



Consultation on a proposal to create Global Broad & Microcap Indices

May 2010



Background and Design Highlights

- The evolution of the international investment management process has led investors to seek exposure to a deeper opportunity set, with ability to focus on specific size and style segments. In order to meet this need, MSCI designed the Global Investable Market Indices (GIMI), which cover approximately 98% of the Equity Universe.
- While most global investors recognize the MSCI Investable Market Indices (IMI) as a representation of their opportunity set, some investors require a much broader exposure that includes less investable micro caps. Therefore, MSCI Barra is conducting this consultation to seek investors' feedback on the need for and design of MSCI Global Broad Market Indices that would:
 - Increase market coverage to 99.8% of the Developed Markets Equity Universe
 - Contain a Micro Cap Segment in addition to the existing IMI Segments (Large Cap, Mid Cap and Small Cap)
- An MSCI Global Broad Market Index may potentially be launched in Q4 of 2010
- **NOTE:**
 - **MSCI may or may not adopt the proposal described in this consultation**
 - **Any decision will be announced in advance of any implementation**

The Broad Market Index and Micro Cap Segment Construction

- An MSCI Global Broad Market Index would encompass all constituents of the GIMI as well as smaller securities which would be allocated to the Micro Cap Segment. The bottom of the Global Broad Market Index and Micro Cap Segment would be derived using a universal screening criteria, while the top of the Micro Cap Index would depend on the IMI (Small Cap) Market Size Segment Cutoffs in each market.
- As smaller securities tend to be characterized by lower trading volumes, the Micro Cap Segment inclusion criteria would have less stringent liquidity requirements than the GIMI segments. At the initial construction in order to be eligible for inclusion in the Micro Cap Segments, companies would have to meet the following minimum requirements:
 - Size: company market capitalization must exceed a Universal Micro Cap Minimum Size Requirement (currently USD 34 million, if indexed to the 99.8th percentile of the Developed Markets universe, or USD 60 million if index to the 99.6th percentile)
 - Free float: security free float must be above or equal 15%
 - Liquidity: security 12- month ATVR must be above or equal 5%
 - Length of trading: IPOs must pass a 3-month seasoning period at Semi-Annual Reviews

The Broad Market Index and Micro Cap Segment Construction (cont'd)

- Additionally in order to be eligible for inclusion in the Micro Cap Segment, companies would have to meet the following conditions:
 - Index membership: the company must not be part of any GIMI size-segments
 - Size: the company's market capitalization must not exceed the top of the Micro Cap Upper Buffer (currently called the Small Cap Entry Buffer Zone)
- Such index design would result in no overlap or gap between the Micro Cap Size Segment and current GIMI Size Segments.
- In addition, the proposed methodology of the Micro Cap Segment would not affect the definition of the Market Investable Universe and therefore the composition of the GIMI.

Potential MSCI Global Broad Market Index Composition

Potential Composition of an MSCI Global Broad Market Index and MSCI Micro Cap Index

