

Testimony of Arti K. Rai

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“The Patent Trial and Appeal Board and the Appointments Clause: Implications of Recent Court Decisions”

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My Background

I am Elvin R. Latty Professor and Faculty Director of the Center for Innovation Policy at Duke University School of Law. I teach and write in the areas of patent and administrative law and have written a number of articles and book chapters, both doctrinal and empirical, discussing the Patent Trial and Appeal Board (PTAB). The articles include *Administrative Power in the Era of Patent Stare Decisis*, 65 DUKE LAW JOURNAL 1561 (2016) (with Stuart M. Benjamin) and *Strategic Decisionmaking in Dual PTAB and District Court Proceedings*, 31 BERKELEY TECH L.J. 45 (2016) (with Saurabh Vishnubhakat and Jay Kesan). The book chapters discussing the PTAB are contained in the two-volume RESEARCH HANDBOOK ON THE ECONOMICS OF INTELLECTUAL PROPERTY LAW (Edward Elgar 2019), edited by Peter Menell, Ben Depoorter, and David Schwartz.

From 2009-2010 I served as the Administrator of the Office of External Affairs (now the Office of Policy and International Affairs) at the USPTO. In that capacity, I conducted policy analysis of draft legislation that ultimately became the America Invents Act.

I am testifying on my own behalf. No organization has paid for or approved this testimony.

Introduction

Since its creation, the PTAB has played a very important role in ensuring patent quality. As envisioned by Congress, it has allowed the USPTO to correct initial errors in patent grants in a manner that is faster, cheaper, and more expert than Article III adjudication. The articles and book chapters referenced in the section above demonstrate the PTAB’s critical role, and I refer the Committee to those articles and book chapters.

Additionally, the USPTO has, in line with recommendations made in my work and that of other commentators, implemented a series of steps to improve PTAB operation. The agency has aligned its claim construction procedures with those used in Article III courts; implemented procedures to curtail serial petitioning and other potentially abusive practices at the PTAB; and implemented procedures through which the Director, working with other senior USPTO personnel, can create precedential opinions that ensure policy consistency across the PTAB. I discuss the USPTO’s Precedential Opinion Process in greater detail below.

Because of the PTAB's central role, it has been the subject of very heavy scrutiny. One recent area of scrutiny has involved the Appointments Clause of the Constitution.

In *Arthrex, Inc. v. Smith & Nephew, Inc.* ___ Fed. 3d. ___ (Fed. Cir. 2019), a panel of the Federal Circuit held that the administrative patent judges (APJs) at the PTAB are "principal officers" who must, under the Appointments Clause, be appointed by the President and confirmed by the Senate. In contrast, the current patent statute provides for APJs to be appointed by the Secretary of Commerce in consultation with the PTO Director. 35 U.S.C. § 6(a). The *Arthrex* panel further determined that it could remedy the constitutional defect by severing APJ removal protections, thereby rendering them inferior officers who can be appointed by "Heads of Departments" like the Commerce Secretary. The panel also determined that, in the case before it and other cases where "final written decisions were issued and where litigants present an Appointments Clause challenge on appeal," the decisions should be vacated and remanded to be heard by a new panel of APJs.

My testimony makes three points. First, although the *Arthrex* panel's decision is quite formalist in orientation, the current Supreme Court majority tends to view administrative adjudication through a formalist lens. Thus the panel's decision to focus on Justice Scalia's opinion for the Court in *Edmond v. United States*, 520 U.S. 651 (1997), and give less emphasis to the Court's opinion in *Morrison v. Olson*, 487 U.S. 654 (1988), may reflect the views of a majority of the current Supreme Court. Second, the *Arthrex* panel's remedy, though likely consistent with the current direction of the Supreme Court majority, yields a result that is far from optimal. The removal of firing protections from APJs creates opportunities for non-transparent political pressure to be applied to the APJs. Moreover, the requirement that cases currently on appeal also be vacated and remanded to be heard by a new panel creates additional work and uncertainty. As a consequence, and third, the best course forward involves Congress granting the Director a unilateral, discretionary right of review. This intervention, which would parallel review provisions that exist for most other agencies, would cure any constitutional defect without creating the problems associated with the *Arthrex* panel's remedy.

