SUPREME COURT OF THE UNITED STATES

No. 94–18

ANTONIO MASTROBUONO AND DIANA G. MASTROBUONO, PETITIONERS *v.* SHEARSON LEHMAN HUTTON, INC., ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

[March 6, 1995]

JUSTICE STEVENS delivered the opinion of the Court.

New York law allows courts, but not arbitrators, to award punitive damages. In a dispute arising out of a standard-form contract that expressly provides that it "shall be governed by the laws of the State of New York," a panel of arbitrators awarded punitive damages. The District Court and Court of Appeals disallowed that award. The question presented is whether the arbitrators' award is consistent with the central purpose of the Federal Arbitration Act to ensure "that private agreements to arbitrate are enforced according to their terms." *Volt Information Sciences, Inc.* v. *Board of Trustees of Leland Stanford Junior Univ.*, 489 U. S. 468, 479 (1989).

In 1985 petitioners, Antonio Mastrobuono, then an assistant professor of medieval literature, and his wife Diana Mastrobuono, an artist, opened a securities trading account with respondent Shearson Lehman Hutton, Inc. (Shearson), by executing Shearson's standard-form Client's Agreement. Respondent Nick DiMinico, a vice president of Shearson, managed the Mastrobuonos' account until they closed it in 1987. In 1989, petitioners filed this

action in the United States District Court for the Northern District of Illinois, alleging that respondents had mishandled their account and claiming damages on a variety of state and federal law theories.

Paragraph 13 of the parties' agreement contains an arbitration provision and a choice-of-law provision. Relying on the arbitration provision and on §§3 and 4 of the Federal Arbitration Act (FAA), 9 U. S. C. §§3, 4, respondents filed a motion to stay the court proceedings and to compel arbitration pursuant to the rules of the National Association of Securities Dealers. The District Court granted that motion, and a panel of three arbitrators was convened. After conducting hearings in Illinois, the panel ruled in favor of petitioners.

In the arbitration proceedings, respondents argued that the arbitrators had no authority to award punitive damages. Nevertheless, the panel's award included punitive damages of $400,000, in addition to compensatory damages of $159,327. Respondents paid the compensatory portion of the award but filed a motion in the District Court to vacate the award of punitive damages. The District Court granted the motion, 812 F. Supp. 845 (ND Ill. 1993), and the Court of Appeals for the Seventh Circuit affirmed. 20 F. 3d 713 (1994). Both courts relied on the choice-of-law provision in Paragraph 13 of the parties' agreement, which specifies that the contract shall be governed by New York law. Because the New York Court of Appeals has decided that in New York the power to award punitive damages is limited to judicial tribunals and may not be exercised by arbitrators, *Garrity* v. *Lyle Stuart, Inc.*, 40 N. Y. 2d 354, 353 N. E. 2d 793 (1976), the District Court and the Seventh Circuit held that the panel of arbitrators had no power to award punitive damages in this case.

We granted certiorari, 513 U. S. ___ (1994), because the Courts of Appeals have expressed differing views on whether a contractual choice-of-law provision may preclude an arbitral award of punitive damages that otherwise would be proper. Compare *Barbier* v. *Shearson Lehman Hutton Inc.*, 948 F. 2d 117 (CA2 1991), and *Pierson* v. *Dean, Witter, Reynolds, Inc.*,

742 F. 2d 334 (CA7 1984), with *Bonar* v. *Dean Witter Reynolds, Inc.*, 835 F. 2d 1378, 1386–1388 (CA11 1988), *Raytheon Co.* v. *Automated Business Systems, Inc.*, 882 F. 2d 6 (CA1 1989), and *Lee* v. *Chica*, 983 F. 2d 883 (CA8 1993). We now reverse.[1]

Earlier this Term, we upheld the enforceability of a predispute arbitration agreement governed by Alabama law, even though an Alabama statute provides that arbitration agreements are unenforceable. *Allied-Bruce Terminix Cos.* v. *Dobson*, 513 U. S. ___ (1995). Writing for the Court, JUSTICE BREYER observed that Congress passed the FAA "to overcome courts' refusals to enforce agreements to arbitrate." *Id.*, at ___ (slip op., at 4). See also *Volt Information Sciences, Inc.* v. *Board of Trustees of Leland Stanford Junior Univ.*, 489 U. S. at 474; *Dean Witter Reynolds Inc.* v. *Byrd*, 470 U. S. 213, 220 (1985). After determining that the FAA applied to the parties' arbitration agreement, we readily concluded that the federal statute pre-empted Alabama's statutory prohibition. *Allied-Bruce*, 513 U. S., at ___, ___ (slip op., at 6, 16).

