

Cancelling or reducing a proposed dividend

Many companies will have sent out their notices for their 2020 AGM. What should a board do if they have now decided that, owing to the impact of COVID-19, it is no longer appropriate to recommend a dividend that is due to be voted on at the annual general meeting?

On 29 April 2020 the Chartered Governance Institute (ICSA) published a guidance note for directors on this question.

The starting point for all companies will be to check their articles of association. If the proposed dividend in question is a final dividend, where shareholders are asked to approve the directors' recommendation, then any change in the proposed dividend will have to be made before the shareholders vote on the matter. Where the company is structuring the dividend as an interim dividend, the directors will have greater flexibility to change the dividend at any time before the dividend is actually paid.

- **If the Notice of Annual General Meeting has not yet been sent**, the directors can simply cancel, or reduce the amount of, the dividend before the notice is issued.
- **If the Notice of Annual General Meeting has been published** and the directors want to cancel or reduce the amount of the dividend set out in the relevant dividend resolution, the company should notify shareholders, explaining the reasons why the resolution is being amended or withdrawn. As the decision to cancel or reduce a dividend is likely to constitute inside information, listed companies should notify shareholders by way of a stock exchange announcement.
- **If the directors decide to cancel or reduce the dividend at a late stage**, the chairperson has discretion to withdraw or amend the dividend resolution at any time before the resolution is put to the shareholders at the meeting. The chairperson should explain why the resolution is being withdrawn or amended and, in the case of listed companies, they should release a stock exchange announcement.

- **If the Annual General Meeting has been held** and a resolution to declare a final dividend has been passed by the shareholders, it is too late for the directors to cancel or reduce the dividend because a final dividend becomes a debt payable to shareholders once it has been declared by the shareholders. The debt is enforceable from, and becomes due and payable on, the date on which it is stated as payable in the resolution.

The ICSA guidance can be found [here](#).

For further information on declaring or paying dividends, please contact Paul Lester on 01892 506 336 or paul.lester@crippspg.co.uk.