

# Southern New York District Court Rejects Evidence from "Confidential Witnesses" as Basis for Securities Class Action

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A securities class action lawsuit against Canadian Solar, Inc. (CSI) was recently dismissed in the US District Court for the Southern District of New York for failing to adequately plead the required elements of a federal securities fraud claim. Plaintiffs alleged that CSI made false and misleading statements, including: (i) two of CSI's 2009 financial reports, which were false and misleading because they incorporated a "sham" transaction; and (ii) statements about its internal controls.

District Court Judge Robert W. Sweet found that the plaintiffs had failed to state a claim for securities fraud for three independent reasons. First, none of the statements that the plaintiffs identified, which generally consisted of **Securities and Exchange Commission** filings and press releases, were false or misleading. In particular, the court noted that plaintiffs failed to provide any "specific facts" about any transactions that plaintiffs alleged to be "sham" transactions. The court rejected the allegations from four "confidential witnesses" because the basis for the witnesses' knowledge was not stated with any particularity.

Second, the court found that plaintiffs failed to plead *scienter* because there was a "more cogent and compelling," "non-culpable" explanation for the allegations regarding the "sham" transaction and that the plaintiffs' failed to provide particularized facts as to the knowledge of the "fraud" of anyone at CSI.

Third, the complaint did not adequately allege loss causation because neither of the documents on which the plaintiffs relied in their complaint (an announcement that CSI might file revised financial reports and the disclosure of an SEC subpoena) was sufficient to act as a corrective disclosure.

***Janbay v. Canadian Solar, Inc.***, No. 10 Civ. 4430 (S.D.N.Y. Mar. 28, 2013).

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National Law Review, Volume III, Number 96

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