

Global Depository Notes (GDNs)

A Global Depository Note (GDN) is a debt instrument created by a depository bank, such as Citibank, that evidences ownership of a local currency-denominated debt security. GDNs emulate the terms (interest rate, maturity date, credit quality, etc.) of particular local bonds; however, they trade, settle, and pay interest and principal in U.S. dollars, and are Euroclear/Clearstream/DTC-eligible.

Introduction

Investors of emerging market debt securities are constantly seeking convenient means in which to purchase local currency denominated debt issued in jurisdictions where offshore settlement is unavailable.

In the absence of Euroclear/ Clearstream/ DTC settlement, local bonds are required to be settled and maintained using a local custody arrangement, which offshore investors may not have access to.

As a solution for the challenges related to investing in these local bonds, Citi Depository Receipt Services, based on experience with American Depository Receipts (ADRs) and Global Depository Receipts (GDRs), developed GDNs. Like ADRs and GDRs, GDNs represent local securities that are transacted in U.S. dollars and settle in Euroclear/ Clearstream/DTC.

Ultimately, GDNs expand the universe of emerging market debt securities available to investors who prefer or are mandated to transact in U.S. dollars and/or settle securities transactions DVP/RVP in Euroclear/Clearstream/DTC.

Transacting in GDNs

Establishment of a GDN Program

Citi Depository Receipt Services will generally establish a GDN program in a respective jurisdiction in response to investor demand.

The process for establishing a GDN program involves a variety of tasks that are undertaken by the depository bank:

1. Conduct a legal due diligence exercise in order to ensure the viability of the GDN structure in the context of the country's regulatory framework.
2. Implement a local custody arrangement whereby the depository bank holds the underlying local bonds on behalf of the GDN holders.
3. Create the GDN facility (pursuant to Reg S and Rule 144A) in order to allow for the issuance of GDNs.
4. Secure eligibility for trading and settlement of the GDNs in Euroclear, Clearstream and DTC.

Issuance and Cancellation

The acquisition of GDNs by an investor is normally achieved through the "issuance" of GDNs by its broker-dealer, considering the following:

- If the investor's broker-dealer is long the applicable local bonds, the broker-dealer can deposit the bonds into the depository bank's custody account in the local market for the creation/ issuance of GDNs.
- If the investor's broker-dealer is not long the applicable local bonds, the broker-dealer can purchase the local bonds in the local market and deposit the bonds into the depository bank's custody account for the creation/ issuance of GDNs.

Benefits at a Glance

- Expanded universe of emerging market debt securities available to investors
- Facilitation of Euroclear/ Clearstream/DTC eligibility on local bonds where previously unavailable
- DVP/RVP settlement versus U.S. dollars
- Access to local market liquidity afforded by fungibility between the GDNs and the underlying bonds
- Ability to trade with multiple broker-dealers



- Alternatively, to the extent there are previously issued GDNs available in the open market, the investor's broker-dealer may not need to create/issue new GDNs.

The disposal of GDNs by an investor is normally achieved through the "cancellation" of GDNs by its broker-dealer, considering the following:

- The broker-dealer can sell the underlying bonds in the local market while simultaneously requesting that the depositary bank cancel the GDNs and therefore deliver the underlying bonds to the broker-dealer in the local market so that the broker-dealer can settle its trade.
- Alternatively, to the extent there is demand for the GDNs among offshore investors, a cancellation may not be necessary.

Liquidity

As a result of an investor's ability to issue and cancel GDNs, i.e., fungibility, the liquidity of the GDNs is typically equal to that of the underlying local bonds. Likewise, the GDNs and the underlying local bonds will usually trade in parity.

Additional Features

Cash Distribution

When the local bond pays interest/principal in local currency, the depositary bank arranges for the funds to be converted into U.S. dollars for distribution to GDN holders.

The method for determining the currency conversion rate is formulated when a GDN program is established. Typically, this calculation will consist of a fixed spread over a published rate. Industry conventions are considered when formulating the calculation.

GDNs for Issuers

A GDN program can also be proactively employed by an issuer of local bonds as a mechanism to expand distribution in a primary market offering transaction.

Role of the Depositary Bank

As the depositary bank for GDNs, Citibank conducts a variety of administrative/operational/asset servicing functions, including: establishing GDN programs, facilitating the issuance and cancellation (fungibility) of GDNs and the underlying bonds, and converting local currency into U.S. dollars in relation to interest and principal distributions made to GDN holders.

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CBS38108 03/24