Implication Under Section 17(a) of the Securities Act of 1933--The Effect of Aaron v. SEC

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INTRODUCTION

In June 1980, the Supreme Court imposed a significant limitation on enforcement actions commenced by the Securities and Exchange Commission (SEC). In Aaron v. SEC, the Court held that actions brought by the SEC under section 17(a)(1) of the Securities Act of 1933 (1933 Act) require a showing of scienter, but that actions under sections 17(a)(2) and 17(a)(3) require only a showing of negligence. Consequently, there is now a significant disparity between actions brought under section 17(a) and those brought under section 10(b) of the Securities Exchange Act of 1934 (1934 Act) and rule 10b-5, which require a showing of scienter.

1. 446 U.S. 680 (1980). This was an action by the SEC against a broker-dealer and two of his registered representatives alleged to have made false and misleading statements in the offer and sale of securities. Id. at 682-84.

2. 15 U.S.C. § 77q(a)(1) (1976). Section 17(a) provides that "[i]t shall be unlawful for any person in the offer or sale of any securities by the use of any means or instruments of transportation or communication in interstate commerce or by the use of the mails, directly or indirectly—(1) to employ any device, scheme, or artifice to defraud, or (2) to obtain money or property by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or (3) to engage in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser." Id.


4. 446 U.S. at 701-02.

5. Securities Exchange Act of 1934, § 10(b), 15 U.S.C. § 78j(b) (1976), makes it unlawful to employ any manipulative or deceptive device in connection with the purchase or sale of securities.

6. Rule 10b-5, 17 C.F.R. § 240.10b-5 (1980), promulgated pursuant to § 10(b) of the Securities Exchange Act of 1934, provides that "[i]t shall be unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce, or of the mails or of any facility of any national securities exchange, (a) To employ any device, scheme, or artifice to defraud, (b) To make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or (c) To engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of any security." The language of rule 10b-5 was copied from that of § 17(a) of the 1933 Act. 1 A. Bromberg & L. Lowenfels, Securities Fraud & Commodities Fraud § 2.2, at 2:14 (1979). "The derivation of Rule 10b-5 is peculiar. Although the authority for the Rule comes from § 10(b) of the Securities and Exchange Act of 1934, the draftsmen turned their backs on the language of that section and borrowed the words of § 17 of the Securities Act of 1933, simply broadening these to include frauds on the seller as well as on the buyer." SEC v.
This development necessitates a reexamination of the need for a private right of action under this section of the 1933 Act. Although the issue has been the subject of considerable controversy and has caused conflict among circuit and district courts, several courts have


8. The phrase "private cause of action" has been defined as "the right of a private party to seek judicial relief from injuries caused by another's violation of a legal requirement. In the context of legislation enacted by Congress, the legal requirement involved is a statutory duty." Cannon v. University of Chicago, 441 U.S. 677, 730 n.1 (1979) (Powell, J., dissenting). Private rights of action judicially inferred from regulatory or criminal statutes that do not expressly provide for civil liability are also commonly referred to as "implied causes" or "implied rights" of action. See Note, Imposing Civil Remedies from Federal Regulatory Statutes, 77 Harv. L. Rev. 285, 285 (1963) [hereinafter cited as Imposing Civil Remedies]. The concept of such judicial inference is commonly known as the implication doctrine. See Cannon v. University of Chicago, 559 F.2d 1063, 1072 n.11 (7th Cir. 1976), rev’d, 441 U.S. 677 (1979); Pillai, Negative Implication: The Demise of Private Rights of Action in the Federal Courts, 47 U. Cin. L. Rev. 1, 1 (1978); Note, Implied Private Actions Under Federal Statutes—The Emergence of a Conservative Doctrine, 18 Wm. & Mary L. Rev. 429, 429-30 (1976) [hereinafter cited as Emergence of a Conservative Doctrine]. The terms "implied right of action," "implied cause of action," and "implied civil remedy," will be used interchangeably in this Note.


found that there is little practical point in denying the action once a viable 10b-5 claim is presented. The Supreme Court's decision in Aaron makes this rationale less persuasive, however, because disparate culpability standards now apply to at least parts of section 17(a) and section 10(b) claims. This Note examines the practice of implying a private right of action under section 17(a), and concludes that such an action should not be inferred from the statute.

