

Q&A: RUSSIA/UKRAINE DEVELOPMENTS

February 2022

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Introduction

The purpose of this document is to address commonly asked questions regarding the impact on the MSCI Equity Indexes of recently announced sanctions targeting Russia, as well as the potential impact of any potential new sanctions. The content of this Q&A is based on the public information available at the time of publication on February 25, 2022 and may be revised as new information becomes available.

Following Russia's invasion of Ukraine, the United States and the United Kingdom have announced new sanctions, and the European Union have agreed on a package of new sanctions, which details have not been announced at the time of latest update of this document.

On February 24, 2022, MSCI announced a special treatment for Russian securities in the MSCI Equity Indexes starting from the February 2022 Quarterly Index Review (QIR).

MSCI will continue to actively monitor ongoing developments and will provide further public communication as appropriate.

MSCI reminds users of its indexes for any purpose, including both indexed and active management, that they are responsible for ensuring compliance with all applicable sanctions and any other rules, regulations, prohibitions, laws and other restrictions applicable to their portfolios, trading and other investment activity.

Special Treatment Announced on February 24, 2022

What treatment did MSCI announce on February 24, 2022?

MSCI announced a freeze on all Russian securities. Specifically, MSCI will postpone previously announced changes for Russian securities in the MSCI Equity Indexes as part of the February 2022 QIR (effective March 1, 2022), and will defer the implementation of changes in the MSCI Equity Indexes due to certain corporate events until further notice. Details on the special treatment are provided below.

Why will MSCI apply an index freeze starting from the February 2022 QIR?

The index freeze announced on February 24, 2022 aims to provide certainty to investors and manage the risk of potential trading and settlement disruptions. This follows the announcement on February 24, 2022 of further sanctions targeting Russia by the United States, as well as feedback received from market participants regarding the investability and replicability of the MSCI Russia Indexes.

Will there be any further changes to the MSCI Equity Indexes?

MSCI welcomes feedback from market participants on the impact of these latest sanctions on their investment processes. This includes any practical implications on the use of MSCI indexes and whether any changes to MSCI indexes in addition to the special treatment described above may be necessary or helpful to maintain the investability of relevant MSCI indexes. MSCI will issue further communication in due course.

What will be the impact of the index freeze at the February 2022 QIR?

Previously announced changes in the Number of Shares for the following three securities in the MSCI Russia Investable Market Index (IMI) will no longer take place as part of the February 2022 QIR:

- NORILSK NICKEL MMC(RUB) (MSCI Security Code: 24917.05)
- OZON HLDGS ADR (MSCI Security Code: 18246.01)
- YANDEX A (RUB) (MSCI Security Code: 70298.03)

Any changes regarding such securities will be implemented at the earliest as part of the May 2022 Semi-Annual Index Review (SAIR), subject to the removal of the special treatment.

What will be the impact of the index freeze on the implementation of corporate events?

As announced on February 24, 2022, MSCI will specifically defer for the MSCI Russia Indexes the implementation of corporate events not requiring a Price Adjustment Factor (PAF), such as placements, block sales, recapitalizations, and sizable IPOs, and will exceptionally freeze potential migrations due to corporate events until further notice. By contrast, MSCI will continue implementing corporate events requiring PAFs, such as stock splits, consolidations, rights issue, buybacks as well as deletions resulting from delisting, bankruptcies, mergers and acquisitions as well as prolonged suspensions at the time of the event.

This treatment comes in addition to the treatment of the sanctions related to the 2014 events, as described in the “General Questions” section below.

What will be the impact of the index freeze on non-market capitalization weighted indexes?

Starting from the February 2022 QIR and until further notice, MSCI will not implement any changes (additions, deletions, constraint factor changes) in non-market capitalization weighted indexes such as the MSCI Factor, ESG, Thematic and Capped Indexes for any security classified in Russia.

Note that if as a result of not implementing a constraint factor change on a security in the MSCI Russia Indexes in an MSCI 10/40 Index, MSCI 25/50 Index or MSCI 35/65 Index, the Index were not to be compliant with the concentration constraints described in these index methodologies, the constraint factor change will be implemented regardless of the special treatment mentioned above.

What will be the impact of the index freeze on custom indexes?

All custom index methodologies will follow the same treatment as outlined for the above referenced indexes.

Could there be a further impact on the February 2022 Quarterly Index Review?

The Russia/Ukraine developments, including but not limited to the imposition of new international sanctions, could potentially result in unexpected market closures or other events in global equity markets.

In accordance with the “Policy Regarding Trading Suspensions and Market Closures during Index Reviews” described in Appendix IX of the MSCI GIMI Methodology¹, MSCI is permitted to postpone the implementation of the February 2022 Quarterly Index Review for a given country if its primary stock market fails to open for trading and remains closed for the entire trading day on the implementation day (i.e., February 28, 2022 for markets scheduled to be open on that day).

