

# PUBLIC SUBMISSION

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**Docket:** PTO-P-2020-0042  
Proposed Continuing Legal Education Guideline

**Comment On:** PTO-P-2020-0042-0001  
Proposed Continuing Legal Education Guidelines

**Document:** PTO-P-2020-0042-DRAFT-0012  
Comment on FR Doc # 2020-22420

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## General Comment

See attached file(s)

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## Attachments

2021-01-07 letter re PTO's CLE Guidelines

# CAMBRIDGE TECHNOLOGY LAW LLC

TECHNOLOGY LAW WITH A BUSINESS PERSPECTIVE

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January 7, 2021

Via Email [CLEguidelines@uspto.gov](mailto:CLEguidelines@uspto.gov)

William Covey, Director for the Office of Enrollment and Discipline

Mail Stop OED

United States Patent and Trademark Office

P.O. Box 1450

Alexandria, VA 22313-1450

Re: *Proposed Continuing Legal Education Guidelines*, Docket No. PTO-P-2020-0042, 85 Fed. Reg. 64128 (Oct. 9, 2020)

Dear Director Covey:

I write to strongly oppose the *Proposed CLE Guidelines*, and to alert you to undermining of your efforts by illegal conduct of your colleagues in the Office of General Counsel.

## **I. The assumptions and understanding of law underlying the Proposed Guidelines are faulty**

The proposed Guidelines have four characteristics that guarantee failure, and that dispel any analogy to state bar CLE requirements:

- (a) The *Proposed CLE Guidelines* indicate that the PTO will offer CLE courses for free. Underlying much of the rest of the *Proposed CLE Guidelines* is an unstated assumption that a robust market of third-party providers will emerge in parallel—even as the PTO imposes new costs on existing providers to track CLE credits. Those two assumptions are mutually contradictory. Very few businesses can survive, let alone emerge anew, if they're competing against a free, government competitor that siphons off a large fraction of the business, and regulatory burden increases. The supply of third-party CLE required to make this work cannot develop. No state I am aware of competes as aggressively with CLE vendors as the *Proposed CLE Guidelines* propose.
- (b) The PTO is self-funding by user fees from *operations*. The PTO's CLE courses will be conflicted—they will teach how to do things in ways that reduce costs for the PTO, no matter how badly those techniques impair the value of the resulting patent. Over time, a CLE pointer that starts out expressed as advisory guidance will gradually turn into

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“must” in the CLE. A perfect example is the requirement that priority claims on an Application Data Sheet be listed in reverse-chronological order. This requirement is not stated in any regulation. The requirement began in applications here and there a year or so after the regulations were promulgated, with no authority other than cheating by the Office of Patent Application Processing, and is now enforced by OPAP as if it were a valid “rule.” Unless the PTO can erect some kind of ethical wall between patent operations, OED, and whatever CLE provider the PTO hopes to create, and demonstrates a change of heart to take the law seriously, administration of any CLE program will create conflicts of interest and PTO misbehavior as egregious and unlawful as other conflicts are today.

- (c) The PTO’s demonstrated record of ability to deliver *helpful* CLE is extremely limited. The PTO has no role in post-issue life of patents. The talks I’ve heard over the years given by folks from the Office of Patent Legal and Administration display astonishing naïveté about what makes patents enforceable and valuable. When Mr. Moatz was OED Director, I heard two of his talks—he was shockingly dismissive of his obligation to meet the requirements of the Administrative Procedure Act before he could enforce a rule, and alarmingly naïve about the practical realities of how clients behave, and what’s beyond a lawyer’s control. Another example is the “memo to file” recommended in MPEP § 2004 ¶ 18—any lawyer with any understanding of the law of privilege, and the obligation to turn over any documents reviewed in preparation for a deposition, knows that this paragraph is utter nonsense (as I have written in several past comment letters—why is this still here?).
- (d) The PTO’s Federal Register notices communicate that basic principles of administrative law are not integrated into the approach of the Office of Enrollment and Discipline, General Counsel, and Office of Patent Legal administration. This October 9 notice, the August 31 *Fee Setting*, and the July 30 *Changes to Representation of Others* notices communicate an attitude somewhere between willfully dismissive and brazenly defiant toward the laws that govern agencies and protect the public against agency overreach.

Together, these four factors ensure that any program of CLE reporting, even a supposedly-voluntary one, is doomed to failure and illegal implementation.

## II. Legal defects in the October notice

The *Proposed CLE Guidelines* request for comment is not adequate as a substitute for a notice of proposed rulemaking. Before the PTO can go forward, the PTO will have to publish a legally-proper NPRM.

Under the Administrative Procedure Act, 5 U.S.C. § 553(b), a proper NPRM must contain an actual proposed rule that allows the public to meaningfully comment *on a specific rule*. An agency can’t throw a jump ball of random topics, allow it to be batted around by comments, and then claim possession wherever it comes down. A NPRM is exactly that—a

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notice of a *proposed* rule. The Department of Commerce recently promulgated regulations that require Commerce agencies (including the PTO) to provide a proper notice and comment period for guidance. 15 C.F.R. § 29.2(c).

