AUTORITÉ
DES MARCHÉS FINANCIERS

AMF Position-Recommendation n°2007-10
Ex-dividend date disclosure obligations

Reference text: Article 223-2 of the AMF General Regulation

In the course of 2006, the Autorité des Marchés Financiers noted some erratic variations in the prices of certain options on equities and stock index futures. These disruptions were caused by shortcomings in the financial disclosure of certain issuers of equities listed on regulated markets regarding their ex-dividend dates.

Like the Commission des Opérations de Bourse in its time[1], the AMF draws the attention of the issuers in question to the incidence of ex-dividend dates on the prices of equity and stock index derivatives.

On this subject, the AMF refers to the questions and answers published on this issue by ESMA on 9 January 2012 (ESMA 2012/9 "Questions and answers on the common operation of the Market Abuse Directive")

Position:
On account of their potential impact on the value of open positions on derivatives, data relating to provisional dividend amounts to be put to the vote of the general assembly of shareholders and to ex-dividend dates are considered to be inside information within the meaning set out in Article 621-1 of the General Regulation. They require identical vigilance in terms of disclosure.

The AMF notes that most issuers do manage to inform the market of ex-dividend dates well in advance of their effective payment.

Recommendation:
The AMF recommends that those issuers choosing an ex-dividend date that is materially different to that in the previous period should disclose this information with reasonable advance notice in order to allow players on derivatives markets to take the information into account in there futures valuation model. Such situations arise notably when payment of the dividend per share will be made during a different derivative maturity period than that in the previous year (eg. dividend per share paid in June of year N and ex-dividend date moved to May in year N+1).

The AMF recommends enhanced vigilance towards these effects when the underlying equity represents a significant component of an index to which actively-traded derivatives are linked.
The same principles apply when issuers modify their dividend distribution policy by scheduling one or several interim dividend payments or by modifying the ex-dividend date.

[1] COB Bulletins n° 274 of November 1993 and n° 362 of November 2001

Note on the impact of dividend payment on the value of equity derivatives

Unlike a shareholder, holders of equity options or futures contracts are not entitled to payment of dividends when the said dividend comes during the lifetime of the option.

As an illustration, a comparison can be made between the buyer of an equity via the Deferred Settlement Service (DSS) and the holder of a European call option on the same equity, which may only be exercised at maturity. The same will apply if the call option is replaced by a standardised futures contract on the same equity.

In the case of a dividend payment occurring during the life of the option, the price of the equity will theoretically drop by an amount equivalent to the value of the dividend paid (excluding taxation effects, for the sake of simplification). This drop has no effect on the holder having acquired the equity on the DDS, who will receive a separate compensation payment equivalent to the amount of the matured dividend.

The holder of a European call option, however, will incur this depreciation linked to valuation of this type of instrument without benefitting from the dividend in return. This is because this investor is not the owner of the equity when it goes ex-dividend (and will only be so at maturity, if he decides to exercise the option) and the terms of standardised futures contracts do not provide for any adjustment mechanism similar to the system in force on the DSS. As a consequence, earlier dividend payments remain at the expense of such derivatives market operators.

A European call option therefore sees its price fall when payment of a dividend is discounted before maturity. In such a case, the premium calculation no longer refers to the sole equity price, but to that of the equity minus the amount of the advance dividend. Symmetrically, put options will see their price increase in such situations. These effects are attenuated but do still remain, in a more complex manner, for American-type options which offer early exercise possibilities to take ownership of the equity before it goes ex-dividend.

Consequently, the ex-dividend date of an equity has a direct impact on the value of derivatives relating to it either directly or via an index.