

6-25-2020

The Eleventh Auer: The Effect of *Kisor v. Wilkie* On Rulemaking and Adjudication at the United States Patent and Trademark Office

Andrew Schneider
as5151a@student.american.edu

Jonathan Stroud
Unified Patents, jonathan@unifiedpatents.com

Follow this and additional works at: <https://scholarship.kentlaw.iit.edu/ckjip>



Part of the [Intellectual Property Law Commons](#)

Recommended Citation

Andrew Schneider & Jonathan Stroud, *The Eleventh Auer: The Effect of *Kisor v. Wilkie* On Rulemaking and Adjudication at the United States Patent and Trademark Office*, 19 Chi.-Kent J. Intell. Prop. 485 (2020). Available at: <https://scholarship.kentlaw.iit.edu/ckjip/vol19/iss4/1>

This Article is brought to you for free and open access by Scholarly Commons @ IIT Chicago-Kent College of Law. It has been accepted for inclusion in Chicago-Kent Journal of Intellectual Property by an authorized editor of Scholarly Commons @ IIT Chicago-Kent College of Law. For more information, please contact jwenger@kentlaw.iit.edu, ebarney@kentlaw.iit.edu.

The Eleventh Auer: The Effect of *Kisor v. Wilkie* On Rulemaking and Adjudication at the United States Patent and Trademark Office

Cover Page Footnote

Thank you to my co-author and friend Andrew, and to my son CJ, who (almost) let me edit and revise this while taking care of him during the COVID pandemic.

THE ELEVENTH *AUER*: THE EFFECT OF
KISOR V. WILKIE ON RULEMAKING AND
ADJUDICATION AT THE UNITED STATES
PATENT AND TRADEMARK OFFICE

ANDREW SCHNEIDER AND JONATHAN STROUD*

* Thank you to my co-author and friend Andrew, and to my son CJ, who (almost) let me edit and revise this while taking care of him during the COVID pandemic.

TABLE OF CONTENTS

INTRODUCTION.....	487
I.AGENCY DEFERENCE BACKGROUND	488
II. <i>KISOR</i> 'S BACKGROUND AND LEGAL FRAMEWORK.....	490
A. Kisor's Legal Framework.....	491
III.HOW THE FEDERAL CIRCUIT HAS APPLIED DEFERENCE TO THE USPTO	493
A. Background of the USPTO and the PTAB	493
B. Deference to USPTO Decisions and Guidance	495
IV.RECOMMENDED USPTO RULEMAKING PROCEDURES POST- <i>KISOR</i>	500
A. The Covered Business Method Program as a Case Study 502	
CONCLUSION	503

“You can map out a fight plan or a life plan, but when the action starts, it may not go the way you planned, and you’re down to your reflexes - that means your [preparation]. That’s where your roadwork shows. If you cheated on that in the dark of the morning, well, you’re going to get found out now, under the bright lights.”¹

INTRODUCTION

Modern government regulates all walks of American life. As the backbone of that governance, federal agencies promulgate rules and regulations in their field of expertise.² Congress commands, and agencies interpret, applying those interpretations to their rules and adjudications, thus binding parties.³

Courts have long deferred to an agency’s interpretation of an ambiguous rule or statute, in light of the agency’s relevant technical expertise.⁴ But some judges prefer that Article III courts review everything;⁵ and deferring often involves relying on an agency’s interpretation of a genuinely ambiguous statute—the oft-discussed *Chevron* deference doctrine.⁶ This Article analyzes the more nuanced *Auer* deference, where a court defers to an agency’s later interpretation of its own ambiguous rule or regulation.⁷ Recently, the Supreme Court took and decided *Kisor v. Wilkie*,⁸ which dramatically modified the *Auer* doctrine.⁹ While *Kisor* appealed a claim for veteran’s benefits that implicated the courts’ ability to review Department of Veterans Affairs (“VA”) findings, the Court took it up to answer a bigger question: Should *Auer* be overruled?

They did not—but just barely—overrule it, in ways that dramatically limit the times and ways in which courts will defer. *Kisor* has had and will have far-reaching effects on all agencies. This Article discusses one: the United States Patent and Trademark Office (“USPTO”).¹⁰ Like other agencies, the USPTO issues rules, regulations, and guidance and has adjudicators—here

1. Commonly attributed to Joe Frazier.

2. 5 U.S.C. § 553 (2012).

3. *About PTAB*, UNITED STATES PATENT AND TRADEMARK OFFICE, <https://www.uspto.gov/patents-application-process/patent-trial-and-appeal-board/about-ptab> (last visited Sept. 17, 2019).

4. See *Kisor v. Wilkie*, 139 S. Ct. 2400, 2413 (2019) (stating that agencies have unique technical expertise, relevant to applying a regulation to complex or changing circumstances).

5. See Christopher J. Walker, *Attacking Auer and Chevron Deference: A Literature Review*, 16 GEO. J.L. & PUB. POL’Y 103 (2018) (voicing Article III concerns regarding *Chevron* and *Auer* deference).

6. See *Chevron, U.S.A., Inc. v. Nat. Res. Def. Council, Inc.*, 467 U.S. 837, 843 (1984).

7. *Auer v. Robbins*, 519 U.S. 452, 462 (1997).

8. 139 S. Ct. 2400 (2019).

9. *Id.* at 2415.

10. *About Us*, UNITED STATES PATENT AND TRADEMARK OFFICE, <https://www.uspto.gov/about-us> (last visited Aug. 22, 2019) (explaining the USPTO’s background as a federal agency and how it operates).

Administrative Patent Judges (“APJs”)—who preside over disputes at the Patent Trial and Appeal Board (“PTAB”).¹¹ But the USPTO is unique in that, in the regulatory grant of patents, it generates hundreds of thousands of new regulations annually, namely the Federal ability to exclude others from making, using, or selling a patented invention.¹²

This Article proceeds in four parts. Part I explores the history of agency deference and the previous tests that courts have developed regarding deference. Part II explores the legal analysis behind *Kisor*, and the new test to be applied. Part III explains how the Federal Circuit has applied deference (or not) to USPTO decisions, particularly in *Aqua Products, Inc. v. Matal* and *Facebook v. Windy City*.¹³ Part IV explores the effects of *Kisor* on the rulemaking procedures at the USPTO and recommends procedures the agency can adopt for ensuring that USPTO decisions merit *Auer* deference after *Kisor*.

I. AGENCY DEFERENCE BACKGROUND

But first, some background on the much-dissected deference doctrines is in order. Deference doctrines have their roots in the Administrative Procedure Act (“APA”).¹⁴ Enacted in 1946, the APA governs how federal agencies develop and issue regulations.¹⁵ Under the APA, federal agencies may promulgate formal, informal, and interpretive regulations.¹⁶ Informal rulemaking is the most widely used form.¹⁷ Informal regulations are promulgated through public notice-and-comment procedures.¹⁸

Notice-and-comment rulemaking is meant to apprise the public of agency plans regarding a particular rule; thus, proposed rules are published in

11. *Id.*; *Patent Trial and Appeal Board*, USPTO, <https://www.uspto.gov/patents-application-process/patenttrialandappealboard> (last visited Aug. 22, 2019).

12. *General Information Concerning Patents*, USPTO, <https://www.uspto.gov/patents-getting-started/general-information-concerning-patents#heading-2> (last visited Oct. 13, 2019).

