2025

Dubai Financial Market DFM Futures Contract Adjustment Guidelines

Equity Futures

CONTENTS

1. Overview

These Dubai Financial Market ("DFM") contract adjustment guidelines (the "DFM Futures Adjustment Guidelines" or "Guidelines") describe the adjustment procedures followed by DFM when a Corporate Action is applied to the Underlying Securities in connection with a DFM Futures contract. The purpose of this document is to outline the rationale and processes that DFM would employ in relation to adjustments for Corporate Actions in respect of Futures traded on DFM.

These Guidelines should be read in conjunction with DFM Module Three: Membership, Trading, and Derivatives Rules ("DFM Module Three") more specifically Article 16.15 of the same Modules available on DFM's website.

2. Definitions

Terms used in these Guidelines have the meaning specified below or in the Glossary Rules approved by the Market.

Adjustment Ratio (K) is the ratio that will be applied to the Daily Settlement Prices, and contract sizes (where applicable) to adjust contract terms to adjust for Corporate Action.

Corporate Action means a dividend issue, a merger, an acquisition, an issue of Priority Rights, a stock split or any other such corporate action that could be reasonably expected to have a material impact on the value of an Issuer's Securities.

Futures means a contract to buy or sell on a specific date at a price agreed at the time of entry into the contract in accordance with the Authority's decisions.

Cum Price means the closing price of the underlying security on the day before the Ex-Day or a price as set and communicated by DFM to be used in the calculation of the Adjustment Ratio.

Daily Settlement Price means the settlement price of Futures Contracts calculated by DFM to derive daily variation margins.

Ex-Day means the first day on which a specific stock can be purchased without receiving the Corporate Action entitlement.

Reference Price means the Reference Price of a contract is either the Opening Price or the previous closing price of the contract if there is no opening price, unless explicitly set by DFM.

Record Date means the date by which a shareholder must own the securities to receive Corporate Action entitlement.

Theoretical Ex-price means the theoretical price of the underlying after the Corporate Action.

Theoretical Fair Value (TFV) means the theoretical price calculated and used to close Futures Contracts.

Trading Hours means the trading hours on Business Days, as determined by the Market and published by Circular.

Underlying Securities: means a Securities or Foreign Securities, or local or foreign indices, subject to the Derivative Contract.

3. Key Principles of DFM Adjustment Procedure

a. DFM will only make an adjustment when the Corporate Action event is of a pro rata nature. For the avoidance of doubt "pro rata" means that each individual share is treated in the same proportional way. For example, the granting of 1 right for every 10 shares held would be a pro rata event, whereas the granting of a specific number of shares per shareholder (irrespective of the number of shares held by a shareholder) would not.

b. The economic value of the open position post adjustment event should be as far as practicable be the same as the economic value of the open position pre the Corporate Action event. Corporate Actions should not result in a windfall profit or loss to a Futures holder.

c. To maintain a fair and orderly market, DFM will, in exceptional cases, consult its key participants and may decide to make necessary adjustments as appropriate to Futures settlement price.

d. If there is no open interest or open position in any contract based on the Underlying Securities, then DFM may decide to not have any contract size adjustment to the Contracts.

4. Termination of Contract

There may be occasions where the specific Corporate Action event does not allow the adjustment to the open Futures. This will occur where there is a full or near full cash takeover or where the Underlying Securities are converting into a Security that does not qualify to be an Underlying Security or in the event of a liquidation. On these occasions, it is necessary for DFM to terminate the open contracts. DFM Module Three gives DFM the power to "decide" not to make an adjustment and may instead terminate or Close-out CCP Transactions". DFM will provide clarification of any such termination process by Circular.

5. Market Circulars

DFM will advise the Market by Circular which will be available online on DFM's website. Details of adjustments will be published as soon as the issuer of the Underlying Security or underlying market publishes full details of Corporate Action.

6. Symbol Modification Post-Corporate Action Adjustment

Contract adjustments that impact the contract size will be denoted by an additional letter in the contract symbol signifying a Corporate Action adjustment:

Codes:

Corporate action number	Identifier
1st	X
2nd	Y
3rd	Z
4th	Q
5th	R
6th	S
7th	G
8th	U
9th	V

Example:

Old Symbol	New Symbol signifying first Corporate Action
DFMF22	DFMF22X
DFMG22	DFMG22X
DFMH22	DFMH22X
DFMJ22	DFMJ22X

7. Adjustment Method

Futures can be adjusted using ‘Adjustment Ratio method’ or ‘Replacement method’ depending on the type of Corporate Action. Both methods are explained in this section and further details provided in each type of Corporate Action.

