

MSCI HEDGED INDEXES: MARGIN REQUIREMENTS FOR FX FORWARDS

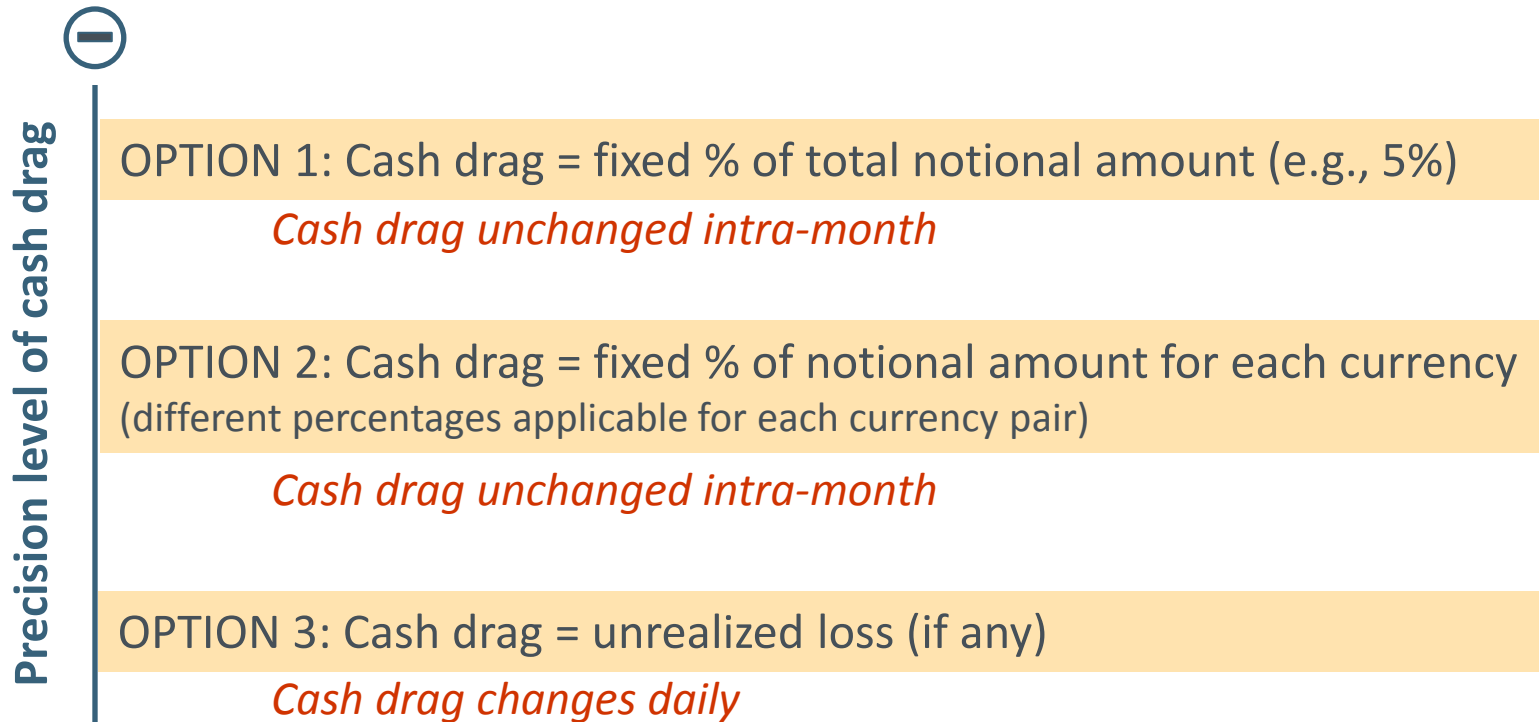
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SUMMARY

- Regulators in the US, the European Union and other markets are implementing rules on risk management for derivatives, which include margin requirements for FX forwards.
- Based on comments sent by market participants, the rules may in certain cases require the posting of daily variation margin for FX forwards in the form of cash (or cash equivalent).
- MSCI is seeking feedback from market participants on the potential impact of the new requirements on replicability of the MSCI Hedged Indexes, as well as any potential mitigation options.
- This document contains a high level description of potential mitigation options. These examples aim to facilitate discussion with market participants.
- Please note that feedback may or may not result in MSCI making a proposal on potential changes to the MSCI Hedged Index methodology.

POTENTIAL MITIGATION OPTIONS

- One possibility could be for MSCI to provide, on a custom basis, alternative MSCI Hedged Indexes incorporating a certain cash amount (“cash drag”).
- Potential options used to determine such cash drag, among others, as illustrated below:



QUESTIONS

- Which regulation(s) related to margin requirements for FX forwards are you subject to (e.g., EMIR rules in the EU, CFTC rules in the US, etc.) and how is it expected to impact your investment processes?
- Will the new requirements impact your strategy for hedging currency risk?
- To which extent could such requirements impact the replicability of the MSCI Hedged Indexes, and how problematic could that be?
- Should MSCI provide, on a custom basis, alternative MSCI Hedged Indexes that would take into account the margin requirements?
 - If yes, should this take the form of a «cash drag» in the index?
 - Which option(s) described on page 3 (or any other potential options) should be available?

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