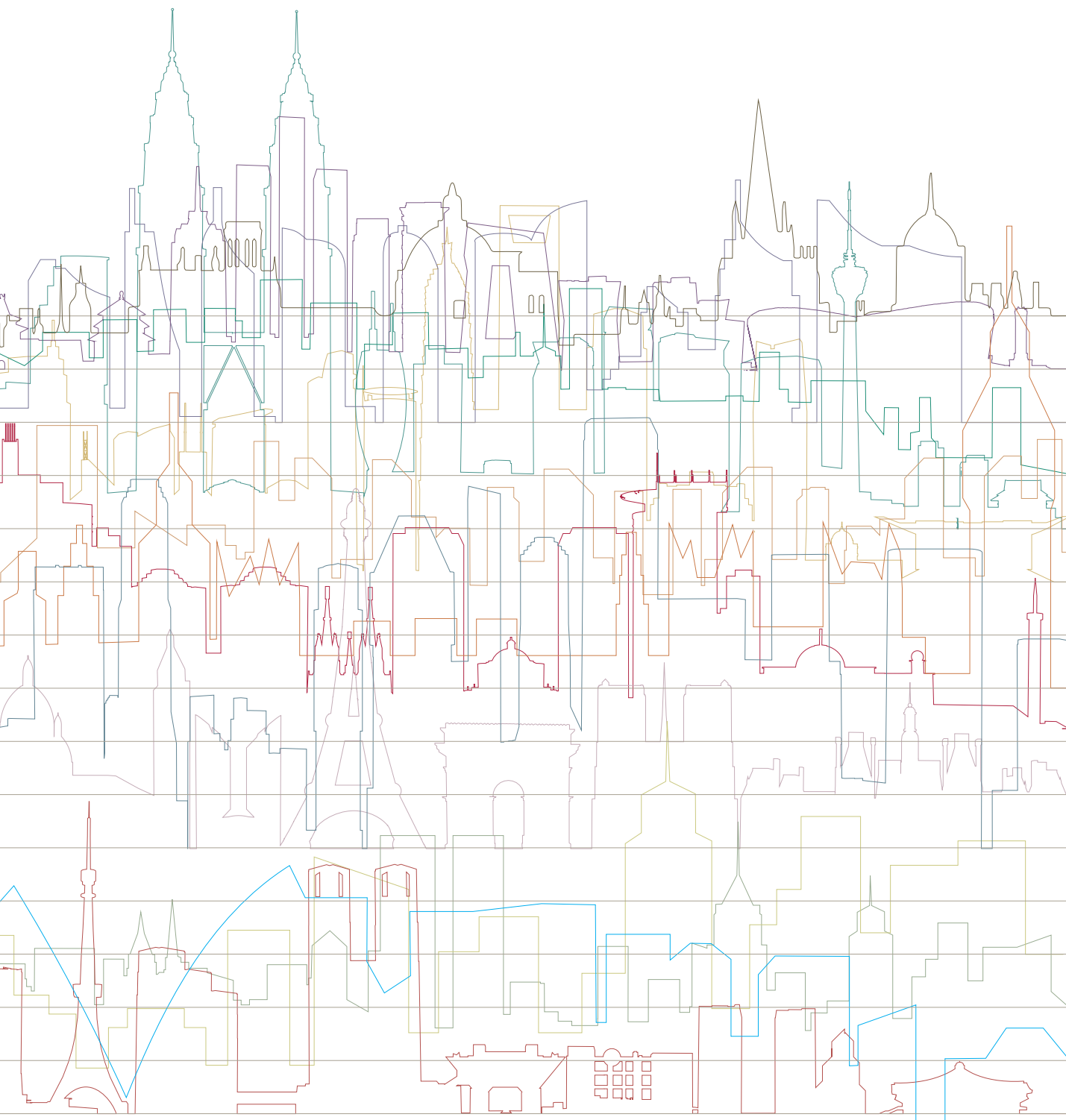




OTCQX: THE US MARKET OF CHOICE FOR INTERNATIONAL COMPANIES



An Introduction to OTCQX

Many foreign issuers are unaware that there are limitations to their investor outreach when solely listed in their home market. For European issuers, there are clear benefits to expanding their corporate footprint through a cost-effective alternative designed to reduce trading frictions and 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 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.

