***Goldman Sachs Group, Inc.* v. *Arkansas Teacher Retirement System*, No. 20-222**

Today, the Supreme Court held that in a securities-fraud class action, the district court should consider whether the alleged misrepresentation is generic in determining whether the misrepresentation affected the price of the security at issue. The Court also held that the defendant bears the burden to prove the lack of price impact by a preponderance of the evidence.

Background: Goldman Sachs shareholders sued the bank for securities fraud, alleging that the bank made false statements about its ability to manage conflicts. The statements were generic – for example, Goldman stated that it “ha[d] extensive procedures and controls that are designed to identify and address conflicts of interest.”

The shareholders sought to certify a class of investors. The shareholders invoked the fraud-on-the market presumption from *Basic Inc. v. Levinson*, 485 U. S. 224 (1988). That presumption allows the court to presume that plaintiffs relied on a false statement on the theory that stock prices in an efficient market reflect all publicly available information. A defendant can rebut the presumption by showing that the alleged false statement did not actually affect the stock’s price.

Here, Goldman opposed class certification on the ground that the alleged misrepresentations were too generic to have affected the price of its stock. The district court disagreed, certifying the class, and the Second Circuit affirmed.

Issues: (1) Whether the generic nature of an alleged misrepresentation is relevant to determining whether the misrepresentation affected the price of the stock. (2) Whether the defendant bears the burden of showing that the alleged misrepresentation did not affect the price of the stock.

Court’s Holdings: In an opinion for the Court authored by Justice Barrett, the Court held that at the class-certification stage, a district court should consider whether the alleged misrepresentations are generic. The Court explained that the generic nature of the alleged misrepresentation can be probative evidence of price impact. The greater the mismatch between a generic initial misrepresentation and a specific corrective disclosure, the Court noted, the less likely it will be that the generic misrepresentation had an effect on the price of the stock.

The Court also held that, at class certification, the defendant bears the burden of showing that the alleged misrepresentation did not affect the price of the stock. The Court explained that its precedents placed the burden of persuasion on defendants, by requiring them to make a “showing” that the alleged misrepresentations “in fact” did not affect the stock’s price.

Read the opinion here.