

Rule 831. Special Ex-Dividend Rulings

Rule 831. If, as required by Exchange rules, the Exchange does not receive a notice of a dividend declaration sufficiently in advance of a record date to permit a stock to be quoted “ex-dividend” in the usual manner, the Exchange quotes the stock “ex-dividend” as soon as possible following receipt of notice of the dividend. The Exchange also rules that the “dividend on” purchaser (in transactions made during the interval between the date when the stock should have been quoted “ex” and the date when the stock is actually quoted “ex”) is entitled to receive the dividend from the seller. The seller in such transactions is required to give to the purchaser a due bill, covering the amount of the dividend, to be redeemed subsequent to the payment date for the dividend.

Larger or Valuable Dividends, Dividends “Not in Kind”, and Split-ups Effected as Stock Distributions—When large or valuable cash or stock dividends (usually 25% or more), or a dividend “not in kind”, (*i.e.*, a distribution of securities of another issuer), or a split-up is declared, it is the policy of the Exchange to postpone the “ex-dividend” or “ex-distribution” date until the dividend has been paid. The reason for this is so that the stock is not quoted at the substantially lower “ex-dividend” or “ex-distribution” price until the distribution is received by shareholders. If this were not the case, the collateral value of the stock would be reduced between the “ex” date and payment date, and the shareholder might be required to provide additional collateral.

In the case of dividends “not in kind” (regardless of its size in relation to the listed security), it will be necessary to postpone the “ex-dividend” date in the event a market does not exist in the security to be distributed at the time the listed issue would normally be quoted “ex-dividend”.

In all of the above instances, the postponement of the “ex” date until after the payment date makes it possible for shareholders to sell all of their holdings at one time, on a “dividend on” basis (prior to the “ex” date). As a result of this ruling, purchasers of the stock prior to the “ex” date continue to pay a “dividend on” price, but will not receive the dividend payment from the company. Accordingly, the Exchange rules that the “dividend on” purchaser is entitled to receive the dividend from the seller. The seller, in turn, is required to give the purchaser a due bill, covering the amount of the dividend, to

be redeemed on the date fixed by the Exchange.

“Cash” Transactions—The Ex-Dividend Rule of the Exchange specifies that “cash” transactions (in which delivery of the security must be made on the date of the transaction) [in the case of stocks transferring in the Philadelphia Metropolitan area,] shall be “ex-dividend” on the business day following the record date[, and in the case of stocks transferring only outside of that area shall be “ex-dividend” on the business day following the “equivalent Philadelphia record date”].

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II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Phlx included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below and is set forth in sections A, B, and C below.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange states that the purpose of the proposed rule change is to amend several archaic rules that specify how record dates, ex-dividend dates and ex-rights dates are to be calculated. Phlx Rules 817, 825, 826 and 831 specify that a longer record date, ex-dividend or ex-rights date, as the case may be, may be used where the issuer has a transfer agent located outside the Philadelphia metropolitan area. Given the current state of communication networks and electronic interaction among issuers, the Exchange, transfer agents and investors, the Exchange believes that these additional time periods are no longer necessary. The Exchange also states that these rules, as amended, are similar to Rules 510, 512, 513 and 521 of the American Stock Exchange, LLC. The proposed changes to the Exchange's rules are discussed below.

Phlx Rule 817. Currently, Phlx Rule 817 provides generally that a company listed on Phlx must establish a record date for shareholders entitled to a dividend, which is at least ten days after the date on which the dividend is declared. For issuers that do not have transfer facilities in the Philadelphia metropolitan area, however, current Phlx Rule 817 provides that the record

date may be extended by the time equal to the mailing time between Philadelphia and the city in which the transfer agent is located. Because today most communication among issuers, the Exchange, transfer agents and investors is conducted electronically, the Exchange believes it no longer makes sense to distinguish between issuers with transfer agents located in Philadelphia and those with transfer agents located outside the Philadelphia metropolitan area when calculating a record date. As amended, Phlx Rule 817 will apply a uniform ten-day rule for establishing a record date to all Phlx issuers.

Phlx Rule 825. Similarly, Phlx Rule 825 currently provides that issuers with transfer agent facilities located outside the Philadelphia metropolitan area can have a longer period between the declaration of a dividend and the establishment of an “ex-dividend” date. This longer period is based on the time equal to the mailing time between Philadelphia and a transfer facility located outside Philadelphia. Again, since most communications in the securities industry no longer rely on regular mail, the Exchange believes that it is reasonable to put Philadelphia issuers and non-Philadelphia issuers on equal footing when it comes to establishing an “ex-dividend” date. As amended, Phlx Rule 825 will uniformly provide that all stock dividends are “ex-dividend” on the second business day preceding the record date and all cash dividends are “ex-dividend” on the day following the record date.

Phlx Rule 826. Phlx Rule 826 provides that the transactions in stocks to which rights attach are quoted “ex-rights” in a manner similar to that described in Phlx Rule 825. This reference to Phlx Rule 825 should remain, subject to the changes to Phlx Rule 825 discussed above. The last paragraph of Phlx Rule 826 is proposed to be amended, however, because of the explicit reference to “equivalent Philadelphia record date,” which is being eliminated along with the other geographical references from Phlx Rule 825.

Phlx Rule 831. Phlx Rule 831 repeats the ex-dividend date rule set forth in Phlx Rule 825 as it pertains to cash transactions (*i.e.*, where an issuer pays a dividend in cash). Because Phlx Rule 825 is being amended to eliminate distinctions between Philadelphia and non-Philadelphia issuers, Phlx Rule 831 must also be amended so that the rules are consistent.

2. Statutory Basis

The Exchange believes that its proposed rule change is consistent with