

A Cautionary Note to the PTAB: *Proppant*, Joinder, and PTAB’s Rulemaking-by-Adjudication—How to Avoid Brazen Defiance of the APA and a Rerun of *Aqua Products*

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As President Reagan used to say, “There they go again.” Only fourteen months ago, in *Aqua Products, Inc. v. Matal*,² the Federal Circuit set aside an attempt by the Patent Trial and Appeal Board (PTAB) to issue a rule, on its own authority, without following statutory rulemaking procedure. Of the nine judges that reached the issue, seven agreed on a simple principle: “[t]he Patent Office cannot effect an end-run around [the APA] by conducting rulemaking through adjudication.”³ It would be hoped that

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² *Aqua Products, Inc. v. Matal*, 872 F.3d 1290, 124 USPQ2d 1257 (Fed. Cir. 2017).

³ *Aqua Products*, note 2 *supra*, 872 F.3d at 1339, 124 USPQ2d at 1287 (Reyna, J. concurring, for the swing votes).

after losing a case like this, the PTO would have read the Administrative Procedure Act, *Aqua Products*, and the relevant Supreme Court authority, and would have retuned its behavior to avoid future square confrontations with the Court.

Instead, last week, the PTAB issued an order that seems to be setting up identical facts for a rematch on the Federal Circuit’s *Aqua* decision. This notice of rulemaking was posted as a “nothing special” decision on the PTAB’s obscure, non-searchable, non-indexed PTABE2E system, and that’s it. Strikingly, the PTAB and PTO gave the public no notice of its proposed rulemaking—no notice in the Federal Register (as required by statute), no notice via email to the PTAB’s email list, no mention on the PTAB’s “precedential and informative decisions” page, no mention on the “Patent Trial and Appeal Board Alerts” widget on the MyUSPTO web page, no *nuthin*’. As far as I can tell, the only rent in the cloak of silence in which the PTAB wrapped its attempt at submarine rulemaking is that Dennis Crouch received a “random email from a non PTO professional,” and Dennis ran an article on his Patently-O blog.⁴

The PTAB’s second trip down the *Aqua* path started with a December 3 order in *Proppant Express Investments, LLC v. Oren Technologies, LLC*, from the PTO’s newly-created Precedential Opinions Panel (POP).⁵ *Proppant* orders briefing on the following questions, relating to joinder of new issues and new parties into a PTAB IPR trial proceeding:

1. Under 35 U.S.C. § 315(c) may a petitioner be joined to a proceeding in which it is already a party?
2. Does 35 U.S.C. § 315(c) permit joinder of new issues into an existing proceeding?
3. Does the existence of a time bar under 35 U.S.C. § 315(b), or any other relevant facts, have any impact on the first two questions?⁶

Assuming that the PTAB intends to use this round of briefing the way an Article III court would—to formulate a new rule to be issued as a future precedential opinion—how is this exercise in PTAB rulemaking-by-adjudication different than the rule set aside in *Aqua Products*? We can’t answer that question yet, because so far, all we have is the PTAB’s request for briefing, no “real” decision.

⁴ Email of December 9, on file with the author; Dennis Crouch, *POP! – Precedential Opinion Panel takes on Late-Joinder Attempt*, Patently-O, <https://patentlyo.com/patent/2018/12/precedential-opinion-joinder.html> (Dec. 6, 2018).

⁵ *Proppant Express Investments, LLC v. Oren Technologies, LLC*, IPR2018-00914, paper no. 24 (PTAB Dec. 3, 2018), see [Patently-O article](#).

⁶ It’s puzzling that this question only mentions § 315(b), but not § 316(a)(12).

However, the law of rulemaking procedure has changed only a little in recent decades, and we can say something about that. Under the law that governs agency rulemaking, there are some things the PTAB *can* do in rulemaking, and many things it *can't*. Unfortunately, the *Proppant* order indicates that the PTAB is steering into the latter, and is setting up *exactly* the same facts that were losers for the PTAB in *Aqua Products*. This article provides some boundaries, with my hopes that the PTAB will adopt some suggestions in order to stay within its authority.

I've written three earlier articles on general principles of rulemaking, under the general title "The PTAB is Not an Article III Court," explaining that, with very narrow exceptions, the PTAB may not engage in rulemaking by precedential decision:

- David Boundy, *The PTAB is Not an Article III Court, Part 1: A Primer on Federal Agency Rule Making*⁷ gives an overview of the law of rulemaking, including a taxonomy of various terms like "substantive," "procedural," "interpretative," and "legislative."⁸ At the March 2018 Federal Circuit Judicial Conference, Judge Plager recommended this article to the entire patent bar.⁹
- David Boundy and Andrew B. Freistein, *The PTAB Is Not an Article III Court, Part 2: Aqua Products v. Matal as a Case Study in Administrative Law*.¹⁰ As the title suggests, this article takes an in-depth look at the failures of rulemaking law that underlay the rule at issue in *Aqua*. *Proppant* seems to be headed down almost exactly the same path as in *Aqua*, so this article might help the PTAB avoid a similar outcome.

⁷ David Boundy, *The PTAB is Not an Article III Court, Part 1: A Primer on Federal Agency Rule Making*, ABA LANDSLIDE 10:2, pp. 9-13, 51-57 (Nov-Dec. 2017), at [here](#) or [here](#).

