

Q&A: QUARTERLY COMPREHENSIVE INDEX REVIEW IMPLEMENTATION DETAILS

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Introduction

The purpose of this document is to address commonly asked questions regarding the transition to a Quarterly Comprehensive Index Review (QCIR) schedule for the MSCI Global Investable Market Indexes (GIMI) and relevant non-market capitalization weighted methodologies starting from the February 2023 Index Review.

This Q&A document is last updated on October 11, 2022.

Quarterly Comprehensive Index Review

1 What did MSCI announce on June 28, 2021?

MSCI announced on June 28, 2021 that the MSCI Global Investable Market Indexes will move from the current Index Review schedule to a Quarterly Comprehensive Index Review schedule.

The current Index Review schedule, based on the applicable methodology prior to February 2023, comprises two Quarterly Index Reviews (QIRs) in February and August and two comprehensive Semi-Annual Index Reviews (SAIRs) in May and November.

2 What is a Quarterly Comprehensive Index Review in the context of the MSCI GIMI?

Starting in February 2023, at each Quarterly Comprehensive Index Review in February, May, August and November, MSCI will employ the current index maintenance methodology for the May and November Semi-Annual Index Reviews. This index maintenance methodology involves a comprehensive review of the MSCI Global Investable Market Indexes.

Exceptionally, Number of Shares (NOS) and Foreign Inclusion Factors (FIF) will continue to be reviewed based on current methodology until May 2023. At that time, all NOS and FIF will be fully reviewed up to the Price Cutoff Date at each subsequent QCIR.

3 What are the objectives of moving to a Quarterly Comprehensive Index Review schedule for the MSCI GIMI?

One of the key objectives of this change is to reduce the size of the May and November comprehensive Index Reviews by spreading index review changes and turnover more evenly across each of the Quarterly Comprehensive Index Reviews. This change also aims to achieve a more accurate representation and size-segmentation of the opportunity set in MSCI Global Investable Market Indexes through more frequent updates of the MSCI Equity Universe and comprehensive size-segment reviews.

4 Did MSCI consult on the move to a Quarterly Comprehensive Index Review schedule for the MSCI GIMI?

MSCI consulted on introducing Quarterly Comprehensive Index Reviews for the MSCI Global Investable Market Indexes from March 1, 2021 to June 11, 2021. Following positive feedback from market participants, the consultation resulted in the decision to transition the MSCI Global Investable Market Indexes to a Quarterly Comprehensive Index Review schedule. These results were announced on June 28, 2021.

Implementation Details

5 What is the implementation schedule for the transition to Quarterly Comprehensive Index Review for the MSCI GIMI?

Beginning in February 2023, MSCI will apply the index maintenance methodology currently used at the May and November Semi-Annual Index Reviews. Exceptionally, Number of Shares (NOS) and Foreign Inclusion Factors (FIF) will continue to be reviewed based on current methodology until May 2023. At that time, all NOS and FIF will be fully reviewed up to the Price Cutoff Date at each subsequent QCIR.

Quarterly Comprehensive Index Review Implementation Timeline			
	Nov 2022	Feb 2023	May 2023 onwards
Maintenance Methodology	Current Methodology	Current May/Nov Methodology	
Data Review Methodology (FIF / NOS)	Current Thresholds	Current Thresholds	Fully reviewed based on data as of Price Cutoff Date

6 What will be implemented starting from the February 2023 Index Review?

Beginning with the February 2023 Index Review and at each Quarterly Comprehensive Index Review going forward, MSCI will apply the index maintenance methodology which is currently applicable in the May and November Semi-Annual Index Reviews.

As part of the February 2023 Index Review, MSCI will however review Number of Shares (NOS) and Foreign Inclusion Factors (FIF) as per the current methodology.

Specifically, MSCI will apply the methodology as specified in section 3.1 of the current MSCI Global Investable Market Indexes Methodology book.

As a summary, during each Quarterly Comprehensive Index Review, the Equity Universe will be updated and the following index maintenance activities will be undertaken for each market:

- Updating the Market Investable Equity Universe.
- Recalculating the Global Minimum Size References and Global Minimum Size Ranges

- Reassessing the Segment Number of Companies and the Market Size-Segment Cutoffs.
- Assigning companies to the size-segments taking into account buffer zones.
- Assessing conformity with Final Size-Segment Investability Requirements.

For the purpose of the review of changes in FIF, MSCI will not apply the methodology currently applicable for Annual Full Country Float Review for the February 2023 Index Review.

7 What will be implemented starting from the May 2023 Index Review?

Beginning from the May 2023 Index Review, in addition to employing the current index maintenance methodology for the May and November Index Reviews (as described in Question 6), MSCI will also fully review Number of Shares (NOS) and Foreign Inclusion Factors (FIF) as part of each Quarterly Comprehensive Index Review.

Specifically, MSCI will apply the methodology as specified in section 3.1 of the current MSCI Global Investable Market Indexes Methodology book. For the review of changes in FIF, MSCI will apply the methodology currently applicable for the Annual Full Country Float Review at each Quarterly Comprehensive Index Review going forward.

In addition, as a further enhancement to the methodology, NOS and FIF will be fully reviewed using data available up to the Price Cutoff Date of the relevant Index Review for constituent and non-constituent securities at each Index Review.

8 Will all changes in FIF be implemented at each Index Review?

Starting from the May 2023 Index Review, MSCI will fully review the Foreign Inclusion Factor (FIF) up to the Price Cutoff Date of each Quarterly Comprehensive Index Review.

All FIF changes will be reflected in the indexes provided the change in free float is more than 1%.

9 Will there be any change to the Country of Classification review methodology?

MSCI will continue to review the Country of Classification of securities in the MSCI Equity Universe on an annual basis as part of the November Index Review.

