SUPERSTAR JUDGES AS ENTREPRENEURS: 
THE UNTOLD STORY OF FRAUD-ON-THE-MARKET

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SUPERSTAR JUDGES AS ENTREPRENEURS: 
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Abstract: This Article unites two disparate subjects of profound interest to legal scholars. One is fraud-on-the-market, reaffirmed late last term in Erica P. John Fund, Inc. v. Halliburton Co. (Halliburton II). Probably the most important claim in the securities litigation universe, fraud-on-the-market is the sine qua non of almost every securities class action that is filed. The other subject consists of the work of Judges Frank Easterbrook and Richard Posner, the “superstars” of the current federal appellate bench.

My purpose is several-fold: first, to show that fraud-on-the-market’s evolution, up through and culminating in Halliburton II, has been driven in significant measure by an unheralded series of contributions by Judge Easterbrook, Judge Posner, or a combination; and second, to reveal, by the use in part of an empirical spotlight, the strategies that they employed to bring their contributions to life.

Judges Easterbrook and Posner influenced fraud-on-the-market by dominating the development of Rule 23(f) of the Federal Rules of Civil Procedure. Effective beginning more than ten years after Basic, Rule 23(f) offers a mechanism for appealing certification orders, where fraud-on-the-market issues tend to arise.

Their domination of Rule 23(f)’s development has had three dimensions. First, Judge Posner played a role in the Rule’s becoming law. Second, he or Judge Posner authored the Seventh Circuit’s first seventeen reported Rule 23(f) opinions. Those opinions, which urged active use of the Rule in general and expressed antipathy towards fraud-on-the-market in particular, helped to fuel a series of rulings in other circuits that were hostile to fraud-on-the-market. Third, Judge Easterbrook thereafter wrote a Rule 23(f) opinion supportive of fraud-on-the-market, which influenced the Supreme Court’s approach in Halliburton II and elsewhere.

Judges Easterbrook and Posner advanced their views by employing a variety of strategies, including describing precedent with less than complete accuracy to cornering the market on the authorship of Rule 23(f) opinions in their circuit. By identifying these and other strategies, I hope to highlight the importance of the superstars as entrepreneurs, an area of inquiry that offers to enlighten us greatly about how legal doctrine develops.

Two perspectives have inhibited the exploration of the superstars’ entrepreneurship. One holds that essentially all judicial activity tends to be all strategy, all the time. This perspective fails to appreciate the singular role played by the superstar judges in the formulation of the legal canon and the consequent importance of focusing on their strategies. The other perspective regards entrepreneurship as noteworthy only to the extent that it occurs at the Supreme Court. This view ignores the fact that the superstar judges approach Supreme Court

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justices in terms of the degree of influence that they wield.

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INTRODUCTION

“The best judges . . . have wanted to change the law and have succeeded in doing so.”

RICHARD A. POSNER, CARDOZO: A STUDY IN REPUTATION 127 (1990)

Within the ranks of sitting federal circuit judges, Frank Easterbrook and Richard Posner stand out as the “superstars” in multiple respects. One is the frequency with which their opinions are cited by courts outside their circuit. Another is how often law school casebooks feature their opinions as principal cases. Several scholars have hypothesized that these achievements reflect not only “merit” but also an inclination towards entrepreneurship, that is, a proneness to market their ideas and to seize opportunities for doing so.

 Inspired by this hypothesis, I have written this Article with two purposes in mind. The first is to demonstrate the ways in which Judges Easterbrook and Posner have driven the

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1 Stephen Choi and Mitu Gulati have coined the “superstar” phraseology to denote the leading sitting federal appeals court judges – notably, Seventh Circuit Judges Easterbrook and Posner. See Stephen J. Choi & G. Mitu Gulati, Choosing the Next Supreme Court Justice: An Empirical Ranking of Judicial Performance, 78 S. CAL. L. REV. 23, 50 (2004). Their counterparts in previous generations include the late Second Circuit Judges Henry J. Friendly and Learned Hand. See id. For the derivation of “superstar” in the academic literature, see id. at 72.

2 See id. at 50 (noting that Judges Easterbrook and Posner each outstripped the sample mean by more than four standard deviations in a study of citations spanning a two year period). Citations outside a judge’s home circuit encompassed those from other circuits, from state courts, and from the Supreme Court. See id.


4 For the seminal work on entrepreneurial judging, written by political scientists, see WAYNE V. MCINTOSH & CYNT HY L. CATES, JUDICIAL ENTREPRENEURSHIP: THE ROLE OF THE JUDGES IN THE MARKETPLACE OF IDEAS (1997).

5 Frank Cross and Stefanie Lindquist have speculated that high citation rates may reflect a tendency towards entrepreneurship. See Frank B. Cross & Stefanie Lindquist, Judging the Judges, 58 DUKE L. J. 1383, 1419-1422 (2009). They have cautioned, however, that their hypothesis is “purely theoretical.” Id. at 1425. Similarly, Mitu Gulati and Veronica Sanchez have attributed the success of Judge Posner in the “casebook market,” and by implication that of Judge Easterbrook as well, to their efforts at targeting an academic audience. See Gulati and Sanchez, supra note 3, at 1180.
evolution of fraud-on-the-market\textsuperscript{6} in the period following its endorsement in Basic, Inc. \textit{v. Levinson}\textsuperscript{7} up through and including its reaffirmation last term in \textit{Erica P. John Fund, Inc. v. Halliburton Co. (Halliburton II)}.\textsuperscript{8} Legal scholars have thus far altogether overlooked their efforts in this regard.\textsuperscript{9}

The other purpose is to identify, by the use in part of an empirical spotlight, the strategies that they employed to advance their views. By so doing, I hope to elicit scholarly interest in the superstars’ entrepreneurial behavior. This largely unexplored area of inquiry has the potential greatly to enhance our understanding about how legal doctrine evolves.

Two different perspectives have together inhibited the examination of the superstars’ entrepreneurship. One, coming from the direction of political science, holds that essentially all judicial activity amounts to all strategy, all the time.\textsuperscript{10} This view fails to appreciate the singular role of the superstars as architects of the legal canon and the consequent importance of studying


\textsuperscript{7} 485 U.S. 224 (1988).

\textsuperscript{8} 134 S.Ct. 2398, 2408-2413 (2014).

\textsuperscript{9} Legal commentators have acknowledged Easterbrook and Posner’s pre-\textit{Basic} support for fraud-on-the-market, which included the following: Flamm \textit{v. Eberstadt}, 814 F.3d 1169 (7\textsuperscript{th} Cir. 1987) (Easterbrook, J.); Frank H. Easterbrook & Daniel R. Fischel, \textit{Corporate Control Transactions}, 91 \textit{YALE L.J.} 698, 708 n.28 (1982); and RICHARD A. POSNER, \textit{ECONOMIC ANALYSIS OF LAW § 15.8} (3d ed. 1986). \textit{See generally} Langevoort, Basic \textit{at Twenty}, supra note 6, at 164, 178-179, 188-189.

\textsuperscript{10} \textit{See} Frank B. Cross, \textit{The Justices of Strategy}, 48 \textit{DUKE L. J.} 511, 514 (1998) (reviewing LEE EPSTEIN AND JACK KNIGHT, \textit{THE CHOICES JUSTICES MAKE}) (describing the authors, political scientists, as urging the view that “strategy explains everything” on the Supreme Court).
their strategies in particular. The other perspective, common among legal scholars, is to regard entrepreneurship as noteworthy only to the extent that it occurs on the Supreme Court. This view ignores the fact that the superstar judges approach Supreme Court justices in terms of the degree of influence that they wield.

Judges Easterbrook and Posner succeeded in influencing fraud-on-the-market’s evolution by dominating the development of Rule 23(f) of the Federal Rules of Civil Procedure (FRCP). Effective at the end of 1998, more than ten years after Basic, Rule 23(f) offers a mechanism for appealing certification orders that omits the restrictions that have hobbled the older, alternative mechanism set forth in 28 U.S.C. § 1292(b).

Their domination in this regard has consisted of three dimensions. First, Judge Posner

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11 This viewpoint can be inferred from the existence of numerous articles by legal scholars on the strategies employed by Supreme Court justices and the absence of such articles on the strategies of circuit court judges. For illustrative articles about the former, see Margaret Meriweather Cordray & Michael Cordray, Strategy in Supreme Court Case Selection: The Relationship Between Certiorari and the Merits, 69 OHIO ST. L. J. 1 (2008); Tonja Jacobi, Obamacare as a Window on Judicial Strategy, 80 TENN. L. REV. 763 (2013); Paul J. Wahlbeck, Strategy and Constraints on Supreme Court Opinion Assignment, 154 U. PA. L. REV. 1729 (2006). See also E. Thomas Sullivan & Robert B. Thompson, The Supreme Court and Private Law: The Vanishing Importance of Securities and Antitrust, 53 EMORY L.J. 1571, 1627 (2004) (invoking the entrepreneurship of the late Justice Powell to explain the large number of antitrust and securities cases heard by the Supreme Court during his tenure). Conversely, the principal work on strategies at the circuit level is unpublished. See Jeffrey A. Berger & Tracey E. George, Judicial Entrepreneurs on the U.S. Courts of Appeals: A Citation Analysis of Judicial Influence 7-8, 19-20 (Vanderbilt Univ. Law Sch., Law & Econ. Working Paper No. 05-24, 2005), available at http://ssrn.com/abstract=789544.

12 Cf. Gulati and Sanchez, supra note 3, at 1143 (depicting the legal canon as comprised of opinions authored by Supreme Court justices, the superstars, and the superstars’ counterparts from previous generations). For the identification of these counterparts, see supra note 1.


14 For discussion of 28 U.S.C. § 1292(b), see infra notes 105-107.
played a role in Rule 23(f)’s becoming law.\textsuperscript{15} Second, he or Judge Easterbrook authored each of the Seventh Circuit’s first \textit{seventeen} reported Rule 23(f) opinions.\textsuperscript{16} Those opinions advocated active use of Rule 23(f) in general and also expressed antagonism towards fraud-on-the-market in particular,\textsuperscript{17} fueling the hostile stances to that claim adopted by other circuits pursuant to Rule 23(f).\textsuperscript{18} Thereafter, Judge Easterbrook changed direction with a Rule 23(f) opinion that embraced fraud-on-the-market.\textsuperscript{19} That opinion shaped the approach to fraud-on-the-market taken by the Supreme Court in \textit{Halliburton Co. v. Erica P. John Fund, Inc. (Halliburton I)},\textsuperscript{20} \textit{Amgen, Inc. v. Connecticut Retirement Plans & Trust Funds},\textsuperscript{21} and \textit{Halliburton II}.\textsuperscript{22}

This Article proceeds in five Parts. Part I sets the stage. After examining the crucial role played by fraud-on-the-market in class actions brought under Section 10(b) of the Securities Exchange Act of 1934\textsuperscript{23} and Rule 10b-5,\textsuperscript{24} it turns to why the questions left unanswered by \textit{Basic, Inc. v. Levinson}\textsuperscript{25} did not quickly become lower court grist. One reason involved a strained interpretation of a 1974 Supreme Court decision that was not put to rest until after the turn of the twenty-first century.\textsuperscript{26} The other involved the limited opportunities for obtaining

\begin{itemize}
\item \textsuperscript{15} See infra notes 116-142 and accompanying text.
\item \textsuperscript{16} See infra notes 164-172 and accompanying text.
\item \textsuperscript{17} See infra notes 191-227 and accompanying text.
\item \textsuperscript{18} For illustrative decisions, see infra notes 229-231 and accompanying text.
\item \textsuperscript{19} See Schleicher v. Wendt, 618 F.3d 679 (7th Cir. 2010), discussed infra Part IV.
\item \textsuperscript{20} 131 S. Ct. 2179 (2011).
\item \textsuperscript{21} 133 S. Ct. 1184 (2013).
\item \textsuperscript{22} 134 S. Ct. 2398 (2014).
\item \textsuperscript{24} 17 C.F.R. § 240.10b-5 (2014).
\item \textsuperscript{25} 485 U.S. 224 (1988).
\item \textsuperscript{26} The Supreme Court decision in question was \textit{Eisen v. Carlisle & Jacquelin}, 417 U.S. 156 (1974). For a discussion of the strained interpretation of \textit{Eisen}, which was rejected as a formal matter in \textit{Walmart Stores, Inc. v. Dukes}, 131 S.Ct. 2541, 2552 (2011), see infra notes 97-102 and accompanying text. Eleven years before the \textit{Dukes} decision, Judge Easterbrook dealt the strained interpretation a substantial blow in \textit{Szabo v. Bridgeport Machs., Inc.}, 249 F.3d 672
\end{itemize}
appellate review of certification orders prior to the addition of Rule 23(f) to Rule 23.28

Part II examines how Judge Posner promoted the addition of Rule 23(f) through the auspices of his 1995 opinion in In re Rhone-Poulenc Rorer, Inc.29 That opinion served as a scarcely concealed memorandum to the Advisory Committee on Civil Rules, which must approve any proposed amendment to the FRCP before it can become law.30 To make his case for Rule 23(f), as well as for another amendment to Rule 23,31 Judge Posner depicted two lines of precedent with less than complete accuracy.32

Part III focuses on the authorship by Judges Easterbrook and Posner of the Seventh Circuit’s first seventeen Rule 23(f) reported opinions.33 Part III begins by explaining how they cornered the market in this respect. A portion of the explanation derives from the fact that opinions are assigned by the panel’s presiding judge, a position determined by seniority.34 Judge Easterbrook or Judge Posner presided over sixteen of the seventeen panels and in that capacity assigned the Rule 23(f) opinions only to themselves or each other.35 But how did it happen that one or the other of them was a member of all seventeen panels in the first place? The answer involves the nature of the panels: eleven of the seventeen were motions panels that granted

