MSCI RESPONSE TO THE IOSCO FINANCIAL BENCHMARKS CONSULTATION REPORT

February 11, 2013

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 indices, portfolio risk and performance analytics, and governance tools. 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.

The company's flagship products include the MSCI Global Equity Indices.[1] The MSCI Global Equity Indices have been calculated for more than 40 years, and today MSCI calculates over 150,000 equity indices per day. MSCI Global Equity Index families include country and regional indices, size indices (large cap, small cap, micro cap), sector indices, style (value/growth) indices, strategy indices, thematic indices and ESG indices. MSCI also calculates custom indices, by applying client screens and constraints to MSCI Global Equity Indices.

MSCI Global Equity Indices 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 indices;
- broker dealers for providing trading execution services, creating OTC and non-OTC derivative financial products and writing research more generally; and
- stock exchanges to create equity index linked futures and options contracts.

We appreciate the opportunity to respond to the IOSCO Financial Benchmarks Consultation Report, and will be happy to respond to any further questions that IOSCO may have.

We have responded to the relevant questions below and have provided some introductory comments where we thought it was necessary to help IOSCO better understand the impact of potential regulation on the industry and market users.

[1] MSCI's flagship products also include its: Barra multi-asset class factor models, portfolio risk and performance analytics; RiskMetrics multi-asset class market and credit risk analytics; MSCI ESG (environmental, social and governance) research screening, analysis and ratings; ISS governance research and outsourced proxy voting and reporting services; FEA valuation models and risk management software for the energy and commodities markets; and IPD private real estate benchmarks. IPD will respond separately to this IOSCO Financial Benchmarks Consultation Report.

IOSCO has rightly pointed out that there are different types of indices across different asset classes, and it is important to recognize that different types of indices:

- have different methodologies,
- use different types of data sources,
- have different data collection methods,
- use different index calculation methods and approaches,
- can be used for different purposes,
- have different types of users, and
- have had widely varying histories of manipulation.

At the outset, MSCI thinks it is important to note that we are unaware of, and IOSCO does not cite, any instances of manipulation of equity indices that use exchange traded prices and rules-based methodologies. While MSCI agrees that equity indices have been playing an increasingly large role in the investment process, we would strongly disagree that there is anything in the characteristics of the equity index industry that should lead one to believe that it is in need of regulation to help ensure its credibility. In such a situation, we believe that special attention should be paid to the potential costs of regulation, including its unintended and unknown consequences, before determining that regulation is warranted. The consideration of costs and unintended consequences is why we do not think regulation at this point is necessary or useful for the equity index business and may in fact lead to a lessening in competition, innovation and services, particularly to the extent that regulation would lessen index owners' control over the distribution of their intellectual property.

The situation with LIBOR/EURIBOR that the IOSCO Financial Benchmarks Consultation Report cites highlights very clearly the differing treatment that different types of indices may need to maintain credibility and protect users. For LIBOR/EURIBOR, the input data is based on a select set of estimates of the price at which interbank lending might take place. Because the input data is based on estimates and the number of data inputs is low, individuals and banks can have a direct impact on the ultimate LIBOR/EURIBOR rate. In addition, individuals and banks that provide estimates could in certain circumstances directly benefit from supplying inaccurate estimates. Under these circumstances, there may an opportunity and motive for manipulation. It is these shortfalls specific to LIBOR/EURIBOR that are the issue. Equity indices do not generally present the same opportunity or motive for manipulation.

MSCI Global Equity Indices, for example, are calculated using market prices and other market transaction data and public market data that is available and licensed from third party market data providers. Such market data includes, end of day and real time prices provided by exchanges, the numbers of shares, corporate actions, fundamental company data, dividends, exchange rates, forward rates, measures of liquidity such as trading volumes, percentage of shares available for sale to international investors (free float), etc. We have agreements with approximately 150 different data providers, who provide data used in our equity indices. These market data providers, such as stock exchanges, license their data to us for a fee and subject to use and redistribution restrictions as set forth in the written contracts between the parties. The data can delivered to MSCI directly by those different market data providers or through distributors who also charge a fee and impose use and redistribution restrictions as set forth in the written contracts between the parties. Certain fundamental company data (such as revenues, earnings numbers and the identities of shareholders) also may be sourced from publicly available company annual reports and other publicly available company filings. Clients do not submit data to be included in MSCI Global Equity Indices and we do not source data using surveys, panels or samples.

MSCI Global Equity Indices are calculated strictly in accordance with our rules-based methodologies which are publicly available on our website, www.msci.com. Stocks are added or removed from our indices based solely on whether they meet the criteria as outlined in the methodologies. We rebalance our indices as detailed in our methodologies (e.g., quarterly or semi-annually) and we publicly announce the results of those rebalancings on dates that are publicly announced in advance. The treatment of corporate actions is handled on a daily basis and is announced to clients. MSCI often consults the investment community on new methodologies and methodological changes. MSCI announces new methodologies and methodological changes publicly in advance. Public announcements are available on our website, www.msci.com.

MSCI has robust governance structures and rigorous calculation processes in place. MSCI observes strict Chinese Walls that separate (physically and by rule) those involved in equity index calculation and maintenance from those who are not. Employees of MSCI engaged in equity index calculation and maintenance are not permitted to purchase stocks (other than MSCI Inc. stock). The creation, maintenance and calculation of the MSCI Global Equity Indices are supervised and monitored by four different index committees. These committees are (1) the Universe Management Committee (UMC), responsible for constituent level data points, (2) the Global Constituent Committee (GCC), responsible for complex corporate events, (3) the Equity Index Committee (EIC), responsible for approving all changes to existing index methodologies and all decisions to create new index methodologies, and (4) the Index Policy Committee (IPC), responsible for all policy level decisions. These committees are staffed exclusively by MSCI employees, which is fundamental to our principles around independence.

The quality of our equity indices and methodologies and the integrity of our index calculation and maintenance processes and governance structures are fundamental to our brand, and ultimately our clients.