The *Arthrex* Panel's Assessment of Principal vs. Inferior Officer Status

The *Arthrex* panel's conclusion regarding principal officer status of APJs, which rested on Justice Scalia's 1997 opinion for the Court in *Edmond v. United States*, may reflect an accurate read of the position that would be taken by the current Supreme Court majority.

In *Edmond*, the Court held that inferior officers must be "directed and supervised at some level by others who were appointed by Presidential nomination with the advice and consent of the Senate." According to the *Arthrex* panel, PTAB judges lack adequate direction and supervision under *Edmond* for two reasons: first, "presidentially appointed officers" cannot "review, vacate, or correct decisions by the APJs"; and, second, these presidentially appointed officers (specifically the Secretary of Commerce and Director) have only "limited removal power."

The *Edmond* Court had to distinguish its considerably less formalist opinion in *Morrison v. Olson*. Under the *Morrison* test, which relies on multiple indicia of inferiority, including whether the officer has "authority to formulate policy for the Government or the Executive

Branch,” *Morrison*, 487 U.S. at 671, the patent statute’s unique conferral upon the Director of overall responsibility for USPTO “policy direction and management supervision,” 35 U.S.C. § 3(a)(2)(A), might be more relevant than under *Edmond*.

Also relevant under a more functional analysis would be the mechanism for rehearing of PTAB decisions for which the statute provides. *See* 35 U.S.C § 6 (c). Pursuant to this statutory provision, the Director has set up a comprehensive “Precedential Opinion Panel” (POP) process, *see* Standard Operating Procedure 2 (Rev. 10), at <http://go.usa.gov/xVQcN>, to rehear PTAB cases that raise important issues. The POP is selected by the Director and by default consists of the Director, the Commissioner for Patents, and the Chief Judge.

While the *Arthrex* panel did note the Director’s general supervisory powers over the PTAB, his statutory authority to promulgate regulations by which the PTAB is bound, the rehearing provision, and the POP procedure, it emphasized that neither the statute nor the POP procedure explicitly provide for a right of rehearing over specific cases by the Director *only*. The panel presumably concluded that, under *Edmond*, any functional ability the Director might have to persuade the Commissioner for Patents and the Chief Judge is insufficient.

The Problem with the *Arthrex* Remedy

The *Arthrex* panel’s decision to sever removal protections as a mechanism for curing constitutional infirmity appears consistent with the Supreme Court’s decision in *Free Enterprise Fund et al. v. Public Company Accounting Oversight Board et al.*, 561 U.S. 477 (2010). The Public Company Accounting Oversight Board (Board), created by the Sarbanes-Oxley Act of 2002, comprises five members appointed by the Securities and Exchange Commission (Commission). The petitioners in *Free Enterprise Fund* challenged the structure of the Board as unconstitutional, on the theory that it was insulated from Presidential control by two layers of protection: Board members could only be removed by the Commission for good cause, and Commissioners could also only be removed by the President for good cause. The Court agreed with petitioners on the removal question and severed the “good cause” restriction on removal of the Board’s members.

Although the Court focused on the removal question, it also addressed the Appointments Clause challenge. According to the Court, because “the Commission is properly viewed, under the Constitution, as possessing the power to remove Board members at will, and given the Commission’s other oversight authority, we have no hesitation in concluding that under *Edmond* the Board members are inferior officers whose appointment Congress may permissibly vest in a “Hea[d] of Departmen[t].” *Free Enterprise Fund*, 561 U.S. at 510. The Court’s determination that severance of a removal restriction can cure constitutional infirmity associated with an Appointments Clause challenge suggests that the *Arthrex* panel appropriately relied on severance of a removal restriction, even though the case before the panel raised *only* an Appointments Clause challenge.

