NOTICE TO MEMBERS

No. 2007 - 125
November 30, 2007

ADJUSTMENT IN CONTRACT TERMS:

UPDATE ON MODIFICATIONS TO THE 10% RULE

As previously announced in Notice to members #2007-097 dated September 13, 2007, amendments to Rules A-1 and A-9 were approved by the Board of Directors of the Canadian Derivatives Clearing Corporation (CDCC) and the Autorité des Marchés Financiers (AMF). However, Section A-102 Definitions and Section A-902 Adjustments in Terms, subsection 3 were not implemented at the time.

As previously announced, under CDCC's current Rules, options are not adjusted to reflect "ordinary" cash dividends or distributions. A cash dividend is considered ordinary if it does not exceed 10% of the market value of the underlying interest on the dividend declaration date. Dividends greater than 10% under this definition usually trigger an option contract adjustment. The criterion for the adjustment decision is the size of the cash dividend.

Under the above-mentioned CDCC's Rules changes, cash dividends or distributions are considered as ordinary cash dividends or distributions (regardless of size) if they are declared pursuant to a policy or practice of paying such dividends on a quarterly or other regular basis. Dividends paid outside such practice are considered extraordinary. CDCC will normally adjust extraordinary dividends if exceeding a $15.00 threshold per contract.

These changes were not immediately implemented in order to allow the existing 10% Rule to apply to all current open interests at the time the new Rule came into effect.

The objective of the grandfathering plan is to set an effective date for announced dividends that occur prior to the effective date to be subject to the existing 10% Rule and for announced dividends that occur after the effective date to be subject to the new Rule.

In order, to avoid arbitrage between the U.S.A and Canada for interlisted securities, CDCC must choose the same effective date as the Options Clearing Corporation. Hence, the new Rule will apply to cash dividends announced on or after February 1, 2009 to all expirations existing after the effective date.

In order to achieve the grandfathering objective, an operational plan is required to separate “old” Long Term option symbols subject to the existing 10% Rule and “new” symbols subject to the new Rule.

If a cash dividend is announced up to and including January 31, 2009, all Expirations will be subject to the 10% Rule, including Long Term options which expire after February 1, 2009. If a cash dividend is announced on or after February 1, 2009, the new Rule will apply to all Expirations, including Long Term expiries.

Options contracts that will continue to be subject to the existing 10% Rule will be assigned a specific symbol. Also, positions on long term options series that will be grandfathered will not roll into their base option symbols as it normally occurs since their base symbol will be potentially adjusted under the new Rule.

PLEASE NOTE THAT IT IS THE CLEARING MEMBER’S RESPONSIBILITY TO ENSURE THAT ALL CLIENTS THAT HAVE OPTIONS POSITIONS ARE INFORMED OF THE IMPACT AND TIMING OF THESE CHANGES.

For further information on this topic, please contact Samira Mensah, Analyst, Risk Management at (514) 871-2424 extension 476.

Michel Favreau
Senior Vice-President and Chief Clearing Officer