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Re: BSA Submission to White House re USPTO Advance Notice of Proposed Rulemaking

BSA | The Software Alliance (BSA) raises concerns relating to the Advance Notice of Proposed Rulemaking (ANPRM) published on April 21, 2023 by the US Patent and Trademark Office (USPTO) and entitled, “*Changes Under Consideration to Discretionary Institution Practices, Petition Word-Count Limits, and Settlement Practices for America Invents Act (AIA) Trial Proceedings Before the Patent Trial and Appeal Board*” (PTAB).¹

I. Executive Summary

BSA members are strong supporters of the USPTO – including the professional patent examination corps, the more than 100 PTAB judges, and their staff – whose collective work ensures that US patents are durable, enforceable, and of the highest quality, setting the standard for the world across hundreds of technology classification categories. BSA members commend and depend upon their excellent work.

At this time, BSA urges the White House and the USPTO to ensure that the ANPRM suggestions do not advance further. BSA understands that USPTO issued this ANPRM to serve as a sounding board by compiling a myriad of potential options suggested by stakeholders relating to the operation of the PTAB. BSA appreciates USPTO’s acknowledgment that it may lack legal authority to advance some of the stakeholder suggestions in the ANPRM; that the ANPRM suggestions may have economic significance; and that they may have significant effects on specific constituents. BSA notes USPTO’s statement that it is an open question as to whether it should move forward with the ANPRM suggestions at all.²

Respectfully, BSA does not believe that the ANPRM is ripe for advancement. Significant work remains to reduce its scope and complexity, to ensure that any proposals faithfully implement the AIA, and to avoid unintended impacts and effects on our economic and national security.

The suggestions in the ANPRM would steer hundreds or thousands of potentially invalid patents into high-cost district court litigation, undermining Congress' intent in the AIA to create a lower cost proceeding to expedite the resolution of patent validity questions. Leaving these potentially invalid patents in the bloodstream of the economy – which tightening access to PTAB post-grant proceedings would do – would allow litigation financiers, and the non-practicing entities they fund, to use these potentially invalid patents to sue manufacturers, service providers, and even small businesses.

BSA is also concerned that the ANPRM suggestions would divert billions of dollars from R&D and other productive uses into district court patent litigation – frustrating the Administration's innovation goals under the CHIPS and Science Act (CHIPS Act)³ and the Inflation Reduction Act (IRA).⁴

The ANPRM suggestions also raise questions of economic and national security. For example, how should the Administration weigh the possible risk that the ANPRM proposals may (unintentionally) better position companies associated with US strategic competitors to leverage their US patents⁵ against US enterprises in critical technology areas?⁶ Are strategic competitors investing in third party patent litigation in the US, and how would the ANPRM proposals affect that dynamic?⁷ Would greater district court litigation involving critical technologies increase the risk of exposure of such technologies to strategic competitors or their agents via judicially mandated discovery?⁸ How should the Administration weigh concerns of the Intelligence Community⁹ or the impact on the CHIPS Act, the IRA, and other priorities?

BSA's concerns about the ANPRM are widely shared across industries that employ over 100 million American workers, including in the automotive, financial service, healthcare, hospitality, retail, semiconductor, and other sectors.¹⁰ These concerns are also echoed not only by small businesses that are targeted with frivolous litigation by non-practicing entities, but also by labor unions, public interest groups, and others.¹¹ (We attach BSA's comments to USPTO in the Annex to this submission.¹²)

In light of these and other considerations, strict application of the requirements of Executive Order 14094 and Circular A-4 (April 6, 2023) would also be essential in connection with any proposed rule to ensure the application of rigorous analytical approaches, a full assessment of the propriety of federal regulatory action and alternative approaches, and an comprehensive assessment of costs and benefits.¹³ However, as noted above, BSA does not consider that the ANPRM proposals are ripe for advancement to the formal rulemaking stage and recommends that they be halted at this time.

The remainder of this submission contains four major sections: an introduction of BSA; a background section; a discussion of the broad-based impacts of the ANPRM proposals; and a conclusion.

II. About BSA

As an association of the leading patent and copyright holders in software and other emerging technologies,¹⁴ BSA promotes policies that foster innovation, growth, and a competitive marketplace for commercial software and related technologies. BSA members invest heavily in intellectual property (IP), holding hundreds of thousands of patents.¹⁵ The software industry accounts for over \$100 billion in annual US research and development (R&D) investments and nearly one quarter of total US private sector R&D.¹⁶

As responsible patent holders and innovators, BSA members have a particular interest in the *inter partes* review and post-grant review mechanisms established under the Leahy-Smith America Invents Act (AIA). These mechanisms make for a more robust and resilient US patent system in two ways: (1) ensuring that US issued patents are high-quality, durable, and enforceable; and (2) allowing for the stress-testing of any improvidently granted patent claims that the USPTO would reasonably likely find invalid.

Through the investments they make in emerging technologies; the thousands of patent applications that they file annually with USPTO and around the world; and their active use of post-grant review mechanisms to build a stronger and more resilient US patent system, BSA members are vigorous supporters of continued and future US leadership in emerging technologies.

III. Background

The US patent system, particularly its dual framework of pre-grant examination and post-grant review, is central to US economic and national security at a time when the United States faces growing innovation competition from other nations. Against the backdrop of nearly a half trillion dollars appropriated under the CHIPS Act and the IRA to secure US technology leadership in semiconductors, advanced battery manufacturing, and other emerging technologies, National Security Advisor Jake Sullivan has explained:

Preserving our edge in science and technology is not a “domestic issue” or “national security” issue. It’s both. ... [C]omputing-related technologies, biotech, and clean tech are truly “force multipliers” throughout the tech ecosystem. And leadership in each of these is a national security imperative.¹⁷

To preserve America’s edge in science and technology, the United States must continue to lead the world in patent quality, durability, and enforceability. This requires a predictable and well-functioning patent system that rewards innovators and protects valid patents, while offering an efficient and effective way to cancel patent claims that should not have been issued. When improperly issued claims are wrongfully deployed in litigation, they divert resources and drain our innovative potential.¹⁸

Accordingly, in 2011, the AIA established a system that couples pre-grant examination of applications with post-grant review of issued claims. The AIA stipulates that post-grant proceedings are only appropriate in those cases where the USPTO receives evidence that a patent claim is likely invalid.¹⁹ In short, the AIA provides that USPTO should only initiate post-grant proceedings relating to patent claims that are reasonably likely to be found invalid.

Taken together, the stakeholder suggestions compiled in the ANPRM would fundamentally alter – and systematically restrict access to – these post-grant proceedings. As USPTO has acknowledged, there is doubt whether USPTO would have legal authority under the AIA to implement some of these suggestions.

Fundamentally, it is reasonable to ask whether the ANPRM suggestions are appropriate as a matter of national policy, given that they would shield patents that are likely invalid from PTAB review and would primarily benefit non-practicing entities, litigation financiers, and patent lawyers. These policy questions can be framed in the language of Article I, Clause 8 of the US Constitution. For example, is a hedge fund or non-practicing entity an “inventor” when it purchases for litigation purposes a patent that is found to be invalid? Does it “promote the progress of science and the useful arts” when non-practicing entities are allowed to use patents that are likely invalid to demand financial settlements from companies that are (by contrast) investing heavily in US R&D, practicing their own patents, and creating jobs in key sectors?

As these questions suggest, many of the non-practicing entity litigation challenges that led to the AIA reforms in 2011 remain relevant today. BSA believes that the ANPRM is fundamentally flawed and urges that it not proceed further.

IV. The ANPRM Proposals Would Have Material Adverse Impacts on the Economy; Create Serious Inconsistencies with Other Administration Policies; and Raise Legal and Policy Issues Meriting Centralized Review

The preambular language of Executive Order No. 12866, *Regulatory Planning and Review* (1993), calls for a regulatory system that “works for [the American people]..., not against them”; that “improves the performance of the economy”; and that does not “impos[e]... unacceptable or unreasonable costs on society.”²⁰ The ANPRM proposals raise concerns under each of the required prongs of examination for an economically significant rulemaking under EO 12866, as amended by Executive Order 14094 (April 6, 2023) and Circular A-4.²¹

A. The ANPRM Proposals Would Create Serious Inconsistencies and Interfere with Biden Administration Policies

Under EO 12866, as amended by Executive Order 14094 (April 6, 2023), proposed regulatory action requires additional scrutiny and oversight if it would “create a serious inconsistency or otherwise interfere with an action taken or planned by another agency.” The ANPRM creates serious inconsistencies with core US government policies advanced by Congress, the White House, and the Departments of Commerce, Energy, and State.