While MSCI Global Equity Indices are used as the basis of financial products, that is certainly not their only use. As described above, MSCI Global Equity Indices are used by financial institutions around the world in many other ways. It is important to note that any impacts to equity benchmarks will not only impact product creators but also other market participants.

Chapter 1

Scope

1. Do you agree with the scope of the report and intended audience? Are there other Benchmarks or stakeholders that have idiosyncrasies that should place them outside of the scope of the report? Please describe each Benchmark or stakeholder and the idiosyncrasies that you identify and the reasons why in your view the Benchmark or stakeholder should be placed outside of the scope of the report.

While we do not disagree with the intended audience or the scope of analysis, we do disagree with applying the same principles across different data types and benchmarks. Moreover, we do not think that the risks the report identifies have manifested themselves, or are likely to manifest themselves, with respect to benchmarks that rely on data which has a main purpose other than as serving as a component of a benchmark. We believe that this is particularly the case where such data is exchange trading data. For these reasons, we do not think that there is a need for formal third party oversight of the creation, maintenance and production of equity benchmarks.

Chapter 2

Benchmark design

2. Do you agree that the design of a Benchmark should clearly reflect the key characteristics of the underlying interest it seeks to measure?

In our opinion, to be credible and attractive to users, a benchmark's methodology should clearly describe the objective of the benchmark and should clearly explain the calculation rules. Equity benchmarks measure opportunity sets, which may be regions, sectors, countries, small cap, large cap, and etc. as well as combinations thereof. There are many ways to measure the opportunity sets and how that is accomplished should be outlined in the methodology book.

Whether a benchmark created from a particular methodology meets the objectives of a user of the benchmark, is up to the user to determine.

3. What measures should Administrators take to ensure the integrity of information used in Benchmarking-setting and that the data is bona fide? Please highlight any additional measures required where Benchmarks are survey based. Please also comment on each of the factors identified in the discussion on the 'vulnerability of data inputs' such as voluntary submission, discretion exercised by Administrators. Are these measures adequately reflected in the discussion of roles and responsibilities of the Administrator discussed in section E?

As IOSCO mentions, there are many types of benchmarks, which use different data inputs.

With respect to equity benchmarks, observable transactions data is not "reported" to the benchmark providers. Instead, the data is licensed pursuant to written license agreements under which fees are paid. The data is subject to use restrictions and is provided on an as is basis pursuant to the terms of the agreement. The data is delivered through aggregate datafeeds either on a real-time basis (every 15 seconds) or end of day basis, either directly by the data provider or through data aggregators or distributors. There is no "Submitter discretion" with respect to this data. Further, equity benchmarks also use publicly available data such as company earnings, revenues and identities of shareholders from public company filings. Again, in the context of benchmark calculation there is no "Submitter discretion".

We believe that suppliers of observable transactions data and other publicly available data should not be considered "Submitters" and the associated provisions of Section E should not apply. Where data inputs are comprised of observable transactions data and publicly available data, there are no conflicts of interest or opportunities for manipulation. Creating layers of processes around using those data points, e.g., requiring stock exchanges around the world to sign codes of conduct (who are not legally bound to do so), would add unnecessary cost, delay and risk into the benchmark calculation process. For example, we receive prices from over 70 equity exchanges around the world for use in the MSCI equity indices. If a stock exchange failed to or refused to sign up to a code of conduct, what would the implication be on the benchmark administrator? Would the benchmark administrator have to shut down the benchmark? If that is the case, then that would have a knock on effect on clients worldwide who are using that benchmark either as the basis of financial products or otherwise.

MSCI performs quality checks of the data used in its equity indices, including checking for unusually large changes in stock price data that might indicate a mistake in the data feed we receive. For certain datasets where there are multiple data sources, MSCI performs data verification activities to verify the extent to which the different data sources match. MSCI performs data verification activities to ensure that MSCI is producing high quality indices in a very competitive landscape and we have established appropriate mechanisms to support this. However, regulation which introduces additional layers of procedures could impact benchmark calculation, adding both cost and delays.

With respect to issues raised about benchmark administrator discretion, MSCI thinks that it is impossible to remove all discretion, but that is not in itself a cause for undue concern.

MSCI Global Equity Indices are constructed and maintained according to detailed publicly available rules. These rules are described in the MSCI equity index methodologies that are available on MSCI's website. The MSCI equity index methodologies cover in detail what we believe are reasonably foreseeable cases and scenarios. Despite these efforts, there may still be rare cases when discretion may be required in order to arrive at the appropriate treatment of a particular case, for example an unusual corporate event. In these situations, MSCI will typically make a public announcement and will then consult with market participants about the appropriate treatment of the case. Following the consultation process, MSCI announces publicly to all market participants the results and the proposed treatment well ahead of the effective date of the particular case. This process ensures that the very large majority of cases are dealt with based on clear publicly available rules that leave no room for ambiguity, while a few rare or difficult cases are handled through a process of public announcement, consultation, followed by a final public announcement of the decision, well ahead of implementation.

Finally, although MSCI's response to the IOSCO Financial Benchmarks Consultation Report is focused on equity benchmarks created using publicly available information, we recognize that certain benchmarks can only be created using information that is not publicly available . We do not think that this necessarily justifies regulation of those types of benchmarks, particularly where the data in question is created and used for a purpose independent of a benchmark, for example, investment return information provided to investors.

4. What measures should Submitters implement to ensure the integrity of information provided to Administrators? Are these measures adequately reflected in the discussion of a code of conduct for Submitters discussed in section E? In particular, should Submitters submit all input data and not a selection of such data so as to maximise the representation of the underlying market? Please comment on any practical issues that compliance with such an approach may give rise to.

As mentioned above, we believe that suppliers of observable transactions data (e.g., stock prices, numbers of shares, etc.) and publicly available data (company revenues, earnings and identities of shareholders as provided in company filings) should not be considered "Submitters" and these data points should not be thought of or treated in the same manner as survey or panel responses.