I. IMPlication Under Section 17(a) After Aaron v. SEC

Prior to the Supreme Court's decision in Aaron v. SEC, courts considering whether section 17(a) gives rise to an implied private right of action saw little reason to differentiate between an action brought under section 17(a) and one brought under rule 10b-5. These courts relied on Judge Friendly's concurring opinion in SEC v. Texas Gulf Sulphur Co. After citing strong authority for the proposition that section 17 was intended only to afford a basis for injunctive relief, and upon a proper showing for criminal liability, Judge Friendly concluded that "[o]nce it has been established . . . that an aggrieved buyer has a private action under [section] 10(b) of the 1934 Act, there seem[s] little practical point in denying the existence of such an action under [section] 17." Reliance upon this proposition often led to holdings that failed to state the basis upon which relief was being granted. Having found a valid claim under section 10(b), many courts either ignored the section 17 claim or implicitly or explicitly recognized it. The importance of this parallel view of sections


14. See note 11 supra and accompanying text.
16. Id.
17. Id. at 867.
18. See note 11 supra and accompanying text.
19. Nemkov v. O'Hare Chicago Corp., 592 F.2d 351, 353 (7th Cir. 1979); Kirchner v. United States, 603 F.2d 234, 241 (2d Cir. 1978), cert. denied, 444 U.S. 995.
17 and 10(b) is that many courts did not find themselves compelled to face the question of implication under section 17(a) directly. The Supreme Court's decision in Aaron makes this parallel analysis improper because the two claims now have different standards of


culpability. Because this distinction did not exist at the time Texas Gulf Sulphur was decided, the case retains little precedential value for the proposition that section 17(a) implicitly creates a private cause of action.

Reliance upon Judge Friendly's rationale is misplaced because it would needlessly discriminate among investors and disrupt the pattern of civil liabilities imposed by the 1933 Act. Recognition of a private section 17(a) claim in its post-Aaron form would drive a serious and unjustifiable wedge between the protection afforded purchasers and that afforded sellers under the Securities Acts. Seller protection provided by section 10(b) requires proof of scienter "regardless of the identity of the plaintiff or the nature of the relief sought." Thus, purchaser protection under section 17(a)(2) and 17(a)(3), which cover substantially the same conduct as section 10(b), would only require proof of negligence in private and SEC actions. No intent to provide greater protection to purchasers than to sellers is expressed in the Court's reasoning in Aaron, nor in the legislative history of the Securities Acts.

Moreover, Judge Friendly perceived the importance of maintaining statutory standards under the two sections in pari materia to sustain an implied right of action under section 17(a). Recognition of this action after Aaron, however, would upset the regulatory scheme of the 1933 Act. Judge Friendly observed that the section 17(a) action may exist separately but "with the important proviso that fraud, as distinct from mere negligence, must be alleged." He reasoned that this was necessary to avoid upsetting the limitations imposed on other actions permitted by the 1933 Act, which are sustainable upon a

22. Aaron v. SEC, 446 U.S. 680, 715 (1980) (Blackmun, J., concurring in part, dissenting in part) ("I have searched in vain for any reason in policy or logic to support this division."); see 6 L. Loss, supra note 9, at 3915 (2d ed. Supp. 1969).
24. Horton, supra note 9, at 48 & n.11 ("every private action brought pursuant to Section 17(a) could be brought just as readily pursuant to Rule 10b-5"); see notes 2, 6 supra.
26. See id. at 697-702.
28. 401 F.2d at 867-68 (Friendly, J., concurring).
29. Id. at 867 (Friendly, J., concurring).
30. Section 13 provides that any action under §§ 11 and 12 of the 1933 Act must be "brought within one year after the violation upon which it is based." 15 U.S.C. §
showing of negligence. Because actions commenced under sections 17(a)(2) and 17(a)(3) currently require an allegation of negligence, the foregoing rationale is no longer appropriate. One commentator has observed that

[the 1933 Act] deals only with disclosure and fraud in the sale of securities. It has but two important substantive provisions, [sections] 5 and 17(a). Noncompliance with [section] 5 results in civil liability under [section] 12(1). Faulty compliance results in liability under [section] 11. And [section] 17(a) has its counterpart in [section] 12(2). It all makes a rather neat pattern. Within the area of [sections] 5 and 17(a), [sections] 11 and 12 . . . are all-embracing. . . . The very restrictions contained in those sections and the differences between them . . . make it seem . . . less justifiable to permit plaintiffs to circumvent the limitations of [section] 12 by resort to [section] 17(a). 31

Because the reasoning employed in Texas Gulf Sulphur to find an implied private action is no longer tenable, courts should no longer rely on the case as authority for recognizing the implied right without analyzing the section according to the controlling implication doctrine. Each circuit must now squarely face the question whether to imply a private right under section 17(a) distinct from any alternative basis for recovery. Unless an independent basis for such recognition exists under this doctrine, 32 federal courts should cease to infer the cause of action entirely.

