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The Enforceability of AI-Generated Arbitral Awards

Presented by DecisionLayer™ AI Arbitration

TO: Stakeholders, Legal Counsel, and ADR Practitioners

FROM: Decision Science Research Corporation, d/b/a DecisionLayer

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RE: Enforceability of AI-Generated Arbitral Awards

EXECUTIVE SUMMARY

This white paper addresses the question of whether arbitral awards rendered by artificial intelligence (AI) are confirmable in United States (Federal) and New York State courts. It concludes that, under existing doctrine, they are. While no U.S. court or New York State court has squarely addressed this question, the Federal Arbitration Act's (FAA's) strong mandate to enforce arbitration agreements according to their terms, coupled with federal and state common law respecting and upholding parties' freedom to structure arbitral procedures and select decisionmakers, supports a compelling answer in the affirmative. That is, where parties expressly agree to have their dispute adjudicated by an AI platform, an award rendered by such AI platform is capable of being confirmed in courts in the United States in the same manner as an award rendered by a human arbitrator.

INTRODUCTION

The cost of adjudicating disputes is often out of reach for individuals and impractical for businesses. Even where a contract provides for arbitration, the cost of retaining counsel, filing a claim, selecting and paying for an arbitrator (often another lawyer), and confirming and enforcing any resulting award, often approaches, or even eclipses, the amount in controversy. Parties will frequently "leave money on the table" rather than risk arbitration.

Replacing a human arbitrator with an AI arbitration platform can materially reduce the cost of arbitration, enhance predictability, and increase access to dispute resolution. AI tools, such as DecisionLayer, are now capable of accurately adjudicating disputes for a fraction of the cost of a human arbitrator. The key to unlocking this democratizing force hinges on the question of whether courts will confirm arbitration awards rendered by AI instead of a human arbitrator. This white paper addresses that question and concludes that arbitration awards rendered by AI are confirmable in the same manner – and, by the same token, afforded the same deference and subject to the same legal challenges – as awards rendered by human arbitrators.

As a preliminary matter, it is important to clarify the precise meaning of an "AI rendered arbitration award." Rather than reviewing the usage of AI by human arbitrators and judges - which is increasingly common - this white paper analyzes an AI platform acting as the arbitrator *itself* and rendering an award based on arguments and evidence received through digital means.[1]

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[1] As of the date of this Whitepaper, DecisionLayer intentionally does **not** operate as a "pure AI arbitrator." Rather, DecisionLayer engages a qualified, neutral human arbitrator for each arbitration, who, based on their independent judgment, reviews, adopts, rejects, and/or modifies,

Notably, it is assumed for purposes of this white paper that the parties knowingly consented to adjudication by AI. For example, we may presume the parties agreed to the model DecisionLayer Arbitration Clause, or another similar, explicit agreement providing that a specified AI platform would act as arbitrator. It is further assumed that the chosen AI platform operates under published procedural rules, such as the DecisionLayer Arbitration Rules and Procedures, that ensure, among other things, notice, an opportunity to be heard, and a decision capable of being reviewed at the Court level. In other words, this white paper addresses a challenge based solely on the novel fact that the award was issued by an AI arbitrator rather than a human, not the various other grounds for challenge that can arise in any arbitration.

FINDINGS

Arbitration Contracts Must Be Enforced According to their Terms

The Supreme Court of the United States has established that the Federal Arbitration Act (FAA), 9 U.S.C. Ch. 1, is a "national policy favoring arbitration" designed to place arbitration agreements "upon the same footing as other contracts." *Scherk v. Alberto-Culver Co.*, 417 U.S. 506, 511 (1974). The FAA's core command is that written agreements to arbitrate "shall be valid, irrevocable, and enforceable," subject only to generally applicable contract defenses. Consistent with that policy, the Supreme Court has repeatedly recognized parties' broad freedom to define the parameters of their dispute resolution process. Under Sections 3 and 4 of the FAA (9 U.S.C. § 3, 4), for example, courts are directed to stay litigation and compel arbitration "in the manner provided for in [the] agreement," reflecting a core principle that arbitration is a matter of consent, not coercion.