Transparency of Benchmark methodologies

5. What level of granularity with regard to the transparency of Methodologies would enable users to assess the credibility, representativeness, relevance and suitability of a Benchmark on an on-going basis and its limitations with respect to their intended use? Relevant factors could include; criteria and procedures used to develop the Methodology, type of data used, how data is collected, relative weighting of data used, how and when judgement is used, contingency measures (e.g., methods when transaction data is unavailable etc), publication of information supporting each Benchmark *determination, etc. Please provide examples where you consider there are currently significant gaps in the provision of this information.*

Before we respond to Question 5, there are a number of assumptions in the introductory notes in B1 that we wish to correct with respect to equity benchmarks.

- Equity benchmark administrators who calculate benchmarks for broad uses already provide methodologies on their websites. As far as we are aware, methodologies are not separately licensed to users for a fee.
- Also, as a general matter, it appears that the reference to "fair and non-discriminatory" may be borrowed from patent law where industry participants pool their intellectual property to create a single "standard" for the industry or a "patent pool". Because the participants share ownership of the standard or the patent, they are required to license "fair, reasonable and non-discriminatory" basis to others. Any application of this standard to individual rights holders, where there is no pooling or sharing of intellectual property rights and there is no development of a single standard amongst those rights holder, would be inapplicable and inappropriate.
- With respect to equity benchmarks, the "replicability" of the benchmark is not necessarily the same as "replication of the Benchmark level". Replicability typically refers to the ability of the fund managers to match composition of their portfolios to the constituents of the benchmark (and the difference will result in the tracking error). This is especially important at the benchmark rebalancing, but it also important with respect to corporate events between benchmark rebalancings. Methodologies are not typically used by either institutional investors or retail investors to "recalculate" the benchmark to check the benchmark performance levels. That would require access to the datafeeds from all of the relevant stock exchanges and other data providers around the world as well as the experience in applying the methodology consistently. For real-time indices, it would require processing that information every 15 seconds.

With respect to Question 5, what is included in a methodology depends on the type of benchmark. For equity benchmarks, in our opinion and practice a credible methodology would (i) provide clear descriptions of the objective of the benchmarks, (ii) explain the calculation rules, and (iii) define clearly define terms and concepts. This helps clients to understand how and why companies are included in and excluded from the benchmark, how and when the benchmark is subject to change, and how the equity benchmark administrator treats specific situations like corporate actions, dividends, market closures, etc.

The MSCI equity index methodologies are available on www.msci.com. These methodologies provide detailed information regarding the data and processes used in the construction and maintenance of MSCI Global Equity Indices. Changes in MSCI equity index methodologies typically follow extensive market consultations and are always announced publicly to all market participants with ample time prior to implementation. In addition, MSCI equity index methodologies explain when data is taken from the relevant stock exchange (at the close for our end of day indices), which FX rates are used, and the actions taken if this data is not available. These procedures ensure that the MSCI equity index methodologies are transparent and the MSCI Global Equity Indices are replicable for market participants in the context of fund management, and we believe we provide sufficient information in our equity index methodologies with respect to these procedures.

As mentioned above “criteria and procedures” used to develop the benchmark are applicable, but “criteria and procedures to develop the methodology” is not, as methodologies can be developed as the result of years of research efforts and that is not appropriate for inclusion in a methodology.

How data is collected is not applicable where the data is comprised of observable transactions data (such as stock prices provided by stock exchanges) or data publicly available (company revenues, earnings and identities of shareholders as provided in company filings). As mentioned above, we would not consider these data sources as “Submitters”.

Transparency of contingency provisions for episodes of market disruption, illiquidity or other issues

6. What steps should an Administrator take to disclose to Market Participants and other stakeholders the contingency measures it intends to use in conditions of market disruption, illiquidity or other stresses?

In our opinion, a credible equity benchmark methodology will (i) include rules that outline the benchmark calculation process in instances of market disruption, illiquidity (e.g., when the market is shut down and/or where there is no trading) or other similar stresses, etc. and (ii) provide for announcements in instances of market disruption, illiquidity or other similar stresses in accordance with their methodologies.

Contingency provisions for market disruptions are clearly detailed in the MSCI equity index methodologies. For example, “Appendix VII: Policy Regarding Trading Suspensions and Market Closures During Index Reviews” of the current “MSCI Global Investable Market Indices Methodology” document, available on the MSCI website, explains in detail the procedures that MSCI follows to deal with potential market closures and trading suspensions during index review periods. Specifically, MSCI will postpone the implementation of index review changes for the IMI (Investable Market Index) constituents when the affected securities are suspended on the day prior to the effective implementation date of the Index Review. The postponed index review changes will be implemented two days after the securities resume trading. In addition, when a given stock market is closed on the scheduled implementation date due to stock market holiday, the change will be effective on the next business day, using the price of the previous business day’s close. MSCI will change the implementation date for Index Reviews if markets cumulatively constituting more than 20% of the MSCI All Country World Index market capitalization are expected to be either closed or experience low liquidity on that day. In the event that the primary stock market in a country fails to open for trading and remains closed for the entire trading day on the implementation date of the review due to an unexpected market closure, MSCI will postpone the implementation of the additions to and deletions from the MSCI All Countries World Index (ACWI), resulting from the Semi-Annual or Quarterly Index Review of the MSCI Global Investable Market Indices for that specific country index. MSCI will implement the above changes as a result of the Semi-Annual or Quarterly Index Review for that country as of the close of the first business day (Monday to Friday) that the specific market reopens for trading and closing prices are available. In the event of unexpected closures of stock markets in more than one country, MSCI will evaluate the situation and may apply a different policy.

Further, MSCI announces these types of changes in accordance with the announcement rules in the MSCI equity index methodologies, available on www.msci.com.

