

CONTENTS

Preface	xxxiii
Acknowledgments	xxxv
Chapter 1 The Framework of Securities Regulation	1
A. Securities Transactions	1
1. Issuer Transactions	1
2. Trading Transactions	2
a. Introduction to Trading	2
b. The Structure of Trading Markets	3
B. The Legal Framework of Securities Regulation	4
1. The Federal Securities Laws	5
a. The Securities Act of 1933	5
b. The Securities Exchange Act of 1934	7
c. Federal Regulation Beyond Disclosure: The Sarbanes- Oxley Act of 2002 and Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010	11
d. The Regulation of Investment Advisers and Investment Companies	13
e. The Organizational Structure of the SEC	13
f. The Mediums Through Which the SEC Speaks	14
g. The SEC: Some Critical Perspectives	15
h. Judging SEC Rulemaking	17
2. Blue Sky Laws	19
3. Self-Regulatory Organizations	20
C. Financing Startups	22
Ibrahim, The (Not So) Puzzling Behavior of Angel Investors	22
<i>Notes and Questions</i>	25
Chapter 2 The Definition of a Security	27
A. Introduction	27
B. The Development of a Framework for Defining an Investment Contract	28
<i>Securities and Exchange Commission v. W.J. Howey Co.</i>	29
<i>Notes and Questions</i>	32
	xi

C.	<i>Howey</i> Applied	33
1.	Investment Versus Consumption	33
	<i>United Housing Foundation, Inc. v. Forman</i>	34
	<i>Notes and Questions</i>	37
	<i>Problems</i>	39
2.	Common Enterprise and Profits Solely from the Efforts of Others	39
	<i>Securities and Exchange Commission v. Edwards</i>	39
a.	The Meaning of Common Enterprise	41
	<i>Problems</i>	42
b.	Profits from the Managerial Efforts of Others	43
	<i>Problems</i>	45
3.	Cryptocurrencies, Blockchains, ICOs, and Beyond	46
	<i>Coinbase Inc. v. SEC</i>	46
	<i>Notes and Questions</i>	48
	<i>Problem</i>	51
D.	Associational Formalities: Interests in Corporations, Partnerships, and LLCs as Securities	52
1.	Stock as a Security	52
	<i>Notes and Questions</i>	54
	<i>Problems</i>	54
2.	Partnership and Limited Liability Company Interests as Securities	55
	<i>United States v. Leonard</i>	56
	<i>Notes and Questions</i>	58
	<i>Problems</i>	61
3.	The Policy Question: Should Investment Contract Status Be Elective?	62
E.	Real Estate as Securities	63
	<i>Salameh v. Tarsadia Hotel</i>	64
	<i>Notes and Questions</i>	66
	<i>Problem</i>	67
F.	Notes as Securities	67
	<i>Reves v. Ernst & Young</i>	68
	<i>Notes and Questions</i>	74
	<i>Problems</i>	78
G.	Separate Securities and Pass-Throughs	79
H.	A Brief Overview of Exempt Securities	80

Chapter 3	Understanding Investors	87
A.	Institutionalization	87
B.	The Efficient Market Hypothesis: Implications and Limitations	89
1.	The Meaning and Mechanisms of Market Efficiency	90
	<i>Notes and Questions</i>	92
	<i>Problems</i>	94
2.	The Debate over Efficiency of the Market	95
	<i>Young, Brief of Financial Economists as Amici Curiae in Support of Respondents</i>	95
3.	Headwinds to Market Efficiency?	97
a.	Passive Investing	98
b.	Algorithmic Trading	99
c.	Behavioral Economics and Decisions by Individual Investors	100
d.	Retailization	102
C.	Globalization	103
Chapter 4	The Public Offering	107
A.	Underwriting and Underwriters	108
1.	Methods of Underwriting	108
	<i>In re National Association of Securities Dealers, Inc., Exchange Act Release No. 17371</i>	108
	<i>Notes and Questions</i>	110
2.	Underwriters: Their Culture and Their Industry	115
a.	Cultural Hierarchy	115
b.	The Industry over Time	118
3.	Underwriting Agreements: Contracting to Reduce Risk	120
a.	Agreement with the Issuer	120
b.	Agreement Among the Underwriters	124
4.	Underwriters' Compensation	125
a.	Review by FINRA	125
b.	The Problems of Fixed Price Offerings	127
B.	The Market for Initial Public Offerings	127
1.	Irrational or Contrived Exuberance	127
2.	Underpricing of Initial Public Offerings	131
3.	Reforming the IPO Process	133
C.	A Panoramic View of the Registration Statement	134

