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Krupka v. Stifel Nicolaus & Co., Inc.

United States District Court, E.D. Missouri, Eastern Division - May 11, 2023 - Slip Copy - 2023 WL 3376356

California Plaintiffs filed a putative class action in Missouri state court alleging that Missouri Defendant Stifel Nicolaus made negligent misrepresentations and was negligent in its underwriting of municipal bonds issued by the Illinois Finance Authority (IFA) to fund low-income housing developments in Chicago.

In January 2023, Defendant removed the case to the District Court of Missouri under the Class Action Fairness Act (CAFA). Plaintiffs moved to remand the case, arguing that their claims fell under CAFA's jurisdictional exception for actions related to securities.

The District Court held that:

- CAFA confers original federal jurisdiction when the putative class has over 100 members, the amount in controversy exceeds \$5 million, and the parties are minimally diverse in citizenship;
- CAFA does not apply to "any class action that solely involves a claim that relates to the rights, duties (including fiduciary duties), and obligations relating to or created by or pursuant to any security;"
- The party seeking remand bears the burden of proving a CAFA exception, and any doubt is resolved against remand;
- In cases where remand was granted, the plaintiffs sued in their capacity as holders alleging breach of fiduciary duties owed by the defendant trustees or corporate board members and related claims predicated on the breach;
- By contrast, in cases where plaintiffs have sued as purchasers alleging misrepresentation in the sale of securities, courts have denied remand; and
- Remand was not warranted under the CAFA securities exception.

"Here, Plaintiffs have not sued the trustee and do not plead the existence of a fiduciary relationship on which their claims depend. Rather, they allege injury from Stifel's negligent due diligence and resulting misrepresentations in the offering memorandum provided to potential investors as purchasers. Applying the foregoing caselaw to this set of facts, the Court concludes that remand is not warranted under the CAFA securities exception."

"The Court acknowledges Plaintiffs' argument that a straightforward reading of the statute could be construed to encompass their claims, given its broad 'related to' language. But while the Eighth Circuit has yet to opine on this issue, the Circuit has instructed in a similar context that courts are to interpret CAFA jurisdiction broadly and exceptions narrowly, with any doubt resolved against remand."

"Mindful of this directive and guided by the reasoning of other Circuit and district courts, the Court declines to extend the securities exception to cover claims involving the performance of non-fiduciary functions vis-à-vis potential investors based on an alleged duty of care not grounded in the

securities themselves. Rather, this case appears to present the type of ‘interstate class action of national importance’ that Congress intended to place in federal court.”

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