

# One Minute Memo®



## Supreme Court Affirms State Courts' Jurisdiction Over 1933 Act Claims

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**Seyfarth Synopsis:** In a much-awaited decision on which courts and counsel have reached different conclusions for years, the United States Supreme Court held on March 20, 2018 that the Securities Litigation Uniform Standards Act of 1998 ("SLUSA") does not strip state courts of jurisdiction over class action law suits brought exclusively under the Securities Act of 1933 (the "1933 Act"). The Supreme Court additionally held that SLUSA does not permit removal of class action claims brought solely under the 1933 Act from state to federal court. This unanimous decision will significantly impact securities litigation and will likely increase the number of cases bringing 1933 Act claims in state courts.

### Legal Background

After the enactment of the Private Securities Litigation Reform Act ("PSLRA") in 1995, many plaintiffs filed securities cases in state court in an effort to avoid the PSLRA's procedural requirements. In response to these practices, Congress enacted SLUSA, which, among other things, amended the 1933 Act's jurisdictional provision to deprive state courts of concurrent jurisdiction over certain securities class action claims and permitted the removal of certain types of securities class actions to federal court.

### Background Regarding the Cyan Lawsuit

Telecommunications company Cyan completed its IPO in 2013 and shortly thereafter plaintiff shareholders brought a securities class action under the 1933 Act in California state court. Cyan argued that the SLUSA amendment eliminated state court jurisdiction over claims brought solely under the 1933 Act. The California Superior Court denied Cyan's motion to dismiss and the state appellate courts denied review of the trial court decision. The Supreme Court granted Cyan's petition for certiorari to answer the question of whether SLUSA's amendment deprived state courts of jurisdiction over class action claims brought exclusively under the 1933 Act. The federal government filed an amicus brief requesting the Supreme Court also decide whether SLUSA allows for the removal of claims brought under the 1933 Act.

### Decision

In a unanimous decision, the Supreme Court affirmed the judgment of the court below in holding that "SLUSA did nothing to strip state courts of their longstanding jurisdiction to adjudicate class actions alleging only 1933 Act violations," and "neither did SLUSA authorize removing such suits from state court to federal court."

The Supreme Court indicated that although SLUSA abolished state court jurisdiction over securities class actions based upon state law, it did not abolish concurrent jurisdiction over class actions based on federal law. In an effort to address concerns that permitting state court review of 1933 Act claims would allow plaintiffs to circumvent the procedural requirements of the PSLRA, the Court stated that “wherever those suits go forward, the Reform Act’s substantive protections necessarily apply.” As the Court’s opinion also noted, however, certain PSLRA provisions apply only when a suit is brought in federal court. This decision means that defendants that are now forced to litigate in state court will be unable to rely on the full protections of the PSLRA.

## Takeaways

The decision will likely increase the number of securities class action claims filed and litigated in state court and means that defendants going forward may face suits in multiple forums.

For a link to the opinion in *Cyan, Inc. v. Beaver Country Employees Retirement Fund*, click [here](#).

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**Seyfarth Shaw LLP One Minute Memo® | March 22, 2018**

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