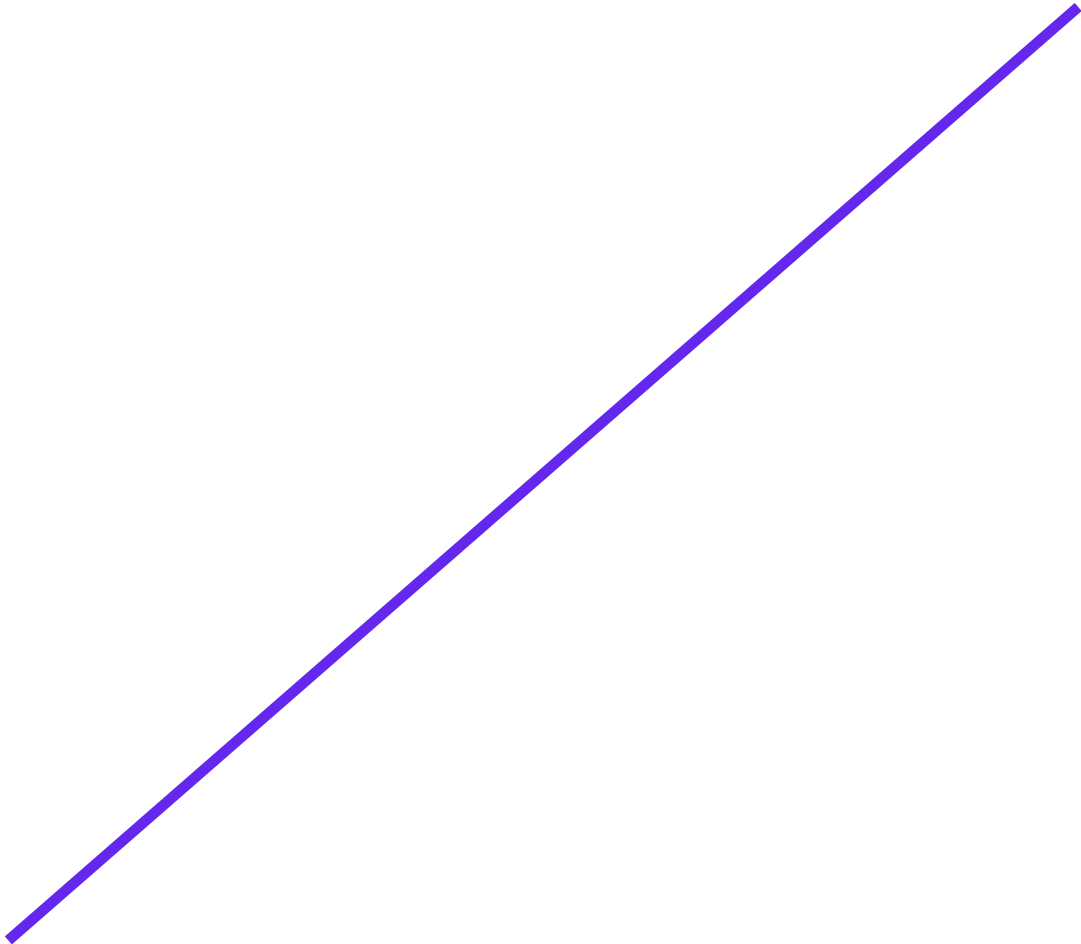


2023

DFM Futures Contract Adjustment Guidelines  
Equity Futures



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## 1. Overview

These Dubai Financial Market (“DFM”) contract adjustment guidelines (the “DFM Futures Adjustment Guidelines” or “Guidelines”) describe the adjustment procedures followed by DFM when a Corporate Action is applied to the Underlying Securities in connection with a DFM Futures contract. The purpose of this document is to outline the rationale and processes that DFM would employ in relation to adjustments for Corporate Actions in respect of Futures traded on DFM.

These Guidelines should be read in conjunction with DFM Module Three: Membership, Trading, and Derivatives Rules (“DFM Module Three”).

## 2. Definitions

Terms used in these Guidelines have the meaning specified below or in the Glossary Rules approved by the Market.

**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 dividend distribution a merger, an acquisition, an issue of Priority Rights, a stock split or any other such corporate action that could be reasonably expected to have a material impact on the value of an Issuer's Securities.

**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 DFM to be used in the calculation of the Adjustment Ratio.

**Daily Settlement Price** means the settlement price of Futures Contracts calculated by DFM to derive daily variation margins.

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

**Reference Price** means the Reference Price of a contract is previous closing price of the contract unless explicitly set by DFM.

**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 Securities after the Corporate Action.

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

**Trading Hours** means the trading hours on Business Days, as determined by the Market and published by Circular.

**Underlying Securities** means a Securities or Foreign Securities, or local or foreign indices, subject to the Derivative Contract.

