

Facilitating uniform approach in verification of market rumours by equity listed entities – Amendments to SEBI (LODR) Regulations, 2015 and SEBI (PIT) Regulations, 2015

1. Objective

1.1. This memorandum seeks approval of the Board for amendment of the provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“**LODR Regulations**”) and the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 (“**PIT Regulations**”) with respect to the following aspects:

1.1.1. Specifying criteria for verification of market rumours in terms of material price movement in the equity shares of a listed entity instead of materiality of event or information as specified under Regulation 30 of LODR Regulations.

1.1.2. Introducing a mechanism to consider unaffected price of equity shares of a listed entity with respect to transactions relating to securities of the listed entity upon confirmation of market rumour wherever pricing norms have been specified by SEBI or the stock exchanges.

1.1.3. Placing obligation on promoters, directors, key managerial personnel (“**KMP**”) and senior management of a listed entity to provide adequate, accurate and timely response to the queries raised or explanation sought by the listed entity in respect of market rumours.

1.1.4. Unverified event or information not to be considered as ‘generally available information’.

2. Background

2.1. The first proviso to Regulation 30(11) of LODR Regulations requires listed entities to 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 June 01, 2024 and to top 250 listed entities (i.e., next top 150) with effect

from December 01, 2024 as specified by SEBI Circular dated January 25, 2024.

2.2. In order to facilitate capital formation and ease of doing business, at the initiative 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 on a pilot basis. 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.

3. Deliberations in the PMAC and Public Consultation

3.1. Based on the draft Standards submitted by ISF and further detailed discussions with ISF, certain issues were identified for implementation of the rumour verification requirement. The proposals to address these issues were deliberated in the meeting of the Primary Market Advisory Committee (PMAC) of SEBI.

3.2. Based on PMAC recommendations and further internal deliberations, a consultation paper on ‘Amendments to SEBI Regulations with respect to verification of market rumour’ (**Annexure 1**) was issued on December 28, 2023 (“the **Consultation Paper**”) requesting comments / suggestions from the public on the proposals. Comments were received from 45 persons / entities including listed entities, law firms, industry associations, institutions, and professionals. Proposal-wise comments received on the amendments proposed and response to the questions posed in the consultation paper are placed as **Annexure 2**.

3.3. The issues identified, proposals made in the Consultation Paper, public comments, analysis thereof and the proposals for the Board’s consideration are discussed in detail as separate paragraphs in this memorandum.

4. Specifying criteria for verification of market rumours in terms of material price movement in the equity shares of a listed entity instead of materiality of event or information as specified under Regulation 30 of LODR Regulations

4.1. Issue under consideration

4.1.1. The rumour verification requirement was introduced with an objective to avoid false narratives that may impact price of the securities of the listed entity, positively or negatively. At any given time, there may be 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 as specified under Regulation 30 of LODR Regulations should require verification by the listed entity. 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.

4.1.2. In this context, ISF has suggested to define 'materiality' in terms of price movement in the scrip 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 materiality of event or information as specified under Regulation 30 of LODR Regulations may be more relevant for the rumour verification requirement.

4.1.3. Currently, under Regulation 30(11) of LODR Regulations, market rumour is required to be verified within 24 hours of reporting in the mainstream media.

4.2. Proposals in the Consultation Paper

4.2.1. ISF has proposed that rumour verification requirement should be applicable if there is a material price movement in the equity shares of the listed entity as per the existing framework used by the stock exchanges.

4.2.2. As per the existing framework adopted by the stock exchanges, which is placed at Annexure B to the Consultation Paper, the material price movement in the equity shares of the listed entity is determined based on the following parameters:

- a) Price range of equity shares of the listed entity: For securities under high price range, even a small 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 is considered for securities falling under high price range and a higher percentage variation is considered for securities falling under low price range. The percentage variation considered for different price range is given at para 4.2.3 below. The percentage variation is taken from the close price of the last trading day.
- b) Movement in the benchmark index (Nifty 50 / Sensex): In order to factor in market dynamics, the price variation in the securities of the listed entity is indexed to movement in Nifty 50 / Sensex (benchmark index) in case movement in the benchmark index is more than 1% at 9:30 am as compared to the close of the last trading day. This benchmarking accounts for any significant market-wide movement at the beginning of the trading hours due to any news / information which occurred after the close of the trading hours on the previous trading day.

4.2.3. As per the existing framework, in case of positive news / rumour, the percentage variation in the price of the listed equity shares which is treated as material price movement is tabulated below:

Price range of the listed equity shares	Percentage variation in share price which is treated as material price movement	
	Benchmark index movement is less than 1% at 9:30 am and for intra-day share price movement	Benchmark index movement is greater than or equal to 1% at 9:30 am
Rs. 0-99.99	Greater than or equal to 5%	Greater than or equal to (5%+ % change in benchmark index at 9:30) or price band limit
Rs. 100-199.99	Greater than or equal to 4%	Greater than or equal to (4%+ % change in benchmark index at 9:30) or price band limit
Rs. 200 and above	Greater than or equal to 3%	Greater than or equal to (3+ % change in benchmark index at 9:30) or price band limit

Similarly, in case of negative news / rumour, parameter cut off applicable shall be calculated as above on the opposite side, i.e. negative side.

