Identifying the date on which shareholder status grants the right to receive associated dividends

The D+2 rule must be properly understood both by the account-keeper and by the investor, especially as regards the ex-dividend date. That is the lesson to be learned from this month's case.

The facts

Mr D, who already held 75 X shares, bought an additional 125 X shares on 24 April 2017. On 27 April, he received a dividend payment, but only for the 75 shares that he held initially. He felt that he should have received dividends that reflected all of the shares that he owned, namely 200 shares.

In response to his request, the account-keeper for company X told him that *"since X shares went ex-dividend on 25/04/2017 and you bought the 125 shares on 24/04/2017, you were not entitled to receive the dividends because the purchase must take place at least two days before the ex-date".*

However, Mr D refused to drop his complaint and asked me to intervene to obtain payment of the dividends.

The analysis

After reviewing Mr D's case and the market rules applicable in such circumstances, I contacted the account-keeper to inform it of my analysis.

I recalled that according to the notice published by Euronext on payment of X dividends, the record date[1] was set for 26 April 2017 (after settlement, i.e. after the market close) while the payment date was set for 27 April.

It seemed to me that at the record date, M. D did indeed own the 125 additional X shares bought on 24 April, since the settlement date was set at D+2.

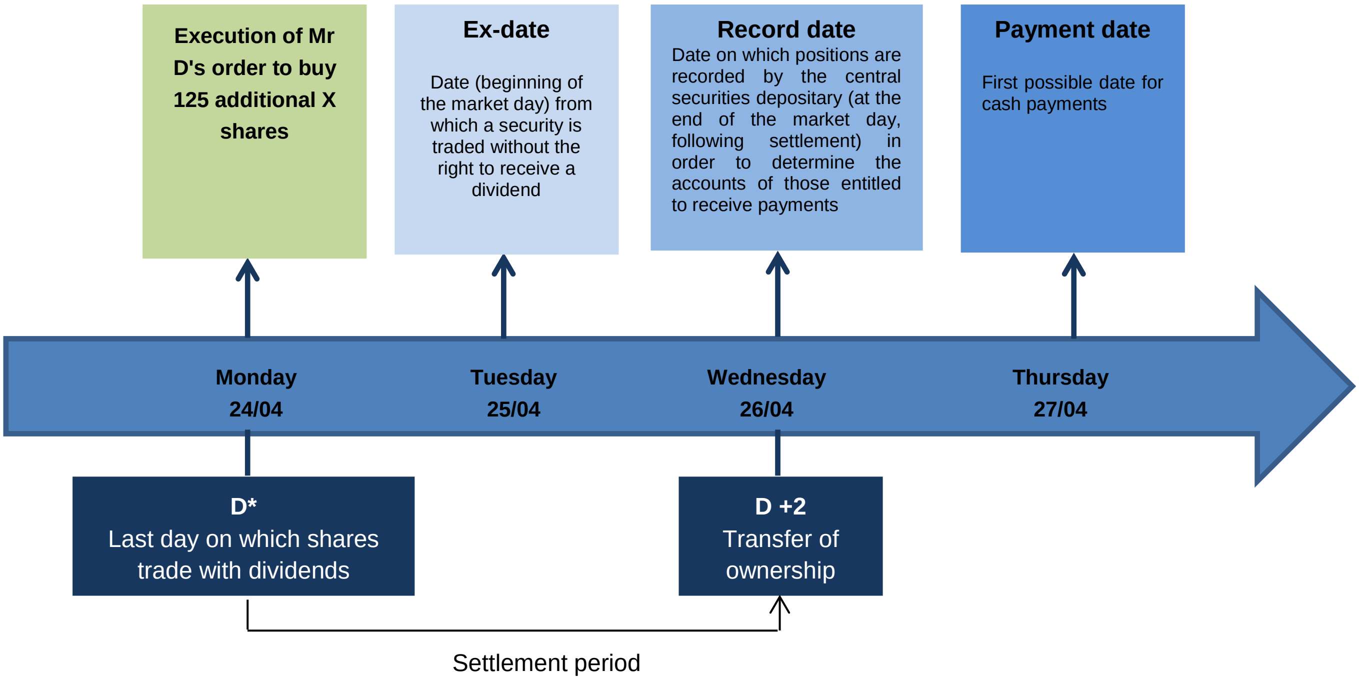
The rules on dividend dates are detailed in Euronext Instruction N3-06, which states that as a rule, cash payments are made to shareholders who are registered following settlement on the record date.

Given that the time period for settlement and transfer of ownership is D+2 (D being the trade date), the last day on which a security can be traded with dividend rights is thus two trading days before the record date. Securities are traded ex-rights, that is, without the right to dividend payments, as from the beginning of the next day, or "ex-date"[2].

In this case, Mr D's situation was as follows:

[1] The record date is the date on which positions are recorded by the central securities depositary (at the end of the market day, following settlement) in order to determine the accounts of those entitled to receive payments

[2] The ex–date is the date (beginning of the market day) from which a security is traded without the right to receive a dividend.



* D means trading day, i.e. a day when the market is open

The recommendation

Based on the above, I told the account-keeper that the 125 X shares bought on 24 April (the last day on which the shares traded with dividends) were indeed eligible to receive dividend payments and recommended that it pay the dividends owed to Mr D.

The institution agreed to follow my proposal and rectified the situation, paying Mr D the dividend on his 125 shares.

Lesson to be learned

The record date, which is notified in advance by the issuer[3] and communicated by Euronext, is the key date to keep in mind when determining whether an investor is entitled to receive dividends. To be eligible, the investor must have acquired the securities at least two trading days before the record date.

If the investor buys the shares after the ex-date, the purchased shares do not grant the right to receive the dividend. However, as I have pointed out in the past, the purchase price will be lower insofar as the price of the share in question is automatically reduced to reflect the amount of the dividend (An ex-dividend date may have consequences on your stock market orders - January 2015).

[3] The issuer informs Euronext no later than two trading days before the ex-date (see Euronext Instruction N3-06)