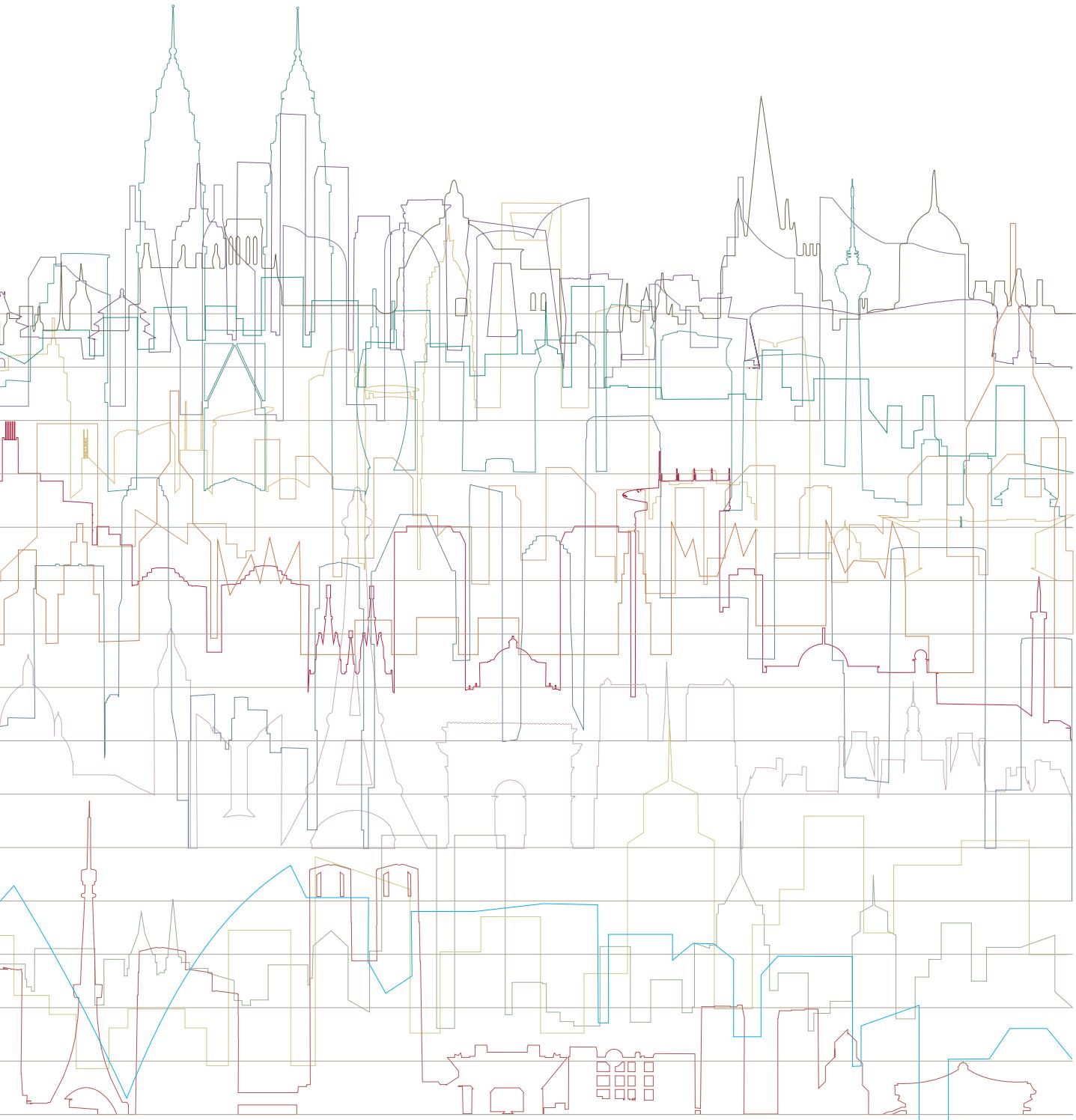


OTC Markets**OTCQX:
INCREASING US
OWNERSHIP**

The UADR opportunity

Unsponsored American Depository Receipts (UADRs) are US equity securities of foreign listed companies that trade in the United States on the OTC Markets and are priced in USD. UADR holders receive dividends and may be able to participate in corporate actions. Depositary banks earn a fee for creating and cancelling UADRs, distributing cash or stock dividends and/or servicing the programme.

