English.

*Foreign Exchange Market Liberalization Level:* There is no offshore currency market.

*Investor Registration & Account Setup:* The process of setting up accounts may be lengthy.

*Market Regulations:* Not all regulations can be found in English.

*Information Flow:* Lack of robustness and enforcement of local accounting standards. In addition, detailed stock market information is not always available in English.

*Clearing and Settlement:* There is no nominee status and omnibus structures are not available.

*Trading:* There is a very limited level of competition among brokers which can lead to high trading costs.

*Transferability:* Off-exchange transactions are prohibited. In-kind transfers are possible, but must be approved by the stock exchange.

*Stability of Institutional Framework:* There is a lack of enforcement of the rule of law.

## **Palestine**

*Equal Rights to Foreign Investors:* Company related information is not always readily available in English.

*Investor Registration & Account Setup:* Registration is mandatory but the process is efficient.

*Information Flow:* Detailed stock market information is not always disclosed in English.

*Custody:* Presence of only one active custodian.

*Trading:* There is a limited level of competition among brokers which can lead to higher trading costs.

*Transferability:* In-kind transfers and off-exchange transactions are prohibited.

*Stability of Institutional Framework:* There is a major geo-political risk. In addition, there has been recent instability in the domestic political landscape.

## **Upgrades**

*Clearing and Settlement:* “-/?” to “+”. The Palestine Clearing and Depository and Settlement department of the Central Depository System (CDS) implemented a near simultaneous DVP settlement procedure on April 1, 2013 and has since moved from a T+3 settlement cycle to a shorter T+2 cycle beginning 2014.

## **Saudi Arabia**

*Investor Qualification Requirement:* Only Saudi residents and GCC investors are allowed to invest in the Saudi stock market.

*Foreign Ownership Limits:* Listed companies are closed to foreign (non-GCC) investors.

*Foreign Room Level:* By definition there is no foreign room in Saudi Arabia as the market is closed to foreign (non-GCC) investors.

*Equal Rights to Foreign Investors:* No rights for foreign (non-GCC) investors.

*Investor Registration & Account Setup:* Registration and account setup is not possible for foreign (non-GCC) investors.

*Market Regulations:* There is an absence of clarity in certain areas of market regulation (e.g., application of foreign ownership limits to GCC investors). In addition, not all regulations can be found in English.

*Competitive Landscape:* Restrictions on real time data usage has been partially lifted resulting in an improving anti-competitive landscape.

*Information Flow:* Lack of robustness and enforcement of local accounting standards. In addition, detailed stock market information is not always available in English.

*Clearing and Settlement:* The settlement cycle is set at T+0 and prefunding of trades is required on the Tadawul. There is no nominee status and omnibus structures are not available. In addition, the official trading days are different from international standards.

*Custody:* Presence of only one active custodian.

*Transferability:* In-kind transfers and off-exchange transactions are prohibited.

## Senegal

*Equal Rights to Foreign Investors:* Company related information is not always readily available in English.

*Foreign Exchange Market Liberalization Level:* There is no offshore currency market.

*Investor Registration & Account Setup:* The process of setting up accounts may be lengthy.

*Market Regulations:* Not all regulations can be found in English.

*Information Flow:* Lack of robustness and enforcement of local accounting standards. In addition, detailed stock market information is not always available in English.

*Clearing and Settlement:* There is no nominee status and omnibus structures are not available.

*Trading:* There is a very limited level of competition among brokers which can lead to high trading costs.

*Transferability:* Off-exchange transactions are prohibited. In-kind transfers are possible, but must be approved by the stock exchange.

## Zimbabwe

*Foreign Ownership Limits:* Listed companies are subject to a 40 percent foreign ownership limit.

*Equal Rights to Foreign Investors:* Rights of foreign investors are limited as a result of the stringent foreign ownership limits.

*Market Regulations:* Not all regulations are publicly available.

*Information Flow:* There is a lack of robustness in, and enforcement of, local accounting standards. In addition, stock market information is often not complete.

*Clearing and Settlement:* There is an absence of a real DVP and an existence of T+5 settlement cycle on the stock exchange.

*Custody:* There are only two active custodians.

