







CANADIAN DEPOSITARY RECEIPTS

Get exposure to global stocks, in Canadian dollars



A more Canadian approach

In order for Canadian investors to geographically diversify their investments they face both foreign exchange costs in order to purchase stocks in a foreign currency and exchange rate risk from holding stocks traded in a foreign currency. Canadian Depositary Receipts (CDRs) are an investment product that addresses these issues by reducing the barriers and costs associated with global investing, making it easy for Canadian investors to gain exposure to the world's markets.

-  Exposure to US and European stocks in Canadian dollars
-  More affordable access to the world's largest companies
-  Buy or sell like any ordinary stock or ETF
-  Eliminates need to convert Canadian dollars into a foreign currency
-  Offers protection against currency fluctuations
-  Low foreign exchange costs

There is a diverse selection of CDRs available to trade in the Canadian market, which can be found on the CDR Directory page of the [CDR website](#). You can invest in recognizable companies such as Amazon, Berkshire Hathaway, Google, Nvidia, and more.

Key features of CDRs

Trades in Canadian Dollars

Each CDR trades on a Canadian stock exchange in Canadian dollars. This means that Canadian investors do not need to convert their Canadian dollars to foreign currencies in order to get exposure to US and European companies.

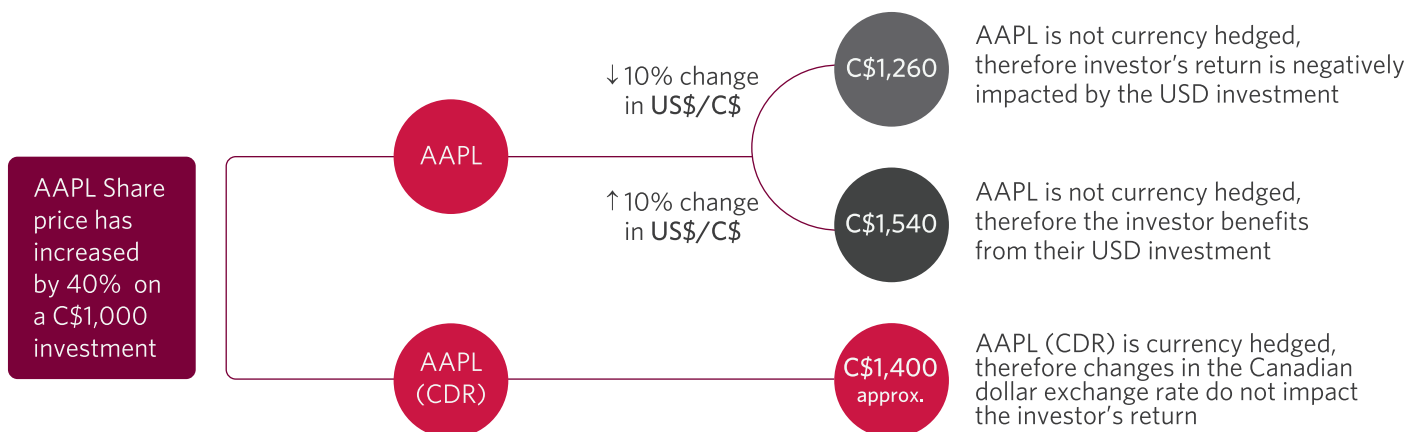
Lower trading price

Each CDR is similar to owning a fractional number of shares of a global company's stock. The specific number of shares that each CDR represents is called the "CDR Ratio." For example, if the CDR Ratio is 0.20, this means that an investor would have to purchase 5 CDRs for the proportionate exposure to 1 underlying share. When CDRs are initially listed on an exchange, the price per CDR is set at approximately C\$20. In comparison, shares of many of the largest companies in the world trade at significantly higher prices. This means CDRs make investing in these companies more accessible to the average investor.

Offers protection against currency fluctuations

When Canadian investors directly purchase foreign shares they not only have exposure to changes in the share price but also to the volatility of the foreign currency. CDRs have an embedded notional currency hedge to mitigate this risk. The CDR ratio is adjusted daily to account for the notional currency hedge. For example, for CDRs representing interests in US shares, if the Canadian dollar increases in value compared to US dollars, then the notional hedge protects the CDR investor and the CDR Ratio is adjusted to represent a larger number of underlying shares for each CDR. Conversely, if the Canadian dollar decreases in value compared to US dollars, the CDR Ratio is adjusted to represent a smaller number of underlying shares for each CDR.

