



Implications of the Removal of Russia From MSCI Indices

Russian shares to be removed from MSCI indices due to market accessibility issues.

March 2022

What has happened?

MSCI announced that it would remove Russian securities from its indices after markets close on Wednesday, March 9, at a price “that is effectively zero.”

This followed consultation with a number of market participants and was made in direct response to the difficulties of market accessibility.

The action has implications for investments that track several MSCI indices, including the MSCI Emerging Markets Index.

Why has Russia been removed from the indices?

Since the invasion of Ukraine, the Russian equity market has become largely uninvestable following a range of Western sanctions and the Russian central bank’s curbs on foreign exchange movements abroad.

Russia’s links with global financial markets were effectively cut with its foreign reserves frozen, while Russian capital controls and a ban on foreigners selling securities locally prevented international investors from exiting the market.

Market accessibility criteria is no longer being met because of the closure of the local market and the trading halt on Global Depositary Receipts (GDR)/ American Depositary Receipts (ADR) securities (stock equivalents traded in foreign currencies). It is also due to clearing and settlement issues, accessibility of the foreign exchange market, and issues with capital inflows and outflows resulting from Russia’s capital controls on foreign investors.

What does it mean for strategies that track the index?

The move will not create any immediate further pressure on Russian equities because trading remains frozen on the local market and for trading in GDR/ ADR securities.

Even if the local market were to reopen, foreign investors are likely to remain banned from trading as long as Russia maintains capital controls.

T. Rowe Price has several global and regional emerging market strategies that have MSCI index benchmarks. We are currently evaluating the longer-term impact on valuations of the securities held in the portfolios and our ability to trade those positions.

Has this type of country removal happened before?

Local markets in Egypt and Nigeria have also seen local markets closed for an extended period in the past. However, MSCI maintained the countries in its indexes. There are two key differences compared with the current scenario with Russia:

- The accessibility issue is more severe and likely to be longer term.
- Russia's significance is much bigger given its higher weight in the index than both countries.

What are the potential next steps?

Any decision to reclassify Russia again in the future will be based on

developments around the conflict and market participants' feedback.

Even if the local market opens, it is only likely to be for local investors as Russia seeks to avoid foreign exchange outflows and protect the ruble. We expect that tradability for foreign investors will remain constrained.

What matters most in the longer term is any timetable for capital controls being lifted by Russia and the West. This will likely be dependent on any negotiations to de-escalate the conflict that could lead to the unfreezing of central bank reserves, alongside any action on sanctions on the central bank and access to the SWIFT payments system.

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