The ANPRM would elevate the status of patent claims that are likely invalid, foreclose access to PTAB proceedings, and encourage increased district court litigation. The economic impact would be to divert resources away from R&D and other productive uses. This is at odds with the Administration’s goals of advancing US technology leadership in semiconductors, green tech, and other emerging technologies. The widespread and systemic assertion of such patent claims undermines:

- The “long-term commitment” articulated by Secretary Raimondo “that will be necessary to ensure our continued leadership in global innovation and protect our economic and national security.”²²
- The ability of the United States, as articulated by Secretary Blinken, to compete “to develop and deploy new technologies like artificial intelligence and quantum computing,” “to maintain our scientific and technological edge,” and “to thrive[e]... in the 21st century economy.”²³
- Necessary “innovation to bring down the costs of batteries, to commercialize carbon capture, to make blue and green hydrogen market-ready,” as articulated by Secretary Granholm.²⁴

The litigation based on (likely) invalid patent claims that would result from the ANPRM proposals will come at the expense of America’s scientific research community, our computer programmers, laboratory technicians, assembly line workers, and many others engaged in R&D, advanced manufacturing, and other economically productive activities that are necessary to America’s future technology leadership.

1. The ANPRM Proposals Would Divert R&D and Manufacturing Investments Called for in the CHIPS Act and the IRA

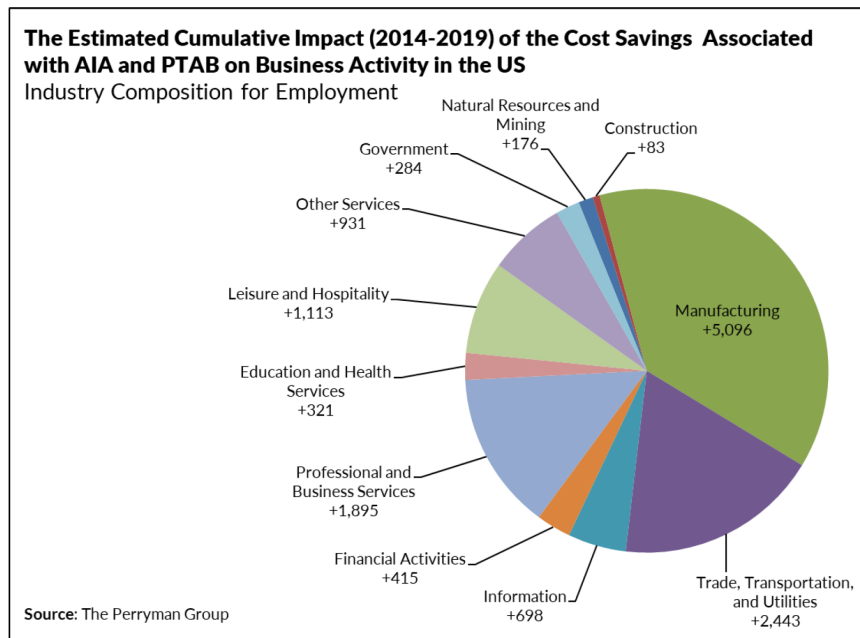
We urge the Administration to assess whether and to what extent the CHIPS Act, the IRA, and other priorities may be directly impacted by the ANPRM proposals. As reflected in President Biden’s remarks on the \$490 billion in private sector investment commitments in high-tech and other manufacturing, the Administration envisions that private sector investment will supplement the \$52.7 billion in semiconductor-related funding under the CHIPS Act²⁵ and the \$369 billion in funding under the IRA.²⁶

Unfortunately, these private sector commitments may be jeopardized by ANPRM proposals that would allow litigation financiers to force manufacturers and other operating companies to divert investment dollars into defensive litigation budgets and unwarranted settlements.

Recent cases effectively illustrate the problem. For example, Intel’s planned \$20 billion investment in semiconductor manufacturing and the creation of 10,000 new jobs in Ohio has been widely praised, including by Secretary Raimondo.²⁷ At the same time, Intel faced a multi-billion litigation from VLSI, which has been described as a non-practicing entity that purchased a patent for litigation in 2019 and never manufactured a competing product. In 2022, VLSI persuaded Texas juries to award \$2.18 billion against Intel,²⁸ even though the USPTO itself later found that the claims Intel was found to infringe should not have been granted and were invalid. The multi-billion risk that such frivolous litigation presents to US economic policy goals is readily apparent in this case.

Multiple economic analyses further underscore this risk. According to one study, each year, non-practicing entities create \$29 billion in direct, out-of-pocket costs for the companies they pursue.²⁹ The companies that settle with patent trolls, or lose to them in court, wind up reducing investments in research and development by an average of more than \$160 million over the next two years.³⁰

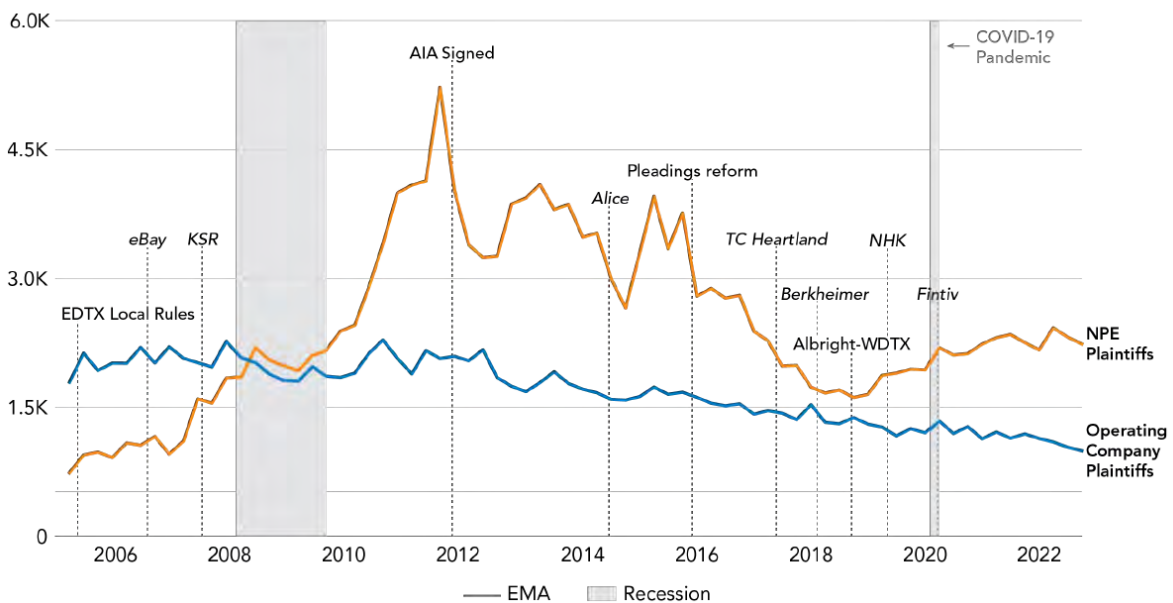
Another study estimates savings of nearly \$3 billion in litigation costs the retention of thousands of manufacturing, transportation, and other jobs thanks to the very same post-grant procedures that the ANPRM proposals seek to curtail.³¹ These estimated job benefits, which are summarized in the graphic below, are directly threatened by the ANPRM proposals to systematically reduce access to the PTAB.



Yet another study of patent litigation filing trends shows that, even with the ameliorative effects of PTAB post-grant proceedings, non-practicing entities backed by litigation financiers continue to file patent lawsuits at significantly higher rates than manufacturers and other operating companies.³²

Non-practicing entities are now asserting patent litigation claims against around 2,200 defendants every year, with the rate of such non-practicing entity lawsuits increasing by 40-45% since 2018.³³ In fact, patent lawsuit activity by non-practicing entities and their financier backers now exceeds the patent litigation activity by manufacturers and other operating companies by more than 100%. See below.