	US	Canada	United Kingdom	France	Germany	Japan	Singapore	Hong Kong	Australia	New Zealand	MSCI Europe	MSCI World ex US	MSCI World
Standard													
Number of Constituents	602	96	104	76	50	346	28	40	73	5	463	1,051	1,653
Free float-adjusted MC	10,255,117	1,027,267	2,168,241	1,143,983	845,668	2,105,321	136,857	240,256	872,144	11,487	6,902,525	11,295,857	21,550,974
% of Equity Universe	84.51%	84.9%	87.1%	91.9%	89.1%	82.6%	73.6%	79.3%	83.4%	47.3%	86.9%	85.2%	84.9%
Size-Segment Cutoff	3,251	2,246	3,305	3,305	3,305	1,723	2,082	2,089	2,564	1,841	3,305		
Small Cap													
Number of Constituents	1,939	198	279	103	117	824	68	95	167	18	1,091	2,461	4,400
Free float-adjusted MC	1,617,587	132,347	268,605	65,339	74,685	339,068	28,998	30,112	111,647	7,669	786,086	1,435,926	3,053,514
% of Equity Universe	13.33%	10.9%	10.8%	5.2%	7.9%	13.3%	15.6%	9.9%	10.7%	31.6%	9.9%	10.8%	12.0%
Size-Segment Cutoff	149	211	145	145	145	202	216	151	222	167	145		
IMI													
Number of Constituents	2,541	294	383	179	167	1,170	96	135	240	23	1,554	3,512	6,053
Free float-adjusted MC	11,872,704	1,159,614	2,436,846	1,209,322	920,353	2,444,389	165,855	270,368	983,791	19,155	7,688,611	12,731,783	24,604,488
% of Equity Universe	97.84%	95.86%	97.89%	97.12%	96.96%	95.91%	89.15%	89.29%	94.08%	78.96%	96.85%	96.05%	96.90%
Size-Segment Cutoff	149	211	145	145	145	202	216	151	222	167	145		
Micro Cap													
Number of Constituents	970	305	232	117	164	1,320	175	321	352	16	980	3,469	4,439
Free float-adjusted MC	71,291	28,142	16,411	6,078	7,196	70,867	9,695	13,247	28,777	1,392	52,105	204,226	275,516
% of Equity Universe	0.59%	2.3%	0.7%	0.5%	0.8%	2.8%	5.2%	4.4%	2.8%	5.7%	0.7%	1.5%	1.1%
Size-Segment Cutoff	34	34	34	34	34	34	34	34	34	34	34		
Broad Index													
Number of Constituents	3,511	599	615	296	331	2,490	271	456	592	39	2,534	6,981	10,492
Free float-adjusted MC	11,943,995	1,187,756	2,453,257	1,215,400	927,549	2,515,256	175,551	283,615	1,012,568	20,547	7,740,717	12,936,009	24,880,004
% of Equity Universe	98.42%	98.19%	98.55%	97.61%	97.72%	98.69%	94.37%	93.67%	96.83%	84.69%	97.50%	97.59%	97.99%
Size-Segment Cutoff	34	34	34	34	34	34	34	34	34	34	34		

Data as of October 22, 2009

Discussion Points

■ Potential design

- What is the appropriate depth of coverage and company minimum size? Is 99.8% too deep (USD 34 million)? Is 99.6% preferable (USD 60 million)?
- How relevant are potential liquidity screenings for the micro-cap segment?
 - Is 12-month ATVR of 5% an appropriate measure for new constituents?
 - Should existing Micro Cap constituents also be screened on liquidity?

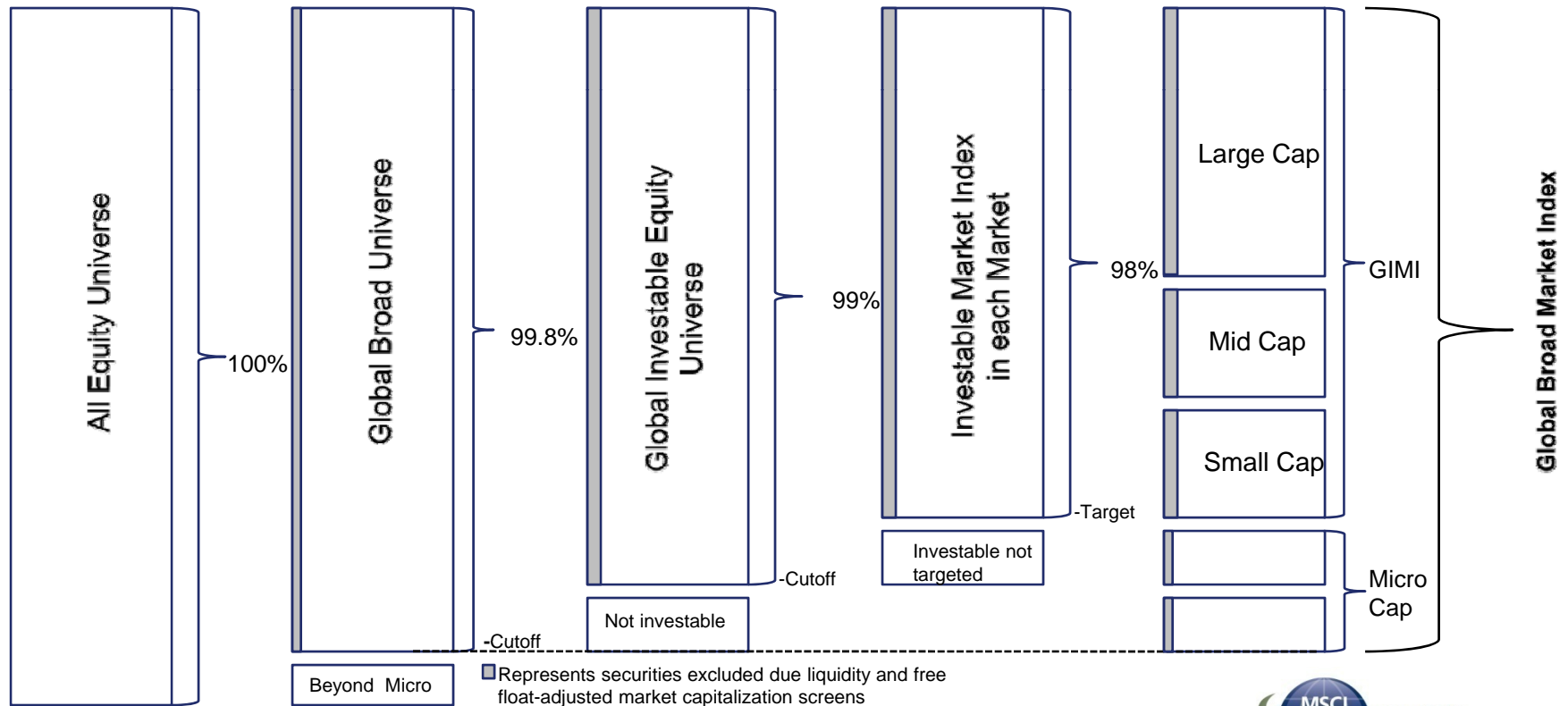
■ Potential scope of a Global Broad Market Index