Trading suspensions of less than one full trading day on the implementation day do not require any postponement of the implementation of the February 2022 Quarterly Index Review.

As always, MSCI will continue to monitor and communicate as needed around all developments that may impact a Quarterly Index Review.

¹ Available on MSCI’s website at: <https://www.msci.com/index-methodology>

General Questions

What is the current treatment in the MSCI Equity Indexes related to international sanctions targeting Russia in the context of the 2014 events?

Since 2014, and in connection with events in Ukraine and Russia at that time, the US Department of the Treasury and the Council of the European Union had imposed a set of investment sanctions, including the prohibition for investors from dealing in new debt and/or equity issuances of certain companies.

In this context, and as previously and publicly announced, MSCI applies the following special treatment of selected companies in the MSCI Equity Indexes:

- **Existing Index Constituents:** MSCI will not implement any increase in the Number of Shares (NOS) or Foreign Inclusion Factor (FIF) for securities of *Sberbank*, *VTB Bank*, *Rosneft* and *Transneft*
- **New Index Constituents:** Additionally, MSCI will not add any securities of *Sberbank*, *VTB Bank*, *Rosneft* and *Transneft* into the MSCI Equity Indexes as new index constituents

If *Sberbank*, *VTB Bank*, *Rosneft* or *Transneft* announce their intention to issue new shares, MSCI would generally launch a public consultation prior to any potential deletion of such securities within the MSCI Equity Indexes.

What are the key aspects that MSCI is currently monitoring in relation to the Russia/Ukraine situation?

- **Investment Sanctions:** MSCI is closely monitoring Russia/Ukraine developments, particularly new investment sanctions or other events that impact investability and replicability of the MSCI Equity Indexes.
- **Market Accessibility:** MSCI is also monitoring potential events that may result in material change of equity market accessibility for international institutional investors.

What are the key factors that MSCI considers when assessing new investment sanctions?

The MSCI Global Investable Markets Indexes (GIMI) are designed to reflect the global opportunity set available to all investors regardless of their domicile. At the time new sanctions targeting Russia are announced, MSCI analyzes:

- **Type:** The nature of the sanctions, e.g., do they only prohibit conducting business with Russian entities or also prohibit investment
- **Scope:** Whether the sanctions impact only a small number of specific securities or the broader Russian equity market
- **Timing:** The implementation timeline of the sanctions, including any phased implementation, grace period, etc.

Which changes could MSCI consider implementing in the MSCI Equity Indexes following additional new sanctions targeting Russia?

If additional new sanctions broadly further impact the investability and replicability of the MSCI Equity Indexes, or more specifically the MSCI Russia Indexes, for a significant portion of global investors, then depending on the assessment of the key factors mentioned above, MSCI could implement or extend one or more of the following actions (not an exhaustive list):

- **Security freeze:** A special treatment for specific companies, whereby certain changes would not be implemented in the MSCI Equity Indexes for securities of such companies until further notice (similar to MSCI's current treatment of the existing sanctions targeting Russia described above)
- **Security deletion:** A full deletion of securities of specific companies from the MSCI Equity Indexes
- **Index freeze:** A special treatment for the overall MSCI Russia Indexes (or others as relevant) whereby certain changes would not be implemented for any securities of the MSCI Russia Indexes until further notice (similar to the treatment for Russian securities starting from the February 2022 QIR)

Would MSCI consult with market participants ahead of implementing any such changes?

Following an official announcement of new sanctions, and time permitting, MSCI would aim to launch a consultation with market participants regarding any proposed special treatment or changes in the MSCI Equity Indexes. Feedback from market participants is always viewed as the best way to assess the potential impact of the sanctions on the investment processes of global investors.

However, if MSCI determines that to ensure continued investability and replicability of the MSCI Equity Indexes it is necessary to implement changes in a very condensed time period, MSCI reserves the right to announce and implement changes without a prior public consultation. In such a case, MSCI could consult with select global

investors to obtain real-time market feedback needed to implement any changes on an accelerated timeline.

What might be the notice provided for implementing changes in the MSCI Equity Indexes?

MSCI would need to consider the announced timeline related to any new sanctions when determining the notice period that would be provided for the implementation of changes in the MSCI Equity Indexes. Typically, where feasible MSCI would aim to provide at least two full business days advance notice prior to implementation of the changes.

Could the Russia/Ukraine developments impact the market classification of the MSCI Russia Indexes?

As per the MSCI Market Classification Framework², any material deterioration of accessibility of an equity market to international institutional investors could lead to the reclassification of such market, subject to prior public consultation.

