



Supreme Court Preserves Patent Trial and Appeal Board, but with Greater Executive Oversight

June 29, 2021

In 2011, Congress [enacted](#) a major patent reform bill, the [Leahy–Smith America Invents Act](#) (AIA). Among other things, the AIA created new adversarial administrative proceedings within the Patent and Trademark Office to review the validity of already-issued patents and cancel those that should not have been issued. The [Patent Trial and Appeal Board](#) (PTAB) conducts these proceedings, which include [inter partes review](#) (IPR) (as well as other procedures like [post-grant review](#)). PTAB [consists](#) primarily of hundreds of administrative patent judges (APJs), who sit in panels of three to rule on the validity of patents challenged through IPR. The Secretary of Commerce (the Secretary), in consultation with the Director of the Patent and Trademark Office (the Director), [appoints](#) APJs to the PTAB. Because of the economic importance of patent rights, millions or even [billions of dollars](#) may be at stake in these proceedings.

The Supreme Court agreed to hear [United States v. Arthrex](#) to determine whether the authority exercised by APJs was consistent with the Constitution’s Appointments Clause. By a vote of 5 to 4, the Court [held](#) that APJs exercised authority that was “incompatible with their appointment by the Secretary to an inferior office.” In the majority’s view, only principal officers nominated by the President and confirmed by the Senate may [issue](#) “final decision[s] binding the Executive Branch” in administrative adjudications like IPRs. APJs, however, were appointed as inferior executive officers by the Secretary, and no presidentially appointed officer—such as the Director—had [sufficient power](#) to review PTAB decisions. In short, the Court held that the structure of the PTAB violated the Constitution because inferior officers may [not](#) exercise “unreviewable executive power.”

Despite this constitutional flaw, the Court did not invalidate the PTAB or the administrative processes created by the AIA. Instead, a different majority of Justices concluded that the appropriate remedy in [Arthrex](#) was to [grant](#) the Director unilateral power to review PTAB decisions. Although the AIA specifically [insulated](#) PTAB decisions from further review within the executive branch—providing that “[o]nly the [PTAB] may grant rehearings”—the Court severed this statutory provision, [permitting](#) the Director “discretion” to rehear PTAB decisions. In this way, the Court remedied the constitutional problem while preserving IPR and the PTAB.

Congressional Research Service

<https://crsreports.congress.gov>

LSB10615

This Sidebar first reviews the legal background on the Appointments Clause and the PTAB, and describes the facts and history of the dispute in *Arthrex*. Next, it analyzes the Court’s opinions in *Arthrex* and possible considerations for Congress in the wake of the decision.

Legal Background

The Appointments Clause

The [Appointments Clause](#)—Article II, Section 2, Clause 2 of the Constitution—provides the method of appointment for “Officers of the United States,” which include cabinet-level officials, agency heads, and, in some circumstances, federal employees who preside over agency adjudications. The Clause does not [apply](#) to those who are “simply employees” of the federal government—only to “officers” who “occupy a continuing position created by law” and [exercise](#) “significant authority pursuant to the laws of the United States.” If an officer rendering an agency decision was not appointed in a proper manner, an affected party challenging the appointment may be [entitled to](#) a new decision by a properly appointed adjudicator.

The default method of appointment for federal officers under the Appointments Clause is presidential appointment with the advice and consent of the Senate. However, the Clause also creates an exception to that procedure, [providing](#) that Congress may vest the appointment of “inferior [o]fficers” in “the President alone, in the Courts of Law, or in the Heads of Departments.” Thus, department heads (such as the Secretary) may appoint *inferior officers*, when Congress grants such authority by statute. Only the President, however, may appoint non-inferior “Officers of the United States”—whom the Supreme Court [refers](#) to as *principal officers*—with the Senate’s advice and consent.

In short, there are two relevant considerations in determining the status of a federal worker for Appointments Clause purposes: (1) whether that person is an “officer” or a “[mere employee](#)”; and (2) if an officer, whether that person is a “principal” or an “inferior” officer. *Arthrex* concerned the second question: all parties [agreed](#) that APJs are not employees, but they disputed whether APJs are principal or inferior officers.

The Supreme Court has [not](#) set forth an “exclusive criterion for distinguishing between principal and inferior officers for Appointments Clause purposes.” However, two decisions set forth the main considerations for this analysis. In *Morrison v. Olson*, the Supreme Court took a multifactor approach in deciding whether an independent counsel appointed under the Ethics in Government Act was a principal or an inferior officer. The Court [reasoned](#) that the independent counsel was “clearly” an inferior officer because (1) he was “subject to removal by a higher Executive Branch official”; (2) the statute authorized him “to perform only certain, limited duties”; and (3) his office was limited in “jurisdiction” and “tenure.”