The UADR market was created with a “big bang” in October 2008 when more than 550 were issued. This was a direct consequence of amendment to SEC Rule 12g3-2(b), providing an exemption from disclosures for many foreign issuers. This meant that a depositary bank could create such instruments

without the sponsorship of the companies themselves. Furthermore, a depositary receipt could be issued for an internationally listed company by multiple banks. The four main depositary banks (BNY Mellon, Citigroup, Deutsche Bank and JP Morgan) created more than 800 such instruments. In many cases UADRs have more than one depositary bank, meaning companies could have as many as four banks competing for UADR assets. Figure 1 shows the exponential growth in the UADR market since 2008, with now over 1,390 UADR programmes established. Furthermore, the growth of the market has spread globally with a spectrum of international firms having had a UADR programme established on their behalf. Table 1 presents the number of UADR facilities broken down by region.

**OVER 1390
UADRS
PROGRAMMES
EXIST**

The growth of the market coupled with the absence of required consent from the issuing company implies that many international companies may not be aware of the size of its US trading or even that a UADR facility exists for their shares. The observed fact that a depositary bank establishes such a programme might be indicative of a demand from US investors to trade the foreign companies shares. This demand presents an opportunity for such companies to take control of their investor relations, position themselves on the OTC Market to best communicate with their US investors in order to promote the trading and visibility of their shares. Currently, all UADR programmes trade on the Pink Market, the lowest tier of the OTC Markets with over 9,000 other US and international firms. Research undertaken by Oxford Metrica highlights significant benefits, in terms of US ownership, liquidity and value, which may be generated by upgrading to the OTCQX Best Market.

This paper highlights the key findings from the research and sets out five key reasons why firms with an UADR programme should consider taking control of its investor relations and joining OTCQX.

OTCQX

The premium OTCQX Market, operated by OTC Markets Group, is designed for established, investor-focused international companies. Issuers trading on the OTCQX Market are required to meet high financial standards, follow best practice corporate governance, adhere to regulatory and compliance laws and have an independent third-party sponsor

introduction. As a result, OTCQX issuers tend to have greater transparency in their disclosures and provide shareholders with timely investor information - an efficient experience akin to trading on the US national exchanges.

Hundreds of companies with primary listings on 26 foreign exchanges cross-trade on the OTCQX Market. These international companies represent a multitude of sizes, industries and geographic regions. Companies found on OTCQX are distinguished by the excellence of their operations and diligence with which they convey their qualifications. Securities of large international issuers, including EasyJet, Imperial Brands, J Sainsbury and Marks & Spencer, as well as Adidas, BASF, Heineken, Hugo Boss, Repsol, Roche and Walmart de Mexico have made OTCQX the market of choice for both their ADR and ordinary shares.

For international issuers, there are clear benefits to expanding their corporate footprint through a cost-effective alternative designed to reduce trading frictions and to improve the marketability of their securities in the US - the world's deepest pool of capital. Cross-trading in the US on the OTCQX Market not only diversifies the company's shareholder base, but also positions the company to appeal to those investors and broker dealers who prefer to make markets in securities that trade in US dollars, during US trading hours.

The evidence for joining OTCQX

Oxford Metrica analysed all international companies that have joined or upgraded to OTCQX between 2007 and 2019. Price and volume data were collected for each issuer one-year prior to joining and up to three years after. In addition, US ownership data was collected one-year prior and five years after. The three variables that were analysed to measure the impact of joining OTCQX were: *US ownership, liquidity and shareholder value*.

US Ownership

Many issuers believe that any investor can buy their shares. However, there are a large number of US retail, high net worth and 3rd and 4th tier institutional investors that can't access the local market or are unwilling to trade on Pink. As a result, one of the most powerful findings from the analysis is the impact upgrading to OTCQX can have of an international company's shareholder base. Figure 2 indicates that US ownership for international companies joining

**US OWNERSHIP
MORE THAN
DOUBLES**

OTCQX more than doubles within a year of the switch. Furthermore, there are further increases in subsequent years and this ownership base is sustained. The graph depicts the index change of US ownership from one-year prior to joining OTCQX to five years post joining. The index base is set to 100 one-year prior to joining the OTCQX Market. It is clearly evident one-year post joining, international issuers on average more than doubled their US ownership. In absolute terms, US ownership percentage increased from 3.05% one-year prior to 6.73% one-year post. Moreover, the figure indicates that on average ownership in the subsequent years is 8.6%. The results highlight the further shareholder diversification benefits that can be accrued by choosing to joining OTCQX.



