

MSCI AND IPD RESPONSE TO THE IOSCO PRINCIPLES FOR FINANCIAL BENCHMARKS CONSULTATION REPORT

May 16, 2013

MSCI Inc. is a leading provider of investment decision support tools to institutional 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. MSCI is headquartered in New York, with research and commercial offices around the world. MSCI has around 7500 customers worldwide across MSCI's different business units.

The company's flagship products include the MSCI equity indices. MSCI equity indices have been calculated for more than 40 years, and today MSCI calculates over 150,000 equity indices per day. MSCI equity index families include country and regional indices, size indices (large cap, small cap, micro cap), sector indices, style (value/growth) indices, strategy indices, thematic indices and ESG indices. MSCI also calculates custom indices, by applying client screens and constraints to parent MSCI equity indices.

MSCI equity indices are used worldwide by:

- assets owners to help them with their mandate decisions and with reviewing their managers' performance;
- active asset managers so that they can actively manage their funds against an index and report performance;
- passive fund managers to issue passive funds and ETFs based on the indices;
- broker dealers for providing trading execution services, creating OTC and non-OTC derivative financial products and writing research ; and
- stock exchanges to create equity index linked futures and options contracts.

In 2012, MSCI acquired IPD, a leader in performance analysis for the owners, investors, managers, lenders on and occupiers of real estate. IPD provides critical business intelligence, including analytical services, indices and market information regarding performance and risks to the real estate industry worldwide. IPD calculates and publishes more than 160 real estate indices annually. Real estate investment markets typically exhibit a unique combination of heterogeneity, lumpiness, illiquidity and complexity of ownership, leasing and occupation structures. Together these factors generate challenges in the production and governance of real estate performance indices that generally do not affect equity indices.

IPD has responded to these challenges over 28 years. The central operating model deployed by IPD in index design, construction and administration has been that of voluntary but standardised data submissions by investors in and managers of real estate portfolios. IPD has therefore assembled a wealth of experience in managing submissions-based benchmarking in accordance with a single rule system designed to protect the consistency, integrity, completeness and independence of the process and products.

We appreciate the opportunity to respond to the Consultation Report on Principles for Financial Benchmarks (CRO4/2013), on behalf of MSCI with respect to equity indices and IPD with respect to real estate indices, which are two very different sets of indices in data sourcing, calculation and use. We are happy to respond to any further questions that IOSCO may have.

Consultation Questions

1. Equity indices: Indices may be used to measure a wide range of underlying Interests, using a variety of calculation methodologies and inputs. In the specific case of equity indices, inputs are typically based on transactions concluded on Regulated Markets. In light of this: are there any principles or parts of the principles that cannot, or should not, be applied to equity indices? If so, please identify these principles and explain why their application is inappropriate.

We are unaware of, and IOSCO does not cite, any instances of manipulation of equity indices that use exchange traded prices and rules-based methodologies. The investigations that IOSCO cites in the current Consultation Report are related to manipulation of certain interest rate benchmarks. Those benchmarks are completely different from equity indices. The “fragility” of interest rate benchmarks in terms of “integrity and continuity of provision” mentioned on page 2 of the Consultation Report does not exist for equity indices. Further, the risks identified on page 4 of the Consultation Report, namely those “incentives stemming from conflicts of interest, which may be amplified when discretion and Expert Judgment is used in Benchmark determination” also do not exist for equity indices.

Specifically, for LIBOR/EURIBOR, the input data is based on a select set of estimates of the price at which interbank lending might take place. Because the input data is based on estimates and the number of data inputs is low, individuals and banks can have a direct impact on the ultimate LIBOR/EURIBOR rate. In addition, individuals and banks that provide estimates could in certain circumstances directly benefit from supplying inaccurate estimates. Under these circumstances, there may be an opportunity and motive for manipulation. It is these shortfalls specific to LIBOR/EURIBOR that are the issue. Equity indices do not generally present the same opportunity or motive for manipulation.

