

EURONEXT DERIVATIVES NOTICE

All Markets

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25 March 2024

UPDATE OF EURONEXT CORPORATE ACTION POLICY

Executive Summary

This Notice informs Members of changes to the Euronext Corporate Actions Policy for the Borsa Italiana Optiq® Migration Phase 3 for Italian Equity Derivatives and Index Derivatives (IDEM), as well as changes to the Fair Value calculations for Single Stock Dividend Futures. This CA Policy will come into effect on 25 March 2024, provided that the Borsa Italiana Optiq Migration Phase 3 is effective on that date.

1. Introduction

The purpose of this Notice is to inform Members of changes to Euronext's Corporate Actions Policy ("the Policy") which will come into effect on 25 March 2024, provided that the Borsa Italiana Optiq® Migration Phase 3 for Italian Equity Derivatives and Index Derivatives (IDEM) is effective on that date.

1.1 The changes to the Policy can be summarised as follows (additions shown underlined/deletions ~~strike through~~):

Section 2. Definitions

Corporate Action	<p>means</p> <ul style="list-style-type: none"> a. a cash and/or scrip dividend, a bonus or scrip issue, a rights issue, <u>a conversion of shares, a share split, a reverse share split, subdivision or consolidation, a demerger or any other event affecting or giving rise to a right or entitlement attaching or accruing to the Shares of, or ownership of Shares in, a company; or</u> b. a takeover, merger or any arrangement, transaction or series of transactions which will or may result in the acquisition by any person or persons or any associated person or persons of a substantial proportion of the Shares of a company; or c. any other event which, in the opinion of Euronext, necessitates an amendment to be made to terms of an Option Contract and/or Futures Contract and/or Index Options
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	and/or Index Futures in respect of the Shares of a company or an index
Daily Settlement Price	means the price calculated and published by Euronext Pricer - <u>based on end of day volatilities, interest rates, dividend estimates and underlying closing prices</u> - which is used by the Clearing House to perform daily margin calculations
EDSP	means the Exchange Delivery Settlement Price, as defined in the relevant contract specifications <u>and, with reference to IDEM, in Rule Book II applicable to Borsa Italiana</u>
Euronext Pricer	means the derivatives pricing application that is used by Euronext during the trading day to, amongst others, calculate reference prices for price validation of derivatives orders. Dividends and a volatility for each option series are determined within the Euronext Pricer, based on prices in the market. At end of day, the settlement volatility, dividend, interest rates and closing price of the underlying value are used to determine the Daily Settlement Price for the option series
<u>Effective date</u>	<u>first trading day that the Corporate Action is effective.</u>
Fair Value	means the prices calculated by Euronext when Option Contracts and/or Futures Contracts and/or Index Options and/or Index Futures are closed out for a cash amount, after a merger or takeover or delisting
Fair Value Volatility	means the volatility determined by Euronext which is used to calculate the Fair Value prices as described in Appendix 1.
<u>IDEM</u>	<u>stands for Italian Derivatives market</u>
Ratio Method	means a method of adjusting contract specifications for existing contracts to cater for Corporate Actions, where the relationship between the contract before and after the event is altered using <u>the adjustment</u> ratio specified by Euronext
Reference Price	means the price specified <u>Daily Settlement Prices</u> adjusted by Euronext and which shall be used as a reference price to determine the adjustments to be made further to <u>following</u> a Corporate Action
Relevant Entitlement	means any one or more of a cash dividend/stock/scrip dividend, bonus issue, scrip issue, rights issue, or any other right or entitlement, attaching or accruing to, or otherwise affecting, from time to time, a share or ownership of a share
<u>Theoretical Fair Value</u>	<u>means the prices calculated by Euronext when Option Contracts and/or Futures Contracts and/or Index Options and/or Index Futures are closed out for a cash amount, after a merger or takeover or delisting</u>
<u>Theoretical Fair Value Volatility</u>	<u>means the volatility determined by Euronext which is used to calculate the Theoretical Fair Value prices as described in Appendix 1.</u>

