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# LANDSLIDE®

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a look inside  
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### **Also:**

- The Necessity of the Intellectual Property Audit
- Printed Publications & Persons of Ordinary Skill
- Federal Agency Rulemaking Primer



# LANDSLIDE

ADVANCING INTELLECTUAL PROPERTY LAW™

Volume 10 • Number 2 • November/December 2017

## Columns

- 1** **Perspective**  
**Betty Ford and the  
Challenge to our IP  
Profession**  
By Scott F. Partridge

## Departments

- 5** **Profiles in IP Law**  
**Abbey Greene,  
Christie's**
- 43** **An Interview with**  
**Sarang Damle,**  
**US Copyright Office**
- 59** **Decisions in Brief**  
By John C. Gatz

## **7** Practice Tips for Avoiding Terminal Disclaimers and Maintaining PTA

Terminal disclaimers can result in a loss of patent term. This article provides practical tips for avoiding the need to file terminal disclaimers to overcome obviousness-type double patenting issues.

By Leslie A. McDonell and Christina M. Rodrigo

## **9** The PTAB is Not an Article III Court: A Primer on Federal Agency Rule Making

Rule making law governs rules promulgated by the USPTO, the degree of binding effect against the public and the agency, and avenues of judicial review.

By David E. Boundy

## **15** Printed Publications and Persons of Ordinary Skill: Did the PTAB in *GoPro v. Contour IP* *Holding* Apply an Overly Restrictive Standard?

The authors explore whether a reference must be accessible specifically to persons of ordinary skill as defined in a proceeding to be considered "printed publication" prior art.

By Joel D. Sayres and Doowon Chung

**Pg. 20**



# THE PTAB IS NOT AN ARTICLE III COURT

## A PRIMER ON FEDERAL AGENCY RULE MAKING

BY DAVID E. BOUNDY

**W**hat rules may the United States Patent and Trademark Office (USPTO) promulgate? What procedures must the agency follow when it promulgates a rule? What effect do various rules have? Some are binding against the public, some are only hortatory. Some require extensive rule making procedure, some can be promulgated with the stroke of a pen. Some are unilateral in binding only agency employees but not the public. And some are simply invalid. How is agency rule making power different than an Article III court's?

Administrative law expertise is becoming more and more important to successful representation of clients in intellectual property matters.<sup>1</sup> This article gives an overview of the basic framework of agency rule making. In particular, I provide a table that classifies agency rules—this table simplifies and clarifies a great deal of overly complicated discussion in the standard administrative law treatises. This table and its discussion describe the choices and tradeoffs that agencies face in their rule making decisions, and the opportunities that those choices create for parties before the agency. Expertise in administrative law and agency rule making can guide agency tribunals to favorable decisions, and present compelling arguments to courts after unfavorable decisions.

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## Foundations

### *Starting Point: The Constitution*

Let's revisit first year of law school—the basic constitutional principles for separation of powers. Article I, section 1, vests “All legislative Powers” in Congress. Article III, section 1, vests “The judicial Power” in the courts.

The executive branch and its agencies are not the legislature. Administrative judges have neither presidential appointment nor Senate confirmation to be “judges” or to have Article III law making authority. So executive branch agencies have no inherent power to make laws—but they do so all the time. How does the USPTO get power to make laws?

By delegation from Congress. Various statutes, including 5 U.S.C. § 301 and 35 U.S.C. § 2(b), § 3(a)(2)(A), § 3(b)(2)(A), § 316(a), and § 326(a), delegate rule making authority to the USPTO and the Director. The Supreme Court enforces constitutional limits on the relative powers of the executive and legislative branches. The current truce line permits Congress to delegate rule making authority, but the delegation must be express or clearly implied, and the agency must follow the procedures set by Congress in promulgating executive branch laws.<sup>2</sup>

The starting point for understanding rule making is to understand the defaults:

- The Constitution assigns legislative authority to Congress. Executive agencies have rule making authority *only* to the extent, and only on the terms, delegated by Congress.<sup>3</sup>
- Binding rules exist in writing, in validly promulgated form. An agency may only enforce rules that have been validly promulgated. Agencies can bind themselves and their employees by informal guidance documents and similar “light” procedure, but not the public.
- In the context of ex parte prosecution, if the USPTO has no statute or regulation to either require or forbid an act, everything an applicant might want to do is permitted and optional.

### *When Is a Rule a “Rule,” and When Do the Requirements for “Rule Making” Apply?*

The term “rule” is broadly defined in 5 U.S.C. § 551(4), encompassing far more than the regulations codified in the Code of Federal Regulations. A “rule” is *anything* an agency purports to apply generally or prospectively, whether binding or only advisory, whether promulgated as a rule to bind the public or as self-regulation of agency employees. One of the key administrative law cases from the DC Circuit notes that the definition of “rule” in § 551(4) “include[s] nearly every statement an agency may make,” and that exceptions to statutory rule making procedures are “limited.”<sup>4</sup>

If the USPTO raises an objection, rejection, or requirement based on a legal principle arising on its own authority (that is, other than a statute or court decision), the USPTO must show that it complied with applicable rule making procedure to promulgate a rule that is validly binding against the public.

## Laws Governing Rule Making

In roughly the order of adoption, this section catalogs the key laws and policies emanating from the Executive Office of the President that govern agency rule making.

None of these laws is self-executing. Each facially requires an agency to take certain actions, but only rarely are agencies penalized for noncompliance. Some rule making laws create a tribunal within the executive branch to provide regulatory oversight during the rule making phase, and parties may make their concerns known there. Almost all provide that agency nonperformance renders a rule potentially unenforceable. However, after a rule issues, as a practical matter, self-correction by agencies is uncommon (and when user fees are at issue, essentially nonexistent), and the only venue for redress is judicial review. And regardless of whether the venue is administrative or judicial, neither remedy will occur unless an aggrieved party complains, represented by a competent, informed advocate. Without a properly represented complainant, the default is that agency rule making power is greater than statutes provide.

### *Housekeeping Act*

The Housekeeping Act, 5 U.S.C. § 301, was one of the first laws enacted by the first Congress. The Housekeeping Act authorizes any head of any executive branch department to prescribe regulations governing the agency's own employees, and the performance of the agency's business. There are almost no procedural prerequisites for rules governing agency employees—when an agency head says so, agency employees are bound.

### *Administrative Procedure Act*

The Administrative Procedure Act (APA) is divided into two broad sections, now 5 U.S.C. chapters 5 and 7. Chapter 5 of the APA, 5 U.S.C. §§ 551–559, specifies duties of agencies as they go about their day-to-day business of rule making, adjudicating, conducting hearings, and the like: the fundamental obligation on an agency under chapter 5 is to explain the agency's rationale, and to do so in a way that demonstrates “reasoned decisionmaking.”<sup>5</sup>

Much of this article will focus on § 553, which governs rule making. Section 553 requires agencies to give the public proper notice of proposed rules, and an opportunity for the public to provide input on those proposed rules. To allow informed comment, the agency must explain its rationale, and make available any data, testing, models, software, or other analytical support for the proposed rules.

#### **5 U.S.C. § 553 – Rule making.**

- (a) This section applies, according to the provisions thereof, except to the extent that there is involved—

.....

- (2) a matter relating to agency management or personnel . . . .

(b) General notice of proposed rule making shall be published in the Federal Register, unless persons subject thereto are named and either personally served or otherwise have actual notice thereof in accordance with law. The notice shall include—

- (1) a statement of the time, place, and nature of public rule making proceedings;
- (2) reference to the legal authority under which the rule is proposed; and
- (3) either the terms or substance of the proposed rule or a description of the subjects and issues involved.

