Supreme Court Clarifies Scope of Secondary Actor Liability Under Federal Securities Laws

Today, the U.S. Supreme Court clarified the scope of "secondary actor" liability by rejecting an attempt to impose liability under Section 10(b) of the Securities Exchange Act on a vendor that participated in transactions that allegedly were fraudulently accounted for by the issuer. The Court's much-anticipated decision in *Stoneridge Investment Partners, LLC v. Scientific-Atlanta, Inc.* clarifies the scope of secondary actor liability, which was uncertain after the Supreme Court's earlier *Central Bank* holding that there is no Section 10(b) liability for aiding and abetting a fraud, and conflicting decisions by circuit courts of appeal that sought to apply the standards articulated in *Central Bank*.

In *Stoneridge*, the Court found that the reliance element of a Section 10(b) claim is not satisfied where the secondary actor did not make any public statements and had no duty to disclose. The Court further reasoned that allowing a private right of action against Scientific-Atlanta would be inconsistent with Congress's response to the *Central Bank* decision, which was to authorize the SEC to pursue an enforcement action against an aider and abettor of securities fraud. The Court also noted that, under certain circumstances, an aider and abettor may be subject to criminal prosecution.

With today's decision, the Court has effectively closed the door to private plaintiffs seeking to pursue claims against secondary actors under Section 10(b), absent a public misstatement or a duty to disclose. The decision is highly favorable to the business community and will be welcomed by vendors, bankers, auditors, lawyers, and others who have been subjected to federal securities fraud claims as a result of participating in transactions for which the issuer accounted in an allegedly fraudulent manner.

Contact Information

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