Section 4.1 Application of adjustments

The methodology detailed in this Policy Document is based on the financial equivalence principle that, when the Shares underlying an Option Contract (which has not been exercised) or a Futures Contract become ex entitlement, contracts on such Shares should be amended to reflect in economic terms (as far as practicable) a holding equivalent to the ex-entitlement Shares and the Relevant Entitlement, and may be effected as follows:

- by altering the exercise prices of Option Contracts, creating Reference Prices for use as the basis for the determination of variation margin flow for Futures Contracts; and the Lot Size of the respective contracts; or
- by substituting the underlying Shares in a proportion determined by the ex-entitlement holding with the new underlying Shares; or
- by settling (closing) Option Contracts and Futures Contracts at their respective Theoretical Fair Value.

Where the timing of a Corporate Action requires an adjustment to be made to Option Contracts or Futures Contracts prior to authorisation from shareholders, regulatory bodies or any other such party that has power to disqualify the Corporate Action, or it is subject to another condition that will be verified at a given moment after the effective date, such adjustments will be made in order to maintain the contract's relationship with the underlying Shares. Adjustments made in the above manner are irrevocable, irrespective of whether approval is or is not obtained.

Section 4.2 Adjustment of Lot size

~~For~~ By applying the Ratio Method, for Futures Contracts, the lot size of all delivery months up to and including the furthest delivery month with open interest shall be adjusted by being divided by the adjustment ratio. For Option Contracts, the lot size of all expiry months up to and including the furthest maturity with open interest shall be adjusted by being divided by the adjustment ratio.

Section 4.3 Rounding

Where application of the Ratio Method results in an adjusted exercise price that is not equal to an eligible exercise price in accordance with the relevant contract terms and/or trading procedures the exercise price will be rounded to the nearest eligible exercise price, and in the event that the unrounded exercise price is exactly halfway between two eligible exercise prices, then it shall be rounded up to the next eligible exercise price. For IDEM, the adjusted exercise prices of option contracts are always expressed as a 5 digit number.

Where application of the Ratio Method results in a rounded exercise price that is equal to zero, all open positions in that specific series will be cancelled and cash settled at intrinsic value, as determined on the business day preceding the effective date of the Corporate Action.

When the Ratio Method is applied, the resultant Reference Price will be rounded to the nearest increment of the Minimum Price Movement, or to such number of decimal places determined and advised by Euronext and in the event that the unrounded Reference Price is exactly halfway between two eligible Reference Prices, then it shall be rounded up to the next eligible Reference Price. For IDEM, the Reference Price is always expressed as a 5 digit number.

Where the application of the Ratio Method results in a Lot Size which is not equal to an increment of one share, the adjusted Lot Size will be rounded, to the nearest whole share, and in the event that the unrounded Lot Size is exactly halfway between two eligible Lot Sizes, then it shall be rounded up to the next eligible Lot Size. Where the application of the Ratio Method results in a rounded Lot Size that is equal to zero, all open positions in the contract will be cancelled and cash settled using the equalisation payment methodology (see section 4.54).

Section 4.4 Equalisation Payments

For Option Contracts, an equalisation payment will be made to neutralise the effect observed due to rounding of the Lot Size as mentioned in section 4.4 and 5.1 (as described in Appendix 2).

The equalisation payment amount will be determined by Euronext and its transfer between clearing members arranged by LCH and, for IDEM, by Euronext Clearing.

Euronext will inform participants of Corporate Actions via publication of a Corporate Action Notice. A Corporate Action Notice will be published in respect of a Corporate Action when relevant information made public by the company gives sufficient certainty of that company’s intention to effect a Corporate Action. A Corporate Action Notice will detail the adjustment methodology Euronext intends to apply, and the subsequent application of such adjustment, ceteris paribus.

