TD Direct Investing

A Guide to International Trading

Introduction

Most countries with market economies have established stock markets. This is because a stock market is one of the most important ways that a company can raise money for its various needs, typically the capital required for further growth and expansion. Some are even older than those in the UK. For example, the New York Stock Exchange (NYSE) dates back to 1792. Others have been established more recently as a foreign country's economy has developed. Stock Exchanges now exist even in the most far-flung countries such as Uzbekistan, Swaziland, Mongolia and Peru. While some remain inaccessible to self-directed individuals or are restricted to the nationals of the particular country, many are available for UK residents to trade on and this applies particularly to the well-established market economies of North America, Europe and the Far East.

This eGuide sets out to inform you of what is involved with international equity trading, highlighting some of the opportunities, the main differences to look out for, what you will need and the risks involved.

To really appreciate international equity dealing it is wise to develop a good working knowledge of, and experience in, the UK marketplace before venturing further afield. To help you understand these concepts further then please refer to TD's UK-based Stock market and Shares eGuide if you have not already done so.

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What is international trading?

Regulated International stock markets operate under rules and regulations that are broadly similar to those found in the UK. However each foreign country and stock exchange may have unique features and be regulated differently as well as having basic differences such as opening hours, holidays and perhaps languages. While selecting shares will also be broadly similar, dealing overseas also introduces currency risk, whereby even if the share price rises this can be impacted by fluctuations in the value of the currency the share is traded in against the value of UK Sterling.

Many UK brokerages now provide direct access to the shares of foreign companies that are traded abroad. While some companies may be listed on the exchanges of a number of countries including the UK, many can only be accessed in their "home" domestic market, and this even includes many that are instantly recognised around the world. As with UK shares, direct access online and by telephone has become increasingly straightforward, meaning that there are many parallels to UK share trading.

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What is international trading?

To familiarise you with some internationally traded stocks, we've noted the top 3 most traded companies within North America, Europe and the Far East (based on trades within a two month period as of September 2013).

Region	Country	Stock Exchange*	Well Known Company Listings*
North America	United States	NYSE	Citigroup, Bank of America, 3 D Systems
		NASDAQ	Apple, Facebook, Tesla Motors
	Canada	Toronto SE	Horizons Betapro, Westernza, Pretium Resources
Europe	Germany	Frankfurt Xetra SE (Deutsche Börse)	Commerzbank, K&S, BMW
	France, Netherlands, Belgium	NYSE Euronext (Paris, Amsterdam, Brussels)	BNNP Paribas, Total S.A, Arcelormittal
	Spain	Bolsa de Madrid	Bank IA, Banco Santander, Telefonica
	Sweden	Stockholm SE	Arcam AB, Ericsson B, Sandvik AB
	Switzerland	SIX SE, Zurich	Nestlé, Roche Holdings, Novartis
	Italy	Milan Borsa Italiana	Saipem, Fiat, Unicredit
	Republic of Ireland	Irish SE, Dublin	Bank of Ireland, Allied Irish Bank, CRH
Far East	Singapore	SGX Singapore	Yoma Strategic Holdings, Jardine Matheson, First Reit
	Hong Kong	Hong Kong SE	West China Cement, Tencent Holdings, Galaxy Entertainment
	Australia	Australian SE, Sydney	Dart Energy, Woodside Petroleum, Silver Lake Resources

*The Stock Exchanges and Companies named above are examples used for illustrative purposes only and do not constitute a recommendation to trade. Check the Exchanges available with your broker.

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What is international trading?

There are of course many more Exchanges than this and literally thousands of international company shares that can be directly traded. Many countries have more than one exchange, where these have grown up in competition or specialise in certain shares, for example in the shares of smaller companies. Not every broker will choose to offer "access to" every stock market but those in Europe, the Far East and especially North America are the largest and most well-established.

