

Clients & Friends Memo

Second Circuit Affirms Dismissal of Securities Claims Arising from Reverse Split of Exchange-Traded Notes

April 9, 2026

The United States Court of Appeals for the Second Circuit recently issued a per curiam opinion in *Knapp v. Barclays PLC*,¹ affirming the dismissal of a putative securities class action arising from a reverse split of exchange-traded notes. Addressing matters of first impression,² the Court rejected plaintiffs' attempt to frame the split as an unregistered "sale" in violation of Section 12(a)(1) of the Securities Act of 1933, as the Court held that it did not meaningfully change the nature of plaintiffs' investment or the investment risks. The Court also held that a claim under Section 11 of the Securities Act—applicable to misleading registration statements—was not available because plaintiffs failed to identify any registration statement covering their post-split notes.

The decision provides useful guidance for issuers and financial institutions on the scope of potential Securities Act liability for reverse splits—and, by extension, other corporate actions that alter share count or price.

I. Background

Exchange-traded notes (ETNs) are complex debt securities that derive their value from underlying indices of securities and typically trade on major stock exchanges. The notes in *Knapp*, issued by Barclays Bank PLC, tracked expected future market volatility and enabled sophisticated investors to manage daily trading risks.³ Investors could hold the notes to maturity and receive a cash payout, redeem them in blocks of 25,000 notes at an earlier date, or trade them on the New York Stock Exchange.⁴

¹ *Knapp v. Barclays PLC*, --- F.4th ----, 2026 WL 806009 (2d Cir. Mar. 24, 2026).

² The Second Circuit is the only circuit that has addressed whether a reverse split constitutes a purchase or sale under the Securities Act.

³ *Barclays PLC*, 2026 WL 806009 at *1.

⁴ *Id.*

On April 23, 2021, Barclays consummated a 4:1 reverse split with respect to the notes, replacing every four ETNs that an investor held with a single new ETN ostensibly worth four times the value.⁵ That type of exchange conformed to the terms of the original pricing supplement, which had warned investors that Barclays might “elect to initiate a split . . . or a reverse split of [the] ETNs.”⁶ The same day as the split, Barclays circulated a new pricing supplement (the “April Supplement”), which disclosed the split and indicated that the supplement would govern the “initial sale” of any post-split notes that Barclays still held.⁷

Plaintiffs—a group of investors—sued Barclays, its parent, and certain executives under the Securities Act, asserting two claims in a putative class action on behalf of themselves and all others similarly situated. First, they alleged that the reverse split violated Section 12(a)(1), which prohibits the sale of unregistered securities.⁸ Second, they asserted that the split contravened Section 11 because the post-split ETNs could be “trace[d] to” the April Supplement, which incorporated earlier, allegedly inaccurate disclosures.⁹ The district court—Judge Liman—dismissed both claims, and plaintiffs timely appealed.

II. The Second Circuit’s Holding

The Second Circuit—Judges Walker, Sullivan, and Bianco—addressed plaintiffs’ claims under both Section 12 and 11 of the Securities Act, rejecting each on independent grounds.

A. The Section 12 Claim: Reverse Split Not a “Sale”

The Court held that the reverse split did not constitute a “sale” under the Securities Act, a prerequisite for liability under Section 12. Section 12 provides a private right of action to purchasers of unregistered securities, and it defines a “sale” as “every . . . disposition of a security . . . for value.”¹⁰ The Court explained that, in determining whether a transaction involves a sale, courts must assess whether an exchange of securities has brought about “such significant change in the nature of the investment or in the investment risks as to amount to a new investment.”¹¹

⁵ *Id.* at *2.

⁶ *Id.*

⁷ *Id.*

⁸ *Id.*

⁹ *Id.*

¹⁰ 15 U.S.C. § 77b(a)(3).

¹¹ *Barclays PLC*, 2026 WL 806009 at *3 (quoting *Gelles v. TDA Indus., Inc.*, 44 F.3d 102, 104 (2d Cir. 1994)).

