

## MSCI 2020 Market Classification Review

- **Warns on the potential reclassification of the MSCI Argentina Index**
- **Notes the deterioration in investability of the MSCI Turkey Index**
- **Reclassifies the MSCI Iceland Index from Standalone to Frontier Markets status**
- **Announces monitoring of accessibility of the Nigeria, Lebanon and Bangladesh equity markets**

**London - June 23, 2020** – MSCI Inc. (NYSE: MSCI), a leading provider of research-based indexes and analytics, announced today the results of the MSCI 2020 Market Classification Review and warned that the MSCI Argentina Index may be removed from the MSCI Emerging Markets Index if there is further deterioration in market accessibility.

“While volatility increased dramatically due to the COVID19 pandemic, global equity markets remained accessible and continued to function well, allowing issuers to raise capital and investors to manage risk during the crisis,” said Dimitris Melas, Global Head of Equity Research and Chairman of the MSCI Index Policy Committee. However, Dr. Melas added, “In the last 12 months, two important Emerging Markets, Argentina and Turkey, suffered substantial deterioration in market accessibility that could lead to their exclusion from the MSCI Emerging Markets Index.”

### **Potential exclusion of the MSCI Argentina Index from the MSCI Emerging Markets Index**

MSCI announced today that it will continue consulting with market participants on the classification of the MSCI Argentina Indexes, as international institutional investors continue to be subject to stringent capital controls which were put in place in September 2019, making it impossible for international investors to access the domestic equity market.

“The MSCI Argentina Indexes remain replicable, as only foreign listings are currently eligible for index inclusion, but the imposition of the current capital controls is not in line with the market accessibility criteria of the MSCI Emerging Markets Indexes,” said Sebastien Lieblich, Global Head of Index Solutions and Chairman of the MSCI Equity Index Committee. Mr. Lieblich added, “The Argentinian authorities must realize that the prolonged application of capital controls or the introduction of further capital controls may force the reclassification of the MSCI Argentina Indexes from Emerging Markets status to either Frontier Markets or Standalone Markets status.”

MSCI will consult on the potential reclassification of the MSCI Argentina Index as part of the MSCI 2021 Market Classification Review. However, any event that results in further deterioration of market accessibility will prompt MSCI to remove the MSCI Argentina Indexes from Emerging Markets as soon as practicable.

### **Marked deterioration in investability of the MSCI Turkey Index**

Additionally, MSCI announced that it may launch a consultation on a reclassification proposal for the MSCI Turkey Index to Frontier Markets or Standalone Markets status if the already deteriorating accessibility level of the Turkish equity market were to worsen further. As highlighted in the MSCI 2020 Market Accessibility Review released on June 17, 2020, the accessibility level of the Turkish equity market has been adversely impacted by the introduction of short selling and stock lending bans in

October 2019 and February 2020, respectively. These bans severely restrict the ability of institutional investors to express active investment views and hedge portfolio risk.

**MSCI Iceland Index reclassification to Frontier Markets status**

MSCI also announced today that it will reclassify the MSCI Iceland Index from Standalone Markets to Frontier Markets status. The capital controls, including the Special Reserve Ratio, were removed on March 6, 2019. While certain reporting requirements for fund repatriation remain in place, based on feedback from market participants, this no longer materially impacts the accessibility of the Icelandic equity market for international institutional investors.

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. Based on the simulation using pro forma data as of June 18, 2020, this would lead to the inclusion of two securities in the MSCI Frontier Market Index (excluding Kuwait) with an estimated index weight of 5.24%. The simulated list of constituents for the MSCI Iceland Index in the MSCI Frontier Markets Index (excluding Kuwait) has been made available at <https://www.msci.com/market-classification>.

**Accessibility issues in select Frontier Markets**

Some market accessibility issues have been recently observed in select Frontier Markets. The Nigerian equity market has been impacted by the significant deterioration of liquidity in the Nigerian FX market. Lebanon has been subject to capital controls which were introduced in October 2019. The Bangladesh Securities and Exchange Commission (BSEC) introduced a floor price (set at the average of the closing price of the immediately preceding five trading days) applicable to all securities listed on the Dhaka Stock Exchange in March 2020, resulting in substantial drop in trading liquidity.

While such accessibility issues may be viewed by market participants as part of the inherent characteristics of Frontier Markets, these developments have a negative impact on the replicability of the indexes. Therefore, MSCI will continue classifying these markets as Frontier Markets until further notice, while applying a special treatment to potentially reduce the number of changes in the related indexes and mitigate the index replication concerns.

MSCI will not implement selected changes for any securities classified in Nigeria, Lebanon or Bangladesh in the relevant MSCI Country Indexes or in any derived indexes that contain these markets. This special treatment will apply to any potential changes that would be part of upcoming index reviews, as well as certain corporate event implementations. This treatment has been in effect for the MSCI Nigeria Indexes since May 13, 2020 and will be applicable to the MSCI Lebanon Indexes and the MSCI Bangladesh Indexes effective immediately.

MSCI welcomes feedback on the level of accessibility of equity markets in Nigeria, Lebanon and Bangladesh and will continue to monitor the situation. In the event of further deterioration of market accessibility, MSCI may reclassify the MSCI Nigeria Indexes, the MSCI Lebanon Indexes or the MSCI Bangladesh Indexes to Standalone Markets status as soon as practicable. MSCI would provide sufficient lead time prior to implementation and would consult with market participants about the details and timing of the reclassification.

The accessibility reports for Argentina, Iceland and Nigeria are now reflected in the MSCI 2020 Global Market Accessibility Review report available at <https://www.msci.com/market-classification>.

## Reclassification of the MSCI Kuwait Index to Emerging Markets Status

As a reminder, MSCI will implement the reclassification of the MSCI Kuwait Indexes from Frontier Markets status to Emerging Markets status in one step coinciding with the November 2020 Semi-Annual Index Review (SAIR).

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The process for submitting a formal index complaint can be found on the index regulation page of MSCI's website at: <https://www.msci.com/index-regulation>.

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