

Memorandum

Delaware and New York Courts Reject Securities Act Challenges to GAAP-Compliant Mutual Fund NAV Accounting

October 1, 2026

Summary

Courts in Delaware and New York recently have dismissed with prejudice parallel putative class actions challenging mutual fund NAV accounting practices. The decisions are important victories for advisers to registered funds. Both cases asserted claims under the Securities Act of 1933, alleging that equity mutual funds misstated NAV by treating accrued dividends and realized capital gains as assets rather than liabilities. Both courts rejected these theories at the pleadings stage, holding that plaintiffs failed to allege an actionable misstatement or omission where the funds used disclosed, acceptable accounting methods. In Delaware, plaintiffs themselves conceded that the challenged method was well-recognized in the industry and did not violate GAAP or SEC regulations. Together, the decisions underscore that Securities Act claims cannot be based solely on a challenge to a disclosed and accepted NAV accounting method.

The Claims: Securities Act Challenges to Mutual Fund NAV Accounting

Both cases arose from the same legal theory. In *Dandini v. First Eagle Funds* (Del. Super. Ct. C.A. No. N25C-05-224 KMM (CCLD)), plaintiffs filed a putative class action on behalf of investors who purchased shares of nine First Eagle equity mutual funds. In *Morad v. JPMorgan Trust I* (N.Y. Sup. Ct. Index No. 154203/2025), plaintiffs brought a parallel action on behalf of investors in 46 JPMorgan equity mutual funds across two trusts. In both cases, plaintiffs asserted claims under Sections 11, 12(a)(2), and 15 of the Securities Act of 1933, alleging that the funds' practice of treating accrued dividends and realized capital gains as assets—rather than as liabilities—artificially inflated NAV, causing investors to overpay for shares and to pay excessive management fees. Defendants in both cases included the issuer trusts, investment advisers, and principal underwriters.

The Decisions: Trial Court Dismissals With Prejudice

On July 9, 2026, Judge Kathleen M. Miller of the Delaware Superior Court dismissed every claim with prejudice and refused leave to amend. Less than a month later, on August 3, 2026, Justice Andrew Borrok of the New York Supreme Court, Commercial Division, did the same with an amended complaint.

DANDINI V. FIRST EAGLE FUNDS (DELAWARE SUPERIOR COURT)

Judge Miller’s opinion provided a detailed analysis of why the funds’ disclosures were not misleading. The court held that First Eagle’s disclosure that NAV “may be represented by realized or unrealized appreciation ... or undistributed income” was accurate—the word “may” correctly reflected that funds do not always receive income or gains and that NAV no longer includes distributed amounts after distributions. The court found the accounting method was properly disclosed in shareholder reports classifying accrued dividends as “Assets,” and plaintiffs conceded this method was well-recognized and GAAP-compliant. Importantly, the court rejected plaintiffs’ argument that ex-dividend disclosures implied NAV effects occurred only on a single day, holding that First Eagle’s broader disclosures about undistributed income addressed the entire distribution cycle. Because NAV was not misleadingly disclosed, the derivative fee claim also failed. The court then undertook a thorough review of applicable SEC registration statement form requirements—including Items 9(c), 11(a), 11(d), 11(f), 11(g), and 23 of Form N-1A—and concluded that the cited Items either did not require the additional accounting disclosures plaintiffs sought or were satisfied by First Eagle’s existing disclosures.

Further, Item 11(g) did not apply because the funds were not exchange-traded funds. Citing *In re Morgan Stanley Information Fund Securities Litigation* (2d Cir. 2010), the court held that a “well-recognized” industry accounting method was not a unique risk requiring specific disclosure, and that a corporation is “not required to disclose a fact merely because a reasonable investor would very much like to know that fact.” The court also observed that plaintiffs never responded to defendants’ item-by-item showing of where each required disclosure appeared, and did not address the shareholder report’s classification of accrued interest and dividends as ‘Assets’ at all. The court further denied leave to amend the complaint. Plaintiffs had already amended once after seeing defendants’ opening brief, had the full universe of public facts, and never identified any curative allegation. Because plaintiffs failed to state a claim, the court did not reach defendants’ alternative arguments that the claims were untimely, that damages were not adequately pled, and that plaintiffs lacked standing as to the eight funds they never purchased. Plaintiffs filed a notice of appeal on August 11, 2026.

