

MSCI Announces Results of the MSCI 2024 Market Classification Review

NEW YORK – June 20, 2024 - MSCI Inc. (NYSE: MSCI), a leading provider of critical decision support tools and services for the global investment community, today announced the results of the MSCI 2024 Market Classification Review.

Select highlights of this year's review includes MSCI:

- Launching a consultation on the potential reclassification of Bulgaria from Standalone to Frontier Market status
- Continuing to monitor the implementation of measures aimed at improving the accessibility of the Korean equity market for international investors, but also noting that the recent short selling ban introduces market accessibility restrictions
- Noting recent improvement in the liquidity of the Egyptian foreign exchange market while warning on the potential implications of deteriorations reoccurring
- Continuing to monitor the market accessibility of the Bangladesh equity market
- Highlighting the evolution of clearing and settlement cycles across global markets

"In the face of market volatility, regulators in certain markets around the world have proactively advocated for elevated market accessibility standards. While we are seeing various developments and measures announced and implemented, it's crucial that any actions toward enhancing market accessibility align with investor expectations and that no new restrictions impede any forward momentum," said Dr. Dimitris Melas, Global Head of Index Research and Product Development and Chairman of the MSCI Index Policy Committee. "We will continue to evaluate how new and evolving reforms impact global institutional investors' market accessibility and assess their effectiveness throughout the next market review cycle."

More information related to the MSCI 2024 Market Classification Review, including the results of the 2024 MSCI Global Market Accessibility Review, can be viewed at www.msci.com/market-classification.

Consultation on potential reclassification of Bulgaria to Frontier Market status

MSCI announced today the launch of a consultation on a proposal for potential reclassification of Bulgaria from Standalone Market status to Frontier Market status in one step, coinciding with the May 2026 Index Review.

As part of MSCI's August 2016 Index Review, Bulgaria was reclassified from Frontier Market status to Standalone Market status after a continuous decline in the size and liquidity of the Bulgarian equity market. At the August 2023 Index Review, MSCI implemented changes to the index construction and maintenance methodology for the MSCI Frontier Markets Indexes. These changes resulted in Bulgaria now having enough companies meeting Size and Liquidity requirements for Frontier Markets.

MSCI welcomes feedback from market participants on this reclassification proposal until April 15, 2025 and will announce its decision as part of the MSCI 2025 Market Classification Review.

Korea's Market Accessibility

From 2008 to 2014, MSCI consulted with global market participants on the potential reclassification of Korea from Emerging Market status to Developed Market status. During this period and the time that followed, market participants highlighted key accessibility concerns including the limited convertibility of the Korean Won in the offshore currency market; the rigidity of the ID system that makes in-kind transfers and off-exchange transactions onerous; and the lack of investment instruments availability due to the restrictions on the use of exchange data for the creation of financial products.

MSCI recognizes and welcomes the recently proposed measures aimed at improving the accessibility of the Korean equity market.

- **Foreign exchange market:** In February 2023, improvements to the Korean foreign exchange (FX) market's structure were announced by the Ministry of Economy and Finance (MOEF). Starting from January 2024, Registered Foreign Institutions (RFIs) are now able to participate in the onshore interbank FX market and engage in direct FX transactions with banks. The pilot operation to extend trading hours has also been initiated, with full implementation set for the latter half of this year. Additional time is required to assess the implementation of these measures and the extent to which these infrastructure improvements align the Korean FX market with global standards.
- **Legal Entity Identifiers:** Advancements to the capital market were announced by the Financial Services Commission (FSC) in January 2023. By the end of that year, following appropriate regulatory modifications and the development of relevant IT infrastructure, corporations began using Legal Entity Identifiers (LEI) instead of the Investor Registration Certificate (IRC) system. The requirements for reporting investment details of each final investor associated with an omnibus account holder were relaxed, and the scope of OTC transactions for ex-post reporting was broadened. However, market participants have expressed concerns about the complexity of the requirements needed to obtain an entirely validated LEI, which is creating further obstacles rather than simplifying market access for foreign investors. MSCI will continue to closely monitor the implementation of these reforms.
- **Mandatory disclosures:** As part of the improvement measures announced by the FSC, the first phase of the mandatory English disclosures (phased in by asset size and foreign ownership percentage) started this year. In addition, updates to dividend distribution procedures, announced by FSC and MOEF last year, were implemented in 2024. Nonetheless, only a minority of companies have embraced these measures.