- Currently only the Developed Market micro cap universe is being considered. In the future Emerging Market Micro Caps may be considered. What should be the ultimate scope of a Global Broad Market Index?
- If the concept of “Broad Market” encompasses both investable and non-investable segments, wouldn't it be logical to also include Frontier Markets?

Appendix

MSCI Global Broad Indices Potential Design

- The GIMI provide a complete and consistent family with Large Cap, Mid Cap and Small Cap Segments covering approximately 98% of the Equity Universe. In order to achieve an even deeper coverage, a potential Micro Cap Segment for Developed Markets would in combination with the current ACWI IMI constitute the MSCI Global Broad Market Index.



A GIMI Refresher: the Investable Universe and the Investable Market Index (IMI)

- The GIMI framework provides exhaustive coverage of the investable opportunity set with a strong emphasis on investability and replicability. The GIMI are constructed on the basis of a Market Investable Equity Universe, which is derived by applying investability screens to individual companies and securities in the Equity Universe. More specifically the securities are screened on the following criteria:
 - Size: a full company market capitalization must exceed the minimum cutoff corresponding to 99th percentile of the Developed Markets Equity Universe
 - Free float: securities with free float of less than 15% and/or free float-adjusted market capitalization below the ½ of the minimum cutoff for the full company market capitalization are typically excluded
 - Liquidity: securities with the Average Traded Value Ratio (ATVR) of below 20% and frequency of trading below 90% are excluded
 - Length of trading: Small Cap IPOs with trading history of less than 3-month are excluded at Semi-Annual Index Reviews
- In each market the Investable Market Index (IMI) targets the top 98% of the Equity Universe.

Global Broad Market Indices Maintenance

- Newly eligible securities may enter the Micro Cap Size Segment only at the time of Semi-Annual Index Reviews. In order to be eligible securities would need to satisfy the newly re-assessed Universal Micro Cap Minimum Size Requirement and meet all the other criteria used for the initial construction (see pp. 3 and 4).
 - The Universal Micro Cap Minimum Size Requirement would be re-assessed as follows: the full company market capitalization of the company with the same rank as at the previous Semi-Annual Index Review would be used, as long as the cumulative coverage of the free float adjusted market capitalization of companies below this rank falls between the 99.7th and the 99.8th percentiles. If that is not the case, the rank of the company defining the Minimum Size Requirement would be adjusted up or down in order for the coverage not to remain short of 99.7% or to exceed 99.8%.