Other benchmark administrators may have different approaches to the same issues, tailored to their methodologies and their clients' desires. Requiring any particular, granular approach seems unnecessary and could be counterproductive.

Transparency over changes to the Methodology

7. What steps should an Administrator take to notify Market Participants of material changes to a Benchmark Methodology (including to Benchmark components) and to take their feedback into account?

Benchmarks are used for a variety purposes and different users have different perspectives. On important potential methodological changes, MSCI seeks feedback from its clients and other interested parties. We make a final decision on methodological changes with that feedback in mind. In terms of process, we have found it helpful for our clients to provide announcements of consultations, the results of consultations and implementation schedules in advance.

For the MSCI Global Equity Indices, MSCI publicly announces its rebalancing results according to the rebalancing rules in the MSCI equity index methodologies. The dates of these announcements currently are announced a year in advance. At the rebalancing announcements, MSCI also announces the implementation dates for the changes.

MSCI typically conducts extensive public consultations before making material changes to the MSCI equity index methodologies. These consultations provide market participants the opportunity to comment on any potential changes to the MSCI equity index methodologies. Once a consultation is closed, any decision to implement changes is announced publicly to all market participants with ample time prior to implementation.

8. *How often should the Administrator review the design and definition of the Benchmark to ensure that it remains representative?*

This depends on the benchmark and should be determined by the benchmark administrator. Different asset classes may have different requirements. Different types of equity benchmarks have different requirements. The equity benchmark industry is highly competitive. If clients do not feel that a particular equity benchmark adequately represents the market, then they can choose to license a different equity benchmark from a different equity benchmark administrator.

MSCI Global Equity Indices currently are subject to comprehensive semiannual index reviews in May and November and more limited in scope interim quarterly index reviews in February and August at outlined in the MSCI equity index methodologies (available on www.msci.com).

MSCI continually reviews the design and definition of the various MSCI Global Equity Indices to ensure that they remain relevant. MSCI interacts with clients and market participants on an ongoing basis and may periodically launch consultations seeking market feedback on potential enhancements to its index construction methodologies.

Governance

9. The Consultation Report discusses a number of potential conflicts of interest that may arise at the level of the Submitters, between Submitters at different entities, and between Submitters, Administrators and other third parties. Are there other types of conflicts of interest that have not *been mentioned that you consider may arise? If so, how best should these conflicts of interest be addressed? Are the measures discussed in the Consultation Report sufficient to address potential conflicts of interests at the level of the Submitters, between Submitters at different entities, and between Submitters, Administrators and other third parties?*

We are not aware of other types of conflicts of interest.

With respect to equity benchmarks, we do not believe the conflicts of interest described in C1 with respect to "Submitters" exist. Equity benchmarks use observable transactions data and publicly available data. Stock exchanges and other data providers license their data to equity benchmark administrators (and others) for fees on an arm's-length basis pursuant to written license agreements. Some data points (such as stock prices) are distributed by stock exchanges every 15 seconds on a real time basis or on a delayed basis or end of day basis. This data is distributed as part of aggregate datafeeds either directly by the stock exchanges or by data distributors/aggregators (such as Bloomberg or Thomson Reuters) to many different clients for many different uses. The data is not subject to "Submitter's discretion".

With respect to publicly available data (such as revenues, earnings and identities of shareholders posted by public companies as part of their local filing requirements), the data is being published for a different purpose, namely compliance with regulations as a listed company. Again, this data is not subject to "Submitter's discretion".

With respect to ownership structures as described in Section C1, we believe that it is advisable for a benchmark administrator to adopt governance structures designed to ensure that conflicts of interest are addressed and managed properly. MSCI is an independent benchmark administrator and does not have any stock exchange, asset manager, broker dealer, bank or other financial institution or trading facility in its corporate group. Even though we are completely independent, we still observe strict Chinese Walls that separate (physically and by rule) those involved in equity index calculation and maintenance from those who are not. Employees of MSCI engaged in equity index calculation and maintenance are not permitted to purchase stocks (other than MSCI Inc. stock) and we have general trading blackouts around our index rebalancing announcements.

With respect to equity benchmarks, we do not believe that introducing "Submitters", "Market Participants" or other third parties into the equity benchmark governance process as outlined in C2 alleviates concerns about conflicts of interest. Quite the opposite. We believe that it could introduce conflicts of interest into the governance structure by allowing those parties that have products or portfolios based on MSCI Global Equity Indices potentially to have undue influence over those indices, which is why MSCI staffs its four index governance committees exclusively with MSCI employees. This ensures that members of the committee are inside the MSCI Chinese walls and subject to employee trading policies, thus removing any conflicts of interest for committee members.

10. Do you agree that the Administrator should establish an oversight committee or other body to provide independent scrutiny of all relevant activities and management of conflicts of interest? Please comment if and why any different approaches might be appropriate for different kinds of Benchmarks. What is the minimum level of independent representation this committee or body should include?

We agree that it is good practice for equity benchmark administrators to establish governance structures with oversight over the creation, production and maintenance of their benchmarks. The MSCI Global Equity Indices are monitored by four different index committees that oversee the creation, production and maintenance of the indices. These committees, exclusively staffed by MSCI employees, are (1) the Universe Management Committee (UMC), responsible for constituent level data points, (2) the Global Constituent Committee (GCC), responsible for complex corporate events, (3) the Equity Index Committee (EIC), responsible for approving all changes to existing index methodologies and all decisions to create new index methodologies, and (4) the Index Policy Committee (IPC), responsible for all policy level decisions.

However, we strongly disagree with using external governance structures and we see this as a dangerous standard to mandate across all benchmarks. As explained in our introductory comments, MSCI Global Equity Indices are used by many different types of financial institutions for many different purposes. These entities are parties that could benefit directly from index methodological changes and index rebalancings, especially if they have products linked to the indices. MSCI has staffed its four index governance committees exclusively with MSCI employees specifically to prevent outside influence and conflicts of interest from being introduced into the MSCI index calculation or maintenance processes. Staffing the index committees with MSCI employees ensures that committee members are inside the MSCI Chinese walls and subject to employee trading policies, thus removing any conflicts of interest for committee members. Further, this ensures that market sensitive data is not disclosed to third parties.