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. This, coupled with the Visibility and Information distribution services offered by OTC Markets, allows issuers to effectively reach US retail and Institutional investors and globalise their investor relations efforts.

In addition, there are no Sarbanes-Oxley and SEC Reporting requirements to trade on OTCQX, thus providing companies listed on foreign exchanges with more efficient options for accessing institutional and private investors in the US

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, and range from well-capitalised US community banks to foreign exchange-listed mega-caps.

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 plc, Imperial Brands, J Sainsbury plc and Marks & Spencer, as well as adidas, BASF SE, Heineken, HUGO BOSS, Repsol, Roche Holding Ltd. and Wal-Mart de Mexico S.A.B. de C.V** have made OTCQX the market of choice for both their ADR and ordinary shares. These industry leaders are among the growing roster of issuers who share a commitment to providing their investors with the highest levels of transparency the premium trading experience the OTCQX Market delivers.

One key consideration of international companies is the impact that choosing to join OTCQX will have on their shareholder base, liquidity and value to the shareholders. This paper highlights the key findings from Oxford Metrica’s research as follows.

Key Results:

1. Liquidity in the issuers’ home market increased 26%
2. Liquidity on the US market increased 67%
3. 128 basis points of value was created for shareholders in the issuers’ home market
4. US Ownership more than doubles after joining OTCQX

The Empirical Evidence

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: *Liquidity, shareholder value and US ownership.*

1. Increased Home Market Liquidity

The primary liquidity benefit from joining OTCQX was measured 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 volume of a security reflect a higher quality of disclosure, improved information flow, operational efficiency in the market and greater shareholder engagement. The 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 1 indicates that after joining OTCQX there is a positive liquidity impact in the issuing company’s home market. The home market is defined as the location of the international issuer’s primary listing outside the United States. On average there is an increase of 26% in a issuer’s daily trading volume on their home market exchange 180 trading days post joining. This indicates the positive impact that is created by joining OTCQX and provides evidence that allowing shares to trade on a market in the US creates additional home market benefits. This finding provides contradictory evidence to a common concern of home market exchanges that trading in the US alongside a home market, can drain liquidity from the home market. In fact, the home market enjoys an improvement in trading volume due to increased interest among investors.

26% INCREASE IN HOME MARKET LIQUIDITY

Furthermore, Figure 2 provides evidence that there is also a positive trading volume impact observed on the US market after joining OTCQX. On average the TVM is 1.67, indicating a 67% increase in daily trading volumes. Therefore, liquidity increases are observed in both the home and US market, benefiting issuing companies, investors and third parties such as home market exchanges.

**67% INCREASE
IN US MARKET
LIQUIDITY**

2. Positive Impact on Shareholder Value

Secondly, the impact on shareholder value was analysed and the value reaction to the event of joining OTCQX isolated. 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 3 presents the average value reaction within the respective issuer’s home market after joining OTCQX. On average, it is evident that there is a positive value reaction after the company chooses to join OTCQX, with 128 basis points of incremental value being created 180 trading days post joining. The value added measured is alpha, which represents the risk-adjusted return 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.

**128 BASIS POINTS
OF VALUE ADDED**

Figure 4 presents the value reaction differential between small issuers, companies that fall into the lower 50th percentile of the population, and large issuers that fall into the upper 50th percentile of the distribution. It is evident from the graph that although smaller issuers initially experienced a greater value reaction in their home market, 150 trading days post joining the differential is only 0.9%. This implies that the size of the issuer is not the major determinant of the observed value reaction metric. International issuers of all sizes are in a position to create value for its shareholders in the home market by joining OTCQX.

