

Financial Services and Markets

Market Rumours

FSA Market Watch Newsletter 30

The 30th edition of Market Watch presents the result of the FSA's thematic review into market rumours. The regulator expressed concerns in April 2008 about the destabilising effect rumours had on certain UK financial institutions, notably HBOS in March 2008.

Status of the Newsletter

The FSA make observations about good practice in relation to rumour handling and suggest that the adoption of those practices by other firms would be "welcome". This hint should not be taken lightly. We recommend that all authorised firms who may be active in public markets benchmark themselves against the industry best practices set out on page 9 of the Newsletter and adopt the practices so far as consistent with the nature, scale and complexity of their business. Firms should keep a record of the conclusions reached by senior management about the application of the best practices to their business.

Formal policies about rumours

The FSA encourages firms to draw up formal guidelines and policies on how rumours should be handled. For some firms, it may be appropriate to build this into existing policies on wider market abuse controls.

We expect that policies on rumours will vary from firm to firm. For example, a broker's policy may need to permit traders to comment quickly to buy-side clients about unsubstantiated rumours, in order to account for volatility. An investment manager may have cause to communicate externally about rumours in order to try to establish their veracity but might be more likely to start from the position that rumours should not be communicated without senior management or compliance department approval.

The FSA regards it as particularly important that, if rumours are to be passed on at all, they are attributed, clearly stated to be unsubstantiated and given no additional credence or embellishment. The FSA believes that some market participants naïvely assume that the nature of a rumour will be obvious from its context. It is clear that not stopping to think before circulating a rumour will be grounds in future for formal sanction, even if public enforcement action has not always been taken in the past.

Staff training

The FSA considers compliance policies to be ineffective unless they are properly communicated to staff. Suggestions are made about how rumour handling policies can best be promulgated.

Monitoring communications and trading

The FSA considers targeted monitoring of communications to be an important tool to monitor compliance with market abuse policies and to create a credible deterrent. The FSA contrasts over-reliance on the assumption that compliance staff "on the floor" will pick up on matters of concern. Firms may wish to take monitoring into account when designing systems for recording telephone and electronic communications in order to comply with the rules coming into force on 1 March 2009.

The FSA also stresses the importance of monitoring trading activities, including for anomalous patterns, significant price changes and "material profit (or loss avoidance)"! They welcome the increasingly common use of automated alert systems.

Other topics

The FSA also comments in the Newsletter on controls relevant to "Sponsored Access" by non-member firms to trading platforms (which have developed out of Direct Market Access models), and on the application of the market abuse regime to dealings in credit default swaps.

Market Watch Newsletter 30 can be found at:

http://www.fsa.gov.uk/pubs/newsletters/mw_newsletter30.pdf

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