However, the remedy puts considerable pressure on the principle that political review of adjudicators should be transparent. Administrative adjudication involving legally required evidentiary hearings generally embodies transparent mechanisms for retaining political control

and ensuring policy consistency. Conventionally, whether the initial adjudicatory hearing is governed by the provisions of sections 556 and 557 of the APA and is before an administrative law judge (ALJ), or is a non-APA hearing before some other type of administrative judge, the judge has some level of decisional independence and protection against firing. However, the judge's decisions are subject to a right of review by a politically appointed agency head. *See, e.g.,* Ronald M. Levin, *Administrative Judges and Agency Policy Development: The Koch Way*, 22 WM. & MARY BILL RTS. J. 407, 412 (2013) (discussing the "standard federal model"). *See also* Chris Walker and Melissa Wasserman, *The New World of Agency Adjudication*, 107 CAL. L.REV. 141, 156-57 (2019) (discussing Michael Asimow's review for the Administrative Conference of the United States of legally required evidentiary adjudications not governed by the APA, almost all of which involve some appeal to the agency head).

Notably, the POP procedure replicates this transparent review process. However, given the constraints of the current patent statute, it cannot replicate an entirely unilateral version.

To be sure, best practices would counsel that the USPTO continue using its POP review procedure. Nothing in the *Arthrex* remedy requires the USPTO to abandon the procedure. And there is little reason to believe that an agency Director interested in maintaining credibility with stakeholders would pressure individual APJs. That said, stakeholders may have legitimate reasons to be concerned about the possibility of behind-the-scenes pressure on APJs who can be fired at will.

The *Arthrex* remedy also creates additional work and uncertainty. As Judge Dyk's concurrence in *Bedgear, LLC v. Fredman Bros. Furniture Company, Inc.*, ___ F.3d ___ (2019) notes, it "requir[es] potentially hundreds of new proceedings."

Judge Dyk takes the position that, under Supreme Court jurisprudence, the *Arthrex* panel erred in failing to apply its determination that restrictions on removal are unconstitutional retroactively. In his view, Supreme Court precedent requires retroactive application and therefore "actions of APJs in the past were compliant with the constitution and the statute."

Although Judge Dyk's argument is perspicacious and has considerable merit, several counterarguments merit attention. Judge Dyk distinguishes the Supreme Court's decision in *Lucia v. SEC*, 138 S. Ct. 2044 (2018) to require a hearing before a new administrative judge on the grounds that the purported Appointments Clause fix in that case (an order by the SEC ratifying the judges as appointed by the SEC) was an agency fix and therefore prospective only. However, the *Lucia* Court's decision to require a new judge even in the face of the purported fix doesn't discuss the origin of the fix. Instead the decision specifically stresses (in response to Justice Breyer's disagreement) the constitutional importance of a new decision maker.

Judge Dyk's opinion also relies on the *Free Enterprise Fund* Court's severance of removal restrictions. However, the only available possibility in that case was going back to a Board whose removal protections had been severed. There was no alternative Board. Given that the *Lucia* majority does discuss the possibility of a "rule of necessity" overriding the need for a new decision maker, 138 S. Ct. at 2055 n.5, one might argue that *Free Enterprise Fund* involved the rule of necessity.

To be sure, neither *Lucia* or *Free Enterprise Fund* addresses the retroactivity issue. Hence the perspicuity of Judge Dyk's approach. But given the arguments on the other side, there is reason to be wary that an appeal to retroactivity will obviate additional work and uncertainty.

A Role for Congress

The cleanest path forward is therefore surgical Congressional intervention that gives the Director a unilateral right of review (including, potentially, a right that applies retroactively). This approach would cure any perceived constitutional infirmity without subjecting APJs to political pressure that isn't transparent. In order to accommodate the Director's workload, the right of review should be discretionary.

To be sure, even with discretionary review, the Director might have to delegate responsibilities to subordinates. Alternatively, Congress could set up intermediate bodies between the PTAB and the Director that refine the issues necessary for Director review. A recent report by Michael Asimov for the Administrative Conference of the United States details how other agencies that don't use ALJs but nonetheless conduct relatively formal administrative adjudications on a large scale, structure review by agency heads. *See* Michael Asimov, *Federal Administrative Adjudication Outside the Administrative Procedure Act* (2019), available at <https://www.acus.gov/sites/default/files/documents/Federal%20Administrative%20Adj%20Outside%20the%20APA%20-%20Final.pdf>.

This report's exhaustive study of the landscape provides a valuable reference. In consulting the Asimov report, the Committee should of course be aware that bright-line mechanisms for ensuring unilateral Director control are likely to represent the safest option.