Quarterly Campaign Defendants (Annualized) Since 2005 – NPE Plaintiffs v. OpCo Plaintiffs



By effectively promoting more district court litigation involving patent claims that are likely invalid, the ANPRM proposals would hurt the ability of responsible innovators and manufacturers to meet the Administration's goals under the CHIPS Act and the IRA.

B. The ANPRM Proposals Would Adversely Affect in a Material Way the Economy, Jobs, Competition, and Critical High Technology Sectors

Under EO 12866, as amended by Executive Order 14094 (April 6, 2023), proposed regulatory action requires additional scrutiny and oversight if it would have an "annual effect on the economy of \$200 million or greater ...; or adversely affect in a material way the economy, a sector of the economy, productivity, competition, jobs, the environment, public health or safety." The ANPRM proposals would have an impact of this magnitude.

The preceding sections of this submission preview economic costs (in terms of misallocation of private sector investments called for the CHIPS Act and IRA and foregone investments in R&D and manufacturing) that the ANPRM proposals could create. This section focuses more specifically on district court litigation costs, including unwarranted jury awards, attorney fees, and other court costs.

According to one academic study, "[t]hird-party litigation funding (TPLF) is big business," with "overall commercial funding commitments to third-party litigation funding total[ing]... \$5 billion [to]... \$10 billion."³⁴ The same study notes that:

The secondary market for patents, in which non-practicing entities can buy patents from innovators and litigate against defendants, has created a robust market for litigation. Fueled by the capital markets, investment funds place bets on litigation in hopes of a financial return with no interest in the underlying technology or innovation. This growth in litigation drains social welfare and creates a hidden tax on innovation, since operating companies spend costly resources to defend against patent trolls funded by Wall Street.³⁵

Others estimate the litigation finance market at closer to \$15 billion annually.³⁶

In a (now) well-established system of patent litigation arbitrage, US and foreign financiers either fund multi-million or -billion dollar patent lawsuits against major US manufacturers, or the fund a very large number of smaller nuisance suits against small businesses.

In the first scenario, US and foreign financiers buy stakes or invest in patents held by non-practicing entities, financing the litigation in the hopes of a large jury award payout at the end of the process. These hedge funds can afford to back a number of weak cases involving (likely) invalid patents: Even if most cases are unsuccessful, a single multi-billion dollar jury verdict can justify the spread of financial investments. As stated in the Report, *Third Party Funding of Patent Litigation*, this "market has grown substantially, buying patents from small entrants and litigating them at scale against cash-rich incumbents."³⁷ In one survey of patent cases, it was found that:

47% of all [patent] cases emerged from non-practicing entities of various kinds, either patent assertion entities, individuals, or small company non-practicing entities. This means that non-practicing entities have cornered close to half of the market on patent litigation.³⁸

To begin to comprehend the economic scale of this challenge, one need merely extrapolate the single \$2 billion jury award (and untold fees and costs) in *Intel v. VLSI* to dozens of large litigation dockets across the country, as hundreds or thousands of (likely) invalid patents are systematically exempted from PTAB review.

In the second scenario, US and foreign financiers fund non-practicing entity litigation against hundreds of small businesses, seeking a large volume of smaller payments that can be aggregated into a larger financial return. As explained by the New Hampshire Retail Association,

[B]ad actors ... who want to abuse the patent system – buy... up old, vague patents from the earliest days of the internet, and us[e]... them to threaten or sue small businesses for alleged “infringement.” While most of these cases would easily fail in a real legal challenge, for small businesses it is significantly less expensive to settle out of court with a troll than it would be to go through an expensive trial. NPEs count on this, and can use the same old patent to extort thousands and thousands of dollars from retailers and other Main Street companies.³⁹

As stated in a recent publication from Shopify,

In a majority of [such] cases, NPEs achieve their ultimate goal: a quick payout. In fact, 90% of patent litigation cases filed each year are abandoned or settled, making “winners” out of the patent trolls, and victims of the forward-thinking businesses who put in the work to create and innovate.⁴⁰

In both scenarios, but particularly in the case of patent lawsuits involving US critical technologies, a troubling aspect of non-practicing entity litigation is lack of transparency regarding the foreign entities that invest in third party patent litigation.⁴¹ Some Reports have indicated that foreign governments may be active investors.⁴²

The PTAB is a critical backstop against such conduct. In allowing for a second review of patent claims that the USPTO would likely find invalid, the PTAB helps prevent such patent claims from being misused by unscrupulous actors to extort settlements via unwarranted litigation against responsible American enterprises and innovators.

C. The ANPRM Proposals Raise Legal or Policy Issues for Which Centralized Review Would Meaningfully Further the President's Priorities

Under EO 12866, as amended by Executive Order 14094 (April 6, 2023), proposed regulatory action requires additional scrutiny and oversight if it raises legal or policy issues for which centralized review would meaningfully further the President's priorities. The ANPRM proposals run directly counter to the core innovation and competitiveness goals of Congress and the Administration – raising both legal and policy issues for which centralized review is needed.

These proposals could undermine core policy priorities of the White House, intelligence community, and various executive branch agencies, including the Departments of Commerce, Energy, and State.

For all of the foregoing reasons, centralized review and suspension of the ANPRM proposals would meaningfully further the President's priorities.

V. Conclusion

BSA members have serious concerns regarding the stakeholder suggestions compiled in the ANPRM by the USPTO.⁴³ BSA members share the view that AIA post-grant proceedings should be allowed to function as Congress intended, namely to offer an efficient system to identify invalid patent claims while preserving and strengthening valid patents, thus reducing both the number and cost of frivolous lawsuits.

The suggestions compiled in the ANPRM would do the opposite.

These suggestions would shield patent claims from PTAB review even if the USPTO would be reasonably likely to find them invalid. The ANPRM suggestions would appear to favor the interests of US and foreign litigation financiers, non-practicing entities, and patent lawyers over the interests of responsible US patent holders, US manufacturers and service providers, and our scientific research community, our computer programmers, laboratory technicians, workers, and many others engaged in economically productive activities. The ANPRM suggestions could also undermine Biden Administration efforts to sustain and

advance US technology leadership in critical and emerging technologies by diverting funds from core R&D activities into non-practicing entity litigation.

Former Senator and US Ambassador Max Baucus captured the issue well when he explained that such non-practicing entity litigation results in, "massive amounts of money ... being drained from the hardworking people who are driving our economy forward to instead line the pockets of wealthy investors who are offering no goods or services of their own."⁴⁴ BSA agrees.

Post-grant proceedings are a cornerstone of the US patent system. Is it in the interest of the United States to programmatically undermine access to those proceedings while promoting an opaque system of litigation arbitration? We strongly urge the Administration not to allow the ANPRM to proceed at this time.

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¹ US Patent and Trademark Office, *Changes Under Consideration to Discretionary Institution Practices, Petition Word-Count Limits, and Settlement Practices for America Invents Act Trial Proceedings Before the Patent Trial and Appeal Board*, 88 Fed. Reg. 24503, Docket No. PTO–P–2020–0022 (April 21, 2023) (*hereinafter* “USPTO ANPRM”).

² See House Judiciary Committee Website, Oversight of the US Patent and Trademark Office, Hearing Recording (April 27, 2023), at 59:59 – 1:01:45, <https://judiciary.house.gov/committee-activity/hearings/oversight-us-patent-and-trademark-office>

³ White House, *CHIPS and Science Act Will Lower Costs, Create Jobs, Strengthen Supply Chains, and Counter China* (2022), <https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/09/fact-sheet-chips-and-science-act-will-lower-costs-create-jobs-strengthen-supply-chains-and-counter-china/>

⁴ White House, *The Inflation Reduction Act Supports Workers and Families* (2022), <https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/19/fact-sheet-the-inflation-reduction-act-supports-workers-and-families/>

⁵ “China [is the] country with the highest growth rate [in USPTO patent grants]. China ... has won a whopping 18.7% more grants in 2022 over 2021, earning 24,538 patents last year compared to 20,679 in the previous year.” IFI Claims Patent Services, *2022 Trends and Insights* (2023), <https://www.ificlaims.com/rankings-trends-2022.htm>; See also, Business Insider, *China’s 2021 U.S. Patent Grants Surged, Even as Total Patent Awards Trended Downward, According to Analysis by IFI CLAIMS* (2022), <https://markets.businessinsider.com/news/stocks/china-s-2021-u-s-patent-grants-surged-even-as-total-patent-awards-trended-downward-according-to-analysis-by-ifi-claims-1031093134#:~:text=China%27s%202021%20U.S.%20Patent%20Grants%20Surged%2C%20Even%20as,...%203%20Samsung%20Leads%20Total%20Global%20Holdings%20>

⁶ Reports indicate an increase in such patent assertion vis-à-vis US and global competitors. See e.g., Engadget, *5G patents to make money off of other companies* (2021), <https://www.engadget.com/huawei-5g-patent-licensing-184450343.html> (describing “plans to monetize its patent portfolio more aggressively ... to generate as much as \$1.3 billion in additional revenue between 2019 and the end of 2021.”)