77m (1976). In no event may an action be brought “more than three years after the security was bona fide offered to the public.” Id. Additionally, § 12 limits recovery to the amount of pecuniary loss. 15 U.S.C. § 77l (1976); see SEC v. Coven, 581 F.2d 1020, 1027 (2d Cir. 1978), cert. denied, 440 U.S. 950 (1979). “[I]f a private action for damages [is] recognized under § 17(a), and if scienter [is] not required, the effect [is] to negate limitations on private recoveries for negligence contained in §§ 11, 12(2) and 15 of the 1933 Act, 15 U.S.C. §§ 77k, 77l(2), 77o.” 581 F.2d at 1027 (footnote omitted); accord, Malik v. Universal Resources Corp., 425 F. Supp. 350, 363-64 (S.D. Cal. 1976); 3 L. Loss, supra note 9, at 1784-87; 6 id. at 3912-15 (2d ed. Supp. 1969).


II. IMPLICATION DOCTRINE

A. Current Standards

Prior to 1975, the implication doctrine was predicated on remedial policy considerations. Displeased with the uncontrolled expansion of remedies under federal statutes, however, the Supreme Court

33. The current standard for implication of private rights of action has developed from four earlier theories. Lowenfels, Recent Supreme Court Decisions Under the Federal Securities Laws: The Pendulum Swings, 65 Geo. L.J. 891 (1977); Note, A New Direction for Implied Causes of Action, 48 Fordham L. Rev. 503 (1950); Note, Implication of Private Actions from Federal Statutes: From Borak to Ash, 1 J. Corp. L. 371 (1976); Note, Emerging Standards for Implicated Actions Under Federal Statutes, 9 U. Mich. J.L. Ref. 295 (1976) [hereinafter cited as Standards for Implied Actions]; Comment, Private Rights of Action Under Amtrak and Ash: Some Implications for Implication, 123 U. Pa. L. Rev. 1392 (1975) [hereinafter cited as Implied Private Rights of Action]. They provide the theoretical underpinnings of the current doctrine and must be discussed in considering implication of private actions. The first of these theories, the tort implication theory, provides that violation of a statute resulting in injury "to one of the class for whose especial benefit the statute was enacted" gives rise to a right in the injured party. Texas & Pac. Ry. v. Rigsby, 241 U.S. 33, 39 (1916); Baird v. Franklin, 141 F.2d 238 (2d Cir.), cert. denied, 323 U.S. 737 (1944); Restatement (Second) of Torts § 286 (1965); W. Prosser, Handbook of the Law of Torts § 36, at 191 (1946). The overly broad nature of the theory, however, failed to provide comprehensive standards and could be construed to apply to most statutes. Implied Private Rights of Action, supra, at 1394. Thus, the theory was rejected as "entirely misplaced" in the securities field. Touche Ross & Co. v. Redington, 442 U.S. 560, 568 (1979). Under the second theory, the remedial purpose of Congress in enacting the statute is deemed to indicate a congressional desire to provide a remedy for the wrongs that the statute was designed to protect against. J. I. Case Co. v. Borak, 377 U.S. 426, 433 (1964). The rationale, however, may lead to judicial legislating. See Pitt, An S.E.C. Insider's View of the Utility of Private Litigation Under the Federal Securities Laws, 5 Sec. Reg. L.J. 3 (1977). The third implication theory involves the creation of a private right by the force and effect of the statute's jurisdictional statement. Under this theory, a jurisdictional section in an act can create a private right of action when the section applies to "all suits in equity and actions at law" that arise under the act. 377 U.S. at 431. The fourth theory permits implication of a private right when it is necessary to achieve the legislative purpose. Id. at 433. Although the language of § 14(a) of the Securities Exchange Act of 1934 "makes no specific reference to a private right of action," one of its purposes "is the protection of investors," which certainly implies the availability of judicial relief where necessary to achieve [the legislative purpose]." Id. at 432. "[T]he duty of the courts is to be alert to provide such remedies as are necessary to make effective the congressional purpose." Id. at 433; accord, Bell v. Hood, 397 U.S. 678, 684 (1946). These standards no longer govern the implication of private rights of action. A presumption against the necessity of a private remedy now exists. See Pillai, supra note 8, at 36.

