

Operational Trading Procedures for Options Trading Exchange Participants

Chapter 8: Special Events

8.3 Standard Adjustment Methodology

For each capital adjustment, there will be an adjustment ratio. In each case, the old exercise price of the option contract will be **multiplied** by this adjustment ratio to obtain the **adjusted exercise price**. The corresponding **adjusted contract size** is obtained by **dividing** the old contract value by the adjusted exercise price, unless otherwise specified. The old contract value is simply the product of the old exercise price and the old contract size.

The following table describes the rules for all the standard capital adjustment events.

Figure 1: Standard Terms of Capital Adjustments		
Event	Adjusted Exercise Price (AEP) =	Adjusted Contract Size (ACS) =
Spin-off³ (with Entitlement) E is the value of the entitlement of the spin-off calculated using VWAP ⁴ on its first trading day. OD is ordinary cash dividend. S is the value of the share calculated using VWAP⁴ on E's first trading day, closes at closing price S on the last trading day prior to the ex-date.	Old Exercise Price (OEP) times: <div style="border: 1px solid black; padding: 5px; text-align: center;"> $\frac{S - OD - E}{S - OD + E}$ </div> Note: OD shall be deducted from S only if OD and the entitlement have the same ex-date.	If S/S+E is equal to or above the Exchange's prescribed limit⁵ $\frac{OEP * Old Contract Size}{AEP}$ If S/S+E is below the Exchange's prescribed limit⁵ $\frac{Old Contract Size}{the Exchange's prescribed limit^5}$
The shaded area is the "adjustment ratio"		

³ No capital adjustment will be made in respect of any preferential offering arising from a spin-off as entitlement will not be extended to all shareholders. Capital adjustments in respect of spin-offs which do not involve the listing of the relevant company's shares will be considered on a case-by-case basis.

⁴ The Volume Weighted Average Price (VWAP) is determined by calculating the summation of the value of each transaction (i.e. price multiplied by number of shares traded) and then dividing it by the total shares traded for the day.

⁵ The Exchange's prescribed limit shall be such adjustment ratio floor value as may be prescribed by the Exchange from time to time.