## Contents

### Chapter 1  Preliminary Issues

1.1 Scope and Organization of This Treatise ................................................. 1  
1.1.1 Introduction ......................................................................................... 1  
1.1.2 The Chapters and Appendices ......................................................... 1  
1.1.3 Companion Material ........................................................................ 1  
1.1.4 Authorities Cited in This Treatise .................................................. 2  
1.2 Predispute Binding Arbitration Agreement—or “Forced Arbitration” Agreement—Defined ................................................................. 2  
1.3 Why Many Consumers Try to Avoid Predispute Binding Arbitration .......... 3  
1.3.1 Introduction ......................................................................................... 3  
1.3.2 Limitations on Class Actions .............................................................. 4  
1.3.3 Concerns About Arbitrators’ Impartiality ........................................... 5  
1.3.4 Secrecy in Arbitration ....................................................................... 7  
1.3.5 Limitations on Discovery ................................................................. 8  
1.3.6 Arbitration Fees ................................................................................ 9  
1.3.7 Other Concerns ................................................................................ 10  
1.4 Studies of Consumer Arbitration ............................................................. 11  
1.5 Consumer Arbitration and the National Arbitration Forum ................. 12  
1.6 Corporations Avoid Binding Arbitration When It Applies to Them ........ 13  
1.7 Upcoming Developments in Consumer Arbitration Law ................. 14

### Chapter 2  Threshold Issues for Challenges to Arbitration Clauses

2.1 Introduction ......................................................................................... 17  
2.2 Who Decides Challenges to an Arbitration Clause—Courts or Arbitrators? ................................................................................... 17  
2.2.1 Introduction ......................................................................................... 17  
2.2.2 General Rule: Gateway Issues Are for the Court ................................. 17  
2.2.3 When Arbitration Agreement Delegates Enforceability Issues to the Arbitrator ................................................................. 18  
2.2.4 Distinguishing Challenges to the Arbitration Clause Versus the Whole Contract ................................................................. 18  
2.3 Federal Jurisdiction over Actions to Compel Arbitration ..................... 18  
2.3.1 Introduction ......................................................................................... 18  
2.3.2 Federal Question Jurisdiction .............................................................. 19  
2.3.3 Federal Diversity Jurisdiction .............................................................. 20  
2.3.3.1 Is There Diversity? .......................................................................... 20  
2.3.3.2 Calculating the Amount in Controversy ......................................... 21  
2.3.4 Should Federal Court Abstain from Ruling on Arbitration Requirement? ................................................................................... 22  
2.3.5 Does Rooker-Feldman Doctrine Prevent a Section 4 Federal Court Action? .................................................................................. 22  
2.3.6 Venue ................................................................................................ 23  
2.3.7 Other Jurisdictional Issues ................................................................. 24  
2.4 Right to Discovery Relating to Enforceability of Arbitration Clause ...... 24  
2.5 Right to Jury Trial to Determine Arbitration Enforceability .............. 27
Chapter 3
The Federal Arbitration Act and the Preemption of State Law
3.1 The Federal Arbitration Act and the Role of State Law in Regulating Arbitration
3.2 Important Role of State Law in Regulating the Formation and Enforcement of Arbitration Clauses
3.2.1 Introduction
3.2.2 State Law Regulating the Formation of Arbitration Agreements
3.2.3 State Law Regarding the Enforcement of Arbitration Agreements
3.3 FAA Preemption of State Limits to the Enforceability of Arbitration Agreements
3.3.1 General
3.3.2 When State Law Singles Out Arbitration Clauses As Inherently Problematic or Inferior to Litigation
3.3.2.1 Supreme Court Case Law
3.3.2.2 Application in the Lower Courts and the Rule’s Limits
3.3.3 State Laws That Interfere with the Fundamental Attributes of Arbitration
3.3.3.1 Concepcion and Its Application
3.3.3.2 Concepcion’s Limits
3.4 Nonpreempted State Laws That Expressly Regulate Arbitration
3.4.1 Overview
3.4.2 State Laws That Govern the Formation of Arbitration Clauses
3.4.3 The “Market Participant” Exception
3.4.4 Qui Tam Provisions
3.4.5 Claims Regarding Insurance
3.4.5.1 General
3.4.5.2 Was the State Law Intended to Regulate Insurance?
3.4.5.3 Does State Insurance Law Restrict the Enforceability of Arbitration Agreements?
3.4.6 FAA Only Applies to Transactions Involving Interstate Commerce
3.4.6.1 FAA Virtually Always Applies
3.4.6.2 Even If FAA Does Not Apply, Most States Enforce Arbitration Agreements on Similar Terms
3.4.7 Parties May Contract to Have State Law Displace FAA with Respect to the Arbitrability of Disputes
3.4.8 Regulation of Arbitration Administrators
3.5 Limited FAA Preemption of State Procedural Law
3.5.1 Introduction
3.5.2 FAA Generally Does Not Preempt State Procedural Rules Addressing Enforcement of Arbitration Agreements
3.5.3 FAA Procedural Provisions, by Their Own Terms, Apply Only to Federal Court Actions