Except when notice or hearing is required by statute, this subsection [(b)] does not apply—

- (A) to interpretative rules, general statements of policy, or rules of agency organization, procedure, or practice; or
  - (B) when the agency for good cause finds (and incorporates the finding and a brief statement of reasons therefor in the rules issued) that notice and public procedure thereon are impracticable, unnecessary, or contrary to the public interest.
- (c) After notice required by this section, the agency shall give interested persons an opportunity to participate in the rule making through submission of written data, views, or arguments with or without opportunity for oral presentation. After consideration of the relevant matter presented, the agency shall incorporate in the rules adopted a concise general statement of their basis and purpose. . . .
- (d) The required publication or service of a substantive rule shall be made not less than 30 days before its effective date, except—
- (1) a substantive rule which grants or recognizes an exemption or relieves a restriction;
  - (2) interpretative rules and statements of policy; or
  - (3) as otherwise provided by the agency for good cause found and published with the rule.
- (e) Each agency shall give an interested person the right to petition for the issuance, amendment, or repeal of a rule.

### ***Independent Offices Appropriations Act***

The Independent Offices Appropriations Act (IOAA) and related laws govern user fees.<sup>6</sup> In two 1974 decisions, the Supreme Court confined fee-setting to incentive-neutral cost recovery, and forbade agencies from setting fees to achieve policy goals, or to encourage one behavior or discourage another, unless Congress expressly delegates such discretion.<sup>7</sup>

### ***Paperwork Reduction Act***

The Paperwork Reduction Act (PRA), with its implementing regulations promulgated by the Office of Information and Regulatory Affairs (OIRA) within the Office of Management and Budget (OMB),<sup>8</sup> protect the public from burdensome paperwork that involves any “collection of information” by or on behalf of an agency. The PRA requires agencies “to minimize the burden on the public to the extent practicable.”<sup>9</sup> In the context of the USPTO, the PRA covers essentially all USPTO rule making, and essentially all paperwork collected by the USPTO.

The PRA and its implementing regulations impose a number of common-sense obligations on an agency. For example:

- The agency must review all rules calling for collection of information to ensure that the agency needs and will actually use the information.<sup>10</sup> The agency must ensure that the information it seeks from applicants has “practical utility,” that is, that the information has “actual, not merely the theoretical or potential, usefulness of information to or for an agency, taking into account its accuracy, validity, adequacy, and reliability, and the agency’s ability to process the information it collects.”<sup>11</sup>
- The agency must certify to the OMB that the agency has reduced the burden “to the extent practicable and appropriate.” The agency must “demonstrate that it has taken every reasonable step to ensure that the proposed collection of information . . . [i]s the least burdensome necessary for the proper performance of the agency’s functions.”<sup>12</sup>
- Rules and requests for information must be “written using plain, coherent, and unambiguous terminology.”<sup>13</sup>
- The agency must ensure that the information it seeks from applicants is not “unnecessarily duplicative.”<sup>14</sup>
- “The agency shall also seek to minimize the cost to itself of collecting, processing, and using the information, but shall not do so by means of shifting disproportionate costs or burdens onto the public.”<sup>15</sup>

During any rule making that calls for submission of paperwork to the agency (*any* rule, no matter how promulgated),<sup>16</sup> the agency must use notice and comment to gain the public’s view on these above bullet points, and then explain to the OMB how the agency complies with them. The agency must repeat this inquiry every three years.

The PRA has a practical implementation problem. All requests for approval flow through a handful of people at the OMB. Agencies submit over 5,000 approval requests to the OMB annually, and the OMB can focus on only the few where public comment requests attention. Agencies have multiple incentives to shortcut procedure and to underestimate the actual burden that their regulations impose—large cost burdens trigger agency responsibilities under other laws, and small numbers mean that the overworked OMB staff is unlikely to pay attention, so that OMB approval can be an action of default without real inquiry. Thus, the PRA—which can be a tremendously powerful law during the rule making stage, and in



judicial review of agency decisions—is only effective when the public engages during comment periods to fully inform the OMB, and raises the issue in judicial review settings.

The PRA is unique in the extent of the remedy available—if an agency fails to obtain OMB approval for paperwork, any member of the public can assert a “public protection” provision “at any time,”<sup>17</sup> and the agency may impose no penalty for the party’s noncompliance with the agency’s request for the paperwork. Because of the incentives to shortcut and underestimate, and the USPTO’s response to those incentives over the last decade, the PRA presents a target-rich environment for parties seeking relief from USPTO action.

In recent filings with the OMB, the USPTO estimates the following major blocks of burden for patent applicants and owners:

	Annual Hours	Annual Dollars
Patent Processing (between initial filing and allowance)	3.8 million <sup>18</sup>	\$371 million
Patent Applications	51 million	\$1.050 billion
Post-Allowance and Refiling	207,000	\$274 million
PTAB Actions (primarily ex parte appeals)	555,000	\$45 million
PTAB Inter Partes Review (IPR), Post-Grant Review (PGR), and Derivation Proceedings	1.5 million	\$60 million

The major patent-related categories account for about 55 million hours annually; at an average rate for attorneys and paralegals of \$300 per hour, this comes to about \$16 billion per year.

### ***Regulatory Flexibility Act***

The Regulatory Flexibility Act (RFA)<sup>19</sup> protects small businesses from excessively burdensome regulation. The RFA does not require agencies to minimize economic impacts, but only to account for them. The RFA applies to any rule that requires notice and comment under “5 U.S.C. § 553 or any other law”—which leads some agencies to avoid notice and comment. For any covered rule, the agency must certify that the rule will not “have a significant economic impact on a substantial number of small entities,” and support that certification with an analysis.<sup>20</sup> If the agency cannot so certify, the agency must publish a “regulatory flexibility analysis,” which describes the burdens that the rule will place on small entities, and efforts the agency has taken to minimize impacts on small entities. The RFA is administered through the Small Business Administration Office of Advocacy, which advances the interests of small entities with other agencies, but again, only when specific problems are brought to its attention.

### ***Equal Access to Justice Act***

The Equal Access to Justice Act<sup>21</sup> creates a presumption in favor of awarding attorneys’ fees to most individuals and small entities that prevail in suits against the government, if at least one issue in the government’s case is “not substantially justified.”

### ***Executive Order 12,866***

Executive Order 12,866<sup>22</sup> requires benefit-cost analysis for any new regulation that is “economically significant,” which is defined as having “an annual effect on the economy of \$100 million or more or adversely affect[ing] in a material way the economy, a sector of the economy, productivity, competition, [or] jobs,” or creating an inconsistency with other law, or any of several other conditions.<sup>23</sup> That is, this is triggered by any regulation that affects 0.5 percent of the paperwork burden that the USPTO acknowledges, or a fraction of 1 percent of the total economic activity in the United States mediated by issued patents. The Executive Order directs that agencies may only regulate where the agency identifies a particular problem, considers alternatives and cost-assesses them all, chooses the most cost-effective regulation tailored to the problem, and sets forth the analysis in writing. An agency must consider overall social costs on the American people. The Executive Order directs agencies to consider all “economic effects,” not just fees paid to the agency or burdens cognizable under the PRA.

If a rule has an “economic effect” of at least \$100 million per year, an agency must conduct an introspective and analytical “regulatory impact analysis.”<sup>24</sup> OMB Circular A-4 instructs agencies in basic principles of regulatory economics that are to be considered in any regulatory action, analyses that ensure the agency meets its public objectives and structures its processes to maximize social welfare and minimize regulatory cost.