In terms of size, the North American markets are unsurprisingly the largest by market capitalisation of the companies listed. NYSE is the largest, followed by NASDAQ. These are enormous and dwarf all others, with billions of dollars-worth of shares traded every year. Tokyo is third, ahead of London as the fourth largest. Other familiar locations include Hong Kong (6th), Toronto (7th), Sydney (9th) and Frankfurt (10th). (Source: world-stock market data 2011).

Furthermore, as with UK market indices like the FTSE100, you'll also see similar indices quoted that measure the performance of the market, for example the S&P500 (USA), CAC40 (France), DAX (Germany) and Hang Seng (Hong Kong).

Some large global stock markets remain difficult for a UK investor to access directly, for example the newly emerging market economies of countries such as Brazil, Russia, India and China, where regulations and technology access are still under development.

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Why look to markets beyond the UK and what are the risks?

International markets bring new opportunities for investors, though this is not without risk.

Firstly, more markets mean more choice. This may particularly be the case with certain market sectors, like banking or natural resources, technology and automotive industries. In addition, famous foreign brands that are listed only in their home country can also be accessed.

Foreign markets also offer you the ability to extend your trading day beyond UK market hours making it possible to participate in many markets round-the-clock.

It may also be advantageous to consider international trading as a way of diversifying your investment portfolio geographically and spread your equity investment risk. For example, many countries or industries may be at different stages of the economic cycle to that of the UK, meaning that opportunities for growth may exist abroad that may be more attractive than those at home. This may in turn be impacted by the stability of foreign governments, economies and their business legislation.

No opportunity comes without a degree of risk. It is easy to understand that a favourable economic or political situation could change, or that a foreign country be subject to unforeseen natural disasters, all of which could impact the performance of the company shares, and this should always be kept in mind when investing, whether at the outset or through the life of your shareholding.

Equally, the laws of the country involved and foreign market legislation will be different and can change. Different territories may also have different cultural and social values. You may wish to consider how those differ to your own, particularly if you are concerned with social or environmental responsibilities or the ethics about how a company conducts its business. Language barriers should not be underestimated. While the accepted language of International commerce is English, that is of course not necessarily the native language of other countries.

Some or all of these factors may equally have a bearing on how you choose to invest in the UK, but these differences should be considered by all investors.

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Why look to markets beyond the UK and what are the risks?

One risk which is unique to International trading will be currency risk, which will always be present because other countries operate their own currencies, different to that of UK Sterling. This is also often known as Exchange Rate risk and is unavoidable, so will impact every foreign investment. The value of the foreign currency against UK Sterling is a risk to your capital.

Currency markets themselves can be highly volatile and react quickly to economic and political events as well as to the relative strengths of the foreign country versus the UK. As your international investment will be bought and possibly held in the currency of the foreign market any losses or gains made according to the Company performance will also be affected by fluctuations in these exchange rates, as anybody that has ever taken a foreign holiday abroad will have experienced. The value of UK Sterling versus the US Dollar or the Euro may be familiar, more minor or exotic currencies less so.

While fluctuations can work in your favour to increase the value of your investment it is wise to remember that it can work against you just as easily. It could, for example, make the foreign shares you are interested in more expensive to buy, reduce the growth of your investment over the time held or reduce the value of the shares when you come to sell. As well as intra-day currency fluctuations there can be longer term trends that can eat into your profits or magnify losses. Do therefore bear in mind the outlook for currency movements with international shares when considering foreign investment and be prepared to take action.

How do I trade internationally?

Thanks to developments in communications it is possible to trade many markets online and even by mobile devices in addition to more traditional telephone based access. Before you start, check how **access** to the market is provided through your chosen broker. As we have seen, some markets may not be offered while others may be restricted to a telephone only service. The method of trading is then broadly similar to how you would trade equities on the UK market but check that the broker can provide you with the online tools you need to make informed decisions. Charting packages, international news and market prices may all be available online to assist you. As with many efficient and low cost services, online dealing may be offered more cheaply than by telephone.