Liquidity

Secondly, the impact of liquidity was analysed, from both a US and a home market perspective, through the impact on trading volumes. Trading volume reflects how rapidly and effectively information about the issuer is disseminated, absorbed and reacted to by investors. Increases in trading vol-

**26% INCREASE
IN HOME MARKET
LIQUIDITY**

trading volume metric used is the Trading Volume Multiplier™ (TVM), defined as the daily trading volume, after joining OTCQX, expressed as a multiple of the one-year average daily trading volume prior to joining. Therefore, a TVM of greater than 1 indicates evidence of higher liquidity.

Figure 3 indicates that in the home market, the primary listing of an international company outside the United States, there is an average increase of 26% in the issuer's daily trading volume 180 days post joining. Likewise, there is an increase of 67% in the daily trading volume in the United States, presented in figure 4. Hence, OTCQX provides a platform for an international company to increases its visibility not only in the United States but also in their home market.

Similar results are seen from a regional perspective, figures 5 and 6 present the impact on home market liquidity for Western Europe and from Asia Pacific respectively. European issuers exhibit a 13% increase in daily trading volumes on their respective home exchanges and APAC 26%, highlighting that domicile of an issuer is not a hurdle to the possible liquidity benefits. **The primary reason for the increase in home market liquidity is because no additional security is being created in the US. Given there isn't a liquidity event or IPO, Market Makers are forced to source US demand from the home market. The result is that this increase in US buying translates into an increase in home market liquidity as the source of these shares.**

Shareholder Value

Finally, the impact on shareholder value was analysed and the value reaction to the event of an international firm joining OTCQX. The Value Reaction Metric™ captures the company specific impact on shareholder value, while controlling for market wide effects, risk and currency. The dates at which the individual companies joined OTCQX have been aligned, again helping to control for idiosyncratic factors, so that day 0 in the figure below is the common event of joining OTCQX.

Figure 7 presents that average value reaction from the respective issuer's home market after joining OTCQX. The figure highlights that on average 128 basis points of value is created for shareholders 180 days post joining. The value added measured is alpha, which represents the risk-adjusted re-

turn over and above the general market movements. We hypothesise that due to the increased transparency, disclosure requirements and corporate governance practices required by OTCQX, a positive signalling effect is generated in the issuer's home market, translating to a reduced cost of capital and increased shareholder value.

5 reasons for a UADR issuer to upgrade to OTCQX

Access to US Investors

As the research above highlights for international issuers, regardless of the underlying security type, an upgrade to OTCQX can increase the percentage of ownership by US investors, therefore diversifying its shareholder base. Furthermore, this increase in the proportion of US investors is maintained through the subsequent years, and as a consequence, generates a stable investor base. OTCQX provides an opening to a new class of US investors that couldn't be accessed before.

Trading and Liquidity

Trading and liquidity benefits can be experienced in both the US market and issuing company's home market. OTCQX reduces the number of restrictions for brokers and investors to access a company's shares generating efficient trading compared to firms on Pink. Furthermore, the evidence above indicates that once a company is on OTCQX there is greater visibility which in turn drives greater liquidity in the issuer's home market.

Taking control of investor relations

OTCQX offers a platform that allows greater engagement with an international firm's US shareholders in a cost effective manner. Firms that choose to join OTCQX are offered a host of corporate services to enhance their investor outreach including distribution of company news, financial disclosures and presentations. Many issuers do not realise that on Pink their news and financial information may not flow into the United States.