3. Growth in US Ownership

Lastly, the impact on US ownership of issuers deciding to join OTCQX was analysed. Figure 5 presents clear evidence that there is a significant increase in US ownership, as a percentage of total shares in issue, one year post the event date of joining OTCQX. 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. Furthermore, the increase in ownership continues to rise after the first year and maintains an average US ownership of over 8.6% over the subsequent years, providing a stable US investment base in the international issuers’ shares. This finding is highly significant to an international company seeking to trade in the United States, as it will allow a diversification of its shareholder base and an increase in investment from US shareholders. The US shareholding is a key driver of the liquidity and value benefits reported above.

**US OWNERSHIP
MORE THAN
DOUBLES**

Broker/Market Maker Perspective

“Issuers whose shares are quoted on the OTCQX often experience greater liquidity and increased market depth, thus allowing for more efficient and active trading in the U.S markets. As a leading U.S. market maker of approximately 3,000 non-U.S. issuers, many of which are quoted on the OTCQX, MCAP has observed consistent patterns of enhanced liquidity and investor engagement.”

Stefan Spath, Managing Director, MCAP LLC
(Member of FINRA | SIPC)

Joining OTCQX: The Process

A simple and efficient process exists for prospective international companies looking to join OTCQX.

Step 1 - Determine the issuer’s eligibility

There are four main initial criteria that a prospective issuer must meet:

- Maintain a listing on a qualified foreign exchange or be an SEC reporting firm
- Not a Shell or Blank Check company
- Not be subject to any bankruptcy or reorganisational proceedings
- Not a Penny Stock

Furthermore, the size, ownership structure and liquidity and operating history will determine if the company is eligible.

Step 2 - Submit letter of introduction

The letter of introduction is prepared by an OTCQX Sponsor, which has been approved by OTC Markets Group, or the company’s outside securities counsel.

Step 3 - Establish a price quotation of shares

A market maker will need to establish price quotes for the prospective company’s shares on OTC link unless one already exists

Step 4 - Submit application forms

Submission of the OTCQX application form, OTCQX agreement and a company logo is required. An application fee of \$5000, is payable.

Step 5 - Upload 3 years of financial reports and material home market news

The issuer must upload three years of financial reports and material news to the OTC Market website in English. The prospective issuer must comply with one of the reporting standards: International reporting standard (SEC Exchange Act Rule 12g3-2(b)) or be fully compliant with SEC reporting obligations.

Step 6 - Once approved submit the annual fee

Current fee is \$20,000 per annum.

A legal perspective

“The OTCQX Market simplifies access to the US capital markets for companies already reporting through their home country exchange. Eligible international companies that make their home country exchange filings publicly available to US investors may utilise Rule 12g3-2(b) under the US Securities Exchange Act to qualify for the OTCQX Market, providing international issuers with a more cost-effective way to trade their securities in the US through either American Depositary Shares or ordinary shares.”

(Andrew Reilly, Partner, Baker McKenzie, Australia)

FIGURE 1. **The rise in the Trading Volume Multiplier™ in the home market after joining OTCQX**