The Office appears to have overlooked the Paperwork Reduction Act: even “voluntary” certifications are covered. 5 C.F.R. § 1320.3(c) (coverage includes both “reporting” and “recordkeeping,” whether “voluntary, or required to obtain or retain a benefit”); § 1320.3(c)(4)(i) (coverage extends to “any requirement contained in a rule of general applicability”); §§ 1320.10, .11, .12 (coverage extends to paperwork whether created by regulation or by guidance).

The Paperwork Reduction Act requires that an agency ask four specific questions to ensure that paperwork the agency proposes to request have “practical utility” and are as low burden as can be arranged. 44 U.S.C. § 3506(c)(2)(A) and 5 C.F.R. § 1320.8(d)(1). The *Proposed CLE Guidelines* does not ask the four statutorily-required questions.

In all likelihood, any rule that emerges will be “substantive” rather than “procedural,” and “legislative” rather than “interpretative.” That triggers a number of obligations under other laws. For example, the Regulatory Flexibility Act (5 U.S.C. § 603, 604) will require initial and final regulatory flexibility analyses of effect on small entity law firms, lawyers, and agents.

Whatever past questions there may have been about legality of the PTO imposing new requirements by guidance, those questions were resolved in October, 2020, 85 Fed. Reg. at 60694, when the Department of Commerce promulgated 15 C.F.R. § 29.2. 15 C.F.R. § 29.2(a) requires that if the PTO issues this rule in the form of guidance, the PTO must “indicate prominently that each guidance document does not bind the public.” To issue a CLE rule—even a hortatory rule—by guidance, the PTO will be required to “comply with Executive Orders 12866, 13563, 13609, 13771 and 13777.” Executive Orders 12866, 13562, and 13771 require cost-benefit analyses, various disclosures, and “two for one” deregulatory action or justification, 15 C.F.R. § 29.2(b), which the PTO didn’t do in this Request for Comment.

Almost certainly, any CLE rule will be “significant” under Executive Order 12866. The Department of Commerce requires that any such rule be reviewed by the Office of Information and Regulatory Affairs for compliance with Executive Order 12866. 15 C.F.R. § 29.2(c)(1)(iii). Executive Order 12866 § 1(b)(5) requires an agency “shall consider incentives for innovation, ... costs of enforcement and compliance (to the government, regulated entities, and the public.” Neither the August Final Rule or nor the October Request for Comment indicate that the PTO did either. The only mentions of Executive Order 12866 are statements that the PTO declines to observe its requirements. Responses 85, 126, and 137, 85 Fed. Reg. at 46961, col. 1, and 45697, col. 1.

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### III. The August 2020 amendment to § 11.11(a) is insufficient to support the *CLE Guidelines* as implementing guidance

The *Proposed CLE Guidelines* claims authority under 37 C.F.R. § 11.11(a)(2). 85 Fed. reg. 64128. OED is either ignorant of the law or in contempt of it. 37 C.F.R. § 11.11(a)(2) has not been lawfully promulgated, and cannot serve as support for the *Proposed CLE Guidelines* as implementing guidance:

- As the PTO itself acknowledges by refusing to answer public comments on the July 2019 proposed CLE rule, Responses 81-163, 85 Fed. Reg. at 46960-69, § 11.11(a)(2) was not a “logical outgrowth” of anything proposed in the July 2019 NPRM. Over *eighty times* in the August 2020 Final Rule, the PTO declined to answer comments on the July 2019 proposed rule. By doing so, the PTO conceded that nothing in the August 2020 Final Rule was a “logical outgrowth” of the July 2019 NPRM. Thus, the Administrative Procedure Act forbade promulgation of § 11.11(a)(2) without a new round of notice and comment. *Mid-Continent Nail Corp. v. U.S.*, 846 F.3d 1364, 1373-74 (Fed. Cir. 2017). On the other hand, if the proposed and final rules are logically related, the PTO erred in refusing *eighty times* to answer the public comments. It certainly appears that OED is trying to have things both ways—and ironically for an ethics regulator, under either alternative, OED acted dishonestly and unlawfully.
- § 11.11(a)(2) was (in August 2020) a new “collection of information” covered by the Paperwork Reduction Act, 44 U.S.C. § 3502(c), § 3506(c); 5 C.F.R. § 1320.3(c), especially § 1320.3(c)(4)(i) and (ii), and thus required publication, comment, analysis, and the four questions required by statute. 44 U.S.C. § 3506(c)(2)(A); 5 C.F.R. § 1320.8(d)(1). Neither the July 2019 NPRM nor the August 2020 Final Rule observe the requirements of the Paperwork Reduction Act. In fact, the Final Rule states that the PTO specifically elected *not* to do so. Responses 130 and 135, 85 Fed. Reg. at 46966, col. 1 and 3.
- In the July 2019 Proposed Rule, the PTO claimed to have existing approvals for its CLE rules. That was a falsehood—the OMB web site<sup>1</sup> showed that no such filings had been made as of July 2019. In the August 2020 Final Rule, the PTO again claimed to have existing approvals for § 11.11(a)(2), and that other “information collections as a result of this Final Rule have been submitted to the OMB” Both claims are false.<sup>2</sup> In August 2020, the PTO claimed that any new information collection had been submitted as “as nonsubstantive change requests.” A new collection of information that requires *new* paperwork is not eligible for clearance as a “nonsubstantive change request.” It’s ironic that an ethics regulator would lie three times in order to evade an obligation of candor to an *ex parte* tribunal.

