

**DEPARTMENT OF COMMERCE****Patent and Trademark Office****37 CFR Part 1**

[Docket No. PTO-P-2019-0019]

RIN 0651-AD38

**Patent Term Adjustment Reductions in View of the Federal Circuit Decision in *Supernus Pharm., Inc. v. Iancu*****AGENCY:** United States Patent and Trademark Office, Department of Commerce.**ACTION:** Notice of proposed rulemaking.

**SUMMARY:** The United States Patent and Trademark Office (Office) is proposing to revise the rules of practice pertaining to patent term adjustment in view of the decision by the U.S. Court of Appeals for the Federal Circuit (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*.

**DATES:** Written comments must be received on or before December 3, 2019.

**ADDRESSES:** Comments should be sent by electronic mail message over the internet addressed to: [AD38.comments@uspto.gov](mailto:AD38.comments@uspto.gov). Comments also may be submitted by postal mail addressed to: Mail Stop Comments-Patents, Commissioner for Patents, P.O. Box 1450, Alexandria, VA 22313-1450, marked to the attention of Kery Fries, Senior Legal Advisor, Office of Patent Legal Administration, Office of the Deputy Commissioner for Patent Examination Policy.

Comments further may be sent by electronic mail message over the internet via the Federal eRulemaking Portal. See the Federal eRulemaking Portal website (<http://www.regulations.gov>) for additional instructions on providing comments via the Federal eRulemaking Portal.

Although comments may be submitted by postal mail, the Office prefers to receive comments by electronic mail message over the internet because sharing comments with the public is more easily accomplished. Electronic comments submitted in plain text are preferred, but may be submitted in ADOBE® portable document format or MICROSOFT WORD® format.

Comments not submitted electronically should be submitted on paper in a format that facilitates convenient digital scanning into ADOBE® portable document format.

Comments will be available for viewing via the Office's internet website (<http://www.uspto.gov>). Because comments will be made available for public inspection, information that the submitter does not desire to make public, such as an address or phone number, should not be included in the comments.

**FOR FURTHER INFORMATION CONTACT:** Kery Fries, Senior Legal Advisor, Office of Patent Legal Administration, Office of the Deputy Commissioner for Patent Examination Policy, at telephone number 571-272-7757.

**SUPPLEMENTARY INFORMATION:**

*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*, 913 F.3d 1351 (Fed. Cir. 2019). The Federal Circuit in *Supernus* held that a reduction of patent term adjustment under 35 U.S.C. 154(b)(2)(C) 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 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 are set forth in 37 CFR 1.704. Several provisions in 37 CFR 1.704 specify a period of reduction corresponding to the consequences to 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), (c)(9), and (c)(10) 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*.

*Summary of Major Provisions:* This rulemaking pertains to the patent term adjustment 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 (37 CFR 1.704). This rulemaking specifically proposes to revise the period of reduction of patent

term adjustment in the provisions of 37 CFR 1.704 pertaining to deferral of issuance of a patent (37 CFR 1.704(c)(2)), abandonment of an application (37 CFR 1.704(c)(3)), submission of a preliminary amendment (37 CFR 1.704(c)(6)), submission of papers after a decision by the Patent Trial and Appeal Board or by a Federal court (37 CFR 1.704(c)(9)), and submission of papers after a notice of allowance under 35 U.S.C. 151 (37 CFR 1.704(c)(10)) to 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 corresponding 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.

*Costs and Benefits:* This rulemaking is not economically significant under Executive Order 12866 (Sept. 30, 1993).