SOURCE: Oxford Metrica

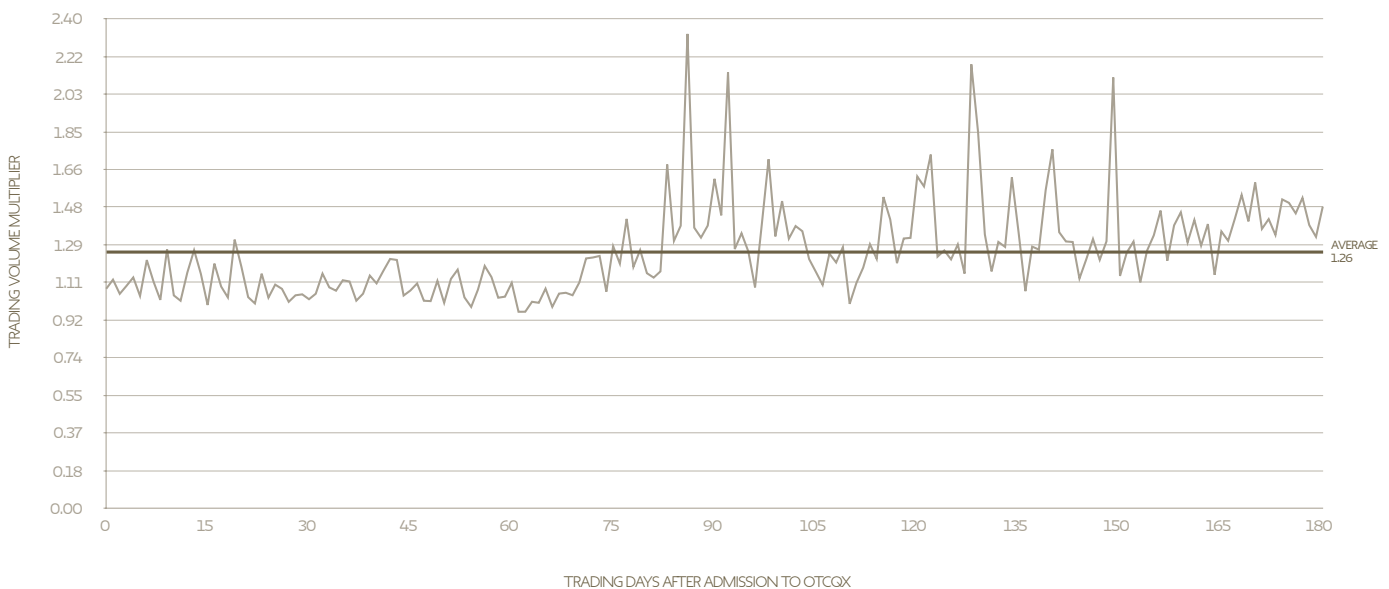


FIGURE 2. The rise in the Trading Volume Multiplier™ on the US Market after joining OTCQX

