

**MSCI RESPONSE TO THE SEC PROPOSED
RULE – INVESTMENT COMPANY
REPORTING MODERNIZATION (RELEASE
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MSCI

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INTRODUCTION

MSCI appreciates the opportunity to comment on the SEC Proposed Rule relating to the Investment Company Reporting Modernization, and we look forward to working with SEC on these going forward.

ABOUT MSCI

MSCI Inc. is a leading provider of investment decision support tools to institutional investors globally, including asset managers, banks, hedge funds and pension funds. MSCI products and services include indexes and portfolio risk and performance analytics. MSCI is headquartered in New York, with research and commercial offices around the world. MSCI has approximately 6200 customers worldwide across MSCI’s different business units.

MSCI’s flagship equity indexes include the MSCI Global Equity Indexes. The MSCI Global Equity Indexes have been calculated for more than 40 years, and today MSCI calculates over 160,000 equity indexes per day. MSCI Global Equity Index families include country and regional indexes, size indexes (large cap, small cap, and micro-cap), sector indexes, style (value/growth) indexes, strategy indexes, thematic indexes and ESG indexes. MSCI also calculates custom indexes at the request of clients, by applying client screens and constraints to MSCI Global Equity Indexes.

MSCI Global Equity Indexes are used worldwide by:

- assets owners to help them with their mandate decisions and with reviewing their managers’ performance;
- active asset managers so that they can actively manage their funds against an index and report performance;
- passive fund managers to issue passive funds and ETFs based on the indexes;
- broker dealers for providing trading execution services, creating OTC and non-OTC derivative financial products and writing research more generally;
- stock exchanges to create equity index linked futures and options contracts; and
- CCPs to calculate the risks of its positions for index linked futures and options contracts.

In July 2014 and 2015, MSCI announced that it successfully completed an assurance review of its implementation of the IOSCO Principles for Financial Benchmarks. MSCI engaged PricewaterhouseCoopers LLP (PwC) to perform the review. The full report, including the PwC assurance review, is available at www.msci.com/products/indexes/regulation.html for MSCI equity indexes and for select IPD real estate indexes and benchmarks.

MSCI COMMENTS

While MSCI provides full index constituents and weightings as part of our relevant data subscription files and posts our index calculation methodologies on our external website (along with many other index providers), we believe that any obligations requiring the disclosure of full index component data publicly for free should respect and be sensitive to the intellectual property (IP) rights of the index providers, including for the reasons outlined in the consultation. Producing quality data consistently over time comes at a cost. We support the provision of data to the regulators, but requiring public disclosure takes away the index provider’s ability to charge for the time, effort, skill and expertise in designing, calculating and maintaining indexes (and has the potential to turn proprietary indexes into public goods).

Further, we would question the benefit of public disclosures of full index component data. As mentioned above, those institutional investor clients that need the data to manage the fund receive the full index component data by subscribing. Public disclosures merely provide other parties (as well as current subscribers) the ability to source the data for free, without any obligation to pay, impacting the commercial models and viability of the index providers. It also encourages free-riding by those who may be unable or unwilling to produce quality indexes themselves. With respect to the end investor, we believe that information about what stocks make up the index has the real potential to be confusing. Some indexes have over a thousand constituents and that data is published on a daily basis. What seems more relevant for the end investor is the information about the fund and fund composition as well as the tracking error between the fund and the index, which provides insights into the manager’s performance.

Setting public index disclosures at levels based on thresholds such as a particular number of stock or stocks at/above/below a particular weighting seems arbitrary and can harm different indexes in different ways. As mentioned above, some indexes have over 1000 constituents, while some have as few as 50, and those thresholds can have a dramatic effect on disclosure depending on the type of index.

Even the provision of delayed data is a concern with respect to IP rights. In Europe, the ECB has recognized this and the EU benchmark regulation may well overturn the requirement to post constituents on a delayed basis under the ESMA Guidelines for ETFs and other UCITS Issues.

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ABOUT MSCI

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Our line of products and services includes indexes, analytical models, data, real estate benchmarks and ESG research.

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