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28 For the text of Rule 23(f), see infra note 157 and accompanying text.
29 51 F.3d 1293 (7th Cir. 1995).
30 See infra note 116 and accompanying text. Once the Advisory Committee gives its approval, the proposed amendment must receive the endorsement of several other entities as well. See infra note 116.
31 See infra notes 143-153 and accompanying text.
32 See infra notes 135-137 & 143-147 and accompanying text.
33 For a list of the seventeen opinions, see infra note 156.
34 See infra note 164 and accompanying text.
35 For a table capturing the opinions, the presiding judges, and the opinion writers, see infra note 170 and accompanying text.
permission to appeal and then retained the appeal for decision. If those panels had instead surrendered the appeals, the practice in other circuits at the time,\textsuperscript{36} at least some (if not all) of the merits panels would likely not have included Judge Easterbrook or Judge Posner, thereby substantially reducing their eligibility to write Rule 23(f) opinions.\textsuperscript{37}

Part III then turns to the initial Rule 23(f) opinions that carried significance for fraud-on-the-market’s evolution. These opinions included two by Judge Easterbrook, one with Judge Posner on the panel,\textsuperscript{38} that not only denigrated \textit{Basic} but also depicted a crisis involving in terrorem securities class action settlements without acknowledging the existence of the two statutes that had been enacted to address that crisis\textsuperscript{39}–the Private Securities Litigation Reform Act of 1995 (the PSLRA)\textsuperscript{40} and the Securities Litigation Reform Standards Act of 1988 (the SLUSA).\textsuperscript{41} These opinions in all likelihood played a role in fueling the imposition by other circuits of substantial new burdens on plaintiffs seeking certification in fraud-on-the-market cases.\textsuperscript{42}

Part IV examines Judge Easterbrook’s subsequent Rule 23(f) opinion in \textit{Schleicher v.}

\textsuperscript{36} See infra note 163 and accompanying text.
\textsuperscript{37} A judge must be a member of the panel in order to be eligible to write the opinion that the panel issues. See 28 U.S.C. § 46 (c) (2012).
\textsuperscript{38} The two were Blair v. Equifax Check Servs., Inc., 181 F.3d 832 (7th Cir. 1999) (discussing securities issues in the context of a case not involving securities law) and West v. Prudential Secs., Inc., 282 F.3d 935 (7th Cir. 2002) (discussing securities issues in the context of a fraud-on-the-market case). The opinion in Blair was written with Judge Posner on the panel. See Blair, 181 F.3d at 833.
\textsuperscript{39} See infra notes 191-210 & 212-227 and accompanying text.
\textsuperscript{42} See infra notes 228-233 and accompanying text.
Wendt,43 which sent fraud-on-the-market off in a new direction.44 Sparing the plaintiffs the burdens that the defendants sought to impose on them, Judge Easterbrook saluted Basic, celebrated the PSLRA and the SLUSA as Congress’s solution to in terrorem settlements, and called upon the courts to refrain, on separation-of-powers grounds, from creating their own solutions to the in terrorem securities class action settlement phenomenon.45 After considering various explanations for the shift,46 Part IV concludes by examining the impact of Schleicher on the Supreme Court’s three most recent engagements with fraud-on-the-market47 – Halliburton I,48 Amgen,49 and Halliburton II.50

Part V takes a closer look at strategies that Judges Easterbrook and Posner employed to accentuate their influence. The most startling involves their occasional less than fully accurate portrayals of precedent,51 which, it appears, may not be one-off events. A Westlaw search indicates that since 1982,52 the Seventh Circuit has issued 57 reported signed majority opinions charged by a dissent or concurrence with misstating precedent.53 Judge Easterbrook or Judge Posner wrote 29 of these opinions, with the remaining 28 authored by all the other Seventh

43  618 F.3d 679 (7th Cir. 2010).
44  See infra notes 267-300 and accompanying text.
45  See infra notes 238-258 and accompanying text.
46  See infra notes 259-266 and accompanying text.
47  See infra notes 267-300 and accompanying text.
49  133 S. Ct. 1184 (2013).
51  See infra notes 136-137, 143-145, 201-202, 209-211, 222-224, 226 and accompanying text.
52  The year 1982 was selected as the start point because that was when Judge Posner joined the Seventh Circuit. See U.S. Court of Appeals for the Seventh Circuit, Judges’ Chronology [hereafter Seventh Circuit Chronology], available at http://www.lb7.uscourts.gov/
53  See infra note 309 and accompanying text.
Circuit judges combined.\footnote{See id.}

Likewise intriguing were the panels presided over by Judges Easterbrook or Posner that granted petitions to appeal and then retained the appeals for decision rather than surrendering them for reassignment.\footnote{See infra notes 173-175, 313-314 and accompanying text.} To be sure, the Easterbrook or Posner opinions written in these instances typically offered an efficiency rationale for reaching the merits—the appeal could be resolved quickly based on the comprehensive briefs filed in connection with the petition.\footnote{See infra note 315 and accompanying text.} While plausible as far as it goes, this rationale fails to take into account the arguable appearance of impropriety that arises from the retention. Indeed, when deciding to grant a petition, the motions panel may develop a view concerning how the appeal should be resolved. Retaining the appeal for decision puts the motions panel in the position of being able to turn their ideal resolution into an actuality.\footnote{Cf. Michael E. Solimine & Christine Oliver Hines, Deciding to Decide: Class Action Certification and Interlocutory Review by the U.S. Courts of Appeals Under Rule 23(f), 41 WM. & MARY L. REV. 1531, 1589 n. 294 (2000) (discussing the strategic aspects of retaining an appeal for decision after granting permission to appeal under Rule 23(f)).}

Yet another noteworthy strategy involved Judges Easterbrook and Posner’s cornering the market on the authorship of the first seventeen Rule 23(f) opinions in their circuit.\footnote{See infra notes 164-172 and accompanying text.} What they did violates no statutory norm, but it raises the question, on which I remain agnostic, as to whether they acquired greater influence over the evolution of Rule 23(f), as well as major questions of class action law, than any two judges should have had. Recently, some scholars have argued in favor of specialization by circuit judges on efficiency grounds when the subject
area presents the complexity of, say, tax or antitrust. But Rule 23(f), a single, circumscribed procedural rule that any competent judge should be able to interpret and apply, cannot readily be analogized to these fields.

PART I

BASIC, INC. V. LEVINSON AND THE INITIAL FAILURE OF LOWER COURT ENGAGEMENT

This Part lays the foundation for the Parts to follow. It begins with why Rule 10b-5's reliance element makes class certification difficult and then turns to the solutions that courts have generated in response. The most comprehensive such solution came from the Supreme Court’s watershed decision in Basic, Inc. v. Levinson. But the lower courts did not fully engage with the questions that Basic left unanswered until the twenty-first century was well under way.

A. The Traditional Rule 10b-5 Claim and Its Lack of Amenability to Class Certification

As originally contemplated by their drafters, Section 10(b) and Rule 10b-5 were enforceable only by the Securities & Exchange Commission and the Department of Justice. Beginning in 1946, however, courts recognized an implied private action that is now established “beyond peradventure.” The elements of that action, drawn from an amalgam of statutory text, legislative history, policy considerations, and tort law, include a “material” misrepresentation or omission with a “connection” to the purchase or sale of the security, a causative link between

59 See infra note 322 and accompanying text.
61 See Blue Chip Stamps v. Manor Drug Stores, 421 U.S. 723, 729-30 (1975). See also id. at 737 (noting that “[w]hen we deal with private actions under Rule 10b-5, we deal with a judicial oak which has grown from little more than a legislative acorn”).
63 See DONNA M. NAGY, RICHARD W. PAINTER & MARGARET V. SACHS, SECURITIES LITIGATION AND ENFORCEMENT: CASES AND MATERIALS 24-26 (3d ed. 2011) (discussing the amalgam of considerations that courts bring to bear in interpreting Rule 10b-5).
the misrepresentation or omission and each plaintiff’s investment decision (‘reliance’), a causative link between the misrepresentation or omission and the loss for which damages are sought (‘loss causation’), and scienter.64

In the case of a class action, the court must determine whether the plaintiffs have met the certification requirements of Rule 23 of the FRCP.65 The court’s certification decision is typically make-or-break for everyone involved. If certification is denied, the members of the might-have been class may lose the opportunity to recover because they lack the resources to sue individually.66 On the other hand, if certification is granted, the defendants may be driven to settle rather than risk a financially disastrous judgment at a class trial.67

For Rule 10b-5 plaintiffs, the most troublesome certification requirement tends to be the one that mandates the “predominance” of common legal and factual issues over individual ones.68 The predominance requirement cannot readily be harmonized with Rule 10b-5’s reliance element, which calls upon each plaintiff to establish her own reliance on the fraud.69

B. The Affiliated Ute Solution


65 See generally 7A CHARLES ALAN WRIGHT ET AL., FED. PRAC. & PROC. § 1759 et seq. (3d ed.) (discussing these requirements).

66 See Fed. R. Civ. P. 23(f), Advisory Committee’s Note (observing that “[a]n order denying certification may confront the plaintiff with a situation in which the only sure path to appellate review is by proceeding to final judgment on the merits of an individual claim that, standing alone, is far smaller than the costs of litigation”).

67 See id., Advisory Committee’s Note (observing that “[a]n order granting certification . . . may force a defendant to settle rather than incur the costs of defending a class action and run the risk of potentially ruinous liability”).

68 See F. R. Civ. P. 23(b)(3). For discussion of the predominance requirement, see 7AA WRIGHT ET AL., supra note 65, §§ 1777-1784. See also id., § 1781.1 (discussing the predominance requirement in the specific context of securities class actions).

The Supreme Court lessened this difficulty somewhat with its 1972 decision in *Affiliated Ute v. United States.*\(^{70}\) There the Court presumed that the plaintiffs had relied on the fraud in a case involving omissions,\(^{71}\) apparently on the theory that reliance on the absence of something tends to be difficult to prove.\(^{72}\) But when the allegations involve misrepresentations, either solely or in significant measure, the *Affiliated Ute* presumption becomes inapposite, leaving most would-be Rule 10b-5 class actions to wither on the vine.\(^{73}\)

**C. The Fraud-Created-the-Market Solution**

Following *Affiliate Ute*, some lower courts upheld an additional presumption of reliance that became available as part of a “fraud-created-the-market” claim, that is, a claim that the securities could not have been marketed at any price but for the fraud.\(^{74}\) Given the unusual nature of the claim, coupled with the difficulty of establishing a true lack of marketability, the presumption can carry the day only in a negligible subset of would-be Rule 10b-5 class actions.\(^{75}\)

**D. The Basic Solution**

\(^{70}\) 406 U.S. 128 (1972).


\(^{72}\) See, e.g., Joseph v. Wiles, 223 F.3d 1155, 1162 (10th Cir. 2000).

\(^{73}\) See, e.g., *In re* Interbank Funding Corp. Sec. Litig., 629 F.3d 213, 219 (D.C. Cir. 2010) (noting that “[n]o court of appeals has applied the *Affiliated Ute* presumption in a case involving a claim that primarily alleges affirmative misrepresentations”).

\(^{74}\) See, e.g., Shores v. Sklar, 647 F.2d 462 (5th Cir. 1981) (en banc); J.J. Raney & Sons, Inc. v. Fort Cobb, Okla., Irrigation Fuel Auth., 717 F.2d 1330 (10th Cir. 1983); Ross v. Bank South, 885 F.2d 723 (11th Cir. 1989) (en banc). *See also* Regents of Univ.of Cal. v. Credit Suisse First Boston (USA), Inc., 482 F.3d 372, 390 (5th Cir. 2007) (reaffirming *Shores* while finding it inapplicable under the circumstances). *But see* Malack v. BDO Seidman, LLP, 617 F.3d 743 (3d Cir. 2010) (rejecting fraud-created-the-market in all its varieties).

In Basic, Inc. v. Levinson,\textsuperscript{76} the Supreme Court provided a more comprehensive solution in the form of an alternative Rule 10b-5 claim known as “fraud on the market.”\textsuperscript{77} Fostering the Court’s acceptance of this claim was scholarship by Easterbrook and Posner rationalizing it on the basis of the efficient capital markets hypothesis\textsuperscript{78}—the idea that the price of a security trading in an efficient market reflects all public information (including misinformation).\textsuperscript{79} In addition, Judge Easterbrook had written an opinion upholding the fraud-on-the-market claim only the year before.\textsuperscript{80} As articulated by the Basic Court, the fraud-on-the-market claim took the following shape. Plaintiffs who bought or sold securities in an efficient market are presumed to have relied directly on the security’s price\textsuperscript{81} and thereby indirectly on any public fraud that distorted the

\begin{thebibliography}
\bibitem{Basic} 485 U.S. 224 (1988).
\bibitem{See supra} See supra note 9 and accompanying text.
\end{thebibliography}

The efficient capital markets hypothesis comes in three versions—weak, semi-strong, and strong:

- Under the weak form, an efficient market is one in which historical price data is reflected in the current price of the stock, such that an ordinary investor cannot profit by trading stock based on the historical movements in stock price. Under the semi-strong form, an efficient market is one in which all publicly available information is reflected in the market price of the stock, such that an investor’s efforts to acquire and analyze public information (about the company, the industry, or the economy, for instance) will not produce superior investment results. Finally, under the strong form, an efficient market is one in which stock price reflects not just historical price data or all publicly available information, but all possible information—both public and private.

\textit{In re} Polymedica Corp. Sec. Litig., 432 F.3d 1, 10 n.16 (1st Cir. 2005). It is the semi-strong version that gives rise to the fraud-on-the-market claim. See, e.g., Erica P. John Fund, Inc. v. Halliburton Co., 134 S.Ct. 2398, 2420 (2014).

\textsuperscript{80} See Flamm v. Eberstadt, 814 F.2d 1169 (7th Cir. 1987).
\textsuperscript{81} See Basic, Inc. v. Levinson, 485 U.S. 224, 248 n.27 (1988). The latter footnote suggests that the presumption also has a materiality prerequisite. See id. Thereafter, the Court
price. The presumption turns reliance into a common issue that predominates over any individual ones that may also be present. The presumption also serves as an element of the claim, a function which, as we will see, carries substantial implications.

The Basic Court emphasized the defendants’ entitlement to rebut the presumption: “Any showing that severs the link between the alleged misrepresentation and either the price received (or paid) by the plaintiff, or his decision to trade at a fair market price, will be sufficient to rebut the presumption of reliance.” For example, the defendants can overcome the plaintiffs’ evidence concerning the efficiency of the market or the existence of a “public” fraud. Or, they can show that the fraud did not fool the market.

