



NOTICE TO MEMBERS

N° 2019 - 28
February 19, 2019

REQUEST FOR COMMENTS

AMENDMENTS TO RULE A-9 OF THE CANADIAN DERIVATIVES CLEARING CORPORATION

On February 7, 2019, the Board of Directors of Canadian Derivatives Clearing Corporation (“CDCC”) approved certain amendments to Section A-902 of Rule A-9 of CDCC. The purpose of the proposed amendments mainly consists of removing the adjustment thresholds from the current Rules and leaving the determination of such thresholds with the Adjustment Committee.

Please find enclosed an analysis document as well as the proposed amendments.

Process for Changes to the Rules

CDCC is recognized as a clearing house under section 12 of the *Derivatives Act* (Québec) by the Autorité des marchés financiers (“AMF”) and as a recognized clearing agency under section 21.2 of the *Securities Act* (Ontario) by the Ontario Securities Commission (“OSC”).

The Board of Directors of CDCC has the power to approve the adoption or amendment of the Rules of CDCC. Amendments are submitted to the AMF in accordance with the self-certification process and to the OSC in accordance with the process provided in the Recognition Order.

Comments on the proposed amendments must be submitted before **March 22, 2019**. Please submit your comments to:

Martin Janelle
Legal Counsel
Canadian Derivatives Clearing Corporation
1800-1190 av. des Canadiens-de-Montréal, P.O. Box 37
Montreal, Quebec H3B 0G7
Email: legal@tmx.com

A copy of these comments shall also be forwarded to the AMF and to the OSC to:

Mrs. Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
Tour de la Bourse, P.O. Box 246
800 Victoria Square, 22nd Floor
Montréal, Québec H4Z 1G3
E-mail: consultation-en-cours@lautorite.qc.ca

Manager, Market Regulation
Market Regulation Branch
Ontario Securities Commission
Suite 2200,
20 Queen Street West
Toronto, Ontario, M5H 3S8
Fax: 416-595-8940
Email: marketregulation@osc.gov.on.ca

For any question or clarification, Clearing Members may contact Martin Jannelle at martin.jannelle@tmx.com or at (514) 787-6578.

Jay Rajarathinam
President and Chief Clearing Officer



AMENDMENTS TO RULE A-9 OF THE CANADIAN DERIVATIVES CLEARING CORPORATION

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I. SUMMARY

The Canadian Derivatives Clearing Corporation (“CDCC”) is proposing amendments to its Rule A-9 “Adjustments in Contract Terms”, Section A-902, which relates to, among other topics, the adjustment of options and futures by an Adjustment Committee in order to reflect ordinary cash, stock or trust unit dividends or distribution declared by the issuer of the underlying interest. The purpose of the proposed amendments mainly consists of removing the adjustment thresholds (in Canadian dollars) from the current rules and leaving the determination of such thresholds with the Adjustment Committee.

The rationale behind these amendments is fairly simple. The current thresholds were determined many years ago as fixed Canadian dollar amounts. However, such determination was made following a benchmarking of thresholds in US dollars used by other clearing houses in North America. The mere fluctuation of the exchange rate between US dollars and Canadian dollars may put CDCC at odds with other clearing houses for the same corporate event.

CDCC recommends keeping the adjustment thresholds out of the rules and asking the Adjustment Committee to supervise the determination of such thresholds. By doing so, CDCC will be able to keep the thresholds aligned with those of the benchmarked clearing houses at all times and modify those thresholds based on, among other reasons, the USD/CAD exchange rate fluctuations. The charter of the Adjustment Committee will be amended accordingly.

Finally, in the French version of the Section A-902, CDCC has made a few minor grammatical changes and adjustments with the English version.

II. ANALYSIS

a. Background

During the years 2011 and 2012, the USD/CAD exchange rate was very close to par. As some equity options are listed in United States and in Canada, CDCC used the same thresholds as the ones used in USA. These thresholds were established in the Rules at the time at \$12.50 CAD per contract or \$0.125 CAD per underlying interest, as the case may be. Today, the USD/CAD exchange rate is way far from par and these thresholds now need to be adjusted to avoid any arbitrage situations.

b. Description and Analysis of Impacts

CDCC wishes to remove the current adjustment thresholds from the rules and leave the determination of such thresholds with the Adjustment Committee. The charter of the committee will be amended accordingly to provide for such determination.

In short, the Adjustment Committee will determine, from time to time when the situation so requires, the adjustment thresholds based on factors such as (i) variations in comparable thresholds used by other benchmarked clearing houses, and (ii) exchange rate fluctuations between the US dollar thresholds used by other benchmarked clearing houses and the Canadian dollar thresholds used by CDCC.

Once a threshold is reviewed by the Adjustment Committee, CDCC will notify the public by publishing a circular. The new threshold shall become effective on the third calendar day following the publication of the circular.

c. Proposed Amendments

The proposed amendments are attached hereto as Appendix 1.

d. Benchmarking

Given the nature of the proposed amendments, CDCC is of the view that a benchmarking is not required.

III. PRIMARY MOTIVATION

By proposing these amendments, CDCC will make sure that its Adjustment Committee is using the proper contract adjustment thresholds at all times. More importantly, since the thresholds used by CDCC are in Canadian dollars and that they were determined many years ago based on US dollar thresholds used by other clearing houses in North America, the need of an easy and quick modification method based on exchange rate fluctuations is necessary.

IV. IMPACTS ON TECHNOLOGICAL SYSTEMS

There are no impacts contemplated on the technological systems of CDCC or the Clearing Members.

V. OBJECTIVES OF THE PROPOSED MODIFICATIONS

The objectives of the proposed amendments are:

- (i) Making sure that the adjustment thresholds used by the Adjustment Committee are consistent and aligned at all times with those used by other clearing houses in North America (using thresholds in US dollars); and
- (ii) Providing CDCC with a faster method of modification of the thresholds when they dissociate too much with those of benchmarked clearing houses, for any reason.

