



MSCI Announces the Results of the 2010 Annual Market Classification Review

Geneva - June 21, 2010 - MSCI Inc. (NYSE: MXB), a leading provider of investment decision support tools worldwide, announced today that there will be no changes in market classification as part of the 2010 Annual Market Classification Review. All countries that were considered for potential reclassification will remain under review for the 2011 Annual Market Classification Review. MSCI also released today the 2010 Global Market Accessibility Review for each of the markets under its coverage.

As a reminder, every June MSCI communicates its conclusions following discussions with the investment community on the list of countries under review and announces the new list of countries, if any, under review for potential market reclassification in the upcoming cycle. For the current cycle starting today, MSCI will maintain on the review list the MSCI Korea and MSCI Taiwan Indices for a potential reclassification to Developed Markets as well as the MSCI Qatar and MSCI UAE Indices for a potential reclassification to Emerging Markets. No other candidate will be added to the list of country indices under review for potential market reclassification. MSCI will communicate its decisions resulting from this Annual Market Classification Review in June 2011.

Review of Markets in the Review List

- 1) **Korea:** MSCI will maintain the MSCI Korea Index in Emerging Markets. The MSCI Korea Index will remain under review for a potential reclassification to Developed Markets as part of the 2011 Annual Market Classification Review.

Korea continues to meet most developed markets criteria of the MSCI market classification framework, notably economic development, market size and liquidity and many aspects of the market operational framework are at the level of developed market standards. However not all criteria are met and international institutional investors continue to express concerns related to certain important accessibility issues for Korea. Some changes have come into effect over the last few years, but their impact remains insufficient to meet developed market standards according to the assessment of a number of market participants. For example, the removal of the real demand principle has provided investors some flexibility in the currency operations, but in the absence of an active offshore market for the Korean won and with the limited trading hours of the onshore spot currency market, investors are still required to pre-fund their trades. The decision to abolish restrictions on local banks to lend funds to international investors for securities investments is a positive development which will be tested by investors after it takes effect in November 2010.

MSCI also hopes that the Korean authorities will continue to focus their attention on improvements to the investor accessibility issues linked to the rigidity of the ID system in particular for the use of omnibus accounts, off-exchange block trades and in-kind transfers.

Finally anti-competitive practices have not been eliminated: the provision of stock market data continues to be subject to contractual anti-competitive clauses.

- 2) **Taiwan:** MSCI will maintain the MSCI Taiwan Index in Emerging Markets. The MSCI Taiwan Index will remain under review for a potential reclassification to Developed Markets as part of the 2011 Annual Market Classification Review.

Taiwan also meets many developed markets criteria, including economic development and market size and liquidity. While by several measures the Taiwanese market possesses the operational characteristics of a developed market, major concerns by international institutional investors, such as pre-funding practices, lack of full currency convertibility and restrictions associated with the Foreign Institutional Investors (FINI) ID system, continue to be obstacles to the reclassification of the MSCI Taiwan Index to the Developed Market status.

Positive steps have been achieved by regulators and the Taiwan Stock Exchange in aligning to the international settlement standard with the implementation of Taiwan's T+2 delivery versus payment (DVP) settlement model. Unfortunately, pre-funding practices continue to be the norm due to the timing of settlement cycle on the T+2 day. It also remains to be seen whether regulators will approve a proposal for foreign institutional investors to be allowed to use overnight overdraft facilities for settlement purposes. In addition, significant progress in the areas of full convertibility of the New Taiwan Dollar and restrictions associated with the Foreign Institutional Investors (FINI) ID system is still required by a number of international investors before they would support a potential reclassification to developed markets.

- 3) **UAE:** MSCI will maintain the MSCI UAE Index within Frontier Markets. The MSCI UAE Index will remain under review for a potential reclassification to Emerging Markets as part of the 2011 Annual Market Classification Review.

International institutional investors welcomed the recent enhancements introduced by the Emirati regulator such as the Regulation of Securities Custody Activities which had the positive outcome of attracting new global custodians in the UAE. However, the need to set up and operate with a dual account structure is still a major concern to a number of international institutional investors and is incompatible with general emerging markets standards. International institutional investors often establish segregated custody and trading accounts in order to mitigate the risk from local brokers having unlimited access to the trading accounts. This results in the significant operational burdens of having to transfer shares from one account to the other prior to trade.

MSCI continues to be encouraged by the planned future enhancements by the Emirati regulator such as the potential increase of the foreign ownership limit levels imposed by Emirati companies which would facilitate equal foreign access to the local equity market and the potential introduction of a true delivery versus payment (DVP) settlement model. While these future enhancements were announced some time ago, the recent economic and financial turmoil may have affected the speed of progress on this front as well as opened a broader rethinking on the structure of UAE stock exchanges. International institutional investors are hopeful that these recent developments will not bring any further delay in the implementation of the proposed enhancements. Investors would also welcome a public roadmap from the regulator and the exchanges providing visibility on the timetable of implementation of these changes.

