NOTICE TO MEMBERS
No. 2006 – 039
March 23, 2006

REQUEST FOR COMMENTS

Proposed changes to the Contract Adjustment Rules

Canadian Derivatives Clearing Corporation (CDCC) has analyzed and proposes to implement rule changes similar to the rule modifications filed with the Securities and Exchange Commission (the SEC) by the Options Clearing Corporation (the OCC) regarding the elimination of rounding and changes to the cash dividend adjustment policies.

Because the proposed changes represent a significant departure from long-standing practices, CDCC would like to receive comments from its clearing members. Below is a brief description of the potential changes:

Contract adjustment changes to eliminate rounding
Currently, an adjustment in terms of the underlying interest may result in a change of the strike prices. In such cases, strike prices are rounded to the nearest 1/8th. With the proposed change, if the strike price cannot be divided then CDCC may adjust the deliverable and leave the strike prices unchanged, therefore eliminating any rounding. It should be noted however that the proposed change would generally have no effect on 2 for 1 and 4 for 1 stock splits because they are not likely to require rounding of strike prices.

It is important to note that if the proposed change is effective, option holders willing to determine if their positions are in-the-money or out-of-the-money will have to take into consideration not only the share price and the exercise price, but also the exact composition of the deliverable.

CDCC

Changes to Cash Dividend Adjustment Policies - the "10% Rule"

Currently, cash dividends or distributions representing less than 10% of the market value of the Underlying Interest on the declaration date are deemed “ordinary” and would normally not result in an options adjustment in accordance with the Interpretations and Policies section of Rule A-902 Adjustments in Contract Terms.

OCC’s proposal is to firstly define “ordinary” cash dividends as those paid on a regular basis pursuant to a dividend policy, and to define those paid outside of such a dividend policy as “special” and therefore subject to adjustment. In addition, these “special” dividends would only trigger an adjustment if they exceed the fixed size threshold of $12.50 per option contract.

CDCC believes that OCC’s rationale for modifying its Rules is sound, and therefore proposes to follow the same rationale of generally adjusting for “special” cash dividends exceeding a fixed size threshold of $15.00 CAD per option contract.

CDCC would greatly appreciate receiving comments within 30 days of this notice. CDCC would like to refer Members to the OCC's bulletins dated January 9, 2006 reference numbers 21332 and 21333, which can be found at http://www.optionsclearing.com/market/infomemos/info_memos_form.jsp.

Those comments will enable CDCC to design the appropriate changes, if any, to its rules for a potential filing with the Autorité des marchés financiers in late April 2006.

For further information on this topic, please contact Lara Krivokucha, Director, Risk Management at (514) 871-2424 extension 391.

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