Where necessary, at the close of business on the last day that a company’s Shares are trading cum entitlement or (in case of Merger, Takeover or Demergers), Euronext will publish a Corporate Action Notice confirming adjustments made to Option Contracts or Futures Contracts.

Section 5 Adjustment methodologies for option contracts and futures contracts

Where adjustments to the terms of a contract are required under the terms of this Policy to cater for a Corporate Action, Euronext shall use either of the Ratio Method or the Package Method or substitute the underlying Shares of a contract.

In cases where it is inappropriate or impossible to adjust contracts in line with the below methodologies, or in cases where the Corporate Action is an event other than those listed in section 6 of this Policy Document, Euronext will have regard, as far as practicable, to the financial equivalence principle detailed in paragraph 4.1 above in determining the appropriate adjustment.

Section 5.1 Ratio method

Where the Ratio Method is used to make adjustments to Option Contracts and Futures Contracts, Euronext will disclose the adjustment ratio ~~if known~~ or the equation necessary to calculate the ratio. The following conventions will apply for an application of the Ratio Method:

- The adjustment ratio shall be calculated by dividing the ex-entitlement holding (or value thereof) by the cum entitlement holding (or value thereof), such that:

$$\text{Adjustment Ratio} = \frac{\text{Ex entitlement holding}}{\text{Cum entitlement holding}} = \frac{(P-E) * (\frac{Q}{N})}{P}$$

Where:

P = The official closing price of the cum entitlement Shares on the Relevant Stock Exchange

E =	Value of the entitlement per share
O =	Cum amount of Shares (old)
N =	Ex amount of Shares (new)

Section 5.2 Package method

In the case of cash settlement Option Contracts on exercise, the EDSP will be determined by aggregating the components which form the package. ~~Daily Settlement Prices will not be adjusted to create Reference Prices and~~ No adjustment will be made to the lot size or exercise prices ~~Trading code~~.

In the case of cash settlement Futures Contracts, the ex-event EDSP will be determined by aggregating the components which form the package. Daily Settlement Prices will not be adjusted to create Reference Prices and no adjustment will be made to the lot size ~~Trading code~~.

On the Last Trading Day of physical delivery Futures Contracts, Delivery Sellers are required to deliver the number of ex-entitlement Shares they have contracted to sell together with the proportionate number of entitlements. Fractions of Shares will be settled in cash. Daily Settlement Prices will not be adjusted to create Reference Prices and no adjustment will be made to the lot size ~~Trading code~~.

Section 6 Corporate Actions Types for option contracts and Futures contracts

The following section details the adjustment methodology Euronext will apply to Option Contracts and Futures Contracts to determine what adjustments (if any) will be applied to cater for the following Corporate Actions:

- Bonus issues
- Stock splits and reverse stock splits
- Subdivision or consolidation of share capital
- Rights issues and open offers
- Dividends
- Demergers
- Liquidation
- Mergers and Takeovers
- Conversion of shares
- Share repurchases

Section 6.1 Bonus issues, stock splits, reverse stock splits, subdivisions or consolidation of share capital

The Ratio Method will be used to adjust Option Contracts and Futures Contracts to cater for a bonus issue, stock split, reverse stock split, subdivision or consolidation of Shares and calculated as follows:

$$\text{Adjustment Ratio} = \frac{O}{N}$$

Where:

O	=	Cum amount of Shares (old)
N	=	Ex amount of Shares (new)

In the case that the ratio results in a Lot Size divisible by the Standard Lot Size to an exact integer, the open interest shall be adjusted rather than the Lot Size in order to maintain the equivalent economic exposure pre and post event. This provision does not apply for IDEM, as for IDEM the Lot Size will always be adjusted.

$$\text{Adjustment Ratio} = \frac{(P - E) + \left(\frac{O}{N}\right)}{P}$$

Where:

