

April 10, 2012

Submitted Via Electronic Mail:

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Attention: Lead Judge Michael Tierney, Covered Business Method Patent Review  
United States Patent and Trademark Office  
Alexandria, VA 22313

**Re: Proposed Rulemakings Implementing The Transitional Program For Business Method Patents (PTO-P-2011-0082; PTO-P-2011-0085; PTO-P-2011-0087)**

The Financial Services Roundtable, The American Bankers Association, The American Insurance Association, American Financial Services Association, The Clearing House Association, Consumer Bankers Association, Credit Union National Association, The Independent Community Bankers of America, Investment Company Institute, Mortgage Bankers Association, NACHA-The Electronic Payments Association, National Association of Federal Credit Unions, National Association of Mutual Insurance Companies, The New York Bankers Association, The Pennsylvania Bankers Association, The Securities Industry and Financial Markets Association, and SWACHA-The Electronic Payments Resource (collectively, hereinafter “Commenters”)<sup>1</sup> submit these comments in response to the proposed rulemaking by the United States Patent and Trademark Office (the “Office”) relating to Section 18 of the Leahy-Smith America Invents Act (“AIA”), which creates a transitional review program for covered business method patents (the “program”). In particular, these comments address the following proposed rulemakings: (1) Rules of Practice for Trials Before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions (Docket No. PTO-P-2011-0082); (2) Changes to Implement Transitional Program for Covered Business Method Patents (Docket No. PTO-P-2011-0085); and (3) Transitional Program for Covered Business Method Patents -- Definition of Technological Invention (Docket No. PTO-P-2011-0087).

Importance of the Transitional Business Review Program

As set forth in The Financial Services Roundtable’s comments dated November 15, 2011, the importance of the transitional review program for covered business methods cannot be overstated. The program ensures that “businesses acting in good faith do not have to spend the millions of dollars it costs to litigate a business method patent” of questionable validity in court by creating “a less costly, more efficient alternative to . . . abusive litigation.” 157 Cong. Rec. S5408, S5409 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer); 157 Cong. Rec. H4429 (daily ed. June 22, 2011) (statement of Rep. Quayle). *See also* 157 Cong. Rec. S1363 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer) (noting that the program will “reduce the burden placed on courts and the economy” by providing a “temporary administrative alternative for reviewing business method patents”).

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<sup>1</sup> Additional information about the Commenters appears at the end of this letter.

Accordingly, it is important that the rules implementing the program be structured to ensure the Congressional purpose remains a distinctive aspect of the program. In view of that guidepost, we offer the following comments.

1. The Appropriate Fees Should Be Charged To Ensure An Effective Review Program (Proposed 37 CFR § 42.15(b))

Commenters strongly support the ongoing efforts of the Office and the Administration to “put[] patent quality first”<sup>1</sup> and believe that the transitional business review program is an important part of that initiative. In that regard, Commenters are supportive of a fee model that ensures the Office has sufficient resources for a sustainable and effective transitional business review program.

To ensure that the business method review program is broadly accessible to all entities against whom a covered business method patent has been asserted, Commenters suggest that the Office consider slight revisions to the fee model. First, Commenters recommend that the Office consider a staged fee -- imposing an initial fee due at the filing of a petition for business method review, and a subsequent fee due if the review is instituted. This is similar to the Office’s current practice under 37 CFR § 1.16(a), (k) and (o) of staging filing, search and examination fees for utility patent applications. Second, Commenters also recommend that the Office consider reducing the fee for a business method review in instances where the petition is filed by a small (or micro) entity. Such a reduction may be appropriate to combat the possibility that owners of business method patents attempt to extract settlements from small entities using a settlement value that is based on avoiding the cost of filing a business method review.

2. The Burden Should Be On The Patentee To Show The “Technological Invention” Exception Applies (Proposed 37 CFR §§ 42.301(b), 42.304(a))

Commenters fully support the Office’s proposed definition of “technological invention” (§ 42.301(b)). However, the text and legislative history of the AIA reveal that the Office should err in favor of permitting review of the patent under challenge, and therefore, the ultimate burden of persuasion should be on the patentee to show that the patent is a “technological invention.” Accordingly, Commenters recommend that section 42.304(a) of the proposed rules be revised to clarify that the petitioner need only make a prima facie showing (rather than “demonstrate”) that the patent for which review is sought is a covered business method patent.

