



# Corporate Actions and Events Manual – Equities



19 Sep 2024

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## Overview

### 1.1 Purpose of the Document

This document establishes the default policies and procedures regarding Nasdaq’s application of corporate actions and events for the various Nasdaq Indexes. To the extent that a specific index methodology differs in its handling of a particular type of action or event, that methodology will take precedence over this document. In any case, Nasdaq may deviate from the prescribed policies, procedures and methodologies as it deems necessary in order to preserve the integrity of the Index.

### 1.2 Applicability and Scope

The document shall apply to all Nasdaq Equity Indexes with the exception of the Nordic and Baltic and SmartBeta Indexes, which are not part of the Nasdaq Global Index family. The Nordic and Baltic and SmartBeta Indexes have a separate Corporate Actions and Events Manual. Corporate action/event handling herein is broken down into two categories: Market Cap Method and Non-Market Cap Method. If there is no method mentioned in the respective Index Methodology, the corporate action/event is handled as identified below. On the occasion that a specific Index corporate action/event does not fall into one of those methods, then the noted exception will be included in the specific Index Methodology.

This document should be read in conjunction with the Nasdaq Index Policies & Procedures *Calculation Manual – Equities & Commodities* document.

### 1.3 Definitions

The following definitions shall apply to the Policy:

- (a) **“Effective Date”** shall mean the date that an event is set to occur on the Index Exchange.
- (b) **“Ex-Date or Ex-Dividend Date or Ex-Distribution Date”** shall mean the date on or after which a security is traded without a previously declared dividend or distribution. After the ex-date, a stock is said to trade ex-dividend. The ex-date is the first date on which the seller, and not the buyer, of a stock will be entitled to a recently announced dividend.
- (c) **“Index Currency”** shall mean the currency in which the Index is calculated.
- (d) **“Index Exchange”** shall mean the listing exchange or market for which prices for Index Security are received and used by Nasdaq in the Index calculation.
- (e) **“Last Sale Price (LSP)”** The Last Sale Price refers to the last regular-way trade reported on such security’s Index Exchange. If an Index Security does not trade on its Index Exchange on a given day or the Index Exchange has not opened for trading, the Start of Day price is used. If an Index Security is halted during the trading day, the most recent Last Sale Price is used until trading resumes. For securities where the Nasdaq Stock Market is the Index Exchange, the Last Sale Price may be the Nasdaq Official Closing Price (NOCP) when it is closed.
- (f) **“Procedure”** shall mean this Index Corporate Action/Events document.
- (g) **“Start of Day [value]”** shall mean the value which is prior to the first trade of the day and incorporates the impact of any corporate actions.
- (h) **“When-issued market”** shall mean a transaction made conditionally, because a security, although authorized, has not yet been issued.

## Adjustments for Corporate Actions

Index Securities are adjusted for corporate actions prior to market open on the effective date, ex-date, ex-dividend date or ex-distribution date of a given corporate action/event. In absence of one of those dates, there will be no adjustment to the Index for such corporate action. Below are frequently processed corporate actions and respective details on each type of Corporate Action and the related adjustment information.

### 2.1 Dividends and other Cash Distributions

Dividends paid by a company to shareholders of an Index Security are processed to the Index in the amount, type and on the effective date, as of the start of day (end of day for ordinary cash dividends), based on the information received from the vendor or the Index Exchange. Dividends received by Nasdaq are considered to be in gross amount.

Below are the types of dividends processed in Indexes.

#### 2.1.1 Ordinary Cash Dividends

An ordinary or regular cash dividend is the payment of cash by the Issuer of the security to shareholders. Ordinary or regular cash dividends are not processed in Price Return Indexes. If a cash dividend is quoted in a different currency than the Index Currency, the dividend amount is converted to the Index Currency using the t-1 closing spot rate for the Index Security. Please see the *Calculation Manual – Equities & Commodities* for more information on spot rates.

Ordinary cash dividends are processed to Gross and Net Total Return Indexes. Gross dividend amount is processed to the Gross Total Return Indexes. Net dividend amount is derived based on the country of incorporation's withholding tax rate. The net dividend amount is processed to the Net Return Indexes. Please see the *Calculation Manual – Equities & Commodities* document for more information on Gross and Net Total Return Indexes.

Below are some variations to the above described application of dividends based on standards in certain regions.

