PRESS RELEASE

MSCI 2023 Market Classification Review

New York – June 22, 2023 - MSCI Inc. (NYSE: MSCI), a leading provider of critical decision support tools and services for the global investment community, announced today the results of the MSCI 2023 Market Classification Review. In this year's review, MSCI:

- **Welcomes the proposed measures aimed at improving the accessibility of the Korean equity market to international investors, and will be monitoring their implementation and effectiveness over time**
- **Extends the consultation on the potential reclassification of the MSCI Nigeria Indexes from Frontier to Standalone Market status following recent developments in the FX market**
- **Indicates a potential consultation on a reclassification proposal for Egypt in case of further deterioration in market accessibility**
- **Continues closely monitoring the market accessibility of the Sri Lankan, Kenyan and Bangladesh equity markets**
- **Highlights the evolution of clearing and settlement cycles across global markets**
- **Reminds on upcoming changes to the MSCI Frontier Markets Indexes**

"Amidst the challenging global macroeconomic environment, low foreign exchange liquidity in various markets has been observed, posing obstacles to the ease of fund repatriation for international institutional investors," said Dr. Dimitris Melas, Global Head of Index Research and Product Development and Chairman of the MSCI Index Policy Committee. "We are closely monitoring the challenges observed in select Emerging and Frontier Markets."

Dr. Melas added, "Despite these conditions, certain markets, such as Korea, have proposed plans to enhance accessibility for foreign investors. Once in effect, these efforts will be subject to consultation with market participants to assess their impact and effectiveness."

Korea's Market Accessibility

MSCI recognizes and welcomes the proposed measures aimed at improving the accessibility of the Korean equity market.

In February 2023, the Ministry of Economy and Finance (MOEF) unveiled upcoming improvements to the Korean foreign exchange (FX) market's structure. These include allowing foreign institutions to participate in the onshore interbank FX market upon registration, extending trading hours, and implementing specific enhancements in infrastructure that aim to better align with global FX markets. These are all planned for full implementation in the second half of 2024, following a six-month pilot starting early that year.

In January 2023, the Financial Services Commission (FSC) announced upcoming capital market advancements. These include replacing the Investor Registration Certificate (IRC) system with Legal Entity Identifiers (LEI) for corporations, eliminating end-investor reporting under omnibus accounts, and expanding OTC transactions for ex-post reporting. These improvements are planned for potential implementation before the beginning of 2024, following the development of necessary IT systems.

English disclosures for Korean companies will be mandated by the FSC. This will be phased in by asset size and foreign ownership percentage. Initially, KOSPI-listed companies with assets of KRW 10 trillion or more, or with foreign ownership of at least 30% (and assets between KRW 2 and 10 trillion), will be required to comply with the new disclosure requirements within 2024-2025. From 2026, firms with KRW 2 trillion or more in assets will follow. In addition, this year the FSC and MOEF announced updates to dividend distribution rules for implementation in 2024.

As a reminder, the MSCI Korea Indexes were considered for reclassification from Emerging to Developed Market status from 2009 to 2014. During and following this period, market participants highlighted the limited convertibility of the Korean Won in the offshore currency market, the rigidity of the ID system that makes in-kind transfers and off-exchange transactions onerous, and the lack of availability of investment instruments as important concerns. It is important to highlight that the upcoming planned reforms do not address the issues resulting from the restrictions imposed by the local stock exchange on the use of exchange data for the creation of financial products.

For MSCI to consider launching a consultation on any potential reclassification of Korea, three things must occur. First, planned reforms must be announced, which the Korean authorities did earlier this year with the exception of the restrictions on use of exchange data. Second, the announced reforms must be implemented. This step is expected to be initiated by the Korean authorities in the latter part of 2023. And third, international investors must experience over time the implemented reforms in practice. This step can only be completed once investors have had sufficient time to evaluate the efficacy of the changes. Only following this period of investors experiencing the reforms in practice over time, may MSCI consult with market participants on their experiences regarding the potential reclassification of the Korean equity market from Emerging Market to Developed Market status.

Potential reclassification of the MSCI Nigeria Indexes to Standalone Market status

MSCI announced today that it will continue to consult with market participants on the potential reclassification of the MSCI Nigeria Indexes until September 29, 2023, and will announce the results of the consultation on or before October 31, 2023.

FX liquidity issues have continued to impact the accessibility of the Nigerian equity market. Since the onset of these issues in March 2020, there have been constraints in US dollar liquidity in the market, leading to constant capital repatriation concerns and a gap between the parallel and official exchange rates for the Nigerian Naira. This has persistently caused index replicability and investability issues for international institutional investors. The feedback from market participants obtained as part of the consultation suggests that the limited accessibility of the Nigerian equity market, resulting from lack of liquidity on the FX market, would warrant its removal from the MSCI Frontier Markets Index.

On June 14, 2023, the Central Bank of Nigeria announced operational changes to the FX Market which were effective immediately. Such changes include, amongst others, the abolishment of the previous FX market segmentation, merging all sectors into the Investors and Exporters Window, and the reinstalment of the "Willing Buyer, Willing Seller" model with no rate cap.