The diagram below illustrates how the notional currency hedge works. In the example, a Canadian investor's hypothetical Canadian dollar returns from purchasing Apple Inc. shares (AAPL) in US dollars are compared to returns from purchasing Apple CDRs (AAPL (CDR)) in Canadian dollars. With CDRs, changes in the exchange rate do not impact an investor's Canadian dollar returns due to the notional currency hedge (though some tracking discrepancies may arise due to the spread embedded in the notional FX forward rate used to provide the hedge, as well as the difference between short-term interest rates in the foreign country and Canada). Instead of considering returns on the shares and changes in the USD/CAD exchange rate, investors can just focus on the share performance.



Will I receive dividends?

Any dividends paid on the reference shares underlying CDRs will be paid to CDR investors in Canadian dollars, which may be subject to withholding in the same manner as if the underlying shares were directly held by the investor. – See the discussion below regarding tax implications.

Do I have voting rights?

CDR investors will be entitled to indicate how to exercise voting rights on the underlying shares by giving CIBC instructions through CIBC's online voting portal at cdr.cibc.com. CIBC, as the Depositary, will then use its commercially reasonable best efforts to vote the underlying shares in accordance with the investors' instructions. The number of shares each investor can vote will depend on how many CDRs they hold and how many shares each CDR reflects (i.e., based on the CDR Ratio).

Is it easy to buy and sell CDRs?

Each Series of CDRs is listed on a Canadian stock exchange, and CDRs can be traded like other stocks and ETFs.

The liquidity of a common share of a company is based on the average daily traded volume on the exchange. Generally, liquidity is the ability to buy or sell an asset easily and at a fair price. With CDRs, instead of just looking at the CDR's average daily traded volume to determine liquidity, it is important to consider the volume traded on the underlying company's share. This is similar to the trading mechanics that apply for exchange-traded-funds (ETFs). In order to provide market liquidity CDRs will reference highly liquid global shares that trade on major exchanges. For Global CDRs that track companies outside of North America, liquidity is expected to be highest when the foreign market hours overlap with Canadian market hours. Generally, bid/ask spreads for Global CDRs tracking European companies will be the tightest between 9:30 – 11:30am EST time.

Best practices when buying or selling CDRs are similar to those for ETFs. In particular, investors may wish to consider placing a limit order, which specifies the price at which the investor is willing to buy or sell the CDRs, but investors also have the option to place market orders to buy or sell CDRs. Market orders are filled as soon as possible at the currently available price quoted on the Canadian stock exchange.

Are there any fees?

While CDRs do not have any ongoing management fees, CIBC earns revenue for providing the notional currency hedge. The FX forward rate used for the notional currency hedge will on average have a spread of up to 0.60% per year. This FX forward rate is posted daily to the directory on the [CDR website](#).

Although the goal is to retain as much of the annualized return of the underlying as possible, there are a number of factors that impact the tracking performance of currency hedging programs. These factors include fees; currency and equity volatility; differences in short-term interest rates in Canada and the corresponding country; and the frequency of rebalancing the notional currency hedge. As a result, investors should expect some difference in the annualized return between the CDR and the underlying share, which may be greater than the per annum spread that CIBC earns.

What are the tax implications?

Every investor must consider their own tax advice and CIBC does not offer tax advice. It is the expectation that the Canadian tax consequences of owning CDRs will be the same as if the investor held the underlying security directly. Taxes may be withheld by the CDR company's local or national government or tax authority. For example, for an underlying security issued out of the US, an investor may be subject to US withholding taxes. For this purpose, an investor should provide their broker-dealer an applicable U.S. Internal Revenue Service Form W-8 (i.e., Form W-8BEN for Individuals, W-8BEN-E for Entities, etc.).

No United States person within the meaning of Section 7701(a)(30) of the U.S. Internal Revenue Code (a "U.S. Person") may be a Holder of CDRs of any Series or enter into any transaction for the purchase or acquisition of CDRs of any Series.

CDRs are qualified investments that can be held in TFSAs, RRSPs, RRIFs, RESPs, DPSPs and RDSPs.

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