MSCI equity indices, for example, are calculated using market prices and other market transaction data and public market data that is available and licensed from third party market data providers. Such market data includes, end of day and real time prices provided by exchanges, the numbers of shares, corporate actions, fundamental company data, dividends, exchange rates, forward rates, measures of liquidity such as trading volumes, percentage of shares available for sale to international investors (free float), etc. We have agreements with approximately 150 different data providers, who provide data used in our equity indices. These market data providers, such as stock exchanges, license their data to us and many others for a variety of uses for a fee and subject to use and redistribution restrictions as set forth in the written contracts between the parties. The data can be delivered to MSCI directly by those different market data providers or through distributors who also charge a fee and impose use and redistribution restrictions as set forth in the written contracts between the parties. Certain fundamental company data (such as revenues, earnings numbers and the identities of shareholders) also may be sourced from publicly available company annual reports and other publicly available company filings. Clients do not submit data to be included in MSCI equity indices and we do not source data using surveys, panels or samples.

MSCI equity indices are calculated strictly in accordance with our rules-based methodologies which are publicly available on our website, www.msci.com. Stocks are added or removed from our indices based solely on whether they meet the criteria as outlined in the methodologies. We rebalance our indices as detailed in our methodologies (e.g., quarterly or semi-annually) and we publicly announce the results of those rebalancings on dates that are publicly announced in advance. The treatment of corporate actions is handled on a daily basis and is announced to clients. MSCI often consults the investment community on new methodologies and methodological changes. MSCI announces new methodologies and methodological changes publicly in advance. Public announcements are available on our website, www.msci.com.

MSCI has robust governance structures and rigorous calculation processes in place. MSCI observes strict Chinese Walls that separate (physically and by rule) those involved in equity index calculation and maintenance from those who are not. Employees of MSCI engaged in equity index calculation and maintenance are not permitted to purchase stocks (other than MSCI Inc. stock). The creation, maintenance and calculation of MSCI equity indices are supervised and monitored by four different index committees. These committees are (1) the Universe Management Committee (UMC), responsible for constituent level data points, (2) the Global Constituent Committee (GCC), responsible for complex corporate events, (3) the Equity Index Committee (EIC), responsible for approving all changes to existing index methodologies and all decisions to create new index methodologies, and (4) the Index Policy Committee (IPC), responsible for all policy level decisions. These committees are staffed exclusively by MSCI employees, in accord with our commitment to independent decision-making.

The quality of our equity indices and methodologies and the integrity of our index calculation and maintenance processes and governance structures are fundamental to our way of doing business and to our clients.

The quality and integrity of our indices is required by the market, which is highly competitive. Users can, and do, switch equity index providers.

While MSCI equity indices are used as the basis of financial products, that is certainly not their only use. As described above, MSCI equity indices are used by financial institutions around the world in many other ways. It is important to note that any impacts to equity indices will not only impact product creators and investors in products but also other market participants.

Our concern is that granular principles focused on addressing the shortfalls of LIBOR/EURIBOR, which do not exist for equity indices, will create unnecessary layers of process, which will increase costs and risks of unintended consequences, for little gain. The impact of unnecessary regulation will be felt not only by users of equity indices as the basis of financial products but also the other users of equity indices. Unnecessary regulation can create barriers to entry and smaller players may not be able to comply with the additional regulatory burdens. This can reduce competition and ultimately result in less innovation and choice for investors.

As such, we view principles and regulation as unnecessary for equity indices and potentially harmful to a robust and competitive market.

Because MSCI is committed to high quality standards, as a founding member of the Index Industry Association (IIA), we have supported the IIA's efforts in documenting best practices for index administration, maintenance and calculation. We believe that type and level of commitment is appropriately tailored for equity indices, without the need for formal external regulation.

