ADR : American Depositary Receipt

Note: All the blue coloured words are linked to web-pages

An American Depositary Receipt (or ADR) represents ownership in the shares of a foreign company trading on US financial markets. The stock of many non-US companies trades on US exchanges through the use of ADRs. ADRs enable US investors to buy shares in foreign companies without undertaking cross-border transactions. ADRs carry prices in US dollars, pay dividends in US dollars, and can be traded like the shares of US-based companies.

Each ADR is issued by a US depositary bank and can represent a fraction of a share, a single share, or multiple shares of foreign stock. An owner of an ADR has the right to obtain the foreign stock it represents, but US investors usually find it more convenient simply to own the ADR. The price of an ADR is often close to the price of the foreign stock in its home market, adjusted for the ratio of ADRs to foreign company shares.

Depository banks have numerous responsibilities to an ADR holder and to the non-US company the ADR represents. The first ADR was introduced by JPMorgan in 1927, for the British retailer Selfridges&Co. The largest depositary bank is the Bank of New York Mellon.

Individual shares of a foreign corporation represented by an ADR are called American Depositary Shares (ADS).

Types of ADR programs

When a company establishes an American Depositary Receipt program, it must decide what exactly it wants out of the program and how much they are willing to commit. For this reason, there are different types of programs that a company can choose.

Unsponsored shares

Unsponsored shares are ADRs that trade on the over-the-counter (OTC) market. These shares have no regulatory reporting requirements and are issued in accordance with market demand. The foreign company has no formal agreement with a custodian bank and shares are often issued by more than one depositary. Each depositary handles only the shares it has issued.

Due to the hassle of unsponsored shares and hidden fees, they are rarely issued today. However, there are still some companies with outstanding unsponsored programs. In addition, there are companies that set up a sponsored program and require unsponsored shareholders to turn in their shares for the new sponsored. Often, unsponsored will be exchanged for Level I depositary receipts.

Level I

Level 1 depositary receipts are the lowest sponsored shares that can be issued. When a company issues sponsored shares, it has one designated depositary acting as its transfer agent.

A majority of American depositary receipt programs currently trading are issued through a Level 1 program. This is the most convenient way for a foreign company to have its shares trade in the United States .

Level 1 shares can only be traded on the OTC market and the company has minimal reporting requirements with the U.S. Securities and Exchange Commission (SEC). The company is not required to issue quarterly or annual reports. It may still do so, but at its own discretion. If a company chooses to issue reports, it is not required to follow US generally accepted accounting principles (GAAP) standards and the report may show money denominations in foreign currency.

Companies with shares trading under a Level 1 program may decide to upgrade their share to a Level 2 or Level 3 program for better exposure in the U.S. markets.

Level II (listed)

Level 2 depositary receipt programs are more complicated for a foreign company. When a foreign company wants to set up a Level 2 program, it must file a registration statement with the SEC and is under SEC regulation. In addition, the company is required to file a Form 20-F annually. Form 20-F is the basic equivalent of an annual report (Form 10-K) for a U.S. company. In their filings, the company is required to follow GAAP standards.

The advantage that the company has by upgrading their program to Level 2 is that the shares can be listed on a U.S. stock exchange. These exchanges include the New York Stock Exchange (NYSE), NASDAQ, and the American Stock Exchange (AMEX).

While listed on these exchanges, the company must meet the exchange's listing requirements. If it fails to do so, it will be delisted and forced to downgrade its ADR program.

Level III (offering)

A Level 3 depositary receipt program is the highest level a foreign company can have. Because of this distinction, the company is required to adhere to stricter rules that are similar to those followed by U.S. companies.

Setting up a Level 3 program means that the foreign company is not only taking some of its shares from its home market and depositing them to be traded in the U.S. ; it is actually issuing shares to raise capital. In accordance with this offering, the company is required to file a Form F-1, which is the format for an Offering Prospectus for the shares. They also must file a Form 20-F annually and must adhere to GAAP standards. In addition, any material information given to shareholders in the home market, must be filed with the SEC through Form 8K.

Foreign companies with Level 3 programs will often issue materials that are more informative and are more accommodating to their U.S. shareholders because they rely on them for capital. Overall, foreign companies with a Level 3 program set up are the easiest on which to find information.

Restricted programs

Foreign companies that want their stock to be limited to being traded by only certain individuals may set up a restricted program. There are two SEC rules that allow this type of issuance of shares in the U.S. : Rule 144-A and Regulation S. ADR programs operating under one of these 2 rules make up approximately 30% of all issued ADRs.

144-A

Some foreign companies will set up an ADR program under SEC Rule 144(a). This provision makes the issuance of shares a private placement. Shares of companies registered under Rule 144-A are restricted stock and may only be issued to or traded by Qualified Institutional Buyers (QIBs).

No regular shareholders will have anything to do with these shares and most are held exclusively through the Depository Trust & Clearing Corporation, so the public often has very little information on these companies.

144-A shares may be issued alongside of a Level 1 program.

Regulation S

The other way to restrict the trading of depositary shares is to issue them under the terms of SEC Regulation S. This regulation means that the shares are not and will not be registered with any United States securities regulation authority.....

Regulation S shares cannot be held or traded by any “U.S. Person” as defined by SEC Regulation S rules. The shares are registered and issued to offshore, non-US residents.

Regulation S shares can be merged into a Level 1 program after the restriction period has expired.

Global Depository Receipt

From Wikipedia, the free encyclopedia

A Global Depository Receipt or Global Depositary Receipt (GDR) is a certificate issued by a depository bank, which purchases shares of foreign companies and deposits it on the account. GDRs represent ownership of an underlying number

of shares.

Global Depository Receipts facilitate trade of shares, and are commonly used to invest in companies from developing or emerging markets - especially Russia .

Prices of GDRs are often close to values of related shares, but they are traded and settled independently of the underlying share.

Several international banks issue GDRs, such as JPMorgan Chase, Citigroup, Deutsche Bank, Bank of New York. They trade on the International Order Book (IOB) of the London Stock Exchange.