

An ex-dividend date may have consequences on your stock market orders

Investors contact me regularly over disputes relating to the fulfilment of their orders during the ex-dividend date period. I have realised that the regulations and mechanisms in such a situation are not always known.

The facts

On 7 August 2014, Mr L issued a limit order¹ at €4 to sell his shares in company X. His order was executed on the Euronext² market on 13 August, but at a lower limit than the one he had set. When he checked the details of his orders, he realised that his order limit had been modified.

He sent a claim to his bank then, as the issue remained unresolved, he brought the dispute before me. He wanted compensation for the difference between the limit that he had set and the price at which his order was finally executed.



The analysis

In examining the transaction history for the security X in August 2014, I noticed that company X paid out an exceptional dividend of €0.65 per share. The dividend went ex-date on 13 August and was paid on 18 August. We speak of the dividend "ex-date" because it is the first day that the share is traded without entitlement to dividend distribution (we speak of the "ex-rights" price)

The mechanism, according to the rules set by the stock market company Euronext³, is that during the ex-date process non-executed orders are cancelled. In this case, the service agreement between the financial establishment and the investor provided that during the ex-date process of a dividend, non-executed orders are re-entered in the order book by the financial intermediary at a reduced price. The limit order is therefore reduced by the dividend amount. At the same time, the share price is mechanically lowered by the same amount

Consequently, with respect to the limit order of €4 that Mr L issued on 7 August 2014, given that an exceptional dividend of €0.65 had been paid, the share price dropped mechanically by the dividend amount and the limit order was adjusted down by the same amount (to €3.35). As this new limit was crossed on 13 August, the first day of ex-rights trading, the sales order was executed at €3.4 given the order book (i.e. 5 cents above the limit).

The recommendation

I explained this mechanism, provided for by the market regulations, to Mr L. In view of the fact that I had not found any errors in his order execution, I did not recommend any compensation.

¹ Limit order: a type of order where the investor sets a maximum price (purchase order) or minimum price (sales order)

² An examination of the details showed that the order took place on Euronext and not on a multilateral trading facility as permitted by the MiFID Directive.

³ Trading manual on the Universal Trading Platform §2.7

In addition, considering that Mr L sold his shares on 13 August, being the first day of "ex rights" trading, Mr L did indeed receive the dividend of €0.65. Therefore, in financial terms, Mr L did indeed receive €4.05 per share (including the dividend), which is more than the limit he had set, and was consequently not affected.

The lesson to be learned

An event of a share, such as an ex-date, has an influence on its market price since the financial value changes at that time and, as such, on the limit orders on the market. Bear this in mind if you want to sell your shares during this period!

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