13. 872 F.3d 1290, 1327–8 (Fed. Cir. 2017); 953 F.3d 1313, 1328 (Fed. Cir. 2020); *see also* 28 U.S.C. § 1295 (2012) (explaining that the United States Court of Appeals for the Federal Circuit is a federal appellate court whose jurisdiction is wholly based on subject matter rather than geography). The Federal Circuit hears all cases appealed from the USPTO and has jurisdiction over all patent cases appealed from district courts. *Id.*

14. 5 U.S.C. § 551 (2012).

15. *Id.*

16. *See* Todd Rakoff, *The Choice Between Formal and Informal Modes of Administrative Regulation*, 52 Admin. L. Rev. 159, 163–167 (2000) (discussing the history of the APA and rulemaking, and the use of formal, informal, and interpretive regulation, in addition to guidance and policy statements, emphasizing a shift toward the informal).

17. *See* ANDREW F. POPPER ET AL., *ADMINISTRATIVE LAW: A CONTEMPORARY APPROACH* 276 (2016). Formal rulemaking involves a trial-like proceeding and formal hearings; everything must be on the record. *Id.* However, such rulemaking is uncommon because its trial-like procedures make the resulting process slow and expensive. *Id.* Because formal rulemaking has not been used extensively by the USPTO, this Comment will discuss only informal rulemaking and interpretive guidance.

18. 5 U.S.C. § 553 (2012).

the *Federal Register*.¹⁹ Other interpretive regulations do not require publishing comments in the *Federal Register*.²⁰ Informal regulations promulgated through notice-and-comment are legally binding; interpretive regulations are not.²¹

The deference accorded to an agency's interpretation depends on whether the provision is legally binding.²² For instance, agencies' reasonable interpretations of ambiguous parts of their governing statutory provisions receive deference under *Chevron*.²³ Interpretations of the agency's own regulations are entitled to deference under *Auer v. Robbins*,²⁴ so long as they are not "plainly erroneous" or "inconsistent with the regulations."²⁵ Given their technical expertise, an agency is normally best equipped to construe any ambiguity in its own regulations under *Auer*.²⁶ In contrast, when interpreting non-binding agency action, courts offer respect rather than deference to the agency's reasoning under *Skidmore v. Swift & Co.*²⁷ Per this "*Skidmore* respect,"²⁸ courts only accede to persuasive agency reasoning.²⁹

With that, let us turn back now to *Kisor*, and that case's background.

19. 5 U.S.C. § 553 (2012) (explaining that notice-and-comment requirements under the APA ensure that the public is aware of an action that a federal agency plans to take).

20. See *Kisor v. Wilkie*, 139 S. Ct. 2400, 2420 (2019). Interpretive rules are meant only to "advise the public" of how the agency understands, and is likely to apply, its binding statutes and legislative rules. *Id.*

21. *Id.*

22. See Thomas Fraser, *Interpretive Rules: Can the Amount of Deference Accorded them Offer Insight into the Procedural Inquiry?* 90 B.U. L. REV. 1303, 1303–04 (2010) (detailing the divide between legally binding and non-binding rules); see also Richard J. Pierce, Jr., *Distinguishing Legislative Rules from Interpretative Rules*, 52 ADMIN. L. REV. 547, 551 (2000) (generally, same). Cf. Antonin Scalia, *Judicial Deference to Administrative Interpretations of Law*, 1989 Duke L.J. 511, 514–16 (urging courts should interpret Congressional delegations of authority broadly, but questioning the soundness of deferring per se).

23. See *Chevron*, 467 U.S. at 842–3 (explaining that there is a two-part test for determining whether a court should apply deference to an agency's statutory interpretation).

24. 519 U.S. 452, 461 (1997).

25. *Id.* (explaining that an agency's interpretation of an ambiguous rule or regulation is controlling unless it is "plainly erroneous or inconsistent with the regulation"); see also *Bowles v. Seminole Rock & Sand Co.*, 325 U.S. 410, 414 (1945). *Seminole Rock* preceded *Auer*.

26. See *Auer*, 519 U.S. at 453 (1997); see also David E. Boundy, *The PTAB Is Not an Article III Court: A Primer on Federal Agency Rule Making*, 10 LANDSLIDE 9, 52–3 (2017). In *Kisor*, Justice Kagan compares deferring to an agency's gap-filling to asking an author how they meant to write something. See *Kisor*, 139 S. Ct. at 2412.

27. 323 U.S. 134, 139 (1944).

28. See *id.*

29. *Id.*; see also *Christopher v. SmithKline Beecham Corp.*, 567 U.S. 142, 159 (2012) (following the agency's view only to the extent that it is persuasive).

II. KISOR'S BACKGROUND AND LEGAL FRAMEWORK

The eponymous James Kisor's journey to the Supreme Court was hardly a quick one. In 1982, James Kisor, a Vietnam War veteran, sought disability benefits from the Department of Veterans Affairs ("VA"), alleging he had developed post-traumatic stress disorder from his military service.³⁰ The Agency denied his request, and, in 2006, Kisor moved to reopen his claim.³¹ This time the VA agreed, but granted benefits only from the date of his motion.³² Kisor appealed to the Board of Veteran's Appeals ("BVA"), which affirmed the VA's decision based on the agency's interpretation of the relevant regulation, which governs reconsideration of a veteran's claim if supported by "reventant official service department records" that had not been previously associated with the veteran's claim.³³ Kisor appealed to the Court of Appeals for Veteran's Claims, lost, and then appealed to the Federal Circuit.³⁴ The Federal Circuit applied *Auer*, holding that the agency's regulation was "genuinely ambiguous," and affirmed the VA's decision.³⁵ Kisor appealed to the Supreme Court, and they granted certiorari on whether *Auer* should be overruled.³⁶

Before the Court ruled, many predicted *Kisor* would be the case to overturn *Auer* in favor of *Skidmore*, one author included.³⁷ Instead, a bare majority of justices preserved *Auer*, with the Court issuing three concurring opinions and Chief Justice Roberts joining only parts of the majority opinion, making it at times a bare plurality.³⁸ *Auer* deference survived, but just barely. The majority (and in part, plurality)³⁹ opinion, authored by Justice Kagan,

30. See *Kisor*, 139 S. Ct. at 2409.

31. *Id.*

32. *Id.*

33. *Id.*; see also 38 C.F.R. § 3.156(c)(1) (2013) (describing the benefits available to Kisor if there were "relevant official records"). The Federal Circuit found the term "relevant" ambiguous. See *Kisor*, 139 S. Ct. at 2409.

34. See *Kisor*, 139 S. Ct. at 2409.

35. *Id.* at 2410; see also *Kisor v. Shulkin*, 869 F.3d 1360, 1368 (2017).

36. *Kisor*, 139 S. Ct. at 2409.

37. E.g., Jonathan Stroud, *The US Supreme Court's Biggest Patent Case This Year Has Nothing to do With Patents*, IAM (Apr. 24, 2019), <https://www.iam-media.com/law-policy/years-biggest-patent-case-supreme-court-has-nothing-do-patents> (predicting the court would overturn *Auer*).

