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## MSCI Barra Releases Its Preliminary Assessments from the Consultation on Proposed Market Reclassifications

**Geneva - December 16, 2008** - MSCI Barra (NYSE: MXB), a leading provider of investment decision support tools worldwide, including indices and portfolio risk and performance analytics, announced today its preliminary assessments and some decisions related to the recent consultation discussions with the investment community on several market reclassification proposals.

As a reminder, earlier this year MSCI Barra began a consultation on proposals to:

- Reclassify the MSCI Israel and Korea Indices as MSCI Developed Markets Indices,
- Reclassify the MSCI Kuwait, Qatar and United Arab Emirates Indices as MSCI Emerging Markets Indices.

At that time, MSCI Barra also announced that it would update the investment community with its preliminary assessments on the consultation proposals in December 2008 with conclusions from the consultations to be made public no later than June 2009. In addition to these reclassification proposals, MSCI Barra also announced at that time that it would monitor the evolution of market accessibility in Argentina and Colombia and consider reclassifying them as Frontier Markets, following a consultation, unless significant improvements in capital flow restrictions were observed by December 2008.

MSCI Barra's market classification framework evaluates markets on economic development, size and liquidity, and market accessibility criteria. Based on that framework and following consultations with international institutional investors and dialogue with relevant authorities over the last few months, MSCI Barra is now providing the following preliminary assessments on the proposals. These assessments take into account the current economic, financial, and regulatory environment in each of these markets. MSCI Barra will continue to monitor and take into account developments in all these areas in the next few months when announcing its conclusions from the consultations.

In general, it is MSCI Barra's sense that the market turmoil and increased financial and economic uncertainties may have affected the speed of regulatory progress in several countries as well as investors' appetite for changes in their established investment processes. Please note that MSCI Barra's conclusions from the consultations may or may not lead to any changes in country classifications.

1.) **Israel:** During the consultations, which focused on market accessibility criteria, the main concern that was mentioned by international investors was the relatively short settlement cycle ("t+1") for equities on the Tel Aviv Stock Exchange. This settlement cycle differs from the one generally applied in Developed Markets ("t+2" or "t+3"), and many investors would welcome a better alignment. The Tel Aviv Stock Exchange is aware of this concern and is currently considering whether to make changes to its settlement cycle.

MSCI Barra will continue to monitor the situation and continue consultations and announce its conclusion no later than June 2009.

2.) **Korea:** During the consultations, which focused on market accessibility criteria, international investors continued to highlight some significant issues for Korea which are not characteristic of Developed Markets. The focal points continue to be the limited convertibility of the Korean Won and the operational constraints associated with the ID system.

In particular, with respect to the currency, investors mentioned both the lack of an offshore currency market for the Korean won and the operational difficulties in dealing with the currency in the onshore market, as sources of misalignment of currency transactions with the securities trading and settlement cycle when compared to Developed Markets. With respect to the ID system, investors' issues focused on several related operational burdens, including the absence of omnibus accounts and the limited possibilities for off-exchange and in-kind transfers which make the ID system cumbersome when compared to market practice

in Developed Markets. These issues have been highlighted to the Korean authorities for their response. Korea Government officials and regulators have expressed their interest in understanding the issues in detail and their willingness to explore options to address them, though within the existing policy framework and system setup.

MSCI Barra will continue to monitor the situation and consult with investors and the Korean authorities. MSCI Barra's preliminary assessment is that more time will be needed for authorities to act on this feedback, make additional changes and issue clarifications, and for market participants to evaluate the extent to which these potential improvements address their concerns. In addition, measures may need to be taken to ensure that entrenched market practices do not impinge upon and impair what is legally permissible. While MSCI Barra expects to release its conclusions from the consultation by June 2009, it is possible that the time frame to reach a final conclusion may need to be extended.

3.) **Kuwait:** Compared to Emerging Markets standards, Kuwait still exhibits significant shortcomings in terms of market accessibility. International investors have particularly expressed serious concerns relative to the disclosure and enforcement of market regulations as well as to the quality of the information flow. Consequently MSCI Barra's preliminary assessment is that the MSCI Kuwait Index will continue to be classified as a Frontier Markets Index. MSCI Barra will continue to monitor developments and will announce its conclusions by no later than June 2009.