Petitioners seek a similar disposition of the case before us today. Here, the Seventh Circuit interpreted the contract to incorporate New York law, including the *Garrity* rule that arbitrators may not award punitive damages. Petitioners ask us to hold that the FAA pre-empts New York's prohibition against arbitral

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[1]Because our disposition would be the same under either a *de novo* or a deferential standard, we need not decide in this case the proper standard of a court's review of an arbitrator's decision as to the arbitrability of a dispute or as to the scope of an arbitration. We recently granted certiorari in a case that inolves some of these issues. *First Options of Chicago, Inc.* v. *Kaplan*, No. 94–560, now pending before the Court.

awards of punitive damages because this state law is a vestige of the "`"ancient"'" judicial hostility to arbitration. See *Allied-Bruce,* 513 U. S., at ___ (slip op., at 4), quoting *Bernhardt* v. *Polygraphic Co. of America, Inc.*, 350 U. S. 198, 211, n. 5 (1956) (Frankfurter, J., concurring). Petitioners rely on *Southland Corp.* v. *Keating*, 465 U. S. 1 (1984), and *Perry* v. *Thomas*, 482 U. S. 483 (1987), in which we held that the FAA pre-empted two California statutes that purported to require judicial resolution of certain disputes. In *Southland*, we explained that the FAA not only "declared a national policy favoring arbitration," but actually "withdrew the power of the states to require a judicial forum for the resolution of claims which the contracting parties agreed to resolve by arbitration." 465 U. S., at 10.

Respondents answer that the choice-of-law provision in their contract evidences the parties' express agreement that punitive damages should not be awarded in the arbitration of any dispute arising under their contract. Thus, they claim, this case is distinguishable from *Southland* and *Perry*, in which the parties presumably desired unlimited arbitration but state law stood in their way. Regardless of whether the FAA pre-empts the *Garrity* decision in contracts not expressly incorporating New York law, respondents argue that the parties may themselves agree to be bound by *Garrity*, just as they may agree to forgo arbitration altogether. In other words, if the contract says "no punitive damages," that is the end of the matter, for courts are bound to interpret contracts in accordance with the expressed intentions of the parties—even if the effect of those intentions is to limit arbitration.

We have previously held that the FAA's pro-arbitration policy does not operate without regard to the wishes of the contracting parties. In *Volt Information Sciences, Inc.* v. *Board of Trustees of Leland Stanford Junior Univ.*, 489 U. S. 468 (1989),

the California Court of Appeal had construed a contractual provision to mean that the parties intended the California rules of arbitration, rather than the FAA's rules, to govern the resolution of their dispute. *Id.*, at 472. Noting that the California rules were "manifestly designed to encourage resort to the arbitral process," *id.*, at 476, and that they "generally foster[ed] the federal policy favoring arbitration," *id.*, at 476, n. 5, we concluded that such an interpretation was entirely consistent with the federal policy "to ensure the enforceability, according to their terms, of private agreements to arbitrate." *Id.*, at 476. After referring to the holdings in *Southland* and *Perry*, which struck down state laws limiting agreed-upon arbitrability, we added:

> "But it does not follow that the FAA prevents the enforcement of agreements to arbitrate under different rules than those set forth in the Act itself. Indeed, such a result would be quite inimical to the FAA's primary purpose of ensuring that private agreements to arbitrate are enforced according to their terms. Arbitration under the Act is a matter of consent, not coercion, and parties are generally free to structure their arbitration agreements as they see fit. Just as they may limit by contract the issues which they will arbitrate, see *Mitsubishi* [v. *Soler Chrysler-Plymouth*, 473 U. S. 614, 628 (1985)], so too may they specify by contract the rules under which that arbitration will be conducted." *Volt*, 489 U. S., at 479.