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<sup>1</sup> <https://www.reginfo.gov/public/do/PRAOMBHistory?ombControlNumber=0651-0012>.

<sup>2</sup> <https://www.reginfo.gov/public/do/PRAOMBHistory?ombControlNumber=0651-0012>

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- Neither the July 2019 NPRM nor the August 2020 Final rule includes a regulatory flexibility analysis with respect to any rule governing small entity practitioners, 85 Fed. Reg. at 46979, in violation of the Regulatory Flexibility Act, 5 U.S.C. §§ 603, 604. In fact, the PTO specifically *declined* to do so. 85 Fed. Reg. at 46979, col. 3. The Regulatory Flexibility Act is administered on an *ex parte* basis by the Small Business Administration. OED's failure of candor to an *ex parte* tribunal is striking.
- Executive Order 12866 required the PTO to identify a specific and necessary "compelling public need, such as material failures of private markets to protect or improve ... the well-being of the American people" E.O. 12866 §§ 1(a), 1(b)(1). Executive Order 13771 required a cost-benefit analysis, and a two-for-one deregulatory action. The PTO expressly declined to consider any of the regulatory principles of Executive Orders 12866, 13563, or 13771. Responses 85, 126, and 137, 85 Fed. Reg. at 46961, col. 1, and 45697, col. 1. After the August 2020 Final Rule notice, the Department of Commerce tightened up requirements for component agencies' rulemaking. 85 Fed. Reg. 55235 (Oct. 15, 2020). Whatever questions the PTO may have had for applicability of these Executive Orders in August 2020, those questions are not open now.
- The Supreme Court warned agencies that it's inappropriate to "promulgate vague and open-ended regulations that they can later interpret as they see fit." *Christopher v SmithKline Beecham Corp.*, 567 U.S. 142, 158 (2012). Agencies can't act by slow rewriting of creeping guidance. To change rules, an agency must act by notice-and-comment regulation. *Appalachian Power Co. v EPA*, 208 F.3d 1015, 1020 (D.C. Cir. 2000). A vague regulation in August 2020 that says nothing about CLE is not valid support for later definitive guidance on CLE. That's cheating.

Frankly, it's hard to read the existing "may" and indirect wording of § 11.11(a)(2), followed up months later by this set of *Proposed CLE Guidelines*, as anything other than an intentional evasion of the law that governs rulemaking. Transparent and thoroughgoing evasion of law by an ethics regulator is beyond astonishing.

Rulemaking law can be complex. To assist the PTO, when the PTO asked for comment on its rulemaking processes in 2011, I collected all the relevant law and reduced it to a simple multi-step timeline in a comment letter.<sup>3</sup> The PTO can't claim to be ignorant. And yet here we are, with a rulemaking that ran roughshod over the law. Isolated mistakes, especially those that could be subject to different views among reasonable people, would be one thing. In contrast, a pattern of multiple omissions and false representations, under black-and-white law, and evading filings or evading candor to *ex parte* tribunals (OMB's Office of Information and Regulatory

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<sup>3</sup> David Boundy, *Improving Regulation and Regulatory Review* (Docket No.: PTO-C-2011-0017), 76 Fed. Reg. 15891 (March 22, 2011), <https://www.uspto.gov/sites/default/files/documents/boundy23may2011.pdf> at pages 6- 13 (May 23, 2011)

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Affairs (OIRA) under Executive Orders 12866, 13771, and the Paperwork Reduction Act, and the Small Business Administration under the Regulatory Flexibility Act) might lead a reasonable person to infer that OED has adopted a policy of cheating its ass off if the alternative is doing work, passing up a fee opportunity, exposing itself to oversight, or limiting its own regulatory authority.

