

A market rumour will no longer remain just a rumour under SEBI laws

In my article on October 03, 2023, titled “Formation of Industry Standards Forum by SEBI - a pragmatic era in regulation implementation”, I had mentioned that SEBI has introduced a very pragmatic method of drafting standards for implementation of a regulation. In a novel, unique and constructive move, SEBI has invited three of the main industry associations to together form an Industry Standards Forum (ISF) which will assist in designing the implementation standards for some of the proposed regulations. The ISF will work in consultation with SEBI, and the two Stock Exchanges will coordinate these initiatives.

The first project assigned to ISF pertained to devising implementation standards for rumour verification which initially was to come into effect from October 1, 2023. The same was postponed until June 1, 2024 for implementation.

As a result of the ISF deliberations over this period, on Tuesday SEBI has issued a circular for implementation of this requirement. As per the amendment, listed entities are required to confirm, deny, or clarify market rumours, upon material price movement under Regulation 30(11) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. This requirement comes into effect for the Top 100 listed entities from June 1, 2024, and for the Top 250 listed entities from December 1, 2024.

The ISF in consultation with SEBI has come up with a guidance note to provide clarity on this requirement. Some of the key highlights of this note are as follows

1. A rumour is required to be verified only if it
 - i. is reported in the mainstream media and not just in social media
 - ii. provides specific details of the matter/event and quotes or attributes the information to reasonable sources, and not be general in nature
 - iii. is in respect of an impending event
 - iv. results in a material price movement - the material price movement framework has been released by the stock exchanges
2. For an M&A transaction, complete disclosure standards have been provided depending on the stage of the transaction and the extent of the details specified in the rumour. For example, if a rumour was reported at the stage of engagement of legal/ financial advisors for due diligence, the company can issue a general disclosure such as *‘The company evaluates various strategic opportunities in the ordinary course, for growth and expansion of its business.’* If the rumour was reported at the stage of signing of an exclusive binding term-sheet in respect to an M&A transaction with a listed target company, a confirmation is required along the lines of *‘This is to confirm that the company has executed a binding term-sheet with [name of the counterparty] in respect of a potential [publicly available details of the deal]. Please note that the parties are still in negotiation and no binding agreement has been entered into for giving effect to the potential deal. The execution and the ultimate consummation of the potential deal is subject to various factors including receipt of approval by the Board of Directors of the company and execution of binding agreements between the parties and there can be no guarantee or assurance of the execution/consummation of any deal.’*

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3. SEBI has also introduced a concept of unaffected price to be considered for M&A transactions provided rumour has been confirmed within 24 hours from the trigger of the material price movement. For the first time, SEBI has developed a price protection framework to disregard any unwarranted stock price movements. If any relevant rumour is confirmed by the listed entity within 24 hours, the corresponding effect is discounted while computing the volume weighted average price used in open offer pricing during deals. This unaffected price will be applicable for a period of 60/180 days from the date of rumour confirmation, based on the stage of a transaction. This move was welcomed in the industry which has been troubled with rumour led unwarranted price corrections making deals unviable for all parties involved. While it forces the companies to quick disclosures, it also provides them with price protection

4. Non-M&A transaction specific aspects

Scenarios like whistle-blower complaints, change of key managerial personnel and health of MD/CEO are considered under Non-M&A categories

The guiding principles here are the same as in point no 1. To illustrate, a rumour reported that a whistle blower complaint was received by a listed entity alleging irregularities in its accounts. In this case, the entity shall deny the rumour if no such complaint has been received. In case such a complaint has been received, neither confirmation nor a clarification is required because the rumour does not provide any identifiable details like the irregularities were found in revenue accounting

Overall, SEBI looks to meet its objective of safeguarding deals from rumours, promoting transparency and reducing speculative trading. With the deep involvement of ISF, the new guidelines for market rumour verification provides the much needed balance at implementation level.

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