

# CONSULTATION PAPER ON AMENDMENTS TO SEBI REGULATIONS WITH RESPECT TO VERIFICATION OF MARKET RUMOUR

---

## 1. Objective

- 1.1. This consultation paper seeks comments / views / suggestions from the public on the following proposals:
  - 1.1.1. material price movement as the criteria to verify market rumours instead of material event in terms of Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“**LODR Regulations**”);
  - 1.1.2. mechanism to ensure that unaffected price is considered with respect to transactions relating to the securities of a listed entity upon confirmation of market rumour;
  - 1.1.3. obligation on promoters, directors, key managerial personnel (“**KMP**”) and senior management to provide adequate, accurate and timely response to the queries raised or explanation sought in respect of market rumours by the listed entity in order to ensure compliance with Regulation 30(11) of LODR Regulations;
  - 1.1.4. classification of information which was not verified by listed entities as unpublished price sensitive information (“**UPS**I”)

## 2. Background

- 2.1. The first proviso to Regulation 30(11) of LODR Regulations requires listed entities to verify and confirm, deny or clarify market rumours which are reported in the mainstream media (“**rumour verification requirement**”). The rumour verification requirement shall be applicable to top 100 listed entities with effect from February 01, 2024 and to top 250 listed entities with effect from August 01, 2024 as specified by SEBI Circular dated September 30, 2023. The extract of regulation 30(11) of LODR Regulations is reproduced and placed as [Annexure A](#).
- 2.2. In order to facilitate capital formation and ease of doing business, at the behest of SEBI, three industry associations, viz. ASSOCHAM, CII and FICCI, came together to form Industry Standards Forum (“**ISF**”) under the aegis of the Stock Exchanges to set industry standards. ISF took up the rumour verification requirement as one of the pilot projects for formulating standards for effective implementation of the said requirement, in consultation with SEBI.

## PART A: Material Price Movement as the criteria to verify market rumours

### 3. Issue under consideration

- 3.1. The rumour verification requirement was introduced with an objective to avoid false market sentiment or impact on the securities of the listed entity. There may be many rumours circulating in the market which may or may not have material impact on the

securities of the listed entity. Hence, it was envisaged that only rumours pertaining to material events or information should require verification by the listed entity. As per the existing rumour verification requirement, rumour should be with respect to an impending specific 'material' event or information in terms of the provisions of regulation 30 of LODR Regulations. Under Regulation 30 of LODR Regulations, events specified under Para A of Part A of Schedule III of LODR Regulations are deemed material events and the materiality for events specified under Para B of Part A of Schedule III of LODR Regulations is to be determined based on the criteria specified under regulation 30(4) of LODR Regulations.

- 3.2. In this context, ISF has suggested to define 'materiality' in terms of price movement in the scrips of the listed entity since the aim is to ensure prompt verification of rumours that results in a sudden movement in the price of the scrips of the listed entity. Hence, defining 'materiality' in terms of price movement instead of material event in terms of regulation 30 of LODR Regulations may be more relevant for the rumour verification requirement.
- 3.3. Currently, under regulation 30(11) of LODR Regulations, market rumour is required to be verified within 24 hours of reporting in the mainstream media.

#### **4. Proposed framework for material price movement**

- 4.1. As proposed by ISF, the rumour verification requirement shall be applicable if there is a material price movement in the securities of the listed entity. The material price movement in the securities of the listed entity may be determined based on the following parameters:
  - 4.1.1. Price range of the securities of the listed entity: For securities under high price range, even a smaller percentage variation in the price would lead to a higher price variation in absolute terms. Hence, for determining material price movement, a lower percentage variation should be considered for securities falling under high price range and a higher percentage variation should be considered for securities falling under low price range.
  - 4.1.2. Movement in the benchmark index (Nifty50 / Sensex): In order to factor in market dynamics, the price variation in the securities of the listed entity may be indexed to movement in Nifty50 / Sensex (benchmark index).
- 4.2. The proposed framework for material price movement is placed at [Annexure B](#). There may be price movement due to a combination of various factors such as rumour, announcements or other events. However, under the proposed framework, the material price movement would be attributable only to the rumour, and thus would require verification of such rumour.
- 4.3. Since the requirement to verify market rumour arise from material price movement, it is proposed that the timeline for verifying market rumour shall be within 24 hours of material price movement instead of within 24 hours of reporting in the mainstream media as per the existing rumour verification requirement.

