Examrace

ADR and GDR Depositary Receipts: Commerce YouTube Lecture Handouts

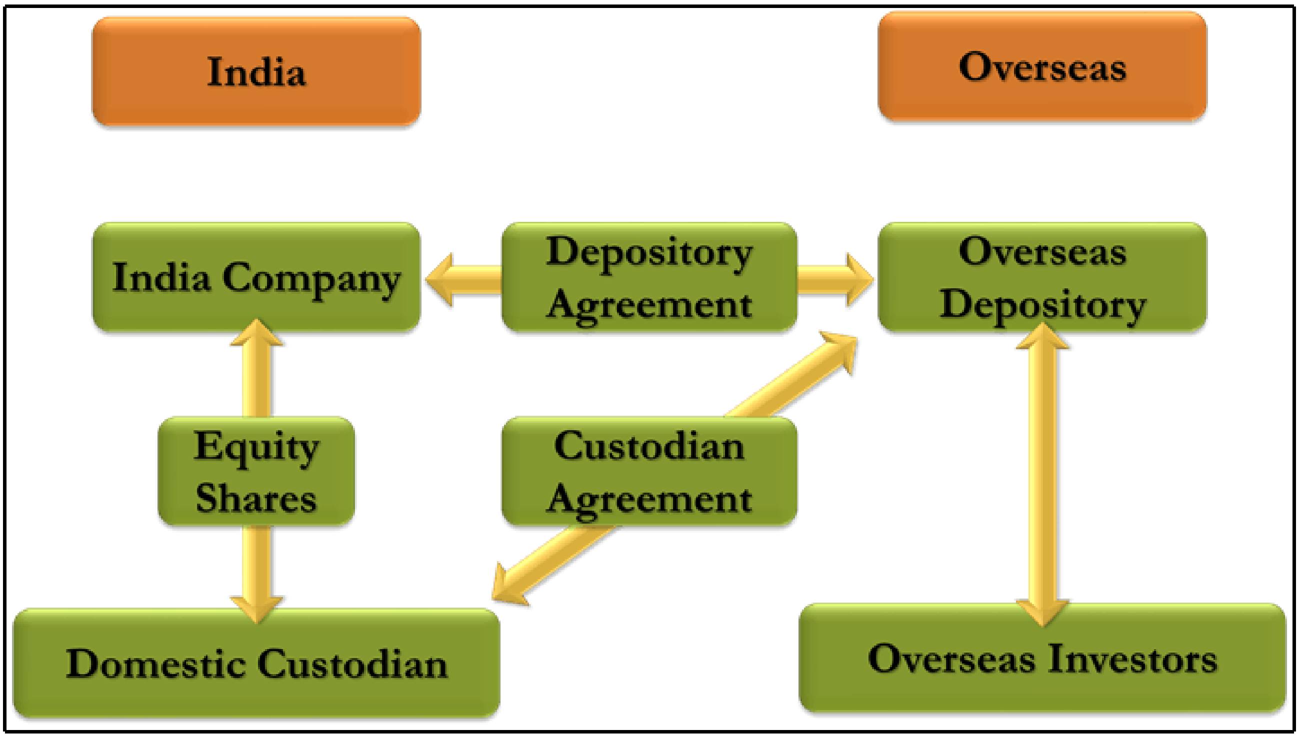
Topics to be covered

- What is a Depositary Receipts
- How depositary Receipts work
- How do DRs work
- Types of DRs General Classification
- Types of DRs Depending upon the location
- What are American Depository Receipts (ADRs) ?
- What are Global Depository Receipts (GDRs) ?
- Types of GDR
- Difference Between ADR and GDR
- Advantages and disadvantages of ADR and GDR

What is a Depositary Receipts?

A depositary receipt (DR) is a negotiable certificate issued by a bank representing shares in a foreign company traded on a local stock exchange. The depositary receipt gives investors an opportunity to hold shares in the equity of foreign countries and gives them an alternative to trading on an international market.

How Depositary Receipts Work



Types of DRs General Classification

- **Sponsored**: Under this type, there is a formal agreement between issuer country and foreign depository for creation or issue of D ₹
- **Unsponsored**: Under this type, there exists no formal agreement between the foreign depository and the issuer country.
- **Listed**: They are traded on organised exchanges.
- **Unlisted**: They are traded over the counter (OTC) between parties and are not traded on organised exchanges.

