



**Consultation on Potential Product
Enhancements and Changes to
Rebalancing Dates of certain MSCI
Thematic & Strategy Indices**

April 2009

Introduction

- MSCI Barra would like to solicit your feedback on product enhancement proposals.
 - The goal of these proposals is to better notify clients of changes to the MSCI Indices resulting from rebalancings or corporate events.
- Please note that MSCI Barra may or may not go forward with the proposals included in this consultation document and that any potential changes to specific index methodologies resulting from the proposals would be announced to all clients in advance.

Summary of the Proposal

- MSCI Barra would like to organize and standardize the distribution of index data around two file formats:
 - Standard Core modules.
 - Integrated Client Files.
- Standard Core modules are intended for the distribution of indices pertaining to the MSCI Global Equity Indices.
 - MSCI Barra does not intend to change the Standard Core modules.
- Under the proposal, Integrated Client Files would be used for the distribution of MSCI Thematic & Strategy Indices, as well as MSCI Custom Indices.
 - MSCI Barra intends to introduce advance notification of index changes for all indices distributed through the Integrated Client Files.
 - As a result of their inclusion in the Integrated Client Files and of the introduction of advance notification, the rebalancing and announcement dates of certain MSCI Thematic & Strategy Indices may change.

Outline

- Description of the Proposed Integrated Client File Format.
- Proposed changes in rebalancing dates to MSCI Thematic & Strategy Indices.
- Proposed changes to Pro Forma fields.
- Appendix I – Short Description of Current Products.
- Appendix II – Proposed Integrated Client File Format Data Sets Description.
- Appendix III – Advance Notice in Current Files Used for MSCI Thematic & Strategy Indices and MSCI Custom Indices.
- Appendix IV – Notification of changes in the Advance Corporate Events (ACE) files.

- Description of the Proposed Integrated Client File Format

List of Indices to be Included in the Integrated Client File

- The following indices would be included in the Integrated Client Files:
 - MSCI Custom Indices.
 - MSCI Thematic & Strategy Indices:
 - MSCI Agriculture & Food Chain Indices.
 - MSCI All Peru Indices.
 - MSCI APEX Indices: Asia APEX Indices, Frontier Emerging Markets APEX Index.
 - MSCI Commodity Producers Indices.
 - MSCI Global Currency Indices.
 - MSCI Equal Weighted Indices.
 - MSCI Factor Indices.
 - MSCI Hedged Indices.
 - MSCI High Dividend Yield Indices.
 - MSCI Infrastructure Indices.
 - MSCI Short and Leveraged Indices.
 - MSCI Global Minimum Volatility Indices.
 - MSCI 10/40 Indices.

Key Features of the Integrated Client File Format and Benefits of Standardization

- The design of the proposed Integrated Client File includes the following features:
 - Standardized file content.
 - Advanced notice of changes to the composition of the indices.
 - Ability to consolidate several MSCI Thematic & Strategy and MSCI Custom Indices in a single client file.
- Standardization of the content of custom files should be helpful to recipients of the files for two main reasons:
 - Extraction of the information could be done in a systematic way, regardless of the specific index or file.
 - All indices distributed to the recipient could be aggregated in a single file.
- MSCI Barra proposes to distribute the Integrated Client Files in XML format only.

Advance Notice in Integrated Client Files

- MSCI Barra proposes to include advance notification capability in the Integrated Client Files.
 - The index composition as of future dates, based on the information available at the time of the generation of the file, is provided in specific fields.
 - See next slide for a example.
- Note that the advance notice in the Integrated Client Files would only include “confirmed” changes.
 - In the Standard Core modules, potential future changes are communicated with status “acknowledged”, “undetermined”, “expected” and “confirmed” in a separate file (Advance Corporate Events file). Only changes with status “confirmed” are implemented in the Indices*.