38. See *Kisor*, 139 S. Ct. at 2424–25.

39. As other respected voices have explained the split opinion, "Chief Justice Roberts joined the plurality opinion establishing the new framework, creating a five-justice majority. He also joined the section of the opinion concluding that "stare decisis cuts strongly against [abrogating *Auer* deference.]" To the majority, *Auer* deference should only be abrogated if it is truly "unworkable," which the majority did not find the doctrine to be. However, Chief Justice Roberts did not join the plurality's explanation of *Auer* deference's origin nor its policy justifications for the doctrine's existence, even in its new form." Shamita Etienne-Cummings & David M. Tennant, Alert: *Kisor Deference: The New Judicially-Driven Auer Deference*, White & Case (Jul. 17, 2019), <https://www.whitecase.com/publications/alert/kisor-deference-new-judicially-driven-auer-deference> (last visited Mar. 12, 2020).

modified the existing *Auer* doctrine with a multi-step, multi-factor test.⁴⁰ It advised that *Auer* deference was inappropriate unless, after exhausting all the “traditional tools of construction,” the regulation remains “genuinely ambiguous,” and it stressed that the test was not exhaustive.⁴¹ Chief Justice Roberts joined the sections related to the new test and the sections professing the importance of *stare decisis*, but did not join those discussing the origins of and reasoning behind *Auer*, leaving those without precedential effect.

A. *Kisor’s Legal Framework*

Justice Kagan’s majority opined that, before concluding a rule is genuinely ambiguous, one must exhaust all “traditional tools of construction” in *Chevron* step one.⁴² If genuine ambiguity remains, a court should defer so long as the agency’s reading is reasonable.⁴³ She added that some agency-promulgated regulations shouldn’t receive *Auer* deference—a court must consider context.⁴⁴ In doing so, Justice Kagan explained, the agency’s interpretation must (1) be its official position; (2) implicate its substantive expertise; and (3) reflect its “fair and considered judgment.”⁴⁵

She noted that, as Congress delegates rulemaking power to agencies alone, so too should the rules reflect the agencies’ official positions.⁴⁶ A court should not defer if the rule is not the agency’s official position or “does not emanate from those designated actors” Congress sought to authorize.⁴⁷ Justice Kagan noted it would lack sense to defer to an agency’s interpretation if it does not have expertise in the rule’s technical application.⁴⁸ She added an agency’s interpretation must reflect “fair and considered judgment.”⁴⁹ Justice Kagan found that the Federal Circuit had “jumped the gun” in declaring the regulation

40. See *Kisor*, 139 S. Ct. at 2415–17.

41. *Id.* at 2415 (stating that if genuine ambiguity remains, then the agency’s reading must still be “reasonable”).

42. See *Chevron, U.S.A., Inc.*, 467 U. S. at 843, n.9 (1984) (illustrating the *Chevron* steps). *Chevron* step one involves determining whether Congress has directly spoken to the issue. *Id.* The court employs a “traditional tools of construction” analysis, which involves reviewing the regulation’s text, structure, history, and purpose, as if there was no federal agency to fall back on. *Id.* Step two involves determining whether the agency’s interpretation of the statute is permissible. *Id.*

43. *Kisor*, 139 S. Ct. at 2415.

44. *Id.*

45. *Id.* at 2416–17.

46. *Id.* at 2416.

47. See *Paralyzed Veterans of Am. v. D.C. Arena L.P.*, 117 F.3d 579, 587 (D.C. Cir. 1997) (explaining that, historically, courts have not offered deference to an agency’s interpretation when it comes from a mid-level official); see also *Lucia v. SEC*, 138 S. Ct. 2044, 2049 (2018).

48. *Kisor*, 139 S. Ct. at 2421.

49. *Id.* at 2417.

ambiguous and admonished that the panel assumed too quickly that Congress had intended *Auer* deference to apply.⁵⁰

Justice Gorsuch, joined by Justice Thomas (and, in parts, Justice Kavanaugh and Justice Alito), filed a lengthy concurrence in which he disagreed with most of the majority's (and plurality's) points,⁵¹ hinting at the direction the Court may be headed on deference given the positions of the younger conservative members and the aging liberal bloc.⁵² He contended that *Auer* undermines the distinction between informal and interpretive rulemaking procedures in the APA.⁵³ He argued that *Auer* "sits uneasily with the Constitution,"⁵⁴ and that agencies may have underlying political agendas, and therefore may lack the impartiality that an Article III court offers⁵⁵ he would instead have overruled *Auer*, replacing it with the softer *Skidmore* respect.⁵⁶ He also contended that the new *Auer* formula will do more harm than good, given its multiple steps and guidelines,⁵⁷ and will lead to more uncertainty and unnecessary litigation.⁵⁸

The new *Kisor* test directly affects the USPTO. The Federal Circuit reviews cases appealed from the PTAB. While the Federal Circuit does not as yet regularly consider the *Auer* doctrine, it was the recent focus of an important 2017 *en banc* opinion—*Aqua Products, Inc. v. Matal*—and another contentious recent case, *Facebook v. Windy City*, and promises to be the subject of future challenges to administrative procedures before the Board, facially or on appeal from the merits. But better consure *Aqua*, it is first important to consider the Federal Circuit's role in reviewing one of the nation's largest agencies—the USPTO.

50. *Id.* at 2424.

51. *Id.* at 2425 (Gorsuch, J., concurring); *Kisor v. Wilkie: Auer Deference Lives On, But In What Form?*, DAVIS POLK & WARDWELL (June 27, 2019), https://www.davispolk.com/files/2019-06-27_kisor_v_wilkie_auer_deference_lives_on_but_in_what_form.pdf.

52. *But see* Jack Goldsmith, *The Shape of the Post-Kennedy Court*, Washington Examiner, July 02, 2018, available at <https://www.washingtonexaminer.com/weekly-standard/the-post-kennedy-supreme-court-isnt-likely-to-be-as-conservative-as-liberals-fear> (conservative commenter suggesting fears of a conservative-leaning court may be premature based on an unpredictable political environment).

53. *Kisor*, 139 S. Ct. at 2434 (Gorsuch, J., concurring) (asserting that *Auer* deference makes interpretive rules binding without having to undergo the notice-and-comment procedures Congress built into the APA).

54. *Id.* at 2438.

55. *Id.* at 2439 (Gorsuch, J., concurring) (reiterating that agencies have their own interests and policy goals, and that they may choose to press the case for the side they represent instead of adopting the fairest and best reading).

56. *Id.* at 2447.

57. *Id.*

58. *Id.*

III. HOW THE FEDERAL CIRCUIT HAS APPLIED DEFERENCE TO THE USPTO

A. Background of the USPTO and the PTAB

The Department of Commerce governs the USPTO. The USPTO promulgates procedural rules and regulations through quasi-legislative proceedings; it also holds quasi-judicial adjudicatory hearings.⁵⁹ Until recently, though, it was treated differently from other agencies by its reviewing court, the Federal Circuit, which had argued for decades that the USPTO did not have power to substantively change patent law⁶⁰—and that it could only promulgate rules related to internal procedural issues⁶¹ and routinely finding *Chevron* did not apply.⁶² With the America Invents Act of 2011, however, Congress granted the agency the authority to set substantive standards for *inter partes* review (“IPR”), post-grant review, and derivation proceedings for agency adjudications;⁶³ the Supreme Court later recognized this as conferring rulemaking authority upon the agency to set those standards.⁶⁴

Adjudicatory proceedings include agency determinations outside of the rulemaking process that aim to resolve disputes between either agencies and private parties or between two private parties.⁶⁵ The adjudication process

59. *Merck & Co. v. Kessler*, 80 F.3d 1543, 1549–50 (Fed. Cir. 1996) (explaining that the USPTO prescribes rules governing the conduct of proceedings at the USPTO).