Chapter 4
Federal Limits on the Enforceability of Arbitration Requirements
4.1 Introduction
4.2 Explicit Federal Limits on Arbitration
4.2.1 Overview
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.2.2</td>
<td>Federal Law Now Prohibits Mandatory Arbitration in Mortgage Loans</td>
<td>60</td>
</tr>
<tr>
<td></td>
<td>4.2.2.1 In General</td>
<td>60</td>
</tr>
<tr>
<td></td>
<td>4.2.2.2 Retroactive Application</td>
<td>60</td>
</tr>
<tr>
<td>4.2.3</td>
<td>Certain Consumer Credit Contracts with Active Duty Military Personnel or Their Dependents</td>
<td>61</td>
</tr>
<tr>
<td>4.2.4</td>
<td>CFPB Authority to Restrict Arbitration Agreements</td>
<td>61</td>
</tr>
<tr>
<td>4.2.5</td>
<td>Executive Order Limiting Arbitration in Certain Employment Contracts</td>
<td>62</td>
</tr>
<tr>
<td>4.3</td>
<td>Conflicts Between the FAA and Other Federal Statutes</td>
<td>62</td>
</tr>
<tr>
<td>4.3.1</td>
<td>General Standards</td>
<td>62</td>
</tr>
<tr>
<td></td>
<td>4.3.1.1 Congressional Intent Determines Whether FAA Is Overridden</td>
<td>62</td>
</tr>
<tr>
<td></td>
<td>4.3.1.2 Does Arbitration Allow Vindication of Statute’s Purpose?</td>
<td>63</td>
</tr>
<tr>
<td>4.3.2</td>
<td>The Magnuson-Moss Warranty Act</td>
<td>63</td>
</tr>
<tr>
<td></td>
<td>4.3.2.1 General</td>
<td>63</td>
</tr>
<tr>
<td></td>
<td>4.3.2.2 The Text and Structure of the Magnuson-Moss Warranty Act</td>
<td>64</td>
</tr>
<tr>
<td></td>
<td>4.3.2.3 The Act’s Legislative History</td>
<td>65</td>
</tr>
<tr>
<td></td>
<td>4.3.2.4 The Act’s Implementing Regulations</td>
<td>65</td>
</tr>
<tr>
<td></td>
<td>4.3.2.5 Mandatory Arbitration Is an Informal Dispute Resolution Mechanism</td>
<td>66</td>
</tr>
<tr>
<td></td>
<td>4.3.2.6 Affected Claims If Magnuson-Moss Limits</td>
<td>66</td>
</tr>
<tr>
<td></td>
<td>4.3.2.7 Binding Arbitration Clauses, When Permitted,</td>
<td>67</td>
</tr>
<tr>
<td></td>
<td>Must Still Comply with the Act’s Provisions</td>
<td>67</td>
</tr>
<tr>
<td></td>
<td>4.3.2.7.1 Introduction</td>
<td>67</td>
</tr>
<tr>
<td></td>
<td>4.3.2.7.2 Arbitration requirement must be disclosed in written warranties</td>
<td>67</td>
</tr>
<tr>
<td></td>
<td>4.3.2.7.3 Significance of disclosure requirement</td>
<td>68</td>
</tr>
<tr>
<td></td>
<td>4.3.2.7.4 Does disclosure requirement extend to service contracts and extended warranties?</td>
<td>69</td>
</tr>
<tr>
<td></td>
<td>4.3.2.7.5 Does Magnuson-Moss Act prohibit merchant’s designation of arbitration service provider?</td>
<td>69</td>
</tr>
<tr>
<td>4.3.3</td>
<td>Claims Asserted in Bankruptcy</td>
<td>69</td>
</tr>
<tr>
<td></td>
<td>4.3.3.1 Introduction</td>
<td>69</td>
</tr>
<tr>
<td></td>
<td>4.3.3.2 Conflict Between Bankruptcy Code and FAA</td>
<td>70</td>
</tr>
<tr>
<td></td>
<td>4.3.3.3 Zimmerman, the 1984 Amendments, and</td>
<td>70</td>
</tr>
<tr>
<td></td>
<td>Subsequent Case Law</td>
<td>70</td>
</tr>
<tr>
<td></td>
<td>4.3.3.4 Court Need Not Require Arbitration of Core Matters</td>
<td>71</td>
</tr>
<tr>
<td></td>
<td>4.3.3.5 Claims Asserted on Behalf of Bankruptcy Estate</td>
<td>73</td>
</tr>
<tr>
<td></td>
<td>4.3.3.6 Application to Consumer Cases</td>
<td>74</td>
</tr>
<tr>
<td></td>
<td>4.3.3.7 Non-Core Matters Subject to Arbitration</td>
<td>77</td>
</tr>
<tr>
<td></td>
<td>4.3.3.8 Confirmed Plan Can Bar Enforcement of Arbitration Clause</td>
<td>77</td>
</tr>
<tr>
<td>4.3.4</td>
<td>No Conflict Between FAA and Credit Repair Organizations Act</td>
<td>77</td>
</tr>
<tr>
<td>4.3.5</td>
<td>The Carmack Amendment and the FAA</td>
<td>78</td>
</tr>
<tr>
<td>4.3.6</td>
<td>FAA Conflict with Federal Employment Statutes</td>
<td>78</td>
</tr>
<tr>
<td>4.3.7</td>
<td>The FTC Act and the FAA</td>
<td>80</td>
</tr>
<tr>
<td>4.4</td>
<td>Arbitration Clauses That Explicitly Limit Consumers’ Statutory Rights</td>
<td>80</td>
</tr>
<tr>
<td>4.4.1</td>
<td>General Principles</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td>4.4.1.1 Arbitration Clause Cannot Limit Federal Statutory Rights</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td>4.4.1.2 Statutory Remedies Serve Three Functions</td>
<td>81</td>
</tr>
<tr>
<td></td>
<td>4.4.1.3 Severability</td>
<td>82</td>
</tr>
</tbody>
</table>
### Consumer Arbitration Agreements