4.2.4. 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 is deemed to be attributed only to the rumour, and thus would require verification of such rumour.

4.2.5. Since the requirement to verify market rumour arise from material price movement, it was 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 extant Regulation 30(11) of LODR Regulations.

4.3. **Public comments and Analysis**

4.3.1. The responses received on the proposals made in the Consultation Paper are summarized below:

Proposal in the Consultation Paper		Total comments	Agree / Strongly Agree	Partially Agree	Disagree / Strongly Disagree	Agree % *
1	Whether 'materiality' for the purpose of rumour verification requirement should be considered in terms of material price movement?	41	14	22	5	88%

2	Whether you agree with the proposed framework for material price movement as given in Annexure B?	40	12	17	11	73%
3	Whether you agree that rumour shall be required to be verified and confirmed, denied or clarified within 24 hours from material price movement?	41	14	16	11	73%

* includes Strongly Agree, Agree and Partially Agree

4.3.2. As may be seen from the table above, the commenters are in broad agreement with the proposals. The public comments and suggestions received on the proposals have been analyzed and placed at paragraph 1 of **Annexure 3** (refer page no. 19 to 26).

4.3.3. The criteria for verification of market rumours in terms of material price movement has an advantage of being objectively and uniformly assessed and is directly linked to the regulatory objective of rumour verification. Various services are available in the market for tracking the current market price of the equity shares of a listed entity. A listed entity may avail such services or develop in-house capacity for tracking price movement.

4.3.4. Some commenters have suggested to specify a higher price variation instead of the proposed 3-5% to avoid false alerts / triggers. The requirement for rumour verification arises upon material price movement and the listed entity is required to verify only if there is a rumour circulating in the market. Keeping a higher price variation as the threshold may lead to a situation where no rumour or very few rumours may breach the threshold requiring verification by the listed entity.

4.3.5. Considering the dynamic nature of the market, the framework may be reviewed from time to time by the stock exchanges, in consultation with SEBI.

4.3.6. It has also been suggested that the response on rumour should be made promptly and in any case, before the next trading day or within 24 hours from material price movement, whichever is earlier. The

suggestion that the rumour should be verified before start of the next trading day may not be feasible in case the listed entity has to seek information from promoter / director / KMP / senior management or in case there are multiple rumours.

4.4. **Proposals for consideration of the Board**

4.4.1. It is proposed that the criteria for verification of market rumours may be in terms of material price movement in the equity shares of a listed entity as per the existing framework of the stock exchanges instead of materiality of event or information and the listed entity may be required to confirm, deny or clarify the rumour as soon as reasonably possible and not later than twenty-four hours from the trigger of material price movement.

5. **Introducing a mechanism to consider unaffected price of equity shares of a listed entity with respect to transactions relating to securities of the listed entity upon confirmation of market rumour wherever pricing norms have been specified by SEBI or the stock exchanges**

5.1. **Issue under consideration**

5.1.1. During the discussions with ISF on the standards for the rumour verification requirement, issue was raised regarding market price of the equity shares of a listed entity getting affected upon confirmation of market rumours by the listed entity.

5.1.2. Under the following regulations of SEBI, pricing of transactions relating to the securities of a listed entity are required to be based upon the market price of equity shares being traded on the stock exchanges:

- a) As per the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 (“**ICDR Regulations**”), in case of preferential issue of equity shares, volume weighted average price (“**VWAP**”) of 90 trading days or 10

trading days, as applicable, preceding the relevant date is considered as floor price for the issue.

- b) As per ICDR Regulations, in case of qualified institutions placements (QIP), VWAP of 2 weeks preceding the relevant date is considered as floor price for the QIP.
- c) As per the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeover) Regulations, 2011 (“**SAST Regulations**”), the floor price for open offer is determined based on, inter-alia, VWAP of shares acquired by the acquirer during 52 weeks preceding the date of the public announcement, volume weighted average market price of 60 trading days preceding the date of the public announcement, etc. The pricing norms under 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**”).
- d) Securities and Exchange Board of India (Buy-back of Securities) Regulations, 2018 (“**Buy-back Regulations**”) also provide pricing norms in case of buy-back of shares in physical form in the open market through stock exchange and in case of buy-back of shares from the open market through book-building process.

5.1.3. 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. This suggestion is aligned with the extant regulations which have been guided by the principle of using “unaffected price”, i.e., price unaffected by the announcement of the transaction.

5.2. **Proposals in the Consultation Paper:**

5.2.1. Unaffected price of equity shares of a listed entity may be considered for a transaction involving securities of the listed entity when it confirms

the market rumour pertaining to such transaction due to material price movement.

