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CONTENTS

Thou Shalt Not Review the VA Rating Schedule: Has the Veterans Court Abided by This Subject Matter Prohibition?

Jeffrey Parker*

"No passion in the world, no love or hate, is equal to the passion to alter someone else's draft."—*H.G. Wells*

Introduction

The U.S. Department of Veterans Affairs ("VA") uses a Rating Schedule[1] to rate (evaluate) a veteran's disability based on severity and frequency of symptoms and then decide the amount of monetary compensation to pay the veteran for each service-related disability. The VA Rating Schedule includes both the disability-specific Diagnostic Codes that contain criteria to direct a percentage rating for the disability, as well as the prefatory regulations[2] in each section of the Rating Schedule that provide general guidance on how to rate each body system.[3] For example, if a veteran can bend the knee to almost fully

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* Jeffrey Parker is a Veterans Law Judge who serves our veterans at the Board of Veterans' Appeals in Washington, D.C. Judge Parker is a veteran of service, having practiced criminal and administrative law as a Lieutenant in the U.S. Navy Judge Advocate General's Corps during the Persian Gulf Era. The views expressed in this article are the author's alone and do not necessarily represent the views of the Board of Veterans' Appeals, Department of Veterans Affairs (VA), or the U.S. Government.

[1] The Rating Schedule is found at 38 C.F.R., Part IV. The statutory authority for the Rating Schedule is 38 U.S.C. § 1155 (2018) ("The Secretary shall adopt and apply a schedule of ratings of reductions in earning capacity from specific injuries or combination of injuries."). Various regulations acknowledge the Rating Schedule. *See*, *e.g.*, 38 C.F.R. § 3.321(a) (2019) ("The 1945 Schedule for Rating Disabilities will be used for evaluating the degree of disabilities in claims for disability compensation . . ."); 38 C.F.R. § 4.1 (2019) ("This rating schedule is primarily a guide in the evaluation of disability resulting from all types of diseases and injuries encountered as a result of or incident to military service.").

[2] *See* Wingard v. McDonald, 779 F.3d 1354, 1356–57 (Fed. Cir. 2015) (indicating that VA "regulations defining the schedule's content are part of" the VA Rating Schedule).

[3] For a detailed explication of the VA Rating Schedule, see Jeffrey Parker, *Getting the Train Back on Track: Legal Principles to Guide Extra-Schedular Referrals in Veterans Affairs Disability Rating Claims*, 28 Fed. Cir. B.J. 175 (2019).

straighten the leg, Diagnostic Code 5261 provides only a 0% non-compensable rating; however, if there is some pain before the leg is completely straight, the regulation at 38 C.F.R. § 4.59 directs a 10% compensable rating for this painful major joint.[4] Both parts of the VA Rating Schedule work together to determine how veterans get compensated for their disabilities.

VA claims are first decided by a local VA office, known as a Regional Office. An appellant may then appeal the decision to the Board of Veterans' Appeals ("Board"),[5] which is the highest adjudicative agency within the U.S. Department of Veterans Affairs ("VA"). Board decisions may be appealed to the U.S. Court of Appeals for Veterans Claims ("Veterans Court").[6] Limited aspects of decisions of the Veterans Court are appealable to the Federal Circuit.[7]

Congress gave the Article I Veterans Court limited jurisdiction over Board decisions.[8] Congress explicitly barred the content of the VA Rating Schedule[9] from the Veterans Court's subject matter jurisdiction: "The [Veterans] Court may not *review* the schedule of ratings for disabilities . . . or any action of the Secretary in adopting or revising that schedule."[10] The term "review" has been used in various ways over the years to describe the treatment of a lower body's decision making in a higher legal forum. "Review" in this Article specifically pertains to the Veterans Court's treatment of the VA Rating Schedule in VA disability rating cases appealed from Board decisions.

[4] *See* 38 C.F.R. § 4.59 ("It is the intention to recognize actually painful . . . joints as entitled to at least the minimum compensable rating for the joint"); *see also* 38 C.F.R. § 4.71a (providing a 10 % rating for "limitation of extension of" the leg "limited to 10 [degrees]").

[5] *See* 38 U.S.C. §§ 7101, 7103 (2018). *See also Board of Veterans Appeals*, U.S. Dep't of Veterans Affairs., http://www.bva.va.gov [https://perma.cc/YF6X-LU4H]. The Veterans Court has limited jurisdiction over decisions of the Board of Veterans' Appeals. *See* 38 U.S.C. §§ 7252(a) –(b), 7261 (2019).

[6] The Veterans Court is an Article I court established by Congress in the Veterans' Judicial Review Act of 1988. Pub. L. No. 100-687, 102 Stat. 4105 (1988). The Veterans Court began issuing decisions in 1990.

[7] *See* 38 U.S.C. § 7292 (2018).

[8] *See* 38 U.S.C. §§ 7252(a)–(b), 7261 (2018).

[9] *See* 38 U.S.C. § 1155 (providing that the VA "Secretary shall adopt and apply a schedule of ratings" with 10 grades of disability from 10% to 100%, and "shall from time to time readjust this schedule").

[10] 38 U.S.C. § 7252(b) (2018) (emphasis added). *But see* 38 U.S.C. § 7252(a) (2018) specifically providing for "review" of Board decisions, *and* 38 U.S.C. § 7261(a)(3)(C) (2018) (providing standards of review to be applied by the Veterans Court when reviewing Board decisions).

This Article is the first to analyze Veterans Court precedents for adherence to this limitation on its subject matter jurisdiction.[11] This Article explores the meaning of a prohibited "review" of the contents of the VA Rating Schedule—asking whether the Veterans Court was making some *improvement* to the Rating Schedule by, *e.g.*, subtly rearranging, modifying, correcting, second guessing, rewriting, substituting meaning, or ignoring content of the Rating Schedule. This Article concludes that, while the overwhelming majority of Veterans Court precedents permissibly "interpret" the VA Rating Schedule, in a few cases where the Court has perceived deficiencies in the VA Rating Schedule, the temptation to modify the VA Rating Schedule to improve it has proven irresistible. When such "review" occurs, the Article I Veterans Court goes beyond its subject matter jurisdiction, performing Article II Executive Branch functions of writing, implementing, and modifying the content of disability compensation regulations.

I. Prohibited Review Versus Permissible Interpretation

There has historically been some disagreement even among the Veterans Court judges as to when the search for legal meaning of VA Rating Schedule language crosses over into a prohibited "review"[12] of the Rating Schedule. The Veterans Court exercises broad de novo authority to interpret the legal meanings of terms, but is strictly prohibited from "review," that is, in any way *changing* the meaning of terms in the Rating Schedule. In several cases cited in this Article, the Federal Circuit has held that the Veterans Court either

[11] This Article has limited its focus to precedential, three judge "panel" decisions of the Veterans Court. For fiscal year 2019, of the cases (excluding Equal Access to Justice Act (EAJA) fees) that are actually decided by a judge of the Court, just over .05% are decided in precedential decisions by the full court ("en banc") or by three judges ("panel decision"). Of the remaining 99.5% of cases, the majority are disposed of by a joint motion of the parties filed with the Clerk of the Court that is not reviewed by a judge, while a minority of cases reach a single judge of the Court, who decides the case in a non-precedential "memorandum decision." *See* U.S. Court of Appeals for Veterans Claims, Fiscal Year 2019 Annual Report October 1, 2018, to September 30, 2019 (2019), http://www.uscourts.cavc.gov/documents/FY2019AnnualReport.pdf [https://perma.cc/J58V-URKC].

[12] Individual judges of the Veterans Court have used dissents to question whether some Veterans Court precedents crossed the line into a prohibited "review" of the Rating Schedule. For example, in *Smith v. Nicholson*, the dissent alleged that the majority's evaluation of the meanings of specific Diagnostic Code terms with a dictionary "dives directly into the content of the ratings schedule . . . the Court is announcing its intent to directly review the contents of the rating schedule." 19 Vet. App. 63, 80 (2005). The dissent in *Copeland v. McDonald*, suggested the majority panel came "dangerously close" to violating the 38 U.S.C. § 7252(b) statutory prohibition against reviewing the Rating Schedule. *See* 27 Vet. App. 333, 338 (2015); 38 U.S.C. § 7252(b) (2018).

prohibitively reviewed the Rating Schedule or misread a section of the Rating Schedule to the same effect. A closer look at the context of this unique subject matter prohibition will help identify when the Veterans Court's search for legal meaning crosses over into *altering* the content of the VA Rating Schedule.

A. The Purposes of Prohibiting Review

Congress's restriction of all non-Article III courts'[13] subject matter jurisdiction[14] is fundamentally to safeguard the U.S. Constitution's separation of powers between the different branches of government. The Executive Branch is constitutionally charged to execute the laws of Congress.[15] Congressionally-created courts have strictly limited jurisdiction[16] so as not to encroach on the other branches' powers. Matters between an individual and the U.S. Government were historically reserved to the political branches of government—the Article I Congress and Article II Executive;[17] however, an exception has been carved out for individual claims against the Government. Congress's limited delegation of Article III judicial powers to non-Article III courts in

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[13] Non-Article III courts are also referred to as "legislative courts" or "Article I courts." For identification of all non-Article III Courts, see *In re* Opinions & Orders of This Court Addressing Bulk Collection of Data Under the Foreign Intelligence Surveillance Act, Amicus App., No. Misc. 13-08 at App. A 36.

[14] For an overview of the Federal Courts' limited jurisdiction, *see* Jared P. Cole, Cong. Research Serv., R44699, An Introduction to Judicial Review of Federal Agency Action (2016). The Article I courts in the executive branch that are limited by subject matter jurisdiction are: United States Court of Appeals for the Armed Forces (formerly "United States Court of Military Appeals"), 10 U.S.C. §§ 941–946a (2018); United States Tax Court (formerly "Tax Court of the United States" and "Board of Tax Appeals"), 26 U.S.C. §§ 7441–7487 (2018); and United States Court of Appeals for Veterans Claims (formerly "United States Court of Veterans Appeals"), 38 U.S.C. §§ 7251–7299 (2018).

