

# Jamaica Depository Receipts (JDR)

## In October 2015, the JSE Launched its JDR Market

### What is a Depository Receipt (DR)?

A **depository receipt** is a negotiable financial instrument issued by a Brokerage House or a Member Dealer to represent a foreign company's publicly traded securities. The depository receipt trades on a local stock exchange, in this case the Jamaica Stock Exchange. Depository receipts facilitate the buying of shares in foreign companies, because the shares do not have to leave the home country. This now means that shares of companies that are listed on a reputable stock exchange such as the New York Stock and London Stock Exchange, shares can be traded on the Jamaican Stock Exchange, without these shares actually being listed on the Jamaican Stock Exchange.

A depository receipt typically requires a company to meet a stock exchange's specific rules before listing its stock for sale. For example, a company must transfer shares to a brokerage house in its home country. Upon receipt, the brokerage uses a custodian (in this case the Jamaica Central Securities Depository) connected to the stock exchange to custody the depository receipts. This connection ensures that the shares or stock actually exist and no manipulation occurs between the foreign company and the international brokerage house.

### Steps to issue a Depository Receipt

A typical Depository Receipt (DR) goes through the following steps before it is issued:

- The issuing Brokerage House in Jamaica studies the financials of the foreign company in which they wish to buy shares. They ensure that a detailed assessment is done to ascertain the strength of the company's stock.
- The Brokerage House then buys the shares of the foreign company.
- The Brokerage House then issues a prospectus on the shares.
- When all the shares are bought by the public the Depository Receipts are then listed on the Stock Exchange.
- The Depository Receipt is usually priced in Jamaican dollars, and the dividends are paid in Jamaican dollars as well, making it simple for the investor to buy and sell the stock locally.

### What are the benefits of a depository receipt?

**1) You can get access to growth stocks** - many international markets, especially developed markets, have higher growth rates stocks. While Jamaican stocks in your portfolio may be providing a reasonable rate of return, holding some DRs could yield you potentially high returns. Remember, one of the basic lessons of investing is to ensure that your portfolio is adequately diversified; DRs are a great avenue to diversify your portfolio.

**2) You can benefit from currency swings** - holding DR's can result in favorable currency conversions for

dividends and other cash distributions. For example, if you own shares of a US company and the US dollar strengthens against the Jamaican dollar, any dividend increase will be boosted because the dividend payment has to be converted to Jamaican dollars before you receive payment. (Of course, this could go the other way also.)

**3) Stocks may be cheaper to acquire** - another exciting reason to invest in DRs is that you may uncover a hidden bargain that will provide stellar returns either over the short-term or the long-term. This will be definitely in the investors' favour as the stock performance will increase the wealth of the investor

**4) It is a convenient way to invest** - many individual investors have problems selecting foreign companies to invest in and then trying to figure out how to invest in them in a convenient and relatively cost effective fashion.

However, with a DR, you're investing through a domestic financial institution that has purchased a certain amount of stock in a foreign company; you won't have to open a separate brokerage account to invest overseas.

In fact, most of the process will be identical to investing in a "regular" stock, for example, DRs will trade during Jamaican market hours and will be subject to similar clearing and settlement procedures as the Jamaican stocks.

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The other factor to bear in mind is that the DR's issuer must supply the same level of information as provided for other Jamaican security. Trading and financial information will be available, and the Financial Services Commission regulates the market as it does all other markets operated by the Exchange.

In the JDR Market, the issuer of the DR is responsible for ensuring the timely disclosure of information on the underlying security to ensure compliance with the applicable Securities Laws, Regulations and JSE Rules. Some of the key ongoing compliance requirements include:

- Announcement of Unaudited Quarterly Financial Information

- Announcement of Audited Annual Financial Information
- Disclosure of Price Sensitive Information to the Market (Material Changes)
- Announcement of Corporate Actions.

The Jamaica Depository Receipts will be listed on the JSE Depository (JDR) Market. The JDR Market will facilitate the buying and selling of the JDRs. New rules governing the JDR Market have been drafted. However, the operational procedures governing the trading and settlement remain the same. For example, JDRs are matched based on the price/source/time priority basis.

As is customary, investors will be required to place their buy and or sell orders with a licensed member of the Exchange.