Relying on our reasoning in *Volt*, respondents thus argue that the parties to a contract may lawfully agree to limit the issues to be arbitrated by waiving any claim for punitive damages. On the other hand, we think our decisions in *Allied-Bruce*, *Southland*, and *Perry* make clear that if contracting parties agree to *include* claims for punitive damages within the issues to be arbitrated, the FAA ensures that their

agreement will be enforced according to its terms even if a rule of state law would otherwise exclude such claims from arbitration. Thus, the case before us comes down to what the contract has to say about the arbitrability of petitioners' claim for punitive damages.

Shearson's standard-form "Client Agreement," which petitioners executed, contains 18 paragraphs. The two relevant provisions of the agreement are found in Paragraph 13.[2] The first sentence of that paragraph provides, in part, that the entire agreement "shall be governed by the laws of the

[2]"Paragraph 13 of the Client's Agreement provides:

"This agreement shall inure to the benefit of your [Shearson's] successors and assigns[,] shall be binding on the undersigned, my [petitioners'] heirs, executors, administrators and assigns, and shall be governed by the laws of the State of New York. Unless unenforceable due to federal or state law, any controversy arising out of or relating to [my] accounts, to transactions with you, your officers, directors, agents and/or employees for me or to this agreement or the breach thereof, shall be settled by arbitration in accordance with the rules then in effect, of the National Association of Securities Dealers, Inc. or the Boards of Directors of the New York Stock Exchange, Inc. and/or the American Stock Exchange Inc. as I may elect. If I do not make such election by registered mail addressed to you at your main office within 5 days after demand by you that I make such election, then you may make such election. Judgment upon any award rendered by the arbitrators may be entered in any court having jurisdiction thereof. This agreement to arbitrate does not apply to future disputes arising under certain of the federal securities laws to the extent it has been determined as a matter of law that I cannot be compelled to arbitrate such claims." App. to Pet. for Cert. 44.

State of New York." App. to Pet. for Cert. 44. The second sentence provides that "any controversy" arising out of the transactions between the parties "shall be settled by arbitration" in accordance with the rules of the National Association of Securities Dealers (NASD), or the Boards of Directors of the New York Stock Exchange and/or the American Stock Exchange. *Ibid*. The agreement contains no express reference to claims for punitive damages. To ascertain whether Paragraph 13 expresses an intent to include or exclude such claims, we first address the impact of each of the two relevant provisions, considered separately. We then move on to the more important inquiry: the meaning of the two provisions taken together. See Restatement (Second) of Contracts §202(2) (1979) ("A writing is interpreted as a whole").

The choice-of-law provision, when viewed in isolation, may reasonably be read as merely a substitute for the conflict-of-laws analysis that otherwise would determine what law to apply to disputes arising out of the contractual relationship. Thus, if a similar contract, without a choice-of-law provision, had been signed in New York and was to be performed in New York, presumably "the laws of the State of New York" would apply, even though the contract did not expressly so state. In such event, there would be nothing in the contract that could possibly constitute evidence of an intent to exclude punitive damages claims. Accordingly, punitive damages would be allowed because, in the absence of contractual intent to the contrary, the FAA would pre-empt the *Garrity* rule. See *supra*, at 4.

Even if the reference to "the laws of the State of New York" is more than a substitute for ordinary conflict-of-laws analysis and, as respondents urge, includes the caveat, "detached from otherwise-applicable federal law," the provision might not preclude the award of punitive damages because

New York allows its courts, though not its arbitrators, to enter such awards. See *Garrity,* 40 N. Y. 2d, at 358, 353 N. E. 2d, at 796. In other words, the provision might include only New York's substantive rights and obligations, and not the State's allocation of power between alternative tribunals.[3] Respondents' argument is persuasive only if "New York law" means "New York decisional law, including that State's allocation of power between courts and arbitrators, notwithstanding otherwise-applicable federal law." But, as we have demonstrated, the provision need not be read so broadly. It is not, in itself, an unequivocal exclusion of punitive damages claims.[4]

The arbitration provision (the second sentence of Paragraph 13) does not improve respondents' argument. On the contrary, when read separately this clause strongly implies that an arbitral award of

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[3]In a related point, respondents argue that there is no meaningful distinction between "substance" and "remedy," that is, between an entitlement to prevail on the law and an entitlement to a specific form of damages. See Brief for Respondents 25–27. We do not rely on such a distinction here, nor do we pass upon its persuasiveness.

