MSCI Announces the Results of the 2013 Annual Market Classification Review

Geneva – June 11, 2013 – MSCI Inc. (NYSE: MSCI), a leading provider of investment decision support tools worldwide, including indices, portfolio risk and performance analytics and corporate governance services, announced today its decision to reclassify the MSCI Qatar and MSCI UAE Indices from Frontier Markets to Emerging Markets, the MSCI Greece Index from Developed Markets to Emerging Markets and the MSCI Morocco Index from Emerging Markets to Frontier Markets. The reclassifications of the MSCI Qatar and MSCI UAE Indices will coincide with the May 2014 Semi-Annual Index Review while the reclassifications of the MSCI Greece and MSCI Morocco Indices will coincide with the November 2013 Semi-Annual Index Review.

MSCI also announced today the start of the review of China A-shares for a potential inclusion in the MSCI Emerging Markets Index, driven primarily by a series of positive market opening measures and strong regulatory momentum over the past 12 months. The initiation of this consultation does not, in any way, indicate that the China A-shares have already met the standards of Emerging Markets in terms of market accessibility criteria. In fact, a large number of key obstacles in the areas of capital mobility, quota allocation and taxation continue to exist and substantial progress would need to be made in order to warrant an inclusion in the MSCI Emerging Markets Index. However, given the significant size of the China A-share market and the possibility of further regulatory reforms in the short term, MSCI believes that it is important to actively engage with the international investment community on this matter. The speed and magnitude of any hypothetical inclusion will be entirely dependent on the speed and magnitude of actual progress in the opening of the market and the resulting experience of international institutional investors.

Additionally, MSCI announced that the MSCI Korea and MSCI Taiwan Indices will remain under review for a potential reclassification to Developed Markets.

MSCI also announced that it is closely monitoring the situation in Egypt, in particular the negative developments in the foreign exchange market. MSCI may launch a public consultation on a potential exclusion of the MSCI Egypt Index from the MSCI Emerging Markets Index were the situation to worsen in the coming months.

Finally, MSCI also released today the 2013 Global Market Accessibility Review for the 79 markets under its coverage.

As a reminder, every June MSCI communicates its conclusions following discussions with the investment community on the list of countries under review and announces the new list of countries, if any, under review for potential market reclassification in the upcoming cycle. MSCI will communicate its decisions resulting from this Annual Market Classification Review in June 2014.

Review of Markets to be reclassified

1) **Reclassification to Emerging Markets**

Qatar: MSCI will reclassify the MSCI Qatar Index to Emerging Markets as part of the May 2014 Semi-Annual Index Review.

Market participants recognized that the Qatari authorities and the Qatar Exchange have made significant progress in enhancing the operational efficiency of the Delivery Versus Payment ("DVP") model. Many international investors welcomed the introduction of a proper false trade mechanism that includes securities borrowing and lending facilities and expressed improved confidence in the safeguarding of investors' assets. Consequently, a number of international institutional investors have also started to migrate from the current dual-account structure to a single-account structure.

MSCI welcomes the progress made to date and the further commitment of the Qatari authorities to increase the Foreign Ownership Limit ("FOL") levels applied by Qatari companies. Several companies have requested the Qatar Exchange to modify the calculation method of their FOL to use the companies' total market capitalization instead of the free float market capitalization, which will effectively increase the shares available to foreign investors. While the current level of foreign ownership is well below the limit, foreign ownership limits in Qatar remain low by Emerging Market standards and the Qatari authorities should actively continue to increase them above 25% in order to mitigate potential issues arising from increasing foreign capital inflows.

UAE: MSCI will reclassify the MSCI UAE Index to Emerging Markets as part of the May 2014 Semi-Annual Index Review.

International institutional investors recognized the improvements made by the Emirati regulator (Security and Commodities Authority), the Dubai Financial Market and the Abu Dhabi Securities Exchange with respect to the DVP model. A proper false trade mechanism was introduced in May 2013 on both exchanges. A regulation governing stock borrowing and lending agreements has also been issued and the implementation is expected to be effective in the coming months. The majority of market participants have expressed no major concerns over the safekeeping of investors' assets and are starting to move away from the dual account structure.

Greece: MSCI will reclassify the MSCI Greece Index to Emerging Markets as part of the November 2013 Semi-Annual Index Review. The MSCI Greece Index fails to qualify on several market accessibility criteria. The minimum standards that currently prevail in Developed Markets reflect continuous market improvements introduced by authorities in other countries over the years. However, very few of these improved market practices have been reflected in the Greek market. This has led to Greece now failing to meet on multiple criteria: securities borrowing and lending facilities, short selling and transferability.