[15] In regards to the VA, this design is reflected in 38 U.S.C. § 1155, in which Congress clearly designated the VA Secretary (agency of the Executive Branch) the exclusive authority to both "*adopt* and *apply* a schedule of ratings" and to "from time to time *readjust* this schedule" (emphasis added).

[16] *See* Kokkonen v. Guardian Life Ins. Co. of Am., 511 U.S. 375, 377 (1994) (citations omitted) ("It is to be presumed that a cause lies outside [of federal courts'] limited jurisdiction, and the burden of establishing the contrary rests upon the party asserting jurisdiction.").

[17] *See* Hayburn's Case, 2 U.S. 409, 413 (1792) (stating, in declining as an Article III court to perform Executive Branch function of paying soldiers' pension, "this . . . court cannot be justified in the execution of that part of the act, which requires it to examine and report an opinion on the unfortunate cases of officers and soldiers disabled in the service of the United States."). For an overview of the ad hoc laws granting veterans benefits well before there was a VA, see James D. Ridgway, *The Splendid Isolation Revisited: Lessons from the History of Veterans Benefits Before Judicial Review*, 3 Vet. L. Rev. 135, (2011).

the area of individual rights claims against the Government has been upheld as consistent with the separation of powers. VA compensation benefits claims by individual veterans fall into this individual rights exception.

When creating the Article I Veterans Court, Congress debated how to create a court with sufficient oversight over VA administrative decisions, settling on vigorous oversight of VA agency decisions with limited review of other VA Secretarial actions.[18] As a specialized agency[19] within the Article II Executive Branch, the VA is best equipped to implement the statute through regulations and to execute the law by administrative adjudication of VA disability compensation benefits.[20]

Bestowing a few of the powers of an Article III Court, Congress granted the Veterans Court the powers to review for clear error the facts found in individual Board case decisions,[21] and to review de novo legal questions and legal interpretations of statutes and regulations.[22] By contrast, Congress's subject matter prohibition against "review" of the VA Rating Schedule—by even the subtlest modification or slightest revision to improve the schedule[23]—precludes the Veterans Court from intruding on the Executive Branch

[18] For an overview of the Veterans Court's jurisdiction and related early precedents, see Frank Q. Nebeker, *Jurisdiction of the United States Court of Veterans Appeals: Searching Out the Limits*, 46 Me. L. Rev. 5 (1994). For a review of the political considerations in establishing the Veterans Court, see Laurence R. Helfer, *The Politics of Judicial Structure: Creating the United States Court of Veterans Appeals*, 25 Conn. L. Rev. 155 (1992).

[19] When creating the Veterans Court, the Senate Committee Report explained that its standard for reviewing facts found by the Board of Veterans' Appeals "is intended to afford the maximum possible deference to the BVA's expertise as an arbiter of the specialized types of factual issues that arise in the context of claims for VA benefits, while still recognizing and providing for the possibility of error in BVA factual determinations . . . " S. Rep. No. 100-418, at 60 (1988), quoted in James D. Ridgway, Veterans Law Cases and Theory 737 (2015).

[20] *See* Jonathan Goldstein, Note, *New Veterans Legislation Opens the Door to Judicial Review . . . Slowly!*, 67 Wash. U. L.Q. 889, 921–22 (1989). *See also id*. at 911–12 (noting that Congress "decided to shield the ratings schedule from review"); *see also id*. at 912, n. 166 (finding no statement as to why this exception was placed in the law, surmised that it was because Congress "desired the agency to use its expertise in such complicated determinations").

[21] *See* 38 U.S.C. § 7252(a) (2018) (granting exclusive jurisdiction to "review" decisions of the Board of Veterans' Appeals that include the power to modify or reverse Board decisions).

[22] *See* 38 U.S.C. § 7261(a)(1) (2018).

[23] Mirroring the prohibition of the Veterans Court from reviewing the Rating Schedule is 38 U.S.C. § 1155, in which Congress clearly designated to the VA Secretary the exclusive authority to both "*adopt* and *apply* a schedule of ratings" and to make all changes to the Rating Schedule ("from time to time *readjust* this schedule") (emphasis added).

functions of issuing regulations,[24] adjudicating claims, and paying VA compensation benefits.

B. Permissible "Interpretation"

When permissibly interpreting legal meanings, the Veterans Court typically states and utilizes a canon of statutory (including regulatory) construction, starting with plain language construction.[25] The court also looks to its own precedents for already established meaning. In Veterans Law, frequently the Rating Schedule terms are medical phrases, or are heavily based on medical aspects of a disability that the VA Secretary selected as the best proxy of the degree of functional impairment for that particular disability.[26] The court next consults context, which may include the legislative or regulatory history, and any cross references. If the meaning is not plain, that is, is ambiguous, the court will look to the VA Secretary's historical practice as a guide.[27]

The Veterans Court is now permitted to search within specific Diagnostic Codes to make permissible de novo legal interpretations as to meanings of those Rating Schedule terms.[28] Legal review of Board decisions by the

[24] Analogously, the Veterans Court ruled it had no jurisdiction to review the VA Secretary's equitable relief decisions under 38 U.S.C. § 503 because this was not a Board decision for which the statute provided Court review. *See* Zimick v. West, 11 Vet. App. 45, 50–51 (1998); 38 U.S.C. § 503 (2018); Darrow v. Derwinski, 2 Vet. App. 303, 305 (1992) ("Congress has not provided for an appeal of the exercise of the Secretary's equitable relief authority.").

[25] *See, e.g.*, Breland v. Wilkie, 32 Vet. App. 360, 365–66 (2020) ("First, we will address the text . . . After all, that is the starting point in any regulatory interpretation. If the plain meaning of the regulation is clear from its language, then that meaning controls . . . "); Copeland v. McDonald, 27 Vet. App. 333, 337 (2015) (affirming that the starting point of statutory interpretation is to be the language of a statute).

[26] On this quest for legal meaning, the Veterans Court frequently consults medical dictionaries for meanings of medical terms, which is a legitimate approach if used in search of a plain language meaning of a regulatory term, but which goes beyond permissible interpretation if it imports new meaning from a medical dictionary to the Rating Schedule term. *See* Hudgens v. Gibson, 26 Vet. App. 558, 562 (2014), *rev'd sub nom*, Hudgens v. McDonald, 823 F.3d 630 (Fed. Cir. 2016), *remanded*, No. 13-0370, 2016 U.S. App. Vet. Claims LEXIS 1374 (Sept. 13, 2016) (holding that the Veterans Court erred in relying too heavily on a medical dictionary definition when ruling that Diagnostic Code 5055 only applied to "total" knee replacements and not "partial" knee replacements).

[27] *See*, *e.g.,* Correia v. McDonald, 28 Vet. App. 158, 167 (2016) (noting prior positions taken by the VA Secretary before the court in other cases); Hudgens v. McDonald, 823 F.3d 630, 637 & 639 (Fed. Cir. 2014) (noting Board decisions that were contrary to the VA Secretary's litigating position).

[28] *See* Wingard v. McDonald, 779 F.3d 1354, 1356–57 (Fed. Cir. 2015); Smith v. Nicholson, 451 F.3d 1344, 1348–49 (Fed. Cir. 2006) (accepting that the Court could

Veterans Court also is not a prohibited review of the Rating Schedule if the focus is on whether the Board correctly applied the Rating Schedule to the facts of a case.[29] Such a limited appellate judgment focuses on the reasoning the Board used in a specific case, and should leave little room for novel or changed legal meanings.

C. Legal Authorities Defining "Review"

Relevant legal authorities provide general descriptors of what a prohibited "review" of the Rating Schedule looks like. Black's Law Dictionary defines appellate court "review" as a "reconsideration; second view or examination; revision; consideration for purposes of correction."[30] Black's Law Dictionary in turn defines "revise" as to "review, re-examine for correction; to go over a thing for the purpose of amending, correcting, rearranging, or otherwise improving it; as, to revise statutes, or a judgment."[31] "Revision of statute" means "an examination and the review of an existing law with the possibility of restating the law to improve it."[32] The common thread in these review-related definitions is that there is some, if ever so subtle, restatement or modification or revision of the law for the well-intentioned purpose of correcting or improving the law.

The Federal Circuit has stated the Veterans Court should not "second guess" the VA Secretary regarding the "substance" or "content"[33] of the Rating

consider what was the correct interpretation of a particular Diagnostic Code in the Rating Schedule); Martinez-Bodon v. Wilkie, No. 18-3721 (Vet. App. Aug. 11, 2020) (stating that the jurisdictional limitation against review of the Rating Schedule does not prevent the Veterans Court from determining what specific terms in the prefatory regulations of the Rating Schedule "mean"); Langdon v. Wilkie, 32 Vet. App. 291, 297 (2020), *appeal docketed*, No.20-1789 (Fed. Cir. May 8, 2020) (stating "the well-recognized interpretation exception that allows us to review the language of a DC to determine its meaning").

[29] In contrast to the prohibition against reviewing the VA rating schedule, note the broad and explicit authority Congress granted the Veterans Court the power to modify and even reverse Board decisions. *See* 38 U.S.C. § 7252(a) (2018) (providing the Veterans Court "shall have exclusive jurisdiction to review decisions of the Board," including the "power to affirm, modify, or reverse a decision of the Board").

[30] *Review*, The Law Dictionary, https://thelawdictionary.org/review/ [https://perma.cc/G3CC-GB4H].

[31] *Revise*, The Law Dictionary, https://thelawdictionary.org/revise/ [https://perma.cc/7HM3-PQX4].

[32] *Revision of statute*, https://thelawdictionary.org/revision-of-statute/.

