

Operational Clearing Procedures for Options Trading Exchange Participants

V. SPECIAL EVENTS

14. CAPITAL ADJUSTMENTS

14.1 Circumstances Which May Give Rise to Capital Adjustment

Please refer to the Operational Trading Procedures for the types of events in which the Exchange will make standard adjustments to the terms of the options contract and the standard adjustment methodology that will be adopted.

Special events like offering of shares in another company 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.

14.4 Capital Adjustment Process Conducted by SEOCH

For entitlement events, the capital adjustment process will normally be conducted by SEOCH on the night of the last day the share is traded cum-entitlement, which is also two settlement days prior to CCASS entitlement processing. Pending stock positions arising from exercise / assignment of existing options contracts on or before capital adjustment day of SEOCH will normally be settled in CCASS on or before the day immediately prior to the book-close day. Hence, the relevant SEOCH Participant will receive its entitlement via CCASS pursuant to the *CCASS Operational Procedures*.

The capital adjustment process conducted by SEOCH for mergers (with share exchange, whether or not with cash offer), stock splits and consolidations will occur on the night before the corporate action effective date announced by the issuer of the underlying securities, which is also the last trading day in the old shares. Pending stock positions arising from exercise / assignment of existing options contracts on or before the capital adjustment day of SEOCH will undergo corporate action adjustment in CCASS pursuant to the *CCASS Operational Procedures*.

For mergers (with cash offer only) and privatisations, all existing options contracts will be cash settled based on the share offer price / cancellation price immediately after the last day of dealing on the options contracts as announced by the Exchange.

14.5 Effect of Capital Adjustment

The following describes how existing contract terms, open options positions, pending stock positions, stock collateral are normally being treated under the capital adjustment process of SEOCH.