

Frequently Asked Questions(FAQ's) on responsible handling of unauthenticated market related news or rumours by SEBI Registered Intermediaries - Circular No. Cir/ISD/1/2011 & addendum thereof

Background

It is a fact that unauthenticated market related news or rumours can adversely affect normal functioning of the market and distort price discovery mechanisms.

Examination of complaints pertaining to unauthenticated market related news or rumours has revealed that:

- (i) unauthenticated market related news or rumours were circulated by making use of various modes like chat forums/messenger, emails etc.
- (ii) persons circulating such news or rumours were employees of intermediaries and did so without verifying the contents of the same.
- (iii) Intermediaries do not have laid down policies to check dissemination of unauthenticated market related news or rumours by their employees.

As a first step in this direction SEBI issued Circular No. Cir/ISD/1/2011 dated March 23, 2011 & an addendum to it on March 24, 2011 (available on www.sebi.gov.in) addressing the way unauthenticated market related news or rumours circulated by SEBI Registered Market Intermediaries through various modes of communication has to be dealt with.

Based on feedback received from various intermediaries and taking into account the approach followed/ discussion papers issued various securities regulators { the Australian Securities & Investment Commission (ASIC), Australia, Financial Industry Regulatory Authority (FINRA), United States of America and Financial Services Authority (FSA), United Kingdom}, the following clarifications are being issued:

(i) Which entities are covered under the Circular?

The Circular is applicable to entities that fall within the ambit of the SEBI (Intermediaries) Regulations, 2008.

(ii) What is meant by unauthenticated market related news or rumours?

Unauthenticated market related news or rumours may be defined as *“information or news or talk or opinion widely disseminated with no discernible source or a statement or report without known authority for its truth”*.

(iii) Whether opinions/views expressed by Intermediaries would be

construed as unauthenticated market related news or rumours ?

Opinions/views etc. expressed by intermediaries would not be considered as unauthenticated market related news or rumours provided the opinion has a demonstrable and rational basis and be clearly stated as the opinion of the author.

(iv) What steps may be taken by intermediaries in blocking or supervising employee access to blogs/chat forums / Messenger / Social network sites?

Though it may not be practically possible to completely block or supervise access to blogs/chat forums/Messenger/Social network sites, the Intermediaries should take steps to block/restrict access to the same on 'Office networks' on a best efforts basis and should be able to demonstrate to SEBI/Exchanges, the measures adopted by them in that regard, as and when required by SEBI/Exchanges.

In this regard, Intermediaries are advised to design a system encompassing but not restricted to the following:

- Intermediaries to set out a code of conduct on the use and management of electronic tools such as email, blogs, chat forums, messenger sites, by whatever nomenclature known, in order to prevent unauthorized circulation and spreading of rumour and establish a management system to ensure electronic communication security.
- Restrictions imposed on access to emails/blogs/chat forums/messenger sites should be on communication/ access through official modes and access controls on personal emails/chats/blogs etc, through office networks.

(v) What Policies / Procedures may be put in place by the intermediaries and how it should be monitored?

Intermediaries shall have in place written policies and procedures providing clear guidance to the employees on procedures for dealing with unauthenticated market related news or rumours. These policies should broadly stipulate that:

- Intermediaries and its employees shall not in any circumstances be involved in the origination of an unauthenticated market related news or a rumour etc.;

- Intermediaries shall ensure that employees receive formal training for complying with the policies and procedures applicable to unauthenticated market related news or rumours ;
- Intermediaries shall define scope of permitted and prohibited conducts when using the designated tools, such as e-mails, messenger, etc.;
- The Compliance Officer of the intermediary to conduct periodic monitoring to ensure compliance with the laid down policies.

(vi) What steps the intermediary should take to dissuade employees from originating or helping spread unauthenticated market related news or rumours?

The intermediaries should have a code of conduct for their employees, which inter-alia, should cast responsibility on the employees that they should refrain from originating or spreading unauthenticated market related news or rumours.

(vii) What should the employee do if he has to refer to unauthenticated market related news or rumours to his clients while explaining the market behavior or when in another similar situation?

The employee while referring to the ‘unauthenticated market related news or rumours’ should clearly state that it is an unauthenticated market related news or rumour and has no discernible basis. Further, employees should be directed that any ‘unauthenticated market related news or rumours’ received by them either in their official mail / personal mail / blog or in any other manner, should be forwarded only after the same has been seen and approved by the concerned Intermediary’s Compliance Officer.

(viii) What is meant by records and till what time they should be retained?

Logs for usage of those Blogs/Chat forums/Messenger sites etc. made available to the employees by the intermediary shall be treated as records and the same should be required to be maintained as specified under the respective Regulations which govern the concerned intermediary.

(ix) What would be the role and responsibilities of the Compliance Officer?

The Compliance Officer shall

- [a] put in place adequate systems which shall make best efforts to prevent the spreading of unauthenticated market related news or rumours by employees of the intermediary.
- [b] formulate clear and transparent policies on handling unauthenticated market related news or rumours etc. and communicating the policies to all employees.
- [c] document appropriate training policies and programs reasonably designed to ensure that employees comply with their responsibilities and obligations.
- [d] ensure affirmation of these policies by each employee periodically.
- [e] conduct periodic monitoring to ensure compliance with the laid down policies and take action in case an employee is found violating the laid down policy.
- [f] report the same to SEBI in terms of extant Regulations