

Operational Trading Procedures for Options Trading Exchange Participants

Chapter 8: Special Events

8.2 Circumstances Which May Give Rise to Capital Adjustment

Special events like ~~distribution in specie~~, offering of shares in another company, ~~bonus warrants~~ and change of domicile are not common entitlement or corporate events and standard adjustments may not be applicable. Under such circumstances, the Exchange, in consultation with SEOCH and the Commission, will decide on a case by case basis whether an adjustment is needed, and if so, the adjustment method.

8.2.1 Entitlement Events

Entitlement events generally take the form of a dividend payment, cash bonus, rights issue ~~or~~, bonus issue of shares, bonus issue of warrants or spin-off (with entitlement).

For rights issues ~~and~~, bonus issues of shares, bonus issue of warrants and spin-off, the Exchange will perform an capital adjustment irrespective of its size in relation to the underlying market price.

8.2.2 Corporate Action Events

Corporate action events ~~usually may~~ take the form of share sub-division, ~~and~~ share consolidation, merger and privatisation.

The Exchange will **always** perform an capital adjustment irrespective of the corporate action's effect on the underlying market price.

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. 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) =
<p>Rights Issue</p> <p>'A' new shares for 'B' old shares at C amount per share; where it closes at closing price S on the last trading day prior to ex-rights day.</p>	<p>Old Exercise Price (OEP) times¹:</p> $\frac{B + (A * C / S)}{A + B}$	$\frac{OEP * \text{Old Contract Size}}{AEP}$
<p>Bonus Issue of Shares</p> <p>'A' new shares for 'B' old shares.</p>	<p>Old Exercise Price (OEP) times:</p> $\frac{B}{A + B}$	$\frac{OEP * \text{Old Contract Size}}{AEP}$
<p>Bonus Issue of Warrants</p> <p><u>W is the theoretical value of bonus warrant entitlement per share one day prior to ex-date².</u></p> <p><u>OD is ordinary cash dividend.</u></p> <p><u>The share closes at closing price S on the last trading day prior to the ex-date.</u></p>	<p>Old Exercise Price (OEP) times:</p> $\frac{S - OD - W}{S - OD}$ <p><u>Note: OD shall be deducted from S only if OD and the bonus warrants have the same ex-date.</u></p>	$\frac{OEP * \text{Old Contract Size}}{AEP}$
<p>Share Consolidation</p> <p>X shares consolidate into Y shares.</p>	<p>Old Exercise Price (OEP) times:</p> $\frac{X}{Y}$	$\frac{OEP * \text{Old Contract Size}}{AEP}$

<p>Share subSub-division</p> <p>X shares sub-divided into Y shares.</p>	<p>Old Exercise Price (OEP) times:</p> $\frac{X}{Y}$	<p>OEP * Old Contract Size</p> $\frac{\text{-----}}{\text{AEP}}$
<p><u>Merger (Shares+Cash)</u></p> <p><u>Y shares in new company and Z amount of cash for every X shares in old company; where it closes at closing price S on its last trading day.</u></p>	<p><u>Old Exercise Price (OEP) times:</u></p> $\frac{X-Z/S}{Y}$	<p><u>OEP * Old Contract Size</u></p> $\frac{\text{-----}}{\text{AEP}}$
<p><u>Merger (Shares Only)</u></p> <p><u>Y shares in new company for X shares in old company.</u></p>	<p><u>Old Exercise Price (OEP) times:</u></p> $\frac{X}{Y}$	<p><u>OEP * Old Contract Size</u></p> $\frac{\text{-----}}{\text{AEP}}$
<p><u>Privatisation / Merger (Cash Only)</u></p>	<ul style="list-style-type: none"> • <u>The Exchange will announce a Last Day of Dealing (“LDD”) on the contracts, which is subject to conditions of the offer being satisfied.</u> • <u>Contracts will be cash-settled based on the share offer price/cancellation price immediately after the LDD if the offer has become unconditional.</u> • <u>No physical delivery of the underlying shares will be involved.</u> 	
<p><u>Spin-off³ (with Entitlement)</u></p> <p><u>E is the value of the entitlement of the spin-off calculated using VWAP⁴ on its first trading day.</u></p>	<p><u>Old Exercise Price (OEP) times:</u></p> $\frac{S - OD - E}{S - OD}$	<p><u>OEP * Old Contract Size</u></p> $\frac{\text{-----}}{\text{AEP}}$

<p><u>OD is ordinary cash dividend.</u></p> <p><u>The share closes at closing price S on the last trading day prior to the ex-date.</u></p>	<p><u>Note: OD shall be deducted from S only if OD and the entitlement have the same ex-date.</u></p>	
<p>Other forms of Cash Distribution (CD), such as a special dividend, cash bonus or extraordinary dividend</p> <p>No capital adjustment unless CD is 2% or more of the share's closing price on the dividend announcement day.</p> <p>OD is ordinary cash dividend.</p> <p>The share closes at <u>closing price \$S</u> on the <u>last trading</u> day prior to the ex-date.</p>	<p>Old Exercise Price (OEP) times:</p> <div style="background-color: #cccccc; padding: 5px; text-align: center;"> $\frac{S - OD - CD}{S - OD}$ </div> <p>Note: OD shall be deducted from S only if OD and CD have the same ex-date.</p>	<p>OEP * Old Contract Size</p> <p style="text-align: center;">-----</p> <p style="text-align: center;">AEP</p>
<p>The shaded area is the “adjustment ratio”</p>		

¹ Capital adjustment will only be made if the adjustment ratio is smaller than 1.

² The theoretical value is determined by SEOCH based on such pricing parameters from such market makers as it may consider appropriate.

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.

In cases where a cash or scrip alternative is offered, the capital adjustments will be based on the cash version of the payout. If the cash payment is in a currency other than that in which the underlying securities are traded, it will be converted to that currency at the conversion rate determined by SEOCH.