

Q&A: Reclassification of Iceland to Frontier Markets

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1 INTRODUCTION

On June 23, 2020, MSCI announced that it will reclassify the MSCI Iceland Index from Standalone Markets to Frontier Markets status. MSCI will include the MSCI Iceland Index in the MSCI Frontier Markets Index in one step coinciding with the May 2021 Semi-Annual Index Review (SAIR).

The purpose of this document is to address commonly asked questions related to these changes in the MSCI Equity Indexes.

2 Reclassification of Iceland to Frontier Markets from Standalone Markets

2.1 General Questions on the Reclassification of Iceland

What will be the key impact of the reclassification of Iceland to Frontier Markets?

As a result of the reclassification, the MSCI Iceland Indexes will be added to the MSCI Frontier Markets (FM) Indexes.

When will the inclusion of the MSCI Iceland Indexes to the MSCI Frontier Markets Indexes take place?

The MSCI Iceland Indexes will be added to the MSCI Frontier Markets Indexes in one step as part of the May 2021 Semi-Annual Index Review (SAIR), to be implemented as of the close of May 27, 2021.

Why did MSCI decide to reclassify Iceland to Frontier Markets?

The capital controls in Iceland, including the Special Reserve Ratio, were removed on March 6, 2019. While certain reporting requirements for fund repatriation remained in place, based on feedback from market participants, this no longer materially impacts the accessibility of the Icelandic equity market for international institutional investors.

This drove MSCI's decision to reclassify Iceland to Frontier Markets as part of the May 2021 SAIR.

Does MSCI provide an indicative list of Iceland securities that will be added to the MSCI Frontier Markets Indexes?

Yes. A simulated list of securities in the Investable Universe of the MSCI Iceland Indexes can be found on <https://www.msci.com/market-classification>

2.2 Index Maintenance of the MSCI Iceland Indexes

How will MSCI rebalance the MSCI Iceland Indexes at the time of the May 2021 SAIR?

MSCI will apply the index maintenance rules of the MSCI GIMI methodology on the MSCI Iceland Indexes using Frontier Markets size and liquidity requirements as part of the May 2021 SAIR.

Are there differences in the index maintenance requirements applied to the MSCI Iceland Indexes prior to and after the reclassification?

Yes. Following the reclassification, the MSCI Iceland Indexes will continue to be classified under Smaller Frontier Markets but will be categorized under low liquidity markets starting at the May 2021 SAIR. Currently, the MSCI Iceland Indexes are categorized under very low liquidity markets.

Will there be changes in the Global Minimum Size References that will be applicable to the MSCI Iceland Indexes post reclassification?

No. The Global Minimum Size References for Smaller Frontier Markets, which is 25% of the Developed Markets Global Minimum Size References, will continue to be used for the MSCI Iceland Indexes.

What free float-adjusted market capitalization requirement will be applicable to the MSCI Iceland Indexes post reclassification?

The minimum free float-adjusted market capitalization threshold for the MSCI Iceland Indexes will continue to be 25% of the Equity Universe Minimum Size Requirement, which is applicable to Frontier Markets.

What liquidity requirements will be applicable to the MSCI Iceland Indexes post reclassification?

Iceland securities will be assessed against Frontier Markets liquidity requirements for low liquidity markets. The minimum 12-month Average Traded Value Ratio (ATVR) for newly eligible securities and existing IMI constituents in low liquidity markets is 5% and 2/3 of 5% respectively. In addition, the minimum 12-month Frequency of Trading for newly eligible securities and existing IMI constituents are 50% and 10% respectively.

In case of trading suspensions of individual securities, will the inclusion of the securities in the MSCI Frontier Markets Indexes be postponed?

At the time of the inclusion of the MSCI Iceland Indexes to the MSCI Frontier Markets Indexes, MSCI will apply suspension treatment from the perspective of the MSCI Frontier Markets Indexes.

2.3 Ongoing Event Maintenance Methodology Impact on the MSCI Indexes

Is MSCI applying any special treatment related to corporate events in the period leading to the inclusion in the MSCI Emerging Markets Indexes?

No, treatment for corporate events will be in accordance with the MSCI Corporate Events Methodology.

