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U. S. Supreme Court Rules: Parties May Not Contractually Provide for Extra Judicial Review of Arbitration Awards

On March 25, 2008, the U. S. Supreme Court ruled that parties to an arbitration agreement may not contractually provide for more expansive judicial review of an arbitration award, beyond the narrow scope permitted under the Federal Arbitration Act ("FAA"). Hall Street Associates, L.L.C. v. Mattel, Inc., No. 06-989, 2008 U.S. LEXIS 2911 (March 25, 2008). In a 6-3 decision, the Court held that the FAA provides the exclusive statutory grounds for vacating or modifying arbitration awards and prohibits parties from expanding those grounds by agreement.

The Hall Street decision is significant for employers because they no longer have the option under the FAA to include additional grounds to challenge adverse arbitration awards in arbitration agreements. As a consequence, arbitration may now be viewed as less attractive to some employers as awards are final and difficult to vacate under the FAA's limited grounds for review. However, for those employers who find the finality of the arbitration process attractive, the Court's decision is a favorable development.

Key Facts and Points of Law

This case arose from an agreement to arbitrate a dispute between a landlord (Hall Street) and a tenant (Mattel) over who was to pay for an environmental cleanup at a leased factory site. During proceedings in the U. S. District Court for the District of Oregon concerning the issue, the parties agreed to arbitration, expressly agreeing that the District Court could vacate or modify the arbitration award if the arbitrator's factual findings were not supported by substantial evidence or there was legal error.

An arbitrator found in favor of Mattel, and Hall Street sought to vacate the arbitrator's award, citing the expanded scope of review set forth in the parties' arbitration agreement. The District Court overturned the arbitration award, finding legal error. On appeal, the Ninth Circuit Court of Appeals reversed, holding that the District Court should not have applied the parties' contractually expanded scope of judicial review, and should have limited its review to the enumerated grounds for vacating an award under section 10 of the FAA.*

* Section 10 of the FAA provides that a court may vacate an arbitration award only if: (i) the award was procured by corruption, fraud or undue means; (ii) there was evidence of partiality by the arbitrator; (iii) the arbitrator was guilty of misconduct; or (iv) the arbitrator exceeded his powers. 9 U.S.C. §10. Courts find that arbitrators exceed their power on only rare occasions.

