MSCI Demonstrates That Backtesting *Expected Shortfall* is Possible and Could Potentially Replace *Value at Risk (VaR)* in the Calculation of Regulatory Capital Requirements

New methodology ends debate as to whether Expected Shortfall can be backtested

New York – October 22, 2014 – MSCI Inc. (NYSE: MSCI), a leading provider of investment decision support tools worldwide, announced today that it has developed a methodology to backtest Expected Shortfall, a risk measure that has been proposed by the Basel Committee on Banking Supervision as an alternative to Value at Risk (VaR).

In 2012, the Basel Committee proposed as part of its first consultative paper *Fundamental Review of Trading Book Capital Requirements* to change the measurement method for calculating losses from the method of Value at Risk - a metric banks have used since 1996 to calculate regulatory capital requirements - to an alternative known as 'Expected Shortfall' which regulators believe will better capture the extreme losses that can occur in times of systemic turmoil. However, a key concern with using Expected Shortfall has always been that, unlike Value at Risk, it cannot be backtested due to a theoretical debate around its mathematically property called *elicitability.* Because of this debate, in its second consultative paper in October 2013, the Basel Committee suggested adopting Expected Shortfall to measure risk, but continuing to backtest using Value at Risk.

New groundbreaking research from MSCI solves this dilemma by demonstrating that it is not only possible to backtest Expected Shortfall, but that the methodology MSCI has created is a more informative test of model performance than the current Value at Risk backtesting methodology.

"This exciting development from MSCI's research team is another example of our focus on innovation and serving the needs of the Risk office," said Jorge Mina, Managing Director at MSCI. "Now that we have established that Expected Shortfall can be backtested, we can remove this issue from the debate and focus on how firms can best capture tail risk and hence help strengthen capital standards for market risk."

The soon to be published paper *Backtesting Expected Shortfall* by Carlo Acerbi, PhD and Executive Director at MSCI and Balazs Szekely, PhD and Senior Researcher at MSCI, is one of many produced by MSCI's 150+ strong research team - one of the largest research organizations in the industry. As well as publishing proprietary applied and model research, MSCI has also been commissioned by some of the world's largest investors to carry out research on areas such as factor investing.

MSCI is a leader in providing Risk and Performance products and services to many of the leading asset owners, asset managers, hedge funds and banks across the globe. Its best in class risk systems today provide multiple views of risk, including factor model analysis, stress testing, Value at Risk, Expected Shortfall and other sensitivity based analytics, and enable clients to undertake the Expected Shortfall backtesting described in the forthcoming paper.

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About MSCI

MSCI Inc. is a leading provider of investment decision support tools to investors globally, including asset managers, banks, hedge funds and pension funds. MSCI products and services include indexes, portfolio risk and performance analytics, and ESG data and research.

The company's flagship product offerings are: the MSCI indexes with over USD 9 trillion estimated to be benchmarked to them on a worldwide basis[1]; Barra multi-asset class factor models, portfolio risk and performance analytics; RiskMetrics multi-asset class market and credit risk analytics; IPD real estate information, indexes and analytics; MSCI ESG (environmental, social and governance) Research screening, analysis and ratings; and FEA valuation models and risk management software for the energy and commodities markets. MSCI is headquartered in New York, with research and commercial offices around the world.

[1]*As of March 31, 2014, as reported on June 25, 2014, by eVestment, Lipper and Bloomberg*

For further information on MSCI, please visit our web site at www.msci.com

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