- ~~P~~ = ~~The official closing price of the cum entitlement Shares on the Relevant Stock Exchange~~
- ~~E~~ = ~~Value of the entitlement per share~~
- ~~O~~ = ~~Cum amount of Shares (old)~~
- ~~N~~ = ~~Ex amount of Shares (new)~~

~~For bonus issues, stock splits, reverse stock splits, subdivisions or consolidations, P and E are irrelevant. Therefore, the formula for the adjustment ratio for bonus issues, stock splits reverse stock splits, subdivisions or consolidations simply reads:~~

~~In the case that the ratio results in a Lot Size divisible by the Standard Lot Size to an exact integer, the open interest shall be adjusted rather than the Lot Size in order to maintain the equivalent economic exposure pre and post event.~~

Section 6.2 Rights issues and open offers

Value of the Relevant Entitlement per share

$$E = \frac{(P - d - S)}{\left(\frac{h}{r} + * 1\right)}$$

Where:

- E = Theoretical value of an entitlement
- P = The official closing price of the cum entitlement share on the Relevant Stock Exchange
- S = Subscription price of one new share
- d = Dividend to which new shareholders are not entitled
- h = Number of existing Shares specified as eligible for the entitlement
- r = Number of new Shares specified as the entitlement
- * = 1

Adjustment Ratio

$$\text{Adjustment Ratio} = \frac{(P - E)}{P}$$

The ratio will be applied to exercise prices of each series and Daily Settlement Prices as described in section 5.1 of this Policy, at the close of business on the last business day that the company's Shares are trading cum entitlement.

~~Where an entitlement issue entitles shareholders to take up securities that are not pari passu in all respects to those Shares which derived the entitlement, or will not immediately convert into those Shares, Euronext may determine the value of the entitlement by means of a members' survey. The survey will be conducted on the last business day that the company's Shares are trading cum entitlement.~~

Where:

It should be noted that where a market auction facility is available on the Relevant Stock Exchange, Euronext may, at its discretion, use the closing price of the rights from the market auction on the last cum entitlement trading day to determine a theoretical ex entitlement share price.

Euronext will have regard, where possible, to any adjustment or valuation methodology applied to any index which the underlying share may be a constituent of, to cater for the event.

Section 6.4 Demergers

The Package Method will be used to cater for demergers where Shares of the demerged company, or demerged companies can be delivered, settled and/or traded in the Relevant Euronext Market Undertaking where the Option Contracts and Futures Contracts are admitted to trading and/or listed and of which the underlying Shares are subject to the demerger. If the Shares of a demerged company cannot be delivered, settled and/or traded in the Relevant Euronext Market Undertaking where the Option Contracts and Futures Contracts are admitted to trading and/or listed and of which the underlying Shares are subject to the demerger, then the Ratio Method will be applied to Option Contracts and Futures Contracts.

The adjustment ratio will be calculated as follows:

$$\text{Adjustment Ratio} = \frac{(\text{Cum entitlement share price} - \text{value of demerged company per share})}{(\text{Cum entitlement share price})}$$

In the case that a demerger results in the creation of two or more companies, Shares of those demerged companies will be subject to the above conditions, such that if the Shares of each demerged company cannot be delivered, settled and/or traded in the Relevant Euronext Market Undertaking where the Option Contracts and Futures Contracts are admitted to trading and/or listed and of which the underlying Shares are subject to the demerger, then the Ratio Method will be applied to Shares of those demerged companies, in their respective proportions. If the

value of Shares in the demerged company can't be determined from market trading on any facility operated by the Relevant Stock Exchange, then this value may be determined on a case-by-case basis for the purpose of applying the Ratio Method.

~~In determining the value of a demerged company's Shares for the purpose of applying the Ratio Method, Euronext may conduct a members' survey on the last date which the company's Shares are trading cum entitlement. However, on or prior to this date, if the value of Shares in the demerged company can be determined from market trading on any facility operated by the Relevant Stock Exchange, then this value will be used in place of a members' survey.~~

Section 6.6 Conversion of shares.

