New York – June 14, 2016 – MSCI Inc. (NYSE: MSCI), a leading provider of global equity indexes, announced today that it will delay including China A shares in the MSCI Emerging Markets Index. Over recent months, Chinese authorities have introduced significant improvements in the accessibility of the China A shares market for global investors. These improvements touch the major categories previously cited as impediments to inclusion: (1) resolution of the issues regarding beneficial ownership, (2) enhanced regulations on trading suspension, which was flagged as the most critical by investors, and (3) QFII policy changes aimed at addressing quota allocation and capital mobility restrictions.

“There have been significant steps toward the eventual inclusion of China A shares in the MSCI Emerging Markets Index,” said Remy Briand, MSCI Managing Director and Global Head of Research. “They demonstrate a clear commitment by the Chinese authorities to bring the accessibility of the China A shares market closer to international standards. We look forward to the continuation of policy momentum in addressing the remaining accessibility issues.”

Mr. Briand added, “International institutional investors clearly indicated that they would like to see further improvements in the accessibility of the China A shares market before its inclusion in the MSCI Emerging Markets Index. In keeping with its standard practice, MSCI will monitor the implementation of the recently announced policy changes and will seek feedback from market participants.”

MSCI gathered feedback from market participants on the potential inclusion of China A shares in the MSCI Emerging Market Index during an extensive global consultation. Investors recognized the actions taken to further open the China A shares market and highlighted that the topic of beneficial ownership has been satisfactorily resolved. They generally stressed the need for a period of observation to assess the effectiveness of the QFII quota allocation and capital mobility policy changes as well as the effectiveness of the new trading suspension policies. The 20% monthly repatriation limit remains a significant hurdle for investors that may be faced with redemptions such as mutual funds and must be satisfactorily addressed. Finally, the local exchanges’ pre-approval restrictions on launching financial products remain unaddressed. Hence, MSCI will retain the China A shares inclusion proposal as part of the 2017 Market Classification Review. MSCI does not rule out a potential off-cycle announcement should further significant positive developments occur ahead of June 2017.

In today’s announcement, MSCI also said that the MSCI Pakistan Index will be reclassified to Emerging Markets status, coinciding with the May 2017 Semi-Annual Index Review.
The MSCI Peru Index will remain in the MSCI Emerging Markets Index. However, MSCI highlighted that it will proceed with the reclassification of Peru to Frontier Markets status in the event that the MSCI Peru Index falls short of the minimum requirement for Emerging Markets that the index contains at least three constituents. As a reminder, the MSCI Peru Index currently includes the minimum of three constituents.

MSCI also announced today that it will include the MSCI Argentina Index in its 2017 Annual Market Classification Review for a potential reclassification to Emerging Markets status.

The MSCI Korea Index, however, will not be included on the list for a potential reclassification to Developed Markets status as part of the 2017 Review because the recent changes announced by the Financial Services Commission in South Korea will not take effect until 2017 and the investment frictions related to the lack of convertibility of the Korean Won and restrictions imposed by the local stock exchange on the use of exchange data for the creation of financial products remain unaddressed.

MSCI further announced that the MSCI Nigeria Index may be removed from the MSCI Frontier Markets Index and reclassified as a stand-alone market due to capital mobility issues. MSCI said it will consult with international institutional investors over the coming three months on a reclassification proposal that could be implemented with the November 2016 Semi-Annual Index Review.

MSCI said that it welcomes the recent market accessibility enhancements announced by the Saudi Arabian Capital Market Authority and the Saudi Stock Exchange (Tadawul) and will continue to monitor the positive evolution in the opening of the Saudi Arabian equity market for international institutional investors. The announced changes, including changes to the settlement cycle of listed securities, elimination of the cash prefunding requirement and the introduction of proper delivery versus payment – as well as changes to the rules for Qualified Foreign Investors – are planned to be implemented by mid-2017. Once in effect, these enhancements will bring the Saudi equity market closer to Emerging Market accessibility standards.

Finally, MSCI released the 2016 Global Market Accessibility Review for the 82 markets under its coverage.
Each June, MSCI communicates its conclusions, based on discussions with the international investment community, on a list of markets under review. At that time, it also announces new markets to be reviewed for potential market reclassification in the upcoming cycle.

**China A shares**

MSCI continues to observe positive market-opening developments in the Chinese equity capital market. In particular, it sees the recently-announced enhanced trading suspension regulation, the clarification regarding beneficial ownership and QFII policy changes addressing restrictions on quota allocations and capital mobility as significant steps toward the eventual inclusion of China A shares in the MSCI Emerging Markets Index.