2. Additional measures to address risks resulting from Submission-based Benchmarks or ownership or control structures: Additional measures have been specified within certain principles to address specific risks arising from a reliance on Submissions (principles 4, 10, 13 and 17) and/or from ownership or control structures (Principles 2, 5 and 16).

- a. Should these additional requirements apply to Submitters and Administrators of all submission-based Benchmarks or Benchmarks with the specified ownership/control structures?
- b. If not, please explain why all or some submission-based Benchmarks or Benchmarks with the specified ownership/control structures should be exempt.

These sections address specific concerns with specific risk issues. Those risks do not exist for all benchmarks and, as such, should not be applied across the board as a “one-size fits all” approach. For example, we do not believe they are necessary in the case of equity benchmarks. In addition, for other types of indices, certain of the provisions, including certain of those relating to a Submitters Code of Conduct, may present an unreasonable administrative burden.

3. Notice Concerning Use of Expert Judgment: Should Administrators be required to briefly describe and publish with each benchmark assessment:

- a. a concise explanation, sufficient to facilitate a User’s or Market Authority’s ability to understand how the assessment was developed, terms referring to the pricing methodology should be included (e.g., *spread-based, interpolated/extrapolated or estimate-based*); and
- b. a concise explanation of the extent to which and the basis upon which judgment (i.e. exclusions of data which otherwise conformed to the requirements of the relevant methodology for that assessment, basing assessments on spreads, interpolation/extrapolation or estimates, or weighting bids or offers higher than concluded transactions etc.), if any, was used in establishing an assessment.

Because equity indices are based on observable market transactions, we do not believe this question applies to equity indices.

With respect to real estate indices, the primary reliance upon expert judgment in the construction and administration of indices and benchmarks for investment real estate flows from the explicit use of regular professional valuations to compensate for the often extremely low levels of liquidity in the underlying asset markets. This has been unavoidable standard practice in all areas of real estate performance assessment (and accounting) for many years.

Typically, any single period benchmark number (price movement, total return, etc) will reflect many thousands of highly dispersed individual judgments. This is because valuations are made separately at the start and end of each period for every single asset held within each investment portfolio, and a benchmark will comprise many – often hundreds – of such portfolios. Moreover, these asset level judgments are themselves normally built upon a series of more specific judgments (valuations) made for each sub-unit (tenancy, demise, lettable unit etc) within each investment interest.

The overall benchmarking process and its structural dependence upon such judgment can and should be explained, and the IPD approach involves the rigorous global application of a single set of rules and definitions:

1. Valuations must be independently provided by qualified valuers
2. They must be constructed in accordance with open market/fair value principles

3. They must not be conducted by benchmark calculators or administrators
4. They must be synchronised to the benchmark measurement period
5. They must be provided for all assets held within any portfolio included within a benchmark
6. They must be certified and the certificates provided to the benchmark administrator
7. They must be back-tested at least once a year

Any direct discretionary involvement by the benchmark administrator in its specification should be kept to an absolute minimum and, where unavoidable, should be clearly documented.

4. Revisions to the principles: Please provide any suggested changes to specific principles or definitions of key terms set out in Annex A, including drafting proposals and rationale.

Are any other principles needed: Should principles to address any additional issues, risks or conflicts of interest be developed? Please provide a summary of the issue and drafting for the proposed principle.

As our response to Question 1 indicates, we do not believe that regulation of equity indices is warranted. However, we have provided comments below, should equity indices be subject to these principles. Further, we have indicated where our comments are specific to equity indices or real estate indices.

Principle 1 – Overall Responsibility of the Administrator

First, we note that Administrator is defined as the entity that is responsible for all stages of the Benchmark Administration process, whether or not the entity owns the intellectual property relating to the Benchmark, which does not seem to allow for a situation where multiple entities control different aspects of Benchmark Administration. To the extent the principles require that every Benchmark have only one Administrator, the principles could be viewed as prohibiting certain commercial arrangements. While we believe that it is important that the entity responsible for all aspects of Benchmark Administration be identifiable, we do not think there need be only one such entity for each Benchmark. Turning to the principle itself, while we largely agree with the responsibilities of the Administrator, calibrated as appropriate with respect to the type of the index, we believe that that references to distribution may have the unintended consequence of unfairly and unreasonably making the Administrators responsible for activities of distributors and data aggregators, such as Bloomberg, Thomson Reuters, newspapers, news channels, etc. It would be unreasonable for the Administrator to take on the liability and responsibility for these parties if they fail to distribute Benchmarks that were delivered to them.