Types of DRs Depending Upon the Location

Depending upon the location in which DRs are issued, they are called as ADRs (American Depository Receipts) , IDR (Indian Depository Receipts) or in general as GDR (Global Depository Receipt) .

- **IDR**: An Indian Depository Receipt is an instrument denominated in Indian Rupees in the form of a depository receipt created by a Domestic Depository (custodian of securities registered with the Securities and Exchange Board of India) against the underlying equity of issuing company to enable foreign companies to raise funds from the Indian Securities Markets.
- **ADR**: A certificate issued in the United States in lieu of a foreign security. The original securities are lodged in Bank/Custodian abroad, and the American Depository Receipts (ADRs) are traded in the US for all intents and purposes as if they were a domestic stock.
- **GDR**: Any instrument in the form of a depository receipt or certificate created by the Overseas Depository Bank outside India. It issued to non-resident investors against the issue of ordinary shares or Foreign Currency Convertible Bonds of issuing company.

What Are American Depository Receipts (ADRs) ?

- American Depository Receipt (ADR) is a certified negotiable instrument issued by an American bank suggesting the number of shares of a foreign company that can be traded in U. S. financial markets.
- American depository receipt (ADR) , has been offering companies, investors and traders global investment opportunities since the 1920s.
- American Depository Receipts (ADRs) offer US investors a means to gain investment exposure to non-US stocks without the complexities of dealing in foreign stock markets. They represent some of the most familiar companies in global business, including household names such as Nokia, Royal Dutch Petroleum (maker of Shell gasoline) , and Unilever. These and many other companies based outside the US list their shares on US exchanges through AD ₹

What Are Global Depository Receipts (GDRs) ?

- GDRs are similar to ADRs except the fact that it is listed on an exchange outside the U. S. and helps the issuer to raise funds simultaneously in different markets i.e.. it allows the foreign firms to trade on the exchange outside its home country.
- These shares are held by a foreign bank who provides depository receipts to these companies in return for the shares.

Types of GDR

RULE 144A GDRs

These GDRs are those which operate through the rule 144A of the Securities Exchange Commission (SEC) of the US. This rule allows non-American companies to trade and raise capital in the American Markets.

It also makes these GDRs a cheaper alternative to raise capital from American markets than Level III AD ₹

Regulation S (REG S) GDRs

These GDRs are those which help non-American companies raise funds and establish a trading presence in the European markets only. These GDRs usually trade on the London or Luxembourg

Stock Exchange only, and are popularly known as Reg S GD ₹ Only non-American investors can trade in Reg S GD ₹

A company can issue both Reg S and Rule 144A GDRs, but they will be subject to different laws.

Difference between ADR and GDR

Basis For Comparison	ADR	GDR
(1) Acronym	American Depository Receipt	Global Depository Receipt
(2) Meaning	ADR is a negotiable instrument issued by a US bank, representing non-US company stock, trading in the US stock exchange.	GDR is a negotiable instrument issued by the international depository bank, representing foreign company's stock trading globally.
(3) Relevance	Foreign companies can trade in US stock market.	Foreign companies can trade in any country's stock market other than the US stock market.
(4) Issued in	United States domestic capital market	European capital market.
(5) Listed in	American Stock Exchange such as NYSE or NASDAQ	Non-US Stock Exchange such as London Stock Exchange or Luxemburg Stock Exchange
(6) Negotiation	In America only.	All over the world.
(7) Disclosure Requirement	Onerous	Less onerous
(8) Market	Retail investor market	Institutional market.

Difference between ADR and GDR

Advantages of ADR and GDR

- They provide access to investments in the foreign markets, thus becoming a great way to diversify our portfolio.
- They are denominated in US Dollars and Euros, both of which are very powerful currencies to hold investments in.
- Since they are treated like shares, they can easily be traded in markets. They also offer all shareholder benefits to different investors.
- For companies, depository receipts are a great way to attract positive international attention and expand their base of shareholders as well.

Disadvantages of ADR and GDR

- Depository receipts are one of the most expensive ways to raise capital for companies.

- Since all transactions are happening in foreign currencies, the investments and capital are subject to the volatility of the foreign exchange or forex market.
- Depository receipts are only suitable for High Net Individuals as high amounts of capital are needed to trade in them.
- There are a limited number of companies which offer their shares in the form of depository receipts, thus leaving lesser choices for interested investors.

✍ Manishika