VI. PUBLIC INTEREST

CDCC is of the view that the proposed amendments are not contrary to the public interest. In fact, the public and Clearing Members are generally requesting clear rules that are consistent with the practices of other clearing houses. CDCC will achieve such demand by providing more flexibility to the Adjustment Committee in determining the proper thresholds to all corporate events it reviews.

The proposed amendments will not have any impact on how CDCC currently takes decisions with respect to corporate actions matters.

VII. MARKET IMPACTS

CDCC is of the view that the proposed amendments will not result in any market impact. In fact, keeping the adjustment thresholds in CDCC's rules may result in situations where other clearing houses do not recommend adjustments of contract terms while CDCC does, based solely on thresholds are that not aligned or and that cannot be quickly modified by CDCC.

VIII. PROCESS

The proposed amendments are submitted for approval to the CDCC board of directors. Once the approval has been obtained, the proposed amendments, including this analysis, will be transmitted to the Autorité des marchés financiers in accordance with the regulatory self-certification process, and to the Ontario Securities Commission in accordance with the rules stated in Appendix "A" of Schedule "C" of CDCC Recognition Order dated April 8, 2014 (as amended from time to time). The proposed amendments and analysis will also be submitted to the Bank of Canada in accordance with the Regulatory Oversight Agreement.

IX. EFFECTIVE DATE

CDCC is targeting to have these amendments effective in the third (3rd) quarter of 2018.

X. ATTACHED DOCUMENTS

Appendix 1: Amendments to CDCC's Rules – Rule A-9.



CANADIAN DERIVATIVES CLEARING CORPORATION
RULES

PART A – GENERAL

(...)

RULE A-9 ADJUSTMENTS IN CONTRACT TERMS

SECTION A-901 APPLICATION

This Rule A-9 is applicable to Transactions where the Underlying Interest is a Security.

SECTION A-902 ADJUSTMENTS IN TERMS

- 1) Whenever there is a dividend, stock dividend, stock distribution, stock split, trust unit split, reverse stock split, reverse trust unit split, rights offering, distribution, reorganization, recapitalization, reclassification or similar event in respect of any Underlying Interest, or a merger, consolidation, dissolution or liquidation of the issuer of any Underlying Interest, the number of Derivative Instruments, the Unit of Trading, the Exercise Price, and the Underlying Interest, or any of them, with respect to all outstanding Derivative Instruments open for trading in that Underlying Interest may be adjusted in accordance with this Section A-902.
- 2) The Corporation, acting through a committee (“Adjustment Committee”), shall determine whether to make adjustments to reflect particular events in respect of an Underlying Interest, and the nature and extent of any such adjustment, based on its judgment as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to Clearing Members and the Corporation, the maintenance of a fair and orderly market in Derivative Instruments on the Underlying Interest, consistency of interpretation and practice, efficiency of exercise settlement procedures, and the coordination with other clearing agencies of the clearance and settlement of transactions in the Underlying Interest. The Adjustment Committee may, in addition to determining adjustments on a case-by-case basis, adopt statements of policy or interpretation having general application to specified types of events. Any such statements of policy or interpretation shall be disseminated to all Clearing Members, Exchanges and securities and/or derivative instruments regulatory authorities having jurisdiction over the Corporation. Every determination by the Adjustment Committee pursuant to this Section A-902 shall be within the sole discretion of the Adjustment Committee and shall be conclusive and binding on all Clearing Members and not subject to review, other than review by securities and/or derivative instruments regulatory authorities having jurisdiction over the Corporation pursuant to applicable provisions of the respective statutes.
- 3) It shall be the general rule that there will be no adjustments of Options and similar instruments to reflect ordinary cash dividends or distributions, or ordinary stock dividends or distributions, or ordinary trust unit dividends or distributions declared by the issuer of the Underlying Interest, or any cash dividend or distribution declared by the issuer of the Underlying Interest if such dividend or distribution is less than the amount per contract determined by the Adjustment Committee and published by the Corporation from time to time ~~\$12.50 per contract~~.
- 4) It shall be the general rule that there will be no adjustments of Transactions other than Options and similar instruments to reflect ordinary cash dividends or distributions, or ordinary stock dividends

or distributions, or ordinary trust unit dividends or distributions declared by the issuer of the Underlying Interest if such dividend or distribution is less than the amount per contract determined by the Adjustment Committee and published by the Corporation from time to time ~~\$12.50 per contract~~.

5)

- i) For all Options and similar instruments it shall be the general rule that in the case of a stock dividend, stock distribution, stock split, trust unit dividend, trust unit distribution, trust unit split or similar event whereby one or more whole number of additional shares of the Underlying Interest are issued with respect to each outstanding share, each Option or similar instrument covering that Underlying Interest shall be increased by the same number of additional contracts as the number of additional shares issued with respect to each share of the Underlying Interest, and the Exercise Price per share in effect immediately prior to such event shall be proportionately reduced, and the Unit of Trading shall remain the same.
- ii) For all Options and similar instruments it shall be the general rule that in the case of a stock dividend, stock distribution, stock split, trust unit dividend, trust unit distribution, trust unit split or similar event whereby other than a whole number of shares of the Underlying Interest is issued in respect of each outstanding share, the Exercise Price in effect immediately prior to such event shall be proportionately reduced, and the Unit of Trading shall be proportionately increased.
- iii) For all Options and similar instruments it shall be the general rule that in the case of a reverse stock split, consolidation or combination of shares, or similar event, each Option and similar instrument covering the affected Underlying Interest shall be adjusted, solely for purposes of determining the property deliverable upon exercise of the Option or similar instrument, by decreasing the Unit of Trading to reflect the number of shares eliminated. If an adjustment is made in accordance with the preceding sentence, the Unit of Trading for all such adjusted series of Options or similar instruments shall remain unchanged for purposes of determining the aggregate Exercise Price of the Option or similar instrument and for purposes of determining the premium for any such instrument purchased and sold.
- iv) For all Transactions other than those covering Options and similar instruments it shall be the general rule that in the case of a stock dividend, stock distribution, stock split, trust unit dividend, trust unit distribution, trust unit split or similar event whereby one or more whole number of additional shares of the Underlying Interest are issued with respect to each outstanding share, each Derivative Instrument covering that Underlying Interest shall be increased by the same number of additional contracts as the number of additional shares issued with respect to each share of the Underlying Interest, the last Settlement Price established immediately before such event shall be proportionately reduced, and the Unit of Trading shall remain the same.
- v) For all Transactions other than those covering Options and similar instruments it shall be the general rule that in the case of a stock dividend, stock distribution, stock split, trust unit dividend, trust unit distribution, trust unit split or similar event whereby other than a whole number of shares of the Underlying Interest is issued in respect of each outstanding share, the last Settlement Price established immediately before such event shall be proportionately reduced, and the Unit of Trading shall be proportionately increased.

