

INFORMATIONAL

Ex-Dividend Dates

NASD Reminds Members Of Methods For Determining Ex-Dividend Dates

SUGGESTED ROUTING

The Suggested Routing function is meant to aid the reader of this document. Each NASD member firm should consider the appropriate distribution in the context of its own organizational structure.

- Legal & Compliance
- Registered Representatives
- Senior Management
- Trading & Market Making

KEY TOPICS

- Ex-Dividend Dates

Executive Summary

The National Association of Securities Dealers, Inc. (NASD®) Uniform Practice Code (UPC) governs, among other things, the designation of “ex-dividend dates” (ex-dates) for securities. The ex-date is the date on or after which a security is traded without a specific dividend or distribution. Under NASD rules, there are two different methods used to determine the ex-date of a security, depending upon the size of the dividend or distribution. This *Notice* reviews differences in the way ex-dates are determined and cautions members and their associated persons to be cognizant of these differences when providing ex-date information to customers.

Questions/Further Information

Questions or comments concerning this *Notice* may be directed to Dorothy L. Kennedy, Director, Market Operations, The Nasdaq Stock Market, Inc. (The Nasdaq Stock Market®), at (203) 385-6243; and Shirley Weiss, Associate General Counsel, Office of General Counsel, NASD Regulation, Inc. (NASD RegulationSM), at (202) 728-8844.

Background

NASD member firms or their registered representatives from time to time respond to customer inquiries regarding ex-dates relating to dividend and other distributions. In some cases, customers have drawn erroneous conclusions regarding ex-dates. In particular, large dividends that result in the designation of ex-dates *after* the record and payable dates have caused confusion in the case of customers who effect sales transactions after the record date but before the payable date and believe therefore that they are entitled to keep the dividend.

Securities and Exchange Commission (SEC) Rule 10b-17 requires issuers to give notice of dividends and distributions to the NASD no later than 10 days prior to the record date.¹ The NASD then establishes the ex-date for the distribution and makes this information publicly available on a Daily Dividend List on the Nasdaq TraderSM Web Site (www.nasdaqtrader.com/dailylist/dl_di_ind.stm), which shows the issuer name and symbol, declaration date, amount of dividend, the ex-date, the record date, and the payable date.

Determining The Ex-Date

UPC Rule 11140 governs the designation of ex-dates for securities. The ex-date is the date on or after which a security is traded without a specific dividend or distribution. The payable date is the date that the dividend is sent to the record owner of the security. Under the UPC, two methods are used to determine the ex-date of a security, depending on the size of the dividend or distribution.

Dividends Or Distributions Less Than 25 Percent Of Security Value

The first method, under subparagraph(b)(1) of Rule 11140, provides that for dividends or distributions that are less than 25 percent of the value of the subject security, the date designated as the ex-date shall be the second business day preceding the record date. For example, if the issuer of the security has announced a date falling on a Thursday as the record date of a distribution, the ex-date will be on Tuesday, two days earlier. The price of the stock is adjusted downward on the ex-date so that the amount of the distribution is reflected in the current stock price. Thus, in this

example, Tuesday is the day on or after which a buyer would purchase the security without the dividend and the seller of the security would keep the dividend. If the sale occurred on Monday, a day earlier, the seller would not keep the dividend.

***Dividends Or Distributions
25 Percent Or Greater Than
Security Value***

The second method, under subparagraph (b)(2) of Rule 11140, provides that for dividends or distributions that are 25 percent or greater of the value of the subject security, the ex-date shall be the first business day following the payable date. For example, if an issuer has announced August 10 as the record date and August 31 as the payable date, then the ex-date will be September 1, the first

business day after the payable date. In this example, September 1 is the day on or after which a buyer would purchase the security without the dividend and, therefore, the day on which the price of the stock is adjusted downward. In this example, a seller of the security on August 15, even though the holder of record to receive the dividend, would have to relinquish the dividend to the buyer. Indeed, because the value of the security on August 15 has not yet been adjusted downward to reflect the dividend distribution, the seller in this example would be unjustly enriched by keeping the dividend. The seller would have received the value of the dividend twice: first, as fully reflected in the unadjusted price of the stock on August 15; and secondly, as subsequently paid by the company to record date holders.

This *Notice* reminds member firms and their associated persons that ex-dates are determined differently, depending on the size of the distribution. Current and historical dividend information is maintained by The Nasdaq Stock Market and can be found on the Nasdaq Trader Web Site at www.nasdaqtrader.com/dailylist/dl_di_ind.stm.

Endnote

¹The term "record date" under the Uniform Practice Code means the date fixed by the trustee, registrar, paying agent, or issuer for the purpose of determining the holders of equity securities, bonds, similar evidences of indebtedness, or unit investment trust securities entitled to receive dividends, interest or principal payments, or any other distributions.

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