Market participants have commented that in-kind transfer and off-exchange transaction-like facilities that were introduced in 2008 by the Greek authorities and the Athens Stock Exchange, are so restrictive that they are, in practice, unusable. In addition, the long standing absence of well-established stock lending as well as short selling practices also make the Greek equity market incompatible with the standards of other developed equity markets.

Further, the MSCI Greece Index has not met the Developed Market criterion for size for the last two years. If it were not for an exception to the index maintenance methodology that requires the index to have at least two constituents, only one security would currently qualify for inclusion in the MSCI Greece Index.

2) **Reclassification to Frontier Markets**

Morocco: MSCI will reclassify the MSCI Morocco Index to Frontier Markets as part of the November 2013 Semi-Annual Index Review.

The MSCI Morocco Index has failed the Emerging Market liquidity criteria for several years and this downward trend in liquidity has shown no sign of reversal.

The feedback from international institutional investors highlights that the MSCI Morocco Index is currently more in line with the size and liquidity requirements of Frontier Markets and that the reclassification would result in a more representative country index.

Review of Markets added to the Review List

1) **Potential Inclusion to Emerging Markets**

China A: MSCI is initiating the review of China A-shares for potential inclusion in the MSCI Emerging Markets Index.

Over the past 12 months, there has been a series of positive regulatory developments from the Chinese regulators to open up the mainland A-share market. Some notable measures included the increase of the total Qualified Foreign Institutional Investor (QFII) quota limit from US$30 billion to US$80 billion; the relaxation of entry requirements for QFII investors across categories; the increase in the Foreign Ownership Limit from 20% to 30% and a more speedy QFII application and license granting process. As a result of these positive changes, the number of QFII investors has increased substantially from 135 as of the end of 2011 to 220 as of the end of April 2013. The total QFII quota awarded is now over US$42 billion.

In addition, significant developments on the Renminbi Qualified Foreign Institutional Investor (RQFII) scheme also occurred, including the substantial increase in the RQFII quota from RMB 70 billion to RMB 270 billion. In March 2013, the CSRC further widened the investment scope of RQFIIs by eliminating the 80% fixed income and 20% equity asset allocation policy and allowed RQFII investors to trade a broader scope of financial products, such as index futures. More recently, licensed financial institutions incorporated in Hong Kong became eligible to participate in the RQFII scheme, effectively providing another viable channel for international investors to access the mainland China A-share market.

While more international institutional investors are now potentially eligible to participate in the China domestic equity market, certain issues continue to represent key obstacles for a potential inclusion in the MSCI Emerging Markets Index. These issues include: 1) capital mobility, 2) the lack of alignment of the size of individual QFII quota and the size and investment process of investors and 3) the lack of clarity on taxation rules.

Capital mobility is a market characteristic that is highly valued by international investors. A market with free capital mobility allows investors to implement their investment views with minimum market frictions. Investors such as mutual fund and ETF providers have high requirements for capital mobility as they need to manage daily subscriptions and redemptions from their clients. Currently, there are still many significant capital mobility restrictions associated with the China QFII system especially on capital repatriation. Although the repatriation window has recently been shortened from one month to one week for "Open-ended Chinese Funds", the rule that requires a minimum of 70% investment in China's domestic assets effectively precludes global mutual fund managers from having the ability to repatriate weekly.

The second major obstacle preventing a potential inclusion to the MSCI Emerging Markets Index is linked to the quota system. Global investors rely on the China QFII or RQFII scheme to gain direct access to mainland's capital market. As such, the quota system needs to provide a consistent, dependable and reliable experience and a level playing field for all international investors. The limited size of the total QFII/RQFII quota as well as the cap imposed on the individual QFII quota effectively constrain the amount of quota that can be allocated to investors. In addition, there is currently no explicit mechanism to link the size of investors and their investment processes to the size of quota allocation. Large investors will potentially require a quota size corresponding to their assets under management in order to obtain a meaningful investment exposure. Similarly, passive investors will require a quota size corresponding to their passive exposure to replicate the index. The ability and track record of international investors to obtain the appropriate amount of quota will be a critical factor in the review for index inclusion.

Another issue that was frequently raised by global investors is a lack of clarity on the implementation of Enterprise Income Tax for A-share investors outside mainland China. While the lack of clarity on taxation issue does not presently constitute an explicit condition for market inclusion, it is important to stress that it weighs highly on investors' list of concerns and in some cases, de-motivates investors from applying for the QFII/RQFII qualification. There were also instances where the taxation issue is causing capital mobility problems for QFII investors. Because of the lack of clear taxation rules on gains from securities trades, these QFII investors were not able to obtain the necessary audit approval for profit repatriation. It would be helpful for relevant authorities to expedite the resolution of the taxation issue and provide as much clarity and transparency as possible to global investors so it will not remain a roadblock.

