

MSCI mulls caps on EMs including India

Last week, MSCI Inc., a widely-tracked global index provider said it is considering placing some emerging markets including India on notice for limiting investor access. Here is an explainer on what it is all about:

What is MSCI?

It is the world's biggest index compiler, with more than \$10 trillion in assets benchmarked to its products, with emerging markets alone accounting for \$2 trillion.

Why are MSCI indices important?

The indices are closely tracked by global investors. Inclusion in MSCI Inc.'s stock indices opens up investment interest from foreign investors in a particular country and brings a stamp of financial credibility.

Why has MSCI put India on notice?

MSCI said it is placing emerging markets including India and Brazil on notice for limiting investor access. For instance, MSCI has cited the fact that international investors face a lengthy and burdensome mandatory registration process with the market regulator, the Securities and Exchange Board of India (SEBI) .

In February, the National Stock Exchange of India (NSE) barred foreign bourses from trading in Nifty derivatives.

NSE and Singapore Exchange Ltd. are in a legal tussle over the issue. MSCI has expressed concerns over the dispute.

"It is expected that stock exchanges, which often have legal or natural monopolies, should not impose clauses in their provision of stock market data," MSCI said. "The existence of these types of practices will lead to a negative assessment," it added.

What next on the issue?

MSCI said India and Brazil, along with Turkey and South Korea, are potential future examples of markets whose weights could be capped in its indices.

MSCI said it will now consult its clients and announce the results by December 31.

What happens if MSCI caps India's weightage?

India currently has a weightage of 8.3% in the MSCI Emerging Markets Index. The weightage, which was 8.48% till last month, came down slightly following the partial inclusion of China A-shares on May 31.

Since it is a widely tracked index, any changes in weightage would affect inflows from foreign investors.

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