

## RESULTS OF MSCI 2017 MARKET CLASSIFICATION REVIEW

**MSCI will include China A shares in the MSCI Emerging Markets Index**

**MSCI to consult on potential inclusion of Saudi Arabia in the MSCI Emerging Markets Index**

**MSCI delays decision on the reclassification of the MSCI Argentina and Nigeria Indexes**

**New York – June 20, 2017** – MSCI Inc. (NYSE: MSCI), a leading provider of global equity indexes, announced today that beginning in June 2018, it will include China A shares in the MSCI Emerging Markets Index and the MSCI ACWI Index. This decision has broad support from international institutional investors with whom MSCI consulted, primarily as a result of the positive impact on the accessibility of the China A market of both the Stock Connect program and the loosening by the local Chinese stock exchanges of pre-approval requirements that can restrict the creation of index-linked investment vehicles globally.

Consequently, MSCI plans to add 222 China A Large Cap stocks, representing on a pro forma basis approximately 0.73% of the weight of the MSCI Emerging Markets Index at a 5% partial Inclusion Factor. A two-step inclusion process will be used to account for the existing daily trading limits on Stock Connect. The first inclusion step would coincide with the May 2018 Semi-Annual Index Review followed by the second step which would take place as part of the August 2018 Quarterly Index review. MSCI reserves the right to revise the planned implementation to a single phase should the daily limit on Stock Connect be abolished or significantly expanded before the scheduled inclusion dates.

MSCI will start to calculate a number of MSCI Provisional Indexes as part of the MSCI ACWI Index Series that include China A shares. These indexes serve to manage the implementation of the inclusion of China A shares in investors' portfolios on the schedule of their choosing. In particular, MSCI will launch the MSCI China A International Large Cap Provisional Index on June 21, 2017, followed by additional global and regional provisional indexes, including the MSCI China and MSCI Emerging Markets Provisional Indexes, in August 2017.

"International investors have embraced the positive changes in the accessibility of the China A shares market over the last few years and now all conditions are set for MSCI to proceed with the first step of the inclusion." said Remy Briand, MSCI Managing Director and Chairman of the MSCI Index Policy Committee. "The expansion of Stock Connect has been a game changer for the market opening of China A shares."

Mr. Briand added, "When further alignment with international market accessibility standards occurs, sustained accessibility is proven within Stock Connect and international institutional investors gain further experience in the market, MSCI will reflect a higher representation of China A shares in the MSCI Emerging Markets Index. MSCI is very hopeful that the momentum of positive change witnessed in China over the past years will continue to accelerate."

MSCI performed an extensive and in-depth cross-regional consultation on the potential partial inclusion of China A shares in the MSCI Emerging Markets Index. This global consultation included a large number of asset owners, asset managers, broker/dealers and other market participants.

International institutional investors welcomed the expansion of Stock Connect and viewed it as a more flexible access framework compared to the current QFII and RQFII regimes. They also welcomed the decrease in the number of suspended China A shares, but continue to view the number of suspensions as an outlier compared to other international markets. Investors encouraged the Chinese authorities and exchanges to consider additional measures to address the issue of suspensions. The proposal to include Large Cap shares that are not in trading suspension was approved by the vast majority of institutional investors. Additionally, many of them also recommended that MSCI include China A Large Cap shares of companies that already have H share equivalents in the MSCI China Index. Hence, MSCI has amended its original proposal to include all China A Large Cap shares accessible through Stock Connect that are not excluded due to trading suspension. This change to the original proposal brings the number of China A shares in the pro forma MSCI Emerging Markets Index from 169 to 222.

During the consultation, many institutional investors requested guidance on the future inclusion road map for China A shares. MSCI announced today that further inclusion will be subject to a greater alignment of the China A shares market with international market accessibility standards, the resilience of Stock Connect, the relaxation of daily trading limits, continued progress on trading suspensions, and further loosening of restrictions on the creation of index-linked investment vehicles.

A subsequent inclusion of China A shares in the MSCI Emerging Markets Index could potentially include an increase of the currently announced 5% Inclusion Factor as well as the addition of China A Mid Cap shares. MSCI will continue to monitor the situation and launch a public consultation to solicit feedback from investors once warranted.

