

Consultation on Potential Enhancements to the Holiday Treatment for the MSCI Hedged, the MSCI FX Hedge and the MSCI Adaptive Hedge Indexes Methodologies

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This consultation may or may not lead to the implementation of any or all of the proposed changes in the highlighted or any other MSCI indexes. Consultation feedback will remain confidential. MSCI may publicly disclose feedback if specifically requested by specific market participants. In that case, the relevant feedback would be published together with the final results of the consultation.

Summary

- MSCI proposes potential enhancements to the MSCI Hedged Indexes, the MSCI FX Hedge (and related) Indexes and the MSCI Adaptive Hedged Indexes Methodologies pertaining to the holiday treatment.
- MSCI proposes to prepone the effective date of the monthly rebalancing by one weekday for such indexes (irrespective of country or regions) in the following scenarios:
 - WM/Refinitiv is not expected to publish closing spot rates and forward rates on the last weekday of the month and this information is known in advance of the end of the preceding month.
 - Markets which cumulatively constitute more than 20% of MSCI ACWI market capitalization are expected to be closed on the last weekday day of the month and this information is known in advance of the end of the preceding month.
- MSCI invites feedback from market participants until August 30, 2024, and will announce the results of the consultation on or before September 30, 2024.

Background and Current Methodology

Background

- MSCI Hedged Indexes aim to represent the return resulting from hedging an MSCI Equity Index in the 1-month Forward currency market and contain both an equity and a currency component. The intra month performance of the parent equity index remains unhedged and the currency P&L is assumed to be reinvested at month end only.
- The currency weights are determined two weekdays before the first business day of the following month, and the foreign notional amounts are sold forward using 1M forward rates as of the last weekday of the month.
- In March 2024, MSCI exceptionally preponed the monthly rebalancing of the MSCI Hedged Indexes, MSCI FX Hedge Indexes and MSCI Adaptive Hedge Indexes, due to holiday on March 29 (Good Friday) and lack of availability of rates from WM/Refinitiv. MSCI also announced that as a follow up, a consultation would be launched for the treatment of market holidays in these indexes.

Current Methodology

- The current methodology uses rates as of the previous day without changing the original rebalance date if the last weekday of the month is a holiday and Refinitiv does not provide closing spot rates and forward rates.
- There is no exceptional treatment for holidays in major market(s) comprising significant weight in ACWI, when Refinitiv provides Spot rates and Forward rates.

Details on proposed enhancement

- Prepone the effective date of the monthly rebalancing by one weekday for all the indexes in the following methodologies: MSCI Hedged Indexes, FX Hedge Indexes (and related indexes) and Adaptive Hedged Indexes in the following scenarios:
- **Scenario 1:** WM/Refinitiv is not expected to publish closing spot rates and forward rates on the last weekday of the month.
 - Past scenarios: 29th March 2013, 30th March 2018 and 29th March 2024
 - Expected Future Scenario: Is not expected to occur until end of 2027.
- **Scenario 2:** Markets which cumulatively constitute more than 20% of MSCI ACWI market capitalization are expected to be closed on the last weekday day of the month.
 - Past Scenario: 31st May 2021* with Equity Markets' holiday in US (Memorial Day) and UK (Late May Bank Holiday). WM/Refinitiv did publish closing spot and forward rates on this day.
 - Expected Future Scenario: 31st May 2027.
- As part of these proposals, the determination of the hedged ratios for the MSCI Adaptive Hedged Indexes would also be preponed by one weekday.
- MSCI would apply this treatment if the information on holidays and/or WM/Refinitiv spot rates and forward rates data disruption is known sufficiently in advance of the end of the preceding month.

Additional Discussion Points

MSCI seeks feedback from market participants on the following additional discussion points:

- Treatment of hedged indexes when the rebalancing of the underlying equity indexes are preponed and when either of the scenarios 1 or 2 are not triggered.
 - Do you encounter challenges with the monthly rebalancing of hedged indexes when the rebalancing of the underlying equity indexes is preponed for the given month, as seen in November 2019*, or expected in November 2024*.
 - If yes, do you think synchronizing the effective date of the monthly rebalancing of hedged indexes with that of the underlying equity indexes could address these challenges?
- Treatment of hedged indexes when last weekday falls on 31st December
 - Refinitiv marks 31st December as low liquidity day.
 - Do you encounter any challenges to implement the monthly rebalancing of hedged indexes when the last weekday of the month in December is 31st December?
 - If yes, do you think preponing the effective date of the monthly rebalancing of hedged indexes when the last weekday of December falls on 31st December could address these challenges?

MSCI Global Currency Indexes and MSCI Corridor Hedged Indexes

- MSCI Global Currency Indexes aim to measure the total return of currencies of an MSCI Equity Index and reflect both currency appreciation/depreciation and interest accruing from holding the currencies.
- For the MSCI Corridor Hedged Indexes, in addition to the monthly hedge position resets, these indexes reset hedge positions intra-month if the unhedged exposure reaches certain threshold during the month
- No exceptional holiday treatment was applied to the rebalancing of these indexes in March 2024.
- Do you think it would benefit the investment process if a holiday treatment were incorporated in the rebalancing of the MSCI Global Currency Indexes and MSCI Corridor Hedge Indexes methodologies, similar to the proposals for other MSCI Hedged Indexes?

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