- 5.2.2. As suggested by ISF, the unaffected price may be applicable for a time 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 may 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.
- 5.2.3. In this regard, two frameworks for considering unaffected price were proposed in the Consultation Paper.
- 5.2.4. Under the proposed Framework A, 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. Accordingly, the look back period for calculation of VWAP shall be considered from the date preceding the new relevant date. Hence, although the actual transaction may take place much after the confirmation of rumour, i.e., 60 days or 180 days, as may be applicable, the price of the securities for determining pricing for the transaction shall be frozen when the entity confirms the rumour.
- 5.2.5. Under the proposed Framework B, the price variation due to rumour and confirmation of rumour shall 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**"). From the day of the material price movement, the daily WAP in the look back period shall be adjusted by the WAP variation. The adjusted VWAP shall be calculated based on this adjusted daily WAP. In case of rumours at multiple stages of the same transaction, the price adjustment shall be provided for all cases where

there is a material price movement and the listed entity confirms the rumour.

5.2.6. Illustration for calculation of VWAP under the above proposed Frameworks A and B is placed at Annexure C to the Consultation Paper. The following may be noted in the given illustration:

- a) Under Framework A, the date of material price movement (July 27) is taken as the new relevant date (NT) and VWAP is calculated based on the price of the securities 10 trading days preceding the new relevant date. Hence, the entire lookback period has been shifted.
- b) Under Framework B, while the relevant date and the lookback period remains the same as per the existing provisions, the price variation / WAP variation on the date of material price movement (July 27), the date of rumour confirmation (July 28) and the next trading day after rumour verification (July 31)¹ has been excluded from the calculation of adjusted VWAP.

5.3. **Public comments and Analysis**

5.3.1. The responses received on the proposals are summarized below:

	Proposal in the Consultation Paper	Total comments	Agree / Strongly Agree	Partially Agree	Disagree / Strongly Disagree	Agree % *
4	Whether the unaffected price should be considered when the listed entity confirms the market rumour due to material price movement?	35	22	5	8	77%
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	35	20	6	9	74%

¹ In the given illustration, July 29, 2023 and July 30, 2023 are trading holidays.

	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.	32	4	6	22	31%
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.	33	17	5	11	67%

* includes Strongly Agree, Agree and Partially Agree

5.3.2. As may be seen from the table above, the commenters are in broad agreement with the proposals. Majority of commenters have agreed with implementing Framework B instead of Framework A for considering unaffected price for a transaction pursuant to confirmation of rumour on the following grounds:

- a) Framework A may be unjust for investors in cases where there is large time gap from new relevant date to actual signing and hence, the floor price would not reflect the current market price accurately. Unaffected price under Framework B is based on true market forces while excluding the variations to the share price due to rumours and it doesn't change the relevant date.
- b) Under Framework A, the effect of all events after the new relevant date is ignored, while Framework B provides a better way of considering unaffected price by excluding only the price variation during the 3-day period.

5.3.3. The public comments and suggestions received on the proposals have been analyzed and placed at paragraph 2 of **Annexure 3** (refer page no. 27 to 32).

5.3.4. It has been suggested by some commenters that in Framework B, in case the price variation due to confirmation of the rumour hits the price band limit on the next trading day post rumour confirmation, the price

variation in the subsequent trading days may also be included for adjustment till such day the price does not hit the band limit. This suggestion may be accepted. However, the benefit of unaffected price under the framework may be applicable only if the listed entity has confirmed the rumour within 24 hours from the material price movement.

5.4. **Proposals for consideration of the Board**

- 5.4.1. It is proposed that unaffected price of equity shares of a listed entity may be considered for transactions wherever SEBI or stock exchanges have prescribed pricing norms and rumour pertaining to such transaction has been confirmed by the listed entity within the timeline of 24 hours from material price movement.
- 5.4.2. Based on the public comments received, Framework B may be prescribed as the mechanism to arrive at the unaffected price. In case the price variation due to confirmation of the rumour hits the price band limit on the next trading day post rumour confirmation, the price variation in the subsequent trading days may be included for adjustment till such day the price does not hit the band limit.
- 5.4.3. The unaffected price under the framework may be applicable for a time 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 may 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. Placing obligation on promoters, directors, KMP and senior management of a listed entity to provide adequate, accurate and timely response to the queries raised or explanation sought by the listed entity in respect of market rumours

6.1. Issue under consideration

6.1.1. The obligation to verify market rumours is cast upon the listed entity under Regulation 30(11) of LODR Regulations. 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 individuals in order to verify the rumour.

6.1.2. ISF, during discussions, highlighted that listed entities might face difficulties in verifying rumours which pertain to such individuals and which the listed entity is not aware of.

6.2. Proposals in the Consultation Paper:

6.2.1. Considering the above issue, it was proposed 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.

6.3. Public comments and Analysis

6.3.1. The responses received on the proposals are summarized below:

	Proposal in the Consultation Paper	Total comments	Agree / Strongly Agree	Partially Agree	Disagree / Strongly Disagree	Agree % *
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	38	26	4	8	79%

Regulation 30(11) of LODR Regulations?					
--	--	--	--	--	--

* includes Strongly Agree, Agree and Partially Agree

6.3.2. As may be seen from the table above, the commenters are in broad agreement with the proposals. The public comments and suggestions received on the proposals have been analyzed and placed at paragraph 3 of **Annexure 3** (refer page no. 32 to 34).

