



Alternative Data Standards "Learning Point"

Material Nonpublic Information (#MNPI)

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As a general matter, material non-public information, #MNPI, refers to information about a public company, political intelligence, or other market impactful information that is not widely known and could affect a reasonable person's decision to trade.

Holders of MNPI who use the information to gain advantage in trading stocks may be guilty of insider trading. It is important therefore that #alternativedata vendors understand the regulations financial firms are subject to and perform diligence on the origin of their data products to ensure they do not contain MNPI.

Insider trading is prohibited by the Security and Exchange Commission, #SEC, as noted in Rules 10b-5 and 10b5-1. The crime is well delineated as "illegal insider trading," which Section 1348 of Title 18 of the U.S. Code defines as a kind of fraud. The punishment can be harsh: Up to 20 years in prison, a \$5 million fine, disgorgement of all profits and a further civil penalty of triple those profits.

MNPI can be comprised of the secrets that corporate officers are privy to that aren't known to investors at large. An insider is any corporate officer, director or employee, as well as their business associates and family members. They are certainly entitled to buy and sell the stocks of the firm with which they are affiliated – unless they are basing their trading decision on their knowledge of developments within that firm which have not yet been released to the public.

By way of example, one public company, The Hershey Company, lists some of the matters they consider to be "material": "Financial performance, especially quarterly and year-end earnings or significant changes in financial performance or liquidity; Potential significant mergers and acquisitions or the sale of significant assets or subsidiaries; New major contracts, orders, suppliers, customers, or finance sources, or the loss thereof; Major discoveries or significant changes or developments in products or product lines, research or technologies; Significant changes or developments in supplies or inventory, including significant product defects, recalls or product returns; Stock splits, public or private securities/debt offerings, or changes in dividend policies or amounts; Significant changes in senior management", among others.

The Hershey Company goes on to say that such material information is "non-public" " if it has not been disseminated to investors through a widely circulated news or wire service (such as Dow Jones, Bloomberg, PR Newswire, etc.) or through a public filing with the SEC." For the purposes of Hershey's insider trading policy, "information will be not considered public until after the close of trading on the second full trading day following the Company's widespread public release of the information."



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The FISD Alternative Data Council worked with over thirty buy-side firms to create the Data Provider Due Diligence Questionnaire ("DDQ") which points out that MNPI is not used to make trading and investment decisions. The DDQ is available for use by alternative data vendors at the Alternative Data Council web page. You can learn more about the Council's work to create industry standards by contacting TracyShumpert@siia.net!

References

[Securities and Exchange Commission Rules 10b-5 and 10b5-1.](#)

[Securities and Exchange Commission glossary entry on insider trading](#)

[The Hershey Company insider trading policy](#)

[Title 18](#)