[More recently](#), the Court has applied the approach in *Edmond v. United States*, emphasizing the degree to which a particular official was supervised by other executive officers in the formal chain of command. *Edmond* [stated](#) that “[w]hether one is an ‘inferior’ officer depends on whether he has a superior.” Thus, “inferior officers” are [those](#) “whose work is directed and supervised at some level by others who were appointed by Presidential nomination with the advice and consent of the Senate.” The *Edmond* Court [concluded](#) that the military judges whose appointments were in question had the requisite supervision to qualify as inferior officers. A higher-level official [could](#) remove military judges from their judicial assignments “without cause”—a “powerful tool for control.” Additionally, military judges [had](#) “no power to render a final decision” on the federal government’s behalf “unless permitted to do so by other Executive officers.”

Administrative Patent Judges

Any person—other than the patent holder—may [petition](#) the Director to institute an inter partes review (IPR) of an existing patent. The purpose of IPR is to [reconsider](#) whether the claims of an issued patent

meet the novelty and nonobviousness requirements for patentability. If instituted, a panel of three APJs oversees the IPR proceeding. APJs may **compel** testimony and production of documents; rule on the **admissibility** of evidence; **impose** sanctions; hold an oral **hearing**; and ultimately **issue** a written decision on the validity of the patent in dispute. If an APJ panel rules that a patent is invalid, a party may **appeal** that determination directly to the U.S. Court of Appeals for the Federal Circuit. Unless the Federal Circuit overturns the PTAB decision, the patent claims at issue are **canceled**; that is, they no longer have any legal effect.

APJs are **appointed** by the Secretary of Commerce in consultation with the Director of the Patent and Trademark Office. The President **appoints** both the Secretary and the Director **with** the advice and consent of the Senate. The Director is a **member** of the PTAB, and maintains a degree of authority over the APJs. The Director may, among other things, determine the **composition** of APJs on each PTAB panel; issue **regulations** governing the conduct of PTAB proceedings; or designate a PTAB decision as **precedential** and thus binding on future panels. That said, the Director lacks direct statutory authority to overturn APJs' decisions in IPR proceedings; review is available **only** by the PTAB itself or by appeal to the Federal Circuit. In addition, neither the Secretary nor the Director can remove an APJ **without cause**.

The Dispute in *Arthrex*

Arthrex, Inc. **owns** a patent relating to a knotless suture securing assembly used in medical surgery. Smith & Nephew, Inc. were accused of infringing Arthrex's patent. In response, Smith & Nephew **sought** the cancellation of Arthrex's patent through IPR. A panel of three APJs heard the IPR and **determined** Arthrex's patent was invalid and therefore should be canceled. Arthrex appealed to the Federal Circuit, **arguing** the appointment of the APJs violated the Appointments Clause because they are principal officers, but were not appointed by the President with the advice and consent of the Senate.

The Federal Circuit **agreed** with Arthrex, holding that APJs are principal officers because of the significant "rights and responsibilities" they **hold**. In determining whether APJs are principal or inferior officers, the Federal Circuit interpreted *Edmond* as **emphasizing** three criteria: whether the superior has the power to review, to supervise, and to remove the purportedly inferior officer. The Federal Circuit **analyzed** each of those factors to determine whether the Secretary and the Director exercised sufficient control over the APJs to render the APJs inferior officers. The Federal Circuit found that two factors weighed in favor of finding that APJs are principal officers: the Director **cannot** "single-handedly review, nullify or reverse" a panel decision or unilaterally **rehear** a decision; and the Director could only remove an APJ **for** "such cause as will promote the efficiency of the service." The other factor weighed in favor of inferior officer status, as the Federal Circuit **determined** that the Director may exercise significant supervisory power by promulgating regulations and policy interpretations governing how APJs conduct IPRs. On balance, after considering these factors, the court concluded that APJs are principal officers who were not appointed in the constitutionally required manner.

To remedy the violation, the Federal Circuit **took** what it perceived to be the "narrowest viable approach" to correcting the constitutional defect while preserving the statutory scheme Congress enacted. It **severed** statutory for-cause removal protections as applied to APJs, **vacated** the underlying PTAB decision, and **remanded** the case for a decision by a panel of properly appointed APJs. *Arthrex*, *Smith & Nephew*, and the federal **government** all petitioned for Supreme Court review. The Court granted the petitions to review **both** the Federal Circuit's merits holding on the appointments issue and its choice of remedy.