- vi) For all Transactions other than those covering Options and similar instruments it shall be the general rule that in the case of a reverse stock split, consolidation or combination of shares, or similar event, each Derivative Instrument covering the affected Underlying Interest shall be adjusted, solely for purposes of determining the property deliverable upon exercise of the instrument, by decreasing the Unit of Trading to reflect the number of shares eliminated. If an adjustment is made in accordance with the preceding sentence, the Unit of Trading for all such adjusted series of Derivatives Instruments shall remain unchanged for purposes of determining the aggregate Settlement Price of the Derivatives Instrument and for purposes of determining the premium for any such instrument purchased and sold.
 - 6) It shall be the general rule that in the case of any distribution made with respect to shares of an Underlying Interest, other than ordinary dividends or distributions subject to Subsection (3) and (4) of this Section A-902 and other than dividends or distributions for which adjustments are provided in Subsection (5) of this Section A-902, if an adjustment is determined by the Adjustment Committee to be appropriate, for Options and similar instruments:
 - i) the Exercise Price in effect immediately prior to such event shall be reduced by the value per share of the distributed property, in which event the Unit of Trading shall not be adjusted, or
 - ii) the Unit of Trading in effect immediately prior to such event shall be adjusted so as to include the amount of property distributed with respect to the number of shares of the Underlying Interest represented by the Unit of Trading in effect prior to such adjustment, in which event the Exercise Price shall not be adjusted;
- for all other Transactions for which an Exercise Price is not available:
- i) the last Settlement Price established immediately before such event shall be reduced by the value per share of the distributed property, in which event the Unit of Trading shall not be adjusted, or
 - ii) the Unit of Trading in effect immediately prior to such event shall be adjusted so as to include the amount of property distributed with respect to the number of shares of the Underlying Interest represented by the Unit of Trading in effect prior to such adjustment, in which event the Settlement Price shall not be adjusted.
 - iii) The Adjustment Committee shall, with respect to adjustments under this Subsection or any other Subsection of this Section A-902, have the authority to determine the value of distributed property.
 - 7) In the case of any event for which adjustments are not provided in any of the foregoing Subsections of this Section A-902, the Adjustment Committee may make such adjustments, if any, with respect to the characteristics of the Derivative Instrument affected by such event as the Adjustment Committee determines.
 - 8) Adjustments pursuant to this Section A-902 as a general rule shall become effective in respect of Transactions outstanding on the “ex-dividend date” established by the exchange or exchanges on which the Underlying Interest is traded. In the event that the “ex-dividend date” for an Underlying Interest traded on exchanges differs from one exchange to another, the Corporation shall deem the earliest date to be the “ex-dividend date” for the purposes of this Section A-902. “Ex-dividend dates” established by any other exchange or exchanges on which an Underlying Interest may be traded shall be disregarded.

- 9) It shall be the general rule that (i) all adjustments of the Exercise Price of an outstanding Option or similar instrument shall be rounded to the nearest adjustment increment, (ii) when an adjustment causes an Exercise Price to be equidistant between two adjustment increments, the Exercise Price shall be rounded up to the next highest adjustment increment, (iii) all adjustments of the Unit of Trading shall be rounded down to eliminate any fraction, and (iv) if the adjustment is made pursuant to subparagraph (5)(iii) above, the value of the fractional share so eliminated as determined by the Corporation shall be added to the Unit of Trading, or if the adjustment is made pursuant to subparagraph (5)(ii) above, if the Unit of Trading is rounded down to eliminate a fraction, the adjusted Exercise Price may be further adjusted, to the nearest adjustment increment, to reflect any diminution in the value of the Option or similar instrument resulting from the elimination of the fraction.

- 10) It shall be the general rule that (i) all adjustments of the Settlement Price of an outstanding transaction other than those covering an Option or similar instrument shall be rounded to the nearest adjustment increment, (ii) when an adjustment causes a Settlement Price to be equidistant between two adjustment increments, the settlement price shall be rounded up to the next highest adjustment increment, (iii) all adjustments of the Unit of Trading shall be rounded down to eliminate any fraction, and (iv) if the adjustment is made pursuant to subparagraph (5)(v) above, the value of the fractional share so eliminated as determined by the Corporation shall be added to the Unit of Trading, or if the adjustment is made pursuant to subparagraph (5)(iv) above, if the Unit of Trading is rounded down to eliminate a fraction, the adjusted Settlement Price may be further adjusted, to the nearest adjustment increment, to reflect any diminution in the value of the Derivative Instrument resulting from the elimination of the fraction.