[4]The dissent makes much of the similarity between this choice-of-law clause and the one in *Volt*, which we took to incorporate a California statute allowing a court to stay arbitration pending resolution of related litigation. In *Volt*, however, we did not interpret the contract *de novo*. Instead, we deferred to the California court's construction of its own state's law. 489 U. S., at 474 ("the interpretation of private contracts is ordinarily a question of state law, which this Court does not sit to review"). In the present case, by contrast, we review a *federal* court's interpretation of this contract, and our interpretation accords with that of the only decisionmaker arguably entitled to deference—the arbitrator. See *supra*, at 3, n. 1.

punitive damages is appropriate. It explicitly authorizes arbitration in accordance with NASD rules;[5] the panel of arbitrators in fact proceeded under that set of rules.[6] The NASD's Code of Arbitration Procedure indicates that arbitrators may award "damages and other relief." NASD Code of Arbitration Procedure ¶3741(e) (1993). While not a clear authorization of punitive damages, this provision appears broad enough at least to contemplate such a remedy. Moreover, as the Seventh Circuit noted, a manual provided to NASD arbitrators contains this provision:

"B. Punitive Damages

"The issue of punitive damages may arise with

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[5]The contract also authorizes (at petitioners' election) that the arbitration be governed by the rules of the New York Stock Exchange or the American Stock Exchange, instead of those of the NASD. App. to Pet. for Cert. 44. Neither set of alternative rules purports to limit an arbitrator's discretion to award punitive damages. Moreover, even if there were any doubt as to the ability of an arbitrator to award punitive damages under the Exchanges' rules, the contract expressly allows petitioners, the claimants in this case, to choose NASD rules; and the panel of arbitrators in this case in fact proceeded under NASD rules.

[6]As the Solicitor General reminds us, one NASD rule is *not* before us, namely Rule 21(f)(4) of the NASD Rules of Fair Practice, which reads:

"`No agreement [between a member and a customer] shall include any condition which . . . limits the ability of a party to file any claim in arbitration or limits the ability of the arbitrators to make any award.'" Brief for United States et al. 6.

Rule 21(f)(4) applies only to contracts executed after September 7, 1989. Notwithstanding any effect it may have on agreements signed after that date, this rule is not applicable to the agreement in this case, which was executed in 1985.

> great frequency in arbitrations. Parties to arbitration are informed that arbitrators can consider punitive damages as a remedy." 20 F. 3d, at 717.

Thus, the text of the arbitration clause itself surely does not support—indeed, it contradicts—the conclusion that the parties agreed to foreclose claims for punitive damages.[7]

Although neither the choice-of-law clause nor the arbitration clause, separately considered, expresses an intent to preclude an award of punitive damages, respondents argue that a fair reading of the entire Paragraph 13 leads to that conclusion. On this theory, even if "New York law" is ambiguous, and even if "arbitration in accordance with NASD rules" indicates that punitive damages are permissible, the juxtaposition of the two clauses suggests that the

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[7]"Were we to confine our analysis to the plain language of the arbitration clause, we would have little trouble concluding that a contract clause which bound the parties to `settle' `all disputes' through arbitration conducted according to rules which allow any form of `just and equitable' `remedy of relief' was sufficiently broad to encompass the award of punitive damages. Inasmuch as agreements to arbitrate are `generously construed,' *Mitsubishi Motors Corp.* v. *Soler Chrysler-Plymouth*, [473 U. S. 614, 626 (1985)], it would seem sensible to interpret the `all disputes' and `any remedy or relief' phrases to indicate, at a minimum, an intention to resolve through arbitration any dispute that would otherwise be settled in a court, and to allow the chosen dispute resolvers to award the same varieties and forms of damages or relief as a court would be empowered to award. Since courts are empowered to award punitive damages with respect to certain types of claims, the Raytheon-Automated arbitrators would be equally empowered." *Raytheon Co.* v. *Automated Business Systems, Inc.*, 882 F. 2d 6, 10 (CA1 1989).

