Prupis and petigrow v. gilbertson

Law

The court granted summary judgment for the defendants on the ground that the complaints were not timely filed, ruling that the claims were governed by Oregon's 2-year limitations period for fraud claims, the most analogous forum-state statute; that plaintiff-respondent had been on notice of the possibility of fraud as early as 1982; and that there were no grounds sufficient to toll the statute of limitations. The Court of Appeals also selected Oregon's limitations period, but reversed, finding that there were unresolved factual issues as to when plaintiff-respondents should have discovered the alleged fraud.

Issue:

Was the action filed in a timely manner

Decision:

No. The judgment is reversed. The court through Justice Blackmun held that litigation pursuant to 10(b) and Rule 10b-5 must be commenced within one year after the discovery of the facts constituting the violation and within three years after such violation, as provided in the 1934 Act and the Securities Act of 1933.

Rationale:

It is the usual rule that when Congress has failed to provide a statute of limitations for a federal cause of action, a court " borrows" or " absorbs" the local time limitation most analogous to the case at hand. The rule, however, is not without exception. We have recognized that a state legislature rarely enacts a limitations period with federal interests in mind, and when the operation of a state limitations period would frustrate the policies embraced by the federal enactment, this Court has looked to federal law for a suitable period.

The State-borrowing principles should not be applied where, as in the case, the claim asserted is one implied under a statute also containing an express cause of action with its own time limit. The 1934 Act contemporaneously enacted a number of express remedial provisions actually designed to accommodate a balance of interests very similar to that at stake in this litigation. And the limitations periods in all but one of its causes of action include some variation of a 1-year period after discovery combined with a 3-year period of repose. Moreover, in adopting the 1934 Act, Congress also amended the 1933 Act, adopting the same structure for each of its causes of action. Neither the 5-year period contained in the 1934 Act's insider-trading provision, which was added in 1988 nor state-law fraud provides a closer analogy to 10(b).

The Doctrine of Equitable Tolling can not be used in the limitation period. The Court pointed out that the 1-year period begins after the discovery of the facts constituting the violation, thereby making tolling unnecessary, and the 3-year limit is a period of repose inconsistent with tolling. Similarly, the purpose of the 3-year period is clearly to serve as a cutoff, for that reason the tolling principles cannot be made to apply to that period.

Analysis:

It can be inferred from the case that Congress was not able to expressly provide a private cause of action under Section 10 (b) and as such, it can also be inferred that the Section does not have express provisions which provide statutory limitation period for the actions mentioned in Section 10 (b). Federal Courts in its long line of cases have a " borrowed" state law limitation period for such actions, which correspondingly leaves Section 10 (b) confusing. With the advent of the Lampf case, the Supreme Court was able to elucidate further this area of law by implementing a uniform federal limitations period with respect for private causes of actions as provided for by Section 10(b).

Another noteworthy point to consider is the dissenting opinion of Justice Stevens, with whom Justice Souter joins, for the reason that the Court in ruling the validity of the statute of limitation applicable to the case has undertaken a lawmaking task which should be in the ambit of Congress. It further provides that it is Congress rather than the Federal Judiciary, which has the responsibility for making the policy determinations that are required in rejecting a rule selected under the doctrine of state borrowing, and choosing a new limitations period and its associated tolling rules. As such, the Court should likewise reconsider its methods so as to avoid infringing legislative powers that are within the realm of Congress.