Introduction to Korean Depositary Receipts

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Solly Lee, Korea Securities Depository
Agenda

1. Overview of Korean Depositary Receipts
2. Merits of KDR
3. Issuance and IPO of KDR
4. Rights Exercise of KDR
5. KDR Conversion
1. Overview of KDR

Depositary Receipt (DR)

Financial instrument issued by a depositary representing underlying shares which the company has issued in the country of incorporation.

Diagram:
- Company
- DR Underlying Shares Custodian
- DR Depository
- CSD

Steps:
1. Appointment of Depositary (Deposit Agreement)
2. Appointment of Custodian (Custodial Agreement)
3. Delivery of Shares
4. Confirmation of Receiving Shares
5. Issuance of DR
1. Overview of KDR

**Korean Depositary Receipts (KDR)**

Depositary receipts designed for listing foreign companies' shares on the Korean markets.

**KDR Depositary**

In Korea, an electronic register can act as KDR depositary, and KSD is the only register that can issue DR in Korea pursuant to the Act.
## 1. Overview of KDR

### KDR Issuance by Foreign Companies

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Country</th>
<th>Listing Date</th>
<th>Primary Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blockchain Group</td>
<td>Cayman Island</td>
<td>Nov. 2007</td>
<td>HKEx(Delisted)</td>
</tr>
<tr>
<td>B2I Japan</td>
<td>Japan</td>
<td>Oct. 2008</td>
<td>Non-listed</td>
</tr>
<tr>
<td>China Gaoxian</td>
<td>Singapore</td>
<td>Oct. 2010</td>
<td>SGX(Delisted)</td>
</tr>
<tr>
<td>SBI Mortgage</td>
<td>Japan</td>
<td>Apr. 2012</td>
<td>Non-listed</td>
</tr>
<tr>
<td>SBI Fintech solutions</td>
<td>Japan</td>
<td>Dec. 2012</td>
<td>Non-listed</td>
</tr>
<tr>
<td>Access Bio</td>
<td>US</td>
<td>May. 2013</td>
<td>Non-listed</td>
</tr>
<tr>
<td>Englewood Lab</td>
<td>US</td>
<td>Oct. 2016</td>
<td>Non-listed</td>
</tr>
<tr>
<td>Kolon TissueGene</td>
<td>US</td>
<td>Nov. 2017</td>
<td>Non-listed</td>
</tr>
<tr>
<td>JTC</td>
<td>Japan</td>
<td>April. 2018</td>
<td>Non-listed</td>
</tr>
<tr>
<td>SNK</td>
<td>Japan</td>
<td>May. 2019</td>
<td>Non-listed</td>
</tr>
<tr>
<td>Psomagen</td>
<td>US</td>
<td>July. 2020</td>
<td>Non-listed</td>
</tr>
<tr>
<td>Me2zen</td>
<td>Hongkong</td>
<td>August. 2020</td>
<td>Non-listed</td>
</tr>
</tbody>
</table>
## 2. Merits of KDR

| **Issuers’ Viewpoint** | **1** Easy to address the conflict of laws between the countries of incorporation and circulation  
| | **2** Inexpensive costs for seeking legal advice  
| | **3** Diversification of fund-raising markets and securing new investors |
| **Investors’ Viewpoint** | **1** An opportunity for international portfolio diversification  
| | **2** A possible means of arbitrage trading  
| | **3** Convenient to acquire or transfer  
| | **4** No need for currency exchange |
3. Issuance and IPO of KDR

KDR Issuance Procedure & Relevant Parties

Overseas

Issuing Company

Underlying Share Issuance & Deposit

Underlying Share Custodian

KSD A/C

Korea

Listing Application

KRX

KDR Deposit Agreement

KSD

KDR Depository

CSD

KDR Issuance & Credit

Broker A

Broker B

Broker C
4. Rights Exercise of KDR

**Indirect Right Exercise**

KDR Holders can exercise rights only through KSD (Depositary)
- KDR Holder → Broker → CSD → KSD → Custodian → Issuer

**Direct Right Exercise**

KDR Holders need to convert KDRs to underlying shares and exercise rights as shareholders
- Minority Shareholder Right (Shareholders' right to proposal, etc.)

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**Diagram Description**

- **KDR Holder**
- **Issuing Company**
- **Custodian**
- **Disclosure Agent**
- **KSD**

1. Notification of Record Date, etc.
2. Notification of Record Date, etc.
3. Notification of Right Exercise
4. Right Exercise
5. Right Exercise
6. Right Exercise
4. Rights Exercise of KDR

(1) Voting rights

OVERSEAS

Issuing Company

① Notification of the record date of GM
② Notification of the date & time, place, and agenda

④ Attending and exercising the voting right

KOREA

KSD

③ Notification of voting on agenda items

KDR Holder

② Notification of the date & time, place, and agenda
4. Rights Exercise of KDR

(2) Dividends

Issuing Company

① Notification of Record Date and details on dividends

⑥ Dividend Payment

Custodian

④ Notification of residence and the number of DR held

② Request for residence reporting

Local Tax Authority

⑤ Calculation of Tax Withholding

⑨ Tax Payment

KOREAS

KSD

( FX )

③ Notification of residence and the number of DR held

⑦ Payment of after-tax dividends

⑧ Dividend Payment

KDR Holder

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5. KDR Conversion

- Share Conversion into KDR
- Sell KDRs
- KDR Cancellation to Shares
- Sell Underlying Shares
- Underlying Shares Price
- KDR Price
- Underlying Shares Price
- Arbitrage Trading
5. KDR Conversion

1. From Underlying shares to KDR (KDR issuance)

- Overseas Agent
  - 2. Instruction for delivering Underlying shares
  - 3. Underlying shares transfer to KSD a/c with custodian

- Korean Broker
  - 3. Application of KDR conversion & Request for KDR issuance
  - 6. KDR issuance & credit to Broker a/c

- Custodian
  - 4. Instruction for receiving Underlying shares

- Shareholder
  - 1. Application of KDR conversion & Instruction of KDR receipt
  - 5. Receiving Confirmation
5. KDR Conversion

2. From KDR to Underlying shares (KDR cancellation)

OVERSEAS

2. Instruction receiving Underlying shares

3. Request for KDR cancellation
   → Set limitation of disposal of KDR

5. Transfer Underlying shares to shareholder a/c

4. Instruction for delivering Underlying shares

Custodian

6. Delivery Confirmation

KOREA

1. Application of KDR cancellation

7. Debit KDR from broker a/c

Korean Broker

Overseas Agent

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Thank you!

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