6.3.3. (This has been excised for reasons of confidentiality)

6.3.4. The commenters agreeing with the proposal have commented that since verification of rumour is time bound by listed entity and listed entity may not be privy to such transaction details, there is a need to put an obligation on promoters, directors, KMP and senior management to provide adequate, accurate and timely disclosure to the investors. However, it may be specified that the listed entities may be required to disseminate the response received from such individuals promptly to the stock exchanges to ensure that there is no delay in adhering to the specified timeline.

6.4. **Proposals for consideration of the Board**

6.4.1. It is proposed to mandate 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 the requirements under Regulation 30(11) of LODR Regulations. It may also be specified that the listed entity shall disseminate the response received from such promoter / director / KMP / senior management promptly to the stock exchanges.

7. **Unverified event or information not to be considered as ‘generally available information’**

7.1. **Issue under consideration**

7.1.1. There may be instances where an event or information, which has been classified as unpublished price sensitive information (“**UPSI**”) by the

listed entity, is in circulation in the market but the listed entity does not confirm, deny or clarify such event or information reported in media in terms of Regulation 30(11) of LODR Regulations. In such scenarios, in case of alleged violation of PIT Regulations, an insider cannot quote the unverified event or information reported in media to claim defence that they traded based on 'generally available information', as there exists information asymmetry between insiders (possessing UPSI) and others (possessing unverified event or information reported in media).

7.2. **Proposal in the Consultation Paper:**

7.2.1. Considering the above issue, it was proposed that in case the listed entity does not verify a rumour pertaining to an information classified as UPSI, then such unverified rumour cannot be used later as a defence by an insider that the information was 'generally available'.

7.3. **Public comments and Analysis**

7.3.1. The responses received on the proposals are summarized below:

Proposal in the Consultation Paper		Total comments	Agree / Strongly Agree	Partially Agree	Disagree / Strongly Disagree	Agree % *
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?	36	26	7	3	92%

* includes Strongly Agree, Agree and Partially Agree

7.3.2. As may be seen from the table above, the commenters are in broad agreement with the proposals. The public comments and suggestions received on the proposals have been analyzed and placed at paragraph 4 of **Annexure 3** (refer page no. 34 to 35).

7.3.3. One of the commenters has sought clarity regarding applicability of the proposal in case a transaction or event that was initially classified as UPSI is abandoned or becomes irrelevant. It is submitted that particular facts of each case determine whether an insider is to be charged for violation of Regulation 4(1) of PIT Regulations, i.e., trading during period when UPSI exists and such UPSI upon becoming generally available, materially affects the share price.

7.4. **Proposals for consideration of the Board**

7.4.1. The definition of 'generally available information' under PIT Regulations may be amended by specifying that it shall not include unverified event or information reported in print or electronic media.

8. **Proposed amendments to the LODR Regulations and PIT Regulations**

8.1. The proposals made under para 4.4, 5.4, 6.4 and 7.4 above would require amendments to LODR Regulations and PIT Regulations and consequential amendments to other SEBI regulations wherever pricing norms have been prescribed.

8.2. Draft amendments to the LODR Regulations and PIT Regulations are placed as **Annexure 4** and **Annexure 5**, respectively.

9. **Proposals for consideration of the Board**

9.1. The Board is requested to consider the proposals made in this memorandum and approve the amendments to SEBI regulations as referred to under para 8 above.

9.2. The Board is also requested to authorize the Chairperson to make consequential and incidental changes and take necessary steps to give effect to the decisions of the Board.

Annexure 1

(Consultation paper is available on SEBI website)

Annexure 2

(This has been excised for reasons of confidentiality)

Summary of public comments received on the proposals and Analysis

1. Specifying criteria for verification of market rumours in terms of material price movement in the equity shares of a listed entity instead of materiality of event or information as specified under Regulation 30 of LODR Regulations

1.1. **Proposal no. 1**: Whether 'materiality' for the purpose of rumour verification requirement should be considered in terms of material price movement?

1.1.1. **The comments or suggestions relevant to the proposal are briefed below:**

- a) Materiality for the purpose of rumour verification requirement should be considered in terms of both 'material information' and 'material price movement'. Listed entities should be required to verify rumours pertaining to material events only, i.e., events covered under Schedule III of LODR Regulations, upon material movement in price.
- b) Price movement may take place due to a number of factors, both internal and external, and attributing such a movement to a specific rumour will prove to be cumbersome for the companies to confirm, deny or clarify.
- c) Carve-out similar to Singaporean regulations, where "(a) the information concerns an incomplete proposal or negotiation; or (b) the information comprises matters of supposition or is insufficiently definite to warrant disclosure; or (c) the information is generated for the internal management purposes of the entity; or (d) the information is a trade secret" which would increase ease of doing business as disclosure would trigger only when a deal is at a stage of certainty to warrant disclosure. Else, a system akin to the US regulations where companies have the option to request

confidentiality and allowing stock exchanges to consider such requests.