⁸ The recent "ordinary meaning" claim construction rule suggests that the PTAB may be deeply confused on the basics of APA rulemaking. Patent and Trademark Office, *Changes to the Claim Construction Standard for Interpreting Claims in Trial Proceedings Before the Patent Trial and Appeal Board*, Final Rule, 83 Fed. Reg. 51340, 51357 col. 2 (Oct. 11, 2018). As only one example among many, the PTAB claims that its claim construction rule is "procedural" because it "will not change the substantive criteria of patentability"—and then explains the facially absurd by advancing a non sequitur from an entirely different principle of law.

⁹ Stephen Kunin, the former Deputy Commissioner for Patent Examination Policy, also recommended that patent attorneys read my articles "in detail." <https://www.linkedin.com/feed/update/urn:li:activity:6475888184550055936>

¹⁰ David Boundy and Andrew B. Freistein, *The PTAB Is Not an Article III Court, Part 2: Aqua Products v. Matal as a Case Study in Administrative Law*, ABA LANDSLIDE 10:5, pp. 44-51, 64 (May-Jun. 2018), available [here](#).

- David Boundy, *The PTAB is Not an Article III Court, Part 3: Precedential and Informative Decisions*,¹¹ explains (in gross-overkill detail) *exactly* what the PTAB can do and can't by precedential or informative decision, and gives some examples of proper and improper "precedential" and "informative" designations.

In addition, agency precedential decisions are not "regulations," and are thus governed by the same law that governs any other guidance. I wrote an article on that only last week:

- David E. Boundy, *Agency Bad Guidance Practices at the Patent and Trademark Office: a Billion Dollar Problem*, 2018 Patently-O Patent Law Journal 20 (Dec. 4, 2018, revised Dec. 6, 2018) available [here](#)

Today's article is a condensation and application of general principles of rulemaking (as laid out in those earlier articles), and the case law they discuss, to the specific setting of *Proppant*.

I. The key facts and laws

The following laws govern rulemaking by the PTAB's "Precedential Opinions Panel:"

0. The Administrative Procedure Act puts "adjudication" and "rulemaking" on opposite sides of a "dichotomy."¹²
1. The Director has substantive rulemaking authority in this area—not only authority, but a *duty* to promulgate *regulations*.¹³
2. The PTAB doesn't. The PTAB only adjudicates. Any rulemaking authority the PTO has lies with the Director.¹⁴ The Director is not the PTAB. The PTAB, even with the Director on the panel, is not the Director.¹⁵

¹¹ David Boundy, *The PTAB is Not an Article III Court, Part 3: Precedential and Informative Decisions*, forthcoming in AIPLA Quarterly Journal, available [here](#).

¹² *E.g.*, U.S. Dept. of Justice, ATTORNEY GENERAL'S MANUAL ON THE ADMINISTRATIVE PROCEDURE ACT (1947) at 14 ("the entire Act is based upon a dichotomy between rule making and adjudication.") 5 U.S.C. § 553 governs rulemaking, and §§ 554 and 555 govern adjudications.

¹³ 35 U.S.C. § 316(a)(2) ("The Director *shall* prescribe *regulations*— (2) setting forth the standards for the showing of sufficient grounds to institute a review...") and § 316(a)(12) ("(12) setting a time period for requesting joinder under section 315(c)").

¹⁴ 35 U.S.C. § 316(a).

¹⁵ *In re Alappat*, 33 F.3d 1526, 1533-35, 31 USPQ2d 1545, 1549-50 (Fed. Cir. 1994).

3. The Director has near-unlimited discretion to permit or deny joinder in an *adjudication*,¹⁶ and to set time periods by *regulation*.¹⁷ These two statutes are classic examples of open-ended grants of discretion, with “no law to apply,” so there is effectively no judicial review on the substantive merits of a joinder decision or joinder rule.¹⁸ A joinder decision, if accompanied by any rational explanation, may be reviewed only for *procedural* breach or inadequacy.¹⁹
4. Any joinder rule to be issued is almost certainly “substantive,” not “procedural,” but it really doesn’t matter, since (I believe) the requirements for notice-and-comment “regulation” end up essentially the same either way.²⁰
 - Though I haven’t spent quality time on Westlaw researching this, and it’s impossible to evaluate a rule that hasn’t been proposed, a joinder rule seems almost certain to be “substantive” for § 553 rulemaking purposes. The modern tests for “substantive” vs. “procedural” are whether the rule “encodes a substantive value judgment or puts a stamp of approval or disapproval on a given type of behavior,” or “change[s] the substantive standards by which the [agency] evaluates” issues.²¹ Presumably, the PTAB

¹⁶ 35 U.S.C. § 315(c).

¹⁷ 35 U.S.C. § 316(a)(12).

¹⁸ *Citizens to Preserve Overton Park, Inc. v. Volpe*, 401 U.S. 402 (1971) (“The legislative history of the Administrative Procedure Act indicates that [the ‘committed to agency discretion’ exception to judicial review] is applicable in those rare instances where ‘statutes are drawn in such broad terms that in a given case there is no law to apply.’”).

¹⁹ *Bowen v. Michigan Academy of Family Physicians*, 476 U.S. 667, 672 n.3 (1986) (“[O]nly in the rare—some say non-existent—case ... may review for ‘abuse’ be precluded.”).

