In the United States Patent and Trademark Office
Alexandria, VA

In re

CHANGES UNDER CONSIDERATION TO DISCRETIONARY INSTITUTION PRACTICES, PETITION WORD-COUNT LIMITS, AND SETTLEMENT PRACTICES FOR AMERICA PATENTS ACT TRIAL PROCEEDINGS BEFORE THE PATENT TRIAL AND APPEAL BOARD

Docket No. PTO-P-2020-0022

COMMENTS OF COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION

The Computer & Communications Industry Association (CCIA) submits the following comments in response to the U.S. Patent and Trademark Office’s April 21, 2023, Advanced Notice of Proposed Rulemaking.

CCIA is an international, not-for-profit trade association representing a broad cross section of communications and technology firms. For more than fifty years, CCIA has promoted open markets, open systems, and open networks. CCIA members employ more than 1.6 million workers, invest more than $100 billion in research and development, and contribute trillions of dollars to the global economy.

CCIA members are at the forefront of research and development in technological fields such as artificial intelligence and machine learning, quantum computing, and other computer-related inventions. CCIA members are also active participants in the patent system, holding approximately 5% of all active U.S. patents and significant patent holdings in other jurisdictions such as the EU and China. Beyond holding patents, CCIA members frequently engage with the AIA trial system as both petitioners and patent owners.

I. Summary

Consider this scenario: A foreign-backed non-practicing entity asserts patents against a leading U.S. chipmaker. The chipmaker files a set of IPR petitions, seeking to invalidate all

1 A list of CCIA members is available online at https://www.ccianet.org/about/members.
3 USPTO, Inventing AI, Fig. 6 (Oct. 2020), https://www.uspto.gov/sites/default/files/documents/OCE-DH-AI.pdf.
claims asserted against it in court. The petitions are discretionarily denied, without reaching a conclusion on the merits of the likely validity of the patents. A court judgment of more than $2 billion eventually issues against that party. After that judgment, other parties resurrect and file those petitions. This time, because there is no court case, the petitions are not discretionarily denied. In fact, they are instituted, with the PTAB noting that the petitions—petitions essentially identical to those filed by the chipmaker—exhibit a “compelling” case for invalidity. Both patents are ultimately invalidated.

There is only one way to describe this situation: a $2 billion judgment issued based on invalid patents because the USPTO chose not to examine the merits. This is not a hypothetical. This is the reality of discretionary denial. And maintaining the discretionary denial system will inevitably result in more outcomes like this one, with more harm done to American innovators and employers, often on behalf of foreign-backed litigation vehicles.

This result should not be surprising, given that a discretionary denial is always an admission that the patent is likely invalid. If the patent was unlikely to be proven invalid, then the PTAB would simply deny on the merits. Discretionary denials only have an impact when the PTAB would otherwise find that the patent is likely to be proven invalid. In other words, discretionary denials are a way for the Office to leave an invalid patent in force. Unfortunately, when the Office does so, that patent will be enforced against innovators—innovators like CCIA’s members, who sustain the nation’s lead in researching and developing new technologies.

The only conclusion that can be drawn is that discretionary denials are a clear contradiction of Congress’s intent. And beyond the clear contradiction of Congressional intent, the rules proposed in the ANPRM also contradict the clear statutory language.

While the Director has discretion in institution, that discretion does not permit her to ignore the boundaries Congress set. Congress gave petitioners a year to file a petition showing that a claim is likely invalid. The Director’s discretion does not permit her to set a rule that shortens that time period. Congress said that “a person who is not the owner of a patent” can file a petition. The Director’s discretion does not permit her to bar some set of persons from filing petitions. Congress was well aware of the existence of small and micro entities—indeed, the AIA created the category of micro entities. But Congress did not exclude their patents from AIA review. The Director lacks the authority to do so in its stead. Regardless of the alleged policy benefits from these proposals—benefits which are dubious at best—they are for Congress to enact, not the Director.

Further, the proposals would likely result in significant negative impacts on American innovators. IPRs are a net benefit, reducing deadweight losses by petitioners and patent owners alike, and rules which reduce access to IPR will also reduce those economic benefits.

And one goal of the proposed rules—clarity—is far better satisfied by the simpler, more predictable rule that Congress enacted. Rather than using discretionary denial, the Board should simply institute those petitions that show that at least one claim is likely to be proven invalid, denying those that do not. This is a simple, clear, predictable rule. The rules proposed in the ANPRM are not.