It is important to note that the aforementioned reforms do not address the issues arising from the limitations imposed by the local stock exchange on the use of exchange data for financial product creation. Additionally, in November 2023, authorities enacted a full ban on short selling, introducing additional accessibility constraints.

In response to COVID-19, Korea implemented a ban on short selling on March 16, 2020. By May 2021, this prohibition was temporarily revoked for securities listed in the KOSPI 200 and KOSDAQ 150 Indexes. However, in November 2023, a full ban on short selling was reimposed. While this ban is expected to be temporary, sudden changes in market rules are not desirable.

As a reminder, potential reclassifications require that all issues have been addressed, reforms have been fully implemented, and market participants have had ample time to thoroughly evaluate the effectiveness of the changes.

Improvement in the liquidity of the Egyptian Foreign Exchange Markets

Due to low FX liquidity and the re-emergence of the FX queue, foreign investors encountered repatriation challenges in the Egyptian equity market in 2023. In May 2023, MSCI applied a special treatment for Egypt in the MSCI equity indexes. This special treatment deferred index review changes and the implementation of corporate events aiming to address index replication concerns by potentially reducing the number of changes in related indexes. MSCI also highlighted the deterioration of Egypt's market accessibility as part of the 2023 Market Classification Review and warned that a consultation on a reclassification proposal may be launched if the market's accessibility worsened further. In March 2024, the Central Bank of Egypt enhanced currency availability by allowing the Egyptian pound to depreciate and committing to shift to a more flexible exchange rate system. With the clearing of the FX backlog, which had been outstanding for international institutional investors since early 2023, repatriation challenges were eased. Given this material improvement in the market's accessibility, MSCI removed the special treatment for Egypt effective June 3, 2024.

"Significant frictions in the capital repatriation process negatively impacting index replicability are considered an uncharacteristic feature within Emerging Markets," remarked Jean-Maurice Ladure, Global Head of Index Management Research and member of the MSCI Index Policy Committee. "If Egypt were to re-encounter similar FX liquidity constraints in the near future, MSCI could consider launching an off-cycle consultation on a reclassification proposal for Egypt from Emerging Market status to Frontier or Standalone Market status."

MSCI welcomes the aforementioned positive developments and will continue to closely monitor the onshore USD liquidity levels and the capacity of foreign investors to repatriate their capital without delays from the Egyptian market.

Market Accessibility issues in Bangladesh

In July 2022, the Bangladesh Securities and Exchange Commission (BSEC) reinstated floor prices for all listed securities. Since then, the BSEC has gradually lifted these restrictions, yet six listed securities still retain floor prices. In addition, market participants have recently reported delays in capital repatriation due to low liquidity in the onshore FX market.

As a result of these market accessibility issues, MSCI will continue to apply the special treatment introduced in February 2023. This special treatment defers index review changes and the implementation of corporate events aiming to reduce the number of potential changes in the MSCI Bangladesh Indexes and mitigate concerns on index replicability.



MSCI continues to welcome feedback on the accessibility of the Bangladesh market and may consult with market participants in case of further developments.

Evolution in Settlement Cycles of Global Equities

The path towards shorter cycles in equity clearing and settlement mechanisms has continued. In May 2024, USA, Canada, Mexico, Argentina, and Jamaica transitioned from T+2 settlement cycles to T+1, while other markets, including the European Union, the United Kingdom, Switzerland, and Australia, are evaluating the possibility of reducing their settlement cycles to T+1 and are in a consultation/review phase.

In response to these developments, MSCI sought feedback from global market participants from December 21, 2023 to March 15, 2024 on the potential impact of these changes in their investment processes. Market participants agreed that while operational adjustments are necessary due to these changes, amendments from index providers are not required. Furthermore, there is an expectation among market participants that the trend towards shorter settlement cycles will continue, ultimately establishing T+1 as the new standard. Feedback received also reemphasized that shorter settlement cycles must not introduce further operational challenges and risk, such as pre-funding requirements. Simultaneously, it was underscored that a lack of alignment in equity settlement cycles across global markets is undesirable.

MSCI continues to closely monitor these developments.

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Media Inquiries

PR@msci.com

Melanie Blanco

+1 212 981 1049

Konstantinos Makrygiannis

+44 (0) 7768 930056

Tina Tan

+852 2844 9320

MSCI Global Client Service

EMEA Client Service

+ 44 20 7618.2222



Americas Client Service
Asia Pacific Client Service

+1 888 588 4567 (toll-free)
+ 852 2844 9333

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