



SEC

OFFICE of INVESTOR
EDUCATION and ADVOCACY

Investor Bulletin: International Investing

Individual investors in the United States have access to a wide selection of investment opportunities, including international investments. The SEC's Office of Investor Education and Advocacy is issuing this Investor Bulletin to help educate investors about international investing. This Investor Bulletin describes ways individual investors may obtain information about international investments—including special factors to consider when investing internationally.

Should I consider international investments?

Two of the chief reasons individual investors invest internationally are:

- *diversification* (spreading your investment risk among foreign companies and markets in addition to U.S. companies and markets); and
- *growth* (taking advantage of the potential for growth in some foreign economies, particularly in emerging markets).

Investors should consider various factors when assessing potential investments, be they domestic or international.

International investment returns may move in a different direction, or at a different pace, than U.S. investment returns. Including exposure to both domestic and foreign securities in your portfolio may reduce the risk that you will lose money if there is a drop in U.S. investment returns and your portfolio's overall investment returns over time *may* have less volatility. Keep in mind that with globalization, markets are increasingly intertwined across borders. ***Investors should balance these considerations along with factors unique to international investing, including those described below.***

How can I invest internationally?

There are a number of ways individual investors may gain exposure to international investments. As with domestic investments, investors should first learn as much as they can about an investment.

Mutual funds. There are different kinds of mutual funds that invest in foreign securities, including: *global* and *international funds* (that invest in companies and businesses outside of the United States); *regional* or *country funds* (that invest in a particular region or country); or *international index funds* (that seek to track the results of a particular foreign market or international index). Investing through mutual funds *may* reduce some of the potential risks of investing

internationally because mutual funds provide more diversification than most investors could achieve on their own. If you want to learn more about investing in these types of mutual funds, as well as in mutual funds generally, information is available in [Mutual Funds – A Guide for Investors](#).

Exchange-traded funds. An [exchange-traded fund](#) (ETF) is a type of investment that typically has an objective to achieve the same return as a particular market index. ETFs are listed on stock exchanges and, like stocks (and in contrast to mutual funds), trade throughout the trading day with fluctuating market prices. A share in an ETF that tracks an international or foreign index seeks to give an investor exposure to the performance of the underlying international or foreign stock or bond portfolio along with the ability to trade the ETF shares like any other exchange-traded security.

American depositary receipts. The stocks of most foreign companies that trade in U.S. markets are traded as American depositary receipts (ADRs) issued by U.S. depository banks (rather than the actual foreign company stock). Each ADR represents one or more shares of a foreign stock or a fraction of a share. If you own an ADR you have the right to obtain the foreign stock it represents, but U.S. investors usually find it more convenient and cost-effective to own the ADR. The price of an ADR generally corresponds to the price of the foreign stock in its home market, adjusted for the ratio of ADRs to foreign company shares. Sometimes the terms “ADR” and “ADS” (for [American depositary share](#)) are used interchangeably.

U.S.-traded foreign stocks. Although most foreign stocks trade in the U.S. markets as ADRs, some foreign companies list their stock directly here as well as in their local market. For example, some Canadian stocks that are listed and trade on Canadian markets are also listed and trade directly in U.S. markets, rather than as ADRs. Some foreign companies list their securities in multiple markets, which may include U.S. markets. You can purchase ADRs and U.S.-listed foreign stocks that trade in the United States through your U.S. broker.

Trading on foreign markets. Your U.S. broker may be able to process an order for a company that only trades on a foreign securities market. These foreign companies are not likely to file reports with the SEC. The information available about these companies may be different than the information available about companies that file reports with the SEC. Moreover, the information may not be available in English.

Where can I find information about investing internationally?

You should learn as much as you can about an investment, and about an investment adviser or broker-dealer, before you invest. Tracking down information on international investments may require extra effort, but it will make you a more informed investor. ***One of the most important things to remember is to read and understand the information about an investment before you invest.*** Here are some sources of information to consider:

SEC reports. Foreign companies listed on U.S. stock exchanges or that publicly offer their securities in the United States must file reports with the SEC. The SEC requires these foreign companies to file electronically, so their reports are available through the SEC’s EDGAR website at www.sec.gov/edgar/searchedgar/companysearch.html at no charge. However, if the company’s securities trade on the over-the-counter markets in the United States rather than on a stock exchange, the company may not be required to file reports with the SEC.

