

Supreme Court Rejects Class Plaintiff's Attempt To Avoid Federal Court By Stipulation Damages Will Be Less Than \$5,000,000

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In *Standard Fire Ins. Co. v. Knowles*, the U.S. Supreme Court held that a class-action plaintiff may not avoid the effect of the federal Class Action Fairness Act (CAFA) by “stipulating” he will not seek damages in excess of \$5,000,000. CAFA provides that the federal “district courts shall have original jurisdiction” over a civil “class action” if, among other things, the “matter in controversy exceeds the sum or value of \$5,000,000.” 28 U.S.C. §§ 1332(d)(2), (5). The statute further states that to “determine whether the matter in controversy exceeds the sum or value of \$5,000,000,” the “claims of the individual class members shall be aggregated.” § 1332(d)(6).

Plaintiff Knowles filed a proposed class action in an Arkansas state court against the Standard Fire Insurance Company (Standard). Knowles claimed that when Standard made certain insurance loss payments for homeowners’ policies, it had unlawfully failed to include a general contractor fee. On that basis, Knowles sought to certify a class of similarly situated Arkansas policyholders. In the prayer for relief in the complaint, Knowles stipulated the class would seek damages less than \$5 million.

Standard removed the action to federal court, citing the jurisdictional provision in CAFA. See 28 U.S.C. § 1332(d)(5). Knowles moved to remand the case, arguing that because of his stipulation that the damages sought did not exceed \$5,000,000, the federal court did not have jurisdiction. In light of the stipulation, the district court remanded the case, concluding that the amount in controversy fell beneath the threshold. Standard appealed from the remand order, but the 8th Circuit declined to hear the appeal. The U.S. Supreme Court granted review.

On review, the Supreme Court held that “stipulations must be binding.” The Supreme Court found that the stipulation proffered to the district court did not speak for the class Knowles purported to represent. This is because a “plaintiff who files a proposed class action cannot legally bind members of the proposed class before the class is certified.” Because Knowles’ precertification stipulation did not bind anyone but himself, the Court found that Knowles could not reduce the value of the putative class members’ claims. Accordingly, the U.S. Supreme Court held that when following the statute to aggregate the proposed class members’ claims, the district court should have ignored the stipulation. The Court went on to explain that “ignoring a nonbinding stipulation merely requires the federal judge to do what she must do in cases with no stipulation: aggregate the individual class members’ claims.”

The U.S. Supreme Court’s holding in *Standard Fire* will have implications for future purported class actions because a plaintiff will not be able to circumvent CAFA and the federal courts, absent a binding stipulation by the certified class. Accordingly, this holding could stand as a major roadblock for plaintiffs’ counsel seeking to avoid the rigors of federal court in pursuit of a class action claim.

To discuss any questions you may have regarding the issues discussed in this Alert, or how they may apply to your particular circumstances, please contact:

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