

## MSCI MARKET CLASSIFICATION FRAMEWORK

The classification of markets is a key input in the process of index construction as it drives the composition of the investment opportunity sets to be represented. The approach used by MSCI aims to reflect the views and practices of the international investment community by striking a balance between a country’s economic development and the accessibility of its market while preserving index stability.

The MSCI Market Classification Framework consists of following three criteria: economic development, size and liquidity as well as market accessibility.

In order to be classified in a given investment universe, a country must meet the requirements of all three criteria as described in the table below.

Criteria	Frontier	Emerging	Developed
<b>A Economic Development</b>  A.1 Sustainability of economic development	No requirement	No requirement	Country GNI per capita 25% above the World Bank high income threshold* for 3 consecutive years
<b>B Size and Liquidity Requirements</b> B.1 Number of companies meeting the following Standard Index criteria Company size (full market cap)** Security size (float market cap)** Security liquidity	2 USD 797 mm USD 71 mm 2.5% ATVR	3 USD 1,594 mm USD 797 mm 15% ATVR	5 USD 3,187 mm USD 1,594 mm 20% ATVR
<b>C Market Accessibility Criteria</b> C.1 Openness to foreign ownership C.2 Ease of capital inflows / outflows C.3 Efficiency of operational framework C.4 Competitive landscape C.5 Stability of the institutional framework	At least some At least partial Modest High Modest	Significant Significant Good and tested High Modest	Very high Very high Very high Unrestricted Very high

\* High income threshold for 2017: GNI per capita of USD 12,235 (World Bank, Atlas method)

\*\* Minimum in use for the May 2018 Semi-Annual Index Review, updated on a semi-annual basis

The economic development criterion is only used in determining the classification of Developed Markets while that distinction is not relevant between Emerging and Frontier Markets given the very wide variety of development levels within each of these two universes.

The size and liquidity requirements are based on the minimum investability requirements for the MSCI Global Standard Indexes.

Market accessibility aims to reflect international institutional investors' experience of investing in a given market and as a result, this criterion includes several sub-criteria. These criteria are generally based on qualitative measures that are reviewed for all markets at least once a year during the MSCI Global Market Accessibility Review.

MSCI regularly reviews the market classification of all countries included in the MSCI Indexes to ensure that they remain reflective of the evolution of the different markets. In particular, changes in the assessments under the classification framework serve as the basis for determining the markets that will be reviewed for potential market reclassification as part of the Annual Market Classification Review.

MSCI will only consider markets for upgrade if a change in classification status can be viewed as irreversible. Every June, MSCI will communicate its conclusions from the discussions with the investment community on the list of countries under review and announce the new list of countries, if any, under review for potential market reclassification in the upcoming cycle. While adhering to the regular time line for such communication helps provide greater predictability and is less disruptive to a market's normal functioning, MSCI may from time to time exercise prudent discretion and consider off-cycle communications should significant market events take place outside the regular review cycle.

## MARKET ACCESSIBILITY MEASURES

	Definition
<b>Openness to foreign ownership</b>	
Investor qualification requirement	Existence of qualifying conditions for international investors. Existence of a level playing field for all international investors.
Foreign ownership limit (FOL) level	Proportion of the market being accessible to non-domestic investors.
Foreign room level	Proportion of shares still available for non-domestic investors. Existence of a foreign board where non-domestic investors could trade with each other.
Equal rights to foreign investors	Equal economic and voting rights as well as availability of information in English. Equal rights for minority shareholders.
<b>Ease of capital inflows / outflows</b>	
Capital flow restriction level	Existence of restriction on inflows and outflows of foreign capital to/from the local stock market (excluding foreign currency exchange restrictions).
Foreign exchange market liberalization level	Existence of a developed onshore and offshore foreign exchange market.
<b>Efficiency of the operational framework</b>	
<b>Market entry</b>	
Investor registration & account set up	Existence/level of complexity of registration requirements for international investors such as Tax IDs as well as ease/complexity for setting up local accounts (e.g., documents to be provided, approvals required). The time to complete the process includes the preparation of the documents.
<b>Market organization</b>	
Market regulations	Level of advancement of the legal and regulatory framework governing the financial market, the stock exchange and the various other entities involved in the financial markets, an important weight is assigned to: ease of access (including in English), lack of ambiguity and prompt enforcement of laws and regulations, as well as consistency over time.
Information flow	Timely disclosure of complete stock market information items (e.g., stock exchange alerts, corporate news, float information, dividend information) in English and under reasonable commercial terms, as well as the robustness and enforcement of accounting standards.
<b>Market infrastructure</b>	
Clearing and Settlement	Well functioning clearing and settlement system based on the broad framework published by the Bank for International Settlements including delivery versus payment (DVP), the absence of pre-funding requirements/practices and the possibility to use overdrafts. Availability of real omnibus structures.
Custody	Level of competition amongst local custodian banks as well as the presence of global custodian banks. Existence of an efficient mechanism that prevents brokers to have unlimited access to the investor's accounts and guarantees the safekeeping of its assets.
Registry / Depository	A well functioning central registry or independent registrars and a central depository.
Trading	Level of competition amongst brokers ensuring high quality services (e.g., cost efficient trading, ability to execute grouped trades at the same price for the various accounts of a fund manager).
Transferability	Possibility of off-exchange transactions and "in-kind" transfers.
Stock lending	Existence of a regulatory framework as well as an efficient mechanism allowing extensive use of stock lending.
Short selling	Existence of a regulatory and practical framework allowing short selling.
<b>Availability of Investment Instruments</b>	Over the years, investors have increasingly been using a variety of investment instruments, such as exchange traded funds, futures, options, swaps and structured products, onshore and offshore, as a complement to direct equity investment to the point that these have become an integral part of their investment processes. Today, the availability of such instruments has become critical to international investors for a number of their investment activities such as gaining exposure to markets, hedging of investments, equitization of cash positions or overlay strategies. Hence, it is expected that stock exchanges, which often have legal or natural monopolies, should not impose clauses in their provision of stock market data, such as securities' prices, that could lead directly or indirectly to restricting the availability of investment instruments globally. These clauses typically restrict investors' access to derived stock exchange information, data and products, including, for example, the provision of independently calculated indexes or the creation of investment instruments based on such indexes. In addition, the imposition of these types of clauses can result in global or regional investment instruments becoming in breach of local market rules, regulations or other restrictions. The existence of these types of practices will lead to a negative assessment.
<b>Stability of institutional framework</b>	Basic institutional principles such as the rule of law and its enforcement as well as the stability of the "free-market" economic system. Track record of government intervention with regards to foreign investors.

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\* = toll free

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