MORAD V. JPMORGAN TRUST I (NEW YORK SUPREME COURT, COMMERCIAL DIVISION)

Justice Borrok’s succinct, two-page decision reached the same core conclusion. The court held that plaintiffs’ theory—that the Securities Act required additional disclosure despite defendants’ use of a disclosed and acceptable accounting method—“fails as a matter of law.” The court emphasized that plaintiffs did not allege that the accounting method itself was improper, and that plaintiffs’ own pleading identified two acceptable accounting approaches, one of which JPMorgan in fact employed. Unlike the Delaware opinion, the New York decision did not undertake an item-by-item analysis of SEC registration statement form requirements. It instead reasoned that because plaintiffs alleged no improper accounting and JPMorgan used one of two acceptable, disclosed methods, the Securities Act did not require the additional disclosure plaintiffs sought. This more streamlined approach may reflect the court’s view that the legal theory was fundamentally flawed as a threshold matter, rendering detailed disclosure-item analysis unnecessary.

What This Means for Funds, Boards, and Advisers

Read together, these are real wins for the registered fund industry. Courts in two jurisdictions, working independently, rejected Securities Act disclosure claims built on an attack against a well-recognized, GAAP-compliant NAV accounting methodology. A few practical points stand out for registered funds, boards, and advisers:

- a. **NAV accounting methods validated.** The Delaware court held that treating accrued dividends and realized capital gains as fund assets, consistent with GAAP and SEC regulations, did not render First Eagle's disclosures misleading. The New York court likewise rejected a challenge to JPMorgan's use of one of two acceptable accounting methods. Neither court accepted the premise that the securities laws require funds to adopt daily income recognition or to treat undistributed income as a liability.
- b. **Adequacy of existing disclosure frameworks.** The Delaware court's detailed analysis of applicable SEC registration statement form requirements showed that, on the facts before it, the cited Items did not require additional accounting disclosures plaintiffs sought where First Eagle had disclosed its NAV, distribution, tax, and valuation practices. The court also rejected any generalized obligation to disclose every accounting detail a reasonable investor might want to know. Further, it held that Item 11(g)'s premium/discount disclosure applies only to exchange-traded funds, and that Item 9(c) calls for risks unique to the particular fund, not industry-wide accounting conventions—an argument that succeeded because defendants mapped each cited Item to a specific existing disclosure.
- c. **Robust disclosures provide protection.** First Eagle had disclosed that NAV may include undistributed income and gains, that distributions could represent a return of capital, and that fees were calculated based on average daily net assets. JPMorgan also disclosed and used an acceptable accounting methodology. These disclosures were found sufficient to prevent any reasonable investor from being misled.
- d. **Fee disclosure theory rejected.** The Delaware court rejected the fee disclosure theory because it rested entirely on the alleged NAV inflation. Once the NAV disclosure claim fails, the fee claim failed as well.
- e. **Appeal pending in Delaware.** The First Eagle plaintiffs filed a notice of appeal on August 11, 2026. The New York decision did not indicate a pending appeal. These decisions are trial-court rulings and do not bind appellate courts, but they provide a strong defense framework for fund sponsors.
- f. **Practical guidance for fund boards and advisers.** Fund boards and advisers should continue to ensure that registration statements and prospectuses clearly and accurately describe NAV computation methods, the treatment of accrued income and capital gains, the timing and tax consequences of distributions, and the basis for fee calculations. These decisions underscore the importance of comprehensive and transparent disclosure as a foundation for defending Securities Act claims.

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