*Background:* The American Inventors Protection Act of 1999 or AIPA (Pub. L. 106-113, 113 Stat. 1501, 1501A-552 through 1501A-591 (1999)) amended 35 U.S.C. 154(b) to provide for patent term adjustment if issuance of the patent is delayed due to one or more of the enumerated administrative delays listed in 35 U.S.C. 154(b)(1). Generally, under the patent term adjustment provisions of 35 U.S.C. 154(b) as amended by the AIPA, an applicant is entitled to patent term adjustment for the following reasons: (1) If the Office fails to take certain actions during the examination and issue process within specified time frames (35 U.S.C. 154(b)(1)(A)) (known as "A" delays); (2) if the Office fails to issue a patent within three years of the actual filing date of the application (35 U.S.C. 154(b)(1)(B)) (known as "B" delays); and (3) for delays due to interference (and now derivation), secrecy order, or successful appellate review (35 U.S.C. 154(b)(1)(C)) (known as "C" delays). See 35 U.S.C. 154(b)(1). The AIPA, however, sets forth a number of conditions and limitations on any patent term adjustment accrued under 35 U.S.C. 154(b)(1). See 35 U.S.C. 154(b)(2). 35 U.S.C. 154(b)(2)(C) sets forth one such limitation, providing, in part, that "[t]he period of adjustment of the term of a patent under [35 U.S.C. 154(b)(1)] shall be reduced by a period equal to the period of time during which the applicant failed to engage in reasonable efforts to conclude prosecution of the application" and that "[t]he Director shall prescribe regulations establishing the circumstances that constitute a failure of

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 (2) 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)(8). The period of reduction of patent term adjustment in 37 CFR 1.704(c)(8) is as follows: “the number of days, if any, beginning on the day after 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 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 date the amendment 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*, 244 F.3d 342, 350 (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. See 5 U.S.C. 605(b).

This rulemaking does not propose to impose any additional requirements or fees on applicants. This rulemaking also does not propose to change the circumstances defined as constituting a failure of an applicant to engage in reasonable efforts to conclude processing or examination of an application (35 U.S.C. 154(b)(2)(C)(iii)). This rulemaking implements the Federal Circuit’s ruling on the provisions of 35 U.S.C. 154(b)(2)(C)(i) in *Supernus* to reflect the applicable period of reduction in the event that there is a failure of an applicant to engage in reasonable efforts to conclude processing or examination. This rulemaking specifically proposes to revise the period of reduction of patent

term adjustment in the provisions of 37 CFR 1.704 pertaining to deferral of issuance of a patent (37 CFR 1.704(c)(2)), abandonment of an application (37 CFR 1.704(c)(3)), submission of a preliminary amendment (37 CFR 1.704(c)(6)), submission of papers after a decision by the Patent Trial and Appeal Board or by a Federal court (37 CFR 1.704(c)(9)), and submission of papers after a notice of allowance under 35 U.S.C. 151 (37 CFR 1.704(c)(10)) to 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. The changes proposed in this rulemaking 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, 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-

line access to the rulemaking docket; (7) attempted to promote coordination, simplification, and harmonization across Government agencies and identified goals designed to promote innovation; (8) considered approaches that reduce burdens and maintain flexibility and freedom of choice for the public; and (9) ensured the objectivity of scientific and technological information and processes.

*E. Executive Order 13771 (Reducing Regulation and Controlling Regulatory Costs):* This proposed rule is not expected to be an Executive Order 13771 (Jan. 30, 2017) regulatory action because this proposed rule is not significant under Executive Order 12866 (Sept. 30, 1993).

*F. Executive Order 13132 (Federalism):* This rulemaking does not contain policies with federalism implications sufficient to warrant preparation of a Federalism Assessment under Executive Order 13132 (Aug. 4, 1999).

*G. Executive Order 13175 (Tribal Consultation):* This rulemaking will not: (1) Have substantial direct effects on one or more Indian tribes; (2) impose substantial direct compliance costs on Indian tribal governments; or (3) preempt tribal law. Therefore, a tribal summary impact statement is not required under Executive Order 13175 (Nov. 6, 2000).

*H. Executive Order 13211 (Energy Effects):* This rulemaking is not a significant energy action under Executive Order 13211 because this rulemaking is not likely to have a significant adverse effect on the supply, distribution, or use of energy. Therefore, a Statement of Energy Effects is not required under Executive Order 13211 (May 18, 2001).

*I. Executive Order 13783 (Promoting Energy Independence and Economic Growth):* This rulemaking does not potentially burden the development or use of domestically produced energy resources, with particular attention to oil, natural gas, coal, and nuclear energy resources under Executive Order 13783 (Mar. 28, 2017).

*J. Executive Order 13772 (Core Principles for Regulating the United States Financial System):* This rulemaking does not involve regulation of the United States financial system under Executive Order 13772 (Feb. 3, 2017).