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.4.1.4</td>
<td>Unconscionability and When the FAA Conflicts with State Law</td>
<td>82</td>
</tr>
<tr>
<td>4.4.2</td>
<td>Limitations on Specific Statutory Rights</td>
<td>82</td>
</tr>
<tr>
<td>4.4.2.1</td>
<td>Arbitration Clauses That Limit Statutory Right to Attorney Fees and Costs</td>
<td>82</td>
</tr>
<tr>
<td>4.4.2.2</td>
<td>When Arbitration, But Not Statute, Applies Loser Pays Rule</td>
<td>83</td>
</tr>
<tr>
<td>4.4.2.3</td>
<td>Limits on Statutory Right to Punitive Damages</td>
<td>83</td>
</tr>
<tr>
<td>4.4.2.4</td>
<td>Limits on Statutory Right to Proceed As a Class</td>
<td>85</td>
</tr>
<tr>
<td>4.4.2.5</td>
<td>Limits on Statutory Right to Injunctive Relief</td>
<td>86</td>
</tr>
<tr>
<td>4.4.2.6</td>
<td>Shortening of a Statute of Limitation</td>
<td>86</td>
</tr>
<tr>
<td>4.4.2.7</td>
<td>High Arbitration Fees Effectively Prevent Vindication of Statutory Rights</td>
<td>87</td>
</tr>
<tr>
<td>4.5</td>
<td>Does Reimbursement of Fees to a Prevailing Consumer Cure the Problem?</td>
<td>90</td>
</tr>
<tr>
<td>4.6</td>
<td>When a Party's One-Sided Control over the Arbitration Process Prevents Effective Vindication of Statutory Rights</td>
<td>90</td>
</tr>
</tbody>
</table>

### Chapter 5 Formation of Agreement to Arbitrate

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1</td>
<td>General</td>
<td>93</td>
</tr>
<tr>
<td>5.1.1</td>
<td>No Presumption That Arbitration Agreement Is Formed; Court Must Decide</td>
<td>93</td>
</tr>
<tr>
<td>5.1.2</td>
<td>Growing State Court Interest in Formation Issues</td>
<td>95</td>
</tr>
<tr>
<td>5.2</td>
<td>Assent to Arbitration Agreement Is Required</td>
<td>95</td>
</tr>
<tr>
<td>5.2.1</td>
<td>General</td>
<td>95</td>
</tr>
<tr>
<td>5.2.2</td>
<td>Express Assent</td>
<td>96</td>
</tr>
<tr>
<td>5.2.2.1</td>
<td>Assent by Signature</td>
<td>96</td>
</tr>
<tr>
<td>5.2.2.2</td>
<td>Must the Arbitration Clause Be Initialed?</td>
<td>97</td>
</tr>
<tr>
<td>5.2.2.3</td>
<td>Consumer Attempts to Modify a Signed Agreement to Exclude Arbitration Requirement</td>
<td>98</td>
</tr>
<tr>
<td>5.2.2.4</td>
<td>Must Both Parties Sign the Agreement?</td>
<td>98</td>
</tr>
<tr>
<td>5.2.2.5</td>
<td>Incorporation of Arbitration Agreement by Reference into Signed Contract</td>
<td>98</td>
</tr>
<tr>
<td>5.2.2.6</td>
<td>Electronic Assent</td>
<td>99</td>
</tr>
<tr>
<td>5.2.2.7</td>
<td>Forged Signatures and Fraud in the Factum</td>
<td>100</td>
</tr>
<tr>
<td>5.2.2.8</td>
<td>When Signature Merely Acknowledges Receipt and Other Situations in Which Signature Is Not Enough</td>
<td>102</td>
</tr>
<tr>
<td>5.2.2.9</td>
<td>Can a Third Party's Signature Bind the Consumer?</td>
<td>103</td>
</tr>
<tr>
<td>5.2.3</td>
<td>Implied Assent Based on Conduct or Reliance</td>
<td>103</td>
</tr>
<tr>
<td>5.2.3.1</td>
<td>Overview</td>
<td>103</td>
</tr>
<tr>
<td>5.2.3.2</td>
<td>Notice Requirement</td>
<td>103</td>
</tr>
<tr>
<td>5.2.3.2.1</td>
<td>General</td>
<td>103</td>
</tr>
<tr>
<td>5.2.3.2.2</td>
<td>Availability of notice insufficient; notice must be delivered</td>
<td>104</td>
</tr>
<tr>
<td>5.2.3.2.3</td>
<td>Proof of delivery</td>
<td>105</td>
</tr>
<tr>
<td>5.2.3.2.4</td>
<td>The mailbox rule: notices sent by mail</td>
<td>106</td>
</tr>
<tr>
<td>5.2.3.2.5</td>
<td>Notice must be conspicuous so that consumer aware of its contents</td>
<td>107</td>
</tr>
<tr>
<td>5.2.3.3</td>
<td>Action Sufficient to Signify Acceptance Is Required</td>
<td>108</td>
</tr>
</tbody>
</table>
Contents