- 11) Notwithstanding the general rules set forth in Subsections (3) through (9) of this Section A-902 or which may be set forth as interpretations and policies under this Section A-902, the Adjustment Committee shall have the power to make exceptions in those cases or groups of cases in which, in applying the standards set forth in Subsection (2) thereof the Adjustment Committee shall determine such exceptions to be appropriate. However, the general rules shall be applied unless the Adjustment Committee affirmatively determines to make an exception in a particular case or group of cases.

INTERPRETATIONS AND POLICIES

- 1)
 - i) Cash dividends or distributions (regardless of size) declared by the issuer of the Underlying Interest which the Corporation considers to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly basis or other regular basis, as well as resumption of dividends or distributions will, as a general rule, be deemed to be “ordinary cash dividends or distributions” within the meaning of Subsection A-902(3). Cash dividends or distributions declared by the issuer of the Underlying Interest which are declared outside of a policy or practice of paying such dividends or distributions on a quarterly basis or other regular basis will be deemed to be “special cash dividends or distributions” if they exceed ~~the threshold of the amount per contract determined by the Adjustment Committee and published by the Corporation from time to time~~ \$12.50 per contract.
 - ii) Stock dividends or distributions, or trust unit dividends or distributions declared by the issuer of the Underlying Interest in an aggregate amount that per dividend or distribution does not exceed 10% of the number of shares of the Underlying Interest

- outstanding as of the close of trading on the declaration date, and which the Corporation considers to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly basis will, as a general rule, be deemed to be “ordinary stock dividends or distributions” or “ordinary trust unit dividends or distributions” within the meaning of Subsection A-902(3).
- iii) Cash dividends or distributions declared by the issuer of the Underlying Interest which the Corporation considers to have been declared outside of a regular policy or practice of paying such dividends or distributions and that exceeds the amount per contract determined by the Adjustment Committee and published by the Corporation from time to time~~\$12.50 per contract~~ will be deemed to be “special cash dividends or distributions” within the meaning of Subsection A-902(3).
 - iv) Stock dividends or distributions, or trust unit dividends or distributions declared by the issuer of the Underlying Interest which the Corporation considers to have been declared outside of a regular policy and that exceeds 10% of the number of shares of the Underlying Interest will be deemed to be “special stock dividends or distributions” or “special trust unit dividends or distributions” within the meaning of Subsection A-902(3).
 - v) Cash dividends or distributions declared by the issuer of the Underlying Interest which the Corporation considers to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly basis or other regular basis, as well as resumption of dividends or distributions will, as a general rule, be deemed to be “ordinary distributions” within the meaning of Subsection A-902(4). The Corporation will determine on a case-by-case basis whether other dividends or distributions are “ordinary distributions” or whether they are dividends or distributions for which an adjustment should be made.
 - vi) Stock dividends or distributions or trust unit dividends or distributions by the issuer of the Underlying Interest which the Corporation considers to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly basis will, as a general rule, be deemed to be “ordinary distributions” within the meaning of Subsection A-902(4). The Corporation will ordinarily adjust for other stock dividends and distributions.

Nevertheless, the Adjustment Committee will determine, on its sole discretion, on a case-by-case basis whether other dividends or distributions are “ordinary dividends or distributions” or whether they are dividends or distributions for which adjustments should be made, regardless of the threshold the amount per contract determined by the Adjustment Committee and published by the Corporation from time to time~~of \$12.50 per contract~~ applied to “special dividends or distributions”.

Normally, the Adjustment Committee shall classify a cash dividend or cash distribution as non-ordinary when it believes that similar cash dividends or cash distributions will not be paid on a quarterly or other regular basis. Notwithstanding that the Adjustment Committee has classified a cash dividend or cash distribution as non-ordinary, it may, with respect to events announced on or after February 1, 2012, classify subsequent cash dividends or cash distributions of a similar nature as ordinary if (i) the issuer discloses that it intends to pay such dividends or distributions on a quarterly or other regular basis, (ii) the issuer has paid such dividends or distributions for four or more consecutive months or quarters or two or more years after the initial payment, whether or not the amounts paid were the same from period to period, or (iii) the Adjustment Committee determines for other reasons that the issuer has a policy or practice of paying such dividends or distributions on a quarterly or other regular basis.

2)

- i) Adjustments will not ordinarily be made to reflect the issuance of so-called “poison pill” rights that are not immediately exercisable, trade as a unit or automatically with the Underlying Interest, and may be redeemed by the issuer. In the event such rights become exercisable, begin to trade separately from the Underlying Interest, or are redeemed, the Adjustment Committee will determine whether adjustments are appropriate.
- ii) Except as provided above in the case of certain “poison pill” rights, adjustments for rights distributions will ordinarily be made to Transactions other than those covering Options and similar instruments. When an adjustment is made for a rights distribution, the Unit of Trading in effect immediately prior to the distribution will ordinarily be adjusted to include the number of rights distributed with respect to the number of shares of the Underlying Interest comprising the Unit of Trading. If, however, the Corporation determines that the rights are due to expire before the time they could be exercised upon delivery under the contract, then delivery of the rights will not be required. Instead, the Corporation will ordinarily adjust the last Settlement Price established before the rights expire to reflect the value, if any, of the rights as determined by the Corporation in its sole discretion.
- iii) Adjustments will not be made to reflect a take-over bid or issuer bid made for the Underlying Interest, whether such offer is for cash, Securities or other property. This policy will apply without regard to whether the price of the Underlying Interest may be favourably or adversely affected by the offer or whether the offer may be deemed to be “coercive”. Outstanding Transactions ordinarily will be adjusted to reflect a merger, amalgamation, arrangement or similar event that becomes effective following the completion of a take-over bid.
- iv) Adjustments will not be made to reflect changes in the capital structure of an issuer where all of the Underlying Interest in the hands of the public (other than dissenters' shares) are not changed into another Security, cash or other property. For example, adjustments will not be made merely to reflect the issuance (except as a distribution on an Underlying Interest) of new or additional debt, stock, trust units, or options, warrants or other securities convertible into or exercisable for the Underlying Interest, the refinancing of the issuer's outstanding debt, the repurchase by the issuer of less than all of the Underlying Interest outstanding or the sale by the issuer of significant capital assets.
- v) When an Underlying Interest is converted into a right to receive a fixed amount of cash, such as in a merger, amalgamation, arrangement or similar event, outstanding Options or similar instruments will be adjusted to require the delivery upon exercise of cash in an amount per share equal to the conversion price. As a result of such adjustments, the value of all outstanding In-the-money Options or similar instruments will become fixed, and all At-the-money and Out-of-the-money Options or similar instruments will become worthless. Outstanding transactions other than those covering Options or similar instruments will be adjusted to replace such Underlying Interest with such fixed amount of cash as the Underlying Interest, and the Unit of Trading shall remain unchanged.
- vi) In the case of a spin off or similar event by the issuer of an Underlying Interest which results in a property distribution, Derivatives Instruments will be adjusted to reflect such distribution. The value of the property distributed shall be reflected in the shares deliverable.