Further, Commenters recommend that the definition of “technological invention” in section 42.301(b) be amended by adding a new sentence to the end, as follows: “The burden of persuasion shall be on the patentee to show that claimed subject matter satisfies this definition.”

These recommendations are well-supported in the text and legislative history of the AIA. First, the AIA specifically requires the Office, in prescribing regulations related to the post-grant review proceeding (including the transitional post-grant review proceeding for business method patents), to “consider the effect of any such regulation on the economy.” AIA § 6(d) (new 35 U.S.C. § 326(b)); *see also* AIA § 18(a)(1). Notably, during the House Judiciary Hearings on the

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<sup>1</sup> See <https://www.whitehouse.gov/petitions#!response/promoting-innovation-and-competitive-markets-through-quality-patents>.

AIA, Director Kappos testified that “it is more costly to our economy to have false negatives” (*i.e.*, it is more costly when patents escape post-grant review in the PTO). *America Invents Act: Hearing on H.R. 1249 Before the Subcomm. on IP, Competition, and the Internet of the H. Comm. on the Judiciary*, 112th Congress 52 (Mar. 30, 2011) (oral testimony of Hon. David J. Kappos, Director of the U.S. Patent and Trademark Office).

Second, the legislative history reveals that the Act’s authors intended the Office to develop regulations to apply the program “as broadly as possible.” *See* Letter from Rep. Lamar Smith to Sens. Kyl, Schumer, Leahy, and Grassley (Sep. 8, 2011) (“This program was designed to be construed as broadly as possible and as [the] USPTO develops regulations to administer the program that must remain the goal.”) 157 Cong. Rec. S7413-S7414 (daily ed. Nov. 14, 2011).

Finally, we note that some other commenters have suggested that the Office should replace the proposed “technological invention” definition with a standard based on subject matter eligibility under section 101 – even suggesting that a proper petition under the business method review program must demonstrate that the patent was more likely than not invalid under 35 U.S.C. § 101, before review could proceed. That proposal is fundamentally flawed. As an initial matter, this proposal effectively eviscerates the purpose of the business method program which is to ensure that these patents are subject to a more “rigorous and thorough review” in view of the most pertinent prior art, which was not necessarily available to the Office during initial prosecution due to the “limited” nature of the “library or prior art on business method[s]” that was available to the Office in the initial wake of the *State Street* decision. 157 Cong. Rec. S1363 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer). In particular, the requirement that a petitioner establish invalidity under section 101 in the initial petition would essentially eliminate the need for a further review of the patent under the more pertinent prior art submitted with the petition, because the only patents that would qualify for the program under that proposal are ones that are more likely than not invalid under section 101. There would therefore be no need for the Office to further consider invalidity in view of the prior art. Moreover, had Congress intended the “technological invention” exception to be equivalent to an inquiry under section 101, it could have easily said so in the AIA; in fact, Congress explicitly refused to adopt that test. *See* AIA § 18(e) (“Nothing in this section shall be construed as amending or interpreting categories of patent-eligible subject matter set forth under section 101 of title 35, United States Code.”). For these reasons, the proposal that the “technological invention” exclusion be replaced with an inquiry under section 101 should be rejected.

3. There Should Be No Restriction on Requesting Business Method Patent Review Of First-To-Invent Patents During The Post-Grant Review Period  
(Proposed 37 CFR § 42.303)

In the proposed rules, the Office has proposed that a petition requesting a covered business method review may not be filed “during the period in which a petition for a post-grant review of the patent would satisfy the requirements of 35 U.S.C. § 321(c).” 77 Fed. Reg. 7080, 7095 (proposed 37 CFR § 42.303). Commenters request that the Office reconsider this rule, as it is seemingly inconsistent with the statutory language in §18(a)(2) of the AIA.

In particular, Commenters suggest that proposed rule 42.303 be revised to read:

42.303 Time for filing. A petition requesting a covered business method patent review may be filed at any time, except that such a petition may not be filed to institute review of a patent issued from an application that has an effective filing date on or after March 16, 2013 during the period in which a petition for a post-grant review of such patent would satisfy the requirements of 35 U.S.C. 321(c).

