# Arbitrage: Depository Receipt

A depository receipt is a vehicle representing firm shares in a firm's domestic market. It is issued by banks, which purchase a specific number of foreign shares and sell depository receipts claiming ownership of those shares to investors. Each depository receipt represents a specific number of common or preferred shares from a share issuer. Depository receipts split into two categories: American Depository Receipts, labeled ADR and Global Depository Receipts, labeled GDR.

Depository receipts can trade at a higher or lower value in relation to other receipts and to the underlying preferred or common shares. Differences in these values open arbitrage possibilities. If depository receipts are worth more post conversion than open market shares, funds will short receipts where possible and buy shares. If receipts are worth less post conversion than open market shares, funds will purchase receipts and short shares. As the spread narrows unrealized profit is generated. It becomes realized at sale of purchased assets and closing of the short sale. If the spread widens, losses occur.

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