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AUCTION RATE SECURITIES - MICHIGAN

William Beaumont Hospital System v. Morgan Stanley & Co., LLC

United States Court of Appeals, Sixth Circuit - January 26, 2017 - Fed.Appx. - 2017 WL 384309

Nonprofit hospital system brought action against underwriters and broker-dealers alleging fraud and misrepresentation in connection with issuance of auction-rate securities (ARS) to finance renovations of one of its hospitals and for construction of new facility.

The United States District Court for the Eastern District of Michigan dismissed claims. Hospital appealed.

The Court of Appeals held that hospital system failed to state claims for fraud and misrepresentation.

Allegations by nonprofit hospital system that broker-dealers withheld information about structure of auction-rate securities (ARS) market and their support-bidding practices, that they misrepresented availability of fixed-rate versus formulaic-rate structures, and that they failed to warn hospital system about deteriorating ARS market did not satisfy heightened fraud and mistake pleading standard, and, thus, hospital system failed to state claims for fraud and misrepresentation under Michigan law in connection with issuance of ARS to finance hospital renovations and construction of new facility.