**E. The Lower Courts’ Failure to Engage with the Questions Left Open By Basic**

As might be expected of a Supreme Court decision of its scope and magnitude, Basic left critical questions unanswered. These included how to evaluate the plaintiffs’ market efficiency held that such a prerequisite exists but that it does not attach at the certification stage. See *Amgen, Inc. v. Conn. Ret. Plans & Trust Funds*, 133 S.Ct. 1184, 1999 (2013). For further discussion of *Amgen*, see *infra* notes 272-284 and accompanying text.

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82 See *Peil v. Speiser*, 806 F.2d 1154, 1160-61 (3d Cir. 1986) (noting that “[i]n an open and developed market, . . . the dissemination of material misrepresentations or withholding of material information typically affects the price of the stock, and purchasers generally rely on the price of the stock as a reflection of its value”), cited in *Basic*, 485 U.S. at 241-342.

83 See *Basic*, 485 U.S. at 241-247.


85 See *infra* notes 97-102 and accompanying text.

86 485 U.S. at 248.

87 *Id.*

88 *Id.* Alternatively, they can show that a specific plaintiff “traded or would have traded despite his knowing the statement was false.” *Id.*
evidence, whether the plaintiffs must prove materiality at the certification stage, and whether
the defendants can mount a rebuttal at that stage instead of waiting until later in the litigation.

The questions left open by Basic did not quickly become lower court fodder, in contrast to the
questions left pending in the wake of other major Supreme Court securities opinions. Indeed, prior to
the twenty-first century, there appear to have been no reported opinions addressing the plaintiffs'
need to prove materiality at the certification stage or the defendants’ right at that stage to show that
the market had not been fooled. Nor did there appear to be

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89 Cf. id. at 248 n.28 (noting that “we do not intend conclusively to adopt any particular theory
of how quickly and completely publicly available information is reflected in market price”).

90 The Court suggested that the presumption has a materiality prerequisite when it made
the following statement: “Because most publicly available information is reflected in market
price, an investor's reliance on any public material misrepresentations may be presumed for
purposes of a Rule 10b-5 action.” Id. at 247. Cf. id. at 248 n. 27 (indicating that there was a
materiality prerequisite in the view of the appeals court). But the Court did not address whether
such a prerequisite, assuming there is one, attaches at the certification stage or only at trial (or
summary judgment). It confronted that question in Amgen, Inc. v. Conn. Ret. Plans & Trust
Funds, 133 S.Ct. 1184 (2013), discussed infra notes 272-284 and accompanying text.

91 The Court’s discussion of rebuttal says nothing about when it can occur. See Basic, 485 U.S. at
248-249.

92 Consider Janus Capital Group, Inc. v. First Derivative Traders, 131 S.Ct. 2296 (2011),
which examined who qualifies as the “maker” of a fraudulent statement. See id. at 2302-2303.
The lower courts quickly engaged with Janus’s uncertainties. See, e.g., Donald C. Langevoort,
247 (2010), which addressed the international reach of Rule 10b-5. See id. at 255-273. The
lower courts quickly engaged with Morrison’s uncertainties as well. See, e.g., David He, Note,
Beyond Securities Fraud: The Territorial Reach of U.S. Laws After Morrison v. National

93 The twenty-first century circuit court decisions addressing this question have included
Schleicher v. Wendt, 618 F.3d 679, 687 (7th Cir. 2010) (rejecting a materiality prerequisite); In
re Salomon Analyst Metromedia Litig., 544 F.3d 474, 484 (2d Cir. 2008) (endorsing a
materiality prerequisite); In re Polymedica Corp. Sec. Litig., 432 F.3d 1, 8 n.11 (1st Cir. 2005)
same). The Supreme Court resolved the split of authority in Amgen, Inc. v. Conn. Ret. Plans &
Trust Funds, 133 S.Ct. 1184 (2013), discussed infra notes 272-284 and accompanying text.

94 For a twenty-first century decision addressing this question, see In re Salomon Analyst
Metromedia Litig., 544 F.3d 474, 484 (2d Cir. 2008) (allowing the defendants to rebut at the
much circuit court activity regarding how to measure market efficiency at the certification stage.\textsuperscript{95}

The non-engagement had two explanations. One involved the Supreme Court’s landmark decision in \textit{Eisen v. Carlisle & Jacquelin},\textsuperscript{96} while the other concerned the limited opportunities for appealing certification orders.

\textbf{1. The Impact of \textit{Eisen v. Carlisle & Jacquelin}}

At issue in \textit{Eisen} was whether the trial court could hold a pre-certification merits hearing to determine which side should bear the costs of notifying the members of the class.\textsuperscript{97} Disallowing the hearing, the Supreme Court stated as follows: “We find nothing in either the language or history of Rule 23 that gives a court any authority to conduct a preliminary inquiry into the merits of a suit in order to determine whether it may be maintained as a class action.”\textsuperscript{98} This language clearly prohibits a judge from granting certification because of the strength of the plaintiffs’ underlying case (or from denying certification because of the weakness of that case).

But what about the right of the judge to conduct a merits inquiry when the merits overlap with a certification stage by showing that the market had not been fooled), \textit{abrogated} by \textit{Amgen, Inc. v. Conn. Ret. Plans & Trust Funds}, 133 S.Ct. 1184, 1203-1204 (2013).

\textsuperscript{95} For illustrative twenty-first century decisions addressing this question, see \textit{In re Polymedica Corp. Sec. Litig.}, 432 F.3d 1, 14 (1\textsuperscript{st} Cir. 2005) (holding that “an efficient market is one in which the market price of the stock \textit{fully reflects} all publicly available information”) (italics in original); \textit{Bell v. Ascendent Solutions, Inc.}, 422 F.3d 307 (5th Cir.2005) (affirming denial of certification for lack of showing of market efficiency where issuer’s stock traded on the NASDAQ and additional indices of efficiency were also present). \textit{Cf.} \textit{Binder v. Gillespie}, 184 F.3d 1059, 1054-1065 (9\textsuperscript{th} Cir. 1999) (on appeal from final order, affirming decertification of class partly on the ground that the plaintiffs failed to satisfy factors indicating market efficiency identified by a federal district court in a summary judgment case).

\textsuperscript{96} \textit{417 U.S. 156} (1974(618,1095),(684,1147)).

\textsuperscript{97} \textit{Id.} at 177. Also at issue was whether identifiable class members had to be notified on an individual basis concerning their right to exclude themselves and related matters. \textit{Id.} at 173-176. The Court held that individual notice constituted “an unambiguous requirement of Rule 23.” \textit{Id.} at 176.

\textsuperscript{98} \textit{Id.} at 177.
predominance inquiry? Although *Eisen* itself did not involve such an overlap, some lower courts read the opinion expansively and held that it restricted merits inquiries even in the overlap situation.99

Among the claims affected by the expansive reading of *Eisen* was fraud-on-the-market,100 since the presumption of reliance serves both as an element of the claim and as a basis for certification.101 Applying the expansive reading, some courts granted certification without ascertaining whether the plaintiffs had established market efficiency or were otherwise entitled to the presumption of reliance.102

2. The Limited Avenues for Appealing Certification Orders

Questions involving fraud-on-the-market tend to arise at the certification stage, but certification orders are not appealable as of right.103 Today, under Rule 23(f), those orders can

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99 *See, e.g.*, Professional Adjusting Sys. of Am., Inc. v. General Adjustment Bureau, Inc., 64 F.R.D. 35, 38 (S.D.N.Y. 1974) (describing the judge making the certification decision as being entitled “to survey the factual scene on a kind of sketchy relief map, leaving for later view the myriad of details that cover the terrain”) (antitrust case); *Sirota v. Solitron Devices, Inc.*, 673 F.2d 566, 571 (2d Cir. 1982) (distinguishing between “very basic merits determinations” that are permitted at the certification stage and “not so basic” ones that are not permitted) (securities case); *Szabo v. Bridgeport Mach., Inc.*, 199 F.R.D. 280, 284 (N.D. Ind. 2001) (noting that “the substantive allegations in the complaint are accepted as true for purposes of the class motion”) (state law fraud and breach of warranty case), rev’d, 249 F.3d 672 (7th Cir. 2001), discussed *infra* notes 166-175 and accompanying text. *Cf.* Krueger v. N.Y. Telephone Co., 163 F.R.D. 433, 440-441 (S.D.N.Y. 1995) (granting certification without undertaking merits inquiry that overlapped inquiry into whether common issues existed as required by Rule 23(a)(2) of the FRCP) (age discrimination case).
100 For illustrative additional subject areas affected, see *supra* note 99.
101 *See supra* notes 84 and accompanying text.
102 *See, e.g.*, Gariety v. Grant Thornton, Inc., 368 F.3d 356, 364 (4th Cir. 2004) (referring to the trial court’s “refusal to look beyond the complaint” in deciding whether the plaintiff had made a sufficient showing of efficiency for certification purposes); *West v. Prudential Secs., Inc.*, 282 F.3d 935 (7th Cir. 2002) (noting that the trial court had certified a class in a case involving non-public fraud without determining whether it was appropriate to extend the presumption to such circumstances).
103 *See* Coopers & Lybrand v. Livesay, 437 U.S. 463 (1978) (holding that a certification
be appealed with the circuit court’s permission.\textsuperscript{104}

To be sure, in the world as it existed prior to Rule 23(f), a permissive appeal could be sought pursuant to 28 U.S.C. § 1292(b).\textsuperscript{105} But that provision requires the approval of both the trial court and the circuit court as well as the presence of a controlling question of law as to which there is a substantial ground for a difference of opinion.\textsuperscript{106} Permission to appeal on this basis is thus rarely granted.\textsuperscript{107}

Another conceivable solution was to appeal or cross-appeal from a later final judgment, which judgment would encompass the earlier certification order.\textsuperscript{108} This was the road taken by the defendants in \textit{Basic} itself.\textsuperscript{109} But that road was often strewn with rocks. A denial of certification might lead the plaintiffs to abandon the litigation due to an inability to finance individual lawsuits,\textsuperscript{110} and a grant might prompt the defendants to settle rather than risk a huge verdict.\textsuperscript{111} In neither instance would there be a final judgment from which an appeal could be taken.

\textsuperscript{104} Rule 23(f) did not become effective until \textit{Basic} was more than ten years old. \textit{See supra} note 13.
\textsuperscript{105} 28 U.S.C. § 1292(b) (2012).
\textsuperscript{106} For discussion of these requirements, see 16 \textit{Wright ET AL., supra} note 65, § 3929.
\textsuperscript{107} \textit{See, e.g., Camacho v. Puerto Rico Ports Auth.,} 369 F.3d 570, 573 (1st Cir. 2004) (observing that appeals allowed pursuant to 28 U.S.C. § 1292(b) are “hen's-teeth rare”).
\textsuperscript{108} \textit{See, e.g., Quackenbush v. Allstate Ins. Co.,} 517 U.S. 706, 712 (1996) (noting that “[t]he general rule is that ‘a party is entitled to a single appeal, to be deferred until final judgment has been entered, in which claims of district court error at any stage of the litigation may be ventilated’ ”) (quoting Digital Equip. Corp. v. Desktop Direct, Inc., 511 U.S. 863, 868 (1994)).
\textsuperscript{109} The trial court in \textit{Basic} certified the class and then granted the defendants’ motion for summary judgment on materiality grounds. \textit{See Basic, Inc. v. Levinson,} 1984 WL 1152 at *1 n.1 (N.D. Ohio 1984). Then the Sixth Circuit affirmed the grant of certification and reversed the grant of summary judgment. \textit{See} 786 F.2d 741 (6\textsuperscript{th} Cir. 1986). Ultimately, the Supreme Court affirmed the grant of certification and vacated the summary judgment. \textit{See} 485 U.S. 224 (1988).
\textsuperscript{110} \textit{See supra} note 66 and accompanying text.
\textsuperscript{111} \textit{See supra} note 67 and accompanying text.
Finally, there was the possibility of petitioning for mandamus.\textsuperscript{112} While a few courts were willing to overturn certification orders on this basis,\textsuperscript{113} a far larger number resisted doing so.\textsuperscript{114} This resistance had its roots in the “exceptional” nature of the mandamus remedy, the requisite palpability of the trial court’s error, and the availability of an appeal following a final judgment.\textsuperscript{115}

In short, the questions that \textit{Basic} left unresolved seemed destined to remain so unless and until such time as appeals of certification orders became more widely available. Were that time to arrive, it would allow not only fraud-on-the-market, but also the expansive reading of \textit{Eisen}, to receive sustained attention from the circuit courts.

\textbf{PART II}

\textbf{JUDGE POSNER’S EFFORTS IN CONNECTION WITH RULE 23 OF THE FRCP}

Any proposed amendment to the FRCP must first pass muster with the Advisory Committee on Civil Rules (“the Committee”), an amalgam of judges, practitioners, and legal academics appointed by the United States Judicial Conference.\textsuperscript{116} From 1991 through 1997, the


\textsuperscript{113} See, e.g., \textit{In re Am. Med. Sys.}, Inc., 75 F.3d 1069 (6\textsuperscript{th} Cir. 1996); \textit{In re Temple}, 851 F.2d 1269 (11\textsuperscript{th} Cir. 1988); \textit{In re Benedectin Prods. Liab. Litig.}, 749 F.2d 300 (6\textsuperscript{th} Cir. 1984). \textit{See also In re Rhone-Poulenc Rorer, Inc.}, 51 F.3d 1293 (7\textsuperscript{th} Cir. 1995), discussed \textit{infra} notes 128-155 and accompanying text.

\textsuperscript{114} See Solimine & Hines, \textit{supra} note 57, at 1562.

\textsuperscript{115} See, e.g., \textit{In re NLO, Inc.}, 5 F.3d 154, 159-160 (6\textsuperscript{th} Cir. 1993) (availability of later appeal and lack of huge error by trial court); \textit{In re Catawba Indian Tribe}, 973 F.2d 1133, 1138 (4\textsuperscript{th} Cir. 1992) (noting that the trial court’s order was a “far cry” from an abuse of discretion); \textit{In re Allegheny Corp.}, 634 F.2d 1148 (8\textsuperscript{th} Cir. 1980) (lack of extraordinariness and lack of clear error by trial court).

