DEPOSITARY RECEIPTS

# An Introduction to Depository Receipts

THE BANK OF NEW YORK MELLON

# The Bank of New York Mellon's Depositary Services

It is the DR issuer who appoints us as depositary bank. However, our role as depositary bank covers much more than serving the issuer, as we actively meet the needs of three constituent groups – the issuer, investors and brokers. This is because all three parties are essential to the success of any DR program.

We begin providing issuers support pre-launch, by guiding them through the steps of the process. For instance, we help the issuer determine the most appropriate type of DR facility and set an appropriate DR-to-ordinary-share ratio. Once a program is on the market we provide day-to-day administration, such as the maintenance of DR shareholder records and detailed reporting, as well as operations. And our dedicated Global Corporate Actions Team provides corporate action services, which vary from the most basic to the very complex.

Recognizing that market visibility is key for ongoing investor interest in our clients' DR programs, we maintain specialized teams dedicated to market outreach initiatives targeting the buy- and sell-side communities. We funnel extensive resources to strategic market visibility initiatives and frequently offer educational seminars.

Additionally, we keep our DR clients informed of legal, corporate governance and other market developments that could affect their programs and lobby for beneficial changes on their behalf. Our experienced DR experts take a leadership role in the market, participating in many industry organizations. Staying front and center in the industry contributes to our unmatched services and our Number One market position.

To learn more about the bank's DR services or about DRs in general, visit www.bnymellon.com/dr.

The Bank of New York Mellon is the world's leading depositary bank, with a 64% market share – more than all other depositary banks combined. To understand the services we provide in our role as depositary bank, it is essential to first become familiar with depositary receipts.

## What are Depositary Receipts?

Depositary receipts (DRs) are negotiable U.S. securities issued by a U.S. bank, referred to as a "depositary bank," that represent a non-U.S. company's equity. They trade freely in global markets and can be listed on major stock exchanges including the New York Stock Exchange, the American Stock Exchange, NASDAQ, the London Stock Exchange and the Luxembourg Stock Exchange.

DRs facilitate cross-border trading and help non-U.S. companies raise capital in global equity offerings or for mergers and acquisitions. DRs allow non-U.S. companies to make their shares available outside their home markets and allow investors to easily invest in non-U.S. companies.

Several DR structures are available to suit a company's particular capital market needs. American Depositary Receipts (ADRs) are publicly available to U.S. investors on a national stock exchange (NYSE, NASDAQ or Amex) or on the over-the-counter (OTC) market. Global Depositary Receipts (GDRs) generally are issued under Rule 144A and/or Regulation S of the Securities Act of 1933, are privately placed and sold only to qualified institutional buyers (QIBs) in the U.S. or to investors outside the United States. GDRs are often listed on the London or Luxembourg Stock Exchange.

A DR represents a specified number of shares of a non-U.S. company. The depositary bank sets a ratio of DRs-to-ordinary shares.

## How DRs trade

Similar to the shares of U.S. companies, DRs are traded on major stock exchanges or in the U.S. OTC market. It is just as easy for an investor to trade the DRs of Toyota as it is to trade shares of General Motors. In addition, DRs can be created or cancelled to satisfy investor demand in either the U.S. or local trading market.

The DR is created when an investor contacts a broker to make an investment in a non- U.S. company. The broker can either purchase DRs in the secondary market or create DRs by purchasing the company's shares in the local stock market and then delivering them to the depositary's local custody bank. The broker converts the U.S. dollars received from the investor into the corresponding foreign currency and pays the local broker for the shares purchased.

The custodian bank instructs the depositary bank to issue the DRs and deliver them to the initiating broker, who then delivers the DRs to the investor. Conversely, when DRs are sold, the sale can take place in the secondary market or the underlying shares held outside the U.S. can be released into the home trading market through a cross-border transaction. In this case, the DRs are cancelled and the shares held with the local custodian bank are delivered to the broker within the home trading market.

# Demand for DRs

Investor demand for DRs has been growing between 30 and 40 percent annually, driven in large part by the increasing desire of individuals and institutions to diversify their portfolios globally. Many of these investors typically do not, or cannot for various reasons, invest directly outside of the U.S., and as a result, they use DRs to diversify their portfolios. Many investors who can invest outside the U.S. prefer DRs because they are convenient and cost-effective. In fact, at March 31, 2008, worldwide investment in DRs exceeded $1.8 trillion.

