

## Status on the Potential Reclassification of the MSCI Saudi Arabia Index

**New York – January 11, 2018** – Following new developments regarding the Saudi Arabian equity market MSCI Inc. (NYSE: MSCI), a leading provider of research-based indexes and analytics, would like to update market participants on its consultation on the potential reclassification of the MSCI Saudi Arabia Index to emerging market status. MSCI expects to announce its conclusion on this consultation proposal in June 2018 as part of its regular Market Classification Review announcement.

The Saudi Arabian Capital Market Authority (CMA) announced the implementation of the 3rd version of the “Rules for Qualified Foreign Financial Institutions Investment in Listed Securities” (QFI) on January 9, 2018. The new rules include, among other things, a significant reduction in the number of qualification requirements and a significant improvement in the registration process and the process for applying for a QFI license. As per the CMA, this change in regulation aims to further facilitate access to the Saudi Arabian equity market for international institutional investors.

Based on discussions with international institutional investors active in the Saudi Arabian equity market, the new market operating model implemented in April 2017 by the Saudi Stock Exchange (Tadawul) is considered resilient and no issues with respect to the new market operating model have been highlighted by consultation participants so far. In particular, the new settlement mechanism, which was expanded to T+2 and features delivery versus payment, was highlighted as very effective. However, a number of investors expressed that they would like to see the new model in operation for a longer period of time before giving a final view.

Tadawul announced further enhancements to the market operating model on January 10, 2018. In particular, “omnibus like” facilities and changes to the Independent Custody Model will be introduced on January 21, 2018. Additionally, by the second quarter of 2018 the official closing prices of securities traded on Tadawul will be determined based on a closing auction mechanism rather than the currently used value weighted average price. MSCI welcomes these future enhancements, which should be an important step toward increasing the efficiency of the Saudi Arabian equity market.

According to Saudi Arabian authorities, the Saudi Aramco initial public offering (IPO) is planned for the second half of 2018 and will be placed domestically on Tadawul. It is not yet clear whether any secondary exchange outside Saudi Arabia will also be used for the listing. In light of this new information, MSCI would like to restate the treatment of the future Saudi Aramco IPO in its Indexes. As per the MSCI Global Investable Market Indexes methodology, Saudi Aramco will be included in the MSCI Saudi Arabia Index at the time of the IPO as long as it fulfills all eligibility criteria, including the listing of the company’s shares on an eligible stock exchange and related market segment, e.g., Tadawul’s Main Market.

Given the current size of the Saudi Arabian equity market, which is expected to increase further with the Saudi Aramco IPO, the recently implemented regulatory and operational changes, as well as the reforms expected to be implemented in the near future, MSCI encourages market participants to review these enhancements of the Saudi Arabian equity market and to share feedback on the reclassification proposal. MSCI will also continue to engage directly with its clients on this topic. Our conclusion is expected to be released in June 2018 as part of the regular MSCI 2018 Market Classification Review.

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### Media Inquiries

[PR@msci.com](mailto:PR@msci.com)

Sam Wang

+1 212 804 5244

### MSCI Global Client Service

EMEA Client Service

+ 44 20 7618.2222

Americas Client Service

+1 888 588 4567 (toll free)

Asia Pacific Client Service

+ 852 2844 9333

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