Given the significant size of the China A-share market, limitations of the current QFII/RQFII schemes and the potential time required for the China A-shares market to align closer to the accessibility standards of other Emerging Markets, an implementation of the market reclassification, if it materializes, is likely to follow a path of gradual inclusion starting with a very small weight over a multi-year horizon. However, the speed and magnitude of any such hypothetical inclusion will be entirely dependent on the actual progress of market opening and the resulting experience of international investors. It is also worth emphasizing that a full inclusion of China A-shares in the MSCI Emerging Markets Index is unlikely to be achieved without a complete abolishment of capital flow restrictions and closer alignment of market accessibility standards with other Emerging Markets.

Review of Markets remaining on the Review List

1) **Potential Reclassification to Developed Markets**

Korea: MSCI will maintain the MSCI Korea Index in Emerging Markets. The MSCI Korea Index will remain under review for a potential reclassification to Developed Markets as part of the 2014 Annual Market Classification Review.

The MSCI Korea Index continues to meet most of the Developed Markets criteria of the MSCI Market Classification Framework. Notably economic development, market size and liquidity as well as many aspects of the market operational framework are at the level of Developed Market standards. There have been, however, no new developments over the course of the past year with respect to the accessibility issues highlighted in previous years. In particular, there are still no concrete resolutions or meaningful progress made on issues that are highly critical to international institutional investors.

Developed Markets are characterized by highly efficient and mostly standardized operating practices. Introducing non-standard market practices would force a high number of investors to change what is generally a well run and operationally robust framework. The limited convertibility of the Korean Won in the offshore currency market would be a significant issue for international institutional investors managing Developed Market portfolios as it would prevent them from using their usual currency trading practices. Instead of having full flexibility in timing and executing their currency trades, Developed Market investors would be forced to trade the Korean Won during Korean business hours and using local counterparties. Finally, the rigidity of the ID system that makes in-kind transfers and off-exchange transactions prohibitive is of particular concern to large institutions managing thousands of funds and to market participants such as indexers or broker-dealers that are providing investment products that closely replicate indices.

The MSCI Korea Index will not be reclassified to Developed Markets and will remain on the review list as long as the highlighted issues remain unaddressed and many international institutional investors consider that the accessibility of the Korean equity market is not at Developed Market standards.

Taiwan: MSCI will maintain the MSCI Taiwan Index in Emerging Markets. The MSCI Taiwan Index will remain under review for a potential reclassification to Developed Markets as part of the 2014 Annual Market Classification Review.

The MSCI Taiwan Index meets many Developed Markets criteria, including economic development and market size and liquidity, but several shortcomings on market accessibility continue to prevent the reclassification of the MSCI Taiwan Index to Developed Markets. The Taiwanese authorities have made no new progress in resolving a number of issues that are critical to international institutional investors. These important issues are: 1) the absence of an offshore currency market for the New Taiwan Dollar, 2) the lack of complete removal of prefunding practices on Taiwanese equity market and 3) the rigidity of the ID system that makes the use of in-kind transfers and off-exchange transactions difficult to execute in practice.

The MSCI Taiwan Index will not be reclassified to Developed Markets and will remain on the review list as long as the highlighted issues are not addressed and many international institutional investors consider that the accessibility of the Taiwanese equity market is not at Developed Market standards.

Other Developments in Markets not currently on the Review List

Egypt: MSCI is closely monitoring the situation in Egypt and in particular the country's foreign exchange market. The recent shortage of foreign currency on the domestic foreign exchange market is of great concern to international institutional investors. MSCI may be forced to launch a public consultation with the investment community on a potential exclusion of the MSCI Egypt Index from the MSCI Emerging Markets Index were the situation on the Egyptian foreign exchange market to worsen and result in the inability of international investors to repatriate their funds. In addition, this situation may also have a negative impact on the liquidity of the Egyptian equity market which could trigger a review of the MSCI Egypt Index for potential reclassification to Frontier Markets due to the lack of liquid investable stocks.

Israel: The majority of international institutional investors that participated in the consultation do not consider the MSCI Israel Index to be part of their European investment opportunity set and hence, are not supportive of an inclusion of the MSCI Israel Index in the MSCI Europe Index. However, a smaller subset of institutional investors has started to include some Israeli stocks in their European portfolios. Consequently, MSCI will keep the country composition of the MSCI Europe Index unchanged and will continue to include the MSCI Israel Index in the MSCI Europe + Middle East Index.

