

Example of facts case study

[Business](#), [Company](#)



Fraud is a common problem in the contemporary legal landscape. Most evident after the fact, it is one of the primary causes of the 2007-2008 financial crisis, sending the country into a recession not seen before since the Great Depression. And yet, there are regulations and regulatory bodies in place that are tasked with eliminating the practice of fraud in the financial sector. In particular, the Securities and Exchange Commission is tasked with the prosecution and enforcement of suits against fraudulent traders. The present case is fertile ground for discussion in this regard, dealing directly with the phenomenon of insider trading and the liabilities in cases of fraud.

Anthony Materia was a proofreader in the financial printing firm of Browne of New York, Inc. The firm specialized in printing the numerous documents used in connection with proposed takeover offers. To protect against the disclosure of the identity of potential target companies, code names, blanks, and even actual misstatements were included in early drafts of these documents. In addition to Bowne's intense efforts to protect the identities of takeover targets, Bowne also " had a policy explicitly forbidding its employees from trading on information they might come across in the course of their work." Despite these efforts to keep the identity of potential takeover targets secret, between December, 1980 and September, 1982, Materia discovered the true identity of four such targets. Materia purchased stock in these companies within hours of his discoveries, selling his holdings, at substantial profit, after the takeovers were made public. Shortly after his fourth purchase and sale, the S. E. C. filed a civil enforcement action against Materia. The S. E. C.'s action was based on alleged violations of Section 10(b) and Rule 10b-5 and violations of Section 14(e) of the Exchange Act 68 and

Rule 14e-3 promulgated thereunder. The S. E. C. based the Section 10(b), and Rule 10b-5 claims on Materia's allegedly " misappropriating material, non-public information about the proposed acquisition of the securities of specific issuers from Bowne's clients, in breach of his fiduciary duty to Bowne and its clients arising out of his employment relationship and the express internal policy against purchasing securities on the basis of client information." The S. E. C.'s case against Materia was heard before the District Court, and found for it.

ISSUES

- Whether or not Section 21(d) restricts the remedies the SEC may pursue solely to injunctive relief
- Whether or not Materia's misappropriation of confidential information and trading on it to his advantage contravenes Section 10(b) and Rule 10b-5

DECISION

- NO. Any form of ancillary relief may be granted where necessary to effectuate the purposes of the statutory scheme.
- YES. On both accounts, Materia's activities constituted a violation of Section 10(b) and Rule 10b-5

REASONING

- The forms of relief granted by the district court are valid and appropriate, the lower court having determined that Materia's activities were illegal.
- The court viewed Rule 10b-5 as embodying three distinct concepts: 1) " fraud or deceit"; 2) " upon any person"; and 3) " in connection with the purchase or sale of a security." Turning first to the " fraud or deceit" concept,

the court was able to easily find that Materia's conduct fell " squarely within the 'fraud or deceit' language of the Rule." The Second Circuit reasoned that the original statutory intent behind Section 10(b) and Rule 10b-5 was that the application of these anti-fraud provisions should be broad in scope. Relying on the legislative history of the 1934 Act, the court noted that it is " clear that the antifraud provisions . . .[were] intended to be broad in scope, encompassing all manipulative and deceptive practices which have been demonstrated to fulfill no useful function. ' Therefore, the court concluded that the scope of Section 10(b) extended beyond corporate insiders. Applying this expanded reading of fraud to the facts of this case, the court concluded that Materia's " misappropriation of material nonpublic information perpetrated a fraud upon Bowne," his employer.

- Despite finding that Materia's actions were fraudulent, the court recognized that the mere possession of inside information, absent a duty to disclose, does not engender Section 10(b) liability. Instead, the court observed that Section 10(b) is both a civil and criminal piece of legislation. However, when the S. E. C. adopted Rule 10 b-5 there was no explicit mention of private civil remedies. It was only after the judiciary's creation of a private Section 10(b) action that the question of standing arose

Works Cited

Securities and Exchange Commission v. Materia. Second Circuit Court. 745 F. 2d 197. Print.