



## NOTICE TO MEMBERS

No. 2015 - 031

March 12, 2015

### **SELF-CERTIFICATION**

#### **AMENDMENT TO CDCC RULES A-9 AND B-14**

#### **ADJUSTMENT COMMITTEE FOR OVER-THE-COUNTER DERIVATIVE INSTRUMENTS**

On November 24, 2009, the Board of Directors of the Canadian Derivatives Clearing Corporation (CDCC) approved an amendment to CDCC Rule A-9.

The purpose of the amendment was to reflect procedures that had been put in place concerning corporate actions on Over-The-Counter Derivative Instruments (OTC DI) and to harmonize Rule A-9 for both Exchange Transactions and OTC DI.

In the period since the publication of the Request for Comments, additional amendments were made to Rule B-14, with a view to harmonization. More specifically, changes of an editorial nature were made to Rule B-14 in order to clarify the wording thereof, to harmonize the Rules on an internal level, or to correct imperfections, redundancies and inconsistencies as well as concordance errors between the English and French versions.

CDCC wishes to advise the Clearing Members that these amendments have been self-certified in accordance with the self-certification process as established in the *Derivatives Act* (R.S.Q., chapter I-14.01).

You will find attached hereto the amendments set to come into force and to be incorporated into the version of the Rules that will be made available on the CDCC website at [www.cdcc.ca](http://www.cdcc.ca) as of March 13, 2015.

If you have any questions or concerns regarding this notice, please contact CDCC's Corporate Operations Department or direct your e-mail inquiries to [cdcc-ops@cdcc.ca](mailto:cdcc-ops@cdcc.ca).

Glenn Goucher  
President and Chief Clearing Officer

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**CANADIAN DERIVATIVES CLEARING CORPORATION**

**RULES**

**VERSION OF ~~DECEMBER 1~~<sup>ST</sup>, 2014**

## 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~~an equity-related product.

### 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) Subject to Subsection (13) of this Section A-902, all adjustments made pursuant to this Section A-902 shall be made by a committee ("Adjustments Committee"). The Adjustments 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 Adjustments 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 Adjustments Committee pursuant to this Section A-902 shall be within the sole discretion of the Adjustments 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 ~~and~~ 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 \$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.
- (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 Adjustments 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.

The Adjustments 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 Adjustments Committee may make such adjustments, if any, with respect to the characteristics of the Derivative Instrument affected by such event as the Adjustments 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 Adjustments 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 Adjustments Committee shall determine such exceptions to be appropriate. However, the general rules shall be applied unless the Adjustments Committee affirmatively determines to make an exception in a particular case or group of cases.
- (12) For Exchange Transactions, ~~t~~The Adjustments Committee shall consist of two designated representatives of ~~the each~~ exchange that lists the Derivative Instrument that the adjustments apply to, and one representative designated by ~~of~~ the Corporation; and t~~-. The quorum for transacting exchange transactions business at any meeting of the Adjustments Committee shall be twoone from theeach exchange that lists the Derivative Instrument that the adjustments apply to-~~ and one from the Corporation. For OTCI, the Adjustments Committee will consist of three designated representatives of the Corporation; and the quorum for transacting OTCI business at any meeting of the Adjustments Committee is three designated representatives of the Corporation. The vote of a majority of the members of the Adjustments Committee in attendance at any meeting shall constitute the determination of the Adjustments Committee. The Adjustments Committee may transact its business by means of a telephonic, electronic or other communication facility that permits all participants to communicate appropriately with each other during the meeting. Notwithstanding the foregoing provisions of this Subsection, any representative of the Corporation or of an Exchange may designate any other representative of the Corporation or of the exchange, respectively, to serve in his place at any meeting of the Adjustments Committee. In the event of such designation, the designee, for the purposes of such

meeting, shall have all of the powers and duties under this Section A-902 of the person designating him. ~~Any representative designated by the Corporation or the Exchange, or any other representative designated by such a representative, can not serve on the Adjustments Committee if Neither the Corporation nor any exchange shall designate to serve on the Adjustment Committee, any person, who, to the knowledge of the self regulatory organization designating~~ such person, is the beneficial holder of a long or short position in the Derivative Instrument or OTCI as to which the Adjustments Committee is to make a determination. As stipulated in the By-laws of the Corporation, a majority of the members of the Adjustments Committee shall be resident Canadians.

- (13) In the event that the Adjustments Committee is unable to determine whether to make adjustments in any particular case, the matter shall be referred to the Board for a determination.

## 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 \$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 \$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 Adjustments 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 of \$12.50 per contract applied to “special dividends or distributions”.

Normally, the Adjustments 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 Adjustments 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 Adjustments 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 Adjustments 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 Interpretation and Policy (1) 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 Adjustments 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 \$.125 per Underlying Interest.

