



Class Certification and Federal Jurisdiction under CAFA: Supreme Court Ruling

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The United States Supreme Court ruled unanimously that a plaintiff's pre-class certification stipulation, under which plaintiff committed not to seek damages on behalf of the proposed class in excess of \$5,000,000 (the federal jurisdictional threshold under the Class Action Fairness Act ("CAFA")), cannot bind absent class members and therefore cannot be used to defeat federal jurisdiction. [Standard Fire Ins. Co. v. Knowles, No. 11-1450](#) (Mar. 19, 2013).

In 2005, Congress enacted CAFA, which provides that federal district courts have jurisdiction over class actions (subject to certain exceptions, including a carve-out for many state-law class actions for breach of fiduciary duty) if the proposed class has 100 or more members, the parties are minimally diverse (meaning that, for example, one member of the plaintiff class and one defendant are from different states) and the "matter in controversy" exceeds the sum or value of \$5,000,000.

In *Standard Fire*, plaintiff sought to circumvent the federal jurisdiction provisions in CAFA by filing a class action in a state court on behalf of a proposed class of members from that state and stipulating that the plaintiff and the class would not seek to recover total aggregate damages of more than \$5,000,000. The defendant nevertheless removed the case to federal court. The district court found that, absent the stipulation, the amount in controversy would have been just above the \$5,000,000 jurisdictional threshold. But in light of the stipulation, the district court concluded that the amount in controversy was below the threshold and remanded the case to state court. The Court of Appeals declined to hear the appeal.

The Supreme Court rejected the district court's approach, ruling that the plaintiff's stipulation, while it may be binding on the individual plaintiff who filed the suit, was not binding on other

members of the proposed class, which had not been certified. Accordingly, the stipulation could not be used to defeat federal jurisdiction under CAFA.

The effect of the Supreme Court's decision is to thwart efforts by plaintiffs to circumvent one of Congress' principal objectives in enacting CAFA, which was to ensure federal court consideration of class action cases of national importance. The Supreme Court noted that were a nonbinding stipulation purporting to limit the amount in controversy sufficient to avoid federal jurisdiction, the door could be opened to abuses such as, for example, plaintiffs subdividing a \$100 million class action into 21 just-below \$5-million state-court actions, simply by using non-binding stipulations purporting to limit the amount in controversy in each state court action. Through its ruling, however, the Supreme Court has kept that door firmly shut.