The mechanism for trading will be similar to that of the UK and involve placing an order for the shares, settling them in the market, ensuring you have the required currency to exchange for the value of the shares and the holding them securely until you come to sell. If you have experience in the UK market this process will be familiar to you and is described in more detail in the **Stock market and Shares eGuide**. International trading will require a **nominee** facility to hold your investments electronically and deal with any Corporate Actions, as certificated paper-based systems would either be too cumbersome or simply not be operated in some foreign markets.

If you have an international share certificate it may be possible to dematerialise this into your nominee account, check with your broker whether this is a service they can offer.

You will therefore need an account to be able to trade. For maximum convenience you could consider a broker that can consolidate your international investments with any that you have in the UK within a single account. Not only is this administratively convenient, it also means that you can make all your trades from a single account and can see the value of all the holdings in your portfolio at a glance. Ask your broker if they operate a **"multimarket"** account for this purpose.

Indeed, you can take this concept one stage further, by asking your broker if they provide a **multicurrency** account to hold your cash. This means that in addition to UK Sterling you will be able to hold your cash and investments in the underlying foreign currency without the need for a foreign exchange transaction every time you trade. Popular foreign currencies are US Dollar, Canadian Dollar, Euro, Singapore Dollar, Hong Kong Dollar, Australian Dollar and Swiss Franc.

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How do I trade internationally?

Always read the **Terms of Service** beforehand as this will state how the account will operate, what the brokers' responsibilities will be and what the service is that you are agreeing to. For your own benefit and protection you should carefully read the Terms and Conditions, as well as your broker's best execution disclosure document. If you do not understand any point you should ask for further information before you start to trade, as the Terms and Conditions will form a contract between you and your broker.

In the UK, investment business is carefully monitored and regulated by the Financial Conduct Authority (FCA) and this includes the holding of international equities. This, alongside European Union legislation, provides detailed rules to ensure customers are treated fairly and can trust that their assets are safely held on their behalf. In addition, there are financial compensation schemes that guarantee customer shares and cash to set limits should the platform become insolvent.

In the Terms & Conditions you should particularly check their arrangements for the safe custody of international investments. This is because as these are non-UK securities they may be held overseas by a custodian that could be a bank, intermediate broker or settlement agent. In such cases different settlement, legal and regulatory requirements may apply compared to those that apply to UK investments. This means that in the event of the custodians' insolvency your investment and any compensation arrangements could be different from those that would apply if the investment was held in the UK

In addition to the Terms of Service, when you first trade internationally you will be asked by your broker to read and sign an **Exchange Agreement**. This is a document that explains the terms under which market data is provided and most exchanges have their own. This document should be read carefully and signed to confirm you understand how the exchange works and the terms under which it operates. Most exchanges have their own version and you may be able to do this online. Some brokers like TD operate a single amalgamated agreement which covers all available exchanges so you only need do this once.

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How do I trade internationally?

Some brokers are known as a Qualified Intermediary (QI). The agreement that these QI's have with the US Internal Revenue Service (IRS) allows them to pay US sourced income with a lower rate of withholding tax applied, but only where a customer has provided the relevant documentation and resides in a country with a double taxation agreement with the US. For example, a properly documented UK resident would only face withholding tax of 15% on US dividends, rather than the default 30% applied to overseas residents.

The most common document used to satisfy Customer Due Diligence (CDD) requirements for QI purposes is the W-8BEN form. This may be in the form of a substitute, which is generally a simplification of the official form issued by the IRS, within certain parameters. Both forms remain valid for three calendar years after the year they were signed, and many brokers may insist on being in receipt of such before allowing you to trade US securities on your account, whether listed in the US or on a foreign exchange. Your broker will usually have a copy of the relevant forms on their website.

Using tax-efficient accounts

As well as a trading account, some brokers will also be able to allow trading internationally from their **ISA and SIPP accounts**. This is because the UK government rules allow the holding of foreign shares in these tax-efficient accounts as long as the shares in question are traded on a Recognised Stock Exchange as defined by HMRC. If you have or are considering opening either of these account types and wish to trade internationally then this is an important feature to look for when setting up. Your broker can advise which markets they make available from the HMRC list.

