

Consultation on Potential Changes to the Liquidity Requirement in the MSCI US Equity Indexes

MSCI US EQUITY INDEXES

January 2022

Background

- As per Section 2.2.1 of the MSCI US Equity Indexes (USEI) Methodology, all securities that are considered for inclusion or are currently included in the Investable Market Index must be characterized by adequate liquidity which is measured along two dimensions: stock price and relative liquidity using ATVR.
 - Specifically, securities with stock prices **above USD 5,000 fail the liquidity screening**
- Currently, the MSCI Global Investable Market Indexes (GIMI) Methodology uses a different stock price threshold. As per Section 2.2.5 of the MSCI GIMI Methodology, securities with stock prices above **USD 10,000** fail the liquidity screening.
 - This rule only applies for **non-constituents** of the MSCI GIMI.

Proposal

- MSCI proposes to align the stock price liquidity requirement of the MSCI USEI Methodology with the stock price liquidity requirement of the MSCI GIMI Methodology.
 - A limit of USD 10,000 instead of the current limit of USD 5,000
 - The screening will only apply for non-constituents of the MSCI US Broad Market Index. Consequently, current constituents of the MSCI US Broad Market Index would remain in the index if the stock price passes the USD 10,000 threshold.
- Changes, if any, would be implemented at the May 2022 Semi-Annual Index Review.
- MSCI welcomes feedback from the investment community until February 17, 2022. MSCI will announce the results of this consultation on or before March 17, 2022.

Potential Impacted Securities

- At the time of the November 2021 SAIR, the following securities failed to meet the liquidity requirements of the MSCI US Equity Indexes because their stock price was above 5,000 USD:

RIC	Security	Price	Company Full Market Cap*
BRKb.N	BERKSHIRE HATHAWAY A	426,189	640,252
NVR.N	NVR	5,011	17,857

*USD Millions.
Data as of the price cutoff date for the Nov 2021 SAIR (October 19, 2021).

- As per the proposed changes and with the assumption that the stock prices above remain unchanged:
 - Berkshire Hathaway A would remain ineligible due to its price being above USD 10,000
 - NVR would be considered eligible for the MSCI US Equity Indexes for the May 2022 SAIR

Discussion Points

- Do you agree with changing the stock price liquidity requirement for the MSCI US Equity Indexes to USD 10,000 instead of the current limit of USD 5,000?
- Do you agree with the proposal to only apply the screening for non-constituents of the MSCI US Broad Market Index?
- Clients may provide feedback through an online survey available on: https://www.msci.com/USEI_liquidity

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