# Types of DRs

There are two general classifications of DRs – sponsored or unsponsored – and four basic types of facilities:

### Sponsored DRs

Sponsored DRs are generally issued by one depositary bank appointed by an issuer company under a service contract called a deposit agreement. Sponsored DRs offer issuer input, control over the facility, the flexibility to list on a U.S. stock exchange and the ability to raise capital.

### Unsponsored DRs

Unsponsored DRs are issued by one or more depositary banks in response to market demand for particular securities without a formal agreement with a non-U.S. company.

### Sponsored Level I DRs

A sponsored Level I DR program is the simplest way for non-U.S. companies to access U.S. capital markets. However, it cannot be used to raise capital. Level I DRs are traded in the U.S. over-the-counter market with prices published in the Pink Sheets and on some exchanges outside the United States. Establishing a Level I program does not require full SEC registration, and the company does not have to report its accounts under U.S. Generally Accepted Accounting Principles (GAAP) or provide full SEC disclosure. A sponsored Level I DR program allows non-U.S. companies to enjoy the benefits of a publicly traded security without changing their current reporting process.

Because Level I facilities are easy to establish and lack substantial ongoing requirements, the majority of sponsored DR programs are Level I facilities. Many companies start with a Level I program and then upgrade to a Level II or Level III program to enjoy the benefits of accessing US investors.

### Sponsored Level II and Sponsored Level III DRs

Companies that wish to list their DRs on a U.S. stock exchange, raise capital or make a U.S. acquisition using securities, establish sponsored Level II or Level III DR programs. These DR programs require SEC registration and adherence to applicable U.S. GAAP requirements. The companies must also meet the listing requirements of the applicable stock exchanges, NYSE, Amex or NASDAQ.

Structurally, Level II and Level III DRs are similar and both types are used for listing on a U.S. stock exchange. However, Level II DRs do not raise capital at the initial listing while Level III programs do. Generally, both Level II and Level III programs attract significant U.S. investors interest.

### Private Placement and Offshore (SEC Rule 144A / Regulation S) DRs

In addition to the three levels of sponsored DR programs that trade publicly in the U.S., a non-U.S. company can also access the U.S. and other capital markets through SEC Rule

144A and/or SEC Regulation S DR facilities without SEC registration. Rule 144A programs provide for raising capital through the private placement of DRs with qualified institutional buyers (referred to as "QIBs") in the United States. Regulation S programs provide for raising capital through the placement of DRs offshore to non-U.S. investors in accordance with Regulation S.

These programs, generally known as GDRs, are not eligible to be purchased by U.S. retail investors, nor can they be listed on U.S. stock exchanges, but they can be listed in London or Luxembourg. A Level I program can be established in addition to a Rule 144A program, and a Regulation S program may be merged into a Level I program after the restricted period has expired.

## How DRs Benefit Issuers and Investors

### Benefits to a DR Issuer

Establishing a DR program offers non-U.S. companies many advantages, such as:

- Expanded market share through broader and more diversified investor exposure, which may improve liquidity and ultimately share valuation
- Enhanced visibility for the company's products or services in a marketplace outside its home country
- A flexible mechanism for raising capital and a vehicle or currency for mergers and acquisitions
- A vehicle for allowing employees of U.S. subsidiaries to invest more easily in the parent company

### Benefits to a DR Investor

Today, investors are increasingly pursuing global portfolio diversification.  At the same time, obstacles such as undependable settlements, costly currency conversions, unreliable custody services, poor information flow, unfamiliar market practices, confusing tax conventions and internal investment policy may discourage them from venturing outside their local market.  Investing in non-U.S. companies is convenient and easy with DRs as they provide:

- Quotes and dividend payments in U.S. dollars
- Elimination of global custodian safekeeping charges, potentially saving DR investors up to 10 to 40 basis points annually
- Familiar trade, clearance and settlement procedures
- Competitive U.S. dollar/foreign exchange rate conversions for dividends and other cash distributions
- Ability to acquire the underlying securities directly upon cancellation

# Depositary Receipts

## Connecting Issuers to Global Markets



# Who's helping you?

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