

Bond Case Briefs

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AUCTION RATE SECURITIES - MICHIGAN

William Beaumont Hospital v. Morgan Stanley & Co., L.L.C.

United States District Court, E.D. Michigan, Southern Division - January 19, 2016 - Slip Copy - 2016 WL 213028

Hospital brought standard-issue Auction Rate Securities claim against Morgan Stanley. Morgan Stanley moved to dismiss the action as time-barred and for failure to state a claim.

Morgan Stanley argued that the fraud and misrepresentation claims accrued when Hospital executed the contract that it alleges it was fraudulently induced to sign. Because these agreements were executed in March 2006, it is asserted that the limitations period expired in March 2012, and thus Plaintiff is time-barred from bringing this complaint.

Hospital argued that the harm it suffered as a result of the underwriters' fraud occurred when the ARS market collapsed in February 2008, meaning that their claims would have been timely, as filed on January 28, 2014.

The District Court held that Michigan case law supports the view that a fraud or misrepresentation claim alleging fraudulent inducement to enter into a contract accrues when the plaintiff enters into the contract, because the harm is suffered when the contract is signed. Consequently, the Hospital's claim was time-barred.

The Court also noted that, even if the claims were not time barred, the Court would still be required to dismiss Hospital's fraud and misrepresentation claim for failure to state a claim.