### 3. Key Principles of DFM Adjustment Procedure

- a. DFM will adjust future contract only when the Corporate Action event is of a pro rata nature. To clarify “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 Action event needs to be one that would be regarded as an unexpected and would not normally have been priced into the value of the Futures. 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 economic value of the open position post adjustment event should be as far as practicable be the same as the economic value of the open position pre the Corporate Action event. Corporate Actions should not result in an unexpected windfall profit or loss to a Futures holder.
- d. DFM may consult with appropriately qualified market participants to advise it on unforeseen matters relating to adjustments. Final power to make decision will reside with DFM.

### 4. Termination of Contract

There may be occasions where the specific Corporate Action event does not allow the adjustment to the open Futures Contracts. 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 DFM to terminate the open contracts. DFM Module Three gives DFM the power to “decide” not to make an adjustment and may instead terminate or Close-out CCP Transactions”. DFM will provide clarification of any such termination process by Circular.

### 5. Market Circulars

DFM will communicate futures contract adjustments through a Circular on its website. The details will be shared once the issuer of the Underlying Security or the underlying market releases comprehensive information about the Corporate Action.

## 6. 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 <sup>1</sup>	New Symbol signifying first Corporate Action
DFMF22	DFMF22X
DFMG22	DFMG22X
DFMH22	DFMH22X
DFMJ22	DFMJ22X

<sup>1</sup> These ("F", "G", "H", "J") refer to expiration months / cycles

## 7. Adjustment Method

Futures 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, DFM will reserve the right to determine the appropriate Corporate Action guidelines.

### **Adjustment Ratio method**

Under this method, Adjustment Ratio will be calculated in accordance with the formula provided in these Guidelines under respective Corporate Action event. 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 Futures 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).



## 8. Rounding

Adjustment Ratio as calculated in accordance with method prescribed in these Guidelines 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 rounding 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

## 9. Corporate Action Resulting in an Adjustment in Futures contract

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

- Bonus issue; Splits, reverse splits (Subdivision or consolidation of shares);
- Rights issue;
- Demergers;
- Conversion of underlying securities;
- Extraordinary, or special dividends;
- Mergers;
- Takeovers;
- Delisting;
- Any other pro rata Corporate Action event that DFM considers warrants an adjustment.

## 10. Bonus issue, Splits, and reverse stock splits, (sub-divisions or consolidation of share capital)

DFM will use the Adjustment Ratio to adjust Futures 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 Futures will be adjusted with effect from Ex-Day as follows according to the example of bonus shares:

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 the 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 10<sup>th</sup> January 2022.

Effective on 10<sup>th</sup> January 2022 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-22	100	110	0.90909	1.048 AED	0.953 AED
Feb-22	100	110	0.90909	1.040 AED	0.945 AED
Mar-22	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.

## 11. Rights Issue

DFM will use the Adjustment Ratio to adjust Futures to cater for the rights issue i.e. Priority Right.

DFM 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 Futures 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 Underlying Securities issued under rights

E = value of entitlement per Underlying Security

K = Adjustment Ratio

$P_{ex}$  = Previous day's Daily Settlement Price of a Future 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 Future before adjustment

$C_{adj}$  = Contract size of a Future 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 I 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 ( $C_{adj}$ )
$T_{ex} = \frac{(10 * 1.00) + (1 * 0.50)}{10 + 1} = 0.954545$	$K = \frac{0.954545}{1.00} = 0.954545$	$P_{ex} = P_{cum} * K$	$C_{adj} = \frac{\text{Contract Size before adjustment}}{K}$

Expiry Month	Adjustment Ratio (K)	Contract Size before Adjustment	Contract Size After Adjustment	Price Prior to Adjustment	Price After Adjustment
Jan-22	0.954545	100	$\frac{100}{0.95454} = 105$	1.00 AED	$1.00 * 0.954545 = 0.955$
Feb-22	0.954545	100	105	1.01 AED	0.964 AED
Mar-22	0.954545	100	105	1.03 AED	0.983 AED

## 12. Demergers

In case of a demerger, DFM will perform early expiry of the existing contracts on the Underlying Securities on the last cum date. The settlement price of the expiry will be as per the current methodology of Final Expiry Settlement Price i.e. closing price of the Underlying Securities. The Futures contract on the Underlying Securities will be re-introduced on the ex-date. The reference price of the new contracts introduced will be communicated via Market Circulars.

Other points:

- There will be no change in contract size.
- All open orders will be deleted after close of trading on the last cum trading day.

### Example

- Company has fixed 5<sup>th</sup> Apr 2023 as the Book Close Date for the purpose of issuance and allocation 4 ordinary share of company B for every 1 ordinary share each of company A. The last cum date being 3<sup>rd</sup> Apr 2023 and ex-date as 4<sup>th</sup> Apr 2023.
- Contracts on Company A, Apr 2023 contracts with expiry date of 20<sup>th</sup> Apr 2023, May 2023 contracts with expiry date 18<sup>th</sup> May 2023 and June 2023 contracts with expiry date 15<sup>th</sup> June 2023 will be early closed and settled on 4<sup>th</sup> Apr 2023 with the closing price of the underlying Company A.
- On ex-date 4<sup>th</sup> Apr 2023, contracts of Company A, Apr 2023 contracts with expiry date of 20<sup>th</sup> Apr 2023, May 2023 contracts with expiry date 18<sup>th</sup> May 2023 and June 2023 contracts with expiry date 15<sup>th</sup> June 2023 will be re-introduced with standard contract size and with new reference price. Reference price will be notified via Market Circular.