### ***Unfunded Mandates Reform Act***

The Unfunded Mandates Reform Act<sup>25</sup> requires agencies to do benefit-cost analyses of rules vis-à-vis state, local, and tribal governments and the private sector.

### ***Congressional Review Act***

The Congressional Review Act<sup>26</sup> requires an agency to send a report to Congress as each regulation is promulgated, and give Congress a 60-day review period. Congress may enact a joint resolution of disapproval, which if signed by the president renders the regulation null and void, as if it had never existed.

### ***E-Government Act***

The E-Government Act of 2002<sup>27</sup> requires agencies to make use of the Internet. In particular, the act requires an agency to post on the Internet all “materials that by agency rule or practice are included in the rule making docket under [5 U.S.C. § 553].” That, in turn, includes all data, computer models, assumptions, and so on, relied on by the agency in formulating any proposed rule.

### ***Information Quality Act***

The Information Quality Act (IQA), or Data Quality Act, and implementing guidance from the OMB,<sup>28</sup> require each federal agency to “ensur[e] and maximiz[e] the quality, objectivity, utility, and integrity of information (including statistical information) disseminated by the agency,” and to rely on quality information in reaching its decisions.

The IQA covers “influential information” that agencies use



in making decisions, such as in estimating the burden under the PRA and RFA. Though the IQA itself is a difficult vehicle for judicial review, if an agency action relies on “junk science” or other information that does not meet IQA standards, then a party with standing to bring an APA action can challenge the rule; with the IQA, defect may be used to support an “arbitrary and capricious” or “without observance of procedure required by law” claim under the APA.

### **Bulletin for Agency Good Guidance Practices**

The Bulletin for Agency Good Guidance Practices<sup>29</sup> is implementing guidance under the IQA. Within 10 days of inauguration, President Trump reminded agencies that the Good Guidance Practices Bulletin is still in effect.<sup>30</sup> The Good Guidance Practices Bulletin requires as follows:

- If a guidance document may have \$100 million in annual economic effect (the USPTO admits that the MPEP is such a guidance document), amendments to that guidance must be run through notice and comment, and the agency must provide a “robust response to comments.”
- Agencies are to review their guidance documents for “mandatory language such as ‘shall,’ ‘must,’ ‘required’ or ‘requirement’” and remove such language “unless the agency is using these words to describe a statutory or regulatory requirement, or the language is addressed to agency staff.” Guidance documents are not to be applied as “law” against applicants<sup>31</sup>—the agency may not rely on guidance

to “foreclose consideration by the agency of positions advanced by private parties,” but must consider alternatives.

- When a guidance document uses mandatory language with respect to the agency or an agency employee, that language is binding against the agency or employee, and before departing from that language, the employee needs “appropriate justification and supervisory concurrence.”<sup>32</sup>
- “Each agency shall maintain on its website . . . a current list of its significant guidance documents in effect. . . . The agency shall provide a link from the current list to each significant guidance document that is in effect. . . . The list shall identify significant guidance documents that have been added, revised or withdrawn in the past year.”<sup>33</sup>
- Agencies are to train their employees in the above principles.

### **Much of the Law of Agency Rule Making Turns on Classification**

Rules break into a number of taxonomic classes. Taxonomic classification of a rule determines the procedures that an agency must use to promulgate it, and the degree to which it binds the public. The taxonomy arises primarily under the APA. The consequent rule making procedures arise under the laws cataloged above. Most of these statutes add rule making procedures (above the APA) that apply or do not apply based on the taxonomic classification under the APA.

*Continued on page 51*

◀ GREATER PROCEDURE, GREATER BINDING EFFECT		LESS PROCEDURE, LESS BINDING EFFECT ▶		ASYMMETRIC	
	legislative rules*	<i>Chevron/Auer</i> interpretations	interpretative rules	policy statement	housekeeping rules
substantive	substantive / legislative	<i>Chevron/Auer</i> interpretations of substantive law	substantive / interpretative	substantive / policy statement	housekeeping substantive rules
	Any allocation of the burden of proof— such rules must be promulgated with “legislative” procedure if within the rule making grant of §§ 316(a)/326(a), and are invalid if grounded in § 2(b)(2)	Regulations that interpret IPR/ PGR statutes’ term “unpatentability” to implicate “broadest reasonable interpretation” rather than ordinary meaning.	MPEP § 201.11(II) (B), interpreting 35 U.S.C. § 120 to permit filing of a continuation application on the day that the parent issues. The elaboration of the CREATE Act in MPEP § 706.02(I)	37 C.F.R. § 1.75(e), stating that independent claims “should” be in Jepson format. PTO policy to accept an attorney’s statement to establish common ownership to gain benefit of pre-AIA § 103(c) or post-AIA § 102(c)	The examination guidelines for substantive patentability of design patents of MPEP § 1504.03. Chapter 2100 of the MPEP, and examination guidelines for § 101, to the extent they restate substantive law.
procedural	procedural / legislative	<i>Chevron/Auer</i> interpretations of procedural law	procedural / interpretative	procedural / policy statement	housekeeping procedural rules
	Most of the familiar regulations of 37 C.F.R. Part 1 binding on applicants	In deciding an IPR petition, the Board may institute on less than all claims (assuming that § 314 indeed has an ambiguity or gap)	Elaboration of the refund statute and regulation, 35 U.S.C. § 42 and 37 C.F.R. § 1.26, in MPEP § 607.02	MPEP § 503, specifying PTO policy to accept a post card as sufficient, but not necessary, to show “to the satisfaction of the Director” that a mailing was lost	Much of 37 C.F.R. § 1.104, Chapter 2100 of the MPEP, and examination guidelines for § 101, to the extent they specify explanations that must be set forth in an Office Action.



Each rule has two taxonomic characteristics, reflected in a two-row-by-five-column grid:

- Substantive vs. procedural (the subject matter of the rule); and
- Legislative rules vs. high-deference interpretations of a preexisting statute or regulation vs. low-deference interpretations vs. policy statements (how closely a rule is grounded in an underlying text, with an agency option to push a rule to higher categories by observing higher rule making procedure).

In the administrative law, decades of confusion arose out of lack of a standard vocabulary for this taxonomy. The word “substantive” was used for decades in two different senses: the inverse of “procedural,” and (less commonly) the inverse of “interpretative.” Sometimes both senses of “substantive” were used in the same paragraph, so it was all very confusing. In the last 10 years, courts have gradually sharpened their language, to use the word “substantive” *only* to mean the inverse of “procedural.” For the inverse of “interpretative,” the modern trend is to use the word “legislative.” That is the convention I will use—but this convention is fairly recent (and even in 2017, not uniform).

With that understanding, every rule fits into one cell of a two-dimensional grid. In general, the binding effect of a rule varies inversely with the procedure required to promulgate it. Rules toward the left of this table (legislative rules, promulgated with full necessary procedure) are binding against all parties, while rules toward the right, “policy statements,” may be promulgated with minimum procedure, but have no binding effect at all, and housekeeping rules bind only the agency, not the public. The two columns in between are likewise intermediate in both respects.

“Housekeeping rules” refer to rules directed to the agency or agency staff, as opposed to rules directed to the public. Housekeeping rules can be promulgated under a permissive grant (such as the Housekeeping Act) or a mandatory duty (such as 35 U.S.C. § 3(a)(2)(A) and § 3(b)(2)(A), which require that the USPTO Director and Commissioners to “provid[e] policy direction and management supervision” and “be responsible for the management and direction of all aspects of the activities of the Office”). The term embraces rules of “agency management” under § 553(a)(2), agency staff manuals and memoranda, etc. “Housekeeping rules” overlap with the APA categories—housekeeping rules may exist as legislative regulations, interpretative rules, or policy statements.

