Response to USPTO Request for Public Comment on Patent Eligibility Jurisprudence (86 Fed. Reg. 36257, July 9, 2021)

From: Peter Cheng
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I am a primary patent examiner in the PTO examining corps, specializing in digital and wireless communication methods and technologies. Most of the applications I examine either can be implemented in software or have substantial software related content. I have been with the PTO for more than ten years. During that time, I have made a large number of patent eligibility determinations, under many of the historically evolving eligibility tests ranging from the machine-and-transformation test, to the *Alice* two step test, and finally to the revised *Alice* test that is the current governing standard. I have had my determinations affirmed by the PTAB, and I have had my eligibility findings successfully traversed by patent applicants.

I believe I would fall within the category “(6) government agencies or officials”. I must emphasize, however, that I am making these comments in my personal capacity.

As an examiner, I am deeply invested in a “good” eligibility test. By that I mean a test or rule that can be judiciously applied and yet remain faithful to the very idea of the patent bargain. An eligibility standard that is either too complex to consistently apply or too susceptible to subjective, capricious biases is problematic on many levels. It can sow distrust in the agency’s ability to carry out its mission and over time, erode the sense of purpose examiners have in their work. An ineffective eligibility standard is also injurious to the public, in that it distorts the role played by the patent bargain in our nation’s innovation ecosystem.

I will respond first to items 2 and 13 on the July 9, 2021 Federal Register Notice. I will then offer my own unsolicited commentaries on how I believe eligibility law and practice should be reformed, where some parts of those commentaries as indicated may also be relevant to items 2 and 13. I am

making these comments in my own personal capacity and not as a representative of the PTO. These comments should not be understood to reflect the views or positions of the PTO or any of its members, and they have not been approved or sanctioned by the PTO.

2. Please explain what impacts, if any, you have experienced as a result of the current state of patent eligibility jurisprudence in the United States (a. Patent prosecution strategy and portfolio management)

I will discuss the various impacts on me as a patent examiner, of the perennially changing nature of patent eligibility practice. In my view, *Alice Corp. v. CLS Bank International* and the line of Supreme Court precedents leading up to it have caused a fundamental paradigm shift in the way patent eligibility determinations are made. Pre-*Alice*, eligibility tests were rather formulaic and cut-and-dried, requiring little examiner interpretation or discretion. Much less did these pre-*Alice* tests require the close evaluation of judicial authorities. That, of course, was precisely what the *Alice* two step eligibility test ended up mandating. Eligibility determinations went from being an exercise in checking off items from a list, to being what is essentially the legal profession's mainstay of legal analysis and advocacy by dueling precedents. Examiners were required to transform themselves in short order into examiner-attorneys capable of dealing with a large number of legal precedents as their stock in trade. In my opinion, there appeared to be a mismatch between the skill set that the *Alice* test truly called for (i.e., that of an attorney) and conventional examiner capabilities that would have enabled the competent performance of patent examination duties in the past.

Subsequently, in January of 2019, the *ALICE* two step test was revised. Since then, as an examiner, I have felt much less pressured to second guess myself on eligibility determinations, specifically on whether I might have missed a relevant judicial authority. And as expected and properly authorized by this revised guidance, there has been a noticeable drop-off in the rate and quantity of my eligibility findings. There is reason to believe

that the examining corps has experienced a decompression of the situation surrounding *Alice*-101 eligibility issues.

But this has come at a price. Subsequent to the PTO's revision of its *Alice* guidance, a Federal Circuit panel declared that PTO agency guidance is merely advisory and has no binding force on a reviewing authority such as itself, which is free to rule on subject matter eligibility de novo without deference to the PTO[1]. This non-deference has long been settled law, but I wonder, like other commentators, if the Federal Circuit, in seeing it fit to reiterate the law in explicit terms so soon after the PTO's *Alice* guidance revision, is signaling its lack of confidence in the ability of those guidelines to effectively filter out enough problematic eligibility cases.[2]

There is thus a gap between what the PTO's reviewing court apparently regards as the proper application of the *Alice* judicial exceptions, and the PTO's own methodology for implementing those same exceptions. I wonder if the prolonged existence of this gap, were it to become conspicuous, might expose the PTO to the charge of not faithfully discharging its duty to enforce and uphold the patent laws, in particular, those pertaining to subject matter eligibility. A related concern is whether this discrepancy might give rise to a cause of action, unlikely but not wholly impossible, that might stem from any perceived PTO agency inaction in not fully carrying out the patent eligibility laws.