Thus, in *DIRECTV, Inc. v. Imburgia*, 577 U.S. 47, 54 (2015), where a party challenged the parties' contractual arbitration provision, the Court emphasized the breadth of the parties' contractual freedom to arbitrate in the manner they deem fit, observing that, "in principle, [parties] might choose to have portions of their contract governed by the law of Tibet, the law of pre-revolutionary Russia, or (as is relevant here) the law of California." Similarly, in *Volt Info. Scis., Inc. v. Bd. of Trs. of Leland Stanford Junior Univ.*, 489 U.S. 468, 479 (1989), the Supreme Court confirmed that the FAA does not prevent parties from arbitrating under rules different from the FAA itself, because arbitration is "a matter of consent, not coercion," and courts must rigorously enforce arbitration agreements as written. In *Epic Sys. Corp. v. Lewis*, 584 U.S. 497, 501 (2018), the Supreme Court again reiterated the "liberal federal policy favoring arbitration," holding that "Congress has instructed federal courts to enforce arbitration agreements according to their terms," including with respect to contracts of adhesion—that is, boilerplate-style contracts prepared by one party (usually a business) that must be accepted or rejected in full by the other (usually the consumer).

This contractual freedom operates within the FAA's limited and exclusive vacatur regime which generally may not be expanded beyond the grounds set forth in FAA § 10. *See Hall Street*

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the recommendations of the AI before executing and issuing the final award. DecisionLayer also utilizes additional levels of "human-in-the-loop" governance, as described herein.

Assocs., L.L.C. v. Mattel, Inc., 552 U.S. 576, 586–89 (2008) (holding that the FAA's vacatur and modification grounds are exclusive and cannot be contractually expanded); *AT&T Mobility LLC v. Concepcion*, 563 U.S. 333, 351 (2011) (citing *Hall Street* and noting review under FAA § 10 focuses on misconduct rather than mistake). That limit underscores a central feature of arbitration under the FAA: courts confirm awards unless a <u>narrow</u> statutory ground for vacatur or modification is met, while parties <u>cannot</u> contract for broader merits review. Under this legal paradigm, it must follow that an AI-rendered award would receive the same deferential treatment, and any challenge must proceed, if at all, under familiar FAA § 10 standards, such as claims of evident partiality, refusal to hear material evidence, or an excess of powers, as an award rendered by a human arbitrator.

<u>No Requirement that an Arbitrator Be a Human</u>

Nothing in the FAA conditions enforceability on the arbitrator's being a natural person. The Act centers on party consent and certain enumerated grounds for vacatur, while leaving the identity and method of selecting the arbitrator to contract. Courts routinely enforce agreements naming specific institutions, panels, or experts to serve as arbitrators. Indeed, Section 5 of the FAA states that, "if in the agreement provision be made for a method of naming or appointing an arbitrator or arbitrators or an umpire, such method shall be followed…". (9 U.S.C. § 5). An agreed-upon AI platform as arbitrator should fit comfortably within that settled autonomy, provided in all other respects that the proceeding affords basic fairness and yields an award capable of judicial review under FAA § 10.

This same analysis should hold at the state level. The U.S. Supreme Court has held that "state-law rules that stand as an obstacle to the accomplishment of the FAA's objectives" are unlawful and preempted by the FAA. *See AT&T Mobility v. Concepcion*, *supra*. Additionally, *DIRECTV v. Imburgia*, *supra*, likewise bars interpretations of contract phrases that target arbitration for special burdens or otherwise discriminate against it. Thus, any state law or rule singling out AI-based arbitration for disfavor – because the decisionmaker is an algorithm rather than a human or for any other reason – would be preempted if it interferes with the FAA's core objective of enforcing arbitration agreements as written. Meanwhile, consistent with the Supreme Court's directive in *Badgerow v. Walters*, 596 U.S. 1 (2022), most States also provide procedural vehicles analogous to the FAA to confirm, modify, or vacate arbitral awards at the trial court level. In those forums, AI-rendered awards should stand or fall on the same prescribed grounds that govern human-rendered awards.