#### IV. Legal defects in the July 31 notice

That reasonable person would find it more and more difficult to evade that inference of intentional evasion of law after considering the pattern that extends over multiple prior rulemaking proceedings. For example, *Changes to Representation of Others Before the United States Patent and Trademark Office*, 85 Fed. Reg. 45812 (Jul. 30, 2020) has many of the same errors—almost all directed to evading work and candor to an *ex parte* tribunal:

- In the *Administrative Procedure Act* section, 85 Fed. Reg. 45817, OED claims “The changes in this rulemaking involve rules of agency practice and procedure and/or interpretive rules.” This is a falsehood. For example, the revocation of § 11.11(g) appears to be a new grant of substantive authority to the OED Director, and it is “interpretative” of no underlying statute or regulation. The new fee of §§ 1.21(a)(1), 11.7(b), and 11.9(e) is likewise substantive, and not “interpretative” of any existing statute or regulation.
- It’s not clear why the PTO would invoke the definition of “interpretive” from *Perez v. Mortgage Bankers Ass’n*, 135 S.Ct. 1199, 1204 (2015)—the sentence *immediately following* the sentence in the Federal Register reads that “[The] convenience [of invoking the “interpretive” exemption from notice and comment] comes at a price: Interpretive rules ‘do not have the force and effect of law and are not accorded that weight in the adjudicatory process.’” What competent agency lawyer would concede that the agency’s rules “lack force of law?” One that seeks to evade the work that a truthful representation would require. Any other?
- The claim that “This rulemaking has been determined to be not significant for purposes of E.O. 12866.” By whom? “Not significant” is reserved for rules with no significant effect—if the July NPRM were limited to typo corrections and the like, the “not significant” designation would be sound. But adding § 11.11(g) gives OED the authority to end careers. That qualifies the rule as “significant.” The only observable reason for OED to misdesignate the rule as “not significant” is to evade work, evade oversight by OIRA, and to evade the “two for one” justification that would be required under Executive Order 13771 if OED truthfully characterized the rule under E.O. 12866.
- The *Paperwork Reduction Act* discussion (85 Fed. Reg. 45818-19) fails to consider the several new collections of information and associated fees, and omits a number of the requirements of the Act. The omissions seem to be directed to only two goals:

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evading work required by statute, and evading candor to OIRA in its *ex parte* role of oversight over paperwork burden.

For another example of a pattern of evasion of law, I've attached an article I wrote about two years ago about a pattern of falsehoods made in Federal Register notices for a PTAB rule, *Changes to the Claim Construction Standard for Interpreting Claims in Trial Proceedings Before the Patent Trial and Appeal Board*, 83 Fed. Reg. 21221 (May 9, 2018) and 83 Fed. Reg. 51340 (Oct. 11, 2018). The pattern there is similar to OED's pattern: if a law requires doing work, asking questions of the public to ensure that a rule will operate as intended, and making filings to obtain oversight by *ex parte* tribunals, the PTO's practice is to state falsehoods to evade that work, filing, and oversight. The consequence is that the PTO often fails to act fully in the public interest.

Similarly, during the last week of December, I noticed that several of the PTO's patent forms bore the legend "Approved for use through 12/31/2020. OMB 0651-0031." I went to check OMB's web site, and confirmed that OMB Control number 0651-0031 had expired on November 30, 2020. Someone in the Office of Patent Legal Administration or in the Office of General Counsel, probably a lawyer, had falsely updated the PTO's forms, to cover up a lapse in the PTO's power enforce its rules and collect its fees.

That pattern of falsehood has now leached into OED's rulemaking process. The problem is now in your lap. What are you going to do about it?

## **V. Conclusion**

For a variety of structural reasons, the *Proposed Guidelines* need to go back to square one. Before the PTO acts in this area, a number of functions need to be reorganized to remove financial incentives for unlawful conduct. The Office of Enrollment and Discipline should turn its investigative spotlight on the Office of Patent Legal Administration, the Office of General Counsel, the Patent Trial and Appeal Board, and itself, and should force reforms onto those that don't want to do the work that statute assigns to them, to ensure that law relating to rulemaking is being taken seriously. These internal reforms should be completed before the PTO seeks to expand its regulatory reach over ethics of practitioners.

Very truly yours,



# An administrative law view of the PTAB's 'ordinary meaning' rule

By David Boundy, Esq., Cambridge Technology Law

JANUARY 30, 2019

The Patent and Trademark Office recently changed its claim construction rule from a "broadest reasonable interpretation" standard to an "ordinary meaning" standard.

The decision raises a number of issues under the Administrative Procedure Act and other authorities that govern rulemaking.

Just like any other federal agency rule, the ordinary-meaning rule is governed by various measures, including statutes, executive orders and implementing directives issued by various parts of the executive branch.

These measures are intended to guide and assist agencies toward genuine reasoned decision-making that is informed by various public interests.

When an agency neglects these laws public interest concerns get less consideration than Congress intended, public confidence in the agency's commitment to the rule of law is eroded and the rule becomes vulnerable to being invalidated on judicial review.

The May 2018 ordinary-meaning notice of proposed rulemaking,<sup>1</sup> or NPRM, and the October final rule notice<sup>2</sup> contain many "anomalies" that suggest neglect and raise invalidity concerns.

## 'SUBSTANTIVE' (NOT 'PROCEDURAL'), 'LEGISLATIVE' (NOT 'INTERPRETATIVE')

### Basic taxonomy of rules under the APA

The APA sets out the key taxonomy of "rules"— legislative versus interpretative, substantive versus procedural and public-facing versus agency-facing.