60. The Court argued that substantive patent law changes were reserved to the Federal Circuit and the Supreme Court. *See Animal Legal Defense Fund v. Quigg*, 932 F.2d 920, 930 (Fed. Cir. 1991); *see also Koninklijke Philips Elecs. N.V. v. Cardiac Sci.*, 590 F.3d 1326, 1336 (Fed. Cir. 2010) (citing *Animal Legal* for the holding that the Patent Office “lacks substantive rulemaking authority”); *Tafas v. Doll*, 559 F.3d 1345, 1352 (Fed. Cir. 2009) (same), *reh’g en banc granted*, 328 F. App’x 658 (Fed. Cir. 2009), *appeal dismissed*, *Tafas v. Kappos*, 586 F.3d 1369, 1371 (Fed. Cir. 2009); *Cooper Techs. Co. v. Dudas*, 536 F.3d 1330, 1336 (Fed. Cir. 2008) (same).

61. *See id.* at 1549–50 (the Federal Circuit in *Kessler* argued that at that time, Congress had only authorized the USPTO to “promulgate regulations directed only to ‘the conduct of proceedings in the PTO,’ but not ‘to issue substantive rules.’”).

62. *See, e.g., Belkin Int’l, Inc. v. Kappos*, 696 F.3d 1379, 1381 (Fed. Cir. 2012) (stating that the Board’s interpretation of underlying patent statutes is “review[ed] de novo”); *Kessler*, 80 F.3d at 1549–50; *Glaxo Operations UK Ltd. v. Quigg*, 894 F.2d 392, 398 (Fed. Cir. 1990); *see also Sarah Tran, Patent Powers*, 25 HARV. J.L. & TECH. 609, 616 (2012) (“The Federal Circuit . . . has assumed exclusive responsibility for making substantive interpretations of the Patent Act . . .”); Sapna Kumar, *Expert Court, Expert Agency*, 44 U.C. DAVIS L. REV. 1547, 1550 (2011).

63. *See Melissa F. Wasserman, The Changing Guard of Patent Law: Chevron Deference for the PTO*, 54 WM. & MARY L. REV. 1959, 1983 (2013) (observing that the AIA’s legislative history reveals Congress’s intent to establish a formal adjudication process).

64. *See Cuzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131 at 2135, 2146 (2016) (holding that the AIA’s regulations regarding an IPR standard granted substantive rulemaking authority); Sarah Tran, *Patent Powers*, 25 HARV. J.L. & TECH. 609, 632 (2012) [hereinafter *Tran*] (arguing the AIA conferred substantive rulemaking authority on the agency). *See also Melissa F. Wasserman, The PTO’s Asymmetric Incentives: Pressure to Expand Substantive Patent Law*, 72 OHIO ST. L.J. 379, 382–83 (2011) (arguing the Patent Office has often developed substantive patent law standards).

65. *See Tran, supra note 64 at 631.*

results in an adjudicative order, which settles the dispute between the two parties and, if the USPTO designates the hearing as precedential per their guidelines, may guide agency policy.⁶⁶ The USPTO has Administrative Patent Judges (“APJs”) who preside over adjudicatory hearings at the PTAB.⁶⁷ The PTAB, renamed and reformed by the America Invents Act in 2012, decides appeals from the decisions of patent examiners and adjudicates the patentability of issued patents challenged by third parties in post-grant proceedings.⁶⁸ A patent applicant whose application is rejected can appeal the patent examiner’s decision to the PTAB.⁶⁹ Anyone other than the patent owner can challenge the claims of an issued patent at the PTAB. Such proceedings are adjudicatory hearings which take place after the USPTO grants a patent.⁷⁰

A hearing at the PTAB is an agency adjudication before a panel comprising of three APJs, selected based on their relevant skill and experience in the technical subject area at issue. The PTAB determines whether a patent is valid under the AIA.⁷¹ While there are multiple ways to challenge a patent before the PTAB, IPR is by far the most popular, accounting for 93% of all petitions.⁷² Through an IPR, a challenger can seek to cancel patent claims under either 35 U.S.C. § 102, which governs novelty,⁷³ or 35 U.S.C § 103, which governs obviousness.⁷⁴ After Congress created the PTAB, the USPTO published

66. See JEFFREY S. LUBBERS, A GUIDE TO FEDERAL AGENCY RULEMAKING 123–24 (5th ed. 2012) (explaining that legislative rulemaking can result in policy changes at federal agencies); Patent Trial & Appeal Bd., *Standard Operating Procedure 2, Publication of Decisions and Designation or De-designation of Decisions as Precedential or Informative*, USPTO, <https://www.uspto.gov/sites/default/files/documents/SOP2%20R10%20FINAL.pdf> (last visited Oct. 13, 2019) [hereinafter SOP 2]; *infra* Part III-B.

67. *About Us*, UNITED STATES PATENT AND TRADEMARK OFFICE, <https://www.uspto.gov/about-us> (last visited Aug. 22, 2019) (explaining how USPTO operates); *Patent Trial and Appeal Board*, USPTO, <https://www.uspto.gov/patents-application-process/patenttrialandappealboard> (last visited Aug. 22, 2019) (same, for the PTAB).

68. See generally *Oil States Energy Servs., LLC v. Greene’s Energy Grp., LLC*, 138 S. Ct. 1365, 1374 (2018) (explaining that IPRs fall within Congress’s Article I authority); Janet Gongola, *The Patent Trial and Appeal Board: Who Are They and What Do They Do?*, USPTO, <https://www.uspto.gov/learning-and-resources/newsletter/inventors-eye/patent-trial-and-appeal-board-who-are-they-and-what> (last visited Oct. 25, 2019).

69. *The Patent Trial and Appeal Board: Who Are They and What Do They Do?*, USPTO, <https://www.uspto.gov/learning-and-resources/newsletter/inventors-eye/patent-trial-and-appeal-board-who-are-they-and-what> (last visited Oct. 25, 2019).

70. See *Tran*, *supra* note 64 at 631.

71. Office Patent Trial Practice Guide, 77 Fed. Reg. 48,756, 48,766 (Aug. 14, 2012) [hereinafter TPG].

72. *Trial Statistics*, UNITED STATES PATENT AND TRADEMARK OFFICE, https://www.uspto.gov/sites/default/files/documents/trial_statistics_20180430.pdf (showing that 10,226 of the 11,046 petitions filed between September 16, 2012 and January 31, 2020 were IPRs).

73. A patent is not novel under § 102 if there is prior art, such as a previous invention, that discloses the claimed invention. 35 U.S.C. § 102 (2012).