*Registry / Depository:* There is neither a central depository nor a central registry.

*Trading:* There is a very limited level of competition among brokers which can lead to high trading costs.

*Transferability:* In-kind transfers and off-exchange transactions are prohibited.

*Stability of Institutional Framework:* There is a lack of enforcement of the rule of law.

## Asia Pacific

### China A Market

*Investor Qualification Requirement:* The China A market is characterized by restrictive market access for international institutional investors. In general, only qualified fund houses, insurance companies, securities firms, commercial banks and pension funds, each of appropriate size with sufficient track records, are eligible to apply for a QFII license. Once a license has been obtained, a foreign investor must also apply for an investment quota that is subject to a discretionary approval from the SAFE. Recent efforts in further liberalizing the capital market, such as raising the QFII quota and the lowering of QFII qualification requirements, as well as shortening the QFII license approval process are seen as positive improvements. In March 2013, the regulators also allowed licensed financial institutions incorporated in Hong Kong to participate in the RQFII scheme, providing another viable channel for international investors to access the mainland China A-share market.

*Foreign Ownership Limits:* In July 2012, the foreign ownership limit increased from 20 percent to 30 percent

*Equal Rights to Foreign Investors:* Company related information is not always readily available in English. In addition, the corporate governance standards of Chinese companies have often been questioned by international institutional investors.

*Capital Flow Restriction Level:* QFIIs are subject to an initial lock up period ranging from three months to one year. Capital repatriation for QFIIs is generally one month. Open-ended China Funds have recently been permitted to repatriate on a weekly basis.

*Foreign Exchange Market Liberalization Level:* There is an absence of an efficient offshore currency market and there is a regulated onshore currency market. In the past few years, Chinese regulators have been actively promoting the use of offshore RMB.

*Investor Registration & Account Setup:* Registration is mandatory and account setup requires a significant amount of manual paperwork. The application process has been streamlined. Starting in June 2013, QFII and RQFII applications can be completed and submitted via an online platform.

*Market Regulations:* Not all regulations can be found in English.

*Competitive Landscape:* Anti-competitive measures or practices restrict the use of stock market data.

*Information Flow:* Detailed stock market information is not always disclosed in English.

*Clearing and Settlement:* There is an absence of a real DVP and T+0 settlement cycle on the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

*Transferability:* Off-exchange transactions are prohibited.

## VIII - Appendices

### Appendix I: MSCI Market Classification Framework

The classification of markets is a key input in the process of index construction as it drives the composition of the investment opportunity sets to be represented. The approach used by MSCI aims to reflect the views and practices of the international investment community by striking a balance between a country’s economic development and the accessibility of its market while preserving index stability.

The MSCI Market Classification Framework consists of following three criteria: economic development, size and liquidity as well as market accessibility.

In order to be classified in a given investment universe, a country must meet the requirements of all three criteria as described in the table below.

Criteria	Frontier	Emerging	Developed
<b>A Economic Development</b>			
A.1 Sustainability of economic development	No requirement	No requirement	Country GNI per capita 25% above the World Bank high income threshold* for 3 consecutive years
<b>B Size and Liquidity Requirements</b>			
B.1 Number of companies meeting the following Standard Index criteria Company size (full market cap) ** Security size (float market cap) ** Security liquidity	2 USD 630 mm USD 49 mm 2.5% ATVR	3 USD 1260 mm USD 630 mm 15% ATVR	5 USD 2519 mm USD 1260 mm 20% ATVR
<b>C Market Accessibility Criteria</b>			
C.1 Openness to foreign ownership	At least some	Significant	Very high
C.2 Ease of capital inflows / outflows	At least partial	Significant	Very high
C.3 Efficiency of the operational framework	Modest	Good and tested	Very high
C.4 Stability of the institutional framework	Modest	Modest	Very high

\* High income threshold for 2012: GNI per capita of USD 12,615 (World Bank, Atlas method)

\*\* Minimum in use for the May 2014 Semi-Annual Index Review, updated on a semi-annual basis

The economic development criterion is only used in determining the classification of Developed Markets while that distinction is not relevant between Emerging and Frontier Markets given the very wide variety of development levels within each of these two universes.