**5. Proposal:** Comments are invited on the following:

1. *Whether 'materiality' for the purpose of rumour verification requirement should be considered in terms of material price movement?*
2. *Whether you agree with the proposed framework for material price movement as given in Annexure B?*
3. *Whether you agree that rumour shall be required to be verified and confirmed, denied or clarified within 24 hours from material price movement?*

**PART B: Mechanism to ensure that unaffected price is considered with respect to transactions relating to the securities of a listed entity upon confirmation of market rumour**

**6. Issue under consideration**

- 6.1. During discussions between SEBI and ISF on the standards for the rumour verification requirement, issue was raised regarding market price of the shares of the listed entity getting affected upon confirmation of market rumours by the listed entity.
- 6.2. Under various regulations of SEBI, pricing of transactions relating to the securities of a listed entity are required to be based upon the market price of securities being traded on the stock exchanges. The regulations are mentioned below:
  - 6.2.1. Pricing guidelines for preferential issues as specified under Chapter V of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 ("**ICDR Regulations**"). These pricing guidelines are also applicable for issuance of shares under schemes of arrangement in case of allotment of shares only to a select group of shareholders or shareholders of unlisted companies pursuant to such schemes (*Ref.: SEBI Master Circular on Scheme of Arrangement by Listed Entities dated June 20, 2023*).
  - 6.2.2. Pricing guidelines for qualified institutions placements as specified under Chapter VI of ICDR Regulations.
  - 6.2.3. Pricing guidelines for open offer under Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeover) Regulations, 2011 ("**SAST Regulations**") (Regulations 8(2), 8(3) and 9(5)). The pricing guidelines under Regulation 8 of SAST Regulations are also applicable in case of delisting offer under Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2021 ("**Delisting Regulations**").

6.2.4. Pricing guidelines in respect of buy-back of securities under proviso to Regulation 19(iii) and Regulation 22B(iii) of Securities and Exchange Board of India (Buy-back of Securities) Regulations, 2018 (“**Buy-back Regulations**”).

6.3. In this context, for determining the pricing of transactions relating to the securities of a listed entity, ISF has suggested that unaffected price should be considered when the listed entity confirms the market rumour due to material price movement.

6.4. ISF has proposed that the unaffected price may be applicable for a period of 60 days from the date of confirmation of the market rumour till the ‘relevant date’ under the existing regulations (public announcement, board approval, etc., as the case may be). However, in case of a competitive bidding process for a potential M&A deal, where the sole / exclusive bidder has not been identified, the unaffected price is proposed to be applicable for a time-period of 180 days from the date of confirmation of the market rumour till the ‘relevant date’ under the existing regulations.

6.5. In this regard, two frameworks for considering unaffected price are proposed below.

## **7. Framework A (as proposed by ISF)**

7.1. Details of Framework A:

7.1.1. The date immediately preceding the date on which the listed entity first confirms the rumour shall be deemed to be the ‘relevant date’ for determining the pricing for the transaction.

7.1.2. Under the existing regulatory requirements, the look back period is considered from the date preceding the relevant date. Accordingly, under the proposed framework, the look back period for calculation of volume-weighted average price (“**VWAP**”) shall be considered from the date preceding the new relevant date.

7.2. Advantages of implementing Framework A:

7.2.1. Any price variation due to rumour in the market and subsequent to confirmation of such market rumour is not taken into account for determining the pricing of transactions relating to the securities of a listed entity.

7.3. Challenges in implementing Framework A:

7.3.1. The framework does not consider the price changes due to any announcement by the listed entity, news pertaining to the industry, or developments across market subsequent to the confirmation of rumour by the listed entity till public announcement / board approval i.e. the relevant date for the transaction under the existing regulatory requirements. The shareholders may be deprived of economic benefits in such cases.

7.3.2. It is difficult to rule out the possibility of any person / entity having interest in the transaction knowingly spreading rumour forcing the listed entity to confirm the

market rumour and take benefit of favourable price prior to any positive announcements or developments in the market.

## **8. Framework B (alternate proposal)**

### 8.1. Details of Framework B:

8.1.1. The price variation due to rumour and confirmation of rumour may be excluded from the calculation of VWAP. The price variation in daily WAP from the day of material price movement till the end of the next trading day after confirmation of the rumour shall be attributed to the rumour and confirmation of the rumour ("**WAP variation**"). In today's digital age where information flows quickly, one trading day is considered to be reasonable for the market to take cognizance of the rumour or its confirmation.

8.1.2. From the day of the material price movement, the daily WAP in the look back period shall be adjusted by the WAP variation mentioned above. The adjusted VWAP shall be calculated based on this adjusted daily WAP.

8.1.3. In case of rumours at multiple stages of the same transaction, the price adjustment may be provided for all cases where there is a material price movement and the listed entity confirms the rumour.

