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Why PTAB Attys Should Watch The High Court's SEC Fight

By **Dani Kass**

Law360 (July 7, 2023, 9:10 PM EDT) -- The U.S. Supreme Court's recent decision to review the constitutionality of the U.S. Securities and Exchange Commission's administrative courts may invoke a sense of deja vu for attorneys who practice at the Patent Trial and Appeal Board, but that doesn't mean patent attorneys should disregard it as duplicative.

The dispute in Jarkesy v. SEC involves questions that are largely settled in patent law after the high court's 2018 Oil States decision upholding the constitutionality of America Invents Act reviews and its 2021 Arthrex ruling allowing PTAB judges to make decisions so long as there is some oversight. However, the possibility of a broad ruling in the securities case and the PTAB's extended use of discretionary denials signal that the board may face further challenges depending on the high court's final ruling.

"It's very difficult to read the tea leaves on this one," said Crowell & Moring LLP partner Paul Keller. "But there is comfort in the idea that Arthrex is out there, Oil States is out there."

The SEC case stems from the Fifth Circuit's holding that the SEC's in-house courts deprive those facing agency actions of a jury trial and rely on unconstitutionally delegated legislative power. Hedge fund manager George R. Jarkesy Jr. had raised those arguments when appealing a fine coming from an in-house securities fraud proceeding.

The SEC petitioned the Supreme Court in April, and the justices agreed on June 30 to hear the dispute.

Here's a look at how the case's three questions challenging the powers Congress gave to the SEC tie into patent law.

Do internal SEC courts violate the Seventh Amendment?

Attorneys who spoke with Law360 largely agreed that this first question was settled in patent law by Oil States, in which the Supreme Court ruled 7-2 that the executive branch tribunal was allowed to invalidate patents, as they are public rights that can be revoked by an agency. It also held that there was no violation of the Seventh Amendment right to a jury trial.

"Oil States pretty squarely held that patent rights are public rights," said Andrew Pincus of Mayer Brown LLP. "It's probably going to be some kind of obstacle extending what happens in Jarkesy to the patent context."

The securities case will likely look back to the Supreme Court's ruling in Oil States, said Knobbe Martens partner Ted Cannon. Indeed, the SEC's petition cites Oil States about 20 times.

But that doesn't mean the securities case can be written off entirely by PTAB practitioners.

A distinct concern in Oil States was "left in limbo" since no party tried to interpret it, and it has come up again in the Jarkesy briefing, noted Ken Weatherwax of Lowenstein & Weatherwax LLP. This deals with Granfinanciera SA v. Nordberg, a 1989 case in which the Supreme Court said Congress can't let administrative courts handle "traditional legal claims" in lieu of juries.

The ruling in Oil States notes that while Granfinanciera was invoked, no party tried to distinguish whether a congressional decision could be proper under the section of the Constitution establishing the judicial branch — Article III — but not meet the Seventh Amendment.

"The Seventh Amendment is a tricky issue to apply to cases where you have the option of an issue being decided in court or by an agency," Weatherwax said. "You might have implications for whether one can overrule the other."

Can the SEC choose its own forum to pursue cases?

The second question to be reviewed by the Supreme Court is the one with the least precedent in patent law, and has the most possibility for an impact. It deals with the nondelegation doctrine, whereby Congress needs an "intelligible principle" — meaning guidelines or boundaries — to delegate its power to another branch of government.

The Fifth Circuit had found that Congress unconstitutionally allowed the SEC to decide whether to bring a case in its own courts or district courts, since there was no intelligible principle. In those cases, the SEC serves as both prosecutor and decision maker.

At the PTAB, however, private parties accused of infringement largely have a choice between bringing a patent challenge in district court or before a panel of administrative patent judges.

There is a notable exception that allows patent judges to use their discretion to deny petitions that otherwise seem meritorious. The most relevant example is the ability to turn petitions down based on the status of related litigation in another forum.

"If the court were to bring back a strong form of the nondelegation doctrine and say that Congress has to give agencies some guidance when it comes to making some category of decision — you can imagine that has an impact on discretionary denial practice," said Will Milliken of Sterne Kessler Goldstein & Fox PLLC.

It would not be surprising to have someone then argue that discretionary denials can't meet the intelligible principle test, Milliken said.

But fellow Sterne Kessler director Jon Wright said Congress' decision to make PTAB institution decisions unappealable could be that principle.

"To suggest that there's no intelligible principle behind what the director is doing, I think that's up for

debate," Wright said. "It could just be that Congress wanted this to be the one place where the director can exercise their authority and implement policy."

Jarkesy's opposition brief said legislative action should be defined as "purpose and effect of altering the legal rights, duties and relations of persons," which if adopted would have consequences far beyond the PTAB, Milliken noted.

"We'd be talking about really big impacts on virtually every agency, because every agency has decisions that end up affecting people's rights," Milliken said, adding that agencies have to make calls "because Congress can't legislate on everything. We're going to be talking a lot more than the [U.S. Patent and Trademark Office]. We'll be talking about big changes on how our government functions."

Are SEC judges unconstitutionally protected?

The final question looks at whether the SEC's administrative law judges' just cause job protections are unconstitutional, given that their supervisors also have that protection. The Fifth Circuit said this was an issue, since the president doesn't have the direct authority to fire the judges.

The question mirrors the one in U.S. v. Arthrex, in which the Supreme Court reviewed the Federal Circuit's holding that administrative patent judges were improperly appointed and that taking away job protections should fix the problem. The justices instead required that the Patent and Trademark Office director have stronger oversight over the judges, while allowing the job protections to stay in place.

Attorneys said Arthrex should securely cover the third question, keeping it from affecting patents.

"That could have maybe been a really interesting question if the Federal Circuit remedy in Arthrex remained in place," Milliken said.

If the Supreme Court ends up finding the SEC judges' job protections unconstitutional in the securities case, there will likely be at least one attorney who tries to invoke it in the patent context, Crowell's Keller said.

How far such an argument would go, however, is a question for the future.

The case is SEC v. Jarkesy, case number 22-859, in the Supreme Court of the United States.

--Additional reporting by Jessica Corso, Jon Hill and Ryan Davis. Editing by Alanna Weissman.
