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# e u r e x *circular 068/07*

**Date:** Frankfurt, April 13, 2007

**Recipients:** All Trading Members of Eurex Deutschland and Eurex Zürich, Clearing Members of Eurex Clearing AG and Vendors

**Authorized by:** Peter Reitz

U **High priority**

## Russian Derivatives Contracts: Handling of Corporate Actions

**Related Eurex Circulars:** 024/07, 039/07

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| **Content may be most important for:** | **Attachment:** |
|---|---|
| Ü All departments | Updated sections of Contract Specifications for Futures Contracts and Options Contracts at Eurex Deutschland and Eurex Zürich |

In their session on April 4, 2007 the Management Boards of the Eurex Exchanges decided on the handling of corporate actions in derivatives contracts on Russian underlying instruments with effect from April 23, 2007.

The changes take into account specific features of corporate actions which might occur with Russian stocks. For this reason, the specified regulations only apply to derivatives contracts on Russian Depository Receipts.

The following changes have been decided on:

- Definition of an extraordinary or excessive dividend
- Handling of an extraordinary or excessive dividend which was only announced after dividend distribution
- Handling of an extraordinary or excessive dividend, the amount of which was still unknown at the time it was announced and which cannot be expected to be published in time before dividend distribution.

Detailed explications are given in the attached contract specifications.

Preparations for start of trading on April 23, 2007 (amendment to Eurex circular 039/07): The last tranche of Russian derivatives and the corresponding margin classes will be set up in the Eurex® system on April 18, 2007 (Wednesday) and on April 19, 2007 (Thursday) settlement prices for all tradable contract months of these products will be transmitted after end of trading.

For any questions you may have please feel free to contact Tobias Ehinger at telephone +41-588 54-23 08 or e-mail tobias.ehinger@eurexchange.com.

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## 1.6 Subpart: Contract Specifications for Futures Contracts on Shares

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### 1.6.7 Alterations to the Contract Sizes and Expiration Days of Futures contracts on Shares

(1) Should dividends incur, an adjustment of the Futures Contracts does basically not take place.

Dividends are also capital reductions through reductions of the nominal amount of the shares - in case a company pays the amount of the reduction of the nominal amount instead of a dividend or if such amount is part of the regular dividend - as well as guaranteed cash compensations of subscription rights and other similar assets which are offered instead of a dividend.

(2) Additional distributions, in particular Eextraordinarily high dividends, bonuses or other cash distributions as well as dividends which are not distributed within the scope of the regular dividend policy or which the company declares as non-regular dividends (e.g. special dividends, anniversary bonus) are not regarded as dividends within the meaning of paragraph 1. In case such distributions incur, the futures contract shall be adjusted by multiplying the original contract size by the R-factor. The R-factor is described in the Eurex User Manual System Overview and Information Manual. At the same time, the settlement prices shall be adjusted accordingly, so that the original contract value remains unchanged.

For futures contracts on Russian shares, the part of a dividend pursuant to Paragraph 1 which exceeds 5 % of the volume-weighted average price of all transactions of the trading day preceeding the ex-day shall be handled as a distribution within the meaning of Paragraph 2. The adjustment of the futures contract shall be carried out by multiplication of the original contract size by the R-factor.

In case the announcement of a distribution is executed after the due date of the dividend (record date) only, the relevant futures contract shall immediately be suspended from trading. The adjustment of the futures contract shall be carried out with effectiveness as of the next trading day.

If a distribution is announced without indicating its amount and if such announcement cannot be expected before the record date, the relevant futures contract shall be suspended from trading on the record date. The adjustment of the futures contract shall be carried out on basis of the difference of the value of the volume-weighted average price of the underlying on the Exchange day before the record date and of the value on the record date. The adjustment shall become effective on the Exchange day after the record date.

If a distribution is announced without indicating its amount and if such announcement takes place after the record date only, the relevant futures contract shall immediately be suspended from trading. The adjustment of the futures contract shall be carried out on basis of the difference of the volume-weighted average price of the underlying on the Exchange day before the announcement and the day of announcement. The adjustment shall become effective on the Exchange day after the day of announcement of the distribution.

(3) If subscription rights are granted, the futures contract shall be adjusted by multiplying the original contract size by the R-factor; at the same time, the settlement prices shall be adjusted accordingly, so that the original contract value remains unchanged.

(4) With capital increases out of company reserves, the number of shares underlying the Shares-Futures contract increases according to the ratio of their portion of the former registered share capital of the company issuing such shares. At the same time, the settlement prices shall be adjusted accordingly, so that the original contract value remains unchanged.

With capital reductions, the contract size as well as the settlement prices of the futures contract remain unchanged if the capital reduction is carried out by means of reduction of the nominal value of the shares. With capital reductions by way of redeeming shares or by consolidation, the number of shares underlying the futures contract will be reduced according to the reduction ratio. At the same time, the settlement prices shall be adjusted accordingly, so that the original contract value remains unchanged.

(5) The contract size in case of share splits of shares underlying the futures contract increases correspondent to the ratio of the share split. At the same time, the settlement prices shall be adjusted accordingly, so that the original contract value remains unchanged.