Principle 2 – Oversight of Third Parties

We believe it would be beneficial to define what is meant by the Benchmark determination process. This appears to be drafted for a specific situation, where Benchmark calculation is outsourced to a third party. We believe this should be clarified, otherwise it may cause confusion and result in unintended consequences, with additional risks and liabilities being placed on the Administrators inappropriately.

For example, specifically with respect to equity Benchmarks:

- We are unclear how this principles works in the situation where clients (such as banks, asset managers or asset owners) ask Administrators to calculate custom equity Benchmarks using (i)

the client's methodology or (ii) stock or country or sector exclusion lists (e.g., MSCI World Index ex Tobacco or MSCI World Index ex UK). An Administrator cannot maintain oversight or control over the client's methodology in this instance. These methodologies and exclusion lists are the clients' responsibilities and are determined by the applicable investment mandates. That is outside the scope of the Administrator role or capabilities, legal or otherwise.

- With respect to "publication", please see our comments above regarding distribution.
- The phrase "collection of inputs" could be interpreted as the aggregation of market data, e.g., licensing of price data and other market data from multiple stock exchanges to Administrators in aggregated feeds. This is the function that data aggregators (such as Thomson Reuters and Bloomberg), not Administrators, perform. We do not believe that it is the intent of the principles to make the Administrators responsible for data aggregators. Further, if collection of inputs refers to the provision of all data that goes into index calculation, that would unreasonably make the index provider responsible for parties such as stock exchanges.

Specifically with respect to real estate Benchmarks,

- The relevant third parties for real estate Benchmark compilation are investment managers and valuers. These third parties will be governed by their own professional bodies, with which IPD works on a regular basis to ensure that standards are relevant and consistent.
- Principles relating to data submissions/collection of inputs are handled under other principles. We believe it is confusing to include data submissions in this principle as well.

Principle 3 – Conflicts of Interest for Administrators

While we believe that conflicts of interest should be managed, mitigated or avoided and that strong governance structures are key to protecting the integrity and independence of Benchmark calculations, we believe that any list of measures should be provided as examples only. We believe that this will allow the appropriate level of flexibility to accommodate different types of Benchmarks.

Specifically with respect to equity Benchmarks, not all of 3(a) – (g) are workable. For example,

- Section 3(d) – While this may apply during rebalancing of equity Benchmarks, "sign-off" is unlikely and unrealistic for equity Benchmark performance levels, especially when thousands of Benchmarks are calculated daily, with many calculated every 15 seconds. Further, in general, "sign-off" for Benchmark performance levels may produce an anomalous result. Administrators do not approve Benchmark performance levels. The Benchmark performance levels are the result of calculations. Those figures should not be "signed off". In fact, we believe that may introduce conflicts of interest into the Benchmark calculation process.
- Section 3(g) – We think the provision is clearer if "Adequate remuneration" is deleted.
- With respect to the requirement to disclose any material conflicts of interest, it is not clear which regulatory authorities would constitute a Relevant Regulatory Authority in the case of a global index provider. Global equity index providers can create Benchmarks for dozens and dozens of country markets.

Principle 4 – Control Framework for Administrators

While we believe that appropriate control frameworks are important, some obligations may not be appropriate for all types of Benchmarks.