These are three entirely separate, well-defined and mutually orthogonal concepts.

At the March 2018 Federal Circuit Judicial Conference, U.S. Circuit Judge S. Jay Plager recommended that the entire patent bar would do well to gain a better understanding of the administrative law, and that an earlier article of mine<sup>3</sup> is a good place to begin.

The centerpiece of my article is the following table, which shows the relationship of the "legislative versus interpretative" axis as four columns, and the "substantive versus procedural" axis in two rows:

	← greater procedure, greater binding effect		less procedure, less binding effect →	
	legislative rules and Chevron gap-fills	Chevron/Auer interpretations	interpretative rules	policy statements
substantive	public-facing substantive legislative or Chevron gap fill  A gap-filling regulation that sets the substantive claim interpretation standard to either "broadest reasonable interpretation" or to "ordinary meaning," or any allocation of the burden of proof—if the statute is silent, such rules must be promulgated by "legislative" regulation if within the rule-making grant of §§ 316(a)326(a), and are invalid if under § 2(b)(2).	Chevron/Auer interpretations of substantive law  Most of the IRS' "3 part tests" that, by regulation, give specific definitions for general terms in the Internal Revenue Code—for example, the IRS' definition of the statutory term "student" that excludes medical residents	substantive interpretative  MPEP § 201.22(II)(B), which interprets 35 U.S.C.A. § 120 to permit filing of a continuation application on the day that the patent issues.  The elaboration of the CREATE Act in MPEP § 706.02(I).	substantive policy statement  37 C.F.R. § 1.75(e), stating that patent claims "should" be in a format that eases the Patent Office's examination.  PTO's policy to accept an attorney's statement to establish common ownership to gain benefit of pre-AIA § 103(c) or post-AIA § 102(c), but leaving discretion for deeper inquiry
procedural	procedural legislative or Chevron gap fill  Most of the familiar regulations by which agencies specify procedures before the agency, e.g., 37 C.F.R. Part 1 governing patent applications	Chevron/Auer interpretations of procedural law  37 C.F.R. § 1.7, defining the term "days" as used in the Patent Act as "calendar days"	procedural interpretative  Elaboration of agency procedural statutes and regulations in guidance—public-facing statements in agency staff manuals offering interpretations of agency procedural rules. E.g., MPEP § 607.02 interpreting refund provisions of 35 U.S.C.A. § 42.	procedural policy statement  MPEP § 503, concerning Patent Office policy after a paper was lost in the mail, explaining a sufficient condition for showing "lost in the mail" and asking the Patent Office to accept a substitute, but not implying that these are necessary conditions

### The discussion in the Federal Register notices

Both the NPRM and the final rule state essentially the same analysis under the APA:

*Administrative Procedure Act (APA):* This final rule revises the rules relating to office trial practice for IPR, PGR and CBM proceedings. The changes set forth in this final rule will not change the substantive criteria of patentability. These rule changes involve rules of agency procedure and interpretation. See *Perez v. Mortg. Bankers Ass'n*, 135 S. Ct. 1199, 1204 (2015). (Interpretive rules "advise the public of the agency's construction of the statutes and rules which it administers.")

Accordingly, prior notice and opportunity for public comment are not required pursuant to 5 U.S.C.A. § 553(b) or (c) (or any other law). ...

The office, nevertheless, published the notice of proposed rulemaking for comment as it sought the benefit of the public's views.<sup>4</sup>

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The final rule notice accurately states that 5 U.S.C.A. § 553, the APA's rulemaking statute, sets a default: In the absence of other law, "procedural" rules and "interpretative" rules are exempt from notice-and-comment rulemaking.

But the notice errs in three ways: (a) this rule is "substantive," not "procedural," (b) the rule is ineligible for the "interpretative" exemption, and (c) notice and comment is required under "other law," specifically the Patent Act and Paperwork Reduction Act.

### **Procedural vs. substantive**

The NPRM and the final rule claim that the rule is "procedural," and support that conclusion with the statement "this final rule will not change the substantive criteria of patentability."

Elsewhere in the notice, the PTO acknowledges the obvious — that the whole point of the rule is exactly to change substantive criteria of patentability.

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### **The PTO derives no benefit from underestimating the economic effect of its rules, other than the reduced staff time that any sound analysis takes.**

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For example, the notice says "the office has determined that the same claim construction standard should apply to both a patentability determination at the PTAB and determinations in federal court on issues related to infringement or invalidity."<sup>5</sup>

### **Interpretative vs. legislative**

The NPRM and the final rule notice claim the "interpretative" exemption. This claim is odd in two respects.

First, to qualify for the "interpretative" exemption, a rule must "interpret."

There must (a) be an underlying statute or regulation that itself has the force of law, (b) that law must have some tangible meaning, though with some "active" ambiguity (an ambiguous term, a general term, or a direct clash with another provision — not a passive silence, or empty or vague language like "fair and equitable" or "in the public interest"), and (c) the agency's "interpretative rule" must only interpret that ambiguity, without adding new content beyond the "fair intendment" of the words of the underlying law.<sup>6</sup>

In the final rule notice, the PTO concedes that "there is no statute applicable to either the PTAB or federal courts that requires any different standards ... for claim construction."<sup>7</sup>

Therefore, by the PTO's own admission, there's no ambiguity to interpret. Thus, the "interpretative" exemption does not apply.