²⁰ The difference between the word “rule” and “regulation” is explored in Boundy, *Part 3*, note 11 *supra*, at § II(B)(1) pp. 4-7, and last week’s article, David A. Boundy, *Agency Bad Guidance Practices at the Patent and Trademark Office: a Billion Dollar Problem*, 2018 Patently-O Patent Law Journal 20 (Dec. 4, 2018), [here](#).

²¹ The courts have repeatedly declared that the § 553 exemptions from notice-and-comment rulemaking are to be narrowly construed and reluctantly recognized, so as not to defeat the salutary purposes behind the notice-and-comment provisions of § 553. *United States v. Picciotto*, 875 F.2d 345, 347 (D.C. Cir. 1989) (*Picciotto* is also directly instructive on the validity of Standard Operating Procedure 2); *Batterton v. Marshall*, 648 F.2d 694, 701 n.25 (D.C. Cir. 1980).

Joinder seems to be highly analogous to substitution of one station for another in an FCC license approval proceeding, which is “substantive.” *Reeder v. FCC*, 865 F.2d 1298, 1304-05 (D.C. Cir. 1989).

footnote continued...

wants to reconcile its conflicting precedent by finding some nuanced, balanced set of substantive standards for allowing joinder, and that is more likely to make it “substantive.”

- Even if a joinder rule were “procedural,” the statute still requires the Director to act by notice-and-comment “regulation,” not by “rule” or some other lower-procedure mechanism.²²
- 5. Likewise, a joinder rule cannot be eligible for the “interpretative” exemption, and will have to be “legislative.” There’s not a word in either statute or regulation relating to the three questions posed in *Proppant*, and thus no ambiguity hook on which to hang an “interpretative” rule. The statute says only that the Director has “discretion.” The regulations, 37 C.F.R. § 42.122(b) and 42.222(b), only set procedural requirements for timing. Without some ambiguity to “interpret,” a rule can’t be “interpretative.”

A rule that goes to the heart of the interest protected by a statute may be substantive, even if the statute and rule themselves appear procedural. *Natural Ass’n of Waterfront Employees v. Chao*, 587 F.Supp.2d 90, 100-101 (D.D.C. 2008) (a rule governing public access to files for Longshore Act and Black Lung Act claims, which appears “procedural” on its face, may nonetheless be “substantive” because the rule governing information access, as an implementing regulation of a statute governing information access, may be substantive in the context of that specific statute). Because § 316(a)(12) obligates the Director to promulgate *regulations* “setting a time period for requesting joinder under section 315(c),” it seems more likely than not that an implementing rule would necessarily be “substantive” for § 553 purposes.

Joinder also seems analogous to statutes of limitations, which are “substantive” for *Erie v. Tompkins* purposes, under the reasoning of [*Guaranty Trust Co. v. York*, 326 U.S. 99, 110-11 \(1945\)](#).

²² 35 U.S.C. §§ 315(c) and 316(a)(12).

Depending on the nature of rule that PTO ends up proposing, it may require a 60-day comment period under 44 U.S.C. § 3506(c)(2)(A). Any final rule order that emerges from *Proppant* is almost certain to be an “economically significant guidance document” (or amendment thereto), that falls within the notice and comment requirements of President’s *Bulletin on Agency Good Guidance Practices*, § IV, <https://georgewbush-whitehouse.archives.gov/omb/memoranda/fy2007/m07-07.pdf> (Jan. 18, 2007), reprinted in 72 Fed. Reg. 3432-40 <https://www.federalregister.gov/documents/2007/01/25/E7-1066/final-bulletin-for-agency-good-guidance-practices> (Jan. 25, 2007).

I gave a shortened explanation for why I believe that the word “regulation” and the PTO’s claim to “mootness” in the *Tafas v. Kappos* case bind the PTO to use notice-and-comment even for procedural rules, in my article *The PTAB is Not an Article III Court, Part 1*, note 7 *supra* at 51-52, and *Part 3*, note 11 *supra*, at § II(B)(2), pages 6-10. There’s a longer explanation in one of my mysteriously-disappeared notice and comment letters discussed in note 55, *infra*.

6. The combination of statutory silence on specific implementation and a grant of rulemaking authority (§ 316(a)(2)) authorizes the PTO to act by “regulation,” and a gap-fill *regulation* could be eligible for *Chevron* deference (subject to other preconditions).²³ But gap-filling a silence requires legislative, notice-and-comment rulemaking. A rule by adjudication may *interpret*,²⁴ but not gap-fill.
7. The PTO must run a notice in the Federal Register to solicit public comments.²⁵

II. *Proppant* violates the APA by failure to give public notice of proposed rulemaking

Proppant is a stealth notice of rulemaking that avoids not only the statutorily-required publication notice venue, the Federal Register, but every other plausible notice channel as well. On Sunday December 9, I searched the Federal Register, including the “public inspection” page for tomorrow, December 10 (a week after the *Proppant* order). Much as we all appreciate Dennis Crouch and his blog, neither is statutory. Publication by fortunate accident in Dennis’ blog is not a substitute for the notice that, by statute, was to be published in the Federal Register.²⁶

Not only that, but *Proppant* gives the public only 25 days to comment. The APA does not set a minimum comment period, but 30 days is usually a minimum.²⁷ Executive Order 12,866 suggests that 60 days should be the norm.²⁸

Anyone with any experience with the notice-and-comment process within ABA, AIPLA, or IPO knows that the process of assembling a subcommittee, finding a knowledgeable volunteer who has a lull in his/her case load and can crank out a first draft, gathering comments and markup from the subcommittee, and getting multiple levels of organizational approval takes well more than 25 days. These organizations are further delayed if the agency gave no notice so there will be a late start, and Christmas is an intervening event.