Global Market Accessibility Review

MSCI released today the results of the 2013 Global Market Accessibility Review, including a year on year comparison, for all 79 markets it covers. The Global Market Accessibility Review aims to reflect international investors' experience in investing in a given market and provides a detailed assessment of market accessibility for each country market included in the MSCI Indices. In particular, it provides an evaluation of 18 measures in four market accessibility criteria, which are:

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

These four criteria are reflective of the views of international institutional investors, who generally put a strong emphasis on equal treatment of investors, free flow of capital, cost of investment and country specific risk.

The assessment is intended to serve as the basis for a comparison of countries' market accessibility levels across investment universes. This review aims also to serve as a tool for international institutional investors to better track the evolution of market accessibility in individual countries as well as for regulators to be informed of the areas perceived as not meeting international investor expectations. MSCI welcomes continuous feedback from the investment community on the Global Market Accessibility Review.

The complete results of the 2013 Global Market Accessibility Review, including the detailed assessment of the different market accessibility measures by country, as well as additional information on the MSCI Market Classification Framework and a summary of recent market reclassifications, can be found on MSCI's web site at http://www.msci.com/products/indices/market_classification.html.

Reminder on the MSCI Market Classification Framework

The classification of markets is a key input in the process of index construction as it drives the composition of the investment opportunity sets to be represented. The approach used by MSCI aims to reflect the views and practices of the international investment community by striking a balance between a country's economic development and the accessibility of its market while preserving index stability.

The MSCI Market Classification Framework consists of the following criteria: economic development, size and liquidity and market accessibility.

The economic development criterion is only used in determining the classification of Developed Markets while that distinction is not relevant between Emerging and Frontier Markets given the very wide variety of development levels within each of these two universes.

The size and liquidity requirements are based on the minimum investability requirements for the MSCI Global Standard Indices.

Market accessibility aims to reflect international investors' experience in investing in a given market and as a result, this criterion includes several sub-criteria. These criteria are generally based on qualitative measures that are reviewed for all markets at least once a year during the MSCI Global Market Accessibility Review.

MSCI regularly reviews the market classification of all countries included in the MSCI Indices to ensure that they remain reflective of the evolution of the different markets. In particular, changes in the assessments under the classification framework serve as the basis for determining the markets that will be reviewed for potential market reclassification as part of the Annual Market Classification Review.

MSCI will only consider markets for upgrade if a change in classification status can be viewed as irreversible. Every June, MSCI will communicate its conclusions from the discussions with the investment community on the list of countries under review and announce the new list of countries, if any, under review for potential market reclassification in the upcoming cycle. While adhering to the regular time line for such communication helps provide greater predictability and is less disruptive to a market's normal functioning, MSCI may from time to time exercise prudent discretion and consider off-cycle communications should significant market events take place outside the regular review cycle.

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MSCI will hold two press conference calls to answer questions from the media. Note that these press conference calls are restricted to journalists.

First Conference Call
Date: Tuesday, June 11, 2013
Time: 11.30pm CEST/10.30pm BST/5.30pm EDT/1.30am GST

Toll Free Numbers:

US: 866-803-2143	Hong Kong: 800-900-592
UK: 0800-279-3953	Japan: 00531-12-1857
UAE: 8000-35702379	S. Korea: 00798-14800-6732
Taiwan: 00801-137-708	

Participant passcode: MSCI

Second Conference Call
Date: Wednesday, June 12, 2013
Time: 9.00am CEST/8.00am BST/3.00am EDT/11.00am GST

Toll Free Numbers:

US: 866-803-2143	Hong Kong: 800-900-592
UK: 0800-279-3953	Japan: 00531-12-1857
UAE: 8000-35702379	S. Korea: 00798-14800-6732
Taiwan: 00801-137-708	

Participant passcode: MSCI

Clients and other interested parties should contact MSCI Global Client Service with any enquiries.

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About MSCI

MSCI Inc. is a leading provider of investment decision support tools to investors globally, including asset managers, banks, hedge funds and pension funds. MSCI products and services include indices, portfolio risk and performance analytics, and governance tools.

The company's flagship product offerings are: the MSCI indices with close to USD 7 trillion estimated to be benchmarked to them on a worldwide basis[1]; Barra multi-asset class factor models, portfolio risk and performance analytics; RiskMetrics multi-asset class market and credit risk analytics; IPD real estate information, indices and analytics; MSCI ESG (environmental, social and governance) Research screening, analysis and ratings; ISS governance research and outsourced proxy voting and reporting services; and FEA valuation models and risk management software for the energy and commodities markets. MSCI is headquartered in New York, with research and commercial offices around the world.

[1]*As of September 30, 2012, as published by eVestment, Lipper and Bloomberg on January 31, 2013*

For further information on MSCI, please visit our web site at www.msci.com

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