



Nasdaq Dubai Contract Adjustment Guidelines

Equity Futures

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For more
information

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CONTENTS

- 1. Overview 3
- 2. Definitions 3
- 3. Key Principles of Nasdaq Dubai’s Adjustment Procedure 4
- 4. Termination of Contract 4
- 5. Suspension of Outstanding Derivatives Contract..... 5
- 6. Market Announcement 5
- 7. Symbol Modification Post-Corporate Action Adjustment..... 5
- 8. Adjustment Method 6
- 9. Rounding..... 7
- 10. Corporate Events Resulting in an Adjustment 7
- 11. Corporate Events Unlikely to Result in an Adjustment 8
- 12. Bonus issue, Splits, and reverse stock splits, sub-divisions or consolidation of share capital..... 8
- 13. Rights Issue 9
- 14. Demergers 10
- 15. Mergers and Conversion of Underlying Securities..... 11
- 16. Extraordinary dividends..... 12
- 17. Takeovers and Partial Public Tender Offers 13
- 18. Delisting 14
- 19. Exceptional Adjustments 14

1. Overview

The Nasdaq Dubai Contract adjustment guideline describes the procedures followed by Nasdaq Dubai when a Corporate Action is applied to the underlying security and how adjustments are made to Futures Contracts. The purpose of this document is to outline the rationale and processes that Nasdaq Dubai would employ in relation to adjustments for Corporate Actions in respect of Futures Contracts traded on Nasdaq Dubai.

This document should be read in conjunction with the Nasdaq Dubai Business Rules for Derivatives, Nasdaq Dubai Derivatives Trading Manual and Contract Specification available on the Nasdaq Dubai website.

Process for adjusting Options Contracts are not covered in this document. Nasdaq Dubai will update this document at later stage when it decides to introduce trading of Options Contract on market.

2. Definitions

The following is a list of common terminologies and/or abbreviations and their definition used in this document:

Adjustment ratio (K) is the ratio that will be applied to the Daily Settlement Prices, and contract sizes (where applicable) in order to adjust contract terms to adjust for a Corporate Action.

Corporate Action means a bonus or rights issue, cash and/or scrip dividend, a share split, subdivision or consolidation, acquisition, takeover, merger, demerger or any other event, which in the opinion of Nasdaq Dubai may have impact on a Derivatives Contract in respect of the securities of a company.

Derivatives Contract is as defined in Nasdaq Dubai Business Rules (Rulebook 2)

Cum Price means the closing price of the underlying security on the day before the Ex-Day or a price as set and communicated by Nasdaq Dubai to be used in the calculation of the Adjustment ratio.

Daily Settlement Price means the settlement price of Future Contracts calculated by Nasdaq Dubai to derive daily variation margins

Ex-Day means the first day on which a specific stock can be purchased without receiving the Corporate Action entitlement.

Future Contract is as defined in Nasdaq Dubai Business Rules (Rulebook 2)

Reference Price: The Reference Price of a contract is either the Opening Price or the previous closing price of the contract if there is no opening price, unless explicitly set by Nasdaq Dubai.

Record Date means the date by which a shareholder must own the securities to receive Corporate Action entitlement.

Theoretical Ex-price means the theoretical price of the underlying after the Corporate Action.

Theoretical Fair Value (TFV) means the theoretical settlement price calculated and used to close Future Contracts.

Trading Day means a valid trading day as per published calendar and notices on Nasdaq Dubai's Website.

3. 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 as an unexpected and would not normally have been priced into the value of the Derivative Contract. For example, the payment of an ordinary dividend, even though pro rata in nature, would not normally be regarded as an adjustable event unless there are exceptional scenarios that requires any adjustments.
- 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.

4. 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 security or in the event of a liquidation. On these occasions, it is necessary for Nasdaq Dubai to terminate the open contracts. Nasdaq Dubai Business Rule 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.

5. 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 security 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 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 suspension of trading in the underlying securities is a result of a planned liquidation or declaration of bankruptcy, then Nasdaq Dubai will suspend trading in the relevant equity Derivatives Contract.
- e. If trading in the Underlying Instrument 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 underlying market) or any other relevant factors.

6. 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. Details of adjustments will be published as soon as the issuer or underlying market publishes full details of Corporate Action.

