London Stock Exchange Derivatives

MARKET NOTICE 2015/025

Consultation - Changes to Corporate Action Rules for Norwegian Derivative Contracts

Oslo Børs proposes to change the Rules for Trading in Derivative Contracts on Oslo Børs (Derivatives Rules) with regards to dividend adjustments for Derivative contracts.

Short Description
The current general rule[1] is that Oslo Børs contracts are adjusted for the part of dividends exceeding 5% of the underlying stock's value[2]. Oslo Børs now wishes to abandon "the 5% rule" and adjust derivative contracts for extraordinary (or special) dividends only. The proposed changes are made in order to adapt to common international practice, and to reflect the increasingly common practice of quarterly dividend payments, thus diminishing the relevance of "the 5% rule".

Details of Proposed Changes

(1) Derivative contracts will not be adjusted for ordinary dividends, even if the dividend exceeds 5% of underlying stock price.

(2) Derivative contracts will be adjusted for all dividends that are deemed, by Oslo Børs, to be extraordinary.
- Dividends can be deemed extraordinary if the company classifies them as such.
- Dividends not classified as extraordinary by the company, may still be deemed extraordinary by Oslo Børs if they are of any additional nature with respect to the company's normal dividend policy.

(3) If a dividend is deemed to be extraordinary, derivative contracts will be adjusted as follows:

$$A = \frac{P_{cum}^{vwap} - D_{ord} - D_{ext}}{P_{cum}^{vwap} - D_{ord}}$$

A	= Adjustment factor
P_{cum}^{vwap}	= Volume-weighted average price of the stock prior to the ex-date
D_{ord}	= Ordinary dividend

[1] For one class, "AD", all dividends are adjusted for.
[2] Oslo Børs Derivatives Rules A.2.2.8

D_{ext} = Extraordinary dividend

$$X_{ex} = X_{cum} * A$$

X_{ex} = Adjusted strike price or futures price
X_{cum} = Strike price or futures price prior to adjustment
A = Adjustment factor

$$N_{ex} = \frac{N_{cum}}{A}$$

N_{ex} = Adjusted contract size
N_{cum} = Contract size prior to adjustment
A = Adjustment factor

Consultation Responses and Implementation

We welcome feedback from Members on the proposed changes. Please send your responses to etd.corporateactions@lseg.com by 1 May 2015. The London Stock Exchange Derivatives Market will collate feedback and share it with Oslo Børs.

If the consultation responses are in favour of the proposed changes, Oslo Børs will implement changes to the Derivative Rules, with effect from 1 July 2015.

If you have any questions please call Derivatives Operations on +44 (0) 207 797 3617.

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