

SUPREME COURT OF THE UNITED STATES

Wellness International Network, Ltd. v. Sharif

135 S. Ct. 1932 (2015) · No. 13-935 · Decided May 26, 2015

SUMMARY

The Supreme Court held that Article III permits bankruptcy judges to adjudicate claims otherwise requiring an Article III court when the parties knowingly and voluntarily consent. Consent need not be express and may be inferred from the parties' actions, but it must be knowing and voluntary. The Court reversed and remanded for the Seventh Circuit to determine whether Sharif consented to bankruptcy-court adjudication or forfeited his constitutional objection.

CASE DETAILS

COURT	Supreme Court of the United States
WRITING FOR THE COURT	Justice Sotomayor; Justice Kennedy; Justice Ginsburg; Justice Breyer; Justice Kagan; Justice Alito
JURISDICTION	Federal
DECIDED	May 26, 2015
DOCKET	13-935
DISPOSITION	reversed_and_remanded
PROCEDURAL POSTURE	Petitioners sought review of a Seventh Circuit decision holding that a bankruptcy court lacked constitutional authority to enter final judgment on a Stern claim and that the objection could not be waived.
PRECEDENTIAL VALUE	binding Supreme Court precedent
PARTIES	Wellness International Network, Limited, Ralph Oats, Cathy Oats v. Richard Sharif

TOPICS

bankruptcy chapter 7 adversary proceedings constitutional law separation of powers

PRACTICE AREAS

Bankruptcy Constitutional law Federal courts Civil procedure

QUESTIONS PRESENTED

1. Whether Article III permits a bankruptcy judge to adjudicate a Stern claim when the parties knowingly and voluntarily consent.
2. Whether consent to bankruptcy-court adjudication must be express or may be implied from the parties' conduct.
3. Whether the Seventh Circuit should determine on remand whether Sharif knowingly and voluntarily consented to bankruptcy-court adjudication and whether he forfeited his Stern objection.

HOLDINGS

1. Article III permits a bankruptcy judge to adjudicate a Stern claim when the parties knowingly and voluntarily consent to that adjudication.
2. Consent to bankruptcy-court adjudication of a Stern claim need not be express; it may be implied from the parties' actions, but it must be knowing and voluntary.
3. The Seventh Circuit should decide on remand whether Sharif's actions demonstrated knowing and voluntary consent and whether he forfeited his Stern argument.

KEY QUOTATIONS

"We hold that Article III is not violated when the parties knowingly and voluntarily consent to adjudication by a bankruptcy judge." (8)

"It bears emphasizing, however, that a litigant's consent—whether express or implied—must still be knowing and voluntary." (19)

"The Court holds that Article III permits bankruptcy courts to decide Stern claims submitted to them by consent." (20)

FACTUAL BACKGROUND

Sharif filed for Chapter 7 bankruptcy after Wellness obtained a substantial attorney-fee judgment against him. Wellness alleged that assets Sharif claimed were held by the Soad Wattar Living Trust were actually his property and part of the bankruptcy estate. After Sharif failed to comply with discovery obligations, the Bankruptcy Court entered default judgment, denied discharge, and declared that the trust assets belonged to the estate. On appeal, Sharif raised a constitutional Stern objection after briefing had closed.

PROCEDURAL HISTORY

Wellness filed an adversary proceeding in Sharif's Chapter 7 bankruptcy case, including a claim seeking a declaration that a trust was Sharif's alter ego and that its assets belonged to the bankruptcy estate. The Bankruptcy Court entered a default judgment for Wellness, and the District Court affirmed. The Seventh Circuit affirmed in part but reversed as to the alter-ego claim, concluding that the Bankruptcy Court lacked constitutional authority to enter final judgment and that Sharif could not waive the constitutional objection. The Supreme Court reversed and remanded for the Seventh Circuit to determine whether Sharif knowingly and voluntarily consented and whether he forfeited his Stern argument.

DISPOSITION

reversed_and_remanded

REMAND INSTRUCTIONS

The Seventh Circuit must determine whether Sharif's actions evinced knowing and voluntary consent to adjudication by the Bankruptcy Court and whether Sharif forfeited his Stern argument below.

CASES CITED

- *Commodity Futures Trading Comm'n v. Schor*, 478 U.S. 833 (1986)
- *Gomez v. United States*, 490 U.S. 858 (1989)
- *Peretz v. United States*, 501 U.S. 923 (1991)
- *Roell v. Withrow*, 538 U.S. 580 (2003)
- *Stern v. Marshall*, 564 U.S. 462 (2011)
- *Northern Pipeline Construction Co. v. Marathon Pipe Line Co.*, 458 U.S. 50 (1982)
- *Executive Benefits Insurance Agency v. Arkison*, 573 U.S. 25 (2014)
- *Thomas v. Union Carbide Agricultural Products Co.*, 473 U.S. 568 (1985)
- *Plaut v. Spendthrift Farm, Inc.*, 514 U.S. 211 (1995)
- *Granfinanciera, S.A. v. Nordberg*, 492 U.S. 33 (1989)
- *Sampsell v. Imperial Paper & Color Corp.*, 313 U.S. 215 (1941)
- *Mueller v. Nugent*, 184 U.S. 1 (1902)