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NOTE: Where it is feasible, a syllabus (headnote) will be released, as is being done in connection with this case, at the time the opinion is issued. The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader. See *United States* v. *Detroit Timber & Lumber Co.*, 200 U. S. 321, 337.

SUPREME COURT OF THE UNITED STATES

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HALLIBURTON CO. ET AL. *v.* ERICA P. JOHN FUND, INC., FKA ARCHDIOCESE OF MILWAUKEE SUPPORTING FUND, INC.

CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

No. 13–317. Argued March 5, 2014—Decided June 23, 2014

Investors can recover damages in a private securities fraud action only if they prove that they relied on the defendant's misrepresentation in deciding to buy or sell a company's stock. In *Basic Inc.* v. *Levinson*, 485 U. S. 224, this Court held that investors could satisfy this reliance requirement by invoking a presumption that the price of stock traded in an efficient market reflects all public, material information—including material misrepresentations. The Court also held, however, that a defendant could rebut this presumption by showing that the alleged misrepresentation did not actually affect the stock price—that is, that it had no "price impact."

Respondent Erica P. John Fund, Inc. (EPJ Fund), filed a putative class action against Halliburton and one of its executives (collectively Halliburton), alleging that they made misrepresentations designed to inflate Halliburton's stock price, in violation of section 10(b) of the Securities Exchange Act of 1934 and Securities and Exchange Commission Rule 10b–5. The District Court initially denied EPJ Fund's class certification motion, and the Fifth Circuit affirmed. But this Court vacated that judgment, concluding that securities fraud plaintiffs need not prove loss causation—a causal connection between the defendants' alleged misrepresentations and the plaintiffs' economic losses—at the class certification stage in order to invoke *Basic*'s presumption of reliance. On remand, Halliburton argued that class certification was nonetheless inappropriate because the evidence it had earlier introduced to disprove loss causation also showed that its alleged misrepresentations had not affected its stock price. By demonstrating the absence of any "price impact," Halliburton contended, it

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had rebutted the *Basic* presumption. And without the benefit of that presumption, investors would have to prove reliance on an individual basis, meaning that individual issues would predominate over common ones and class certification would be inappropriate under Federal Rule of Civil Procedure 23(b)(3). The District Court rejected Halliburton's argument and certified the class. The Fifth Circuit affirmed, concluding that Halliburton could use its price impact evidence to rebut the *Basic* presumption only at trial, not at the class certification stage.

Held:

1. Halliburton has not shown a "special justification," *Dickerson* v. *United States*, 530 U. S. 428, 443, for overruling *Basic*'s presumption of reliance. Pp. 4–16.

(a) To recover damages under section 10(b) and Rule 10b–5, a plaintiff must prove, as relevant here, "'reliance upon the misrepresentation or omission.'" *Amgen Inc.* v. *Connecticut Retirement Plans and Trust Funds*, 568 U. S. ___, ___. The Court recognized in *Basic*, however, that requiring direct proof of reliance from every individual plaintiff "would place an unnecessarily unrealistic evidentiary burden on the . . . plaintiff who has traded on an impersonal market," 485 U. S., at 245, and "effectively would" prevent plaintiffs "from proceeding with a class action" in Rule 10b–5 suits, *id.*, at 242. To address these concerns, the Court held that plaintiffs could satisfy the reliance element of a Rule 10b–5 action by invoking a rebuttable presumption of reliance. The Court based that presumption on what is known as the "fraud-on-the-market" theory, which holds that "the market price of shares traded on well-developed markets reflects all publicly available information, and, hence, any material misrepresentations." *Id.*, at 246. The Court also noted that the typical "investor who buys or sells stock at the price set by the market does so in reliance on the integrity of that price." *Id.*, at 247. As a result, whenever an investor buys or sells stock at the market price, his "reliance on any public material misrepresentations . . . may be presumed for purposes of a Rule 10b–5 action." *Id.* at 247. *Basic* also emphasized that the presumption of reliance was rebuttable rather than conclusive. Pp. 5–7.

(b) None of Halliburton's arguments for overruling *Basic* so discredit the decision as to constitute a "special justification." Pp. 7–12.

(1) Halliburton first argues that the *Basic* presumption is inconsistent with Congress's intent in passing the 1934 Exchange Act—the same argument made by the dissenting Justices in *Basic*. The *Basic* majority did not find that argument persuasive then, and Halliburton has given no new reason to endorse it now. Pp. 7–8.

(2) Halliburton also contends that *Basic* rested on two premis-

es that have been undermined by developments in economic theory. First, it argues that the *Basic* Court espoused "a robust view of market efficiency" that is no longer tenable in light of empirical evidence ostensibly showing that material, public information often is not quickly incorporated into stock prices. The Court in *Basic* acknowledged, however, the debate among economists about the efficiency of capital markets and refused to endorse "any particular theory of how quickly and completely publicly available information is reflected in market price." 485 U. S., at 248, n. 28. The Court instead based the presumption of reliance on the fairly modest premise that "market professionals generally consider most publicly announced material statements about companies, thereby affecting stock market prices." *Id.*, at 247, n. 24. Moreover, in making the presumption rebuttable, *Basic* recognized that market efficiency is a matter of degree and accordingly made it a matter of proof. Halliburton has not identified the kind of fundamental shift in economic theory that could justify overruling a precedent on the ground that it misunderstood, or has since been overtaken by, economic realities.

