The Supreme Court holds that the Federal Arbitration Act’s (FAA) specified grounds for vacating or modifying an arbitration ruling are the exclusive grounds when seeking judicial review under the FAA and may not be expanded by agreement of the parties. Although the underlying case involves a dispute between property owner Hall Street Associates LLC and tenant Mattel Inc. over liability for the costs of environmental cleanup, the Court’s decision also applies in the contexts of labor and employment arbitration.

Writing for a six-person majority, Justice David H. Souter says the FAA provides that a court “must” confirm an arbitration award “unless” it is vacated, modified, or corrected “as prescribed” in Sections 10 and 11 for reasons including corruption or fraud in procuring the award, partiality or corruption by the arbitrator, or miscalculation of figures. Settling a circuit court split on the issue, he finds that “the text compels a reading of the §§10 and 11 categories as exclusive.”

The Supreme Court agrees with the Ninth Circuit’s unpublished decision not to enforce an agreement that an arbitration award could be overturned on review if the arbitrator’s findings of fact were not supported by substantial evidence or the conclusions of law were erroneous. However, Souter observes that the FAA “is not the only way into court for parties wanting review of arbitration awards.” He left open the possibility that parties seeking judicial review of arbitration rulings under state statutory or common law might be able to obtain a greater scope of review.

“Congress enacted the FAA to replace judicial indisposition to arbitration” with a national policy favoring it and to place arbitration agreements on an equal footing with all other contracts, Souter writes. He explains that the statute also provides mechanisms for enforcing arbitration awards or for vacating, modifying, or correcting them on certain grounds. “An application for any of these orders will get streamlined treatment as a motion, obviating the separate contract action that would usually be necessary to enforce or tinker with an arbitral award in court.”

In response to the argument that an agreement to allow courts to review arbitration rulings for legal error should be enforced like any contract, Souter acknowledges that “the FAA lets parties tailor some, even many features of arbitration by contract, including the way arbitrators are chosen, what their qualifications should be, which issues are arbitrable, along with procedure and choice of substantive law.” However, he finds that the FAA’s text “compels” the interpretation that the grounds listed in Sections 10 and 11 are exclusive. “[E]ven if we assumed §§ 10 and 11 could be supplemented to some extent, it would stretch basic interpretive principles to expand the stated grounds to the point of evidentiary and legal review generally.” He finds that the two sections “address egregious departures from the parties’ agreed-upon arbitration.”

“Instead of fighting the text, it makes more sense to see the three provisions, §§ 9-11, as substantiating a national policy favoring arbitration with just the limited review needed to maintain arbitration’s essential virtue of resolving disputes straightaway,” Souter states. “Any other reading opens the door to the full-bore legal and evidentiary appeals that can ‘rende[r] informal arbitration merely a prelude to a more cumbersome and time consuming judicial review process’…and bring arbitration theory to grief in post-arbitration process.”

Souter emphasizes that in “holding that §§ 10 and 11 provide exclusive regimes for the review provided by the [FAA], we do not purport to say that they exclude more searching review based on authority outside the statute as well.” He observes that parties wanting review of arbitration rulings “may contemplate enforcement under state statutory or common law, for example, where judicial review of different scope is arguable.”

The case is remanded to the Ninth Circuit to consider whether the arbitration agreement in this case, which Hall Street and Mattel entered into during the course of litigation and adopted by the district court for the District of Columbia, should be “treated as an exercise of the District Court’s authority to manage its cases” under Rule 16 of the Federal Rules of Civil Procedure.

The decision is available at http://op.bna.com/dlrcases.nsf/r?Open=smgk-7d3mej.