* See Appendix for more details on the status of changes provided in the Standard Core modules

Example of Integrated Client File – Generation Date Mar 16, 2009

Security Level

MSCI Code	As of date	Security Name	NOS	FIF
11111.01	Mar 16, 2009	ABC	1000	1
11111.01	Mar 17, 2009	ABC	1500	1
11111.01	Mar 18, 2009	ABC	1500	1
11111.01	Mar 19, 2009	ABC	1500	1
11111.01	Mar 25, 2009	ABC	1500	1
22222.01	Mar 16, 2009	XYZ	2000	1
22222.01	Mar 17, 2009	XYZ	2000	1
22222.01	Mar 18, 2009	XYZ	2000	0.5
22222.01	Mar 19, 2009	XYZ	2000	0.5
22222.01	Apr 01, 2009	XYZ	3000	0.3

Index Constituents

Index Code	MSCI Code	As of date	Security Name	Inclusion Factor	Index Weight
12345	11111.01	Mar 16, 2009	ABC	0.5	30%
12345	11111.01	Mar 17, 2009	ABC	0.5	45%
12345	11111.01	Mar 18, 2009	ABC	0.5	45%
12345	11111.01	Mar 18, 2009	ABC	0.5	45%
12345	11111.01	Mar 25, 2009	ABC	0.25	20%
12346	22222.01	Mar 16, 2009	XYZ	0.8	10%
12346	22222.01	Mar 17, 2009	XYZ	0.8	10%
12346	22222.01	Mar 18, 2009	XYZ	0.8	10%
12346	22222.01	Mar 19, 2009	XYZ	0.8	10%
12346	22222.01	Apr 01, 2009	XYZ	0.9	15%

Index Level

Index Code	As of date	Index Name	Index Variant	Index level	Initial Mcap
12345	Mar 16, 2009	MSCI AAAA	Gross	1050	500
12345	Mar 17, 2009	MSCI AAAA	Gross		550
12345	Mar 18, 2009	MSCI AAAA	Gross		550
12345	Mar 19, 2009	MSCI AAAA	Gross		550
12345	Mar 25, 2009	MSCI AAAA	Gross		600
12346	Mar 16, 2009	MSCI BBBB	Net	840	230
12346	Mar 17, 2009	MSCI BBBB	Net		220
12346	Mar 18, 2009	MSCI BBBB	Net		200
12346	Mar 19, 2009	MSCI BBBB	Net		200
12346	Apr 01, 2009	MSCI BBBB	Net		300

- Methodology Changes to MSCI Thematic & Strategy Indices Resulting from the Introduction of Advance Notice

Changes in Rebalancing Dates for MSCI Thematic & Strategy Indices

- MSCI Barra may change the rebalancing dates of some MSCI Thematic & Strategy Indices as a result of:
 - The introduction of advance notice for all MSCI Thematic & Strategy Indices.
 - The inclusion of all MSCI Thematic & Strategy Indices in the Integrated Client Files.
- MSCI Barra proposes to perform and announce the rebalancing of the majority of MSCI Thematic & Strategy Indices two business days after the announcement of the results of the MSCI Global Equity Indices Index Review.
 - This would be around 8 to 10 business days before the implementation of the rebalancing.
 - This would allow for rebalancings of certain MSCI Thematic & Strategy Indices to be performed with data closer to the rebalancing implementation date.
 - Some of these indices are currently rebalanced more than a month before the implementation date.