Starting from the May 2023 Index Review, MSCI will review the Country of Classification of securities with changes in Country of Incorporation that were not implemented as part of a corporate event at each Quarterly Comprehensive Index Review. As a reminder, such changes are currently reviewed as part of the May and November Index Reviews.

10 In case of a switch to “light” rebalancing, what is the applicable methodology?

Upon the transition to a Quarterly Comprehensive Index Review (QCIR) schedule, “light” rebalancing will potentially be applicable to any QCIR of the MSCI Global Investable Market Indexes (GIMI) under conditions of market stress as defined in Appendix VIII of the MSCI GIMI Methodology.

Starting from the February 2023 Index Review, in case of a switch to “light” rebalancing, MSCI will apply the index maintenance methodology currently applicable in the February and August Index Reviews.

Specifically, MSCI will apply the methodology as specified in section 3.2 to 3.2.3 of the current MSCI GIMI Methodology book.

There will be no change to the review of Foreign Inclusion Factor (FIF), Number of Shares (NOS) and Country of Classification (COC) for “light” rebalancing.

Impact on Non-Market Capitalization Weighted Indexes

11 Did MSCI consult on the move to a Quarterly Comprehensive Index Review schedule for the non-market capitalization weighted index methodologies?

MSCI consulted on introducing Quarterly Comprehensive Index Reviews for the MSCI non-market capitalization weighted indexes from May 20, 2022 till June 24, 2022. Following positive feedback from market participants, the consultation resulted in the decision to transition the following non-market capitalization weighted indexes to a Quarterly Comprehensive Index Review schedule in one step starting from the February 2023 Index Review. These results were announced on July 6, 2022.

- MSCI Adaptive Capped Indexes Methodology
- MSCI Equal Country Weighted Indexes Methodology
- MSCI Equal Sector Weighted Indexes Methodology
- MSCI Size Tilt Indexes Methodology

The frequency of Business Screening Review for the MSCI Islamic Indexes Methodology will also change from annual (May) to quarterly starting in February 2023.

12 What was the rationale for transitioning these non-market capitalization weighted index methodologies to a Quarterly Comprehensive Index Review schedule and what is the expected impact?

The rationale to include the above non-market capitalization weighed indexes methodologies was to ensure more consistent representation of the methodological targets and parent index representativeness.

Based on simulations, the change would result in:

- Reduced average turnover at Semi-Annual Index Reviews (SAIRs)
- Annual turnover more evenly distributed across QCIRs but with a moderate increase in the total turnover
- More frequent rebalancing reducing weighting dispersion relative to methodological target.

13 What is the impact of the move to a Quarterly Comprehensive Index Review on other non-market capitalization weighted indexes?

For non-market capitalization indexes whose Index Review schedule is less frequent than quarterly (e.g. semi-annual, annual), changes resulting from the parent MSCI Global Investable Market Indexes, such as deletions, additions as well as Number of Shares and Foreign Inclusion Factor changes will be reflected as per the intra-rebalance treatment specified in their respective methodologies.

14 Has MSCI announced any changes to other non-market capitalization weighted index methodologies?

No. There was no consultation on any potential changes to the Index Review schedule for non-market capitalization weighted index methodologies other than those referred to in Question 11. As such and until further notice, there will be no change to the Index Review schedule for such index methodologies.

15 Could other non-market capitalization weighted index methodologies be considered for a potential transition to a Quarterly Comprehensive Index Review schedule in the future?

MSCI may, in the future, evaluate additional non-market capitalization weighted index methodologies – such as MSCI Factor, ESG & Climate, Thematic and Capped Indexes not referred to in Question 11 – for a change in Index Review schedule to quarterly comprehensive index review at its discretion, in groups or as part of broader reviews and consultations for specific methodologies.

Should MSCI launch any consultation(s) on a proposal to change the Index Review schedule to any additional non-market capitalization weighted index methodologies, MSCI would make a public announcement at the time of the launch of any such potential consultation(s).

Impact on Custom Indexes

16 What will be the impact of the transition to a Quarterly Comprehensive Index Review on Custom Indexes that are based only on the MSCI GIMI?

Market capitalization weighted Custom Indexes that follow only the MSCI Global Investable Market Indexes (GIMI) Methodology (but based on non-Standard regions) will transition to a Quarterly Comprehensive Index Review schedule and will follow the implementation timeline for the MSCI GIMI.

17 What will be the impact of the transition to a Quarterly Comprehensive Index Review on Custom Indexes that are based on non-market capitalization weighted indexes methodologies?

For custom Indexes that are based on the MSCI Islamic Indexes Methodology, the business activity screening will change from annual (May) to quarterly.

For custom indexes that are based on the MSCI Adaptive Capped, MSCI Equal Country Weighted, MSCI Equal Sector Weighted and MSCI Size Tilt Indexes Methodologies, MSCI will perform a client outreach in the coming months.

For all other custom indexes outside of those mentioned above, there will be no change to their rebalancing schedules. For custom indexes whose Index Review schedule is less frequent than quarterly (e.g. semi-annual, annual), changes resulting from the parent MSCI Global Investable Market Indexes, such as deletions, additions, Number of Shares and Foreign Inclusion Factor changes will be reflected as per the intra-rebalance treatment specified in their respective methodologies.

Impact on Product Files

18 Will there be any impact on Index Review reports and related announcements?

Yes. In the context of the MSCI Global Investable Market Indexes, all references to “Semi-Annual Index Reviews” and “Quarterly Index Reviews” in relevant MSCI public documentation will be replaced with “Index Reviews”.

A technical communication was sent to clients on September 13, 2022, describing the impact of this change.

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