5.2.3.3.1 General .................................................. 108
5.2.3.3.2 Continued employment or use of a credit card as acceptance ............................................. 108
5.2.3.3.3 When consumer does not continue using the card .............................................................. 109
5.2.3.3.4 Performance under a contract as acceptance ........................................................................ 110
5.2.3.3.5 Reliance on accompanying contract terms as acceptance .................................................... 110
5.2.4 Lack of Capacity to Assent .............................................................. 111
5.3 Mutuality, Illusory Agreements, and the Requirement of Consideration ........................................... 111
5.3.1 Must the Arbitration Requirement Be Mutual? .............................................................................. 111
5.3.2 Failure of Other Consideration ..................................................................................................... 113
5.3.3 No Consideration When Arbitration Agreement Is Made with Arbitration Service Provider ..................... 114
5.3.4 Does a Unilateral Change-of-Terms Provision Render the Arbitration Agreement Illusory? ............. 114
5.4 Language of Arbitration Clause Must Be Clear and Unambiguous ......................................................... 116
5.4.1 General .................................................................................................................. 116
5.4.2 When Contract Merely Refers to an Arbitration Requirement ........................................................ 118
5.4.3 When Multiple Arbitration Agreements Conflict ........................................................................... 118
5.4.4 When Terms in Arbitration Clause Are Missing or Conflict ........................................................... 118
5.5 Waiver of Right to Jury Trial Must Be Knowing and Voluntary .............................................................. 119
5.5.1 Introduction to the Doctrine ........................................................................................................ 119
5.5.2 The Doctrine and FAA Preemption .............................................................................................. 120
5.5.3 Examples of Application of the Doctrine ...................................................................................... 120
5.5.4 Application of the Doctrine to Waiver of Statutory Rights ............................................................. 122
5.5.5 Cases Rejecting the Doctrine ....................................................................................................... 122
5.6 Arbitration Clauses Sent Unilaterally After Agreement Reached .......................................................... 123
5.6.1 Introduction .................................................................................................................................. 123
5.6.2 Arbitration Clause Unilaterally Added After Agreement Is Consummated .................................... 123
5.6.3 Final Agreement Not Reached Until After Purchase Is Delivered .................................................. 125
5.6.4 Arbitration Agreement Added or Amended As a Change in Terms ................................................. 126
5.6.4.1 Introduction ...................................................................................................................... 126
5.6.4.2 Cases Holding That “Change-in-Terms” Provisions Do Not Allow the Addition of an Arbitration Clause ....................................................................................................................... 126
5.6.4.3 Contracts Permitting Issuers to Add New Terms ..................................................................... 127
5.6.4.4 The Delaware Legislation ....................................................................................................... 128
5.7 “Yo-Yo” Sales and Other Condition Precedent Contracts ....................................................................... 128
5.8 When Designated Arbitration Forum Is Unavailable ............................................................................. 129
5.8.1 Designated Forum Unavailable with Surprising Frequency ............................................................. 129
5.8.2 When Arbitration Agreement Lists Alternative Forums .................................................................. 130
5.8.3 When Forum’s Unavailability Makes Arbitration Requirement Unenforceable ................................. 130
5.8.3.1 General ............................................................................................................................... 130
5.8.3.2 Language Indicating That the Forum Designation Is Integral ................................................. 132
5.8.3.3 Language Indicating That the Forum Designation Is Ancillary ............................................. 133
5.8.3.4 Effect of Arbitration Agreement Only Specifying Use of NAF Rules ..................................... 133
5.8.3.5 Unavailability of a Tribal Forum ......................................................................................... 134
5.9 Unconscionability As a Formation Issue ............................................................................................... 135
Chapter 6

Unconscionability and Other Contract Law Defenses to Arbitration Clauses

6.1 Introduction .................................................................................................................. 137
6.2 Preemption and Unconscionability ........................................................................... 138
6.3 Who Decides Unconscionability Challenge: Court or Arbitrator? .................... 139
6.4 General Unconscionability Standards ..................................................................... 141
6.5 Relationship Between Procedural and Substantive Unconscionability ............ 142
6.6 Procedural Unconscionability ................................................................................... 145

6.6.1 Contracts of Adhesion—Enough in Some States, Merely a Factor in Others .......... 145
6.6.2 Surprise As a Factor in Procedural Unconscionability ........................................ 149

6.6.2.1 General ............................................................................................................. 149
6.6.2.2 Developing the Facts to Support Allegation of Surprise ................................. 150
6.6.2.3 Factors Indicating Surprise ............................................................................. 151
6.6.3 Meaningful Choice As a Factor .............................................................................. 155

6.7 Substantively Unconscionable Arbitration Provisions ........................................... 157

6.7.1 Introduction ........................................................................................................... 157
6.7.2 Excessive Fees and Costs ....................................................................................... 158

6.7.2.1 Demonstrating That the Arbitration Fees Will, in Fact, Be Excessive .............. 158
6.7.2.2 AAA Fees for Consumer Cases ........................................................................ 161
6.7.2.3 Varying Approaches As to Who Pays the Fees .............................................. 162
6.7.2.4 Precedent Regarding Unconscionable Arbitration Fees ................................ 162