## **RULE B- 14 INSTALMENT RECEIPT OPTIONS**

This Rule B-14 is applicable only to American Style Options where the Underlying Interest is Instalment Receipts evidencing shares of a corporation (an “Instalment Receipt”). Such Options are referred to in this Rule B-14 as “Instalment Receipt Options”.

### **Section B-1401 Definitions**

Notwithstanding Section A-102 for the purposes of Instalment Receipt Options the following terms shall have the meanings specified:

- “Instalment Receipt” - An instalment receipt evidencing beneficial ownership of, and the obligation to pay the balance of the purchase price on, a share of a corporation.
- “Underlying Interest” - Instalment Receipts meeting the criteria described in this Rule.
- “Unit of Trading” - 100 units of the Underlying Interest, unless otherwise designated.

### **Section B-1402 Approval of Underlying Instalment Receipts**

- (1) The Instalment Receipts underlying the Instalment Receipt Options shall be approved by the Board following the recommendation of one or more Exchanges. In approving underlying Instalment Receipts, the Board shall give due regard to the following factors:
  - (a) the underlying Instalment Receipts shall be characterized by a large number of outstanding units which are widely held and actively traded;
  - (b) underlying Instalment Receipts shall be duly listed and posted for trading on an Exchange;
  - (c) underlying Instalment Receipts shall meet the requirements set forth in the agreements among the Exchanges and the Corporation.
- (2) No more than one Class of Options shall be approved for each class of Instalment Receipts unless the Board considers it necessary or advisable, as a temporary measure, that there be one or more additional Classes of Options for such class of Instalment Receipts.

### **Section B-1403 Criteria for Eligibility of Instalment Receipt Options**

- (1) In considering whether any Instalment Receipt should be approved as the Underlying Interest of a Instalment Receipt Option, the Board shall ensure that prior to being approved as an Underlying Interest the Instalment Receipt meets all of the following criteria:
  - (a) No less than 10,000,000 Instalment Receipts in the public float are held by persons who are not “insiders” under the securities laws of any of the provinces of Canada.
  - (b) The final prospectus for the Instalment Receipt details that payment for the shares evidenced by the Instalment Receipts is to be made in no more than two (2) instalments.

- (c) The Market Price of the Instalment Receipt is at least \$5.00 per Instalment Receipt.
  - (d) The issuer whose securities are evidenced by the Instalment Receipts should have common shares and, if applicable, non-voting equity shares, subordinate or restricted voting equity shares and preferred shares outstanding that have an aggregate value of \$500,000,000 or more.
- (2) The criteria set forth in Subsection B-1403(1) may be amended from time to time by agreement between the Corporation and the relevant Exchanges.

#### **Section B-1404 Deficiency Criteria for Instalment Receipt Options**

- (1) No new Series of a Class of Instalment Receipt Options which is already listed may be opened for trading if any one of the following conditions occur with respect to the Underlying Interest:
- (a) less than 10,000,000 shares of the class or series evidenced by the Underlying Interest are held by persons who are not “insiders” under the securities laws of any of the provinces of Canada;
  - (b) the Underlying Interest is no longer listed on an Exchange;
  - (c) the issuer of the shares evidenced by the Underlying Interest or one of its significant subsidiaries has defaulted in the payment of any dividend or sinking fund instalment on preferred or common shares, or in the payment of any principal, interest or sinking fund instalment on any indebtedness for borrowed money, or in the payment of rentals under long-term leases, and such default has not been cured within six (6) months of the date on which it occurred;
  - (d) the issuer of the shares evidenced by the Underlying Interest has failed to make timely reports as required by the by-laws or rules of the Canadian exchanges upon which the Underlying Interest is listed; or
  - (e) the issuer whose shares are evidenced by the Underlying Interest has a market capitalization including all common and, if applicable, non-voting, subordinate or restricted voting equity shares and preferred shares, which has been less than \$500,000,000 on a majority of Business Days in the preceding nine-month period.
- (2) In exceptional circumstances (by agreement between the Corporation and the relevant Exchanges) and in the interest of maintaining a fair and orderly market or for the protection of investors, an Exchange may open additional Series of Options with respect to any Underlying Interest which is deficient under one or more of the criteria set forth in Subsection B-1404(1).
- (3) The criteria set forth in Subsection B-1404(1) may be amended from time to time by agreement between the Corporation and the relevant Exchanges.

### **Section B-1405 Procedure for Assessing the Effect of Listing Changes on Instalment Receipts Options Eligibility**

#### **(1) Original or Supplementary Listings**

If a newly-established company has acquired a listed company, the trading record and history of the predecessor company may be used to test the options eligibility of the new company.