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The USPTO’s job is to issue valid patents and review patents to ensure they’re valid. Discretionary denial will always result in the Office maintaining patents it admits are likely invalid. No such system should be enacted, as it will invariably harm U.S. innovators. And no such system can be enacted without contradicting both Congressional intent and the clear language of the statute.

II. Where Congress Has Spoken, The Agency Cannot Act Otherwise

It is a core principle of administrative law that, where “Congress has directly spoken to the precise question at issue” and “the intent of Congress is clear” then “that is the end of the matter.”\(^7\) In those circumstances, the agency “must give effect to the unambiguously expressed intent of Congress.”\(^8\) Here, with respect to the proposed rules, Congress has spoken directly to the relevant questions—who can file a petition, how long they have to file it, what standard to apply, whose patents are subject to review, what—if any—estoppel takes effect, and when that estoppel takes effect. And it has done so clearly.

That is the end of the matter. The USPTO lacks any authority to institute rules like those proposed in the ANPRM.

While Congress provided the Director with some amount of discretion on institution, that discretion was intended to fill in gaps, not to contradict the statutory design. Gaps that discretion could fill include defining what qualifies as abuse of process or discovery, or what justice requires in the course of discovery.\(^9\)

But Congress also set a number of clear limits on the Director’s discretion over institution. Institution may only occur when the Director determines that a “reasonable likelihood that the petitioner would prevail” exists.\(^10\) The Director must inform the petitioner, the patent owner, and the public of that determination.\(^11\) Congress gave the petitioner one year after service of complaint to file their petition.\(^12\) And Congress said that “any person who is not the patent owner” may file a petition against a patent; it did not in any way limit the universe of patents against which a petition may be filed.\(^13\)

None of these limits are ambiguous. Congress debated various rules, but these are the rules that became law and the Director lacks the power to contradict or subvert Congress’s words. The rules proposed in the ANPRM would do exactly that.

Many members of Congress, including those heavily involved in the creation and passage of the AIA, have not hesitated to say so. Former members have stated that there are major problems with the proposals in the ANPRM.\(^14\) Current members of Congress have questioned

\(^8\) Id.
\(^12\) 35 U.S.C. § 315(b).
the USPTO’s authority to implement the rules in the ANPRM, with statements like “I’m seeing a lot of overstrep I don’t quite care for”, characterizing the proposed rules as inconsistent with the AIA, and stating that “it’s not up to the PTO to try and make the law and redo it in their rulemaking process.” Congress is correct—this is not the PTO’s role, and the PTO lacks authority to make these rules.

On this basis alone, the proposals in the ANPRM that contradict the AIA’s text and/or intent should be withdrawn. This includes the following:

- Changing the institution standard from the statutory text of “reasonable likelihood” to an ill-defined “compelling merits” test absent from the statute.
- Shortening the period within which a petition may be filed without facing an illegitimate discretionary denial based on non-statutory factors like median time to trial for co-pending litigation in district court, or to a six month period when the statute provides twelve months.
- Carving out small and micro entity patents from the universe of challengeable patents.
- Imposing a standing requirement on petitioners.
- Changing the statutory “real party in interest” estoppel to a “substantial relationship” estoppel.

III. Use of Discretionary Denial Always Means The Patent Is Likely Invalid

When faced with a petition, the Director must determine whether there is “a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.” Having done so, the Director must then “notify the petitioner and patent owner, in writing, of the Director’s determination” and “make such notice available to the public.” These provisions mean that the Director cannot, even when exercising discretion to deny a petition, avoid reaching a conclusion on the merits of the case. The statute requires that, whether instituting or denying a petition, the determination of the reasonable likelihood of success be provided. In the course of discretionary denials, the PTAB has historically ignored this requirement.

As a result, even if the PTO wishes to issue a discretionary denial, the Director is still obligated to analyze the merits of the case and inform the parties and the public of the merits of the case. And if the Director has analyzed the merits and finds that there is no likelihood of success, then a discretionary denial is unnecessary—she can simply deny the petition on the merits.

It is only when the analysis shows that there is a likelihood of success—that at least one claim is likely invalid—that a discretionary denial will result in a different outcome than the merits dictate. And because the merits analysis must always be conducted, discretionary denial is not a means of avoiding a merits determination.