For example, we do not object to the information being provided to regulators, but we believe that parts of the control framework described in Section 4 may be confidential and may not be appropriate for external distribution more generally. For example,

- IT infrastructure and IT security policies are likely to be confidential for security reasons and not appropriate for external distribution.
- HR personnel policies and procedures (such as succession planning and employee review processes) are also company confidential information and not appropriate for external distribution.
- Data inputs should not necessarily be identified. In the equity index context, it may provide the data providers with additional leverage to try to increase their fees to the Administrator. In the real estate index context, submissions are kept confidential pursuant to contracts and clients are specifically not identified as contributors.

With respect to whistleblowing in Section 4(c), please note that many countries (particularly in Europe) prohibit or severely limit what can be reported through whistleblowing mechanisms. Whistleblowing can be an option but should not be required.

With respect to the section on Benchmarks based on Submissions and real estate Benchmarks:

- A tight framework of rules and other governance procedures is essential for Benchmark administration, and particularly for a complex asset class like real estate. The only way that Benchmarks can be built for real estate investment, given the scale, intricacy and ownership of the requisite data, is through voluntary submissions by investors, managers and asset valuers.
- The intent of all of the four approaches in Sections (a) through (c) suggested as additional requirements for submission based Benchmarks are reasonable, but must be read and applied in the context of an intrinsically voluntary measurement environment. In other words, it will often be impossible to *ensure* representativeness when the full universe of eligible portfolios is not knowable and enforced participation is not an available option. Moreover, frequency specification cannot be dictated to participants and can never exceed their chosen reporting regimes.
- There is no explicit reference in this section to data standards, which is one of the most important elements of any effort within real estate to improve comparability and consistency of data.

Principle 5 – Internal Oversight

While we strongly agree with establishing robust governance structures, we believe that certain detail regarding those structures may be inappropriate for external distribution generally, other than to regulators. We believe this particularly true where index providers are highly transparent in their processes and methodologies.

Further,

- We do not believe that the detail in Sections 5(a), 5(b), and in particular 5(c) should be subject to external distribution. With respect to MSCI equity indices, our committees are internal specifically because we believe that introducing external parties into our calculation and maintenance processes would introduce conflicts of interest into the process. As such, individuals are chosen based on factors such as merit and experience. However, this is strictly an internal matter as any internal appointment of an employee would be. We do not believe releasing the names of our employees is appropriate. For example, it could lead to market participants trying to lobby our committee members. It could also lead to competitors poaching our key employees. Further, it appears to be an overreaching infringement into individuals' privacy and would be subject to the relevant data protection/privacy legislation
- Details resulting from audits may not be appropriate for external distribution.

Generally, we believe it should be specified that internal governance committees are permitted.

With respect to Section (a)(iv) on page 16, we wish to point out that consultations in connection with cessation of an index may not be possible or appropriate. For equity Benchmarks, if a stock exchange terminates their agreement for data provision, there may be no opportunity for consultation. Further, if there is an event such as a closure of a stock exchange or suspension of trading or interruption in data transmission, consultation is not appropriate. Instead, the methodology should outline how events, such as stock exchange closures, are handled.

With respect to the section on Benchmarks based on Submissions and real estate Benchmarks, the specific submissions-based rules exceed the leverage available to an Administrator where the Benchmarking exercise is built upon voluntary participation. If there are misconduct or submission inadequacies by submitters there is only really one sanction available and that is their exclusion from the Benchmark. IPD certainly reserves this right and has (but only very rarely) exercised it. In addition, as a practical matter, where the number of submitters is high, requiring each of them to formally sign up to a Submitters Code of Conduct may not be administratively practical as opposed to taking reasonable measures to monitor data submissions for suspicious patterns or anomalies. We also question whether reporting "any anomalous or suspicious Submissions" to relevant Regulatory Authorities is practical, given that an anomaly may prove innocent on further review and a preliminary suspicion unfounded.

Principle 6 – Benchmark Design

Methodologies of a Benchmark aim to or are designed to achieve certain objectives, but Administrators cannot promise or guarantee that the design will "result an accurate and reliable representation" of an opportunity set.

