

The Transitional Program for Covered Business Method Patents (CBM Program) Should Expire in 2020

EXECUTIVE SUMMARY

The Transitional Program for Covered Business Method Patents (CBM Program) should be allowed to expire in 2020 as intended by Congress and as recommended by the United States Patent and Trademark Office.

The CBM Program was purposely created to be temporary and it has fulfilled its purpose. The CBM Program was established in the America Invents Act (AIA) for a specific and time-limited purpose: to create an efficient way to clean up patents that had been issued in the late 1990s and early 2000s covering methods of doing business in the financial services sector. These patents were granted during the brief period in which the courts appeared to allow certain “non-technological” innovations. Patent examiners struggled to evaluate applications and allowed some patents that should not have been issued. The use of the CBM Program has declined sharply in recent years — from 177 petitions filed in FY14 to 48 in FY17 — because, as Congress predicted, the vast majority of patents for which the CBM Program was designed to address have been addressed. Thus, the CBM Program is working as envisioned and should sunset as intended.

USPTO statistics show a steady and straight decline in CBM petitions being filed:

- » FY14 – 177
- » FY15 – 149
- » FY16 – 94
- » FY17 – 48

These figures demonstrate that by the time CBM Program expires in 2020, the need for the program will have been addressed. The USPTO agrees with this conclusion and has recommended “adhering to the sunset period and discontinuing CBM proceedings on Sept. 16, 2020.”

Other technology-neutral proceedings will continue to be available once the CBM Program expires.

The AIA provides other cost-effective mechanisms for addressing all patents, including financial services patents, that should not have issued in the first place. These technology-neutral mechanisms will continue to be available beyond 2020. They are important — and permanent — procedures for improving patent quality and reducing litigation costs.

The CBM Program has unintended costs on software innovation. The CBM Program was not intended to apply to core software innovations, but in some instances these inventions have been drawn into the Program. Technologies from artificial intelligence to blockchain to cybersecurity — which are implemented through software — are put at greater risk because of the CBM Program. This risk reduces the incentives for research and development investment due to a perception these patents can be more easily challenged than patents in other areas. According to a recent Software.org: the BSA Foundation study, the software industry contributes more than \$1.1 trillion to the US GDP, 10.5 million jobs, and more than \$63 billion in research and development (with significant impact in each of the 50 states). The USPTO is right to recommend expiration of a program that jeopardizes these job and economic gains.

Finally, maintaining a patent program in the United States that is not technology-neutral is likely to create a **negative international impact**. This would undermine ongoing efforts by the US government to combat programs by other governments that discriminate against intellectual property rights of US companies.

For these reasons, which are further explained below, the CBM Program should be allowed to expire in 2020 as Congress intended.

INTRODUCTION

The USPTO considers thousands of patent applications each year and, sometimes, mistakenly issues a patent that should not have issued. In the overwhelming majority of these instances, the reason the patent should not have issued is because it claimed an invention that had already been invented, or was obvious or not properly described. These “low quality” patents can cause havoc for companies who get sued for patent infringement by bad actors asserting the patent despite knowing it is invalid.

Over the past several years, the USPTO has made (and continues to make) improvements to its examination procedures to improve the quality of patents it issues. Nonetheless, it is inevitable that some low-quality patents will still make it through the system. Congress addressed the problem in the America Invents Act by creating three unique mechanisms to challenge issued patents that should not have been granted in the first place.

The three review programs are: Inter Partes Review (IPR); Post-grant Review (PGR); and the Transitional Program for Covered Business Method Patents (CBM). These programs all allow the USPTO to review issued patents when a third-party notifies the Patent Office about potential defects in the patent. The IPR and PGR programs are both permanent, cost-effective, and cover patents from all technology areas. PGR can be used to challenge patents issued within nine months of being granted. A challenger can raise all issues of invalidity that could be raised in court. The IPR Program covers patents during the remainder of the patent’s term (typically around 17 years), but the basis for a challenge is more limited. The rationale behind Congress creating two different types of programs is that, as a patent gets older, patent owners’ reliance on and investment in their patent is greater. In other words, a patentholder, in the first nine months of a patent being issued, is not likely to have built a factory or an entire ecosystem based on the patented technology.

The CBM Program, on the other hand, is intended to cover only patents related to financial services business methods. A CBM review can be initiated against a patent at any time during the life of the patent, but the

types of challenges that can be brought and evidence that can be used are very broad (similar to PGR). Therefore, patents that may be challenged in the CBM Program have a greater cloud of uncertainty over them than other patents.

Congress Made the CBM Program Temporary for a Reason

The CBM Program should be allowed to expire as Congress intended.