Mutual fund firms. You can get the prospectus for a particular mutual fund directly from the mutual fund firm. Many firms also have websites and phone lines that provide helpful information about international investing.

Broker-dealers and investment advisers. Your broker or investment adviser may have research reports on particular foreign companies, individual countries or geographic regions. Ask whether updated reports are available on a regular basis. Your broker or investment adviser also may be able to provide you with copies of SEC reports and other information.

Foreign companies. Foreign companies often prepare annual reports, and some, but not all, companies also publish an English language version of their annual report. Ask your broker for copies of the company's reports or check to see if they are available from the SEC. Some foreign companies post their annual reports and other financial information on their websites.

Foreign regulators. You may be able to learn more about a particular foreign public company by contacting the foreign securities regulator that oversees the markets in which that company's securities trade. You may also be able to learn more about a particular foreign broker-dealer or foreign investment adviser by contacting the securities regulator with which the firm is registered. Many foreign securities regulators post information about issuers and registrants on their websites, including audited financial statements.

You will find a list of international securities regulators on the website of the International Organization of Securities Commissions (IOSCO) at www.iosco.org. Foreign regulators sometimes post warnings about investment scams and information about their enforcement actions that can be useful to investors. IOSCO publishes investor alerts that it receives from its securities regulator members on its [website](#).

You may already be investing internationally. In the United States, we have access to information and products from all over the world. Foreign companies can achieve the status of household names in the United States without public awareness that these companies are domiciled outside of the United States, or they may conduct a majority of their business operations abroad. You should conduct your own review of your holdings to determine whether the securities you own or are considering for purchase already provide you with international or foreign exposure.

What issues and risks should I consider when investing internationally?

While investing in any security requires careful consideration, international investing raises some special issues and risks. These include:

Access to different information. In some jurisdictions, the information provided by foreign companies is different than information provided by U.S. companies. The nature and frequency of disclosures required under foreign law may also be different from that of U.S. companies. In addition, foreign companies' financial statements may be prepared using a different set of accounting standards than companies use in the United States. Information foreign companies publish may not be in English.

Moreover, the financial statements of publicly listed companies in the United States, whether based in the United States or abroad, must be audited by an independent public accounting firm subject to oversight by the [Public Company Accounting Oversight Board \(PCAOB\)](#). The financial statements of a foreign company that is not publicly listed in the United States may or may not be subject to analogous auditing and auditor oversight arrangements.

Costs of international investments. International investing can be more expensive than investing in U.S. companies. In some countries there may be unexpected taxes, such as withholding taxes on dividends. In addition, transaction costs such as fees, broker's commissions and taxes may be higher than in U.S. markets. You also should be aware of the potential effects of currency conversion costs on your investment. Mutual funds that invest abroad may have higher fees and expenses than funds that invest in U.S. securities, in part because of the extra expense of trading in foreign markets.

Working with a broker or investment adviser.

If you are working with a broker, make sure the broker is registered with the SEC. ***It is against the law for a broker, foreign or domestic, to contact you and solicit your investment unless it is registered with the SEC.*** You can obtain information about a U.S.-registered broker by visiting FINRA's [BrokerCheck](#) website or calling FINRA's toll-free BrokerCheck hotline at (800) 289-9999. If you are working with a U.S.-registered investment adviser, you may be able to obtain information about the investment adviser by visiting the SEC's [Investment Adviser Public Disclosure \(IAPD\)](#) website. ***If you directly contact and work with a foreign broker not registered with the SEC, you may not have all the protections under the laws of the United States as would be the case if the broker were registered with the SEC.***

Changes in currency exchange rates. A foreign investment also has foreign currency exchange risks. When the exchange rate between the foreign currency of an international investment and the U.S. dollar changes, it can increase or reduce your investment return in the foreign security. In fact, it is possible that a foreign investment may increase in value in its home market but, because of changing exchange rates, the value of that investment in U.S. dollars is actually lower. In addition to exchange rates, you should be aware that some countries might impose foreign currency controls that restrict or delay you from moving currency out of a country.

