

IOSCO FREQUENTLY ASKED QUESTIONS ON IPD INDEXES AND BENCHMARKS

June 2015

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WHAT OR WHO IS IOSCO?

The International Organization of Securities Commissions (IOSCO) is an association of organisations that regulate the world’s securities and futures markets. The recent global financial crisis, in particular the issues related to the LIBOR rates, highlighted that further transparency is required with some financial measurements and benchmarks. To address this, IOSCO published a report on principles for financial benchmarks in July 2013 consisting of an overarching framework for benchmark-related activities.

IOSCO has called on benchmark administrators to publicly disclose the extent of their compliance with the Principles within 12 months of the publication of the report.

WHY HAS IOSCO PUT FORWARD THESE PRINCIPLES?

IOSCO developed these Principles in light of investigations and enforcement actions regarding attempted manipulation of major interest rate benchmarks, including the LIBOR. These raised concerns over the fragility of certain benchmarks – in terms of both their integrity and continuity of provision – that could undermine market confidence, potentially harming both investors and the real economy.

WHAT IS MSCI DOING AND WHY?

MSCI has a long history of defining and adopting best practice with respect to its index and benchmark policies and procedures. In line with this, we are in the process of incorporating the IOSCO Principles for Financial Benchmarks in our real estate index business, which will further enhance the governance and transparency around our activities related to producing real estate indexes and benchmarks.

Whilst there have been no questions over the IPD indexes and benchmarks that MSCI provides, we feel it is important to follow the principles put forth by IOSCO.

WHAT DOES IT MEAN FOR DATA SUBMITTERS SUBSCRIBING TO THE IPD PORTFOLIO ANALYSIS SERVICE (PAS)?

Our clients will see increased transparency in the design and methodology of our indexes and benchmarks. They will have more clarity on our policies and procedures around the benchmark determination process including changes in methodology; inclusion and exclusion of data submitters; cessation of indexes and benchmarks.

By asking data submitters to adhere to our Data Submitter Code of Conduct, the data

submission processes for assets included in the indexes and benchmarks will be in line with international guiding principles and best practice.

HOW DO DATA SUBMITTERS INDICATE THEIR COMPLIANCE WITH THE DATA SUBMITTER CODE OF CONDUCT?

A reference to the Data Submitter Code of Conduct will be included in the Fund Checking Report. The standards outlined in this Code of Conduct will now be included alongside the existing measures that are considered as part of the periodic data quality reviews. From time to time, we may contact a submitter to discuss adherence to these standards to understand where they may have difficulty complying.

The sign off process for the Fund Checking Report does not change.

CAN SOMEONE ELSE (FOR EXAMPLE A CONTRACTOR) SIGN OFF ON BEHALF OF THE CLIENT?

There will be no changes to the current Fund Checking Report sign off process.

A CLIENT’S DATA COMES FROM SEVERAL SOURCES; DO THEY ALL HAVE TO BE COMPLIANT?

The Data Submitter Code of Conduct covers all data provided to us. This is in line with the current sign off process for the Fund Checking Report. It is important to the quality and integrity of the IPD indexes and benchmarks that all data is submitted according to consistent standards.

WILL MSCl MANAGE THE SIGN OFF PROCESS OF A CLIENT’S CONTRACTORS FOR THEM?

We will continue to work with the client to manage the final sign off of the data through the Fund Checking Report. A reference to the Data Submitter Code of Conduct will be included within this report.

WILL MSCl PROVIDE THE CLIENT TRAINING OR REIMBURSE THE COSTS?

We do not intend to provide specific training, however we are keen to support our clients and if they feel that they require further support, they should contact their client consultant or send us an email at realestate@msci.com and we will do our best to meet their needs.

IS THIS A LEGAL REQUIREMENT?

IOSCO is an international set of principles, which are currently voluntary, but which we are committed to following. In addition, local regulators expect compliance.

PART OF A CLIENT’S INTERNAL DUE DILIGENCE IS TO NOT TAKE RESPONSIBILITY FOR THE VALUATION DATA PROVIDED, THEREFORE MAY NOT FEEL ABLE TO SIGN OFF THE VALUATIONS.

The final fund sign off process will not change and so the Fund Checking Report will need to be signed off in the normal way. A reference to the Data Submitter Code of Conduct will be included in the Fund Checking Report. The standards outlined in the Data Submitter Code of Conduct will now be included alongside the existing measures that are considered as part of the periodic data quality reviews.

IF SOME DATA PROVIDERS DO NOT SIGN OFF THE DATA, WILL THIS MEAN A WORSE QUALITY INDEX? AT WHAT POINT WILL WE STOP A SERVICE?

The IOSCO principles and the Data Submitter Code of Conduct for the IPD Portfolio Analysis Service are aimed at improving the quality, transparency and integrity of our indexes and benchmarks. We do not expect the principles to have any detrimental effect on the products that we produce. Data submitters are already subject to quality reviews and have been for many years. Adherence with the Data Submitter Code of Conduct will be one more element of those quality reviews. As previously, if the quality of data provided by a submitter is negatively impacting the quality of an index/benchmark, that submitter may be excluded from the universe. We are committed to ensure that our products are of the highest quality and address market needs.

WHEN DO DATA SUBMITTERS NEED TO DO THIS – WHAT IS THE TIMETABLE?

Starting immediately our standard Fund Checking Report will include a reference to the Data Submitter Code of Conduct and the standards outlined therein will now be included alongside the existing measures that are considered as part of the periodic data quality reviews.

WHAT IF THE DATA SUBMITTER DOESN’T SIGN THEM OFF?

The sign off process through the Fund Checking Report will not change. We do expect submitters to make a reasonable effort to follow the Data Submitter Code of Conduct, and will review their efforts through the data quality review process.

WILL THIS CREATE ADDITIONAL WORK FOR THE DATA SUBMITTER?

This depends on what they do at the moment, however we expect most of what is required will already be part of their processes. Implementing any additional processes outlined in the Data Submitter Code of Conduct should provide confidence to the submitter that they are following best practices and international standards.

WILL THIS CHANGE THE IPD INDEXES?

We will not be changing our indexes or benchmarks because of the IOSCO Principles. However, we are constantly striving to address the needs of our clients and the market which may result in index and benchmark changes in the future.

HOW WILL IT HELP MSCI CLIENTS OF THE PORTFOLIO ANALYSIS SERVICE?

It will help to make sure that the client's processes are in line with best practice and that the indexes and benchmarks that we provide continue to be high quality.

HOW CAN A CLIENT FIND OUT MORE INFORMATION?

They should either get in touch with their client consultant or send us an email at realestate@msci.com and we will do our best to address the client's questions.

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Our line of products and services includes indexes, analytical models, data, real estate benchmarks and ESG research.

MSCI serves 98 of the top 100 largest money managers, according to the most recent P&I ranking.

For more information, visit us at www.msci.com.

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