



JUDICIAL CONFERENCE OF THE UNITED STATES

WASHINGTON, D.C. 20544

THE CHIEF JUSTICE
OF THE UNITED STATES
Presiding

March 24, 1999

LEONIDAS RALPH MECHAM
Secretary

Honorable Orrin G. Hatch
Chairman, Committee on the Judiciary
United States Senate
224 Dirksen Senate Office Building
Washington, DC 20510-6275

Dear Mr. Chairman:

On behalf of the Judicial Conference of the United States, I write to transmit views with respect to pending year 2000 ("Y2K") legislation. S. 461, as well as S. 96 and H.R. 775, seeks to promote the resolution of potentially large numbers of Y2K disputes. The federal judiciary recognizes the commendable efforts of Congress to resolve Y2K disputes short of full-scale litigation so as to alleviate the burden of such litigation on private parties as well as on federal and state courts. These are clearly laudable public policy objectives.

Some of the provisions, however, will affect the administration of justice in the federal courts. The Judicial Conference, at its March 16th session, determined to oppose the provisions expanding federal court jurisdiction over Y2K class actions in bills (S. 461, S. 96, and H.R. 775) currently under consideration by the 106th Congress. In addition, because the Y2K pleading requirements included in these bills circumvent the Rules Enabling Act, the Conference also opposes these provisions.

Class Actions

These bills create no federal cause of action. Instead, they assume that plaintiffs will rely on typical state causes of action to provide relief in Y2K disputes. Under the bills, individual plaintiffs, as opposed to class action plaintiffs, can bring their tort, contract, and fraud suits in a state court where they will remain until resolved. While federal defenses and liability limitations established in the legislation may be raised in such litigation, the bills recognize that state courts are fully capable of applying these provisions and carrying out federal policy. This reliance on state courts, which today handle 95 percent of the nation's judicial business, follows the traditional allocation of work between the state and federal courts.

The provisions of these Y2K bills take a radically different approach to Y2K class actions—one that would effect a major reallocation of class action workloads. These bills create original federal court jurisdiction over any Y2K class action based on state law, regardless of the amount in controversy, where there is minimal diversity of citizenship—that is, where any single member of the proposed plaintiff class and any defendant are from different states. They also provide for the removal of any such Y2K class action to federal court by any single defendant or any single member of the plaintiff class who is not a representative party. While the bills do identify limited circumstances in which a federal district court may abstain from hearing a Y2K class action, it is unlikely that many actions will meet the specified criteria. The net result of these provisions will be that most Y2K class action cases will be litigated in the federal courts.

This assignment of the class action workload to the federal courts is particularly troubling because the Y2K problem may result in a very large number of class actions. While no one knows how many cases will be filed, Senator Robert Bennett, Chair of the Special Committee on the Year 2000 Technology Problem, has predicted that there could be a “tidal wave” of litigation resulting from Y2K problems. Given the nature of the Y2K problem, it is reasonable to expect that similar claims will often arise in favor of multiple plaintiffs against the same defendant or defendants. Thus, it can be expected that a substantial portion of these cases will be brought as class actions. Responding to class actions, regardless of where they are filed, will likely be a monumental task. If the current class action provisions remain in these bills, however, the important contribution the state courts would otherwise make to meeting this challenge will be lost, and the burden on the federal system will be correspondingly increased. The transfer of this burden to the federal courts holds the potential of overwhelming federal judicial resources and the capacity of the federal courts to resolve not only Y2K cases, but other causes of action as well.

Federal administration of these state-law class action claims will impose other substantial burdens. By shifting state-created claims into federal court, the bills confront the federal courts with the responsibility to engage in difficult and time-consuming choice-of-law decisions. The *Erie* doctrine requires that federal district courts, sitting in diversity, apply the law of the forum state to determine which body of state law controls the existence of a right of action. The wholesale shift of state-law class actions into federal court makes this choice-of-law obligation all the more daunting as the sheer number of possible subclasses and relevant bodies of state law multiplies. Some federal courts have taken the position that such multiplicity of law itself stands as a barrier to the certification of a nationwide class action. Even where a district court agreed to certify a class, it would have to make choice of law and substantive determinations that would have no binding force in subsequent Y2K litigation in the states in question.