Accountability

11. Should the Submitters establish accountability procedures to assess their compliance with operational standards and scrutiny of Benchmark submissions?

This question seems largely focused on the situations where panel or survey data or estimates are being submitted. That kind of data and the procedures relating to that kind of data should be distinguished from observable transactions data provided by data providers and publicly available data sourced from public sources. It is unclear what these procedures, standards and scrutiny would achieve in the context of observable market transactions provided by data providers and publicly available data sourced from public sources, that is verifiable and used for purposes other than submission to a benchmark. Adding additional obligations will increase costs and introduce delays into the benchmark calculation and maintenance process.

12. *Are the measures discussed in the Consultation Report (e.g. Audit Trail, external audits and requirement for regulatory cooperation) sufficient to ensure the accountability of Submitters? Should additional mechanisms be considered?*

Again, this question seems largely focused on the situations where panel or survey data or estimates are being submitted. That kind of data and the procedures relating to that kind of data should be distinguished from observable transactions data provided by data providers and publicly available data sourced from public sources. It is unclear what these procedures, standards, scrutiny and audits would achieve in the context of observable market transactions provided by data providers and publicly available data sourced from public sources, that is verifiable and used for purposes other than submission to a benchmark. Adding additional obligations and mandating audits will increase costs and introduce delays into the benchmark calculation and maintenance process.

13. How frequently should Submitters be subject to audits? Should these be internal or external audits?

Again, this question seems largely focused on the situations where panel or survey data or estimates are being submitted. That kind of data and the procedures relating to that kind of data should be distinguished from observable transactions data provided by data providers and publicly available data sourced from public sources. It is unclear what audits would achieve in the context of observable market transactions provided by data providers and publicly available data sourced from public sources, that is verifiable and used for purposes other than submission to a benchmark. Mandating external audits will increase costs and introduce delays into the benchmark calculation and maintenance process.

Accountability of the Administrator

14. *Are the measures discussed in the Consultation Report (e.g., complaints process, Audit Trail, external audits and requirement for regulatory cooperation) sufficient to ensure accountability of the Administrator? Should additional mechanisms be considered?*

Again, we question whether there is evidence of a need for regulation in this area when it comes to equity benchmark administrators.

Having said that, questions that MSCI receives about specific index components (e.g., why a stock was included in or excluded from an index, the handling of a corporate event, etc.) are handled through an established corporate query process. General questions that MSCI receives about the MSCI Global Equity Indices, equity index methodologies or any other MSCI products are supported by a client services team that responds to email and telephone queries from around the world on a 24x5 basis.

With respect to documentation requirements, we are unclear what needs to be documented where data inputs are observable transactions data provided by data providers and publicly available data sourced from public sources, instead of “submissions” that are “assessed”. It is unclear what documentation requirements would achieve in the context of observable transactions data provided by data providers and publicly available data sourced from public sources, that is verifiable and used for purposes other than submission to a benchmark. As mentioned above, adding additional obligations will increase costs and introduce delays into the benchmark calculation and maintenance process.

With respect to external audits, it is unclear what such audits would achieve, if there are strong internal governance structures in place and observable transactions data and publicly available is used to calculate indices. Mandating external audits will increase costs and introduce delays into the benchmark calculation and maintenance process. It may also introduce risk, if third parties have access to market sensitive data.

15. If recommended, how frequently should Administrators be subject to audits? Should these be internal or external audits?

If there are strong internal governance structures in place and observable transactions data and publicly available is used to calculate indices, it is unclear what such audits would achieve. Mandating external audits will increase costs and introduce delays into the benchmark calculation and maintenance process. It may also introduce risk, if third parties have access to market sensitive data.

16. Is public self-certification of compliance with industry standards or an industry code another useful measure to support accountability? This approach might also contemplate explanation of why compliance may not have occurred. If so, what self-certification requirements would make this approach most reliable and useful to support market integrity.

We are not aware of any issues of confidence or integrity with respect to those equity benchmark administrators that make their methodologies publicly available and use observable transactions data or publicly available data for benchmark calculation.

Equity benchmark administrators who calculate indices for broad usage, such as MSCI, already have principles and structures in place. This is demanded by the market and by clients. Publicly available methodologies, rigorous calculation processes and robust governance structures are key features of equity benchmark calculation.

If industry codes were to be established, they would need to be at a high enough level to respect the different types of benchmarks, asset classes and business models, as well as the intellectual property rights of the benchmark owner.

Code of conduct for Submitters

17. The Consultation Report discusses elements of a code of conduct for Submitters. Are the measures discussed (e.g., adequate policies to verify submissions, record management policies that allow the Submitter to evidence how a particular submission was given, etc.) sufficient to address potential conflicts of interest identified or do you believe that other control framework principles should be added?

As discussed above, we do not believe that "Submitters" should include suppliers of observable transactions data and publicly available data. For that reason, we do not believe that this suggestion is applicable in the equity benchmark context. As discussed above, a benchmark administrator to only take data from a stock exchanges or other data providers from around the world who has signed a code of conduct (particularly when they are not required to do so), would add unnecessary cost, delay and risk into the benchmark calculation process.

18. What would be the key differences in the code of conduct for Benchmarks based on different input types, for example transactions, committed quotes and/or expert judgement?

Where observable transactions data and publicly available data is used in benchmark calculation, it is unclear what advantage any supplier codes of conduct would introduce and what they would achieve.

Chapter 3

Approaches to enhanced oversight

19. What are the advantages and disadvantages of making Benchmark submissions a regulated activity?

As discussed above, we do not believe that "Submitters" should include suppliers of observable transaction data and publicly available data and we do not believe this should be a regulated activity. Because observable transactions data are independently verifiable and published for uses outside benchmark calculation, we believe that regulating all data, strictly out of concerns regarding estimated input data, is overbroad. We believe that the costs and delays associated with any such regulation outweigh any benefits.