SOURCE: Oxford Metrica

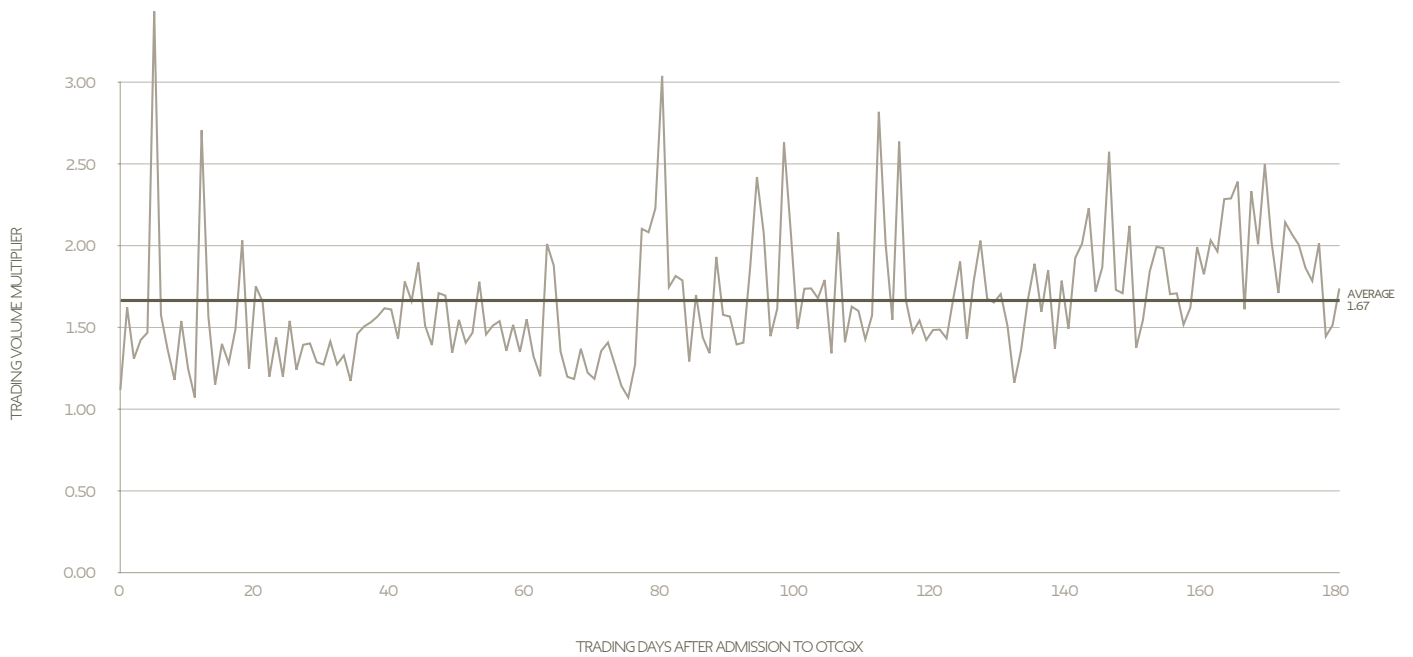


FIGURE 3. The increase in shareholder value in the home market after joining OTCQX

SOURCE: Oxford Metrica



FIGURE 4. The value impact differential between small and large issuers in the home market after joining OTCQX