“We decided to extend the consultation to allow more time for the liquidity situation in the Nigerian FX market to stabilize following the recently implemented measures by the Central Bank of Nigeria, abolishing the multiple exchange rate system,” remarked Jean-Maurice Ladure, Global Head of Index Management Research and a member of the MSCI Index Policy Committee. “We will evaluate the impact of these measures in the context of market accessibility, in particular the impact on the clearing of the FX queue during the capital repatriation process. If such improvements were not to be observed by market participants during our extended consultation period, it would confirm that the ease of capital inflows and outflows in the MSCI Nigeria Indexes is not to the standards expected from Frontier Markets."

The accessibility report for Nigeria is now reflected in the MSCI 2023 Global Market Accessibility Review report available at https://www.msci.com/market-classification.

Deterioration in the Accessibility of the Egyptian Equity Market

The market accessibility of Egypt has deteriorated due to low liquidity in its onshore FX market. In particular, market participants have recently reported the reemergence of a queue for US dollar liquidity, affecting foreign investors' ability to repatriate capital in a timely manner. In response to this, MSCI introduced a special treatment in the MSCI Egypt Indexes in May 2023 to potentially reduce the number of changes in related indexes and mitigate index replication concerns.

MSCI continues to welcome feedback on the level of accessibility of the Egyptian equity market and will closely monitor the situation. In the event of further deterioration of market accessibility in Egypt, MSCI may launch a consultation on a reclassification proposal for the MSCI Egypt Indexes from Emerging Markets to Frontier or Standalone Markets status as soon as practicable, with sufficient lead time prior to implementation.

Market Accessibility issues in Sri Lanka, Kenya and Bangladesh

Persistent market accessibility issues continue to impact a number of Frontier Markets, adversely affecting the replicability of the indexes. In Kenya, the queue for US dollars in the FX market persists and continues to cause delays in foreign investors' ability to repatriate capital. In addition, activity in the Sri Lankan FX market continues to be limited amidst broader economic issues affecting the country. In Bangladesh, the Bangladesh Securities and Exchange Commission reinstituted price floors for all securities listed on the stock exchanges in Bangladesh, leading to a notable decline in trading liquidity. Therefore, MSCI will continue to apply the special treatment for these markets to reduce the number of potential changes in relevant indexes and mitigate concerns on index replicability.

MSCI continues to welcome feedback on the accessibility of the Sri Lankan, Kenyan and Bangladesh equity markets and may consult with market participants in case of further developments.

Recent Developments in Securities' Settlement Cycles

The alignment of settlement systems is critical for maintaining the stability of securities markets and protecting investors' assets. The transition to a shorter settlement cycle (T+1) can bring numerous benefits such as enhanced investor protection, risk reduction in the financial system, and increased operational and capital efficiency while heightening resiliency in the securities market. However, it is crucial that this shift does not introduce inefficiencies, such as pre-funding requirements or additional operational costs.

In Developed Markets, the US and Canada announced since 2021 their intention to migrate to a shorter settlement cycle from T+2 to T+1 and commenced coordinating efforts to develop an implementation approach, considering the potential impacts and risks. Earlier this year, both markets announced that the transition to T+1 will take place in May 2024. As this change is set to occur in the US and Canada, global alignment across Developed Markets would be highly beneficial, especially during global index rebalances, to reduce frictions and prevent overdrafts, particularly considering current high interest rates. An ideal scenario would involve a coordinated transition across Developed Markets with the EU, UK and Japan following the shift. Conversely, it is expected that Emerging Markets delay in transitioning to T+1 until the lack of flexibility in amending cycles and the requirement for pre-funding in certain markets is addressed.

For instance, in 2023, India completed the transition from a T+2 to a T+1 settlement cycle for the equities segment. Initially, market participants raised concerns that this change may result in the need to pre-fund trades in order to reduce the settlement risk and may create issues related to both trade confirmation timelines and FX trading management. After operational amendments from the Securities and Exchange Board of India (SEBI), international institutional investors reported a transition to a shorter cycle, with no issues.

MSCI continues to closely monitor these developments and welcomes feedback from market participants on the shortening of the settlement cycle in equity markets and the impact of settlement-misalignment across different markets.

Upcoming changes to the MSCI Frontier Markets Indexes

In November 2022, MSCI announced the following changes to the MSCI Frontier Market Indexes methodology: 1) Independent size cutoffs for Frontier Markets that are no longer linked to Developed Markets, 2) For each individual Frontier Market, a reduction in the minimum number of companies required to meet Standard Index requirements for Size and Liquidity from two companies to one, and 3) Regional consolidation of individual markets for the purpose of index construction and maintenance where appropriate, starting with the Baltic States, i.e., Estonia, Lithuania and Latvia. These changes will be implemented in the MSCI Frontier Markets Indexes starting from the August 2023 Index Review.

It should be noted that the MSCI 2024 Market Classification Review will apply the new size cutoffs for Frontier Markets, considering the Size and Liquidity requirements resulting from the May 2024 Index Review.

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