34. Pillai, supra note 8, at 37-38 (The Court was dissatisfied with the liberal implication rationale.); Emergence of a Conservative Doctrine, supra note 8, at 446-
sought to develop a structural framework that would provide intelligible standards for implication cases, and thereby restrict the implication of private actions. In *Cort v. Ash*, the Court stated that four factors must be considered before inferring a private action:

1. **First**, is the plaintiff "one of the class for whose especial benefit the statute was enacted"—that is, does the statute create a federal right in favor of the plaintiff? Second, is there any indica-

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36. 422 U.S. 66 (1975). In *Cort*, the issue was whether a shareholder could bring a derivative action under 18 U.S.C. § 610 (1976) against corporate directors who had allegedly made contributions and expenditures in connection with the presidential election of 1972. Section 610 is a criminal statute making the expenditure of funds for certain federal elections illegal. It specifically provides that violations of its provisions can result in fines, imprisonment, or both, but does not provide any express civil remedy for its violation. The Court held that the section did not give rise to an implied civil remedy. 422 U.S. at 69.
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tion of legislative intent, explicit or implicit, either to create such a remedy or to deny one? . . . Third, is it consistent with the underlying purposes of the legislative scheme to imply such a remedy for the plaintiff? . . . And finally, is the cause of action one traditionally relegated to state law, in an area basically the concern of the States, so that it would be inappropriate to infer a cause of action based solely on federal law? 37

Because the Court failed to indicate the weight to be given to each of these factors, 38 the standard was susceptible to different interpretations and to judicial manipulation. 39 Thus, despite this attempt to provide a comprehensive standard that would curb judicial implication, circuit courts applied the four factors selectively 40 and continued to recognize implied rights of action frequently. 41

37. 422 U.S. at 78 (citations omitted).
38. See Crawford & Schneider, The Implied Private Cause of Action and the Federal Aviation Act: A Practical Application of Cort v. Ash, 23 Vill. L. Rev. 657, 658-59 (1978). The lack of mutual exclusivity among the factors and the absence of any indication of the weight to be given each created new problems for the federal courts in deciding implication cases. See 4 A. Bromberg & L. Lowenfels, supra note 6, § 2.4, at 384-3; McMahon & Rodos, Judicial Implication of Private Causes of Action: Reappraisal and Retrenchment, 80 Dick. L. Rev. 167, 187 (1975), Standards for Implied Actions, supra note 33, at 316-18. The 1933 Act contains a jurisdictional statement granting jurisdiction to the federal courts to hear claims arising under the Act. 15 U.S.C. § 77v (1976). Thus, the fourth Cort factor is not relevant to analysis of an implied action under the federal securities laws. See also Horton, supra note 9, at 44; Schulman, Civil Liability and the Securities Act, 43 Yale L.J. 227 (1933).
40. See Cannon v. University of Chicago, 441 U.S. 677, 717 (1979) (it is "atypical" that all four Cort factors point toward implication); Clark v. Gulf Oil Corp., 570 F.2d 1138, 1145-50 (3d Cir. 1977) (interpreting factors to conclude that finding plaintiffs to be within the especially benefited class was insufficient to outweigh the inconsistencies of an implied right of action with the legislative scheme), cert. denied, 435 U.S. 970 (1978); Rauch v. United Instruments, Inc., 548 F.2d 452, 460 (3d Cir. 1976) (finding that plaintiff was not a member of an especially benefited class and that the action was of state concern, the court found it unnecessary to consider the second and third factors); National Super Spuds, Inc. v. New York Mercantile Exch., 470 F. Supp. 1256, 1259-61 (S.D.N.Y. 1979) (interpreting Cort to find a special beneficiary and no state law tradition was insufficient to outweigh the second and third factors).
Definitive clarification has not been forthcoming from the Supreme Court. Three subsequent cases have followed Cort, but each has accorded the factors different weights in determining whether Congress intended to provide a private remedy. In Cannon v. University of Chicago,\(^4\) the Court evaluated congressional intent by focusing on the especial benefit test.\(^4\) The opinion indicated that this factor should be sought in the language of the statute itself, which "expressly identifies the class Congress intended to benefit."\(^4\)