(6) In case of changes in capital (paragraph 3 and 4) and adjustments pursuant to paragraph 2, all orders and quotes in the order book in the respective futures contracts will be deleted by the Eurex exchanges. The Eurex exchanges inform all exchange participants of an imminent cancellation.

(7) If shareholders are offered a conversion of shares in the course of mergers, or acquisitions, the futures contracts will be adjusted, provided that the transaction has been effectively executed. A transaction is deemed executed effectively as soon as it is entered in the respective register (in case of merger) or in case the irrevocable result of an offer is announced by the acquiring company. The futures contracts shall be adjusted with effect from the day on which the compensation specified in the conversion offer is available to the shareholders.

The adjustment of futures contracts of the target company requires tradability of the derivatives on this underlying as well as possibility of trading of the offered shares or other rights on one of the Exchanges determined by the Eurex Exchanges.

If shareholders are exclusively offered a compensation consisting of shares or shares plus a cash interest, where the distribution of the cash part does not exceed 67% of the whole compensation, the adjustment is carried out through the R-factor method. The shares underlying the contract shall be replaced with the shares offered in the conversion offer under consideration of the relevant conversion ratio.

If shareholders are exclusively offered a cash compensation, the term of the futures contract ends with effective date described in 1.6.7 paragraph 7 clause 3. Futures contracts whose expiry date is after the close of trading shall be settled by their theoretical value. The same applies if the compensation consists of shares and a cash interest, and if the cash interest amounts to a value of more than 67 % at the point of announcement of the offer and if the prerequisites according to 1.6.7 paragraph 7 clause 4 are not given.The determination of the theoretical value is carried out by using the riskless interest rate and under consideration of future dividends.

(8) If a corporate action, which is carried out within the meaning of aforementioned conditions, is not regulated or covered by such conditions, the Eurex Exchanges shall adjust the respective Futures contracts in order to maintain the original contract value, to guarantee regular market conditions and to ensure the clearing and settlement of the contracts. Also in case a capital transaction not regulated by the conditions of number 1.6.7 is carried out, the Eurex Exchanges shall issue a regulation similar to such conditions. The Eurex Exchanges shall notify the Exchange participants of the intended actions.

(9) Regarding futures contracts on Russian shares, the price of the underlying required for adjustment of the futures contracts shall be calculated with the help of the volume-weighted average price.

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## 2.6 Subpart: Contract Specifications for Options Contracts and Low Exercise Price Options on Stocks

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### 2.6.10 Alterations of Exercise Prices und Expiration Days

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#### 2.6.10.1 Alterations of Contract Sizes, Exercise Prices und Expiration Days of Stock Options

(1) Exercise prices shall basically not be adjusted upon the payment of any dividends.

Dividends are also capital reductions by reduction of the nominal value of the shares if the company pays the amount of the reduction of the nominal value instead of a dividend or if the dividends are part of the regular dividends - as well as guaranteed cash compensations of subscription rights and other comparable rights offered instead of a dividend.

(2) Additional distributions, in particular e~~E~~xtraordinarily high dividends, bonuses or other cash distributions, as well as dividends which are not distributed within the scope of the regular dividend policy or which are declared as non-regular dividend by the company (e.g. special dividends, anniversary bonus) shall not be deemed to be dividends within the meaning of paragraph (1)~~, Clause 1 and 2~~. In the event of such distributions, the exercise price for stock options written prior to the day of such distribution shall be reduced by an amount that reflects the value of the distribution, as determined in accordance with a formula established by the Eurex Exchanges; correspondingly, the number of shares underlying the contract shall be increased in such a manner that the original value of the contract is maintained.

For stock options on Russian shares, the part of a dividend pursuant to Paragraph 1 which exceeds 5 % of the volume-weighted average price of all transactions of the trading day preceeding the ex-day shall be handled as a distribution within the meaning of Paragraph 2. The adjustment of the options series shall be carried out by multiplication of the original contract size by the R-factor.

In case the announcement of a distribution is executed after the due date of the dividend (record date) only, the relevant options series shall immediately be suspended from trading. The adjustment of the options series shall be carried out with effectiveness as of the next trading day.

If a distribution is announced without indicating its amount and if such announcement cannot be expected before the record date, the relevant options series shall be suspended from trading on the record date. The adjustment of the options series shall be carried out on basis of the difference of the value of the volume-weighted average price of the underlying on the Exchange day before the record date and of the value on the record date. The adjustment shall become effective on the Exchange day after the record date.

If a distribution is announced without indicating its amount and if such announcement takes place after the record date only, the relevant options series shall immediately be suspended from trading. The adjustment of the options series shall be carried out on basis of the difference of the volume-weighted average price of the underlying on the Exchange day before the announcement and the day of announcement. The adjustment shall become effective on the Exchange day after the day of announcement of the distribution.

When an option is exercised, the Eurex Exchanges will provide cash settlement for the fractional part of the new contract size.

The amount of such cash settlement shall be determined on the basis of the difference between the reduced exercise price of the option and the reference price (Chapter II, number 3.6.4 of the Clearing Conditions of Eurex Clearing AG).