### “Substantive” Row vs. “Procedural” Row

Substantive rules come in two basic flavors (the top row of the table):

- Interpretative rules and statements of policy, which require only minimum procedure but have limited to no binding effect against courts and the public; and
- Binding rules, which require either full legislative procedure under the APA, PRA, RFA, and all the rest, or sufficient procedure to invoke *Chevron/Auer* deference

(where an agency’s interpretation of an ambiguous statute or rule acquires binding effect).

### Distinguishing “Substantive” from “Procedural” Rules

The distinction between “substantive” and “procedural” rules is not amenable to a simple bright-line definition, and the legal formulation varies somewhat circuit to circuit (though the outcome as applied to specific cases varies only little). More recent cases from the Federal Circuit and D.C. Circuit ask whether a rule “encodes a substantive value judgment or puts a stamp of approval or disapproval on a given type of behavior.”<sup>35</sup> Both Professor Pierce’s and Professor Lubbers’s treatises note the difficulty in drawing the line, provide lengthy expositions of the law in various circuits at various times, and attempt to synthesize the law.<sup>36</sup> Case outcomes turn on this definition, so agencies and parties put substantial litigation effort into characterizing rules that are in dispute.

A few patterns are clear. Any assignment of the burden of proof is substantive.<sup>37</sup> A rule that facially appears to be “procedural” but preempts so many procedural options that a party is effectively denied any hearing at all can be substantive. If a collection of procedural rules each appears innocuously “procedural” but cumulatively change “the very character” of a proceeding, the collection may be substantive.

### Procedural Requirements for Promulgation of Substantive Rules

Unless a “substantive” rule qualifies for the “interpretative” or “policy statement” exceptions of § 553(d)(2) and the agency is willing to surrender binding effect, all substantive rules must go through “legislative rule” notice and comment. If an agency skips notice and comment, PRA clearance, or any of the other statutory requirements (for example, a rule promulgated through adjudication), then the rule can *only* be valid under the “interpretative” or “policy statement” exceptions, and under those two exceptions, the rule lacks binding effect against the public. So any substantive rule that an agency intends to bind with force of law must go through notice and comment.<sup>38</sup>

### Procedural Rule Making—Notice and Comment for Patent Rules

For almost all agencies, § 553(b)(A) provides an exception from notice and comment for “rules of agency organization, procedure, or practice.” Most agencies can promulgate procedural rules through mere 30-day publication under § 553(d).

However, § 553(d) recognizes that notice and comment may be required by statute, even for procedural rules. The only case I know of on the point, the 2008 *Tafas* case,<sup>39</sup> holds that 35 U.S.C. § 2(b)(2)(B) is such a statute, requiring the USPTO to use notice and comment even for its procedural rules.<sup>40</sup>

First, pre-1999 35 U.S.C. § 6 granted procedural rule making authority, and made no mention of § 553. When Congress amended the statute in 1999, the reference to § 553 was added—Congress does not ordinarily change statutory language without intending a change in effect. Second, a number



of other agencies have statutes similar to § 2(b)(2)(B), granting procedural rule making authority with only a blanket mention of § 553, and other agencies and courts have interpreted those statutes to require notice and comment.<sup>41</sup> Third, on appeal, the USPTO moved to dismiss *Tafas* on grounds of *mootness*, and to have the district court decision vacated. The Federal Circuit granted the mootness motion, but not the vacatur. When a party moves to dismiss for “mootness,” that party takes on an obligation to cease all challenged conduct and to make “*absolutely* clear that the allegedly wrongful behavior could not reasonably be expected to recur.”<sup>42</sup> By moving to dismiss for mootness, first principles of Article III adjudication dictate that the USPTO “absolutely” locked itself into notice and comment for procedural rules of binding effect.

And finally, for any rule (“rule” in the broadest sense, see endnote 4) that calls for paperwork submissions to the USPTO, the Paperwork Reduction Act has its own notice-and-comment requirement, *e.g.*, 44 U.S.C. § 3506(c)(2)(A); 5 C.F.R. § 1320.3(c)(4)(i). Most of the Patent Office’s procedural rules require notice-and-comment under the PRA.

Agencies have discretion to choose between rulemaking through statutory procedure or by common law adjudication, so long as no statute requires notice-and-comment—that is, only for rules that validly fit the “interpretative,” “statement of policy,” or “procedural” exceptions of § 553(b)(A), and that do not affect paperwork burden. However, by exercising that discretion, the agency accepts all the consequent limitations on agency authority.

Although the law appears clear, the USPTO has often advanced a position that it is governed by the § 553 default, not by the 1999 amendment, can ignore case law interpreting that amendment, can revoke the consequence of its own concession, and can ignore an adverse ruling on a motion it contested at the time. Effective advocacy is required to ensure that the USPTO complies with the law.

### USPTO Implementation

The USPTO’s recent compliance with rule making law has been less than satisfying,<sup>43</sup> and issues around procedural rule making have been particularly problematic. The USPTO’s Federal Register notices cite cases that have nothing to do with the propositions for which they are cited, and neglect to distinguish adverse precedent raised in notice-and-comment letters.<sup>44</sup> In addition, the USPTO regularly cites a 1948 paper for the proposition that “it is extremely doubtful whether any of the rules formulated to govern patent or trade-mark practice are other than ‘interpretive rules, general statements of policy, . . . procedure, or practice’”<sup>45</sup>—but of course the USPTO’s rules in 1948 are irrelevant to classification of regulations that the USPTO proposes today. All these issues have been raised in multiple public comments, in multiple contexts—the USPTO’s final rule making notices and submissions to the OMB have not answered these questions.

The USPTO’s approach to rule making creates abundant opportunities for parties who are aggrieved by invalidly promulgated regulations. For example, the USPTO’s persistent failure to address notice-and-comment questions, to explain its positions, or to distinguish adverse precedent are breaches

of its obligations under the APA, and divest the USPTO of whatever deference its decisions might otherwise enjoy.

So long as the USPTO follows the requirement for notice and comment, the USPTO satisfies the requirements of § 2(b)(2)(B) and § 553 for its procedural rules. Even for procedural rules, notice and comment is a useful checkpoint that agencies use to ensure compliance with all the other rule making statutes. Even if the Federal Circuit ends up disagreeing with me on the import of § 2(b)(2)(B), if a USPTO regulation is substantive (and not within special grants such as § 316(a) or § 326(a)), or the USPTO neglected compliance with other rule making law, a rule can still be invalidated.

### “Chevron/Auer” Column: Formal Interpretations of Statutes or Regulations

Every statute and regulation has some lingering ambiguity, and someone has to have authority to adopt some interpretation, and do so with a minimum of procedural delay. So the law grants every agency inherent authority to promulgate interpretative rules. By default, most interpretations slot into the “interpretative rule” category discussed below. However, if an interpretation satisfies a long list of criteria, then the interpretation is binding on parties, courts, and the agency itself, under *Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc.* (for agency interpretations of statute)<sup>46</sup> or *Auer v. Robbins* (for agency interpretations of regulations).<sup>47</sup> If the interpretation fails at least one of the criteria, then the interpretation falls into the category of “interpretative rule” which binds only the agency itself, and is entitled to, at most, *Skidmore* deference (see endnote 56).