#### **(2) Name Changes**

Corporate name changes have no effect on listed issues option eligibility. All statistics and history of the predecessor company continue to apply to the issues under the new corporate name.

#### **(3) Substitutional Listings**

When a listing change, which is the result of a merger or acquisition involving the issuance or acquisition of listed shares has occurred, all listed issues connected with the change are reviewed. No decision to change the option status of a listed issue will occur until after the merger or acquisition is completed. The general process which applies is as follows:

- (a) On receipt of the notice of corporate change or following the closing date of a share purchase offer, it is confirmed that at least one predecessor company has Instalment Receipt Options currently listed on an Exchange, and these Instalment Receipt Options are not at or past the date where no new series may be listed if they are classified as delistable, nor is the underlying security for these Instalment Receipt Options classified as deficient according to Section B-1404 of the rules of the Corporation.
- (b) On receipt of the notice of corporate change or following the closing date of a share purchase offer, the secretaries of the companies will be requested to confirm that the number of actual and beneficial shareholders and the number of publicly held shares of the surviving company exceeds the option criteria in Section B-1403. No such confirmation is required for an offeror already designated as options eligible.
- (c) It is confirmed that the market price of the Instalment Receipts of the surviving company are trading at, or above, \$5.00 per receipt.
- (d) It is confirmed that, prior to the announcement of the take-over, merger or re-organization, the sum of the market capitalizations (including all common and preferred shares) of the predecessor companies was not less than \$500,000,000.
- (e) It is confirmed that the securities of the resultant company, evidenced by the Instalment Receipts are listed on an Exchange.

### **Section B-1406 Failure to Deliver**

If the Clearing Member required to make delivery under Section B-403 fails to complete such delivery by the Exercise Settlement Date, the Corporation may purchase the undelivered Underlying Interest in the best available market for the account of the receiving Clearing Member. If the Underlying Interest is

not available, the Corporation will require the delivering Clearing Member to settle by cash, determined by the closing Market Price on the day of exercise multiplied by the number of units.

### Section B-1407 Adjustments in Terms

- (1) Whenever there is a dividend, stock dividend, stock distribution, stock split, reverse stock split, rights offering, distribution, reorganization, recapitalization, reclassification or similar event in respect of any underlying security, or a merger, consolidation, dissolution or liquidation of the issuer of any underlying security, the number of Instalment Receipt Options, the Unit of Trading, the Exercise Price and the underlying security, or any of them, with respect to all outstanding Instalment Receipt Options open for trading in that underlying security may be adjusted in accordance with this Section B-1407.
- (2) Subject to Subsection (10) of this Section B-1407, all adjustments made pursuant to this Section B-1407 shall be made by the Adjustments Committee. The Adjustments Committee shall determine whether to make adjustments to reflect particular events in respect of an underlying security, and the nature and extent of any such adjustment, based on its judgement as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to holders and writers of Instalment Receipt Options on the underlying security, the maintenance of a fair and orderly market in Instalment Receipt Options on the underlying security, consistency of interpretation and practice, efficiency of exercise settlement procedures, and the co-ordination with other clearing agencies of the clearance and settlement of transactions in the underlying security. The Adjustments 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 Adjustments Committee pursuant to this Section B-1407 shall be within the sole discretion of the Adjustments Committee and shall be conclusive and binding on all investors 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 to reflect ordinary cash dividends or distributions paid by the issuer of the security evidenced by an Instalment Receipt.
- (4) It shall be the general rule that in the case of any distribution made with respect to securities evidenced by an Instalment Receipt, other than cash distributions subject to Subsection (3) of this Section B-1407, if an adjustment is determined by the Adjustments Committee to be appropriate,
  - (i) the Exercise Price in effect immediately prior to such event shall be reduced by the value per Instalment Receipt 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 securities evidenced by the number of Instalment Receipts represented by the Unit of Trading in effect prior to such adjustment, in which event the Exercise Price shall not be adjusted.

The Adjustments Committee shall, with respect to adjustments under this Subsection or any other Subsection of this Section B-1407, have the authority to determine the value of distributed property.