²³ Some of those preconditions for *Chevron* and *Auer* deference are discussed in Boundy, *The PTAB is Not an Article III Court, Part 1*, note 7 *supra*, at 52-53. I have a work-in-progress article that expands on this list of preconditions, and would likely send it to you if you ask nicely.

²⁴ *NLRB v. Bell Aerospace Co.*, 415 U.S. 267, 294 (1974).

²⁵ 5 U.S.C. § 553(b) and (c).

²⁶ 5 U.S.C. § 552(a).

²⁷ See notes 22 and 25 *supra*.

²⁸ Executive Order 12,866, § 6(a)(1).

III. A near-perfect analogy from the Supreme Court: *NLRB v. Wyman-Gordon*

The action apparently contemplated by *Proppant* is almost on all fours with *NLRB v. Wyman-Gordon Co.*,²⁹ decided by the Supreme Court in 1969. The National Labor Relations Board had a rule, promulgated by precedential decision, that required employers to provide employee lists to unions. As in *Proppant*, this rule had no grounding in statute or regulation (both were silent, neither forbidding nor permitting such a list)—the rule presented no *conflict*, it was merely *beyond* the words of statute or regulation. As in *Aqua Products* and *Proppant*, the NLRB promulgated the rule by precedential decision, as if the NLRB were an Article III common law court.³⁰

When NLRB's "employee list" rule was challenged, the NLRB pointed to its broad grant of rulemaking authority, and argued that the NLRB's rule-by-adjudication was within that authority.³¹ But the NLRB was unable to demonstrate *exercise* of that rulemaking authority via proper procedure.³²

The Supreme Court invalidated the agency's rule, and reminded the NLRB of the rulemaking requirements of the APA, as follows:

The Board asks us to hold that it has discretion to promulgate new rules in adjudicatory proceedings, without complying with the requirements of the Administrative Procedure Act.

The rule-making provisions of [the APA], which the Board would avoid, were designed to assure fairness and mature consideration of rules of general application. They may not be avoided by the process of making rules in the course of adjudicatory proceedings. There is no warrant in law for the Board to replace the statutory scheme with a rule-making procedure of its own invention . . .

[T]he Board purported to make a rule: *i.e.*, to exercise its quasi-legislative power . . . Adjudicated cases may and do, of course, serve as vehicles for the formulation of agency policies, which are applied and announced therein . . . They generally provide a guide to action that the agency may be expected to take in future cases. Subject to the qualified role of *stare decisis* in the administrative process, they may serve as

²⁹ [*NLRB v. Wyman-Gordon Co.*](#), 394 U.S. 759 (1969).

³⁰ *Wyman-Gordon*, 394 U.S. at 761-62.

³¹ *Wyman-Gordon*, 394 U.S. at 765.

³² *Wyman-Gordon*, 394 U.S. at 765.

precedents. But this is far from saying, as the Solicitor General suggests, that commands, decisions, or policies announced in adjudication are “rules” in the sense that they must, without more, be obeyed by the affected public.³³

There’s one major difference between *Wyman-Gordon* and *Proppant*: the NLRB is an integrated agency head, with *both* adjudication powers and rulemaking powers. That gives the NLRB power to conduct rulemaking-by-adjudication in a way that’s simply not available to the PTAB.³⁴

Likewise, *Aqua Products* is essentially on all fours with where the PTAB seems to be headed: in *Aqua*, the Federal Circuit set aside a PTAB rule when that rule was substantive (and thus not eligible for the “procedural” exemption from notice-and-comment of 5 U.S.C. § 553(b)(A)), not supported by underlying text (and thus not eligible for the “interpretative” exemption of § 553(b)(A)), issued under a statute that requires “regulation,” and promulgated as a PTAB precedential decision³⁵ without notice and comment. *Proppant* seems on track to set up the same facts.

Can agency tribunals promulgate rules by formal adjudication? Some can, in the areas where the tribunal has rulemaking authority, and its procedures happen to overlap with and be sufficient to meet the rulemaking procedures of the APA.³⁶ The PTAB is not one of those tribunals, at least not on this issue. The power of an agency to promulgate rules via adjudication is subject to the following “only if’s,” which are fully explained in my *Part 3* article on the PTAB’s precedential and informative decisions:³⁷

- *Only if* the agency as a whole has relevant rulemaking authority under its organic statute. True as to the Director, false as to the PTAB.

³³ *Wyman-Gordon*, 394 U.S. at 764-66.

³⁴ The difference between unified-head agencies vs. split-adjudication-vs-rulemaking agencies is explained in *Martin v. Occupational Safety & Health Review Comm’n*, 499 U.S. 144, 151, 154 (1991) (“[W]e concluded that agency adjudication is a generally permissible mode of law-making and policymaking only because the unitary agencies in question also had been delegated the power to make law and policy through rulemaking.”); *NLRB v. Bell Aerospace Co.*, 415 U.S. 267, 294 (1974).

