Herald Sun

Published December 8, 2008
Herald Sun, Page 31

Scuttling the rumours

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A MAJOR crackdown on dodgy share trading activity has been triggered by the falling market, with the government and regulator calling for greater disclosure and tighter laws.

On the hit list is the practice of 'rumourtrage', spreading rumours about companies.

The use of margin lending by directors and directors trading in their own shares are also under scrutiny and likely to be banned.

Investment watchdog the Australian Securities and Investments Commission has called for a 'dob in' campaign and wants stock brokers to report rumour-mongers.

At the same time, the Minister for Superannuation and Corporate Law, Nick Sherry, wants tougher share trading laws to boost market integrity and help re-inflate investor confidence.

Substance

However, according to a leading sharebroker, most rumours eventually turn out to have some substance.

Rumourtrage, he said, actually helps ordinary investors get wind of future events before they are made official, which can often take weeks to be formally announced.

"From our experience most of the rumours we hear do have some basis," Wise-owl analyst Tim Morris said.

"They may not be the exact truth when we hear it but usually something similar or along those lines happens.

"Take for example Babcock & Brown and ABC Learning — there were a few rumours doing the rounds about them and for anyone who listened they are now better off.

"What we have found, recently anyway, is that most rumours doing the rounds do have some basis."

Dob-in campaign

Mr Morris said the ASIC campaign to dob-in rumour-mongers was unlikely to be effective.

"Why would it be in a broker's best interest to dob someone in, because you are getting (potentially) good information from them.

"Rumourtrage is not a big, bad issue because where rumours have affected share prices it has usually been justified," Mr Morris said.

ASIC commissioner Belinda Gibson recently addressed an industry conference in which she called for brokers and company directors to report rumour-mongers.

Ms Gibson said company directors who are aware of rumours and do not publicly respond to them can worsen the situation for investors and shareholders who are trying to decide what to do.

Manipulation

In some cases rumours can be used to deliberately manipulate share prices.

"I understand companies do not want to be drawn into a situation where they are practically obliged to respond to every rumour, particularly as the substance nears the truth and a simple 'no' is not sufficient," Ms Gibson said.

"It is, however, clear that just ignoring rumours will not work in this market.

"There will be some stories that have achieved such widespread fame, or infamy, that they must be confronted.

"The company must advise the ASX of the rumour and the true position to prevent there being a false market."

Ms Gibson also suggested that the traditional practice of briefing analysts and brokers in private briefing sessions could also be a thing of the past.

These closed door sessions could in turn fuel concerns of rumourtrage.

It was important directors know what the market understands about their companies, she said.

"You need to know what analysts are saying. Somehow you need to know what the broking house sales desks are saying, which is commonly different from the analysts' recommendations and, at times, diametrically the opposite."

Margin loans

Senator Nick Sherry has also called for laws banning certain activity such as directors using margin loans to buy shares.

"The impact of directors margin lending and rumourtrage need to be understood and the laws changed if needed," Senator Sherry said.

"For instance there may be a significant adverse impact on the market price of a company's shares where a director is required to sell off

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large parcels of shares as a result of a margin call.

"Concerns have been expressed about the adequacy of disclosure to the market of directors' margin lending arrangements and uncertainty remains as to the nature of directors' obligations to disclose both to their boards and to the market — we need to clear this up once and for all," the senator said.

The practice of 'blackout' trading has also come under scrutiny.

Blackout trading, when a director trades shares in the so-called blackout period leading up to a major announcement, is against most company rules but it is not actually illegal.

"Research has found a very significant lack of compliance with regard

Learning the lingo

Q What is rumourtrage?

Spreading rumours to drive down or drive up a share price.

This can be done by anyone, including company directors, sharebrokers, major shareholders or rivals of the company.

Q What does it do?

It can change the share price, either up or down, depending if it is a positive or negative rumour.

If it's a good news rumour it can artificially inflate the share price, potentially allowing someone to avoid a margin call. If it's bad news it can artificially lower the price, allowing someone to buy in cheaply.

This creates a false market, where shareholders and investors do not know the truth or the "true" share price.

Q What are margin loans?

These are when shares are purchased using debt. The amount of debt is based on the value of the shares.

If the share price falls below a trigger point, the lender either wants the debt topped up with cash or it will immediately sell the shares.

Q Why is a director different to any other shareholder?

Directors often have extremely large shareholdings in their companies. If they receive a margin call and are forced to sell their shares this is likely to have a negative impact on the share price because such a large parcel of shares for sale would flood the market.

Directors can also influence the share price because they are privy to very detailed information and future plans of the company.

Q What is a blackout period?

In the lead-up to the release of sensitive information company directors are not allowed to trade their own shares. This is because they are privy to this information before the general market and could be accused of insider trading.

The blackout periods are usually before the public release of annual or half year results, merger announcements or other major issues that will influence the share price.

Trading during this period is against company and stock exchange rules, yet it is currently not against the law.

Q What are confidential briefings?

Companies often hold confidential briefing sessions with stock brokers and analysts to explain or give more detailed information about the company's plans or business operations.

This can mean that some analysts have access to critical information not available to other analysts, shareholders or general public.