Some agency interpretations are binding on parties and the courts, under *Chevron* deference:

Under the familiar two-step *Chevron* analysis, “[w]e always first determine ‘whether Congress has directly spoken to the precise question at issue.’” “We do so by employing the traditional tools of statutory construction: we examine the statute’s text, structure, and legislative history, and apply the relevant canons of interpretation.” “If we find ‘that Congress had an intention on the precise question at issue, that intention is the law and must be given effect . . . .’” If we conclude that “Congress either had no intent on the matter, or that Congress’s purpose and intent is unclear,” then we proceed to step two, in which we ask “whether the agency’s interpretation is based on a permissible construction of the statutory language at issue.”<sup>48</sup>

But an agency has to *earn* this deference; it is far from automatic. When an agency interprets its own organic statute (for *Chevron*) or a regulation that it promulgated (under *Auer*), and the interpretation meets *all* the following prerequisites, *only then* does the agency receive the high deference of *Chevron* or *Auer*:

- Under “*Chevron* step zero,” an agency only receives deference when interpreting a statute or rule within its delegated authority, and that it is charged with administering. For example, USPTO interpretations of substantive law are not entitled to *Chevron* deference, except when the USPTO acts pursuant to one of its narrow grants of such authority, such as § 316(a) and



§ 326(a). Similarly, USPTO interpretations of the APA and the like are ineligible.

- Under “*Chevron/Auer* step one,” an agency only earns high *Chevron/Auer* deference for an interpretation where there is an ambiguity or gap in the rule or statute.
- The interpretation or implementing regulation at issue must tend to resolve the precise ambiguity or fill the precise gap: overly imprecise rules or interpretations do not receive *Chevron/Auer* deference.
- High *Chevron/Auer* deference requires that the agency publish its interpretation with some degree of formality, including any procedural formalities that Congress specifies for agencies in general (such as the Paperwork Reduction Act), or specific to the agency—while full-blown notice and comment is not a prerequisite to *Chevron/Auer* deference, informal statements of agency interpretation are not entitled to *Chevron/Auer* deference.<sup>49</sup>
- Under “*Chevron/Auer* step two,” an agency interpretation only receives deference if it is a “reasonable” interpretation of the statutory language considered with statements of congressional intent, and is supported by a reasonable explanation.
- High *Chevron/Auer* deference requires some level of consistency by the agency.
- An agency can lose *Chevron/Auer* deference in a specific case if its procedures in that case were haphazard.
- *Chevron/Auer* only applies to an agency’s interpretations of a statute or rule reached on its own reasoned decisionmaking, not to interpretations of congressional intent or case law.

*Chevron/Auer* is entirely a creature of common law, not statutory law, and that common law has been changing rapidly. The Lubbers and Pierce treatises both note the multiple difficulties and complexities in the area. Though *Chevron* has been with us for over 30 years, at least three justices of the Supreme Court have questioned whether *Chevron* is a good rule, and a bill was introduced in the House of Representatives in early 2017 to legislatively overrule *Chevron*. Administrative law expertise can make a case-determinative difference by steering an interpretation into either the binding *Chevron/Auer* category or the nonbinding “interpretative” category.

### “Interpretative” Column and “Shortcut Procedure” Exception of § 553(b)

An “interpretative” rule sets out the agency’s interpretation of a statute or rule, without altering rights or obligations. Any interpretation that fails any one of the bullets prerequisite to a *Chevron/Auer* interpretation falls into this nonbinding category of “interpretative rule.”

#### Availability of the § 553(b) “Interpretative” Exception

The line for permissible exercise of the § 553(b) “interpretative” exception is blurry—courts and treatise writers uniformly complain about this (but as we’ll see, most of the ink spilled over the scope of the exception is irrelevant to case outcomes—most of these cases rise and fall on whether the agency tries to simultaneously claim binding effect and the “interpretative” exception). The most basic requirement

for the “interpretative” exception is that the agency “interpret” a validly promulgated law (statute or regulation), by following a recognizable interpretative path originally set out by the statute or regulation. An agency may promulgate an “interpretative” rule “only if the agency’s position can be characterized as an ‘interpretation’ of a statute or legislative regulation rather than as an exercise of independent policymaking authority.”<sup>50</sup> Mere “consistency” is insufficient.<sup>51</sup> Even “gap filling” can be beyond the scope of “interpretative” authority. An “interpretative” rule cannot create a new requirement, carve-out, or exception from whole cloth. If the rule changes “individual rights and obligations” (rather than resolving ambiguity), the rule requires legislative procedure.

For example, MPEP § 802.01, which “interprets” the key phrase “independent *and* distinct” of the restriction statute, 35 U.S.C. § 121, as “*or*” is an invalid attempt at “interpretative” rule making, because changing “*and*” (in 35 U.S.C. § 121 and 37 C.F.R. § 1.141(a)) to “*or*” (in MPEP § 802.01) cannot possibly be a valid exercise of “interpretative” authority. There are a host of similar provisions in the MPEP, and similar rules made up day to day by individual examiners and petition decision makers, that have no plausible grounding in “interpretation” of the text of a statute or regulation, or that are directly contrary to other law. These are well beyond any “interpretative” authority.

An agency may promulgate interpretative rules outside the scope of its rule making authority. Where an agency can only issue legislative rules pursuant to an express grant of authority from Congress, an agency may (and is encouraged to) issue nonbinding interpretations to guide the public.

If an agency elects the “interpretative” shortcut, there are almost no procedural requirements—the decision maker must ensure that there is indeed an ambiguity that is not resolved by any binding law, but if the ambiguity exists, the decision maker simply interprets as best he or she may. If the issue is outside the agency’s scope of rule making authority (for example, the definition of the term “new ground of rejection” or terms of art from the APA, which are defined by the courts under the administrative law,<sup>52</sup> or various terms of the PRA, for which OMB regulations provide operative definitions), the agency must follow the agency or courts that *do* have authority on that specific issue.

#### Consequence of the “Interpretative” Shortcut

In return for the privilege of bypassing rule making procedure, the agency risks loss of binding effect for an interpretative rule. “An agency issuing an interpretative rule . . . may well intend that its interpretation bind its own personnel and may expect compliance from regulated individuals or entities. Nonetheless, the agency cannot expect the interpretation to be binding in court; because it does not have the force of law, parties can challenge the interpretation.”<sup>53</sup> Many courts have characterized interpretative rules as only “hortatory” and “lacking force of law.”<sup>54</sup>

In proceedings before the agency, a party may advance alternative positions or interpretations, and the agency must address them, without relying on an interpretative rule as the last word.

On judicial review, invocation of the “interpretative” shortcut surrenders any claim to heightened *Chevron/Auer* deference.<sup>55</sup> A court should give *Skidmore* deference to a



well-reasoned interpretative rule, but no more than that<sup>56</sup>—courts regularly overturn “interpretative” rules.

Interpretative rules are binding on agency employees, including its administrative law judges (ALJs).<sup>57</sup> If an interpretative rule (say, a provision of the MPEP, or the PTAB trial guidelines) sets a “floor” under the rights of a party, individual employees have no discretion to back out of the agency’s interpretation or create ad hoc exceptions adverse to the party.

### **Agency Misuse of the “Interpretative” Exception**

An agency that wishes to assert an authoritative interpretation of a statute or regulation (within its rule making authority) is always free to dress that interpretation in full procedure. That interpretation acquires force of law as either a legislative rule or a *Chevron/Auer* interpretation. However, the overwhelming majority of “interpretative” rule cases arise when an agency elected to take the shortcut, and either “interpreted” beyond the words of the underlying statute or regulation, or tries to attach binding effect to that rule.

