
SEBI ALLEGES RULE BREACH BY BANK OF AMERICA

INTRODUCTION

Bank of America's local security unit was hired to manage a large-scale share sale of Aditya Birla Sunlife AMC, a transaction worth \$177 million (roughly 1500 cr). The bank has allegedly violated the trading rules and failed to keep confidential information segregated as required by law. The issue first came to light in 2024 via a whistleblower complaint triggering internal inquiries and the exit of senior executives.

ISSUE

- 1) Alleged early sharing of Unpublished Price Sensitive Information (UPSI)- The central issue of this case is the alleged sharing of insider information. SEBI alleged that details about a large share sale of Aditya Birla Sunlife ASM may have been discussed with HDFC Life, Norges Bank and Enam Holdings before the information was disclosed publicly. This is considered as violation of rules of SEBI as it can impact the market negatively.
- 2) Failure in maintaining "Chinese Walls"- It is also alleged by SEBI that more than one internal team has access to the deal-related information. But the main issue wasn't insider trading in this case but the breaking up of "Chinese Walls". Chinese Walls or Ethics Wall refers to a virtual barrier among the different departments inside an investment firm which hinders the flow of confidential price sensitive information. SEBI has alleged the information might be available to members other than the core team. It could create risk of misuse or accidental disclosure even if no trading is done.
- 3) Informational Advantage to Selected Investors - Insider information gives unfair advantage to selected investors and is not fair on the ground that it is discriminatory against the other investors and the larger public. Even if no trading takes place, those selected investors could still change their strategies whereas SEBI believes UPSI should be accessible to everybody simultaneously.
- 4) Inconsistency in disclosures made to SEBI- Another concern raised by SEBI is inconsistencies, inaccuracies and suppression of material facts by BofA. The bank initially said that no communication has been done between the investors and the bank but later claimed that communication occurred. Suppression of material facts, giving false or incomplete information on purpose is a major Red Flag.

HOW SEBI COULD MOVE FORWARD

SEBI is expected to complete its research work by examining records and internal communications to understand how information was allegedly leaked in the presence of an ethics wall. This case clearly shows that SEBI is not only interested in the transaction process but more importantly, they're focussing on why the data leaked, the procedural lapse and inconsistent cooperation. This reformatory approach by SEBI clearly shows that SEBI doesn't want a similar incident to ever happen again. Also, SEBI needs to handle this case with utmost care because the allegations are yet to be proven. Any conclusion before that might harm the reputation of the bank and its employees. The focus should be more on thorough investigation and finding evidence.

CONCLUSION

The case is in a nascent delicate stage where any allegation could be harmful for both the parties. Since, the investigation process is going on, it remains to be seen how the matter will be resolved. It clearly shows the importance of documentation, adherence with the rules and regulations and communication with the regulators. The future of the bank and its operations might come at a stake if the allegations are proven. This case is a benchmark for others.

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