\textsuperscript{116} See 4 WRIGHT ET AL., \textit{supra} note 65, § 1001 n.18. Following approval by the Advisory Committee on Civil Rules, approval must also be obtained from the Standing Committee on Rules of Practice and Procedure, the Judicial Conference of the United States, and Congress. \textit{See id. See also} Catherine T. Struve, \textit{The Paradox of Delegation: Interpreting the
Committee had under consideration a number of amendments to Rule 23. One of them involved the addition of Rule 23(f), which granted the circuit courts discretion to hear appeals from certification orders without the restrictions that had long hobbled permissive appeals under 28 U.S.C. Section 1292(b).

This Part examines how Judge Posner communicated to the Committee his support for the Rule 23(f) proposal as well as for another change to Rule 23 that the Committee ultimately rejected. The latter change would have inserted language into the Rule allowing the strength of the plaintiff’s underlying case to serve as a factor in the certification decision, thereby overriding the holding of Eisen v. Carlisle & Jacquelin.

A. In re Rhone-Polenc Rorer, Inc.

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119 For early drafts of Rule 23(f), see Cooper, _supra_ note 117, at 67, 73. The proposal to add Rule 23(f) had been on the table since at least 1993. See 16 CLASS ACTION REP. 640, 642 (1993) (draft of proposed Rule 23(f)).

120 For discussion of those restrictions, see _supra_ notes 105-107 and accompanying text. The Committee Note to Rule 23(f) acknowledges and examines the omission of these restrictions. See F.R.Civ. P. 23(f), Committee Note.

121 The view that Rhone had an effect on the Committee is not new. See, e.g., Robert H. Klonoff, _The Decline of Class Actions_, 90 WASH. U. L. REV. 729, 733 (2013) (describing the Rhone decision as ‘[a] critical event leading to Rule 23(f)’); Linda S. Mullinex, _Professor Ed Cooper: Zen Minimalist_, 46 U. MICH. J. L. REF. 661, 669 (2013) (noting that Rhone “clearly provided the impetus for Committee action”); Solimine & Hines, _supra_ note 57, 1592 n.308 (referring to Rhone as “a decision that, in part, drove the adoption of Rule 23(f)”). This Article instead focuses on Judge Posner’s likely intent. Moreover, it draws on the Committee minutes to provide context.

Judge Posner used his opinion in In re Rhone-Polenc Rorer, Inc.\textsuperscript{123} as his vehicle for communicating with the Committee. The Rhone litigation pitted hemophiliacs who had contracted the AIDS virus against drug manufacturers whose products had allegedly caused their infection.\textsuperscript{124} After the trial court granted certification,\textsuperscript{125} the defendants pursued what in all likelihood was their only means of obtaining immediate review—a writ of mandamus in the Seventh Circuit.\textsuperscript{126} Their petition was referred to a panel that included then-Chief Judge Posner, who, over a strong dissent, granted it and reversed the certification order.\textsuperscript{127}

\textbf{B. Rhone and the Proposal to Add Rule 23(f)}

Judge Posner’s opinion in Rhone came less than a month after a meeting of the Committee at which members supporting and opposing Rule 23(f) articulated their positions.\textsuperscript{128} In the view of its opponents, Rule 23(f) was likely to be exploited primarily by defendants with weak substantive arguments in order to foment delay.\textsuperscript{129}

\\textsuperscript{123} 51 F.3d 1293 (7th Cir. 1995).
\textsuperscript{125} See 157 F.R.D. at 427.
\textsuperscript{126} Possibly they could have sought permission to appeal pursuant to 28 U.S.C. § 1292(b), an option discussed supra notes and accompanying text. One commentator has suggested that the defendants made such an attempt but were rebuffed by the trial court. See Kruse, \textit{supra} note 102, at 728.
\textsuperscript{127} See In re Rhone Poulenc Rorer, Inc., 51 F.3d 1293 (7th Cir. 1995). The dissenter was Judge Rovner. See id. at 1304. For illustrative extensive treatments of this wide-ranging opinion, see Charles Silver, “‘We're Scared to Death': Class Certification and Blackmail,” 78 N.Y.U. L. REV. 1357 (2003); Melissa A. Waters, \textit{Common Law Courts in an Age of Equity Procedure: Redefining Appellate Review for the Mass Tort Era}, 80 N.C. L. REV. 527, 577-584 (2002)
\textsuperscript{129} See id. Another reason for caution about the Rule 23(f) proposal in the view of some on the Committee was that such an amendment had value mainly as a means for obtaining judicial review of other changes to Rule 23 that were then being contemplated. If the other
While not mentioning the pending Rule 23(f) proposal directly, Judge Posner managed to make three clear, if implicit, arguments in its favor. As we will see, it would have been exceedingly difficult, if not impossible, to make one of the arguments explicitly and that argument might have emerged too far into the open if he had been overt about the others.\textsuperscript{130}

First, he offered a compelling depiction of the predicament faced by the defendants who petitioned for mandamus: They could either risk devastating liability at a class trial or settle for an exorbitant amount and thereby forego the final order needed for an appeal of the certification order said to be so rife with flaws as to qualify as “usurpative.”\textsuperscript{131} His portrayal of their predicament spoke eloquently to the need for Rule 23(f), which would have offered them a solution had it been on the books.\textsuperscript{132}

Second, he highlighted the defendants’ victories in twelve of the thirteen individual trials that had been held to date, deducing that they probably had strong substantive arguments.\textsuperscript{133} He thus countered the position expressed by certain Committee members that only defendants with changes did not materialize, then, on this view, the need for Rule 23(f) became less clear. See Minutes, Advisory Committee Minutes on Civil Rules, Nov. 9 & 10, 1995, at 5 [hereafter Nov. Minutes], available at http://www.uscourts.gov/uscourts/RulesAndPolicies/rules/Minutes/min-cv11.htm.

\textsuperscript{130} Circumspection was apparently no disadvantage in communicating with the Committee, which read with great care the contemporaneous case law relevant to their work. Cf. Mullinex, \textit{supra} note 121, at 669 (noting that the Committee’s response to \textit{Rhone} illustrates “the very real synergy between the Advisory Committee and current developments in the judicial arena”).

\textsuperscript{131} He equated such settlements with “blackmail,” borrowing phraseology used by Judge Henry J. Friendly in a book published more than twenty years earlier. See \textit{In re Rhone-Poulenc Rorer}, Inc., 51 F.3d 1293, 1298 (7th Cir. 1995), quoting HENRY J. FRIENDLY, \textsc{FEDERAL JURISDICTION: A GENERAL VIEW} 120 (1973).

\textsuperscript{132} For commentary on Rule 23(f), see \textit{infra} note 154.

\textsuperscript{133} See \textit{Rhone}, 51 F.3d at 1299. The Committee took note of this emphasis. See Minutes, Advisory Committee, April 18 & 19, 1996 [hereafter April Minutes], at 13, available at http://www.uscourts.gov/uscourts/RulesAndPolicies/rules/Minutes/cv4-1896.htm.
flimsy arguments would likely avail themselves of Rule 23(f).  

Third, he intensified the consequences likely to result if the Committee rejected Rule 23(f). In the event of such a rejection, _Rhone_ would no doubt have prompted a barrage of mandamus petitions seeking to subject certification orders to appellate review. Judge Posner gave those petitions an added leg-up by suggesting that the orders routinely inflicted irreparable injury on the losing parties: “[Certification] orders _often, perhaps typically_, inflict irreparable injury on the defendants (just as orders denying certification _often, perhaps typically_, inflict irreparable injury on the members of the class).” By aiding and abetting the widespread use of mandamus, he undermined a central feature of the writ that the Supreme Court had repeatedly underscored–its extraordinariness. Having placed mandamus at greater risk than it would have been without his opinion, he then left it to the Committee to wrestle with what to do. To have said all this out loud would no doubt have courted a grant of certiorari.

The Committee seemed clearly to have understood that its disposition of the Rule 23(f) proposal carried implications that had been exacerbated by _Rhone_. Immediately before voting

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134 _See supra_ note 129 and accompanying text.

135 _Cf. In re_ Medical Sys., Inc., 75 F.3d 1069, 1090 (6th Cir. 1996) (granting mandamus to overturn a certification order partly in reliance on _Rhone_).

136 _Rhone_, 51 F.3d at 1295 (emphasis added).

137 _See, e.g._, Kerr v. U. S. Dist. Court for N. Dist. of Cal., 426 U.S. 394, 402 (1976); Will v. United States, 389 U.S. 90, 95 (1967). In her dissent, Judge Rovner argued that Judge Posner’s approach undermined the writ’s extraordinariness. _See Rhone_, 51 F.3d at 1304-1305 (Rovner, J., dissenting). To be sure, Judge Posner himself at least acknowledged the extraordinary nature of the writ. _See id._ at 1294. _Cf. Kruse_, _supra_ note 112, at 728 (describing Judge Posner as having given “lip service “ to the extraordinariness of mandamus before “disregarding it completely”).

138 _See_ STEPHEN M. SHAPIRO ET AL., SUPREME COURT PRACTICE § 4.5 at 250 (10th ed. 2014) (noting that “[a] direct conflict between the decision of the court of appeals of which review is being sought and a decision of the Supreme Court is one of the strongest possible grounds for seeking the issuance of a writ of certiorari”).
unanimously in favor of the proposal, the members discussed the “recent cases” that had used mandamus to overturn certification orders, one being Rhone itself and the other a case that had followed in Rhone’s wake. The view was expressed that, if adopted, Rule 23(f) would preserve mandamus as “a special instrument.”

C. Rhone and the Proposal to Override Eisen

Judge Posner held the certification order to be “usurpative” partly because of its failure to take account of the seeming weakness of the plaintiffs’ case in chief. This holding collided frontally with Eisen v. Carlisle & Jacquelin, which read Rule 23 to prohibit the strength of the plaintiffs’ case from driving the decision whether to certify. It is inconceivable that this learned judge, known to write his own opinions, was unaware of this prohibition.

Context, however, is everything. It seems reasonable to assume that Judge Posner disregarded Eisen in order to alert the Committee to his antipathy to it and thereby to prompt an amendment that would allow the merits to be considered. Had he made his antipathy explicit, he would not only have undermined his holding concerning the usurpativeness of the

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139 See April Minutes, supra note 133, at 8.
140 For some explicit references to Rhone in the Committee Minutes, see id. at 13; Nov. Minutes, supra note 129, at 12.
141 See In re Medical Sys., Inc., 75 F.3d 1069 (6th Cir. 1996).
142 See April Minutes, supra note 133, at 8.
143 See Rhone, 51 F.3d at 1299 (noting that “the plaintiffs' claims, despite their human appeal, lack legal merit”).
145 For discussion of Eisen, see supra notes 97-102 and accompanying text.
146 See Stephen J. Choi & G. Mitu Gulati, Which Judges Write their Opinions (and Should We Care?), 32 FLA. ST. L. REV. 1077, 1080 & n.6, 1081 (2005).
147 Cf. Bieneman v. City of Chicago, 838 F.2d 962, 964 (7th Cir. 1988) (per curiam) (noting, with Judge Posner on the panel, that “the propriety of class certification does not depend on the outcome of the suit” and citing Eisen).
148 To some extent, at least, his seeking to capture the Committee’s attention with respect to one proposal lends credence to his doing so with respect to another.
certification order but also significantly increased the likelihood that the Supreme Court would grant certiorari and take him to task for his lack of deference to its rulings.149

He succeeded in getting the Committee’s attention. Indeed, upon recognizing Rhone’s failure to follow Eisen,150 the Committee pondered whether to endorse an Eisen override.151 In the end, however, it decided against proceeding in this direction.152 Had there been an override of Eisen, it would have put to rest the expansive reading of that decision that had long stood in the way of full judicial engagement with fraud-on-the-market issues.153

Rule 23(f) ran the remainder of its gauntlet and became effective on December 1, 1998.154 In the years since, it has played a pivotal role in the evolution of fraud-on-the-market by allowing circuit courts to engage with fraud-on-the-market issues that would otherwise have escaped appellate review.155

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149 See Shapiro, supra note 138, § 4.5 at 250 (noting that “[a] direct conflict between the decision of the court of appeals of which review is being sought and a decision of the Supreme Court is one of the strongest possible grounds for seeking the issuance of a writ of certiorari”).

150 See, e.g., Nov. Minutes, supra note 129, at 12 (noting that “[a]lthough the Rhone-Poulenc decision in the Seventh Circuit does not say so expressly, it turns in part on an estimate of the probably merits of the class claim”); April Minutes, supra note 133, at 13 (observing that the Rhone decision provides “support for required consideration of the merits”).

151 The language that would allow the merits to be considered first appeared as Rule 23(b)(1)(3)(E) in the November 1995 draft. Compare Cooper, supra note 117, at 68 (text of November 1995 draft) with id. at 64 (text of preceding February draft).

152 See April Minutes, supra note 133, at 14-15.

153 See supra notes 99-102 and accompanying text.

154 See, e.g., Conn. Ret. Plans & Trust Funds v. Amgen, Inc., 660 F.3d 1170 (9th Cir. 2011), aff’d, 133 S.Ct. 1184 (2013); In re DVI, Inc. Sec. Litig., 639 F.3d 623 (3d Cir. 2011), abrogated by Amgen v. Conn. Ret. Plans & Trust Funds, 133 S.Ct. 1184 (2013); Schleicher v. Wendt, 618 F.3d 679 (7th Cir. 2010); Regents of Univ. of Cal. v. Credit Suisse First Boston (USA), Inc., 482 F.3d 372 (5th Cir. 2007); In re Initial Public Offerings Sec. Litig., 471 F.3d 24 (2d Cir. 2006); In re Polymedica Corp. Sec. Litig., 432 F.3d 1 (1st Cir. 2005); Gariety v. Grant
PART III
JUDGES EASTERBROOK AND POSNER AND THE INITIAL RULE 23(f) OPINIONS

The Seventh Circuit issued seventeen reported Rule 23(f) opinions during the Rule’s first nine years on the books, *every single one of which* was written by Judge Easterbrook or Judge Posner.156 This Part explains how they came to corner the market on these opinions (“the initial Rule 23(f) opinions”). It then examines the ones with special relevance for fraud-on-the-market.

