RESOLVED, That the American Bar Association urges Congress to enact legislation authorizing one or more principal officers, who are appointed by the President and confirmed by the Senate, to review decisions of the Patent Trial and Appeal Board (PTAB) determining the patentability of any claim reviewed by the PTAB before such decisions become final decisions of the U.S. Patent and Trademark Office (USPTO), and that the legislation should also restore Title 5 removal protections for Administrative Patent Judges (APJs) of the PTAB.
REPORT

I. Introduction

The America Invents Act ("AIA")\textsuperscript{1} brought about significant changes to U.S. patent law. For example, the AIA harmonized U.S. patent law with the rest of the world by transitioning the U.S. from a first-to-invent system to a first-inventor-to-file system.\textsuperscript{2} The AIA also created the Patent Trial and Appeal Board (PTAB) to serve as an appellate and adjudicative body within the U.S. Patent and Trademark Office (USPTO) to review adverse examination decisions (\textit{ex parte} appeals), and to conduct trials for contested disputes between two parties involving an issued patent or pending application (\textit{inter partes} proceedings).\textsuperscript{3}

This Report proposes a legislative fix to an issue with the appointment of Administrative Patent Judges (APJs) of the PTAB arising from the U.S. Court of Appeals for the Federal Circuit's \textit{Arthrex} decision in October 2019, that the appointment of APJs under the AIA violates the Appointments Clause of the U.S. Constitution.\textsuperscript{4} The proposed change would provide for review of PTAB decisions by one or more properly appointed principal officers, which would make APJs inferior officers under the Appointments Clause, and allow for the restoration of APJs' Title 5 removal protections. It is important to restore APJs' removal protections to help insulate them from political influences and thereby ensure that APJs have the decisional independence required to adjudicate their cases based on applicable legal and regulatory standards.

II. The Appointments Clause and Congressional Design of the PTAB

Under the Appointments Clause,\textsuperscript{5} the President may appoint principal officers of the United States only with Senate confirmation. The heads of departments, however, can appoint inferior officers. Congress intended for the Director of the USPTO ("Director") to be a principal officer,\textsuperscript{6} and for APJs of the PTAB to be inferior officers.\textsuperscript{7}

The USPTO is part of the Department of Commerce.\textsuperscript{8} Like the Secretary of Commerce, the Director is appointed by the President and confirmed by the Senate.\textsuperscript{9} The phrase "appointed by the President and confirmed by the Senate" is intended to

\textsuperscript{1}125 Stat. 284 (2011).
\textsuperscript{3}See id. § 6(a)-(b).
\textsuperscript{5}U.S. Const. art. II, § 2, cl. 2.
\textsuperscript{6}See 35 U.S.C. § 3(a)(1) ("The powers and duties of the [USPTO] shall be vested in an Under Secretary of Commerce for Intellectual Property and Director of the [USPTO]...who shall be appointed by the President, by and with the advice and consent of the Senate.").
\textsuperscript{7}See id. § 6(a) (designating that APJs of the PTAB are to be "appointed by the Secretary [of Commerce], in consultation with the Director [of the USPTO].").
\textsuperscript{8}See id. § 1(a).
\textsuperscript{9}See id. § 3(a)(1).
correspond to the Constitutional process of nomination by the President, confirmation by the Senate, and then appointment of the principal officer to the position.

The AIA created inter partes review (“IPR”) and post-grant review (“PGR”) trial proceedings to provide an opportunity to contest the validity of claims in issued patents, and derivation proceedings to determine whether an inventor of an earlier-filed patent application derived that invention from an applicant of a later-filed application. Congress also created the PTAB as a part of the USPTO to conduct IPR, PGR, and derivation proceedings and to review appeals of adverse examiner decisions in original patent applications or ex parte reexamination proceedings. Each appeal, IPR, PGR, and derivation proceeding is heard by at least three members of the PTAB, and the panel is designated by the Director. A three-member panel of APJs issues a final written decision at the conclusion of an instituted IPR, PGR or derivation proceeding, if the proceeding is instituted and not dismissed. Likewise, a three-member panel of APJs issues a decision on appeal at the conclusion of each appeal.

