

LONDON INFO-FLASH NO. LO09/43

ISSUE DATE: 7 December 2009

CONSULTATION: ADJUSTMENT THRESHOLD FOR ORDINARY STOCK DIVIDENDS**Executive Summary**

The purpose of this Info-Flash is to consult the market about a refinement of the Corporate Actions Policy regarding an adjustment threshold for ordinary dividends which are in “stock only” form. Members are requested to return the ‘answer form’ attached to this Info-Flash, with their comments on the proposal outlined in this Info-Flash, by 24 December 2009 to NYSE Liffe, Quality of Derivative Markets department in Amsterdam.

1. Introduction

- 1.1 It has come to the attention of NYSE Liffe that a growing number of companies are changing their dividend policy in order to pay ordinary dividends in stock only, rather than cash. The ordinary “stock only” dividend percentages differ per company, but NYSE Liffe notes that in some cases the “stock only” dividend percentages are notionally very large, sometimes even exceeding 30%. To make no adjustment for such a large dilution of equity value is potentially disruptive to the market. Consequently NYSE Liffe proposes to set an adjustment threshold for ordinary stock dividends, whereby if a “stock only” dividend percentage exceeds the threshold, there will be an adjustment to the contract to the extent of the excess percentage.
- 1.2 For the avoidance of doubt, this Info-Flash and the proposal only applies to ordinary stock dividends and not those dividends classified by NYSE Liffe as special. The ordinary stock dividends must be “stock only” and must be initially announced as a percentage or as a ratio (e.g. 1 for 3). The proposal does not apply to ordinary stock dividends with a cash alternative, to ordinary cash dividends with a stock alternative, to “mixed” dividends (i.e. cash and stock) or to ordinary stock dividends that are initially announced as a cash amount.
- 1.3 Currently there is a “no adjustment” policy with regards to the size of an ordinary stock dividend. If a stock dividend is ordinary, or is considered by NYSE Liffe to be in lieu of an ordinary dividend, derivative contracts are currently not adjusted for this event, even if the ordinary stock dividend percentage is exceptionally large.

Web site: www.nyx.com/liffe

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- 1.4 NYSE Liffe now proposes to set an adjustment threshold for ordinary stock dividends. It is proposed that the threshold is set at 10% for all NYSE Liffe derivatives markets. This would imply that, if a company announces payment of an ordinary stock dividend with a percentage exceeding 10% of the underlying shares (see section 2 for this calculation), the derivatives contracts based on that underlying share will be adjusted for the part exceeding the 10% threshold.
- 1.5 The purpose of this Info-Flash is to obtain feedback from market participants on the possible introduction of an adjustment threshold for ordinary stock dividends.

2. Adjustment method

- 2.1 The adjustment method would be the ratio method. NYSE Liffe would calculate the ordinary “stock only” dividend percentage and adjustment ratio as follows:

$$\text{Ordinary "stock only" dividend percentage} = 1 - \left(\frac{O}{N} \right) = St\%$$

$$\text{Ordinary stock dividend adjustment threshold} = 10\% = Od\%$$

$$\text{Exceptionally Large stock dividend percentage} = St\% - Od\% = L\%$$

$$\text{Adjustment ratio} = \frac{P - Od\% - L\%}{P - Od\%}$$

Where:

O = Cum amount of shares (old)

N = Ex amount of shares (new)

St% = Ordinary “stock only” dividend percentage

Od% = Ordinary stock dividend adjustment threshold

L% = Exceptionally large stock dividend percentage

P = Official closing price of the cum entitlement share on the Relevant Stock Exchange

Example:

- Company ABC announces an ordinary “stock only” dividend of 1 free share for every 3 shares held.
- Ordinary "stock only" dividend percentage $= 1 - \left(\frac{3}{4} \right) = \frac{1}{4} = 25\%$
- Ordinary stock dividend adjustment threshold = 10%
- NYSE Liffe: Dividend on ABC shares = 10% ‘ordinary’ + 15% ‘exceptionally large’
- Derivative contracts based on ABC shares will only be adjusted for the 15% stock dividend which is considered ‘exceptionally large’.
- Official closing price of ABC shares: €20.00.
- Ordinary stock dividend adjustment threshold = 10% * €20.00 = €2.00
- Exceptionally large stock dividend percentage = 15% * €20.00 = €3.00
- Adjustment ratio $= \frac{(\text{€}20.00 - \text{€}2.00 - \text{€}3.00)}{(\text{€}20.00 - \text{€}2.00)} = 0.83333$

3. Consultation

- 3.1 NYSE Liffe seeks the assistance of market participants and would therefore appreciate receiving their comments on the proposed Corporate Actions Policy refinement. Please use the questionnaire attached to this Info-Flash.
- 3.2 Members are requested to return the questionnaire with their comments on the proposal outlined in this Info-Flash by 24 December 2009 to NYSE Liffe, Quality of Derivative Markets department (PO Box 19163, 1000 GD Amsterdam) or by e-mail to CorporateActionsTeam@nyx.com.

For further information in relation to this Info-Flash, Members should contact:

Quality of Derivative Markets + 31 20 550 4296 CorporateActionsTeam@nyx.com

Adjustment threshold for Ordinary Stock Dividends

7 December 2009

Questionnaire:

Proposal 1: Introduce an adjustment threshold for ordinary stock dividends, whereby NYSE Liffe derivative contracts will only be adjusted for the part of the dividend exceeding the threshold. The ordinary stock dividends must be in “stock only” form.

Feedback:	<input type="checkbox"/> Agree	<input type="checkbox"/> Disagree
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Comments:

Proposal 2: It is proposed that the threshold is set at 10% for all NYSE Liffe derivative Markets.

Feedback:	<input type="checkbox"/> Agree	<input type="checkbox"/> Disagree
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Alternative Percentage:%
Comments: