**Executive Summary: Purpose:** The Office is proposing to revise the rules of practice pertaining to the patent term adjustment provisions of 35 U.S.C. 154(b) in view of the decision by the Federal Circuit in *Supernus Pharm., Inc. v. Iancu* (*Supernus*). The Federal Circuit in *Supernus* held that a reduction of patent term adjustment must be equal to the period of time during which the applicant failed to engage in reasonable efforts to conclude prosecution of the application. The Office is proposing to revise the provisions pertaining to reduction of patent term adjustment for alignment with the Federal Circuit decision in *Supernus*.

**Summary of Major Provisions:**

- **Proposed Changes:** The Office is proposing to revise the regulations pertaining to a reduction of patent term adjustment due to a failure of an applicant to engage in reasonable efforts to conclude processing or examination of an application set forth in 37 CFR 1.704. Several provisions in 37 CFR 1.704 specify a period of reduction corresponding to the consequences of the Office of applicant's failure to engage in reasonable efforts to conclude prosecution i.e., 37 CFR 1.703(c)(2), (c)(3), (c)(6), and (c)(9) rather than "the period from the beginning to the end of the applicant's failure to engage in reasonable efforts to conclude prosecution" as provided for in *Supernus*. 913 F.3d at 1359. Therefore, the Office is proposing to revise these provisions of 37 CFR 1.704 for consistency with the Federal Circuit's decision in *Supernus*.

**Discussion:**

The amendments proposed in this rulemaking are designed to provide consistency with the Federal Circuit's decision in *Supernus* and to clarify the rules regarding the calculation of the period of time during which an applicant failed to engage in reasonable efforts to conclude processing or examination of an application. The amendments aim to provide a clear and consistent approach for calculating the period of time during which an applicant failed to engage in reasonable efforts to conclude processing or examination of an application, as required by 35 U.S.C. 154(b).

**Costs and Benefits:**

This rulemaking is not economically significant under Executive Order 12866 (Sept. 30, 1993).
an applicant to engage in reasonable efforts to conclude processing or examination of an application.” 35 U.S.C. 154(b)(2)(C)(i) and (iii). The Office implemented the AIPA patent term adjustment provisions of 35 U.S.C. 154(b), including setting forth circumstances that constitute a failure of an applicant to engage in reasonable efforts to conclude processing or examination of an application and resulting in a reduction of any patent term adjustment, in a final rule published in September of 2000. See Changes to Implement Patent Term Adjustment Under Twenty-Year Patent Term, 65 FR 56365 (Sept. 18, 2000) (AIPA patent term adjustment final rule). The regulations establishing the circumstances that constitute a failure of an applicant to engage in reasonable efforts to conclude processing or examination of an application and resulting reduction of any patent term adjustment are set forth in 37 CFR 1.704.

In January 2019, the Federal Circuit issued a decision in Supernus pertaining to the patent term adjustment provisions of 35 U.S.C. 154(b)(2)(C). The Federal Circuit confirmed that 37 CFR 1.704(c)(8) “is a reasonable interpretation of the patent term adjustment [statute] insofar as it includes ‘not only applicant conduct or behavior that result in actual delay, but also those having the potential to result in delay irrespective of whether such delay actually occurred.’” Supernus, 913 F.3d at 1356 (quoting Gilead Scis., Inc. v. Lee, 778 F.3d 1341, 1349–50 (Fed. Cir. 2015)). The Federal Circuit, however, held that the Office may not reduce patent term adjustment by a period that exceeds the “time during which the applicant failed to engage in reasonable efforts” to conclude prosecution, specifically stating that “[o]n the basis of the plain language of 35 U.S.C. 154(b)(2)(C)(i), the USPTO may not count as applicant delay a period of time during which there was no action that the applicant could take to conclude prosecution of the patent.” Id. at 1358. The Federal Circuit specifically stated that—

Thus, the statutory period of PTA reduction must be the same number of days as the period from the beginning to the end of the applicant’s failure to engage in reasonable efforts to conclude prosecution. PTA cannot be reduced by a period of time during which there is no identifiable effort in which the applicant could have engaged to conclude prosecution because such time would not be “equal to” and would instead exceed the time during which an applicant failed to engage in reasonable efforts.

Id. at 1359.

37 CFR 1.704(c)(1) through (c)(14) set forth: (1) The exemplary circumstances prescribed by the Office “that constitute a failure of an applicant to engage in reasonable efforts to conclude processing or examination of an application” pursuant to 35 U.S.C. 154(b)(2)(C)(iii) and (ii) resulting period of reduction of any patent term adjustment. The Federal Circuit decision in Supernus involved a reduction to patent term adjustment under the provisions of 37 CFR 1.704(c)(6). The period of reduction of patent term adjustment in 37 CFR 1.704(c)(6) is as follows: “the number of days, if any, beginning on the date the initial reply was filed and ending on the date that the supplemental reply or other such paper was filed.” 37 CFR 1.704(c)(8). This period corresponds to “the period from the beginning to the end of the applicant’s failure to engage in reasonable efforts to conclude prosecution,” except in the rare situation in which such period includes “a period of time during which there is no identifiable effort in which the applicant could have engaged to conclude prosecution.” Supernus, 913 F.3d at 1359. The Office published a notice in May of 2019 setting out its implementation of Supernus with respect to the provisions of 37 CFR 1.704(c)(8) or other provision of 37 CFR 1.704(c) that includes “a period of time during which there is no identifiable effort in which the applicant could have engaged to conclude prosecution.” See Patent Term Adjustment Procedures in View of the Federal Circuit Decision in Supernus Pharm., Inc. v. Iancu, 84 FR 20343 (May 9, 2019).

While the Federal Circuit decision in Supernus involved 37 CFR 1.704(c)(8), there are several provisions in 37 CFR 1.704(c)(1) through (c)(14) whose period of reduction corresponds to or includes the consequences to the Office of applicant’s failure to engage in reasonable efforts to conclude prosecution, rather than “the period from the beginning to the end of the applicant’s failure to engage in reasonable efforts to conclude prosecution.” Supernus, 913 F.3d at 1359. Therefore, the Office is proposing changes to 37 CFR 1.704 to revise the periods of reduction of patent term adjustment in 37 CFR 1.704(c) for consistency with the Federal Circuit’s decision in Supernus.

Discussion of Specific Rules

The following is a discussion of amendments to title 37 of the Code of Federal Regulations, part 1:

Section 1.704(c)(2) is proposed to be amended to change “the date the patent was issued” to “the earlier of the date a request to terminate the deferral was filed or the date the patent was issued.” The period of reduction of patent term adjustment in §1.704(c)(2) would be as follows: “the number of days, if any, beginning on the date a request for deferral of issuance of a patent under § 1.314 was filed and ending on the earlier of the date a request to terminate the deferral was filed or the date the patent was issued.” Section 1.704(c)(3) is proposed to be amended to change “the earlier of: (i) The date of mailing of the decision reviving the application or accepting late payment of the issue fee; or (ii) The date that is four months after the date the grantable petition to revive the application or accept late payment of the issue fee was filed” to “the date the grantable petition to revive the application or accept late payment of the issue fee was filed.” The period of reduction of patent term adjustment in §1.704(c)(3) would be as follows: “the number of days, if any, beginning on the date of abandonment or the date after the date the issue fee was due and ending on the date the grantable petition to revive the application or accept late payment of the issue fee was filed.” Section 1.704(c)(6) is proposed to be amended to change “the lesser of: (i) The number of days, if any, beginning on the day after the mailing date of the original Office action or notice of allowance and ending on the date of mailing of the supplemental Office action or notice of allowance; or (ii) Four months” to “the number of days, if any, beginning on the day after the date that is eight months from either the date on which the application was filed under 35 U.S.C. 111(a) or the date of commencement of the national stage under 35 U.S.C. 371(b) or (f) in an international application and ending on the date the preliminary amendment or other preliminary paper was filed.” See Changes to Implement the Patent Law Treaty, 78 FR 62367, 62385 (Oct. 21, 2013) (an application is expected to be in condition for examination no later than eight months from its filing date (or date of commencement of the national stage in an international application)). The period of reduction of patent term adjustment in §1.704(c)(6) would be as follows: “the number of days, if any, beginning on the day after the date that is eight months from either the date on which the application was filed under 35 U.S.C. 111(a) or the date of commencement of the national stage under 35 U.S.C. 371(b) or (f) in an international application and ending on
the date the preliminary amendment or other preliminary paper was filed.”

Section 1.704(c)(9) is proposed to be amended to change “the lesser of: (i) The number of days, if any, beginning on the day after the mailing date of the original Office action or notice of allowance and ending on the mailing date of the supplemental Office action or notice of allowance; or (ii) Four months” to “the number of days, if any, beginning on the day after the date of the decision by the Patent Trial and Appeal Board or by a Federal court and ending on date the amendment or other paper was filed.” The period of reduction of patent term adjustment in §1.704(c)(9) would be as follows: “the number of days, if any, beginning on the day after the date of the decision by the Patent Trial and Appeal Board or by a Federal court and ending on the date the amendment or other paper was filed.”

Section 1.704(c)(10) is proposed to be amended to change “the lesser of: (i) The number of days, if any, beginning on the day after the mailing date under § 1.312 or other paper was filed and ending on the mailing date of the Office action or notice in response to the amendment under § 1.312 or such other paper; or (ii) Four months” to “the number of days, if any, beginning on the day after the mailing date of the notice of allowance under 35 U.S.C. 151 and ending on the date the amendment under § 1.312 or other paper was filed.” The period of reduction of patent term adjustment in §1.704(c)(10) would be as follows: “the number of days, if any, beginning on the day after the mailing date of the notice of allowance under 35 U.S.C. 151 and ending on the date the amendment under § 1.312 or other paper was filed.”

Rulemaking Considerations

A. Administrative Procedure Act: The changes proposed by this rulemaking involve rules of agency practice and procedure, and/or interpretive rules. See Perez v. Mortg. Bankers Ass'n, 135 S. Ct. 1199, 1204 (2015) (Interpretive rules “advise the public of the agency’s construction of the statutes and rules which it administers.” (citation and internal quotation marks omitted)); Nat’l Org. of Veterans’ Advocates v. Sec’y of Veterans Affairs, 260 F.3d 1365, 1375 (Fed. Cir. 2001) (Rule that clarifies interpretation of a statute is interpretive.); Bachow Commc’ns Inc. v. FCC, 237 F.3d 683, 690 (D.C. Cir. 2001) (Rules governing an application process are procedural under the Administrative Procedure Act.); Inova Alexandria Hosp. v. Shalala, 452 F.3d 550 (4th Cir. 2001) (Rules for handling appeals were procedural where they did not change the substantive standard for reviewing claims.). Specifically, this rulemaking proposes to revise Office rules that interpret certain statutory provisions pertaining to patent term adjustment. The proposed revisions specify a period of reduction corresponding to “the period from the beginning to the end of the applicant’s failure to engage in reasonable efforts to conclude prosecution” (rather than to the consequences to the Office of applicant’s failure to engage in reasonable efforts to conclude prosecution) for consistency with the Federal Circuit’s decision in Supernus. 913 F.3d at 1359.

Accordingly, prior notice and opportunity for public comment for the changes proposed by this rulemaking are not required pursuant to 5 U.S.C. 553(b) or (c), or any other law. See Perez, 135 S. Ct. at 1206 (Notice-and-comment procedures are required neither when an agency “issue[s] an initial interpretive rule” nor “when it amends or repeals that interpretive rule.”); Cooper Techs. Co. v. Dudas, 536 F.3d 1330, 1336–37 (Fed. Cir. 2008) (stating that 5 U.S.C. 553, and thus 35 U.S.C. 2(b)(2)(B), does not require notice and comment rulemaking for “interpretative rules, general statements of policy, or rules of agency organization, procedure, or practice” (quoting 5 U.S.C. 553(b)(A))). However, the Office has chosen to seek public comment before implementing the rule to benefit from the public’s input.

B. Regulatory Flexibility Act: For the reasons set forth herein, the Deputy General Counsel for General Law of the United States Patent and Trademark Office has certified to the Chief Counsel for Advocacy of the Small Business Administration that changes proposed in this notice will not have a significant economic impact on a substantial number of small entities because applicants are not entitled to patent term adjustment that have not been reduced by a period equal to the period of the applicant’s failure to engage in reasonable efforts to conclude processing or examination (35 U.S.C. 154(b)(2)(C)(i) and 37 CFR 1.704(a)), and because applicants may avoid adverse patent term adjustment consequences by refraining from actions or inactions defined as constituting a failure of an applicant to engage in reasonable efforts to conclude processing or examination. For the foregoing reasons, the changes proposed in this notice will not have a significant economic impact on a substantial number of small entities.

