



MSCI Index Proposal for Gulf Countries

November 2005

Introduction

This document sets forth MSCI's proposal to create indices for the countries of the Gulf Cooperation Council (GCC).

MSCI is considering creating standalone and composite indices covering the region in recognition of the fact that these capital markets have become more sizeable and are relatively more diversified.

MSCI does not plan to add any of these countries to the MSCI Emerging Markets Index in light of the existing investment restrictions.

Highlight of proposal

- MSCI is considering creating standalone indices for each of the 6 GCC countries:
 - Saudi Arabia
 - United Arab Emirates
 - Qatar
 - Kuwait
 - Bahrain
 - Oman
- In addition, MSCI would create several regional composites indices:
 - Gulf Countries composite index (aggregation of 6 GCC countries)
 - Gulf Countries composite index ex Saudi Arabia
 - A composite index being the aggregation of the 6 GCC countries + Egypt, Jordan, Morocco
 - A composite index being the aggregation of the GCC countries ex Saudi Arabia + Egypt, Jordan, Morocco

Highlight of proposal

- The methodology used to construct the standalone and composite indices would be identical to the Standard Index Series methodology, in order to be consistent with existing indices:
 - Target 85% industry group representation, based on free float adjusted market capitalization
 - Minimum size, free float and liquidity guidelines
 - Annual and quarterly index reviews
 - Daily Total Return indices

Market Capitalization

Country	Estimated Avg Free Float	Full market capitalization USD mm	Estimated free float market cap USD mm (before FOL*)	Estimated free float market cap USD mm (after FOL*)
Saudi Arabia^	67.7%	573,253	388,207	124,556
UAE	50.5%	187,008	94,514	45,270
Kuwait	58.6%	91,845	53,821	56,777
Qatar	64.5%	86,141	55,561	21,535
Bahrain	56.7%	16,585	9,409	5,258
Oman	59.2%	12,617	7,474	5,650
GCC		967,449	608,986	259,046
Existing small MSCI countries				
Egypt		51,142	15,560	
Jordan		33,497	7,896	
Morocco		25,755	4,364	
Other MENA countries				
Tunisia		2,875	na	
Lebanon		6,160	na	
MSCI EM Index USD mm		1,527,322		

*Foreign Ownership Limit

^ FOL for Saudi Arabia reflects GCC restrictions

Data as of September, 2005



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Investment limitations

- Estimate of Foreign Ownership Limits (FOLs) used to calculate Foreign Inclusion Factors (FIFs) (as of September 2005)
- Note that company or industry specific FOLs would also be taken into consideration

	GCC investors	non-GCC investors	Proposed FOL used to determine FIF
Saudi Arabia	49%	0%	49%
UAE	49%	49%	49%
Kuwait	100%	100%	100%
Qatar	25%	25%	25%
Bahrain	100%	49%	49%
Oman	49%	49%	49%

Investment limitations

- According to our understanding, investors face different investment restrictions, based on their country of residence. While GCC investors have no restriction when investing in their own country, they may face some limitations when investing in other GCC countries. Foreign, non-GCC, investors' restrictions may also be different. In particular, Saudi Arabia is currently completely closed to foreign non-GCC investors, while it is partly open to GCC-based investors.
- Consequently, MSCI is considering creating several composite indices for the region, reflecting the various types of investment restrictions.
- The proposal is to apply Domestic Inclusion Factors (DIFs) that reflect domestic investors' restrictions, and Foreign Inclusion Factors (FIFs) that reflect foreign investors' restrictions, with the exception of Saudi Arabia, for which we intend to reflect the GCC restrictions, as FIFs would be zero otherwise. This allows for the creation of an index that is useful to both foreign as well as local investors.

Proposal for composites

1. MSCI Gulf Countries Index

- Reflecting restrictions (foreign ownership limits, or FOL) for foreign investors (for example by reflecting the estimated 49% FOL that non-GCC investors are facing in Bahrain)
- This composite index would include Saudi Arabia whose weight would reflect GCC investment restrictions (in other words, an estimated FOL of 49%)

2. MSCI Gulf Countries Index ex-Saudi Arabia

- Reflecting foreign, non-GCC, investors perspective
- Constructed as above, without Saudi Arabia, since the country is currently completely closed to foreign investors

Proposal for composites

3. Composite Index of the GCC countries + Jordan, Egypt, Morocco
 - Reflecting restrictions for foreign, non-GCC, investors with the exception of Saudi Arabia, whose weight would be based on GCC investment restrictions
 - Including all GCC countries, in addition to Jordan, Egypt, and Morocco
4. Composite Index of the GCC countries ex Saudi Arabia + Jordan, Egypt, Morocco
 - Reflecting foreign, non-GCC, investors' perspective
 - Including all GCC countries, except Saudi Arabia, in addition to Jordan, Egypt, and Morocco

Preliminary analysis

	Saudi Arabia	UAE	Kuwait	Qatar	Bahrain	Oman	Total/Avg	Total/Avg ex Saudi Arabia
Full universe market capitalization USD mm	573,253	187,008	91,845	86,141	16,585	12,617	967,449	394,196
Float adjusted universe market capitalization USD mm (with FOL)	124,556	45,270	56,777	21,535	5,258	5,650	259,046	134,490
No securities in universe (mcap <> 0)	77	57	130	30	36	79	409	332
# index securities	35	24	62	12	7	13	153	118
Country representation %	85%	74%	69%	78%	69%	80%	76%	74%
FIF index mcap USD mm	105,997	33,722	39,381	16,661	3,647	4,534	203,942	97,945
Weight in GCC	52%	17%	19%	8%	2%	2%	100%	-
Weight in GCC ex Saudi Arabia	-	34%	40%	17%	4%	5%	-	100%

Note: For the purpose of this analysis, the theoretical selection of constituents was based on a minimum size of USD 100 mm, free float adjusted

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