Some other differences to look out for when trading internationally

This eGuide points out some general differences to UK trading that you may encounter internationally. They may be unfamiliar to those trying international trading for the first time. The following list is not exhaustive but intended as guide. More information is detailed on the relevant Exchange Agreement or from your broker. The motto is always to check the specific market and company; do your homework before you trade!

Multi-fills

Many foreign markets such as the US use an order book system where buys and sells are automatically matched without human intervention. This needs liquidity where there is a counterparty buyer or seller in the market. Occasionally it is possible, particularly with large orders, that the order to buy or sell is fulfilled in parts, which is known as a Multi-fill. The consequences are that your order may consist of more than one fill in the trading day and may not be completed by the time the market closes. If this occurs the remaining part of the order may be carried over to the next trading day depending on the type of order you submitted. This is worth bearing in mind as any carry over will be treated as a new order at the prevailing market price and attract separate trading commissions and FX charges and will therefore affect your costs.

Lot sizes

Some markets require orders to be placed for a specific amount of shares, called lots, rather than as a set monetary value. This is found typically on the Far Eastern markets such as Hong Kong and Singapore and will be detailed in their Exchange Agreements. If your broker offers these markets it is worth checking what the current lots sizes allowed are, e.g. a lot size in Singapore may be in multiples of 1,000 shares, regardless of the underlying share price.

Ticks

All markets operate Tick sizes. This simply defines the minimum price movement of a trading instrument in its base currency. In other words it is the minimum increment that a share price can increase or decrease. For example, the NYSE has a tick size of 0.01, which translates into a tick value of one cent for the NYSE. In contrast, many other markets have different increments. Hong Kong, Singapore and Australia tier their tick sizes according to the underlying share price of the stock being traded. In addition, Hong Kong and Singapore also operate a system of Steps; these define the maximum range of ticks around a price where a limit order may be set.

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Some other differences to look out for when trading internationally

Order types

Basic UK order types were described in the Stock market and Shares eGuide. When dealing abroad, some of these order types such as limit orders may be available to you. However, you should check which order types apply to the specific exchange and also note that they may have different expiry periods.

Settlement dates

Like the UK, the standard electronic settlement time is T+3. Two notable exceptions to this are Hong Kong and Frankfurt XETRA, where the settlement period is even faster, at T+2. For this reason and because any money transmission delays would impede settlement, it is a requirement that the cash to settle the trade is available in the account at the time of settlement.

Business Days and hours of opening

It is inevitable that foreign markets will operate their own timetable according to the Public Holidays that exist in that country. For example, US markets will be closed on the 4th of July (Independence Day). Trading hours are also specific and you will need to account for time zone adjustments. Hong Kong and Tokyo even shut for lunch! Such information is generally found published online by your broker but a World Clock may be helpful to avoid being caught out.

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Some other differences to look out for when trading internationally

Foreign Exchange (FX)

We have seen that Foreign Exchange is necessary to facilitate International trading and that this introduces currency risk. It is important to see what FX and currency facilities are offered by your broker. The exchange of one currency to another is an important factor, affecting both currency risk and costs of trading and should always be factored in. Some brokers may operate an exchange rate based on that offered by a retail bank and which changes once per day. In addition, if the cash account has no multicurrency facility you will need to pay FX on every trade and hold your investment in Sterling. Alternatively, a multicurrency facility potentially reduces the amount of FX trades needed as you may be able to hold the investment in its domestic currency and it may be advantageous to exchange currency ahead of a series of trades with just one transaction. This settles T+2. Another feature may be offered, known as real-time FX, where the FX rate quoted is the current exchange rate in the market. Remember that all FX transactions have a bid/offer spread which works in the same way as the bid/offer spread on an equity. These facilities can help you manage costs and provide options for managing currency risk.

