

Subprimes and the Institutional Plaintiff

By: Christopher Faille, Senior Financial Correspondent

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INDIANAPOLIS (HedgeWorld.com) – An Indianapolis law firm hopes to fill what may be a promising niche in the market for securities lawyers: representing institutions in litigation against huge firms, generally the sponsors of hedge funds, who have lost money in the subprime mess.

Keith L. Griffin, of Maddox Hargett & Caruso PC, said in a telephone interview on Monday [Feb. 18] that the firm is aware of the difficulty that pension funds and other institutional investors have had finding law firms both willing and qualified to file lawsuits against such institutions.

Mr. Griffin said that he had seen a column on the subject in the Financial Times last week. According to that column, which cited unnamed sources: "At least three big London law firms have turned away clients seeking to recover money they put into complex derivative products that later lost money. Though the would-be plaintiffs are mid-sized institutions that regularly hire London law firms, their potential targets are the leading international banks on which the biggest law firms depend for their daily bread."

U.S.-based securities lawyers reached over the weekend on the subject of the FT column generally agreed that the author was on to something – at least in the specific context of the London bar, where bankers and securities lawyers are part of a close-knit community disinclined to the sort of rift that accepting such a client would require.

Some U.S. lawyers said that although the point was a valid one in the context of the United Kingdom, it doesn't extend to the United States, where there are smaller but high-quality securities firms that don't rely upon good relations with the large banks or broker-dealers and where the class-action lawsuit provides another format for airing such grievances.

Other U.S. lawyers, though, said that the problem also exists on the western shore of the North Atlantic. One of them compared a lawsuit by a securities lawyer against a broker-dealer to a claim of legal malpractice – such claims do get brought, but rarely, because there is a powerful stigma that works against it.

Maddox Hargett & Caruso, Mr. Griffin's law firm, is one member of a new alliance of firms that propose to represent institutional investors harmed by the subprime crisis and the collapse of mortgage-backed securities. The other firms involved are Aidikoff, Uhl & Bakhtiari of Beverly Hills, Calif.; Page Perry LLC of Atlanta; and David P. Meyer & Associates Co., of Columbus, Ohio.

In a statement issued Friday [Feb. 15], the members of this alliance made special reference to the fact that Citigroup Inc., New York, has stopped investor redemptions in its London-based hedge fund, CSO Partners.

Steven Caruso, one of the named partners of MHC, said investors in the CSO Partners hedge fund investors "may have a variety of remedies that they should discuss with qualified counsel."