##### 2.1.1.1 Definitions & Variations

- **Australia and New Zealand:** Australia and New Zealand have a tax structure where profits are only taxed once at either the company level or shareholder level; i.e., companies pay out profits as dividends either before or after tax. The “franking rate” is what identifies whether or not the tax was already paid on the cash dividend. If the tax was already paid at the company level, then the dividend amount is fully franked (100% franked). If taxes were not paid on the cash distribution, then the dividend is 0% franked. Note that the franking rate can also be in between 0% and 100% which is partially franked.
- **Brazil:** The interest on capital payment is similar to ordinary dividend payments, since they are paid on a regular basis and are also included in the minimum yearly dividend announced by the company. Nevertheless, there are some differences between these payments and the regular dividend payments. Further, Interest of capital is subject to a 15% withholding tax.
- **Japan:** The majority of dividends are published with estimated dividend amounts in advance of their ex-date. The estimated amount will be used in dividend processing. If no estimated amount is provided by the company or the listing exchange, then Nasdaq may rely on estimates provided by third-party data vendors. Once and if the final amount of the dividend

is known, a subsequent adjustment may be made to the index in the form of index dividend points (IDP) and will not result in a restatement of previous index values. See note below.

- **Korea:** The majority of dividends are not announced prior to their ex-date. If a dividend amount is announced in advance of the ex-date, but characterized as an estimate, the estimated amount will be used in dividend processing. If no estimated amount is provided by the company or the listing exchange, then Nasdaq may rely on estimates provided by third-party data vendors. Once and if the final amount of the dividend is known, a subsequent adjustment may be made to the index in the form of index dividend points (IDP) and will not result in a restatement of previous index values. See note below.
- **Spain:** A Spanish Hybrid Dividend is a dividend that is paid in either cash or stock. These dividends are treated as cash dividends for index calculation purposes (as the stock terms are generally announced after the ex-date).
- **Taiwan:** If an ex-distribution date falls when there is a suspension in trading of an Index Security that Nasdaq is made aware, the dividend is processed on the date trading resumes.
- **NOTE:** In the case of receipt of ordinary cash dividend late in the Index calculation day from Japan or Korea, the dividend is processed on the next Index calculation day.

### 2.1.2 Special Cash Dividends

A special cash dividend is a cash payment by the issuer of the Index Security to shareholders that the issuer does not consider to be part of its regular dividend paying cycle. A dividend is considered special in an Index if the information provided by the vendor or the Index Exchange indicates that the dividend is special. Other nomenclature for a special dividend may include but not be limited to extra, extraordinary, non-recurring, one-time, unusual, etc.

#### A. Market Cap Corporate Action Method

The Start of Day price of the Index Security is adjusted downward for the amount of the special cash dividend with no adjustment to the Index Shares resulting in a change to the divisor.

#### B. Non-Market Cap Corporate Action Method

The Start of Day price of the Index Security is adjusted downward for the amount of the special cash dividend and a corresponding adjustment is made to the Index Shares such that the market value of the security does not change, or changes only minimally, resulting in no change or a minimal change to the divisor.

### 2.1.3 Return of Capital

A return of capital is a cash distribution paid from the company's capital surplus rather than its net income or retained earnings. For the purposes of index calculation, Nasdaq Indexes will determine the treatment (regular vs. special) of each return of capital event based on whether the payment fits with the company's regular pattern of dividend payments, or if the payment appears to be extraordinary in nature.

### 2.1.4 Liquidation Distributions

A liquidation distribution, sometimes referred to as a "liquidating dividend" is a cash distribution made by an issuer in conjunction with the dissolution of its business. Bankruptcy liquidations rarely result in liquidation payments to equity shareholders. Voluntary liquidations, on the other hand, will generally produce one or more liquidation payment events. For the purposes of index calculation, Nasdaq Indexes treat liquidation distributions in the same manner as special dividends.

## 2.2 Stock Split / Stock Dividend / Bonus Issue

A stock split, stock dividend and bonus issue are similar transactions which generally result in no change to the market capitalization of the security. They essentially imply the same event and the only difference is in the way the terms are quoted. A stock split or bonus issue is quoted in terms of shares received to shares held and stock dividends are quoted in percentages. This event increases the Index Shares of the Index Security based on an adjustment factor, while simultaneously reducing its per share price by applying a corresponding inverse adjustment factor, such that the weight of the Index Security remains similar before and after the event resulting in no change or a minimal change to the divisor.

