California Supreme Court OK’s Parties to Allow for Judicial Review of Legal Error in Arbitration Awards

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The California Supreme Court recently held that a contractual arbitration provision may authorize expanded judicial review of legal errors in an arbitrator’s decision. *Cable Connection, Inc. v. DIRECTV, Inc.*, August 25, 2008.

**Background**

A satellite broadcaster’s (DIRECTV, Inc.) contracts with its retail dealers contained arbitration provisions stating that arbitrators “shall not have the power to commit errors of law or legal reasoning, and the award may be vacated or corrected on appeal to a court of competent jurisdiction for any such error.”

In 2001, several retail dealers filed suit in the State of Oklahoma alleging that DIRECTV had improperly withheld commissions and assessed improper charges. Pursuant to the arbitration agreements between DIRECTV and the various retail dealers, the Oklahoma Court directed the parties to arbitration in Los Angeles.

The retail dealers prevailed at arbitration, and DIRECTV petitioned the California Superior Court to vacate the arbitrators’ award on the ground that it was erroneous as a matter of law. The Superior Court accepted DIRECTV’s argument and vacated the arbitrators’ award. On appeal, the California Court of Appeal reversed the Superior Court’s decision, holding that the Superior Court had exceeded its jurisdiction by reviewing the merits of the arbitrators’ decision. The California Supreme Court granted review and reversed the ruling of the Court of Appeal. Specifically relevant here, the California Supreme Court held that the California Arbitration Act (“CAA”) permits parties to obtain judicial review of the merits of an arbitrator’s award by express agreement.

**Appellate Decision**

The United States Supreme Court, in *Hall Street Associates, LLC v. Mattel, Inc.*, held that the Federal Arbitration Act (“FAA”) only permits judicial review of an arbitrator’s award under certain narrow statutory grounds (i.e. corruption, fraud, or prejudicial misconduct), but left open the possibility of expanded judicial review under state statutory or common law. In *Cable Connection*, the California Supreme Court held that although both the CAA and the FAA represent a public policy favoring arbitration with limited review by the Courts, under California law, the parties may obtain more extensive judicial review by express agreement than what is available under Federal law.

**Significance of Decision**

The importance of this decision is that the California Supreme Court interpreted the CAA to allow the parties to incorporate expanded judicial review into an arbitration agreement, and in doing so broke away from Federal Courts’ interpretation of the FAA on this same issue. California law now provides an option when preparing an arbitration provision that was not previously recognized: if it is important that the arbitrator strictly abide by the law, one should consider expressly providing for judicial review and provide for venue for vacating and/or confirming an arbitration award in California Superior Court. It is also important to note that, absent express language providing for judicial review in an arbitration provision, limited judicial review remains the default interpretation under both California and Federal law.

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