### 13. Mergers and Conversion of Underlying Securities

In case of merger or conversion of an Underlying Securities into another, all existing contracts will be early closed and settled on the last cum date with the methodology of Final Expiry Settlement Price i.e. closing price of the Underlying Securities.

No contracts will be available for trading on the Underlying Securities from ex-date onwards. All open GTC/GTD orders on the Underlying Securities contracts symbol will be removed automatically.

### 14. Cash Dividends

#### 14.1. Ordinary Cash Dividend

An ordinary dividend is a distribution of a portion of a company's earnings to its shareholders. Ordinary dividends typically follow a quarterly, semi-annual or annual cycle and are most often quoted in terms of the payment amount each share receives (dividends per share).

No adjustment of Futures for Ordinary Dividend.

#### 14.2. Special Dividends

Special dividends are those dividends that are outside of the normal payment pattern established historically by the company. Special dividends usually have the following characteristics: The company describes it as a “one-time”, “special,” “extra,” “irregular,” “return of capital” “distribution from reserves”, or some other similar term in the dividend announcement.

DFM will use the following criteria for deciding whether a dividend should be considered to be a special dividend:

- a) The declaration by a company of a dividend additional to those dividends declared as part of the company's normal results and dividend reporting cycle; merely an adjustment to the timing of the declaration of a company's expected dividend would not be considered as a special dividend circumstance; or
- b) The identification of an element of a dividend paid in line with a company's normal results and dividend reporting cycle as an element that is unambiguously additional to the company's normal payment.

For the purpose of clarification, DFM will not make adjustment for the following situations:

- a) Payment of ordinary dividends, irrespective of how they are financed;
- b) The issue of redeemable shares or any other entitlement in lieu of an ordinary dividend; or
- c) An unexpected increase or decrease, resumption or cessation, or change in frequency to an ordinary dividend.

In case of a dividend that is deemed to be special dividends the Daily Settlement Price of a Futures 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 Future on Ex-Day after adjustment

K = Adjustment Ratio

$P_{ex}$  = Previous day's Daily Settlement Price of a Future 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 Future 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 Future t on Ex-Day after adjustment

$P_{ex}$  = Previous day's Daily Settlement Price of a Future 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 Future before adjustment

## 15. Takeovers

Where a company is subject to a takeover, adjustments of Futures 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 Securities of Futures might be replaced with the Underlying Securities offered (adjustments are similar to those in the case of mergers, refer to 14).
- 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 Securities of Futures might be replaced with the Underlying Securities offered (adjustments are similar to those in the case of mergers, refer to 14).
- 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 offers by the issuer such that the size of the offer warrants an issuance of prospectus, it will be considered as a corporate action event and the required adjustment on the Derivatives contract will be provided by the Market via circular

## 16. Share Buyback

In case of Share Buyback, it will not be considered as a corporate action event for adjustments on the Derivatives contract.



## 17. Delisting

Whenever a Company, whose Securities constitute the underlying of Futures, is being delisted as a consequence of liquidation or bankruptcy, DFM will suspend trading in the Futures as soon as reasonably practical following the suspension in trading of the Underlying Security. in its reference market.

To determine the price at which any open interest in the suspended Futures will be closed and settled, DFM will rely on the share price as determined by the relevant authorities connected with the liquidation or bankruptcy proceeding and the primary market. The Futures 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, Futures are closed and cash settled at their TFV.

## 18. Exceptional Adjustments

There will be no contract or settlement price adjustment made for Futures 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, DFM will, in exceptional cases, consult its key participants and may decide to make necessary adjustments to Futures settlement price.

The economic value of Futures position post the adjustment will be as far as practicable the same as the economic value of the Futures position before such adjustment. Such adjustment shall be considered in scenarios mentioned in below example, where based on AGM results dividend entitlement dates are moved outside period of relevant contract expiry in which dividend 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 12<sup>th</sup> March is 0.40.

Based on this information, traders are trading March and April Futures 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. (Adjusted price = Daily Settlement Price / Adjustment Ratio)
4	Ex-Day is earlier than expected such that February contracts which are trading without	Adjustment to February contracts will be made by adjusting Daily Settlement Price of futures contracts

dividend assumption are impacted

(Adjusted price = Daily Settlement Price \* Adjustment Ratio)

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

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

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 2<sup>nd</sup>), 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 Daily 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.

## 19. Corporate Action 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 Action 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 cash dividends (subject to section 14);
- Regular ordinary distributions from trusts;
- Offers to takeover another company;
- Share price reaction to price sensitive announcements by the company.