

SEBI's Amendments to the Rumour Verification Framework – No Smoke without a Fire?

Background

In June 2023, SEBI introduced a proviso to Regulation 30(11) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“**LODR Regulations**”), requiring specified listed entities to verify certain market rumours reported in the mainstream media. Our earlier blog analyzing the rumour verification requirement (*published in July 2023*) is available here - [Market Rumours: SEBI's New Prescription and India Inc's Dilemma | India Corporate Law \(cyrilamarchandblogs.com\)](#). While the rumour verification requirement was to be implemented for the top 100 listed entities (based on market capitalization) with effect from October 1, 2023 and for the top 250 listed entities with effect from April 1, 2024, this timeline was extended twice, given that the industry standards (*formulated by the Industry Standards Forum, in consultation with SEBI*) for compliance with this requirement were under finalization and certain amendments to the LODR Regulations were required for implementation of the aforesaid provision.

Two recent developments have now set the stage and put in place a framework for implementation of the rumour verification requirements under Regulation 30(11) with effect from **June 1, 2024** for the top 100 listed companies based on market capitalization, and thereafter with effect from **December 1, 2024** for the top 250 listed companies based on market capitalization (“**Covered Listed Entities**”):

- (i) Notification of significant amendments to the rumour verification requirement under Regulation 30(11) on May 17, 2024 by SEBI (“**Rumour Verification Amendments**”); and
- (ii) Issuance by the stock exchanges and the three industry associations (*FICCI, CII and ASSOCHAM*) of an ‘Industry Standards Note’ (*available at - <https://ficci.in/Market-Rumours-Amendment-SEBI-Guidance-Note.pdf>*)

(“**Guidance Note**”) prepared in consultation with SEBI, which sets out standards for implementation of the Rumour Verification Amendments by way of guidance and illustrations, pursuant to the SEBI Circular dated May 21, 2024 (*available at - [SEBI | Industry Standards on verification of market rumours](#)*).

The Rumour Verification Amendments, read with the Guidance Note, have sought to address some of the interpretational challenges and implementation difficulties which were of concern. These include the materiality criteria that would trigger rumour verification, the impact that price volatility (post rumour verification) would have on deal viability, and clarifying the regulator's expectations in respect of compliance with this provision in various situations.

We are pleased to provide you with an overview of the Rumour Verification Amendments and the Guidance Note, along with key considerations for Covered Listed Entities.

1. The Rumour Verification Amendments

The proviso to Regulation 30(11) as introduced, required Covered Listed Entities to verify market rumours reported in the mainstream media within 24 hours, that are (i) material; (ii) impending; and (iii) specific.

SEBI has now, by way of the Rumour Verification Amendments, amended this provision to provide the following:

- a) **Material Price Movement being the trigger for the rumour verification requirement:** Previously, the test for ‘materiality’ was based on whether the event/information referred in the rumour meets the general materiality criteria under Regulation 30. Verification of the rumour will now be required only if there is a

‘material price movement’ in the scrip, as per the price movement framework notified by the stock exchanges on May 21, 2024 (available at the following link - [Circulars, Exchange Communication - NSE India](#)) (“**Material Price Movement Framework**”).

- ▮ The Material Price Movement Framework sets out a percentage-based threshold for evaluating the extent of movement in the stock price, and benchmarks this with the movement in the index (i.e. NIFTY 50 and SENSEX) on the same trading day. This parameter is met only when the share price movement equals or exceeds the percentage based threshold.
- ▮ By linking the trigger for rumour verification with the Material Price Movement Parameters, these amendments have introduced a more objective standard for triggering the rumour verification requirement.

b) Price Protection for transactions upon rumour confirmation: As per the Rumour Verification Amendments, if a rumour is confirmed within 24 hours of the trigger of material price movement, the effect of the rumour on the stock price of the listed entity can

be excluded while calculating the transaction price, in accordance with the mechanism set out in SEBI’s circular dated May 21, 2024 (available at - [SEBI | Framework for considering unaffected price for transactions upon confirmation of market rumour](#)) (“**Price Protection Circular**”).