[33] Fugere v. Derwinski, 972 F.2d 331, 335 (Fed. Cir. 1992) (stating "the Court of Veterans Appeals may not second guess the Secretary as to what the schedule [of ratings] should contain," but holding that review of the "manner" in which the VA Secretary repealed a regulation is not a review of the Rating Schedule); Sellers v. Principi, 372 F.3d 1318, 1324

Schedule. One dissent depicted “review” as a “reform” of the Rating Schedule that replaced or substituted rating criteria, and even “ignored” Rating Schedule criteria.[34] The Federal Circuit noted that the statutory scheme of Veterans Court and Federal Circuit jurisdiction “excludes from judicial review all content”[35] of, and a “substantive challenge”[36] to, the VA Rating Schedule, including the question of which disabilities should have been included.[37] The Veterans Court is allowed to ask what is the correct “interpretation” of a Diagnostic Code.[38]

Veterans Court precedents have stated that the Court should not “adjust[ ]”[39] the Rating Schedule. The Veterans Court has jurisdiction over VA’s decided meaning and application of its own regulations, including the Board’s selection and application of a Diagnostic Code.[40] VA General Counsel summarized legislative history and authorities as understanding “review” to mean that the Veterans Court may not “modify” any part of the VA Rating Schedule, should not “substitute its judgment” for the VA Secretary’s, and should not “rewrite” the provisions of the Rating Schedule by “piecemeal review” of individual rating classifications.[41]

(2004) (stating that “neither we nor the Veterans Court may review the content of the ratings schedule” before holding that the question was “the correct interpretation of” a prefatory regulation).

[34] *See Sellers*, 372 F.3d at 1329 (Linn, J., dissenting).

[35] Wanner v. Principi, 370 F.3d 1124, 1129–30 (Fed. Cir. 2004).

[36] Wingard v. McDonald, 779 F.3d 1354, 1356–57 (Fed. Cir. 2015) (summarizing the legislative history and discussing the Veterans Court’s inability to review the schedule of ratings for disabilities).

[37] *See* Byrd v. Nicholson, 19 Vet. App. 388, 394 (2005) (declining review of the VA Secretary’s exclusion of periodontal disease from the VA Rating Schedule).

[38] *See* Smith v. Nicholson, 451 F.3d 1344, 1348–49 (Fed. Cir. 2006) (accepting that the Veterans Court could consider what was the correct interpretation of Diagnostic Code 6260 for tinnitus).

[39] Bagwell v. Brown, 9 Vet. App. 337, 338 (1996) (recognizing that awarding compensation for pain and suffering due to the prolonged hospitalization would amount to “adjusting” the Rating Schedule contrary to the statutory prohibition against a “review” of the Rating Schedule in 38 U.S.C. § 7252(b)).

[40] *See* Jones v. Shinseki, 26 Vet. App. 56, 62–63 (2012) (holding that the Board committed legal error by considering the effects of medication on the irritable bowel syndrome disability when those effects were not explicitly contemplated by the rating criteria).

[41] Memorandum from General Counsel, Dep’t of Veterans Affairs, VAOPGCPREC 05-2002, at 1–2, 4 (May 17, 2002) (distinguishing that regulations promulgated under 38 U.S.C. § 1155 are not subject to “review” by the Veterans Court, whereas regulations promulgated under 38 U.S.C. § 501 are subject to review, and stating that whether a regulation is part of the Rating Schedule must be assessed on a case-by-case basis).

D. A Continuum of Prohibited "Review"

From these legal authorities we can construct a continuum of prohibited review actions. On one end, there is the subtlest form of prohibited review that involves the slightest restatement of the content of the Rating Schedule, an almost imperceptible change to meaning by some rearrangement or alteration of nearly synonymous terms. On the other end of the continuum of prohibited review are the more obvious forms of review, such as ignoring Rating Schedule criteria in order to substitute other content.

Were we to place such legal authorities mentioned in this Article onto an admittedly imprecise continuum of prohibited "review" actions, from subtlest to most obvious, it may look something like this: rearrange; reconsider/question; adjust/modify; correct/revise/amend/reform; rewrite; "second guess"/substitute judgment; ignore/substitute content. All reviews of the VA Rating Schedule, of course, are undertaken to *improve* some perceived deficiency in the Rating Schedule by providing an immediate judicial remedy.

II. Analysis of Veterans Court Precedent for "Review"

The search for legal meaning by the Veterans Court generally starts with the plain language of the Rating Schedule, read in the context of the regulatory scheme as a whole, which includes defining specific Diagnostic Codes in the context of the prefatory regulations that guide ratings for a particular body system. Such an academically honest effort to permissibly "interpret" the meaning of Diagnostic Code content considers all relevant context for meaning, accounts for court precedent, and should only rarely conflict with longstanding VA (agency) meanings and practices.[42]

The Veterans Court's case law extensively analyzes VA Rating Schedule criteria, both Diagnostic Code language and other regulatory terms. In the precedential decision of *Langdon v. Wilkie*,[43] the Veterans Court's ability to even look into the meaning of a Diagnostic Code term to so much as define the term had been challenged by the appellant. In answer, *Langdon* pointed to the Veterans Court's long history of having defined terms in various Diagnostic Codes as proof that, whenever it has done so, it was permissively *interpreting* the Diagnostic Code language rather than prohibitively

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[42] In *Hudgens v. McDonald*, the VA Secretary's position that Diagnostic Code 5055 applied to only total knee replacements was held not to be required by the regulation language and also to be inconsistent with Board decisions. *See* 823 F.3d 630, 637–38 (Fed. Cir. 2016).

[43] *See* Langdon v. Wilkie, 32 Vet. App. 291, 296 (2020), *appeal docketed*, No. 20-1789 (Fed. Cir. May 8, 2020) ("we unquestionably have jurisdiction over cases involving an interpretation of the language in the regulations related to the schedule.") (internal quotation marks omitted).

reviewing the content of the Rating Schedule.[44] While *Langdon*'s analysis provides an exemplar for how to permissibly interpret meanings of the Rating Schedule,[45] *Langdon*'s reading of the Veterans Court's past practices begs the question of whether the court's handling of Diagnostic Code terms in each of those cases was permissible "interpretation" or whether, in some cases, the court engaged in prohibited "review" to improve perceived deficiencies in the Rating Schedule.[46]

To test this premise, this Article will analyze the Veterans Court's practices—by first cataloging Veterans Court precedents that illustrate permissible interpretation, then identifying lures towards prohibited review, before analyzing specific Veterans Court decisions that crossed over into prohibited review of the Rating Schedule.

A. Permissible Interpretations of the VA Rating Schedule

Most Veterans Court precedents addressing VA Rating Schedule criteria permissibly "interpret" the VA Rating Schedule and its prefatory regulations, and the question of "review" of the Rating Schedule is rarely raised. Once the Federal Circuit accepted that it was permissible for the Veterans Court to interpret a Diagnostic Code,[47] the Veterans Court has done so with canons of construction and dictionaries in hand. There are multiple examples of

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[44] *See id.* at 296–97. The *Langdon* Court was illustrating the "lack of merit" in the appellant's misplaced argument that, if the Veterans Court's reading did not agree with appellant's, then the Court would not have jurisdiction because this would be a prohibited review. *Id. Langdon* answered this results-oriented argument by stating that the Court's jurisdiction to permissibly interpret Diagnostic Codes was not so limited. *Id.* at 297. The *Langdon* Court itemizes its precedents interpreting Diagnostic Codes, adding that "we have consistently been in the business of interpreting the rating schedule as we are called on to do in this appeal." *Id.* at 297, n. 32.

[45] *Langdon* consulted a prefatory regulation in the orthopedic section of the Rating Schedule for meaning as to what types of disabilities should be compensated, looking at the regulatory history in the Federal Register, found ambiguity in the Diagnostic Code, consulted Court precedent, then reasoned out logical implications of positions in light of the rating scheme. *See id.* at 297–300.

[46] *See id.* at 296. This is circular reasoning (or circular logic) as the asserted premise and conclusion are the same: The Court only permissibly interprets Diagnostic Codes; therefore, every time the Court looks for meaning of a Diagnostic Code, it is permissibly interpreting it.

[47] *See* Smith v. Nicholson, 451 F.3d 1344, 1348–50. Previously in *Wanner v. Principi*, the Federal Circuit had warned against broaching any of the "content" of Diagnostic Code language. *See* 370 F.3d 1124, 1129–31 (Fed. Cir. 2004).

permissible "interpretation" of Rating Schedule language by the Veterans Court,[48] including of specific Diagnostic Code terms.[49]

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[48] *See* Marcelino v. Shulkin, 29 Vet. App. 155, 158 (2018) (holding that the Veterans Court did not have jurisdiction to review whether VA should consider obesity a disability under the Rating Schedule, rejecting a request to "interpret" the term "disease" to include obesity); Byrd v. Nicholson, 19 Vet. App. 388, 394 (2005) (declining review of the VA Secretary's exclusion of periodontal disease from the VA Rating Schedule); Bagwell v. Brown, 9 Vet. App. 337, 338 (1996) (recognizing that awarding compensation for pain and suffering due to a prolonged hospitalization would amount to "adjusting" the Rating Schedule contrary to the statutory prohibition against a "review" of the Rating Schedule in 38 U.S.C. § 7252(b)) (2018).