74. A claimed invention is considered obvious under § 103 if the combination of elements in the claimed invention would be obvious to someone having experience in that subject area. 35 U.S.C. § 103 (2012); see *KSR Int’l Co. v. Teleflex Inc.*, 550 U.S. 398, 402 (2007).

the Office Trial Practice Guide (“TPG”) in the Federal Register, with the purpose of alerting the public to the procedures and timeline for proceedings at the PTAB, including IPRs.⁷⁵

B. Deference to USPTO Decisions and Guidance

The USPTO occasionally issues informal rules promulgated through notice-and-comment meant to bind the agency.⁷⁶ Such rules clarify agency practices by implementing the industry expertise of those working at the USPTO.⁷⁷ Rules promulgated through notice-and-comment have the binding force of law.⁷⁸ More often, the USPTO relies on guidance and policy statements, which gives attorneys more information on how to apply the rules promulgated, but are not supposed to bind parties, either outside the agency, or before it.⁷⁹

The USPTO Director has adopted the practice of occasionally designating routine adjudication as precedential or informative, or elevating certain issues to a special precedential panel.⁸⁰ A precedential decision is meant to establish binding rules over other parts of the agency.⁸¹ To designate a PTAB decision as precedential, the full Board is given the opportunity to review and vote on the opinion, and the Director must approve the designation.⁸² Alternatively, they may use the Precedential Opinion Panel to designate certain disputes and their outcomes of special precedential relevance. An informative decision, in contrast, is meant to guide parties and the Board on frequently recurring issues and provides a representative sample of outcomes on a matter.⁸³ The USPTO clearly has the authority to issue notice-and-comment regulations for procedural issues, which govern standards for IPRs, term of art

75. See TPG, 77 Fed. Reg. 48,756, 48,756 (Aug. 14, 2012).

76. 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, 1312-13 (1992) (clarifying that to have binding authority, rules should be accompanied by a notice-and-comment period). In contrast, interpretive rules interpret statutory language which has some tangible meaning to the agency. *Id.* at 1312.

77. See *Kisor v. Wilkie*, 139 S. Ct. 2400, 2413 (2019) (noting agencies have unique technical expertise to regulate in complex or changing circumstances).

78. *Id.* at 1315.

79. *Id.* at 1315 (pointing out that guidance documents are policy statements and are not meant to have the binding force of law); see *Examination Guidance and Training Materials*, UNITED STATES PATENT AND TRADEMARK OFFICE, <https://www.uspto.gov/patent/laws-and-regulations/examination-policy/examination-guidance-and-training-materials> (last visited Nov. 3, 2019); see Anthony, *supra* note 76, at 1384.

80. See 35 U.S.C. § 1 (2012); SOP 2, *supra* note 66, at 1.

81. SOP 2, *supra* note 66, at 2-3, 11.

82. *Id.*; *Aqua Prods., Inc. v. Matal*, 872 F.3d 1290, 1301 n.4 (Fed. Cir. 2017).

83. SOP 2, *supra* note 66, at 9.

definitions, and claim construction.⁸⁴

Historically, the Federal Circuit has deferred to the Director's decisions and Board rulings unless the interpretation is "plainly erroneous or inconsistent with the regulation."⁸⁵ However, following Supreme Court precedent, the Federal Circuit has vested the Director's decisions with neither *Chevron* deference (when the USPTO regulation "merely parrots the statutory language") nor *Auer* deference (when the USPTO interprets such a regulation).⁸⁶

In a recent case Federal Circuit case, *Aqua Products, Inc. v. Matal*, the court examined *Auer* deference vis-a-vis PTAB decisions.⁸⁷ Aqua Products, Inc. owned U.S. Patent 8,273,183 (the '183 patent) which disclosed an automated jet-propelled swimming pool cleaner without an electric drive motor.⁸⁸ A competitor, Zodiac Pool Systems, petitioned the PTAB for IPR on certain claims of the '183 patent, claiming that it was invalid as both non-novel and obvious.⁸⁹ Aqua then moved to substitute some of the challenged claims with amended claims, in compliance with § 316(d), but the PTAB denied Aqua's motion because Aqua had failed to prove that the substitute claims were patentable.⁹⁰ Aqua appealed to the Federal Circuit, arguing that under § 316(e)'s plain language, it did not have to prove patentability.⁹¹ The three-judge panel rejected Aqua's argument, concluding that the PTAB had allocated the burden of patentability to the patentee.⁹² The Federal Circuit then granted Aqua's petition for rehearing *en banc* to decide whether the USPTO requires patent

84. See Kessler, 80 F.3d at 1549–1550 (arguing the USPTO lacks substantive rulemaking authority); *but see* *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2146 (2016) (finding that the USPTO's substantive claim construction standard was reasonable and finding they had rulemaking authority to issue it); TPG, 77 Fed. Reg. 48,756, 48,756 (Aug. 14, 2012) (promulgating rules related to IPRs through notice-and-comment); *see infra* Part IV-**Error! Reference source not found.**

85. *Eli Lilly & Co. v. Bd. of Regents of Univ. of Washington*, 334 F.3d 1264, 1268 (Fed. Cir. 2003) (holding the Director's interpretation of a rule to require a "two-way test" to determine whether two parties claimed the same invention was an interpretation of the Director's own regulations, and so that interpretation was controlling unless plainly erroneous or inconsistent with the regulation). *Id.*; *see also* *Koninklijke Philips Elecs. N.V. v. Cardiac Sci. Operating Co.*, 590 F.3d 1326, 1334 (Fed. Cir. 2010); *B.E. Tech., LLC v. Google, Inc.*, No. 2015-1827, 2016 WL 6803057, at *7 (Fed. Cir. Nov. 17, 2016).

86. *Power Integrations, Inc. v. Semiconductor Components Indus., LLC*, 926 F.3d 1306, 1318 (Fed. Cir. 2019) (holding that an agency does not need special authority to interpret its own words when formulating a regulation.)

87. 872 F.3d 1290 (Fed. Cir. 2017).

88. *Id.* at 1297.

89. *Id.*; 35 U.S.C. § 102 (2012); 35 U.S.C. § 103 (2012).

90. *Aqua Prods.*, 872 F.3d at 1297; 35 U.S.C. § 316(d) (2012) (explaining that in an IPR, the patent owner may file a motion to amend to either cancel the challenged patent claims or to substitute different claims for the challenged ones).

91. 35 U.S.C. § 316(e) (2012) (disclosing that in an IPR, the petitioner shall have the burden of proving unpatentability).

92. *Aqua Prods.*, 823 F.3d at 1373.

owner to bear the burden of persuasion regarding the patentability of amended claims under 35 U.S.C. § 316(e).⁹³

In a five-judge plurality opinion spanning 135 pages, the Federal Circuit agreed that the burden of persuasion regarding the patentability of amended claims was on the petitioner, but the court was deeply divided on how to reach that conclusion.⁹⁴ In her plurality opinion, Judge O'Malley explained that Congress, through the AIA, granted rulemaking authority to the Director of the Patent Office under 35 U.S.C. § 316(a).⁹⁵ Invoking this authority, the Director promulgated 37 C.F.R. § 42.121 and § 42.20.⁹⁶ The first rule, 37 C.F.R. § 42.121 (Rule 42.121), clarifies 35 U.S.C. § 316(d) by setting boundaries for patent owners in seeking to amend their claims. The second, 37 C.F.R. § 42.20 (Rule 42.20), governs motion practices before the PTAB.⁹⁷ The USPTO argued these provisions state that the burden of persuasion for patentability is on the patent owner, and that it must rest there, given that the patentability of amended claims depends on "prior art not already part of the IPR."⁹⁸ The Director also endorsed this interpretation, but argued that the interpretation should be accorded *Auer* deference.⁹⁹

In its argument, the USPTO referenced two recent PTAB decisions, *Idle Free v. Bergstrom, Inc.*¹⁰⁰ and *MasterImage v. RealD Inc.*,¹⁰¹ which stated that the ultimate burden of persuasion regarding the question of patentability is on the patent owner.¹⁰² However, as Judge O'Malley pointed out, neither Rule 42.20 nor Rule 42.121 set forth specific requirements regarding the patent owner's burden.¹⁰³ The comments in the Federal Register did not mention the burden of persuasion, and neither *Idle Free* nor *MasterImage* were published in the Federal Register, rendering them lacking the force and effect of law.¹⁰⁴ Neither

93. *Id.* at 1297.