⁷ US Chamber of Commerce Institute for Legal Reform, *A New Threat: The National Security Risk of Third Party Litigation Funding* (2022), <https://instituteforlegalreform.com/wp-content/uploads/2022/11/TPLF-Briefly-Oct-2022-RBG-FINAL-1.pdf> (“Foreign governments and companies—including those of U.S. adversaries such as China and Russia—may seek to encourage and exploit commercial disputes involving U.S. companies abroad or in the United States to destabilize key sectors of the U.S. economy or advance the interests of their home industries. ... The use of TPLF (third party litigation funding) in the patent litigation context highlights the risks of this type of litigation model for U.S. security interests. As former U.S. Attorney General Michael Mukasey lamented, this type of litigation does not advance the interests of inventors or consumers. Rather, it is commenced and prosecuted to generate revenue for investors, including foreign governments, with the added—or perhaps intended—effect of draining the time and resources of U.S. companies.”)

⁸ *Id.* (“[O]f particular concern [are cases in which] a foreign adversary like China could underwrite a portfolio of lawsuits against numerous U.S. companies across a wide swath of critical sectors or even just a single company that necessarily possesses highly sensitive information. In so doing, the foreign government would likely be privy to all of the sensitive pre-litigation documents counsel had considered in deciding whether to bring suit in the first place. And to the extent that any of these suits were to advance to discovery, a treasure trove of even more sensitive data would become available to the foreign government, or its agents, which could then be collected and exploited for strategic or even nefarious purposes.”)

⁹ National Counterintelligence and Security Center, *National Counterintelligence Strategy of the United States of America 2020-2022*, at 1 (Jan. 7, 2020), https://www.dni.gov/files/NCSC/documents/features/20200205-National_CI_Strategy_2020_2022.pdf (“Foreign intelligence entities have embedded themselves into U.S. national labs, academic institutions, and industries that form

America's national innovation base. They have done this to acquire information and technology that is critical to the growth and vitality of the U.S. economy... These activities have cost the United States hundreds of billions of dollars. The theft of our most sensitive technologies, research and intellectual property harms U.S. economic, technological, and military advantage in the world. It puts at risk U.S. innovation and the competitiveness of American companies in world markets.”); Office of the Director of National Intelligence, *Annual Threat Assessment of the U.S. Intelligence Community*, at 6-7 (Feb. 2023), <https://www.dni.gov/files/ODNI/documents/assessments/ATA-2023-Unclassified-Report.pdf> Office of the Director of National Intelligence, “China will remain the top threat to U.S. technological competitiveness, as Beijing targets key sectors and proprietary commercial and military technology from U.S. and allied companies and institutions.”

¹⁰ Letter to House Judiciary Committee Chair Issa and Ranking Member Johnson from Alliance for Automotive Innovation, Bank Policy Institute, High Tech Inventors Alliance, National Retail Federation, Public Interest Patent Law Institute, and US MADE, among others (April 23, 2023); ANPRM Comments of US Manufacturers Association for Development and Enterprise, https://downloads.regulations.gov/PTO-P-2020-0022-0818/attachment_1.pdf; ANPRM Comments of Alliance for Automotive Innovation, https://downloads.regulations.gov/PTO-P-2020-0022-0759/attachment_1.pdf; ANPRM Comments of Public Interest Patent Law Institute, https://downloads.regulations.gov/PTO-P-2020-0022-0802/attachment_1.pdf; ANPRM Comments of Nissan North America Inc., https://downloads.regulations.gov/PTO-P-2020-0022-0723/attachment_1.docx; ANPRM Comments of US Chamber of Commerce, https://downloads.regulations.gov/PTO-P-2020-0022-0763/attachment_1.pdf; ANPRM Comments of HTIA, https://downloads.regulations.gov/PTO-P-2020-0022-0796/attachment_1.pdf; ANPRM Comments of Association for Accessible Medicines, https://downloads.regulations.gov/PTO-P-2020-0022-0738/attachment_1.pdf; ANPRM Comments of ACT, https://downloads.regulations.gov/PTO-P-2020-0022-0787/attachment_1.pdf

¹¹ See e.g., ANPRM Comments of New Hampshire Retail Association, https://downloads.regulations.gov/PTO-P-2020-0022-0655/attachment_1.pdf; Comments of UNITED for Patent Reform, https://downloads.regulations.gov/PTO-P-2020-0022-0779/attachment_1.pdf; Comments of Engine Advocacy, https://downloads.regulations.gov/PTO-P-2020-0022-0806/attachment_1.pdf; Comments of Construction and General Labor Unions, <https://www.regulations.gov/comment/PTO-P-2020-0022-0489>; Comments on US PIRG, https://downloads.regulations.gov/PTO-P-2020-0022-0767/attachment_1.pdf Comments of 278 Individuals, <https://www.regulations.gov/comment/PTO-P-2020-0022-0681>; Comments of 205 Individuals, <https://www.regulations.gov/comment/PTO-P-2020-0022-0024>; Comments of Stanley Kellett, <https://www.regulations.gov/comment/PTO-P-2020-0022-1026>; Comments of Joel Gross, <https://www.regulations.gov/comment/PTO-P-2020-0022-0535>; Comments of PL Lim, <https://www.regulations.gov/comment/PTO-P-2020-0022-0254>; Comment of Ken Snead, <https://www.regulations.gov/comment/PTO-P-2020-0022-1901>

¹² ANPRM Comments of BSA | The Software Alliance, <https://www.bsa.org/policy-filings/us-bsa-submission-to-uspto-anprm-on-ptab-discretionary-denials>

¹³ See Circular A-4, Regulatory Analysis (April 6, 2023), <https://www.whitehouse.gov/wp-content/uploads/2023/04/DraftCircularA-4.pdf>

¹⁴ BSA's members include: Adobe, Alteryx, Atlassian, Autodesk, Bentley Systems, Box, Cisco, CNC/Mastercam, Databricks, DocuSign, Dropbox, Elastic, Graphisoft, IBM, Informatica, Juniper Networks, Kyndryl, MathWorks, Microsoft, Okta, Oracle, Prokon, PTC, Rubrik, Salesforce, SAP, ServiceNow, Shopify Inc., Siemens Industry Software Inc., Splunk, Trend Micro, Trimble Solutions Corporation, TriNet, Twilio, Unity Technologies, Inc., Workday, Zendesk, and Zoom Video Communications, Inc.

¹⁵ BSA member companies accounted for 13,715 U.S. patents issued in 2021 to the top ten patent grantees. This figure corresponds to 84.37% of the 16,256 U.S. patents issued to those grantees headquartered in the United States, and 38.26% of the 35,847 US patents issued to grantees from all countries (including China, Japan, Korea, Taiwan, and the United States). See IFI Claims Patent Services, 2021 Top 50 U.S. Patent Assignees, available at: https://www.ificlaims.com/rankings-top-50-2021.htm?utm_medium=pr-blogs&utm_campaign=rankings-2021

¹⁶ Software.org, Support US through COVID (2021), available at: <https://software.org/wp-content/uploads/2021SoftwareJobs.pdf>

¹⁷ [Remarks by National Security Advisor Jake Sullivan at the Special Competitive Studies Project Global Emerging Technologies Summit | The White House](#)

¹⁸ The USPTO's primary opportunity to prevent an improper patent grant is at the application stage. But Congress recognized that mistakes are inevitable. “It is unrealistic to believe a patent examiner would know all of the places to look for [relevant] information” at the examination stage, “and even if the examiner knew where to look, it is unlikely he or she would have the time to search all of these nooks and crannies.” 157 Cong. Rec. 2,843 (2011) (remarks of Sen. Klobuchar). As Congress explained in the AIA, the United States must have a patent framework that produces high quality patents and that rewards innovation, consistent with the US Constitution. Therefore, the AIA designed post-grant proceedings to provide a more “efficient system for challenging patents that should not have been issued.”

