A Targeted Fix To Support The PTAB

On October 31, 2019, a panel of the Court of Appeals for the Federal Circuit issued a surprising decision in *Arthrex v. Smith & Nephew*. The court ruled that the process for appointing Administrative Patent Judges (APJs) to the Patent Trials and Appeals Board (PTAB) of the Patent and Trademark Office (PTO) violates the Appointments Clause of the U.S. Constitution. The Government is challenging that decision, but the negative impact and uncertainty created by the ruling has led the PTO, scholars and industry groups to ask that Congress pass a legislative fix that ensures the constitutionality of the PTAB.

UFPR supports calls for a targeted legislative solution and strongly opposes any attempt to tack on extraneous provisions that would derail an otherwise uncontroversial “good government” bill.

What do the APJs of the PTAB do?
Congress passed the comprehensive America Invents Act (AIA) in 2011 in part because of serious concerns that low-quality patents were placing a drag on innovation and eroding public confidence in the patent system. The AIA created the Inter Partes Review (IPR) program in which the highly skilled APJs of the PTAB take a second look at questionable patents to decide whether the PTO made a mistake in issuing them. IPR works fairly to help UFPR members fight baseless patent litigation involving invalid patents brought by non-practicing entities (NPEs), often called patent trolls.

How are the APJs of the PTAB appointed?
They are appointed by the Secretary of Commerce in consultation with the PTO Director.

Why did the Federal Circuit think there was a constitutional problem?
The Appointments Clause of the Constitution (Article II, Section 2, clause 2) requires that principal officers of the government be appointed by the President and confirmed by the Senate. Inferior officers may be appointed by the head of an agency. The constitutional question, therefore, turned on whether APJs of the PTAB should be considered principal officers that make significant final decisions for their agency, or inferior officers that are subject to some control by a Senate-confirmed appointee, namely the PTO Director.

The PTO argued that the Director has and uses so many different tools to exercise supervisory authority over APJs’ decisions that they should be considered properly appointed inferior officers. Those tools include the ability to set policies that the APJs must follow through rulemaking and precedential opinions, the ability to decide which cases get heard by the PTAB, and the ability to decide which PTAB decisions get reconsidered and by whom. The Federal Circuit said that was not enough, and the PTAB’s ability to issue decisions on patent validity made them principal officers that must be Senate-confirmed Presidential appointees.
How did the Federal Circuit fix the constitutional problem?
The Federal Circuit applied a fix that the D.C. Circuit Court of Appeals had previously applied in a similar case involving the Copyright Royalty Board. The court increased the PTO Director’s control over the APJs by removing their civil service employment protections. The APJs are now at-will employees who can be fired by the PTO Director without cause or explanation, making them properly appointed inferior officers, according to the court.

What is wrong with the court’s fix?
Witnesses at the House Judiciary Committee hearing on November 19, 2019, including two leading academic experts, agreed that even if there were a constitutional problem, the court’s fix is bad policy and creates significant uncertainty for several reasons. First, it creates the possibility of behind the scenes pressure on APJs who can be fired, and it clouds what should be transparent decision making on the merits. It may also discourage high-quality candidates from seeking APJ positions.

The Federal Circuit’s fix also required that different PTAB panels redecide hundreds of earlier cases, adding unnecessary work to an already overwhelmed PTO. As this case winds its way through the court system, potentially facing Supreme Court review, numerous questions will remain unsettled, injecting uncertainty into the patent system.

What should Congress do?
As recommended by hearing witnesses, Congress should quickly pass a targeted legislative fix that would eliminate any perceived constitutional problem by making PTAB decisions reviewable by a Senate-confirmed Presidential appointee. That appointee could be either the holder of one or more newly created positions or the Director of the PTO. This change would confirm that APJs are properly appointed inferior officers and restore their civil service employment protections. It would also ensure that PTAB decision making remains transparent to the public and eliminate the current uncertainty.

Should Congress make other changes when it fixes the constitutional issue?
No. To comply with Congress’s intent in passing the AIA, the PTO’s procedures for implementing IPR must remain robust. In the past two years, steps that the PTO Director has taken have weakened IPR, and the number of cases that the PTAB hears has been dropping. Congress should protect this valuable tool from erosion. UFPR strongly opposes attempts to add extraneous provisions that further weaken IPR when Congress addresses the constitutionality of APJs.