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A Distillation of the USPTO's Notice of Proposed Rulemaking: "Changes under Consideration to Discretionary Institution Practices, Petitioner Word-Count Limits, and Settlement Practices for America Invents Act Trial Proceedings Before the Patent Trial and Appeal Board," 88 Fed. Reg. 24503-24518 (Apr. 21, 2023).

by Justin L. Krieger

On April 20, 2023, the USPTO announced Advance Notice of Proposed Rulemaking for potential PTAB reforms. The goal of the Notice was to seek public input regarding proposed changes to discretionary institution practices, petition word limits, and settlement practices for America Invents Act (AIA) proceedings before the Patent Trial and Appeal Board (PTAB). The original Notice was 56 pages in length and included many possible modifications to various PTAB rules. The below outline summarizes the proposed rule changes currently under consideration in this new rules package. Written Comments on the proposed rule changes must be received on or before **June 20, 2023** and can be submitted on the Federal Register website at: https://www.federalregister.gov/documents/2023/04/21/2023-08239/changes-under-consideration-to-discretionary-institution-practices-petition-word-count-limits-and

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- In preparing the Notice, the USPTO considered all comments in response to USPTO's Oct. 20, 2020 Request for Comments on Discretionary Denials. (Executive Summary published Jan. 2021)
- Focus is on Director discretion to institute or deny institution of IPRs and PGRs under 35 U.S.C. §314(a) and §324(a)'

- **Separate Briefing**
  - Considering separate briefing on discretionary denial issues, i.e., entitle Patent Owner (PO) to file 10 page paper requesting discretionary denial, providing Petitioner (P) with a 10 page response, and PO with a 5 page reply.
  - PO may be required to provide information on all entities having a substantial relationship with PO.

- **New "Substantial Relationship" Disclosure Requirement**
  - Considering broadening the types of relationships between Petitioners and other entities in evaluating discretionary denials. Current RPI test is typically based on corporate structure, contract, financial interest, or control. Knowing the RPI is important for conflicts, estoppel, and discretionary denial purposes.
  - Considering new **"substantial relationship"** standard
    - Broader than current RPI and privies of the party standard.
    - Would require identifying anyone having ownership interest in P or PO and any other entity **"significantly related"** to that party, including at least the *Valve I & Valve II* situations (see below).
    - Would include consideration of IPRs filed by **co-defendants** (*Valve Corp v. Electronic Scripting Products (Valve I)* (denying institution where P's co-defendant had filed multiple prior IPRs based on technology licensed from P)).
    - Would include where P had previously **joined** a prior PTAB proceeding filed by another entity (*Valve II*).
    - May include listing member organizations and members thereof.
    - Also includes anyone funding the proceeding, e.g., private or government funding.

- **"Compelling Merits" Exception to Discretionary Denial**
  - Considering allowing petitions with compelling merit to proceed even where might otherwise be subject to discretionary denial. Board will not address compelling merits unless petition is candidate for discretionary denial.
  - Compelling merits means where evidence at institution stage makes it "highly likely" (greater than a preponderance of the evidence standard) that P would prevail on at least one claim. *See OpenSky v. VLSI* (describing compelling merits as those that "plainly lead to a conclusion that one or more claims are unpatentable.").
  - A determination of compelling merits should not be taken as a signal to the ultimate conclusion after trial
  - Seeks comments on how to address compelling merits where factual questions have not been fully addressed, e.g., secondary considerations of non-obviousness. Considering viewing the record in a light most favorable to PO.
  - Considering whether some discretionary denial bases cannot be overcome by compelling merits, e.g., where claims had been previously adjudicated as patentable.

- **Certain For-Profit Entities**
  - Considering discretionary denial for certain for-profit entities who use IPR/PGR process in ways that do not advance the mission and intent behind the AIA to improve patent quality, i.e., filing a Petition for financial purposes only with no threat of litigation.
  - Goal is to avoid P from shielding actual RPI and privies from estoppel.
  - Considering discretionary denial where any P is:
    - For profit entity (entity not qualifying for tax-exempt IRS status),

        - Has not been sued or threatened with suit by PO (DJ jurisdiction standard or reasonable apprehension of suit based on prior litigation of PO with similarly situated companies),
        - Is an NPE or not practicing in the "field of the challenged patent," and
        - Does not have a substantial relationship with an entity falling outside of the above factors.
        - Pooling resources may be acceptable if all parties are disclosed.

- **Covenant Not to Sue**
    - Considering whether discretionary denial is appropriate where PO provides covenant not to sue P.