- ▮ SEBI has also notified amendments to the Takeover Regulations, ICDR Regulations and Buyback Regulations, to provide such price protection upon rumour verification for open offers, preferential issue of securities, qualified institutions placement and buyback.
- ▮ The Price Protection Circular provides the mechanism for calculation of the adjusted VWAP, (calculated by excluding the WAP variation in the daily VWAP in the look back period from the day of the material price movement until the next trading day after rumour confirmation) which will apply for the determination of the transaction price under the relevant SEBI regulations. The Price Protection Circular provides a detailed illustration (in the context of a proposed qualified institutions placement) for calculation of the adjusted daily VWAP, which is set out below:

| Trading Day (A) | Daily WAP (B) | Adjusted Daily WAP (C) | No. of Shares traded (D) | Remarks (E) |
|-----------------|---------------|------------------------|--------------------------|--|
| 20-Jul | 1,045.06 | 1,045.06 | 47,004 | |
| 21-Jul | 1,053.26 | 1,053.26 | 24,750 | |
| 24-Jul | 1,047.07 | 1,047.07 | 37,262 | T-10 |
| 25-Jul | 1,054.90 | 1,054.90 | 15,000 | |
| 26-Jul | 1,060.76 | 1,060.76 | 44,519 | |
| 27-Jul | 1,164.47 | 1,060.76 | 7,60,853 | Date of material price movement |
| 28-Jul | 1,173.45 | 1,060.76 | 2,38,320 | Date of rumour confirmation |
| 31-Jul | 1,178.90 | 1,060.76 | 88,450 | Next trading day after rumour confirmation |
| 01-Aug | 1,173.16 | 1,055.02 | 68,613 | |
| 02-Aug | 1,165.71 | 1,047.57 | 41,954 | |
| 03-Aug | 1,163.36 | 1,045.23 | 56,267 | |
| 04-Aug | 1,212.36 | 1,094.23 | 5,99,197 | T-1 |
| 07-Aug | 1,208.33 | 1,090.20 | 1,08,762 | Relevant Date (T) – Date of Board approval to preferential issue to QIBs |

- 7 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 shall be included for adjustment till such day the price does not hit the band limit.
 - 7 The same principles (as set out in the above illustration) for considering unaffected price will apply to other kinds of M&A transactions, for which pricing norms specified by SEBI or the stock exchanges are applicable.
 - 7 The Price Protection Circular makes this framework applicable to the deal stages set out in the Guidance Note. The Guidance Note distinguishes between **preparatory stages** (where disclosure of the name of the target/ counter-party is not required) and **advanced stages** of an M&A deal (where disclosure of the name of the target/ counter-party is required). While preparatory stages include (i) signing of an NDA/ non-binding term sheet; (ii) due diligence; (iii) engagement of advisors; and (iv) constitution of a Board sub-committee etc, the Guidance Note sets out 4 scenarios which will be considered as advanced stages of an M&A deal:
 - a) Multi-party bid process;
 - b) Selection of the final bidder and agreement on material deal terms;
 - c) Signing of a binding term-sheet; and
 - d) When all material commercial terms have been agreed and the deal is taken for final Board approval.
 - 7 Price protection will be available if the rumour is confirmed at any of these 4 advanced stages. While price protection will be available for **180 days** (from the rumour confirmation date) if the rumour is confirmed at the multi-party bid stage, it will be available for **60 days** (from the rumour confirmation date) if the rumour is confirmed at any of the other 3 advanced stages (set out at (b), (c) and (d) above).
 - 7 Price protection for the deal is not restricted to only the shares of the target, and will also apply to the shares of the other listed companies involved in the deal. For instance, Company A (a top 100 listed entity) proposes to acquire Company B (listed target), by way of a share swap and thereafter merge Company B into Company A. If a rumour in respect of the deal is confirmed, price protection will be available:
 - On the shares of Company A, while calculating the floor price for the preferential allotment by Company A (i.e. for the share swap);
 - On the shares of Company B, while calculating the open offer price; and
 - In respect of the merger, on the shares of both Company A and Company B, while determining the fair value of both companies under the market price method of valuation.
- c) **Timeline for Rumour Verification:** Previously, the 24 hour time period for rumour verification began from the reporting of the rumour. This has now been amended to provide that the 24 hour time-period will begin from the trigger of material price movement.
- d) **Obligation on promoters/ directors/ key managerial personnel (“KMP”)/senior management:** An obligation has also been imposed on promoter directors/ KMP/ senior management of the listed entity to provide responses to queries raised/ explanation sought by the listed entity, for compliance with the Rumour Verification Amendments. This is likely to become relevant in scenarios where the listed company is not a party to the rumoured event. The listed entity is also required to disseminate the response received from such individual(s) to the stock exchanges.

2. Key Aspects of the Guidance Note

(i) How to determine whether a news source falls within the purview of ‘mainstream media’?

The Guidance Note sets out a specific list of news sources that fall within the purview of ‘mainstream media’, which must be tracked for rumour verification. With respect to international news sources, the Board of every Covered Listed Entity is required to set out the following in its materiality policy:

- 7 A list of foreign jurisdictions (if any) where the company has material business operations; and
- 7 A list of business news sources from these jurisdictions - that the company shall track for the purposes of rumour verification.