Touche Ross & Co. v. Redington,\(^4\) on the other hand, focused on congressional intent as evinced by the structure of liability provisions in the 1934 Act. The Court held that, if the statute by its own terms neither grants private rights to any identifiable class nor proscribes conduct as unlawful and if its legislative history does not address the issue of private remedies, a private action should not be inferred.\(^4\) Consideration of the remaining Cort factors would not be relevant.\(^7\) The Court reasoned that, when a statutory provision is flanked by other sections of the same act explicitly granting private causes of action, there is an inference that "when Congress wished to provide a private damages remedy, it knew how to do so and [would have done] so expressly."\(^4\) Therefore, inclusion of express liability provi-

\(^{42}\) 441 U.S. 677 (1979). Cannon, the plaintiff, alleged that her applications for admission to medical school were denied on the basis of gender. \(\text{Id.}\) at 680. The Court held that \$ 901(a) of Title IX of the Education Amendments Act of 1972, 20 U.S.C. \$ 1681(a) (1976), confers an implied private right of action on victims of sex discrimination in federally financed educational programs. \(\text{441 U.S. at 717.}\)

\(^{43}\) \(\text{441 U.S. at 689 ("[T]he threshold question under Cort is whether the statute was enacted for the benefit of a special class of which the plaintiff is a member.").}\)

\(^{44}\) \(\text{441 U.S. at 690.}\)

\(^{45}\) 442 U.S. 560 (1979). The brokerage firm of Weis Securities, Inc., had retained Touche Ross & Co., an accounting firm, to serve as its independent auditor. In addition to conducting audits, Touche Ross prepared annual reports of Weis's financial position for filing with the SEC. Redington was appointed to act as trustee in Weis's subsequent insolvency and liquidation under the Securities Investor Protection Act of 1970, 15 U.S.C. \$\$ 78aaa-78lll (1976). Securities Investor Protection Corp. and Redington, as trustee, sued Touche Ross for losses incurred by Weis's customers as a result of the allegedly improper audits and financial statement certifications made by the accounting firm. \(\text{442 U.S. at 563-66.}\)

\(^{46}\) \(\text{442 U.S. at 572, 576.}\)

\(^{47}\) \(\text{Id.}\) at 576.

\(^{48}\) \(\text{Id.}\) at 572. The statement is similar to the maxim, expression of one thing is exclusion of another, that was applied in National R.R. Passenger Corp. v. National Ass'n of R.R. Passengers (Amtrak), 414 U.S. 453, 458 (1974), and again in Transamerica Mortgage Advisors, Inc. v. Lewis, 444 U.S. 11, 18-19 (1979). See generally 2A C. Sands, Sutherland's Statutes and Statutory Construction \$\$ 47.23-47.25 (4th ed. 1973).
sions in an act creates an inference that Congress did not intend additional remedies. Moreover, Redington stated that remedial purposes are generally not a sufficient basis by themselves from which to imply a private cause of action.\textsuperscript{49} The Court observed that private actions should be implied only when there is a congressional intent to provide the remedy. Implication merely to supplement express remedies contained in a statute is inappropriate.\textsuperscript{50}

Analysis of congressional intent and the nature of the legislative scheme was the focal point of the most recent implication case. In Transamerica Mortgage Advisors, Inc. v. Lewis,\textsuperscript{51} the Court recognized a limited private right of action under section 215 of the Investment Advisers Act of 1940.\textsuperscript{52} Although no private damage action was found to exist,\textsuperscript{53} the plaintiffs were permitted to obtain rescission of the investment advisers’ contract.\textsuperscript{54} Relying on the language of section 215, the Court inferred that congressional intent existed to create a private cause of action.\textsuperscript{55}

Implication of a private action under the general antifraud provision of section 206, however, was rejected.\textsuperscript{56} Although section 206 was intended to protect advisers’ clients\textsuperscript{57} by expressly prohibiting

\textsuperscript{49} 442 U.S. at 578 (“generalized references to the ‘remedial purposes’ of the 1934 Act will not justify reading a provision ‘more broadly than its language . . . reasonably permit[s].’”).