Second, the Supreme Court in *Perez*, in the two sentences immediately following the one quoted in the Federal Register, states that when an agency exercises the "interpretative"

exemption from notice-and-comment, by that choice, the agency surrenders much of the power to enforce the rule:

The absence of a notice-and-comment obligation makes the process of issuing interpretive rules comparatively easier for agencies than issuing legislative rules. But that convenience comes at a price: Interpretive rules do not have the force and effect of law and are not accorded that weight in the adjudicatory process.<sup>8</sup>

I am unaware of any upside for the PTO to assert that its "ordinary meaning" rule does not have force of law or is ineligible for *Chevron* deference. Nor can I see upside in citing Supreme Court authority for those two propositions.

Nonetheless, that's what the PTO did.

### **PTO must act by 'regulation' and can't dispense with notice and comment**

Sections 316(a) and 326(a) of the Patent Act, 35 U.S.C.A. §§ 316(a) and 326(a), require that "[t]he Director shall prescribe regulations" to act in this area.

As U.S. Circuit Judge Kimberly Ann Moore pointed out in her concurring opinion in *Aqua Products Inc. v. Matal*, 872 F.3d 1290 (Fed. Cir. 2017), these statutes mean what they say — "regulations." A "regulation" requires notice and comment.<sup>9</sup>

Likewise, the PRA requires agencies to follow certain procedures, including notice and comment, whenever they change the rules that govern papers to be submitted.<sup>10</sup>

### **But the PTO gathered notice and comment...**

After playing fast and loose on whether it was required to seek notice and comment, the PTO went ahead and did so anyway. Didn't that cure the problem? No harm no foul?

Well, not so fast.

The characterization as "procedural" versus "substantive" has consequences that ripple downstream through the rulemaking process.

The Regulatory Flexibility Act, the statute that requires agencies to analyze and minimize economic effect on small entities, applies differently to "substantive" rules than to "procedural" rules.

The Small Business Administration Office of Advocacy, or SBA Advocacy, enforces the RegFlex Act. It acts largely ex parte with only minimal public participation, and it makes decisions without a written statement of reasons.

There will never be any way for the public to know whether the "ordinary meaning" rule was reviewed under the "substantive" standard that the "ordinary meaning" rule certainly deserved, or under the "procedural" standard that the PTO falsely represented to an ex parte tribunal.

### **Aqua Products redux?**

Strikingly, a false claim of "procedural" had been the undoing of another Patent Trial and Appeal Board rule only six months before.

In *Aqua Products* the U.S. Court of Appeals for the Federal Circuit invalidated a PTAB rule.

The court's starting point was the PTAB's claim that that the rule was "procedural" when it clearly wasn't.

Though the court did not invalidate the rule specifically on that basis, the false characterization was the incongruity that drew the court's skeptical attention and started it on its own *sua sponte* research through the record (there was essentially nothing in the party briefs).

The court unraveled the rule bit by bit, and at the end, the rule was deemed invalid because the PTO had "end-run around [the APA]."

It's not clear why the PTO has been hesitant to implement the lessons of *Aqua Products* by firming up its rulemaking processes.

### EXECUTIVE ORDER 12866

Executive Order 12866 requires agencies to allow the Office of Information and Regulatory Affairs, or OIRA (part of the president's Office of Management and Budget), to review all rules, to ensure that rules advance the public interest.

Executive Order 12866 divides all rules into three tiers: "not significant" (rules that have essentially no economic effect), "economically significant" ("likely to result in ... an annual effect on the economy of \$100 million or more or adversely affect in a material way the economy, a sector of the economy"), and "significant" (everything in between).

The classification determines the level of scrutiny that the OIRA gives the rule. Further, for an economically significant rule, an agency must conduct a "Regulatory Impact Analysis."

This requirement is in place to ensure that the agency studies needs, effects and alternatives. It is further intended to ensure that the agency understands what it's regulating, explores a range of alternatives so it can choose wisely, and understands its regulation to reduce the chance of unintended consequences.

The "ordinary meaning" rule almost certainly will "have an annual effect on the economy of \$100 million or more," meeting the "economically significant" requirement.

It is intended to change the outcome for many dozens of patent litigations per year.

Large tech companies submitted comment letters showing that, at least from their perspectives, the rule will "adversely affect in a material way the economy, a sector of the economy, productivity, competition, jobs."

Moreover, the distributive impacts between various private sector actors are almost certainly billions of dollars.

This is clearly an "economically significant" rule.