D.	Registration of the Unseasoned Issuer	138
1.	Preparing the Registration Statement for Filing	139
	<i>Schneider, Manko & Kant, Going Public: Practice, Procedure, and Consequences</i>	139
2.	Regulatory Dispensations for Emerging Growth Companies	142
a.	Emerging Growth Companies	142
b.	Is It a Supply or a Demand Problem?	142
3.	Review by the SEC's Staff: The Letter of Comment	143
	Poliakoff, SEC Review: Comfort or Illusion?	144
	<i>Notes and Questions</i>	146
E.	Gun-Jumping Concerns for the IPO	149
1.	The Pre-Filing Period	151
a.	Conditioning the Market	151
	Securities and Exchange Commission, Securities Act Release No. 3844	151
b.	Safe Harbors for Permissible Communications	156
c.	Arrangements with and Among Underwriters	158
	<i>Problems</i>	158
2.	The Waiting Period	160
a.	The Preliminary Prospectus	160
b.	Tombstone Ads and Identifying Statements	161
c.	Free Writing	162
d.	Hyperlinks to the Prospectus	164
e.	Road Shows	164
f.	Dealing with the Media	165
g.	Bookbuilding: Selling Practices During the Waiting Period	166
h.	Gap Filling with Exchange Act Rule 15c2-8	167
	<i>Problems</i>	168
3.	The Post-Effective Period	169
	<i>Notes and Questions</i>	171
	<i>Problems</i>	173
F.	Public Offers by Seasoned and Well-Known Seasoned Issuers	174
1.	On-the-Ground View of Seasoned Offerings	175
2.	Integrated Disclosure for the Seasoned Company	177
	<i>Notes and Questions</i>	180
3.	Gun-Jumping Concerns for the Seasoned Issuer	182
a.	Safe Harbors for Reporting Companies	182
b.	Free-Writing Prospectus	183

Contents	xv
c. Research Reports	183
<i>Problems</i>	186
G. Shelf Registration Under Rule 415	187
1. The Regulatory Concerns and the “Traditional” Shelf Registration	188
2. Catching Market Windows	189
3. Automatic Shelf Registration for Well-Known Seasoned Issuers	189
Securities and Exchange Commission, Securities Offering Reform, Securities Act Release No. 8591	190
4. Can Disclosure Be a Bad Thing?	191
<i>Notes and Questions</i>	192
5. Prospectus, Disclosure, and Liability Issues in Shelf Offerings	193
<i>Problems</i>	195
H. Updating and Correcting the Registration Statement	196
<i>Problem</i>	197
1. Refusal Orders and Stop Orders	197
2. Post-Effective Amendments	198
a. Correcting Material Inaccuracy	198
b. Supplementing Information That Is Permitted to Be Omitted Prior to Effectiveness	200
3. Undertakings to Update	201
4. Withdrawal of the Registration Statement	201
I. The Trading Practice Rules	201
1. Purchases During a Distribution	202
<i>Notes and Questions</i>	202
<i>Problems</i>	203
2. Stabilization	204
<i>Problem</i>	205
<i>Notes and Questions</i>	205
J. Accommodating Foreign Issuers’ Offerings in the United States	207
K. Registration Under State Blue Sky Laws	209
Securities and Exchange Commission, Report on the Uniformity of State Regulatory Requirements for Offerings of Securities That Are Not “Covered Securities”	210
<i>Problems</i>	212
L. The Debate over Mandatory Disclosure	213
1. How Strong Are the Incentives to Disclose Voluntarily?	213
<i>Problem</i>	214

Easterbrook & Fischel, Mandatory Disclosure and the Protection of Investors	215
2. Regulatory Competition and Issuer Choice	218
<i>Notes and Questions</i>	220
Chapter 5 Exempt Transactions	223
A. Introduction	223
B. Territorially Based Exemptions	226
1. The Intrastate Offering Exemptions	226
Securities and Exchange Commission, Exemptions to Facilitate Intrastate and Regional Securities Offerings, Securities Act Release No. 10238	227
<i>Notes and Questions</i>	231
<i>Problems</i>	232
2. Offerings Outside the United States	233
a. Regulation S	233
Securities and Exchange Commission, Regulation S, Securities Act Release No. 6863	237
Securities and Exchange Commission, Statement of the Commission Regarding Use of Internet Web Sites to Offer Securities ... Offshore	237
<i>Notes and Questions</i>	245
<i>Problems</i>	247
b. Offerings Falling Outside Regulation S	248
<i>Europe and Overseas Commodity Traders, S.A. v. Banque Paribas London</i>	248
C. Transaction Exemptions Based on Qualities of Investor/Amount of Offering	249
1. The Private Offering Exemption: Section 4(a)(2)	249
a. Mapping the Scope of the Exemption	250
<i>Securities and Exchange Commission v. Ralston Purina Co.</i>	250
<i>Problem</i>	252
b. The Relevance of Numbers	252
c. Offeree Qualification: Sophistication and Access to Information	253
<i>Problem</i>	253
<i>Notes and Questions</i>	255
<i>Problems</i>	258
d. Resales of Securities Acquired in a Private Offering	259

