**Global Depository Receipts and American Depository Receipts**

**Introduction**

**Global Depository Receipt**
- Instrument which allows Indian Corporates, Banks, Non-banking Financial Companies etc., to raise funds through equity issues abroad to augment their resources for domestic operations.
- Dollar denominated instrument, traded in stock exchanges outside the country of origin.
- Represents a certain number of underlying equity shares

**Issue Process**

A. Internal Preparation by the Issuer
- Corporate Governance
- Financial Accounting
- Business plan

B. External Preparation by the Issuer
- Selection of parties involved in the process
- Obtain approvals from the Ministry of Finance, Dept. of Company Affairs, RBI and the Foreign Investment Promotion Board.

C. Issue Structure and Prospectus Finalization.

D. Ministry of Finance Final Approval

E. Listing formalities with SEC, NASDAQ, NYSE etc.

F. Public offer

**Contd.**

**American Depository Receipts**
- Negotiable instruments denominated in US Dollars.
- Represents a non-US Company’s local currency equity shares or known as depository receipts.
- The holder of the ADRs can transfer the instruments as in case of domestic instruments & also entitled for dividends as & when declared.

**Issue Process contd.**

D. Ministry of Finance Final Approval

E. Listing formalities with SEC, NASDAQ, NYSE etc.

F. Public offer

Reporting of GDR/ADR Issues
- Details regarding the issue must be furnished to the RBI within 30 days of closure of the issue.
- A quarterly return must also be filed within 30 days of closure of the calendar quarter.
Benefits of issuing ADR/GDR issues to Indian companies

- Better corporate image both in India and abroad which is useful for strengthening the business operations in the overseas market.
- Exposure to international markets and hence stock prices in line with international trends.
- Means of raising capital abroad in foreign exchange.
- Use of the foreign exchange proceeds for activities like overseas acquisitions, setting up offices abroad and other capital expenditure.
- Increased recognition internationally by bankers, customers, suppliers etc.
- No risk of foreign exchange fluctuations as the company will be paying the interest and dividends in Indian rupees to the domestic depository bank.

Benefits of issuing ADR/GDR issues to Overseas Investors

- Assured liquidity due to presence of market makers.
- Conveniences to investors as ADRs are quoted and pay dividends in U.S. dollars, and they trade exactly like other U.S. securities.
- Cost-effectiveness due to elimination of the need to customize underlying securities in India.
- Overseas investors will not be taxed in India in respect of capital gains on transfer of ADRs to another non-resident outside India.

GDRs and ADRs - A Comparison

- ADRs are listed on an American Stock Exchange, whereas all GDRs are listed in a stock exchange other than American Stock Exchange.
- Global depository receipt (GDR) is compulsory for foreign company to access in any other country’s share market for dealing in stock. But American depository receipt (ADR) is compulsory for non-US companies to trade in stock market of USA.
- GDR market is mainly an institutional market, with lower liquidity whereas an ADR listing allows US retail investors to participate in the offerings.
- ADRs are listed on an American Stock Exchange, whereas all GDRs are listed in a stock exchange other than American Stock Exchange.

Comparison contd.

- GDR is negotiable instrument all over the world but ADR is only negotiable in USA.
- The disclosure requirements for GDR are less stringent.
- The US dollar rate paid to holders of ADRs is calculated by applying the exchange rate but the exchange risk is eliminate in GDRs.
- Indian Tax purpose

Thank you

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