As currently drafted, the proposed rule apparently precludes filing of a business method review of any patent (*i.e.* first-to-invent and first-to-file patents) within the first 9 months after that patent issues.<sup>1</sup> This, however, is inconsistent with section 18(a)(2) of the AIA, which specifies that the transitional business method review program is available to “**any covered business method patent...except** that the regulations shall not apply to **a patent that is described in section 6(f)(2)(A) of this Act** during the period in which a petition for post-grant review of that patent would satisfy the requirements of section 321(c)...” (emphasis supplied). Thus, the statute makes the program available to all patents, except those patents described in § 6(f)(2)(A) during the post-grant review period. That section, in turn, is limited to patents described in AIA § 3(n)(1) (*i.e.*, those subject to the first-to-file provisions of the AIA). Therefore, the proposed rule appears to improperly preclude the use of the program to review covered business method patents that have an effective filing date prior to March 16, 2013 until at least 9 months have elapsed from issuance of such a patent.

Although the transitional business method review program generally employs the standards and procedures of post-grant review, there are important differences between the two proceedings. *See* AIA § 18(A)(1)(a) (specifying that 35 U.S.C. §§ (b), (e)(2), and (f) “shall not apply” to transitional business method proceedings). For instance, the scope of any subsequent estoppel differs (*cf.* 35 U.S.C. § 325(e)(2) *with* AIA § 18(a)(1)(D)), as do the considerations to be employed by a district court when considering whether to stay a litigation while a business method review is pending (*cf.* 35 U.S.C. § 325(b) *with* AIA § 18(b)). Accordingly, the transitional review program should be available for non-first-to-file patents, even within the first nine months of the grant of such patents.

#### 4. The Office Should Further Define “Charged With Infringement” (Proposed 37 CFR § 42.302(a))

In the proposed rules, a petitioner may not file a petition seeking review under the transitional business method program unless that petitioner, its real party in interest, or a privy has been “sued for infringement of the patent or has been *charged with infringement* under that patent.” 77 Fed. Reg. 7080, 7095 (proposed § 42.302(a)) (emphasis supplied). Commenters believe that further clarification of the words “charged with infringement” is advisable to make clear that there is no requirement that the patentee expressly use “magic words” such as “litigation” or “infringement” in its correspondence before a petitioner may invoke the program. *Cf. Arris Group Inc. v. BT*, 639 F.3d 1368, 1379 (Fed. Cir. 2011) (“a declaratory judgment action cannot be defeated simply by the stratagem of a correspondence that avoids magic words...”). Accordingly, Commenters believe that the Office should apply a test similar to that used in the district courts to determine whether declaratory judgment jurisdiction is present. *See*

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<sup>1</sup> The only limitation on the filing of a post-grant review petition expressed in 35 U.S.C. § 321(c) is that the petition must be filed within 9 months of issuance of the patent. There is no apparent restriction in that Section that the patent to be reviewed must also be a first-to-file patent.

*MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007). As recently stated by the Federal Circuit, declaratory jurisdiction is present:

when the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality...[t]he dispute must be definite and concrete, touching the legal relations of parties having adverse legal interests, such that the dispute is real and substantial and admi[ts] of specific relief...

*Arris Group Inc.*, 639 F.3d at 1373-74 (internal quotations omitted). As discussed above, this proposal is fully consistent with the text and legislative history of the AIA, which makes clear that the regulations implementing the business method review program are to be drafted so as to apply the program “as broadly as possible” because it is “more costly to our economy” when dubious patents escape review. *See supra* at 2-3.

5. The Office Should Interpret “Financial Product Or Service” Broadly In Accordance With the Purpose of the Program (Proposed 37 CFR §§ 42.301(a))

Commenters note that, as discussed in the comments submitted by The Financial Services Roundtable on November 15, 2011, the transitional business review program is intended to have broad applicability, and suggest that the Office interpret the definition of “Covered business method patent” in § 42.301(a) broadly, consistent with that intent.