Halliburton also contests the premise that investors "invest 'in reliance on the integrity of [the market] price,'" *id.*, at 247, identifying a number of classes of investors for whom "price integrity" is supposedly "marginal or irrelevant." But *Basic* never denied the existence of such investors, who in any event rely at least on the facts that market prices will incorporate public information within a reasonable period and that market prices, however inaccurate, are not distorted by fraud. Pp. 8–12.

(c) The principle of *stare decisis* has " 'special force' " "in respect to statutory interpretation" because "'Congress remains free to alter what [the Court has] done.'" *John R. Sand & Gravel Co.* v. *United States*, 552 U. S. 130, 139. So too with *Basic*'s presumption of reliance. The presumption is not inconsistent with this Court's more recent decisions construing the Rule 10b–5 cause of action. In *Central Bank of Denver, N. A.* v. *First Interstate Bank of Denver, N. A.*, 511 U. S. 164, and *Stoneridge Investment Partners, LLC* v. *Scientific-Atlanta, Inc.*, 552 U. S. 148, the Court declined to effectively eliminate the reliance element by extending liability to entirely new categories of defendants who themselves had not made any material, public misrepresentation. The *Basic* presumption, by contrast, merely provides an alternative means of satisfying the reliance element. Nor is the *Basic* presumption inconsistent with the Court's recent decisions governing class action certification, which require plaintiffs to *prove*—not simply plead—that their proposed class satisfies each requirement of Federal Rule of Civil Procedure 23, including, if applicable, the predominance requirement of Rule 23(b)(3). See, *e.g.*, *Wal-*

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Mart Stores, Inc. v. *Dukes*, 564 U. S. ___, ___. The *Basic* presumption does not relieve plaintiffs of that burden but rather sets forth what plaintiffs must prove to demonstrate predominance. Finally, Halliburton emphasizes the possible harmful consequences of the securities class actions facilitated by the *Basic* presumption, but such concerns are more appropriately addressed to Congress, which has in fact responded, to some extent, to many of them. Pp. 12–16.

2. For the same reasons the Court declines to overrule *Basic*'s presumption of reliance, it also declines to modify the prerequisites for invoking the presumption by requiring plaintiffs to prove "price impact" directly at the class certification stage. The *Basic* presumption incorporates two constituent presumptions: First, if a plaintiff shows that the defendant's misrepresentation was public and material and that the stock traded in a generally efficient market, he is entitled to a presumption that the misrepresentation affected the stock price. Second, if the plaintiff also shows that he purchased the stock at the market price during the relevant period, he is entitled to a further presumption that he purchased the stock in reliance on the defendant's misrepresentation. Requiring plaintiffs to prove price impact directly would take away the first constituent presumption. Halliburton's argument for doing so is the same as its argument for overruling the *Basic* presumption altogether, and it meets the same fate. Pp. 16–18.

3. The Court agrees with Halliburton, however, that defendants must be afforded an opportunity to rebut the presumption of reliance before class certification with evidence of a *lack* of price impact. Defendants may already introduce such evidence at the merits stage to rebut the *Basic* presumption, as well as at the class certification stage to counter a plaintiff's showing of market efficiency. Forbidding defendants to rely on the same evidence prior to class certification for the particular purpose of rebutting the presumption altogether makes no sense, and can readily lead to results that are inconsistent with *Basic*'s own logic. *Basic* allows plaintiffs to establish price impact indirectly, by showing that a stock traded in an efficient market and that a defendant's misrepresentations were public and material. But an indirect proxy should not preclude consideration of a defendant's direct, more salient evidence showing that an alleged misrepresentation did not actually affect the stock's price and, consequently, that the *Basic* presumption does not apply. *Amgen* does not require a different result. There, the Court held that materiality, though a prerequisite for invoking the *Basic* presumption, should be left to the merits stage because it does not bear on the predominance requirement of Rule 23(b)(3). In contrast, the fact that a misrepresentation has price impact is "*Basic*'s fundamental premise."

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Erica P. John Fund, Inc. v. *Halliburton Co.*, 563 U. S. ___, ___. It thus has everything to do with the issue of predominance at the class certification stage. That is why, if reliance is to be shown through the *Basic* presumption, the publicity and market efficiency prerequisites must be proved before class certification. Given that such indirect evidence of price impact will be before the court at the class certification stage in any event, there is no reason to artificially limit the inquiry at that stage by excluding direct evidence of price impact. Pp. 18–23.

718 F. 3d 423, vacated and remanded.

ROBERTS, C. J., delivered the opinion of the Court, in which KENNEDY, GINSBURG, BREYER, SOTOMAYOR, and KAGAN, JJ., joined. GINSBURG, J., filed a concurring opinion, in which BREYER and SOTOMAYOR, JJ., joined. THOMAS, J., filed an opinion concurring in the judgment, in which SCALIA and ALITO, JJ., joined.