A. A Brief Primer on Rule 23(f) Opinions

Rule 23(f) authorizes each circuit court to “permit an appeal from an order of a district court granting or denying class action certification . . . if application is made to it within fourteen days after entry of the order.”157 A petition for permission to appeal is assigned first to a motions panel, which, if it grants the petition, typically surrenders the appeal for reassignment to a merits panel.158 Most petitions, however, are denied by unpublished order.159

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157 F.R.Civ.P. 23(f). The final sentence of Rule 23(f) provides as follows: “An appeal does not stay proceedings in the district court unless the district judge or the court of appeals so orders.” *Id.*

158 See, *e.g.*, Bolden v. Walsh Const. Co., 688 F.3d 893, 895 (7th Cir. 2012) (noting that the Rule 23(f) petition was previously granted by a motions panel); Regents of the Univ. of Cal. v. Credit Suisse First Bank (USA), Inc., 482 F.3d 372, 379 (5th Cir. 2007) (same); Chiang v.
Reported Rule 23(f) opinions come in three varieties—those from merits panels to which the appeal is assigned after a motion panel grants the petition;\(^{160}\) a few from motions panels that explain why the petition was denied;\(^{161}\) and those from motions panels that grant the petition and also decide the appeal (“combination opinions”).\(^{162}\) Combination opinions appear to be confined almost exclusively to the Seventh Circuit.\(^{163}\)

**B. The Assignments of the Initial Rule 23(f) Opinions**

The task of assigning opinions falls to the panel’s presiding judge—the member in active

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\(^{159}\) See Barry Sullivan & Amy Kobelski Trueblood, *Rule 23(f): A Note on Law and Discretion in the Court of Appeals*, 246 F.R.D. 277, 284 (2008) (noting that “only 10% of the ‘decisions’ accepting or rejecting a Rule 23(f) petition are available by searching published or electronically available opinions”); Diane P. Wood, Circuit Judge, Remarks at the FTC Workshop: Protecting Consumer Interests in Class Actions (Sept. 13-14, 2004) [hereafter Wood Remarks] (noting that “[t]he vast majority of our rulings on 23(f) motions are not published”), in *Panel 2: Tools for Ensuring that Settlements are “Fair, Reasonable, and Adequate,”* 18 GEO. J. LEGAL ETHICS 1197, 1213 (2005).

Occasionally a motions panel will issue a reported opinion explaining its denial of a petition. For examples, see infra note 161.

\(^{160}\) See cases cited supra note 158.

\(^{161}\) See, e.g., Chapman v. Wagener Equities, Inc., 747 F.3d 489 (7th Cir. 2014); Gelder v. Coxcom, Inc., 696 F.3d 966 (10th Cir. 2012); *In re Delta Airlines*, 310 F.3d 953 (6th Cir. 2002).

\(^{162}\) See, e.g., Reliable Money Order, Inc. v. McKnight Sales Co., 704 F.3d 489, 498 (7th Cir. 2013); McReynolds v. Merrill Lynch Pierce Fenner & Smith, Inc., 672 F.3d 482 (7th Cir. 2012); Isaacs v. Sprint Corp., 261 F.3d 679 (7th Cir. 2001).

\(^{163}\) The grounds for this conclusion are as follows. Emory Law School Professor Richard D. Freer collected 102 decisions through 2007 adjudicating appeals permitted pursuant to Rule 23(f). See Richard D. Freer, *Interlocutory Review of Class Action Certification Decisions: A Preliminary Empirical Study of Federal and State Experience*, 35 W. ST. U. L. REV. 13, 29-46 (2007). Besides those from the Seventh Circuit, there were very few opinions of the combination variety—two from the First Circuit and one each from the Fourth and Eighth Circuits. See Tilley v. TJX Corp., 345 F.3d 34 (1st Cir. 2003); Glover v. Standard Federal Bank, 283 F.3d 953 (8th Cir. 2002); Lienhart v. Dryvit Sys., Inc., 255 F.3d 138 (4th Cir. 2001); Waste Mgmt. Holdings, Inc. v. Mowbray, 208 F.3d 288 (1st Cir. 2000). Interestingly, and perhaps significantly, the author of both *Tilley* and *Waste* was Judge Bruce Selwa, who is widely cited outside his own circuit. See Choi and Gulati, *supra* note 1, at 50, 53, 56. Moreover, the same can be said of the author of *Lienhart*, Judge Karen Williams. See id. at 53.
service with the greatest number of years on the court. When Rule 23(f) became effective at the end of 1998, Judges Posner and Easterbrook were already among the Seventh Circuit’s most senior active members. As a result, one or the other was the presiding judge on all but one of the panels that issued the initial Rule 23(f) opinions. When presiding, Judge Posner assigned all such opinions either to himself or Easterbrook, to whom he was senior. When Judge Easterbrook presided, he assigned them only to himself. These assignments are summarized in Table 1.

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164 See 28 U.S.C. § 45(a) (2012). If the current chief judge is a member of the panel, then it is she who presides. See id.

165 See Seventh Circuit Chronology, supra note 52.

166 The only initial Rule 23(f) opinion issued by a panel over which neither Easterbrook nor Posner presided was Jefferson v. Ingersoll Int'l Inc., 195 F.3d 894 (7th Cir. 1999). The presiding judge was John Coffey, who assigned the opinion to Judge Easterbrook. Judge Coffey joined the Seventh Circuit in 1982, whereas Judge Easterbrook joined the court in 1985. See Seventh Circuit Chronology, supra note 52.

167 See Seventh Circuit Chronology, supra note 52. Judge Posner may have assigned to himself the opinion in In re Household Int'l Tax Reduction Plan, 441 F.3d 500 (7th Cir. 2006), because of his authorship of a previous opinion in the same litigation. See Matz v. Household Int'l Tax Reduction Plan, 388 F.3d 570 (7th Cir. 2004).

Also worthy of note is Judge Posner’s authorship of the opinion in Richardson Electronics, Ltd. v. Panache Broadcasting of Pa., Inc., 202 F.3d 957 (7th Cir. 2002), which, in the course of denying an appeal sought pursuant to 28 U.S.C. 1292(b), addressed the interface between the latter and Rule 23(f).

168 Judge Easterbrook may have assigned to himself the opinion in Asher v. Baxter Internat’l, Inc., 505 F.3d 736 (7th Cir. 2007), because of his authorship of a previous opinion in the same litigation. See Asher v. Baxter Internat’l, Inc., 377 F.3d 727 (7th Cir. 2004).

These opinions likely held allure because of the opportunities that they presented to shape the procedure governing Rule 23(f) as well as to decide major questions of class action law. 171

To be sure, it is also possible that Judges Easterbrook and Posner wrote these opinions because the other panel members were averse to doing so, but it is by no means immediately obvious what would prompt that aversion. 172

170 For the full citations to these cases, see supra note 156.

171 See, e.g., Murray v. GMAC Mortg. Corp., 434 F.3d 948 (7th Cir. 2006) (fundamentals of consumer class actions); Carnegie v. Household Int’l, Inc., 376 F.3d 656 (7th Cir. 2004) (transformation of a settlement class into a litigation class); Mejdrech v. Met-Coil Sys. Corp., 319 F.3d 910 (7th Cir. 2003) (fundamentals of pollution class actions); Szabo v. Bridgeport Machs., Inc., 249 F.3d 672 (7th Cir. 2001) (viability of expanded reading of Supreme Court’s Eisen decision); Jefferson v. Ingersoll Int’l, Inc., 195 F.3d 894 (7th Cir. 1999) (method for classifying actions that seek both injunctive relief and damages); Blair v. Equifax Check Servs., Inc., 181 F.3d 832 (7th Cir. 1999) (framework for identifying worthwhile Rule 23(f) petitions).

172 Rule 23(f) is a relatively confined, reasonably straightforward provision that would seem to fall readily within the grasp of any competent judge. For commentary on the Rule, see supra note 154. Moreover, there is the fact that a wide variety of Seventh Circuit judges have
C. The Panels that Issued the Initial Rule 23(f) Opinions

A judge must be a member of the panel issuing an opinion in order to be eligible to write it.\(^\text{173}\) How was it that all the panels that issued the initial Rule 23(f) opinions included either Judge Easterbrook or Judge Posner? The answer involves the nature of the panels. As Table 2 shows, eleven of the seventeen—more than sixty percent—were motions panels that granted permission to appeal and then retained the appeal for decision.

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<th>Adjudication of Appeals by Motions Panels</th>
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If the motions panels had instead surrendered the appeals for reassignment to merits panels, the prevailing pattern in every other circuit,\(^\text{175}\) some percentage of the merits panels would almost certainly not have included Judge Easterbrook or Judge Posner. That in turn would have diminished the number of Rule 23(f) opinions that they would have been eligible to


\(^{174}\) For the full citation to these cases, see supra note 156.

\(^{175}\) See supra note 163 and accompanying text.
write.

D. The Initial Rule 23(f) Opinions With a Bearing on Fraud-on-the-Market

The initial Rule 23(f) opinions carried substantial significance for fraud-on-the-market’s evolution. This significance was driven both by the opinions as a group as well as by three specific combination opinions, all by Judge Easterbrook, two written with Judge Posner on the panel.176

1. The Opinions as a Group

A number of the initial Rule 23(f) opinions promoted active use of the Rule by virtue of their emphasis on the importance of the issues presented177 or their citation of multiple reasons for granting an appeal.178 Moreover, the two opinions denying permission to appeal did not offset this thrust, since each denial rested on an insurmountable obstacle – the elapse of the ten day filing period179 or the inapplicability of Rule 23 to the Equal Employment Opportunity Commission.180


At issue in Szabo was the expansive reading of Eisen v. Carlisle & Jacquelin,181 pursuant

176 The three opinions are those in West v. Prudential Secs., Inc., 282 F.3d 935 (7th Cir. 2002); Szabo v Bridgeport Machs., Inc., 249 F.3d 672 (7th Cir. 2001); and Blair v. Equifax Check Servs., Inc., 181 F.3d 832 (7th Cir. 1999). Judge Posner was a member of the panels in both Szabo and Blair. See Szabo, 249 F.3d at 673; Blair, 181 F.3d at 833.
177 See, e.g., In re Allstate Ins. Co., 400 F.3d 505, 506 (7th Cir. 2005); Carnegie v. Household Int’l, Inc., 376 F.3d 656, 658 (7th Cir. 2004); In re Bridgestone/Firestone, Inc., 288 F.3d 1012, 1016 (7th Cir. 2002); West v. Prudential Secs., Inc., 282 F.3d 935, 937 (7th Cir. 2002); Jefferson v. Ingersoll Int’l, Inc., 195 F.3d 894, 897 (7th Cir. 1999).
178 See, e.g., In re Bridgestone/Firestone, Inc., 288 F.3d 1012, 1015-1016 (7th Cir. 2002); West v. Prudential Secs., Inc., 282 F.3d 935, 937 (7th Cir. 2002); Szabo v Bridgeport Machs., Inc., 249 F.3d 672, 675 (7th Cir. 2001).
179 See Gary v. Sheahan, 188 F.3d 891 (7th Cir. 1999).
180 See In re Bemis Co., 279 F.3d 419 (7th Cir. 2002).
to which the judge must avoid a merits inquiry that overlaps with a certification inquiry.\textsuperscript{182} The underlying lawsuit had been brought by tools purchasers against a manufacturer for authorizing fraud for use by its dealer-agents across the country.\textsuperscript{183}

The question whether the manufacturer had authorized the fraud implicated the cause of action, but it was likewise relevant to the predominance inquiry. If there had been such an authorization, the applicable fraud law would come from the manufacturer’s home state, which offered a single set of rules that would allow common legal issues to predominate.\textsuperscript{184} If there had not been an authorization, however, the fraud law would be drawn from all the states in which the dealers operated, rendering predominance impossible.\textsuperscript{185}

The trial court granted certification without inquiring into whether the authorization had occurred.\textsuperscript{186} In its view, \textit{Eisen v. Carlisle & Jacquelin} prohibited the inquiry because of the relationship to the merits.\textsuperscript{187}

On behalf of a panel that included Judge Posner,\textsuperscript{188} Judge Easterbrook reversed the certification order in an opinion that decisively rejected the expansive reading of \textit{Eisen}:

\begin{quote}
\text{[N]othing in . . . Rule 23, or the opinion in \textit{Eisen}, prevents the district court from looking beneath the surface of a complaint to conduct the inquiries identified in that rule and exercise the discretion it confers. Plaintiffs cannot tie the judge's hands by making allegations relevant to both the merits and class certification.} \textsuperscript{189}
\end{quote}

This perspective soon took hold in other circuits, which became able to engage with fraud-on-the

\begin{footnotes}
\textsuperscript{182} \textit{See supra} notes 99-100 and accompanying text.

\textsuperscript{183} \textit{See Szabo}, 249 F.3d 672, 674 (7th Cir. 2001). There was also a claim for breach of warranty. \textit{See id.} at 674.

\textsuperscript{184} \textit{See id.}

\textsuperscript{185} \textit{See id.}

\textsuperscript{186} \textit{See id.} at 677.

\textsuperscript{187} \textit{See id.}

\textsuperscript{188} \textit{See id.} at 673.

