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GDR regulatory policies are tightening! Since June, 7 A-share companies have terminated their issuance plans. Will this trend continue?

Industry insiders pointed out that GDR will be subject to more stringent scrutiny in the future, and the market will develop in a more cautious manner.

Recently, A-share company Tianwei Food announced the termination of GDR issuance. Choice data shows that since June this year, seven A-share companies including Yuyue Medical, Jerry Holdings, and Tianneng Holdings have announced the termination of GDR issuance.

The reason given by Tianwei Food for the termination of GDR issuance is that in view of changes in objective factors such as the internal and external environment, through a comprehensive review of the company's financial and operating conditions, capital needs and strategic development planning, and full consideration of shareholder suggestions, the company and After in-depth discussion and careful analysis, the relevant intermediaries decided to terminate the overseas issuance of global depositary receipts.

The so-called GDR stands for Global Deposit Receipt. At the end of 2021, the China Securities Regulatory Commission expanded the business scope of the "Shanghai-London Stock Connect" and expanded the European market to Switzerland and Germany.

On the other hand, since June, the number of companies issuing GDR financing in Europe has decreased significantly. Wind data shows that only two companies, Dongwei Technology and Huayou Cobalt Diamond, have successfully issued GDRs.

However, there are still 20 companies queuing up to issue GDRs.

In fact, since May, supervision has introduced more detailed regulations on GDR listed companies.

On May 16, the China Securities Regulatory Commission issued the "Guidelines on the Application of Regulatory Rules - Overseas Issuance and Listing Category No. 6: Guidelines for the Overseas Issuance of Global Depository Receipts by Domestic Listed Companies" ("Guidelines"), which regulates the conversion of overseas issuances of domestic listed companies into domestic Depository Receipts (GDRs) Act on the Underlying Shares.

On July 18, the Shanghai and Shenzhen Stock Exchanges announced the latest "Interim Measures", which were revised in three aspects: establishing enterprise threshold requirements, increasing exchange review links, and strengthening information disclosure supervision. In early June this year, the Shanghai and Shenzhen

Stock Exchanges also publicly solicited opinions from the public on the "Interim Measures".

Drew Berstein, co-founder and co-chairman of Marcum Asia accounting firm, analyzed that these regulations require that the amount of funds raised is reasonable and has a clear investment purpose that is consistent with the company's core business activities and industrial policies.

Berstein said that for A-share listed companies, GDR is a very attractive tool to enter the international stock market. There are concerns that hedge funds or domestic investors will use the GDR as a means of domestic stock arbitrage, which could destabilize the stock market. It is expected that GDR will be subject to more stringent scrutiny in the future, and the market will develop in a more cautious manner.

Wang Hongying, president of the China (Hong Kong) Financial Derivatives Investment Research Institute, told Jiemian News that due to some competition between China and the United States in the field of technology, the threshold for financing Chinese companies on the New York Stock Exchange has been relatively raised. So this year more and more companies are entering the European market, that is, using GDR to raise funds in the European capital market, so this is a big development trend.

Wang Hongying believes that due to the introduction of corresponding new regulations by the China Securities Regulatory Commission, mainly considering the previous defaults of a few companies, the threshold for issuance of GDRs in the European capital market has been raised to a certain extent, and there is a trend of tightening policies. For example, the average market capitalization will reach more than 20 billion yuan in a period of time, which directly makes it difficult for some companies to go to

Europe for financing, resulting in a decline in the scale of GDR financing throughout the second half of the year.

He pointed out that from a large perspective, the economy and trade between China and Europe, especially the cooperation in the capital market, are stable and making progress, especially in the relatively weak A-share and Hong Kong stock markets, as well as the financing situation of the New York Stock Exchange. Affected by some factors, from the perspective of international financing, the issuance of GDR in the European market will be an important financing channel for many companies, especially those carrying out international development.

Wang Hongying judged that looking forward to 2024, the overall financing scale of GDR will show a structural increase.

Zhu Zhengqin, head of UBS Global Investment Banking in China, pointed out that under the new regulations, domestic listed companies also need to prepare new materials. In other words, compared with the previous GDR issuance materials, supervision has stricter requirements on application materials, especially those related to raising funds.

She said that the new regulations are conducive to selecting more high-quality issuers with clear and qualified fundraising needs, and guiding issuers to choose appropriate financing products based on their own circumstances and actual needs for raising funds.