In cases where it is not possible to adjust contracts in accordance with these Guidelines or in cases where the Corporate Action is an event other than those detailed in this document, DFM will reserve the right to determine the appropriate Corporate Action guidelines.

Adjustment Ratio method
Under this method, Adjustment Ratio will be calculated in accordance with the formula provided in these Guidelines under respective Corporate Action event. This ratio will be applied to adjust the contract size and the previous day’s Daily Settlement Price (i.e. day prior to the effective date of adjustment).

Replacement method (or Basket method)
Under this method, adjustment will be done by substituting Underlying Securities in a contract with a basket consisting of proportionate number of ex-entitlements shares and number of entitlement shares.

The Underlying Securities of the Futures are replaced with a basket composed of the underlying of both the old shares and newly entitled shares in relevant ratio of Corporate Action (example merger ratio in case of company merger).

8. Rounding

Adjustment Ratio as calculated in accordance with method prescribed in these Guidelines will be rounded to the nearest six decimals using standard rounding convention.

In the event of contract adjustment resulting in adjustment of settlement price or a reference price, the price will be rounded to the nearest increment of the Minimum Price Movement (using standard rounding conventions)

In the event of contract adjustment resulting in the adjustment of contract size, the adjusted lot size will round to the nearest increment of whole share.

Example:

Adjusted price (before rounding)	Adjusted price with rounding logic (rounded)	Adjusted contract size (before rounding)	Adjusted contract size (rounded)
1.044678	1.045	110.685893	111
1.054545	1.055	110.356674	110
1.064493	1.064	110.534389	111

9. Corporate Action Resulting in an Adjustment

The following pro-rata Corporate Action events will normally result in an adjustment:

- Bonus issue; Splits, reverse splits;
- Subdivision or consolidation of shares
- Rights issue;
- Demergers;
- Conversion of underlying securities;
- Dividends;
- Mergers;
- Takeovers and Share Buyback;
- Delisting;
- Any other pro rata Corporate Action event that DFM considers warrants an adjustment, examples buy backs and special dividends.

10. Corporate Action Unlikely to Result in an Adjustment

The mere fact that a Corporate Action has an impact on the share price is of itself not a sufficient basis for an adjustment. The key principles of being pro rata must be met for an adjustment to be considered. The following non-exhaustive list of Corporate Action is unlikely to result in an adjustment:

- On market buybacks
- Equal access buybacks
- Non pro rata entitlement issues
- Employee share placement schemes
- Placements of shares
- Regular ordinary distributions from trusts
- Offers to take over another company
- Share price reaction to price sensitive announcements by the company

11. Bonus issue, Splits, and reverse stock splits, sub-divisions or consolidation of share capital

DFM will use the Adjustment Ratio to adjust Futures to cater for bonus issue, splits, reverse splits, sub-divisions and consolidation of share capital

Contract size and the previous day's Daily Settlement Price of Futures will be adjusted with effect from Ex-Day as follows:

Adjustment Ratio (K)	Adjusted contract size	Adjusted price (futures Daily Settlement Price)
$K = \frac{O}{N}$	$C_{adj} = \frac{Contract\ Size\ before\ adjustment}{K}$	$P_{ex} = P_{cum} * K$

Where:

O = Number of underlying securities before issuance of bonus shares
N = Total number of underlying securities after issuance of bonus shares
C_{adj} = Contract size of a futures contract on Ex-Day after adjustment
P_{ex} = Previous day's Daily Settlement Price of a Futures Contract after adjustment. Note that this will also be the Reference Price for trading on Ex-Day.
P_{cum} = Previous day's Daily Settlement Price of a Futures Contract before adjustment

Example:

XYZ PJSC declares a Bonus issue of 10%, with Ex-Day of 10th January 2022.