94. *Id.* at 1296.

95. *Id.* at 1297; 35 U.S.C. § 316(a) (2012) (explaining that the Director can prescribe regulations governing IPRs).

96. *Inter Partes* Review: Amendment of the Patent, 37 C.F.R. § 42.121 (2018); Petition and Motion Practices: Generally, 37 C.F.R. § 42.20 (2018).

97. Petition and Motion Practices: Generally, 37 C.F.R. § 42.20 (2018). Any relief requested must be in a motion, and the moving party must prove that it is entitled to such relief. *Id.*

98. *Aqua Prods.*, 872 F.3d at 1301.

99. *Id.*

100. No. IPR2012-00027, 2013 WL 5947697, at *4 (P.T.A.B. June 11, 2013).

101. No. IPR2015-00040, 2015 WL 10709290, at *2-4 (P.T.A.B. July 15, 2015).

102. See *Idle Free Sys., Inc.*, IPR2012-00027, 2013 WL 5947697, at *4 (examining 35 U.S.C. § 316(d) and discussing the requirement that an amendment may be denied when a claim introduces new matter, and must contain patentable distinctions over the prior art of record without mentioning Rule 42.121 or Rule 42.20); *MasterImage 3D, Inc.*, IPR2015-00040, 2015 WL 10709290, at *2-4 (clarifying *Idle Free* by providing policy explanations for its previous decision without mentioning Rule 42.121 or Rule 42.20).

103. *Aqua Prods.*, 872 F.3d at 1301.

104. *Id.* at 1301. The USPTO also designated the decision as informative, which is not binding. *Id.*

informative nor precedential decisions thus received any deference.¹⁰⁵ In dissent, Judge Hughes, joined by Judge Chen, opined that the USPTO should be accorded *Auer* deference over their interpretation of the regulation itself because its interpretation was not “plainly erroneous” and was also the most reasonable reading of Rule 42.20.¹⁰⁶

Aqua Products illustrates plainly that the Federal Circuit is divided as how to apply *Auer* deference, even under the less penetrating “plainly erroneous” standard.¹⁰⁷ Given that divide, how they will deal with a tangled *Kisor* ruling more complicated than what came before is anyone’s guess.

And, while practitioners have stressed *Auer*’s utility,¹⁰⁸ the more complicated the *Auer/Kisor* standard gets, the more difficult it is likely to be to apply, leading to more confusion and more needless litigation.¹⁰⁹ At bottom, the new *Kisor* standard is more labyrinthine than the previous “plainly erroneous” standard, and thus may not be as effective as before. And as shown in *Aqua Products*, the Federal Circuit is still divided on how apply even the earlier *Auer* formulation to USPTO proceedings—there, the court grants deference to some forms of agency decision-making—like rulemaking, in some instances—but not others (like adjudication).¹¹⁰

More recently, the Federal Circuit decided *Facebook v. Windy City Innovations, LLC*, though the finality and authority of that ruling itself is up for debate.¹¹¹ That case addressed the deference the USPTO should be offered in its interpretation of 35 U.S.C. § 315(c), which outlines joinder rules in IPR proceedings.¹¹² There the Court held that even under *Chevron*, the court owes an agency’s interpretation of the law no deference unless, after employing

105. *Id.* at 1316; *see supra* note 66, at 9 (clarifying that informative decisions are only meant to provide norms for recurring issues, not to be binding on the agency).

106. *Id.* at 1358 (Hughes, J., dissenting). Judge Hughes also suggested there may have been no comments on Rule 42.20 or Rule 42.121 on the burden of persuasion for patentability because it may have been the “broadest and most accepted idea. *Id.* He opined that excessive notices will hinder the effectiveness of agency proceedings, and “upend administrative law as we know it.” *Id.* at 1365.

107. *Auer v. Robbins*, 519 U.S. 452, 453 (1997).

108. Kristen E. Hickman & Mark Thomson, *The Chevronization of Auer*, 103 MINN. L. REV. HEADNOTES 103, 109 (2019) [hereinafter Hickman & Thomson](stating that *Auer*’s defenders contend it “(1) simplifies the judicial task; (2) ensures that courts across the country give the same meaning to ambiguous regulations; and (3) allows regulated parties to more accurately forecast how courts will construe ambiguous regulations”).

109. *Id.* at 104.

110. *Aqua Prods., Inc. v. Matal*, 872 F.3d 1290, 1358; Hickman & Thomson, *supra* note 108, at 105.

111. 953 F.3d 1313 (Fed. Cir. 2020), *add’l briefing granted*, No. 18-1400, Doc. 102 (Fed. Cir. Apr. 30, 2020) (granting additional post-opinion briefing regarding whether *Thryv, Inc. v. Click-to-Call Technologies, LP*, 140 S. Ct. 1367 (2020)

merits granting, vacating, and remanding the original opinion as ruling on an unappealable issue).

112. 35 U.S.C. § 315(c) (2012). Even if the decision is ultimately held to have been *ultra vires*, it stands as another example of how the appellate court will apply deference questions to the agency’s rulemaking procedures.

traditional tools of statutory construction, the court finds itself unable to discern Congress's meaning.¹¹³ Here, Chief Judge Prost held that the statute's language was clear and unambiguous, and the USPTO was therefore not entitled to any deference.¹¹⁴ And even if the Federal Circuit were to offer deference to the USPTO, the decision would have to be designated as precedential and reflect the PTAB's expertise, not just resolve a "pure question of law."¹¹⁵ This case shows how the Federal Circuit addresses deference doctrines, and gives the USPTO the opportunity to update its rulemaking procedures if it wants to be offered deference in the future.¹¹⁶

Windy City Innovations also, and most relevantly here, included "additional views" from the entire panel, Chief Judge Sharon Prost, Judge Jay Plager, and Judge Kathleen O'Malley (as authored by Judge O'Malley). That section, which is best thought of as dicta to the opinion, made the point to alternatively review the precedential status of the PTAB's Precedential Opinion Panel ("POP") ruling in *Proppant Express Investments, LLC v. Oren Technologies, LLC*,¹¹⁷ and whether those panel opinions should receive deference, whether *Chevron* or *Skidmore*.¹¹⁸ The panel found that they should receive neither: "[W]e would find that no deference is due to the POP opinion in *Proppant*."