In particular, the legislative history of the AIA discusses several specific types of “financial products or services” to be covered by the transitional business method review program, including: (1) financial data processing; (2) administration and processing of benefits; (3) insurance products and services; (4) collecting, analyzing, maintaining or providing consumer report information or other account information; and (5) securities brokerage, investment transactions and related support services, among others. 157 Cong. Rec. S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer). Moreover, the language in proposed rule 42.301(a), which comes from section 18(d)(1) of the AIA, explicitly makes eligible for review patents that can be applied to the “practice, administration, or management” of a financial product or service. The legislative history of that provision shows that the language was “intended to make clear that the scope of patents eligible for review under this program is not limited to patents covering a specific financial product or service” and was meant to “cover any ancillary activities related to a financial product or service, including, without limitation, marketing, customer interfaces, Web site management and functionality, transmission or management of data, servicing, underwriting, customer communications, and back office operations--e.g., payment processing, stock clearing.” 157 Cong. Rec. S1363, S1365 (daily ed. March 8, 2011) (statement of Senator Schumer).

Commenters also support proposed rules 42.302 and 42.304(a), which properly reflect that a petition under the business method program can be invoked by any entity, as long as the disputed patent is asserted against a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service. *See* AIA § 18(d)(1). *See also* 157 Cong. Rec. S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer); *see also* 157 Cong. Rec. S5441 (daily ed. Sep. 8, 2011) (statement of Sen. Leahy).

6. The Office Should Consider Accepting Petitions For Business Method Review Prior To September 16, 2012

In view of the importance of the transitional business method review program, Commenters encourage the Office to accept petitions for business method review prior to the effective date of the program pursuant to AIA § 18(a)(2) so that the Office can immediately begin consideration of those petitions as of September 16, 2012. No further rulemaking or revisions to the proposed rules should be required if the Office were to accept this proposal, although the Office may find it advisable to publish business method review filing parameters on its website, as contemplated by proposed rule 42.6(b)(1), several weeks prior to September 16, 2012. This procedure would allow practitioners to properly prepare and file petitions in advance of the effective date.

Conclusion

Commenters thank the Office for the opportunity to comment on the proposed rules, and for the Office's efforts in moving quickly to draft and implement regulations for this important program. If you have any questions, please feel free to contact Peter Freeman at (202) 289-4322.

Respectfully submitted,

The American Bankers Association  
The American Insurance Association  
American Financial Services Association  
The Clearing House Association  
Consumer Bankers Association  
Credit Union National Association (CUNA)  
The Financial Services Roundtable  
The Independent Community Bankers of America  
Investment Company Institute  
Mortgage Bankers Association  
NACHA-The Electronic Payments Association  
National Association of Federal Credit Unions  
National Association of Mutual Insurance Companies (NAMIC)  
The New York Bankers Association  
The Pennsylvania Bankers Association  
The Securities Industry and Financial Markets Association (SIFMA)  
SWACHA-The Electronic Payments Resource

Additional information about the Commenters:

The American Bankers Association represents banks of all sizes and charters and is the voice for the nation's \$13 trillion banking industry and its two million employees. The majority of ABA's members are banks with less than \$165 million in assets.

The American Insurance Association (AIA) is the leading property-casualty insurance trade organization, representing approximately 300 insurers that write nearly \$100 billion in premiums each year. AIA member companies offer all types of property-casualty insurance, including personal and commercial auto insurance, commercial property and liability coverage for businesses, workers' compensation, homeowners' insurance, medical malpractice coverage, and product liability insurance.

Founded in 1916, the American Financial Services Association (AFSA) is the national trade association for the consumer credit and finance industry. AFSA's nearly 400 active member companies, which account for approximately \$350 billion in outstanding consumer receivables, include auto finance companies, credit card issuers, mortgage lenders, and large and small consumer finance companies.

Established in 1853, The Clearing House is the oldest banking association and payments company in the United States. It is owned by the world's largest commercial banks, which collectively employ over 2 million people and hold more than half of all U.S. deposits. The Clearing House Association L.L.C. is a nonpartisan advocacy organization representing—through regulatory comment letters, amicus briefs and white papers—the interests of its owner banks on a variety of systemically important banking issues. Its affiliate, The Clearing House Payments Company L.L.C., provides payment, clearing, and settlement services to its member banks and other financial institutions, clearing almost \$2 trillion daily and representing nearly half of the automated-clearing-house, funds-transfer, and check-image payments made in the U.S. See The Clearing House's web page at [www.theclearinghouse.org](http://www.theclearinghouse.org).

