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U.S. Supreme Court Rules that Federal Arbitration Act Provides the Exclusive Grounds for Vacating or Modifying Arbitration Awards

The United States Supreme Court recently addressed an important question of federal arbitration law: Whether private parties to an arbitration agreement may expand a court's scope of review of an arbitral award. On March 25, 2008, the Court held that Sections 10 and 11 of the Federal Arbitration Act (FAA) establish the exclusive grounds for vacating or modifying arbitration awards, and that parties to an arbitration agreement cannot expand these grounds in their contract. *Hall Street Associates L.L.C. v. Mattel, Inc.*, No. 06-989, Mar. 25, 2008. <http://www.supremecourtus.gov/opinions/07pdf/06-989.pdf>

The basis of the dispute was a commercial lease between Hall, the landlord, and Mattel, the tenant. At issue was Mattel's right to terminate the lease and its obligation for certain environmental clean-up costs resulting from the manufacturing activities of a former tenant. The lease did not contain an arbitration clause.

Hall filed suit against Mattel in the United States District Court for the District of Oregon, contesting Mattel's right to terminate and seeking indemnification for clean-up costs. Following a bench trial, the District Court ruled that Mattel had the right to terminate the lease. The parties then proposed to submit the issue of Mattel's obligation to pay clean-up costs to arbitration. The District Court agreed, and the parties drafted an arbitration agreement which the court approved and entered as an order. The agreement provided that, following the arbitration, "the Court shall vacate, modify or correct any award: (i) where the arbitrator's findings of fact are not supported by substantial evidence, or (ii) where the arbitrator's conclusions of law are erroneous."

The arbitrator decided in favor of Mattel, but the District Court vacated the award, finding an erroneous conclusion of law. Ultimately, the Ninth Circuit Court of Appeals ruled that the parties' agreement pro-

viding for judicial review based on legal error was unenforceable because legal error was not one of the grounds for vacatur or modification specified in Sections 10 and 11 of the FAA. The Supreme Court agreed to hear the case to decide whether the grounds provided by Sections 10 and 11 are exclusive.

In a 6-3 decision, the Supreme Court ruled that the FAA's grounds for vacatur and modification are exclusive. The Court's Opinion, written by Justice David Souter, reasoned that the text of the FAA "compels a reading of the §§ 10 and 11 categories as exclusive." The Court noted that the FAA provides for vacatur and modification only for "egregious" conduct by an arbitrator, such as "fraud," "corruption" and "evident partiality." The Court found the specific, limiting language of the FAA persuasive, stating that "[f]raud and mistake of law are not cut from the same cloth."

The Court rejected Hall's argument that, because an arbitrator's "manifest disregard of the law" is a judicially-recognized (if seldom applied) basis for overturning an arbitration award, the grounds for vacatur in Section 10 are not exclusive. The Court distinguished a "supposed judicial expansion by interpretation" from "an expansion by private contract," and also questioned whether "manifest disregard of the law" was simply a "collective" reference to the Section 10 grounds such as arbitrators engaging in "misconduct" or "exceed[ing] their powers."

The Court also found that reading Sections 10 and 11 as exclusive was consistent with Section 9 of the FAA which states that a court "must" confirm an arbitrator's award unless the award is vacated or modified "as prescribed in sections 10 and 11."

The obvious practical application of this decision is that parties cannot in their contracts expand the scope of judicial review of arbitration awards under agreements that are governed

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by the enforcement provisions of the FAA. This would appear to include every contract involving a transaction in interstate commerce. The Court did raise the possibility that challenges to arbitration awards could be governed by state statutory or common law where such law expands the scope of judicial review, but did not explain how this might occur.

In some respects, the *Hall* decision raises as many questions as it answers, including how state statutory or common law might be applied to expand judicial review, the scope of “manifest disregard of the law” as a basis for overturning arbitration awards, and whether parties can, with court approval through the court’s exercise of its case management powers, agree to an arbitration with enforcement provisions that are stricter than those set forth in the FAA. It remains to be seen how lower courts will treat these issues in the wake of *Hall*.

ABOUT THE AUTHOR

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