- vii) In the case of a corporate reorganization or similar occurrence by the issuer of an Underlying Interest which results in an automatic share-for-share exchange of the Underlying Interest for shares of another class in the capital of the issuer or in the resulting company, the Transactions on the Underlying Interest will ordinarily be adjusted to require delivery upon exercise of a like number of units of the shares of such other class or of the resulting company. Because the Securities are generally exchanged only on the books of the issuer and/or the resulting company, as the case may be, and are generally not exchanged physically, deliverable shares will ordinarily include certificates that are denominated on their face as shares in the original class of shares of the original issuer, but which, as a result of the corporate transaction, represent shares in the other class or in the resulting company, as the case may be.
- viii) When an Underlying Interest is converted in whole or in part into a debt security and/or a preferred stock, as in a merger, and interest or dividends on such debt security or preferred stock are payable in the form of additional units thereof, outstanding Transactions that have been adjusted to call for delivery of such debt security or preferred stock shall be further adjusted, effective as of the ex-date for each payment of interest or dividends thereon, to call for delivery of the securities distributed as interest or dividends thereon.
- ix) Notwithstanding paragraph 1) of Interpretations and Policies under Section A-902, (i) "ordinary cash dividends or distributions" within the meaning of paragraph (3) of Section A-902 shall not, as a general rule, be deemed to include distributions of short-term or long-term capital gains by the issuer of the Underlying Interest, and (ii) "ordinary cash dividends or distributions" within the meaning of paragraph (3) of Section A-902 shall not, as a general rule, be deemed to include other distributions by the issuer of the Underlying Interest, provided that (a) the issuer is an entity that holds securities or replicates holding of securities that track the performance of an index that underlies a class of index Options or index Futures, and the distribution on the Underlying Interest includes or reflects a dividend or other distribution on a security part of the index that resulted in an adjustment of the index divisor; or (b) the distribution on the Underlying Interest includes or reflects a dividend or other distribution on a security part of the index (I) that results in an adjustment of Options and similar instruments on other Underlying Interest pursuant to clause (ii)(a), or (II) that is not deemed an ordinary dividend or distribution under Interpretation (1) above.

Adjustments of the terms of Options and similar instruments on such Underlying Interest for distributions described in clause (i) or (ii) above shall be made in accordance with paragraph (6) of Section A-902, unless the Adjustment Committee determines, on a case-by-case basis, not to adjust for such a distribution; provided, however, that no adjustment shall be made for any such distribution where the amount of the adjustment would be less than the amount per Underlying Interest determined by the Adjustment Committee and published by the Corporation from time to time~~\$.125 per Underlying Interest.~~



CANADIAN DERIVATIVES CLEARING CORPORATION
RULES

PART A – GENERAL

(...)

RULE A-9 ADJUSTMENTS IN CONTRACT TERMS

SECTION A-901 APPLICATION

This Rule A-9 is applicable to Transactions where the Underlying Interest is a Security.

SECTION A-902 ADJUSTMENTS IN TERMS

- 1) Whenever there is a dividend, stock dividend, stock distribution, stock split, trust unit split, reverse stock split, reverse trust unit split, rights offering, distribution, reorganization, recapitalization, reclassification or similar event in respect of any Underlying Interest, or a merger, consolidation, dissolution or liquidation of the issuer of any Underlying Interest, the number of Derivative Instruments, the Unit of Trading, the Exercise Price, and the Underlying Interest, or any of them, with respect to all outstanding Derivative Instruments open for trading in that Underlying Interest may be adjusted in accordance with this Section A-902.
- 2) The Corporation, acting through a committee (“Adjustment Committee”), shall determine whether to make adjustments to reflect particular events in respect of an Underlying Interest, and the nature and extent of any such adjustment, based on its judgment as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to Clearing Members and the Corporation, the maintenance of a fair and orderly market in Derivative Instruments on the Underlying Interest, consistency of interpretation and practice, efficiency of exercise settlement procedures, and the coordination with other clearing agencies of the clearance and settlement of transactions in the Underlying Interest. The Adjustment Committee may, in addition to determining adjustments on a case-by-case basis, adopt statements of policy or interpretation having general application to specified types of events. Any such statements of policy or interpretation shall be disseminated to all Clearing Members, Exchanges and securities and/or derivative instruments regulatory authorities having jurisdiction over the Corporation. Every determination by the Adjustment Committee pursuant to this Section A-902 shall be within the sole discretion of the Adjustment Committee and shall be conclusive and binding on all Clearing Members and not subject to review, other than review by securities and/or derivative instruments regulatory authorities having jurisdiction over the Corporation pursuant to applicable provisions of the respective statutes.
- 3) It shall be the general rule that there will be no adjustments of Options and similar instruments to reflect ordinary cash dividends or distributions, or ordinary stock dividends or distributions, or ordinary trust unit dividends or distributions declared by the issuer of the Underlying Interest, or any cash dividend or distribution declared by the issuer of the Underlying Interest if such dividend or distribution is less than the amount per contract determined by the Adjustment Committee and published by the Corporation from time to time.
- 4) It shall be the general rule that there will be no adjustments of Transactions other than Options and similar instruments to reflect ordinary cash dividends or distributions, or ordinary stock dividends

or distributions, or ordinary trust unit dividends or distributions declared by the issuer of the Underlying Interest if such dividend or distribution is less than the amount per contract determined by the Adjustment Committee and published by the Corporation from time to time.