7. Symbol Modification Post-Corporate Action Adjustment

Contract adjustments that impact the contract size will be denoted by an additional letter in the contract symbol signifying a Corporate Action adjustment:

Codes:

| Corporate action number | Identifier |
|-------------------------|------------|
| 1st | X |

| | |
|-----|---|
| 2nd | Y |
| 3rd | Z |
| 4th | Q |
| 5th | R |
| 6th | S |
| 7th | G |
| 8th | U |
| 9th | V |

Example:

| Old Symbol | New Symbol signifying first Corporate Action |
|------------|--|
| ETISLTF17 | ETISLTF17X |
| ETISLTG17 | ETISLTG17X |
| ETISLTH17 | ETISLTH17X |
| ETISLTJ17 | ETISLTJ17X |

8. Adjustment Method

Futures contract can be adjusted using ‘Adjustment ratio method’ or ‘Replacement method’ depending on the type of Corporate Action. Both methods are explained in this section and further details provided in each type of Corporate Action.

In cases where it is not possible to adjust contracts in accordance with these guidelines or in cases where the Corporate Action is an event other than those detailed in this document, Nasdaq Dubai will reserve the right to determine the appropriate action.

Adjustment ratio method

Under this method Adjustment ratio will be calculated in accordance with the formula provided in this document under respective Corporate Action scenario. This ratio will be applied to adjust the contract size and the previous day’s Daily Settlement Price (i.e day prior to the effective date of adjustment).

Replacement method (or Basket method)

Under this method adjustment will be done by substituting underlying securities in a contract with a basket consisting of proportionate number of ex-entitlement shares and number of entitlement shares.

The underlying securities of the Contracts are replaced with a basket composed of the underlying of both the old shares and newly entitled shares in relevant ratio of Corporate Action (example merger ratio in case of company merger).

9. Rounding

Adjustment ratio as calculated in accordance with method prescribed in this procedure will be rounded to the nearest six decimals using standard rounding convention.

In the event of contract adjustment resulting in adjustment of settlement price or a reference price, the price will be rounded to the nearest increment of the Minimum Price Movement (using standard rounding conventions)

In the event of contract adjustment resulting in adjustment of contract size, the adjusted lot size will be rounded to the nearest increment of whole share.

Example:

| Adjusted price (before rounding) | Adjusted price with logic (rounded) | Adjusted contract size (before rounding) | Adjusted contract size (rounded) |
|----------------------------------|-------------------------------------|--|----------------------------------|
| 1.044678 | 1.045 | 110.685893 | 111 |
| 1.054545 | 1.055 | 110.356674 | 110 |
| 1.064493 | 1.064 | 110.534389 | 111 |

10. Corporate Events Resulting in an Adjustment

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

- Bonus issue; Splits, reverse splits and DR ratio changes;
- Subdivision or consolidation of shares
- Rights issue;
- Demergers;
- Conversion of underlying securities;
- Extraordinary dividends;
- Mergers;
- Takeovers and Partial Public Tender Offers;
- Delisting;

- Any other pro rata corporate event that Nasdaq Dubai considers warrants an adjustment, examples buy backs and special dividends.

11. 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 (subject to section 19)
- Regular ordinary distributions from trusts
- Offers to takeover another company
- Share price reaction to price sensitive announcements by the company

12. Bonus issue, Splits, and reverse stock splits, sub-divisions or consolidation of share capital

Nasdaq Dubai will use the Adjustment ratio to adjust Futures Contracts to cater for bonus issue, splits, reverse splits, sub-divisions and consolidation of share capital

Contract size and the previous day's Daily Settlement Price of Future Contracts will be adjusted with effect from Ex-Day as follows:

| Adjustment ratio (K) | Adjusted contract size | Adjusted price (futures Daily Settlement Price) |
|----------------------|--|---|
| $K = \frac{O}{N}$ | $C_{adj} = \frac{\text{Contract Size before adjustment}}{K}$ | $P_{ex} = P_{cum} * K$ |

Where:

O = Number of underlying securities before issuance of bonus shares

N = Total number of underlying securities after issuance of bonus shares

C_{adj} = Contract size of a futures contract on Ex-Day after adjustment

P_{ex} = Previous day's Daily Settlement Price of a Futures Contract after adjustment. Note that this will also be the Reference Price for trading on Ex-Day.