## 2.3 Cash and Stock Dividend

An issuer of a security may pay a cash and stock dividend on the same security on the same date. In this case, the cash dividend is processed in the Index before the stock dividend unless otherwise indicated in the information provided by the vendor or the Index Exchange. Please refer above to determine how cash and stock dividends are processed in the Indexes

## 2.4 Optional Dividend

An issuer of a security may permit the shareholder to choose between receiving a dividend in cash or stock. In this case, the adjustment is made to the Index Security in the manner the dividend is announced by the vendor or the Index Exchange. Please refer above to determine how cash and stock dividends are processed in the Indexes

## 2.5 Reverse Stock Split/ Consolidation

A reverse split generally results in no change to the market capitalization of the security. Reverse splits are quoted in terms of shares received to shares held. This event decreases the number of Index Shares of the Index Security based on an adjustment factor while simultaneously increasing its per share price by applying a corresponding inverse adjustment factor, such that the weight of the Index Security remains similar before and after the event resulting in no change or a minimal change to the divisor.

## 2.6 Rights Offering/ Issue

An issuer may offer to existing shareholders the right to participate in a new issuance of shares in proportion to each shareholder's existing holdings of the security at a set price (the subscription price) during a subscription period. Shareholders are allotted rights in accordance with the ratio set by the company. For example, an 11 for 10 rights issuance gives the existing holder 11 rights for every 10 shares held. The rights may trade for a certain period of time during the subscription period, allowing shareholders the opportunity to sell their rights in the market. Failure to subscribe to the rights prior to the end of the subscription period will result in their expiration and the shareholders forfeiture of the opportunity to purchase new shares under the rights issuance.

### Types of Rights Offerings

- **Renounceable Rights Offering:** The rights issued to an existing shareholder are transferable in the open market and are able to be sold separately from the shares to other investors during the life of the right. Renounceable rights are referred to as "transferable" or "tradable".

- **Non-Renounceable Rights Offering:** The rights issued to an existing shareholder cannot be traded. Shareholders must either subscribe to the rights or they lapse upon expiration of the subscription period.

Whether the rights offering is renounceable or non-renounceable, if the distribution is of the same Index Security, the price and Index shares are adjusted if the rights have a subscription price on an equivalent per share basis that is less than its LSP (in-the money) of the Index Security. The price is adjusted downward for the value of the right.

#### A. Market Cap Corporate Action Method

The Index Shares are increased to reflect the full exercise of the rights offering. The number of additional Index Shares is determined by multiplying the number of rights issued per Index Security by the current number of Index Shares, then dividing that product by the number of rights required to purchase one new Index Security. This results in a divisor adjustment.

#### B. Non-Market Cap Corporate Action Method

The Index Shares are increased by applying a corresponding inverse adjustment factor, such that the weight of the security remains similar before and after the event resulting in no change or a minimal change to the divisor.

If the rights have a subscription price on an equivalent per share basis that is greater than the LSP (out-of-the money) of the Index Security on the day before the ex-distribution date, no adjustment will be made to the price or Index Shares of the Index Security, even if the offering is underwritten or otherwise guaranteed in some way. If the distribution is not available to all shareholders, then no adjustment is made to either the price or Index Shares of the Index Security.

## 2.7 Stock Distribution of Another Security

An issuer may distribute shares of another pre-existing publicly traded company to its own shareholders. These events are often announced as “In Specie”, “In Kind”, or “Spinoff” distributions. Such events generally do not result in the issuance of new shares or the formation of a new corporate entity, and may not fall within the traditional definition of a spinoff. Nevertheless, regardless of the terminology used to announce the event, it will be handled according to the “Spin-offs / De-mergers” section of this document.

In cases where the distributed security is already a member of the Index, its Index Shares will be increased, on the effective date, in order to reflect the value of the distribution.

## 2.8 Spin-offs/ De-mergers

A spin-off (also known as a de-merger) occurs when the issuer of an equity security (the parent) “spins off” a business it owns into a separate new issuer (the “spinco”). Shares of the spinco are distributed to the shareholders of the parent, on a pro-rata basis, at a ratio established by the parent. Any spinco which does not meet the traditional definition of a security, or is not expected to be publicly listed, may be disregarded by the index.

Unless otherwise indicated in the published methodology of a particular index, spinco securities will be added to the same index as their parent security on the effective date. Index Shares of the spinco are calculated by multiplying the Index Shares of the parent times the spinoff ratio.

If the parent security’s listing exchange applies a price adjustment to the parent security, the spinco security will be assigned an initial price consistent with that amount, adjusted according to the spinoff



ratio. If no price adjustment is applied to the parent, the spinco will be assigned a price of zero. In any case, including events involving multiple spinco(s), the total value of the parent and spinco(s) reflected within the index at the start-of-day on the effective date will be equal to the value of the parent security at the prior end-of-day. Resulting divisor changes, if any, are not expected to be meaningful. Passive investors should not expect to take any action at the time the spinoff event becomes effective.