5)

- i) For all Options and similar instruments it shall be the general rule that in the case of a stock dividend, stock distribution, stock split, trust unit dividend, trust unit distribution, trust unit split or similar event whereby one or more whole number of additional shares of the Underlying Interest are issued with respect to each outstanding share, each Option or similar instrument covering that Underlying Interest shall be increased by the same number of additional contracts as the number of additional shares issued with respect to each share of the Underlying Interest, and the Exercise Price per share in effect immediately prior to such event shall be proportionately reduced, and the Unit of Trading shall remain the same.
- ii) For all Options and similar instruments it shall be the general rule that in the case of a stock dividend, stock distribution, stock split, trust unit dividend, trust unit distribution, trust unit split or similar event whereby other than a whole number of shares of the Underlying Interest is issued in respect of each outstanding share, the Exercise Price in effect immediately prior to such event shall be proportionately reduced, and the Unit of Trading shall be proportionately increased.
- iii) For all Options and similar instruments it shall be the general rule that in the case of a reverse stock split, consolidation or combination of shares, or similar event, each Option and similar instrument covering the affected Underlying Interest shall be adjusted, solely for purposes of determining the property deliverable upon exercise of the Option or similar instrument, by decreasing the Unit of Trading to reflect the number of shares eliminated. If an adjustment is made in accordance with the preceding sentence, the Unit of Trading for all such adjusted series of Options or similar instruments shall remain unchanged for purposes of determining the aggregate Exercise Price of the Option or similar instrument and for purposes of determining the premium for any such instrument purchased and sold.
- iv) For all Transactions other than those covering Options and similar instruments it shall be the general rule that in the case of a stock dividend, stock distribution, stock split, trust unit dividend, trust unit distribution, trust unit split or similar event whereby one or more whole number of additional shares of the Underlying Interest are issued with respect to each outstanding share, each Derivative Instrument covering that Underlying Interest shall be increased by the same number of additional contracts as the number of additional shares issued with respect to each share of the Underlying Interest, the last Settlement Price established immediately before such event shall be proportionately reduced, and the Unit of Trading shall remain the same.
- v) For all Transactions other than those covering Options and similar instruments it shall be the general rule that in the case of a stock dividend, stock distribution, stock split, trust unit dividend, trust unit distribution, trust unit split or similar event whereby other than a whole number of shares of the Underlying Interest is issued in respect of each outstanding share, the last Settlement Price established immediately before such event shall be proportionately reduced, and the Unit of Trading shall be proportionately increased.

- vi) For all Transactions other than those covering Options and similar instruments it shall be the general rule that in the case of a reverse stock split, consolidation or combination of shares, or similar event, each Derivative Instrument covering the affected Underlying Interest shall be adjusted, solely for purposes of determining the property deliverable upon exercise of the instrument, by decreasing the Unit of Trading to reflect the number of shares eliminated. If an adjustment is made in accordance with the preceding sentence, the Unit of Trading for all such adjusted series of Derivatives Instruments shall remain unchanged for purposes of determining the aggregate Settlement Price of the Derivatives Instrument and for purposes of determining the premium for any such instrument purchased and sold.
 - 6) It shall be the general rule that in the case of any distribution made with respect to shares of an Underlying Interest, other than ordinary dividends or distributions subject to Subsection (3) and (4) of this Section A-902 and other than dividends or distributions for which adjustments are provided in Subsection (5) of this Section A-902, if an adjustment is determined by the Adjustment Committee to be appropriate, for Options and similar instruments:
 - i) the Exercise Price in effect immediately prior to such event shall be reduced by the value per share of the distributed property, in which event the Unit of Trading shall not be adjusted, or
 - ii) the Unit of Trading in effect immediately prior to such event shall be adjusted so as to include the amount of property distributed with respect to the number of shares of the Underlying Interest represented by the Unit of Trading in effect prior to such adjustment, in which event the Exercise Price shall not be adjusted;
- for all other Transactions for which an Exercise Price is not available:
- i) the last Settlement Price established immediately before such event shall be reduced by the value per share of the distributed property, in which event the Unit of Trading shall not be adjusted, or
 - ii) the Unit of Trading in effect immediately prior to such event shall be adjusted so as to include the amount of property distributed with respect to the number of shares of the Underlying Interest represented by the Unit of Trading in effect prior to such adjustment, in which event the Settlement Price shall not be adjusted.
 - iii) The Adjustment Committee shall, with respect to adjustments under this Subsection or any other Subsection of this Section A-902, have the authority to determine the value of distributed property.
 - 7) In the case of any event for which adjustments are not provided in any of the foregoing Subsections of this Section A-902, the Adjustment Committee may make such adjustments, if any, with respect to the characteristics of the Derivative Instrument affected by such event as the Adjustment Committee determines.
 - 8) Adjustments pursuant to this Section A-902 as a general rule shall become effective in respect of Transactions outstanding on the “ex-dividend date” established by the exchange or exchanges on which the Underlying Interest is traded. In the event that the “ex-dividend date” for an Underlying Interest traded on exchanges differs from one exchange to another, the Corporation shall deem the earliest date to be the “ex-dividend date” for the purposes of this Section A-902. “Ex-dividend dates” established by any other exchange or exchanges on which an Underlying Interest may be traded shall be disregarded.