¹⁹ The statute is faithfully implemented when the PTAB institutes an *inter partes* review if it determines there to be a “reasonable likelihood that the petitioner would prevail with respect to at least 1 of the [patent] claims challenged” and the other statutory factors are met.

²⁰ Executive Order No. 12866, *Regulatory Planning and Review* (1993), at: <https://www.archives.gov/files/federal-register/executive-orders/pdf/12866.pdf> The preambular text states as follows:

“The American people deserve a regulatory system that works for them, not against them: a regulatory system that protects and improves their health, safety, environment, and well-being and improves the performance of the economy without imposing unacceptable or unreasonable costs on society; regulatory policies that recognize that the private sector and private markets are the best engine for economic growth; regulatory approaches that respect the role of State, local, and tribal governments; and regulations that are effective, consistent, sensible, and understandable.”

²¹ The ANPRM fails to address the 12 requirements for regulatory action outlined in EO 12866, as amended in EO 14094. The ANPRM does not assess costs or benefits, which EO12866 states, “shall be understood to include both quantifiable measures (to the fullest extent that these can be usefully estimated) and qualitative measures of costs and benefits that are difficult to quantify, but nevertheless essential to consider. Further, in choosing among alternative regulatory approaches, agencies should select those approaches that maximize net benefits (including potential economic, environmental, public health and safety, and other advantages; distributive impacts; and equity), unless a statute requires another regulatory approach.” See Executive Order 14094, *President Documents - Modernizing Regulatory Review*, 88 Fed. Reg. 21879 (April 11, 2023), <https://www.govinfo.gov/content/pkg/FR-2023-04-11/pdf/2023-07760.pdf>. See also Circular A-4, <https://www.whitehouse.gov/wp-content/uploads/2023/04/DraftCircularA-4.pdf>

²² [Remarks by U.S. Secretary of Commerce Gina Raimondo on the U.S. Competitiveness and the China Challenge | U.S. Department of Commerce](#)

²³ [A Foreign Policy for the American People - United States Department of State](#)

²⁴ [Remarks as Delivered by Secretary Granholm at President Biden's Leaders Summit on Climate | Department of Energy](#)

²⁵ White House, *CHIPS and Science Act Will Lower Costs, Create Jobs, Strengthen Supply Chains, and Counter China* (2022), <https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/09/fact-sheet-chips-and-science-act-will-lower-costs-create-jobs-strengthen-supply-chains-and-counter-china/>

²⁶ [Remarks by President Biden on Bidenomics | Chicago, IL | The White House](#)

²⁷ [Secretary Raimondo Announces Results of Request for Information on Semiconductor Supply Chain | U.S. Department of Commerce](#)

²⁸ *Id.*

²⁹ James Bessen, Harvard Business Review, Harvard Business Review Magazine (2014), <https://hbr.org/2014/07/the-evidence-is-in-patent-trolls-do-hurt-innovation>

³⁰ *Id.*

³¹ Perryman Group estimates that the direct cost savings from the AIA/PTAB over the 2014-19 period was \$2.644 billion. <https://www.perrymangroup.com/publications/report/an-assessment-of-the-impact-of-the-american-invents-act-and-patent-trial-and-appeal-board-on-the-us-economy/>

³² RPX, Fourth Quarter Litigation Review (2021), <https://www.rpxcorp.com/wp-content/uploads/sites/6/2021/02/RPX-Q4-in-Review-January-2021.pdf>

³³ *Id.*

³⁴ Korok Ray, *Third-Party Funding of Patent Litigation: Problems and Solutions*, Texas A&M University, p. 8 (2022), at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4125510 (hereinafter “*Third Party Funding of Patent Litigation*”)

³⁵ *Id.*

³⁶ There are dozens of major US and foreign financiers of litigation. See e.g., Investor Junkie, *Litigation Finance Is Growing: Should You Invest in Legal Cases?* (2022), at: <https://investorjunkie.com/investing/litigation-finance-investment/>; Nester Research, *Global Litigation Funding Investment Market to Cross USD 13 Billion in 2021* (2021), at: <https://www.globenewswire.com/news-release/2021/02/04/2169925/0/en/Global-Litigation-Funding-Investment-Market-to-Cross-USD-13-Billion-in-2021-Rise-in-Pending-Claims-Insolvency-and-Bankruptcy-Due-to-COVID-19-and-Interest-in-ROI-Among-Investors-to-.html>; Bloomberg Law, *Litigation Funders Say Capital Becomes Scarce as Recession Looms* (2023) (citing a Westfleet Advisors' report that estimated the total market at \$14 billion), at: <https://news.bloomberglaw.com/business-and-practice/litigation-funders-say-capital-becomes-scarce-as-recession-looms>; Leslie Stahl, *Litigation Funding: A multibillion-dollar industry for investments in lawsuits with little oversight*, CBS News - 60 Minutes (2022), at: <https://www.cbsnews.com/news/litigation-funding-60-minutes-2022-12-18/>; Schultz, Roth & Zabel,

Investing in Litigation Finance (2018) <https://www.srz.com/images/content/1/5/v2/154512/SRZ-PIF-2018-Investing-in-Litigation-Finance.pdf>

³⁷ *Third Party Funding of Patent Litigation*, at 9.

³⁸ *Id.*

³⁹ ANPRM Comments of New Hampshire Retail Association, https://downloads.regulations.gov/PTO-P-2020-0022-0655/attachment_1.pdf.

⁴⁰ Jess Hertz, *Shopify v. Patent Trolls: Defending Entrepreneurs and Innovation* (2023), <https://www.linkedin.com/pulse/shopify-vs-patent-trolls-defending-entrepreneurs-innovation-hertz%3FtrackingId=UXkApUiShk9YUZALf7NRbg%253D%253D/?trackingId=UXkApUiShk9YUZALf7NRbg%3D%3D>

⁴¹ *Defending Entrepreneurs and Innovation*, infra note 36.

⁴² *The National Security Risk of Third Party Litigation Funding*, infra note 7.

⁴³ Letter to House Judiciary Committee Chair Issa and Ranking Member Johnson from Alliance for Automotive Innovation, Bank Policy Institute, High Tech Inventors Alliance, National Retail Federation, Public Interest Patent Law Institute, and US MADE, among others (April 23, 2023).

⁴⁴ Max Baucus, *It's Time for the US to Tackle Patent Trolls*, Harvard Business Review (2022), <https://hbr.org/2022/09/its-time-for-the-u-s-to-tackle-patent-trolls>

Annex



June 20, 2023

**BSA Comments to US Patent and Trademark Office on
USPTO Advance Notice of Proposed Rulemaking**

The Honorable Kathi Vidal
Under Secretary of Commerce for Intellectual Property and
Director of the United States Patent and Trademark Office
United States Patent and Trademark Office
600 Dulany Street Alexandria, VA 22314

Dear Under Secretary Vidal,

BSA | The Software Alliance (BSA) appreciates the opportunity to respond to the Advance Notice of Proposed Rulemaking (ANPRM) published on April 21, 2023 by the US Patent and Trademark Office (USPTO) and entitled, “*Changes Under Consideration to Discretionary Institution Practices, Petition Word-Count Limits, and Settlement Practices for America Invents Act Trial Proceedings Before the Patent Trial and Appeal Board*” (PTAB).¹

This submission is organized into four major sections: (1) an introduction of BSA; (2) an executive summary; (3) a discussion of the specific legal impacts of the ANPRM proposals on the US patent system; and (4) a conclusion.

I. About BSA

As an association of the world’s leading patent and copyright holders in artificial intelligence, quantum computing, enterprise software, and other emerging technologies,² BSA promotes policies that foster innovation, growth, and a competitive marketplace for commercial software and related technologies. BSA members invest heavily in intellectual property (IP), holding hundreds of thousands of patents and receiving (in 2021) nearly 40 percent of all US patents issued to the top 10 grantees, and within that grouping, nearly 85 percent of the US patents issued to American companies.³ The software industry accounts for over \$100 billion in annual US research and development (R&D) investments and nearly one quarter of total US private sector R&D expenditures.⁴

As innovators and responsible patent holders, BSA members have a particular interest in the *inter partes* review and post-grant review mechanisms established under the Leahy-Smith America Invents Act (AIA). These mechanisms make for a more robust and resilient US patent system in two ways: (1) ensuring that US issued patents are durable and enforceable; and (2) allowing for the stress-testing of any improvidently granted patent claims that the USPTO would be reasonably likely to find invalid.