- Existing micro cap constituents may only exit the index at the time of Semi-Annual Index Reviews or as a result of a corporate event. At a Semi-Annual Index Review, an existing micro-cap constituent will remain in the index unless:
 - It becomes a constituent of the Investable Market Index
 - Its full market capitalization exceeds the top of the Micro Cap Upper Buffer (currently called the Small Cap Entry Buffer Zone)
 - Its full company market capitalization falls below USD 10 million or the cut-off corresponding to the 99.95% percentile, whichever is lower

Global Broad Market Indices Maintenance (cont'd)

- Migrations between the Micro Cap and the Small Cap Segments would be possible only at the time of Semi-Annual Index Reviews. As reminder, currently Small Cap constituents are not deleted from the IMI at the time of the Quarterly Index Reviews due to small size. In order to increase index stability and reduce turnover, buffer zones would apply for potential migrations between the Micro Cap and the Small Cap Size Segments.
- Ongoing index maintenance methodology intra regular index reviews (i.e., reflection of corporate events) for the Micro Cap Segment would generally mirror the methodology for the existing GIMI Size Segments.

Broad Index Composition & Coverage Scenarios

MSCI Global Broad Market Index Composition Under Various Coverage Scenarios (includes 5% ATVR screening)

	US	Canada	United Kingdom	France	Germany	Japan	Australia	MSCI Europe	MSCI World
99.8% coverage base scenario									
Number of constituents Micro	970	305	232	117	164	1,320	352	980	4,439
Number of constituents Broad	3,511	599	615	296	331	2,490	592	2,534	10,492
Free float-adjusted MC Micro	71,291	28,142	16,411	6,078	7,196	70,867	28,777	52,105	275,516
Free float-adjusted MC Broad	11,943,995	1,187,756	2,453,257	1,215,400	927,549	2,515,256	1,012,568	7,740,717	24,880,004
Size-Segment Cutoff	34	34	34	34	34	34	34	34	-
Alternatives									
99.7% coverage scenario									
Change in number of constituents	(139)	(41)	(46)	(19)	(44)	(225)	(65)	(186)	(742)
Change in # of Micro Cap, %	-14.3%	-13.4%	-19.8%	-16.2%	-26.8%	-17.0%	-18.5%	-19.0%	-16.7%
Change in Ind mc in Micro Cap, %	-6.1%	-4.5%	-8.6%	-8.3%	-14.8%	-5.9%	-7.0%	-8.9%	-6.7%
Size-Segment Cutoff	47	47	47	47	47	47	47	47	47
99.6% coverage scenario									
Change in number of constituents	(277)	(76)	(74)	(34)	(67)	(388)	(102)	(317)	(1,320)
Change in # of Micro Cap, %	-28.6%	-24.9%	-31.9%	-29.1%	-40.9%	-29.4%	-29.0%	-32.3%	-29.7%
Change in Ind mc in Micro Cap, %	-13.8%	-9.4%	-15.6%	-16.7%	-24.5%	-12.0%	-11.9%	-17.0%	-13.6%
Size-Segment Cutoff	60	60	60	60	60	60	60	60	60
99.5% coverage scenario									
Change in number of constituents	(371)	(113)	(108)	(49)	(94)	(537)	(136)	(441)	(1,835)
Change in # of Micro Cap, %	-38.2%	-37.0%	-46.6%	-41.9%	-57.3%	-40.7%	-38.6%	-45.0%	-41.3%
Change in Ind mc in Micro Cap, %	-20.4%	-16.4%	-26.0%	-24.6%	-38.3%	-19.1%	-17.4%	-26.3%	-21.1%
Size-Segment Cutoff	74	74	74	74	74	74	74	74	74

- Germany is the most sensitive country to the increase of the Universal Micro Cap Cutoff.