C. Executive Order 12866 (Regulatory Planning and Review): This rulemaking has been determined to be not significant for purposes of Executive Order 12866 (Sept. 30, 1993).

D. Executive Order 13563 (Improving Regulation and Regulatory Review): The Office has complied with Executive Order 13563 (Jan. 18, 2011).

Specifically, the Office has taken to the extent feasible and applicable: (1) Made a reasoned determination that the benefits justify the costs of the rule; (2) tailored the rule to impose the least burden on society consistent with obtaining the regulatory objectives; (3) selected a regulatory approach that maximizes net benefits; (4) specified performance objectives; (5) identified and assessed available alternatives; (6) involved the public in an open exchange of information and perspectives among experts in relevant disciplines, affected stakeholders in the private sector, and the public as a whole, and provided on-
This rulemaking does not impose any additional requirements (including information collection requirements) or fees for patent applicants or patentees. Therefore, the Office is not resubmitting information collection packages to OMB for its review and approval because the changes in this rulemaking do not affect the information collection requirements associated with the information collections approved under OMB control number 0651–0020 or any other information collections.

Notwithstanding any other provision of law, no person is required to respond to, nor shall any person be subject to a penalty for failure to comply with, a collection of information subject to the requirements of the Paperwork Reduction Act unless that collection of information displays a currently valid OMB control number.

List of Subjects in 37 CFR Part 1

Administrative practice and procedure, Biologics, Courts, Freedom of information, Inventions and patents, Reporting and record keeping requirements, Small businesses.

For the reasons set forth in the preamble, 37 CFR part 1 is proposed to be amended as follows:

PART 1—RULES OF PRACTICE IN PATENT CASES

1. The authority citation for 37 CFR part 1 continues to read as follows:

Authority: 35 U.S.C. 2(b)(2), unless otherwise noted.

2. Section 1.704 is amended by revising paragraphs (c)(2), (3), (6), (9) and (c)(10) to read as follows:

§ 1.704 Reduction of Period of Adjustment of Patent Term.

* * * * *

(c) * * * * *(2) Deferral of issuance of a patent under § 1.314, in which case the period of adjustment set forth in § 1.703 shall be reduced by the number of days, if any, beginning on the date a request for deferral of issuance of a patent under § 1.314 was filed and ending on the earlier of the date a request to terminate the deferral was filed or the date the patent was issued;

(3) Abandonment of the application or late payment of the issue fee, in which case the period of adjustment set forth in § 1.703 shall be reduced by the number of days, if any, beginning on the date abandonment or the date after the date the issue fee was due and ending on the date the grantable petition to revive the application or accept late payment of the issue fee was filed;

* * * * *
(6) Submission of a preliminary amendment or other preliminary paper less than one month before the mailing of an Office action under 35 U.S.C. 132 or notice of allowance under 35 U.S.C. 151 that requires the mailing of a supplemental Office action or notice of allowance, in which case the period of adjustment set forth in § 1.703 shall be reduced by the number of days, if any, beginning on the day after the date that is eight months from either the date on which the application was filed under 35 U.S.C. 111(a) or the date of commencement of the national stage under 35 U.S.C. 371(b) or (f) in an international application and ending on the date the preliminary amendment or other preliminary paper was filed;

* * * * *

(9) Submission of an amendment or other paper after a decision by the Patent Trial and Appeal Board, other than a decision designated as containing a new ground of rejection under § 41.50(b)(1) of this title or statement under § 41.50(c)(1) of this title, or a decision by a Federal court, less than one month before the mailing of an Office action under 35 U.S.C. 132 or notice of allowance under 35 U.S.C. 151 that requires the mailing of a supplemental Office action or supplemental notice of allowance, in which case the period of adjustment set forth in § 1.703 shall be reduced by the number of days, if any, beginning on the day after the date of the decision by the Patent Trial and Appeal Board or by a Federal court and ending on date the amendment or other paper was filed;

(10) Submission of an amendment under § 1.312 or other paper, other than a request for continued examination in compliance with § 1.114, after a notice of allowance has been given or mailed, in which case the period of adjustment set forth in § 1.703 shall be reduced by the number of days, if any, beginning on the day after the mailing date of the notice of allowance under 35 U.S.C. 151 and ending on the date the amendment under § 1.312 or other paper was filed;

* * * * *

Andrei Iancu,
Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office.

[FR Doc. 2019–21271 Filed 10–3–19; 8:45 am]

BILLING CODE 3510–16–P

SURFACE TRANSPORTATION BOARD

49 CFR Chapter X
[Docket No. EP 664 (Sub-No. 4)]

Revisions to the Board’s Methodology for Determining the Railroad Industry’s Cost of Capital

AGENCY: Surface Transportation Board.

ACTION: Notice of Proposed Rulemaking.

SUMMARY: The Board proposes to incorporate an additional model to complement its use of the Morningstar/Ibbotson Multi-Stage Discounted Cash Flow Model (MSDCF) and the Capital Asset Pricing Model (CAPM) in determining the cost-of-equity component of the cost of capital.

DATES: Comments on the proposed rule are due by November 5, 2019. Reply comments are due by December 4, 2019.

ADDRESSES: Comments and replies must be filed with the Board either via e-filing or in writing addressed to: Surface Transportation Board, Attn: Docket No. EP 664 (Sub-No. 4), 395 E Street SW, Washington, DC 20423–0001. Written comments and replies will be posted to the Board’s website at www.stb.gov.

FOR FURTHER INFORMATION CONTACT: Nathaniel Bawcombe at (202) 245–0376. Assistance for the hearing impaired is available through the Federal Relay Assistance for the hearing impaired is available through the Federal Relay Service at (800) 877–8339.

SUPPLEMENTARY INFORMATION: Each year, the Board determines the railroad industry’s cost of capital and then uses this figure in a variety of regulatory proceedings, including the annual determination of railroad revenue adequacy, rate reasonableness cases, feeder line applications, rail line abandonments, trackage rights cases, and rail merger reviews. The annual cost-of-capital figure is also used as an input in the Uniform Railroad Costing System, the Board’s general purpose costing system.

The Board calculates the cost of capital as the weighted average of the cost of debt and the cost of equity. See Methodology to be Employed in Determining the R.R. Indus.’s Cost of Capital, EP 664, slip op. at 3 (STB served Jan. 17, 2008). While the cost of debt is observable and readily available, the cost of equity (the expected return that equity investors require) can only be estimated.1 Id. Thus, “estimating the cost of equity requires relying on appropriate finance models.” Pet. of the W. Coal Traffic League to Inst. a Rulemaking Proceeding to Abolish the Use of the Multi-Stage Discounted Cash Flow Model in Determining the R.R. Indus.’s Cost of Equity Capital, EP 664 (Sub-No. 2), slip op. at 2 (STB served Oct. 31, 2016).

In 2009, the Board moved from a cost-of-equity estimate based solely on CAPM to a cost-of-equity estimate based on a simple average of the estimates produced by CAPM and Morningstar/Ibbotson MSDCF. See Use of a Multi-Stage Discounted Cash Flow Model in Determining the R.R. Indus.’s Cost of Capital, EP 664 (Sub-No. 1), slip op. at 15 (STB served Jan. 28, 2009). In that decision, the Board cited to the Federal Reserve Board’s testimony in Methodology to be Employed in Determining the Railroad Industry’s Cost of Capital, Docket No. EP 664, which stated that the use of multiple models “will improve estimation techniques when each model provides new information.” Use of a Multi-Stage Discounted Cash Flow Model, EP 664 (Sub-No. 1), slip op. at 15. Furthermore, the Board stated that “there is robust economic literature confirming that, in many cases, combining forecasts from different models is more accurate than relying on a single model.”

Under CAPM, the cost of equity is equal to RF + β×RP, where RF is the risk-free rate of interest, β is the market-risk premium, and β (or beta) is the measure of systematic, non-diversifiable risk. Under CAPM, the Board calculates the risk-free rate based on the average yield to maturity for a 20-year U.S. Treasury Bond. The estimate for the market-risk premium is based on returns experienced by the S&P 500 since 1926. Lastly, beta is calculated by using a portfolio of weekly, merger-adjusted railroad stock returns for the prior five years.

Under Morningstar/Ibbotson MSDCF, the cost of equity is the discount rate that equates a firm’s market value to the present value of the expected stream of cash flows. Morningstar/Ibbotson MSDCF calculates growth of earnings in three stages. In the first stage (years one


2 The risk-free rate of interest is an exogenously determined interest rate at which investors may borrow or lend without fear of default.