Finance ministry may allow ADR/GDR issuance for debt

Indian investors holding government debt or equity in a company may soon be able to encash these overseas at attractive prices through liberalised access to the American depository receipt (ADR) and global depository receipt (GDR) markets.

India is readying a big-bang overhaul of norms governing overseas fund raising that will allow local companies and institutions access to the entire range of the ADR/GDR markets.

At present, ADR/GDR markets can only be accessed through equity as the underlying instrument. Under the new regime, corporate debt, government debt and other instruments could also be used as underlying assets to raise funds overseas.

Under the most liberalised terms envisaged, the scheme could also allow depository receipts against warrants and even convertible bonds.

The finance ministry is also looking to allow level-1, level-2 and unsponsored ADRs, which are less regulated and easier to access. "The new scheme will be announced soon," said a senior finance ministry official. The changes required in the income-tax laws will be carried out in the full budget in July to make the scheme fully operational.

The government had a few months back allowed unlisted companies to list overseas as part of its capital markets' liberalisation plan, and allowing access to all categories of instruments is a logical culmination of this process.

The finance ministry will make the MS Sahoo panel report on overhaul of the ADR/GDR regime public soon. This has suggested far-reaching reforms that the finance ministry is inclined to accept. "There is no logic in allowing one category and not allowing the other in the current situation," said a person with knowledge of the panel's recommendations. "India has permitted overseas issuance only for capital raising-...This is being changed now... investors who hold equity or debt should be able to cash out to whoever they wish to," said the person cited earlier.

In an unsponsored ADR, any shareholder, without the backing of a company management, will be able to sell equity to a depository that will then issue receipts in lieu of that to those interested.

A level-1 ADR is the most liberal form of a depository receipt that allows a non-US firm to test the US equity markets with minimal reporting requirements from that country's Securities and Exchange Commission (SEC).

In a sponsored level-1 offering, a company aggregates the shares held by local investors who may want to sell their holding and offers them to the US market through ADRs. The proceeds of the ADRs go to the investors, but the company gets to test the appetite for its shares in the US, allowing it to raise fresh equity there through a level-3 offering later.

India currently allows only level-3 ADRs, which involve capital raising and listing on regular exchanges and greater disclosures.

(Economic Times)