Once the spinoff event has been completed, the spinco will be evaluated for continued inclusion in the index. By default, the security will remain in the index until at least the next scheduled reconstitution, unless there is a specific reason for immediate disqualification. Regardless of the reason(s) for disqualification, a disqualified spinco will be held in the index until regular-way trading is established, and removed only after sufficient advanced notice is provided through the normal communication channels.

#### **A. Market Cap Corporate Action Method**

A disqualified spinco is normally removed at the last sale price of the day prior to the announced removal date. There is no adjustment to the Index Shares of the parent. This will result in a divisor adjustment.

#### **B. Non-Market Cap Corporate Action Method**

A disqualified spinco is normally removed at the last sale price of the day prior to the announced removal date. The Index Shares of the parent are increased in order to absorb the weight of the removed security. Resulting divisor changes, if any, are not expected to be meaningful.

If a spinco is retained in an equally weighted index, the index will not be rebalanced to restore equal weighting until the next scheduled rebalancing or reconstitution event.

In addition, to alleviate liquidity and capacity concerns particular to non-market cap weighting schemes, spinco securities that do not meet minimum size and/or liquidity requirements may be removed from such an index as part of the next rebalance event in order to protect the integrity of the index.

### **2.8.1 Tracking Stocks**

A separate line of stock which is issued for the purpose of “tracking” the financial performance of a particular business line, division or subsidiary of a company is often referred to as a “tracking stock.” The pro-rata distribution of a newly issued tracking stock to existing shareholders of the “parent” company is handled in accordance with the guidelines for Spin-offs, as detailed in section 2.8, above. A similar distribution of a pre-existing tracking stock is handled as a stock distribution of another security, as detailed in section 2.7, above. For rules regarding the eligibility of tracking stocks, please consult the individual Index methodology documentation.

## Adjustments for Other Corporate Events

Index Securities may be adjusted for other corporate events prior to market open on a specific date. Below are frequently processed corporate events and the related adjustment information.

### 3.1 Mergers & Acquisitions (M&A)

A merger/acquisition is the combination of two (or more) companies into one larger company, involving an exchange of stock and/or cash payment to the shareholders of the acquired company.

If the issuer of the Index Security is the company being acquired, the Index Security is removed the day following the shareholder vote or the expected expiration of the tender offer, provided the acquisition is not contested. In the event the acquisition is contested, the deletion occurs once results have been received that indicate the acquisition will likely be successful. If the approval is by written consent, then the removal occurs as soon as reasonably practical thereafter.

#### A. Market Cap Corporate Action Method

When the acquiring company is an Index Security, it may incur an increase in its Index Shares if the acquisition involves an exchange of stock as payment. See information on Index Share Changes below.

#### B. Non-Market Cap Corporate Action Method

When the acquiring company is an Index Security no increase in Index Shares will occur. See information on Index Share Changes below.

### 3.2 Additions/ Deletions

Additions<sup>1</sup> and deletions are described within the specific Index Methodology.

#### A. Market Cap Corporate Action Method

The addition or deletion of a security will generally result in a divisor change.

#### B. Non-Market Cap Corporate Action Method

In an Index with a fixed number of issuers or securities that replace Index Securities in order to maintain that fixed number, the deletion and simultaneous addition at other than the Index Evaluation where the Index has a non-Market Cap Corporate Action Method will not result in a divisor change as the addition will assume the weight of the deletion.

Index Securities are added or removed from an Index at their LSP on the day prior to the Effective Date of the change.

### 3.3 Halted Securities

If an Index Security, at the time of its removal from the Index, is halted from trading on its Index Exchange and its current LSP cannot readily be determined, the Index Security may, at Nasdaq's discretion, be removed at a price of 0.00000001 ("zero price"). This price is applied to the Index Security

<sup>1</sup> Excludes spin-off entities as they are discussed earlier.

after the close of all the trading markets in the Index but prior to the time the official closing value of the Index is disseminated.

### 3.4 Index Share and TSO Changes

For indexes that utilize a security's total shares outstanding ("TSO") in the calculation of Index Shares, a security's Index Shares may change as a result of events other than those Corporate Actions/Events noted above. These events include, but are not limited to, acquisitions, secondary offerings, private placements, share repurchases/buybacks and cancellations, employee share issuances including exercise of stock options, conversion of debt or exercise of warrants, and do not always have an ex-date associated with them.