20. *What are the advantages and disadvantages of making Benchmark Administration a regulated activity?*

In theory, regulation could improve confidence, credibility and integrity where there are issues of confidence and integrity. However, we are not aware of confidence, credibility or integrity issues with respect to equity benchmarks.

Where confidence, credibility or integrity issues do not exist and where equity benchmark administrators make their methodologies publicly available, use observable transactions data and publicly available data, the introduction of regulation introduces unnecessary costs, delays and uncertainties into the equity benchmark production process.

Establishing regulation that is too granular and focused primarily on one particular slice of the benchmark industry, will have unintended consequences and will negatively impact, not only the rest of the benchmark administrators, but also their clients, other market participants and ultimately investors.

Further, if in addition to additional costs and delays, overregulation or mismatched regulation threatens the equity benchmark administrators' rights to protect their intellectual property or damages their business models, equity benchmark administrators may be forced to retreat from the market or a part of the market. If that happens, there will be a reduction of benchmarks and benchmark administrators, which will reduce competition. This, in turn, will reduce the choices for investors.

Additionally, as explained above, because equity benchmarks have many other uses other than being the bases of financial products , there will be knock on effects on those other market users/uses, worldwide.

Finally, multiple regulatory regimes with different standards and/or conflicting provisions will create confusion in an increasingly global marketplace.

21. Do you agree with the factors identified for drawing regulatory distinctions? What other factors should be considered in determining the appropriate degree of oversight of Benchmark activities (discussed in Chapter 3)? Please provide specific recommendations as to how the distinctions discussed in Chapter 3 should inform oversight mechanisms.

We agree that a one-size-fits-all solution will not work across benchmarks. Any regulation should address the issues of confidence, credibility and integrity. The issues with LIBOR, in particular the conflicts of interest and opportunities for manipulation, are readily apparent and are clearly distinguishable from equity benchmarks where actual markets transaction data and publicly available data is used and where methodologies are publicly available. We do not believe the application of rules to address LIBOR-type issues should be applied across all benchmarks.

Equity benchmarks are used for many different purposes by many different types of financial institutions worldwide. Regulating equity benchmarks by types of usage may require equity benchmark administrators to adapt to the regulation across all of their indices. Regulating benchmarks in the context of type of client using the benchmark will create confusion in the market and impact other uses by other client types.

The fact that a unit inside a regulated entity produces a benchmark is not a reason to either i) regulate unregulated benchmark administrators or ii) exempt such a unit from any regulation that might be imposed on benchmark administrators in that capacity.

22. What distinctions, if any, should be made with regard to Benchmarks created by third parties and those created by regulated exchanges?

Benchmarks covering the same asset classes compete against each other. The fact that a unit inside a regulated entity produces a benchmark is not a reason to either i) regulate unregulated benchmark administrator or ii) exempt such a unit from any regulation that might be imposed on benchmark administrators in that capacity.

23. Assuming that some form of enhanced regulatory oversight will be applied to an asset class Benchmark, should such enhanced oversight be applied to the Submitters of data as well as the Administrator?

As we have said previously, we do not think that providers of observable transactions data and publicly available data "submit" data in the way that concept is used in the IOSCO Financial Benchmarks Consultation Report. Moreover, we think that regulation should address issues of confidence, credibility and integrity only to the extent that they exist, and we are unaware of those types of issues with respect to the data used in equity benchmarks. Finally, if there were such issues, we think it would be most appropriate for IOSCO to address the solutions to the exchanges and other public data creators directly rather than through the regulation of benchmark administrators.

24. What are the considerations that should be taken into account if the Submitters to a Benchmark operate in an otherwise unregulated market (e.g., physical oil, gold or agricultural commodity markets) and are not otherwise under any obligation to submit data to an Administrator?

We will not comment on this question as it does not apply to equity benchmarks.

25. Do you believe that a code of conduct, either on its own or in conjunction with other measures outlined within the report, would provide sufficient oversight to mitigate the risks that have been identified in Chapter 2? What measures should be established in conjunction with a code of conduct? For which Benchmarks is this approach suitable?

At a high level, we believe that principles for benchmark calculation are important. That is the reason that equity benchmark administrators who calculate indices for broad usage, such as MSCI, already have principles and structures in place. This is demanded by the market and by clients. Publicly available methodologies, rigorous calculation processes and robust governance structures are key features of our equity benchmarks.

For MSCI, it is the integrity of its principles and structures that form the basis of the MSCI brand. In calculating and maintaining MSCI Global Equity Indices, MSCI uses robust rules-based methodologies that are available on www.msci.com, with governance structures including Chinese Walls, employee trading policies and, four different index committees that supervise the production and maintenance of MSCI Global Equity Indices. We produce high quality indices, publish high quality research and provide our clients with 24x5 client services support. These are the reasons clients use MSCI Global Equity Indices.

Because these principles and structures already exist typically for equity benchmarks and because equity benchmarks use observable transactions data and other public data, we do not believe that developing separate codes of conduct through regulation is necessary in the equity benchmark space.

Additionally, we are concerned that establishing codes of conduct that are too granular and focused primarily on one particular slice of the benchmark industry, will have unintended consequences and will negatively impact, not only the rest of the benchmark administrators, but also their clients, other market participants and ultimately investors.

26. What other measures outlined in the report, if any, should apply in addition to a code of conduct? If you believe a code of conduct, either on its own or in conjunction with other measures outlined within the report, would provide sufficient oversight to mitigate the risks that have been identified in Chapter 2, what type of code of conduct should apply (e.g., a voluntary code of conduct, an industry code of conduct submitted to and approved by the relevant Regulatory Authority, a code of conduct developed by IOSCO, etc.)?