- 9) It shall be the general rule that (i) all adjustments of the Exercise Price of an outstanding Option or similar instrument shall be rounded to the nearest adjustment increment, (ii) when an adjustment causes an Exercise Price to be equidistant between two adjustment increments, the Exercise Price shall be rounded up to the next highest adjustment increment, (iii) all adjustments of the Unit of Trading shall be rounded down to eliminate any fraction, and (iv) if the adjustment is made pursuant to subparagraph (5)(iii) above, the value of the fractional share so eliminated as determined by the Corporation shall be added to the Unit of Trading, or if the adjustment is made pursuant to subparagraph (5)(ii) above, if the Unit of Trading is rounded down to eliminate a fraction, the adjusted Exercise Price may be further adjusted, to the nearest adjustment increment, to reflect any diminution in the value of the Option or similar instrument resulting from the elimination of the fraction.
- 10) It shall be the general rule that (i) all adjustments of the Settlement Price of an outstanding transaction other than those covering an Option or similar instrument shall be rounded to the nearest adjustment increment, (ii) when an adjustment causes a Settlement Price to be equidistant between two adjustment increments, the settlement price shall be rounded up to the next highest adjustment increment, (iii) all adjustments of the Unit of Trading shall be rounded down to eliminate any fraction, and (iv) if the adjustment is made pursuant to subparagraph (5)(v) above, the value of the fractional share so eliminated as determined by the Corporation shall be added to the Unit of Trading, or if the adjustment is made pursuant to subparagraph (5)(iv) above, if the Unit of Trading is rounded down to eliminate a fraction, the adjusted Settlement Price may be further adjusted, to the nearest adjustment increment, to reflect any diminution in the value of the Derivative Instrument resulting from the elimination of the fraction.
- 11) Notwithstanding the general rules set forth in Subsections (3) through (9) of this Section A-902 or which may be set forth as interpretations and policies under this Section A-902, the Adjustment Committee shall have the power to make exceptions in those cases or groups of cases in which, in applying the standards set forth in Subsection (2) thereof the Adjustment Committee shall determine such exceptions to be appropriate. However, the general rules shall be applied unless the Adjustment Committee affirmatively determines to make an exception in a particular case or group of cases.

INTERPRETATIONS AND POLICIES

- 1)
 - i) Cash dividends or distributions (regardless of size) declared by the issuer of the Underlying Interest which the Corporation considers to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly basis or other regular basis, as well as resumption of dividends or distributions will, as a general rule, be deemed to be “ordinary cash dividends or distributions” within the meaning of Subsection A-902(3). Cash dividends or distributions declared by the issuer of the Underlying Interest which are declared outside of a policy or practice of paying such dividends or distributions on a quarterly basis or other regular basis will be deemed to be “special cash dividends or distributions” if they exceed the amount per contract determined by the Adjustment Committee and published by the Corporation from time to time.
 - ii) Stock dividends or distributions, or trust unit dividends or distributions declared by the issuer of the Underlying Interest in an aggregate amount that per dividend or distribution does not exceed 10% of the number of shares of the Underlying Interest

- outstanding as of the close of trading on the declaration date, and which the Corporation considers to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly basis will, as a general rule, be deemed to be “ordinary stock dividends or distributions” or “ordinary trust unit dividends or distributions” within the meaning of Subsection A-902(3).
- iii) Cash dividends or distributions declared by the issuer of the Underlying Interest which the Corporation considers to have been declared outside of a regular policy or practice of paying such dividends or distributions and that exceeds the amount per contract determined by the Adjustment Committee and published by the Corporation from time to time will be deemed to be “special cash dividends or distributions” within the meaning of Subsection A-902(3).
 - iv) Stock dividends or distributions, or trust unit dividends or distributions declared by the issuer of the Underlying Interest which the Corporation considers to have been declared outside of a regular policy and that exceeds 10% of the number of shares of the Underlying Interest will be deemed to be “special stock dividends or distributions” or “special trust unit dividends or distributions” within the meaning of Subsection A-902(3).
 - v) Cash dividends or distributions declared by the issuer of the Underlying Interest which the Corporation considers to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly basis or other regular basis, as well as resumption of dividends or distributions will, as a general rule, be deemed to be “ordinary distributions” within the meaning of Subsection A-902(4). The Corporation will determine on a case-by-case basis whether other dividends or distributions are “ordinary distributions” or whether they are dividends or distributions for which an adjustment should be made.
 - vi) Stock dividends or distributions or trust unit dividends or distributions by the issuer of the Underlying Interest which the Corporation considers to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly basis will, as a general rule, be deemed to be “ordinary distributions” within the meaning of Subsection A-902(4). The Corporation will ordinarily adjust for other stock dividends and distributions.

Nevertheless, the Adjustment Committee will determine, on its sole discretion, on a case-by-case basis whether other dividends or distributions are “ordinary dividends or distributions” or whether they are dividends or distributions for which adjustments should be made, regardless of the amount per contract determined by the Adjustment Committee and published by the Corporation from time to time applied to “special dividends or distributions”.

Normally, the Adjustment Committee shall classify a cash dividend or cash distribution as non-ordinary when it believes that similar cash dividends or cash distributions will not be paid on a quarterly or other regular basis. Notwithstanding that the Adjustment Committee has classified a cash dividend or cash distribution as non-ordinary, it may, with respect to events announced on or after February 1, 2012, classify subsequent cash dividends or cash distributions of a similar nature as ordinary if (i) the issuer discloses that it intends to pay such dividends or distributions on a quarterly or other regular basis, (ii) the issuer has paid such dividends or distributions for four or more consecutive months or quarters or two or more years after the initial payment, whether or not the amounts paid were the same from period to period, or (iii) the Adjustment Committee determines for other reasons that the issuer has a policy or practice of paying such dividends or distributions on a quarterly or other regular basis.

