APPENDIX 1 - DERIVATIVES CONTRACTS – ADJUSTMENTS DUE TO CORPORATE ACTIONS

1. Background:

In accordance with Nasdaq Dubai Business Rule 6.3.10:

1) If Nasdaq Dubai considers an adjustment should be made to a Contract Series as a result of a pro-rata corporate event, it may, without limitation and by Notice:
   
   (i) make an adjustment to the Contract Series or to a related CCP Transaction, in order to ensure that the value of the CCP Transaction is as far as practicable the same as it would have been had the event not occurred; and
   
   (ii) unless it considers it inappropriate to do so in the circumstances, round the adjustment of any term under this Rule 6.3.10 to the nearest cent or unit of the Underlying Instrument.

2) Nasdaq Dubai may by Notice determine when an adjustment is to be effective.

3) If Nasdaq Dubai considers that it is not reasonably practicable to make an adjustment for an event pursuant to this Rule 6.3.10, Nasdaq Dubai may decide not to make an adjustment and may instead terminate or close-out CCP Transactions.

An adjustment is when, as a result of a corporate action, the exchange makes changes to one or more contract Specifications. For an Options Contract this is usually to both the strike price and the contract size and for a single stock Futures Contracts it is usually only to the contract size.

The purpose of this document is to outline the rationale and processes that Nasdaq Dubai would employ when considering an adjustment or suspension of outstanding derivatives contracts.

2. Key Principles of Nasdaq Dubai’s Adjustment Procedure

a) Nasdaq Dubai will only make an adjustment when the corporate event is of a pro rata nature. For the avoidance of doubt “pro rata” means that each individual share is treated in the same proportional way. For example the granting of 1 right for every 10 shares held would be a pro rata event, whereas the granting of a specific number of shares per shareholder (irrespective of the number of shares held by a shareholder) would not.

b) The corporate event needs to be one that would be regarded an unexpected and would not normally have been priced into the value of the derivative instrument. For example the payment of an ordinary dividend, even though pro rata in nature, would not normally be regarded as an adjustable event.
c) The value of the open position post the adjustment event should be as far as practicable be the same as the value of the open position pre the corporate event. Unexpected corporate actions should not result in a windfall profit or loss to a derivatives contract holder.

d) Nasdaq Dubai may consult with appropriately qualified market participants to advise it on matters relating to adjustments. Final power to make decision will reside with the Nasdaq Dubai.

3. Corporate Events resulting in an Adjustment

The following pro rata corporate events will normally result in an adjustment:

- Bonus issues
- Rights issues
- Cash return of capital
- Reorganisation of capital into securities that could be determined to be Underlying Instruments
- Any other pro rata corporate event that Nasdaq Dubai considers warrants an adjustment, examples of which include takeovers, buy backs and special dividends.

4. Corporate Events unlikely to result in an Adjustment

The mere fact that a corporate action has an impact on the share price is of itself not a sufficient basis for an adjustment. The key principles of being pro rata and unexpected must be met for an adjustment to be considered. The following non exhaustive list of Corporate Events is unlikely to result in an adjustment:

- On market buybacks
- Equal access buybacks
- Non pro rata entitlement issues
- Employee share placement schemes
- Placements of shares
- Ordinary dividends
- Regular ordinary distributions from trusts
- Offers to takeover another company
- Share price reaction to price sensitive announcements by the company

5. Terms of contract adjustment

Options: Both put and call Option Contracts are treated in the same way; all Contract Series, including flex series, available for trading and clearing at the time of the corporate event are adjusted; usually an adjustment to an Option Contract involves the adjustment to the number of shares underlying the contact and a correspondingly inverse adjustment to the strike price.
The basis for determining the magnitude of the adjustment is normally to convert the value of the corporate action into a notional cash amount and use that amount to notionally purchase additional ex corporate event shares. This will generally mean that the number of Underlying Securities per contract increases and the strike price decreases.

**Futures**: Generally for a single stock Futures Contract the adjustment is made only to the number of Underlying Securities (contract size) using the same methodology as is used for Option Contracts.

6. **Termination of Contract**

There may be occasions where the specific corporate event does not allow the adjustment to the open Derivative Contract. This will occur where there is a full or near full cash takeover or where the Underlying Securities are converting into a security that does not qualify to be an Underlying Instrument. On these occasions it is necessary for Nasdaq Dubai to terminate the open contracts. Nasdaq Dubai Business Rule 6.3.10 gives Nasdaq Dubai the power to “decide not to make an adjustment and may instead terminate or close-out CCP Transactions”. Nasdaq Dubai will provide clarification of any such termination process by Circular.

7. **Suspension of Outstanding derivatives contract**

Nasdaq Dubai admits certain Derivatives Contracts on its platform based on Underlying Securities listed on other exchanges. The following section provides guidance as to how Nasdaq Dubai will reflect trading suspensions of the Underlying Securities on its corresponding equity Derivatives Contract.

a) Nasdaq Dubai will suspend trading in the relevant equity Derivatives Contract only where it believes that this is required to will maintain a fair and orderly market.

b) If suspension of trading in the Underlying Securities is a result of any regulatory action, then Nasdaq Dubai will suspend trading in the relevant equity Derivatives Contract.

c) If suspension of trading in the Underlying Securities is a result of an issuers board meeting or shareholders meeting and is of a temporary nature, then Nasdaq Dubai will not suspend trading in the relevant equity Derivatives Contract. However, Nasdaq Dubai will reserve right to suspend such contract if it feels it is necessary to do so to maintain fair and orderly market.

d) If trading in the Underlying Securities is suspended for any technical issues, then Nasdaq Dubai will decide on the suspension of the Derivatives Contract on a case by case basis considering prevailing market conditions, the expected duration of the incident (if published by the primary market) or any other relevant factors.

8. **Market announcement**
Nasdaq Dubai will advise the market by Circular and by a message displayed on the Nasdaq Dubai Trader workstation of its decisions regarding adjustments, terminations and suspensions.

The above process will come into effect on 15th June 2016 and will be incorporated into the Procedures and be published in due course on our website www.nasdaqdubai.com. Unless otherwise provided, capitalised terms shall have definitions assigned to such terms in the Nasdaq Dubai Business Rules.

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