- d) In case a listed entity confirms a rumour it will be required to disclose a host of information which could lead to competitive disadvantage to the entity. Hence, listed entities should be required to verify rumours only if the rumour in question is false or needs clarification and not if it is true. Such an amendment would more closely emulate the NYSE and NASDAQ rules which allow listed entities to determine if they wish to disclose non-public information related to market rumours based on their maturity, but mandate the immediate denial of inaccurate or false rumours that a reasonable stock buyer would want to know.
- e) In cases where there is a material price movement in the scrip of the listed entity, yet no corresponding rumours are circulating in the media, clarification may be provided on the appropriate course of action to be taken by the listed entity. Similarly, in case of multiple rumours circulating on the day of material price movement, clarification may be provided on which rumours are required to be verified.
- f) Generally, the stock exchanges send letters to listed entities seeking clarification on rumour, therefore stock exchanges view should be aligned with the proposed amendment and they should send letters only to applicable cases to ease compliance.

1.1.2. Analysis of the comments / suggestions received:

- a) Since the objective of rumour verification is to avoid false market sentiment or impact on the securities of the listed entity, rumour related to any event which impact the market price should be disclosed. This is in line with the extant Regulation 30(12) of LODR Regulations which does not limit material events to those specified in Schedule III of LODR Regulations, but includes all those events

which may have a material impact on the listed entity including on the price of its securities.

- b) In case there is any unverified rumour circulating in the market coupled with material price movement in the scrip of the listed entity, the entity should verify such rumour to address the price volatility.
- c) As per the extant LODR Regulations, there is a need to verify rumours of an 'impending' specific material event or information. Hence, rumours of an event which is at a nascent stage and not definitive are not required to be verified. As the rumour regarding any impending event is already circulating in the market which may create false market sentiment or impact the price of the securities of the listed entity, the rumour needs to be addressed immediately by confirming, denying or clarifying, without divulging the details of the impending event, in order to bring stability in the price of the securities of the listed entity.
- d) As stated above, verification of rumour is required for impending material event which are advanced stages of transaction. The transaction has attained a certain level of maturity in such stages and disclosure of non-public information is required to address the information asymmetry created due to the unverified rumour.
- e) In case there is material price movement but the listed entity could not ascertain any rumour circulating in the mainstream media, the listed entity would be required to clarify the same to the stock exchanges. Further, in case there is material price movement and there are multiple rumours pertaining to specific impending events, the listed entity would be required to confirm, deny or clarify all such rumours.
- f) Under Regulation 30(10) of LODR Regulations, the listed entity is required to provide specific and adequate reply to all queries raised by stock exchange(s) with respect to any event or information. The

stock exchanges would continue to seek clarification from the listed entities as part of their surveillance measures in case of any market rumour coupled with price movement in the scrip of the listed entity. However, the current mechanism of rumour verification by the listed entity would cast an obligation on the listed entity to promptly respond to the rumour to avoid information asymmetry and volatility in the scrip price of the listed entity.

1.1.3. The commenters agreeing with the proposal have commented that this approach towards materiality for rumour verification ensures that the primary goal of preventing misleading market sentiments or adverse effects on the listed entity's securities is achieved.

1.2. **Proposal no. 2:** Whether you agree with the proposed framework for material price movement as given in Annexure B?

1.2.1. The comments or suggestions relevant to the proposal are briefed below:

- a) The Stock Exchange website / portal could display if the stock price of a company has been triggered as per the framework requiring such company to clarify on the rumours. A system driven trigger may be implemented. Casting responsibility on the listed entity or compliance officer for monitoring the stock price shall result in burdening their work.
- b) In some cases, rumour verification will be required even when the company's scrip price does not change materially, particularly in cases where the benchmark index declines. For example, for a 2% decline in index, an increase of even 1% in the share price of a listed entity with share price in the range 200 and above would be considered material price movement as per the proposed framework.
- c) The scrip price movement may be considered at a higher level instead of the proposed 3-5% to avoid false alerts / triggers. Else, a

uniform percentage variation in share price of at least 5% could be prescribed for all companies.

- d) Market cap of a company can be considered for the various slabs instead of scrip price range. Two companies with similar market prices may have vast difference in their market caps, leading to say a 3% variation in price of one company (with higher market cap) being more material than the other whose market cap is far lower.
- e) Comments / suggestions on benchmark index are briefed below:
 - i. In addition to the broad index movement, the respective sectoral index like BANKEX for banking companies should also be considered for setting thresholds to account for industry specific news / events.
 - ii. As per the proposed framework, the index movement is to be considered at 9:30 am while price of the scrip is to be considered at any point of time during the trading hours. The comparison of benchmark index and company price movement should be done at the same time.
 - iii. Price movement should always be compared to movement in benchmark index, without any threshold of suggested +/- 1% movement in index.
 - iv. Material price movement may be determined at the end of the trading day based on the high / low / close price or VWAP of the scrip.