MSCI previously highlighted four issues to be resolved before the inclusion of China A shares in the MSCI Emerging Markets Index as part of the MSCI 2016 Annual Market Classification Review:

1. **Beneficial ownership**
   
   Most international institutional investors are satisfied with the clarification released by CSRC in early May 2016 about the beneficial ownership issues. Hence, MSCI considers this question to be resolved.

2. **Effectiveness of the QFII policy changes affecting accessibility and capital mobility**
   
   International institutional investors need more time to work with the relevant regulator and gather experience regarding the recently implemented QFII policy changes, including policy enhancements intended to improve capital mobility. For example, a number of international investors said that they were still awaiting their QFII quota allocation for applications submitted months before. Other investors said that they were not yet able to benefit from daily capital repatriation despite the fact that policy changes went into effect in early February of this year. Positive experiences on quota applications, as well as seamless execution of daily capital repatriation under the new rules, are critical considerations for international investors in supporting inclusion in the MSCI Emerging Markets Index.

   Additionally, a large number of market participants highlighted the operational challenges surrounding the monthly repatriation limit that remained unaddressed as part of the recent capital mobility enhancements. Under current regulation, QFII investors cannot repatriate on a monthly basis more than 20% of their prior-year net asset value. This limit poses a potential liquidity concern for investors who need to honor redemption outflows from their clients, and thus must be removed or substantially increased with a shorter repatriation horizon, otherwise the effectiveness of the QFII channel would be significantly reduced.
3. **Implementation of measures preventing widespread voluntary suspensions of trading**

The suspension of stock trading was a focal point of discussion during the MSCI consultation. International investors were extremely vocal about the liquidity risk that may result from voluntary suspensions in trading of mainland Chinese companies. In that context, MSCI welcomes the recently announced measures on suspension treatment by the Shanghai and Shenzhen stock exchanges, while noting that the market practice remains unique not only for Emerging Markets but for all markets covered by MSCI. Given that the new regulation has been implemented very recently, a period of observation is needed to assess its effectiveness and determine that the number of suspended stocks on the Shanghai and Shenzhen exchanges has been significantly reduced.

4. **Pre-approval requirements imposed by the local Chinese stock exchanges**

International investors expressed concern over potential uncertainties regarding the broad pre-approval restrictions imposed by the Shanghai and Shenzhen stock exchanges on launching financial products by any financial institution on any stock exchange internationally if these products are linked to indexes that include China A shares. These restrictions apply to any new financial products as well as to any existing products. The breadth of the restrictions is unique in Emerging Markets, as is the possibility that existing financial products based on the MSCI Emerging Markets Index would be in danger of having their trading disrupted if China A shares were included in Emerging Markets and a Chinese exchange withheld its approval of MSCI’s licensing of the MSCI Emerging Markets Index as the basis of that product. Consequently, a vast majority of investors said that alignment to international norms and satisfactory resolution of this issue is essential if they are to include A shares in their investment opportunity set.

Recognizing the significant progress to date and ongoing reform efforts, MSCI said that China A shares will remain on the 2017 review list, pending the conclusion based on investor feedback that the QFII policy changes and new suspension treatment are effectively implemented, and the issue of pre-approval requirements is resolved. MSCI does not rule out a potential off-cycle announcement should significant positive developments occur ahead of June 2017.

**Argentina**

MSCI is adding the MSCI Argentina Index to the review list for a potential reclassification to Emerging Markets status as part of the 2017 Annual Market Classification Review.

In December 2015, the Argentinian Central Bank abolished foreign exchange restrictions and significantly relaxed the capital controls that have been in place for a number of years. These changes have resulted in, among other things: (1) a floating currency, (2) the elimination of cash reserves and monthly repatriation limits on the equity market and (3) a significant reduction in the capital lock-up period for investments. Consequently, the Argentinian equity market meets most of the accessibility criteria for Emerging Markets.
Nigeria

MSCI announced that it is launching a consultation on a potential reclassification of the MSCI Nigeria Index to stand-alone market status.

The Central Bank of Nigeria pegged the local currency to the US dollar in early 2015, resulting in a sharp decline in liquidity on the foreign exchange market. Hence, the ability of international institutional investors to repatriate capital has been significantly impaired to a point where the investability of the Nigerian equity market is being questioned.

Due to the urgent nature of this investability issue in the MSCI Nigeria Index, MSCI will announce its decision on the proposal to remove the MSCI Nigeria Index from the MSCI Frontier Markets Index by the end of September 2016. The potential implementation of this proposal would coincide with the November 2016 Semi-Annual Index Review.

- Ends -

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