The PTAB is composed of the Director, the Deputy Director, the Commissioner for Patents, the Commissioner for Trademarks, and APJs. APJs are appointed by the Secretary of Commerce in consultation with the Director. By designating that the Director be appointed by the President and confirmed by the Senate, Congress intended for the Director to be a principal officer under the Appointments Clause. Conversely, by requiring the appointment of APJs by the Secretary of Commerce, in consultation with the Director, Congress intended for the APJs to be (at most) inferior officers under the Appointments Clause. Congress expressly provided APJs with Title 5 employment protections, including for-cause removal protections.

III. The Federal Circuit’s Arthrex Decision

On October 31, 2019, a panel of the Federal Circuit held in Arthrex that APJs are principal officers based on the AIA “as currently constructed” and thus held that the

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10 IPR proceedings have been widely used since they first became available on September 16, 2012, often by defendants in patent infringement cases in federal district courts. As of March 31, 2020, over 10,500 IPR petitions have been filed with the PTAB seeking to contest the validity of at least one claim in an issued patent. See https://www.uspto.gov/sites/default/files/documents/trial_statistics_20200331.pdf.
11 See 35 U.S.C. §§ 311-318 (IPR) and 321-328 (PGR).
12 See id. § 135(a). The AIA transformed the U.S. patent system to a first-inventor-to-file system, instead of the predecessor “first-to-invent” system that it replaced. Derivation proceedings seek to ensure that the first person to file an application for an invention is the inventor of the claimed subject matter.
13 See id. § 6(a)-(b).
14 See id. § 6(c).
15 See id. §§ 318(a), 328(a), 135(b), 135(d).
16 See 37 C.F.R. 41.50.
17 See id. § 6(a).
18 Id.
19 See id. § 3(a)(1).
20 See id. § 6(a).
21 See id. § 3(c).
appointment of APJs violates the Appointments Clause. The Arthrex panel concluded that the Director has insufficient review and control authority over APJs to render them inferior officers under the Appointments Clause. The Arthrex panel reasoned that APJs are principal officers, rather than inferior officers, because the Director lacks sufficient authority to review and reverse the decisions of APJs. In particular, the Arthrex panel explained that the Director, though a presidentially appointed officer, does not have “the power to single-handedly review, nullify, or reverse a final written decision issued by a panel of APJs.” The Arthrex panel noted that “[n]o presidentially-appointed officer has independent authority to review a final written decision by the APJs before the decision issues on the behalf of the United States.”

To remedy the determined constitutional defect with the appointment of APJs, the Arthrex panel severed the part of 35 U.S.C. § 3(c) designating APJs as “officers and employees” subject to Title 5’s “for cause” removal restrictions. According to the Arthrex panel, severing the Title 5 restrictions that prevent removal of APJs without cause makes removal of APJs easier and thus reduces APJs to inferior officers. The Arthrex panel explained that severing the APJs’ removal restrictions was “the narrowest viable approach to remedying the violation of the Appointments Clause.”

On March 23, 2020, the Federal Circuit denied en banc rehearing requests from all parties, including the U.S. Government, which intervened in the case. Judge Moore—the author of the Arthrex panel opinion—provided a concurrence defending the original panel decision, arguing that “[t]he severance applied in Arthrex resulted in minimal disruption to the inter partes review system and no uncertainty presently remains as to the constitutionality of APJ appointments.” However, the decision removes the Title 5 removal protections that Congress provided to APJs, making APJs subject to at-will dismissal. The parties in Arthrex, including the U.S. government, have not yet filed a petition for certiorari with the Supreme Court. That petition is due by June 22, 2020.