Please see our comments to Question 26. If a code of conduct is suggested, we believe that adherence should be voluntary.

27. Do you believe that the creation of a Self-Regulatory Organisation (.e.g., one that exercises delegated governmental powers) and itself subject to governmental oversight, whether or not in conjunction with industry codes is a viable alternative for sufficient oversight and enforcement to mitigate the risks that have been identified in Chapter 2? For which Benchmarks is this approach suitable? What if any complementary arrangements might be necessary, such as new statutory obligations or offences for Administrators and/or Submitters?

Please see our comments to Question 26.

28. Do you believe that, for some Benchmarks, reliance upon the power of securities and derivatives regulators to evaluate products that reference a Benchmark or exercise their market abuse or false reporting powers creates sufficient incentives for the Administrator to ensure sure that Submitters comply with a code of conduct?

Please see our comments to Question 23.

29. Do you believe that users of a Benchmark, specifically, the users who are regulated or under the supervision of a national competent authority should have a role in enhancing the quality of Benchmarks? Which form should this role take: on a voluntary basis (e.g. the user being issued a statement that will only use Benchmarks that follow IOSCO principles), or on a compulsory basis (e.g., the competent authority could request that users who are registered under their jurisdiction should only use Benchmarks that fulfil IOSCO principles)?

Please see our comments to Question 10.

Chapter 4

Data sufficiency

30. Do you agree that a Benchmark should be anchored by observable transactions entered into at arm's length between buyers and sellers in order for it to function as a credible indicator of prices, rates or index values? How should Benchmarks that are otherwise anchored by bona-fide transactions deal with periods of illiquidity due to market stress or long-term disruption?

Whether observable transactions data can be used will depend on the type benchmark and the asset class being measured. Observable transactions may not be available for certain types of benchmarks so appropriate proxies may need to be used instead.

For equity benchmarks, observable transactions data (such as prices) are used, but equity benchmarks are not calculated using just prices.

As described above, MSCI uses prices as well as other observable transactions data and public market data that is available and licensed from third party market data providers. Such market data includes the numbers of shares, corporate actions, fundamental company data, dividends, exchange rates, forward rates, measures of liquidity such as trading volumes, percentage of shares available for sale to international investors (free float), etc. Fundamental company data (such as revenues, earnings numbers and the identities of shareholders) may be sourced from publicly available company annual reports and other publicly available company filings. Revenues, earnings numbers and the identities of shareholders are not necessarily observable "transactions" but they are public available data points.

Use of valid types of data should not unnecessarily or inadvertently restricted.

Please see our comments to Question 6 above regarding periods of illiquidity due to market stress or long-term disruption.

31. Are there specific Benchmarks for which you consider that observable transactional data is not an appropriate criterion or the sole criterion? If so, please provide a description of such Benchmarks and what value you think such Benchmarks provide?

What data is used ultimately depends on what the benchmark is measuring. For example, benchmarks for private asset classes such as private real estate may need to rely on valuations as transactional data may be unavailable. Such benchmarks could still provide valuable information to investors as they would enable them to conduct asset allocation and performance analysis by comparing their own investments against a broader representation of the entire asset class.

32. What do you consider the limitations or value in Benchmarks referencing asset classes and underlying interests where there is limited liquidity? Please describe the uses and value of such Benchmarks in the financial markets.

Please see our response to Question 31 above as an example.

33. Do you agree that the greatest weight should be given to transactions in the construction of a Benchmark and that non-transactional information should be used as an adjunct (e.g., as a supplement) to transactions?

Where observable transactions exist, we believe it would be preferable to use it but it may not exist in all instances or be available at a reasonable cost. Further, some data used does not constitute "transaction" data. Company revenues sources from public company filings do not constitute "transactions" but they are still valid data points. Use of valid types of data should not unnecessarily or inadvertently restricted.

34. What factors and how often should Administrators (or others) consider in determining whether the market for a current Benchmark's underlying interest is no longer sufficiently robust? What effective methods of review could aid in determining the insufficiency of trading activity within the market for a Benchmark's underlying interest?

The answer to this question depends on the market and the type of benchmark being used. Some markets have lower liquidity in general than others, e.g., commercial real estate versus developed market equities or developed market equities versus frontier market equities. A well constructed benchmark methodology will acknowledge liquidity levels as a factor affecting a product's ability to replicate a benchmark and will take that into account in the structure of the benchmark. MSCI systematically screens all stocks for liquidity across all MSCI Global Equity Indices and the details can be found in our equity index methodologies on www.msci.com.

Transition

35. What precautions by Benchmark Administrators, Submitters, and users can aid Benchmark resiliency during periods of market stress, mitigating the potential need for market transition?

We believe that a well constructed benchmark will be based on a methodology that includes rules that address situations when liquidity disappears (e.g., when the market is shut down and/or where there is no trading). For example, we have provisions in our equity index methodologies (available on www.msci.com) for removing constituents following lengthy suspensions or removing country indices from global composites following imposition of flow restrictions or other investability impediments.

However, if an equity benchmark administrator must shut down a benchmark completely (for example if a stock exchange terminates its contract to provide price data to the equity benchmark administrator), then the financial institution using that benchmark as the basis of a financial product will need identify the process for replacing the benchmark in the prospectus.

36. What elements of a Benchmark "living will," drafted by a Benchmark Administrator, should be prioritised?

Please see our comments to Question 35 about equity benchmark calculation in times of market stress.

Additionally, we do not believe the "living will" is applicable to equity benchmarks. The equity benchmark industry is highly competitive. Many different equity benchmark administrators calculate benchmarks measuring the same opportunity sets. For example, MSCI calculates the MSCI UK Index, and many other benchmark administrators will have UK indices but calculated according to their specific methodologies. That applies across countries, regions, sectors, small cap, large cap, etc.). Clients are able to, and do, switch equity benchmark administrators.

