

Corporate & Financial Weekly Digest

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Fifth Circuit Finds That Accurate Reporting of Manipulated Prices Is Not Fraud

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The Fifth Circuit found that buyers of natural gas did not commit fraud by reporting artificially low sales prices to an industry index in order to reduce market prices.

Plaintiff Rio Grande Royalty Co., Inc. sold natural gas at prices based on those published in an industry index. Defendants, who sold and bought natural gas but were net buyers, strategically sold gas from 2003 through 2005 at below-market prices and reported these sales to the index to suppress published prices. Rio Grande alleged that the defendants were liable for fraud for reporting their artificially low prices to the industry index. The U.S. District Court for the Southern District of Texas dismissed Rio Grande's fraud claim, and Rio Grande appealed.

Rio Grande argued that the truthful reporting of transactions tainted by market manipulation can amount to fraud and that failure to disclose this misrepresentation constituted a fraudulent omission of material fact. The Fifth Circuit rejected the argument, holding that defendants reported actual data from the transactions and were not obligated to correct their accurate reports. (*Rio Grande Royalty Co., Inc. v. Energy Transfer Partners, L.P.*, 2010 WL 3565192 (5th Cir. Sept. 15, 2010))

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