- 7 Concerns relating to the absence of a clear definition of ‘digital media’ have also been addressed by:
- Providing a specific list of digital news sources that will be covered within the purview of ‘mainstream media’;
 - Clarifying that the news article carrying the rumour should not be behind a paywall; and
 - Excluding news aggregators and social media from the purview of *mainstream media*.

(ii) How to assess whether a rumour is specific enough to be responded to?

The Guidance Note also sets out illustrations that would help companies distinguish between a **specific** rumour (*that would have to be verified if there is a material price movement and other rumour verification parameters are met*) and a **general** rumour (*that does not require verification by the company*). While the illustrations will serve as useful guidance in comparable scenarios, there is still some subjectivity since this cannot be exhaustive.

(iii) If a rumour is reported post issuance of a pre-intimation notice for a Board meeting, is the rumour required to be verified before the Board meeting concludes?

It has been clarified that if a market rumour is reported in respect of an event for which a pre-intimation notice of a Board meeting has been issued under Regulation 29(1) of the LODR Regulations, the market rumour need not be confirmed prior to the conclusion of the Board meeting.

(iv) Disclosure Guidance for Conduct-related events

The Guidance Note also provides disclosure guidance for rumours about events/ information that relate to conduct of company officials, by covering illustrative scenarios such as whistle-blower complaints, internal review/ investigation in respect of operational/ financial matters, potential changes in key managerial personnel, and health of the MD/CEO, and clarifies that similar principles will also apply for rumours in respect of other non-deal scenarios.



3. What you need to watch out for?

- a. Tracking relevant publications/ websites as set out in the Guidance Note for any leakage concerning the relevant Covered Listed Entity;
- b. If there is a leakage, checking whether it results in a “material price movement”;
- c. If so, assessing whether the rumour is “specific” in terms of the regulatory requirements, including the Guidance Note, which provides illustrations to determine whether a rumour is specific, along with draft illustrative responses for rumours in certain deal and non-deal scenarios;
- d. If so, preparing a rumour confirmation disclosure that addresses regulatory requirements, including those covered in the illustrations set out in the Guidance Note. If required, seeking explanations/ raising queries with promoters, directors, KMPs or senior management, as relevant;
- e. Issuing rumour confirmation disclosure within 24 hours of the “material price movement” (including disclosure of any responses received from promoters, directors, KMPs or senior management, as relevant);
- f. Tracking of any follow on rumours;
- g. Give updates on material developments with respect to the event/ information;

- h. Keeping in mind the timelines for availability of price protection (whether 60 days or 180 days) in deal scenarios;
- i. Relevant for not only all Covered Listed Entities, but all entities proposing to undertake any transactions with or in relation to Covered Listed Entities, as any rumour verification by Covered Listed Entities will result in disclosure of their proposals/ interests as well;
- j. The non top 250 listed companies do not have obligation to confirm rumours but would also benefit in certain situations. Further, these requirements will not be applicable if the rumour is not in the mainstream media;
- k. Relevant for promoters of the Covered Listed Entity in relation to group level or shareholder-level matters as well, since the provision will also cover any rumours relating to matters not initiated within the Covered Listed Entity but impacting the Covered Listed Entity. SEBI has now obligated promoters to specifically provide responses to queries raised/ explanation sought by the listed entity and mandated disclosure of the same by the listed entity.

Key Contacts:

Cyril Shroff
Managing Partner
cyril.shroff@cyrilshroff.com

Nivedita Rao
Senior Partner
nivedita.rao@cyrilshroff.com

Anchal Dhir
Partner
anchal.dhir@cyrilshroff.com

Mr. Cyril Shroff, Managing Partner of the Firm, is a member of the Industry Standards Forum (“ISF”) that was constituted pursuant to SEBI’s Press Release dated August 7, 2023 (Press Release No. 16/2023). The ISF took up rumour verification as one of the pilot projects for which standards for effective implementation were to be formulated, in consultation with SEBI. The Cyril Amarchand Mangaldas team comprising of Mr. Shroff, Ms. Nivedita Rao, Senior Partner and Ms. Anchal Dhir, Partner, assisted the ISF rumour verification workgroup in the drafting and finalization of the Guidance Note.

Disclaimer

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Peninsula Chambers, Peninsula Corporate Park, GK Marg, Lower Parel, Mumbai 400 013, India
T +91 22 6660 4455 F +91 22 2496 3666 E cam.mumbai@cyrilshroff.com W www.cyrilshroff.com
Presence also in Delhi-NCR | Bengaluru | Ahmedabad | Hyderabad | Chennai | GIFT City | Singapore | Abu Dhabi