Corporate Actions

A Corporate Action is an event undertaken by a company which can make a material impact to the organization and, in some cases, the share price.

These actions can range from a company issuing shares to the stock exchange, changing the companies name or paying their shareholders the profits from their operations. These actions are planned and usually take effect on a specific date, known as Ex-Date. Anyone holding shares or CFDs of the shares on Ex-Date should have the corporate action applied to their position. The main exception to this is when an unexpected action is need, such as declaring Bankruptcy or Insolvency.

Below are the most common actions we see, what they mean and how we will deal with them.

Dividends

As a shareholder you are entitled to a portion of the company's profits, they pay this to their shareholders in the form of a dividend. Each company will have a dividend policy stating how they will use profits and what portion may be issued to shareholders.

The share price reflects the value of the company, which includes many things including assets. At the point the company pays the dividend to their shareholders their assets would be reduced by that amount. In practice this means the company share price is expected to drop by the amount of the dividend. The shareholder then receives that amount in cash.

ThinkMarkets approach

TM will apply a brokerage adjustment of 15% to long dividend payments and short clients will pay the Gross dividend. Clients holding a CFD will have their balance credited/debited on Ex-Date. The brokerage adjustment will not be implemented for e CFD's on equities from UK and South Afrika.

Below is an example of how this may work in practice:

Prior to Ex-Date:

Shareholder X holds 100 shares in Company A.

Company A share price: $50

Company A plans to pay a dividend of $5 per

share

CFD on equities on Ex-dividend date:

Company A share price: $45

Short Shareholder X pays $500 as a dividend

Long Shareholder X receives $425 as a dividend

Stock Split

A stock split is where a company alters their existing shares. The action would occur by changing the number of shares issued, increasing by a fixed multiple. To offset this, the share price would reduce by that multiple. The net impact to the shareholders value should be 0. This is often used if the company share price is too high and potentially deters investors. They will lower the share price allowing more investors access to their company. Below is an example of how this may work in practice:

Prior to Ex-Date:

Shareholder X holds 100 shares in Company A

Company A share price: $100

Company A plans a stock split of 2:1

On Ex-Date:

Shareholder X holds 200 shares in Company A:

Company A share price: $50

In the above example the client still holds $10,000 in both scenarios, it is simply the number of shares and share price that are different. This action will occur on a pre-stated Ex-Date.

ThinkMarkets approach

On Ex-Date the client’s size and opening price will be adjusted by the adjustment factor.

Reverse Split/Consolidation

A reverse split or consolidation is like a Stock split described above, only in this action the process is inverted. The design is to increase the share price and reduce the number of shares. This process is often used if the share price is too low, and the company wishes to make the shares appear more stable and stronger with a higher share price. Below is an example of how this may work in practice:

Prior to Ex-Date:

Shareholder X holds 2000 shares in Company A

Company A share price: $1

Company A plans a consolidation of 1:20

On Ex-Date:

Shareholder X holds 100 shares in Company A:

Company A share price: $20

In the above example the client still holds $2,000 in both scenarios, it is simply the number of shares and share price that are different.

ThinkMarkets approach

On Ex-Date the client's size and opening price will be adjusted by the adjustment factor.

Mergers and Acquisitions

A merger or acquisition is where two companies either combine to form a new company or one company takes ownership over another. Shareholders would either be compensated for their shares or maintain an interest in the new company after the merger or acquisition. This the case of an acquisition a shareholder in the company being taken over would have their shares bought off them. They would either be given shares in the new company or cash at a predetermined price per share. Below is an example of how this may work in practice:

Prior to Ex-Date:

Shareholder X holds 500 shares in Company A

Company A share price: $5

Company B plans to acquire Company A at $5.50 a share.

On Ex-Date:

Company A ceases to exist

Shareholder X receives $2,750 as compensation for their shares.

ThinkMarkets approach

Clients holding a CFD position will have their positions reflect the terms of the action. If the acquisition is cash settled, meaning shareholder are given cash for their position, we will close the CFD at the acquisition price agreed in the offer. If the terms are stock settled, meaning a shareholder receives shares in the new company, we will book a new position on your account in the new company. We will do this by closing your current position in the old stock at 0 and opening the new position in the new company at 0 also. If the action is both cash and stock settled, then a combination of both above will take place. This will all occur on Ex-Date.

Spin Off

A spin off is where a company might split part of their organization into separate companies. An example of this might be where a technology company wants to split off one product they sell to be run by a completely independent operation. The action will occur by creating a new share in the newly formed company that will trade separately to the old company. Both the old and new company will continue to trade. As the share price is representative of the company's assets, when this spin off occurs it is expected the share price of the old will drop by the value of the new company. The shareholder will the receive shares in the new company. Below is an example of how this may work in practice:

Prior to Ex-Date:

Shareholder X holds 1000 shares in Company A

Company A share price: $10

Company A plans spin off company B

On Ex-Date:

Shareholder X holds 1000 shares in Company A and 1000 shares in Company B

Company A share price: $8

Company B share price: £2

The example above is a very simplified version of what can happen. In practice the adjustment factors will differ slightly, and the number of shares and share prices are not tied together as simply. The general concept should hold that prior Ex-Date and after Ex-Date the value of the holding should be the same, not considering any legitimate market moves.

ThinkMarkets approach

A CFD holder will have their position remain unchanged and a new position booked in the new company from a price of 0. In cases where ThinkMarkets will not offer the shares in the newly spun off company, we will cash settle your position as if it were opened at 0 and closed at the opening price on the first day of trading.

Rights Issue

When a company wishes to raise capital, rather than take a loan or increase debts, they can undertake a rights issue. This is an action whereby new shares are issued to the market and are offered to their existing shareholders at a discounted rate. Because issuing new shares will likely cause the value of each share to drop, the company will first issue rights to each shareholder entitling them to purchase these new shares at the specified price. The holder of these rights can either take them up and use them to buy new shares, they can sell them to other investors, or they can do nothing and let them lapse. The rights trade on an exchange much in the same way as other shares, with the difference being they will cease trading at a specified point in time, where they will then be converted to shares in the company at the subscription price. Below is an example of how this may work in practice:

Prior to Ex-Date:

Shareholder X holds 3,000 shares in Company A

Company A share price: £2.20

Company A plans a rights issue with a subscription price of £0.32 and a ratio of 10 rights for every 3 shares.

On Ex-Date:

Shareholder X holds 3,000 shares in Company A and 10,000 rights in Company A

Company A share price: £0.75

Company A rights price: £0.435

In the above example the client still holds £6,600 in both scenarios, the loss in the value of their shares is offset by the new value of the rights.

ThinkMarkets approach

As we do not offer rights on CFD positions, we will cash settle the rights as if they were booked onto their account at 0 and closed at the opening price on the first day of trading, which is usually Ex-Date. Clients holding a short position would be debited the value of the rights basis the opening price and long clients would receive.

To learn more about corporate actions, visit:
https://www.investopedia.com/terms/c/corporateaction.asp.