The size and liquidity requirements are based on the minimum investability requirements for the MSCI Global Standard Indexes.



Market accessibility aims to reflect international institutional investors' experience of investing in a given market and as a result, this criterion includes several sub-criteria. These criteria are generally based on qualitative measures that are reviewed for all markets at least once a year during the MSCI Global Market Accessibility Review.

MSCI regularly reviews the market classification of all countries included in the MSCI Indexes to ensure that they remain reflective of the evolution of the different markets. In particular, changes in the assessments under the classification framework serve as the basis for determining the markets that will be reviewed for potential market reclassification as part of the Annual Market Classification Review.

MSCI will only consider markets for upgrade if a change in classification status can be viewed as irreversible. Every June, MSCI will communicate its conclusions from the discussions with the investment community on the list of countries under review and announce the new list of countries, if any, under review for potential market reclassification in the upcoming cycle. While adhering to the regular time line for such communication helps provide greater predictability and is less disruptive to a market's normal functioning, MSCI may from time to time exercise prudent discretion and consider off-cycle communications should significant market events take place outside the regular review cycle.

## Appendix II: Assessment Results

### Developed Markets

	Americas		EMEA									
	USA	Canada	Austria	Belgium	Denmark	Finland	France	Germany	Ireland	Israel	Italy	Netherlands
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	++	++	++	++	++	++	++	++	++	++	++	++
Competitive landscape	++	++	++	++	++	++	++	++	++	++	++	++
Information flow	++	++	++	++	++	++	++	++	++	+	++	++
Market infrastructure												
Clearing and Settlement	++	++	++	++	++	++	++	++	++	+	++	++
Custody	++	++	++	++	++	++	++	++	++	++	++	++
Registry / Depository	++	++	++	++	++	++	++	++	++	++	++	++
Trading	++	++	++	++	++	++	++	++	++	++	++	++
Transferability	++	++	++	++	++	++	++	++	++	++	++	++
Stock lending	++	++	++	++	++	++	++	++	++	++	++	++
Short selling	++	++	++	++	++	++	++	++	++	++	++	++
Stability of institutional framework	++	++	++	++	++	++	++	++	++	++	+	++

++: no issues; +: no major issues, improvements possible; -/? : improvements needed / extent to be assessed

Developed Markets

	EMEA						Asia Pacific				
	Norway	Portugal	Spain	Sweden	Switzerland	United Kingdom	Australia	Hong Kong	Japan	New Zealand	Singapore
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	++	++	++	++	++	++	++	++	++	++	++
Competitive landscape	++	++	++	++	++	++	++	++	++	++	++
Information flow	++	++	++	++	++	++	++	++	+	++	++
Market infrastructure											
Clearing and Settlement	++	++	++	++	++	++	++	++	++	++	++
Custody	++	++	++	++	++	++	++	++	++	++	++
Registry / Depository	++	++	++	++	++	++	++	++	++	++	++
Trading	++	++	++	++	++	++	++	++	++	++	++
Transferability	++	++	++	++	++	++	++	++	++	++	++
Stock lending	++	+	++	++	++	++	++	++	++	++	++
Short selling	++	+	+	++	++	++	++	++	++	++	++
Stability of institutional framework	++	+	+	++	++	++	++	++	++	++	++

++: no issues; +: no major issues, improvements possible; -/?: improvements needed / extent to be assessed

Emerging Markets

	Americas					EMEA						
	Brazil	Chile	Colombia	Mexico	Peru	Czech Republic	Hungary	Poland	Russia	Turkey	Egypt	Greece
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	+	+	+	++	+	+	+	+	+	+	+	++
Competitive landscape	-/?	++	++	++	++	++	++	++	++	+	++	++
Information flow	+	+	-/?	+	+	+	+	+	-/?	+	+	++
Market infrastructure												
Clearing and Settlement	+	++	+	++	-/?	+	++	+	-/?	+	+	+
Custody	++	++	-/?	++	++	++	++	++	++	++	++	++
Registry / Depository	++	++	++	++	++	+	+	+	+	++	++	++
Trading	++	++	+	++	+	++	++	++	+	++	+	++
Transferability	+	-/?	-/?	++	+	++	++	+	++	++	-/?	-/?
Stock lending	++	-/?	-/?	++	-/?	+	+	+	-/?	++	-/?	-/?
Short selling	++	-/?	-/?	+	-/?	+	+	+	-/?	+	-/?	-/?
Stability of institutional framework	+	++	-/?	+	+	++	++	++	-/?	+	-/?	+