2.4 Impact of the Inclusion of Iceland on Selected MSCI Indexes

Will there be any impact on the MSCI Islamic Indexes?

Yes. Following the reclassification, Iceland securities will be reviewed for eligibility in the MSCI Islamic Indexes as part of the August 2021 QIR.

Will there be any impact on the MSCI Frontier Markets 100, MSCI Frontier Markets 15% Capped Indexes?

Yes. As announced on February 9, 2021, following feedback received from market participants on the consultation on the eligibility of the MSCI Iceland Index for the MSCI Frontier Markets 100 and MSCI Frontier Markets 15% Country Capped Indexes, Iceland will become eligible for inclusion in these indexes as part of the May 2021 SAIR.

Will there be any impact on the MSCI Frontier Emerging Markets Index?

Yes. New countries included in the MSCI Frontier Markets Index are simultaneously included in the MSCI Frontier Emerging Markets Index. As such, Iceland will be eligible for this index as part of the May 2021 SAIR.

Will there be any impact on the methodology and maintenance of the MSCI Factor, Capped and Thematic Indexes (“Derived Indexes”)?

There will be no methodology change for the MSCI Factor, Capped and Thematic Indexes following the reclassification. These indexes will use the weights from the underlying MSCI Global Investable Market Indexes. The specific Derived Index rebalancing methodology will then be applied and no further adjustments will be made to the weight of the Iceland securities post the Derived Index rebalancing.

Will MSCI provide simulated snapshots for the MSCI Factor, Capped and Thematic Indexes?

Yes, simulated snapshots for certain indexes may be available upon client request subject to feasibility.

Will there be any impact on the MSCI Hedged Indexes?

Iceland Krona (ISK) spot and forward exchange rates will be used to represent locally-listed Iceland securities in the calculation of the MSCI Hedged Indexes starting from the May 2021 SAIR. As foreign listings became eligible for the MSCI Iceland Indexes starting at the November 2020 SAIR, appropriate foreign exchange rates will be used for foreign-listed securities in the MSCI Iceland IMI.

What should a client do with regard to custom indexes that may be impacted by the inclusion of Iceland securities?

Clients who do not wish the inclusion of Iceland securities in the MSCI Frontier Markets Indexes to impact a custom index should contact an account representative for further details and requests for amending the custom index.

What new custom indexes may potentially be created?

On a custom basis, MSCI may provide indexes calculated based on various composites including or excluding Iceland securities upon request.

2.5 Impact on MSCI Product Files

Will there be any impact on product files?

The delivery of MSCI product files and formats will remain unaffected. Please note that the MSCI Iceland Indexes will be added to relevant MSCI Index Products effective May 4, 2021. Details on content changes to products resulting from the reclassification of Iceland to Frontier Markets were announced as part of the technical communication sent on March 3, 2021.

When will the changes be reflected in the real time index calculations?

The inclusion of Iceland securities in the MSCI Frontier Markets Indexes will be reflected at the open of May 28, 2021.

Contact us

clientservice@msci.com

AMERICAS

Americas	1 888 588 4567 *
Atlanta	+ 1 404 551 3212
Boston	+ 1 617 532 0920
Chicago	+ 1 312 675 0545
Monterrey	+ 52 81 1253 4020
New York	+ 1 212 804 3901
San Francisco	+ 1 415 836 8800
São Paulo	+ 55 11 3706 1360
Toronto	+ 1 416 628 1007

EUROPE, MIDDLE EAST & AFRICA

Cape Town	+ 27 21 673 0100
Frankfurt	+ 49 69 133 859 00
Geneva	+ 41 22 817 9777
London	+ 44 20 7618 2222
Milan	+ 39 02 5849 0415
Paris	0800 91 59 17 *

ASIA PACIFIC

China North	10800 852 1032 *
China South	10800 152 1032 *
Hong Kong	+ 852 2844 9333
Mumbai	+ 91 22 6784 9160
Seoul	00798 8521 3392 *
Singapore	800 852 3749 *
Sydney	+ 61 2 9033 9333
Taipei	008 0112 7513 *
Thailand	0018 0015 6207 7181 *
Tokyo	+ 81 3 5290 1555

* = toll free

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