The Consumer Bankers Association (“CBA”) is the only national financial trade group focused exclusively on retail banking and personal financial services — banking services geared toward consumers and small businesses. As the recognized voice on retail banking issues, CBA provides leadership, education, research, and federal representation for its members. CBA members include the nation's largest bank holding companies as well as regional and super-community banks that collectively hold two-thirds of the total assets of depository institutions.

CUNA is the largest credit union advocacy organization in the United States, representing nearly 90% of America's 7,300 state and federally chartered credit unions and their 94 million members.

The Financial Services Roundtable represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO. Roundtable member companies provide fuel for America's economic engine, accounting directly for \$92.7 trillion in managed assets, \$1.2 trillion in revenue, and 2.3 million jobs.

The Independent Community Bankers of America represents nearly 5,000 community banks of all sizes and charter types throughout the United States and is dedicated exclusively to representing the interests of the community banking industry and the communities and customers they serve. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever changing marketplace. With nearly 5,000 members, representing more than 20,000 locations nationwide and employing nearly 300,000 Americans, ICBA members hold \$1.2 trillion in assets, \$960 billion in deposits, and \$750 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at [www.icba.org](http://www.icba.org).

The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. Members of ICI manage total assets of \$13.3 trillion and serve over 90 million shareholders.

The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans.

NACHA manages the development, administration, and governance of the ACH Network, the backbone for the electronic movement of money and data. The ACH Network serves as a safe, secure, reliable network for direct consumer, business, and government payments, and annually facilitates billions of payments such as Direct Deposit and Direct Payment. Utilized by all types of financial institutions, the ACH Network is governed by the NACHA Operating Rules, a set of fair and equitable rules that guide risk management and create certainty for all participants. As a not-for-profit association, NACHA represents over 10,000 financial institutions via 17 regional payments associations and direct membership. Through its industry councils and forums, NACHA brings together payments system stakeholders to enable innovation that strengthens the industry with creative payment solutions. To learn more, visit [www.nacha.org](http://www.nacha.org), [www.electronicpayments.org](http://www.electronicpayments.org), and [www.payitgreen.org](http://www.payitgreen.org).

Founded in 1967, the National Association of Federal Credit Unions ("NAFCU") exclusively represents the interests of federal credit unions before the federal government. Membership in NAFCU is direct; no state or local leagues, chapters or affiliations stand between NAFCU members and its headquarters in Arlington, VA. NAFCU provides its members with representation, information, education, and assistance to meet the constant challenges that cooperative financial institutions face in today's economic environment. NAFCU represents nearly 800 federal credit unions, accounting for 63.9 percent of total federal credit union assets and 58 percent of all federal credit union member-owners. NAFCU represents many smaller credit unions with limited operations as well as many of the largest and most sophisticated credit unions in the nation, including 82 out of the 100 largest federal credit unions.

NAMIC is the largest and most diverse national property/casualty insurance trade and political advocacy association in the United States. Its 1,400 member companies write all lines of property/casualty insurance business and include small, single-state, regional, and national carriers accounting for 50 percent of the automobile/ homeowners market and 31 percent of the business insurance market. NAMIC has been advocating for a strong and vibrant insurance industry since its inception in 1895.

The New York Bankers Association is comprised of 150 community, regional and money-center banks operating in New York State, with approximately 250,000 New York employees.

The Pennsylvania Bankers Association is the trade association representing commercial and savings institutions of all sizes throughout the Commonwealth of Pennsylvania.

The Securities Industry and Financial Markets Association (SIFMA) brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

SWACHA-The Electronic Payments Resource®, is one of the largest not-for-profit regional payments associations in the country with approximately 1,100 members across the Southwest. SWACHA is the resource of choice for financial institutions and corporations in the areas of education, training, payments system risks and knowledge about electronic payments. For more information visit: Web: [www.swacha.org](http://www.swacha.org); Facebook: [www.facebook.com/bringingpaymentstogether](http://www.facebook.com/bringingpaymentstogether) Twitter: @SWACHA