(3) If subscription rights are granted, the exercise prices of stock options for those options series written prior to the first trading day of such subscription rights shall be reduced by an amount that reflects the value of the subscription right, as determined in accordance with a formula established by the Eurex Exchanges; correspondingly, the number of shares underlying the contract shall be increased such that the original value of the contract is maintained.

When an option is exercised, the Eurex Exchanges will provide cash settlement for the fractional part of the new contract size.

Paragraph (2) shall apply to for any cash settlement mutatis mutandis.

(4) In the event of capital increases out of the company reserves *(Gesellschaftsmitteln)*, the number of shares underlying a contract will be increased proportionally to maintain the proportion of the share capital represented by these shares. The exercise price shall be reduced by a value such that the original value of the contract remains unchanged. When an option is exercised, the Eurex Exchanges shall provide cash settlement for any fractional shares the new contract size may cover; in all other respects, shares and other fractional interests, if any, shall be delivered based on the new contract size. This shall also apply with respect to stock dividends and similar events.

Paragraph (2) shall apply to such cash settlements mutatis mutandis.

(5) In case of capital reductions, the exercise prices and the standard contract size of the options shall remain unchanged if the capital is reduced by decreasing the nominal value of the shares.

If a reduction of capital is realized by a reduction of the nominal value of the shares in order to pay back the nominal capital to the shareholders, the number of shares underlying the contract increases according to the ratio of reduction, if such reduction is accomplished independent of the payment of the dividend. At the same time, the exercise price reduces by an amount which does not change the original contract value.

If a reduction of capital is realized by redeeming or consolidating shares, the number of shares covered by a contract shall be reduced proportionally to the proportion of the reduction of the share capital. The exercise price shall be simultaneously increased to a value such that the original value of the contract remains unchanged.

(6) In the event of stock splits, the exercise prices of stock options shall be reduced in proportion to the split rate. The contract size and / or the position size shall be modified in a ratio such that the option holder's original position remains unchanged.

(7) If shareholders are offered a conversion of shares in case of mergers or acquisitions, the options contracts will be adjusted, provided that the transaction has been effectively executed. A transaction is deemed executed effectively as soon as it is entered in the respective register (in case of merger) or in case the irrevocable result of an offer is announced by the acquiring company. The options contracts shall be adjusted with effect from the day on which the compensation specified in the conversion offer is available to the shareholders.

The options contracts of the target company can be adjusted provided that the compensation of the acquiring company specified in the conversion offer can be delivered via the central custodians or delivery locations recognised by Eurex Clearing AG, that derivatives can be traded on this underlying and that trading of the offered shares or of other rights on an Exchange determined by the Eurex Exchanges is possible.

If the compensation exclusively consists of shares or shares plus a cash interest, the adjustment is carried out via the R-factor method. The shares underlying the contract shall be replaced by the shares offered in the conversion offer under consideration of the relevant conversion ratio.

If the compensation is exclusively carried out in cash, the term of the option contract ends with effect from the date described in 2.6.10 paragraph 7 clause 3. Options contracts whose expiry date is after the close of trading shall be settled by their theoretically fair value. The same applies if the compensation consists of shares and cash compensation and if the cash interest exceeds a value of 67 % at the point of announcement of the offer; and if the prerequisites according to 2.6.10 paragraph 7 clause 4 are not given.

The theoretically fair value shall be determined in using the Cox-Ross Options model. The volatility which is defined for determination of the fair value, is the average value of the implied volatilities of the daily settlement prices on the ten trading days prior to announcement of the takeover bid. As an alternative, the Eurex Exchanges consult a group of at least five Exchange participants and determine the average implied vola on basis of the information obtained from these Exchange participants. Further information regarding calculation of the fair value is available in the Eurex User Manual System Overview and Information Manual.

(8) If a corporate action within the meaning of the aforementioned provisions is exercised but not regulated or covered by the provisions, the Management Boards of the Eurex Exchanges will adjust the respective options in order to maintain the original contract value, to guarantee orderly market conditions and to ensure the clearing and settlement of the contracts. In case a corporate action is exercised which is not regulated by the provisions of Number 2.6.10.1 the Eurex Exchanges will also adopt a regulation which aligns to such provision. The Eurex Exchanges shall inform the Exchange Participants of the intended measures.

(9) With exercise of stock options whose contract sizes have been adjusted in the course of a corporate action, the Eurex Exchanges make a cash compensation. With exercise, the cash compensation is always provided for the fractional part of the new contract size. The cash compensation is determined by the difference between the reduced exercise price of the option and the reference price (Chapter II, number 3.6.4 of the Clearing Conditions of Eurex Clearing AG).

(10) Amendments to the contract sizes and exercise prices pursuant to paragraph 1 to 7 result in an introduction of new series according to Numbers 2.6.8 and 2.6.9.

With coporate actions (paragraph 1 to 7) all orders and quotes listed in the order book in the respective options series will be deleted by the Eurex Exchanges. The Eurex Exchange inform all Exchange participants about an imminent cancellation.

(11) Regarding stock options on Russian shares, the price of the underlying required for adjustment of the exercise prices shall generally be calculated with the help of the volume-weighted average price.

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