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LEGAL UPDATES

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Fifth Circuit: "Manifest Disregard of the Law" Cannot Be Grafted to FAA as a Basis for Vacatur of Arbitration Award

In affirming a district court's denial of a petition to vacate an arbitration award, the U.S. Court of Appeals for the Fifth Circuit recently rejected the argument "that manifest disregard of the law remains viable as an independent ground for review or as a judicial gloss on the enumerated grounds for vacatur set forth at 9 U.S.C. § 10." See *United States Trinity Energy Services, L.L.C. v. Southeast Directional Drilling, L.L.C.*, No. 24-10833, 2025 WL 1218096, at *4 (5th Cir. Apr. 28, 2025) (internal quotations omitted).

Following an arbitration award in favor of Southeast Directional Drilling, Trinity Energy sought vacatur of the award on the grounds that "the arbitration panel exceeded its authority and acted in manifest disregard of the law" by "fail[ing] to harmonize numerous subcontract provisions limiting Trinity's obligation to pay Southeast's standby costs." *Id.* at *3. The district court rejected both arguments, and the Fifth Circuit affirmed.

According to the Fifth Circuit, a party seeking redemption in federal court under 9 U.S.C. § 10(4) by showing that the arbitration panel "exceeded their powers" "bears a heavy burden." *Id.* at 3 (internal quotations omitted). Specifically, "an arbitral decision even arguably construing or applying the contract must stand." *Id.* (internal quotations omitted). "Only when the arbitrator acts outside the scope of their contractually delegated authority—issuing an award that simply reflects their own notions of economic justice rather than drawing its essence from the contract, may a court vacate this determination." *Id.* (internal quotations omitted). Here, "Trinity Energy failed to show the arbitration panel ... disregard[ed] the subcontract entirely,"

and, accordingly, the “arbitration panel’s construction [of the subcontract] holds, however good, bad, or ugly.” *Id.* (internal quotations omitted).

In addition, the Fifth Circuit rejected Trinity Energy’s contention that “the arbitration panel manifestly disregarded Texas law in interpreting the subcontract.” *Id.* According to the Fifth Circuit, the court understood “Trinity Energy to contend that the panel exceeded their powers by recognizing clearly governing principles of Texas law but ignoring them in favor of its own brand of industrial justice.” *Id.* (internal quotations omitted). Specifically, Trinity Energy “allege[d] that manifest disregard of the law remains viable ‘as an independent ground for review or as a judicial gloss on the enumerated grounds for vacatur set forth at 9 U.S.C. § 10.’” *Id.* at *4.

The Fifth Circuit rejected Trinity Energy’s argument on the ground that it “essentially ignores [the] inapplicability of [manifest disregard of the law] as an independent basis while simultaneously attempting to subterfuge this non-statutory ground for vacatur within § 10(a)(4).” *Id.* Moreover, the Fifth Circuit noted that it has “never held that ‘manifest disregard of law’ is a basis to establish that arbitrators “exceeded their powers” under § 10(a)(4). *Id.* Indeed, “like alpha and omega...the beginning and the end of [the court’s] inquiry” was that “Trinity Energy cannot show that the arbitration panel exceeded its powers because the arbitration award clearly drew its essence from the subcontract.” *Id.* Finally, according to the court, “grafting ‘manifest disregard of the law’ as a basis for a losing party at arbitration to prevail under § 10(a)(4) would risk tension with ...[and] run headlong into...[Supreme Court precedent] by forcing [the court] to conduct a less deferential review of a panel’s award than the FAA contemplates.” *Id.* “Adopting Trinity Energy’s reading essentially would rewrite the question a judge must ask from ‘whether the arbitrators construed the contract at all’ to ‘whether they construed it correctly.’” *Id.*

What this means to you

Although not breaking new ground, the decision confirms and reinforces the limited and deferential review afforded to arbitration awards under the FAA, in particular, where there are indicia that the arbitration panel was “even arguably” applying the terms of the contract.

Contact us

If you have questions regarding the court’s decision, please contact Michael Robles, Brian O’Sullivan, Richard Swor, or your Husch Blackwell attorney.