

U.S. Supreme Court: Federal Courts Must Stay Proceedings During Appeal of Arbitration Denial

By Stephanie L. Adler-Paindiris, Scott P. Jang & Samia M. Kirmani

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Meet the Authors



Stephanie L. Adler-Paindiris

(Pain-DEAR-is • She/Her)

Principal

(407) 246-8409

Stephanie.Adler-

Paindiris@jacksonlewis.com



Scott P. Jang

Principal

(415) 394-9400

Scott.Jang@jacksonlewis.com



The U.S. Supreme Court held that when a district court denies a motion to compel arbitration under the Federal Arbitration Act (FAA), the court must stay its proceedings while that appeal is pending. *Coinbase, Inc. v. Bielski*, No. 22-105 (June 23, 2023).

The FAA, 9 U.S.C. §16(a), expressly authorizes an interlocutory appeal from a district court's denial of a motion to compel arbitration. It is silent, however, on what district courts should do once an interlocutory appeal is filed. A majority of the federal circuit courts of appeal (Third, Fourth, Seventh, Tenth, Eleventh, and D.C. Circuits) to have considered the issue instructed that district courts must stay the pretrial and trial proceedings while the interlocutory appeal is pending. A minority of them (Second, Fifth, and Ninth Circuits), however, instructed that district courts have discretion to decide whether to grant a stay or proceed with the litigation.

Resolving the circuit split in favor of an immediate stay, in a 5-4 decision, the Court held that district courts *must* stay the proceedings when a party appeals the denial of a motion to compel arbitration.

Justice Brett Kavanaugh wrote for the majority of the Court. Chief Justice John Roberts and Justices Samuel Alito, Neil Gorsuch, and Amy Coney Barrett joined him. Justice Ketanji Brown Jackson filed a dissenting opinion in which Justices Sonia Sotomayor and Elena Kagan joined in full and Justice Clarence Thomas joined in part.

Litigation Proceedings

In this consumer fraud class action against cryptocurrency platform Coinbase, Coinbase moved to compel arbitration under the arbitration provisions of its user agreement. The federal district court for the Northern District of California denied the motion, finding the arbitration provision unconscionable under California law. Coinbase filed an interlocutory appeal with the U.S. Court of Appeals for the Ninth Circuit. The company also moved to stay the pretrial and trial proceedings pending the appeal of the decision denying the motion to compel arbitration.

The district court refused to stay the proceedings. Under then-Ninth Circuit law, “[d]enial of a motion to compel arbitration does not result in an automatic stay of proceedings pending appeal of that order.” Instead, courts within the Ninth Circuit decide on a case-by-case basis whether to issue a stay pending appeal. Applying the four-factor analysis used within the circuit for evaluating such motions to stay, the district court denied the motion. Coinbase then filed a motion at the Ninth Circuit to stay proceedings in the district court pending the appeal, which also was denied.

Supreme Court's Decision

The U.S. Supreme Court held a district court *must* stay proceedings during the pendency of an interlocutory appeal of a denial of a motion to compel arbitration.

Samia M. Kirmani
Principal
(617) 367-0025
Samia.Kirmani@jacksonlewis.com

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The Court relied on the principle articulated in *Griggs v. Provident Consumer Discount Co.*, 459 U.S. 56, 58 (1982), that an appeal typically “divests the district court of its control over those aspects of the case involved in the appeal.” When the issue to be resolved on appeal is whether the case belongs in the court or in arbitration, “the entire case is essentially ‘involved in the appeal.’” Therefore, the Court held, under the “*Griggs* principle,” an automatic stay of the entire trial court proceeding is required.

Such a stay “reflects common sense,” the Court explained. Absent an automatic stay of the trial court proceedings, the right to an interlocutory appeal of a denial of a motion to compel arbitration would be hollow and many of the potential benefits of arbitration could be lost. It continued:

If the district court could move forward with pre-trial and trial proceedings while the appeal on arbitrability was ongoing, then many of the asserted benefits of arbitration (efficiency, less expense, less intrusive discovery, and the like) would be irretrievably lost—even if the court of appeals later concluded that the case actually had belonged in arbitration all along. Absent a stay, parties also could be forced to settle to avoid the district court proceedings (including discovery and trial) that they contracted to avoid through arbitration. That potential for coercion is especially pronounced in class actions, where the possibility of colossal liability can lead to what [Second Circuit] Judge Friendly called “blackmail settlements.”

As [Seventh Circuit] Judge Easterbrook stated, continuation of proceedings in the district court “largely defeats the point of the appeal.” A right to interlocutory appeal of the arbitrability issue without an automatic stay of the district court proceedings is therefore like a lock without a key, a bat without a ball, a computer without a keyboard—in other words, not especially sensible.

Citations omitted.

Impact of Coinbase

Following *Coinbase*, a case in federal court *must* be stayed automatically when a party seeks review of an order denying a motion to compel arbitration. The Court’s decision is significant for companies that have adopted arbitration agreements in order to resolve employment-related disputes efficiently.

Please contact a Jackson Lewis attorney if you have questions about the Court’s decision and its impact on enforcement of arbitration agreements.

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