6.7.3 One-Way or Non-Mutual Arbitration Clauses Are Often Unconscionable ........ 165

6.7.3.1 Introduction .................................................................................................... 165
6.7.3.2 Non-Mutuality Rendering Clause Unconscionable Distinguished from Non-Mutuality Creating Lack of Consideration for Agreement ........................................... 165
6.7.3.3 Cases Finding Non-Mutuality to Be Unconscionable ........................................ 166
6.7.3.4 Cases Not Finding Non-Mutuality to Be Unconscionable ............................... 168
6.7.3.5 Non-Mutual Clauses That Appear to Be Mutual ............................................. 169
6.7.3.6 Non-Mutual Appeal Rights Rendering Clause Unconscionable ..................... 170

6.7.4 Clauses That Strip Statutory Remedies ................................................................. 171

6.7.4.1 Limitation on Damages .................................................................................... 171
6.7.4.2 Limitation on Attorney Fees ........................................................................... 174
6.7.4.3 Limitation on Injunctive and Equitable Relief ................................................. 174
6.7.4.4 Shortened Statute of Limitations .................................................................... 175
6.7.4.5 High Arbitration Fees Accentuate Problem of Remedy Stripping Provisions ...................................................................................................................... 176

6.7.5 Class Action Bans Embedded in Arbitration Clauses ........................................... 176

6.7.5.1 Class Action Bans Before Concepcion ........................................................... 176
6.7.5.2 The Concepcion Decision ................................................................................ 178
6.7.5.3 Challenging Class Action Bans After Concepcion ......................................... 178

6.7.5.3.1 Overview ...................................................................................................... 178
6.7.5.3.2 Class action bans are enforceable even when they prevent parties from pursuing their legal claims ........................................................................................................ 179

6.7.5.3.3 Concepcion does not require enforcement of a class action ban that would conflict with federal law ................................................................................................. 179
6.7.5.3.4 Miscellaneous rules concerning arbitration which survive Concepcion ....... 179

6.7.6 Inconvenient Venue for Arbitration ...................................................................... 181
### Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.7.7 Bias of Arbitrator or Arbitration Mechanism</td>
<td>182</td>
</tr>
<tr>
<td>6.7.7.1 General</td>
<td>182</td>
</tr>
<tr>
<td>6.7.7.2 Defenses to Bias Allegations</td>
<td>186</td>
</tr>
<tr>
<td>6.7.8 Secrecy Provisions</td>
<td>186</td>
</tr>
<tr>
<td>6.7.8.1 Introduction</td>
<td>186</td>
</tr>
<tr>
<td>6.7.8.2 Cases Finding Mandatory Confidentiality to Be Unconscionable</td>
<td>187</td>
</tr>
<tr>
<td>6.7.8.3 Cases Finding Mandatory Confidentiality Not to Be Unconscionable</td>
<td>189</td>
</tr>
<tr>
<td>6.7.9 Loser Pays Rules</td>
<td>189</td>
</tr>
<tr>
<td>6.7.10 Excessive Limitations on Discovery</td>
<td>191</td>
</tr>
<tr>
<td>6.8 Remedies When Part, or Parts, of an Arbitration Clause Are Unconscionable</td>
<td>192</td>
</tr>
<tr>
<td>6.8.1 Introduction</td>
<td>192</td>
</tr>
<tr>
<td>6.8.2 Party That Drafted Unconscionable Clause Should Not Receive Court’s Assistance</td>
<td>192</td>
</tr>
<tr>
<td>6.8.3 Interdependent Aspects of Arbitration Clause Should Not Be Severed</td>
<td>195</td>
</tr>
<tr>
<td>6.9 Miscellaneous Contract Defenses Other Than Unconscionability</td>
<td>197</td>
</tr>
<tr>
<td>6.9.1 Fraud in the Inducement Related to the Arbitration Clause Itself</td>
<td>197</td>
</tr>
<tr>
<td>6.9.2 Impossibility, Infancy, Undue Influence, Breach of Covenant of Good Faith, and Other Common Law Contract Defenses</td>
<td>198</td>
</tr>
<tr>
<td>6.9.3 State Statutes That Regulate Contract Terms</td>
<td>199</td>
</tr>
<tr>
<td>6.9.4 Was the Arbitration Agreement Rescinded or Superseded?</td>
<td>199</td>
</tr>
<tr>
<td>6.9.4.1 TILA Rescission and Other Three-Day Rights to Cancel</td>
<td>199</td>
</tr>
<tr>
<td>6.9.4.2 Document Containing Arbitration Clause Is Superseded by Later Document or Does Not Survive Termination of the Contract</td>
<td>200</td>
</tr>
</tbody>
</table>