If a change in TSO arising from other corporate events is greater than or equal to 10%, an adjustment to Index Shares is made as soon as practicable after being sufficiently verified. If the change in TSO is less than 10%, then all such changes are accumulated and made effective at one time on a quarterly basis after the close of trading on the third Friday in each of March, June, September and December. The Index Shares are adjusted by the same percentage amount by which the TSO has changed.

### 3.5 Bankruptcy

In most cases, securities which have begun bankruptcy proceedings are not eligible for initial inclusion in Nasdaq indexes. In the event that an existing index constituent files for bankruptcy or equivalent protection from creditors, affected securities will be removed from their respective indexes, on a best-efforts basis, as soon as practicable after Nasdaq becomes aware of the filing.

If the index constituent is still available for trading on its primary exchange, it is removed from the index at the security's last trading price. If the security is no longer trading per its primary exchange, the constituent may be removed at an OTC price, if judged reliable. When no sufficiently reliable price exists, the security is removed at a price of zero.

### 3.6 Sanctions

Generally, Nasdaq Indices will approach the treatment of sanctions through the lens of United States (US), United Kingdom (UK), and/or European Union (EU) based investors. In the event that certain clients require indexes that accommodate different or additional sanctions regimes, separate indexes may be created for that purpose. In any case, specific details described in an individual index methodology will prevail over any blanket guidelines offered herein.

Most sanctions can be thought of as being either comprehensive or selective:

- Comprehensive sanctions programs are geographically oriented, and often apply broad-based financial restrictions on entire countries. Examples include Cuba, North Korea, Iran, and Syria. Normally, companies in countries targeted by comprehensive sanctions are not eligible for inclusion in Nasdaq Indices. Individual index methodologies should be consulted for specific eligibility requirements.
- Other sanctions programs are more selective, and target specific companies and individuals regardless of their locations. Nasdaq consults multiple sources in order to identify and interpret relevant sanctions on a best-efforts basis.

Because different sanctions programs include a variety of evolving restrictions and requirements, sanctions generally require a case-by-case review. Any resulting index adjustments, if necessary, will be made at the sole discretion of Nasdaq's Index Management Committee.

### 3.7 Foreign Investment Restrictions

Due to concerns about sovereignty and national security, governments may choose to place restrictions on foreign investments in sensitive technologies or infrastructure, or in companies that own, develop and operate those assets. Traditionally, the industries most likely to be impacted by such restrictions include manufacturers of defense systems and related electronic components, and companies engaged in the operation of power grids, telecommunications networks, transportation assets and other critical infrastructure. Increasingly, entities engaged in the development of cybersecurity software and related services may also be the subject of foreign investment restrictions.

In situations where a government or other regulatory body has imposed restrictions on foreign investment such that the securities of companies subject to those restrictions are effectively rendered un-investable for practical purposes, Nasdaq may choose to consider these securities as ineligible for inclusion in some indexes.

The form and communication of these restrictions may vary greatly from one locale to another, and foreign governments may choose not to announce them in advance, or at all. As a result, Nasdaq will employ a best-efforts approach to the detection, evaluation, and handling of applicable investment restrictions. The designation of a restricted security as being un-investable will be at Nasdaq's sole discretion and may not apply equally to all indexes. Remedies include, but are not limited to, blocking the addition of a security to an index, removal of an existing index security, or designation of a replacement security such as a depositary receipt.

### 3.8 Other Adjustments

Notwithstanding any other provision in this document, Nasdaq may make adjustments in circumstances other than those detailed in this document including, but not limited to adjustments necessary to ensure Index and/or market integrity. Nasdaq may exercise discretion or Expert Judgement (other than that which is purely mechanical and, where relevant, implemented in accordance with the relevant Index Methodology) when the situation calls for the interpretation of data in calculating and maintaining an Index, including application of Corporate Actions. The use of Expert Judgement is overseen by the Index Governance process and mandates that the discretion or Expert Judgement would be exercised (i) in good faith and in a commercially reasonable manner and (ii) in such a manner as to ensure, as far as commercially reasonable, consistency in the approach it adopts with regard to the exercise of such discretion or Expert Judgement.

## Disclaimer

Nasdaq may, from time to time, exercise reasonable discretion as it deems appropriate in order to ensure Index integrity, including but not limited to, quantitative inclusion criteria. Nasdaq may also, due to special circumstances, if deemed essential, apply discretionary adjustments to ensure and maintain the high quality of the index construction and calculation. Nasdaq does not guarantee that any Index accurately reflects future market performance.

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