In New York specifically,[2] the Court of Appeals (the highest court in the State) has held that "the method for selecting arbitrators and the composition of the arbitral tribunal have been left to the contract of the parties." *TCR Sports Broad. Holding, LLP v. WN Partner, LLC,* 40 N.Y.3d 71, 84 (N.Y. 2023). *See also Matter of Salvano v. Merrill Lynch*, 85 N.Y.2d 173, 182 (N.Y. 1995) (a court will "not rewrite the contract or impose additional terms"); *Matter of Astoria Med. Group*, 11 N.Y.2d 128, 134 (N.Y. 1962) (a party's choice of arbitrator is a "valuable contractual right not lightly to be disregarded."). These authorities, among others, collectively support the proposition that parties may designate a non-traditional neutral – whether an institution, a panel composition

[2] The DecisionLayer Arbitration Clause contains a New York Choice of Law provision.

of their choosing, or an AI system – to serve as the arbitrator, and New York courts will honor that designation absent a statutory basis for vacatur. Nor does anything in New York's case law or statutory scheme restrict confirmation of awards authored by non-natural persons. The focus remains on the agreement, the basic fairness of the proceeding, and limited vacatur grounds similar to those in FAA § 10.

Grounds for Overturning an Arbitration Award Are Unlikely to Apply

Generally speaking, courts are reluctant to overturn arbitral decisions except in the narrow set of circumstances dictated by Section 10 of the FAA, namely

> (1) where the award was procured by corruption, fraud, or undue means;
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> (2) where there was evident partiality or corruption in the arbitrators, or either of them;
>
> (3) where the arbitrators were guilty of misconduct in refusing to postpone the hearing, upon sufficient cause shown, or in refusing to hear evidence pertinent and material to the controversy; or of any other misbehavior by which the rights of any party have been prejudiced; or
>
> (4) where the arbitrators exceeded their powers, or so imperfectly executed them that a mutual, final, and definite award upon the subject matter submitted was not made.

9 U.S.C. § 10.

This means that even arbitral awards that have clear errors of fact and law are routinely upheld. *See Oxford Health Plans LLC v. Sutter*, 569 U.S. 564, 568 (2013) ("[A]n arbitral decision even arguably construing or applying the contract must stand, regardless of a court's view of its (de)merits."); *Major League Baseball Players Ass'n v. Garvey*, 532 U.S. 504, 509 (2001) ("Courts are not authorized to review the arbitrator's decision on the merits despite allegations that the decision rests on factual errors or misinterprets the parties' agreement."); *Stolt-Nielsen S.A. v. AnimalFeeds Int'l Corp.*, 559 U.S. 662, 671 (2010) ("It is not enough . . . to show that the [arbitrator] committed an error-or even a serious error."). The New York Court of Appeals' decision in *Wien & Malkin LLP v. Helmsley-Spear, Inc.*, 6 N.Y.3d 471 (2006), further illustrates the narrow scope of judicial review. In *Wien & Malkin*, the Court underscored that the "manifest disregard of the law" doctrine[3] is extremely limited, requiring a showing that the arbitrator knew of a governing legal principle, understood it, and nonetheless willfully flouted it. Critically, like the Court in *Hall Street*, *supra*, the New York Court of Appeals held that the statutory grounds for

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[3] "Manifest disregard of law" is a narrow, judge-made (common law) basis for vacatur that the Supreme Court in *Hall Street*, *supra*, arguably overturned in holding that the FAA's enumerated grounds for vacatur are the exclusive bases for vacating or modifying an arbitration award.

vacatur under CPLR 7511 are exclusive and cannot be expanded by private agreement between the parties. This means that even if parties contractually provide for broader judicial review of an arbitration award, New York courts will not enforce such provisions. The practical effect is that, in New York as under Federal law, in agreeing to arbitration—whether before a human arbitrator or an AI platform like DecisionLayer—parties agree to a process with circumscribed judicial oversight which cannot be contractually expanded.

Meanwhile, the delineated bases for disturbing an arbitral award set forth in FAA Section 10 and its New York counterpart, are on their face no more likely to set aside an arbitration award rendered by AI as compared to an arbitration award rendered by a human arbitrator. Thus – and while DecisionLayer does not by any means, intend to produce erroneous awards – the lesson is clear: barring the unlikely occurrence of one of the circumstances delineated in Section 10 of the FAA, courts should be reluctant to disturb arbitral awards even when they are arguably wrong. Right or wrong, it should make no difference that they were rendered by AI.