2. Employee Benefit Plans and Contracts Relating to Compensation: Rule 701	259
Securities Exchange Commission, Securities Act Release No. 33-7645	259
<i>Notes and Questions</i>	261
<i>Problems</i>	263
3. Rule 506 of Regulation D	264
a. An Overview of Regulation D	264
<i>Problem</i>	265
b. Accredited Investors	265
<i>Notes and Questions</i>	266
<i>Problems</i>	270
c. The Sophistication Standard of Rule 506(b)	270
<i>Mark v. FSC Securities Corp.</i>	270
<i>Problem</i>	273
d. Calculating the Number of Purchasers	273
e. Limitations on the Manner and Scope of an Offering	273
(1) In General	273
(2) What Is “General Solicitation or General Advertising”?	274
(a) Activities by Broker-Dealers	275
<i>Problem</i>	276
(b) The Internet and General Solicitations	276
<i>Problem</i>	277
(c) Eliminating the Ban on General Solicitations: Rule 506 Offerings Limited to Accredited Investors	277
<i>Problems</i>	279
f. Disclosure Obligations in Offerings Under Rule 506	279
<i>Notes and Questions</i>	280
4. Rule 504 of Regulation D	281
a. General Solicitation, General Advertisement, and Resale Restrictions	282
b. Determining the <i>Aggregate</i> Offering Price in Offerings Under Rule 504	282
(1) Calculating the Offering Price	282
(2) Aggregation Rule	283
<i>Problem</i>	283
c. Penultimate Contribution of Rule 504	283
5. Miscellaneous Considerations for Regulation D	284
a. Limitations on Resale	284

b. “Bad Actor” Disqualifiers	284
c. Form D	284
d. FINRA Filing	285
6. Substantial Compliance	285
Securities and Exchange Commission, Securities Act Release No. 6825	285
<i>Securities and Exchange Commission v. Ishopnomarkup.com, Inc.</i> <i>Problem</i>	286 288
D. Transaction Exemptions Premised on Method of Offering	289
1. The Crowdfunding Exemption: Section 4(a)(6)	289
<i>Problem</i>	293
2. Regulation A: Mini-Registration	293
<i>Notes and Questions</i>	295
E. Prospecting for Investors	296
1. Testing the Waters Exemptions	296
2. Creating a Buzz for the Firm via “Demo Days” Exemption	297
F. Integration of Offerings	297
<i>Problem</i>	298
1. Rule 152: General Principle of Integration and Non-Exclusive Integration Safe Harbors	299
a. Does the Subsequent Offering Entail a Registration Statement Filed Pursuant to Section 5?	299
b. Does One Offering Comply with Rule 701 or Regulation S?	299
c. Determine If the Exemptions Under Consideration Permit General Solicitations and the Sequence of Offerings	300
2. Specific Applications of Safe Harbors	301
a. Subsequent Offering Permits General Solicitation	301
b. Subsequent Offering Prohibits General Solicitation	301
c. Both Offerings Prohibit General Solicitation	301
d. Both Offerings Permit General Solicitation	301
3. Omnibus/General Approach to Integration	302
<i>Problems</i>	302
4. Issuer Integration	303
G. Reflecting on the Future	303
H. State Exemptions	305
1. The Uniform Limited Offering Exemption (ULOE)	306
2. Nonuniform State Exemptions	307