³⁵ *MasterImage 3D, Inc. v. RealD Inc.*, IPR2015-00040, Paper No. 42, https://www.uspto.gov/sites/default/files/documents/ipr2015-00040_paper_47_20150715.pdf (PTAB July 15, 2015)

³⁶ *E.g.*, *Bell Aerospace*, note 24 *supra*.

³⁷ Boundy, *Part 3*, note 11 *supra*, at § II(F), pages 16-17.

- *Only where* the agency’s rulemaking delegation permits the agency to act by “rule” or “procedure,” without requiring “regulation” or “in accordance with 5 U.S.C. § 553.” Except to interpret ambiguity, an agency cannot act by common law where the statute requires “by regulation.” False here.
- *Only to the extent* that:
 - A statute unifies rulemaking authority and adjudicatory authority in a single agency head (*e.g.*, the NLRB, Interstate Commerce Commission, and Federal Trade Commission, which have unified authority, but not the PTO).³⁸ False here. *and/or*
 - That agency adjudication is a “formal adjudication” under APA § 554. Though I know of no example case, I imagine that this element could be satisfied by a § 555 informal adjudication, if the agency proceeds with sufficient procedural formality, agency deliberation, and explanation to satisfy a court that the adjudicator’s interpretation reflects “fair and considered judgment” and policy-balancing of the entire *agency* (which almost always requires that the decision be designated “precedential” and involves full review by the agency head). Getting *Proppant* off on the foot of failure of statutory notice falsifies this element.³⁹
 - I am quite certain that for a *Chevron*-eligible interpretation of statute, these two conditions are joined by “and.”⁴⁰ For an *Auer*-eligible interpretation of a regulation, the connector is probably “or” or some balancing test that is weaker than “and.” I know of no case directly on point for either proposition; I’m only inferring from examples.

³⁸ See *Martin*, note 34 *supra*. In every case that I know of in which an agency adjudicatory tribunal issued a decision that warranted *Chevron* or *Auer* deference (*e.g.*, those noted in note 48), two things were both true: (a) tribunal at issue has both adjudicatory and rulemaking powers, and (b) the tribunal operates under the “formal adjudication” procedures of §§ 554, 556, and 557. American Bar Ass’n, A GUIDE TO JUDICIAL AND POLITICAL REVIEW OF FEDERAL AGENCIES, John Duffy, ed. § 4.022 at 106, ABA Press 2005 (“*Chevron* deference to interpretations expressed through formal adjudications requires that the interpreting agency have some policymaking power, as opposed to purely adjudicatory powers. If the agency is solely an adjudicator, not contemplated by Congress to set policy through the adjudication process by, for example, resolving interpretive questions in the course of its adjudications, courts are unlikely to extend *Chevron* deference.”).

³⁹ For example, in *Natural Ass’n of Waterfront Employees v. Chao*, 587 F.Supp.2d 90, 100-101 (D.D.C. 2008), the court struck down a rule promulgated by the agency’s Chief ALJ, even though he had delegated authority from the agency to administer the relevant area, because the Chief ALJ did not have *rulemaking* authority in that area.

⁴⁰ See note 38 *supra*.

- *Only if no statute requires otherwise*—that is, only if the rule fits the “interpretative,” “statement of policy,” or “procedural” exemptions of § 553(b)(A) and § 553(d), and no other statute (such as § 2(b)(2)(B) of the Patent Act or § 3506(c)(2)(A) of the Paperwork Reduction Act) requires notice and comment. Though we can’t know for certain until we see a rule in a future order, it seems highly unlikely that a *Proppant* joinder rule can satisfy this element.
 - If an agency relies on the “interpretative” exemption from notice and comment under § 553, the agency may create a rule by adjudication *only as* an *interpretation* of an “active” ambiguity. Gap-filling of a *regulation* via guidance is ineligible for *Auer* deference. Perhaps, but it seems unlikely, given the questions posed in the *Proppant* call for briefing.
- *Only if* the agency explains itself sufficiently to meet the standards of *Chenery* and *State Farm*.⁴¹
- *Only if* the agency publishes the decision with notice as required by § 552. The PTO has not yet done so, and it has a record of failing to observe the notice and publication requirements of § 552.⁴² I hope that this is the time that PTO turns a new leaf.

IV. What *could* the PTAB do by a decision in *Proppant*?

Proppant could have prospective effect by one of two mechanisms.

⁴¹ *SEC v. Chenery Corp.*, 318 U.S. 80, 93–95 (1943) is the classic case holding that agencies may only defend themselves in court based on the explanations they gave when they took the action in the first place, and courts are not supposed to entertain *post hoc* rationalizations that weren’t given at the proper time. “[A]n administrative order cannot be upheld unless the grounds upon which the agency acted in exercising its powers were those upon which its action can be sustained.” See also *Burlington Truck Lines v. United States*, 371 U.S. 156, 168–69 (1962) (an agency decision can only be affirmed “on the same basis articulated in the order by the agency itself”).

Motor Vehicle Mfrs. Ass’n v. State Farm Mutual Auto. Ins. Co., 463 U.S. 29, 43, 48, 50 (1983) is the classic case defining “arbitrary and capricious,” and singling out an agency’s failure to explain as a near *per se* ground for setting aside a rule. “[T]he agency must examine the relevant data and articulate a satisfactory explanation for its action including a ‘rational connection between the facts found and the choice made,’” and agency action is “arbitrary and capricious” on essentially a *per se* basis if the agency failed that obligation to explain.