So far, the PTO has not instructed examiners to adjust how we make subject matter eligibility determinations, in response to this apparent discrepancy between Federal Circuit eligibility jurisprudence and PTO eligibility practice. Indeed, there have always been similar gaps between agency practice and the jurisprudence expounded by judges. This

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[1] Cleveland Clinic Found. v. True Health Diagnostics LLC (Fed. Cir 2019) (nonprecedential), pg. 13: "While we greatly respect the PTO's expertise on all matters relating to patentability, including patent eligibility, we are not bound by its guidance. And, especially regarding the issue of patent eligibility and the efforts of the courts to determine the distinction between claims directed to natural laws and those directed to patent-eligible applications of those laws, we are mindful of the need for consistent application of our case law."

[2] See, "Eligibility Train Wreck Continues its Skid: Skidmore Deference for the PTO on Eligibility", accessible at https://patentlyo.com/patent/2019/04/eligibility-continues-deference.html .

discrepancy in eligibility outcomes is perhaps symptomatic of a legal regime in flux, which makes it difficult to encourage examiners to fully commit themselves to the determinations they make. It saps professional morale when examiners are time and again reminded of the fact that ultimately, their work product is not credited by its reviewing authority with the weight it deserves, even if it had been produced in faithful adherence to agency guidance.

13. Please identify how the current state of patent eligibility jurisprudence in the United States affects the public.

Patent applicants have also been deprived of an expectation of predictability in how eligibility law is applied. The application of the PTO's revised *Alice* test is straightforward enough, but this consistency may turn out to be illusory if over time, PTO determinations were reversed at the Federal Circuit at a significant rate. If there is no assurance that PTO eligibility determinations will be respected at the Federal Circuit, then virtually the only option available to patent applicants desiring an authoritative eligibility determination, would be to appeal to the Federal Circuit. I do not believe that patent applicants would view this as a practical, sustainable framework.

The process by which the courts, exemplified by the Federal Circuit, make eligibility determinations is through the analysis and application of individual legal authorities and precedents, needless to say. But this process is exactly what the revised *Alice* guidance has sought to circumvent. The Federal Circuit and the PTO would thus appear to be engaged in two substantially different lines of enquiry for the same issue. I believe it is very difficult for patent applicants to regard this situation as conducive towards achieving a unified consistency in eligibility practice.

My thoughts on how to reform the current patent eligibility regime, informed by my observations above

In view of the observations above, it begs the question whether it makes sense to continue to follow the *Alice* line of cases, if the opportunity for (re)constructing a new patent eligibility regime were to present itself. I believe *Alice* is worth the effort. Instead of tearing down the existing edifice of patent eligibility to build an entirely new one, I think it is more prudent to figure out a better way to implement *Alice's* rulings. The main reason for my belief is that all throughout the different eligibility rules and the evolving Federal Circuit and Supreme Court eligibility precedents, the one constant that has never been challenged was the historical trio of judicial exceptions now again enshrined in the *Alice* cases: abstract ideas, laws of nature, and natural phenomena. They have been the North Star of patent eligibility. From the perspective of the law, to rediscover these judicial exceptions as the truisms that they are and then to situate them front and center in patent eligibility is the correct course of action. The Supreme Court deserves to be commended for having the independence to do the right thing in the *Alice* cases, by simply dusting off the judicial exceptions and then reminding all of us that they have always been, and still are, governing law.

I am under the impression that many, if not most, of the deficiencies of the current patent eligibility regime identified by commentators fundamentally have to do with *Alice's* implementation, and not with its ruling or doctrine. If patent eligibility practice is to be reformed, then I believe the task at hand really boils down to improving the processes and methods through which the *Alice* family of cases can be applied. To that end, I would like to offer two points for consideration: (i) the long-term viability of any patent eligibility test ultimately hinges on how successfully it can be implemented in the examining corps; and (ii) the current situation with patentable subject matter eligibility is suitable for regulation by agency rulemaking of the type established in the Administrative Procedure Act ("APA").