### 8.2. Advantages of implementing Framework B:

8.2.1. Only the price variation due to the rumour and confirmation of market rumour is adjusted for determining the pricing of transactions relating to the securities of a listed entity. Price variation due to other factors such as announcements by the listed entity, news pertaining to the industry, or developments in the market will be included in the price of the transaction. Hence, shareholders will get fair value of the shares of the listed entity.

### 8.3. Challenges in implementing Framework B:

8.3.1. No. of days for which price gets impacted, upon confirmation of the market rumour, may vary due to various circumstances.

8.3.2. There is a possibility that the price variation may hit band limit on the next trading day post rumour confirmation and may spread to the following day.

9. Illustration for calculation of VWAP under the above proposed Frameworks A and B in case of preferential issue to qualified institutional buyers (QIBs) is placed at [Annexure C](#).

10. **Proposal**: Comments are invited on the following:

4. *Whether the unaffected price should be considered when the listed entity confirms the market rumour due to material price movement?*

5. *Whether you agree that the unaffected price should be applicable for 60 days or 180 days, as the case may be (refer para 6.4), from the date of confirmation of the market rumour till the 'relevant date' under the existing regulations?*
6. *Whether Framework A as mentioned at para 7.1 should be implemented? If yes, provide suggestions to address the challenges mentioned at para 7.3.*
7. *Whether Framework B as mentioned at para 8.1 should be implemented? If yes, provide suggestions to address the challenges mentioned at para 8.3.*

## **PART C: Obligation on promoters, directors, KMP and senior management**

### **11. Issue under consideration**

11.1. The obligation to disclose material events or information and market rumours is cast upon the listed entity. However, there may be instances where the rumour may pertain to promoters / directors / KMP / senior management and the listed entity may need to seek information from such persons in order to provide adequate, accurate and timely disclosure to the investors and to ensure compliance with Regulation 30(11) of LODR Regulations.

11.2. Therefore, there is a need to cast an obligation upon the promoters, directors, KMP and senior management to provide adequate, accurate and timely response to queries raised or explanation sought by the listed entity in order to ensure compliance with Regulation 30(11) of LODR Regulations.

**12. Proposal:** Comments are invited on the following:

8. *Whether promoters, directors, KMP and senior management should be mandated to provide adequate, accurate and timely response to queries raised or explanation sought by the listed entity in order to ensure compliance with the requirements under Regulation 30(11) of LODR Regulations?*

## **PART D: Classification of information which was not verified by listed entities as UPSI**

### **13. Issue under consideration**

13.1. There may be instances where a rumour pertaining to a listed entity is circulating in the market but doesn't result in material price movement in the scrips of the entity.

13.2. In case the listed entity has classified certain information as UPSI and the entity neither confirms, denies or clarifies market rumour pertaining to such information published in the media, then such media reports should not be used later by an insider as a defence that the information was 'generally available'.

**14. Proposal:** Comments are invited on the following:

9. *In case certain information is classified as UPSI by the listed entity and market rumour pertaining to that information is not verified by the listed entity, then whether such information should be continued to be treated as UPSI and not 'generally available' information?*

**15. Public Comments**

15.1. In order to take into consideration, the views of various stakeholders, public comments are invited on the proposals 1 to 9 mentioned at para 5, 10, 12 and 14 above.

15.2. The comments or suggestions, along with rationale, may be submitted by any of the following modes latest by **January 18, 2024**:

15.2.1. **preferably through online mode** at the following link: [link to provide comments online](#)

15.2.2. alternately, by email to [consultationcfd@sebi.gov.in](mailto:consultationcfd@sebi.gov.in). While sending the email, kindly mention the subject as “**Comments on consultation paper on amendments to SEBI Regulations with respect to verification of market rumours**”. The comments should be sent by email in MS Excel file in the following format only: [link to download the format](#)

\*\*\*\*\*

**Regulation 30(11) of LODR Regulations**

*The listed entity may on its own initiative also, confirm or deny any reported event or information to stock exchange(s):*

*Provided that the top 100 listed entities and thereafter the top 250 listed entities, with effect from the date as may be specified by the Board, shall confirm, deny or clarify any reported event or information in the mainstream media which is not general in nature and which indicates that rumours of an impending specific material event or information in terms of the provisions of this regulation are circulating amongst the investing public, as soon as reasonably possible and not later than twenty four hours from the reporting of the event or information:*

*Provided further that if the listed entity confirms the reported event or information, it shall also provide the current stage of such event or information.*

*Explanation – The top 100 and 250 listed entities shall be determined on the basis of market capitalization, as at the end of the immediately preceding financial year.*

\*\*\*\*\*

**Proposed framework for material price movement****A. In case benchmark index movement is greater than- 1% and less than 1%:**

