

GENERAL Q&A

Treatment of Greece in the MSCI Indexes in the event of prolonged market accessibility issues and/or exit from the European Monetary Union

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CONTENTS

Introduction..... 3

Potential impact of prolonged market accessibility issues on the market classification of the MSCI Greece Indexes 4

Potential impact of exit of Greece from eurozone on the MSCI Indexes 8

Potential impact on MSCI product files 10

INTRODUCTION

The purpose of this document is to address commonly asked questions regarding the treatment of Greece in the MSCI Indexes in the event of prolonged market accessibility issues and/or a potential exit of the country from the eurozone. The content of this Q&A is based on the publicly available information as of July 14, 2015 and may be revised as new information becomes available.

Since June 28, 2015, the Greek authorities have introduced a number of market measures which have led to a material deterioration of the accessibility of the Greek equity market.

- The Athens Stock Exchange and the Greek banks have been closed since June 29, 2015 and will remain closed at least until July 15, 2015 (inclusive).
- Capital control measures were introduced on June 29, 2015 and will remain in place at least until July 15, 2015 (inclusive).

MSCI is closely monitoring the situation in the Greek equity market and in particular the impact of the market closure and capital controls on international institutional investors. MSCI welcomes feedback from market participants on the practical implications of these restrictive measures.

As per the MSCI Market Classification Framework, the introduction of prolonged restrictive measures, which result in a material deterioration in the accessibility of the Greek equity market, may lead to the reclassification of the MSCI Greece Index to Standalone Market status from Emerging Markets status. Such an action would be preceded by a public consultation.

Please note that as a general practice, closures of stock exchanges of less than 40 consecutive business days do not lead to any action from MSCI in the MSCI Global Investable Market Indexes, i.e., MSCI carries forward the previous day prices in the MSCI indexes. After this period has elapsed, MSCI may potentially launch a consultation on a proposal regarding the respective MSCI Country Index's inclusion in the MSCI Global and Regional Indexes, such as the MSCI Emerging Markets or MSCI ACWI Indexes. MSCI welcomes feedback from market participants on whether it would be appropriate to follow this general practice in the case of the current market closure in Greece or if any alternative treatment would be warranted.

As of July 13, 2015, the MSCI Greece Index has 9 constituents and a weight of 0.33% in the MSCI Emerging Markets (EM) Index and of 4.44% in the MSCI EM Europe Index. The MSCI Greece Investable Market Index (IMI), which includes large, mid and small cap securities, has 23 constituents and a weight of 0.38% in the MSCI Emerging Markets (EM) Index and of 5.41% in the MSCI EM Europe IMI Index.

POTENTIAL IMPACT OF PROLONGED MARKET ACCESSIBILITY ISSUES ON THE MARKET CLASSIFICATION OF THE MSCI GREECE INDEXES

Is MSCI currently consulting on a proposal to exclude the MSCI Greece Index from Emerging Markets?

No. At this stage, MSCI has not launched any consultation on a proposal to exclude the MSCI Greece Index from Emerging Markets. Should MSCI launch such a consultation, MSCI would release a public announcement with all the relevant details on the proposal.

What is the standard process for reviewing the classification of markets?

The classification of a market would typically be assessed as part of the Annual Market Classification Review, the results of which are announced in June each year.

What are the potential outcomes of the Annual Market Classification Review?

As part of the Annual Market Classification Review, MSCI determines which MSCI Country Indexes may require a change in their market classification status. The possible classifications are: Developed Markets, Emerging Markets, Frontier Markets, and Standalone Markets.

What factors may affect a market classification in the MSCI Indexes?

The MSCI Market Classification Framework consists of the following three criteria: economic development, size and liquidity as well as market accessibility. Please refer to the [MSCI's web site](#) for further information.

Would MSCI conduct a client consultation prior to a market reclassification?

Yes. MSCI would conduct a client consultation prior to any market reclassification.

How long would it typically take for an MSCI Country Index to be reclassified under the Annual Market Classification Review?

Under the Annual Market Classification Review process an MSCI Country Index would generally be reclassified at the earliest two years after the launch of the consultation on the reclassification proposal.

Could MSCI review the market classification of an MSCI Country Index outside the Annual Market Classification Review?

Yes. In the case of material deterioration of the accessibility of a given equity market due to the introduction of prolonged restrictive measures, MSCI may review the market classification of this MSCI Country Index on an ad-hoc basis.

How long would it take for a MSCI Country Index to be reclassified outside the Annual Market Classification Review?

The time frame for the market reclassification of an MSCI Country Index outside the Annual Market Classification Review would depend on the severity of the market accessibility issues. Historically it ranged from one month (MSCI Malaysia in 1998) to four months (MSCI Pakistan in 2008). In any event, MSCI would strive to provide as much lead time as practically possible to clients, between the announcement of the reclassification and its implementation.

Could an ad-hoc market classification be implemented outside of a regular MSCI Index Review?