Changes in market value. All securities markets can experience dramatic changes in market value. One way to attempt to reduce the impact of these price changes is to be prepared to hold your investments through adverse times and sharp downturns in domestic or foreign markets, which may be long lasting.

Political, economic and social events. Depending on the country or region, it can be more difficult for individual investors to obtain information about and comprehensively analyze all the political, economic and social factors that influence a particular foreign market. These factors may provide diversification from a domestically-focused portfolio, but they may also contribute to the risk of international investing.

Different levels of liquidity. Some foreign markets may have lower trading volumes for securities or fewer listed companies than U.S. markets. Some foreign markets are open for shorter periods than U.S. markets. In addition, some countries may restrict the amount or type of securities that foreign investors may purchase. Where these factors exist, they can contribute to less liquidity when you want to sell and lead to difficulty finding a buyer.

Legal remedies. Where you purchase a security can impact whether you have, and where you can pursue, legal remedies against the foreign company or any other foreign-based entities involved in your transaction, such as a foreign broker. Even if you sue successfully in a U.S. court, you may not be able to collect on a U.S. judgment against a foreign company, entity or person. You may have to rely on legal remedies that are available in the home country, if any.

[Morrison v. National Australia Bank](#)

Investors should be mindful when either buying or selling securities on foreign securities exchanges or otherwise outside the United States, or entering into securities transactions with parties located outside the United States, that, as a result of a recent Supreme Court decision, *Morrison v. National Australia Bank*, investors may not have the ability to seek certain legal remedies in U.S. courts as private plaintiffs. Investors who purchase or sell securities outside the territory of the United States will generally not be able to bring suit as private plaintiffs in U.S. courts to address fraudulent activity that may occur in connection with these transactions—even if the fraudulent activities occur within the United States.

Please note, however, that the SEC’s law enforcement authority with respect to fraudulent conduct within the United States, and conduct outside the United States that has a foreseeable substantial effect within the United States, is generally not subject to the limitations placed on private rights of action by the *Morrison* decision.

Investors who would like to provide information about fraud or wrongdoing involving potential violations of the U.S. securities laws may contact the SEC using the SEC’s [Tips, Complaints and Referrals Portal](#). SEC action may or may not lead to the investor receiving funds to redress any fraud.

Different market operations. Foreign markets may operate differently from the major U.S. trading markets. For example, there may be different time periods for clearance and settlement of securities transactions. Some foreign markets may not report securities trades within the same period as U.S. markets. Rules providing for the safekeeping of shares held by foreign custodian banks or depositories may differ from those in the United States. If a foreign custodian has credit problems or fails, shares purchased in a foreign market may have different levels of protection than provided under the laws of the United States.

Where can I go for help?

If you have a question or concern about an investment, or you think you have encountered fraud, please contact the SEC, FINRA or your state securities regulator to report the fraud and to get assistance.

[U.S. Securities and Exchange Commission](#)

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Rockville, Maryland 20850
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www.finra.org/Investors/

[North American Securities Administrators Association \(NASAA\)](#)

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Additional Information

For basic information about investment products, visit www.investor.gov/investing-basics/investment-products.

For our publication titled [Mutual Funds – A Guide for Investors](#), visit www.investor.gov/Mutual-Funds.

For FINRA's [BrokerCheck](#) resource, visit www.finra.org/Investors/ToolsCalculators/BrokerCheck/.

For our [Investment Adviser Public Disclosure \(IAPD\)](#) website, visit www.adviserinfo.sec.gov.

For the [Morrison v. National Australia Bank](#) opinion, visit www.supremecourt.gov/opinions/09pdf/08-1191.pdf.

For additional investor educational information, see the SEC's website for individual investors, www.investor.gov.

The Office of Investor Education and Advocacy has provided this information as a service to investors. It is neither a legal interpretation nor a statement of SEC policy. If you have questions concerning the meaning or application of a particular law or rule, please consult with an attorney who specializes in securities law.