Courts do not allow agencies to have things both ways—if an agency treats a rule as binding on the public and there is no wording in the underlying statute or regulation to “interpret,” the agency surrenders any claim to the “interpretative” exemption. Under a frequently recurring pattern,<sup>58</sup> the agency issues a pronouncement (a staff manual, memo, precedential decision, or one-off adjudicative decision) that goes beyond the wording of the underlying statute or regulation, without addressing the statutory procedures necessary for a binding rule. Nonetheless, the agency treats its rule as binding, and rules against a member of the public based on that “rule.” The affected member of the public sues the agency to be relieved of the obligation to comply with the “rule.” The agency moves to dismiss, arguing either “that isn’t an APA ‘rule’ because we didn’t put it in the Code of Federal Regulations, and thus there is no jurisdiction for judicial review,” or else that it didn’t need to go through notice and comment because of the “interpretative” exception. It’s a well-worn path. An agency’s reliance on the “interpretative” exception per se is seldom a breach of the law—but the agency’s attempt to *enforce* an insufficiently promulgated rule always is. So long as the plaintiff has a knowledgeable lawyer, the agency almost always loses the interpretative rule issue. Then, if there is a remaining underlying statute or regulation (that is, if the “interpretation” was not a rule made up out of whole cloth), the court construes the underlying rule (under *Skidmore* deference to the agency), and the final outcome of the case turns on that judicial interpretation.

Courts give essentially no weight to an agency’s characterization of a rule, but instead review the characterization de novo, giving heaviest weight to actual agency practice—if the wording or agency practice treats the rule as binding, or there is no underlying test in a statute or regulation, then the rule is ineligible for the “interpretative” shortcut.

The provisions of the MPEP describing how “the satisfaction of the Director” of 35 U.S.C. § 41(c), § 111, and § 122 may be met to show that delay or abandonment were unintentional or unavoidable are valid “interpretative” rules—and therefore binding *on the agency*. If a petitioner meets these provisions, then the USPTO must grant the petition. But the

USPTO may not apply an interpretative rule in the MPEP as a binding “ceiling” *against the public*—the USPTO *must* entertain petitions that present alternative showings that might meet the “satisfaction of the Director.”

### **“Statements of Policy” Column**

Policy statements are “tentative intentions,” nonbinding rules of thumb, suggestions for conduct, and tentative indications of an agency’s hopes. Policy statements have no binding effect. A policy statement “genuinely leaves the agency and its decision-makers free to exercise discretion,” and “a statement of policy may not have a present effect: a ‘general statement of policy’ is one that does not impose any rights and obligations.”<sup>59</sup>

“Statements of policy” are even weaker statements than “interpretative” rules. Agencies use them to express agency preferences (for example, the USPTO’s preference for *Jepson* claims in 37 C.F.R. § 1.75(e)), but with no binding effect. Agencies likewise use “policy statements” to offer a unilateral quid pro quo or set a floor for agency procedure (“If you the public do X, we the agency promise favorable outcome Y. If you don’t do X, you can still convince us to do Y by arguing the controlling law.”).

Agency policy statements are not binding on courts, and therefore receive no *Chevron* deference, not even weak *Skidmore* deference.<sup>60</sup> In litigation, agencies fairly often make the same mistake with “policy statements” as with “interpretative rules”—they admit they failed to follow rule making procedure, and assert the “statements of policy” exception of § 553(b)(A) and (d)(2) as a defense. And of course courts respond by invalidating any binding effect of the rule.

### **“Housekeeping Rules”—The Agency Binds Itself**

Federal agencies are encouraged—and in many cases required—to issue instructions to their employees so that agency employees can make accurate decisions, the public can know how the agency works, and both sides can interact efficiently. The general rule—confirmed in at least a half dozen decisions of the Supreme Court, and many hundreds in the federal courts of appeal, with no appellate court exception that I know of—is that once the agency issues rules to its own employees using mandatory language, the agency binds its employees *even if the document is not published*. The public is entitled to rely on those housekeeping rules. Employee action in violation of a housekeeping rule is “void” or “illegal and of no effect.”<sup>61</sup>

Regulations that use mandatory language directed to employees are absolutely binding. Agencies have no discretion whatsoever to depart or create carve-outs to the detriment of the public, whether as one-offs or systematically in published guidance, except by promulgating replacement regulations with full rule making formalities.<sup>62</sup>

When the USPTO issues nonregulatory guidance (such as the MPEP or examining guidelines) that uses mandatory language to state obligations of agency employees with respect to “important procedural benefits” to applicants (including the classic stuff of the APA procedural obligation to explain—showings that must be made, reasoning steps that must be employed, etc.), employees are bound. The public is entitled to rely on employees’ observing the guidance.<sup>63</sup> An agency is free to modify its housekeeping guidance with



the same ease and lightweight formality with which it was initially promulgated, but that has to be done at the *agency* level—individual employees have no authority to create ad hoc carve-outs or exemptions, no matter how sound the justification provided by that individual employee.<sup>64</sup>

On the other hand, agencies are free to relax rules in favor of lenity toward a party: “It is always within the discretion of . . . an administrative agency to relax or modify its procedural rules adopted for the orderly transaction of business before it when in a given case the ends of justice require it.”<sup>65</sup> Cases that state this freedom to relax reiterate that it is an asymmetric freedom: agencies may not relieve themselves of rules intended primarily “to confer important procedural benefits upon individuals” in the face of otherwise unfettered discretion.<sup>66</sup>

Housekeeping rules operate under multiple asymmetries. To bind the public, an agency must satisfy all applicable rule making statutes that protect the public, while the agency can bind its employees at the stroke of a pen (notice the light procedure granted by § 553(a)(2)). Amendments to “recognize[] an exemption or relieve[] a restriction” can be promulgated on simple notice; rules to raise burdens on the public must go through statutory rule making procedure (e.g., 44 U.S.C. § 3507(a)). The agency has great discretion to grant one-off waivers in favor of the public, but none in favor of itself. ■

## Endnotes

1. David Boundy, *Administrative Law Observations on Cuozzo Speed Technologies v. Lee*, 9 LANDSLIDE, no. 3, Jan.–Feb. 2017 (suggesting that although patent law arguments were losers in the Supreme Court *Cuozzo* case, administrative law arguments likely would have been winners).

2. *Chrysler Corp. v. Brown*, 441 U.S. 281, 303 (1979) (stating that any regulation promulgated “must conform with any procedural requirements imposed by Congress. . . . [A]gency discretion is limited not only by substantive, statutory grants of authority, but also by the procedural requirements which ‘assure fairness and mature consideration of rules of general application’”).

3. *In re Bogese*, 303 F.3d 1362, 1367–68 (Fed. Cir. 2002), and *Star Fruits S.N.C. v. United States*, 393 F.3d 1277, 1282 (Fed. Cir. 2005), mention a mysterious “inherent authority” of the USPTO. I know of no statutory or Supreme Court authority supporting any “inherent authority” of any scope remotely similar to that claimed by the USPTO or mentioned in these cases (see the section on the “Interpretative Column and Shortcut Procedure”). The 1999 amendment to 35 U.S.C. § 2(b)(2)(B) explicitly confined the USPTO’s rule-making authority to exercise within the Administrative Procedure Act—I see no plausible argument that any “inherent authority” of the scope suggested in *Bogese* or *Star Fruits* existed before, or can survive after, that 1999 amendment.

4. *Batterton v. Marshall*, 648 F.2d 694, 700–01 (D.C. Cir. 1980).