> <u>(i) The long-term viability of any patent eligibility test ultimately hinges on how successfully it can be implemented in the examining corps.</u>

This proposition seems sensible enough. Since the examination process is the frontline where invention first meets patent law, it makes intuitive sense

that how successful an eligibility rule should eventually turn out to be would first depend on how it had fared in the examining corps. I think commentators steeped in eligibility doctrine and theory could be forgiven for occasionally losing sight of this, since the examining corps and what we do may at times be several strata removed or insulated from the legal policy debates that animate patent law reform initiatives. Nevertheless, patent examiners are the first gatekeepers, or at least are in a position to be gatekeepers, and what we do shapes the contours of the patentee's intellectual property rights, sometimes indelibly. An eligibility test that hews closely to the rulings and pronouncements, even the spirit, of a legal authority is certainly welcome, but if a significant number of examiners have real difficulties applying the test, who previously had been deemed competent at doing what patent examination had conventionally entailed, then it might cast doubt on whether that eligibility test is a faithful translation, from the perspective of the examining corps, of the judicial authority it is implementing. That was the case with the first *Alice* standard, in my opinion.

I hasten to add that successful implementation at the examining corps level is a necessary, but not always sufficient, condition for viability. Some of the eligibility rules that preceded the *Alice* test were quite successfully rolled out in the examining corps, e.g., the "useful-concrete-tangible-results" test and the machine-or-transformation test. But the fact that they were then successively replaced is indicative of their inadequacies, which in turn speak to their long term non-viability. Similar conclusions could perhaps also be drawn with regard to the revised *Alice* standard. It is certainly commendable that the revised rule has successfully quelled much of the dissatisfaction in the examining corps towards the initial *Alice* guidance. However, I think it is questionable whether the revised *Alice* rule is better able to alleviate the widening gap between eligibility outcomes at the Federal Circuit and the PTO's own examining corps, since it is actually more of a departure from *Alice*'s black letter ruling than the initial *Alice* guidance was. It would be going too far to say that the revised rule alone has intensified calls for patent eligibility law reform, but it has not significantly tamped down on those initiatives either. The fact that the

revision to the *Alice* standard has not resolved these matters or tied up these loose ends, I feel, might not portend good things to come.[3]

(ii) The current situation with patentable subject matter eligibility calls for regulation by agency rulemaking as established in the APA.

I am aware that the PTO is authorized by statute to only engage in rulemaking that would "govern the conduct of proceedings" at the PTO[4], where the consensus on what this means is that the PTO may generally only formulate rules pertaining to procedural issues or for interpretive purposes, but not on substantive issues in patent law. Section 101 subject matter eligibility is very much a substantive patent law issue and the PTO is therefore foreclosed from engaging in rulemaking in that area. Be that as it may, I believe that the case for granting to the PTO substantive rulemaking authority, limited only to the ambit of subject matter eligibility, is sufficiently compelling that it deserves serious consideration.

Actually, I would venture to say that the PTO is already engaged in substantive "rulemaking" in patent eligibility. This is implicit in the characteristic discrepancy between Federal Circuit eligibility doctrine versus PTO eligibility practice. As far as fidelity to Supreme Court precedent is concerned, the revised *Alice* approach is much more displaced from the original opinion than the Federal Circuit's judicial interpretation of the opinion. The difference is located in Revised Step 2A, wherein the examiner is instructed to enquire as to whether the judicial exception captured by the claim scope is "integrat[ed] into a practical application". This enquiry appears to be neither explicitly mandated by the *Alice* cases nor sanctioned by the Federal Circuit.

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[3] I believe these observations above may also be relevant to items 2 and 13 on the Federal Register Notice. Regarding the examiner's perspective, I truly hope that the successes and difficulties of the PTO's implementation of the Alice family of cases would help the examining corps appreciate their indispensable role in this country's patent ecosystem. From the applicant's perspective, however, those successes and difficulties in the examining corps actually have the reverse effect, especially in view of the fact that the revised *Alice* guidance has not provided patent applicants with anything resembling clarity or closure on patent eligibility.

[4] 35 U.S.C. Section 2(b)(2)(A).

The process through which Revised Step 2A was incorporated in the PTO's *Alice* test was not any of the types of rulemaking described in the APA, so it could be argued that the revised *Alice* standard does not have the same force and effect as a rule promulgated in accordance with APA rulemaking procedures. Indeed, the revised *Alice* standard is apparently agency guidance to which the Federal Circuit formally pays little heed. Nevertheless, within the examining corps, it has the effect of a command requiring compliance, in the sense that a wrong eligibility determination made by an examiner incorrectly applying the revised ALICE test would count as an error that may have consequences for their own performance rating as well as collective examining corps quality metrics that PTO management regularly pays close attention to. Since the PTO has a monopoly on patent examination, the kind of agency guidances exemplified by the eligibility tests are not merely ornamental advisories; they effectively function as bona fide "rules" that both examiners and applicants alike are forced to abide by during the examination stage.[5]

