

Q&A: Reclassification of Kuwait to Emerging Markets

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1 INTRODUCTION

On December 18, 2019, MSCI announced that the MSCI Kuwait Indexes would be reclassified to Emerging Markets from Frontier Markets.

On April 08, 2020 MSCI announced that the reclassification will be implemented in one step coinciding with the November 2020 Semi-Annual Index Review (SAIR)¹.

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

For further details please refer to Appendix XII of the MSCI Global Investable Market Indexes (GIMI) methodology book available at: <https://www.msci.com/index-methodology>.

¹ As announced on April 08, 2020, MSCI has postponed the implementation to the November 2020 Semi Annual Index Review.

2 **Reclassification of Kuwait to Emerging Markets from Frontier Markets**

2.1 **General Questions on the Reclassification of Kuwait**

What will be the key impact of the reclassification of Kuwait to Emerging Markets?

As a result of the reclassification, the MSCI Kuwait Indexes will be deleted from the MSCI Frontier Markets (FM) Indexes and will simultaneously be added to the MSCI Emerging Markets (EM) Indexes as well as the MSCI ACWI Indexes, which include both Emerging Markets and Developed Markets.

When will the inclusion of the MSCI Kuwait Indexes to the MSCI Emerging Markets Indexes take place?

The MSCI Kuwait Indexes will be added to the MSCI Emerging Markets Indexes in one step as part of the November 2020 Semi-Annual Index Review (SAIR).

When will the reclassification of the MSCI Kuwait Indexes to Emerging Markets be effective?

The reclassification of Kuwait to Emerging Markets will be implemented coinciding with the November 2020 SAIR.

Why did MSCI decide to reclassify Kuwait to Emerging Markets?

Kuwait's Market Development Project, which started in 2017, has brought numerous regulatory and operational enhancements to the Kuwaiti equity market, such as the removal of foreign ownership restrictions on listed banks and simplification of requirements for investor registration, which have significantly opened the domestic equity market to international institutional investors.

Furthermore, the Kuwait Capital Market Authority (CMA) has amended its regulations to make omnibus account structures and same NIN cross trade capabilities available for international institutional investors.

Such market improvements drove MSCI's decision to reclassify Kuwait to Emerging Markets.

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

Yes. Clients may refer to the MSCI Provisional Kuwait Indexes, which were launched on January 31, 2020. The MSCI Provisional Kuwait Indexes were constructed by applying EM index maintenance rules (including buffers) on the MSCI Kuwait Indexes at the time of the November 2019 SAIR. A list of the provisional indexes available can be found in Section 2.5 of this document.

Index constituent data of the provisional indexes are delivered through Integrated Client Files (ICF) upon request.

A snapshot of the list of constituents for the MSCI Provisional Kuwait IMI can also be found on <https://www.msci.com/market-classification>

2.2 Index Maintenance of the MSCI Kuwait Indexes

How will MSCI rebalance the MSCI Kuwait Indexes at the time of the November 2020 SAIR?

MSCI will apply the index maintenance rules of the MSCI GIMI methodology on the MSCI Provisional Kuwait Indexes using Emerging Markets size and liquidity requirements as part of the November 2020 SAIR. The MSCI Kuwait Indexes will then converge with the MSCI Provisional Kuwait Indexes at the November 2020 SAIR.

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

Following the reclassification, the MSCI Kuwait Indexes will be rebalanced using Emerging Markets size and liquidity requirements instead of the current Frontier Markets requirements.

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

No. The Global Minimum Size References for Emerging Markets, which is 50% of the Developed Markets Global Minimum Size References, is the same used for Larger Frontier Markets where Kuwait is currently classified.

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

Post reclassification, the minimum free float-adjusted market capitalization threshold will be 50% of the Market Size-Segment Cutoff for each Size-Segment as defined in Section 2.3.5.1 of the MSCI GIMI Methodology. Currently, the minimum free float-adjusted market capitalization threshold for the MSCI Kuwait Indexes is 25% of the Equity Universe Minimum Size Requirement.

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

Kuwait securities will be assessed against Emerging Markets liquidity requirements as described in Section 2.2.5 of the MSCI GIMI Methodology.

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?

Yes. As announced on January 31, 2020, to prevent potential reverse turnover once the indexes start to use the Emerging Markets size and liquidity requirements, newly eligible securities will not be added to the MSCI Kuwait IMI as part of a regularly scheduled Index Review starting from the February 2020 Quarterly Index Review (QIR).

In line with this, IPOs and early inclusions will also not be added to the MSCI Kuwait IMI as part of ongoing daily maintenance from March 2, 2020 until the November 2020 SAIR. However, addition of securities due to spin-offs and mergers/acquisitions will be treated as normally and may continue to be added during this period.

Is MSCI applying any special treatment on the MSCI Provisional Kuwait Indexes?

No. The provisional indexes follow the MSCI GIMI Methodology and the MSCI Corporate Events Methodology. All IPOs or newly eligible securities that meet the necessary inclusion requirements (based on Emerging Markets rules) may be added to the MSCI Provisional Kuwait Indexes.

