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"Federal District Court Holds That SEC Action For Aiding And Abetting Under Exchange Act Section 20(e) Requires 'Actual Knowledge'" by David Daniels

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A federal district court in the District of Columbia recently rejected arguments by the SEC that it need only show "extreme recklessness" to state a claim for aiding and abetting a violation of the federal securities laws under section 20(e) of the Securities Exchange Act of 1934. The district court held instead that the SEC must show "actual knowledge" of wrongdoing. The decision is significant in the wake of the Supreme Court's recent decision in *Stoneridge Investment Partners, LLC v. Scientific-Atlanta, Inc.*, 128 S. Ct. 761 (Jan. 15, 2008), which effectively left the SEC as the only party able to sue secondary participants in the commission of securities fraud. The memorandum below was prepared by our partner David Daniels.

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