Contents	xix
Chapter 6 Secondary Distributions	309
A. The Underwriter Concept and Sales for an Issuer	310
<i>Securities and Exchange Commission v. Chinese Consolidated</i>	
<i>Benevolent Association</i>	312
<i>Notes and Questions</i>	314
<i>Problems</i>	316
B. Purchase from an Issuer	317
1. Investment Intent	318
<i>Notes and Questions</i>	319
<i>Problems</i>	320
2. Distributions and Trading Transactions Contrasted	321
<i>Problems</i>	322
3. Private Investments in Public Equity (PIPE)	323
<i>Sjostrom, Jr., PIPEs</i>	323
<i>Notes and Questions</i>	325
<i>Problems</i>	328
C. Control Person Distributions	328
<i>United States v. Wolfson</i>	330
<i>Notes and Questions</i>	332
<i>Problems</i>	335
D. Rule 144—Safe Harbor for Resales of Control and Restricted Securities	335
Securities and Exchange Commission, Revisions to Rule 144	336
<i>Notes and Questions</i>	340
<i>SEC v. Genovese</i>	345
<i>Problems</i>	346
E. Resales to Qualified Institutional Buyers (QIBs) and Accredited Investors	348
1. Facilitating an Institutional Market for Unregistered Securities with Rule 144A	348
Securities and Exchange Commission, Resale of Restricted Securities	348
<i>Notes and Questions</i>	351
<i>Problems</i>	353
F. The Section 4(a) (1) Exemption	355
<i>Ackerberg v. Johnson</i>	355
<i>Notes and Questions</i>	358
<i>Problems</i>	360

xx	Contents
G. The Section 4(a)(7) Exemption	361
<i>Problem</i>	362
H. Direct Listing and Secondary Trading Markets	362
1. Direct Listing	362
2. Secondary Markets for Unregistered Securities	365
I. Resales Under the Blue Sky Laws	367
1. Isolated Non-Issuer Resale	368
2. The Manual Exemption	369
3. Unsolicited Offer Exemption	369
4. Small Offering Exemption	370
<i>Problem</i>	371
Chapter 7 Recapitalizations, Reorganizations, and Acquisitions	373
A. The “For Value” Requirement	373
1. Value Is Not Always What It Seems	373
<i>Problems</i>	378
2. Shells and Spin-offs: Creating “Value”	379
a. Spin-offs and the ’33 Act	379
Securities and Exchange Commission v. Datronics Engineers, Inc.	379
<i>Notes and Questions</i>	381
b. The Regulation of Spin-offs Under the ’34 Act	383
<i>Securities and Exchange Commission, Publication of Submission of</i>	
<i>Quotations Without Specified Information</i>	385
<i>Problems</i>	387
B. Mergers, Acquisitions, and Recapitalizations	388
1. Rule 145	389
2. Jumping the Gun in Business Combinations	389
Securities and Exchange Commission, Excerpt from the	
Release Adopting Regulation M-A	390
<i>Notes and Questions</i>	393
3. SPACs	394
4. Reverse Mergers	399
<i>Problems</i>	401
C. Exchanges Under Section 3(a)(9)	402
<i>Notes and Questions</i>	404
<i>Problems</i>	406
D. Reorganizations Under Section 3(a)(10)	407
1. Non-Bankruptcy Reorganizations	407

2. The Bankruptcy Act's Collision with the Securities Laws	409
a. Disclosure in Chapter 11 Reorganizations	409
b. Exemption for Sale and Exchange of Securities	410
c. Resales of Securities Received in a Chapter 11 Reorganization	410
d. Resales from Debtor's Portfolio	411
e. Raising Funds While in Bankruptcy?	412
 Chapter 8 Liability Under the Securities Act	 413
A. Section 11	413
1. Persons Bringing Suit	414
<i>Hertzberg v. Dignity Partners, Inc.</i>	414
<i>Notes and Questions</i>	416
2. The Defendants and Their Defenses	418
a. Registered Offerings Generally	418
<i>Escott v. BarChris Construction Co.</i>	421
<i>Notes and Questions</i>	433
<i>Problem</i>	434
b. Shelf Registrations and Other Seasoned Offerings	435
<i>In re WorldCom, Inc. Securities Litigation</i>	436
<i>Notes and Questions</i>	438
<i>Problem</i>	440
3. Damages	441
<i>Akerman v. Oryx Communications Inc.</i>	441
<i>Notes and Questions</i>	443
<i>Problems</i>	445
B. Section 12(a)(1)	446
<i>Pinter v. Dahl</i>	446
<i>Notes and Questions</i>	450
<i>Problem</i>	451
C. Section 12(a)(2)	452
1. By Means of a "Prospectus or Oral Communication"	452
<i>Gustafson v. Alloyd Co.</i>	452
<i>Hyer v. Malouf</i>	458
<i>Notes and Questions</i>	459
<i>Problems</i>	465
2. Diligence Defense	465
<i>Notes and Questions</i>	466