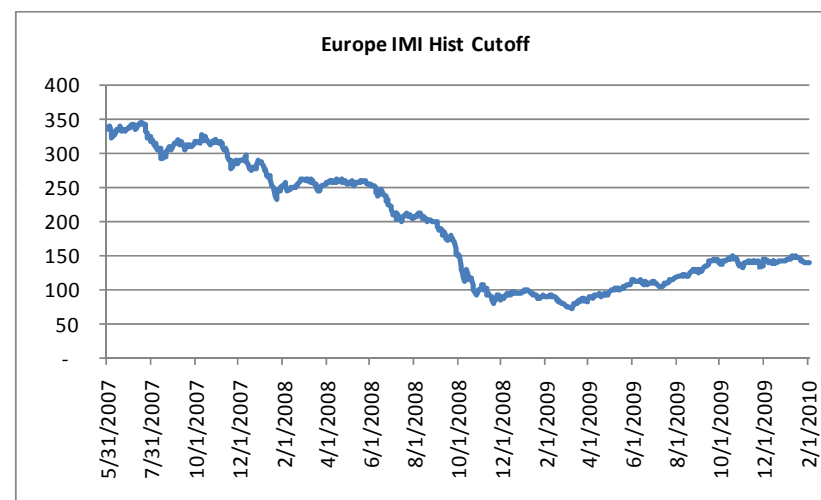
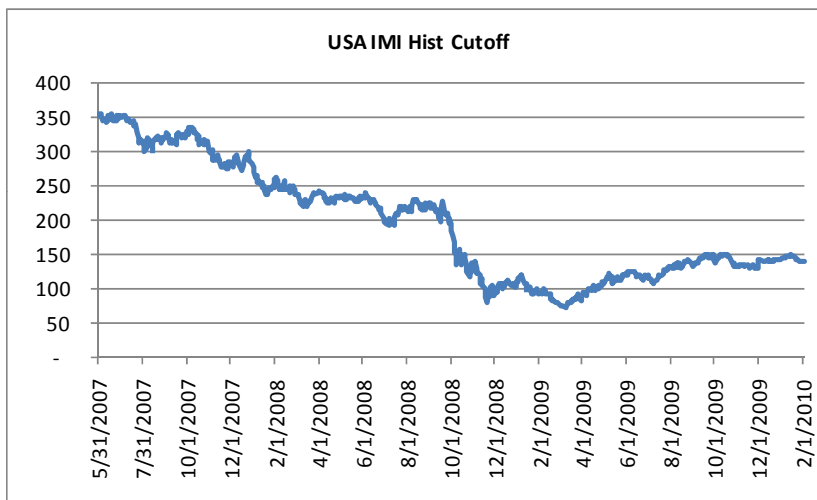
Broad Index Composition & Liquidity Scenarios

MSCI Global Broad Market Index Composition Under Various Liquidity Cutoff Scenarios (99.8% coverage cutoff is used)

	US	Canada	United Kingdom	France	Germany	Japan	Australia	MSCI Europe	MSCI World
No liquidity screen scenario									
Number of constituents Micro	1,071	368	385	261	293	1,513	446	1,675	5,744
Number of constituents Broad	3,612	662	768	440	460	2,683	686	3,229	11,797
Free float-adjusted MC Micro	75,086	31,524	25,494	10,559	10,082	78,218	32,406	77,648	324,310
Free float-adjusted MC Broad	11,947,791	1,191,138	2,462,339	1,219,881	930,435	2,522,606	1,016,197	7,766,259	24,928,798
Size-Segment Cutoff	34	34	34	34	34	34	34	34	-
Alternatives									
ATVR - 2.5% scenario									
Change in number of constituents	(25)	(41)	(83)	(119)	(105)	(71)	(58)	(490)	(765)
Change in # of Micro Cap, %	-2.3%	-11.1%	-21.6%	-45.6%	-35.8%	-4.7%	-13.0%	-29.3%	-13.3%
Change in Ind mc in Micro Cap, %	-1.2%	-6.1%	-17.8%	-34.4%	-19.9%	-2.8%	-6.7%	-20.5%	-7.8%
Size-Segment Cutoff	34	34	34	34	34	34	34	34	34
ATVR - 5% scenario (currently proposed)									
Change in number of constituents	(101)	(63)	(153)	(144)	(129)	(193)	(94)	(695)	(1,305)
Change in # of Micro Cap, %	-9.4%	-17.1%	-39.7%	-55.2%	-44.0%	-12.8%	-21.1%	-41.5%	-22.7%
Change in Ind mc in Micro Cap, %	-5.1%	-10.7%	-35.6%	-42.4%	-28.6%	-9.4%	-11.2%	-32.9%	-15.0%
Size-Segment Cutoff	34	34	34	34	34	34	34	34	34
ATVR - 10% scenario									
Change in number of constituents	(280)	(106)	(220)	(181)	(157)	(374)	(153)	(927)	(2,079)
Change in # of Micro Cap, %	-26.1%	-28.8%	-57.1%	-69.3%	-53.6%	-24.7%	-34.3%	-55.3%	-36.2%
Change in Ind mc in Micro Cap, %	-17.0%	-19.3%	-52.2%	-56.6%	-36.9%	-17.1%	-23.8%	-47.4%	-26.2%
Size-Segment Cutoff	34	34	34	34	34	34	34	34	34

