

A real estate brokerage firm, which is incorporated and headquartered in State A, has brought a federal diversity action in State A against one of its former employees for theft of trade secrets. The former employee had worked at the firm's headquarters throughout her employment but is now a citizen of State B. The firm seeks compensatory and punitive damages.

The court has asked the parties to submit proposed jury instructions on punitive damages and the relevant authority to support those instructions. State A's choice-of-law rules select State A law, which limits punitive damages to five times the amount of compensatory damages. Assume that the US Supreme Court has held that the Constitution limits punitive damages to 10 times the amount of compensatory damages.

Which of the following submissions on the instructions is correct?

- A. Punitive damages are limited to five times the amount of compensatory damages, because State A's choice-of-law rules select State A law. (44%)
- B. Punitive damages are limited to five times the amount of compensatory damages, because in a diversity case, the court applies the damages law of the state in which it sits. (42%)
- C. Punitive damages are limited to 10 times the amount of compensatory damages, because the action is in federal court. (7%)
- D. Punitive damages are limited to 10 times the amount of compensatory damages, because the constitutional limit preempts state-law limits. (5%)

Incorrect

Correct answer A

44% Answered correctly

55 secs Time Spent

2023 Version

Explanation:

Federal courts sitting in **diversity** (as seen here) must apply **federal law to procedural issues** and **state law to substantive issues**. A common **substantive issue** is the elements of a claim, including the amount of damages available. As a result, state law—not federal law—governs the amount of punitive damages available in the firm's claim against the former employee.

The federal court must then determine *which* state's law governs the substantive issue by applying the **choice-of-law rules** of the **state in which the court sits**. Here, the federal court sits in State A, so it must apply State A's choice-of-law rules. These rules require a court to select State A's law, which limits punitive damages to five times the amount of compensatory damages. Therefore, the correct jury instruction submission to the court is that punitive damages are limited to five times the amount of compensatory damages.

(Choice B) A federal court sitting in diversity does not automatically apply the substantive law of the state in which it sits. Instead, the court must look to the choice-of-law rules of the state in which it sits to determine the applicable state substantive law.

(Choice C) State (not federal) law governs substantive issues in an action in federal court based on diversity jurisdiction (as seen here). Therefore, a jury instruction based on the U.S. Supreme Court's holding that punitive damages are limited to 10 times the amount of compensatory damages would be improper.

(Choice D) Under the supremacy clause, federal law **preempts** conflicting state law. But there is no such conflict here because the state-law limit is less than the federal constitutional limit. Therefore, the constitutional limit does not preempt the state-law limit. Had the state-law limit exceeded the constitutional limit, then the constitutional limit would apply.

Educational objective:

In a federal diversity action, the court must apply federal law to procedural issues and state law to substantive issues. To determine which state's substantive law applies, a federal court must apply the choice-of-law rules of the state in which it sits.

References

Klaxon Co. v. Stentor Elec. Mfg. Co., 313 U.S. 487, 496–97 (1941) (explaining that a federal court sitting in diversity must apply the choice-of-law rules of the state in which it sits).

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Choice of law