P_{cum} = Previous day's Daily Settlement Price of a Futures Contract before adjustment

Example:

XYZ PJSC declares a Bonus issue of 10%, with Ex-Day of 10th January 2017.

Effective on 10th January 2017 contract size and previous day’s settlement price will be adjusted as follows:

| Expiry Month | Contract Size before Adjustment (O) | Contract Size After Adjustment C _{adj} | Adjustment Factor (K) | Price Prior to Adjustment (P _{cum}) | Price After Adjustment P _{ex} |
|--------------|-------------------------------------|---|-----------------------|---|--|
| Jan-17 | 100 | 110 | 0.90909 | 1.048 AED | 0.953 AED |
| Feb-17 | 100 | 110 | 0.90909 | 1.040 AED | 0.945 AED |
| Mar-17 | 100 | 110 | 0.90909 | 1.154 AED | 1.049 AED |

Mark to Market calculation for opening position on Ex-Day shall be calculated using Daily Settlement Price of previous day as adjusted by multiplying the price by Adjustment ratio.

13. Rights Issue

Nasdaq Dubai will use the Adjustment ratio to adjust Futures Contracts to cater for the rights issue.

Nasdaq Dubai may at its discretion, use the closing price of the rights from the market auction on underlying market on the last cum-entitlement trading day to determine a theoretical ex-entitlement share price.

Contract size and the previous day’s Daily Settlement Price of Future Contracts will be adjusted with effect from Ex-Day as follows:

| Theoretical price ex-right of the underlying securities (T _{ex}) | Adjustment ratio (K) | Adjusted price (futures Daily Settlement Price) | Adjusted contract size (C _{adj}) |
|--|------------------------------|---|--|
| $T_{ex} = \frac{(N_{cum} * S_{cum}) + (N_{new} * E)}{N_{cum} + N_{new}}$ | $K = \frac{T_{ex}}{S_{cum}}$ | $P_{ex} = P_{cum} * K$ | $C_{adj} = \frac{\text{Contract Size before adjustment}}{K}$ |

T_{ex} = Theoretical price ex-right of the underlying security

N_{cum} = Number of Outstanding shares before rights issue

S_{cum} = Price cum-right of the underlying security

N_{new} = Number of new securities issued under rights

E = value of entitlement per security

K = Adjustment Ratio

P_{ex} = Previous day’s Daily Settlement Price of a futures contract after adjustment. Note that this will also be the Reference Price for trading on Ex-Day.

P_{cum} = Previous day’s Daily Settlement Price of a futures contract before adjustment

C_{adj} = Contract size of a futures contract on Ex-Day after adjustment

Example:

XYZ announces to issue rights to the existing shareholders at the ration of 10 existing shares to 1 new share with exercise price (E) of 0.50 per share

Closing Price of underlying prior to Ex-Day = P_{cum} is 1.00 per share

| Theoretical price ex-right of the underlying securities (T_{ex}) | Adjustment ratio (K) | Adjusted price (futures Daily Settlement Price) | Adjusted contract size (C_{adj}) |
|--|---|---|--|
| $T_{ex} = \frac{(10 * 1.00) + (1 * 0.50)}{10 + 1} = 0.954545$ | $K = \frac{95.454545}{1.00} = 0.954545$ | $P_{ex} = P_{cum} * K$ | $C_{adj} = \frac{\text{Contract Size before adjustment}}{K}$ |

| Expiry Month | Adjustment Ratio (K) | Contract Size before Adjustment | Contract Size After Adjustment | Price Prior to Adjustment | Price After Adjustment |
|--------------|----------------------|---------------------------------|--------------------------------|---------------------------|---------------------------|
| Jan-17 | 0.954545 | 100 | $\frac{100}{0.95454} = 105$ | 1.00 AED | $1.00 * 0.954545 = 0.955$ |
| Feb-17 | 0.954545 | 100 | 105 | 1.01 AED | 0.964 AED |
| Mar-17 | 0.954545 | 100 | 105 | 1.03 AED | 0.983 AED |

14. Demergers

In case of a demerger, Nasdaq Dubai will apply the Replacement method or the Adjustment Ratio method, both described below to adjust Derivative Contracts with effect from the Ex-Day. The method is selected based on the details of the demerger. In more complex scenarios, or scenarios where demerged company is no longer listed, Nasdaq Dubai decide to terminate all contracts before demerger date and make final settlement in cash.