MSCI assesses market accessibility for an equity market based on five criteria:

- Openness to foreign ownership
- Ease of capital inflows / outflows
- Efficiency of the operational framework
- Availability of investment instruments
- Stability of the institutional framework

Examples of events that may lead to a material deterioration of accessibility of an equity market and hence to the launch of a consultation on the classification status of such market in the MSCI Equity Indexes include, among others, the introduction of capital or foreign exchange controls, or the continued and prolonged closure of a country's stock exchange(s).

² Available on MSCI's website at: <https://www.msci.com/our-solutions/indexes/market-classification>

MSCI's Public Announcements

Announcement released on February 14, 2022

POTENTIAL NEW SANCTIONS TARGETING RUSSIA

MSCI is closely monitoring Russia/Ukraine developments, more specifically with regards to any potential new investment sanctions that could be put forth as a result.

As always, MSCI would analyze the impact of any new sanctions on international institutional investors related to the investability and replicability of the MSCI Russia Indexes. As a reminder, MSCI currently applies a special treatment to specific securities in the context of existing sanctions which target Russia. In case of new sanctions, MSCI would promptly launch a consultation with market participants regarding any change in such treatment or may implement changes without prior consultation if there are time constraints. MSCI will issue further communication in due course as the situation continues to evolve.

MSCI will also continue to closely monitor the market accessibility of the Russian equity market. As per the MSCI Market Classification Framework, any material deterioration of accessibility of an equity market to international institutional investors may lead to the reclassification of such market, subject to prior public consultation.

MSCI also reminds users of its indexes for any purpose, including both indexed and active management, that they are responsible for ensuring compliance with all applicable sanctions and any other rules, regulations, prohibitions, laws and other restrictions applicable to their portfolios, trading and other investment activity.

Announcement released on February 24, 2022

SPECIAL TREATMENT OF RUSSIAN SECURITIES IN THE MSCI EQUITY INDEXES STARTING FROM THE FEBRUARY 2022 QUARTERLY INDEX REVIEW

On February 24, 2022, the United States announced new sanctions targeting Russia, including investment sanctions on a number of publicly listed Russian companies. Following the announcement of these new sanctions, as well as feedback received from market participants regarding the investability and replicability of the MSCI Russia Indexes, MSCI will apply a special treatment for Russian securities in the MSCI Equity Indexes starting from the February 2022 Quarterly Index Review (QIR).

More specifically, MSCI will not implement the previously announced changes for Russian securities as part of the February 2022 QIR for the MSCI Russia Indexes or impacted composite indexes. MSCI had announced changes in the Number of Shares for three securities in the MSCI Russia Investable Market Index (IMI) that will no longer take place as part of the February 2022 QIR. Such changes will be implemented at the earliest as part of the May 2022 Semi-Annual Index Review (SAIR), subject to the removal of the special treatment.

MSCI will also not implement any changes (additions, deletions, constraint factor changes) in non-market capitalization weighted indexes and custom indexes such as the MSCI Factor, ESG, Thematic and Capped Indexes for any security classified in Russia.

Note that if as a result of not implementing a constraint factor change on a security in the MSCI Russia Indexes in an MSCI 10/40 Index, MSCI 25/50 Index or MSCI 35/65 Index, the Index were not to be compliant with the concentration constraints described in these index methodologies, the constraint factor change will be implemented regardless of the special treatment mentioned above.

The reversal of the changes from the February 2022 QIR will be reflected in the MSCI Index Product files starting from February 25, 2022.

MSCI will also specifically defer for the MSCI Russia Indexes the implementation of corporate events not requiring a Price Adjustment Factor (PAF), such as placements, block sales, recapitalizations, and sizable IPOs, and will exceptionally freeze potential migrations due to corporate events until further notice. By contrast, MSCI will continue implementing corporate events requiring PAFs, such as stock splits, consolidations, rights issue, buybacks as well as deletions resulting from delisting, bankruptcies, mergers and acquisitions as well as prolonged suspensions at the time of the event.

All custom index methodologies will follow the same treatment as outlined for the above referenced indexes.

MSCI will continue to closely monitor the Russia/Ukraine developments and welcomes feedback from market participants on the impact of the new sanctions announced by the United States on their investment processes, including any practical implications on the use of MSCI indexes and whether any changes to MSCI indexes in addition to the special treatment described above may be necessary or helpful to maintain the investability of relevant MSCI indexes. MSCI will issue further communication in due course.

MSCI reminds users of its indexes for any purpose, including both indexed and active management, that they are responsible for ensuring compliance with all applicable sanctions and any other rules, regulations, prohibitions, laws and other restrictions applicable to their portfolios, trading and other investment activity.

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The process for submitting a formal index complaint can be found on the index regulation page of MSCI's website at: <https://www.msci.com/index-regulation>.

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