Kluwer Arbitration Blog

US Supreme Court Denies Cert for Lloyds v Lagstein

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On Monday, December 13, 2010, the United States Supreme Court denied cert for *Certain Underwriters at Lloyd's, London v. Lagstein*, and in so doing denied the opportunity to further clarify the debate surrounding manifest disregard. The central issue is whether this doctrine survived after *Hall Street Associates LLC v. Mattell, Inc.* In *Lloyds v. Lagstein*, a medical doctor filed a claim under his insurance policy, but after 2 years he still had not received a payment. The doctor initially filed in district court, but the district court stayed the case to allow for arbitration according to the disability policy. The arbitral tribunal awarded the doctor full policy benefits as well as punitive damages and damages for emotional distress; however, the district court refused to confirm the arbitral award due to manifest disregard of the law because the damages awarded were excessive. The Ninth Circuit Court of Appeals reversed and remanded the case. Ultimately, it was sent to the US Supreme Court for cert.

The questions presented before the court were:
"(1)(a) Whether review of an arbitration award for "manifest disregard of the law" or "complete irrationality" remains available after H*all Street Associates L.L.C. v. Mattel, Inc.*, 552 US 576 (2008), a question that this Court again expressly reserved in *Stolt-Nielsen S.A. v. AnimalFeeds International Corp.*, 559 U.S. __, 130 S. Ct. 1758 (2010), and on which there is a clear Circuit conflict; and

(b) If such review is available, may a reviewing court determine whether an award is irrational under the totality of the circumstances (as the district court did here and as the Second Circuit permits), or are awards impregnable unless it is "clear from the record that the arbitrators recognized the applicable law and then ignored it" (as the Ninth Circuit below held).

(2) Whether the Federal Arbitration Act ("FAA") requires vacatur of an arbitral award issued by arbitrators who failed to disclose material facts bearing on their integrity and their relationships with each other, in violation of the applicable rules governing arbitrations, or (as the Ninth Circuit held) are arbitrators required to disclose only their relationships with the parties and counsel, with the burden to investigate and unearth other material facts falling on the parties"(petition for certiorari as posted on SCOTUSblog, a blog contributed to closely following US Supreme Court decisions).

Manifest disregard is a subject of lengthy academic articles. It has already been frequently discussed on this blog and even some recently last week when discussing the *Stolt Nielsen* case. However, it remains unclear whether it remains as an option to essentially review the merits of the

arbitral award in court. Despite split circuit treatment and a subsequent ambiguous decision in *Hall Street Associates LLC v. Mattell, Inc.*, in which the Supreme Court held that grounds for vacatur are strictly found within the Arbitration Act, the Supreme Court decided against provided further light and clarification on this oft debate topic. Apparently, the Supreme Court, by denying cert, feels that its decision on Hall Street was not vague, but sufficient to settle the long-standing debate.

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