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denials do not even result in increased efficiency for the Office, but rather create additional burdens on petitioner, patent owner, and PTAB alike.

Instead, discretionary denials only have an impact when the Director has determined that at least one claim of the patent is likely to be invalid. In those circumstances, and only those circumstances, a discretionary denial permits the Director to deny institution even though she believes the patent is likely invalid at least in part and would otherwise institute the petition.

That is not the system Congress intended to create. Indeed, as Senator Leahy—namesake of the Leahy-Smith America Invents Act—has said, “each petition should be heard on the merits and decided on the validity of the patent.” Discretionary denial creates a system where the opposite is true, with the validity of the patent no longer relevant in the face of factors that are found nowhere in the statute.

The PTO lacks the authority to pursue such a rule. And it is concerning that the agency whose role is to ensure that only valid patents are issued and remain in force is abdicating that mission.

IV. Discretionary Denials of Meritorious Proceedings Create Negative Economic Effects on Petitioners, Patent Owners, and the Public

Congress intended for AIA trials to provide “an effective and less expensive alternative to litigation.” And, in general, policy favors approaches that do not impose unnecessary costs on the participants or the public—in fact, the Office is required to consider the impact of regulation on the economy in its AIA rulemakings. In determining whether to conduct rulemaking on this topic, the Office should consider the economic impacts of rules that increase discretionary denial of meritorious petitions, which are likely to be significant. It should also consider the indirect impacts on parties not before the PTAB and the overall procedural cost of errors.

Once these costs are considered, it becomes clear that errors by denial of meritorious petitions are far more costly than errors by institution of petitions on patents ultimately determined to be valid, and thus that rulemaking should strongly disfavor discretionary denials. This complies with the Congressional objective of an effective and inexpensive alternative, as well as providing the most efficient policy that has the most positive economic impact.

A. Economic Impact of IPR Proceedings on Petitioners and Patent Owners

In a study conducted several years ago, prior to the significant rise in the use of discretionary denial, CCIA concluded that, during the first five years of IPR, petitioners and

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Unified Patents analysis notes that while 45% of all 2021 institution decisions engaged in a Fintiv analysis, only 4% of institution decisions involving a denial on the merits did so.

19 Leahy, The Hill.


patent owners had saved approximately $2.31 billion in deadweight loss.22 The savings identified primarily reflect avoided legal fees, and do not attempt to capture the value of avoided transfer payments, lost employee time, or the multiplier effect that increased spending on R&D and employees may bring. A more recent study by the Perryman Group over the 2014-2019 period found a similar positive economic impact from IPR.23

However, recent changes that reduced access to IPR have led to negative economic impacts that are reflected in estimated costs.24 A median IPR for a patent in the electrical technologies costs approximately $120,000 through filing of a petition, and $500,000 through appeal.25 At the same time, a mid-sized NPE dispute in that same technology area costs approximately $3,000,000 per party to defend.26 Patent owner costs are reported to be approximately equal to petitioner costs.27 Based upon RPX estimates of litigation cost phasing,28 a reasonable estimate for costs incurred in litigation prior to an IPR-based stay is approximately 1/5 of total costs, or $600,000, meaning that an instituted meritorious IPR saves approximately $2.4 million per party, for a total of $4.8 million per instituted IPR. Approximately 70% of IPR petitions are related to actively litigated patents,29 and at least 80% of petitions represented a unique petitioner/patent pairing, meaning that a minimum of 80% of petitions would provide a unique litigation cost benefit. Finally, though not all IPRs lead to a stay, approximately 77% do.30 The portion of IPRs leading to litigation stays leads to an estimated discount factor of 57% to reflect IPRs with overlapping litigation cost benefits, and an estimated discounted savings of $2.06 million per petition instituted, with half of that benefit accruing to each party.31

But if a meritorious petition is instead denied on a discretionary basis, the economics are reversed. The petitioner pays $120,000 to prepare and file their petition, but avoids no deadweight losses from litigation, and must pay the full cost of defense in order to invalidate the patent in court. The patent owner similarly pays to respond to the petition and to litigate, without any ultimate benefit. Thus, contrary to an instituted IPR scenario, each discretionary denial creates a deadweight loss of $2.06 million over the status quo ex ante of institution of meritorious petitions.