No additional compliance

By allowing the utilisation of reporting exemption Rule 12g3-2(b), OTCQX enables foreign issuers to leverage their home market disclosure and reporting standards rather than comply with the burdensome, costly and duplicative SEC reporting required of NYSE or NASDAQ listings. In addition, there are no Sarbanes-Oxley and SEC Reporting requirements on OTCQX, thus providing companies listed on foreign exchanges with more efficient options for accessing institutional and private investors in the US.

Reputation and Visibility

OTCQX offers a market with an extended network of US investors, brokers, data distributors and media outlets. This creates an offering to US investors that mirrors the information that local market participants have in the home market. Research by Oxford Metrica found that the greater visibility, transparency and high disclosure requirements of OTCQX generate a positive signalling effect to the market which the research has shown drives alpha and value to shareholders above the market return.

Table 1: UADRs by region (February 2020)

REGION	NUMBER OF FIRMS WITH A UADR
APAC	702
CONTINENTAL EUROPE	605
CENTRAL & EASTERN EUROPE	29
MIDDLE EAST AND AFRICA	53
LATAM	4

FIGURE 1: Growth of UADRs

SOURCE: Oxford Metrica

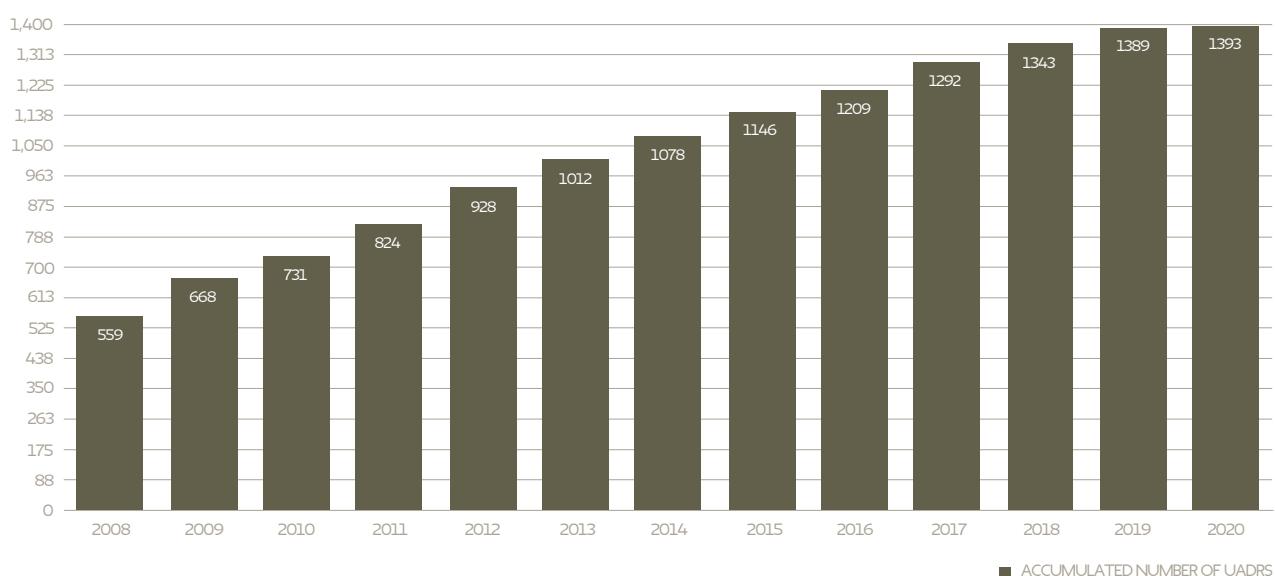


FIGURE 2. Increases in US ownership

SOURCE: Oxford Metrica

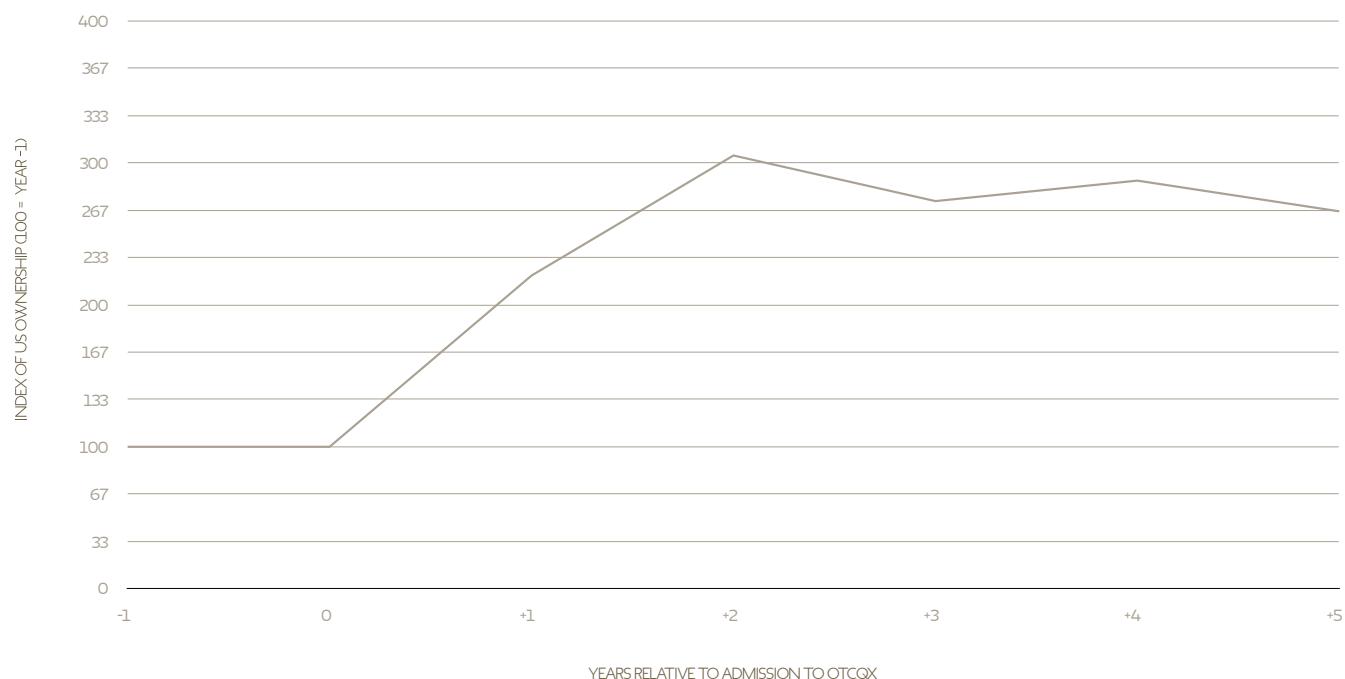


FIGURE 3. Trading Volume Multiplier™ in the home market

SOURCE: Oxford Metrica

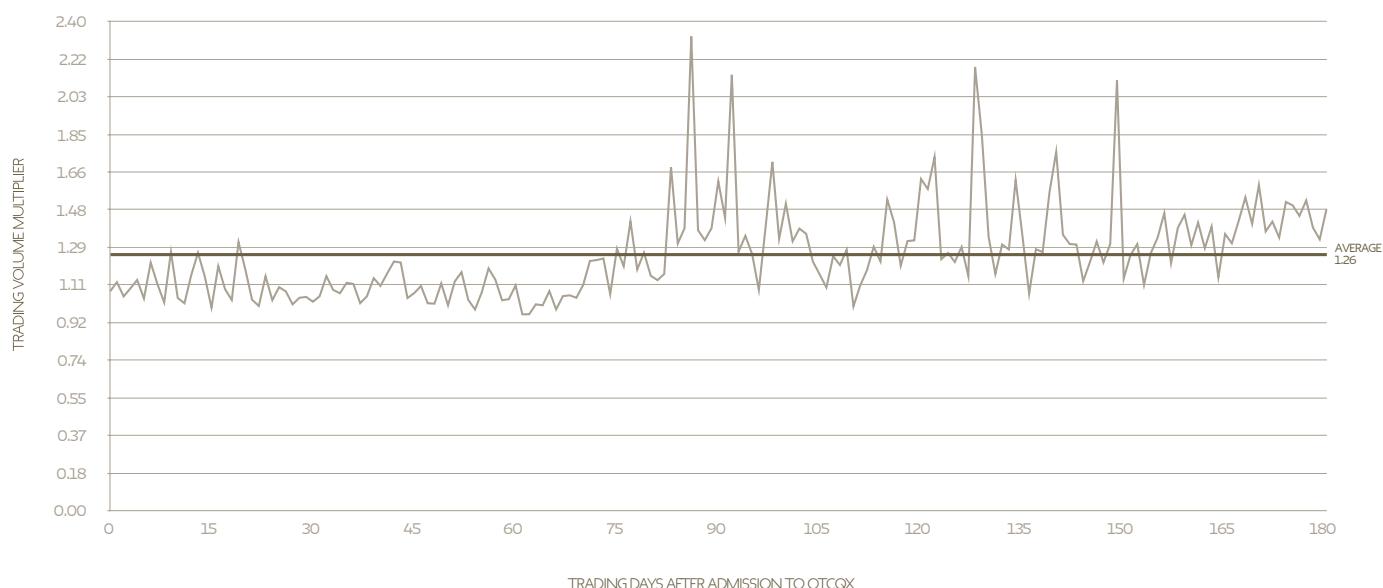


FIGURE 4. Trading volume Multiplier™ in the US market

SOURCE: Oxford Metrica

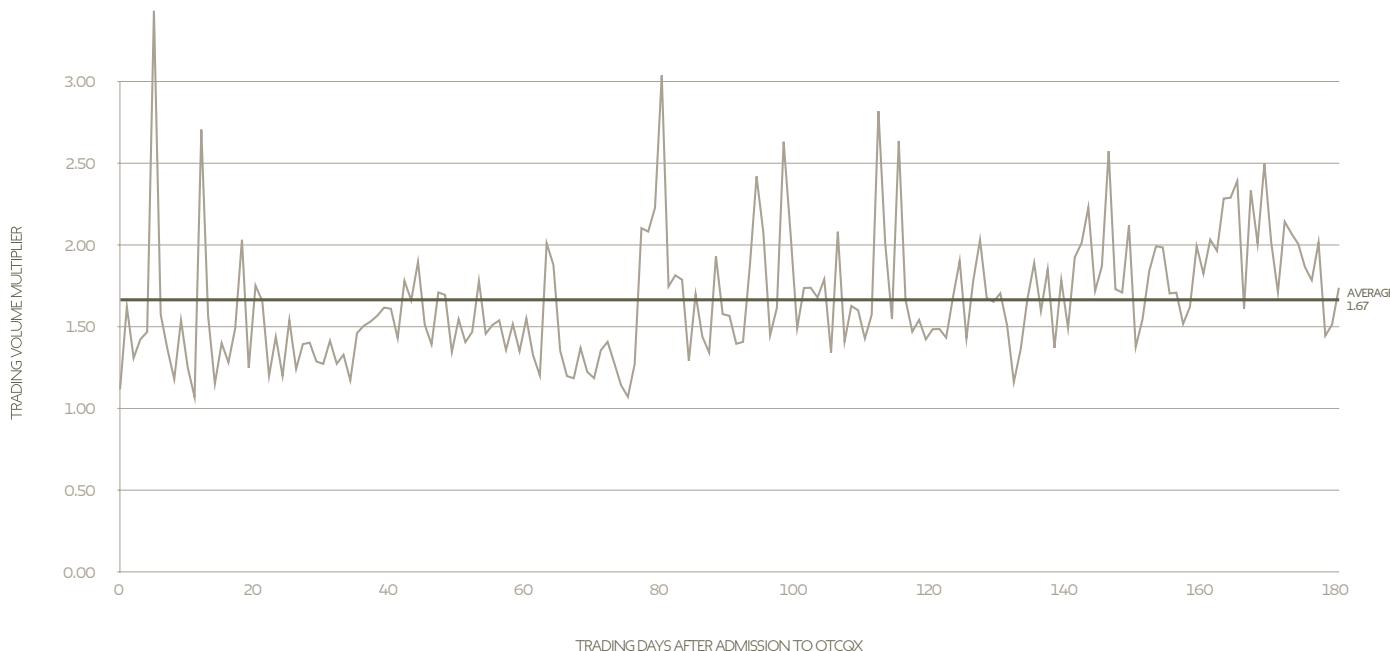


FIGURE 5. Trading Volume Multiplier™ in Western Europe and Scandinavian home markets