The NPRM "Costs and Benefits" section reads:

This rulemaking is not economically significant, and is not significant, under Executive Order 12866 (Sept. 30, 1993), as amended by Executive Order 13258 (Feb. 26, 2002) and Executive Order 13422 (Jan. 18, 2007).<sup>11</sup>

This paragraph is remarkable in two respects:

- Executive Orders 13258 and 13422 were revoked in 2009. Citing them in 2018 is curious.
- The designation "not economically significant" is plainly false.

The PTO has a long history of lowballing. For example, in 2006, the reason that the "continuations" rule and the "claims" rule were separated into two separate NPRMs is that by splitting them, the PTO could claim that each half was below \$100 million in economic effect.<sup>12</sup>

With respect to the information disclosure statement rule, in which the PTO proposed the "examination support document," the PTO asserted that the rule was "not significant" — that is, that its economic effect would be essentially zero.<sup>13</sup> In fact, public comments had estimated the costs to be in the billions.

The 2012 PTAB rule and 2013 first-to-file rules were classified as only "significant" (that is, the PTO represented to the OIRA that PTAB trials and first-to-file would have economic effect of less than \$100 million annually).<sup>14</sup>

The PTO derives no benefit from underestimating the economic effect of its rules, other than the reduced staff time that any sound analysis takes.

The OIRA does not penalize agencies for telling the truth — costs are what they are.

Deeper and more careful analysis allows agencies to gain more insight and avoid dumb mistakes.

To be sure, an "economically significant" rule requires an agency to expend time and resources to consider alternatives, make sound choices and explain that its regulatory choices are in the public interest.

The biggest risk for the PTO that I know of is that a proper analysis might show that a rule is a bad idea, and ought to be reconsidered in whole or in part.

### THE PAPERWORK REDUCTION ACT

The PRA<sup>15</sup> requires agencies to seek public input and analyze all new rules and rule changes to determine that the proposed rule is the least burdensome of available options.

The PTO exempted itself from the required analysis by explaining that "the overall cost burden on respondents is not expected to change."<sup>16</sup>

That exemption is not in the statute, which requires the agency to follow procedure for any change.<sup>17</sup>

The statute requires an agency to submit a burden analysis to the OIRA for every new or changed rule.

The only carve-out is for emergencies; there is no carve-out for what the agency “believes” or “expects.”

How can the PTO know whether “ordinary meaning” briefing is no more burdensome than “broadest reasonable interpretation” if it declined to undertake the analysis required by statute?

On what basis does the PTO disagree with the lawyers who actually write both kinds of briefs and have explained why an “ordinary meaning” brief is much more intricate and time-consuming than a “broadest reasonable interpretation” brief?

The PTO did not respond to those questions.

The statute<sup>18</sup> requires an agency to ask four questions in every NPRM to ensure that its rule is doing the right thing, in the right way, and at the lowest burden to the public.

Simplest thing in the world — just block copy language from the statute into the NPRM, and change a few pronouns and a little punctuation.

The PTO didn't.

If the PTO didn't ask the relevant questions, what confidence can anyone have in the PTO's “expected” answers?

What does this omission communicate to the public about whether the PTO cares about doing the right thing, the right way, at the lowest burden to the public?

### WHAT ARE THE CONSEQUENCES?

Virtuous ends don't justify nonstatutory means, especially for a rule whose intended economic effect is in the multiple hundreds of millions of dollars per year.

In *Aqua Products*, after the court detected anomalous procedure, issues that agencies normally win started falling the other way, and the court ended up invalidating the rule at issue.

If the PTO wants the ordinary-meaning rule to have a longer life than the *Aqua Products* amendment rule, it's not clear what goal is served by a rulemaking record of similar procedural shortcutting.

For parties before the PTAB, some of the procedural anomalies in the ordinary-meaning rule support easy judicial review and vacatur of adverse judgments by the PTAB, but some plainly don't.

Some present opportunities that can be exploited by counsel with a sophisticated grasp of administrative law.

For example, some rulemaking laws facially limit judicial review. But when courts have been asked to consider an agency's noncompliance with those laws, courts have invalidated or stayed rules when the agency failed to create even a pretense of compliance.

Sound process and precision are essential for the PTO to fulfill its mission — as essential as they are to running a major law firm or to engineering airplanes that stay in the air.

Reforming the PTO's commitment to process and precision, including the implementation of a sound rulemaking process, could be a transformative and permanent legacy.

How did the errors identified in this commentary evade detection during review of a final rule — a rule governing the multibillion-dollar proceedings of the PTAB, which I assume is one of the most formal, lawyer-intensive and multi-signoff activities in the office?

Are these isolated occurrences, or (if the solicitor made the same error at page 56 of the solicitor's June 2017 red brief in *Hyatt v. PTO*, appeal 17-1722, brief of PTO of June 12, 2017.) is it symptomatic of deeper problems, requiring systematic reform of the PTO's legal culture?

Fortunately, diagnoses, solutions and process reforms are ready to hand.

In 2011 the PTO requested comment on its compliance with rulemaking law and how it could improve its rulemaking processes to better align with the public interest.