On May 1, 2020, the Chief Judge of the PTAB issued a “General Order” indicating that the Federal Circuit has responded to Arthrex by issuing numerous Orders vacating “more than 100 decisions by the Patent Trial and Appeal Board… and more such Orders are expected.” The Order also indicates that the PTAB will hold in administrative

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23 Arthrex, 941 F.3d at 1325, 1335 (Fed. Cir. 2019).
24 Id. at 1335, 1329-31.
25 Arthrex, 941 F.3d at 1329-31.
26 Id. at 1329.
27 Id.
28 Id. at 1325, 1337-38; see also 5 U.S.C. § 7513(a) (Title 5 removal protections).
29 Arthrex, 941 F.3d at 1337-38.
30 Id. at 1337.
31 Arthrex, 953 F.3d 760 (Fed. Cir. 2020).
32 Id. at 764.
33 See Sup. Ct. R. 13 (a petition for certiorari is due 90 days after the date of entry of judgment, i.e., the date of rehearing denial in Arthrex).
34 See https://secureservercdn.net/184.168.47.225/9ac.02d.myftpupload.com/wp-content/uploads/2020/05/Order.pdf.
abeyance all PTAB decisions that have been vacated under *Arthrex* “until the Supreme Court acts on a petition for certiorari or the time for filing such petitions expires.”

IV. Proposed Legislative Fixes to Appointment of APJs

A. Overview

After the *Arthrex* panel decision, the House Subcommittee on Intellectual Property held a hearing on November 19, 2019, titled “The Patent Trial and Appeal Board and the Appointments Clause: Implications of Recent Court Decisions.” The panel of witnesses included Professor John F. Duffy, Professor Ari K. Rai, Professor John M. Whealan, and Mr. Robert A. Armitage.

During the hearing, Professor Duffy proposed three potential legislative solutions:

1. make APJs appointed by the President with the consent of the Senate;
2. make PTAB decisions reviewable by the Director of the USPTO; or
3. make PTAB decisions reviewable by a Special PTAB Panel composed of officers appointed by the President with the consent of the Senate.

In addition to Professor Duffy’s proposals (1)-(3), the ABA-IPL Section understands that the Chair of the Courts, Intellectual Property, and the Internet Subcommittee of the House Judiciary Committee, Representative Henry (“Hank”) Johnson, may also be contemplating proposing a fix along the following lines:

4. implement a commission-review similar to the commission-review process of the International Trade Commission (ITC), where such a commission is separate from the administrative law judges (ALJs) who conduct investigations, and the commission reviews the initial determinations by ALJs.

B. Discussion of Proposed Legislative Fixes

Professor Duffy’s first proposal (1) would solve the Appointments Clause issue for APJs; however, this option is impractical. At present, the PTAB contains approximately

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35 The House Subcommittee on Courts, Intellectual Property and the Internet, is a subcommittee of the House Committee on the Judiciary.
36 John F. Duffy is the Samuel H. McCoy II Professor of Law at the University of Virginia School of Law. Arti K. Rai is the Elvin R. Latty Professor of Law and Faculty Director, the Center for Innovation Policy at the Duke University School of Law. John M. Whealan is the Intellectual Property Advisory Board Associate Dena for Intellectual Property Law Studies at the George Washington University Law School. Robert A. Armitage is a consultant on IP strategy and policy, and the former Senior Vice President and General Counsel for Eli Lilly and Co. The statements of the witnesses can be accessed at https://judiciary.house.gov/calendar/eventsingle.aspx?EventID=2249.
260 APJs. Professor Duffy’s first proposal (1) would require Presidential appointment and Senate confirmation of each APJ of the PTAB.

Proposal (2) recognizes Congress’ intent for the Director to have broad powers to direct the policy of the agency. Congress intended for the “powers and duties of the [USPTO]” to “be vested in” the Director, and for the Director to “provide[e] policy direction and management supervision for the Office and for the issuance of patents and the registration of trademarks.”38 Giving the Director the authority to review PTAB decisions would help to promote uniform policy positions within the USPTO. However, proposal (2) may subject the review of PTAB decisions to politically motivated interventions, since the Director is a political appointee. Some have suggested that proposal (2) would concentrate too much power in the hands of one individual, and may subject the patent system as a whole to different results at the PTAB depending on which Director is leading the USPTO at any point in time.