5. Chapter 7, 5 U.S.C. §§ 701–706, specifies ground rules for judicial review of agency action.

6. 31 U.S.C. §§ 9701 *et seq.*; OFFICE OF MGMT. & BUDGET, EXEC. OFFICE OF THE PRESIDENT, OMB CIRCULAR NO. A-25, USER CHARGES (1993). Both the Supreme Court and D.C. Circuit have noted that Circular A-25 is an authoritative interpretation of the IOAA.

7. See Ron D. Katznelson, *The U.S. Patent Office’s Proposed Fees under the America Invents Act—Part I: The Scope of the Office’s*

*Fee-Setting Authority*, 85 PAT. TRADEMARK & COPYRIGHT J. 206 (2012).

8. 44 U.S.C. §§ 3501–3520; 5 C.F.R. pt. 1320, especially §§ 1320.5, .8, .9, .11.

9. *Dole v. United Steelworkers of Am.*, 494 U.S. 26, 33 (1990).

10. 44 U.S.C. § 3506(c)(1)(A); 5 C.F.R. § 1320.8(a)(1).

11. 44 U.S.C. § 3506(c)(3)(A); 5 C.F.R. §§ 1320.3(l), .9(a).

12. 44 U.S.C. § 3506(c)(3)(C); 5 C.F.R. §§ 1320.5(d)(1), .9(c).

13. 44 U.S.C. § 3506(c)(3)(D); 5 C.F.R. § 1320.9(d).

14. 44 U.S.C. § 3506(c)(3)(B); 5 C.F.R. § 1320.9(b).

15. 5 C.F.R. § 1320.5(d)(1)(iii).

16. *E.g.*, 5 C.F.R. § 1320.10 (applying the PRA to “collections of information, other than those contained in proposed rules . . . or in current rules”).

17. 44 U.S.C. §§ 3507(a), 3512; 5 C.F.R. § 1320.6.

18. Note the anomaly—the USPTO estimates that prosecution costs are only 7 percent of the burden of new applications. This appears to be a shortcut or underestimate as discussed in the preceding paragraph. If terms in the PRA are interpreted under the OMB’s definitions stated in 5 C.F.R. part 1320, I see no plausible support for this low number.

19. 5 U.S.C. §§ 601–612.

20. *Id.* § 602.

21. *Id.* § 504 (fees for intra-agency proceedings); 28 U.S.C. § 2412 (fees for court proceedings).

22. Exec. Order No. 12,866, 58 Fed. Reg. 51,735 (Oct. 4, 1993). Additional guidance for agencies in complying with their obligations under the Executive Order may be found at the OMB Office of Information and Regulatory Affairs website, <https://obamawhitehouse.archives.gov/omb/oira>. Of particular importance is OFFICE OF MGMT. & BUDGET, EXEC. OFFICE OF THE PRESIDENT, OMB CIRCULAR NO. A4, REGULATORY ANALYSIS (2003).

23. The 2006 continuations, claims, and information disclosure statement rules were split into three separate rule packages, and the estimate for each of the three was under \$100 million.

24. Surprisingly, the USPTO has performed a regulatory impact analysis only twice in history, but neither analyzes the proposed regulation in the outcome-neutral, analytical way directed by Circular A4.

25. 2 U.S.C. §§ 1532 *et seq.*

26. 5 U.S.C. §§ 801 *et seq.*

27. Pub. L. No. 107-347, 116 Stat. 2899 (codified at 44 U.S.C. § 3501 note).

28. Pub. L. No. 106-554, § 515, 114 Stat. 2763 (2000) (codified at 44 U.S.C. §§ 3504 note, 3516 note); Guidelines for Ensuring and Maximizing the Quality, Objectivity, Utility, and Integrity of Information Disseminated by Federal Agencies, 67 Fed. Reg. 8452 (Feb. 22, 2002); *Information Quality Guidelines*, USPTO, <http://www.uspto.gov/web/offices/ac/ido/ifoqualityguide.html> (last modified Jan. 13, 2015).

29. OFFICE OF MGMT. & BUDGET, EXEC. OFFICE OF THE PRESIDENT, OMB BULL. NO. 07-02, FINAL BULLETIN FOR AGENCY GOOD GUIDANCE PRACTICES (2007), *reprinted in* 72 Fed. Reg. 3432 (Jan. 25, 2007).

30. Memorandum from Dominic J. Mancini, Acting Adm’r, Office of Info. & Regulatory Affairs, to Regulatory Policy Officers at Executive Departments and Agencies, Interim Guidance Implementing Section 2 of the Executive Order of January 30, 2017, Titled “Reducing Regulation and Controlling Regulatory Costs” (Feb. 2, 2017),



<https://www.whitehouse.gov/the-press-office/2017/02/03/interim-guidance-implementing-section-2-executive-order-january-30-2017> (“Agencies should continue to adhere to OMB’s 2007 Memorandum on Good Guidance Practices.”).

31. In these two respects, the Good Guidance Bulletin is merely a restatement of the law arising under the APA, Housekeeping Act, etc.

32. OMB BULL. No. 07-02, *supra* note 29, § II(1)(b).

33. *Id.* § III(1).

34. Rules that should have been promulgated under statutory “legislative” procedure but weren’t are invalid.

35. *Tafas v. Doll*, 559 F.3d 1345, 1355 (Fed. Cir.), *vacated*, 328 F. App’x 658 (Fed. Cir. 2009); *James V. Hurson Assocs., Inc. v. Glickman*, 229 F.3d 277, 281–82 (D.C. Cir. 2000) (elimination of face-to-face hearings is “procedural” because it does not “encode the substantive value judgment” for activities outside the agency).

36. JEFFREY S. LUBBERS, A GUIDE TO FEDERAL AGENCY RULE-MAKING pt. II, § 1(D)(2) (4th ed. 2006); RICHARD J. PIERCE, ADMINISTRATIVE LAW § 6.5 (5th ed. 2010).

37. *Dir., Office of Workers’ Comp. Programs, Dep’t of Labor v. Greenwich Collieries*, 512 U.S. 267, 271, 275–81 (1994).

38. Notice and comment starts a row of procedural dominos. It triggers applicability of Executive Order 12,866 and the RFA. If a rule calls for submission of paperwork, any “rule of general applicability” (whether promulgated through notice and comment or anything else) triggers the need for clearance under the PRA. Agencies have large incentives to shortcut.

39. *Tafas v. Dudas*, 541 F. Supp. 2d 805, 812 (E.D. Va. 2008), *criticized by Tafas v. Doll*, 559 F.3d at 1352 n.3, *district court reinstated sub nom. Tafas v. Kappos*, 586 F.3d 1369, 1371 (Fed. Cir. 2009).

40. Several other cases have been to the Federal Circuit on the “interpretative” issue, but they have no bearing on the “procedural” rule making issue.

41. For example, 9 U.S.C. § 306 governs procedural rules of an arbitration commission in the State Department, and uses the phrase “by regulation in accordance with section 553 of title 5.” The State Department treats this as a mandatory obligation to use notice and comment for procedural rules. *E.g.*, Office of the Assistant Legal Adviser for Private International Law; InterAmerican Convention on International Commercial Arbitration Rules of Procedure, 64 Fed. Reg. 53,632 (proposed Oct 4, 1999) (“Pursuant to [9 U.S.C. § 306], the rulemaking procedures of [5 U.S.C. § 553] apply to any determination to effectuate such a modification or amendment within the United States. In accordance with those procedures, notice must be published in the Federal Register, time for comment provided, and the final rule published for 30 days before the rule may become effective.”).