4.) **Qatar:** The issue most frequently raised by international investors on the proposal to reclassify Qatar as an Emerging Market is the very stringent foreign ownership limits imposed by the Qatari authorities and the resulting low free float of Qatari companies and low foreign room, defined as the proportion of shares still available to foreign investors relative to the maximum allowed. While improvements are expected on the regulatory front, the persistence of these very low foreign ownership limits significantly limits accessibility of the market. MSCI Barra's preliminary assessment is that the MSCI Qatar Index will continue to be classified as a Frontier Markets Index. MSCI Barra will continue to monitor developments and will announce its conclusions by no later than June 2009.

5.) **UAE:** Within the region, the United Arab Emirates is relatively advanced in terms of market accessibility. Investors welcome the reasonably high degree of efficiency of the country's operational framework and in particular its market organization.

However, the lack of segregation between custody and trading accounts has been one of the frequently mentioned concerns. It is our understanding that authorities and regulators of the UAE have been active in drafting new regulations to address this and other issues, and investors are looking forward to notable positive changes coming into effect soon. Another concern for international institutional investors is the stringent foreign ownership limits applied by Emirati companies and the resulting low foreign room. The potential reclassification of the MSCI United Arab Emirates Index as an Emerging Markets Index would further stress the foreign room issue due to potential increased international capital inflows into the Emirati equity market.

MSCI Barra will continue monitoring developments and consulting with investors and will announce its conclusions no later than June 2009.

MSCI Barra continues to welcome further feedback from market participants on these preliminary assessments. MSCI Barra will announce its conclusions from these consultations on the reclassification of the MSCI Israel, Kuwait, Qatar, and UAE Indices no later than June 2009. In the case of the MSCI Korea Index, the time frame to draw final conclusions may be delayed beyond June 2009. MSCI Barra reiterates that these consultations may or may not lead to reclassification of any country indices.

In addition, MSCI Barra also announces the following actions on the status of the MSCI Argentina and Colombia Indices.

1.) **Argentina:** MSCI Barra will open in January 2009, a consultation with market participants on a proposal to reclassify the MSCI Argentina Index as a Frontier Markets Index at the end of May 2009, and at the same time to include only ADR securities in the Index

The decision to launch this consultation has been taken as no improvements in restrictions to capital flows have been observed in Argentina.

This consultation may or may not lead to the reclassification of the MSCI Argentina Index as a Frontier Markets Index. MSCI Barra will announce its decision in February 2009.

2.) **Colombia:** MSCI Barra will maintain the classification of the MSCI Colombia Index as an Emerging Markets Index.

On September 1, 2008, the Ministry of Finance of Colombia announced the immediate removal of capital controls on foreign portfolio investment in equities. MSCI Barra has been seeking feedback from international market participants on their experience in investing in the Colombia equity market following that change and has received no negative comment so far.

Therefore MSCI Barra will not open a consultation on the status of the MSCI Colombia Index in the MSCI Equity Indices at this time. MSCI Barra will continue to monitor the situation closely. Should capital controls be re-introduced, MSCI Barra would consider opening a consultation on the potential reclassification of the Index.

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Reminders:

As announced in June 2008, the MSCI Jordan Index was reclassified as a Frontier Markets Index at the November 2008 Semi-Annual Index Review.

On December 10, 2008 MSCI Barra announced that it will remove the MSCI Pakistan Index from the MSCI Emerging Markets Index as of the close of December 31, 2008. If and when investability conditions return to more normal levels in the Pakistani equity market, MSCI Barra will, in due course, reassess the situation and consult with international institutional investors on the inclusion of the MSCI Pakistan Index in the appropriate MSCI international equity indices, including the MSCI Frontier Markets Index.

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**About MSCI Barra**

MSCI Barra is a leading provider of investment decision support tools to investment institutions worldwide. MSCI Barra products include indices and portfolio risk and performance analytics for use in managing equity, fixed income and multi-asset class portfolios.

The company's flagship products are the MSCI International Equity Indices, which are estimated to have over USD 3 trillion benchmarked to them, and the Barra risk models and portfolio analytics, which cover 56 equity and 46 fixed income markets. MSCI Barra is headquartered in New York, with research and commercial offices around the world. Morgan Stanley, a global financial services firm, is the controlling shareholder of MSCI Barra.

MSCI Barra was recently named Index Provider of the Year at the European Pensions Awards and Best Provider of Benchmark Indices in Asia Pacific at the AsianInvestor Service Provider Awards.

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For further information on MSCI Barra, please visit our web site at [www.msclubarra.com](http://www.msclubarra.com)

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