

INSIGHTS

Supreme Court Limits Class Action Plaintiffs' Ability to Manipulate Jurisdiction

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On March 19, 2013, the United States Supreme Court issued a unanimous opinion in *Standard Fire Insurance Co. v. Knowles* barring class action plaintiffs from using stipulations that limit the amount in controversy to avoid removal from state courts under the Class Action Fairness Act of 2005 (CAFA). The opinion has broad implications for class action jurisdiction, and provides class defendants with increased clarity about CAFA's protections. By eliminating one of the plaintiff bar's main tools that prevented defendants from removing class actions from potentially unfavorable state court jurisdictions, the *Standard Fire* decision strengthens the ability to defend - and potentially settle, at reduced costs - the ever-increasing number of class actions.

CAFA provides federal district courts with subject matter jurisdiction over any class action where (i) the class has more than 100 members, (ii) the parties are minimally diverse, and (iii) the amount in controversy exceeds \$5 million. See 28 U.S.C. §§ 1332(d)(2), (5)(B). The federal courts must independently determine the amount in controversy by adding up the value of the claim of each person who falls within the definition of the proposed class.

In *Standard Fire*, the defendant sought to remove the class action filed by plaintiff Greg Knowles in an Arkansas state court. Knowles alleged that Standard Fire breached its homeowners' insurance contract with Knowles by failing to pay certain costs associated with Knowles' homeowner insurance loss claim. Knowles' class action complaint purported to represent a class of "hundreds, and possibly thousands," of similarly wronged Arkansas policyholders. *Id.* at 2. However, the class action complaint stated that Knowles - and the class he purported to represent - would not seek more than \$5 million in total aggregate damages. Knowles attached an affidavit to his complaint declaring the same self-imposed limitation. Knowles contested removal based upon his stipulation and asserted that the CAFA jurisdictional threshold was not met.

The United States District Court for the Western District of Arkansas denied removal and remanded the case to state court based solely upon the stipulation, concluding that the "resulting sum would have exceeded \$5 million *but for* the stipulation." No. 11-1450, slip op. at 3, 568 U.S. ---- (2013). The Supreme Court, in an effort to resolve a split of authority among the United States Courts of Appeal, granted a *writ of certiorari* to hear the case after the United States Court of Appeals for the Eighth Circuit declined to do so. As the Supreme Court succinctly stated: "[W]e must decide whether the stipulation makes a critical difference. In our view, it does not. Our reason is a simple one: Stipulations must be binding." *Id.*

In a short, seven-page unanimous opinion, the Court held that Knowles' stipulation was not binding because a "plaintiff who files a proposed class action cannot legally bind members of the proposed class before the class is certified." *Id.* at 4. While the Court recognized that individual plaintiffs can avoid removal by stipulating that the amount in controversy falls below the federal jurisdictional threshold, the same did not hold true for stipulations in the class action context. *See id.* at 6-7. The Court reasoned that prior to class certification, "Knowles lacked the authority to concede the amount-in-controversy issue for the absent class members." *Id.* at 4. Despite Knowles' attempt to limit the amount in controversy to avoid triggering CAFA removal, the Court considered the amount "in effect contingent." *Id.* at 4-5. Thus, whether CAFA applied depended upon the district court's independent calculation of the aggregate value of each purported class member's claim.

Further, the Court explained that to hold otherwise would allow class action plaintiffs to avoid CAFA removal by manipulating the amounts by, for example, simply dividing up a \$100 million class action into 21 or more state court actions with claims below \$5 million each. *See id.* at 6. The Court proclaimed that such a result would run counter to the "primary objective" of CAFA, which is to ensure that federal courts hear interstate cases of nation-wide importance. *Id.* Accordingly, the Court remanded the case to allow the district court to properly ignore the plaintiff's stipulation when determining the amount in controversy.

The Court's opinion in *Standard Fire* eliminates a powerful weapon wielded by class action plaintiffs to keep class actions in their preferred state court venues, and will likely drive early settlement.