1.2.2. Analysis of the comments / suggestions received:

- a) The criteria for verification of market rumours in terms of material price movement has an advantage of being objectively and uniformly assessed and is directly linked to the regulatory objective of rumour verification. Various services are available in the market for tracking the current market price of the equity shares of a listed entity. A listed entity may avail such services or develop in-house capacity for tracking price movement.

- b) Under the framework already being implemented at the stock exchange level, in case of positive news coupled with a positive price movement in the scrip of a listed entity, benchmarking shall be done only if the index also moves in the positive direction more than or equal to 1%. Similarly, in case of negative news coupled with a negative price movement, benchmarking shall be done only if the index also moves in the negative direction.
- c) In case of scrips in higher 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 has been considered for securities falling under high price range than those under lower price range. Keeping a higher percentage as a threshold for scrips with higher price range may lead to a situation where no rumour or very few rumour may breach the threshold requiring rumour verification by the listed entity.
- d) The effect of price movement can be more profoundly seen on the scrip price itself rather than the market cap. Hence, price range and not market cap is more apt for specifying the price variation which results in material price movement.
- e) The comments / suggestions received on the benchmark index are analyzed below:
 - i. Sectoral indexes are concentrated and hence, subjected to more volatility. Broad-based indexes like Nifty50 and Sensex comprise of a combination of sectors and capture major market sentiment. Hence, they are more suitable for considering benchmark index.
 - ii. The index movement is considered at 9:30 am to account for any significant market-wide movement at the beginning of the trading hours. This benchmarking accounts for any news / information which occurred after the close of the trading

hours on the previous trading day and is applicable for price movement till 9:30 am.

- iii. Movement of benchmark index within the range of +/-1% cannot be considered significant movement which may impact the price of an individual scrip. The price movement in individual scrip should be benchmarked to the index movement only when the movement of the index is significant.
- iv. The objective of considering intra-day material price movement is to address price volatility and remove information asymmetry in the market due to any unverified news. Considering the price movement at the end of the trading day defeats the objective of addressing the price volatility.

1.2.3. Considering the dynamic nature of the market, the framework may be reviewed from time to time by the stock exchanges, in consultation with SEBI.

1.3. **Proposal no. 3:** Whether you agree that rumour shall be required to be verified and confirmed, denied or clarified within 24 hours from material price movement?

1.3.1. The comments or suggestions relevant to the proposal are briefed below:

- a) In order to provide appropriate and accurate response to the investor, the timeframe should be extended to 48 hours from 24 hours. This would give sufficient time to the listed entity to identify the rumours and confirm, deny or clarify the rumour. It has also been suggested that the 24-hour period for responding on such rumour should begin once the closing market price has been updated by the stock exchanges. If 24-hour timeline is to be considered from 'material price movement', listed entities would be

required to do a continuous monitoring / tracking of the price movement.

- b) In cases where the rumour pertains to promoters / directors / KMP / senior management, then additional timeline should be provided since the company would be required to seek information from such persons.
- c) Some commenters while agreeing with the proposal have suggested that the response on rumour should be made promptly and in case, before the next trading day or within 24 hours from material price movement, whichever is earlier.

1.3.2. Analysis of the comments / suggestions received:

- a) The objective of rumour verification requirement is to get a prompt response from the listed entity w.r.t. rumours circulating in the market. Keeping this broad objective in mind, the listed entity is given 24 hours from material price movement to respond to the rumour. Any delay more than 24 hours from the material price movement would lead to price fluctuations due to unverified rumour for a longer period of time which is not desirable for investors.
- b) As stated above, any delay more than 24 hours would lead to price fluctuations for a longer period of time. Listed entities should set up internal mechanisms to ensure that timely information is sought from the concerned persons. Further, the listed entities should disseminate the response received from such promoter / director / KMP / senior management promptly to the stock exchanges.
- c) The suggestion that the rumour should be verified before start of the next trading day may not be feasible in case the listed entity has to seek information from promoter / director / KMP / senior management or in case there are multiple rumours. Hence, the suggestion may not be accepted.

2. Introducing a mechanism to consider unaffected price of equity shares of a listed entity with respect to transactions relating to securities of the listed entity upon confirmation of market rumour wherever pricing norms have been specified by SEBI or the stock exchanges

2.1. **Proposal no. 4:** Whether the unaffected price should be considered when the listed entity confirms the market rumour due to material price movement?

2.1.1. The comments or suggestions relevant to the proposal are briefed below:

- a) The price movements cannot be attributed to any specific rumour. There may be multiple factors for variation in the market price of share of a listed entity. Considering unaffected price may impact the price discovery for transaction in the securities. Hence, no change in pricing norms is suggested.
- b) In case where the listed entity confirms the market rumour, an average market participant will have access to price sensitive information allowing him to make an informed decision. Hence, there may not be a requirement for considering unaffected price.
- c) Consideration of unaffected price will not be beneficial to investors in all the instances. For example, in case of delisting and buy-back of shares, if the price increases due to market rumour and unaffected price is considered, shareholders would be deprived of economic benefits.