Through the investments they make in emerging technologies; the thousands of patent applications that they file annually with USPTO and around the world; and their active use of post-grant review mechanisms to build a stronger and more resilient US patent system, BSA members are vigorous supporters of continued and future US leadership in emerging technologies.

II. Executive Summary

The US patent system, particularly its dual framework of pre-grant examination and post-grant review, is central to the success of US innovation policy. As National Security Advisor Jake Sullivan has noted, US innovation policy is critical to our economic and national security:

Preserving our edge in science and technology is not a “domestic issue” or “national security” issue. It’s both. Under President Biden’s leadership, we have built into the foundation of our approach a deep integration of domestic policy and foreign policy and a focus on issues that spill out of these two traditional siloes. As part of that, we are pursuing a modern industrial and innovation strategy to invest in our sources of strength at home, which also powers our strength around the world. ... But computing-related technologies, biotech, and clean tech are truly “force multipliers” throughout the tech ecosystem. And leadership in each of these is a national security imperative.⁵

A central facet of US innovation policy is a predictable and well-functioning patent system that rewards innovators and protects valid patents, while offering an efficient and effective way to cancel patent claims that should not have been issued. As Congress explained in the AIA, the United States must have a patent framework that produces high quality patents and that rewards innovation, consistent with the US Constitution. Congress, in the AIA, stressed the importance of patent quality. The PTO’s primary opportunity to prevent an improper patent grant is at the application stage. But Congress recognized that mistakes are inevitable. “It is unrealistic to believe a patent examiner would know all of the places to look for [relevant] information” at the examination stage, “and even if the examiner knew where to look, it is unlikely he or she would have the time to search all of these nooks and crannies.” 157 Cong. Rec. 2,843 (2011) (remarks of Sen. Klobuchar).

The AIA therefore designed post-grant proceedings to provide a more “efficient system for challenging patents that should not have been issued.” This quality control mechanism, which couples pre-grant administrative examination of patent applications with post-grant review of any issued patent claim, helps justify the presumption of validity that patents receive in litigation. And the statute is faithfully implemented when the PTAB institutes an *Inter Partes* Review if it determines there to be a “reasonable likelihood that the petitioner would prevail with respect to at least 1 of the [patent] claims challenged” and the other statutory factors are met. Systematic “discretionary denials” of an IPR in situations in which the statutory criteria are met are not consistent with the system created by the AIA.

BSA strongly opposes proposals in the April 21 ANPRM that would enervate the US patent system by systematically shielding weak patents from review in post-grant PTAB proceedings. These proposals will undermine the strength and resilience of American innovation. AIA post-grant proceedings are a keystone of the US patent system. The ANPRM proposals could compromise the structural integrity of that system by programmatically undermining the availability and the viability of those proceedings.

Among other things, these proposals would divert scarce resources into wasteful and unnecessary district court litigation underwritten by foreign hedge funds and litigation financiers. These proposals would do so at the expense of the US-based innovation and R&D activities necessary to America’s future technology leadership.

We strongly urge USPTO not to advance these proposals.

III. The ANPRM Proposals Would Rewrite the AIA and Usurp Congressional Authority

AIA post-grant proceedings should be allowed to function as Congress intended, namely to “give third parties a quick, inexpensive, and reliable alternative to district court litigation to resolve questions of patent validity,” and to permit cancellation “as unpatentable 1 or more claims of a patent.” AIA post-grant proceedings should serve as an efficient system to weed out invalid patent claims while preserving and strengthening valid patents, thus reducing both the number and cost of frivolous lawsuits.

The proposals in the ANPRM would do the opposite. They would overturn or substantially alter core AIA provisions on post-grant proceedings, contrary to the express language agreed by Congress. These proposals do so through over a dozen major proposals to limit or block institution of PTAB proceedings on procedural and substantive grounds not envisioned by statute. We identify several examples below.

A. Rewriting the Statutory Deadline for Filing a Petition in Conjunction with a Strict Application of the *Fintiv* Rule

In the AIA, Congress stipulated that a PTAB petition must be filed within “1 year after . . . the petitioner is served with a complaint” alleging infringement of the patent.⁶ The ANPRM would propose to shorten the default deadline to six months unless the petitioner falls within certain safe harbors.⁷ Six months is the same time period that Congress considered and expressly *rejected* as the statutory deadline in 2011.

While the ANPRM states that the USPTO will not actually change the 1-year statutory filing deadline, the ANPRM makes clear that later filed petitions would likely be systematically denied based on a strict application of the *Fintiv* rule. USPTO’s proposal to apply *Fintiv* strictly in conjunction with a new extra-statutory 6-month filing timeline represents a sharp and unprecedented reversal of USPTO’s decision from just last year not to apply *Fintiv* in this manner.

The effective impact of this proposal would be to programmatically reduce the availability of IPR proceedings, contrary to the letter and spirit of the AIA. BSA strongly opposes this proposal.⁸

B. Rewriting the AIA’s Standard for Instituting Review

In the AIA, Congress set a “[reasonable likelihood](#)” threshold for instituting PTAB review and a “[preponderance of the evidence](#)” standard for final validity determinations.

The USPTO now proposes in many situations to deny institution of a case unless the petitioner satisfies a non-statutory “compelling merits” test for instituting review—which it concedes is a higher threshold than even the standard for the final determination. USPTO proposes to deny requests to institute PTAB proceedings on numerous grounds, including but not limited to those noted above, and to otherwise require a petitioner to satisfy a “compelling merits” standard – requiring the petitioner to show that “the evidence of record before the Board at the institution stage is highly likely to lead to a conclusion that one or more claims are unpatentable by a preponderance of the evidence.”⁹

This standard has no basis in the underlying statute and would seem to supplant Congress’ judgment regarding the proper standard to initiate proceedings before the PTAB. It would also programmatically reduce the availability of PTAB proceedings, with the foreseeable consequence that a larger number of (likely) invalid patents could be asserted by unscrupulous actors against legitimate American innovators and researchers. BSA strongly opposes this proposal.

C. Rewriting Congress' Rules for Who Can File a Petition

The ANPRM seeks to programmatically reduce access to PTAB proceedings by instituting “standing” requirements that Congress contemplated and rejected in [early versions](#) of the AIA. USPTO effectively seeks to supplant its own judgment for that of Congress by proposing to discretionarily deny cases on the basis of newly created standing requirements, including an unreasonably expansive definition of what constitutes a Party having a “substantial relationship” with a petitioner,¹⁰ and new “limitations on nonmarket competitors.”¹¹ We address each in turn.

1. Denying Access to PTAB Proceedings Based on Overbroad Definitions of Parties in a “Substantial Relationship”

The AIA contains several limits on the availability of proceedings (as well as several estoppel provisions) based on prior or parallel actions by the same petitioner, real party in interest (RPI), or person in privity with the petitioner.¹²

Under the ANPRM, the USPTO would seek to systematically limit access to PTAB proceedings by taking the unprecedented step of treating a wide array of unrelated parties as RPIs who can stand in each others' shoes for purposes of both legal preclusion and denial of petitions to institute post-grant proceedings. This novel interpretation contravenes Congress' intent to ensure that PTAB proceedings be made widely available as an efficient and inexpensive means of assessing the validity of patents. For example, USPTO is considering systematically foreclosing access to PTAB proceedings for unrelated companies—even direct competitors—that are co-defendants in a patent litigation proceeding. It is also considering foreclosing such access to companies that are merely “involved in a membership organization” if that organization has filed an IPR or PGR.

The ANPRM takes no account of the conflict between this broad-brush proposal and the statute. Nor does the ANPRM take account of prior jurisprudence, which has almost always held that two parties shall not be considered to be RPIs simply because they are co-defendants in patent litigation.¹³ Indeed, the ANPRM proposals would depart markedly from prior Federal Circuit and PTAB RPI jurisprudence in a wide array of scenarios, fundamentally disrupting longstanding practice and settled expectations.

