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CORPORATE ACTION HANDLING GUIDE

Adjustments for Corporate Actions

A ‘**Corporate Action**’ is an action that brings material change to a company and impacts shareholders.

Types of Corporate Actions

1. Special dividends

A Special Dividends is a one-time distribution of corporate earnings to company shareholders, which usually stem from exceptional profits during a given quarter or period.

2. Bonus/Script issue

Shareholders are awarded additional securities free of payment. The nominal value of shares does not change.

3. Rights issue

The issue of new ordinary shares to a company’s shareholders in proportion to each shareholder’s existing shareholding, usually at a price deeply discounted to that prevailing in the market.

4. Mergers & acquisitions

A Merger is where 2 or more companies combine into one new company. The shares of the old companies are consequently exchanged into shares in the new company according to a set ratio

5. Stock splits/reverse stock splits

A Stock split is whereby each share is split into a number of shares according to the set ratio. A reverse split is the opposite.

In the futures market, the key corporate actions being considered would be:

1. Special dividends
2. Bonus issue
3. Rights issue
4. Mergers & acquisitions
5. Stock splits/reverse stock splits
6. Script Issue

The various contract prices and sizes will need to be adjusted using an adjustment factor (AF) that will capture the effects of the specific corporate actions.

The adjustment factor and adjusted prices and contract sizes for the various corporate actions is as shown below:

Corporate Action	Adjustment Factor (AF)	Adjusted Contract Price	Adjusted Contract Size	Effective Date
Special Dividends Where P_{cum} = Cum Price D_{ord} = Amount of the ordinary dividend D_{ext} = Amount of the extraordinary dividend	$\frac{P_{cum} - D_{ord} - D_{ext}}{P_{cum} - D_{ord}}$	$\text{Old Contract Price} \times AF$	$\frac{\text{Old Contract Size}}{AF}$	Books Closure Date
Bonus Issue/Script Issue Where: O = Number of common shares before issue of bonus N = Number of new, assigned common shares after issue of bonus	$\frac{O}{O + N}$	$\text{Old Contract Price} \times AF$	$\frac{\text{Old Contract Size}}{AF}$	Share upload date
Rights Issue P_{ex} = Theoretical price ex-right of the Underlying Instruments P_{cum} = Price cum-right of the underlying instruments	$\frac{P_{ex}}{P_{cum}}$	$\text{Old Contract Price} \times AF$	$\frac{\text{Old Contract Size}}{AF}$	Books Closure Date
Mergers & Acquisitions If the Underlying Instruments of the merging Company are sufficiently liquid, the old Underlying Instruments of Option or Future Contracts are replaced with the new Underlying Instruments of the merged Company. Where: O = Number of Underlying Instruments of the old pre-merger Company N = Number of Underlying Instruments of the merged Company	$\frac{O}{N}$	$\text{Old Contract Price} \times AF$	$\frac{\text{Old Contract Size}}{AF}$	Merger effective date.

Corporate Action	Adjustment Factor (AF)	Adjusted Contract Price	Adjusted Contract Size	Effective Date
Stock Splits Where: O shares split into N shares or O shares consolidate into N shares (reverse)	$\frac{O}{N}$	$\begin{matrix} \textit{Old Contract Price} \\ \times \\ \textit{AF} \end{matrix}$	$\frac{\textit{Old Contract Size}}{\textit{AF}}$	Crediting Date