GDR: Notes for UPSC Economy

A global depository receipt (GDR), also known as international depository receipt (IDR), is a certificate issued by a depository bank, which purchases shares of foreign companies and deposits it on the account.

GDR is an important concept in the Indian Economy segment of the IAS Exams.

How are GDRs used?

GDRs represent ownership of an underlying number of shares of a foreign company and are commonly used to invest in companies from developing or emerging markets by investors in developed markets. Prices of global depositary receipt are based on the values of related shares, but they are traded and settled independently of the underlying share. Typically, 1 GDR is equal to 10 underlying shares, but any ratio can be used.

If for example, an Indian company which has issued ADRs in the American market wishes to further extend it to other developed and advanced countries such as in Europe, then they can sell these ADRs to the public of Europe and the same would be named as GDR. GDR can be issued in more than one country and can be denominated in any freely convertible currency.

Know how the Securities and Exchange Board of India facilitates trading in security instruments by visiting the linked article.

What are the features of a GDR?

The following features best describe a Global Depository Receipt

1. It is a negotiable instrument that can be traded like any other security instrument freely.

2. Indian companies that have a solid financial record of about three years are readily allowed access to global financial markets through the use of a GDR. However, clearances are required from the Foreign Investment Promotion Board (FIPB) and the Ministry of Finance.

3. Since it can be denominated as multiple forms of freely convertible currency, GDRs are issued to investors across the country.

4. GDR is denominated in any foreign currency but the underlying shares would be denominated in the local currency of the issuer.

5. The holder is entitled to dividend and bonus on the value of shares underlying the GDR.
6. The investor can convert GDR into equity shares, and sell the shares mentioned in the GDR through a local custodian. This provision can be used after 45 days from the date of issue.

7. Under GDR, the issuing company transacts with only one entity for all its transactions.

To know how the Foreign Investment Board facilitates FDI (Foreign Direct Investments) initiatives, visit the linked article.

**Relevant questions for GDR**

**What is the difference between ADR and GDR?**

American Depository Receipt (ADR) is a depository receipt which is issued by a US depository bank against a certain number of shares owned by a non-US based company. While a Global Depository Receipt (GDR) is a depository receipt which is issued by the international depository bank, representing the foreign company's stock.

**Why do business firms trade in GDR's?**

Companies issue GDRs to attract interest from foreign investors. GDRs provide a lower-cost mechanism in which these investors can participate. These shares trade as though they are domestic shares, but investors can purchase the shares in an international marketplace.

**Who can issue a GDR instrument?**

It is a negotiable instrument which is denominated in some freely convertible currency. GDRs enable a company, the issuer, to access investors in capital markets outside of its home country. Several international banks issue GDRs, such as JPMorgan Chase, Citigroup, Deutsche Bank, The Bank of New York Mellon.