### Chapter 7

#### Arbitration Clause’s Applicability to Particular Claims or Parties

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.1 Introduction</td>
<td>205</td>
</tr>
<tr>
<td>7.2 General Standards of Interpretation</td>
<td>205</td>
</tr>
<tr>
<td>7.3 Limits to Federal Policy Favoring Arbitration</td>
<td>205</td>
</tr>
<tr>
<td>7.3.1 Moses H. Cone Memorial Hospital v. Mercury Construction Corp.</td>
<td>205</td>
</tr>
<tr>
<td>7.3.2 Narrow Reading of Federal Policy Favoring Arbitration</td>
<td>206</td>
</tr>
<tr>
<td>7.3.3 When Federal Policy Is Not Applicable</td>
<td>206</td>
</tr>
<tr>
<td>7.3.4 Federal Policy Applies Only When Intent Is Ambiguous</td>
<td>207</td>
</tr>
<tr>
<td>7.3.5 Ambiguous Clauses Are Interpreted Against the Drafter</td>
<td>208</td>
</tr>
<tr>
<td>7.3.6 Characterizing Challenges As Relating to Formation and Not Scope</td>
<td>209</td>
</tr>
<tr>
<td>7.4 Whether Particular Claims Fall Within an Arbitration Clause</td>
<td>209</td>
</tr>
<tr>
<td>7.4.1 General</td>
<td>209</td>
</tr>
<tr>
<td>7.4.2 Does the Court or Arbitrator Decide Scope Issues?</td>
<td>209</td>
</tr>
<tr>
<td>7.4.3 “Arising Under” or “Arising Out Of” Language</td>
<td>212</td>
</tr>
<tr>
<td>7.4.4 Broad Language</td>
<td>213</td>
</tr>
<tr>
<td>7.4.5 Narrowly Written Clauses</td>
<td>214</td>
</tr>
<tr>
<td>7.4.6 Application to Tort and Statutory Claims</td>
<td>216</td>
</tr>
<tr>
<td>7.4.6.1 The Significant Relationship Test</td>
<td>216</td>
</tr>
<tr>
<td>7.4.6.2 Examples of Claims Falling Outside the Agreement’s Scope</td>
<td>218</td>
</tr>
<tr>
<td>7.4.6.3 Relationship of Claim to the Contract</td>
<td>219</td>
</tr>
<tr>
<td>7.4.6.4 Is Breach of Contract a Necessary Element of Tort Claim?</td>
<td>219</td>
</tr>
<tr>
<td>7.4.6.5 The Foreseeability Test</td>
<td>220</td>
</tr>
<tr>
<td>7.4.6.6 Scope Issues Dependent on Facts and Not Blanket Rules</td>
<td>220</td>
</tr>
<tr>
<td>7.4.6.7 Agreement’s Applicability to Employment Tort and Statutory Claims</td>
<td>223</td>
</tr>
</tbody>
</table>
7.4.7 Disputes As to Whether the Arbitration Agreement Was Formed ........................................ 223
7.4.8 Arbitration Clause Does Not Apply to Consumer’s Self-Help Remedies ....................................................... 224
7.4.9 The Temporal Scope of an Arbitration Provision ................................................................. 224
  7.4.9.1 Application to Events Occurring Prior to Consummation of Arbitration Agreement .......................... 224
  7.4.9.2 Application to Events Occurring After the Agreement’s Expiration ............................................... 226
7.4.10 Whether One Contract’s Arbitration Clause Applies to Claims Arising from Another Contract .......... 228
7.4.11 When Some Claims Are Within the Arbitration Clause’s Scope and Some Are Not .................. 231

7.5 Arbitration Agreement’s Application to Non-Signatories:
  General Principles ................................................................. 233
  7.5.1 Overview ......................................................................... 233
  7.5.2 Does Federal or State Law Determine Rights of Non-Signatory? ....................................................... 235
7.5.3 Equitable Estoppel .......................................................... 236
  7.5.3.1 Overview ......................................................................... 236
  7.5.3.2 Equitable Estoppel When Non-Signatory Seeks to Enforce the Arbitration Agreement ................. 236
    7.5.3.2.1 General principles ....................................................... 236
    7.5.3.2.2 Relationship between signatory-plaintiff’s claims and the underlying contract ......................... 237
    7.5.3.2.3 Relationship between non-signatory defendant’s misconduct and a signatory’s misconduct ........ 240
    7.5.3.2.4 Over-expansion of the doctrine ........................................ 243
    7.5.3.2.5 Why the doctrine should not be expanded ................................................................................. 243
    7.5.3.2.6 Cases against payment processors and originating banks ......................................................... 244
  7.5.3.3 Equitable Estoppel When a Signatory Seeks to Enforce the Arbitration Agreement Against a Non-Signatory ....................................................... 245
7.5.4 Third-Party Beneficiaries .................................................. 248
7.5.5 Agency ............................................................................. 251
  7.5.5.1 Is There an Agency Relationship? ......................................................................................... 251
  7.5.5.2 Does Agency Extend the Reach of an Arbitration Agreement? ....................................................... 251
  7.5.5.3 Examining the Contract’s Intent ......................................................................................... 253
  7.5.5.4 Limits on Agency’s Expansion of Reach of Arbitration Agreement .................................................. 254

7.6 Application of Arbitration Agreement to Non-Signatories: Specific Situations ......................... 255
  7.6.1 Assignees and Successors-in-Interest .................................................................................. 255
  7.6.2 Insurers, Manufacturers, Service Contractors, Attorneys, and Owners ................................. 256
  7.6.3 Debt Buyers and Debt Collectors ...................................................................................... 256
    7.6.3.1 Debt Buyer or Collector Must Produce the Arbitration Agreement ................................................. 256
    7.6.3.2 Debt Buyer’s Right to Enforce Creditor’s Arbitration Agreement .................................................. 257
    7.6.3.3 Debt Collector’s Right to Enforce Creditor’s Arbitration Agreement .............................................. 258
  7.6.4 Claims on Behalf of Nursing Facility Residents .................................................................... 259
    7.6.4.1 Background ........................................................................ 259
    7.6.4.2 Family Member’s Signature Not Binding on Patient .................................................................. 259
    7.6.4.3 Is Resident a Third-Party Beneficiary? .................................................................................. 261
Contents

