

MEMO# 23091

November 26, 2008

FINRA Proposes Rule Addressing The Circulation Of Rumors

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TO: BROKER/DEALER ADVISORY COMMITTEE No. 44-08
CHIEF COMPLIANCE OFFICER COMMITTEE No. 20-08
EQUITY MARKETS ADVISORY COMMITTEE No. 62-08
SEC RULES COMMITTEE No. 84-08 RE: FINRA PROPOSES RULE ADDRESSING THE
CIRCULATION OF RUMORS

As part of the process of developing a new, consolidated rulebook, FINRA is requesting comment on a proposed rule relating to the circulation of rumors. [\[1\]](#) The proposed rule is based on existing FINRA Rule 6140 and Incorporated NYSE Rule 435(5), with certain changes described below.

FINRA is proposing to replace Rule 6140(e) and Rule 435(5), as well as the Interpretation to Rule 435(5), with the following:

Rule 2030. Circulation of Rumors

No member shall originate or circulate in any manner a rumor concerning any security which the member knows or has reasonable grounds for believing is false or misleading or would improperly influence the market price of such security. A member must promptly report to FINRA any circumstance which reasonably would lead the member to believe that any such rumor might have been originated or circulated.

As proposed, Rule 2030 would change the existing rules in the following ways:

- Expand the use of the term “rumor.” FINRA proposes to incorporate the standard from Rule 6140(e) that the member know or have reasonable grounds for believing that the rumor is “false or misleading or would improperly influence the market price of such security.”

New Rule 2030 would not include the qualification currently found in Rule 435(5) that the rumor be “of a sensational character” and “reasonably be expected to affect market conditions on the Exchange.”

- Expand the scope. FINRA is proposing that Rule 2030 apply to all securities, not just those securities reported to the consolidated tape. The notice explains that it is FINRA’s view that the origination and circulation of rumors present the same risks to the integrity of the market regardless of whether the security is listed on a national securities exchange or trades solely over the counter.
- Expand the reporting requirement. The reporting requirement in the proposed rule is broader than either of the current rules, as Rule 6140(e) does not have a reporting provision and Rule 435(5) includes a reporting provision only with respect to securities traded on the NYSE. In keeping with the new rule’s broader reach to all securities, Rule 2030’s reporting requirement would be extended to cover all securities.
- Remove an exception for information published by a widely circulated public media. Unlike current Rule 435(5), the new proposed rule does not include an exception for discussions of “unsubstantiated information published by a widely circulated public media.” Instead, the new rule will follow Rule 6140(e) in this respect, which does not include the exception. The notice explains FINRA’s view that it is not clear why widely circulated rumors in the public media are of less concern in terms of market integrity than other types of rumors covered by the rule.

Comments on the proposed rule are due by December 18, 2008. If there are issues you would like the Institute to consider addressing in a comment letter, please contact Bob Grohowski at 202/371-5430 or rcg@ici.org or Mara Shreck at 202/326-5923 or mshreck@ici.org.

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endnotes

[1] See Circulation of Rumors, Regulatory Notice 08-68 (November 2008). The notice is available on FINRA's web site at <http://www.finra.org/Industry/Regulation/Notices/2008/P117414>.

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