++: no issues; +: no major issues, improvements possible; -/? : improvements needed / extent to be assessed

Emerging Markets

	United Arab Emirates			Asia Pacific							
	Qatar	South Africa	United Arab Emirates	China	India	Indonesia	Korea	Malaysia	Philippines	Taiwan	Thailand
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	++	++	++	+	+	++	++	++	++	++	++
Competitive landscape	++	++	++	++	+	++	+	++	++	++	++
Information flow	++	++	++	++	++	+	-/?	++	++	+	++
Market infrastructure											
Clearing and Settlement	-/?	+	-/?	++	-/?	+	-/?	++	+	-/?	+
Custody	+	++	+	++	++	++	++	++	++	++	++
Registry / Depository	++	++	++	++	++	++	++	++	++	++	++
Trading	++	++	++	++	++	++	++	++	++	++	++
Transferability	-/?	+	+	++	-/?	+	-/?	+	++	+	++
Stock lending	+	++	-/?	++	++	+	++	+	+	+	+
Short selling	-/?	++	-/?	++	+	+	++	+	+	+	+
Stability of institutional framework	+	+	+	+	+	+	+	+	+	+	-/?

++: no issues; +: no major issues, improvements possible; -/? : improvements needed / extent to be assessed

Frontier Markets

	Americas Argentina	Bulgaria	Croatia	Estonia	Kazakhstan	Lithuania	EMEA Romania	Serbia	Slovenia	Ukraine	Kenya	Mauritius
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	+	++	++	++	++	++	+	+	++	-/?	++	++
Competitive landscape	-/?	++	++	++	++	++	++	++	++	++	++	++
Information flow	+	+	++	++	+	++	+	-/?	++	-/?	++	++
Market infrastructure												
Clearing and Settlement	-/?	++	-/?	++	-/?	++	+	+	++	-/?	-/?	+
Custody	++	-/?	++	++	++	++	-/?	++	++	-/?	++	++
Registry / Depository	++	+	+	++	++	++	+	++	++	+	+	++
Trading	+	++	+	++	+	++	-/?	+	+	-/?	-/?	-/?
Transferability	+	++	++	++	+	++	-/?	+	++	+	-/?	-/?
Stock lending	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?
Short selling	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?
Stability of institutional framework	-/?	+	+	+	-/?	+	+	+	+	-/?	+	+

++: no issues; +: no major issues, improvements possible; -/? : improvements needed / extent to be assessed

Competitive landscape for some Frontier and Standalone Market countries is still being assessed.

Frontier Markets

	Morocco	Nigeria	Tunisia	Bahrain	EMEA				Asia Pacific			
					Jordan	Kuwait	Lebanon	Oman	Bangladesh	Pakistan	Sri Lanka	Vietnam
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	+	+	+	++	++	-/?	+	++	+	+	++	+
Competitive landscape	++			++	++	++		++				
Information flow	+	-/?	-/?	-/?	-/?	-/?	+	-/?	++	++	++	-/?
Market infrastructure												
Clearing and Settlement	-/?	++	-/?	-/?	-/?	-/?	-/?	-/?	+	+	-/?	-/?
Custody	++	++	-/?	-/?	-/?	-/?	-/?	-/?	+	++	++	++
Registry / Depository	++	+	++	+	++	+	-/?	++	++	++	++	++
Trading	+	-/?	-/?	++	+	++	++	++	-/?	++	-/?	++
Transferability	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	+	++	-/?	-/?
Stock lending	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?
Short selling	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?
Stability of institutional framework	+	-/?	+	+	+	+	+	+	+	-/?	+	+

++: no issues; +: no major issues, improvements possible; -/? : improvements needed / extent to be assessed  
Competitive landscape for some Frontier and Standalone Market countries is still being assessed.