These proposals represent a sharp departure from established practice since the earliest IPRs and under the PTAB Consolidated Trial Practice Guide (Nov. 2019), which identifies RPIs or those in privity with a party to the proceedings based on a nuanced, fact-intensive analysis of corporate structure, contract, or financial interest. Departing from these accepted norms and instead denying a Party's access to post-grant proceedings based on the prior acts of a wholly unrelated person (including a competitor) effectively attributes to the Party the misjudgments, carelessness, and tactical missteps of that unrelated person. To effectuate such a change would be a prejudicial and unexpected change in USPTO practice. Such a change would fall well outside the bounds of reasonable and predictable governmental conduct.

Furthermore, this change would create a race to the PTAB and reward hastiness and speed over quality. This would be a costly endeavor for operating businesses just to be the “first in line” at the PTAB early on in the district court litigation, often before infringement contentions are due and the plaintiff / patent owner identifies which claims it will be pursuing. Forcing petitioners to file their petitions before patent holder has even identified the claims that it intends to pursue would lead to less well-informed petitions, impeding the PTAB's own ability to assess the pertinence and weight of those petitions, and increasing the risk of misjudgment and miscalculation.

BSA strongly opposes this proposal.

2. Denying Access to PTAB Proceedings Based on Newly Created “Limitations on Nonmarket Competitors”

Congress intended PTAB proceedings to be broadly available to “give third parties a quick, inexpensive, and reliable alternative to district court litigation to resolve questions of patent validity.”¹⁴ Under the

ANPRM, USPTO would instead seek to eliminate the ability of any “third party” to initiate PTAB proceedings. USPTO reasons that such limits are necessary “[t]o curb the potential for abusive filings.”¹⁵

As we have previously explained,¹⁶ proposals to limit access to the PTAB as the primary means of addressing allegations of abusive conduct are legally flawed, contravening both the statute and USPTO’s own regulations. USPTO should not use allegations of misconduct or abuse as a pretext to impose standing requirements or other procedural hurdles to initiating post-grant proceedings. Such hurdles are not authorized by statute or regulation.

Congress addresses the institution of petitions under Sections 311 and 314(a), and addresses abusive conduct in a wholly separate section—Section 316(a).

BSA respectfully submits that it would be inconsistent with the AIA to begin applying Section 316(a)(6) as a policy tool to safeguard improvidently granted patents until they are challenged in court. When USPTO makes institution determinations on criteria that go beyond those set forth in section 314(a), it infuses uncertainty into the underlying statutory framework and into the circumstances surrounding institution determinations. Where other sanctions may be more appropriate to address abuses or where evidence of such abuse is either ambiguous or controverted, the USPTO should not readily restrict access to post-grant proceedings by refusing to implement an otherwise meritorious petition.¹⁷ BSA strongly opposes this proposal.

D. Permitting Invalid Patents to be Asserted by Those Claiming Small Entity Status, including NPEs Funded by Litigation Financiers and Hedge Funds

Another ANPRM proposal that would systematically foreclose access to PTAB proceedings would exempt (likely) invalid patent claims from “second look” review at the PTAB if the patentee claimed to be a small business.¹⁸ This proposal contradicts the statute, which intended PTAB post-grant proceedings to strengthen the overall US patent system by dealing with patent claims that USPTO would likely find to be invalid upon a second review. Creating an unprincipled exception from this system will weaken the overall patent system. BSA has the following concerns.

First, this proposal does not account for widespread evidence that large litigation financiers buy up, or invest in, patents from small non-practicing entities as a well-established system of patent litigation arbitrage. As stated in *Third Party Funding of Patent Litigation*, “[t]he patent troll market has grown substantially, buying patents from small entrants and litigating them at scale against cash-rich incumbents.”¹⁹ In one survey of patent cases, it was found that:

47% of all [patent] cases emerged from NPEs of various kinds, either patent assertion entities, individuals, or small company NPEs. This means that NPEs have cornered close to half of the market on patent litigation...

Second, the PTAB is not equipped or structured to engage in pre-institution discovery on whether the patentee is a “small business,” and whether the patentee is receiving indirect or direct funding sources from other entities (law firms, hedge funds, foreign sovereign wealth funds, or other undisclosed litigation financiers) or by other means (contingency retainer agreements, equity investments, or various other contractual/funding mechanisms). This type of complex fact finding would create an expensive and costly side-show to PTAB proceedings. To ask PTAB judges to pursue detailed audits into the opaque funding sources that fuel NPEs would fly in the face of the intent of the AIA – i.e., to create an inexpensive, expedited, and more reliable alternative to district court litigation. The PTAB should not have to engage in such complex investigations, financial auditing, and forensic analysis.

Third, while the ANPRM purports to address the change of NPEs by including a simple commercialization test, this test appears to be easily evaded by many NPEs. It would be easy for a NPE with litigation funding to claim that it is attempting to commercialize the patent itself in some small way—even if this was a sham to avoid IPR—or by engaging in some licensing activity. We consider this “commercialization” test to be ineffective at addressing the long-established abusive practices of NPEs in litigation.

Fourth, in any case, the proposal does not appear to account for the behavior of the patentee. Instead, it appears to dismiss and disregard the legitimate concerns and substantial evidence that already exists about the conduct of NPEs and certain other patentees. A patent (of dubious validity) that belongs to an abusive patentee should not be shielded from institution based merely on a superficial analysis of the patentee's "size." For example, a patentee that has indiscriminately mailed assertion letters to thousands of potential licensees should not be shielded since the patentee effectively invited the patent challenge activity. The ANPRM proposals should have accounted for the full range of abusive patentee behavior. The PTAB should also account for such abusive behavior.

For these reasons, USPTO's proposal would create significant opportunities for abuse as litigation financiers seek to leverage in district court litigation the patent claims that the proposal would exempt from PTAB review. BSA strongly opposes the proposal to deny institution of PTAB review of likely invalid patent claims based on the "size"-related considerations.²⁰

IV. Conclusion

Core US innovation and IP-related priorities are supported by the USPTO's steadfast implementation of the statutory framework outlined in the AIA, which couples pre-grant administrative examination of patent applications with post-grant review of any issued patent claim where the PTAB determines there to be a "reasonable likelihood that the petitioner would prevail with respect to at least 1 of the [patent] claims challenged," and provided that other statutory requirements are met.

Because the proposals in ANPRM would systematically restrict access to post-grant proceedings, they would prevent these proceedings from fulfilling their statutory function and would perpetuate the problem Congress addressed in the AIA.

More generally, these proposals would undermine Biden Administration efforts to sustain and advance US technology leadership in critical and emerging technologies, by diverting funds to wasteful litigation from core R&D activities in AI, quantum computing, advanced semiconductors, and next generation battery and other green technologies. Knock-on effects would include a reduced capacity of innovative US companies to invest in US-based R&D and the US workforce, as well as degradation of the United States' competitive posture vis-à-vis China and other peer competitors.

In the words of National Security Advisor Jake Sullivan, these effects are not just "a domestic issue or a national security issue. [They are] both." In this way, the ANPRM proposals could threaten core US leadership in technologies that the Biden Administration has rightly deemed to be a "a national security imperative."

We strongly urge USPTO not to adopt these regulatory proposals that would undermine the US innovation ecosystem, US technology leadership, and US economic and national security.

CC: The Honorable Michael Tierney
Vice Chief Administrative Patent Judge

¹ US Patent and Trademark Office, *Changes Under Consideration to Discretionary Institution Practices, Petition Word-Count Limits, and Settlement Practices for America Invents Act Trial Proceedings Before the Patent Trial and Appeal Board*, 88 Fed. Reg. 24503, Docket No. PTO-P-2020-0022 (April 21, 2023) (*hereinafter* “USPTO ANPRM”).

² BSA’s members include: Adobe, Alteryx, Atlassian, Autodesk, Bentley Systems, Box, Cisco, CNC/Mastercam, Databricks, DocuSign, Dropbox, Elastic, Graphisoft, IBM, Informatica, Juniper Networks, Kyndryl, MathWorks, Microsoft, Okta, Oracle, Prokon, PTC, Rubrik, Salesforce, SAP, ServiceNow, Shopify Inc., Siemens Industry Software Inc., Splunk, Trend Micro, Trimble Solutions Corporation, TriNet, Twilio, Unity Technologies, Inc., Workday, Zendesk, and Zoom Video Communications, Inc.