Effective on 10th January 2022 contract size and previous day's settlement price will be adjusted as follows:

Expiry Month	Contract Size before Adjustment (O)	Contract Size After Adjustment C_{adj}	Adjustment Factor (K)	Price Prior to Adjustment (P_{cum})	Price After Adjustment P_{ex}
Jan-22	100	110	0.90909	1.048 AED	0.953 AED
Feb-22	100	110	0.90909	1.040 AED	0.945 AED
Mar-22	100	110	0.90909	1.154 AED	1.049 AED

Mark to Market calculation for opening position on Ex-Day shall be calculated using Daily Settlement Price of previous day as adjusted by multiplying the price by Adjustment Ratio.

12. Rights Issue

DFM will use the Adjustment Ratio to adjust Futures to cater for the rights issue i.e. Priority Right.

DFM may at its discretion, use the closing price of the rights from the market auction on underlying market on the last cum-entitlement trading day to determine a theoretical ex-entitlement share price.

Contract size and the previous day's Daily Settlement Price of Futures will be adjusted with effect from Ex-Day as follows:

Theoretical price ex-right of the underlying securities (T_{ex})	Adjustment Ratio (K)	Adjusted price (futures Daily Settlement Price)	Adjusted contract size (C_{adj})
$T_{ex} = \frac{(N_{cum} * S_{cum}) + (N_{new} * E)}{N_{cum} + N_{new}}$	$K = \frac{T_{ex}}{S_{cum}}$	$P_{ex} = P_{cum} * K$	$C_{adj} = \frac{Contract\ Size\ before\ adjustmen}{K}$

T_{ex} = Theoretical price ex-right of the Underlying Security
N_{cum} = Number of Outstanding shares before rights issue
S_{cum} = Price cum-right of the Underlying Security
N_{new} = Number of new Underlying Securities issued under rights
E = value of entitlement per Underlying Security
K = Adjustment Ratio
P_{ex} = Previous day's Daily Settlement Price of a Future after adjustment. Note that this will also be the Reference Price for trading on Ex-Day.
P_{cum} = Previous day's Daily Settlement Price of a Future before adjustment
C_{adj} = Contract size of a Future on Ex-Day after adjustment

Example:

XYZ announces to issue rights to the existing shareholders at the ration of 10 existing shares to 1 new share with exercise price (E) of 0.50 per share.

Closing Price of underlying prior to Ex-Day = P_{cum} is 1.00 per share

Theoretical price ex-right of the underlying securities (T_{ex})	Adjustment Ratio (K)	Adjusted price (Futures Daily Settlement Price)	Adjusted contract size (C_{adj})
$T_{ex} = \frac{(10 * 1.00) + (1 * 0.50)}{10+1} = 0.954545$	$K = \frac{0.954545}{1.00} = 0.954545$	$P_{ex} = P_{cum} * K$	$C_{adj} = \frac{Contract\ Size\ before\ adjustm}{K}$

Expiry Month	Adjustment Ratio (K)	Contract Size before Adjustment	Contract Size After Adjustment	Price Prior to Adjustment	Price After Adjustment
Jan-22	0.954545	100	$\frac{100}{0.95454} = 105$	1.00 AED	$1.00 * 0.954545 = 0.955$
Feb-22	0.954545	100	105	1.01 AED	0.964 AED
Mar-22	0.954545	100	105	1.03 AED	0.983 AED

13. Demergers

In case of a demerger, DFM will perform early expiry of the existing contracts on the Underlying Securities on the last cum date. The settlement price of the expiry will be as per the current methodology of Final Expiry Settlement Price i.e. closing price of the Underlying Securities. The Futures contract on the Underlying Securities will be re-introduced on the ex-date. The reference price of the new contracts introduced will be communicated via Market Circulars.

Other points:

- There will be no change in contract size.
- All open orders will be deleted after close of trading on the last cum trading day.

Example

- Company has fixed 5th Apr 2023 as the Book Close Date for the purpose of issuance and allocation 4 ordinary share of company B for every 1 ordinary share each of company A. The last cum date being 3rd Apr 2023 and ex-date as 4th Apr 2023.

- Contracts on Company A, Apr 2023 contracts with expiry date of 20th Apr 2023, May 2023 contracts with expiry date 18th May 2023 and June 2023 contracts with expiry date 15th June 2023 will be early closed and settled on 4th Apr 2023 with the closing price of the underlying Company A.
- On ex-date 4th Apr 2023, contracts of Company A, Apr 2023 contracts with expiry date of 20th Apr 2023, May 2023 contracts with expiry date 18th May 2023 and June 2023 contracts with expiry date 15th June 2023 will be re-introduced with standard contract size and with new reference price. Reference price will be notified via Market Circular.