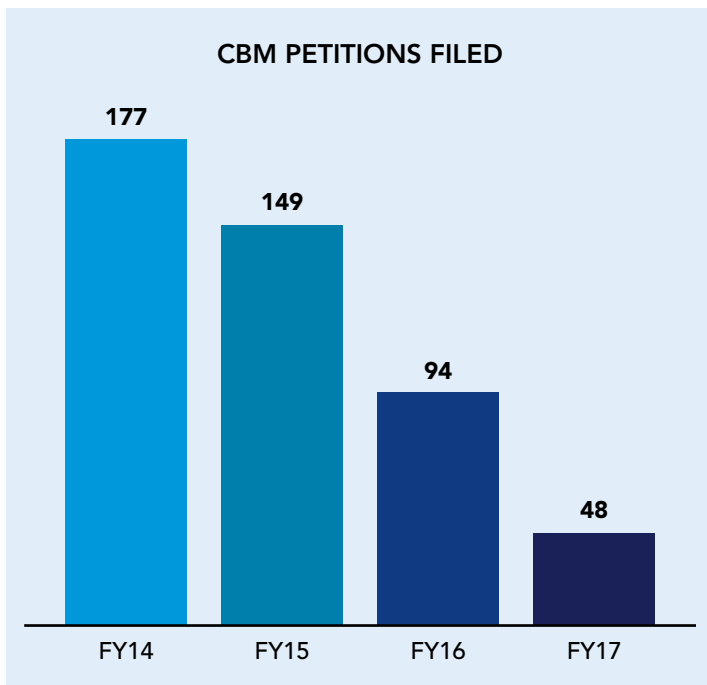
The CBM Program was enacted to address a discrete issue in the financial services area that had occurred because of some conflicting Federal Circuit and Supreme Court opinions from the late 1990s and early 2000s. In 1998, the Federal Circuit issued an opinion that led the USPTO to begin issuing patents on methods of doing business. The decision, along with others around that time, created confusion and ambiguity at the USPTO as to what types of patents should be issued. Many of the business method patents issued in the following years were later determined to be invalid. The House Judiciary Committee Report for the AIA explained that “[a]t the time, the USPTO lacked a sufficient number of examiners with expertise in the relevant art area.”¹

Those business method patents on financial services caused sufficient disruption that Congress created the CBM Program to weed them out of the system. As Senator Coburn explained on the Senate floor: “[S]ection 18 [CBM Program] is designed to address the problem of low- quality business method patents that are commonly associated with the Federal Circuit’s 1998 *State Street* decision”². The *State Street* decision was later overruled by the Supreme Court in *Bilski v. Kappos* and other subsequent decisions.

Since the problem was temporary, Congress believed that the CBM Program should only exist for eight years. Congress believed eight years would be plenty of time to address the problem. In fact, the first version of the AIA to pass the Senate only had the CBM program running for four years.

¹ U.S. House of Representatives. America Invents Act, 2011 (Accompany HR 1249) Rpt. 112-98 pt. 1, June 1, 2011, pg. 54.

² 163 Cong. Rec. S5428 (2011) (statement of Sen. Tom Coburn)



Moreover, the USPTO statistics show a sharp decline in the number of CBM challenges in recent years, demonstrating that the need for the CBM Program is waning just as Congress predicted. These figures demonstrate that by the time CBM Program expires in 2020, the need for the program will have been addressed. The USPTO agrees with this conclusion and has recommended “adhering to the sunset period and discontinuing CBM proceedings on Sept. 16, 2020.”³

The USPTO now has the expertise and tools to adequately examine financial industry business method patent applications. The allowance rate for new patents in this area has dropped dramatically in recent years, and the old patents issued in the 1990s and early 2000s are expiring. The CBM Program’s objectives have been met, and the potential harm to software-related inventions now clearly outweighs any further benefit of the Program.

The CBM Program Has Unintended Costs on Software Innovation

The CBM Program has been applied to software-related inventions. Although the CBM Program was not designed to apply to inventions implemented in software, the prospect of having a software-related

patent revoked at any point during the patent’s lifetime decreases the value of patent protection for software inventions. The prospect and uncertainty that the CBM Program creates can make investors hesitant to back new technologies and new entrants in the fields tangentially covered by the CBM program. Furthermore, one of the issues that can be challenged in a CBM proceeding that cannot be challenged in an IPR proceeding is subject matter eligibility. The CBM Program is not intended to apply to a “technological invention,” but this criterion has failed to act as a rigorous filter and, instead, has essentially mandated a finding of ineligibility once a CBM review has been initiated.

The effect of making it easier to challenge patents in one field of technology is to decrease investment in research and development in the challenged field. The uncertainty CBM creates around protection for cutting edge software impacts US competitiveness in fields such as artificial intelligence, blockchain, and cybersecurity. The program should be allowed to expire in order to eliminate this uncertainty.

A recent Software.org: the BSA Foundation study⁴ shows that the software industry contributes more than \$1.1 trillion to the US GDP, 10.5 million jobs, and more than \$63 billion in research and development. The CBM Program jeopardizes these job and economic gains and should be allowed to sunset in 2020 as intended by Congress.

Our Trading Partners Are Watching

America’s most innovative companies have seen a rise in efforts by other governments to establish regulatory regimes that favor their domestic industries at the expense of US interests. Increasingly, these efforts target the intellectual property rights of US companies and attempt to restrict the availability of protection, erode its effectiveness, or compel the licensing and transfer of cutting-edge technologies. The US government, through the diligent efforts of trade and related agencies, works hard to combat these discriminatory programs abroad. Maintaining a patent program in the US that discriminates against a field of technology hurts our efforts abroad. Thus, the CBM program should expire in 2020 as Congress intended.

³ USPTO “Study and Report on the Implementation of the Leahy-Smith America Invents Act,” Sept 2015, p.39

⁴ The Growing \$1 Trillion Economic Impact of Software study available at <https://software.org/reports/2017-us-software-impact/>