- 4) **Qatar:** MSCI will maintain the MSCI Qatar Index within Frontier Markets. The MSCI Qatar Index will remain under review for a potential reclassification to Emerging Markets as part of the 2011 Annual Market Classification Review.

Similarly to the UAE, frequent use of dual account structures, i.e., segregated custody and trading accounts, because of unlimited access by local brokers to trading accounts remains an issue that needs to be addressed for the market to meet emerging markets standards. In addition, international investors remain concerned about the stringent foreign ownership limits imposed on Qatari companies.

MSCI is encouraged by important enhancements considered by the Qatar Exchange.

MSCI also notes that there have been several positive developments in the Pakistani equity market over the last year and that the market has returned to normal functioning since the removal of the “floor rule” in late 2008. However, the current Pakistani equity market is characterized by a very limited number of sizeable securities as well as by a fragile financial and institutional framework as highlighted by the 2008 crisis. As a reminder, as an integral part of MSCI’s classification framework, an upward migration can be considered only if the change is deemed to be irreversible. In the specific case of the MSCI Pakistan Index, a reclassification to the Emerging Market status could not yet be considered irreversible as the resulting index would only include three constituents marginally meeting the minimum size requirements for Emerging Markets. Based on these considerations, MSCI will not include the MSCI Pakistan Index in the review list for potential reclassification to Emerging Markets as part of the 2011 Annual Market Classification Review but will continue to monitor the market over the next year.

In light of the recent events impacting the Greek economy, MSCI would like to clarify that no change is currently being considered to the market classification status of the MSCI Greece Index. The current Greek sovereign debt crisis has had no impact on the equity market accessibility and investability.

MSCI continues to closely monitor the situation and should there be any changes that may warrant a potential market reclassification, MSCI would provide further public communication.

Global Market Accessibility Review

MSCI released today its second Global Market Accessibility Review, including a year on year comparison, on all the 76 markets it covers and welcomes feedback from the investment community. The Global Market Accessibility Review aims to reflect international investors’ experience in investing in a given market and provides a detailed assessment of market accessibility for each country market included in the MSCI Indices. In particular, it provides an evaluation of 18 measures in 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.

The assessment is intended to serve as the basis for a comparison of countries’ market accessibility levels across investment universes. This review aims also 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 some improvements may be welcomed.

While some regulatory or operational changes have resulted in improved market accessibility in several markets around the world, there have also been a few cases of changes in the opposite direction. Notably, in Brazil a tax of 2% on foreign exchange inflows related to the purchase of equities and fixed income securities has been imposed. This is a costly measure that introduces further discrimination between local and international investors, albeit for the sake of avoiding an excessive appreciation of the Brazilian Real.



MSCI also notes that some exchanges have persisted with the unfortunate practice of imposing restrictive anti-competitive clauses on their provision of stock market data. One example is the insistence on prior approval by the exchange over index providers' licenses of their own indices to financial product providers. These practices are anti-competitive because they artificially limit financial products that may be created and where they may be traded, often to protect an exchange's own listed products. These licensing practices are a cause of concern for international investors for two reasons. First, they distort the investment process by limiting the flow of information and the choices available to the international investment community and they are inconsistent with the full development of open and liquid equity markets, which is potentially harmful to both companies listed on the exchange and investors. Second, the fact that an entity operating a stock exchange under a government license is allowed (whether actively or passively) to unduly restrict the use of price data to protect its own separate business activities is a sign that the regulatory framework is not robust. Protectionist restrictions on the use of exchange price data of the kind described above are inconsistent with prevailing developed market practices, and also impact negatively the assessment of the market accessibility of emerging and frontier markets.

The complete results of the 2010 Global Market Accessibility Review, including the detailed assessment of the different market accessibility measures by country, as well as additional information on the MSCI Market Classification Framework and a summary of recent market reclassifications can be found on MSCI's web site at http://www.mscibarra.com/products/indices/international_equity_indices/mc.html.

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MSCI will be holding a Press Conference Call following the announcement to answer questions from the media:

Date: Monday June 21, 2010
Time: 5.45pm EDT/10.45pm BST/11.45pm CEST
International Dial-In: +1-210-795-1098
Pass Code: Market Classification

Toll Free Numbers:

US: 866-803-2143 Hong Kong: 800-900-592
UK: 0800-279-3953 Japan: 00531-12-1857

Please note that this press conference call is restricted to journalists. Replays of this call will not be available.

Clients and other interested parties should contact MSCI Global Client Service with any enquiries

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About MSCI Inc.

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 indices, portfolio risk and performance analytics, and governance tools.

The company's flagship product offerings are: the MSCI indices which include over 120,000 daily indices covering more than 70 countries; Barra portfolio risk and performance analytics covering global equity and fixed income markets; RiskMetrics market and credit risk analytics; ISS out-sourced proxy research, voting and vote reporting



services; FEA valuation models and risk management software for the energy and commodities markets; and CFRA forensic accounting risk research, legal/regulatory risk assessment, and due-diligence. MSCI is headquartered in New York, with research and commercial offices around the world.

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

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