7.6.4.4 Does the Designated Arbitration Forum Handle Nursing Facility Disputes? ........................................... 263
7.6.5 Wrongful Death Claims .................................................... 263
7.6.6 Guarantors and Sureties .................................................. 264
7.6.7 When Some Parties Are Subject to the Arbitration Clause and Some Are Not ............................................. 265
7.6.8 Application of Arbitration Agreement to Enforcement Agencies and Contempt Proceedings ............................... 267
7.6.9 Can Affinity Group’s Agreement Bind Its Members? ................ 268

7.7 Does the Agreement Require Binding, FAA Arbitration? .......... 268

Chapter 8

Waiver of the Right to Compel Arbitration

8.1 Introduction ........................................................................... 269
8.2 Does State or Federal Law Apply? ......................................... 270
8.3 Waiver Because of Litigation Conduct .................................... 271
  8.3.1 Court Decides Whether There Is a Waiver ......................... 271
  8.3.2 Litigation-Related Actions That Waive the Right to Compel Arbitration ..................................................... 273
    8.3.2.1 The Totality of Circumstances Test ................................. 273
    8.3.2.2 Pre-Suit Litigation-Related Conduct ............................. 275
    8.3.2.3 Filing Pleadings .......................................................... 277
    8.3.2.4 Motions and Asking the Court to Address the Merits ...... 279
    8.3.2.5 Conducting Discovery .................................................. 281
    8.3.2.6 Delay ........................................................................ 283
    8.3.2.7 Waiver in the Class Action Context .............................. 285
    8.3.2.8 Other Actions Constituting Waiver .............................. 286
    8.3.2.9 Other Actions Not Constituting Waiver ......................... 287

  8.3.3 No Waiver When Motion to Compel Arbitration Was Futile Prior to Change in the Law? ................................. 288

  8.3.4 Revival of Right to Compel Arbitration After an Amended Complaint ............................................................ 289

8.4 Breach of Arbitration Clause’s Provisions As Waiver ............... 290
  8.4.1 In General ....................................................................... 290
  8.4.2 Procedure and Arbitrability .............................................. 291
  8.4.3 Breach of an Arbitration Clause’s Covenant of Good Faith .......................................................... 291
  8.4.4 Breach of an Arbitration Clause’s Provisions for Payment of Forum Costs ..................................................... 292

8.5 Is Prejudice a Requirement or Factor to Establish Waiver? ...... 292
  8.5.1 Cases Are Divided on Whether Prejudice Is Required ....... 292
  8.5.2 Demonstrating Prejudice .................................................. 294

8.6 Defenses to Waiver Based Upon Contract Terms or Arbitral Rules ............................................................... 296

Chapter 9

Arbitration of Claims on a Classwide Basis

9.1 Introduction ................................................................. 299
9.2 Does Arbitration Agreement Allow Classwide Relief? ............ 299
  9.2.1 Arbitrability of Question Whether Class Arbitration May Proceed ..................................................... 299
  9.2.2 The Parties’ Intent .......................................................... 300
  9.2.3 Factors Indicating That a Silent Clause Authorizes Class Arbitration ..................................................... 301
  9.2.4 When Arbitration Agreement Appears to Prohibit Class Arbitration ..................................................... 302
  9.2.5 Procedures for Reviewing an Arbitrator’s Determination on the Availability of Class Arbitration ...................... 302
  9.2.5.1 Limits to Court Review of the Award’s Merits .................. 302
10.6 Arbitral Immunity .............................................................. 329
10.7 Protecting the Arbitrator’s Punitive Damages Award .......................................................... 330

10.7.1 Introduction ............................................................... 330
10.7.2 Is a Challenge to a Punitive Damages Award Timely and Brought in the Correct Court? ......................................................... 330
10.7.3 Does the Award Exceed the Arbitrator’s Powers? .............................................................. 330

10.7.3.1 Introduction ............................................................... 330
10.7.3.2 Does the Arbitration Agreement Limit the Arbitrator’s Authority to Award Punitive Damages? ......................................................... 330
10.7.3.3 Do the Rules of the Arbitration Service Provider Limit the Arbitrator’s Authority to Award Punitive Damages? ......................................................... 331
10.7.3.4 Does State Law Limit the Arbitrator’s Authority to Award Punitive Damages? ................. 331

10.7.3.4.1 Few state laws limit punitive damages in arbitration ......................................................... 331
10.7.3.4.2 FAA preempts state law limitations on punitive damages ......................................................... 332
10.7.3.4.3 Do general state law limits on punitive damages apply in arbitration? ................................. 332

10.7.4 Has the Arbitrator Disregarded the Law or Facts? .............................................................. 332
10.7.5 Does a Punitive Damages Award Violate Public Policy? ......................................................... 333
10.7.6 Due Process Challenges to Punitive Damages Awards .......................................................... 333

10.8 Arbitration and Issue or Claim Preclusion .............................................................. 334

10.8.1 Introduction ............................................................... 334
10.8.2 Arbitration’s Preclusive Effect on Subsequent Court Proceeding ......................................................... 334
10.8.3 Preclusive Effect of Arbitration or Court Ruling on Subsequent Arbitration ......................................................... 334

Chapter 11 Creditor’s Use of Arbitration to Collect Consumer Debts

11.1 About This Chapter ................................................................................. 337
11.2 How Collection Using Arbitration Works .............................................................. 337
11.3 Options After Receiving a Notice of Arbitration .............................................................. 338