[49] *See* Breland v. Wilkie, 32 Vet. App. 360, 366 (2020), *appeal docketed*, No. 20-2199 (Fed. Cir. Aug. 25, 2020) (interpreting procedures in Diagnostic Code 7343 to be prospective, such that when a retroactive award is made, the procedures are not strictly applicable to require an indefinite continuation of a 100% rating); Roby v. Wilkie, 31 Vet. App. 91, 97–99 (2019) (interpreting terms in Diagnostic Code 7203, finding plain meaning of "permitting passage," and finding ambiguity so deferring to the VA Secretary's interpretation of "liquids"); Burton v. Wilkie, 30 Vet. App. 286, 290–92 (2018) (interpreting the language of Diagnostic Code 7806 for a skin disorder, as to what factual circumstances cause "topical treatments" to become "systemic therapies," and remanding for the Board to find whether a specific corticosteroid was a "systemic therapy"); English v. Wilkie, 30 Vet. App. 347, 352 (2018) (interpreting Diagnostic Code 5257 to hold that objective evidence is not more probative than lay evidence for rating knee instability); Williams v. Wilkie, 30 Vet. App. 134, 138 (2018) (quoting Dorland's Illustrated Medical Dictionary to define the Rating Schedule term "deformity" under Diagnostic Code 7522); Bankhead v. Shulkin, 29 Vet. App. 10, 19–20 (2017) (in evaluating the General Rating Formula for Mental Disorders at 38 C.F.R. § 4.130, interpreting "suicidal ideation" by relying on multiple VA publications, clinical practice guidelines, DSM-IV, CDC, and medical dictionary); Yancy v. McDonald, 28 Vet. App. 484, 491 (2017) (defining foot "injury" in Diagnostic Code 5284 to restrict the rating criteria to actual foot injuries); Correia v. McDonald, 28 Vet. App. 158, 165, 165 n.4 (2016) (citing case law and Black's Law Dictionary to define the term "should" in 38 C.F.R. § 4.59, and quoting Dorland's Illustrated Medical Dictionary to define the term "crepitation"); McCarroll v. McDonald, 28 Vet. App. 267, 271 (2016) (en banc) (interpreting that Diagnostic Code 7101 contemplates the effects of medication for hypertension); Copeland v. McDonald, 27 Vet. App. 333, 338 (2015) (interpreting that Diagnostic Code 5284 for rating other foot injuries is not a catch-all code for rating foot disabilities so is not permitted when there is another specifically applicable Diagnostic Code); Prokarym v. McDonald, 27 Vet. App. 307, 311–12 (2015) (comparing the rating schedule term "severe" in Diagnostic Codes 5276 and 5284 for rating foot disorders, and refusing to second guess the Rating Schedule's provision for different rating percentages for different disabilities that are both "severe"); Tatum v. Shinseki, 26 Vet. App. 443, 447–48 (2014) (defining the terms "cessation," "X-rays," and "radiotherapy" in Diagnostic Code 7528 genitourinary neoplasms, and deferring the VA Secretary's identical interpretation); Jones v. Shinseki, 26 Vet. App. 56, 62 (2012) (interpreting Diagnostic Code 7319 for irritable bowel syndrome, finding the

A few recent Veterans Court precedents are exemplars of permissible interpretation of Rating Schedule terms. In *Copeland v. McDonald*,[50] the question before the court was whether, when a specifically applicable Diagnostic Code (5276 for flatfoot) was available, could Diagnostic Code 5284 ("other foot injuries") be used as a catch-all code to rate the same foot disability. The Veterans Court consulted a plain language definition of the Diagnostic Code, prefatory regulation language context, other Diagnostic Codes that rate the same body part, and prior case law precedents, then directly addressed whether the appellant's proffered meaning would constitute prohibited "review" of the Rating Schedule.

In *Marcelino v. Shulkin*,[51] the Veterans Court consulted the Rating Schedule to note the claimed condition of obesity did not appear there. The court noted its jurisdictional statute and Federal Circuit precedent precluding judicial review of the Rating Schedule, then refused to entertain the "backdoor substantive challenge to the content of the rating schedule"[52] as to whether obesity "should" be in the Rating Schedule.

Secretary's failure to include the effects of medication as a consideration in one Diagnostic Code when it has included such effects in other Diagnostic Codes should be viewed as a deliberate choice, and declining to address whether the VA Secretary should include the effects of medication as a factor in Rating Schedule criteria); Pierce v. Principi, 18 Vet. App. 440, 445 (2004) (interpreting terms in Diagnostic Code 8100 for migraine headaches such as "productive of economic inadaptability"); Mauerhan v. Principi, 16 Vet. App. 436, 442 (2002) (interpreting that the phrase "such symptoms as" in Rating Schedule criteria for psychiatric disorders at 38 C.F.R. §. 4.130, Diagnostic Code 9440, means "for example" or "like or similar to" such that VA need not find any of these symptoms need to grant a rating); Otero-Castro v. Principi, 16 Vet. App. 375, 380 & 382 (2002) (finding ambiguity in a Diagnostic Code term and resolving interpretive doubt in the claimant's favor to interpret that Diagnostic Codes 7005 and 7007 for arteriosclerotic heart disease and hypertensive heart disease do not require separate showings of both "dysfunction" and "ejection fraction" percentage measures for a higher rating); Drosky v. Brown, 10 Vet. App. 251, 255 (1997) (interpreting that the use of the word "or" in the Diagnostic Code 7000 for rheumatic heart disease provides an independent basis, rather than an additional requirement, for the assignment of a specific disability rating); Villano v. Brown, 10 Vet. App. 248, 250 (1997) (holding that the Board's construction of Diagnostic Code 6066 for eye disorders was not clearly erroneous).

50 *See* 27 Vet. App. at 338.

51 *See* 29 Vet. App. at 158.

52 *Id.*

In *Martinez-Bodon*,[53] the Veterans Court held that the Veterans Court lacked jurisdiction to question what the VA Secretary, in prefatory regulations[54] in the Rating Schedule, had decided constituted a disability.

In *Breland v. Wilkie*,[55] the Veterans Court held that the procedures in Diagnostic Code 7343 (digestive system cancer)[56] to change a 100% rating for cancer to a lower rating for residuals when the cancer is no longer active were prospective in nature, so did not apply to a retroactive rating to keep the 100% rating in place indefinitely. *Breland* consulted the spectrum of factors before arriving at this reading of Diagnostic Code 7343, including the plain text of Diagnostic Code 7343, case precedent (for similar cancer ratings and for retroactive ratings), a referenced due process regulation, Federal Register discussion, and considered whether an alternative reading would be absurd, and noted how Diagnostic Code 7343 allows VA to look at all evidence to grant the proper rating.[57]

B. Temptations to Prohibitively Review the Rating Schedule

This Article assumes that the Veterans Court would never decidedly participate in substituting its judgment for the VA Secretary's regarding the content of the Rating Schedule; however, there are lures that may tempt the Veterans Court to engage in the most subtle forms of prohibited "review." The desire to ever so slightly *improve* the Rating Schedule for veterans is a worthy goal, but one to be undertaken by Congress and/or the VA Secretary. The Veterans Court may only discover any Rating Schedule deficiencies and use its power of logical persuasion to suggest the political branches remedy such deficiencies.

Actions by the Veterans Court to make these improvements to the Rating Schedule content would constitute prohibited "review."[58] This Article points out the following temptations that might lure the Veteran's Court to prohibitively "review" the Rating Schedule: (1) emphatic plain language reading, (2) adding to Board reasons and bases requirements, (3) too heavy reliance

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[53] *See* No. 18-3721 (Vet. App. Aug. 11, 2020)

[54] The prefatory regulations that guide rating psychiatric disabilities, 38 C.F.R. § 4.125 and 38 C.F.R. § 4.130, required that a psychiatric disorder must be medically diagnosed according to a professional psychiatric manual, the Diagnostic and Statistical Manual of Mental Disorders (DSM) (current version DSM-5), before compensation can be paid, even for a 0% (noncompensable) rating.

[55] *See* 32 Vet. App. 360 (2020).

[56] *See* 38 C.F.R. § 4.114 (2019).

[57] *See Breland*, 32 Vet. App. at 370–72.

[58] *See* discussion *infra* Section C and accompanying text; Langdon v. Wilkie, 32 Vet. App. 291, 296 (2020), *appeal docketed*, No. 20-1789 (Fed. Cir. May 8, 2020).

on selected authority, (4) omitting unfavorable precedent or legal authority, and (5) misapplying the "maximize benefits" doctrine.

It may be tempting to find a regulation unambiguous, as this allows for a more emphatic "plain language" reading, and precludes having to defer to any agency construction or meanings applied to the regulation.[59] While the Veterans Court's permissible interpretations of Rating Schedule terms are conducted de novo, with no deference owed to the VA Secretary's meanings, it should be a moment for pause when the court finds meaning in the Rating Schedule that is at variance with the VA Secretary's own reading.[60]

The Veterans Court may be tempted to heavily scrutinize the Board's reasons and bases regarding what meaning the Board attached to the Rating Schedule, to find the Board's explanations insufficient, then order the Board to beef up the reasons and bases for its decision by providing more definition or more structure to a term that the Rating Schedule had not defined.[61] Ordering the Board to provide definitional content to a Rating Schedule term runs the risk of prohibited review by proxy—directing the Board to fill in perceived deficiencies in the Rating Schedule.[62]

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[59] In *Johnson v. Shulkin*, the Federal Circuit held "that the Veterans Court incorrectly read Diagnostic Code 7806 as unambiguously elevating any form of corticosteroid treatment . . . to the level of 'systemic therapy'" and reversed the Veterans Court's finding that the "plain meaning" of Diagnostic Code 7806 was unambiguous. *See* 862 F.3d 1351, 1353 (2017). In *Hudgens v. McDonald*, the Federal Circuit held that Diagnostic Code 5055 "does not unambiguously exclude" partial knee replacements, where the Veterans Court had found no ambiguity and concluded that Diagnostic Code 5055 was limited to full knee replacements. *See* 823 F.3d 630, 637 (Fed. Cir. 2014). In *Smith v. Nicholson*, the Federal Circuit found ambiguity in the regulations for rating tinnitus (Diagnostic Code 6260 and 38 C.F.R. § 4.25(b) (2019)) as to whether tinnitus in both ears is one disability or two disabilities, whereas the Veterans Court had found no ambiguity but relied on a "plain language" interpretation and "erred in not deferring to the DVA's interpretation of its own regulations." *See* 451 F.3d 1344, 1350–51 (Fed. Cir. 2006).