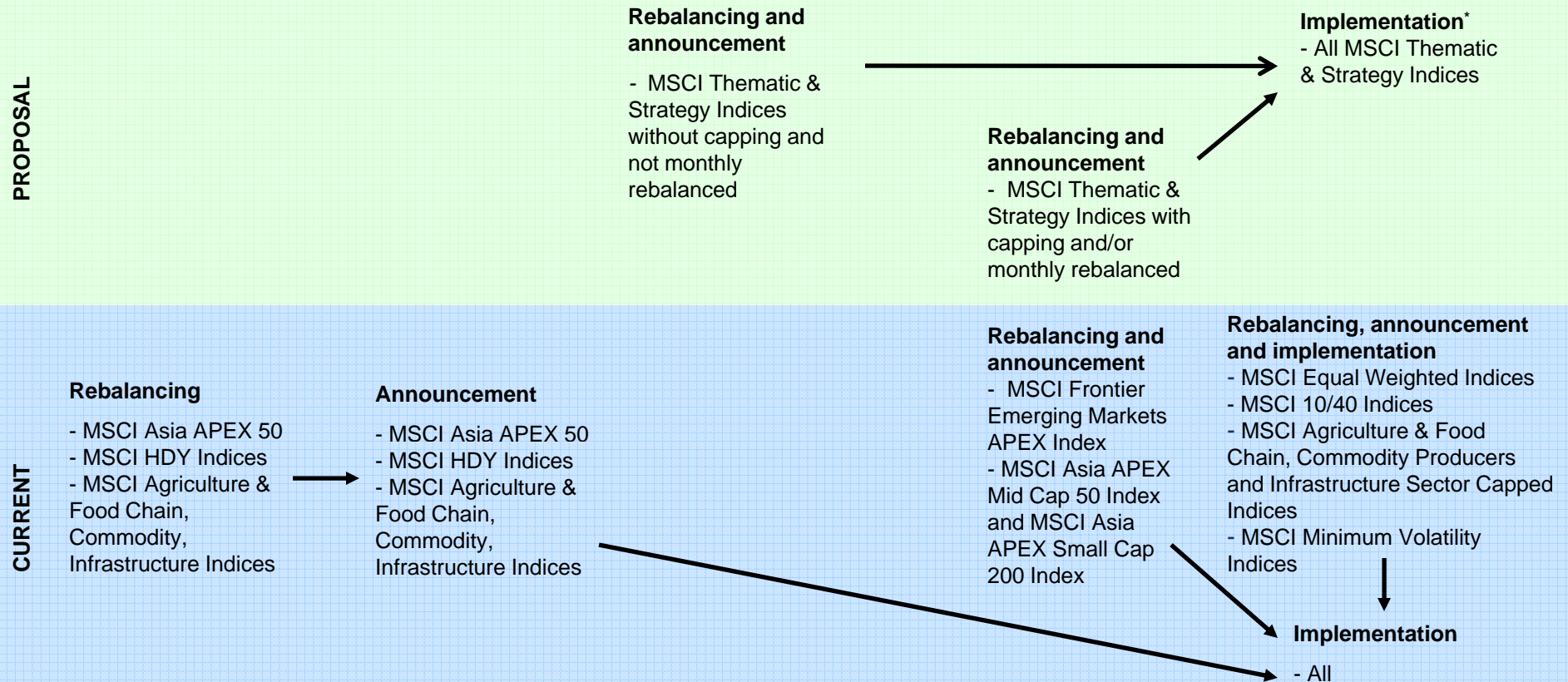
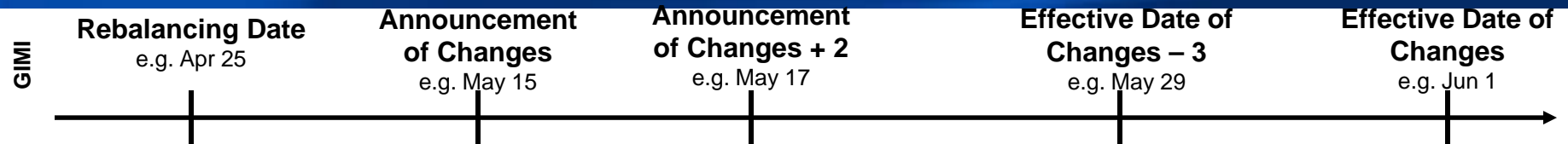
Changes in Rebalancing Dates for MSCI Thematic & Strategy Indices (Continued)

- For MSCI Thematic & Strategy Indices which require weight capping (e.g., MSCI 10/40 Indices, sector capped indices...), MSCI Barra proposes to perform and announce the rebalancing with a shorter notice period of three days.
 - If the capping is determined too early, market performance may alter significantly the index at the time of the implementation of the changes.
- The same advance notice period of three days would be applied to indices rebalanced monthly.
- If a capping constraint is breached before the changes are implemented:
 - and the capping constraint is a hard constraint, the Index would be rebalanced (MSCI 10/40 Index for example).
 - and the capping constraint is a soft constraint, the Index would be maintained as originally rebalanced.
- For all MSCI Thematic & Strategy Indices changes resulting from corporate events would be announced with 3 days advance notice.

Changes in Rebalancing Dates for MSCI Thematic & Strategy Indices (Continued)

- As a result, the following changes in rebalancing dates are proposed:
 - Rebalancing two business days after the announcement of the results of the MSCI Global Equity Indices Index Review instead of rebalancing simultaneous with the MSCI Global Equity Indices:
 - MSCI High Dividend Yield Indices.
 - MSCI APEX Indices: Asia APEX Indices, Frontier Emerging Markets APEX Index.
 - MSCI Agriculture & Food Chain Indices.
 - MSCI Commodity Producers Indices.
 - MSCI Infrastructure Indices.
 - MSCI All Peru Index.
 - MSCI Minimum Volatility Indices.
 - Rebalancing three business days before the effective date instead of rebalancing on the effective date*:
 - MSCI 10/40 Indices.
 - MSCI Equal Weighted Indices.
 - MSCI Agriculture & Food Chain Sector Capped Indices.
 - MSCI Commodity Producers Sector Capped Indices.
 - MSCI Infrastructure Sector Capped Indices.
 - MSCI Hedged Indices.
 - MSCI Short and Leveraged.
 - MSCI Currency Indices.