AS APPLIED TO DECISIONLAYER

As noted above, this white paper examines whether an arbitral award rendered by AI is capable of being confirmed in U.S. Courts and withstanding challenges based solely on the fact that the award was rendered by AI. However, it must be emphasized that DecisionLayer engages a qualified, neutral human arbitrator who reviews, adopts, rejects, and/or modifies recommendations of the AI before executing and issuing any final award. DecisionLayer also maintains other procedural and substantive safeguards. These safeguards include, among other things:

- **Custom-Built Arbitration Clause**. DecisionLayer provides an arbitration clause, available at https://decisionlayer.ai/arbitrationclause, which includes the following clauses designed to ensure enforceability:
    - Express consent to the use of AI in rendering an award;
    - Express consent to the governance of the Federal Arbitration Act and NY CPLR Article 75 (Arbitration);
    - Express consent that DecisionLayer has the right to determine arbitrability;
    - Express consent to DecisionLayer's Rules;
    - Waiver of objections to choice of law and forum;
    - Waiver of jury trial and class action rights;
    - Consent to service of process by email and through the DecisionLayer platform; and
    - A 30-day opt-out period from the date a user first agrees to the contract containing the DecisionLayer arbitration clause.
- **Human Arbitrator Review and Adoption**. All awards issued by DecisionLayer's are subject to multiple levels of human-in-the-loop oversight

- Input Gate. Human Case Managers review all submissions including, for example, for "adversarial prompts" (jailbreaking), intelligibility and to ensure claims are legally cognizable.
- Human Arbitrator Issuance. After the AI platform generates a recommendation, a qualified human arbitrator reviews the record, arguments, and evidence, and, based on their independent judgment, may adopt, reject, modify, or revise the proposal before executing and issuing the final award. The human arbitrator is required to, and does, exercise their independent, professional judgment.
- Correction. After awards are issued to the parties, the parties have the ability to request 'corrections' be made to the award. This is to address, among other things, numerical errors in calculation, typographical issues, incorrect citation format, etc.
- Appeal. Additionally, each party has a right of appeal to a separate qualified, human arbitrator to review the dispute *de novo*.

- **Reasoned Awards**. Every DecisionLayer award is accompanied by a written decision. This document details the specific findings of fact and conclusions of law, ensuring that the logic behind the decision is transparent and reviewable by all parties.
- **Human Appeal (*De Novo*) to an Independent, Qualified Arbitrator**. Any party dissatisfied with the award executed by the human arbitrator has the right to appeal to a separate independent, qualified human arbitrator (a licensed U.S. attorney) for a full *de novo* review.
- **The Simulator**. Users can run "what-if" scenarios through DecisionLayer's simulator to formulate arguments before submission in an arbitration. This feature is available for unlimited use to any party to a dispute. It is also available to anyone who creates an account at https://decisionlayer.ai.
- **Conflict Checking**. All disputes are subject to DecisionLayer's conflicts clearance process, to determine if any party to the dispute has any relationship with any DecisionLayer personnel.
- **AML / KYC**. At the outset of each dispute, all parties must complete an AML / KYC (anti-money-laundering / know-your-client) process to confirm their identities.
- **Pricing**. As of Q2 2026, the cost of a DecisionLayer arbitration is a flat fee ranging from $500 to $2,500 from initiation through award, and an additional $2,500 for a human appeal. DecisionLayer also accepts requests to waive fees in circumstances of financial hardship. It is DecisionLayer's view that the substantially lower total cost of arbitration before DecisionLayer in comparison with other arbitral bodies, is a commercial factor that courts will credit as a basis for confirming an award rendered by DecisionLayer.
- **Timing**. The entire DecisionLayer process is designed to take 45-90 days. It is DecisionLayer's view that the prompt resolution of disputes is also a factor that courts will credit as a basis for confirming an award rendered by DecisionLayer.

- **Governance Controls**. DecisionLayer also exclusively uses ISO 42001:2023 certified AI models to power its decision engine, with ISO 42001:2023 being the prevailing "AI Governance" standard.

Thus, while it is DecisionLayer's position that even a "bare AI" system, if consented-to by the parties, would withstand scrutiny under existing legal standards, the addition of robust safeguards further ensures that a DecisionLayer award is likely to be confirmable and enforceable in both Federal and New York State courts.

CONCLUSION

Existing doctrine and precedent provide the analytical tools needed to conclude that an AI-generated arbitral award is capable of being confirmed in courts in the United States in the same manner as an award rendered by a human arbitrator. DecisionLayer's model, in which a human arbitrator executes and issues the award based on their independent review and judgment, along with its additional governance controls and right of appeal to a separate human arbitrator, further reinforces this conclusion.