42. *Adarand Constructors, Inc. v. Slater*, 528 U.S. 216, 221–22 (2000).

43. Richard Belzer, a former OMB official who spent 10 years overseeing agency rule making, analyzes the USPTO’s “substandard” compliance with rule making law in April 2011 and April 2012 comment letters to the USPTO, available at <https://www.uspto.gov/sites/default/files/patents/law/comments/belzer14apr2011.pdf> and [https://www.uspto.gov/sites/default/files/aia\\_implementation/comment-regulatory-checkbook.pdf](https://www.uspto.gov/sites/default/files/aia_implementation/comment-regulatory-checkbook.pdf).

44. For example, a 2010 Notice of Proposed Rulemaking cited *Merck & Co. v. Kessler*, 80 F.3d 1543 (Fed. Cir. 1996), for the proposition that the USPTO need not use notice and comment for procedural rules. 75 Fed. Reg. 69,828, 69,843 (Nov. 15, 2010). But nothing remotely like the issue is mentioned in *Merck*. Despite the error being pointed out in public

comment letters, the USPTO did not correct the error in the final rule notice. 76 Fed. Reg. 72,270, 72,291 (Nov. 22, 2011). Recent rule making notices cite *Cooper Technologies Co. v. Dudas*, 536 F.3d 1330, 1336 (Fed. Cir. 2008)—but *Cooper* only discusses *interpretative* rules (which of course do not require notice and comment), and decides nothing relating to *procedural* rules, the proposition for which the USPTO cites it.

45. Caspar W. Ooms, *The United States Patent Office and the Administrative Procedure Act*, 38 TRADEMARK REP. 149 (1948), *cited in* 76 Fed. Reg. at 72,291.

46. 467 U.S. 837 (1984).

47. 519 U.S. 452, 461 (1997).

48. *Cooper*, 536 F.3d at 1337–38 (citations omitted) (quoting *Chevron*, 467 U.S. at 843 n.9, 843–44). The inquiries under *Chevron* and *Auer* are slightly different. But the analytical similarities overshadow the differences. For this short article, we will gloss over the differences, and treat *Chevron* and *Auer* together.

49. *United States v. Mead Corp.*, 533 U.S. 218, 230–31 (2001) (a U.S. Customs ruling letter is not entitled to *Chevron* deference); *Christensen v. Harris Cty.*, 529 U.S. 576, 587 (2000) (agency rules promulgated without hearing or notice and comment are entitled to only *Skidmore* deference).

50. LUBBERS, *supra* note 36, at pt. II, § 1(D)(3)(e), at 103. The two leading cases on the dividing line between “interpretative” and “legislative” rules from the D.C. Circuit are *Am. Mining Congress v. Mine Safety & Health Admin.*, 995 F.2d 1106, 1112 (D.C. Cir. 1993), and *Gen. Motors Corp. v. Ruckelshaus*, 742 F.2d 1561, 1565 (D.C. Cir. 1984) (en banc) (Wald, J., joined by Ginsberg and Scalia, JJ.). One oft-cited paper is John Manning, *Nonlegislative Rules*, 72 GEO. WASH. L. REV. 893, 916 (2004), and both the Pierce and Lubbers treatises have extensive discussions.

51. *Mission Group Kan., Inc. v. Riley*, 146 F.3d 775, 781 (10th Cir. 1998) (quoting Richard A. Posner, *The Rise and Fall of Administrative Law*, 72 CHI.-KENT L. REV. 953, 962 (1997)).

52. *In re Stepan Co.*, 660 F.3d 1341, 1345 (Fed. Cir. 2011) (“[T]he [US]PTO’s regulatory interpretation is due no deference in view of the agency’s statutory obligation under the Administrative Procedure Act (‘APA’) to provide prior notice to the applicant of all ‘matters of fact and law asserted’ prior to an appeal hearing before the Board. 5 U.S.C. § 554(b)(3). Allowing the Board unfettered discretion to designate a new ground of rejection—when it relies upon facts or legal argument not advanced by the examiner—would frustrate the notice requirements of the APA.”).

53. LUBBERS, *supra* note 36, at pt. II, § 1(D)(3)(c), at 82.

54. *Chrysler Corp. v. Brown*, 441 U.S. 281, 315 (1979) (holding that after an agency characterizes a rule as “interpretative,” “a court is not required to give effect to an interpretative regulation”).

55. LUBBERS, *supra* note 36, at pt. II, § 1(D)(3)(c), at 84; PIERCE, *supra* note 36, § 6.4, at 435.

56. *Skidmore v. Swift & Co.*, 323 U.S. 134, 140 (1944) (“We consider that the rulings, interpretations and opinions of the [agency], while not controlling upon the courts by reason of their authority, do constitute a body of experience and informed judgment to which courts and litigants may properly resort for guidance. The weight of such a judgment in a particular case will depend upon the thoroughness evident in its consideration, the validity of its reasoning, its consistency with earlier and later pronouncements, and all those factors which give it power to persuade, if lacking power to control.”).

57. *Yale-New Haven Hosp. v. Leavitt*, 470 F.3d 71, 80 (2d Cir. 2006) (noting that “an interpretative rule binds an agency’s



employees, including its ALJs”).

58. *E.g.*, *Appalachian Power Co. v. Env'tl. Protection Agency*, 208 F.3d 1015, 1020–21 (D.C. Cir. 2000).

59. *Cnty. Nutrition Inst. v. Young*, 818 F.2d 943, 946 (D.C. Cir. 1987); *Brock v. Cathedral Bluffs Shale Oil Co.*, 796 F.2d 533, 536–37 (D.C. Cir. 1986) (Scalia, J.).

60. *Bechtel v. FCC*, 10 F.3d 875 (D.C. Cir. 1993) (finding that an agency policy statement is not due even *Skidmore* deference); *Vietnam Veterans of Am. v. Sec'y of the Navy*, 843 F.2d 528 (D.C. Cir. 1988) (holding that policy statements do not bind courts).

61. *Vitarelli v. Seaton*, 359 U.S. 535, 545 (1959) (holding that an agency action was “illegal and of no effect” because the agency’s dismissal “fell substantially short of the requirements of the applicable department regulations”); *Service v. Dulles*, 354 U.S. 363, 386–88 (1957) (finding that an unpublished manual was binding, and violation of that manual was a ground for setting aside agency action).

62. *Berkovitz v. United States*, 486 U.S. 531, 544 (1988) (concluding that “[t]he agency has no discretion to deviate” from the procedure mandated by its regulatory scheme); OMB BULL. NO.

07-02, *supra* note 29.

63. *In re Kaghan*, 387 F.2d 398, 401 (C.C.P.A. 1967) (“[W]e feel that an applicant should be entitled to rely not only on the statutes and Rules of Practice but also on the provisions of the MPEP in the prosecution of his patent application.”).

64. OMB BULL. NO. 07-02, *supra* note 29, § II(1)(b).

65. *Am. Farm Lines v. Black Ball Freight Serv.*, 397 U.S. 532, 539 (1970).

66. *City of Fredericksburg, Va. v. Fed. Energy Regulatory Comm’n*, 876 F.2d 1109, 1112 (4th Cir. 1989) (“*American Farm Lines* held that an administrative agency has discretion to relax or modify internal housekeeping regulations . . . . However, the exception announced in *American Farm Lines* does not apply if the agency regulations were intended ‘to confer important procedural benefits upon individuals’ or other third parties outside the agency. The applicability *vel non* of *American Farm Lines* thus turns on whether the regulation . . . was designed to aid [the agency] or, instead, to benefit outside parties.” (citations omitted)).