- **Serial Challenges & Related Proceedings**
    - **Prior Adjudication:** Considering discretionary denial, absent compelling merits, where claim with substantial overlap has been adjudicated as not invalid by PTAB or D.Ct., except where P has DJ jurisdiction and intends to pursue commercialization and was not RPI in prior lawsuit.
    - **"Substantial overlap"**: Considering defining when claims have "substantial overlap" for purposes of discretionary denial. Claims will be considered as having "substantial overlap" with other claims when "any differences are not material to patentability." Similar standard to an obviousness-type double patenting rejection.
    - **Serial Petitions:**
        - Considering simplifying G*eneral Plastics* factors such that Board will deny any serial petition filed after POPR or POPR deadline, where P is RPI or has a substantial relationship to the earlier petitioner.
        - **Two exceptions:**
            - Where earlier petition was resolved for reason not materially related to the merits of the petition, or
            - Exceptional circumstances are shown, e.g., claims were broadened, new prior art was found that P could not have known about, or new statutory challenge is raised with justification for not being raised in earlier petition.
        - Alternatively considering standard where serial petition, regardless of relationship with first petitioner, will be denied absent compelling merits.
        - Considering requiring P's to stipulate in their petition that they have not filed any prior petitions and will agree not to file any subsequent petitions on the same claims if their current petition is instituted.

- **Parallel D.Ct. Litigation (*Fintiv*)**
    - Considering rules covering *Fintiv* and the Director's June 21, 2022 Guidance, with additional reforms.
    - **General Rule**: PTAB may deny institution under *Fintiv* where the D.Ct. trial date is likely to occur before the FWD deadline.
    - **Safe harbor exceptions**. The Board would <u>not</u> deny institution under *Fintiv* where:
        - petition presents **compelling merits**
        - the copending litigation is an ITC case, or

        - where the P files a ***Sotera* stipulation** agreeing not to pursue in the parallel D.Ct. proceeding any arguments that were raised or reasonably could have been raised in the petition.
    - Considering a rule where *Fintiv* denials would not be available for PGRs.
    - Considering a rule where if petition is filed within 6 months of service of complaint, Board will not deny institution based on *Fintiv*.
    - Considering mandating *Sotera* stipulations for all IPRs/PGRs having a copending litigation
    - Considering an **alternative *Fintiv* test:** Subject to the above "safe harbor" exceptions, the Board will consider the following factors when a petition has a copending litigation:
        - Past and future expected investment in the parallel proceeding by the D.Ct. and parties,
        - Degree of overlap between the D.Ct. and PTAB proceedings, and
        - Any other circumstances relevant to the Board exercising its discretion, e.g., abuse of process by P.

- **Parallel PTAB Challenges**
    - Considering an optional petitioner surcharge for increasing word count to reduce need for parallel petitions.
    - Considering rule that Board will not institute multiple parallel petitions absent **good cause**, e.g., disputed priority date or alternative claim construction theories require multiple alternative sets of arguments, numerous challenged claims or embodiments.
    - Considering requiring P to file separate paper with multiple petitions ranking the petitions for consideration and explaining the differences and why multiple petitions were required. PO could file responsive briefing.

- **Same or Substantially the Same Prior Art (§325(d))**
    - Considering superseding guidance in *Beckton Dickenson* and *Advanced Bionics* decisions with new rule.
    - New rule would indicate that Office may deny institution where the PTO "previously addressed" the prior art or arguments. Mere citation without discussion in IDS, Notice of References Cited, or in search results would be insufficient for discretionary denial.
        - This policy would extend to arguments raised in a parent or other related family member, but only if the prior claims contain "substantially the same limitations as those in the challenged claims." (could be shown by prior obviousness-type double patenting rejection).
    - P could still overcome discretionary denial if they can show "**material error**" by the Office, e.g., misapprehending/overlooking a teaching in the prior art, experimental evidence, or an error of law, claim construction, etc.

- **Settlement Agreements**
    - Considering rules requiring filing of all settlement agreements, even those entered into before institution.
    - Considering rules where termination may be authorized based on a **binding term sheet**, if parties agree to file final executed settlement agreement within 1 month of execution.
    - Agreements may be used by FTC and DOJ for possible antitrust violations.

- Failure to file settlement agreement may result in sanctions.

- **Under-Funded POs**

  Considering discretionary denial, absent compelling merits, where:

  - Under-resourced PO (small or micro-entity status when patent issued);
  - PO did not exceed 8x micro entity status (37 CFR 1.29(a)(3)) in calendar year before petition was filed; and
  - PO or licensee was commercializing the patent when petition was filed.

  USPTO is seeking other comments and recommendations to protect start-ups, how to define "underfunded PO", identification of all funding, etc.

- **Sanctions**

Considering clarification that PTAB always retains discretion to deny institution as a sanction, in response to improper conduct, or gamesmanship.

- **Other Factors**

  The Office has requested any other considerations for discretionary denial.