- (5) In the case of any event for which adjustment is not provided in any of the foregoing Subsections of this Section B-1407, the Adjustments Committee may make such adjustments, if any, with respect to the Instalment Receipt Option affected by such event as the Adjustments Committee determines.
- (6) Adjustments pursuant to this Section B-1407 as a general rule shall become effective in respect of Instalment Receipt Options outstanding on the “ex-date” established by the Exchange or Exchanges on which the Underlying Instalment Receipt is traded. In the event that the “ex-date” for an Underlying Instalment Receipt traded on Exchanges differs from one Exchange to the other, the Corporation shall deem the earliest date to be the “ex-date” for the purposes of this Section B-1407. “Ex-dates” established by any other exchange or exchanges on which an Underlying Instalment Receipt may be traded shall be disregarded.
- (7) It shall be the general rule that:
  - (i) all adjustments of the Exercise Price of an outstanding Instalment Receipt Option shall be rounded to the nearest \$0.05, and all adjustments of the unit of trading shall be rounded down to eliminate any fraction; and
  - (ii) if the Unit of Trading is rounded down to eliminate a fraction, the adjusted Exercise Price shall be further adjusted, to the nearest \$0.05, to reflect any diminution in the value of the Instalment Receipt Option resulting from the elimination of the fraction.
- (8) Notwithstanding the general rules set forth in Subsections (3) through (7) of this Section B-1407 or which may be set forth as interpretations and policies under this Section B-1407, the Adjustments 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 Adjustments Committee shall determine such exceptions to be appropriate. However, the general rules shall be applied unless the Adjustments Committee affirmatively determines to make an exception in a particular case or group of cases.
- (9) The Adjustments Committee shall consist of two designated representatives of each Exchange and one representative of the Corporation. The quorum for transacting business at any meeting of the Adjustments Committee shall be four representatives; one from each Exchange and one from the Corporation. The vote of a majority of the members of the Adjustments Committee in attendance at any meeting shall constitute the determination of the Adjustments Committee. The Adjustments Committee may transact its business by conference telephone. Notwithstanding the foregoing provisions of this Subsection, any representative of the Corporation or of an Exchange may designate any other representative of the Corporation or of such Exchange, respectively, to serve in his place at any meeting of the Adjustments Committee. In the event of such designation, the designee, for the purposes of such meeting, shall have all of the powers and duties under this Section B-1407 of the person designating him. Neither the Corporation nor any Exchange shall designate to serve on the Adjustment Committee, any person, who, to the knowledge of the self-regulatory organization designating such person, is the beneficial holder of a long or short position in Instalment Receipt Options as to which the Adjustment Committee is to make a determination.

- (10) In the event that the Adjustments Committee is unable to determine whether to make an adjustment in any particular case, the matter shall be referred to the Board for a determination.

## INTERPRETATIONS AND POLICIES

A cash dividend or distribution on a class of shares in an amount which does not exceed 10% of the market value (as of the close of trading on the trading day prior to the date on which such dividend or distribution is announced) of the class of shares evidenced by the Instalment Receipts (and not the market value of the Instalment Receipts themselves) will, as a general rule, be deemed to be “ordinary cash dividends or distributions” within the meaning of Subsection (3) of this Section B-1407. The Adjustments Committee will determine on a case-by-case basis whether other cash dividends or distributions are “ordinary cash dividends or distributions” or whether they are dividends or distributions for which an adjustment should be made.

Where the Adjustments Committee determines to adjust for a cash dividend or distribution, the adjustment shall be made in accordance with Subsection (6) of this Section B-1407.

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 security, and may be redeemed by the issuer. In the event such rights become exercisable, begin to trade separately from the underlying security, or are redeemed, the Adjustments Committee will determine whether an adjustment is appropriate.

Adjustments will not be made to reflect a take-over bid or issuer bid made for the underlying security, whether such offer is for cash, securities or other property. This policy will apply without regard to whether the price of the underlying security may be favourably or adversely affected by the offer or whether the offer may be deemed to be “coercive”. Outstanding Instalment Receipt Options ordinarily will be adjusted to reflect a merger, amalgamation, arrangement or similar event that becomes effective following the completion of a take-over bid.

### **Section B-1408 Delivery of Instalment Receipts After “Ex” Date**

- (1) When an Exercise Notice is properly tendered to the Corporation prior to the “ex-dividend” date (as fixed by an Exchange on which the Underlying Interest is listed) for a distribution that causes an adjustment to be made pursuant to the Rules, the delivering Clearing Member shall make delivery as required by such adjustment unless the delivering Clearing Member, the receiving Clearing Member and the Corporation otherwise agree.
- (2) When an Exercise Notice is properly tendered to the Corporation prior to the “ex-dividend” date for a distribution that does not cause an adjustment to be made pursuant to the Rules, and delivery of the Underlying Interest is made too late to enable the receiving Clearing Member to transfer the Underlying Interest into its name and to receive such distribution, the delivering Clearing Member shall, at the time of delivery, issue its cheque to the receiving Clearing Member for the amount of the distribution, which cheque shall be payable on the payment date of such distribution.
- (3) When an Underlying Interest is listed on more than one Exchange and differing “ex-dividend” dates are fixed by the Exchanges, the earliest date will be considered the “ex-dividend” date for purposes of this Section B-1408.