

Dear Sirs:

I am writing to comment on FINRA's proposed Rule 2030 Addressing the Origination and Circulation of Rumors. I believe the proposed version unduly restricts the range of potential violations, could be easy to circumvent, and does not go far enough to protect the investing public and the market integrity.

FINRA's proposed Rule 2030 establishes an unjustifiably narrow range of acts for which a FINRA member can be held liable. The originally proposed Rule 2030 prohibited member firms from originating or circulating a rumor that the member firm "knows or has reasonable grounds for believing is false or misleading or would improperly influence the market price of a security." The proposed, amended Rule 2030 would restrict the violation to those rumors that a member firm knows or has reasonable grounds for believing are false or misleading *and are likely to influence* the market price of a security. (proposed change emphasized).

Proposed Rule 2030 narrows the range of potential violations in two ways:

- it raises the bar with regard to the "scienter" requirement, in that the member firm must know or reasonably believe both that the rumor is false and misleading, and also that it is likely to influence a security's price; under the old proposal, it was enough that the member knew or reasonably believed that the rumor was false or misleading;
- it makes more "general" rumors, such as those regarding entire economic sectors, or economic indicators, less likely to constitute a violation of Rule 2030, even though such rumors would arguably be more damaging to the market as a whole, than a rumor about one specific security. For instance, a rumor passed by a member firm's traders, regarding a supposed increase in activity in the real estate market on the West Coast, or one about the supposed number of applications for new construction permits in Florida may fall outside FINRA's narrow formulation. In the illustration above, a member firm may be able to successfully argue that it did not have reasonable grounds to believe that such a general rumor is "likely to influence the market price" of a certain, specific issuer such as a small California or Florida builder or building material supplier.

It is widely believed that rumors were a major contributor to sudden drops in the share prices of issuers in last year's turbulent market, and were a significant cause to the swift downfall of major issuers such as Lehman Brothers and Bear Sterns, among others. While some rumors were issuer-specific, thus more likely to fall under the "reasonable grounds for believing is ... likely to influence the market price of a security" standard, many others were rather industry-specific and more general in nature, thus less likely to fall under the above-mentioned standard.

Nevertheless, such general rumors were not less harmful. Too narrow standards, such as those in proposed Rule 2030, could be easy to by-pass by those attempting to make a profit from manipulating securities prices at the expense of the investing public. FINRA should opt for comprehensive regulation of rumors, in line with its mandate to, *inter alia*, prevent fraudulent and manipulative practices, promote high standards of commercial honor, and ensure the integrity of the marketplace.

Thank you for allowing our firm to submit these comments.

Yours truly,

Alin L. Rosca
Attorney at law
John S. Chapman & Associates, LLC
700 West St. Clair Ave. Ste. 300
Cleveland, OH 44113
T 216-241-8172

F 216-241-8175

arosca@jscltd.com

www.johnschapman.com