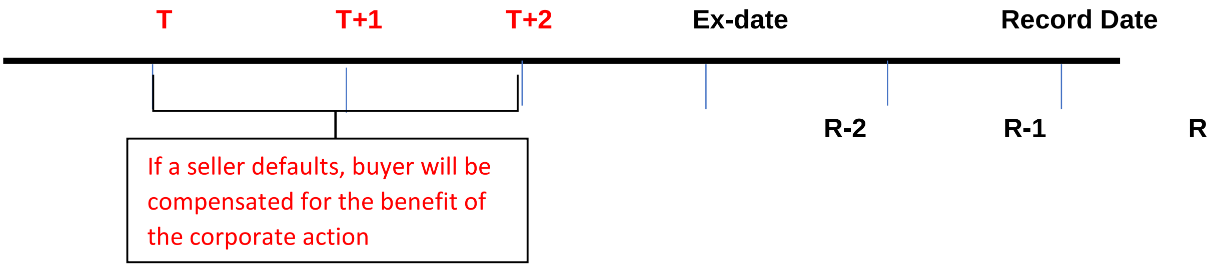
METHODOLOGY FOR COMPENSATION CALCULATION FOR SECURITIES DEFAULTS ATTACHED WITH CORPORATE ACTIONS

In case of a securities default, the benefit of the corporate action will be given in cash.

A separate default schedule will be run on a daily basis to facilitate the payment of the compensation.

The handling of each corporate action in case of a securities default should be as follows:



In case of a buyer defaults, the compensation will be calculated based on the formula applicable for normal transaction default. There won't be any adjustments made to the compensation considering the benefit of the corporate action

If a seller defaults during the period highlighted in the diagram (T to T+2 assuming Ex-date is T+3), buyer will be compensated in cash for the benefit of the corporate action. The amount of the compensation and the methodology of the computation of each corporate action is outlined below.

1. Rights Issue

Assume 1:1 rights issue is recorded on T day at an issue price of Rs.10.00.

If the selling client defaults on one of the three days highlighted above, buyer will not get the benefit of Rights. Due to the unavailability of shares with a Rights entitlement, the benefits of the Rights will be settled in cash. Therefore, in this corporate action, only the amount of cash is adjusted accordingly.

The amount of cash adjustment is calculated as follows:

P = Reference price of the Right = (The closing price of the share one market day prior to commencement of trading of Rights – subscription price of the Rights)

Adjusted cash amount = P × Quantity of affected rights

The compensation will be paid on the day that commenced the rights trading. A separate default schedule will be run on a daily basis to facilitate the payment of the compensation.

1.1 Default of the R.0000/ R.0001 security

If the selling client defaults on T+3, buyer will be deprived from getting the rights security. Thus, trade will be settled in cash

for the price difference as follows;

(i) If the defaulted trade happens during first three days of rights trading, the transaction will be treated as normal transaction default

(ii) If the default happens during last three days of rights trading, the buyer has to be compensated for missing out the opportunity of subscribing rights. Thus, the compensation will be calculated as follows;

P = The closing price of the share one market day prior to the listing of shares arising from the Rights issue– subscription price of the right – Traded price of the R

The compensation will be paid on the day that list the aforesaid new shares.

1.2 Rights Issue of non-voting shares (X) for voting shares (N)

Company A proposes a Rights issue of 1 non-voting (X) share for every voting share (N) held by shareholders.

If a seller defaults, buyer will not be entitled for new non-voting shares. The benefits of the non-voting right shares will be settled in cash.

The amount of cash adjustment is calculated as follows:

P = Reference price of the Right = (The closing price of the share one market day prior to commencement of trading of Rights – subscription price of the Rights)

Adjusted cash amount = P × Quantity of affected rights

If a seller defaults on R share buyer will not be able to subscribe for the rights

The amount of cash adjustment is calculated as follows:

P = Reference price of new non-voting share– subscription price of the right – Traded price of the Rights

2. Warrants Issue

Assume 1:10 warrants issue is recorded on T day.