D.	Section 17	466
	<i>Aaron v. Securities and Exchange Commission</i>	466
	<i>Notes and Questions</i>	467
Chapter 9	Financial Innovation: Trading Markets, Derivatives, and Securitization	471
A.	Technology and the Transformation of Securities Markets	471
	<i>Securities and Exchange Commission, SEC Concept Release on Equity Market Structure</i>	471
	Stoll, Electronic Trading in Stock Markets	474
	<i>Notes and Questions</i>	475
B.	Derivatives and Synthetic Investments	482
	1. Why Derivatives?	482
	2. Basic Forms of Derivatives	483
	a. Options	483
	b. Futures	484
	c. Swaps	484
	3. Clearing	487
	4. The Regulation of Derivatives	487
	a. Swaps and Security-Based Swaps Defined	488
	b. Overview of Regulation of Swap Transactions and Their Participants	489
C.	Structured Financial Products	490
	1. An Overview of Securitization	490
	2. Public Offerings of Securitized Products: Residential Mortgage-Backed Securities	493
	<i>Federal Housing Finance Agency for Federal National Mortgage Ass'n v. Nomura Holding America, Inc.</i>	493
	<i>Notes and Questions</i>	496
Chapter 10	Financial Reporting: Mechanisms, Duties, and Culture	501
A.	The Disclosure Requirements of Public Companies	502
	1. The Origins and Metrics for Financial Information	502
	2. The Exchange Act's Periodic Reporting Obligations	504
	a. Domestic Issuers	505
	<i>Problems</i>	508
	b. Foreign Issuers	509
	c. The Function of American Depositary Receipts	510

d. Compelling Honesty in Mandated Reports Through Private Actions	511
B. The “Fairly Presents” Requirement	511
<i>United States v. Simon</i>	512
<i>Notes and Questions</i>	514
C. Internal Controls	516
1. The Meaning and Mandate for Internal Controls	516
<i>Securities and Exchange Commission v. World-Wide Coin Investments Ltd.</i>	517
<i>Notes and Questions</i>	521
2. Reporting on Internal Controls: SOX 404	522
<i>Problems</i>	523
D. Strengthening the Integrity of the Financial Reporting Process: The Marriage of the SEC and Governance	524
1. Audit Committees	524
<i>Problem</i>	525
2. Buttressing the Auditor’s Independence	526
<i>Problem</i>	527
3. Executive Certifications and Directors’ Signature Requirement	528
4. Reconstructing History with <i>Pro Forma</i> Financial Statements	528
<i>Problem</i>	529
E. Shining a Light on Risk?	530
1. Risk Factor Disclosures	530
<i>Jaroslawicz v. M&T Bank Corp.</i>	530
<i>Notes and Questions</i>	534
<i>Problems</i>	536
2. The Management Discussion and Analysis Section of SEC Filings: Is Past Prologue?	536
a. The Scope of Item 303 Disclosure Obligation	537
<i>Panther Partners Inc. v. Ikanos Communications, Inc.</i>	537
<i>Notes and Questions</i>	539
<i>Problem</i>	541
b. Enron’s Contribution to the MD&A and Other Disclosures	542
3. Addressing Cybersecurity	544
Chapter 11 Inquiries into the Materiality of Information	545
A. Materiality Orthodoxy	546
<i>Notes and Questions</i>	547
<i>Problem</i>	551

B.	Speculative Information and Materiality	552
	<i>Basic Inc. v. Levinson</i>	552
	<i>Notes and Questions</i>	555
	<i>Problem</i>	558
C.	The “Total Mix” of Information and Market Efficiency	559
1.	Truth on the Market	559
	<i>Wielgos v. Commonwealth Edison Co.</i>	559
	<i>Notes and Questions</i>	563
	<i>Problems</i>	565
2.	“Puffery”	566
	<i>Eisenstadt v. Centel Corp.</i>	566
	<i>Problems</i>	567
	<i>Note and Questions</i>	568
3.	Opinion Statements and Half-Truths	568
	<i>Omnicare, Inc. v. Laborers Dist. Council Const. Indus. Pension Fund</i>	569
	<i>Notes and Questions</i>	575
	<i>Problems</i>	576
D.	Forward-Looking Information	577
1.	The “Bespeaks Caution” Doctrine	579
	<i>Kaufman v. Trump’s Castle Funding</i>	579
	<i>Notes and Questions</i>	583
2.	Statutory Safe Harbor for Forward-Looking Statements	584
	<i>Asher v. Baxter International, Inc.</i>	585
	<i>Notes and Questions</i>	590
	<i>Problems</i>	594
E.	The SEC and Corporate Governance	594
1.	Integrity and Incentives of Managers	594
	<i>In the Matter of Franchard Corp.</i>	594
	<i>Notes and Questions</i>	600
	<i>Problem</i>	605
2.	The Materiality of Corporate Governance	605
	<i>Notes and Questions</i>	607
	<i>Problems</i>	608
F.	Materiality of Sustainability and Climate Risk	609
1.	Debate on Sustainability and Climate Risk Disclosure	610
	Fisch, Nagy & Williams, Letter to the SEC in Response to Requests for Comments on Climate Change Disclosure (June 11, 2021)	610