Yes. An ad-ho market classification may either be implemented coinciding with or outside regular MSCI Index Reviews.

Could an MSCI Country Index be reclassified directly from Emerging Markets to Frontier Markets outside the Annual Market Classification Review?

No. Reviews outside the Annual Market Classification Review are typically to consider reclassification to Standalone Market status.

How long could an MSCI Country Index remain in the Standalone Market category?

An MSCI Country Index would be maintained in the Standalone Market category as long as it is necessary for assessing the long term impact on its market accessibility. Once such assessment is done, the country would be classified to Developed, Emerging or Frontier Markets.

Could an MSCI Country Index be reinstated to its original classification status from Standalone Market status?

Yes. If and when the restrictive measures that led to the classification as Standalone Market are lifted, the MSCI Country Index will be evaluated appropriately based on the MSCI Market Classification Framework and may be reinstated back to its original classification.

What would be the impact on the MSCI Global and Regional Indexes in case of a reclassification of the MSCI Greece Index to Standalone Market status?

In the event that the MSCI Greece Index is reclassified to Standalone Market status, the MSCI Greece Index would be excluded from all the global and regional composite indexes such as:

- MSCI Emerging Markets (EM) Index
- MSCI EM EMEA Index

- MSCI EM Europe Index
- MSCI ACWI Index
- MSCI AC Europe Index

Could there be any special treatment of the MSCI Greece Index prior to any reclassification to Standalone Market status?

Yes. Depending on the situation in the Greek equity market, MSCI may potentially apply a special treatment of the MSCI Greece Index prior to any reclassification to Standalone Market status. For example, MSCI may decide not to implement changes resulting from Index Reviews in the MSCI Greece Indexes, or may defer the implementation of certain corporate events. Should such a special treatment be applied, MSCI would release a public announcement with all the relevant details.

Would a prolonged closure of the Athens Stock Exchange result in a reclassification of the MSCI Greece Index to Standalone Market status?

As a general practice, closures of stock exchanges of less than 40 consecutive business days do not lead to any action from MSCI. After this period has elapsed, MSCI may potentially launch a consultation on a proposal regarding the respective MSCI Country Index's inclusion in the MSCI Global and Regional Indexes.

Could the MSCI Greece Index be automatically reclassified to Standalone Market status after the 40th consecutive business day of market closure?

No. Any market reclassification decision would be preceded by a public consultation.

Would there be a change in the Index Review Rules if the MSCI Greece Index is reclassified as a Standalone Market?

No. In the event that Greece is reclassified as a Standalone Market, the MSCI Greece Indexes would continue to be reviewed using the Emerging Markets size and liquidity requirements.

What prices MSCI would use in case an exclusion of the MSCI Greece Index from Emerging Markets happens while the Athens Stock Exchange is closed?

In case the potential exclusion of the MSCI Greece Index from Emerging Markets would be implemented while the Athens Stock Exchange is closed, MSCI would communicate in advance at what price the securities would be deleted from the relevant MSCI Global and Regional Indexes.

How does MSCI price the constituents of the MSCI Greece Indexes during the closure of the Athens Stock Exchange?

During the period that an exchange is closed, MSCI carries forward the previous day prices in the MSCI Indexes, in line with the usual treatment of market holidays in the MSCI Global Investable Market Indexes.

Could MSCI provide examples of previous market reclassifications?

- **MSCI Malaysia Index:** On September 4, 1998 MSCI announced that effective September 30, 1998 the MSCI Malaysia Index would be removed from the MSCI EAFE Index and the MSCI World Index following the introduction of drastic repatriation restrictions on September 1, 1998. In addition, on September 28, 1998 MSCI announced that Malaysia would also be removed from the MSCI Emerging Markets Indexes as of the close of November 30, 1998. Malaysia was re-introduced to the MSCI Emerging Markets Indexes on June 1, 2000.
- **MSCI Pakistan Index:** On December 10, 2008 MSCI announced that Pakistan would be excluded from the MSCI Emerging Markets Indexes as of the close of December 31, 2008, following an introduction of a "floor rule" preventing securities from trading on the exchange below the closing prices of August 27, 2008. The MSCI Pakistan Index was maintained as Standalone Market until its inclusion in the MSCI Frontier Market Indexes as part of the May 2009 Semi-Annual Index Review.
- **MSCI Jordan Index:** On June 18, 2008, as part of the Annual Market Classification Review, MSCI announced reclassification of The MSCI Jordan Index from Emerging Markets to Frontier Markets, as the majority of the index constituents did not meet size and liquidity requirements set for the Emerging Markets Indexes. The reclassification was implemented as part of the November 2008 Semi-Annual Index Review.
- **MSCI Ukraine Index:** on May 28, 2015 MSCI announced that the MSCI Ukraine Index would be excluded from the MSCI Frontier Markets Index following the introduction in March 2015 by the National Bank of Ukraine of restrictions on capital flows which may impact international institutional investors. The reclassification will be implemented as part of the August 2015 Quarterly Index Review.