If the selling client defaults on one of the three days highlighted above, buyer will not get the benefit of the warrants. Due to the unavailability of shares with a warrant entitlement, the benefits of the forgone warrants will be cash settled.

The amount of cash adjustment is calculated as follows:

P = Reference price of the warrant

Adjusted cash amount = P × Quantity of affected warrants

2.1 Default of the W.0000 security

Default of W.0000 can be treated as a default of a normal share until 3 days prior to the Cut-off date. If the default happens during last three days of warrants trading, the buyer has to be compensated for missing out the opportunity of converting warrants. Thus, the compensation will be calculated as follows;

P = The closing price of the share one market day prior to the listing of shares arising from the conversion – trading price of the warrant –conversion price of the warrant

The compensation will be paid on the day that list the aforesaid new shares.

3. Cash Dividend

Assume a cash dividend of Rs.0.50 per shares recorded on T day.

If the selling client defaults on one of the three days highlighted above, buyer will not get the benefit of the dividend. Due to the unavailability of shares with a dividend entitlement, the benefit of the dividend should be settled in cash.

The amount of cash adjustment is calculated as follows:

Amount of cash adjustment = Number of defaulted shares* dividend per share

The compensation will be paid on the day that make the dividend payment.

4. Scrip Dividend

Assume a scrip dividend in the proportion of 1:20 is recorded on T day.

If the selling client defaults on one of the three days highlighted above, the selling Broker is required to cash-settle 50 shares as the entitlement of the scrip dividend. Due to the unavailability of shares with a scrip dividend entitlement, the benefit of the scrip dividend should be settled in cash by the selling Broker.

The amount of cash adjustment is calculated as follows:

P = Closing price of the share one day prior to the listing of the shares arising from the Scrip dividend

Amount of cash adjustment = P * Number of defaulted scrip dividend shares

5. Capitalization of Reserves

Assume that 1:1 Capitalization of Reserves at an issue price of Rs.20.00 per share.

If the selling client defaults on one of the three days highlighted above, the buyer will not get the benefit of shares by way of the Capitalization of Reserves. Due to the unavailability of shares with an entitlement to such Capitalization of Reserves, the benefit of such forgone shares will be settled in cash.

The amount of cash adjustment is calculated as follows:

P = Closing price of the share one day prior to the listing of the shares arising from the capitalization

Adjusted cash amount = P × Number of shares entitled

5.1 Capitalization of Reserves of non-voting shares (X) for voting shares (N)

If a seller defaults the compensation will be computed as follows;

P = Reference price/ closing price of the non-voting share one day prior to the listing of new non-voting shares

Adjusted cash amount = P × Number of shares entitled

6. Sub Division

Assume a sub division of 2:1 was recorded on T day.

If the selling client defaults on one of the three days highlighted above, the buyer will not be entitled for the sub division. However, due to the sub division, the buyer will not get any additional benefit as the price of the security proportionately get adjusted to increased number of shares.

Thus, other than the compensation paid for the default transaction, no additional compensation will be paid as the benefit of the corporate action.

7. Consolidation

Same as the sub division, no additional compensation will be paid to the buyer as the benefit of the corporate action.

8. Amalgamation/ Share swap

There could be different approaches in case of a seller defaults as the buyer will lose the benefit of the corporate action (irrespective of the method):

I. Listed Company A amalgamates with/ Swap shares with Listed company B where Company A being the surviving/ continuing listed entity

   If a seller default on B shares, buyer will not be entitled for the shares of A at the given proportion. Buyer will be compensated in cash based on the proportion of amalgamation. The compensation will be paid on the day of listing of new shares of A.

   Eg: Assume that Company A is amalgamated with Company B where Company A being the surviving entity in the proportion of 1 share of company A for 10 shares of company B

   Assume, the closing price of the shares of Company A one day prior to listing of new shares A is Rs.280.00. The client purchased 1000 shares of security B at a price of Rs.25.00.

