Fund Raising Process

ADR

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GOLDEN EAGLE
Capital Advisors, Inc.

Safe Harbor Statement

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Introduction to

ADR – American Depositary Receipt

With globalization dissolving borders, it only makes sense that we have the ability to invest in foreign entities.

Historically, **American Depositary Receipts (ADRs)** were the first type of depositary receipt to evolve. They were introduced in 1927 in response to a law passed in Britain, which prohibited British companies from registering shares overseas without a British-based transfer agent. UK shares were not allowed physically to leave the UK, and so, to accommodate US investor demand, a US instrument had to be created; this was called an American Depositary Receipt.

ADRs assumed their present form in 1955, when the **Securities and Exchange Commission (SEC)** established its Form S-12 for registering all depositary receipt programs. Form S-12 was later replaced by Form F-6, which is still in use today.

In general ADRs were introduced as a result of the complexities involved in buying shares in foreign countries and the difficulties associated with trading at different prices and currency values.

ADRs provide non-US companies with access to the US capital market, the largest domestic investor base in the world.

Introduction to

ADR – American Depositary Receipt

ADR is an acronym for American depositary receipt.

ADRs trade just like stocks but represent shares of a foreign company trading on a foreign stock exchange.

ADR shares float on supply and demand, just like a regular stock.

There are two types of ADRs: **Unsponsored and Sponsored**. Sponsored ones fall into three categories**: Level 1, Level 2 and Level 3**. Levels 1 and 2 are listings in the U.S. market, while Level 3 ADRs are public offerings to investors.

There are some risks associated with buying ADRs, including inflationary risk, political risk, and exchange rate risk.

Leading actors:

- **Depositary:** usually a U.S Commercial Bank.
- **Issuer:** the Foreign Company
- **Custodian:** the Foreign Bank
- **Investor:** the buyer of the shares, can be professonal or institutional, retail investors are allowed only for sponsored transactions.

Nature and Purpose of ADRs

Shares of foreign company may be issued and traded in three different forms:

- Direct listing of ordinary shares;
- Shares issued by foreign corporation specifically for the U.S. market in a form adapted to the needs of U.S investors;
- Through ADRs. ADRs currently are by far the most prevalent form through which foreign corporations list and offer equity securities in the United States.

The ADR is a substitute trading certificate evidencing the **ADSs (American Depositary Shares)** that represent the underlying shares of the reign corporation.

The underlying shares remain at the office of the foreign bank acting as custodian.

ADR holders wishing to trade the underlying shares (as opposed to the ADRs) may admit the ADRs to the Depositary for cancellation and withdrawal of the underlying shares.

Similarly, a holder of underlying shares can deposit such shares with the Depositary against issuance by the Depositary of ADRs.

Each ADR evidences one or more ADSs, with each ADS representing a number or a fraction of underlying shares.

UnsponsoredADRs

Unsponsored ADRs are issued by a Depositary for already outstanding foreign shares, without a formal agreement between the issuing bank and the foreign company;

The foreign company may have no desire to see its shares listed abroad at all;

These shares trade on the **over-the-counter market**;

These securities cannot be sale to individual investors in the US unless the foreign company files appropriate financial reports with the **SEC** or requests an exemption under Section 12g3-2(b). The SEC maintains a list of all 12g3-2(b)-qualified companies;

With the unsponsored ADRs, the investor risks to buy an instruments poor of liquidity and without any official backing from the company;

The Unsponsored ADR could be withdrawn at any time, and the investor could be waiting for some considerable time before the depositary sells the shares and sends the proceeds;

The investor may be hit with an unreasonably large administration fee in the process.

Sponsored ADRs

Sponsored ADRs are issued by a Depositary pursuant to an agreement with the issuer and with its financial support for shares that are already outstanding or for share issued specifically for an offering of ADRs in the US.

Sponsored ADRs fall into three categories:

- **Level 1:** shares are traded in the over the counter market. The reporting requirements are very low – the company does not need to issue any reports in the US or under US accounting standards. It must be listed on a foreign stock exchange and issue a report in English in that country under local accounting rules.
- **Level 2:** can be traded on a stock market such as **NYSE** or **Nasdaq.** The company must register with the Securities and Exchange Commission (SEC) and issue annual reports in the US to US accounting standards.
- **Level 3**: the most prestigious. It is used by companies that don't simply want to float their shares abroad, but also to **raise capital in the US market**. Consequently, they are regulated to a similar standard to US companies. They must issue a offering prospectus, while all subsequent new releases made in their home market must also be issued in the US to US standards.

In addition to the three levels of programs for publicly traded ADRs, issuers may also opt for a **restricted ADR** program. This enable issuers to raise capital through the **private placement** of ADRs with large institutional investors in the US, and do not require filing any registration statement with the SEC.

ADR Program Types

	Broaden Shareholder Base with Existing Shares		Raise Capital with New Shares	
	OTC Level I	**U.S.Listing Level II**	**U.S. Listing and Public Offering Level III**	**U.S. Private Placement Rule 144 A DR**
Description	Unlisted Program in the U.S.	Listed on a major U.S. Exchange	Offered and listed on a major U.S. Exchange	Private Placement in U.S. to Qualified Insitutional Buyers only
Trading	OTC:Quoted in the Pink Sheets or on OTCQX	NYSE or NASDAQ	NYSE or NASDAQ	In U.S. 144A DRs are traded OTC
SEC and GAAP Requirement	No U.S. GAAP reconciliation required	SEC compliance and partial reconciliation to U.S. GAAP or qualifying IFRS	Full SEC compliance including full U.S. GAAP reconciliation or qualifying IFRS	GAAP conformity not required
SEC Filing	File Form F-6	File Form F-6, 20F	File Form F-6, F-1 and 20F	No SEC registration requirements

ADRs compared with a Direct Listing

Generally, ADRs provide issuers with more benefits and flexibility than direct listings of ordinary shares. Issuers can leverage the economies of scale and local market expertise of the depositary bank to maximize their strategic objectives in cross-border listings.

Specifically, ADRs provide the following advantages over directly listing ordinary shares:

Flexibility

- ➢Use of the Deposit Agreement to facilitate local regulatory requirements;
- ➢ADRs are easily fungible with ordinary shares, while listing class of ordinary shares does not offer the same level of seamless fungibility;
- ➢ADRs provide flexibility to adjust the stock price in line with peers in the overseas market through the use of ADR ratio (slide 16).

Seamless Asset Servicing

- ➢ ADR issuers can leverage depositary banks to provide seamless asset servicing, whch s a benefit that is not available in case of ordinary listing;
- ➢ Issuers can benefit from the ‘one stop shop’ in case of ADRs in which appointing a share registar and transfer agent is the Depositary Bank’s responsability, in ordinary share listings, the issuer will have to deal with multiple service providers;

Cost-effective

- ➢ ADR issuers will avoid the need to have costly infrastructure in place to service overseas listed securities;
- ➢ In certain cases, ADR banks absorb costs associated with the listing;

Value-Add Services

- ➢ Issuers will have access to dedicated account managers who will be a single point of contact and will coordinate with issuer and indutry partecipants on all ADR-related matters, including regulatory and tax-matters;
- ➢ Issuers will benefit from the Depositary Bank’s equity distribution network which will help gauge investor sentiment on real-time basis and faciliate systematic investor targeting.