14. Mergers and Conversion of Underlying Securities

In case of merger or conversion of an Underlying Securities into another, all existing contracts will be early closed and settled on the last cum date with the methodology of Final Expiry Settlement Price i.e. closing price of the Underlying Securities.

No contracts will be available for trading on the Underlying Securities from ex-date onwards. All open GTC/GTD orders on the Underlying Securities contracts symbol will be removed automatically.

15. Dividends

15.1. Ordinary Dividend

An ordinary dividend is a distribution of a portion of a company's earnings to its shareholders. Ordinary dividends typically follow a quarterly, semi-annual or annual cycle and are most often quoted in terms of the payment amount each share receives (dividends per share).

15.2. Special Dividends

Special dividends are those dividends that are outside of the normal payment pattern established historically by the company. Special dividends usually have the following characteristics: The company describes it as a “one-time”, “special,” “extra,” “irregular,” “return of capital” “distribution from reserves”, or some other similar term in the dividend announcement.

For the purpose of clarification, DFM will make adjustment for both Ordinary and Special Dividends:

In case of a dividend the Daily Settlement Price of a Futures Contract are modified by the Adjustment Ratio with effect from the Ex-Day.

Adjustment Ratio (K)		Adjusted price (Futures Daily Settlement Price)
$K = \frac{S_{cum} - D}{S_{cum}}$		$P_{ex} = P_{cum} * K$

S_{cum} = Cum Price of the Underlying Security
D = Amount of the dividend
K = Adjustment Ratio
P_{ex} = Previous day's Daily Settlement Price of a Future after adjustment. Note that this will also be the Reference Price for trading on Ex-Day.
P_{cum} = Previous day's Daily Settlement Price of a Future before adjustment

XYZ company has decided to distribute an dividend of 4.00 per share

Adjustment Ratio (K)		Adjusted price (Futures Daily Settlement Price)
$K = \frac{S_{cum} - D}{S_{cum}} = 0.973045$		$P_{ex} = P_{cum} * K$

K = Adjustment Ratio
S_{cum} = Cum Price of the Underlying Security prior to the Ex-Day = 148.39744214
D = Amount of dividend = 4.00
P_{ex} = Previous day's Daily Settlement Price of a Future after adjustment. Note that this will also be the Reference Price for trading on Ex-Day.
P_{cum} = Previous day's Daily Settlement Price of a Future before adjustment

16. Takeovers and Shares Buyback

Where a company is subject to a takeover, adjustments of Futures may imply the replacement of the Underlying Securities with the Underlying Securities of the new company offered or the application of the Theoretical Fair Value.

These adjustments take effect only at the end of the offer period, given the offer results.

The following adjustments might be applied:

- in the case of exchange offers then the Underlying Securities of Futures might be replaced with the Underlying Securities offered (adjustments are similar to those in the case of mergers, refer to 15).
- in the case of tender or exchange offers which include a cash component, if the cash is less than 2/3 of the total offer consideration, then the Underlying Securities of Futures might be replaced with the Underlying Securities offered (adjustments are similar to those in the case of mergers, refer to 15).

- in any case, if the acquiring company announces holding of at least 90% of the Underlying Securities or voting rights of the acquired company and whenever the replacement of the Underlying Securities is not possible, the closure and cash settlement of all open positions, is applied.
- in case of offers by the issuer such that the size of the offer warrants an issuance of prospectus, it will be considered as a corporate action event and the required adjustment on the Derivatives contract will be provided by the Market via circular
- in case of Share Buyback, it will not be considered as a corporate action event for adjustments on the Derivatives contract.

17. Delisting

Whenever a Company, whose Securities constitute the underlying of Futures, is being delisted as a consequence of liquidation or bankruptcy, DFM will suspend trading in the Futures as soon as reasonably practical following the suspension in trading of the Underlying Security in its primary market.

To determine the price at which any open interest in the suspended Futures will be closed and settled, DFM will rely on the share price as determined by the relevant authorities connected with the liquidation or bankruptcy proceeding and the primary market. The Futures will remain suspended until the price has been properly determined and delisted after all open contracts are closed and settled.

In the case of delisting for reasons other than liquidation or bankruptcy, Futures are closed and cash settled at their TFV.