³ BSA member companies accounted for 13,715 U.S. patents issued in 2021 to the top ten patent grantees. This figure corresponds to 84.37% of the 16,256 U.S. patents issued to those grantees headquartered in the United States, and 38.26% of the 35,847 US patents issued to grantees from all countries (including China, Japan, Korea, Taiwan, and the United States). See IFI Claims Patent Services, 2021 Top 50 U.S. Patent Assignees, available at: https://www.ificlaims.com/rankings-top-50-2021.htm?utm_medium=pr-blogs&utm_campaign=rankings-2021

⁴ Software.org, Support US through COVID (2021), available at: <https://software.org/wp-content/uploads/2021SoftwareJobs.pdf>

⁵ [Remarks by National Security Advisor Jake Sullivan at the Special Competitive Studies Project Global Emerging Technologies Summit | The White House](#)

⁶ [35 U.S.C. § 315\(b\)](#).

⁷ The ANPRM states as follows in this respect: “As an alternative to determining if a trial in the district court action is likely to occur before the projected statutory deadline for a final written decision, and to ensure more clarity and certainty, the Office is considering whether to adopt a rule providing that the Board will not invoke its discretion to deny an IPR petition based on a parallel district court proceeding if the IPR petition is filed within 6 months after the date on which the petitioner, a real party in interest, or a privy thereof is served with a complaint alleging infringement of the patent, provided that the petitioner, real party in interest, or privy did not first file a civil action seeking declaratory judgment of noninfringement of any claim of the patent before the date on which such complaint alleging infringement was filed.” ANPRM at 24515.

⁸ BSA also has concerns regarding proposals to broadly and indiscriminately require application of full *Sotera* stipulations. To the extent any of the proposals on stipulations are considered, requiring a full *Sotera* stipulation could be harmful to both petitioner interests and PTAB processes. This is because the full *Sotera* stipulation estops the petitioner from raising in the district court any grounds that could reasonably have been raised in the petition. It would be preferable to limit such stipulations to the claims actually challenged and/or the claims asserted in the litigation.

⁹ ANPRM at 24507.

¹⁰ The ANPRM states in relevant part that, “the USPTO is considering adopting a ‘substantial relationship’ test to evaluate whether certain entities are sufficiently related to a party in an AIA proceeding such that discretionary denial is warranted under the criteria set forth in the changes under consideration. The substantial relationship test would be broadly construed and would encompass, but not be limited to, real parties in interest or privies of the party to the AIA proceeding, and would also include others that are significantly related to that party, including at least those entities as discussed in Valve I and Valve II. The USPTO is also considering other proposals for deeming entities to be substantially related for purposes of discretionary denials. For example, one proposal is to consider those involved in a membership organization, where the organization files IPRs or PGRs, as having a substantial relationship with the organization.” ANPRM at 24507.

¹¹ The ANPRM states in relevant part that, “To curb the potential for abusive filings, the USPTO is considering changes that would limit institution on filings by for-profit, non-competitive entities that in essence seek to shield the actual real parties in interest and privies from statutory estoppel provisions. The changes under consideration would make clear that the Board would discretionarily deny any petition for IPR or PGR filed by an entity that: (1) is a for-profit entity; (2) has not been sued on the challenged patent or has not been threatened with infringement of the challenged patent in a manner sufficient to give rise to declaratory judgment standing; (3) is not otherwise an entity

that is practicing, or could be alleged to practice, in the field of the challenged patent with a product or service on the market or with a product or service in which the party has invested to bring to market; and (4) does not have a substantial relationship with an entity that falls outside the scope of elements (1)–(3).” ANPRM at 24508.

¹² For example, 35 USC 315(a) provides that, “[a]n inter partes review may not be instituted if, before the date on which the petition for such a review is filed, the petitioner or real party in interest filed a civil action challenging the validity of a claim of the patent.” Several estoppel provisions also apply. For example, under 35 USC 315(e), a “petitioner ... or the real party in interest or privy of the petitioner” may not request or maintain a proceeding before the Office with respect to that claim on any ground that the petitioner raised or reasonably could have raised during an *inter partes* review that has resulted in a final written decision under section 318(a). Likewise, in a civil action 28 USC 1338 or in a proceeding under 19 USC 1337, a “petitioner ... or the real party in interest or privy of the petitioner” may not assert invalidity of a claim on a ground that was or could have been raised during an *inter partes* review.

¹³ See e.g., *Uniloc 2017 LLC v. Facebook Inc.*, 989 F.3d 1018, 1028 (Fed. Cir. 2021); *Weatherford Int’l, LLC v. Packers Plus Energy Servs., Inc.*, No. IPR2016-01514, Paper 23 at 15 (PTAB. Feb. 22, 2017); *Commissariat a L’Energie Atomique et aux Energies Alternatives v. Silicon Genesis Corp.*, No. IPR2016-00833, Paper 8 at 7 (P.T.A.B. Sept. 28, 2016). See generally, Perkins Coie, *Real Parties-in-Interest: Guidance on Who is an RPI - and Who is Not - in Post-Grant Proceedings* (2022).

¹⁴ H.R. Rep. No. 112-98, pt. 1, at 48; see also S. Rep. No. 110-259, at 20.

¹⁵ ANPRM, at 24509.

¹⁶ See BSA Amicus Brief in *OpenSky v. VLSI* (Aug. 18, 2022), at: <https://www.bsa.org/files/policy-filings/08182022amicusopenskyvlsi.pdf>

¹⁷ The AIA specifies which acts may be considered abusive and sanctionable, and the USPTO has developed a detailed regulatory scheme elaborating: (1) which conduct may be sanctionable; and (2) which sanctions may apply to such conduct. Under Section 316(a)(6), sanctions can be considered “for abuse of discovery, abuse of process, or any other improper use of the proceeding, such as to harass or to cause unnecessary delay or an unnecessary increase in the cost of the proceeding.” 35 U.S.C. § 316(a)(6). The Office has set forth sanctions under 37 C.F.R. 42.12(b), which may include orders to the following effect: (1) An order holding facts to have been established in the proceeding; (2) An order expunging or precluding a party from filing a paper; (3) An order precluding a party from presenting or contesting a particular issue; (4) An order precluding a party from requesting, obtaining, or opposing discovery; (5) An order excluding evidence; (6) An order providing for compensatory expenses, including attorney fees; (7) An order requiring terminal disclaimer of patent term; or (8) Judgment in the trial or dismissal of the petition. 37 C.F.R. § 42.12(b). Sanctions should also be tailored to the conduct at issue in the proceeding, whether committed by a petitioner or patent owner. As provided for in 37 C.F.R. § 42.11, any sanction must be “limited to what suffices to deter repetition of the conduct.” 37 C.F.R. § 42.11.

¹⁸ Specifically, USPTO states that, “the status of the patent owner would lead to a denial of institution when: (1) the patent owner had claimed micro entity or small entity status at issuance of the challenged patent and timely requested discretionary denial when presented with the opportunity; (2) during the calendar year preceding the filing of the petition, the patent owner did not exceed eight times the micro entity gross income level under 37 CFR 1.29(a)(3); and (3) at the time the petition was filed, the patent owner (or a licensee of the patent that started practicing the patent after becoming a licensee) was commercializing the subject matter of a challenged claim .

¹⁹ Korok Ray, *Third-Party Funding of Patent Litigation: Problems and Solutions*, Texas A&M University, p. 8 (2022), at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4125510 (hereinafter “*Third Party Funding of Patent Litigation*”)

²⁰ ANPRM, at 24509. USPTO has also suggested an alternative proposal to offer third-party litigation funding support, including funding for some or all of the patent owner’s attorney fees or expenses before the PTAB or district court. If USPTO advances such an alternative proposal, BSA also strongly recommend that litigation funding support also be made available to petitioners that are small entities. Entities at risk of spurious patent claims often include small retail establishments and other small business entities. These entities also have an interest in being able to petition for institution of PTAB review of patent claims that are likely to be found invalid. To the extent that such entities would lack resources to fund such challenges on their own, the USPTO should offer them litigation funding support in the same way that it proposes to offer litigation funding support for small entity patent holders.