Contents

xxv

<i>Notes and Questions</i>	612
2. Overview of the SEC Climate-Related Disclosures	614
a. Background of Drafting Protocols	614
b. Summary of the Climate-Related Disclosures Rule	614
c. The Attestation Requirement for Scope 1 and Scope 2 Emissions Disclosures	616
d. The Materiality Qualifier for Scope 1 and Scope 2 Emissions Disclosures	617
e. Features Aimed at Improving the Consistency and Comparability of Climate-Related Disclosures	617
3. Climate Risk Disclosures in Historical and Regulatory Context	617
<i>Problem</i>	618
G. The Materiality of Being a “Bad” Citizen: Violations of State or Federal Law	618
<i>Securities and Exchange Commission v. Jos. Schlitz Brewing Co.</i>	619
<i>Problems</i>	625
Chapter 12 Fraud in Connection with the Purchase or Sale of a Security	627
A. Private Rights of Action Under Rule 10b-5: Creation and Controversy	628
House of Representatives, H.R. Rep. No. 104-50	629
B. Scienter: <i>Hochfelder</i> and Beyond	632
1. Defining Scienter	632
<i>Problem</i>	634
2. Pleading Scienter	635
<i>Tellabs, Inc. v. Makor Issues & Rights, Ltd.</i>	635
<i>Makor Issues & Rights, Ltd. v. Tellabs Inc.</i>	638
<i>Notes and Questions</i>	641
<i>Problem</i>	642
C. Falsity and the Affirmative Duty to Disclose	643
<i>Macquarie Infrastructure Corp. v. Moab Partners, L.P.</i>	643
<i>Notes and Questions</i>	646
<i>Problems</i>	649
D. Who Is Liable?	650
<i>Janus Capital Group Inc. v. First Derivative Traders</i>	651
<i>Lorenzo v. Securities and Exchange Commission</i>	655
<i>Notes and Questions</i>	659
<i>Problems</i>	660
E. “In Connection with” the Purchase or Sale of a Security	660

1. The Nature of the Fraud	660
2. Standing to Sue	662
<i>Blue Chip Stamps v. Manor Drug Stores</i>	662
<i>Notes and Questions</i>	665
<i>Problems</i>	666
F. Reliance	666
1. Face-to-Face Transactions	667
<i>Affiliated Ute Citizens v. United States</i>	667
<i>Notes and Questions</i>	668
2. Open Market Frauds: The Fraud-on-the-Market Theory	668
<i>Halliburton Co. v. Erica P. John Fund, Inc.</i>	669
<i>Notes and Questions</i>	674
<i>Problems</i>	679
3. Fraud on the Market: Some Variations	680
4. The Reasonableness of the Reliance: Due Care	681
<i>Problem</i>	682
G. Loss Causation and Damages	682
1. Face-to-Face Transactions	683
<i>AUSA Life Insurance Co. v. Ernst & Young</i>	683
<i>Notes and Questions</i>	687
<i>Problem</i>	689
2. Open Market Transactions	689
<i>In re Vivendi, S.A. Securities Litigation</i>	690
<i>Notes and Questions</i>	693
<i>Problems</i>	695
3. Proportionate Liability	695
<i>Problem</i>	696
4. Securities Litigation Reform	696
H. Federalism and Rule 10b-5: The Problem of Corporate Mismanagement	698
<i>Problem</i>	700
I. Manipulation	700
1. Defining Manipulation	702
<i>United States v. Mulheren</i>	702
<i>Notes and Questions</i>	706
<i>Problem</i>	708
2. Issuer Repurchases	708
3. Short Selling	710