Letters<sup>19</sup> from Richard Belzer (an economist who had spent a decade in the OIRA assisting agencies to comply with their legal obligations) and from me give particularly helpful insight, a diagnosis and a treatment plan.

The PTO's inaction on these (and similar letters in response to similar calls for comment) leaves the suggestions in these letters ripe for action.

In addition, the PTO should establish a compliance department in the style of departments that perform compliance functions for private companies.

A compliance function requires two things: deep expertise in the relevant law and sufficient power to ensure that the client operates within that law.

A compliance officer should review public rulemaking notices and submissions to the regulatory review tribunal, such as the OIRA and SBA Advocacy (especially when their review is ex parte), under the administrative law and Professional Responsibility Rule 3.3, which is titled “*Candor Toward the Tribunal.*”

The newly brewing “motion to amend” rule<sup>20</sup> could be a great opportunity to turn over a new leaf.

The PTO could demonstrate a new commitment to the rule of law and use the motion to amend rulemaking as a platform to cure many of the deficits in the ordinary-meaning rule.

## NOTES

- <sup>1</sup> Patent and Trademark Office, *Changes to the Claim Construction Standard for Interpreting Claims in Trial Proceedings Before the Patent Trial and Appeal Board*, Notice of Proposed Rulemaking, 83 Fed. Reg. 21221 (May 9, 2018).
- <sup>2</sup> Patent and Trademark Office, *Changes to the Claim Construction Standard for Interpreting Claims in Trial Proceedings Before the Patent Trial and Appeal Board*, Final Rule, 83 Fed. Reg. 51340, 51357 col. 2 (Oct. 11, 2018).
- <sup>3</sup> David Boundy, *The PTAB is Not an Article III Court, Part 1: A Primer on Federal Agency Rule Making*, ABA LANDSLIDE 10:2 (Nov.-Dec. 2017).
- <sup>4</sup> Final Rule, note 2 *supra*, 83 Fed. Reg. 51340.
- <sup>5</sup> *Id.*
- <sup>6</sup> *National Latino Media Coalition v. FCC*, 816 F.2d 785, 788–89 (D.C. Cir. 1987); Robert A. Anthony, *Interpretive Rules, Policy Statements, Guidances, Manuals, And The Like — Should Federal Agencies Use Them To Bind The Public?*, 41 DUKE L.J. 1311 (Jun. 1992). The ‘interpretative’ exemption is explained in deeper detail in David Boundy, *The PTAB is Not an Article III Court, Part 3: Precedential and Informative Decisions*, § II(D) at 13-15, forthcoming in AIPLA QUARTERLY JOURNAL, available at <https://bit.ly/2MoTrow>.
- <sup>7</sup> Final Rule, note 2 *supra*, Response to Question 5, 83 Fed. Reg. 51340.
- <sup>8</sup> *Perez v. Mortgage Bankers Ass’n*, 135 S. Ct. 1199 (2015).
- <sup>9</sup> *Boundy*, Part 1, note 3 *supra* at 51-52; Part 3, note 6 *supra*, § II(B)(1).
- <sup>10</sup> 5 C.F.R. § 1320.3(c)(1), (c)(4)(i) (scope of coverage is any “rule or regulation,” any “requirement contained in a rule of general applicability”); 44 U.S.C.A. § 3506(c)(2)(A) (60-day comment period for any change in information to be collected by the agency, not only those that increase burden).
- <sup>11</sup> NPRM, 83 FED. REG. 21221.
- <sup>12</sup> In other contemporaneous documents, the PTO acknowledged that the cost to the public would exceed \$1 billion per year. <https://bit.ly/2FikM4z>.
- <sup>13</sup> Patent and Trademark Office, *Changes To Information Disclosure Statement Requirements and Other Related Matters*, 71 Fed. Reg. 38808 (Jul 10, 2006). See analysis at <https://bit.ly/2CDN7oN>.
- <sup>14</sup> Patent and Trademark Office, *Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions, Notice of Proposed Rulemaking*, 77 Fed. Reg. 6879 (Feb 9, 2012); *Changes To Implement the First Inventor To File Provisions of the Leahy-Smith America*

*Invents Act, Notice of Proposed Rulemaking*, 77 Fed. Reg. 43742 (July 26, 2012).

<sup>15</sup> 44 U.S.C.A. § 3501 and implementing regulations at 5 C.F.R. Part 1320.

<sup>16</sup> Final Rule, note 2 *supra*, 83 Fed. Reg. 51340.

<sup>17</sup> 44 U.S.C.A. § 3506(c)(2); see also 5 C.F.R. § 1320.9.

<sup>18</sup> 44 U.S.C.A. § 3506(c)(2)(A).

<sup>19</sup> <https://bit.ly/2R7S3Y3>.

<sup>20</sup> Patent and Trademark Office, *Request for Comments on Motion To Amend Practice and Procedures in Trial Proceedings Under the America Invents Act Before the Patent Trial and Appeal Board*, 83 Fed. Reg. 54319 (Oct. 29, 2018).

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