



REGULATORY  
CHECKBOOK

9 April 2012

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Attention: Lead Judge Michael Tierney, Patent Trial Proposed Rules

Submitted electronically to: [patent\\_trial\\_rules@uspto.gov](mailto:patent_trial_rules@uspto.gov)

RE: (1) Rules of Practice for Trials Before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions, 77 Fed. Reg. 6879; and  
(2) Practice Guide for Proposed Trial Rules, 77 Fed. Reg. 6868

Dear Judge Tierney:

These comments are submitted on behalf of Regulatory Checkbook, a Virginia-based nonprofit organization whose mission is improving the quality of federal regulation through the use of high quality scientific, technical, and economic analysis. Regulatory Checkbook and I have filed numerous comments on recent U.S. Patent and Trademark Office (USPTO) draft regulations, Information Collection Requests, and other documents published for public comment.<sup>1</sup>

These comments have several common threads.

First, the USPTO has a persistent practice of misclassifying as “significant” proposed rules that clearly meet the definition of “economically significant” under Section 3(f)(1) of Executive Order

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<sup>1</sup> See, e.g., Belzer (2007b), Belzer (2007a), Belzer (2008c), Belzer (2008a), Belzer (2008b), Belzer (2010a), Belzer (2010b), Belzer (2011a), Belzer (2011b).

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12,866.<sup>2</sup> Draft rules that are economically significant are required to be accompanied by a Regulatory Impact Analysis (RIA). It has been the policy and practice of the past five presidents, including President Obama, that the public interest requires that draft rules having the characteristics listed in Section 3(f)(1) deserve the analytic rigor of RIAs. Since Regulatory Checkbook began monitoring the USPTO in 2006, the Office has submitted to the Office of Management and Budget (OMB) for review prior to proposal or promulgation numerous regulations that have these characteristics, but at no time has it properly classified the regulation or conducted the required RIA.

Second, the USPTO has persistently and significantly underestimated the paperwork burdens for these rules, routinely by 20% and often by an order of magnitude or more. The objective estimation of paperwork burden is the USPTO's statutory responsibility under the Paperwork Reduction Act.<sup>3</sup> This deficiency led the Office to commission a review of its burden estimation methods. However, it appears that this review has never been completed and that improvements the public reasonably expected to result from that review have not been made.

Third, the USPTO has on occasion falsely claimed that a proposed rule would impose no new burdens or that burdens had been previously approved by OMB.

Each of these practices is substandard among Federal agencies, and each practice has predictable adverse effects on the public:

- The USPTO selects regulatory approaches uniformed by regulatory analysis based on intuition, ideology, or other criteria that it does not disclose.
- The USPTO does not achieve its legitimate public purposes in a manner that minimizes paperwork burdens on the public, as it is required to do by law.
- The USPTO imposes substantial paperwork burdens for which it does not have a valid OMB Control Number, and thus has no legal authority to require the public to provide the information in question.

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<sup>2</sup> Clinton (1993).

<sup>3</sup> 44 U.S.C. § 3501 et seq.

The above-referenced proposed rule and practice guide continue these substandard practices.

**The USPTO Misclassified the Proposed Rule as “Significant” Instead of “Economically Significant”, and Made No Classification whatsoever Concerning the Practice Guide**

In these two proposed rules—the Rules of Practice and Practice Guide—the USPTO continues its practice of misclassifying proposed and final rules as “significant” under Executive Order 12,866 § 3(f) even though they meet the definition of “economically significant” under § 3(f)(1). The Patent Office does not even make a designation for the Practice Guide, though it clearly contains potentially regulatory content.

All “significant” proposed regulations are required to include an “assessment of the potential costs and benefits of the regulatory action, including an explanation of the manner in which the regulatory action is consistent with a statutory mandate and, to the extent permitted by law, promotes the President's priorities and avoids undue interference with State, local, and tribal governments in the exercise of their governmental functions.” The proposed Rules of Practice do not contain this information.

As noted below, the USPTO acknowledges that the proposed Rules of Practice include paperwork burdens valued at \$209 million for fiscal year 2013 alone.<sup>4</sup> The Office then tries to reduce this estimate by the amount of burden it says would be eliminated by the AIA (though not by this rulemaking). When these subtractions are complete, the alleged “net” burden becomes \$80.6 million.