Further, the features listed may not be applicable to all Benchmarks. In particular, Section (d) and the distribution of trading among Market Participants is not relevant for equity Benchmarks. As such, the list should be examples of considerations, but not a minimum list of considerations.

Principle 7 – Data Sufficiency

The data used should be appropriate to the type of Benchmark. Observable market transactions may be appropriate for some Benchmarks, such as equity Benchmarks. However for other Benchmarks, where prices or values do not exist or it is not practicable to use them, an Administrator should use data that it reasonably believes accurately reflects the values of the constituents in the Benchmark, taking into account such factors as the source of the data and any related potential conflicts of interest that might influence the data supplier.

For example, for real estate Benchmarks, which represent low liquidity, highly heterogeneous investment markets, valuations are expert and evidence driven judgments of a willing buyer/seller outcome, which provide the best estimation of a sale value at a measurement date when there likely will be little or no direct transaction data available (December 31st for instance). Research has shown that, allowing for short lag effects and a degree of smoothing, these correlate very well with actual transactions.

Principle 8 – Hierarchy of Data Inputs

We believe that Benchmarks, such as equity Benchmarks, that use transactional data or data from publicly available sources should be exempt from Section 8.

With respect to real estate Benchmarks, this proposed hierarchy does not capture the nature of the measurement problem – and only available solutions – within the real estate sector. Valuations have been demonstrated to be more reliable as indicators of market price movements than any mix of bids and offers. Disclosed bids/offers in real estate are often inaccurate or do not reflect actual outcomes due to the great potential for extended negotiation and the huge variety of incentives or deal specifics – rent free, breaks, lease length etc. In addition, professional valuations are demonstrably more reliable than, for example, the traded share prices of REITs as indicators of underlying real estate prices since the short term movement of REIT equities will be heavily driven by stock market sentiment.

Principle 9 – Periodic Review

We believe it is appropriate for Administrators to review methodologies, however, we do not believe that the publication of the review is necessary. If the review results in methodological changes, then those changes should be published and that should be sufficient.

Principle 10 – Content of the Methodology

We believe that most of the criteria outlined for methodologies are reasonable. However, some are not appropriate for all types of Benchmarks. For example,

- We do not believe it is appropriate to identify names of sources of data for the Benchmark. As explained above, for equity Benchmarks, this gives the data provider considerable control over the Benchmark and it restricts the Administrators ability to change data providers, to the extent there are alternatives. For real estate Benchmarks, it would cause the Administrator to violate contractual confidentiality obligations.

- We do not believe it is useful to require Administrators to publish a schedule of the frequency for internal reviews and approvals of index methodologies.
- Because equity and real estate Benchmarks can be used for a wide variety of purposes, we do not believe it is appropriate for the Administrator to identify the potential limitations of the Benchmark. This should be determined by the clients who have the particular expertise according to their particular use case or mandate.

With respect to real estate Benchmarks, extra provisions for submission-based Benchmarks are not particularly helpful in establishing inclusion/exclusion rules for real estate, where the criteria can become very complex.

Section 11 – Changes to the Methodology

While we agree that consultations are appropriate for material changes, they may not be appropriate for all changes (e.g., minor changes). Further, we do not believe that Administrators should be required to respond to Stakeholder comments or that Stakeholder's comments and the Administrator's responses should be made available. Responding to any particular Stakeholder (e.g., whether an acceptance or rejection of the feedback) could result in the release of price sensitive data. If consultations result in changes to methodologies then those changes should be announced as appropriate. That should be sufficient.

Section 12 - Transition

While we do agree that Benchmark methodologies should include descriptions of calculation policies during market disruptions, we do not believe financial instrument transition plans are within the control or determination of the Administrator. That is the role of the financial institution creating the financial instrument.

