Arbitral Award

Prelims – Current events of national and international importance.

Mains – *General Studies- II* (Structure, organization and functioning of the Executive and the Judiciary)

Why in news?

Recently, in a 4:1 majority ruling, a five-judge Bench of Supreme Court held that the Appellate Courts may exercise limited powers to modify arbitral awards under certain specific circumstances.

- **Arbitral award** – Is simply the *final decision made by the arbitrator*.
- It is *binding on all parties involved*, similar to a court judgment.
- **Arbitration** – Is an alternative dispute resolution mechanism where parties agree to resolve their disputes outside of courts through a neutral third party called an arbitrator.
- This process is governed by the Arbitration and Conciliation Act, 1996 in India.
- **Arbitration and Conciliation Act, 1996** – It does not expressly empower courts to modify or vary an arbitral award.
- Section 34 of the 1996 Act only confers upon courts the power to set aside an award.

Supreme Court Judgment (2025)

- A five-judge Constitution Bench of the Supreme Court delivered an important judgment in *Gayatri Balasamy v. ISG Novasoft Technologies Ltd*. clarifying courts' powers regarding arbitral awards.
- **Modify arbitral awards** – The courts can modify arbitral awards in limited circumstances in the following scenarios:
  - When separating valid from invalid portions (severability).
  - To correct obvious errors (clerical, computational, or typographical).
  - To adjust post-award interest rates when necessary.
- **Supreme Court's Special Powers** – The *Supreme Court can use its powers under Article 142 of the Constitution to modify awards*, but must do so cautiously.
- **Interest Modification** – Courts cannot change interest awarded during arbitration proceedings.
- Courts can modify interest for the period after the award is given.
- **Severance Power** – All judges agreed that courts can "sever" or separate invalid portions of an award while keeping the valid parts intact.

Significance of Arbitral Awards

- **Binding Decision** – The arbitral award is binding on the parties, meaning they are

legally obligated to comply with it.

- **Finality** – Generally, there is limited scope for challenging an arbitral award in courts to ensure the process remains efficient.
- **Enforcement** – An arbitral award can be enforced by a court in the same way as a decree of that court.
- **Time and Cost Efficiency** – Generally faster and less expensive than court litigation.
- **Expertise** – Arbitrators with specialized knowledge can be selected for complex disputes.

Reference

1. Supreme Court Observer | Arbitral Award
2. SSC Times | Arbitral Award