   The amount of cash adjustment is calculated as follows:

   P = [(The price of A on one day prior to the listing of new shares/10) – (traded price of B)]

   = (280/10) - 25 = 3

   Adjusted cash amount = P × Quantity of affected shares

   = 3 * 1000 = 3000

II. Listed Company A amalgamates with/ Swap shares with an unlisted company B where Company A being the surviving/ continuing entity
No action required as Company B is not a traded security

III. Listed Company A amalgamates with/ Swap shares with an unlisted company B where Company B being the surviving/ continuing unlisted entity

If a seller default on A shares, buyer will not be entitled for the shares of B at the given proportion. Buyer will be compensated in cash for the required proportion of shares of B. The compensation will be paid on the allotment day.

Eg: Assume that Company A is amalgamated with Company B where Company B being the surviving entity in the proportion of 1 share of company B for 10 shares of company A.

Assume, the valuation of unlisted company B is Rs.200 per share. The client purchased 1000 shares of security A at a price of Rs.15.00.

The amount of cash adjustment is calculated as follows:

P = [(valuation of B/10) – (traded price of A)]

= (200/10) - 15 = 5

Adjusted cash amount = P × Quantity of affected shares

= 5 * 1000 = 5000

IV. The two listed companies A and B amalgamate and form a new company C

If a seller default on shares of A or B, Buyer will not be entitled for the shares of C at the given proportion. Buyer will be compensated in cash for the relevant proportion of shares of C. The compensation will be paid on the entitlement day.

Eg: Assume that Company A amalgamated with Company B and form company C. The proportion would be 1 share of company C for 2 shares of A and 1 share of company C for 3 shares of B.

- If a seller default on A shares, buyer will not be entitled for the shares of C. Thus, Buyer will be compensated in cash. Assume, the valuation of company C is Rs.60 per share. The client purchased 1000 shares of security A at a price of Rs.25.00.

The amount of cash adjustment is calculated as follows:

P = [(valuation of C/2) – (traded price of A)]

= (60/2) - 25 = 5

Adjusted cash amount = P × Quantity of affected shares

= 5 * 1000 = 5,000

- If a seller default on B shares, buyer will not be entitled for the shares of C. Thus, Buyer will be compensated in cash. Assume, the valuation of company C is Rs.50 per share. The client purchased 1000 shares of security B at a price of Rs.22.00.

P = [(valuation of C/3) – (traded price of B)]

= (60/3) - 22 = (-2)

Adjusted cash amount = P × Quantity of affected shares

= 0 * 1000 = 0

9. Arrangements

Arrangements can take different forms with the involvement of listed and unlisted companies. These arrangements are carried out to restructure the companies and groups whilst shareholders of a listed entity would entitle to receive shares.

Scenarios:

- Shareholders of a listed company receive shares of another company (subsidiary) by way of a transfer by current shareholders
- Shareholders of a listed company receive shares of a new company by way of spin-off of assets
- Shareholders of a listed entity receives shares of another company resulting a group restructure

Assume that Company A issues shares/ transfer shares owned by them to the shareholders of the listed Company B.

If a seller default on shares of B, Buyer will not be entitled for the shares of A/ shares transferred by A at the given proportion. Buyer will be compensated in cash for the relevant proportion of the arrangement. The compensation will be paid on the entitlement day.

The amount of cash adjustment is calculated as follows:

P = [(valuation of shares of A or value of transferred shares/ the relevant proportion) – (traded price of B)]

Adjusted cash amount = P × Quantity of affected shares

10. Mandatory offers

Assume a mandatory offer announced by company A. If the selling client defaults, during the last 3 days of acceptance the buyer will not be entitled for the Mandatory offer. Thus, the buyer has to be compensated for the respective price difference.

The amount of cash adjustment is calculated as follows:

P = (Offer price – Traded price)

Adjusted cash amount = P × Quantity of defaulted shares

11. Re-purchase of shares

Assume a re-purchase of Rs. 30 per share in the proportion of 1:2.

If the selling client defaults on XRP date, the buyer will not be entitled for the share re-purchase. Thus, the buyer has to be compensated for the respective price difference.

The amount of cash adjustment is calculated as follows:

P = (The re-purchase price – Trade price)

Adjusted cash amount = P × Quantity of affected shares