Chapter 13	The Enforcement of the Securities Laws	713
A.	More on the Private Enforcement of the Securities Laws	713
1.	Champion of the Little Guy: The Class Action	714
2.	Securities Actions After the Private Securities Litigation Reform Act of 1995	715
	<i>Notes and Questions</i>	716
3.	Closing the Bypass: The Securities Litigation Uniform Standards Act	719
	<i>Problems</i>	721
B.	Secondary Liability Under the Securities Laws	722
1.	Aiding and Abetting	723
	<i>Securities and Exchange Commission v. Apuzzo</i>	723
	<i>Notes and Questions</i>	728
	<i>Problem</i>	728
2.	Control Person and Respondeat Superior Liability	729
	<i>Donohoe v. Consolidated Operating & Production Corp.</i>	729
	<i>Notes and Questions</i>	732
	<i>Problems</i>	737
C.	Rescission and Restitution of Contracts in Violation of the Securities Laws	738
	<i>Berkeley Inv. Group, Ltd. v. Colkitt</i>	738
	<i>Notes and Questions</i>	744
	<i>Problem</i>	745
D.	Responsibility and Its Costs	746
1.	Equitable Bars to the Plaintiff's Recovery	746
2.	Indemnity and Contribution	748
	<i>Problem</i>	752
E.	Statutes of Limitations	752
	<i>Problem</i>	754
F.	Enforcement Actions by the SEC	754
1.	Investigations	754
a.	The Investigatory Process	754
b.	Responding to the Investigation: White Papers and Wells Notices	756
	<i>Notes and Questions</i>	758
	<i>Problems</i>	760
2.	Sanctioning in SEC Enforcement Proceedings	761
a.	The Administrative Enforcement Proceeding	761

b. The Panoply of SEC Enforcement Sanctions	762
<i>KPMG, LLP v. SEC</i>	763
<i>Notes and Questions</i>	767
3. Injunctions	772
<i>Notes and Questions</i>	773
<i>Problem</i>	776
4. Discretion in SEC Enforcement	776
a. Whether to Charge, Who to Charge, and Waivers	776
Securities and Exchange Commission, Report of Investigation Pursuant to Section 21(a) of the Securities Exchange Act of 1934 and Commission Statement on the Relationship of Cooperation to Agency Enforcement Decisions	776
<i>Notes and Questions</i>	779
<i>Problems</i>	781
b. Settlements	782
<i>SEC v. Citigroup Global Mkts.</i>	783
<i>Problem</i>	788
G. The SEC's Power to Discipline Professionals	788
<i>Problems</i>	791
H. The Duties of the Securities Lawyer	792
1. A Historic Step Toward Socializing the Securities Lawyer	793
<i>Securities and Exchange Commission v. National Student Marketing Corp.</i>	793
<i>Notes and Questions</i>	803
<i>Problem</i>	805
2. The SEC's Rules of Professional Conduct for Attorneys	806
Securities and Exchange Commission, Implementation of Standards of Professional Conduct for Attorneys	807
<i>Notes and Questions</i>	812
<i>Problems</i>	816
I. The Criminal Provisions of the Federal Securities Laws	818
<i>United States v. Dixon</i>	820
<i>Problem</i>	822
<i>Notes and Questions</i>	823
 Chapter 14 The Regulation of Insider Trading	 825
A. Introduction	825
B. The Source of a Duty to Abstain or Disclose	826
<i>Chiarella v. United States</i>	826
<i>Notes and Questions</i>	829

Contents	xxix
C. “Outsider” Trading: Corporate Connections	832
<i>Problem</i>	833
D. The Misappropriation Theory	833
<i>United States v. O’Hagan</i>	834
<i>Notes and Questions</i>	839
<i>Problems</i>	842
E. Tippers and Tippees	843
1. Tipper/Tippee Liability Defined	843
<i>Dirks v. Securities and Exchange Commission</i>	843
<i>Notes and Questions</i>	847
<i>Problems</i>	848
2. Selective Disclosure: Regulation FD	849
Securities and Exchange Commission, Securities Act Release	
No. 33-7881	849
<i>Notes and Questions</i>	851
<i>Problem</i>	853
F. Rule 14e-3	853
<i>Problem</i>	855
G. Enforcement of the Insider Trading Prohibition	855
<i>Problem</i>	857
H. Insider Trading and Section 16	857
1. The Scope of Section 16(b)	858
<i>Huppe v. WPCS Int’l Inc.</i>	858
<i>Notes and Questions</i>	861
<i>Problems</i>	863
2. Executive Compensation	864
3. Pension Blackout Periods	864
Chapter 15 Shareholder Voting and Control	867
A. The Election of Directors and Other Routine Matters	868
1. Mandatory Disclosure	868
2. Shareholder Proposals	871
<i>Notes and Questions</i>	872
<i>Problem</i>	874
B. The Voting Process	875
C. “Solicitations”	877
<i>Notes and Questions</i>	879
<i>Problem</i>	880

