

# MSCI Announces the Results of the 2011 Annual Market Classification Review

**Geneva – June 21, 2011** – 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 that the MSCI Korea Index and the MSCI Taiwan Index will be maintained in Emerging Market status and will remain under review for potential reclassification to Developed Markets as part of the 2012 Annual Market Classification Review. In addition, MSCI also announced that the 2011 review period for the potential reclassification of the MSCI Qatar Index and the MSCI UAE Index from Frontier Market to Emerging Market status has been extended to December 2011 in order to give additional time for market participants to assess the impact of the recent positive changes implemented in these two markets. This review period extension will also provide more time to regulators and stock exchanges to address the remaining concerns raised by international institutional investors. MSCI also released today the 2011 Global Market Accessibility Review for each of the 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. As part of the 2012 Annual Market Classification Review there will be no new candidates added to the list of country indices under review for potential market reclassification. MSCI will communicate its decisions resulting from this Annual Market Classification Review in June 2012.

## Review of Markets in the Review List

- 1) **Potential Reclassification to Developed Markets:** MSCI will maintain the MSCI Korea Index and the MSCI Taiwan Index in Emerging Markets. The MSCI Korea Index and the MSCI Taiwan Index will remain under review for a potential reclassification to Developed Markets as part of the 2012 Annual Market Classification Review.

Accessibility issues in both markets, in particular the lack of full currency convertibility, including the absence of active offshore currency markets, and issues linked to the rigidity of the ID systems, remain unchanged from the view of international institutional investors.

In Korea, MSCI notes that some measures have been put in place in an attempt to alleviate frictions and inefficiencies resulting from the lack of full currency convertibility and the ID system. Examples are the revision of the Banking Act to provide foreign investors additional funding options for securities settlement purposes, the adjustment of currency market settlement timing, the use of lead IRC accounts for block trading and the endorsement of an in-kind transfer principle. However, feedback from investors indicated that their actual experience has seen limited improvement as administrative constraints attached to these measures make them of limited effectiveness in practice. In addition, anti-competitive practices have not been eliminated: the provision of stock market data continues to be subject to contractual anti-competitive clauses.

On a positive note for Taiwan, pre-funding practices, while not completely eliminated, are now less severe following the implementation of a T+2 DVP settlement cycle.

- 2) **Potential Reclassification to Emerging Markets:** MSCI will extend the review period for the potential reclassification of the MSCI Qatar Index and the MSCI UAE Index from Frontier Market to Emerging Market status and will announce its decision in December 2011 in order to give additional time for market participants to assess recent enhancements implemented on the Qatari and Emirati markets. As a reminder MSCI requires a period of assessment by market participants following major changes in the operational framework. Given that the new delivery versus payment (“DVP”) models were introduced only in May 2011, few market participants have had the opportunity to make a full assessment yet. This additional review period will also give more time to the regulators and the stock exchanges to address the remaining concerns raised by international institutional investors. A potential reclassification of the MSCI Qatar Index and MSCI UAE Index to Emerging Market status would be implemented in the MSCI Indices at the earliest as part of the November 2012 Semi-Annual Index Review.

International institutional investors welcomed the introduction of new DVP models that have been implemented on the Qatar Exchange, Dubai Financial Market and Abu Dhabi Securities Exchange in May 2011. The Qatari and Emirati models are very similar and both are expected to contribute to the elimination of the need for international institutional investors to setup and operate dual account structures. As a reminder, international institutional investors often establish segregated custody and trading accounts in order to mitigate the risk from local brokers having unlimited access to the trading accounts. This dual account structure results in significant operational burdens associated with the need to transfer shares from one account to the other prior to trading. The effectiveness of these new DVP models to guarantee the safeguarding of the investors’ assets and to allow for the elimination of the dual account structure requirement still needs to be fully assessed by international institutional investors. Early feedback from market participants highlights as one area of concern warranting further monitoring the handling of failed trades, which could prevent them from adopting the single account structure.

International investors continue also to be concerned by the effect of stringent foreign ownership limits such as limited availability of shares to foreign investors. This point has been more strongly voiced for the Qatari market as large companies, such as Industries Qatar, have almost reached their foreign ownership limit and became quasi- uninvestable for foreign investors. Under current conditions the MSCI Qatar Index would not qualify for Emerging Markets on this criterion.

The Egyptian equity market has returned to normal functioning following a market closure of almost 40 consecutive business days. MSCI may review the eligibility of a country index in an MSCI Composite Index if the accessibility and investability of its equity market are significantly impaired. No major issues have been raised by international institutional investors with respect to the operational framework of the Egyptian Stock Exchange following its re-opening or on the market’s accessibility in general. Consequently, MSCI is currently not reviewing the eligibility of the MSCI Egypt Index in the MSCI Emerging Market Index.

MSCI would also like to clarify that the sovereign debt crisis that impacted several European economies, such as Greece, Ireland and Portugal, has had no impact on the accessibility and investability of those equity markets. Hence, no changes are currently being considered to the market classification status of these MSCI Country Indices.

Finally, similar to the situation last year, the Pakistani equity market continued to be characterized by a very limited number of sizable securities and a reclassification of the MSCI Pakistan Index to the Emerging Market status would result in including only three index constituents meeting the MSCI Emerging Markets minimum size requirements. Changing the status of an MSCI country index should be viewed as an irreversible movement. Due to the irreversibility requirement, MSCI will not include the MSCI Pakistan Index in the review list for potential reclassification to Emerging Markets as part of the 2012 Annual Market Classification Review and will continue to monitor the development over next year. MSCI welcomes feedback from market participants on this topic.

### **Global Market Accessibility Review**

MSCI released today its second Global Market Accessibility Review, including a year on year comparison, on all the 77 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 2011 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 [www.msci.com](http://www.msci.com).

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After posting the review announcement, 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 21, 2011

Time: 5.45pm EDT/10.45pm BST/11.45pm CEST

International Dial-In: +1-210-795-1098

Pass Code: MSCI MARKET CLASSIFICATION REVIEW 2011

Toll Free Numbers:

US: 866-803-2143 Hong Kong: 800-900-592

UK: 0800-279-3953 Japan: 00531-12-1857

#### Second Conference Call

Date: Wednesday, June 22, 2011

Time: 9.00am BST/10.00am CEST/12.00pm GST/4.00pm HKT

International Dial-In: +1-210-795-1098

Pass Code: MSCI MARKET CLASSIFICATION REVIEW 2011

Toll Free Numbers:

US: 866-803-2143 Hong Kong: 800-900-592

UK: 0800-279-3953 Japan: 00531-12-1857

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

## 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 which include over 148,000 daily indices covering more than 70 countries; Barra portfolio risk and performance analytics covering global equity and fixed income markets; RiskMetrics market and credit risk analytics; ISS governance research and outsourced proxy voting and reporting services; FEA valuation models and risk management software for the energy and commodities markets; and CFRA forensic accounting risk research, legal/regulatory risk assessment, and due-diligence. MSCI is headquartered in New York, with research and commercial offices around the world.

**For further information on MSCI, please visit our web site at [www.msci.com](http://www.msci.com)**

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