

## Depository Receipts Fact vs. Fiction

Over-the-Counter (OTC) depository receipts (DRs) allow U.S. investors to easily diversify their portfolios internationally. Nevertheless, common misconceptions abound. Let us set the record straight.

### Q: What are the benefits of an OTC DR program?

A: Unlike ordinary shares trading in the local market, an OTC DR:

- **Trades and settles in the U.S.** - OTC DRs trade just like other U.S. securities, making them a familiar option for U.S. investors. They also have real-time trade reports, allowing investors to value their investments in a timely and efficient manner.
- **Has U.S. dollar pricing** - OTC DRs are quoted in U.S. dollars and pay dividends in U.S. dollars.
- **Is held in the U.S.** - OTC DRs clear in the U.S. via The Depository Trust Company (DTC) which enables U.S. investors to hold all of their equity shares in one location and in one currency -- USD.
- **Provides a broader universe of potential investors** - DR programs increase the availability of a company's securities to both institutional and retail investors. In fact, it's likely that many large institutional investors already holding a non-U.S. company's ordinary shares manage money on behalf of retail investors in accounts known as "managed accounts". Since most securities in these accounts must be held in dollar-denominated form in the U.S., without a DR program a non-U.S. company may not be included as a potential investment option.

**Q: What is the difference between an unsponsored DR program and a sponsored DR program?**

A: A sponsored DR program is established at the direction of the foreign private issuer and in accordance with a deposit agreement (service agreement) between the issuer and the appointed depositary bank.

An unsponsored DR program is established solely by the depositary bank, often on behalf of U.S. investor requests. Multiple depositary banks may issue and cancel DRs for the same unsponsored DR program.

In each case a Form F-6 registration statement with the DR terms is filed with the U.S. SEC.

Trading and settlement is identical for all DR programs, regardless of whether they are unsponsored or sponsored.

**Q: Are there additional regulatory requirements with the establishment of an OCT DR program?**

A: As an OTC program is established for a foreign private issuer that is already considered eligible and compliant under SEC Rule 12g3-2(b), no additional or new disclosures should be required. The regulatory requirements for continued eligibility include the company's primary trading market is on a non-U.S. exchange and that the company posts on its website, in English and to the extent required under the rules, its disclosure documents that are made public, filed and distributed to current shareholders.

**Q: If a company currently has a Regulation S and/or 144A program and/or an active U.S. shareholder base in their local shares, why would it benefit from an OTC DR program?**

A: There are U.S. investors that either do not have the ability to buy shares directly in foreign markets, cannot due to their investment restrictions or prefer not to do so if a DR is readily available. Below is a breakdown of the U.S. investment community constituents likely to purchase DRs:

**Managed Account Industry<sup>1</sup> -**

- Total Assets Under Management (AUM) - \$657.5bn
- Key Investment Managers -
  - Nuveen Investments
  - Brandes Investment Partners
  - Lazard Asset Management
  - Alliance Bernstein
  - Franklin Templeton Portfolio Advisors

**U.S. Retail Market<sup>2</sup> - (in \$bn USD)**

- Household direct holdings of corporate equities, closed-end and exchange-traded funds - \$5,502.4
- Market value of foreign equities held by U.S. residents (including DRs) - \$2,677.5

<sup>1</sup> MMI Central - 1Q2009

<sup>2</sup> Source: Flow of Funds Accounts of the United States March 12, 2009

**Q: What is the difference between shares already quoted in the U.S. with a ticker that ends in the letter F (“XXXXF”) and a DR?**