In addition to the potential adverse docket impact on the federal courts, the proposed bills infringe upon the traditional authority of the states to manage their own judicial business. State legislatures and other rule-making bodies provide rules for the aggregation of state-law claims

into class-wide litigation in order to achieve certain litigation economies of scale. By providing for class treatment, state policymakers express the view that the state's own resources can be best deployed not through repetitive and potentially duplicative individual litigation, but through some form of class treatment. The proposed bills could deprive the state courts of the power to hear much of this class litigation and might well create incentives for plaintiffs who prefer a state forum to bring a series of individual claims. Such individual litigation might place a greater burden on the state courts and thwart the states' policies of more efficient disposition.

Federal jurisdiction over class action litigation is an area where change should be approached with caution and careful consideration of the underlying relationship between state and federal courts. The Judicial Conference Advisory Committee on Civil Rules has recently devoted several years of study to the rules in class action litigation. One outgrowth of that study was the appointment by the Chief Justice of a Mass Torts Working Group. The Working Group undertook a study which revealed the complexities of litigation that aggregates large numbers of claims and illustrates the need for a deliberative review of the issues that must be addressed in attempting to improve the process for resolution of such litigation. Such issues involve not only procedural rules, but also the jurisdiction of federal and state courts and the interaction between federal and state law. Y2K class action litigation implicates the same complex and fundamental issues that the Working Group identified. Even for familiar categories of litigation, these issues can be satisfactorily resolved only by further study. An attempt to address them in isolation, for an unfamiliar category of cases that remains to be developed only in the future, is unwise.

It may well be that extending minimal diversity to mass torts may be appropriate if accompanied by suitable restrictions. The Judicial Conference, for example, has endorsed in principle the use of minimal diversity jurisdiction in single-event, mass tort situations, like airplane crash litigation, and there may be other situations in which the efficiencies to be gained from consolidating mass tort litigation in federal courts are justified. Expansion of class action jurisdiction over Y2K class actions in the manner provided in the pending bills, however, would be inconsistent with the objective of preserving the federal courts as tribunals of limited jurisdiction and the reality that the federal courts are staffed and supported to function as tribunals of limited jurisdiction.

Judicial federalism relies on the principle that state and federal courts together comprise an integrated system for the delivery of justice in the United States. There appears to be no substantial justification for the potentially massive transfer of workload under these bills, and such a transfer would seem to be counterproductive. State courts provide most of the nation's judicial capacity, and a decision to limit access to this capacity in the face of the burden that Y2K litigation may impose could have significant consequences for the efficient resolution of Y2K disputes.

Pleading Requirements

S. 461, as well as S. 96 and H.R. 775, sets forth specific pleading provisions in Y2K litigation that would require a plaintiff to state with particularity certain matters in the complaint regarding the nature and amount of damages, material defects, and the defendant's state of mind. These requirements are inconsistent with the general notice pleading provisions found in the Federal Rules of Civil Procedure (*i.e.*, Rule 8), which apply to civil cases. The bills' provisions bypass the rulemaking provisions in the Rules Enabling Act (28 U.S.C. §§ 2071-77). They have not been subjected to bench, bar, and public scrutiny envisioned under the Rules Enabling Act and are inconsistent with the policies underlying the Act, which the Judicial Conference has long supported.

Not only do the statutory pleading requirements bypass the Rules Enabling Act, they do so in a particularly objectionable way because they are contained in stand-alone statutory provisions outside the federal rules. This will cause confusion and traps for unwary lawyers who are accustomed to relying on the Federal Rules of Civil Procedure for pleading requirements. It also would signal yet another departure from uniform, national procedural rules, following closely in the wake of similar pleading requirements contained in the Private Securities Reform Litigation Act.

On behalf of the federal judiciary, I appreciate your consideration of these views. If you or your staff have any questions, please contact Mike Blommer, Assistant Director, Office of Legislative Affairs (202-502-1700).

Sincerely,



Leonidas Ralph Mecham
Secretary

cc: Honorable Patrick J. Leahy, Ranking Member
Members of the Committee on the Judiciary