NSE International Exchange

NSE IFSC Limited

Adjustments in case of Corporate Actions

The basis of any adjustment for corporate action is such that the value of the position of the market participants on cum and ex-date for corporate action shall continue to remain the same as far as possible. This facilitates in retaining the relative status of positions viz. in-the-money, at-the-money and out-of-money.

The various stock benefits declared by the issuer of capital are:

- Bonus
- Rights
- Merger / De-merger
- Amalgamation
- Splits
- Consolidations
- Dividends
- Symbol change

The cash benefit declared by the issuer of capital is cash dividend.

Time of Adjustment
Any adjustment for corporate actions would be carried out on the last day on which a security is traded on a cum basis in the underlying reference equities market, after the close of trading hours.

Adjustment
Adjustments may entail modifications to positions and / or contract specifications as listed below, such that the basic premise of adjustment laid down above is satisfied:

- Strike Price
- Multiplier
- Position

The adjustments would be carried out on any or all of the above, based on the nature of the corporate action. The adjustments for corporate actions would be carried out on all open positions.

Methodology for adjustment

The methodology to be followed for adjustment of various corporate actions to be carried out are as follows:

A. **Bonus, Stock Splits and Consolidations**

- Strike Price: The new strike price shall be arrived at by dividing the old strike price by the adjustment factor as under.
- Multiplier: The new multiplier shall be arrived at by multiplying the old multiplier by the adjustment factor as under.
- Position: The new position shall be arrived at by multiplying the old position by the adjustment factor as under.
- Adjustment factor:

Bonus : Ratio A:B	Adjustment factor: (A+B)/B
Stock Splits and Consolidations Ratio – A: B	Adjustment factor: A/B

- The above methodology may result in fractions due to the corporate action e.g. a bonus ratio of 3:7. With a view to minimising fraction settlements, the following methodology is adopted:
  1. Compute value of the position before adjustment
  2. Compute value of the position taking into account the exact adjustment factor
  3. Carry out rounding off for the Strike Price and multiplier
  4. Compute value of the position based on the revised strike price and Multiplier

The difference between 1 and 4 above, if any, is decided in the manner laid down by the relevant authority by adjusting Strike Price or Multiplier, so that no forced closure of open position is mandated.

B. **Right Issue**

Rights Ratio A : B, Benefit per right entitlement (C) : (P – S)*A, Benefit per share (E) : C / A+B, Underlying close price on the last cum date (P), Issue price of the rights (S)	Adjustment factor = (P-E)/P To be multiplied by old strike price & divided into old multiplier to arrive at the new strike price and multiplier

C. Dividends:

- Dividends which are below 5% of the market value of the underlying stock would be deemed to be ordinary dividends and no adjustment in the strike price would be made for ordinary dividends. For extra-ordinary dividends, above 5% of the market value of the underlying security in reference market.
- To decide whether the dividend is "extra-ordinary" (i.e. which are at and above 5% of the market price of the underlying stock.), the market price would mean the closing price of the scrip on the underlying reference market on the day previous to the date on which the announcement of the dividend is made by the Company after the meeting of the Board of Directors. However, in cases where the announcement of dividend is made after the close of market hours, the same day's closing price on the underlying reference market would be taken as the market price. Further, if the shareholders of the company in the AGM change the rate of dividend declared by the Board of Directors, then to decide whether the dividend is extra-ordinary or not would be based on the rate of dividend communicated to the exchange after AGM and the closing price of the scrip on the underlying reference market on the day previous to the date of the AGM.
- In case of declaration of "extra-ordinary" dividend by any company, the total dividend amount (special and / or ordinary) would be reduced from all the strike prices of the option contracts on that stock & from the base price of all the future contracts.
- The revised strike prices would be applicable from the ex-dividend date specified by the exchange.

D. Mergers:

- On the announcement of the record date for the merger, the exact date of expiration (Last Cum-date) of the contracts would be informed to the members.
- After the announcement of the Record Date, no fresh contracts on Futures and Options would be introduced on the underlying, that will cease to exist subsequent to the merger.
- Un-expired contracts outstanding as on the last cum-date would be compulsorily settled at the settlement price. The settlement price shall be the closing price of the underlying security on the underlying reference market on the last cum-date.

The relevant authority may, on a case by case basis, carry out adjustments for other corporate actions in conformity with the above guidelines, including compulsory closing out, where it deems necessary.