

AST THOUGHT LEADERSHIP

T+2 Impacts on Ex-Dividend Dates

FINRA and NASDAQ Proposals

On August 21, 2017, the SEC made operative a proposed change by FINRA and The NASDAQ Stock Market LLC to Rule 11140 relating to the ex-dividend date in connection with the implementation of the trade date plus two business days (“T+2”) settlement cycle on September 5, 2017.

Overview

The securities industry is shortening the settlement cycle for transactions in U.S. equities, corporate and municipal bonds, unit investment trusts and related financial instruments from trade date plus three business days (“T+3”) to T+2.

This change is expected to be operative, along with other changes necessary for a T+2 settlement cycle, on Tuesday, September 5, 2017. FINRA, NASDAQ and the other Self-Regulatory Organizations have agreed with DTCC, which processes distributions for publicly traded securities, that **no securities will be ex-dividend on September 5, 2017**, to avoid possible confusion about the proper settlement.

Regular Distributions

Among the rules and processes impacted by this change is Rule 11140(b)(1), which establishes the “ex-dividend date” for most distributions of cash, stock or warrants. The ex-dividend date is the date on which a security is first traded without the right to receive that distribution. **While previously the ex-dividend date generally was two business days before the record date, that will change under T+2 to be the first business day before the record date.**

The First Record Date Under T+2

Issuers should note that the first record date to which the new ex-dividend date ruling will be applied is Thursday, September 7, 2017. Below are the anticipated “regular” ex-dividend date rulings over the conversion time. Note that 9/4/2017 is Labor Day and not a business day.

- Record Date 9/5/2017 EX date 8/31/2017
- Record Date 9/6/2017 EX date 9/1/2017
- Record Date 9/7/2017 EX date 9/6/2017

Large Distributions

Rule 11140(b)(2) establishes the ex-dividend date for cash dividends or distributions, stock dividends and/or splits, and the distribution of warrants, which are 25% or greater of the value of the subject security. These distributions are declared ex-dividend on the first business day following the payable date for the distribution. In order to avoid an ex-dividend date of September 5, 2017 under this rule, issuers are advised to not set September 1, 2017 as the payment date for any dividend or distribution that may exceed 25% of the value of the subject security.

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