SOURCE: Oxford Metrica

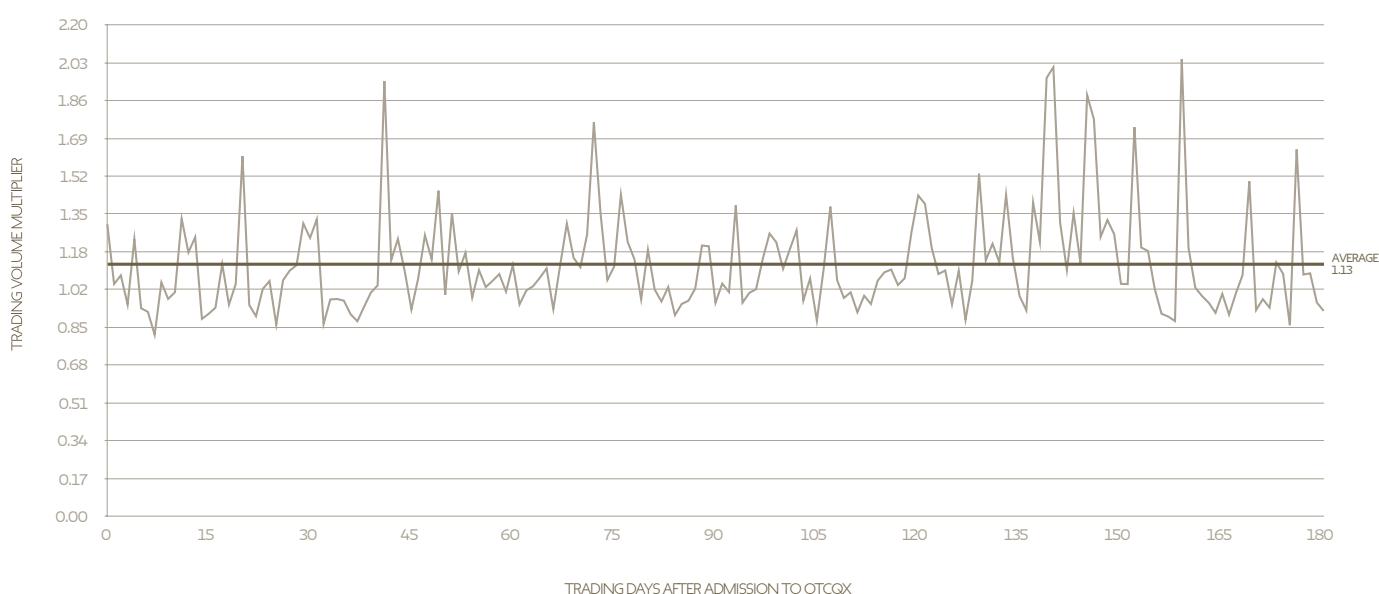


FIGURE 6. Trading Volume Multiplier™ in APAC home markets

SOURCE: Oxford Metrica

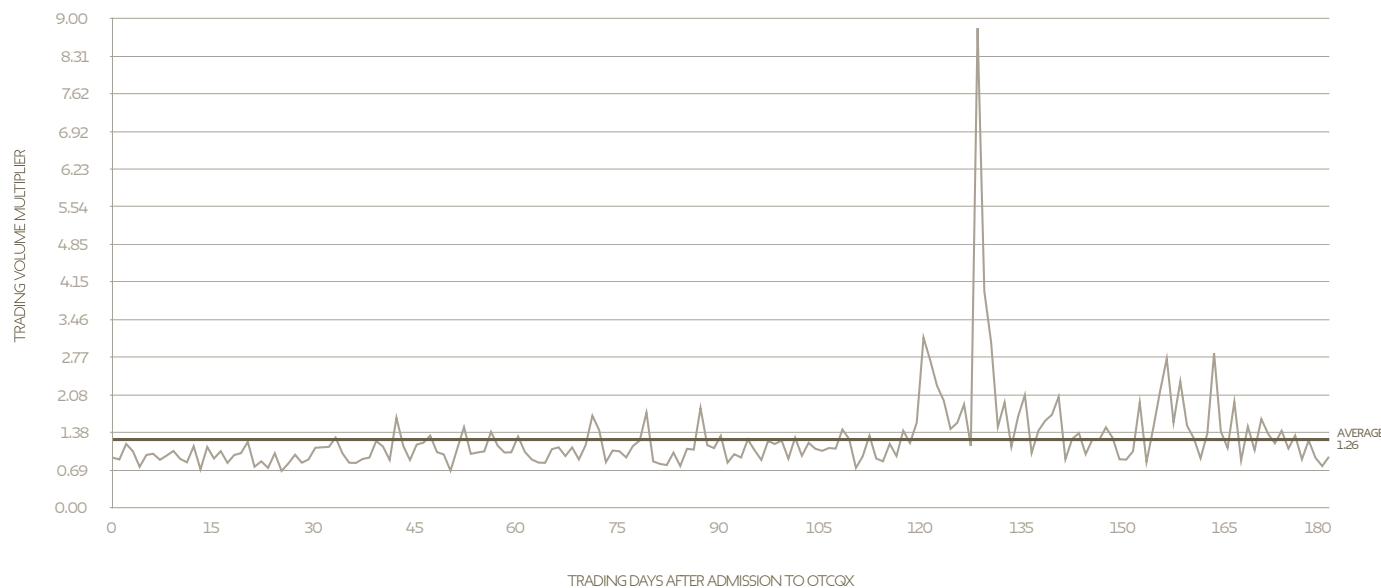