Replacement method or basket method:

The Underlying Instruments of the Contracts are replaced with a basket composed of the underlying of both the parent and the de-merged firms on the basis of the de-merger ratio.

On the effective date of demerger, the futures contract will reflect a basket consisting of parent company and de-merged company. The daily and final settlement price of the underlying basket will be calculated daily as follows:

(Ratio of parent shares X closing price of parent company) plus (Ratio of de-merged share X closing price of de-merged company)

Other points:

- There will be no change in contract size.

- All Open end orders will be deleted after close of trading on the last cum trading day.
- After maturity of open contracts, no new contracts will be introduced.
- If there are maturities with no open interest, trading in these contracts will be halted and contracts will be removed on expiry date.

Example

- Demerger ratio: for every 20 ordinary shares of the company effecting the spinoff that were withdrawn and cancelled, 11 ordinary shares of the company effecting the spin-off and 9 new ordinary shares of the spin-off company were attributed.
- Adjustment: Futures on Company A ordinary shares with lot equal to 100 stocks were adjusted in the following manner:
- Price: no adjustments;
- Underlying of adjusted stock option series: creation of a basket consisting of 55 company A ordinary shares + 45 Company B ordinary shares

Adjustment Ratio method:

Contract size and the previous day's Daily Settlement Price of Future Contracts will be adjusted with effect from Ex-Day as follows:

| Theoretical price ex-right of the underlying securities (T_{ex}) | Adjustment ratio (K) | Adjusted price (futures Daily Settlement Price) | Adjusted contract size (C_{adj}) |
|--|------------------------------|---|--|
| $T_{ex} = S_{cum} - DeMe * V_{demerged}$ | $K = \frac{T_{ex}}{S_{cum}}$ | $P_{ex} = P_{cum} * K$ | $C_{adj} = \frac{\text{Contract Size before adjustment}}{K}$ |

T_{ex} = Theoretical price of the underlying security ex de-merger

S_{cum} = Cum Price of the underlying security

DeMe = de-merger ratio

$V_{de-merged}$ = valuation of the de-merged firm

K = Adjustment ratio

P_{ex} = Previous day's Daily Settlement Price of a futures contract after adjustment. Note that this will also be the Reference Price for trading on Ex-Day.

P_{cum} = Previous day's Daily Settlement Price of a futures contract before adjustment

C_{adj} = Contract size of a futures contract on Ex-Day after adjustment

15. Mergers and Conversion of Underlying Securities

In case of merger or conversion of an Underlying Instruments into another, the old Future Contracts are replaced by Future Contracts in the new underlying to be effective from the Ex-Day. Daily Settlement Price of Future Contracts and their Contract sizes, are modified by the Adjustment Ratio based on the conversion ratio with effect from the Ex-Day.

| Adjustment ratio (K) | Adjusted contract size | Adjusted price (futures Daily Settlement Price) |
|----------------------|--|---|
| $K = \frac{O}{N}$ | $C_{adj} = \frac{\text{Contract Size before adjustment}}{K}$ | $P_{ex} = P_{cum} * K$ |

K = Adjustment Ratio

O = Number of underlying securities before issuance of bonus shares

N = Total number of underlying securities after issuance of bonus shares

C_{adj} = Contract size of a futures contract on Ex-Day after adjustment

P_{ex} = Previous day's Daily Settlement Price of a futures contract after adjustment. Note that this will also be the Reference Price for trading on Ex-Day.

P_{cum} = Previous day's Daily Settlement Price of a futures contract before adjustment

If the new underlying securities are not deemed suitable by Nasdaq Dubai, all the contracts open on the Ex-Day are closed and cash settled.