2.1.2. Analysis of the comments / suggestions received:

- a) Although movement in scrip price of a listed entity is dependent upon various factors, in case of material price movement the underlying factor may be attributable to a major event or unverified rumour. Further, due to the complex market dynamics influencing the share price, it would not be feasible to determine the impact of

a single event or rumour. Hence, the entire price movement is proposed to be attributed to the rumour.

- b) The extant regulations are guided by the principle of using “unaffected price”, i.e., price unaffected by the announcement of the transaction. As the scrip price of the listed entity has been affected due to the rumour pertaining to the proposed transaction and subsequent confirmation of the rumour by the listed entity, unaffected price is proposed to be considered for the transaction.
- c) The scrip price of the listed entity has been affected due to rumour pertaining to delisting and subsequent confirmation of the rumour by the listed entity. Hence, unaffected price should be considered for the delisting offer in line with the guiding principle stated above.

2.1.3. The commenters agreeing with the proposal have commented that the concept of unaffected price would eliminate the impact of undesired fluctuation in the price during the prescribed transactions and will give fair valuation to the shareholders / new investors.

2.2. **Proposal no. 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 of the Consultation Paper), from the date of confirmation of the market rumour till the ‘relevant date’ under the existing regulations?

2.2.1. The comments / suggestions received on the proposal are briefed below:

- a) The time period should be decided basis the stage of discussion between the transacting party and such confirmation may be included by the company confirming the rumour as part of the disclosure to stock exchanges. The availability of time window should be a factor of stage of the M&A transaction as below:
 - i. pre non-binding offer stage - 9 months
 - ii. diligence stage - 6 months
 - iii. negotiation stage - 2 months

- b) The proposal does not provide for a rationale behind the duration of applicability of unaffected price, and the timelines provided may prove to be too strict in light of the deal related exigencies. Without precise criteria, there could be ambiguity in determining whether a deal falls into the 60-day or 180-day category.
- c) The unaffected price should be applicable for 60 days and not 180 days as the unaffected price based on 60 days will be valued closer to what the transaction price would be valued at based on the market forces. Such a long duration shall not be kept because this will ignore the impact made by other corporate announcements during this period.

2.2.2. Analysis of the comments / suggestions received:

- a) The commenter has agreed that time period for which the price adjustment shall be applicable should be decided basis the stage of discussion. However, the pre non-binding offer stage cannot be considered as an impending event / transaction requiring verification under the requirements of Regulation 30(11) of LODR Regulations.
- b) A time period of 60 days is considered reasonable for the parties to finalize the deal / transaction including seeking necessary approval of their respective boards. Further, in case of competitive bidding wherein the sole bidder has not been identified, a reasonable time-period of 180 days is required for selecting the sole bidder and to carry out the negotiations of the transaction documents. The time period of 60 days shall be applicable where the sole bidder / counter party for the transaction has been finalized and the transaction is at advanced stages of negotiations while the time period of 180 days shall be applicable where the sole / exclusive bidder has not been identified and the multi-party bidding process is ongoing.

- c) As stated above, a longer duration of 180 days is required for concluding the transaction in cases wherein the sole bidder has not been identified.

2.3. **Proposal no. 6 & 7:**

Proposal no. 6: Whether Framework A as mentioned at para 7.1 of the Consultation Paper should be implemented? If yes, provide suggestions to address the challenges mentioned at para 7.3 of the Consultation Paper.

Proposal no. 7: Whether Framework B as mentioned at para 8.1 of the Consultation Paper should be implemented? If yes, provide suggestions to address the challenges mentioned at para 8.3 of the Consultation Paper.

2.3.1. The comments / suggestions received on the proposals are briefed below:

a) Comments / suggestions received on Framework A:

- i. The price of the securities is dependent on various factors like news pertaining to the industry, or developments across market subsequent to the confirmation of rumour etc. To consider only price prior to date of confirmation of rumour is not reasonable.
- ii. If there is a large time gap from new relevant date to actual signing, then the pricing floor may not reflect the current market price accurately. This may not be just for the investors.
- iii. Framework B is more suitable than Framework A as unaffected price in Framework B is based on true market forces while excluding the variations to the share price due to rumours and it doesn't change the relevant date.

b) Comments / suggestions received on Framework B:

- i. The number of days for which price gets impacted, upon confirmation of the market rumour, may vary due to various circumstances. Two trading days could be considered to be a

sufficient period for the market reaction to neutralise pursuant to confirmation of the rumour. This is also in line with the provisions of PIT Regulations, where the trading window for dealing in securities of the company by the designated persons is closed only up to 48 hours from the declaration of financial results.

- ii. In case of stock hitting the price band, the full impact of the information will not be captured in just 1 trading day after the confirmation of rumour. Clarification may be provided that in such a situation the number of trading days considered for determining unaffected price should be increased to such number of days till the time share price stops reaching price band limit.
- iii. If there is another corporate announcement during the 3-day period when the price is frozen, which has a further positive impact on stock price, then such positive impact is negated.