Do note that multicurrency services cannot be offered under current Stocks and Shares ISA legislation as HMRC stipulate that all Cash and Investments must be held in UK Sterling. In an ISA there will be the need for an FX conversion to support every international trade.

Asian Market Levies and European Financial Transaction Taxes

Although International markets do not incur UK stamp duty Hong Kong and Singapore do have local government levies. Within Europe, France and Italy have adopted a financial transaction tax on a collection of the largest companies registered in these countries. Discussions are on going between further European countries about whether to also include a financial transaction tax. Please visit **www.tddirectinvesting.co.uk** for more details around these government charges.

The costs involved with international dealing

The costs of buying and selling international shares on a non-advised basis will depend on the broker and the type of service and account that you are using. Non-advised international electronic share trading is today inexpensive compared with just a few years ago. Nevertheless, you should understand the costs involved before trading by reviewing the brokers' rate card and note that these may be different for international as opposed to UK shares. The costs of buying will, of course, impact your return on the shares.

The broker will charge a trading commission at the time of the trade, for both the buy and the sell. Increasingly this is a fixed charge, though it may be based on the size of the trade. Check the rate card for any other fees involved with operating the account and ask your broker if anything is unclear. Remember that there may also be additional foreign currency (FX) exchange costs to consider that may be considerably more expensive than the trading commission, depending on exchange rates, bid/offer spreads and trade size.

In some territories, there may also be government levies or taxes on the buying and selling of shares and these are becoming more prevalent. For example, Eleven Eurozone countries will introduce the European Union financial transaction tax from January 2014. This includes France, Germany and Spain, but not the UK. You should also ensure you have a current W-8BEN Substitute form registered with your broker so that you do not pay US Withholding tax on any income derived from US shares. Multi-fill international orders may attract additional trade and FX charges. All transaction costs will be detailed on the contract note sent to you at the time of the trade.

Other ways of accessing international markets

This eGuide has described how a non-advised investor can access international stock exchanges to trade shares directly in real-time through using a broker. It is worth pointing out that there are other ways of accessing and holding foreign shares by other means:

1. Some brokers only offer a "quasi-international" service by offering a CREST depository instrument (or **CDI**) on the London International market. In essence these are UK manufactured instruments that replicate the underlying original share in the foreign country. Because they are available in the UK they are denominated in Sterling and so there is no separate foreign exchange to pay. However, there is only a small range of the most liquid blue chip stocks available. They also have much wider bid/offer spreads in which an FX rate has been built in, so you should carefully compare the costs between buying and selling these in comparison to accessing the share on its home market.
2. In a similar way (although their structure is different) you can trade **Depository Receipts**. These are certificates issued by a bank listed on the stock exchange that conveys a right of ownership on the underlying company share that may otherwise be inaccessible. It is therefore a way for a foreign company to attract foreign investment where it is difficult to do this in its home market. For example a number of Russian companies are listed in this way. A **GDR** (Global Depository Receipt) is listed in London in Sterling, whereas an **ADR** is an American version listed in the US. **EDRs** are the European equivalent.

Funds, i.e. **collective investments** such as Unit Trusts, OEICs, ETFs and Investment Trusts are all made up of a basket of professionally managed underlying shares. More information on these is contained in **the Funds eGuide**. You may wish to consider Funds which contain international equities or track International indices if you decide that you are attracted to the potential of international shares but you are not prepared to take the risk of investing in them directly. Alternatively, Funds are available that may include shares that are accessible to professionals but would otherwise be inaccessible to most private traders because they are listed on markets such as Brazil, Russia, India and China.

As with all investments you must assess the suitability of these instruments for yourself.

Summary

This eGuide has outlined the principles of investing in non-UK company shares and international stock markets on a non-advised basis, including outlining the methods and risks involved when investing in them. It has described how you, the trader or investor, can buy, hold and sell international shares in your portfolio.

If you would like to continue your international dealing fact-finding journey, please visit www.tddirectinvesting.co.uk for more information.

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