The *Arthrex* Decision

The Court's Appointments Clause Analysis

Chief Justice Roberts (joined by Justices Alito, Gorsuch, Kavanaugh, and Barrett) delivered the Court's opinion on the merits of the Appointments Clause issue. Unlike the Federal Circuit, the Court did not explicitly find that APJs were principal officers under the PTAB structure Congress enacted in the AIA. Rather, the majority found a constitutional violation in the **mismatch** between the unreviewable decisionmaking authority exercised by APJs and their appointment to an inferior office, holding that “[o]nly an officer properly appointed to a principal office may issue a final decision binding the Executive Branch in [an IPR].”

Like the Federal Circuit, the Supreme Court relied primarily on *Edmond* in considering whether APJs are inferior or principal officers. As previously noted, *Edmond* held that certain military judges were inferior officers **because** their work was “directed and supervised at some level by” presidentially appointed executive officers. In contrast, Chief Justice Roberts **found** that “review by a superior executive officer” was lacking with respect to APJs. The majority reasoned that because only the PTAB itself (and not the Director) can grant rehearing of PTAB decisions, APJs effectively **have** the final word in the executive branch on PTAB's patentability decisions in IPRs. Although the Director has a variety of tools to control APJs (e.g., setting their pay, panel assignment, the decision to institute IPR, and IPR regulations), the Court found that these less-direct means of control, if exploited as “machinations” to affect IPR outcomes, would **only** “blur the lines of accountability” for PTAB decisions within the executive branch. As a result, the majority **held** that “the unreviewable executive power exercised by APJs is incompatible with their status as inferior officers.”

Justice Thomas (joined by Justices Breyer, Sotomayor, and Kagan) dissented on the merits issue, holding that the PTAB's structure was consistent with the Appointments Clause. In Justice Thomas's view, APJs are plainly inferior officers for two main reasons. First, they **are** “lower in rank to at least two different officers”—the Director and the Secretary. Second, APJs are “**functionally**” inferior because the Director has a number of tools to supervise and control APJs. Comparing the oversight of APJs to the judges at issue in *Edmond*, Justice Thomas **argued** that the Director's functional control over APJs was “greater” than in *Edmond*: the Director decides in the first instance whether to institute an IPR at all, controls which APJs are assigned to the panel, and can add additional members (including himself) to PTAB panels.

Justice Breyer (joined by Justices Sotomayor and Kagan) joined most of Justice Thomas's dissent, but also wrote separately to emphasize his view that the Court's recent separation-of-powers jurisprudence had **taken** a “mistake[n]” turn toward inflexible formalism. Justice Breyer argued that the Appointments Clause **grants** Congress “a degree of leeway” in establishing and empowering federal offices, and that the Court should “take account of, and place weight on, why Congress enacted a particular statutory limitation” and consider the “practical consequences” of that choice. In this case, Justice Breyer argued that the Court should have **considered** the “technical nature of patents, the need for expertise, and the importance of avoiding political interference” as reasons supporting Congress's decision to give APJs a degree of independence from politics.

The Court's Analysis of Severability and Remedy

Chief Justice Roberts delivered a plurality opinion (joined by Justices Alito, Kavanaugh, and Barrett) on the appropriate remedy for the Appointments Clause violation. The Chief Justice rejected *Arthrex*'s request to hold the entire IPR regime unconstitutional, **instead** opting to “sever[] the unconstitutional portion” of the statute while preserving the rest. Because APJs **are** inferior officers “[i]n every respect save the insulation of their decisions from review within the Executive Branch,” the Court reasoned, the

proper course was to [allow](#) the Director to review final PTAB decisions. The Court accomplished this by holding that 35 U.S.C. § 6(c)—which limits the power to rehear PTAB decisions—was [unenforceable](#) as applied to the Director. The Court’s remedy thus differed both from the Federal Circuit (which chose to allow the Secretary at-will removal power over APJs to cure the constitutional violation) and the more sweeping remedy urged by *Arthrex*.

To provide a majority on the appropriate remedy, Justices Breyer (joined by Justices Sotomayor and Kagan) concurred in that part of the Court’s judgment. Although these Justices did not agree that there was a constitutional violation at all, they did agree that granting the Director power to review PTAB decisions would [address](#) the constitutional violation identified by the majority.

Justice Gorsuch joined Chief Justice Roberts’s majority opinion on the merits, but dissented on the remedial issue. In Justice Gorsuch’s view, the Supreme Court’s “severance” doctrine—in which the Court excises part of a statute to cure a constitutional problem—is [inappropriate](#) when there is more than “one possible way” to cure the constitutional problem and Congress has not provided any specific direction. Justice Gorsuch urged the Court to instead follow a “[traditional](#)” approach of declining to enforce the statute in the case at hand—effectively allowing for challengers to vacate PTAB decisions until the constitutional problem is fixed—in order to avoid having the Court [guess](#) “what a past Congress would have done if confronted with a contingency it never addressed.”