Garden-variety splits seldom create the “significant change” required, because they leave the underlying assets untouched and merely alter the form of the securities.¹²

Applying these principles, the Court held that the reverse split was not a sale because Barclays had an “ironclad right” to split the ETNs, and plaintiffs did not lose or gain anything—they simply traded four ETNs for one worth the same amount.¹³

The Court rejected several arguments from plaintiffs, who tried to classify the reverse split as a “sale.” It dismissed the contention that the split should be treated differently because it involved debt rather than equity securities, noting that the inquiry focuses on whether there was a “significant change in the nature of the investment or in the investment risks,” not on the security’s label.¹⁴ The Court also found the argument that reduced redemption ability constituted a significant change unpersuasive, reasoning that investors could sell on the secondary market and that reduced redemption ability was priced into the original sale.¹⁵

B. The Section 11 Claim: Failure to Trace Post-Split Notes

The Court also affirmed dismissal of the Section 11 claim based on plaintiffs’ inability to trace the post-split notes to a particular registration statement. Under Section 11, investors may sue when they have “acquir[ed]” securities pursuant to a registration statement containing “an untrue statement of material fact.”¹⁶ However, under the Supreme Court’s 2023 *Slack* decision, plaintiffs “must first plead that they acquired securities ‘traceable to [that] allegedly defective . . . statement.’”¹⁷

Plaintiffs argued that the April Supplement was a new registration statement incorporating previous misleading prospectuses, as SEC rules permit a pricing supplement to be deemed “a new registration statement relating to the securities offered therein.”¹⁸ The Court held that this logic failed because the securities offered in the April Supplement did not include ETNs transferred via the reverse split.¹⁹ Rather, the April Supplement governed only the “initial sale of the [post-split] ETNs” that Barclays held in its own inventory and “market-making transaction[s],” defined as sales

¹² *Id.* (citing *Gelles*, 44 F.3d at 104 and *Isquith by Isquith v. Caremark Int’l, Inc.*, 136 F.3d 531, 536 (7th Cir. 1998) (Posner, J.)).

¹³ *Id.*

¹⁴ *Id.* at *4 (quoting *Gelles*, 44 F.3d at 104)).

¹⁵ *Id.*

¹⁶ 11 U.S.C. § 77k(a).

¹⁷ *Barclays PLC*, 2026 WL 806009 at *4 (quoting *Slack Techs., LLC v. Pirani*, 598 U.S. 759, 767, 770 (2023)).

¹⁸ *Id.* (quoting 17 C.F.R. § 229.512(a)(2)).

¹⁹ *Id.* at *5.

from Barclays' own cache of post-split ETNs to dealers who would "resell such ETNs to the public."²⁰

Key Takeaways

The decision has several practical implications for issuers of exchange-traded products and other structured instruments.

- **Reverse splits alone are not "sales."** A transaction must "significant[ly] change" the "nature of the investment" or the "investment risks" to be considered a sale and trigger the registration requirement.
- **Comfort for standard restructuring mechanisms.** The decision provides support that routine, value-neutral transactions will not, standing alone, be deemed a "sale." The Court's reasoning may extend beyond ETNs to other value-neutral restructuring transactions (*e.g.*, reverse stock splits or similar adjustments).
- **Section 11 claims face real tracing hurdles.** The Second Circuit adhered to the Supreme Court's *Slack* decision, confirming that plaintiffs must tie their securities to a specific registration statement. Where instruments trade in the secondary market or are commingled, this requirement can be difficult to satisfy.
- **Careful structuring and disclosure remain critical.** While the decision provides comfort, the inquiry turned on an evaluation of the specific facts and circumstances surrounding the ETNs. Issuers should continue to evaluate reverse splits and similar transactions with counsel to ensure proper structuring and clear disclosures.

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²⁰ *Id.*