Potential Alternative Rebalancing and Announcement Dates for MSCI Thematic & Strategy Indices



Topics for Discussion

- MSCI Barra considers rebalancing and announcing the changes for MSCI Thematic & Strategy Indices around 10 business days before their implementation.
 - Is 10 days lead time appropriate?
- For indices where weights are constrained based on market caps (MSCI 10/40 Indices for example) MSCI Barra proposes to rebalance and announce the changes 3 days in advance.
 - Is this a valuable improvement? Are 3 days sufficient?
 - For indices which have constraints that need to be met on a daily basis (10/40 for example), would it be useful to have a rebalancing performed 3 days in advance, knowing that if the constraints are breached on the effective date the rebalancing would need to be re-done?

Topics for Discussion (continued)

- Is it problematic to have index review dates different for MSCI Thematic & Strategy Indices compared to their “parent” Indices (GIMI)?
- We may consider moving certain indices currently distributed through our Standard Core modules to the Integrated Client Files (for example MSCI High Dividend Yield, Asia Apex 50 Indices).
 - These indices would benefit from the constituent level advance notice.
 - Would you welcome the migration of these indices?

- Proposed Changes to Pro Forma Fields in Standard Core Modules

Pro Forma Fields

- During the period between the MSCI Index Review announcement and the effective date of the Index Review, pro forma data is distributed in the Standard Core modules.
 - This pro forma data reflects the changes resulting from the index review, updated for corporate events effective up to the generation date of the file.
 - In other words, the pro forma fields reflect the state of the index as of the generation date of the file had the rebalancing already occurred.
 - Pro forma fields do not include changes resulting from future confirmed corporate events.

- Do you use pro forma fields? If yes, how?

Pro Forma Fields (continued)

- What would the impact on your processes be if we were to replace the pro forma fields by data providing all future confirmed changes up to the effective date of the rebalancing?
 - This data would reflect the state of the index as it will be implemented on the effective date rather than the state of the index had the rebalancing already occurred.

Example: we are May 20th, company X has an acquisition effective May 22nd and the rebalancing effective date is June 1st. The acquisition results in a Number of Shares (NOS) increase from 100 to 500 and a Foreign Inclusion Factor (FIF) change from 1 to 0.5.

	Current Pro Forma fields		Reviewed Pro Forma fields	
	Pro Forma Number of Shares	Pro Forma FIF	Pro Forma Number of Shares	Pro Forma FIF
May-20	100	1	500	0.5
May-22	500	0.5	500	0.5

- Appendix I – Short Description of Current Products

Description of Current Products

- MSCI Indices are distributed to vendors and clients via two distinct types of files:
 - Standard Core modules.
 - Custom files.
- Standard Core modules are intended for the distribution of indices pertaining to the MSCI Global Equity Indices.
 - Clients subscribe to pre-set modules for Developed Markets, Emerging Markets and the Asia Pacific region, Size, Style and theme. For example,

DM Core	• Index levels and constituents for Large and Mid Cap securities within the Developed Markets countries
DM Small Cap Core	• Index levels and constituents for Small Cap securities within the Developed Markets countries
DM Core Value Growth Plus	• Value and Growth Index levels and constituents for Large and Mid Cap securities within the Developed Markets countries
 - These modules include descriptive information of the indices:
 - performance.
 - current composition.
 - upcoming changes in the composition.

Description of Current Products

- Custom files are used for distribution of specific indices to clients:
 - Individual indices are delivered in individual files.
 - Files are created on demand.
 - Most MSCI Thematic & Strategy Indices as well as MSCI Custom Indices are distributed in those files.
 - Files include description of:
 - Performance of the indices.
 - Current composition of the indices.
 - No information concerning upcoming changes in the composition of the indices is included in custom files.