⁴² See Boundy, *Part 3*, note 11 *supra*, at § II(B)(2), pp. 8-10.

A. General statement of policy—advisory with no binding effect

A *Proppant* rule order could do what many other PTAB “precedential” and “informative” decisions have done: stand as a collected restatement of “non-exclusive, non-binding factors” to be weighed. This kind of “general statement of policy” is exempt from notice-and-comment under § 553(b)(A).

“General statements of policy” have down sides for the agency.

- A “general statement of policy” has no binding effect whatsoever. A “policy statement” leaves both the public and all agency decision-makers with complete, “open mind” discretion to follow or not. The PTAB will be unable to rely on a policy statement to “foreclose consideration by the agency of positions advanced by private parties.”⁴³ The PTAB will have to give full consideration to any argument a party may raise. Any goal of predictability will not be served by a “general statement of policy.”
- Policy statements are ineligible for *Chevron* or *Auer* deference.
- A future Director can change it as easily as it was adopted.⁴⁴
- All future decisions on joinder will have to set out full reasoning, to satisfy *Chenery* and *State Farm*,⁴⁵ as if no *Proppant* decision or rule existed. On judicial review, each such decision will be reviewable for its procedural completeness under *Chenery* and *State Farm*, and the existence of a *Proppant* “policy statement” will be simply irrelevant as support.

B. Adjudicatory order—each and every order reconsidering and analyzing the issue de novo

The second is demonstrated in *Wyman-Gordon*. Though the Court set aside the “employee list” rule as a *rule*, it affirmed that the NLRB could order production of an

⁴³ Office of Management and Budget, Executive Office of the President, *Final Bulletin for Agency Good Guidance Practices*, § III(2)(b), <https://georgewbush-whitehouse.archives.gov/omb/memoranda/fy2007/m07-07.pdf> at 21 (Jan. 18, 2007), reprinted in 72 Fed. Reg. 3432-40, 3440 col. 2 <https://www.federalregister.gov/documents/2007/01/25/E7-1066/final-bulletin-for-agency-good-guidance-practices> (Jan. 25, 2007).

⁴⁴ The recent “ordinary meaning” rule is an example. *Ordinary Meaning*, note 8 *supra*. By shortcutting nearly every step of rulemaking procedure, the PTAB created a “target rich environment” for challenging the rule on judicial review, and made it easy for a future Director to switch it back.

⁴⁵ See note 41.

employee list as an *adjudicatory order*. Under this scenario, a *Proppant* rule order would be a nullity as a § 316(a)(12) “rule,” but the Director could rely on the limitless “discretion” of § 315(c) in each and every future adjudication.

This has basically the same disadvantages for the PTAB and Director:

- Each and every future decision will stand on its own bottom as an individual adjudication and PTAB order. Perhaps a *Proppant* decision could set out a comprehensive set of reasoning, and future decisions could excerpt that reasoning on a “cut and paste” basis. But an adjudication order under this option stands on essentially the same footing as one under the “policy statement” option of § IV.A—no binding effect, no foreclosure of counterarguments, no enhanced deference, no foundation for future decisions. Future decisions will have to be complete, and will be reviewed without regard to *Proppant*.
- Likewise, a future Director will be able to undo a *Proppant* rule by convening an afternoon picnic with a hand-picked panel of Board members, *a la Alappat*, and simply saying so.⁴⁶

V. What can the PTAB *not* do by a decision in *Proppant*?

It’s hard to see any way that any significant rule-by-adjudication could accomplish anything useful in this space.

Perhaps the PTAB is under the misimpression that a precedential decision on joinder could have binding effect, under *Chevron* deference. Nope.

- To earn *Chevron* deference for a non-interpretation “gap fill,” the agency must act by “regulation.” A rule that is “procedurally defective” isn’t *Chevron*-eligible⁴⁷—and any gap-fill requires rulemaking under § 553. In contrast, a precedential, formal adjudication by a tribunal with rulemaking authority may be eligible for *Chevron* deference *if* it only *interprets*, if it only gives ambiguous statutory terms “concrete meaning through a process of case-by-case adjudication.”⁴⁸ I know of

⁴⁶ *Alappat*, note 15 *supra*, 33 F.3d at 1532, 31 USPQ2d at 1548.

⁴⁷ *Encino Motorcars, LLC v. Navarro*, 579 U.S. ___, ___, 136 S.Ct. 2117, 2125 (2016); *Gonzales v. Oregon*, 546 U.S. 243, 255–56 (2006); *Aqua Products*, 872 F.3d at 1318–19, 124 USPQ2d at 1274 (O’Malley lead plurality opinion); *Aqua Products*, 872 F.3d at 1336, 124 USPQ2d at 1285 (Reyna, J. for the swing votes).