This discussion occurs in an unusual place in the preamble, suggesting that its purpose is to plausibly show that “costs” are not expected to exceed \$100 million, and meaning that the Rules of Practice would not be economically significant. If so, then it reflects an incorrect understanding of how costs are accounted for under Executive Order 12,866. A quick review of OMB Circular A-4 would help the Office understand that there is much more to “cost” than paperwork burden: it is a measure of what individuals are willing to forgo to enjoy a particular benefit. The primary focus of Circular A-4 is economic costs, not paperwork burdens, which fall into a broad

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<sup>4</sup> 77 Fed. Reg. 6902.

category of secondary effects.<sup>5</sup> To approach the screening task by looking only at paperwork burdens—and looking at them only in search for a loophole—is misguided.

If it is assumed *arguendo* that the Office has estimated paperwork burden with perfect accuracy, then only \$20 million in economic costs, spread across the panoply of the Rules of Practice and the entire U.S. patent system, would be sufficient to exceed the \$100 million threshold for an economically significant rule set forth in Section 3(f)(1). The odds that this will occur are so great that they should be treated as certain. Thus, the Office should not doubt, and it should stop seeking to divine ways around, the obvious: the proposed Rules of Practice is very much an economically significant rulemaking because it is “likely to have an annual effect on the economy of \$100 million or more.”

Section 3(f)(1) also includes a number of other triggers, each of which is sufficient in its own right to make a rule economically significant. For example, a rule is economically significant if it “raise[s] novel legal or policy issues arising out of legal mandates” (§ 3(f)(4)). Obviously, the initial implementation of major legislation such as the America Invents Act (AIA), most notably the procedural rules that will govern each of the new legislative amendments, qualify as “novel.” Depending on how these rules are written, it would be easy for them to “adversely affect in a material way the economy, a sector of the economy, productivity, competition, jobs, the environment, [or] public health or safety” (§ 3(f)(1)). One of the key reasons agencies are required to prepare RIAs is to prevent these avoidable adverse effects.

Obviously, the responsible thing for the USPTO to do is rectify this error. The Office should immediately designate this pair of rules economically significant and conduct the required RIA. The public can collaborate with the Office to ensure that the RIA is completed in a timely manner while adhering to the principles of OMB Circular A-4 so that the Director is informed by high quality policy analysis before finalizing these rules. What is required from the USPTO is a decision to get the rules done right, not just done.

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<sup>5</sup> Office of Management and Budget (2003).

**The USPTO’s Burden Estimates for the Proposed Rule are Not Objectively Supported or Capable of Being Reproduced by Qualified Third Parties, and they Almost Certainly Understate Actual Burden by More than 20%**

The USPTO includes a 60-day notice of its traditionally minimalist style.<sup>6</sup> The public is not given enough information to conduct an informed review, much less evaluate the contents. The Office does not disclose the basis for its estimates of the numbers of responses for each information collection in the package. Nonetheless, the Office is so confident in the accuracy of its work that it presents a comprehensive burden estimate with extraordinary precision (\$209,131,529).

Limited disclosure does not prevent a reasoned determination that the USPTO’s burden estimates significantly understate likely burden. This is because the Office continues to rely on figures drawn from the latest AIPLA Economic Survey. While there is no doubt that the USPTO finds the existence of this survey convenient, there is ample evidence available indicating that it is not reliable for the purpose of estimating paperwork burden. The technical issues have been raised multiple times before in public comments,<sup>7</sup> and the Office attempted an independent review of the matter<sup>8</sup> that it apparently has abandoned. Finally, the USPTO’s reliance on the AIPLA survey was the subject of a formal error correction request under the Information Quality Act,<sup>9</sup> to which the Patent Office has yet to respond.

**The USPTO Accounts for Neither the Economic Effects Nor the Paperwork Burdens Associated with the Proposed Practice Guide**

It is not clear what to make of the Practice Guide. It is published separately for public comment, but the USPTO does not say whether it is a proposed rule or guidance. The text of the Practice Guide contains numerous provisions that appear to have regulatory content, however.

