



Communication

Clarification on the treatment of financial results under IFRS

Geneva, September 29, 2005 - MSCI Barra, a leading provider of benchmark indices and risk management analytics products, announces clarifications on the treatment of fundamental data for the MSCI Equity Indices in the context of European companies' transition to International Financial Reporting Standards ('IFRS').

Background

As per the regulation adopted by the Council of the European Union, all companies listed on exchanges in EU member states are required to prepare their consolidated financial statements for financial years beginning on or after January 1, 2005, in accordance with IFRS. However, companies that currently report using the U.S. Generally Accepted Accounting Principles ('US GAAP') are permitted to continue doing so until 2007. In addition, several companies in other countries such as Norway, Switzerland and Australia have also adopted IFRS starting from 2005.

Companies may report interim financial statements under IFRS in 2005. Companies adopting IFRS for the purpose of interim reporting will generally also provide restated numbers for the corresponding interim period of the previous year as well as for the latest annual financial statements that include these interim periods.

MSCI's approach to updating interim results

As a general policy, MSCI reports security-level sales per share (SPS), earnings per share (EPS) and cash earnings per share (CEPS) on a trailing 12-month basis for index constituents. Trailing 12-month figures are computed using the formula:

$$\text{Trailing 12-month figure} = \text{Last reported fiscal period figure} + (\text{Current interim figure} - \text{comparative interim figure})$$

Starting September 2005, MSCI has begun updating the trailing 12-month figures by using IFRS interim financial statements reported by companies as well as the restated IFRS figures for the corresponding interim period of the previous year and the last reported fiscal period, wherever such restatements have been available. This ensures that the 'trailing' fundamental data and per share figures are computed using IFRS numbers only. If companies adopting IFRS have not provided restated IFRS numbers for the previous periods, MSCI has used a combination of IFRS and non-IFRS numbers to calculate trailing figures only in those cases where the transition to IFRS has not caused a significant change in the results. The above methodology does not apply to companies that transitioned to IFRS prior to 2005.

MSCI uses the last updated book value for the purpose of computing book value per share ('BVPS'). For companies adopting IFRS, MSCI has begun updating the IFRS-based book value along with the IFRS-based sales, earnings, and cash earnings numbers.

MSCI's use of analysts' estimates

MSCI uses a consensus of analysts' earnings estimates to calculate the 12-month Forward Earnings to Price Ratio and the Short-term Forward Earnings per Share Growth Rate. MSCI also uses a consensus of analysts' earnings growth rate estimates to determine the Long-term Forward Earnings per Share Growth Rate.

Consensus analysts' estimates are provided by a specialized data vendor, which is currently Thomson I/B/E/S. Thomson I/B/E/S has indicated that it shifts to IFRS-based estimates when a majority of the analysts covering a specific company shift to those estimates. MSCI uses Thomson I/B/E/S estimates as they are received and does not make any adjustments to these numbers.

MSCI's existing approach to computing Long-term Historical Growth Trends

MSCI computes the Long-term Historical EPS and SPS Growth Trends by applying a regression to the previous five yearly EPS and SPS data, respectively.

Calculation of the Long-term Historical EPS and SPS Growth Trends may be impacted by the transition to IFRS as it may result in the EPS and SPS numbers becoming non-comparable with the previous years. However, the impact of the change will be felt primarily from the year 2006, when most companies will report their first fiscal year under IFRS.

MSCI has identified several options to address this problem and will shortly solicit client feedback on a proposal.