Any potential payment from petitioner to patent owner is ignored in this analysis as it is a prototypical transfer payment that simply shifts a resource from one economically productive

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24 For example the NHK Spring decision, which limited access to IPR based on scheduled trial date appears to be causally related to both increases in estimated cost of IPR and litigation and reduced institution rates.
26 Id. at 61.
27 Id. at 62.
31 $4.8 million, discounted by 57%, yields 2.06 million. (4.8*.43=2.06).
actor to another, not a deadweight loss. Petitioners are also innovative productive actors and typically avoided transfers will instead be used for innovation by the petitioner, meaning there is no economic loss or foregone innovation.

B. Broader Systemic Impacts from Discretionary Denials

Discretionary denials also create negative indirect impacts on other companies who are chilled from innovating and investing due to the presence of an invalid patent.

1. The potential for discretionary denial disincentivizes use of IPR to combat low quality patent assertions

Prior to the existence of IPR, firms—especially small and medium enterprises (SMEs)—that were faced with a low-quality patent assertion could either pay the entire cost to litigate the patent or settle. Settlements were often priced at a “nuisance cost”—a level below the cost of litigation—to take advantage of this dynamic, abusing the litigation process to extract nuisance settlements.

The creation of IPR changed this calculus. Because IPR is an order of magnitude less expensive than litigation, nuisance cost settlements had to be reduced correspondingly. Instead, companies, including SMEs, could challenge the low-quality patents issued by the Office and used for abusive patent litigation. One such example is the MPHJ “scan-to-email” patent. That patent litigation campaign was so notorious that MPHJ was ultimately sued by the state of Vermont and the majority of states adopted laws against bad-faith patent litigation. Even that did not eliminate the threat. Ultimately, this abusive litigation campaign was brought to an end by the use of IPR. If discretionary denials had been prevalent at the time, MPHJ could have entirely avoided IPR by choosing to file its cases in district courts that set aggressive trial schedules.

Further, the presence of discretionary denial would more broadly change the settlement calculus, increasing nuisance cost settlement rates, by permitting plaintiffs to use particular filing strategies to avoid IPR. This, in turn, creates an incentive for firms—particularly SMEs—not to invest in innovation, as such investment increases the risk of facing such nuisance complaints.

2. Even the potential of discretionary denial disincentivizes use of IPR to “clear the field” for product development

The potential for discretionary denial—the potential for the Office to say that, while the patent appears to be invalid, it still will not hear the case—creates a significant disincentive to challenge poor-quality patents before investing resources in product development. This, in turn, leads to less productive activity overall, rather than to more innovation.

In one recent instance of using IPR to attempt to clear the field, a company sought IPR to ensure that it could legally make a product desired by its customers. Developing such a product would cost hundreds of millions or even billions of dollars. Rather than launching their product at risk of litigation, the company filed a petition for review. If such a petition were to be discretionarily denied, the company would be faced with the choice of investing hundreds of

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33 See IPR2014-00538.
millions of dollars in product development that they might never recoup due to infringement allegations, investing additional dollars in needlessly developing a product that designs around an invalid patent, or else not developing a product in that space.

Again, the potential for discretionary denials increases the chance that a company will choose not to innovate, rather than risk investing in an IPR that is denied and fails to clear the field. This, in turn, leads to reduced innovation and concomitant harms to consumers and other firms who might benefit from the forgone innovative activity.

3. The discretionary denial process is biased against petitioners, which leads to reduced willingness to innovate and take risks

Finally, the discretionary denial process itself is inherently biased against petitioners, as it is always used to deny a petition that deserves institution on the merits. Given this clear bias, innovators who face the potential for patent litigation are less inclined to take risks and innovate. Reduced access to IPR decreases the ability of innovators to defend themselves from meritless patent assertions. This, in turn, becomes part of the risk calculus when deciding where to invest. Similarly, when venture capital considers which startups to invest in, the potential for patent litigation is seen as a strongly negative signal for investment.35

By reducing risk and exposure to litigation, IPR increases investment in innovation and risk-taking. The corollary is that reduced access to IPR, especially the unpredictably reduced access to IPR created by discretionary denial rules, decreases investment in innovation and reduces innovative risk-taking.

C. The Error Cost and Direct Cost Balance of Denial vs. Institution Requires the Conclusion That Institution Is Generally Procedurally Optimal

In normal court proceedings, denial of an early motion simply postpones the legal issue to a later date. Even where the issue is considered to be fully adjudicated based on the law, such as with a judgment as a matter of law, the losing party maintains the ability to appeal.