\textsuperscript{189} \textit{Id.}
\end{footnotes}
market in ways that had previously exceeded their grasp.190

3. **Blair v. Equifax Check Services, Inc.**

At issue in *Blair* was a certification order in a federal consumer action.191 Judge Easterbrook’s opinion offered a framework for identifying worthwhile Rule 23(f) petitions.192 His framework became a model for the other circuits.193

To exemplify the legal issues that ought to merit the circuit courts’ attention, Judge Easterbrook turned to doctrines that facilitate Rule 10b-5 class actions:

Class certifications . . . have induced judges to remake some substantive doctrine in order to render the litigation manageable. See Hal S. Scott, *The Impact of Class Actions on Rule 10b–5*, 38 U.Chi.L.Rev. 337 (1971). *This interaction of procedure with the merits justifies an earlier appellate look.*194 Those doctrines include the presumptions of reliance for “pure omissions”195 and for cases in which fraud “creates” the market,196 but by far the foremost exemplar is fraud-on-the-market, the barely concealed target towards which circuit courts were invited to direct their energies.197

By calling for a “look” at these doctrines,198 Judge Easterbrook was quite clearly

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190 See, e.g., *Gariety v. Grant Thornton LLP*, 368 F.3d 356, 366 (4th Cir.2004) (quoting *Szabo* and noting that “[a]t bottom, we agree with the conclusion reached by the Seventh Circuit”); Regents of the Univ. of Cal. v. Credit Suisse First Boston, Inc., 482 F.3d 372, 381 & n.8 (5th Cir.2007) (relying on *Szabo* as well as on decisions that relied on *Szabo*); *In re Initial Pub. Offerings Sec. Litig.*, 471 F.3d 24, 38-40 (2d Cir.2006) (discussing *Szabo* and the decisions that it spawned and concluding that “[w]e . . . align ourselves with *Szabo, Gariety*, and the other decisions discussed above”).
191 181 F.3d 832 (7th Cir. 1999).
192 See id. at 833-835.
193 See 16 WRIGHT ET AL., supra note 65, § 3931.1 (noting that “other circuits have followed essentially the same paths” as those laid down in *Blair*); Chamberlan v. Ford Motor Co., 402 F.3d 952, 958 (9th Cir. 2005) (noting that in *Blair*, “the Seventh Circuit articulated fundamental principles that have been echoed by other circuits”).
194 181 F.3d at 834 (emphasis added).
195 See supra notes 70-73 and accompanying text.
196 See supra notes 74-75 and accompanying text.
197 See supra notes 76-86 and accompanying text.
198 See supra note 194 and accompanying text.
exhorting the circuits to trim them back. To be sure, it is possible that he intended only to dangle fraud-on-the-market as red meat and thereby to induce the other circuits to make full use of the power that Rule 23(f) vested in them. 199

To justify taking a hard line on Rule 10b-5 class actions, Judge Easterbrook invoked their tendency to precipitate in terrorem settlements of the sort depicted by Judge Posner in Rhone:

[A] grant of class status can put considerable pressure on the defendant to settle, even when the plaintiff's probability of success on the merits is slight. Many corporate executives are unwilling to bet their company that they are in the right in big-stakes litigation, and a grant of class status can propel the stakes of a case into the stratosphere. In re Rhone–Poulenc Rorer Inc., 51 F.3d 1293 (7th Cir.1995), observes . . . that class actions can have this effect on risk-averse corporate executives (and corporate counsel) . . . . Empirical studies of securities class actions imply that this is common. Janet Cooper Alexander, Do the Merits Matter? A Study of Settlements in Securities Class Actions, 43 Stan.L.Rev. 497 (1991); Reinier Kraakman, Hyun Park & Steven Shavell, When are Shareholder Suits in Shareholder Interests?, 82 Geo. L.J. 1733 (1994); Roberta Romano, The Shareholder Suit: Litigation Without Foundation?, 7 J.L. Econ. & Org. 55 (1991). 200

It is remarkable that this passage, coming from a renowned securities expert widely understood to write his own opinions, 201 omits any reference to the PSLRA and the SLUSA, major statutes enacted for the very purpose of combating the in terrorem settlements at issue. 202 Then on the books for four years, the PSLRA gave the defendants multiple tools for obtaining early dismissals and put control of the actions in the hands of the largest investors. 203 Then on the books for a year, the SLUSA prevented the plaintiffs from making an end-run around the PSLRA

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199 In this respect he may have been seeking to counter the view that interlocutory review should be reserved for exceptional situations. Cf. Chamberlan v. Ford Motor Co., 402 F.3d 952, 955, 959, 960 (9th Cir. 2005) (noting that “[w]e begin with the premise that Rule 23(f) review should be a rare occurrence”).

200 Blair, 181 F.3d at 834 (emphasis added). Judge Easterbrook made very similar comments again three years later. See infra note 227 and accompanying text.

201 See Choi & Gulati, supra note 146, 1080 & n.6, 1081.


203 See Nagy, Painter & Sachs, supra note 63, at 10.
by filing their securities class actions in state court.\textsuperscript{204} Nor were the PLSRA and the SLUSA mentioned indirectly through the medium of the cited law review articles, since all of them were published before the statutes were enacted.\textsuperscript{205}

Why did Judge Easterbrook fail to acknowledge these statutes? The answer is likely linked to why he focused on securities class actions in the first place. Whether he did so to urge the circuit courts to restrict those actions\textsuperscript{206} or instead to generate frequent use of Rule 23(f),\textsuperscript{207} he would have undercut his goal by acknowledging the PSLRA and the SLUSA’s ameliorative effects. He may also have had doubts about their effectiveness.\textsuperscript{208} Standing alone, however, such doubts, assuming he had them, seem insufficient to account for the failure to mention major pieces of legislation directed at the problem under discussion.

Likewise noteworthy was the short-shrift that Judge Easterbrook gave to Eisen’s bar on merits-driven certification orders.\textsuperscript{209} Indeed, he went so far as to observe that those orders might be permissible: “[O]ne of the fundamental unanswered questions is whether judges should be influenced by their tentative view of the merits when deciding whether to certify a class.”\textsuperscript{210} To be sure, he may have meant only to try to keep the fires burning for a future override of Eisen, perhaps at the behest of his fellow panel member, Judge Posner, who, it will be recalled, had

\begin{itemize}
  \item \textsuperscript{204} See id. at 18.
  \item \textsuperscript{205} The PSLRA and the SLUSA were enacted, respectively, in 1995 and in 1998. See supra notes 40 & 41.
  \item \textsuperscript{206} See supra note 199 and accompanying text.
  \item \textsuperscript{207} See supra note 200 and accompanying text.
  \item \textsuperscript{209} For discussion of that bar, see supra note 99 and accompanying text.
  \item \textsuperscript{210} Blair v. Equifax, 181 F.3d 832, 835 (7th Cir. 1999) (emphasis added).
\end{itemize}
tried to precipitate such an amendment four years earlier. But by juxtaposing an assault on \textit{Eisen} with one on fraud-on-the-market, he invited, whether intentionally or unintentionally, the use of a lax approach to the former to accomplish a constriction on the latter.

4. \textit{West v. Prudential Securities, Inc.}

At issue in \textit{West} was a certification order in a fraud-on-the-market case. Judge Easterbrook used the opinion to reinforce the themes advanced in \textit{Blair} – the denigration of \textit{Eisen} and fraud-on-the-market and disregard for the PLSRA and the SLUSA.

The underlying lawsuit grew out of a stockbroker’s false tip to eleven customers about a specific public company. The lawsuit was not filed on behalf of the customers alone, because, as Judge Easterbrook noted, that would have put them at risk of prosecution for insider trading. The lawsuit was instead filed on behalf of all who had bought stock in the company in question during the time the tip circulated. The tip had not been publicized, but the plaintiffs argued that it had nonetheless become known to the market through the medium of increasing demand. The trial judge granted certification without examining the substance of the plaintiffs’ argument. Judge Easterbrook faulted the trial judge for failing to confront the plaintiffs’ argument as \textit{Szabo} required. Confronting this argument himself, he rejected it as unsubstantiated and

\begin{itemize}
\item 211 \textit{See supra} notes 143-153 and accompanying text.
\item 212 \textit{See West v. Prudential Secs., Inc.}, 282 F.3d 935 (7th Cir. 2002).
\item 213 For discussion of \textit{Blair}, see \textit{supra} notes 191-211 and accompanying text.
\item 214 \textit{See West}, 282 F.3d at 936.
\item 215 \textit{See id.} at 936-937.
\item 216 \textit{See id.} at 937.
\item 217 \textit{See id.}
\item 218 \textit{See id.} at 939.
\item 219 \textit{See id.} at 938.
\item 220 \textit{See id.} at 939 (citing \textit{Szabo} and noting that “[t]ough questions must be faced and
reversed the certification order.\textsuperscript{221}

Judge Easterbrook’s seemingly unexceptionable reversal arguably does not give \textit{Eisen} its due. Recall that the threat of an insider trading prosecution removed the prospect of a traditional Rule 10b-5 claim with its attendant individual reliance issues.\textsuperscript{222} With those individual reliance issues firmly out of the picture, the predominance of common reliance issues was a virtual given, leaving the lack of publicity to pose a problem only in connection with whether a fraud-on-the-market claim had been stated.\textsuperscript{223} By treating the defect in the claim as one involving certification, Judge Easterbrook undercut the necessity of distinguishing between certification defects and merits defects, thereby emasculating the distinction lying at the heart of \textit{Eisen}.\textsuperscript{224}

What would prompt Judge Easterbrook to conflate the two defects? In all likelihood, he did so because he could not resist the opportunity to dispose of an ultimately frivolous action, for which a trial date had already been set.\textsuperscript{225}

Judge Easterbrook reaffirmed his previous denigration of fraud-on-the-market by taking aim at \textit{Basic} itself: “The district court did not identify any causal link between non-public information and securities prices, let alone show that the link is as strong as the one deemed sufficient (by a bare majority) in \textit{Basic} (only four of the six Justices who participated in that

\begin{footnotes}
\item[221] See id. at 938-939.  
\item[222] See \textit{supra} note 215 and accompanying text.  
\item[223] The presumption of reliance is an element of the claim as well as a solution to the predominance problem. See \textit{supra} notes 84-85 and accompanying text.  
\item[224] See \textit{supra} notes 97-99 and accompanying text.  
\item[225] See \textit{West}, 282 F.3d at 937-938. No doubt compounding the irresistibleness was his apparent lack of regard for \textit{Eisen} in the first place. See \textit{supra} notes 209-211 and accompanying text.
\end{footnotes}
case endorsed the fraud-on-the-market doctrine). The two parentheticals, highlighted here for emphasis, served no apparent purpose other than to disparage Basic and intimate its vulnerability.

As he had in Blair, he omitted reference to the PSLRA and the SLUSA under circumstances that made his presentation less than accurate. That is, using much the same language that he had before, he lambasted in terrorem settlements in securities class actions without mentioning that such settlements had been targeted by the PLSRA and the SLUSA.

5. Reaping What You Sow

Only after the Blair, West, and Szabo opinions were on the books did the other circuit courts begin applying Rule 23(f) to fraud-on-the-market. A number of these courts placed obstacles in the path of plaintiffs seeking certification, including requiring them to prove loss

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226 See West, 282 F.3d 938 (emphasis added).
227 His precise language was as follows:
[S]ome scholars believe that the settlements in securities cases reflect high risk of catastrophic loss, which together with imperfect alignment of managers' and investors' interests leads defendants to pay substantial sums even when the plaintiffs have weak positions. See Janet Cooper Alexander, Do the Merits Matter? A Study of Settlements in Securities Class Actions, 43 Stan. L.Rev. 497 (1991); Reinier Kraakman, Hyun Park & Steven Shavell, When Are Shareholder Suits in Shareholder Interests?, 82 Geo. L.J. 1733 (1994) Roberta Romano, The Shareholder Suit: Litigation Without Foundation?, 7 J.L. Econ. & Org. 55 (1991). The strength of this effect has been debated, see Joel Seligman, The Merits Do Matter, 108 Harv. L.Rev. 438 (1994), but its existence is established. Id. at 937. For the analogous language in Blair, see supra note 200 and accompanying text. While the West version contains the addition of Professor Seligman’s law review article, it, like the others, was written before the enactment of the PLSRA and the SLUSA.
228 Prior to West, two circuits applied Rule 23(f) in securities cases where the issues did not involve fraud-on-the-market. See Berger v. Compaq Computer Corp., 257 F.3d 475 (5th Cir. 2001) (focusing on the adequacy of the class representatives in the wake of the PSLRA); Newton v. Merrill Lynch Pierce Fenner & Smith, Inc., 259 F.3d 154 (3d Cir. 2001) (focusing on whether the plaintiffs had satisfied the predominance requirement in an action alleging the failure of brokers to satisfy their duty of best execution).
causation,\textsuperscript{229} materiality,\textsuperscript{230} and the existence of a primary (rather than a secondary) violation.\textsuperscript{231} Equally important, these courts did not inquire into whether these obstacles could be squared with \textit{Eisen}’s ban on merits-driven certification orders.\textsuperscript{232} While causality is never simple, it seems reasonable to suppose that these opinions were fueled at least in part by Judge Easterbrook’s denigration of \textit{Basic} and \textit{Eisen} and his depiction of a securities class action crisis that stood untamed by the PLSRA and the SLUSA.\textsuperscript{233}

**PART IV**

**JUDGE EASTERBROOK TURNS THE TABLES**

This Part explores Judge Easterbrook’s remarkable change in perspective that emerged from his 2010 opinion in \textit{Schleicher v.Wendt}.\textsuperscript{234} After examining that opinion and seeking to explain the seeming shift that it represents, attention turns to \textit{Schleicher}’s influence on the


\textsuperscript{231} See, e.g., Regents of the Univ. of Cal. v. Credit Suisse First Bos. (USA), Inc., 482 F.3d 372, 386 (5th Cir. 2007); Gariety v. Grant Thornton, LLP, 368 F.3d 356, 369-370 (4th Cir. 2004).

\textsuperscript{232} See cases cited supra notes 229-231. But cf. Oscar, 487 F.3d at 269-270 (attempting to square \textit{Eisen} with the imposition of a loss causation prerequisite on the ground that the latter served as a double check on the market’s efficiency). The Supreme Court thereafter rejected the latter argument as follows: “Loss causation has no logical connection to the facts necessary to establish the efficient market predicate to the fraud-on-the-market theory.” Erica P. John Fund, Inc. v. Halliburton Corp., 131 S.Ct. 2179, 2186 (2011).

\textsuperscript{233} See supra notes 191-227 and accompanying text. Cf. J. Mark Ramseyer, \textit{Not-So-Ordinary Judges in Ordinary Courts: Teaching} Jordan v. Duff & Phelps, Inc., 120 HARV. L. REV. 1199, 1209 (2007) (after examining a majority opinion by Judge Easterbrook and the opinion written by Judge Posner in dissent, reaching the conclusion that “the bench . . . is not a place for men and women with the independence and sophistication of these two men. Such judges can muddy the law by trying to fix bad precedent, and worsen the law by setting interventionist examples for their far less talented peers”).