Proposals (3) and (4) may provide for more insulation from politics, since more than one principal officer would have the authority to review PTAB decisions, thereby preventing any one individual from dictating policy decisions at the PTAB. To be sure, these principal officers would still be nominated by the President and confirmed by the Senate, but proposals (3) and (4) would arguably better protect against political interventions because a majority of a review body of principal officers would need to vote in favor of adopting, modifying, or reversing the PTAB’s determination on the patentability of a claim reviewed by the PTAB. Proposals (3) and (4) could therefore provide greater long-term stability for the patent system by minimizing the impact of different policy positions of different Directors on decisions of the PTAB. However, proposals (3) and (4) may lead to policy incoherence, in that the Director’s policy initiatives for the agency overall may conflict with the policy decisions of the principal officers authorized to review PTAB decisions under proposals (3) and (4).

Proposal (4) has an additional complication relating to the structural composition of the USPTO. Implementing a Commission-style review structure according to proposal (4) would require a significant restructuring of the USPTO. As an administrative agency, the USPTO is structured quite differently from the ITC, FTC, and FCC, which are independent federal agencies each governed by a Commission structure consisting of several presidentially-appointed Commissioners.39 On the other hand, as part of the Department of Commerce, the USPTO is an Executive Branch agency that is led by one political appointee, the Director, who is “responsible for providing policy direction and management supervision for the Office.”40 For the USPTO, Congress vested authority in the Director41 and created the PTAB to serve as the adjudicative arm of the USPTO.42 Conversely, the ITC is governed by a Commission whose six members are appointed by the President and approved by the Senate.43 The ITC has a Chairman and Vice

38 See 35 U.S.C. § 3(a)(1)-(2).
41 See id. § 3(a).
42 See id. § 6(c).
Chairman, but they are members of the Commission. No more than three Commissioners may be members of the same political party. Likewise, the FTC and FCC are each governed by a five-member Commission, the members of which are each appointed by the President and approved by the Senate. Like the ITC, the respective Chairman of the FTC and FCC are each chosen from that agency’s Commission, and the number of Commissioners belonging to the same political party is limited by statute.

C. Recommendation

The co-sponsors recommend that Congress enact legislation authorizing one or more principal officers, who are appointed by the President and confirmed by the Senate, to review decisions of the PTAB determining the patentability of any claim reviewed by the PTAB before such decisions become final decisions of the USPTO. By recommending that Congress authorize “one or more principal officers” to review PTAB decisions, the co-sponsors take no position on whether Congress should embrace proposal (2) of a Director-led review of the PTAB or proposal (3) of a multi-member review panel consisting of principal officers. Instead, the co-sponsors defer to Congress to decide which proposal best serves the patent system as a whole. As discussed below, the post-\textit{Arthrex} status quo of no job protections for APJs is untenable as a matter of policy and should be legislatively remedied as soon as possible.

This review structure would directly address \textit{Arthrex’s} concern that under the current statutory scheme, “[n]o presidentially-appointed officer has independent authority to review a final written decision by the APJs before the decision issues on behalf of the United States.” The proposed legislative fix incorporates aspects of proposals (2)-(4) discussed above, in that the review structure would comprise one or more principal officers. As noted above, the co-sponsors prefer to leave to Congress the specific principal officer(s) that should be included in the new review structure.

The recommended legislative fix is a \textit{prospective} one responding to the issues identified in \textit{Arthrex}. The creation of a new review function by one or more principal officers would resolve the issues identified in \textit{Arthrex} prospectively, as of the date the review is established. Thus, the recommended legislative fix is not intended to be a retroactive fix to the issues identified in \textit{Arthrex}. \textit{Arthrex’s} severance of APJs’ Title 5 removal protections rendered APJs as inferior officers and thus fixed the perceived constitutional infirmity with the appointment of APJs under the AIA, but in doing so, the Federal Circuit removed the Title 5 removal protections that Congress afforded to APJs. These employment protections are critical for maintaining APJs’ decisional independence. The proposed legislative fix will render APJs inferior officers due to the

\begin{footnotesize}
\begin{itemize}
  \item[44] See id. § 1330(c).
  \item[45] Id. § 1330(a).
  \item[47] Id.
  \item[48] \textit{Arthrex}, 941 F.3d at 1329.
  \item[49] Id. at 1338; see also \textit{Arthrex}, 953 F.3d at 764 (“Because the APJs were constitutionally appointed as of the implementation of the severance, \textit{inter partes} review decisions going forward were no longer rendered by unconstitutional panels.”); 35 U.S.C. § 3(c) (Title 5 protections afforded to “officers and employees” of the USPTO).
\end{itemize}
\end{footnotesize}
creation of the new review function, without requiring APJs to lack Title 5 removal protections.

