

# **MSCI EQUITY INDEX POLICY REGARDING UNITED STATES IRS 871(M) REGULATIONS RELATING TO THE DEFINITION OF A “QUALIFIED INDEX”**

**February 2019**

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JANUARY, NOVEMBER 2017)**

## BACKGROUND

On September 17, 2015, the U.S. Internal Revenue Service (“IRS”) and the U.S. Treasury Department released final regulations under Section 871(m) of the Internal Revenue Code which were published in the Federal Register on September 18, 2015 and provide, amongst other things, the rules for withholding on “dividend equivalent payments” on derivatives that reference U.S. equity securities.

The regulations include certain criteria that the IRS uses to determine whether an index is a Qualified Index, the details of which can be found in the document published by the IRS in the Federal Register, Vol. 80, No.181, Part VI, as may be updated or amended from time to time.

## MSCI POLICY PERTAINING TO REGULATION RELATING TO RULE 871(M) “QUALIFIED INDICES”.

In response to feedback from numerous market participants, MSCI has decided to provide information regarding select MSCI indexes to help facilitate MSCI’s clients’ determination whether an index qualifies as a “Qualified Index” under Section 871(m) of the Internal Revenue Code. MSCI first published this policy document in August 2016 and is subsequently publishing this updated version.

We chose to provide information for the MSCI indexes below on the basis of their widespread use by our global clients. If an MSCI index is not listed below, it does not mean that such MSCI index is not potentially eligible to be a “qualified index” for purposes of Section 871(m) of the Internal Revenue Code. Should a client wish to request information about additional MSCI indexes to be added to this document, please contact your local MSCI representative for more information or send an email to [clientservice@msci.com](mailto:clientservice@msci.com).

Please note that this information and this document are provided for informational purposes only. Nothing contained herein constitutes (i) legal advice, (ii) any recommendation to use any MSCI indexes or (iii) any guarantees with respect to any MSCI indexes or any eligibility requirements for “Qualified Indexes”. MSCI intends to publish an update to the information below on or around the first business day of each calendar year and throughout the calendar year as determined by MSCI in MSCI’s sole discretion.

MSCI may change its policies from time to time. As such, this document is subject to change, and/or MSCI may cease publication of this document, at any time without notice.

The MSCI indexes specifically referenced in Exhibit A are:

- MSCI ACWI Index
- MSCI World Index
- MSCI North America Index
- MSCI USA Index



- MSCI Kokusai Index
- MSCI Peru Index
- MSCI Russia Index
- MSCI USA Equal Weighted Index
- MSCI USA Momentum Index
- MSCI USA Quality Index
- MSCI USA Value Weighted Index
- MSCI World Midcap Index
- MSCI World Energy Index
- MSCI World Materials Index
- MSCI World Industrials Index
- MSCI World Consumer Discretionary Index
- MSCI World Consumer Staples Index
- MSCI World Health Care Index
- MSCI World Financials Index
- MSCI World Information Technology Index
- MSCI World Telecommunication Services Index
- MSCI World Utilities Index
- MSCI World Real Estate Index

**EXHIBIT A**

MSCI Index	# of Component Securities (1)	# of Short Component Securities (1)	Largest Single Security Weighting (1)	# of Securities that Represent Top 40% Weighting (1)	Rebalancing Methodology (2)	Annual Dividend Yield (4)	Futures or Options Contracts Listed (1)(3)
MSCI ACWI Index	2,758	N/A	1.88%	104	As per MSCI GIMI Methodology	2.78%	- ICE US - ICE EU - EUREX
MSCI World Index	1,633	N/A	2.13%	85	As per MSCI GIMI Methodology	2.76%	- ICE US - ICE EU - EUREX
MSCI North America Index	713	N/A	3.27%	38	As per MSCI GIMI Methodology	2.27%	EUREX
MSCI USA Index	622	N/A	3.45%	34	As per MSCI GIMI Methodology	2.20%	- ICE US - ICE EU - EUREX
MSCI Kokusai Index	1,311	N/A	2.33%	71	As per MSCI GIMI Methodology	2.78%	- ICE EU - EUREX
MSCI Peru Index	3	N/A	73.22%	1	As per MSCI GIMI Methodology	2.04%	- EUREX
MSCI Russia Index	23	N/A	19.66%	3	As per MSCI GIMI Methodology	5.88%	- EUREX
MSCI USA Equal Weighted Index	622	N/A	0.24%	229	As per MSCI Equal Weighted Indexes Methodology	2.12%	- ICE EU - EUREX

MSCI USA Momentum Index	124	N/A	5.15%	11	As per MSCI Momentum Indexes Methodology	1.61%	- EUREX
MSCI USA Quality Index	125	N/A	5.20%	11	As per MSCI Quality Indexes Methodology	1.89%	- EUREX
MSCI USA Value Weighted Index	622	N/A	3.01%	35	As per MSCI Value Weighted Indexes Methodology	2.72%	- EUREX
MSCI World Midcap Index	896	N/A	0.37%	180	As per MSCI GIMI Methodology	2.44%	- EUREX
MSCI World Energy Index	80	N/A	13.59%	4	As per MSCI GIMI Methodology	4.50%	
MSCI World Materials Index	129	N/A	7.48%	11	As per MSCI GIMI Methodology	3.14%	
MSCI World Industrials Index	273	N/A	4.50%	24	As per MSCI GIMI Methodology	2.46%	
MSCI World Consumer Discretionary Index	211	N/A	16.68%	8	As per MSCI GIMI Methodology	2.09%	

MSCI World Consumer Staples Index	120	N/A	8.01%	7	As per MSCI GIMI Methodology	3.09%	
MSCI World Health Care Index	136	N/A	7.25%	9	As per MSCI GIMI Methodology	2.14%	
MSCI World Financials Index	245	N/A	5.66%	18	As per MSCI GIMI Methodology	3.72%	
MSCI World Information Technology Index	152	N/A	14.27%	4	As per MSCI GIMI Methodology	1.75%	
MSCI World Telecommunication Services Index	39	N/A	22.90%	1	As per MSCI GIMI Methodology	5.06%	
MSCI World Utilities Index	83	N/A	5.31%	10	As per MSCI GIMI Methodology	3.79%	
MSCI World Real Estate Index	105	N/A	6.10%	14	As per MSCI GIMI Methodology	3.84%	

1. Observation Date = December 31, 2018
2. MSCI index methodology is publicly available at <https://www.msci.com/index-methodology>. (Please note that the standard global/regional MSCI indexes are based on a building block approach to construction such that, for example, the MSCI North America Index is the combination of the MSCI USA Index plus the MSCI Canada index. Consequently, any modifications or re-weightings that occur in the MSCI USA Index automatically flow through to any larger global/regional index in which the MSCI USA Index is a component part. In addition, the global and regional standard MSCI indexes do not reference short positions of any securities. For more information please reference the most up to date MSCI Global Investable Market Indexes Methodology Guide available at <https://www.msci.com/index-methodology>.)
3. A list of all MSCI index based futures and options is publicly available and can be found at <https://www.msci.com/index-licensing>.
4. Observation Date = December 31, 2018 and is calculated as per the MSCI Fundamental Data Methodology that can be found at <https://www.msci.com/index-methodology>.

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