Possible Consequences of *Arthrex*

The consequences of *Arthrex* for the PTAB appear straightforward: APJs will continue to decide IPR proceedings; the Director has discretionary power to review their decisions. Observers [expect](#) that the Patent and Trademark Office will soon issue rules or guidance as to how the Director will exercise this rehearing authority, which commentators expect will [likely](#) extend to [at least](#) post-grant review and covered business method reviews as well.

While the *Arthrex* ruling was [limited](#) to IPR, the case raises several broader questions of possible interest to Congress because of its potential effects on agency adjudications outside of the patent context.

First, the *Arthrex* majority [identified](#) two boards that are similar to the PTAB. The first is the [Civilian Board of Contract Appeals](#), an “independent tribunal” within the General Services Administration that “resolve[s] contract disputes between government contractors and agencies.” Board members are [appointed](#) by the Administrator of General Services (i.e., not through advice-and-consent) and can only be removed for cause. The second board named in the decision is the [Postal Service Board of Contract Appeals](#), whose judges are [appointed](#) by the Postmaster General. Both boards are authorized to issue “[final](#)” written decisions. Although these decisions may be [appealed](#) to the Federal Circuit, the relevant statute does not authorize review by a principal officer in the *executive branch*. Thus, “[w]hatever [distinct](#) issues” these boards might present, the absence of “[principal officer review](#)” may lead to legal challenges based on the reasoning of *Arthrex*.

Second, although the Supreme Court did not mention it in the *Arthrex* opinion, the Federal Circuit repeatedly [compared](#) APJs to [Copyright Royalty Judges](#) (CRJs) in its decision. In 2012, the D.C. Circuit [ruled](#) that CRJs, who “set the terms of exchange for musical works” through royalty rate determinations, were principal officers. In that case, *Intercollegiate Broadcasting System v. Copyright Royalty Board*, the court [reasoned](#) that CRJs were “supervised in some respects” by the Librarian of Congress (who [appoints](#) them) and by the Register of Copyrights, “but in ways that leave broad discretion.” In particular, the Librarian, a principal officer, could only [remove](#) CRJs “for misconduct or neglect of duty.” Although the Register, who is appointed by the Librarian, “reviews and corrects any legal errors in the CRJs’ determinations,” such review on “pure issues of law,” the court [determined](#), “plainly leaves vast discretion over the rates and terms.” Accordingly, the court [concluded](#) that “the Register’s control over the most

significant aspect of the CRJs’ determinations—the rates themselves—is likely to be quite faint.” The D.C. Circuit [invalidated](#) only the portion of the statute limiting the Librarian’s ability to [remove](#) CRJs, thus rendering CRJs, in the court’s view, inferior officers. The Federal Circuit in *Arthrex* [modeled](#) its remedy after this approach, but the Supreme Court [suggested](#) that this resolution was inadequate for APJs because it failed to subject APJs’ decisions to meaningful executive review. Accordingly, while the “direction and control” over CRJs’ [rate determinations](#) might be distinguishable from APJs in IPR, there could be a renewed focus on the constitutionality of CRJs’ appointments as inferior officers as a result of the *Arthrex* decision.

Third, the *Arthrex* opinion may have ramifications for other types of agency decisions. In *Lucia v. SEC*, the Court [clarified](#) that administrative law judges (ALJs) need not have the authority to render final, binding decisions in order to be officers—their duties and discretion in presiding over adversarial hearings were enough to make them inferior officers. *Arthrex* implies that adjudicators whose decisions are not only potentially final, but also [unreviewable](#) within the executive branch, may be principal officers. At the same time, the plurality [cautioned](#) that “[m]any decisions by inferior officers do not bind the Executive Branch to exercise executive power in a particular manner” and did not opine on “supervision outside the context of adjudication.” In these circumstances, it is unclear whether this rule would apply in agency proceedings that do not share the [trial-like procedures](#) of IPR. For example, within the Social Security Administration (SSA), the Appeals Council issues the “[final action](#)” for the agency in [appeals](#) from certain benefits determinations. According to [SSA](#), at least since July 2018, administrative appeals judges on the Appeals Council have been [appointed](#) by the Commissioner or Acting Commissioner of the SSA. Because these administrative appeals judges are appointed as inferior rather than principal officers, *Arthrex* could provide [another basis](#) for challenging [SSA](#) benefits determinations under the Appointments Clause, though the nature of these SSA determinations could be distinguishable.

Thus, while open questions remain, *Arthrex* adds another marker on the line between principal and inferior officers.

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