2)

- i) Adjustments will not ordinarily be made to reflect the issuance of so-called “poison pill” rights that are not immediately exercisable, trade as a unit or automatically with the Underlying Interest, and may be redeemed by the issuer. In the event such rights become exercisable, begin to trade separately from the Underlying Interest, or are redeemed, the Adjustment Committee will determine whether adjustments are appropriate.
- ii) Except as provided above in the case of certain “poison pill” rights, adjustments for rights distributions will ordinarily be made to Transactions other than those covering Options and similar instruments. When an adjustment is made for a rights distribution, the Unit of Trading in effect immediately prior to the distribution will ordinarily be adjusted to include the number of rights distributed with respect to the number of shares of the Underlying Interest comprising the Unit of Trading. If, however, the Corporation determines that the rights are due to expire before the time they could be exercised upon delivery under the contract, then delivery of the rights will not be required. Instead, the Corporation will ordinarily adjust the last Settlement Price established before the rights expire to reflect the value, if any, of the rights as determined by the Corporation in its sole discretion.
- iii) Adjustments will not be made to reflect a take-over bid or issuer bid made for the Underlying Interest, whether such offer is for cash, Securities or other property. This policy will apply without regard to whether the price of the Underlying Interest may be favourably or adversely affected by the offer or whether the offer may be deemed to be “coercive”. Outstanding Transactions ordinarily will be adjusted to reflect a merger, amalgamation, arrangement or similar event that becomes effective following the completion of a take-over bid.
- iv) Adjustments will not be made to reflect changes in the capital structure of an issuer where all of the Underlying Interest in the hands of the public (other than dissenters' shares) are not changed into another Security, cash or other property. For example, adjustments will not be made merely to reflect the issuance (except as a distribution on an Underlying Interest) of new or additional debt, stock, trust units, or options, warrants or other securities convertible into or exercisable for the Underlying Interest, the refinancing of the issuer's outstanding debt, the repurchase by the issuer of less than all of the Underlying Interest outstanding or the sale by the issuer of significant capital assets.
- v) When an Underlying Interest is converted into a right to receive a fixed amount of cash, such as in a merger, amalgamation, arrangement or similar event, outstanding Options or similar instruments will be adjusted to require the delivery upon exercise of cash in an amount per share equal to the conversion price. As a result of such adjustments, the value of all outstanding In-the-money Options or similar instruments will become fixed, and all At-the-money and Out-of-the-money Options or similar instruments will become worthless. Outstanding transactions other than those covering Options or similar instruments will be adjusted to replace such Underlying Interest with such fixed amount of cash as the Underlying Interest, and the Unit of Trading shall remain unchanged.
- vi) In the case of a spin off or similar event by the issuer of an Underlying Interest which results in a property distribution, Derivatives Instruments will be adjusted to reflect such distribution. The value of the property distributed shall be reflected in the shares deliverable.

- vii) In the case of a corporate reorganization or similar occurrence by the issuer of an Underlying Interest which results in an automatic share-for-share exchange of the Underlying Interest for shares of another class in the capital of the issuer or in the resulting company, the Transactions on the Underlying Interest will ordinarily be adjusted to require delivery upon exercise of a like number of units of the shares of such other class or of the resulting company. Because the Securities are generally exchanged only on the books of the issuer and/or the resulting company, as the case may be, and are generally not exchanged physically, deliverable shares will ordinarily include certificates that are denominated on their face as shares in the original class of shares of the original issuer, but which, as a result of the corporate transaction, represent shares in the other class or in the resulting company, as the case may be.
- viii) When an Underlying Interest is converted in whole or in part into a debt security and/or a preferred stock, as in a merger, and interest or dividends on such debt security or preferred stock are payable in the form of additional units thereof, outstanding Transactions that have been adjusted to call for delivery of such debt security or preferred stock shall be further adjusted, effective as of the ex-date for each payment of interest or dividends thereon, to call for delivery of the securities distributed as interest or dividends thereon.
- ix) Notwithstanding paragraph 1) of Interpretations and Policies under Section A-902, (i) "ordinary cash dividends or distributions" within the meaning of paragraph (3) of Section A-902 shall not, as a general rule, be deemed to include distributions of short-term or long-term capital gains by the issuer of the Underlying Interest, and (ii) "ordinary cash dividends or distributions" within the meaning of paragraph (3) of Section A-902 shall not, as a general rule, be deemed to include other distributions by the issuer of the Underlying Interest, provided that (a) the issuer is an entity that holds securities or replicates holding of securities that track the performance of an index that underlies a class of index Options or index Futures, and the distribution on the Underlying Interest includes or reflects a dividend or other distribution on a security part of the index that resulted in an adjustment of the index divisor; or (b) the distribution on the Underlying Interest includes or reflects a dividend or other distribution on a security part of the index (I) that results in an adjustment of Options and similar instruments on other Underlying Interest pursuant to clause (ii)(a), or (II) that is not deemed an ordinary dividend or distribution under Interpretation (1) above.

Adjustments of the terms of Options and similar instruments on such Underlying Interest for distributions described in clause (i) or (ii) above shall be made in accordance with paragraph (6) of Section A-902, unless the Adjustment Committee determines, on a case-by-case basis, not to adjust for such a distribution; provided, however, that no adjustment shall be made for any such distribution where the amount of the adjustment would be less than the amount per Underlying Interest determined by the Adjustment Committee and published by the Corporation from time to time.