- Appendix II – Proposed Integrated Client File Format Data Sets Description

Proposed Integrated Client File - Data Sets

- The Integrated Client Files would be composed of three core data sets: index level, security level and index constituents.
- Additional data sets would be provided for certain index methodologies in order to include specific data points:
 - Short/Leveraged: LIBOR rate, spread deposit, spread borrowing, weight of bank deposit, weight of bank borrowing, shorting costs...
 - Currency based indices: Forward rates, interpolated rate, LIBOR...
 - Additional data sets could also be used for custom requests for additional data points.
- Index level data set:
 - Each line in the data set would represent one Index as of a specific date (today, the next 3 days, the next rebalancing date).
 - Advance notice would be provided by populating certain fields in the lines corresponding to the next 3 days and the next rebalancing date.

Proposed Integrated Client File - Data Sets (continued)

- Security level data set:

- Each line in the data set would represent a security which is included in at least one index distributed in the file and is as of a specific date (today, the next 3 days, the next rebalancing date).
- Column fields would correspond to security specific information which is not index specific
- Advance notice would be provided by populating certain fields in the lines corresponding to the next 3 days and the next rebalancing date.

- Index constituents data set:

- Each line in the data set would represent a constituent of a specific index as of specific date (today, the next 3 days, the next rebalancing date).
- Column fields would correspond to the security information which is index specific. It would be separated from the security level generic data in order to avoid repeating that information for each index of which the security is a constituent.
- Advance notice would be provided by populating certain fields in the lines corresponding to the next 3 days and the next rebalancing date.

- Appendix III – Advance notice in Current Files Used for MSCI Thematic & Strategy Indices and MSCI Custom Indices

Advance Notice in Current MSCI Custom and Thematic & Strategy Indices files

- There is currently no advance notice of changes in the files used for distribution for MSCI Custom and MSCI Thematic & Strategy Indices.
- In some cases, upcoming changes to the index composition of the indices can be derived using Standard Core modules:
 - E.g. when the securities in question are included in the Standard Core modules,
 - changes to general security level data (NOS, FIF, GICS...) can be derived from Advance Corporate Events (ACE) files.
 - When index maintenance rules are simple, the impact of events or index reviews can also be derived from the ACE files.
 - For example, if securities are added if and only if they are added to the MSCI Global Equity Indices and are classified in a specific Global Industry Classification Standard (GICS), all additions can be derived from ACE files.

Advance Notice in Current MSCI Custom and Thematic & Strategy Indices Files (continued)

- However, deriving changes to indices distributed through custom files currently implies complex combination of different data sources (ACE files and Custom files) as well as an extensive understanding of the rules to be applied.
- In addition, it is not always possible to derive the changes:
 - When the index constituents are simply not included in the Standard Core modules.
 - When the rules are complex:
 - For example, determining the constraint factor for an Initial Public Offering (IPO) introduced in an MSCI 10/40 Index.

- Appendix IV – Notification of Changes in the Advance Corporate Events (ACE) Files

Notification of Changes in the Advance Corporate Events (ACE) Files

- The security Advance Corporate Events (ACE) file provides, daily, a picture of MSCI Barra's treatment of all future changes affecting MSCI Index constituents.
 - It includes all pending changes as well as changes that were implemented within the past two days. Each change is provided with a status field that evolves as information becomes available.

Status	Description
Acknowledged	Event status indicating that MSCI Barra is aware of an upcoming event attributable to a recognized corporate event (mergers, acquisitions, spin off, buybacks, and conversions), except for corporate actions and IPOs. For corporate actions (stock, split, rights, etc.) the "Expected" status is attributed to the event.
Undetermined	Status indicating the event is conditional upon uncertain events (e.g. the offer is hostile; the effective date is unknown; etc.).
Expected	Status indicating that the event is expected to be implemented as per the details provided in the ACE file, but remains to be confirmed.
Confirmed	Status indicating that all information on the corporate event and its implementation details (e.g. effective date in the index) is confirmed by MSCI Barra.
Implemented	The change has been implemented in the index.
Canceled	An event that was previously announced will not go through.
Correction	Used in the case of a modification to an event that was previously Confirmed.

- A change is implemented in the Index only when it is in status "confirmed" (or "correction").

MSCI Barra 24 Hour Global Client Service

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São Paulo	+55.11.3706.1360
Toronto	+1.416.943.8390

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Geneva	+41.22.817.9800
London	+44.20.7618.2222
Madrid	+34.91.700.7275
Milan	+39.027.633.5429
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Zurich	+41.44.220.9300

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Sydney	+61.2.9033.9333
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