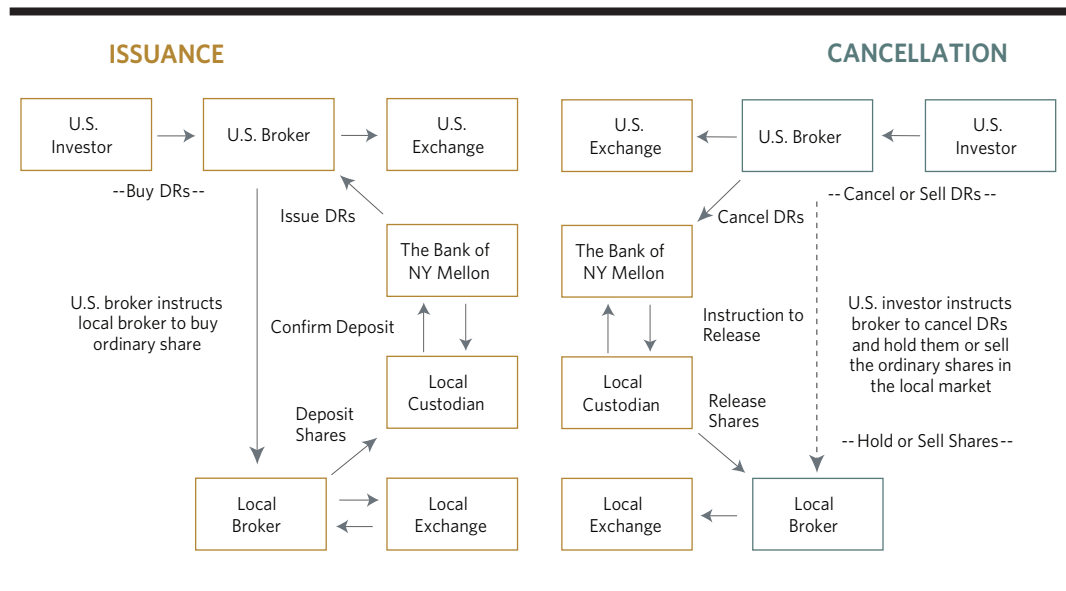
A: F “quotes” are merely the foreign ordinary share quoted and sold in U.S. dollars. These shares do not trade in the U.S., nor are they held in the U.S. When the shares are sold to a U.S. investor, the respective broker-dealer executing the trade must report the transaction to Financial Industry Regulatory Authority (FINRA). F “quotes” may not share the same rights and benefits as DR investors, as they are holders of interest in the ordinary share.

**Q: Why would a company need an OTC DR when exchanges are merging around the world (i.e., NYSE/Euronext, NASDAQ/OMX), making it easier for investors to buy shares globally irrespective of their country of domicile?**

A: This is a common misconception regarding the difference between trading and settlement.

- **Trading** - is the physical act of buying and selling that occurs on various exchanges or trading venues around the world.
- **Settlement** - is the side of the investment where the DR adds value. While trades may be executed in different global markets, those shares still need to be settled or held in a custody account for the investor.

Below is a step-by-step DR issuance and cancellation process highlighting the difference between trading and settlement.



### Trading:

- U.S. investor places a buy order for DRs.
- Bids and asks are available on various global exchanges.
- Shares can be bought in DR form or ordinary share form for issuance of DRs.
- If a U.S. broker-dealer sells a foreign ordinary share to a U.S. investor that order will be filled and may be reported to FINRA as the F “quote” described above.
- DRs will be traded and quoted using the DR trading symbol.
- All DR trades are reported within 30 seconds of execution to FINRA.

**Settlement:**

- If already created DRs are purchased on an exchange or OTC, they trade and settle in DTC according to U.S. standards, three days after the trade execution -- T+3.
- If foreign ordinary shares are purchased and new DRs are created, those DRs will be issued and custodized in DTC upon settlement of the initial trade in the local market.
  - The purchasing broker-dealer deposits ordinary shares with The Bank of New York Mellon's (BNYM) local custodian.
  - The local custodian sends BNYM an electronic notification that a deposit of ordinary shares has been made.
  - BNYM issues and delivers DRs to a corresponding DTC account in the U.S.
  - BNYM has mechanisms in place to facilitate on-time settlement in the U.S. or overseas for DRs where settlement times may differ.

**Q: Is it more difficult to identify shareholders if a DR trades off an exchange, i.e., over-the-counter, through dark pools of liquidity and/or various forms of derivative trading?**

A: This is another common misconception regarding the difference between trading and settlement. Investors can and will use dark pools in order to facilitate trading. All trades of a security in any country through any trading platform, including dark pools of liquidity, will be reported to the respective exchange or regulatory authority. Investors who purchase shares are responsible for following the reporting requirements in their country of domicile. Through any number of derivative instruments, investors can have economic exposure to your security, in DR form or ordinary share form.

## To Learn More

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