In case of a conversion of a category of shares into another, if the resulting shares are sufficiently liquid and suitable to be the underlying of option and futures contracts traded on Euronext, the underlying shares of options or futures are replaced with the shares of the merging company or with the new category of shares on the effective date and consequently, the derivative contracts terms are modified by the adjustment ratio. If the shares offered are deemed not to be sufficiently liquid or not to be suitable as underlying of option and futures contracts, all the contracts open on the effective date are closed and cash settled at the Theoretical Fair Value.

Section 6.7 6 Mergers and Takeovers

To cater for a merger or takeover, Euronext will use the structure of the headline offer ("offer consideration") to determine what adjustment methodology to apply to Option Contracts and Futures Contracts. For IDEM, in these cases where an equivalent countervalue in cash (cash consideration) is announced by the offeror and where redesignation to the stock component is not possible, this cash consideration will be used as the reference to calculate the Theoretical Fair Value prices for the purpose of cash settling Options Contracts and Futures Contracts.

In general, all takeover offers shall lead to the determination of Theoretical Fair Value Volatilities for the purpose of (a possible) Theoretical Fair Value settlement as described in Appendix 1, whether the offer is in stock, or in cash or in a combination of both.

In the circumstance that the cash element represents over 67% of the total offer consideration, the open positions in the Option Contracts and Futures Contracts will be settled at their Theoretical Fair Value (as described in Appendix 1, ~~and the Ratio Method will not be applied.~~ For the avoidance of doubt, once Euronext has determined the proportion of cash and made such announcement as to the type of adjustment methodology, the methodology will not then be changed simply due to share price movements affecting the proportion of cash.

Section 6.9 Special Circumstances

If the underlying Shares of the Options and/or Futures Contracts are no longer tradable and/or deliverable due to circumstances not described in the Corporate Actions Policy, Euronext will decide on a case by case basis what the consequences for the Options and/or Futures Contracts will be, ~~and will inform the regulator of the Relevant Euronext Market Undertaking on which the options and/or futures are traded before issuing a Corporate Action Notice.~~

Appendix 1 Theoretical Fair Value Method

The Theoretical Fair Value method is used for the purpose of cash settling Options Contracts, Futures Contracts, Index Options and Index Futures. Theoretical Fair Value prices are calculated on the effective date (for reference also see section 6.6 and section 8).

~~Euronext reserves the right, in special circumstances, to consult a panel of market parties and independent experts instead of using the Fair Value method described below.~~

Section A.1.2. Calculation of Theoretical Fair Value Prices for Futures.

Theoretical Fair Value calculations will be made in the Euronext Pricer using the cash and carry arbitrage model.

Euronext will use the following parameters to determine the Theoretical Fair Value prices for single stock futures.

Section A.1.3 Calculation of Theoretical Fair Value Prices for Single Stock Dividend Futures.

Theoretical Fair Value calculations will be made in the Euronext Pricer. ~~Euronext will use~~ using the following parameters to determine the Theoretical Fair Value prices against which the ~~for~~ Single Stock Dividend Futures will be cash settled:

- ~~Dividend forecasts~~, whereby the source of the dividend forecasts is Markit, dividend forecasts on the day of the announcement of the takeover bid.
- **Settlement prices:** Euronext will collect the daily settlement prices of the relevant Single Stock Dividend Future expiry over a period of ten trading days immediately preceding the announcement of the takeover bid. Euronext will calculate the average of those daily settlement prices while removing the lowest and the highest daily settlement prices.
- **Interest rates:** interest rates as used by the Euronext Pricer on the effective date.

1.2 An updated version of the Policy Document will be made available on the Euronext website (derivatives.euronext.com/corporate-actions/corporate-actions-policies).

For further information in relation to this Notice, Members should contact:

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