\textsuperscript{50} 442 U.S. 575, 578 (“The ultimate question is one of congressional intent, not one of whether this Court thinks it can improve upon the statutory scheme that Congress enacted into law.”). The absence of a longstanding history of lower court recognition of an implied right may also weigh against finding one in later review. \textit{Id.} at 577-78 n.19. Moreover, the Court characterized the tort implication doctrine as “entirely misplaced” in the securities area, \textit{id.} at 568, and rejected implication by the statute’s own force and effect. \textit{Id.} at 577.

\textsuperscript{51} 444 U.S. 11 (1979). Lewis, a shareholder in a real estate investment trust, brought this derivative action on behalf of the trust and as a class action on behalf of the trust’s shareholders. He alleged various frauds and breaches of fiduciary duty by the trust’s investment adviser, the trust itself, individual trustees, and two affiliated corporations that he claimed were in violation of the Investment Advisers Act of 1940. \textit{Id.} at 13-14.

\textsuperscript{52} \textit{Id.} at 18.

\textsuperscript{53} \textit{Id.} at 24.

\textsuperscript{54} \textit{Id.} at 18-19. The Court’s statement was actually broader than required to resolve the question presented in the case. It stated that “there exists a limited private remedy under the Investment Advisers Act of 1940 to void an investment adviser’s contract, but that the Act confers no other private causes of action, legal or equitable.” \textit{Id.} at 24.

\textsuperscript{55} \textit{Id.}

\textsuperscript{56} \textit{Id.} at 19-20.

\textsuperscript{57} \textit{Id.} at 17. The proscribed conduct constitutes the “especial benefit” factor developed in \textit{Cort, Cannon,} and \textit{Redington}. The protected class appears to include clients and prospective clients of investment advisers. \textit{Note, Private Causes of Action Under Section 206 of the Investment Advisers Act, 74 Mich. L. Rev. 305, 314-15 (1975).}
certain fraudulent conduct, factors that constituted the threshold test under Redington, the Court ruled that Congress had not intended to create a private action. Because other sections of the Act provided for SEC actions to enforce section 206, the Court decided that implication of additional remedies was precluded.

Thus, the Supreme Court has applied the Cort factors inconsistently. The common theme in these cases, however, has been the use of the Cort factors to determine whether there is a congressional intent to provide an implied cause of action. Analysis of section 17(a) according to these guidelines demonstrates that an intent to provide a private remedy is clearly lacking.

58. Investment Advisors Act of 1940, § 206, 15 U.S.C. § 80b-6 (1976). In Touche Ross & Co. v. Redington, 442 U.S. 560 (1979), the Court suggested that finding a statutory proscription of conduct was a prerequisite to consideration of other Cort factors. Id. at 575-76.

59. See note 57 supra.

60. 442 U.S. at 19-21.