[60] In *Johnson v. Shulkin*, the Federal Circuit reversed the Veterans Court's reading of Diagnostic Code 7806 that had rejected the VA Secretary's reading. *See* 862 F.3d 1351, 1356 (Fed. Cir. 2017). In *Hudgens*, the Federal Circuit noted that a majority of Board decisions applying Diagnostic Code 5055 allowed for partial knee replacements, which was contrary to the VA Secretary's current litigating position and the Veterans Court's holding, that Diagnostic Code 5055 applied only to a total knee replacement. *See* 823 F.3d at 637, 639.

[61] The dissent in *Smith v. Nicholson*, accused the majority of "cloaking their actions in the reasons-and-bases rubric" while actually reviewing the contents of the ratings schedule. *See* 19 Vet. App. at 80 (Ivrs, C.J., dissenting in part).

[62] For example, in *Hood v. Brown*, the Veterans Court strongly suggested that the VA Secretary should "change" the regulation, and asked the Board (via the Reasons and Bases requirement) to "construe the term 'definite' . . . in a way that quantifies the degree of impairment." 4 Vet. App. 301, 304 (1993).

In the search for legal meaning of terms, the Veterans Court might be tempted to rely more heavily on a few well-accepted sources, such as medical dictionaries.[63] Similarly, selecting only those passages from statutes, regulations, or case law that support a preferred meaning is sure to skew the meaning. Omitting contrary case law authorities, which is a form of lack of candor before a court, is another sure way to end with the preferred meaning sought.

VA adjudicators are to "maximize benefits."[64] This means VA should, at the lower fact finding stage of a claim, grant to a veteran all the compensation that is legally permitted.[65] This maxim does not apply at the non-factfinding appellate level of the Veterans Court. Were the Veterans Court to apply the maximize benefits doctrine at the appellate level, this would allow monetary outcome to steer the legal meaning the Court sought from a regulation. The results-oriented meaning would likely be a different meaning, and for that reason be a prohibited "review."

C. The Federal Circuit Holds the Rating Schedule was Prohibitively "Reviewed"

A good starting point to test whether the Veterans Court has only permissibly "interpreted" Diagnostic Code terms during its nearly 30-year history are the Federal Circuit's rulings on the meaning and scope of 38 U.S.C. § 7252(b)'s subject-matter limitation. While the question of whether the Veterans Court has reviewed the Rating Schedule is rarely appealed to the Federal Circuit, there are two Federal Circuit cases that explicitly applied 38 U.S.C. § 7252(b) to find that the Veterans Court had prohibitively reviewed the Rating Schedule.

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[63] *See Hudgens*, 823 F.3d at 637, 639 (noting that the Veterans Court relied heavily on a medical dictionary definition, while disregarding the applications of a Diagnostic Code by a majority of Board decisions); *Hood*, 4 Vet. App. at 303 (relying on Webster's Third New World Dictionary to define Rating Schedule terms).

[64] *See* Morgan v. Wilkie, 31 Vet. App. 162 (2019) (emphasizing VA has a duty to maximize benefits in individual cases, so should exhaust the ready-made Rating Schedule remedies to do so); Buie v. Shinseki, 24 Vet. App. 242, 250 (2011) (recognizing VA's "well-established duty to maximize a claimant's benefits"); *A.B. v. Brown*, 6 Vet. App. 35, 38 (1993) (presuming a veteran is seeking the highest compensation); Bradley v. Peake, 22 Vet. App. 280, 294 (2008) ("The Secretary is required to maximize benefits"); 38 C.F.R. § 3.103(a) (2019) (VA is to "render a decision which grants every benefit that can be supported in law while protecting the interests of the Government").

[65] Review of the "maximize benefits" cases shows the Veterans Court has consistently indicated that this doctrine applies to VA adjudicators, and there is no suggestion the Veterans Court has applied this doctrine to itself at the interpretive stage. This is only mentioned as a potential and future caution, as the maxim is recurring more frequently in the more recent Veterans Law cases.

The first significant Federal Circuit case to find that the Veterans Court had violated the 38 U.S.C. § 7252(b) prohibition was *Wanner v. Principi.*[66] An earlier version of Diagnostic Code 6260, which rated tinnitus (ringing or buzzing in the ears), provided a 10% rating where the tinnitus had been caused by a "head injury, concussion, or acoustic trauma"; otherwise, tinnitus only received a 0% rating.[67] The Veterans Court had held that this version of Diagnostic Code 6260 requiring trauma did not lawfully comport with a statute that gives VA broad authority to find that disabilities are related to military service.[68] The effect of the Veterans Court ruling was to remove the "head injury, concussion, or acoustic trauma" requirement from this version of Diagnostic Code 6260 to get a 10% rating for tinnitus.

The Federal Circuit in *Wanner* held that the Veterans Court's conclusion "amounts to a direct review of the content of the rating schedule."[69] The Federal Circuit concluded that "the Veterans Court lacked jurisdiction to review the content of" Diagnostic Code 6260 (tinnitus)[70] because the "statutory scheme thus consistently excludes from judicial review all content of the ratings schedule."[71] Indeed, *Wanner* found the legislative scheme so clearly prohibits such "review" that the Veterans Court's resort to legislative history as a method to find meaning was unnecessary.[72]

The other Federal Circuit case directly addressing the scope of "review" is *Wingard v. McDonald*.[73] In this case, the appellant challenged the Rating Schedule's provision of a 0% rating for a disability, contending the disability ratings can be no lower than 10%. The threshold jurisdictional question before the Veterans Court was whether it could even entertain this substantive challenge to the percentages the VA Secretary placed in the Rating Schedule. The Veterans Court found that 38 U.S.C. § 7252(b), the statute prohibiting "review" of the Rating Schedule, was inapplicable to the case.[74]

The Federal Circuit held that 38 U.S.C. § 7252(b) "squarely precludes the Veterans Court from determining whether the schedule, by including a 0%

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66 *See* Wanner v. Principi, 370 F.3d 1124, 1130 (Fed. Cir. 2004).

67 *See id.* at 1126, n. 2.

68 *See* 38 U.S.C. § 1110 (2018).

69 *Wanner*, 370 F.3d at 1131.

70 38 C.F.R. § 4.87 (2019).

71 *Wanner*, 370 F. 3d at 1126, 1129–30 ("The language of section 7252(b), however, removes from the Veterans Court's jurisdiction *all* review involving the content of the rating schedules and the Secretary's actions in adopting or revising them.").

72 *See id.* at 1130.

73 *See* 779 F.3d 1354, 1356 (Fed. Cir. 2015).

74 *See* Wingard v. Shinseki, 26 Vet. App. 334, 339 (2013), *vacated*, Wingard v. McDonald, 779 F.3d 1354 (Fed. Cir. 2015).

rating, substantively violates statutory constraints."[75] Rejecting the Veterans Court's conclusion that 38 U.S.C. § 7252(b) only barred review of "what *should* be a disability or the appropriate rating to be assigned a particular disability," *Wingard* maintained that "§ 7252(b) speaks broadly" such that VA's prefatory regulations defining the schedule's content are part of "the schedule of ratings for disabilities."[76]

In other Federal Circuit decisions where the scope of the subject matter prohibition under 38 U.S.C. § 7252(b) was not directly at issue, the Federal Circuit called into question the Veterans Court's methods used to find legal meanings. In *Smith v. Nicholson*,[77] the Federal Circuit held that the Veterans Court erred in not deferring to VA's reading of its own regulations (Diagnostic Code 6260 and 38 C.F.R. § 4.25(b)) as to whether tinnitus in both ears is one disability or two disabilities. In *Hudgens v. McDonald,*[78] the Federal Circuit held that the Veterans Court relied too heavily on a medical dictionary definition of the term "knee replacement" in Diagnostic Code 5055 to require a "full" knee replacement where the Diagnostic Code had not stated the replacement had to be "total." In *Johnson v. Shulkin*,[79] the Federal Circuit reversed the Veterans Court's findings that the plain language of Diagnostic Code 7806 (skin disease) was unambiguous, the consequent rejection of the VA Secretary's interpretation of Diagnostic Code 7806, and the Veterans Court's reading that any form of "corticosteroid" treatment, even topical treatment, was "systemic therapy." While these cases were decided on bases other than 38 U.S.C. § 7252(b), such as *Auer*[80] deference to the VA Secretary's readings of regulations, all the holdings still had the effect of stopping the Veterans Court from altering the meaning of the Rating Schedule.[81]

[75] *Wingard*, 779 F.3d at 1356.

[76] *Id.* (quoting Wingard v. Shineski, 26 Vet. App. at 339).

[77] *See* 451 F.3d 1344, 1348–49 (Fed. Cir. 2006).

[78] *See* 823 F.3d 630, 637–38 (Fed. Cir. 2016).

[79] *See* 862 F.3d 1351, 1352, 1354, 1356 (2017) (holding that "the Veterans Court gave an overly broad reading of the term 'systemic therapy' in DC 7806 that encompasses any and all forms of topical corticosteroid treatment").

[80] *See* Auer v. Robbins, 519 U.S. 452 (1997) (holding that where there is ambiguity in a regulation an agency's reading of its own regulation is given the highest level of deference "unless it is plainly erroneous or inconsistent with the regulation").

[81] Whether the Federal Circuit's holdings regarding 38 U.S.C. § 7252(b), as in *Wanner* and *Wingard*, would have additionally precluded the Veterans Court's readings in these cases is beyond the scope of this Article. It is not the role of this Article to question whether 38 U.S.C. § 7252(b) should have been raised or applied in these cases, but simply to note that these Federal Circuit decisions decided on other legal bases similarly found the Veterans Court's readings of VA Rating Schedule language to be improper.

D. Veterans Court Decisions that Prohibitively "Review" the Rating Schedule

Below, this Article has selected Veterans Court precedents that illustrate a prohibited "review" of the Rating Schedule that strayed beyond permissible interpretation. Even though these Veterans Court precedents were not challenged on the basis of "review" under 38 U.S.C. § 7252(b), they show indicia of having altered the meaning of a term in the Rating Schedule. The selected precedents show various ways in which the Veterans Court has prohibitively reviewed the VA Rating Schedule.