Example:

Exchange ratio following the merger: 1.73 new company B ordinary shares for each old company A. ordinary share.

| Adjustment ratio (K) | Adjusted contract size | Adjusted price (futures Daily Settlement Price) |
|----------------------|---------------------------------|---|
| $K = \frac{1}{1.73}$ | $C_{adj} = \frac{100}{.578035}$ | $P_{ex} = P_{cum} * .578035$ |

16. Extraordinary dividends

In case of a dividend that is deemed to be extraordinary the Daily Settlement Price of a Future Contract and their Contract sizes, are modified by the Adjustment ratio with effect from the Ex-Day.

| Adjustment ratio (K) | Adjusted contract size | Adjusted price (futures Daily Settlement Price) |
|---|--|---|
| $K = \frac{S_{cum} - D_{ord} - D_{ext}}{S_{cum} - D_{ord}}$ | $C_{adj} = \frac{\text{Contract Size before adjustment}}{K}$ | $P_{ex} = P_{cum} * K$ |

S_{cum} = Cum Price of the underlying security

D_{ord} = Amount of the ordinary dividend

D_{ext} = Amount of the extraordinary dividend

C_{adj} = Contract size of a futures contract on Ex-Day after adjustment

K = Adjustment Ratio

P_{ex} = Previous day's Daily Settlement Price of a futures contract after adjustment. Note that this will also be the Reference Price for trading on Ex-Day.

P_{cum} = Previous day's Daily Settlement Price of a futures contract before adjustment

XYZ company has decided to distribute an extraordinary dividend of 4.00 per share

| Adjustment ratio (K) | Adjusted contract size | Adjusted price (futures Daily Settlement Price) |
|--|---------------------------------|---|
| $K = \frac{S_{cum} - D_{ext}}{S_{cum}} = 0.973045$ | $C_{adj} = \frac{100}{K} = 103$ | $P_{ex} = P_{cum} * K$ |

K = Adjustment Ratio

S_{cum} = Cum Price of the underlying security prior to the Ex-Day = 148.39744214

D_{ext} = Amount of extraordinary dividend = 4.00

C_{adj} = Contract size of a futures contract on Ex-Day after adjustment

P_{ex} = Previous day's Daily Settlement Price of a futures contract after adjustment. Note that this will also be the Reference Price for trading on Ex-Day.

P_{cum} = Previous day's Daily Settlement Price of a futures contract before adjustment

17. Takeovers and Partial Public Tender Offers

Where a Company is subject to a takeover, adjustments of Derivative Contracts may imply the replacement of the underlying securities with the underlying securities of the new Company offered or the application of the Theoretical Fair Value.

These adjustments take effect only at the end of the offer period, given the offer results.

The following adjustments might be applied:

- in the case of exchange offers then the Underlying of Derivative Contracts might be replaced with the underlying securities offered (adjustments are similar to those in the case of mergers, refer to 15)
- in the case of tender or exchange offers which include a cash component, if the cash is less than 2/3 of the total offer consideration, then the Underlying of Derivative Contracts might be replaced with the underlying securities offered (adjustments are similar to those in the case of mergers, refer to 15)
- in any case, if the acquiring Company announces holding of at least 90% of the underlying securities or voting rights of the acquired Company and whenever the replacement of the underlying securities is not possible, the closure and cash settlement of all open positions, is applied.
- In case of a Partial Public Tender Offer if the last price of the shares is less than the Tender Offer price on the last day on which such Underlying Instrument purchased on the market can be tendered, the Daily Settlement Price of Future Contracts and their Contract sizes, will be modified by the Adjustment Ratio.

Adjustment ratio (K) | Adjusted contract size

$$K = \frac{T_{ex}}{S_{cum}} \quad \left| \quad T_{ex} = \frac{S_{cum} - (\% \text{ of shares to be purchased}) * (\text{tender offer price})}{1 - (\% \text{ of shares to be purchased})}$$

T_{ex} = Theoretical price of the Underlying Instrument ex Partial Public Tender Offer;

S_{cum} = Cum Price of the underlying security underlying securities last day on which such underlying security purchased on the market can be tendered.

The theoretical price ex Partial Public Tender Offer is calculated taking into account the tender offer price (tender offer price) and the maximum percentage of shares to be purchased (% of shares to be purchased), according to the following formula:

| | |
|---|--|
| <p style="color: #00AEEF; margin: 0;">Adjusted contract size</p> $C_{adj} = \frac{\text{Contract Size before adjustment}}{K}$ | <p style="color: #00AEEF; margin: 0;">Adjusted price (futures Daily Settlement Price)</p> $P_{ex} = P_{cum} * K$ |
|---|--|

C_{adj} = Contract size of a futures contract on Ex-Day after adjustment

P_{ex} = Previous day's Daily Settlement Price of a futures contract after adjustment. Note that this will also be the Reference Price for trading on Ex-Day.