A case can be made that Revised Step 2A would constitute a "substantive" rule, in the sense of a rule that "affect[s] individual rights and obligations"[6] or that "create[s] or destroy[s] … legal rights"[7]. In my own experience, Revised Step 2A has certainly affected applicants' rights and obligations. This is evident in the significant reduction in the number of (in)eligibility findings I have issued since the revised eligibility test took effect. More specifically, during examination, as a result of revised step 2A, an applicant's obligation to prepare for and defend against potential eligibility rejections is now less onerous, and its right to a patent should all patentability conditions be met is now more robust. This effect is all the more pronounced in terms of money and costs. Due to revised step 2A, the amount of money applicants expend and the revenue applicants forgo in connection with the procurement of patent protection is now markedly less, specifically in terms of a reduction in attorney's fees spent on patent prosecution and an increase in the number of opportunities for licensing

[5] This comment may be relevant to items 2 and 13 on the Federal Register Notice.
[6] Cubanski v. Heckler, 781 F.2d 1421, 1426 (9th Cir. 1986).
[7] NYC Employees' Ret. Sys. v. SEC, 45 F.3d 7, 12 (2nd Cir. 1995).

and other patent monetization activities due to a compression of the patent timeline. These circumstances evidence a curtailing of “obligations” and a strengthening of “rights”. For applicants who prosecute large numbers of patent applications at the PTO, such as most of the applicants in the technologies I examine, this effect is even more amplified.[8]

Separately on another ground, the Revised Step 2A question of whether a claimed judicial exception is “integrat[ed] into a practical application” strikes me as a “substantive” inquiry. Facially, “integrat[ion]” would appear to be one of those legal concepts akin to reasonableness that is open to factual and evidentiary investigation. Interesting questions abound, such as whether “integrat[ion]” is a question of law or fact, what degree of “integrat[ion]” into the practical application would suffice for an (in)eligibility finding, and whether that threshold degree of “integrat[ion]” would be technology specific. I think the issue of “integrat[ion]” could potentially generate, to an attorney’s delight and probably to an examiner’s dismay, a rich body of case law precedents and commentary.

Therefore, a case can be made that Revised Step 2A is a “substantive” rule. It follows then that its promulgation by the PTO could potentially be an instance of rulemaking overreach if the PTO’s rulemaking authority is indeed limited to procedural issues and/or only for interpretative purposes. But, assuming that the PTO had the administrative and legal authority to enact the revised *Alice* test, in view of its “substantive” nature, I am not sure if it can be maintained any longer that the PTO limits itself only to procedural or interpretive rulemaking. It would appear that the PTO has already engaged in substantive rulemaking.

The question of whether the PTO should be given substantive rulemaking authority is an area of active commentary and research. To simply give it comprehensive, shallow treatment within this space would not do it justice. That said, I think it is worthwhile to focus on one specific reason why I believe patentable subject matter eligibility is especially suitable for

[8] This comment may be relevant to items 2 and 13 on the Federal Register Notice.

administrative rulemaking to handle. The reason is that it is virtually impossible for a judicial authority, due to its being a judicial authority, to effectively regulate subject matter eligibility, because it is a patent law issue that encompasses a range of technological circumstances so diverse as to collectively defy generalization. The judiciary has been attempting to formulate one single legal rule that is broad enough to penetrate all technologies but supple enough to enable the patent administrators to customize it for each invention. The advent of *Alice*, to me, is indication that this effort has been abandoned, or at least temporarily put on hold.

Alice is the culmination of this decades long endeavor to find the golden rule, the silver bullet, as it were, to the problem of patent eligibility, which saw the obsolescence of a succession of eligibility rules. The pre-*Alice* rules were mechanical, cut-and-dried rules, and as such, readily lent themselves to being circumvented by artful claims drafting. This means that these rules simply scratched the surface of each technology, and were incapable of penetrating deeply enough into its essential technological core, to enable a meaningful judgement on whether the invention is truly patent eligible. *Alice* casts these formulaic rules aside and restores the judicial exceptions to their rightful place. But the past several years since that opinion have shown that it is very difficult to tailor its ruling to each technology in such a way that permits faithful implementation by the frontline decision makers, i.e., the examiners. I think this state of affairs stems from the fact that it is impossible to generalize about technology, in the sense that there is no finite, workable number of technical commonalities shared by all inventions that are at the same time essential enough to capture what the idea of “inventiveness” is all about. Even if different self-contained sectors of technology were identified where in each sector it is possible to find those kinds of finite commonalities, the number of those sectors would be so large that they would simply be unmanageable by the judiciary. In order for the courts to provide authority and meaningful guidance on patent eligibility for all the technical areas before the PTO, the judiciary would have no choice but to be constantly issuing opinions whose scope of applicability would be limited to closely defined technical areas. In other words, to be truly effective, the courts