61. Id. at 19.

62. Id. at 19-20. The same rationale was applied in National R.R. Passenger Corp. v. National Ass'n of R.R. Passengers (Amtrak), 414 U.S. 453 (1974). In Amtrak, the Court stated that "'[w]hen a statute limits a thing to be done in a particular mode, it includes the negative of any other mode.'" Id. at 458 (quoting Botany Worsted Mills v. United States, 278 U.S. 282, 289 (1929)). The Court then analyzed the implication issue by determining whether the express remedies granted by § 307(a) of the Rail Passenger Service Act of 1970, 45 U.S.C. § 547(a) (1976), were the exclusive remedies under the Act. 414 U.S. at 458. The Court's rationale presumes, perhaps mistakenly, that Congress carefully examined the relationship of the liabilities created by the act in question. Id. at 458-61. But see Durnin v. Allentown Fed. Sav. & Loan Ass'n, 218 F. Supp. 716, 719 (E.D. Pa. 1963). Given this premise, the omission of remedies represents the deliberate congressional choice to limit liabilities to those prescribed. See 2A C. Sands, supra note 48, §§ 47.23-47.25. This rationale has been criticized by the courts. E.g., SEC v. C.M. Joiner Leasing Corp., 320 U.S. 344, 350-51 (1943); Potomac Passengers Ass'n v. Chesapeake & O. Ry., 475 F.2d 325, 331-32 (D.C. Cir. 1973), rev'd sub nom. National R.R. Passenger Corp. v. National Ass'n of R.R. Passengers (Amtrak), 414 U.S. 453 (1974); Matheson v. Armbrust, 284 F.2d 670, 674 (9th Cir. 1960), cert. denied, 365 U.S. 870 (1961); Durnin v. Allentown Fed. Sav. & Loan Ass'n, 218 F. Supp. 716, 719 (E.D. Pa. 1963); see Implying Civil Remedies, supra note 8, at 290-91; Emergence of a Conservative Doctrine, supra note 8, at 452-53. In Lewis, 444 U.S. 11 (1979), the Court based its decision upon circumstantial evidence of congressional intent. Id. at 20. The Court observed that Congress had provided express judicial means for enforcing compliance with § 206, thus raising the inference that the option of providing a private remedy of damages was considered and rejected by Congress. Id. at 19-20. It also noted that the securities laws that had preceded the Investment Advisers Act of 1940 and the Investment Company Act of 1940 included express authorizations of private actions in limited circumstances. The failure to include such authorization in the Investment Advisers Act suggested that Congress was unwilling to impose potential monetary liability under the Act. Id. at 20-21. The Court also noted that Congress omitted the phrase "'actions at law brought to enforce any liability or duty created by the statute' from the jurisdictional section of the Act. This suggested that Congress intended that only equitable relief be available. Id. at 21-22.

B. Implication Doctrine Applied to Section 17(a)

1. The Especial Benefit Test

Section 17(a) arguably creates an especially benefitted class in whose favor a private right of action should exist. Because the section proscribes certain fraudulent practices, it is arguable that section 17(a) was designed to protect the investing public. Additionally, the section protects investors by providing them with the right to a wide range of information concerning the nature of particular investments. It is also apparent, however, that Congress intended to protect industry and the economy by curtailing certain business practices that led to the economic collapse of 1929. Thus, it is unclear that Congress intended the investing public to be especially benefitted by section 17(a). Consequently, it is necessary to examine other indicia of legislative intent.


66. See H.R. Rep. No. 85, 73d Cong., 1st Sess. 3-4 (1933). The 1933 Act "closes the channels of ... commerce to security issues unless and until a full disclosure of the character of such securities had been made. ... [N]o essentially important element attending the issue [of securities] shall be concealed from the buying public." Id. This intention was manifested in the disclosure requirements of § 5, which mandate extensive disclosure before non-exempted securities may be offered for sale. Securities Act of 1933, § 5, 15 U.S.C. § 77e (1976); see SEC v. Capital Gains Research Bureau, Inc., 375 U.S. 180, 186-87 (1963); Wilko v. Swan, 346 U.S. 427, 431 (1953); SEC v. Van Horn, 371 F.2d 181, 186 (7th Cir. 1966); Surowitz v. Hilton Hotels Corp., 342 F.2d 596, 602 (7th Cir. 1965), rev'd and remanded, 383 U.S. 363 (1966); United States v. Custer Channel Wing Corp., 247 F. Supp. 481, 492 (D. Md. 1965), aff'd, 376 F.2d 675 (4th Cir.), cert. denied, 389 U.S. 850 (1967).

67. H.R. Rep. No. 85, 73d Cong., 1st Sess. 2-3 (1933). "Equally significant with the countless individual tragedies [that befell investors was] the wastage that this irresponsible selling of securities has caused to industry." Id. at 2. See generally SEC v. Texas Gulf Sulphur Co., 401 F.2d 833, 867 (2d Cir. 1968) (Friendly, J., concurring), cert. denied, 404 U.S. 1005 (1971); Welch Foods, Inc. v. Goldman, Sachs & Co., 398 F. Supp. 1393, 1401 (S.D.N.Y. 1974); Reid v. Mann, 381 F. Supp. 525, 527 (N.D. Ill. 1974); Douglas & Bates, supra note 9, at 181-82; Ruder, supra note 9, at 656.
2. The Legislative History and Statutory Scheme

