

A plaintiff residing in State A sues her former employer for \$3 million, alleging employment discrimination in violation of federal law, breach of her employment contract, and infringement of her patent. The suit is filed in a federal court located in State B, which is the employer's state of incorporation and principal place of business.

Under State B's choice-of-law rules, State B law applies to all state substantive law claims.

What substantive law should the federal court apply to the plaintiff's various claims?

- A. The court should apply federal law to all three claims.
- B. The court should apply State B law to all three claims.
- C. The court should apply State B law to the breach of contract claim and federal law to the employment discrimination and patent claims.
- D. The court should apply State B law to the employment discrimination and patent claims and federal law to the breach of contract claim.

## Explanation:

### Choice of law in federal court

Type of jurisdiction	Applicability	Substantive issues	Procedural issues
<b>Federal question</b>	<ul style="list-style-type: none"><li>Claim arises under U.S. Constitution, federal law, or treaty</li></ul>	Apply federal law	
<b>Diversity</b>	<ul style="list-style-type: none"><li>Amount in controversy &gt; \$75,000</li></ul> AND <ul style="list-style-type: none"><li>Parties are citizens of different states</li></ul>	Apply state law*	Apply federal law

\*Federal court must follow choice-of-law rules of state where it sits.

A party may join multiple claims against an opposing party in federal court (as seen here). This ensures judicial efficiency since a party does not need to file separate lawsuits for each claim. But the court must have **subject-matter jurisdiction** over each claim, which generally arises under either:

- federal-question jurisdiction – when the claim arises under the U.S. Constitution, a treaty, or a federal law (eg, federal statute, patent law) *or*
- diversity jurisdiction – when the claim arises under state law (eg, breach of contract), the amount in controversy exceeds \$75,000, and the parties are **citizens** of different states.

When a claim arises under **federal question** jurisdiction, the court must apply **federal law** to **procedural and substantive** issues. Here, the court has federal question jurisdiction over the plaintiff's employment discrimination and patent infringement claims since they arise under federal law. Therefore, the State B federal court should apply federal substantive law to these claims **(Choices B & D)**.

But when a claim arises under **diversity** jurisdiction, the court must apply **federal procedural law** and **state substantive law**. To determine which state's substantive law applies, the court must follow the choice-of-law rules of the state where it sits. Here, the court has diversity jurisdiction over the breach of contract claim since it arises under state law, the amount in controversy is \$3 million, and the parties are citizens of different states. Therefore, the court must follow State B's choice-of-law rules and apply State B substantive law to this claim **(Choices A & D)**.

## Educational objective:

Federal courts must apply federal procedural and substantive law to claims arising under federal question jurisdiction. And they must apply federal procedural law—but state substantive law based on the choice-of-law rules of the state where they sit—to claims arising under diversity jurisdiction.

### **References**

- Fed. R. Civ. P. 18 (joinder of claims).
- 28 U.S.C § 1652 (federal court must apply federal substantive law to claims arising under federal law but state substantive law to claims arising under state law).

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