

MSCI RESPONSE TO SEBI DISCUSSION PAPER ON DRAFT CODE OF CONDUCT FOR INDEX PROVIDERS

MSCI

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MSCI appreciates the opportunity to respond to SEBI’s “Discussion Paper on Draft Code of Conduct for Index Providers”.

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 over 6000 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 190,000 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 each of 2014, 2015 and 2016, 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

reviews. The full report, including the PwC assurance review, for MSCI Global Equity indexes (as well as select IPD real estate indexes and benchmarks) are available at www.msci.com/products/indexes/regulation.html.

MSCI COMMENTS

We broadly support the principles of the draft Code of Conduct, including the adoption of the principle of proportionality. However, we are particularly concerned about the implications of Section F. Please see below for our detailed comments.

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Sr. No.	Issues	Suggestions	Rationale
Section A	We strongly believe that there should be a clear distinction in the Code between foreign administrators/index providers and Indian administrators/index providers. Performance of a subset of index administration services in India does not make a local Indian subsidiary the “administrator” or the “index provider” for those indices.	We believe that Section A should refer to “administrators” of indices and not just those entities providing “administrative” services.	Many index providers are global companies that have index administration functions around the world. The “Index Provider” or the “administrator” is the entity in the corporate group that is responsible for overall “administration” of the indices. Performance of a subset of “administration functions” does not make a group entity an “Index Provider” or “administrator” of those indices. That would be inconsistent, not only with Principle 1 of IOSCO (which states that administrators “ <i>retain primary responsibility for all aspects of the Benchmark determination</i> ”), but also with Article 3(1)(6) of the EU benchmark regulation (which defines the administrator as the “ <i>natural or legal person that has control over the provision of a benchmark</i> ”).
Section A	Section A refers to Indian indices, but the definition of Indian indices seems unclear. There are many different types of indices, including regional or global or ex-India country indices, which may be used by Indian product issuers. There are also indices provided by foreign administrator/index providers.	It would be helpful if SEBI could clarify that foreign Index Providers/administrators could license their all of their indices (not just those covering the Indian equity market) for use by Indian financial product issuers.	We believe that Indian financial product issuers should have the flexibility to issue financial products based on indices that cover equity markets beyond India and that are provided by foreign administrators/index providers.
Section C9	The term “Submissions” is not defined.	It would be helpful if the term “Submissions” were clearly defined as data submitted to the Index	Data that is readily available and has an independent purpose, outside of index calculation, should not be subject to codes of conduct specifically because that data is not

		Provider/administrator that has the sole purpose of being used for index calculation.	created for the purpose of calculating indices and is merely collected. This is consistent with the approach of the EU benchmark regulation. Further, IOSCO carved equity indices from of any code of conduct requirements.
Section C16	The audit requirements are unclear.	It would be helpful to clarify that bi-annually is once every two years (and not twice a year). It would also be helpful if audits and compliance statements produced for IOSCO and the EU benchmark regulation were recognized as equivalent and compliant under the Code.	Given that the Code is based on IOSCO, it would be helpful if the index provider's/administrator's published compliance statements under IOSCO could be recognized as equivalent and compliant under the Code.
Section D18	Reporting	We believe that annual reporting would be preferable to monthly or quarterly reporting.	Annual reporting would align with IOSCO's requirement to annually publish a compliance statement.
Sections F19, F20	While we generally support the principles in Sections B-E of the Code, we do not believe that Sections F 19 and F20 should apply to foreign index providers/administrators as it would unduly and unjustifiably restrict licensing of their indices.	We suggest that the Code be amended to make it clear that Sections F19 and F20 do not apply to foreign index providers/administrators.	It would be anomalous for SEBI to restrict the licensing by foreign index providers/administrators of their indices outside of India.
Other	We believe that the Code should specifically reference IOSCO's "comply or explain" approach to allow for proportionality.	We believe that a new clause G should be added to the Code to include the "comply or explain" regime in IOSCO.	This would be provide clear consistency with the approach of IOSCO.

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