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California State Appellate Court Affirms Dismissal of Securities Act Claims Against Issuer and Underwriters Based on Federal Forum Provision

On April 23, 2025, a California state appellate court affirmed the dismissal of claims brought under sections 11 and 15 of the Securities Act against an issuer and its underwriters based on a federal forum provision ("FFP") found in the issuer's articles of incorporation. The appellate court's decision adds authoritative support to past trial court opinions enforcing FFPs (which you can read about here, here, and here), and affirms that underwriters have standing to enforce FFPs, both of which are welcome news for companies seeking to eliminate costly, uncertain, and often duplicative Securities Act litigation in state courts.

Background

In November 2021, Rivian Automotive, Inc., a manufacturer of electric vehicles, held an initial public offering. Plaintiffs filed a putative class action in California state court in February 2023 asserting Securities Act claims against Rivian and its underwriters, alleging that the IPO registration statement contained materially misleading information. Rivian moved to dismiss based on the FFP in its charter, which provides that "the federal district courts of the United States of America shall, to the fullest extent permitted by law, be the sole and exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act of 1933." The IPO underwriters filed a joinder to the motion to dismiss. The trial court granted the motion to dismiss for all defendants on the basis of the FFP, and plaintiffs appealed.

The Appellate Court Decision

A three-judge panel for California's Fourth Appellate District Court unanimously affirmed the dismissal and rejected all four arguments advanced by Plaintiffs. *First*, the court found that the FFP did not violate the "anti-removal provision" of the Securities Act because the issuer did not seek removal to federal court—it sought dismissal. *Second*, the Delaware law enabling FFPs did not violate the supremacy clause or commerce clause of the United States Constitution because it does not "preclude[] a plaintiff from bringing a [Securities Act] claim in state court," but instead allows corporations and shareholders to agree to forum selection provisions that limit such claims to federal courts. *Third,* the FFP was valid and enforceable under California law, which favors and generally enforces mandatory forum selection clauses. *Fourth*, the IPO underwriters had standing to enforce the FFP because the allegations against them and the issuer were "so intertwined that they cannot be separated," and principles of judicial economy favor enforcing forum selection provisions by a noncontracting party "closely related to the contractual relationship."

Implications

In the past five years, corporations have increasingly adopted FFPs to avoid the risk and expense of defending Securities Act claims in state courts and courts have consistently enforced such provisions. Although the number of Securities Act claims brought in state courts has declined in recent years, such claims still arise, with the majority of complaints being filed in California.[1] This unanimous appellate decision provides authoritative support for the enforceability of FFPs in a jurisdiction that has been favored by the plaintiffs' bar and helpfully clarifies that underwriters may enforce an FFP despite not being parties to a corporate charter. This continued trend is good news for corporations and another helpful step on the path to restoring Securities Act lawsuits to federal courts and reducing litigation costs and insurance premiums.

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[1] *See* Cornerstone Research, *Securities Class Action Filings: 2024 Year in Review* at 17.

This memorandum is not intended to provide legal advice, and no legal or business decision should be based on its content. Questions concerning issues addressed in this memorandum should be directed to:

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