POTENTIAL IMPACT OF EXIT OF GREECE FROM EUROZONE ON THE MSCI INDEXES¹

What immediate actions would MSCI take following an official announcement that Greece would exit the eurozone?

MSCI would seek feedback from the investment community on the consequences of this event and the resulting impact on specific MSCI Indexes, as well as on the proposed timeline for MSCI's actions.

What would be the treatment in the MSCI Indexes if Greece exits from the eurozone and introduces a new currency?

The MSCI Greece Index would be redenominated to the new currency. The implementation window of the currency transition in the MSCI Indexes would depend on the timeliness of communication by the Greek authorities. If the Athens Stock Exchange issues an effective date starting from which the securities would be quoted in the new currency, the date of introduction of the new currency in the MSCI Indexes would typically coincide with this official effective date.

When is the exit of Greece from the eurozone expected to impact the MSCI Indexes?

MSCI intends to reflect the new currency (if any) in the MSCI Indexes as soon as the quotes denominated in this currency become available. MSCI would provide more specific timeline following the official announcements from Greek authorities and the Athens Stock Exchange.

Would there be a change in the Index Review maintenance rules for the MSCI Greece Indexes if Greece is excluded from the eurozone?

No. There would be no impact of the exit from the eurozone on the Index Review maintenance rules set out in the MSCI Global Investable Market Indexes (GIMI) methodology.

Would MSCI calculate the MSCI Greece Indexes in USD as well as in local currency?

Yes. MSCI would continue calculating the MSCI Greece Indexes in USD. The MSCI Greece Indexes in local currency would correspond to the performance in the new local currency from the day the underlying constituents trade in that currency.

¹ The answers in this section assume that the MSCI Greece Indexes remain in Emerging Markets.

Would there be any impact on the MSCI Value and Growth Indexes?

No. There would be no impact on the maintenance of the MSCI Greece Value Index or the MSCI Greece Growth Index.

Would there be any impact on the MSCI Hedged Indexes, the MSCI FX Hedge Indexes and the MSCI Global Currency Indexes?

Yes. There would be a marginal impact of the exit of Greece from the eurozone resulting from the introduction of any new currency.

What would be the impact on the MSCI Hedged Indexes, the MSCI FX Hedge Indexes and the MSCI Global Currency Indexes?

The weights of currencies in these indexes are determined at each month-end. If the switch to the new Greek currency takes place intra month, then the weight of the Euro would not be reviewed and would therefore be overstated.

Would the above impact result in a change in the methodology for the MSCI Hedged Indexes, MSCI FX Hedge Indexes and the MSCI Global Currency Indexes?

No. There would be no methodological change for the MSCI Hedged, FX Hedge and Currency Indexes. The new currency would be introduced in the MSCI Hedged Indexes, the MSCI FX Hedge Indexes and the MSCI Global Currency Indexes containing Greece from the month-end following the transition to the new currency. The rebalancing schedule of the MSCI Global Currency Indexes, as well as the MSCI Hedged and MSCI FX Hedge Indexes would remain unchanged.

Would there be any impact on the methodology for the MSCI Factor, Thematic, and ESG Indexes?

No. There would be no impact on the methodology for the MSCI Factor, Thematic and ESG Indexes.

What would change for the MSCI Custom Indexes?

Similarly to other MSCI Indexes, no impact following the exit of Greece from the eurozone is expected on the methodology and maintenance of MSCI Custom Indexes. MSCI would contact directly clients who subscribe to the MSCI Custom Indexes where the customization is specifically related to a Greek component.

POTENTIAL IMPACT ON MSCI PRODUCT FILES

What would be the impact on MSCI product files should Greece be reclassified to Standalone Market status?

MSCI would remove Greece from all the global and regional composite indexes, but would continue distributing the MSCI Greece Indexes in its existing product files.

Would the MSCI Greece Indexes be removed from the MSCI Emerging Markets (EM) product modules?

Should MSCI Greece Index be reclassified to Standalone Market status, MSCI would continue distributing MSCI Greece Indexes in its EM product modules.

What would be the impact on the MSCI product files should Greece exit the eurozone?

MSCI would start reporting the exchange rate and the security prices in the new currency in its existing product files. The MSCI Greece Indexes would continue to be distributed in USD and in the several MSCI main reporting currencies. The MSCI Greece Indexes expressed in the new currency would be available upon client request. The MSCI Greece Index with its constituents would continue to be reported in the EM product offerings until otherwise notified by MSCI.

Would the MSCI product files delivery and formats be affected by a reclassification of Greece to Standalone Market status or an exit of Greece from the eurozone?

MSCI product files delivery and formats would remain unaffected. The changes would be introduced as data changes in existing MSCI product files.

When would the new currency be reflected in the MSCI product files?

MSCI intends to reflect the new currency (if any) in the MSCI product files as soon as the quotes denominated in this currency become available. MSCI would provide more specific timeline following the official announcements from Greek authorities and the Athens Stock Exchange.

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