There are no indications of an intention to create a private remedy under section 17(a) in the legislative history or in the statutory scheme of the 1933 Act.\(^6\) The section of the House Report entitled "Civil Liabilities"\(^6\) begins by stating that "[s]ections 11 and 12 create and define the civil liabilities imposed by the act and the machinery . . . which renders them practically valuable."\(^7\) Moreover, the report states that "[t]o impose a greater responsibility . . . would unnecessarily restrain the conscientious administration of . . . business with no compensating advantage to the public."\(^7\) It is logical to conclude, therefore, that Congress specifically provided for civil remedies to the extent it considered appropriate and intended these remedies to be exclusive.\(^2\)

Examination of the statutory scheme of liability also suggests that implication of a private action would be inconsistent with congressional intent.\(^7\) The underlying purpose of the 1933 Act was to require disclosure of information relevant to determining the fair value of securities issued and to provide for honest dealing in securities without unduly restraining business access to the capital markets.\(^7\) To achieve this objective, Congress struck a careful balance between the countervailing interests of investors and business.\(^7\) For example, Congress provided liability under sections 11 and 12 without requiring scienter.\(^7\) This extension of liability, however, was balanced by strict limitations on the actions including a one year statute of limitations\(^7\) and a limitation on the recovery of damages.\(^7\)

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\(^7\) H.R. Rep. No. 85, 73d Cong., 1st Sess. 9-10 (1933); see notes 70-71 supra.

\(^7\) H.R. Rep. No. 85, 73d Cong., 1st Sess. 9-10 (1933).

\(^7\) Securities Act of 1933, §§ 11-12, 15 U.S.C. §§ 77k-77l (1933).

\(^7\) Id. § 13, 15 U.S.C. § 77m (1976).

\(^7\) Id. § 14, 15 U.S.C. § 77n (1976).
Because the conduct proscribed by section 17(a) is phrased in terms broad enough to include violations covered by sections 11 and 12, suits brought under those sections could also be brought in an implied action under section 17(a). If a private remedy is recognized under the negligence standard of section 17(a)(2) or 17(a)(3), the express limitations on other negligence actions contained in the Act could be circumvented.

Federal courts that have recognized an implied remedy under section 17(a) have frequently done so without including the limitations that apply to sections 11 and 12. Liability under sections 17(a)(2) and 17(a)(3), therefore, would allow recovery under the same culpability standard but without any of the limitations imposed on the actions that are explicitly provided in the 1933 Act. This interpretation, which ignores the careful balancing of competing interests performed by Congress in drafting the 1933 Act, is incon-
sistent with the legislative scheme. It appears that section 17(a) was intended only to provide the basis for injunctive and criminal liability.84

Moreover, even if implication of a private action under section 17(a) were consistent with the scheme of the Act, courts should refuse to recognize the right. The requirement of consistency with the legislative scheme was revised in Piper v. Chris-Craft Industries, Inc.,85 to require that implication be "necessary" to insure the fulfillment of Congress' purpose in adopting the Act. Mere consistency is insufficient.86 It is unlikely that the denial of an implied remedy under section 17(a) would cause the collapse of the entire legislative scheme, as one commentator states would be required to compel implication.87 Protection of investors has been achieved through the Act as written by Congress, and further remedies are not "necessary" to fulfill the legislative purpose.88

Thus, application of the doctrine established in Cort and its progeny to section 17(a) should result in denial of a private right of action. Congress did not intend to provide such a remedy. Because congressional intent is determinative,89 federal courts that have recognized a private right of action under the section90 should discontinue this practice.

**Conclusion**

It is clear that the effect of the Aaron decision is to require courts to consider implication of a private right of action under section 17(a) independent of the previously similar rule 10b-5 claim. The Supreme Court has ruled in Cort and its progeny that this determination must be based on principles of statutory construction to avoid the pitfalls of judicial legislation that have pervaded the area of implication of pri-

84. One commentator has observed that "a reading of [§ 17(a)] in the light of the entire Act leaves no doubt but that violations of its provisions give rise only to a liability to be restrained by injunctive action or, if willfully done, to a liability to be punished criminally." Landis, supra note 9, at 331.
86. Id. at 41-42.
87. Pillai, supra note 8, at 36.
vate rights of action. Congress’ careful drafting of the 1933 Act is reflected in the relationship among sections that establish substantive rights and those that provide the means to enforce them. Courts should not interfere with the balance achieved by Congress by implying a private right of action under section 17(a). This result both effectuates congressional intent and comports with the Supreme Court’s theory of implication.

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