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Commercial division update: Invalidating releases based on fraud in the inducement

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New York courts treat an executed release as a "jural act" that brings litigation to a close. A valid release constitutes a complete bar to an action on the claims that are the subject of the release, and "should never be converted into a starting point for ... litigation except under circumstances and under rules which would render any other result a grave injustice." *See Centro Empresarial Cempresa v. América Móvil, S.A.B. de C.V.*, 17 N.Y.3d 269 (2011). Nevertheless, parties who obtain a release are not completely insulated from challenge; a releasor may seek to void a release by establishing that it was fraudulently induced. That path, however, is narrow. This column addresses recent Commercial Division and appellate authority that clarifies exactly when fraud in the inducement can defeat a release, and when it cannot.

Governing framework

Centro remains the controlling standard. In that case, the New York Court of Appeals affirmed dismissal of fraud, breach of fiduciary duty and related claims brought by corporate sellers who had signed broad releases in connection with their sale of minority telecom interests.

Centro established four foundational principles. First, a release may encompass unknown claims, including unknown fraud claims, if the parties so intend and the agreement is "fairly and knowingly made." Second, a party that releases a fraud claim may later challenge that release as fraudulently induced only if it can identify a "separate fraud" from the fraud that is the subject of the release; were this not the case, "no party could ever settle a fraud claim with any finality." Third, as to reliance, where plaintiffs knew that defendants had not supplied them with information necessary to value their claims, yet chose to cash out and release defendants from fraud claims without demanding access to that information or representations and warranties as to its accuracy, they "cannot fairly ask for the law's protection." Fourth, as to fiduciary relationships, a sophisticated principal can release its fiduciary from claims, at least where, at the time the release was given, the fiduciary relationship was no longer one of unquestioning trust and the principal understood that the fiduciary was acting in its own interest.

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The First Department applied *Centro* to a commercial consulting dispute in *Avnet v. Deloitte Consulting*, 187 A.D.3d 430 (1st Dep't 2020). The plaintiff had released "any and all claims … whether known or unknown" arising from a failed software implementation project, then commenced suit alleging pre-release fraud. The court confirmed that a party may challenge a release as fraudulently induced only by identifying a separate fraud from the subject of the release, and upheld dismissal of the claims because they failed to do so.

Avnet and *Centro* also illustrate that New York courts distinguish between claims based on post-release conduct, which are not barred by a release that is limited to pre-release conduct, and claims arising out of pre-release conduct or a defined pre-release subject matter, which may be released even if unknown at signing. In *Avnet*, the First Department enforced a release that barred claims through the effective date of the release, while confirming that post-effective date claims—there, a post-release breach of contract—are not barred. Where the underlying conduct predates the release, but damages only later ripen, accrual rules will frame whether the claim is "existing" at signing and therefore covered by the release. See, e.g., *Ely-Cruikshank v. Bank of Montreal*, 81 N.Y.2d 399, 402-04 (1993) (breach of contract claim generally accrues at the time of breach, not when damages are later realized).

In *Shilpa Saketh Realty v. Vidiyala*, 191 A.D.3d 512 (1st Dep't 2021), while Justice Barry Ostrager of the New York County Commercial Division (No. 157087/19, N.Y. Co., Apr. 17, 2020) had granted defendants' motion to dismiss claims of a fraudulently induced release, the First Department found that the fiduciary dynamics and the absence of arm's-length negotiations raised factual questions that could not be resolved on documentary evidence alone. In that case, the plaintiff was a minority stockholder, and one of the three defendants was a majority owner, of a nonparty pharmaceutical company. As part of their sale of that company to a third party, the parties all executed a stock purchase agreement and a general release releasing all claims against each other. The plaintiff minority shareholder later alleged that the defendant shareholders had misrepresented to the plaintiff their allocation of sale proceeds as set forth in the stock purchase agreement, which the plaintiff allegedly never read because only the signature page was provided for execution. Given that two of the three defendants were fiduciaries to the plaintiff at the time the release was executed and the allegations described united efforts among them to sell their company, rather than adversarial, arm's-length negotiations to resolve claims between them, the court reasoned that the release did not as a matter of law bar the claims, at least at the pleading stage.