\textsuperscript{234} 618 F.3d 679 (7th Cir. 2010).
Supreme Court’s engagements with fraud-on-the-market in *Halliburton I*,235 *Amgen*,236 and *Halliburton II*.237

**A. Schleicher v. Wendt**

At issue in *Schleicher* was whether fraud-on-the-market plaintiffs must prove loss causation and materiality in order to obtain certification.238 The trial court ruled that they did not239 and the defendants sought to appeal. A motions panel had granted interlocutory review,240 following which the appeal was referred to a merits panel that included then-Chief Judge Easterbrook.241 In his opinion affirming the trial court’s ruling, Judge Easterbrook not only threw in his lot with fraud-on-the-market and *Eisen* but also placed the PSLRA and the SLUSA at center stage.242

1. Placing the PLSRA and the SLUSA at Center Stage

Recall that Judge Easterbrook had previously rationalized his antagonism towards securities class actions by invoking the specter of in terrorem settlements.243 In discussing those settlements, he made no mention of the PSLRA and the SLUSA, thereby implying that the settlements persisted unchecked.244

In *Schleicher*, on the other hand, he not only acknowledged the PSLRA and the SLUSA but explained that a reduction of in terrorem settlements was their reason for being:

236 133 S. Ct. 1184 (2013).
238 *Schleicher*, 618 F.3d at 685, 686-687.
240 See *Schleicher*, 618 F.3d at 683.
241 See *id.* at 681.
242 See infra notes 243-258 and accompanying text.
243 See *supra* notes 200 & 227 and accompanying text.
244 See *supra* notes 202-205 & 227 and accompanying text.
Congress has been concerned about the potential for class certification to create pressure for settlement . . . [T]he means that Congress chose to deal with settlement pressure were to require more at the pleading stage and to ensure that litigation occurs in federal court under these special standards, rather than state court under looser ones. The pleading requirement is one aspect of the Private Securities Litigation Reform Act, . . . and the federal-forum rule is part of the Securities Litigation Uniform Standards Act . . .

Going further, he held that courts were obliged to defer to Congress’s solution for in terrorem securities class action settlements instead of making their own “further adjustments.”

Thus, a judicially-created loss causation prerequisite to certification, he concluded, could not be squared with the principle of separation-of-powers.

To be sure, Judge Easterbrook did not explain precisely why the courts could not act, even if Congress had also. One possibility was that, in the course of enacting the PSLRA in particular, Congress had decided to leave Basic alone after giving consideration to a legislative override.

2. Making the Case for Fraud-on-the-Market

Recall that Judge Easterbrook had previously denigrated fraud-on-the-market for receiving the support of only four of the six Basic justices and had called upon the circuit courts to give it “a look.” Contrast his opinion in Schleicher, where, when referring to Basic, he portrayed its teachings as ironclad: “A court of appeals can't revise principles established by the Supreme Court.” Moreover, he rejected a loss causation prerequisite in part on the ground

245 Schleicher, 618 F.3d at 686.
246 Id.
247 This was the argument thereafter made by Justice Ginsburg in Amgen, Inc. v. Conn. Ret. Plans & Trust Funds, 133 S. Ct. 1184 (2013), discussed infra notes 272-284 and accompanying text.
248 See supra note 226 and accompanying text.
249 See supra note 194 and accompanying text.
250 Schleicher, 618 F.3d at 683.
that *Basic* did not call for it.  

In addition, in *Schleicher*, he championed the fraud-on-the-market claim from the standpoint of economics, an area of study in which he ranks as a luminary.  

He explained that the claim rested on the semi-strong version of the efficient capital markets hypothesis, which enjoys strong scholarly support and does not require stock prices to reflect fundamental value. Thus, he continued, the fraud-on-the-market claim is undermined neither by the existence of inaccurate prices nor by the presence in the market of long or short sellers: “A person buys stock (goes long) because he think the current price too low and expects it to rise; a person sells short . . . because he thinks the price too high and expects it to fall.”

3. **Being Faithful to *Eisen***

Recall that previously, Judge Easterbrook had belittled *Eisen* by depicting the ban on merits-driven certification orders as an open question. Recall also that he sidestepped the ban in order to dispose quickly of a frivolous case. Contrast *Schleicher*, where he invoked *Eisen* to explain his refusal to condition certification on the plaintiffs’ proof of loss causation or materiality.

**B. Possible Explanations for the Turnabout**

What accounts for Judge Easterbrook’s change in perspective? A number of factors may have been at work. One is that in the more than eight years that had elapsed since the publication

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251 *Id.* at 685.
252 See, e.g., Gulati & Sanchez, *supra* note 3, at 1166.
253 *Schleicher*, 618 F.3d at 685. See also *supra* note 79.
254 See *id.* at 685.
255 *Id.* at 684.
256 See *supra* note 210 and accompanying text.
257 See *supra* notes 222-225 and accompanying text.
258 *Schleicher*, 618 F.3d at 686, 687-688.
of his earlier opinions, he may have become persuaded that the PLSRA and the SLUSA represented an effective counterweight to in terrorem settlements. Perhaps in part for that reason, moreover, he may have been distressed by the obstacles to certification that other circuits had imposed.

On the other hand, his change in perspective may have been more apparent than real, with his previous criticism of fraud-on-the-market intended largely as hyperbole aimed at precipitating energetic use of Rule 23(f) rather than as an actual call to arms against it. On this view, when Schleicher presented him with an opportunity to prune fraud-on-the-market back, he offered principled reasons for putting the shears away.

Regardless of which explanation comes closer to the truth, an additional consideration likely to have affected the opinion was the then-pending certiorari petition in Halliburton I, filed after the argument in Schleicher and still awaiting disposition when the opinion in that case was issued. The petition urged the Supreme Court to resolve a split between two circuits as to whether loss causation should serve as a prerequisite to certification in fraud-on-the-market cases. Given the circuit split, which his own opinion would soon deepen, Judge Easterbrook

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259 Compare West v. Prudential Secs., Inc., 282 F.3d 935, 935 (7th Cir. 2002) (decision date March 7, 2002) with Schleicher v. Wendt, 618 F.3d 679, 679 (7th Cir. 2010) (decision date August 20, 2010).
260 See supra notes 229-332 and accompanying text.
261 See supra note 199 and accompanying text.
263 The Halliburton I certiorari petition was filed on May 13, 2010. See id. The argument in Schleicher took place on September 22, 2009. See Schleicher v. Wendt, 618 F. 3d 679, 679 (7th Cir. 2010).
265 See Petition for a Writ of Certiorari, supra note 262, at12-32.
could have quite reasonably written in anticipation of a Supreme Court audience.\textsuperscript{266} To package his views most attractively for the Court’s consumption, he may have felt obliged to defer to its opinions in \textit{Basic} and \textit{Eisen} as well as to acknowledge the enactments of Congress.

C. \textit{Schleicher} in the Supreme Court

All three of the Supreme Court’s recent fraud-on-the-market opinions reflect Judge Easterbrook’s opinion in \textit{Schleicher} to some extent. Moreover, the impact of \textit{Schleicher} appears to have grown with each successive opinion.

1. \textit{Halliburton I}

At issue in \textit{Halliburton I} was whether the plaintiffs must prove loss causation as a condition of certification in fraud-on-the-market cases.\textsuperscript{267} Writing for a unanimous Court, Chief Justice Roberts held that they need not do so.\textsuperscript{268} He cited Judge Easterbrook’s opinion in \textit{Schleicher} only once, in connection with the existence of a circuit split,\textsuperscript{269} but his reasoning suggests that he may have been more influenced by it than the one citation might suggest. Indeed, not only did he share Judge Easterbrook’s view that the imposition of a loss causation condition could not be squared with \textit{Basic}.\textsuperscript{270} He also displayed no inclination to use the condition as a vehicle for curtailing in terrorem settlements, a phenomenon to which he made no

\textsuperscript{266} \textit{Compare Shapiro et al., supra} note 138, § 4.4 at 243 (noting that “[t]he Supreme Court often, but not always, will grant certiorari where the decision of a federal court of appeals, as to which review is sought, in direct conflict with a decision of another court of appeals on the same matter of federal law”) (italics in original) \textit{with id.} at § 4.4(b) at 247 (noting the especial significance of a split of authority that envelops more than two circuits).

\textsuperscript{267} \textit{See Halliburton I}, 131 S.Ct. 2179, 2183.

\textsuperscript{268} \textit{Id.} at 2186.

\textsuperscript{269} \textit{See id.} at 2184.

\textsuperscript{270} \textit{Compare id.} at 2186 (observing that a loss causation prerequisite “contravenes \textit{Basic}’s fundamental premise”) \textit{with supra} note 258 and accompanying text.
reference. 271

2. Amgen, Inc. v. Connecticut Retirement Plans & Trust Funds

At issue in Amgen was whether the plaintiffs should have to prove materiality as a condition of certification. 272 There was a split of authority on the question, with the prerequisite supported by several circuits 273 and opposed by the Seventh Circuit, through Judge Easterbrook’s opinion in Schleicher. 274

Whether proof of materiality should serve as a condition of certification was more complicated than whether proof of loss causation should do so. Unlike loss causation, which received no mentions in Basic’s discussion of fraud-on-the-market, 275 materiality received many. 276 The question was whether those references involved the merits only (rendering

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271 There was the possibility at the time that this represented Chief Justice Roberts’s unstated acceptance of Judge Easterbrook’s separation of powers argument. Later events support the accuracy of that inference. See infra notes 299-300 and accompanying text.
273 See supra note 230 and accompanying text.
274 See Schleicher v. Wendt, 618 F.3d 679 (7th Cir. 2010).
275 The Supreme Court’s decision in Basic v. Levinson, U.S. 224 (1988) came seven years before the enactment of the PSLRA, which made proof of loss causation a statutory requirement in Rule 10b-5 cases. See 15 U.S.C. § 78u-4(b)(4) (2012). The Basic decision might still have mentioned loss causation, however, since a number of pre-PLSRA courts had required it to be proved as a matter of federal common law. See, e.g., Harris v. Union Elec. Co., 787 F.2d 355, 366 (8th Cir. 1986); Bennett v. U.S. Trust Co., 770 F.2d 308, 313 (2d Cir. 1985); Hatrock v. Edward D. Jones & Co., 750 F.2d 767, 773 (9th Cir. 1984).
276 See Basic, Inc. v. Levinson, 485 U.S. 224, 246 (1988) (noting that “[r]ecent empirical studies have tended to confirm Congress’ premise that the market price of shares traded on well-developed markets reflects all publicly available information, and, hence, any material misrepresentations”); id. at 247 (noting that “nearly every court that has considered the proposition has concluded that where materially misleading statements have been disseminated into an impersonal, well-developed market for securities, the reliance of individual plaintiffs on the integrity of the market price may be presumed”); id. at 247 (noting that “[b]ecause most publicly available information is reflected in market price, an investor's reliance on any public material misrepresentations, therefore, may be presumed for purposes of a Rule 10b-5 action”); id. at 248 n. 27 (indicating that the circuit court had conditioned the presumption on the plaintiffs’ proof of materiality).
materiality irrelevant to certification) or encompassed the certification stage as well (indicating the opposite).277 The *Amgen* Court divided 6-3.278

Writing for the Court, Justice Ginsburg concluded that *Basic*’s materiality references pertained exclusively to the merits, a conclusion which, she noted, comported with the one reached in *Schleicher*.279 But she did not leave matters there. Adopting Judge Easterbrook’s separation-of-powers argument and quoting his phraseology, she held that “[w]e do not think it appropriate for the judiciary to make its own further adjustments by reinterpreting Rule 23 to make likely success on the merits essential to class certification in securities-fraud suits.”280 Moreover, going a step beyond Judge Easterbrook, she made explicit why judicial responses could not supplement the legislative ones: When enacting the PSLRA, Congress immunized *Basic* from judicial whittling by deciding to leave it intact after contemplating its override.281

A word is in order about Justice Alito’s concurrence. Claiming that the efficient capital markets hypothesis had lost the support of economists, he invited challenges to fraud-on-the-market on this basis.282 Especially given the antipathy to the hypothesis expressed by Justice Thomas’s dissent, in which Justices Kennedy and Scalia joined,283 court observers speculated that the Court might soon agree to consider whether fraud-on-the-market should remain in

278 Joining Justice Ginsburg’s majority opinion were Chief Justice Roberts and Justices Breyer, Sotomayor, Kagan, and Alito. *Id.* at 1190. Justice Alito also wrote a separate concurrence, discussed *infra* notes and accompanying text. Dissenting were Justices Scalia, Thomas, and Kennedy. 133 S.Ct. at 1190.
279 See *Amgen*, 133 S.Ct. at 1197 (citing *Schleicher*).
280 *Id.* at 1201 (quoting *Schleicher*).
281 See *id*.
282 See *id.* at 1204 (Alito, J., concurring).
283 See *id.* at 1208 n.4 (Thomas, J., dissenting).
3. Halliburton II

That speculation proved prescient. After the Supreme Court’s decision in *Halliburton I*, the case returned to the trial court, which granted certification while declining to consider the defendants’ evidence concerning the fraud’s lack of impact on the security’s price. On appeal of that order, the Fifth Circuit affirmed. In a petition for certiorari, the defendants renewed their arguments about price impact and also posed the question invited by Justice Alito in his concurrence in *Amgen*—whether the fraud-on-the-market claim should be modified, if not eliminated, due to the putatively diminished status of the efficient capital markets hypothesis. The Supreme Court granted certiorari on November 15, 2013, and argument was heard on March 3, 2014.

In his anti-climactic opinion for the Court on June 23, 2014, Chief Justice Roberts dashed the hopes of securities class action opponents by giving *Basic* and fraud-on-the-market a decisive endorsement. He likewise declined to condition certification on the plaintiffs’ proof of price impact. To be sure, he upheld the defendants’ right to prove a lack of price impact at the

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286 See id. at 426.