SOURCE: Oxford Metrica

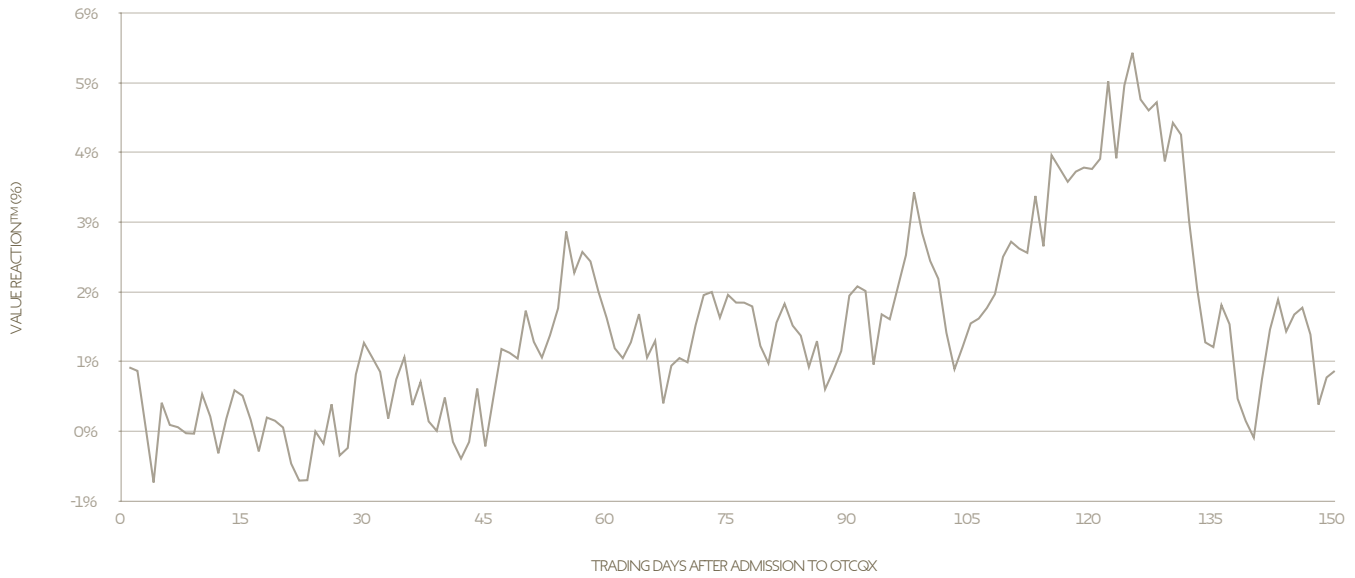
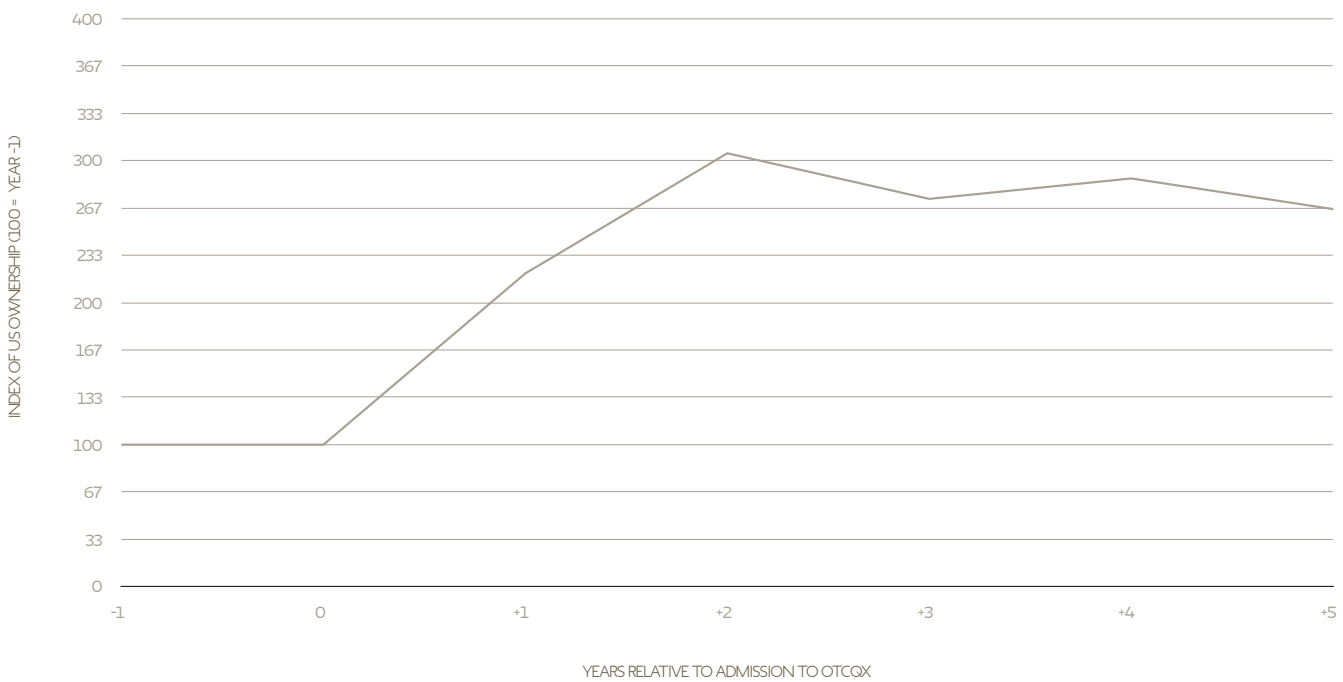


FIGURE 5. The rising index level of standardised US ownership after joining OTCQX

SOURCE: Oxford Metrica



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OTC Markets

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OXFORD METRICA

Oxford Metrica is a strategic advisory firm, offering informed counsel to boards. Our advisory services are anchored on evidence-based research in risk and financial performance. Our work includes statistical analysis and index construction for banks and insurers, risk and performance analytics for asset managers, due diligence support in mergers and highly customised services for corporate boards.

Dr Rory Knight, is Chairman of Oxford Metrica and a member of the Board of the Templeton Foundations. He was formerly Dean of Templeton, Oxford University's business college. Prior to that Dr Knight was the vize-direktor at the Schweizerische Nationalbank (SNB) the Swiss central bank.

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