

June 6, 2024

Amy Borrus  
Executive Director  
Council of Institutional Investors

By Email: [james@cii.org](mailto:james@cii.org)

Dear Ms Borrus,

### **Consultations on changes to benchmark methodologies**

Thank you for your letter of April 10, 2024, regarding the Statement on Index Provider Consultation Processes (“the Statement”). As an affiliate member of the Council of Institutional Investors (“CII”), MSCI Inc. (“MSCI”) recognizes the important work that CII undertakes in promoting corporate governance best practice in companies.

### **MSCI’s role as a benchmark administrator**

Benchmark administrators have a clearly defined and limited role in the investment industry: to develop index methodologies, apply the methodology, calculate the associated indexes, and license that information to market participants to use for a variety of purposes, including performance benchmarking, research and financial product creation. Market benchmarks are not a public utility but rather a commercially licensable product designed to measure the market, or a part thereof.

### **Market consultations inform benchmark administrators but the market does not administer benchmarks**

Markets are complex and market participants are diverse. Structured dialogues between benchmark administrators and the market provide essential feedback for increasing transparency, providing access to information, fueling innovation and ensuring the on-going relevance of indexes. In addition, public consultations give the market the lead time they need to fully evaluate potential benchmark changes and their implications. MSCI engages with market participants on our index methodologies to ensure that the methodologies remain relevant and are informed by an understanding of the market. However, ultimately the decision-making and the administration of benchmarks remains the responsibility of the benchmark administrator.

In your letter you have highlighted 4 core practices that your committee recommends and requested MSCI's views. We address each practice in turn below noting that we swapped the order of the last 2 practices to allow for an easier flow to our response:

1. Notice of the consultation should be broadly disseminated, such as through a press release

As you highlight in your letter, upon a proposal for a material change to an index methodology, MSCI will conduct a public consultation. MSCI announces the consultation through msci.com and the announcement is widely distributed through multiple channels, including external vendors, and directly to MSCI's clients. Broad dissemination to our clients impacted by a methodology does not require a public press release.

2. The consultation period should be in line with the 30-to-90-day comment period for federal regulations

The length of a consultation for a material change to an index methodology is clearly communicated as part of the consultation process. Methodology changes are generally announced at least 30 days prior to their implementation. However, there may be specific circumstances, such as an unexpected event, which require a shorter consultation period to allow a benchmark administrator to respond to market developments in a timely manner. For example, given the rapid and severe market developments following the Russia/Ukraine situation in early 2022, MSCI sought feedback on how to appropriately treat the Russian equity market within MSCI indexes, considering options up to and including a potential reclassification to Standalone Markets status. The urgency of the situation, with the rapid market accessibility deterioration, required a shorter-than-usual consultation period with market participants.

Therefore, the nature of the methodological change and the context for the change should determine the consultation period. An arbitrary minimum or maximum fixed comment period is likely to undermine the quality, and relevance, of the market feedback.

3. Confidential submissions should be discouraged, and exceptions to the public posting of comments should be narrowly interpreted

MSCI indexes aim to accurately and objectively measure the performance of a market or economic reality as represented by the investment opportunity set based on, for example, a market or market segment. MSCI, as the benchmark administrator, is responsible for administering its benchmarks. While we routinely conduct public consultations, we do not administer our benchmarks through public consultation. This is partly to ensure that our benchmarks are administered with the necessary integrity and independence. MSCI has

developed extensive governance arrangements designed to identify and to prevent or effectively manage conflicts of interest in the administration of our benchmarks and as a regulated benchmark administrator, we are supervised by the Financial Conduct Authority in the United Kingdom and the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) in Germany.

While MSCI actively seeks engagement with the market as a valuable input into the administration of our benchmarks, a commitment to publish all consultation responses would have a chilling effect on the willingness of market participants to engage in a fulsome discussion with benchmark administrators. Many clients have told us that a condition to participating in the consultation is that their views remain confidential. By reducing market engagement, there is a real risk of damaging the quality and relevance of indexes.

Where a contributor requests that a written submission be published, we may include that submission in our publication of the outcome of the consultation.

4. Each response letter should be posted in a timely manner, such as within one week of receipt, excepting responses with reasonable requests for confidentiality

It is important to MSCI that feedback is obtained from the most appropriate market participants for any consultation. MSCI collects feedback from market participants in a variety of formats including from in-person meetings, calls, mails, surveys, etc. We may also actively source views from clients or other specific stakeholders (e.g., stock exchanges, market regulators and other regulatory agencies). A requirement to publish non-confidential responses to the consultation within one week would not be feasible in all instances and could arbitrarily give greater prominence to responses that happen to be submitted in writing and earlier than others.

We trust that the information above provides you with an overview of the relevant aspects of the administration of our benchmarks and why a default process of publishing all responses to consultations will not be feasible and may impair the quality of responses and, accordingly, our indexes. Further, the independence required of benchmark providers under the IOSCO Principles for Financial Benchmarks extends to how a benchmark provider determines to conduct consultations based on its judgment regarding the particular methodology change, the relevant index, the uses of that index, the affected clients and the nature of the facts and circumstances triggering the proposed change. We have also not received feedback from our clients that our consultation process needs any revision.

MSCI values market engagement in our index methodology review process and remains committed to providing sufficient time for market participants to meaningfully assess, and respond to, material amendments to our index methodologies through our public consultation processes.

We are available at your convenience if you would like to discuss this matter in more detail.

Yours sincerely,

*Neil Acres*

**Neil Acres**  
**Managing Director**  
**Global Head of Government and Regulatory Affairs**