1. Using Webster's Dictionary as Legal Authority

Anyone who has tried to settle a dinner table disagreement by resorting to Webster's Dictionary knows that such disputes are rarely settled by this esteemed authority. Resort to common usage dictionary definitions to define terms in a highly specific medical-legal context deserves at least a small print legal disclaimer as to the limitations of its use. Dictionary usage should be resorted to when the term to be defined lacks definition in statute, regulation, and controlling case law. While Black's Law Dictionary is a specialized legal dictionary for defining legal terms, common usage dictionaries are not specialized to define legal terms or specific medical conditions and their associated symptoms.

In the early precedent of *Hood v. Brown*,[82] the veteran-appellant had a 30% rating for a psychiatric disorder (Diagnostic Code 9210 for "definite" impairment), and was seeking a higher rating.[83] The 1992 version of Diagnostic Code 9210, 38 C.F.R. § 4.132, provided a next higher 50% rating for "considerable" social and industrial impairment.[84]

The Veterans Court relied too heavily on a Webster's Dictionary in *Hood* to define Rating Schedule terms describing the degrees of social and industrial impairment of psychiatric disability, such as "mild," "definite," and the synonym "explicit."[85] As a result, the *Hood* court perceived that the Rating Schedule criteria was inadequate because it was not quantifiable, then strongly suggested the VA Secretary should "change" the regulation.[86]

Choosing an interim fix, the *Hood* court directed the Board (via the reasons and bases requirement) to "construe the term 'definite' . . . in a way that

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[82] *See* 4 Vet. App. 301 (1993), *vacated*, 7 Vet. App. 553 (1995).

[83] *See id.* at 302–03.

[84] *See* 38 C.F.R. § 4.132 (1992).

[85] *See Hood*, 4 Vet. App. at 304.

[86] *See id.* at 303–04 (stating that, if the Board is unable to define the term, "then it may be necessary for the Secretary to change that regulation by amendment or interpretation").

quantifies the degree of impairment."[87] The Board has no such authority to change VA regulations. The VA disability rating scheme charges the Board with finding facts by applying VA legal authority (statutes, regulations, and VA General Counsel opinions).[88] Only the VA Secretary can supply further *content* to the Rating Schedule.[89] *Hood*'s direction for the Board to give additional and quantifiable criteria to the Rating Schedule advocated *amending* or *rewriting* Rating Schedule content.[90]

All parties would have been well served by the court's identification of an area of the Rating Schedule that could be, and in fact was, improved by the VA Secretary three years later.[91] The court in *Hood* declared they were not reviewing[92] the Rating Schedule; however, the court provided such an extremely narrow example of what would have constituted review—literally changing the rating percentage[93]—that it left open a host of other improvements to the Rating Schedule, including by adding quantifiable criteria or definitions.[94]

2. Un-plain-ing Plain Language

In the precedential case of *Correia v. McDonald*,[95] the question as framed by the Veterans Court was whether a phrase in a joint rating prefatory regulation (38 C.F.R. § 4.59, entitled "Painful Motion")—"The joints should be tested for pain in both active and passive motion, in weight-bearing and nonweight-bearing…"—was only recommended rating guidance or was mandatory.[96]

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[87] *Id.* at 304.

[88] *See* 38 U.S.C. § 7104(a) (2018) ("Decisions of the Board shall be based on . . . applicable provisions of law and regulation."); 38 U.S.C. § 7104(c) (2018) ("The Board shall be bound in its decisions by the regulations of the Department, instructions of the Secretary, and the precedent opinions of the chief legal officer of the Department.").

[89] *See* 38 U.S.C. § 7104(c).

[90] *See Hood*, 4 Vet App. at 303–04.

[91] *See* 38 C.F.R. § 4.130 (effective on November 7, 1996), created one Schedule of Ratings for Mental Disorders that rated based on different degrees of social and occupational impairment, and included a nonexhaustive list of symptoms that correlated with the degrees of impairment.

[92] When the Federal Circuit in *Wanner* noted that in *Hood* the Veterans Court did not appear to have undertaken review, it was only responding to the Veterans Court's citation to Hood as authority for the proposition that the Veteran Court could review a regulation for compliance with a statute. *See* Wanner v. Principi, 370 F.3d 1124, 1130 (Fed. Cir. 2004).

[93] This narrow reading of what may constitute review was directly rejected by the Federal Circuit. *See id.* at 1130.

[94] *See Hood*, 4 Vet. App. at 303–04.

[95] *See* 28 Vet. App. 158 (2016).

[96] *Id.* at 163–64.

The Veterans Court first found a plain language meaning, before later finding the very same term was ambiguous.[97]

Using Black's Law Dictionary and its own precedents and regulatory context to define the term "should",[98] the *Correia* court indicated the term "should be tested for pain" by its language alone "could lead the Court to conclude that the plain language of the regulation does not create a requirement that the medical examinations in cases of joint disabilities contain particular test results."[99]

Notwithstanding this plain language conclusion, unexpectedly, the court went on to rely on a misreading of other regulatory context to then find that "should" is "ambiguous" as to whether it was precatory or "mandatory," and before going even further to find the testing was mandatory ("must").[100] *Correia* misreads this regulation, which was directed to VA adjudicators, as if it were a manual to guide medical professionals conducting joint examinations.[101] When the expected guidance for how to conduct joint testing is not found, *Correia* concludes that the suggested joint testing—by medical examiners—is "required" (mandatory).[102] The court's mistakes were, first, in inferring the wrong context (as if it were a manual for medical professionals, rather than a guide for VA adjudicators), and, second, assigning a higher value to this wrong context than to the plain language meaning the court had clearly derived from other regulatory context, its own precedents, and a legal dictionary.

The finding of ambiguity *should* require deference to the VA Secretary's proffered reading. Instead, even when the *Correia* court admitted that the VA Secretary's reading is not "unreasonable or necessarily inconsistent with the language of the regulation,"[103] the court concluded that no deference was owed the VA Secretary's meaning. Instead, *Correia* found that the VA Secretary's position on whether the regulation creates a requirement for VA examiners to conduct the range of motion testing had been inconsistent with his position in other cases before the court, so no deference was owed.[104]

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[97] *See id,* at 166 (finding that "should" was "susceptible to more than one meaning," and so was "ambiguous").

[98] The question decided in the affirmative in *Burton v. Shinseki* was whether the prefatory regulation at 38 C.F.R. § 4.59, which begins "[w]ith any form of arthritis, painful motion . . . ," applies to non-arthritic joint disabilities. *See* 25 Vet. App. 1 (2011).

[99] *Correia*, 28 Vet. App. at 165.

[100] See *Correia*, at 166.

[101] *See id. Correia* lifts the phrase "how to test joints for pain" from *Burton*. *See also* 25 Vet. App. at 4 (dicta).

[102] *Correia*, 28 Vet. App. at 170.

[103] *Id.* at 166.

[104] *See id.* at 166-67.

By reading the "should" language as a mandatory range of motion testing "requirement,"[105] the Veterans Court crafted an ostensibly pro-veteran *improvement* to the regulation.

3. Divining a Novel Academic Distinction

In a more recent joint rating case, *Tedesco v. Wilkie*,[106] a veteran had a total knee replacement. VA assigned a 30% rating under Diagnostic Code 5055 for the residuals of this knee disability, and the veteran appealed for a higher rating.[107] The next higher rating of 60% under Diagnostic Code 5055 requires "severe painful motion or weakness," which the Board found as a fact the veteran did not have.[108] The Board then analyzed whether, alternatively, under Diagnostic Codes that rate on limitations of motion of the knee (Diagnostic Codes 5260 for flexion or 5261 for extension), a higher rating than 30% for "limitation of motion" could be given.[109] The Board found as a fact that, because the knee motion was not limited enough to even get a 30% rating under Diagnostic Codes 5260 or 5261, the veteran was better off the keep the 30% rating he already had under Diagnostic Code 5055.[110]

The Veterans Court in *Tedesco* overly distinguishes two Rating Schedule concepts—"severe painful motion" and "limitation of motion"—a theoretical distinction that is inapplicable in any case with joint pain because virtually every joint (orthopedic) disability rating case involves joint pain.[111] The inapplicability of *Tedesco*'s "distinct concepts" to virtually all joint rating cases is a pragmatic caution that its plain meaning is neither plain nor meaningful.

By way of context, a legitimate regulatory distinction exists in VA legal authority between *painful* motion and *pain-free* loss/limitation of motion (due to physical reasons other than pain); however, the presence of actual joint pain in an actual veteran's case dissolves this distinction. It is a well-established regulatory rating concept, recognized in Veterans Court precedent, that pain (of any severity) precludes joint motion.[112] To the extent pain is present—and

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[105] *Id*. at 168.

[106] 31 Vet. App. 360 (2019).

[107] *See id.* at 362.

[108] *See id.* at 363.

[109] *See id.*

[110] *See id.*

[111] *See* 38 C.F.R. § 4.40 (2019) ("functional loss may be due to . . . pain"); 35 C.F.R. § 4.45 (factors of disability that cause reductions of normal excursion of movements include "pain on movement"); 38 C.F.R. § 4.59 (providing 10% compensation for arthritis with pain, even where the measured limitations of motion would not meet the 10% criteria).