The proposed legislative fix is preferable to waiting for the Supreme Court to rule on this issue, for several reasons. The Supreme Court does not have the power to legislate. Therefore, if the Supreme Court denies any petition for certiorari or affirms the Federal Circuit’s decision in Arthrex, APJs would be left without Title 5 removal protections that are required to ensure judicial independence. Alternatively, if the Supreme Court agrees with the Federal Circuit that APJs were principal officers before the severance of their Title 5 removal protections but that the issue cannot be resolved by the courts, a legislative fix is needed to ensure that APJs may perform the reviews they were intended to do under the AIA. On the other hand, if the Supreme Court reverses the Federal Circuit’s decision in Arthrex based on a finding that APJs are inferior officers under the current statutory scheme, the Supreme Court’s holding may be limited to APJs’ review functions for IPRs and PGRs, but not impact the function of APJs in reviewing examiner decisions.50

If Congress does cure the purported constitutional infirmities noted in Arthrex by providing that decisions by APJs may be reviewed by one or more principal officers, as the resolution recommends, it should use the same legislation to restore the Title 5 removal protections that Congress afforded to APJs but that were severed by Arthrex. The co-sponsors believe it is important for APJs to have removal protections to provide APJs with the decisional independence required to adjudicate their cases with due process for all involved parties. Congress showed a clear intent to afford Title 5 employment protections to APJs, by expressly requiring Title 5 protections for officers and employees of the Office.51 Restoring APJs’ Title 5 removal protections, which were severed in Arthrex, will provide APJs with the decisional independence required to adjudicate their cases.

V. Conclusion

The co-sponsors recommend solving the Appointments Clause infirmity identified in Arthrex through legislation to provide appropriate decision-making by one or more properly appointed principal officers. This legislative solution should also restore the Title 5 removal protections for APJs at the PTAB, which will provide APJs with the decisional independence required to adjudicate their cases.

Respectfully submitted,

George W. Jordan, III, Chair
Section of Intellectual Property Law
August 2020

50 The proposed legislative fix could be applied in the future to Administrative Trademark Judges performing review functions for the Trademark Trial and Appeal Board (TTAB) of the USPTO.
51 See 35 U.S.C. § 3(c).
1. Summary of Resolution

The Resolution calls for the Association to adopt policy urging Congress to pass legislation authorizing review of decisions of the U.S. Patent and Trademark Office’s Patent Trial and Appeal Board (PTAB) before such decisions become the final decisions of the agency, and restoring the statutorily afforded Title 5 removal protections that were severed from Administrative Patent Judges (APJs) of the (PTAB). The proposed legislative fix would ensure that APJs are rendered inferior officers, rather than principal officers, under the Appointments Clause of the U.S. Constitution. U.S. Const. art. II, § 2, cl. 2. Congress intended for APJs to be inferior officers. 35 U.S.C. § 6(a). However, in Arthrex, the Federal Circuit held that APJs are principal officers because the Director of the USPTO does not have sufficient authority to review and possibly reverse decisions of the PTAB before they become the final decisions of the agency, and the Director has insufficient power to remove APJs from office. Arthrex Inc. v. Smith & Nephew, Inc., 941 F.3d 1320, 1329-31, 1332-34 (Fed. Cir. 2019), en banc rehearing denied, 953 F.3d 760 (2020). To remedy the determined constitutional defect with the appointment of APJs while preserving the adjudicative and appellate functions of the PTAB under the AIA, the Federal Circuit severed APJs’ statutory removal protections under Title 5, making APJs removable at will. Id. at 1338. But Congress expressly intended for APJs to have Title 5 employment protections afforded to federal employees. See 35 U.S.C. § 3(c). The proposed legislative fix would restore Title 5 removal protections and therefore afford APJs with the judicial independence to adjudicate their cases.

2. Approval by Submitting Entity

The Section of Intellectual Property Law Council approved the Resolution on April 7, 2020. The Section of Administrative Law and Regulatory Practice approved the Resolution on May 9, 2020.