The panel noted that Congress delegated certain rulemaking authority to the Director" to "specifically" "prescribe regulations."¹¹⁹ They noted that "The express delegation of rulemaking authority, thus, is for the Director to promulgate regulations governing the conduct of IPRs," and "not a delegation of authority to issue adjudicative decisions interpreting statutory provisions of the AIA."¹²⁰ They did not mince words: "[J]ust as we give no deference to nonprecedential Board decisions, we see no reason to afford deference to POP opinions."¹²¹

Perhaps most importantly for our purposes, the panel found that the panel rulings and procedures were not promulgated through notice-and-comment rulemaking, and that the procedures and commentary from the public laid down was insufficient: "There is no formal opportunity for public comment," they found; and "POP opinions, once decided, are not published in the Federal Register," thus "the POP decision may not be subject to judicial review at all."¹²²

113. 953 F.3d at 1328.

114. *Id.*

115. *Id.* at 1338, 1342 (Prost, C.J., filing additional views) (explaining that the Federal Circuit has never offered deference to nonprecedential PTAB decisions, and will not defer to the USPTO on issues that do not reflect its specific expertise).

116. *See supra* Part IV.

117. No. IPR2018-00914, Paper 38 (P.T.A.B. Mar. 13, 2019).

118. 953 F.3d at 1337.

119. *Id.* at 1339 (Fed. Cir. 2020) (quoting 35 U.S.C. § 316(a)).

120. *Id.*

121. *Id.* at 1340.

122. *Id.*

All which made them unworthy of *Chevron* deference, as they lacked the force or effect of law. And given that the statute was unambiguous, the court did not find the POP panels should be afforded *Skidmore* deference, either. While the precedential effect of that ruling itself is in doubt, the persuasive authority of those additional views is worth noting as consistent with our analysis here.

IV. RECOMMENDED USPTO RULEMAKING PROCEDURES POST-*KISOR*

After *Kisor* was handed down, administrative law scholars quickly weighed in: many warned existing deference doctrines were clearly on the chopping block.¹²³ While uncertainty persists, if the USPTO acts now to adapt to the new framework, it can still ensconce and defend its decisions following *Kisor*, as opposed to finding their rulings routinely reversed *de novo*.¹²⁴ In short, the USPTO has options to meet *Kisor*'s criteria; given the Federal Circuit's admonitions in *Windy City*, it would behoove the agency to act quickly to address the perceived deficiencies in their rulemaking processes.

First, it is worth noting that the Supreme Court held that procedural rules governing the conduct of an IPR may earn *Chevron* deference, if properly promulgated.¹²⁵ In sum, if they are notice-and-comment rules, they would be more likely to receive *Auer* deference because they would (1) be the agency's official and authoritative position; (2) implicate its substantive expertise; and (3) reflect its fair and considered judgment due to the comment period, meeting the *Kisor* test.

To date, the USPTO has published very few of the rules governing the Board, the precedential opinion process, or the supposedly binding rulings they list on their website via notice-and-comment. This runs the risk of frequent reversal and scrutiny from the Courts, as seen on display in *Windy City*. The USPTO should publish updates to the TPG and the Standard Operating Procedure ("SOP 2") in the Federal Register as Notices of Proposed Rulemaking ("NPRMs"), pursuant to notice-and-comment rulemaking, both to ensure that the public has proper notice of and can address their concerns with the

123. *E.g.*, Eric S. Schmitt, *Kisor v. Wilkie—a Swing and a Miss*, SCOTUSBLOG (June 27, 2019, 12:46 PM) <https://www.scotusblog.com/2019/06/symposium-kisor-v-wilkie-a-swing-and-a-miss/> (stating *Kisor* missed the chance to restore the role of federalism and separation of powers in administrative law); Corbin K. Barthold & Cory L. Andrews, *A Small Win for James Kisor; a Big Loss for the Constitution*, SCOTUSBLOG (June 27, 2019, 2:19 PM) (noting the fight over *Auer* deference toward ambiguous regulations may be lost, but the fight over deference under *Chevron* is surely on the horizon); Kristen E. Hickman, *To Repudiate or Merely Curtail? Justice Gorsuch and Chevron Deference*, 70 ALA. L. REV. 733, 735 (discussing how Justice Gorsuch fervently disagrees with *Chevron* deference); Hickman & Thomas *supra* note 108.

124. *See infra* Part IV-**Error! Reference source not found.-C.**

125. *Cuozzo*, 136 S. Ct. at 2135, 2146 (2016) (holding that the USPTO's regulation regarding an IPR standard was a reasonable exercise of rulemaking authority granted to the agency by statute).

updates—given the serious substantive rights both affect across thousands of disputes—but more importantly, to grant them judicial deference on appeal, and to ensure they are not quickly reversed or rescinded by subsequent administrations.¹²⁶ It should do the same for any POP rulings interpreting its own rules and regulations.

The TPG, for example, was originally published in the Federal Register in 2012 and came with a notice-and-comment period.¹²⁷ Since then, the TPG has undergone a number of changes,¹²⁸ none of which were adopted through notice-and-comment rulemaking—they were simply posted to the USPTO's website and listed in the Federal Register without allowing any comment, and without filing an NPRM.¹²⁹ The PTAB can ensure that it receives appropriate (or indeed, any) deference on appeal by subjecting the updates to notice-and-comment rulemaking procedures,¹³⁰ because they would be the agency's official position, implicate its substantive expertise, and reflect its fair and considered judgment.¹³¹ As it stands, the updates to the TPG—in particular the July 2019¹³² update, which has had a dramatic impact on the number of discretionary denials by the Board,¹³³ reversed six years of accepted Board

126. See *infra* Part IV-**Error! Reference source not found.**

127. See TPG, 77 Fed. Reg. 48,756 (Aug. 14, 2012) (stating that the USPTO published several notices of proposed rulemaking in February 2012 and requested written comments on its proposed implementation of the new trial proceedings of the AIA).

128. Patent Trial & Appeal Bd., *Trial Practice Guide Update (July 2019)*, USPTO, <https://www.uspto.gov/sites/default/files/documents/trial-practice-guide-update3.pdf> (last visited Oct. 17, 2019).

129. See *generally id.* (showing that the USPTO trial practice guide updates are only posted online and do not undergo notice-and-comment procedures).

130. See THE WHITE HOUSE, EXECUTIVE ORDER ON PROMOTING THE RULE OF LAW THROUGH IMPROVED AGENCY GUIDANCE DOCUMENTS (2019) (explaining that to have the binding effect of law, guidance documents should be subject to a notice-and-comment period to allow the public to voice their concerns).

131. *Kisor v. Wilkie*, 139 S. Ct. 2400, 2417 (2019).

132. PTAB TRIAL PRACTICE GUIDE UPDATE (July 2019 Update), <https://www.uspto.gov/sites/default/files/documents/trial-practice-guide-update3.pdf?MURL=>, *noticed in* Office Patent Trial Practice Guide, July 2019 Update, 84 Fed. Reg. 33,925 (July 16, 2019), *available at* <https://www.federalregister.gov/documents/2019/07/16/2019-15083/office-patent-trial-practice-guide-july-2019-update>.