⁴⁸ *E.g.*, *INS v. Aguirre-Aguirre*, 526 U.S. 415, 425 (1999) (deference for Board of Immigration Appeals interpretation of “serious nonpolitical crime”); *National Railroad Passenger Corp. v.*

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no case that offers *Chevron* deference to a gap-fill reached by adjudication. There's no extant language in the statute or regulation, so this route is not open to the PTAB,

- PTAB is not the rulemaking or policy-making organ of the PTO. As such, the PTAB has no rulemaking authority, and thus its decisions are not entitled to *Chevron* deference.⁴⁹
- Section § 553 entitles the public to notice of a specific rule, and an opportunity to comment on that specific rule. If *Proppant* continues the direction it appears to be headed—gather comments, cook them up into a new rule out of public sight, and then present the public with a shiny new rule as a thing of self-apparent beauty—that would violate the “logical outgrowth” doctrine: a rule must either be proposed in a Notice of Proposed Rulemaking, or be a “logical outgrowth” of such a proposed rule.⁵⁰ Public comments are not sufficient basis for a revised rule; the public must be given an opportunity to comment on a specific proposal.⁵¹
- A notice-and-comment regulation is generally valid (and generally entitled to *Chevron* deference) if it's within the agency's delegated rulemaking authority and “not in conflict” with any statute, and developed as a full “regulation.” But “not in conflict” is not the test for a valid, let alone *Chevron*-eligible, *interpretative* non-notice-and-comment rule. A valid *interpretative* rule must be “within the fair intendment” of the statute or regulation being interpreted, that itself has force of law. The interpretative rule may not add binding content of its own.⁵²

ICC, 503 U.S. 407, 418-19 (1992) (*Chevron* deference to interpretation of “required for intercity rail service” stated in ICC order).

⁴⁹ See notes 34 and 38 *supra*.

⁵⁰ *Daimler Trucks No. Amer. LLC v EPA*, 737 F.3d 95, 102 (D.C. Cir. 2013) (final rule invalidated when it was not the logical outgrowth of the proposed rule); *South Terminal Corp. v. EPA*, 504 F.2d 646, 659 (1st Cir. 1974).

⁵¹ *Mid-Continent Nail Corp. v. U.S.*, 846 F.3d 1364, 1378 (Fed. Cir. 2017) (an agency generally cannot bootstrap notice from a comment); *Benedict v. Super Bakery, Inc.*, 665 F.3d 1263, 1267–68, 101 USPQ2d 1089, 1092 (Fed. Cir. 2011) (“We agree with Mr. Benedict that Rule 2.127(d) does not clearly present the interpretation with which the Board now endows it. Only if one reads the PTO ‘comment’ does it become clear. The PTO ‘comment’ is not stated in the rule as adopted; the Rule does not state [the PTO’s interpretation.]”); *Chocolate Mfrs Ass’n of the U.S. v. Block*, 755 F.2d 1098, 1104 (4th Cir. 1985) (a change motivated by public comment letters required a new round of notice and comment).

⁵² Robert Anthony, *Interpretive Rules, Policy Statements, Guidances, Manuals, And The Like—Should Federal Agencies Use Them To Bind The Public?*, 41 Duke L.J. 1311, 1313 (June 1992); *Fertilizer Institute v. EPA*, 935 F.2d 1303, 1308 (D.C. Cir. 1991) (“[A]s a general rule, an agency

footnote continued...

- The proceeding began all but in secret, without notice to the public (see § II starting at page 7). A “procedurally defective” rule is ineligible for deference.⁵³
- The September revisions to Standard Operating Procedure 2 change nothing relevant to rulemaking. Agencies cannot use nonstatutory means to grant themselves rulemaking authority. The D.C. Circuit considered a similar situation in which an agency had tried to bootstrap its own authority—a regulation that purported to grant authority to promulgate *ad hoc* rules—and found that attempt unlawful.⁵⁴ If an agency can’t grant itself rulemaking authority by regulation, it sure can’t do so by guidance.

VI. What’s the right way for the PTAB to conduct its proposed rulemaking?

The answer is obvious: follow the statute.

The *Proppant* call for briefing suggests that the PTAB and Director Iancu want a rule on joinder that has some binding “teeth,” so that parties are genuinely foreclosed from seeking joinder, so that the PTAB must apply the rule as written, so that future Directors are locked in, and so that the agency obtains *Chevron* deference for its rule. How does the PTO go about promulgating such a rule?

Follow the statute. I know of no law that authorizes an agency to substitute a “Precedential Opinion Panel” for statutory rulemaking process, if that Panel does not have rulemaking authority delegated by the agency’s organic statute.

can declare its understanding of what a statute requires without providing notice and comment, but an agency cannot go beyond the text of a statute and exercise its delegated powers without first providing adequate notice and comment.”); *United Technologies Corp. v. EPA*, 821 F.2d 714, 719-20 (D.C. Cir. 1987) (“[T]hese cases show that what distinguishes interpretative from legislative rules is the legal base upon which the rule rests. If the rule is based on specific statutory provisions, and its validity stands or falls on the correctness of the agency’s interpretation of those provisions, it is an interpretative rule. If, however, the rule is based on an agency’s power to exercise its judgment as to how best to implement a general statutory mandate, the rule is likely a legislative one.”)

⁵³ See note 47 *supra*.

⁵⁴ *United States v. Picciotto*, 875 F.2d 345, 347 (D.C. Cir. 1989) (a regulation that permitted the Park Service to impose “additional reasonable conditions ... and limitations” is an invalid attempt by the agency to “grant itself a valid exemption to the APA for all future regulations.”).

Proppant seems to be preparing for a “substantive” rule, and there’s no underlying text to be “interpreted.” Thus, none of the exemptions of § 553 apply, and the statute demands notice-and-comment legislative rulemaking. How does that work?