3. Has this or a similar resolution been submitted to the House of Delegates or Board of Governors previously?

No.

4. What existing association policies are relevant to this Resolution and how would they be affected by its adoption?

None.
5. If this is a late report, what urgency exists which requires action at this meeting of the House?

N/A

6. **Status of Legislation**

A bill has not yet been proposed by either the House or Senate. The House Judiciary Committee's Subcommittee on the Courts, Intellectual Property and the Internet held a hearing in November 2019, and it is anticipated that the Subcommittee will introduce a bill after the return to regular order after the current Coronavirus/COVID-19 public emergency has passed.

7. **Plans for implementation of the policy if adopted by the House of Delegates**

The policy will provide Association support for legislation addressing the issue.

8. **Cost to the Association (both direct and indirect costs).**

Adoption of the recommendations will not result in additional direct or indirect costs to the Association.

9. **Disclosure of Interest**

There are no known conflicts of interest regarding this recommendation.

10. **Referrals**

The Resolution and Report have been distributed to each of the other Sections, Divisions, Forums, and Standing Committees of the Association in the version accepted and numbered for the agenda by the Rules and Calendar Committee.

11. **Contact Person (prior to meeting)**

Mark K. Dickson, Ph.D.
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12. **Contact Persons (who will present the report to the House)**

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EXECUTIVE SUMMARY

1. Summary of the Resolution

The Resolution calls for the Association to adopt policy urging Congress to pass legislation that authorizes one or more principal officers, who are appointed by the President and confirmed by the Senate in accordance with the Appointments Clause of the U.S. Constitution, to review decisions of the Patent Trial and Appeal Board (PTAB) of the U.S. Patent and Trademark Office (USPTO) before such decisions become the final decisions of the USPTO, and that restores Title 5 employment protections for the PTAB’s Administrative Patent Judges (APJs), in response to the severance of those protections in the Federal Circuit’s Arthrex decision.

2. Summary of the Issue that the Resolution Addresses

This report addresses the issue of creating a legislative solution to ensure that APJs of the PTAB are rendered inferior officers, rather than principal officers, under the Appointments Clause of the U.S. Constitution. U.S. Const. art. II, § 2, cl. 2. A principal officer is appointed by the President and confirmed by the Senate. Id. An inferior officer may be appointed by a principal officer who is the head of an agency. Id. The Director of the USPTO is a principal officer. 35 U.S.C. § 3(a)(1). Congress intended for APJs to be inferior officers. Id. § 6(a). However, in Arthrex, the Federal Circuit held that APJs are principal officers because the Director of the USPTO does not have sufficient authority to review and possibly reverse decisions of the PTAB before they become the final decisions of the agency, and the Director has insufficient power to remove APJs from office. Arthrex Inc. v. Smith & Nephew, Inc., 941 F.3d 1320, 1329-31, 1332-1334 (Fed. Cir. 2019), en banc rehearing denied, 953 F.3d 760 (2020). To remedy the determined constitutional defect with the appointment of APJs while preserving the adjudicative and appellate functions of the PTAB under the AIA, the Federal Circuit severed APJs’ statutory removal protections under Title 5, making APJs removable at will. Id. at 1338. Congress expressly intended for APJs to have Title 5 employment protections afforded to federal employees. See 35 U.S.C. § 3(c).

3. Please Explain How the Proposed Policy Position Will Address the Issue

The proposed legislative solution directly addresses the Federal Circuit’s concern that “[n]o presidentially-appointed officer has independent authority to review a final written decision by the APJs before the decision issues on the behalf of the United States.” Arthrex, 941 F.3d at 1329. Authorizing one or more principal officers to review the PTAB’s decisions before they become the final decisions of the agency is sufficient to render APJs inferior officers, Arthrex, 941 F.3d at 1329, and would thus allow for the restorations of APJs’ Title 5 removal protections that
were severed in *Arthrex*, thereby providing APJs the decisional independence to adjudicate their cases.

4. **Summary of Minority Views or Opposition Internal and/or External to the ABA Which Have Been Identified**

None known.