11.3.1 Doing Nothing ................................................................................. 338
11.3.2 Seeking a Stay of Arbitration ............................................................... 338
11.3.3 Participating in the Arbitration Proceeding .............................................................. 339

11.3.3.1 Implications of Consumer’s Participation on Later Court Proceedings .............................................................. 339
11.3.3.2 Participation May Result in Increased Consumer Liability .............................................................. 340
11.3.3.3 How to Participate in the Arbitration Proceeding .............................................................. 340

11.4 Vacatur of an Arbitration Award .............................................................. 340

11.4.1 Introduction ................................................................................. 340
11.4.2 Timeliness ................................................................................. 340
11.4.3 Applicable Law, Jurisdiction, and Venue .............................................................. 341
11.4.4 Grounds for Vacating an Award in a Debt Collection Case .............................................................. 341

11.4.4.1 No Enforceable Arbitration Agreement .............................................................. 341
11.4.4.2 Lack of Notice of the Arbitration Proceeding .............................................................. 343
11.4.4.3 Lack of a Required In-Person Hearing .............................................................. 344
11.4.4.4 Failure to Follow the Arbitration Agreement or Arbitration Forum Rules .............................................................. 344
11.4.4.5 Arbitrator Improperly Selected .............................................................. 344
11.4.4.6 Inconvenient Venue ............................................................... 345
11.4.4.7 Arbitration Award Is Contrary to the Law or Facts .............................................................. 345
11.4.4.8 Arbitrator Bias .................................................. 345
11.4.4.9 Corruption, Fraud, or Undue Means .......................... 345
11.5 Opposing Confirmation of the Award ............................... 345
  11.5.1 The Confirmation Process ..................................... 345
  11.5.2 Time Period to Vacate Does Not Start Running When Notice of
          Award Is Defective or Is Not Sent ............................... 346
  11.5.3 No Deadline to Challenge the Arbitration Agreement’s Existence
          or Enforceability .................................................. 347
  11.5.4 Creditor’s Failure to Produce Arbitration Agreement or Any
          Applicable Assignment ............................................. 349
  11.5.5 Corruption, Fraud, or Undue Means Unknown to the Consumer ...... 350
  11.5.6 Consumer’s Failure to Participate May Prevent Confirmation .......... 350
  11.5.7 Defects in the Confirmation Proceeding ........................ 351
    11.5.7.1 Creditor’s Petition to Confirm Is Untimely .................. 351
    11.5.7.2 Petition to Confirm Filed in the Wrong Court ............... 351
    11.5.7.3 Party Seeking to Confirm Award Entered on Behalf of
            a Different Party ............................................. 352
    11.5.7.4 Seeking an Amount in Excess of the Award ................ 352
    11.5.7.5 Other Defects in the Confirmation Proceeding ............... 352
  11.5.8 Preclusive Effect of Dismissal of Prior Confirmation Action .......... 353
11.6 Setting Aside a Confirmed Arbitration Award ........................ 353

Appendix A The Federal Arbitration Act ............................................. 335

Appendix B Federal Limits on Arbitration

B.1 Prohibition of Arbitrations Involving Residential Mortgage Loans .......... 359
  B.1.1 Truth in Lending Act ............................................. 359
  B.1.2 Regulation Z ..................................................... 359
B.2 Limits on Arbitration Involving Military Personnel ......................... 359
B.3 Consumer Financial Protection Bureau and Securities and Exchange
    Commission Authority to Restrict Arbitration ................................ 360
B.4 Limits on Arbitration of Discrimination and Harassment Claims Brought
    by Employees of Federal Contractors .................................. 361
B.5 Limits on Arbitration Involving Livestock and Poultry Farmers ............. 361
B.6 Limits on Arbitration Involving Whistleblowers ............................ 362
B.7 Limits on Arbitration Involving Car Dealers and Their Franchisors ......... 363

Appendix C Rules of the American Arbitration Association

C.1 Commercial Arbitration Rules and Mediation Procedures (Including
    Procedures for Large, Complex Commercial Disputes) ........................ 365
C.2 Consumer Arbitration Rules ............................................. 377
C.3 Class Arbitrations ..................................................... 388
  C.3.1 Policy on Class Arbitrations ..................................... 388
  C.3.2 Supplementary Rules for Class Arbitrations ....................... 388
C.4 Consumer Debt Collection Arbitrations .................................. 390
C.5 Consumer Due Process Protocol .......................................... 390
C.6 Disclosures for California Consumer Cases .................................... 405
  C.6.1 Consumer-Related Disputes Filing Form—California ................... 405
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>C.6.2 Ethics Standards for Neutral Arbitrators in Contractual Arbitration in California</td>
<td>406</td>
</tr>
<tr>
<td>C.6.3 Business Advisory of Consumer Case Disclosures</td>
<td>407</td>
</tr>
<tr>
<td>C.6.4 Consumer Arbitration Statistics</td>
<td>407</td>
</tr>
<tr>
<td>C.6.5 Affidavit for Waiver of Fees—California</td>
<td>408</td>
</tr>
<tr>
<td>C.6.6 Demand for Arbitration—California Employment-Related Disputes</td>
<td>408</td>
</tr>
<tr>
<td>Index</td>
<td>411</td>
</tr>
</tbody>
</table>