Additionally, it is not appropriate or necessary for the Administrator to be encouraging or advising Subscribers or Stakeholders on how to prepare for a transition, except to the extent that if the Administrator is providing a transition from one its Benchmarks to another it should clearly describe the methodologies of both Benchmarks and the timing of any transitions.

Further, it is not appropriate for the Administrator to tell the financial institutions what policies they need to have in place to make changes to financial instruments. That is a function of the applicable regulatory regime in the local jurisdiction and the rule and requirements relating to the financial instruments as well as the policies of the financial institution. These are not reviews or determinations that can be made by the Administrators.

Financial institutions determine the key attributes in the Benchmark that meet their investment objectives. It is not appropriate for the Administrator to identify the factors that the financial institution should use in choosing an alternative Benchmark. Further, where Benchmarks compete, it is not reasonable for Administrator to outline criteria for the financial institution to choose a competitor's Benchmark.

Finally, it should be clear that an index provider can cease to publish and index or modify an index when it thinks it is appropriate for commercial or other reasons.

Principle 13 – Submitter Code of Conduct

With respect to real estate Benchmarks, this list of components for a formal and mandatory code of conduct is far too extensive in a discretionary participation Benchmarking exercise. The most powerful force promoting quality and compliance is the design and consistent application of a single industry standard input data template. Thereafter, the use of the Benchmarked measurement results for onward reporting by investment managers will add a further and very effective discipline. To the extent that Principle 13 would require an Administrator to police certifications to and compliance with each provision of a detailed Submitter Code of Conduct, such a requirement is likely to result in high administrative costs and potential disruptions to Benchmarks if, for example, a Submitter's data is excluded from a Benchmark not because of any question about the accuracy of the data but because the Submitter failed to return a certification form in time or for some other non-substantive, non-compliance with a Code of Conduct.

Principle 14 - Internal Controls over Data Collection

This proposed procedure corresponds very closely with the practice developed and routinely applied by IPD in the collation of data inputs – in accordance with a single standard template – from voluntary participants in, or submitters to, the Benchmarking service. Thus a continuous process of quality assurance is deployed through the work of a team dedicated to checking both the data inputs provided and the processes of collation and validation subsequently applied to these inputs.

Principles 14, 15 and 16

We have no specific comments, except to ask for an explanation of what constitutes a complaint as opposed to a dispute regarding a Benchmarking determination. For example, would a user's stating that a corporate action should have been immediately reflected in an index be considered a complaint when the index methodology states that such a corporate action is not reflected until the next rebalancing of the index? Or would a disagreement over the characterization of a company's industry classification be considered a complaint for these purposes?

Principle 17 - Audit Trail

This list of procedures and documentation rules could become extremely onerous to implement and maintain and will increase the costs for the Administrators. This issue is particularly acute for Administrators that calculate large numbers of Benchmarks. MSCI calculates over 150,000 equity indices per day using over 150 data providers, with many data points provided at the end of the day or on a real time basis. Maintaining every tick of real time price data for hundreds or thousands of indices for five years could be prohibitively expensive for many Administrators. In addition, in some cases, once a license with a data provider terminates, data must be expunged from the licensee's systems.

Principle 18

We have no specific comments.

Definitions:

We believe that "benchmark determination" should be defined.

"Benchmark Administration" should not necessarily include dissemination for the reasons outlined above. We believe references to administration, maintenance, or calculation would be appropriate.

The definition of “Submission” should be modified to limit it to data that was created with a primary purpose for use in a Benchmark.

We believe that the definition “Subscriber” is slightly problematic when describing a licensee of Benchmarks. Licensees do not purchase services. Because Benchmarks constitute intellectual property, licensees receive a license from the licensor to use the Benchmarks as permitted by the licensor (i.e., the Administrator).

The term user is not defined but Stakeholder is. The clients of Administrators are typically institutional clients, not retail clients. It is unclear whether Stakeholders are intended to cover just subscribers or the retail clients. If it’s the latter then many of the disclosure requirements are effectively public disclosures which may be overbroad and inappropriate.

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