would need to be regularly producing ad hoc judgments on eligibility, especially for new, emerging technologies. This scenario would not be sustainable.

The PTO is well positioned to handle substantive rulemaking on subject matter eligibility. If it is agreed that the problem with *Alice* is not the law but its implementation, then the PTO, being home to the examining corps, is the only organization in existence poised to engage the examining corps in substantive rulemaking on eligibility. Furthermore, the advantage of being co-located with the examining corps is that the PTO has direct access to examining expertise in all of the technological areas within its ambit. This would enable the PTO to much better gauge how wide reaching, or limited, a particular eligibility rule should be in terms of the technical scope of its applicability. The PTO alone is the best judge of the amount of training resources required to enable the examining corps to competently apply the eligibility rules. The PTO is also best able to determine the degree of legal sophistication to build into a particular eligibility rule that the examining corps could reasonably be expected to bear, where it must be borne in mind that examiners are not required to be formally legally trained. These observations all circle back to my belief that an eligibility rule's viability ultimately depends on the success with which it can be implemented in the examining corps.

Granting substantive rulemaking powers to the PTO does raise certain concerns. For example, accounting for examiner expertise and experience in the rulemaking process might compromise the independence of the examining corps as an adjudicatory body that applies the finalized rules. The impartiality of the examining corps would need to be safeguarded. With the more technology specific mode of rulemaking I envision, there is a heightened risk of regulatory capture developing in eligibility law, meaning that, since only large corporations with sizeable budgets would have the resources to participate in an increased number of technology specific eligibility rulemaking proceedings at the PTO, it is plausible to foresee that over time, the finalized eligibility regimes would largely reflect the wishes and concerns of these large companies. These problems are not novel or

intractable ones, however, and I believe that existing approaches and solutions for dealing with them, customized to suit the PTO's unique circumstances, can be brought to bear.

It bears emphasizing that granting the PTO substantive rulemaking authority in patent eligibility entails neither sweeping away all eligibility precedents to start anew, nor handing the PTO a blank check to shape patent eligibility any way it sees fit. The rulemaking grant should constrain the PTO to respect governing law and precedents and to act within the confines already established by those authorities. This is especially relevant here since patent eligibility already is an established field with a rich body of case law precedents, statutory authorities, legislative history and scholarly commentary. If this rulemaking authority were granted, the PTO would not be starting from scratch; patent eligibility would not be a "greenfield" area for rulemaking.

Skeptical readers may pick up on the fact that the eligibility rules generated through the rulemaking process described herein would resemble what I already identified to be problematic, that is, a large collection of technology specific eligibility rules with an ad hoc flavor. The difference here is that it is the PTO itself that would be formulating these eligibility rules as well as actively administering their implementation with the engagement of the examining corps, instead of a necessarily aloof appellate judicial body whose only means of instructing the examining corps is through legal generalities that must first be painstakingly translated by PTO management into concrete, technology specific examination guidance before they can be useful.

I am sensitive to readers who are loath to have Congress relinquish even more of its legislative powers to yet another administrative agency. Separation of powers is the bedrock of our constitutional system. However, I have observed that the issue of patent eligibility is so resistant to conventional legislative as well as judicial treatment that I believe the time has finally come to seriously consider delegating eligibility to a separate

regulatory body, which could be imparted with more administrative flexibility and possesses more technical expertise.

The discrepancy in Federal Circuit eligibility jurisprudence and the PTO's application of the revised *Alice* test is traceable in part to the fact that the PTO has no substantive rulemaking authority in patent eligibility. The judicial elegance of the *Alice* opinion itself is admirable. But its lofty jurisprudence may leave gaps between the opinion's broad declarations and the working technical realities that examiners and patent applicants grapple with on a daily basis. The point is to respect existing judicial authorities as guiding, organizing principles, with agency rulemaking supplying the crucial, implementational details.