
New York Court of Appeals Rejects Challenge to the Internal Affairs Doctrine

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The internal affairs doctrine serves as a cornerstone of American corporate governance. It provides that a corporation's internal governance is subject to the laws of the state or country in which the corporation is incorporated and not the potentially conflicting laws of the various jurisdictions in which it operates. The doctrine promotes consistency and predictability in corporate governance by ensuring a corporation need only adhere to one set of laws.

In *Ezrasons, Inc. v. Rudd, Ezrasons, Inc.*, the New York Court of Appeals rejected an argument that a New York statute that has been on the books for over 60 years tacitly overturned the internal affairs doctrine. The case involved a shareholder derivative action brought in New York state court by a New York-based beneficial shareholder of Barclays PLC, a corporation organized under the laws of England and Wales, that sought to hold Barclays' directors and officers liable for alleged oversight failures that resulted in substantial regulatory fines. Plaintiff argued that sections 626 and 1319 of the New York Business Corporation Law (BCL), the statutes governing corporations in New York, displaced the internal affairs doctrine and, therefore, subjected corporations like Barclays to New York's standards for derivative standing. On that basis, Plaintiff contended that Barclays should be subject to New York's corporate governance rules rather than the law of their place of incorporation. The court held that nothing in the BCL expressed the clear and specific legislative intent necessary to override the internal affairs doctrine.

Writing for a six-judge majority, over a strongly worded dissent by Chief Judge Wilson, Judge Cannataro stressed the importance of predictability and uniformity in corporate governance, warning that disregarding the internal affairs doctrine would expose foreign companies to conflicting obligations. The decision ensures that, for now, New York will continue to adhere to the internal affairs doctrine.

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