290 See id. at 2408-2413.

291 See id. at 2413-2414.
certification stage. But the extent to which this right will operate as a boon for the defendants remains to be seen.

The bulk of the Chief Justice’s endorsement of the fraud-on-the-market claim came directly or indirectly from Judge Easterbrook. One major critique of the claim involved the prevalence of inaccurate prices in ostensibly “efficient markets.” To rebut that criticism, Roberts quoted Easterbrook, enhancing the authority of the quotation by invoking Easterbrook’s name:

That the . . . price [of a stock] may be inaccurate does not detract from the fact that false statements affect it, and cause loss,” which is “all that Basic requires.” Schleicher v. Wendt, 618 F.3d 679, 685 (CA7 2010) (Easterbrook, C.J.).

Another major critique was that so-called “value investors,” also known as long or short sellers, put no stock in the existence of efficient markets and instead proceed on the basis of the inaccuracy of the present price. To refute this criticism, Chief Justice Roberts drew again upon Judge Easterbrook, querying, “how else could the market correction on which his profit depends occur?” This query puts in question form the answer supplied by Judge Easterbrook in Schleicher in response to the same criticism.

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292 Id. at 2414-2417.
294 Halliburton II, 134 S.Ct. at 2410.
295 Id. Cf. Choi & Gulati, supra note 1, at 58 (noting that mentioning the name of the author of the opinion offers further credibility for the proposition for which the judge is cited).
296 Halliburton II, 134 S.Ct. at 2410-2411.
297 Id. at 2411.
298 See Schleicher v. Wendt, 618 F.3d 679, 684 (7th Cir. 2010) ( noting that “[a] person buys stock (goes long) because he thinks the current price too low and expects it to rise; a
Consider also the significance that Chief Justice Roberts attached to the enactment of the PSLRA and the SLUSA. Borrowing the same page from Easterbrook’s book that Justice Ginsburg had borrowed previously, he depicted these statutes as Congress’s response to interrorem settlements, a response to which the courts should defer rather than seek to complement.

PART V
JUDICIAL SUPERSTARS AND THEIR STRATEGIES

This Part takes a closer look at the strategies that Judges Easterbrook and Posner appear to have employed. All of these strategies open up broad new avenues for exploring the behavior of the superstar judges.

A. A Strategy for Moving the Law—Portraying Precedent With Less than Full Accuracy

As earlier Parts of this Article have shown, Judges Easterbrook and Posner sometimes enhanced their arguments by ignoring precedent. Recall, for example, that to explain his reversal of a grant of certification, Judge Posner cited the weakness of the plaintiffs’ substantive case. That rationale disregards Eisen v. Carlisle & Jacquelin, which read Rule 23 to prohibit the merits from driving the certification decision. Judge Posner appears to have taken this path as a way to signal the Advisory Committee on Civil Rules that it should consider amending Rule 23 to allow the merits to be considered. Recall also that Judge Easterbrook persons sells short (sells today and promises to cover in the market and deliver the shares in the future) because he thinks the price too high and expects it to fall”).

299 See supra note 280 and accompanying text.
300 Halliburton II, 134 S.Ct. at 2413.
301 See supra Parts II and IV.
302 See supra note 143 and accompanying text.
304 See supra notes 89-90 and accompanying text.
305 See supra notes 148-149 and accompanying text.
likewise on two occasions gave Eisen short-shrift.306 Recall finally that Judge Easterbrook, once with Judge Posner on the panel and once without, failed to mention the PSLRA and the SLUSA when discussing the problem of in terrore m settlements in securities class actions.307 In so doing, he made the problem appear worse than it was and the need for judicial intervention seem greater than it was.308

There is evidence that these few examples do not stand alone. Consider the results of a Westlaw search for reported signed Seventh Circuit majority opinions since 1982 which, in the view of a dissent or concurrence, misstated precedent.309 There have been 57 such majority opinions, 29 of them written by Judge Easterbrook or Judge Posner, with 28 authored by all the other Seventh Circuit judges combined. The data are set forth in Table 3.

| Authors of Majority Opinions Charged By Dissents or Concurrences with Misstating Precedent, 1982-Present |
|-------------------------------------------------|--------|--------|--------|--------|--------|
| Bauer   | 1     | Evans  | 2     | Manion | 3     | Tinder | 0     |
| Coffey  | 4     | Fairchild | 1    | Posner | 15    | Williams | 2    |
| Cuddahy | 3     | Flaum  | 3     | Ripple | 0     | Wood, Jr. | 3    |
| Cummings | 1    | Hamilton | 1    | Rovner | 1     | Wood   | 0     |
| Easterbrook | 14  | Kanne  | 3     |        |        |         | 0     |

306 See supra notes 209-211 & 222-224.
307 See supra notes 202-205 & 227 and accompanying text.
308 See id.
309 The approach taken was to find dissents or concurrences that included the word “precedent” and then to eliminate those that used it for reasons other than to criticize the accuracy of the majority opinion’s depiction of it. Majority opinions written by federal district court judges sitting by designation were excluded. The year 1982 was the starting point because that was when Judge Posner joined the court. See Seventh Circuit Chronology, supra note 52.
There are several possible explanations for the data. First, perhaps some of the other judges initially drafted majority opinions containing incomplete statements of precedent but thereafter corrected them before publication after a fellow panel member flagged the problem informally. Those judges might reasonably fear that leaving the misstatements in the opinions would trigger questions about their competency. In contrast, Judges Easterbrook and Posner might regard themselves as insulated from competency questions and thus be more inclined to disregard a colleague’s criticisms.310

Another possible explanation is that the purported misstatements by Judges Easterbrook and Posner arose in opinions in which they sought to change the law. If so, at least some of the objections to the misstatements may have been proxies for objections to the changes themselves.

Majority opinions that portray precedent incompletely are worrisome because of their capacity to mislead. That worrisomeness does not disappear when another panel member writes separately to flag the incompleteness, since the separate opinion may not receive the attention that it deserves. Moreover, there may not be a separate opinion in the first place. Indeed, no one wrote separately to object to Judge Easterbrook’s diminishments of Eisen or his failure to mention the PLSRA and the SLUSA when discussing the problem of in terrorem securities class action settlements.311 But these misstatements appear to have carried consequences—in the form of fueling the willingness of other circuits not only to erect obstacles to certification in fraud-on-

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310 The data raise a host of fascinating questions about who is willing to challenge the superstar judges. Do they tend to be repeat players or do they instead represent a broad cross-section of the court? Moreover, cross-section or not in other respects, to what extent (if at all) do the challengers skew senior, white, and male? Finally, what, if any, generalizations can be made about the third panel member who does not join the dissent or concurrence?

311 See supra notes 191-227 and accompanying text.
the-market cases but in addition to do so in a manner that failed to take *Eisen* into account.\textsuperscript{312}

\textbf{B. Strategies for Acquiring Opportunities to Change the Law}

\textbf{1. Retaining an Appeal After Granting the Petition to Appeal}

As Part III of this Article has shown, motions panels over which Judges Easterbrook and Posner presided sometimes granted Rule 23(f) petitions to appeal and then retained the appeals for decision instead of surrendering them for reassignment.\textsuperscript{313} The effect was greatly to increase the number of Rule 23(f) opinions that each of them was eligible to write.\textsuperscript{314}

Judges Easterbrook and Posner typically presented an efficiency rationale for reaching the merits—namely, that the briefs filed in connection with the petition were comprehensive enough to allow the panel to dispose of the appeal without further delay.\textsuperscript{315} While plausible as far as it goes, this rationale fails to take account of the arguable appearance of impropriety that the retention creates. Indeed, when deciding to grant a petition, the motions panel may develop a view about how the appeal should be resolved. Retaining the appeal for decision enables the motions panel to make that resolution the law of the circuit.\textsuperscript{316}

To put the matter differently, a motions panel that selects itself as the merits panel engages in a species of non-random panel selection, efficiency considerations to the contrary

\textsuperscript{312} See supra notes 229-232 and accompanying text.
\textsuperscript{313} See supra notes 173-175 and accompanying text.
\textsuperscript{314} See id.
\textsuperscript{315} See Murray v. GMAC Mortg. Corp., 434 F.3d 948, 951 (7th Cir. 2006); Carnegie v. Household Int’l, Inc., 376 F.3d 656, 658 (7th Cir. 2004); Allen v. Internat’l Truck & Engine Corp., 358 F.3d 469, 470 (7th Cir. 2004); West v. Prudential Secs., Inc., 282 F.3d 935, 937-938 (7th Cir. 2002); Isaacs v. Sprint Corp., 261 F.3d 679, 681 (7th Cir. 2001); Jefferson v. Ingersoll, Int’l, Inc., 195 F.3d 894, 897 (7th Cir. 1999); Blair v. Equifax Check Servs., Inc., 181 F.3d 832, 838 (7th Cir. 1999). See also *In re* Household Int’l Tax Reduction Plan, 441 F.3d 500, 501 (7th Cir. 2006) (not indicating precise reason for retaining the appeal); *In re* Allstate Ins. Co., 400 F.3d 505, 506 (7th Cir. 2005) (same); Mejdreh v. Met-Coil Sys. Corp., 319 F.3d 910 (7th Cir. 2003) (same); Szabo v Bridgeport Machs., Inc., 249 F.3d 672, 675 (7th Cir. 2001) (same).
\textsuperscript{316} See supra note 57 and accompanying text.
notwithstanding. While there is no federal statute affirmatively mandating panel randomization, all the circuits select panels on this basis and the law review literature portrays the practice of randomized panels as deeply-entrenched and widely assumed.

2. Cornering the Market on the Authorship of Certain Opinions

As Part III of this Article has shown, Judges Easterbrook and Posner used their discretion as presiding judges to assign themselves or each other the initial Rule 23(f) opinions. The worrisome feature of this concentration, on which I take no position, is that they may have acquired more power to shape the law of Rule 23(f) – or class action law in general – than any two judges should have had.

The traditional view has been that circuit judges are generalists and that opinion assignments should proceed in accordance with that norm. Recently some scholars have argued on efficiency grounds that the generalist norm should give way when a panel member

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317 Cf. 28 U.S.C. § 137 (2012) (noting that “[t]he business of a court having more than one judge shall be divided among the judges as provided by the rules and orders of the court”).


320 One of the opinions was assigned to Judge Easterbrook by Judge Coffey, the presiding judge of the panel. See supra note 166 and accompanying text. Moreover, Judge Easterbrook and Judge Posner each also wrote a Rule 23(f) opinion in connection with litigation as to which they had previously written an opinion. See supra notes 167-168.

possesses special expertise in the subject area at hand, say tax or antitrust. But unlike the vast and complex tax and antitrust fields, Rule 23(f) is not a subject area where special expertise is germane. It is a single, circumscribed procedural rule that any competent judge should be able to interpret and apply.

Substantial scrutiny has been devoted to the significance of the opinion assignments of the late Chief Justice Warren Burger – both the opinions he retained for himself as well as those that he gave to others. Attention to the assignment practices of the superstar judges can not only shed light on judicial behavior but also help to explain why legal doctrine has evolved as it has.

3. Operating as a Team

As Parts III and IV of this Article have shown, Judges Easterbrook and Posner appear to have operated as something of a team when it came to Rule 23(f). Not only did they assign Rule 23(f) opinions only to themselves and each other. They also each authored combination opinions, a practice that was not the norm in other circuits.

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322 See, e.g., Cheng, supra note 321, at 561 (concluding that opinion specialization on the federal circuit courts “is a desirable practice worthy of praise and further consideration”). See also Baum, supra note 321, at 1676-1678 (discussing the efficiency argument).

323 For commentary on Rule 23(f), see supra note 154.

324 See, e.g., Timothy Johnson, et al., Passing and Strategic Voting on the U.S. Supreme Court, 39 LAW & SOC. REV. 349, 351 (2005); Wahlbeck, supra note, at 1730; Philip Craig Zane, An Interpretation of the Jurisprudence of Chief Justice Warren Burger, 1995 UTAH L. REV. 975, 979, 980.

325 Cf. Baum, supra note 321, at 1681-1683 (calling for research into the impact of judicial specialization).


327 See supra note 170 and accompanying text.

328 For the definition of this term, see supra note 162 and accompanying text.

329 See supra note 163 and accompanying text.
In studying the superstar judges, the possibility of an alliance, be it time-specific or long-standing, circumscribed by subject-area or otherwise, should be borne firmly in mind. Other individuals, on or off the bench, may have aided and abetted their achievements. The history of the judiciary is studded with well-known partnerships, including those between Justices Brennan and Marshall\(^{330}\) as well among the anti-New Deal Justices known as the “Four Horsemen.”\(^{331}\) There were also alliances, respectively, between the renowned Second Circuit Judge Henry J. Friendly and Harvard Law School Professor Louis Loss\(^{332}\) and between Judges Friendly and Posner.\(^{333}\)

**CONCLUSION**

Understanding the evolution of fraud-on-the-market requires taking account of the outsized contributions of Judges Easterbrook and Posner. Moreover, their contributions can be understood only by considering the strategies that these two esteemed jurists employed to bring them to life. This Article has identified some of those strategies and has endeavored to provide a larger context for evaluating them.

Legal academics appear to be more comfortable contemplating the strategies that operate

\(^{330}\) See John C. Jeffries, Jr., Justice Lewis F. Powell, Jr. 260 (1994) (describing the extent to which Justice Marshall voted the same way as Justice Brennan did and referring to the two of them as “almost a hyphenated entity”).


There was also an initial alignment between the late Chief Justice Warren Burger and Associate Justice Harry Blackmun, who were sometimes referred to as “the Minnesota Twins.” See Stephen L. Wasby, *Justice Harry A. Blackmun in the Burger Court*, 11 Hamline L. Rev. 183, 196-198 (1988) (describing the initial Burger-Blackmun alignment and the reasons for its subsequent disintegration).


on the Supreme Court level than on the federal circuit court level.\textsuperscript{334} We need to overcome our hesitancy about the latter. Not only will our familiarity with those strategies deepen our insights about when and why the law changes. Equally important, it will enable us to better understand the superstar judges, major architects of legal doctrine.

\textsuperscript{334} See supra note 11 and accompanying text.