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.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Frontier</th>
<th>Emerging</th>
<th>Developed</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.1 Economic Development</td>
<td>Sustainability of economic development</td>
<td>No requirement</td>
<td>No requirement</td>
</tr>
<tr>
<td>B.1 Size and Liquidity Requirements</td>
<td>Number of companies meeting the following Standard Index criteria</td>
<td>2 USD 630 mm</td>
<td>3 USD 1260 mm</td>
</tr>
<tr>
<td></td>
<td>Company size (full market cap) **</td>
<td>USD 49 mm</td>
<td>USD 630 mm</td>
</tr>
<tr>
<td></td>
<td>Security size (float market cap) **</td>
<td></td>
<td>15% ATVR</td>
</tr>
<tr>
<td></td>
<td>Security liquidity</td>
<td>2.5% ATVR</td>
<td></td>
</tr>
<tr>
<td>C.1 Market Accessibility Criteria</td>
<td>Openness to foreign ownership</td>
<td>At least some</td>
<td>Significant</td>
</tr>
<tr>
<td>C.2 Ease of capital inflows / outflows</td>
<td>At least partial</td>
<td>Significant</td>
<td>Very high</td>
</tr>
<tr>
<td>C.3 Efficiency of the operational framework</td>
<td>Modest</td>
<td>Good and tested</td>
<td>Very high</td>
</tr>
<tr>
<td>C.4 Stability of the institutional framework</td>
<td>Modest</td>
<td>Modest</td>
<td>Very high</td>
</tr>
</tbody>
</table>

* High income threshold for 2012: GNI per capita of USD 12,615 (World Bank, Atlas method)
** Minimum in use for the May 2014 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 timeline 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

#### Openness to foreign ownership
- **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.

#### Ease of capital inflows / outflows
- **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.

#### Efficiency of the operational framework
- **Market entry**
  - **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). Time to complete the process includes the preparation of the documents.
- **Market organization**
  - **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.
  - **Competitive landscape**
    - Existence of anti-competitive clauses restricting investors' access to derived stock exchange information, data and investment products, including, for example the provision of independently calculated indices or the creation of baskets of securities used in the creation of financial products.
  - **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.
- **Market infrastructure**
  - **Clearing and Settlement**
    - Well functioning clearing and settlement system based on international standards 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.
- **Stability of institutional framework**
  - 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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1 As of September 30, 2013, as reported on January 31, 2014 by eVestment, Lipper and Bloomberg