- Often, an agency starts a rulemaking by publishing an “advance notice of proposed rulemaking” or “notice of inquiry.” This is appropriate for a “trial balloon” rule. If the agency needs more input before it can formulate its first draft proposal, a request for comment or roundtable is entirely proper. The briefing for *Proppant* could be re-purposed as this kind of preliminary consultation with the public to develop a rule for proposal—but the rule must still be *proposed* in a Notice of Proposed Rulemaking.
- What are the steps in notice-and-comment rulemaking? A full step-by-step timeline that lays out *all* the requirements under *all* the laws (at least all the laws I know of) may be found in several of my notice-and-comment letters at the PTO.⁵⁵ Mysteriously, all those letters are lost from the PTO’s web site.

VII. Recommendations and conclusion

I have no dog in any fight for this particular rule (and in fact, given the chaos of the *status quo*, I favor the PTO’s implementation of the statutory command to promulgate regulations). My only interest is a Patent Office that works predictably and within the law.

The December 2018 *Proppant* order is just a request for briefing; the PTAB has taken no significant action yet. Nonetheless, the PTAB’s action is completely baffling. How is *Proppant* different than *Aqua Products*? Of course there are differences, but are any of them relevant to any of the statutory principles that the Federal Circuit relied on in *Aqua Products*? Why does the PTAB improvise new rulemaking procedure? What’s the matter with using the rulemaking processes Congress gave to the PTO, and using them the way other agencies do? Why not follow the statute? Does the PTAB believe that its new Standard Operating Procedure 2 gives the PTAB authority to set up its own

⁵⁵ Over the last few months, I have been repeatedly puzzled at how many of my 2010-2011-2012 notice and comment letters have disappeared from the PTO’s web site. In two or three of my letters around this time, I laid out a consolidated step-by-step timeline for all of the requirements under all the rulemaking laws I know of. *E.g.*, <https://www.uspto.gov/patents/law/comments/boundy23may2011.pdf> But somehow, *all* of the several letters in which I provided this timeline are no longer available on the PTO web site. The cause for selective disappearance of letters from me, while others remain is something we need not speculate about today.

Of course I have replacement copies, and would be delighted to supply them if necessary.

rulemaking process, as a replacement for Congress'? What valid agency rule action can emerge from this briefing before the PTAB?

In 2011, the PTO requested comment on the PTO's compliance with rulemaking law, and how the PTO could improve its rulemaking process to better align with the public interest.⁵⁶ My letter⁵⁷ has a number of suggestions for improving the PTO's regulatory process. A letter⁵⁸ by Richard Belzer, who had spent a decade in the Office of Information and Regulatory Affairs, OMB's regulatory review shop, gives helpful (but rather pointed) insight and diagnosis, and a trenchant (but painful) treatment plan:

The USPTO is a longstanding, serial violator of established regulatory principles. This is the product of a bureaucratic culture that treats presidential direction as interference, is adamantly opposed to basing regulatory decision-making on informed analysis, and has serious difficulty adhering to the rule of law. Each of these deficiencies is by itself a likely reason for bureaucratic failure, but in combination, they make success virtually impossible. Correcting them requires a radical change in the organization's culture.

An important step forward would be for the Director to appoint a qualified individual charged with reforming the Office's culture and to delegate to this person both the responsibility and the authority to make it happen. Tasks would include replacing counterproductive existing internal systems with modern ones designed and implemented to ensure that the Office complies with statutory requirements (e.g., the Administrative Procedure Act, the Paperwork Reduction Act, and the Regulatory Flexibility Act) and presidential directives (e.g., Executive Orders 12866 and 13563, OMB's Bulletin for Good Guidance Practices, OMB's Information Quality Guidelines, and OMB Circular A-44). Systems need to be established to ensure that rule-writing staff do not backslide at a later date. At a minimum, a number of personnel reassignments no doubt would be necessary.

Either the PTO is not being well served by its regulatory counsel, or it's not listening to counsel's advice. Two of the signatories on the *Proppant* order are Scott Boalick (the Acting Chief Administrative Patent Judge) and Drew Hirshfeld (the current

⁵⁶ The letters are at <https://www.uspto.gov/patent/laws-and-regulations/comments-public/comments-improving-regulation-and-regulatory-review>

⁵⁷ <https://www.uspto.gov/patents/law/comments/boundy23may2011.pdf> (one of the curiously-disappeared letters, see note 55).

⁵⁸ <https://www.uspto.gov/sites/default/files/patents/law/comments/belzer14apr2011.pdf>

Commissioner of Patents and former Deputy Commissioner for Patent Examination Policy). These two ought to be among those at the PTO with the deepest knowledge of, and respect for, the rule of law and the Administrative Procedure Act.

Particularly concerning to me is the lack of notice, and the way that the PTAB avoided not only statutory notice, but *all* venues reasonably calculated to provide notice to interested parties (see § II of this article, at page 7).

The PTO should establish a compliance department, analogous to the compliance function in any private sector company. A compliance function requires two things: deep expertise in the relevant law, and sufficient power to ensure that the client operates within that law. When I was in-house counsel, my role was to help my client follow the law—along the lowest-cost path, to be sure, but to follow it—and stop my client from getting into trouble or doing embarrassing stuff until we figured out a lawful path.

Everyone will be better off if the PTAB and Precedential Opinion Panel start over at square one, with observance of administrative law.

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