[112] *See* Memorandum on Multiple Ratings for Musculoskeletal Disability and Applicability of 38 C.F.R. § 4.40, 4.4.5, and 4.59, VAOPGCPREC 09-98, Vet. Aff. Op. Gen. Couns. Prec. (1998) (38 C.F.R. § 4.40 "does not require a separate rating for pain, but the impact

pain is present in virtually every joint disability—joint motion is necessarily limited to some degree. The Rating Schedule scheme, especially orthopedic (joint) prefatory regulations,[113] and Veterans Court precedents[114] provide that severe pain severely limits motion, up to complete loss of joint motion (ankylosis). Pain and motion are incompatible, and motion effectively ends where pain begins.[115] These prefatory regulations read painful limitation of motion into all the joint (orthopedic) rating Diagnostic Codes, which necessarily include those at issue in *Tedesco* (Diagnostic Code 5055).[116]

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of pain must be considered in making a rating"; "The functional loss due to pain is to be rated at the same level as the functional loss where motion is impeded" (citing to *Schafrath v. Derwinski*, 1 Vet. App. 589, 592 (1991)); "Under section 4.59, painful motion is considered limited motion even though a range of motion is possible beyond the point when pain sets in" (citing to *Hicks v Brown*, 8 Vet. App. 417, 421 (1995)); "The claimant's painful motion may add to the actual limitation of motion"); Memorandum on Applicability of 38 C.F.R. §§ 4.40, 4.45, and 3.321(b)(1) in Rating Disability Under Diagnostic Code 5293 36-97, Vet. Aff. Op. Gen. Couns. Prec., (Intervertebral Disc Syndrome) (1997) (Diagnostic Code 5293, which mentions sciatica (pain) but not loss of motion, includes limitation of motion, such that separate ratings for the pain and the limitation of motion would violate the regulation against pyramiding).

[113] *See* 38 C.F.R. § 4.40 (2019) ("functional loss may be due to . . . pain" . . . "a part which becomes *painful on use* must be regarded as *seriously* disabled") (emphasis added); 38 C.F.R. § 4.45 (2019) (factors of disability that cause reductions of normal excursion of *movements* include "[p]*ain* on movement") (emphasis added); 38 C.F.R. § 4.59 (2019) ("*painful motion* is an important factor of disability . . . The intent of the schedule is to recognize painful motion with joint or periarticular pathology as *productive of disability*. It is the intention to recognize actually painful" joints) (emphasis added).

[114] *See* Deluca v. Brown, 8 Vet. App. 202, 206–07 (1995) (functional limitations are applied to the schedular rating criteria to ascertain whether a higher schedular rating can be assigned based on *limitation of motion due to pain and during flare-ups*); Schafrath v. Derwinski, 1 Vet. App. 589, 592 (1991) (read together with schedular rating criteria, 38 C.F.R. § 4.40 and 4.45 recognize functional loss due to pain).

[115] *See* Memorandum on Multiple Ratings for Musculoskeletal Disability and Applicability of 38 C.F.R. § 4.40, 4.4.5, and 4.59, VAOPGCPREC 09-98, Vet. Aff. Op. Gen. Couns. Prec. (1998) ; Memorandum on Applicability of 38 C.F.R. §§ 4.40, 4.45, and 3.321(b)(1) in Rating Disability Under Diagnostic Code 5293 36-97, Vet. Aff. Op. Gen. Couns. Prec. (1997) .

[116] Multiple prefatory regulations guide VA adjudicators to rate based on limitations of motion and function caused by pain of any severity. Contrary to *Tedesco's* reading, there is reason to assume that different phrases—and only slightly different phrases—one emphasizing the severity of the pain (that by definition limits motion), the other emphasizing the limitations on motion (necessarily caused by the pain)—mean the same thing in operation. *See* Tedesco v. Wilkie, 31 Vet. App. 360, 362 (2019). The authority *Tedesco* cites is for the proposition that identical terms within an act bear the same meaning; this says little about

The logic and policies behind such a concept cohere: VA does not ask or expect veterans to "push through" pain (inflict pain on oneself by continuing to use a joint after pain is felt), VA certainly would not lower compensation for a painful joint disability because a veteran was able to "push through" the pain to get more motion, and VA examiners in testing joint motion do not inflict unnecessary pain on veterans by pushing joints beyond where the veteran first informs them that pain is felt.

By an over distinction in *Tedesco*, the Veterans Court appears to have inadvertently *added* to the Rating Schedule the novel concept of painful motion that somehow would not be considered limited motion, creating a future potential for two separate disability ratings in the same joint based on the same pain—one for "severe painful motion" and the other for "limitation of motion" (due to pain). A plain language analysis does not mandate such a concept.[117] In any joint disability rating case where pain is shown to be present, the legal authorities selected by *Tedesco* do not support its unqualified "distinct concepts."

Retracing *Tedesco*'s path reveals a series of questionable extrapolations from the Rating Schedule itself and from the court's own precedents. The Veterans Court precedents cited by *Tedesco* for the proposition that painful motion and limitation of motion are distinct concepts equally support the well-established and Court-recognized rating concept that painful motion is by definition

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how very similar terms, that necessarily imply the equivalent degree of limitation of motion, should be read. *See id*. at 365.

[117] *Tedesco* notes that the 60% rating level under Diagnostic Code 5055 "does not mention limitation of motion," and extrapolates that the specific phrase "limitation of motion" must be in the Diagnostic Code or it is a different concept from "severe painful motion." 31 Vet. App. at 365. *Tedesco* does not entertain the equally plain language meaning that the VA Secretary already built the "limitation of motion" concept into the "severe painful motion" criteria of Diagnostic Code 5055, such that adding limitation of motion would have been redundant with Diagnostic Code 5055 criteria, and also would have been redundant with the alternative rating under Diagnostic Code 5256 for frozen movement (ankylosis, including due to pain of any severity). *Id.* at 364–65.

The Rating Schedule provides two alternative ways of recognizing that severe painful motion necessarily limits motion to the point of no motion (ankylosis); the only difference in rating the limitation of motion is which Diagnostic Code to choose if the rating is based on painful motion (rather than weakness as the residual), the choice dependent on whether there has been a knee replacement or not. *See id.* The mirror reading of Diagnostic Code 5256 vis a vis Diagnostic Code 5055 shows this equivalency: Diagnostic Code 5256 does not use the phrase "severe painful motion" to explain how the motion becomes ankylosed because it does not need to: "severe painful motion" necessarily will cause ankylosis (the severest form of "limitation of motion"). *See id.*

limitation of motion.[118] Notably, *Tedesco* did not cite some Veterans Court precedents that are contrary to its "distinct concepts" reading. For example, *Petitti v. McDonald*,[119] had implicitly held that painful motion *is*, for VA rating purposes, limitation of motion. *Petitti* noted that "limitation of motion" is a requirement for both Diagnostic Code 5002's criterion of painful motion and 38 C.F.R. § 4.59 (arthritic joint pain).[120] *Petitti* held that the terms "painful motion" and "actually painful" joints are synonymous, stating the court "cannot conceive of a situation in which an 'actually painful' joint would not

[118] *Tedesco* quotes 38 C.F.R. § 4.40; however, § 4.40 clearly recognizes that functional loss "may be due to pain" and, a section of 4.40 overlooked by *Tedesco* specifically provides that "a part which becomes painful on use must be regarded as *seriously disabled*" 31 Vet. App. at 365 (citing Mitchell v. Shinseki, 25 Vet. App. 32, 36–43 (2011)) (emphasis added).

Tedesco then restates the holding previously made in *Burton* that the painful motion provisions in 38 C.F.R. § 4.59 apply to non-arthritis disabilities—a holding that is inapplicable to the two-concepts premise of *Tedesco*. 31 Vet. App. at 365 (citing Southall-Norman v. McDonald, 28 Vet. App. 346, 350–54 (2016)). It is hard to see how the application of § 4.59 to all disabilities, those predicated on ranges of motion and those not, suggests differentiation between painful motion and limitation of motion; rather, the principle tends to reinforce that pain limits both motion and function, and pain is incompatible with motion. *Tedesco* misses the principle in § 4.59 that pain necessarily limits motion. 31 Vet. App. at 365 Applying the principles of. § 4.59, and rating even non-arthritis disabilities as arthritis, the VA Secretary's Rating Schedule (Diagnostic Code 5003) recognizes that join pain sufficient to cause even the slightest limitation of motion functionally limits joint motion even further, so the joint is to be compensated with 10% rating (Diagnostic Code 5003), while pain that causes even greater degrees of motion are rated under specific motion codes.

Tedesco reemphasizes the proposition that there can be higher ratings based on functional loss due to pain. *Id.* (citing DeLuca v. Brown, 8 Vet. App. 202, 206–07 (1995)) It is hard to see how *DeLuca* separates "painful motion" from "limitation-of-motion" when *DeLuca* recognizes that painful motion is limitation of motion (stating that § 4.40 language of "functional loss . . . due to . . . pain" includes guarding in anticipation of pain), even anticipation of pain (guarding) is considered limitation of motion, to that end asks the VA examiner to estimate how much motion would be lost due to painful motion, and requires VA adjudicators to rate the joint based on the examiner's estimations of limitations of motion that the painful motion causes in a non-examination setting. 8 Vet. App. at 206–07.

Finally, *Tedesco* holds that actual pain on motion may limit motion more than the motion measured at an examination, a truism that equally supports that painful motion is equivalent to limitation of motion—or, stated another way, that pain excludes motion, and does so in proportion to its severity—such that these are not two distinct concepts. 31 Vet. App. at 365 (citing Burton v. Shinseki, 25 Vet. App. 1, 6 (2011)). *Tedesco* also notes that in *Burton*, the Board failed to address the provisions of § 4.59; however, this reference also does not support *Tedesco's* reading as § 4.59 contains the principle that "actually painful motion with joint or periarticular pathology [is] productive of disability"—a principle that marries the concept of painful motion to limitation of motion. 31 Vet. App. at 365.

[119] 27 Vet. App. 415, 424–25 (2015).