37. By what process, and in consultation with what bodies, should alternatives be determined for Benchmark replacement?

Please see our comments to Question 36. In the equity benchmark industry, there is no single standard. There are multiple benchmark administrators calculating benchmarks measuring the same opportunity sets, but according to their individual methodologies. The industry is highly competitive and is made up of different types of benchmark provides. Some are independent, such as MSCI. Some are part of asset managers. Some are part of stock exchanges. Some are part of banks, etc.

38. What characteristics should be considered when determining an appropriate alternate Benchmark? (Examples below) Should any of these factors be prioritised?

- *Level and Type of Market Activity*
- *Diversity/Number of Benchmark Submitters*
- *Length of historical price series for the Benchmark alternative*
- *Benchmark Methodology*
- *Existing regulatory oversight*
- *Existing enforcement authority*
- *Volume, tenors and contract structure of the legacy trades*

Please see our comments to Question 36. The equity benchmark industry is highly competitive, and clients can choose what is most important with respect to their investment objectives, etc. when choosing a benchmark.

39. What conditions are necessary to ensure a smooth transition between market Benchmarks?

Please note our comments on Questions 36 and 37. With respect to clients switching equity benchmarks, there are two main issues with respect to financial products linked to equity benchmarks

1. Turning over the portfolio to represent the new benchmark, which will create trading cost, and potentially have an impact on the prices of the underlying assets if the size is relatively large compared to underlying liquidity – this can be mitigated by providing a long lead time, a window in which to complete the transition and potentially interim benchmarks that represent the move between benchmarks in stages.
2. Financial institutions will need to inform investors and edit documentation and approvals for the investment vehicle. In many cases it will not be possible to alter the benchmark without going through a process to confirm this change is the best choice for investors and inform them of such.

40. What considerations should be made for legacy contracts which reference a Benchmark in transition? To what extent does a substantive legacy book preclude transition away from a Benchmark? What provisions can be included in [new and existing] contract specifications which would mitigate concerns if and when a Benchmark transitions occurs?

MSCI does not have detailed information about the contracts for particular products based on MSCI Global Equity Indices.

41. How should a timeframe be determined for market movement between a Benchmark and its replacement? What considerations should be made for:

- *Altered regulatory oversight?*
- *Infrastructure development/modification?*
- *Revisions to currently established contracts referencing the previous Benchmark?*
- *Revisions to the Benchmark Administrator?*
- *Risk to contract frustration*

Please note our comments on Questions 36, 37 and 39. With respect to clients switching equity benchmarks, considerations should be made for the size of transactions on the benchmark, the movement in underlying assets (trading) that will need to take place potentially, the time it will take in normal markets to absorb this level of trading without having a large price impact on the market. For example, if a country moves from the MSCI Emerging Markets Index to the MSCI Developed Markets Index, all those funds holding positions in either of the indices may have to trade significant amounts of capital into or out of that particular country's equity markets, and should have sufficient time to do this without disruption or front running of their positions by others in the market. Interim indices can be created to allow for this if necessary.

Allowance should also be made to revise existing contracts, and for a potential new benchmark administrator to reliably test mechanisms to calculate and distribute the benchmark without fault.

Definitions:

- We believe the use of "administrator" is an awkward in terms of equity indices, which is a large part of the financial index industry. The benchmark "owner" is the party that is generally fully responsible for all aspects of data collection and index calculation, licensing and distribution. The benchmark owner may outsource aspects (such as distribution by using distributors or calculation by a calculation agent), but by and large, the benchmark owner is fully responsible for the indices. Further, the benchmark owner owns the intellectual property in the indices and is not just "administering" the index. The term "administrator" completely misses this very important point. Those that calculate benchmarks and don't own the benchmark are differently placed than those who own the benchmark.

- We believe the term "benchmark setting" is awkward, unclear and confusing with respect to equity benchmarks. Equity benchmark administrators do not "set" the benchmark performance levels. Equity benchmark administrators calculate the index performance based on many data inputs and the application of their complex methodologies. MSCI uses observable transactions data (e.g., prices) and publicly available data (e.g., company earnings, revenues and identities of shareholders from company reports) and applies its rules based methodologies. MSCI does not "set" any benchmark performance levels.

- We believe "Submitter" should exclude entities that supply observable transactions data, such as stock exchanges providing prices. It's also unclear whether companies who post data in their public filings (e.g. as revenues earnings and identities of shareholders) which is later used in benchmark calculation, would be considered "Submitters". We do not think they should be.

- We believe the reference to “used to inform the Benchmark” in the definition of Market Participants is unclear with respect to equity benchmarks.

- The definition of “Methodology” includes a data collection aspect. For equity benchmarks, data is based on observable market transactions licensed from stock exchanges and data providers, often provided as part of datafeeds with many data points, loaded into production systems. Other data points (such as company revenues, earnings and identities of shareholders) are sourced from public company filings. For equity benchmarks, data collection does not seem applicable in a methodology. We believe the equity index methodologies should include clear descriptions of the objective of the index as well as the calculation methodology/rules.

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MSCI Inc. is a leading provider of investment decision support tools to investors globally, including asset managers, banks, hedge funds and pension funds. MSCI products and services include indices, portfolio risk and performance analytics, and governance tools.

The company's flagship product offerings are: the MSCI indices with close to USD 7 trillion estimated to be benchmarked to them on a worldwide basis[1]; Barra multi-asset class factor models, portfolio risk and performance analytics; RiskMetrics multi-asset class market and credit risk analytics; IPD real estate information, indices and analytics; MSCI ESG (environmental, social and governance) Research screening, analysis and ratings; ISS governance research and outsourced proxy voting and reporting services; FEA valuation models and risk management software for the energy and commodities markets; and CFRA forensic accounting risk research, legal/regulatory risk assessment, and due-diligence. MSCI is headquartered in New York, with research and commercial offices around the world.

[1]As of March 31, 2012, as published by eVestment, Lipper and Bloomberg in September 2012