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<sup>6</sup> 77 Fed. Reg. 6904-6907.

<sup>7</sup> See footnote 1.

<sup>8</sup> ICF International (2010).

<sup>9</sup> Belzer (2011b).

Therefore, the Practice Guide cannot be guidance.<sup>10</sup> At a minimum, this places it in an awkward legal position vis-à-vis the Administrative Procedure Act.

It also may put the USPTO in yet more legal jeopardy with respect to the Paperwork Reduction Act. The absence of an included 60-day notice—indeed, the absence of any mention of the Paperwork Reduction Act—must mean the proposed Practice Guide contains absolutely no information collection requirements. Whether this is true surely will be tested, because an increasing number of patent applicants and counsel are becoming aware of their rights under the law's public protection provisions.<sup>11</sup>

Sincerely,



Belzer RB. 2007a. *Cost of Complying with the Proposed IDS Rule; Meeting at OMB, October 18, 2007*. Available: [http://www.whitehouse.gov/omb/oir/0651\\_meetings\\_663](http://www.whitehouse.gov/omb/oir/0651_meetings_663) [accessed August 3, 2010].

Belzer RB. 2007b. *Letter to Susan E. Dudley, Administrator, Office of Information and Regulatory Affairs [October 26, 2007]*. Available: <http://www.whitehouse.gov/omb/assets/omb/oir/0651/comments/478.pdf> [accessed February 19, 2010].

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<sup>10</sup> A significant guidance document, which the Practice Guide surely must be if it is in fact guidance, does "[n]ot include mandatory language such as 'shall,' 'must,' 'required' or 'requirement,' unless the agency is using these words to describe a statutory or regulatory requirement, or the language is addressed to agency staff and will not foreclose agency consideration of positions advanced by affected private parties." See Office of Management and Budget (2007), p. 3440.

<sup>11</sup> 44 U.S.C. § 3506.

- Belzer RB. 2008a. *Letter to Nicholas A. Fraser, Desk Officer for the U.S. Patent and Trademark Office, Office of Information and Regulatory Affairs, Office of Management and Budget RE: ICR 0651-00xx ["October 14th ICR Comment"]*. Available: <http://www.reginfo.gov/public/do/DownloadDocument?documentID=90554&version=1> [accessed December 28, 2009].
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- Belzer RB. 2010b. *Letter to Susan K. Fawcett Re: 0651-0032 Comment: Initial Patent Applications, 75 Fed. Reg. 23227 (May 3, 2010)*. Available: <http://www.uspto.gov/news/fedreg/comments/100702finalcomments.pdf> [accessed February 19, 2011].
- Belzer RB. 2011a. *Letter to Mr. Nicholas Oettinger, U.S. Patent and Trademark Office, "Comments on Preliminary Plan for Retrospective Analysis of Existing Rules (Docket No. PTO-C-2011-0, 76 Fed. Reg. 39796)"*. [September 6].
- Belzer RB. 2011b. *Public Comment on Rules of Practice Before the Board of Patent Appeals and Interferences in Ex Parte Appeals; Notice of Proposed Rulemaking (RIN 0651-AC37; Docket ID PTO-P-2009-002, ICR Reference Number 201010--0651--001,*





- 75 FR 69,828*); and Error Correction Request submitted pursuant to USPTO's Information Quality Guidelines. [January 14].
- Clinton WJ. 1993. Executive Order 12866--Regulatory Planning and Review. *Federal Register* 58(190): 51735-51744 (<http://www.gpo.gov:80/fdsys/pkg/WCPD-1993-10-04/pdf/WCPD-1993-10-04-Pg1925.pdf>).
- ICF International. 2010. *Methodology for Conducting an Independent Study of the Burden of Patents-Related Paperwork; Submitted to United States Patent and Trademark Office, Contract No. GS23F8182H/DOC44PAPT0809009*.
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- Office of Management and Budget. 2007. Final Bulletin for Good Guidance Practices. *Federal Register* 72(16): 3432-3440 ([http://www.whitehouse.gov/omb/assets/regulatory\\_matters\\_pdf/m07-13.pdf](http://www.whitehouse.gov/omb/assets/regulatory_matters_pdf/m07-13.pdf)).