contract incorporates "New York law relating to arbitration." We disagree. At most, the choice-of-law clause introduces an ambiguity into an arbitration agreement that would otherwise allow punitive damages awards. As we pointed out in *Volt*, when a court interprets such provisions in an agreement covered by the FAA, "due regard must be given to the federal policy favoring arbitration, and ambiguities as to the scope of the arbitration clause itself resolved in favor of arbitration." 489 U. S., at 476. See also *Moses H. Cone Memorial Hospital* v. *Mercury Constr. Corp.*, 460 U. S. 1, 24–25 (1983).[8]

Moreover, respondents cannot overcome the common-law rule of contract interpretation that a court should construe ambiguous language against the interest of the party that drafted it. See, *e. g.*, *United States Fire Ins. Co.* v. *Schnackenberg*, 88 Ill. 2d 1, 4, 429 N. E. 2d 1203, 1205 (1981); *Graff* v. *Billet*, 64 N. Y. 2d 899, 902, 477 N. E. 2d 212, 213–214 (1984);[9] Restatement (Second) of Contracts §206 (1979); *United States* v. *Seckinger*, 397 U. S. 203, 210 (1970). Respondents drafted an ambiguous document, and they cannot now claim the benefit of the doubt. The reason for this rule is to protect the party who did not choose the language from an unin-

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[8]"The Arbitration Act establishes that, as a matter of federal law, any doubts concerning the scope of arbitrable issues should be resolved in favor of arbitration, whether the problem at hand is the construction of the contract language itself or an allegation of waiver, delay, or a like defense to arbitrability." *Moses H. Cone*, 460 U. S., at 24–25.

[9]We cite precedent from Illinois, the forum State and place where the contract was executed, and New York, the State designated in the contract's choice-of-law clause. The parties suggest no other State's law as arguably relevant to this controversy.

tended or unfair result.[10] That rationale is well-suited to the facts of this case. As a practical matter, it seems unlikely that petitioners were actually aware of New York's bifurcated approach to punitive damages, or that they had any idea that by signing a standard-form agreement to arbitrate disputes they might be giving up an important substantive right. In the face of such doubt, we are unwilling to impute this intent to petitioners.

Finally the respondents' reading of the two clauses violates another cardinal principle of contract construction: that a document should be read to give effect to all its provisions and to render them consistent with each other. See, *e.g., In re Halas,* 104 Ill. 2d 83, 92, 470 N. E. 2d 960, 964 (1984); *Crimmins Contracting Co.* v. *City of New York*, 74 N. Y. 2d 166, 172–173, 542 N. E. 2d 1097, 1100 (1989); *Trump-Equitable Fifth Avenue Co.* v. *H. R. H. Constr. Corp.,* 106 App. Div. 2d 242, 244, 485 N. Y. S. 2d 65, 67 (1985); Restatement (Second) of Contracts §203(a) and Comment *b* (1979); *id.* §202(5). We think the best way to harmonize the choice-of-law provision with the arbitration provision is to read "the laws of the State of New York" to encompass substantive

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[10]The drafters of the Second Restatement justified the rule as follows:

"Where one party chooses the terms of a contract, he is likely to provide more carefully for the protection of his own interests than for those of the other party. He is also more likely than the other party to have reason to know of uncertainties of meaning. Indeed, he may leave meaning deliberately obscure, intending to decide at a later date what meaning to assert. In cases of doubt, therefore, so long as other factors are not decisive, there is substantial reason for preferring the meaning of the other party." Restatement (Second) of Contracts §206, Comment *a* (1979).

principles that New York courts would apply, but not to include special rules limiting the authority of arbitrators. Thus, the choice-of-law provision covers the rights and duties of the parties, while the arbitration clause covers arbitration; neither sentence intrudes upon the other. In contrast, respondents' reading sets up the two clauses in conflict with one another: one foreclosing punitive damages, the other allowing them. This interpretation is untenable.

We hold that the Court of Appeals misinterpreted the parties' agreement. The arbitral award should have been enforced as within the scope of the contract. The judgment of the Court of Appeals is, therefore, reversed.

It is so ordered.