xxx	Contents
D. Proxy Advisors	881
E. Proxy Fraud	882
<i>Virginia Bankshares, Inc. v. Sandberg</i>	883
<i>Notes and Questions</i>	885
<i>Problem</i>	888
F. The Early Warning System for Control Threats: Section 13(d)	888
<i>Wellman v. Dickinson</i>	890
<i>Notes and Questions</i>	893
<i>Problem</i>	897
 Chapter 16 Regulation of Broker-Dealers	 899
A. Regulation of the Broker-Dealer Industry: Structure and Oversight	900
1. Entry	900
<i>Problems</i>	902
2. Supervising the Conduct of Broker-Dealers and Their Associated Persons	902
a. Self-Regulation	902
b. Direct SEC Supervision of Brokers and Dealers	903
<i>In the Matter of John Gutfreund et al.</i>	904
<i>Notes and Questions</i>	906
<i>Problem</i>	907
B. The Responsibilities of Brokers to Their Customers	908
1. Acting in the Customer's Best Interest	908
a. Best Execution	908
b. Advice and Recommendations	910
Securities and Exchange Commission, Regulation Best Interest: The Broker-Dealer Standard of Conduct	911
<i>Notes and Questions</i>	913
<i>Problems</i>	914
2. Sales Practices: Litigation and Enforcement	915
a. "Know Your Security"	916
<i>Hanly v. Securities and Exchange Commission</i>	916
<i>Notes and Questions</i>	917
<i>Problem</i>	918
b. Investment Analysts and Their Conflicts of Interest	919
<i>Problem</i>	920
c. Suitability	921
i. The Basic Obligation	921

Contents**xxxi**

<i>Brown v. E.F. Hutton Group Inc.</i>	921
<i>Notes and Questions</i>	924
<i>Problem</i>	927
ii. Suitability, Risk Disclosure, and the Sophisticated Investor	927
3. Churning and Other “Relational” Frauds	928
<i>Merrill Lynch, Pierce, Fenner & Smith v. Arceneaux</i>	928
<i>Notes and Questions</i>	931
<i>Problem</i>	933
4. Price Protection: Markups and Other Matters	933
5. Arbitration	934
C. Substantive Regulation: Credit and Financial Soundness	936
1. Margin Requirements	936
2. The Financial Soundness of Broker-Dealers	938
3. Dodd-Frank and Systemic Risk	940
4. “Fintech”	941
 Chapter 17 Investment Advisers and Investment Companies	 943
A. The Regulation of Investment Advisers	944
1. The Registration Requirement	944
2. Substantive Regulation	946
3. Conduct Regulation: Section 206	947
<i>Securities and Exchange Commission v. Capital Gains Research</i>	
<i>Bureau Inc.</i>	947
<i>Notes and Questions</i>	950
<i>Problem</i>	952
4. Investment Advice, Investment Information, and the First Amendment	952
<i>Lowe v. Securities and Exchange Commission</i>	952
<i>Notes and Questions</i>	955
<i>Problem</i>	956
B. Credit Rating Agencies	956
C. Mutual Funds and Other Investment Companies	957
1. The Structure and Governance of a Mutual Fund	960
<i>Securities and Exchange Commission, Investment Company Act</i>	
<i>Release No. 24,082</i>	960
<i>Problem</i>	962
2. Sales and Redemptions of Mutual Fund Shares	962
a. Prices and Distribution Charges	962

b. Abusive Trading Practices	964
c. Money Market Funds	965
3. The Compensation of Investment Company Affiliates	966
<i>Jones v. Harris Associates L.P.</i>	966
<i>Notes and Questions</i>	967
<i>Problem</i>	968
4. Self-Dealing by Investment Company Affiliates	969
5. The Definitional Problem	970
6. ETFs	971
D. Hedge Funds and Other Private Investment Vehicles	972
 Chapter 18 The Extraterritorial Application of U.S. Securities Laws	 977
A. Limiting the Reach of Securities Law: The <i>Morrison</i> Decision	978
<i>Morrison v. National Australia Bank Ltd.</i>	978
<i>Notes and Questions</i>	984
<i>Problems</i>	986
B. <i>Morrison</i> Applied	986
<i>Absolute Activist Value Master Fund Ltd. v. Ficeto</i>	986
<i>Notes and Questions</i>	989
<i>Problems</i>	994
 Table of Cases	 000
Index	000