Price range of the scrip	Percentage variation in scrip price
Rs. 0-99.95	Greater than or equal to 5
Rs. 100- 199.95	Greater than or equal to 4
Rs. 200 and above	Greater than or equal to 3

**B. In case benchmark index movement is greater than 1%:**

Price range of the scrip	Percentage variation in scrip price
Rs. 0-99.95	Greater than or equal to (5+ % change in benchmark index at 9:30) or Band hit
Rs. 100- 199.95	Greater than or equal to (4+ % change in benchmark index at 9:30) or Band hit
Rs. 200 and above	Greater than or equal to (3+ % change in benchmark index at 9:30) or Band hit

**C. In case benchmark index movement is less than - 1%:**

Price range of the scrip	Percentage variation in scrip price
Rs. 0-99.95	Greater than or equal to (5- % change in benchmark index at 9:30) or Band hit
Rs. 100 - 199.95	greater than or equal to (4- % change in benchmark index at 9:30) or Band hit
Rs. 200 and above	greater than or equal to (3- % change in benchmark index at 9:30) or Band hit

**Notes:**

1. Index movement is to be considered at 9:30 am of the trading day w.r.t. the closing price on the previous trading day.
2. Percentage variation in scrip price is to be considered at any point of time during trading hours w.r.t. the closing price of the scrip on the previous trading day.
3. In case of negative news, parameter cut off applicable will be on opposite side calculated as above.

\*\*\*\*\*

**Illustration for calculation of adjusted VWAP under the proposed Frameworks in case of preferential issue to QIBs**

Trading Day	Daily WAP	No. of Shares	Daily VWAP = WAP*No. of shares	Adj. WAP (for Framework B)	Adj. Daily VWAP = Adj. WAP *No. of shares (for Framework B)	Remarks	As per existing ICDR Regulations	Framework A	Framework B
13-Jul	1,028.38	44,863	4,61,36,436	1,028.38	4,61,36,436			NT-10	
14-Jul	1,027.02	33,466	3,43,70,333	1,027.02	3,43,70,333				
17-Jul	1,032.63	32,223	3,32,74,413	1,032.63	3,32,74,413				
18-Jul	1,027.20	19,968	2,05,11,216	1,027.20	2,05,11,216				
19-Jul	1,034.02	49,398	5,10,78,332	1,034.02	5,10,78,332				
20-Jul	1,045.06	47,004	4,91,22,094	1,045.06	4,91,22,094				
21-Jul	1,053.26	24,750	2,60,68,106	1,053.26	2,60,68,106				
24-Jul	1,047.07	37,262	3,90,15,902	1,047.07	3,90,15,902		T-10		T-10
25-Jul	1,054.90	15,000	1,58,23,472	1,054.90	1,58,23,472				
26-Jul	1,060.76	44,519	4,72,24,119	1,060.76	4,72,24,119			NT-1	
27-Jul	1,164.47	7,60,853	88,59,92,949	1,060.76	80,70,84,899	Date of material price movement		New Relevant Date(NT)	
28-Jul	1,173.45	2,38,320	27,96,56,317	1,060.76	25,28,01,097	Date of rumour confirmation			
31-Jul	1,178.90	88,450	10,42,73,673	1,060.76	9,38,24,509	Next trading day after rumour confirmation			
01-Aug	1,173.16	68,613	8,04,93,949	1,055.02	7,23,88,257				
02-Aug	1,165.71	41,954	4,89,06,124	1,047.57	4,39,49,830				
03-Aug	1,163.36	56,267	6,54,58,874	1,045.23	5,88,11,694				
04-Aug	1,212.36	5,99,197	72,64,43,696	1,094.23	65,56,56,725		T-1		T-1
07-Aug	1,208.33	1,08,762	13,14,20,854	1,090.20	11,85,72,104	Date of Board approval to preferential issue to QIBs	Relevant Date (T)		Relevant Date (T)

Notes are given on the next page.

**Notes:**

1. Price variation on the following days has been adjusted under Framework B from the date of material price movement to the date of board approval:
  - i. 27<sup>th</sup> July – Date of material price movement
  - ii. 28<sup>th</sup> July – Date of rumour confirmation
  - iii. 31<sup>st</sup> July – Next trading day after rumour confirmation
  
2. VWAP calculated under different frameworks:
  - i. Under existing ICDR Regulations – Rs. 1,175.78/- (Calculated based on daily VWAP from T-1 to T-10)
  - ii. Under Framework A – Rs. 1,040.67/- (Calculated based on daily VWAP from NT-1 to NT-10)
  - iii. Under Framework B – Rs. 1,069.80/- (Calculated based on adjusted daily VWAP from T-1 to T-10)

\*\*\*\*\*