In today's announcement, MSCI also said that it will include the MSCI Saudi Arabia Index in its 2018 Annual Market Classification Review for a potential inclusion in the MSCI Emerging Markets Index.

MSCI also announced today that the MSCI Argentina Index will not be reclassified to Emerging Markets status, as investors expressed concerns that the recently implemented market accessibility improvements, including the removal of capital controls and FX restrictions, needed to remain in place for a longer time period to be deemed irreversible. Consequently, the MSCI Argentina Index will remain on the review list as part of the 2018 Annual Market Classification Review.

Additionally, the decision on the potential removal of the MSCI Nigeria Index from the MSCI Frontier Markets Index has been delayed to November 2017 to allow more time for international institutional investors to better assess the effectiveness of the new FX trading window introduced by the Central Bank of Nigeria.

Finally, MSCI today released the 2017 Global Market Accessibility Review for the 84 markets under its coverage.

Each June, MSCI communicates its conclusions, based on discussions with the international investment community, on the list of markets under review. At that time, it also announces markets to be reviewed for potential market reclassification in the upcoming cycle.

### **Saudi Arabia**

MSCI announced that it is launching a consultation on the potential inclusion of the MSCI Saudi Arabia Index in the MSCI Emerging Markets Index.

In September 2016, the Saudi Arabian Capital Market Authority (CMA) implemented a new version of "Rules for Qualified Foreign Financial Institutions Investment in Listed Securities". Major enhancements in this version included the increase of foreign ownership limit levels applicable to listed Saudi Arabian companies, the lowering of the minimum assets under management requirements applicable to Qualified Foreign Investors and amendments to the list of Qualified Foreign Investors eligible investor types. These changes have resulted in an increase in the number of Qualified Foreign Investors having entered the Saudi Arabian equity market as reported by the CMA and the Saudi Stock Exchange (Tadawul).

On April 23, 2017, Tadawul followed up by implementing a new market operating model. The new model includes, among other noted improvements, the expansion of the settlement cycle from T+0 to T+2, the introduction of a proper delivery versus payment (DvP) settlement provision, proper failed trade management, and the introduction of short selling and securities borrowing and lending facilities.

Following the introduction of these major enhancements to the accessibility of the Saudi Arabian equity market, MSCI will be consulting with international institutional investors to gather informed feedback on their practical experience of accessing the Saudi equity markets and in particular on the effectiveness of the recently implemented enhancements.

### **Argentina**

MSCI announced that it is maintaining the MSCI Argentina Index on the review list for a potential reclassification to Emerging Markets status as part of the 2018 Annual Market Classification Review.

Since December 2015, the Argentinian Central Bank has abolished foreign exchange restrictions and the capital controls that had been in place for a number of years. These changes have resulted in, among other things: (1) a floating currency, (2) the elimination of cash reserves and monthly repatriation limits affecting the equity market and (3) the abolishment of the capital lock-up period for investments.

Although the Argentinian equity market meets most of the accessibility criteria for Emerging Markets, the irreversibility of the relatively recent changes still remains to be assessed.

### **Nigeria**

MSCI announced that it is delaying its decision on a potential reclassification of the MSCI Nigeria Index to stand-alone market status to the November 2017 Semi-Annual Index Review.



On April 21, 2017, the Central Bank of Nigeria introduced a new FX trading window for investors and exporters that aimed to facilitate the repatriation of capital. To date, investors seem to be cautiously optimistic on the effectiveness of this new window but still require more time to test it further.

As a reminder, the Central Bank of Nigeria pegged the local currency to the US dollar in the first half of 2015, resulting in a sharp decline in liquidity on the foreign exchange market, particularly at the beginning 2016. Hence, the ability of international institutional investors to repatriate capital has been significantly impaired to a point where the investability of the Nigerian equity market is being questioned.

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MSCI serves 97 of the top 100 largest money managers, according to the most recent P&I ranking. For more information, visit us at [www.msci.com](http://www.msci.com).

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