- Europe has the highest sensitivity to the increase in the liquidity thresholds for the potential Micro Cap securities.
- US and Japan would experience the lowest impact of the increase in stringency of the liquidity requirements.

IMI Historical Cutoff for US and Europe



MSCI Barra 24 Hour Global Client Service

Americas

Americas	1.888.588.4567 (toll free)
Atlanta	+1.404.551.3212
Boston	+1.617.532.0920
Chicago	+1.312.706.4999
Monterrey	+52.81.1253.4020
Montreal	+1.514.847.7506
New York	+1.212.804.3901
San Francisco	+1.415.836.8800
São Paulo	+55.11.3706.1360
Stamford	+1.203.325.5630
Toronto	+1.416.628.1007

Europe, Middle East & Africa

Amsterdam	+31.20.462.1382
Cape Town	+27.21.673.0100
Frankfurt	+49.69.133.859.00
Geneva	+41.22.817.9777
London	+44.20.7618.2222
Madrid	+34.91.700.7275
Milan	+39.02.5849.0415
Paris	0800.91.59.17 (toll free)
Zurich	+41.44.220.9300

Asia Pacific

China North	10800.852.1032 (toll free)
China South	10800.152.1032 (toll free)
Hong Kong	+852.2844.9333
Seoul	+827.07688.8984
Singapore	800.852.3749 (toll free)
Sydney	+61.2.9033.9333
Tokyo	+81.3.5226.8222

clientservice@mscibarra.com

Barra Knowledge Base – Online Answers to Barra Questions: www.barra.com/support



© 2010. All rights reserved.



RV0310

Notice and Disclaimer

- This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of MSCI Inc., Barra, Inc. ("Barra"), or their affiliates (including without limitation Financial Engineering Associates, Inc.) (alone or with one or more of them, "MSCI Barra"), or their direct or indirect suppliers or any third party involved in the making or compiling of the Information (collectively, the "MSCI Barra Parties"), as applicable, and is provided for informational purposes only. The Information may not be reproduced or disseminated in whole or in part without prior written permission from MSCI or Barra, as applicable.
- The Information may not be used to verify or correct other data, to create indices, risk models or analytics, or in connection with issuing, offering, sponsoring, managing or marketing any securities, portfolios, financial products or other investment vehicles based on, linked to, tracking or otherwise derived from any MSCI or Barra product or data.
- **Historical data and analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction.**
- **None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), or a promotion or recommendation of, any security, financial product or other investment vehicle or any trading strategy, and none of the MSCI Barra Parties endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies. None of the Information, MSCI Barra indices, models or other products or services is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.**
- The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information.
- NONE OF THE MSCI BARRA PARTIES MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY LAW, MSCI AND BARRA, EACH ON THEIR BEHALF AND ON THE BEHALF OF EACH MSCI BARRA PARTY, HEREBY EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.
- **Without limiting any of the foregoing and to the maximum extent permitted by law, in no event shall any of the MSCI Barra Parties have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or wilful default of itself, its servants, agents or sub-contractors.**
- Any use of or access to products, services or information of MSCI or Barra or their subsidiaries requires a license from MSCI or Barra, or their subsidiaries, as applicable. MSCI, Barra, MSCI Barra, EAFE, Aegis, Cosmos, BarraOne, and all other MSCI and Barra product names are the trademarks, registered trademarks, or service marks of MSCI, Barra or their affiliates, in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor's. "Global Industry Classification Standard (GICS)" is a service mark of MSCI and Standard & Poor's.

© 2010 MSCI Barra. All rights reserved.



© 2010. All rights reserved.



A New World.
A New Benchmark.

RV0310