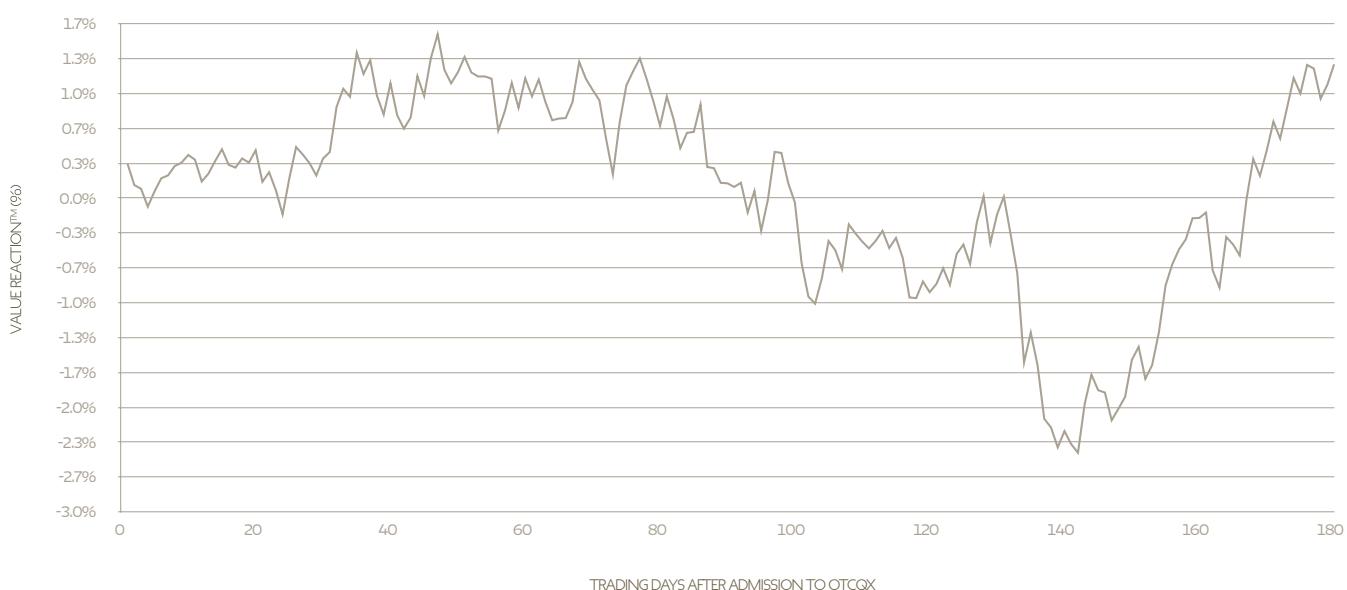


FIGURE 7. Value reaction in issuer's home market

SOURCE: Oxford Metrica



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