P_{cum} = Previous day's Daily Settlement Price of a futures contract before adjustment

18. Delisting.

Whenever a Company, whose financial instruments constitute the Underlying of Derivative Contracts, is being delisted as a consequence of liquidation or bankruptcy, Nasdaq Dubai will suspend trading in the Derivative Contracts as soon as reasonably practical following the suspension in trading of the underlying security in its primary market.

To determine the price at which any open interest in the suspended Derivative Contracts will be closed and settled, Nasdaq Dubai will rely on the share price as determined by the relevant authorities connected with the liquidation or bankruptcy proceeding and the primary market. The Derivatives Contracts will remain suspended until the price has been properly determined and delisted after all open contracts are closed and settled.

In the case of delisting for reasons other than liquidation or bankruptcy, Derivatives Contracts are closed and cash settled at their TFV.

19. Exceptional Adjustments

There will be no contract or settlement price adjustment made for Derivatives Contracts in the case of normal and expected ordinary dividends. Market participants are requested to consider dividend assumption risk while trading.

However, to maintain fair and orderly market, Nasdaq Dubai will, in exceptional cases, consult its key participants and may decide to make necessary adjustments to Future Contracts settlement price. The economic value of Future Contracts position post the adjustment will be as far as practicable the same as the economic value of the Future Contracts position before such adjustment. Such adjustment shall be considered in scenarios mentioned in below example, where based on AGM results dividend ex-entitlement dates are moved outside period of relevant contract expiry in which dividend ex-entitlement date was reasonably expected (based on historical information or board meeting results published) .

XYZ company has decided to distribute an extraordinary dividend of 4.00 per share

Example:

We are in January and shares of XYZ are trading at 6:00, and expected dividend on 12th March is 0.40. Based on this information, traders are trading March and April Future Contracts after discounting expected dividend amount from share price, say 5.58.

Based on AGM results, following scenarios are possible:

| Sr No. | Scenario | Adjustments |
|--------|--|--|
| 1 | Ex-Day of dividend falls within March contract and expected dividend amount is same | No adjustment to be made |
| 2 | Ex-Day of dividend falls within March contract and expected dividend amount is different (including dividend cancellation) | No adjustment to be made |
| 3 | Ex-Day of dividend falls <u>outside</u> March expiry but within April expiry | Adjustment to March contracts will be made by adjusting Daily Settlement Price of futures contracts. (Adjusted price = Daily Settlement Price / Adjustment ratio) |
| 4 | Ex-Day is earlier than expected such that February contracts which are trading without dividend assumption are impacted | Adjustment to February contracts will be made by adjusting Daily Settlement Price of futures contracts (Adjusted price = Daily Settlement Price * Adjustment ratio) |

To make an adjustment to Daily Settlement Price, Adjustment ratio will be calculated as follows:

$$Adjustment\ Ratio\ (K) = \frac{S_{cum} - D_{ord}}{S_{cum}}$$

Where,

S_{cum} = Cum Price of the underlying security

D_{ord} = Amount of the ordinary dividend

On AGM date, if it is determined that dividend amount is 0.50, and Ex-Day falls outside contract period (say April 2nd), then adjustment will be made on AGM date+1 to March contracts as follows:
Calculating adjustment factor:

| Previous closing price of underlying security | Dividend declared | Payment date | Adjustment factor |
|---|-------------------|--------------------|---|
| 6.000 | 0.500 | After March expiry | $= \frac{6.000 - 0.500}{6.000} = 0.91667$ |

Applying adjustment factor to previous day's futures settlement price:

| Previous day's Daily Settlement Price (assuming dividends) | Adjusted Settlement Price (based on dividend Ex-Day falling outside contract period) | Daily Settlement Price (if no market movement) | MTM implication |
|--|--|--|---|
| 5.538 | Previous day's settlement price / adjustment factor $= \frac{5.538}{0.91667} = 6.041$ | 6.041 | For opening positions, there will be no MTM, thus economic value is maintained at same level as pre-adjustment value. |