*K. Executive Order 12988 (Civil Justice Reform):* This rulemaking meets applicable standards to minimize litigation, eliminate ambiguity, and reduce burden as set forth in sections 3(a) and 3(b)(2) of Executive Order 12988 (Feb. 5, 1996).

*L. Executive Order 13045 (Protection of Children):* This rulemaking does not concern an environmental risk to health or safety that may disproportionately affect children under Executive Order 13045 (Apr. 21, 1997).

*M. Executive Order 12630 (Taking of Private Property):* This rulemaking will not effect a taking of private property or otherwise have taking implications under Executive Order 12630 (Mar. 15, 1988).

*N. Congressional Review Act:* Under the Congressional Review Act provisions of the Small Business Regulatory Enforcement Fairness Act of 1996 (5 U.S.C. 801–808), the United States Patent and Trademark Office will submit a report containing any final rule resulting from this rulemaking and other required information to the U.S. Senate, the U.S. House of Representatives, and the Comptroller General of the Government Accountability Office.

*O. Unfunded Mandates Reform Act of 1995:* The changes set forth in this rulemaking do not involve a Federal intergovernmental mandate that will result in the expenditure by State, local, and tribal governments, in the aggregate, of 100 million dollars (as adjusted) or more in any one year, or a Federal private sector mandate that will result in the expenditure by the private sector of 100 million dollars (as adjusted) or more in any one year, and will not significantly or uniquely affect small governments. Therefore, no actions are necessary under the provisions of the Unfunded Mandates Reform Act of 1995. See 2 U.S.C. 1501 *et seq.*

*P. National Environmental Policy Act:* This rulemaking will not have any effect on the quality of the environment and is thus categorically excluded from review under the National Environmental Policy Act of 1969. See 42 U.S.C. 4321 *et seq.*

*Q. National Technology Transfer and Advancement Act:* The requirements of section 12(d) of the National Technology Transfer and Advancement Act of 1995 (15 U.S.C. 272 note) are not applicable because this rulemaking does not contain provisions which involve the use of technical standards.

*R. Paperwork Reduction Act:* The Paperwork Reduction Act of 1995 (44 U.S.C. 3501 *et seq.*) requires that the Office consider the impact of paperwork and other information collection burdens imposed on the public. The rules of practice pertaining to patent term adjustment and extension have been reviewed and approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 *et seq.*) under OMB control number 0651–0020.

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 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;

\* \* \* \* \*

(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) of this title or statement under § 41.50(c) 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](http://www.stb.gov).

**FOR FURTHER INFORMATION CONTACT:** Nathaniel Bawcombe at (202) 245-0376. 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.<sup>1</sup> *Id.* Thus, "estimating the cost of equity requires relying on appropriate finance models." *Pet. of the*

<sup>1</sup> The Board must make "an adequate and continuing effort to assist those carriers in attaining revenue levels," which should, among other objectives, "permit the raising of needed equity capital." 49 U.S.C. 10704(a)(2).

*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."<sup>2</sup>

Under CAPM, the cost of equity is equal to  $RF + \beta \times RP$ , where RF is the risk-free rate of interest,<sup>3</sup> RP is the market-risk premium, and  $\beta$  (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

<sup>2</sup> *Use of a Multi-Stage Discounted Cash Flow Model*, EP 664 (Sub-No. 1), slip op. at 15 (citing David F. Hendry & Michael P. Clements, *Pooling of Forecasts*, VII *Econometrics Journal* 1 (2004); J.M. Bates & C.W.J. Granger, *The Combination of Forecasts in Essays in Econometrics: Collected Papers of Clive W.J. Granger, Vol. I: Spectral Analysis, Seasonality, Nonlinearity, Methodology, & Forecasting* 391-410 (Eric Ghysels, Norman R. Swanson, & Mark W. Watson, eds., 2001); Spyros Makridakis & Robert L. Winkler, *Averages of Forecasts: Some Empirical Results*, XXIX *Management Science* 987 (1983)).

<sup>3</sup> The risk-free rate of interest is an exogenously determined interest rate at which investors may borrow or lend without fear of default.