

# ADRs, VIEs, ABCs?

By

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## American Depositary Receipt, (ADR)

---- what is it?

- -- a form of security, a negotiable certificate
- -- issued by an American bank or broker
- -- represents one or more shares of foreign company stock,
  - held by that bank, in the home stock market of the foreign company

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## Advantages

- --- are just like shares of stock
- --- trade on U.S. exchanges
- --- available through brokers
- --- denominated in U.S. dollars
- --- dividends paid in U.S. dollars
- --- provide method to diversify

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## Disadvantages:

- --- not every foreign company is listed
- --- may involve double taxation
- --- do not grant ownership rights
- --- exchange rate risk
- --- if unsponsored, may not be SEC compliant

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## Variable interest Entities--VIEs

- Background
- China bars foreign investors from Chinese companies
- China likes foreign money
- China has allowed this company form to operate

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## Variable Interest Entity (VIE)

—what is it?

- --- almost any business structure
  - trust, partnership, joint venture
- --- almost always created to protect from creditors
- --- companies controlled by a series of contracts to effect ownership in their assets

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## Advantages:

- --- a way to invest in Chinese companies despite Chinese law
- --- a way for Chinese companies to tap into money from the rest of the world
- --- available on U.S. exchanges
- --- a way to world to diversify into the second largest economy

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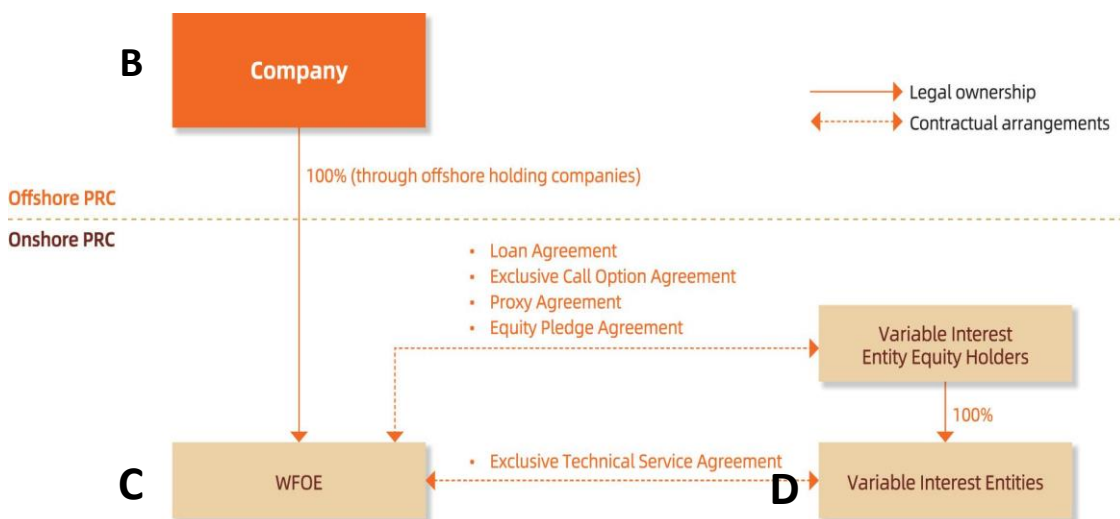
## Disadvantages:

- --- used as a way to hide accounting problems
- --- investors don't own any part of the underlying company
- --- investors have no power to direct action
- --- have no obligation to absorb losses
- --- have no right to any expected returns

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## Typical VIE structure: **A (investor)**



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## Result:

- --- All the value is in the contracts between C, owned by B, and D, owned by Chinese founders/investors.
- --- Contracts give control to C over D
- --- How C accounts to B affects what results A gets
- --- In other words, the money flows into China easily but the other way , not so much.

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# Questions?

# Thanks

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