FREQUENTLY ASKED QUESTIONS

What were the issues raised during last year’s consultation?

In June 2016, MSCI announced it would not include China A Shares into the MSCI Emerging Markets Index citing three remaining obstacles that need to be addressed:

• Effective implementation of the QFII policy changes and removal of the 20% monthly repatriation limit
• Effective implementation of new trading suspension treatment
• Resolution of pre-approval requirements by the local exchanges on launching financial products

You can read the full press release announcing last year’s results here.

When will the results of the consultation be announced?

MSCI will communicate the conclusions it has made about the list of markets under review on 20 June 2017. At that time, it will also announce any new markets to be reviewed for potential market reclassification in the upcoming cycle.

Why has MSCI changed this year’s inclusion proposal to focus on the Stock Connect access framework?

The objective of our regular consultation process is to ensure our indexes remain relevant and accurate investment tools for our clients, and that they continue to accurately reflect the equity market that they are measuring.

The changes to this year’s proposal for consultation are the result of some investors indicating their increased confidence in the Stock Connect framework as a means of accessing China A shares. This year’s consultation has therefore been designed to determine how international investors view China’s accessibility and whether they believe the Connect scheme alone would provide sufficient accessibility to address an initial allocation to China A Shares.

The details of this year’s proposal can be found here.
Why does this year’s consultation propose a smaller weighting of China A Shares?

The weight of China A Shares in the MSCI EM Index would be approximately 0.5% under the revised 5% inclusion proposal. This gradual approach to inclusion considered in the proposal reflects MSCI’s responsibility to ensure investors have the time they require to implement any index changes and to build their understanding of a new market before full inclusion can be made possible.

How much passive money currently tracks the EM index?

There is an estimated 1.6 trillion USD tracking MSCI EM, as of the end of June 2016.

And are you able to provide the list of 169 companies now under consideration for MSCI inclusion?

The simulated list of constituents (MSCI China A and MSCI China) can be found here.

If the outcome of the consultation is to proceed with inclusion, what is the timeline for implementation?

We give market participants plenty of lead time before the implementation of any methodology change. We announce market reclassifications at least 12 months in advance of implementation.

MSCI MARKET CLASSIFICATION FRAMEWORK

How does MSCI assess the inclusion of markets in Emerging Markets?

The inclusion assessment is based on the MSCI Market Classification Framework described in the MSCI Global Investable Market Index methodology. For Emerging Markets, the classification depends on two criteria: (1) whether the equity market meets minimum size and liquidity requirements and (2) whether it exhibits accessibility levels for international investors that are sufficient in the context of Emerging Markets.
How is the size and liquidity of markets measured?

MSCI applies the global size and liquidity requirements used in the construction of the MSCI Global Investable Market Indexes. Specifically, the number of securities meeting these requirements will determine whether a given market meets the criterion for an investment universe. For example, any inclusion in Emerging Markets requires a minimum of three securities meeting the size and liquidity requirements.

How does MSCI gauge the accessibility level of a given market?

MSCI uses 18 distinct accessibility measures to assess the accessibility of markets. The detailed list of measures can be found in the MSCI Global Investable Market Index methodology.

How does MSCI assess each of these 18 accessibility measures?

MSCI relies on the feedback of market participants. For example, MSCI reflects regulatory changes in its accessibility assessment only after international institutional investors are able to provide meaningful feedback – in other words, only after they have fully tested and absorbed the changes.

When do announced decisions take effect?

We try to give market participants plenty of lead time before the implementation of any methodology change. We announce market reclassifications at least 12 months in advance of implementation.

CONSULTATION PROCESS

What is the objective of MSCI's consultation process?

We conduct an annual consultation to ensure that our indexes remain relevant and accurate investment decision support tools for our clients, and that they continue to accurately reflect the equity markets that they are measuring.
With whom does MSCI consult? Are consultations reserved for MSCI’s clients?

MSCI consults with all market participants. We try to obtain feedback from the entire investment ecosystem: asset owners, asset managers (passive and active), brokers, consultants and custodians worldwide to ensure the broadest possible representation. In addition, MSCI also engages, where possible, with local authorities, regulators and stock exchanges.

Does MSCI interact regularly with local authorities and regulators?

Yes, MSCI is often in contact with authorities and regulators around the world. MSCI is an independent conduit for information from the international investment community to local stakeholders, and vice versa.

DECISION-MAKING PROCESS

Who makes decisions regarding methodology and market classification?

A policy committee, comprised of senior members of MSCI’s index research team and firm leadership, has the final say on methodology and market classification questions. The committee bases its decisions on our classification framework and a thorough analysis of the feedback that is gathered in our consultation process. Any client who wishes to know more about MSCI’s decision committees can find this information in the publicly available document here.

Why does the senior decision committee need consultation feedback to make decisions?

A large component of MSCI’s decisions is investors’ experience of market accessibility, rather than merely an abstract analysis of regulatory language. We are careful to never force a decision and take market participants by surprise.