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# Hughes Hubbard & Reed

## Hughes Hubbard Wins Dismissal of ChinaCast Claims Against Deloitte

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One Battery Park Plaza • New York, New York 10004-1482 • +1 (212) 837-6000

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Hughes Hubbard & Reed obtained dismissal of claims blaming Deloitte & Touche for tens of millions of dollars in investor losses at ChinaCast Education Corp.

On March 31, U.S. District Judge Edgardo Ramos denied an attempt by a group of investors to revive their claims against Hughes Hubbard client Deloitte & Touche LLP arising out of losses the investors claimed they suffered after the revelation of an alleged fraud at ChinaCast.

ChinaCast was founded in 1999 by Ron Chan. In 2006, it began trading on the NASDAQ exchange after a reverse merger with a U.S. company. In March 2012, after a bitter proxy fight, the board ousted Chan and announced that it had uncovered “questionable activities and transactions” involving Chan that “raise the specter of possible illegal conduct.”

Plaintiffs’ lawsuit centered on allegations that Chan engaged in “brazen looting” by diverting \$35 million in cash to parties outside the company. Plaintiffs brought suit against the Chinese firm Deloitte Touche Tohmatsu CPA (DTTC) and Deloitte & Touche LLP, but their complaint was dismissed by Judge Ramos on July 21, 2014.

Shortly thereafter, plaintiffs moved for leave to file an amended complaint, arguing their proposed new complaint pleaded new facts that bolstered their allegations that DTTC was liable under Sections 10(b) and 18 of the Exchange Act because it issued audit opinions on financial statements that were almost entirely false. They also argued that Deloitte & Touche LLP was liable under Sections 20 and 18 of the Exchange Act because it allegedly controlled DTTC’s audits, and that both firms were liable for common law fraud.

Judge Ramos denied plaintiffs’ motion, finding that all the claims against DTTC and Deloitte & Touche LLP would not survive a motion to dismiss, and dismissed the claims with prejudice. With respect to the proposed claims against DTTC, Judge Ramos found that the plaintiffs had not adequately alleged fraudulent intent.

As for the claims against Deloitte & Touche LLP, Judge Ramos ruled that plaintiffs’ new allegations did not

establish the required element of culpable participation on the part of Deloitte & Touche LLP, and further noted that plaintiffs' "generalized allegations" did not establish that Deloitte & Touche LLP possessed the requisite control over DTTC.

Bill Maguire represent Deloitte & Touche LLP.

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**William R. Maguire**

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