Commercial Division application

Commercial Division courts have applied the *Centro/Avnet* framework consistently to enforce broadly-worded settlement releases.

At the trial level in *Avnet*, Justice Jennifer Schecter of the New York County Commercial Division granted dismissal of pre-release claims in their entirety. 2019 NY Slip Op 33026(U) (N.Y. Co. Oct. 11, 2019). The plaintiff, characterized as an "extremely sophisticated party … represented by counsel," had been fully aware of the serious problems plaguing the underlying software implementation project and could have sued or insisted on a more limited release, but did not. Because the settlement released unknown claims and disclaimed any oral representations, a release of that character "cannot be vitiated by an alleged oral representation based on an unknown claim." To find otherwise would "undermine the ability to effectively settle unknown claims." This reasoning tracks New York appellate precedent that a properly drafted release can extinguish pre cutoff claims, even if unknown, while leaving post cutoff claims outside the release's reach.

Plaintiffs in *Schupak v. Arozamena*, 2023 NY Slip Op 33235(U) (N.Y. Co. Sept. 18, 2023) alleged they were fraudulently induced to enter a settlement that released breach of contract and breach of fiduciary duty claims against a departed LLC member. The settlement agreement at issue provided that no party had made or relied upon any representations outside the agreement. Additionally, the parties and their counsel were sophisticated. Justice Andrea Masley of the New York County Commercial Division held that the plaintiffs could not have reasonably relied on the alleged oral misrepresentations in entering into the release.

Glodek v. Kadmon Holdings, 2017 NY Slip Op 30749(U) (N.Y. Co. Apr. 18, 2017), involves a similar fact pattern.

The plaintiff had represented in the settlement agreement that he "received no representations or warranties from Kadmon Parties, with respect to the settlement securities," and that "no party … has made any promise, representation or warranty, express or implied, not contained in the settlement agreement." Justice Anil Singh of the New York County Commercial Division held that the plaintiff, having specifically represented he did not rely on any representations concerning the value of the securities he received, could not allege a viable separate fraud based on their value.

The First Department decision in *Shilpa* discussed above reflects perhaps the most viable exception to enforceability of releases in current jurisprudence. Where a plaintiff signed a release allegedly without reading it, in the context of united fiduciary conduct, rather than as part of adversarial negotiations between a principal and his fiduciary, the First Department found that, at the pleading stage, reliance could not be deemed unreasonable as a matter of law. The critical distinction from *Centro* is the nature of the relationship at the time of signing: *Centro* emphasized that where a principal has actual knowledge that its fiduciary was acting in its own interest, heightened diligence is required and the principal "cannot reasonably rely on such representations without making additional inquiry."

Crane v. WP Strategic Holdings, 2025 NY Slip Op 52064(U) (Albany Co., Sept. 10, 2025), illustrates how *Centro*'s reliance analysis operates when a fiduciary duty is alleged. The plaintiffs, who contributed capital toward a corporate acquisition, alleged that misrepresentations were made by the managing member of the acquired company. In connection with a pre-litigation resolution of that claim, the plaintiffs signed a broad release after arm's-length negotiations through separate counsel. Thereafter, the plaintiffs sought to set aside the release based on fraud in the inducement and the defendants' breach of fiduciary duty. The release had been acknowledged by the parties as "unconditional" and expressly recognized that the defendant could sell the company's shares "at any time." Despite multiple warning signs and arm's length negotiations using separate counsel, the plaintiffs made no inquiry into the value of their claimed interest before executing the unconditional release. Justice Richard Platkin of the Albany County Commercial Division held that the plaintiff's complete failure to conduct any diligence as to the value of their released claims "conclusively defeats" the allegation of reasonable reliance upon defendants' silence regarding the letter of intent for a $9.75 million sale.

Conclusion

A release is not vitiated merely because the releasor did not realize the true value of what it was surrendering, and releases generally are not invalidated simply because a releasor-fiduciary is later proven to have withheld information. The path to unwinding a settlement agreement release on fraud in the inducement grounds remains narrow, generally requiring proof of a genuinely separate fraud, justifiable reliance that survives a specific non-reliance clause, and, in the fiduciary context, a relationship that remained one of actual trust at the moment of signing.

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