133. Indeed, internal data from Unified Patents, LLC shows that almost 9% of petitions decided on were denied institution under the Director's discretionary authority (35 U.S.C. § 314) in the 2019 calendar year—more than double the previous year—resulting in over 100 petitions being denied for non-substantive reasons. See Andrew Dietrick and Jonathan Stroud, *Rules to Bind You: Problems with the USPTO's Recent PTAB Rulemaking Procedures* (forthcoming 2020) (on file with author) (data on file with author). Another article in this volume notes a number of those denials came from parties filings multiple petitions on a patent at the same time—a practice once widely accepted, but now *de facto* prohibited under the new rules. See Monica Grewal, Heather Petruzzi, and Wenli Gu, *Ranking Parallel Petitions before the PTAB: A Survey*, CHICAGO-KENT J. INTEL. PROP. (forthcoming 2020) (counting cases since the July 2019 update).

practice, and has laid down de facto filing rules—do not.¹³⁴ The *sua sponte* July 2019 TPG updates in particular are vulnerable to searching appellate review and direct facial challenge.

The USPTO also publishes a Standard Operating Procedure guide (SOP, in relevant part, SOP 2), which includes guidance for determining whether a PTAB decision is precedential or informative.¹³⁵ But the SOP has never gone through notice-and-comment rulemaking.¹³⁶ Therefore, the Federal Circuit will likely only view it as interpretive guidance, and will not defer to the agency on it;¹³⁷ it also cannot carry the force and effect of law, nor can its progeny. That would mean that any precedential case the Board relies on carries no weight and the designation itself lacks the force and effect of law, and the PTAB judges are free to ignore it as lacking the force and effect of law. To ensure consistent application of those rules, the PTAB should promulgate its Standard Operating Procedure—and its precedential opinions—via notice-and-comment rulemaking.

To wit—and because it is a ready example of well-handled administrative change—the USPTO should use its successful Covered Business Method program under the AIA as a model for how it updates its programs and ensures they have the force and effect of law.¹³⁸

A. *The Covered Business Method Program as a Case Study*

Under the AIA, certain patents directed to business methods are eligible for the Covered Business Method (CBM) review program.¹³⁹ As part of this program, the USPTO published a definition of a “technological invention” in the Federal Register.¹⁴⁰ Despite receiving numerous comments, which it addressed at length, the USPTO settled on the as-noticed definition as the most reasonable solution.¹⁴¹ Nonetheless, the rule—if challenged in court—would

134. *Id.* at 2420 (defining that courts always have the final authority to approve an agency’s interpretation of that notice-and-comment rule).

135. SOP 2, *supra* note 66, at 2–3, 9, 11.

136. *See id.* (showing that the Standard Operating Procedures are only published online and that they did not undergo any notice-and-comment period).

137. *Aqua Prods., Inc. v. Matal*, 872 F.3d 1290, 1301 (Fed. Cir. 2017) (declining to give deference to an interpretive and informative decision); *see generally* SOP 2, *supra* note 66, at 8 (explaining that the Federal Circuit does not have a duty to defer to interpretive guidance).

138. *See infra* Part IV-B.

139. Changes to Implement Inter Partes Review Proceedings, Post-Grant Review Proceedings, and Transitional Program for Covered Business Method Patents, 77 Fed. Reg. 48,680, 48,687 (Aug. 14, 2012).

140. Transitional Program for Covered Business Method Patents—Definitions of Covered Business Method Patent and Technological Invention, 77 Fed. Reg. 48,734, 48,735 (Aug. 14, 2012) (discussing the comment process, and showing that the final definition was published as a rule in 37 C.F.R. § 42.301(b)).

141. *Compare* Transitional Program for Covered Business Method Patents—Definition of Technological Invention, 77 Fed. Reg. 7,095, 7,096 (Feb. 10, 2012) *with* Transitional Program for

receive *Chevron* deference as being the plain product of notice-and-comment rulemaking, as intended to have the force and effect of law, and as interpreting a plainly ambiguous statutory term.

The USPTO could easily have engaged in the same exercise for the PTAB TPG and SOP 2 guidelines, and it should for any future updates it hopes to have the force and effect of law. The USPTO should, too, solicit comments from the public surrounding any planned updates to these guidelines, even if it eventually adopts the proposed updates without modifications, as it did for the CBM program.¹⁴² It can do either formally or informally, but collecting public comments and an administrative record justifying any change in the rules is critical. Duly promulgating the TPG and SOP 2 will give more weight to critical rules and will give the USPTO a better chance of receiving deferential treatment from the Federal Circuit when the next agency decree is challenged.

CONCLUSION

In conclusion, *Kisor* reshapes *Auer* deference, and the Federal Circuit must now use the Supreme Court's multi-factor, multi-step test,¹⁴³ which is a complicated framework that may create more litigation than it resolves.¹⁴⁴ Given the changes in the composition of the Supreme Court and the complexity of *Auer* following *Kisor*, *Auer* deference might soon be replaced entirely by the wafer-thin *Skidmore* respect.¹⁴⁵

As evidenced in *Aqua Products*, the Federal Circuit was already bitterly divided on how to apply *Auer*.¹⁴⁶ *Windy City* showed the reservations the Circuit has with the lack of notice-and-comment rulemaking attendant in their administration. And *Kisor* seems unlikely to untie those knots. To stave off future challenges, the PTAB should seek to ground their most important rules in notice and comment rulemaking and should ensure those cases actually interpret the rules the USPTO promulgated in the way the USPTO says they do.¹⁴⁷ Precedential cases, to receive any form of deference, should be based on rules and regulations promulgated through notice-and-comment.

As *Kisor* imposes a higher and more tortured standard than *Auer*, the USPTO should simply step up and start promulgating more rules in the Federal Register pursuant to notice and comment rulemaking, such as their TPG and

Covered Business Method Patents—Definitions of Covered Business Method Patent and Technological Invention, 77 Fed. Reg. 48,734, 48,753 (Aug. 14, 2012).

142. Transitional Program for Covered Business Method Patents—Definitions of Covered Business Method Patent and Technological Invention, 77 Fed. Reg. 48,734, 48,753 (Aug. 14, 2012).

143. *Kisor v. Wilkie*, 139 S. Ct. 2400, 2415 (2019).

144. *Id.* at 2448 (Gorsuch, J., concurring).

145. *See id.* at 2446 (Gorsuch, J., concurring) (suggesting that *Auer* is not workable after *Kisor*).

146. *See supra* Part III-B (showing the multiple plurality opinion in *Aqua Products*).

147. *Aqua Prods., Inc. v. Matal*, 872 F.3d 1290, 1319 (Fed. Cir. 2017) (clarifying that *Idle Free* and *MasterImage* were not applicable, and so Rules 42.20 and 42.121 were not given deference).

SOP guide, to receive deference.¹⁴⁸ (They should also seek to comply with the Paperwork Reduction Act and a number of Trump Administration Executive Orders they seem to be ignoring, but that is beyond the scope of this Article.)¹⁴⁹

Kisor may seem like small potatoes, but it represents a shift in the landscape of administrative law that will be felt for years to come. *Auer's* (and perhaps *Chevron's*) days are most certainly numbered.

148. See *supra* Parts IV-A and IV-**Error! Reference source not found.** (showing how the USPTO solicited comments for its proposed Covered Business Methods program, but settled on its original definition of "Technological Invention").

149. For more on these violations, see generally Andrew Dietrick and Jonathan Stroud, *Rules to Bind You: Problems with the USPTO's Recent PTAB Rulemaking Procedures* (forthcoming 2020) (on file with author).