Standalone Markets

	Americas		EMEA									Asia Pacific
	Jamaica	Trinidad & Tobago	Burkina Faso	Bosnia and Herzegovina	Botswana	Ghana	Ivory Coast	Palestine	Saudi Arabia	Senegal	Zimbabwe	China A
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	+	+	+	+	-/?	++	+	++	-/?	+	-/?	+
Competitive landscape		++	-				-		+	-		-/?
Information flow	++	+	-/?	-/?	+	+	-/?	+	-/?	-/?	-/?	+
Market infrastructure												
Clearing and Settlement	-/?	-/?	+	-/?	+	+	+	+	-/?	+	-/?	-/?
Custody	++	-/?	++	++	++	-/?	++	-/?	-/?	++	+	++
Registry / Depository	+	+	++	++	+	++	++	++	++	++	-/?	++
Trading	-/?	-/?	-/?	-/?	-/?	-/?	-/?	+	++	-/?	-/?	++
Transferability	+	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?
Stock lending	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?
Short selling	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?	-/?
Stability of institutional framework	+	+	+	+	+	+	-/?	-/?	+	+	-/?	+

++: no issues; +: no major issues, improvements possible; -/? : improvements needed / extent to be assessed  
Competitive landscape for some Frontier and Standalone Market countries is still being assessed.



## Appendix III: Market Accessibility Measures

	Definition
Openness to foreign ownership	
Investor qualification requirement	Existence of qualifying conditions for international investors. Existence of a level playing field for all international investors.
Foreign ownership limit (FOL) level	Proportion of the market being accessible to non-domestic investors.
Foreign room level	Proportion of shares still available for non-domestic investors. Existence of a foreign board where non-domestic investors could trade with each other.
Equal rights to foreign investors	Equal economic and voting rights as well as availability of information in English. Equal rights for minority shareholders.
Ease of capital inflows / outflows	
Capital flow restriction level	Existence of restriction on inflows and outflows of foreign capital to/from the local stock market (excluding foreign currency exchange restrictions).
Foreign exchange market liberalization level	Existence of a developed onshore and offshore foreign exchange market.
Efficiency of the operational framework	
Market entry	
Investor registration & account set up	Existence/level of complexity of registration requirements for international investors such as Tax IDs as well as ease/complexity for setting up local accounts (e.g., documents to be provided, approvals required). The time to complete the process includes the preparation of the documents.
Market organization	
Market regulations	Level of advancement of the legal and regulatory framework governing the financial market, the stock exchange and the various other entities involved in the financial markets, an important weight is assigned to: ease of access (including in English), lack of ambiguity and prompt enforcement of laws and regulations, as well as consistency over time.
Competitive landscape	Existence of anti-competitive clauses restricting investors' access to derived stock exchange information, data and investment products, including, for example the provision of independently calculated indices or the creation of baskets of securities used in the creation of financial products.
Information flow	Timely disclosure of complete stock market information items (e.g., stock exchange alerts, corporate news, float information, dividend information) in English and under reasonable commercial terms, as well as the robustness and enforcement of accounting standards.
Market infrastructure	
Clearing and Settlement	Well functioning clearing and settlement system based on international standards including delivery versus payment (DVP), the absence of pre-funding requirements/practices and the possibility to use overdrafts. Availability of real omnibus structures.
Custody	Level of competition amongst local custodian banks as well as the presence of global custodian banks. Existence of an efficient mechanism that prevents brokers to have unlimited access to the investor's accounts and guarantees the safekeeping of its assets.
Registry / Depository	A well functioning central registry or independent registrars and a central depository.
Trading	Level of competition amongst brokers ensuring high quality services (e.g., cost efficient trading, ability to execute grouped trades at the same price for the various accounts of a fund manager).
Transferability	Possibility of off-exchange transactions and "in-kind" transfers.
Stock lending	Existence of a regulatory framework as well as an efficient mechanism allowing extensive use of stock lending.
Short selling	Existence of a regulatory and practical framework allowing short selling.
Stability of institutional framework	Basic institutional principles such as the rule of law and its enforcement as well as the stability of the "free-market" economic system. Track record of government intervention with regards to foreign investors.

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<sup>1</sup> As of September 30, 2013, as reported on January 31, 2014 by eVestment, Lipper and Bloomberg