2.4 Impact of the Inclusion of Kuwait on Selected MSCI Indexes

Will there be any impact on the MSCI Kuwait Domestic Indexes?

Yes. Following the inclusion of the MSCI Kuwait Indexes to the MSCI Emerging Markets Indexes, the MSCI Kuwait Domestic Indexes will be rebalanced based on Emerging Markets requirements for size and liquidity starting at the November 2020 SAIR, instead of the current Frontier Markets requirements.

Will there be any impact on the MSCI Islamic Indexes?

Yes. The MSCI Kuwait Islamic Indexes will be deleted from the MSCI Frontier Markets Islamic Indexes and added to the MSCI Emerging Markets Islamic Indexes as part of the November 2020 SAIR after applying index maintenance rules as per the MSCI Islamic Index Methodology.

Will there be any impact on the MSCI Islamic M Series Indexes?

Yes. MSCI will rebalance the MSCI Provisional Emerging Market Islamic M Series with Kuwait Index as per the MSCI Islamic Methodology as part of the November

2020 SAIR. The pro forma Kuwaiti constituents of the provisional index will then be included in the MSCI Emerging Market Islamic M Series Indexes.

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

As announced on April 8, 2020, the constituents of the MSCI Kuwait Indexes will be deleted from the MSCI Frontier Emerging Markets Index in one step as part of the November 2020 SAIR.

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

There will be no methodology change for the Derived Indexes following the reclassification. The Derived 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 Kuwait securities post the Derived Index rebalancing.

What is the timeline for inclusion of Kuwait securities in the MSCI ESG Indexes?

Kuwait securities will be eligible for inclusion in the MSCI ESG Indexes starting from the November 2020 SAIR.

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

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

Will there be any impact on the MSCI Hedged Indexes?

Kuwaiti Dinar (KWD) spot and forward exchange rates will be used to represent Kuwaiti securities in the calculation of the MSCI Hedged Indexes starting from the November 2020 SAIR.

Will there be any impact on the MSCI EM 50 Index?

There will be no change to the MSCI EM 50 Index methodology. Following inclusion in the MSCI Emerging Markets Indexes in November 2020 SAIR, Kuwait securities will be eligible for potential inclusion in the MSCI EM 50 Index.

When will Kuwait be included in the MSCI Emerging Markets GDP Index?

If a new country is added to the underlying Parent Index in between the annual reviews, it is not added to the MSCI GDP Weighted Indexes at the same time, but will be included at the next annual index review, hence Kuwait will be included in the MSCI Emerging Markets GDP Index and the MSCI ACWI GDP Index as part of the May 2021 Semi-Annual Index Review.

Will MSCI provide MSCI Global Value Growth (GVG) factors for Kuwait securities?

Yes. The MSCI GVG Country Indexes are based on the underlying MSCI Global Investable Market Indexes. Following the inclusion of Kuwait securities, MSCI Kuwait GVG Indexes will be constructed based on the MSCI Kuwait Indexes post reclassification.

Does MSCI provide Value and Growth Inclusion Factors for the provisional indexes?

No. MSCI does not provide Value and Growth Inclusion Factors for the provisional indexes.

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

Clients who do not wish the inclusion or exclusion of Kuwait securities 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 Kuwait securities upon request.

2.5 MSCI Provisional Kuwait Indexes

MSCI has made available the following provisional indexes containing or excluding Kuwait securities:

- MSCI Provisional Kuwait Index
- MSCI Provisional Kuwait IMI
- MSCI Provisional ACWI with Kuwait Index
- MSCI Provisional ACWI IMI with Kuwait
- MSCI Provisional EM with Kuwait Index
- MSCI Provisional EM Small Cap with Kuwait Index
- MSCI Provisional EM IMI with Kuwait
- MSCI Provisional EM EMEA with Kuwait Index
- MSCI Provisional EM EMEA IMI with Kuwait
- MSCI Provisional FM (Frontier Markets) ex Kuwait Index

- MSCI Provisional FM (Frontier Markets) IMI ex Kuwait
- MSCI Provisional EM Islamic M Series with Kuwait Index

2.6 Impact on MSCI Product Files

Will there be any impact on product files?

The delivery of MSCI product files and formats will remain unaffected. For details on content changes to products resulting from the reclassification of Kuwait to Emerging Markets refer to the technical communication sent by MSCI.

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

The inclusion of Kuwait securities in the MSCI Emerging Markets and MSCI ACWI Indexes will be reflected at the effective date of the November 2020 SAIR.

Will MSCI provide the full list of securities comprising the Standard Size-Segment of the MSCI Kuwait Indexes?

Yes. In order to provide more transparency to clients on the construction and maintenance of the MSCI Provisional Kuwait Indexes, MSCI has made available a list of securities that are part of the Investable Equity Universe. The list is available on <https://www.msci.com/market-classification>.

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