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**Appeals Court Reverses 'American Funds' Decision; Case Remanded to Trial Court**

The California Court of Appeal issued a favorable decision in the *People v. American Funds* case. AARP filed an amicus brief supporting the California Attorney General's case against Capital Research and Management Company (CRMC) and American Funds Distributors (AFD), one of the largest mutual fund companies in the nation. The Attorney General had filed an enforcement action against CRMC and AFD alleging that CRMC and AFD were participating in undisclosed "shelf-space agreements" thereby increasing AFD Fund's shareholder's costs and creating conflicts of interests. The shelf space agreements gave broker-dealers additional compensation that was not disclosed to the investors. The trial court held that the AG's suit was preempted. The Court of Appeal disagreed, reversed the case and remanded it back to the trial court.

The Court of Appeal held that Congress intended to preserve the states' anti-fraud authority to control the conduct of brokers and dealers with respect to securities transactions. The Court further held that Congress had two objectives when enacting NSMIA, the National Securities Markets Improvement Act of 1996, to promote national uniformity in the securities registration process by preempting state Blue Sky laws, and "the secondary but equally important intent to encourage the continued participation of the states in preventing fraud in securities transactions, particularly with regard to broker-dealers." A complete copy of the decision can be found by accessing the website below.

<http://www.courtinfo.ca.gov/opinions/documents/B189249.PDF>

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