2.3.2. Analysis of the comments / suggestions received:

- a) Majority of commenters have agreed with implementing Framework B instead of Framework A for considering unaffected price for a transaction pursuant to confirmation of rumour. The commenters have highlighted that Framework A may be unjust for investors in cases where there is large time gap from new relevant date to actual signing and hence, the floor price would not reflect the current market price accurately.
- b) The comments / suggestions received on Framework B are analyzed below:
 - i. 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.

- ii. The suggestion that in case the price variation due to confirmation of the rumour hits the price band limit on the next trading day post rumour confirmation, the price variation in the subsequent trading days may also be included for adjustment till such day the price does not hit the band limit, may be accepted. However, the benefit of unaffected price under the framework may be applicable only if the listed entity has confirmed the rumour within 24 hours from the material price movement.
- iii. It would be difficult to segregate the effect of different factors on the market price. Considering that in Framework A, the effect of all events after the new relevant date is ignored, Framework B provides a better way of considering unaffected price by excluding only the price variation due to the rumour and subsequent confirmation of the rumour.

2.3.3. The commenters agreeing with Framework B have commented that since only the price variation due to the rumour and confirmation of market rumour is adjusted and price variations due to other market factors would be considered in the transaction price, the shareholders get a fair valuation.

3. Placing obligation on promoters, directors, KMP and senior management of a listed entity to provide adequate, accurate and timely response to the queries raised or explanation sought by the listed entity in respect of market rumours

3.1. **Proposal no. 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?

3.1.1. **The comments or suggestions relevant to proposal are briefed below:**

- a) Seeking information from promoters, directors, KMP and senior management is related to internal governance of a listed entity and it should be governed by the respective listed entity. PIT Regulations have a sufficient framework to deal with UPSI and the resultant consequences upon non-compliance. Therefore, there is no need for the introduction of this proposal.
- b) The rumour pertaining to promoters / directors / KMP / senior management should be required to be verified only if it is in relation to the listed entity and concerns the listed entity.
- c) In complex corporate scenarios, obtaining timely responses from these individuals may not always be feasible. This could result in delays in providing clarifications, impacting the credibility of the listed entity, which could potentially lead to market speculation. In case the explanation is not forthcoming from the concerned person(s), the listed entity should be required to disclose the fact of them seeking this information and not receiving the explanation within the 24 hours' time period.

3.1.2. Analysis of the comments / suggestions received:

- a) Putting an obligation on promoters, directors, KMP and senior management to respond to the listed entities is in the interest of the listed entity so as to ensure compliance with the rumour verification requirements. While the PIT Regulations have a sufficient framework to deal with UPSI, the proposal caters to such instances where the listed entity is unaware about a transaction or information and hence, has not classified the information as UPSI. Only the respective individual may be privy to such information which shall be required to be verified by the listed entity in case rumours pertaining to that information are circulating in the market.
- b) (This has been excised for reasons of confidentiality)

- c) In case these individuals do not provide timely response to the listed entity to verify the rumour, they would be deprived of the benefit of price adjustment under the proposed framework for considering unaffected price. Hence, it is in the interest of such individuals to provide timely response. Further, the listed entities may be required to disseminate the response received from such individuals promptly to the stock exchanges to ensure that there is no delay in adhering to the specified timeline.

3.1.3. The commenters agreeing with the proposal have commented that since verification of rumour is time bound by listed entity and listed entity may not be privy to such transaction details, there is need to put an obligation on promoters, directors, KMP and senior management to provide adequate, accurate and timely disclosure to the investors.

4. Unverified event or information not to be considered as 'generally available information'

4.1. **Proposal no. 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?

4.1.1. The comments or suggestions relevant to proposal are briefed below:

- a) Proposed changes might contradict with PIT Regulations. Further, if required, such changes should be made in PIT Regulations.
- b) Instead of term 'Insider' the provisions should use the terms Employees, Designated Persons, and the Connected Persons.
- c) Clarity should be provided that in case the transaction or event that was initially classified as UPSI is abandoned or become irrelevant, and declassified as UPSI, the provisions will not apply.

4.1.2. Analysis of the comments / suggestions received:

- a) The issue under consideration is in fact to give further clarity to the definition of 'generally available information' viz. Regulation 2(1)(e) of PIT Regulations.
- b) The proposal does not pertain to the definition of UPSI or coverage of 'insider' under PIT Regulations. The proposal only seeks to amend the definition of 'generally available information' to bring clarity in Regulations so that an insider cannot quote unverified event or information reported in media to claim defense that they traded during trading window closure period based on 'generally available information.'
- c) Extant provisions already address the scenario highlighted by respondents. Particular facts of each case determine whether an insider is to be charged for violation of Regulation 4(1) of PIT Regulations, i.e., trading during period when UPSI exists and such UPSI upon becoming generally available, materially affects the share price.

Annexure 4

(This shall be notified at a later date)

Annexure 5

(This shall be notified at a later date)