Institution decisions do not operate in this fashion. Once denied, the losing petitioner typically lacks any ability to appeal that denial, then or at any later date. They are fully cut off from access to AIA trial proceedings.36 In contrast, when a petition is instituted on a patent claim, while there are financial costs to both petitioner and patent owner, patent owners may still win at final written decision and will retain the ability to appeal an invalidation they believe to be erroneous. (Patent owners also benefit by avoiding the greater costs of addressing invalidity in co-pending litigation if they agree to a stay.)

In general, procedural rules are intended to jointly minimize two costs—“error costs,” costs resulting from mistakes in adjudication, and “direct costs,” the costs involved in reaching adjudication.37 Because of the asymmetric severity of an error at the institution phase, where an

35 Feldman, “Patent Demands & Startups: Views from the Venture Capital Community”, 16 Yale J.L. & Tech. 236, 243 (2014) (“100% of venture capitalists indicate that if a company had an existing patent demand against it, they might refrain from investing”).
error is far more harmful to petitioners than it is to patent owners, an error cost minimizing rule would generally lean towards institution. The direct cost of institution—that is, the cost of an IPR proceeding—is also significantly lower than the direct cost of denial, being the cost of litigation or at least of post-stay litigation. Applying these general biases to the error-minimizing approach, the optimal approach to a discretionary denial rule is to never deny discretionarily.

D. A Proposed Discretionary Denial Rule Would Be Economically Significant Under E.O. 12,866

Executive Order 12,866 identifies as “economically significant” any rule that would “have 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, productivity, competition, jobs, the environment, public health or safety, or State, local, or tribal governments or communities.” Such rules require the proposing agency to provide additional cost-benefit analysis.

As discussed above in Section IV.A, a discretionary denial generates a deadweight loss of approximately $2.06 million per petition. A mere 50 discretionary denials would reach this threshold—even ignoring the petitions never filed due to the potential of a discretionary denial. Fintiv-based denials have reached that threshold in all but one year since the Fintiv precedential decision. This conclusion is bolstered by a CBO analysis which concluded that a far more limited set of changes to IPR would increase costs by $1.3 billion for the federal government alone.

Beyond legal fees, there are other significant economic impacts in the form of illegitimate transfers of wealth from one firm to another and increased costs to U.S. consumers due to patent-enforced lack of competition. Just one patent that should have been invalidated, left in force by the Office, may lead to significant and undeserved damages. The Intel-VLSI case, with its multi-billion dollar judgment on a pair of invalid patents, exemplifies this problem. This concern is even more pressing if the patent potentially results in an injunction against a major consumer electronics product or if the patent potentially holds generic competitors to a blockbuster drug off the market. A delay of as little as a week in the introduction of a generic competitor may be sufficient to reach the economic threshold of $100 million in impact, as well as potentially implicating public health. And setting aside the inevitable delays within trial schedules, compared to the Office’s strict adherence to its statutory timelines, the ability to invalidate a patent at trial after discretionary denial may be prejudiced, as many judges will permit introduction of evidence that the Office chose not to institute review of that patent. This can persuade jurors—incorrectly—that the patent is valid.

For these reasons, a rule proposing discretionary denials appears to be likely to be economically significant. The Office should ensure it conducts the required cost-benefit analysis prior to promulgating such a rule, and should only promulgate the rule if it would provide an overall benefit.

38 See Section II.A, supra.
39 This is the discounted savings rate correcting for cases lacking parallel litigation; an individual denial will in fact have significantly higher cost if it is associated with co-pending litigation.
Because of the negative impacts on the patent system as a whole, both direct and indirect, and because procedural cost minimization requires it, the Office should always operate under a presumption that all meritorious petitions should be instituted. To the extent discretionary denials are contemplated, that discretion should generally be exercised in favor of institution. And while CCIA submits that a rule permitting discretionary denial would generally be inappropriate and contradict the statutory text and intent of Congress, any rule codifying and permitting the exercise of discretion to deny institution must undergo a rigorous cost-benefit analysis.

V. Conclusion

The rules proposed in the ANPRM violate the statute under which the USPTO operates. Members of Congress, former and present, have expressed their concerns in this regard. The proposed rules would not benefit the patent system.

CCIA respectfully submits that the ANPRM should be withdrawn.

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