[120] *See id.* at 424-25.

necessarily connote a joint that was painful on motion."[121] *Tedesco* also did not to cite *Hicks v. Brown*,[122] a precedent that had recognized that under 38 C.F.R. § 4.59 *painful motion is considered limited motion* even though a range of motion is physically possible beyond the point when pain sets in.[123]

Tedesco selectively traces VA regulations for phrases to support its "distinct concepts," but fails to consider other contextual Rating Schedule provisions that suggest that joint pain excludes joint motion, and does so in proportion to the severity of the pain.[124] In sum, *Tedesco*'s conclusion that limitation of motion is but "one factor" when assessing the disability commensurate with "severe painful motion" results in an academic distinction that can never exist in the Rating Schedule because the presence of pain displaces joint motion such that "severe painful motion" by definition limits joint motion. This academic distinction will have no effect on rating joint disabilities where pain is present because the VA adjudicator will rate based on limitations of motion and function due to pain. *Tedesco* effectively *second guesses* the VA Secretary's rating scheme, which already built the limitation of motion concept into Rating Schedule criteria that rates on severe painful motion.

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121 *Id.* at 425.

122 *See* Tedesco v. Wilkie, 31 Vet. App. 360 (2019).

123 Hicks v. Brown, 8 Vet. App. 417, 420–21 (1995); *see also* Spurgeon v. Brown, 10 Vet. App. 194, 196 (1997) (holding that section 4.40 does not require a separate rating for pain, but the impact of pain must be considered in making a rating determination); Quarles v. Derwinski, 3 Vet. App. 129 (1992) (noting that "functional loss" of a joint may be due to pain "on use" (38 C.F.R. § 4.40) or "pain on movement" (38 C.F.R. § 4.45(f)); Shafrath v. Derwinski, 1 Vet. App. 589, 592 (1991) (recognizing that the functional loss due to pain is to be rated at the same level as the functional loss where motion is impeded, as "pain must be considered capable of producing compensable disability of the joints"); and Lichtenfels v. Derwinski, 1 Vet. App. 484, 488 (1991) (recognizing that motion that is inhibited by pain gets a 10% rating, even if the claimant technically has full range of motion).

124 *See Tedesco*, 31 Vet. App. at 365. *But see* C.F.R. §§ 4.40 and 4.45; *see e.g.*, Sowers v. McDonald, 27 Vet. App. 472 (2016) (explaining that 38 C.F.R. § 4.59 are limited by the diagnostic code applicable to the claimant's disability, and is read in conjunction with, and subject to, the relevant diagnostic code); Mitchell v. Shinseki, 25 Vet. App. 32, 36 (2011) (recognizing that the rating schedule contains several provisions, such as 38 C.F.R. §§ 4.40, 4.45, 4.59, that address functional loss in the musculoskeletal system as a result of pain and other orthopedic factors when applied to schedular rating criteria and explaining that "a part which becomes painful on use must be regarded as seriously disabled"—which is consistent with the concept that pain proportionally displaces motion); Burton v. Shinseki, 25 Vet. App. 1, 4 (2011) (explaining that the majority of 38 C.F.R. § 4.59, which is a schedular consideration rather than an extraschedular consideration, provides guidance for noting, evaluating, and rating joint pain); Schafrath v. Derwinski, 1 Vet. App. 589, 592 (1991) (explaining 38 C.F.R. §§ 4.40 and 4.45 are to be read together with schedular rating criteria to recognize functional loss due to pain).

While *Tedesco*'s reading is for the most part academic, there are two immediate Rating Schedule implications. First, *Tedesco* heightens the Board's reasons and bases requirement, demanding that VA adjudicators perform a legal interpretation function of explaining why limitation of motion is part of painful motion Rating Schedule criteria. Second, *Tedesco*'s unqualified "distinct concepts" paves the way for a soon-to-follow Veterans Court to create a chasm where there is now a distinction—holding there could be separate disability ratings in such scenarios that both rate on overlapping pain—one rating for "severe painful motion" and another rating for "limitation of motion" (caused by pain).

4. Adding Content to the Rating Schedule

In a series of recent cases, the Veterans Court began *adding* its own criteria to some of the Rating Schedule criteria in an attempt to compensate for what it mistakenly perceived at the time as Rating Schedule failure to compensate. The Veterans Court began implicitly holding that some content of the Rating Schedule was not adequate to rate disabilities, abandoning the use of parts of the Rating Schedule in order to expand "extraschedular"[125] compensation. "Extraschedular" ratings is a way to compensate veterans for unusual disabilities that none of the 846 Diagnostic Codes of the Rating Schedule thought of. Extraschedular ratings are meant to serve only as a safety valve to compensate a veteran for some functional impairment in exceptional cases that, with a modern Rating Schedule and so many different ways of measuring disabilities, is difficult to even conceive of hypothetically.[126]

In *Doucette v. Shulkin*,[127] the Veterans Court noted that the Rating Schedule criteria for hearing loss had two criteria: Hertz range audiometric test measures and a speech recognition test.[128] *Doucette* then proceeded to require VA adjudicators to discuss its own list of unrelated symptoms (ear pain, dizziness, recurrent loss of balance, and social isolation)[129] that might happen to be present in a hearing loss rating case—as part of an "extraschedular" rating analysis.

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[125] 38 C.F.R. § 3.321(b) (2019) (authorizing extraschedular ratings in the "exceptional case where the schedular evaluations are found to be inadequate").

[126] *See* Jeffrey Parker, *Getting the Train Back on Track: Legal Principles to Guide Extraschedular Referrals in VA Disability Rating Claims*, 28 Fed. Cir. B.J. 175, 189–98 (2019) (detailing how the VA Rating Schedule is comprehensive and maximizes benefits to veterans, leaving little room for mutually exclusive extraschedular ratings to even arise).

[127] 28 Vet. App. 366 (2016).

[128] *See id.* at 368; 38 C.F.R. § 3.385 (2019) (explaining the hearing loss Rating Schedule criteria for Disability Due to Impaired Hearing) *and* 38 C.F.R. § 4.85 (2019) (explaining the Evaluation of Hearing Impairment).

[129] *See Doucette*, 28 Vet. App. at 371. The named disorders are separate and distinct disorders that would never be rated as part of the service-connected hearing loss because they

As a result, VA adjudicators are now to automatically recognize such list of unrelated disorders when rating hearing loss.[130] This tacit association of these unrelated disorders to the hearing loss Rating Schedule criteria is inconsistent with the VA disability compensation scheme, which requires not only a separate claim but also a VA legal decision to establish such secondary service connection.[131] The *Doucette* majority invited the VA Secretary to "revise the rating criteria for hearing loss,"[132] and announced this modification of the hearing loss criteria in the Rating Schedule in dicta.[133] Later panel decisions of the Veterans Court declared that *Doucette*'s list of disorders to be associated

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are simply not hearing loss symptoms or impairment; however, once secondary service connection is adjudicated, the Rating Schedule would then separately recognize and compensate each of these non-hearing-related disorders under different diagnostic codes in the Rating Schedule as follows: Ear pain (analogous to 38 C.F.R. § 4.87, Diagnostic Code 6211 perforated tympanic membrane); dizziness or recurrent loss of balance or vertigo (38 C.F.R. § 4.87, Diagnostic Code 6204 peripheral vestibular disorder or Diagnostic Code 6205 Meniere's); social isolation due to difficulties communicating (38 C.F.R. § 4.130 (2019)), General Formula for Rating Mental Disorders).

[130] *See* Parker, *supra* note 3 (explaining why the secondary associations to hearing loss in *Doucette* are incompatible with multiple laws and regulations).

[131] *See* 38 C.F.R. § 3.310 (2019) (providing secondary service connection for related disorders caused or worsened by the service-connected disability).

[132] *Doucette*, 28 Vet. App. at 373. The dissent in *Doucette* would go even further, flatly declaring that the Rating Schedule's "tables"—the tables that apply the audiometric measures of decibel loss and speech recognition loss to determine the level of compensation for hearing loss disability—have no ability to "address the functional effects or severity of a veteran's hearing loss." *See id.* at 374 (Schoelen, J., dissenting). The dissent would effectively *remove* the hearing loss Rating Schedule criteria, characterizing it as a meaningless collection of Roman numerals or "nonexistent criteria"–all the while declaring this was not a "review" of the Rating Schedule. *See id.* at 375.The *Doucette* dissent even preemptively declares that any reasons and bases explanation by the Board is a legal impossibility, precluding any fact finding by the Board, which would legally preclude use of the Rating Schedule by VA to rate hearing loss. *See id.* Such removal of Rating Schedule criteria is prima facie "review," and is also contrary to the Veterans Courts own precedents, which recognize that the Rating Schedule measures for hearing loss are audiometric decibel testing and controlled speech recognition testing. *See* Swain v. McDonald, 27 Vet. App. 219, 223 (2015) (discussing 38 C.F.R. § 4.85(a) (2019) and mechanical application); Bruce v. West, 11 Vet. App. 405, 409 (1998); Lendenmann v. Principi, 3 Vet. App. 345, 349 (1992) ("[M]echanical application of the rating schedule to the numeric designation assigned after audiometric evaluations are rendered."); 38 C.F.R. § 3.385 (2019). *But cf.* Hensley v. Brown, 5 Vet. App. 155, 158–59 (1993) (discussing 38 C.F.R. § 3.385, which directs the use of auditory threshold and speech discrimination testing, established criteria to determine the levels at which hearing loss becomes disabling (internal quotation marks omitted).

[133] *See Doucette*, 28 Vet. App. at 373 (dicta).

with the hearing loss Rating Schedule was not dicta;[134] thus, *Doucette*'s tacit additions of other symptoms to the hearing loss Rating Schedule criteria immediately had the *effect* of precedent.[135]

5. Ignoring Some Rating Schedule Content

In other recent cases, the Veterans Court required VA adjudicators to *ignore* some of the Rating Schedule criteria. In *King v. Shulkin*,[136] VA had given the veteran a 0% rating for his service-related hearing loss, and the veteran appealed to the Board for a higher rating.[137] The Board applied the Rating Schedule criteria for hearing loss[138] to find that the facts did not support a higher rating based on either Hertz decibel audiometric testing or speech recognition testing, and that the evidence also did not support referral for an "extraschedular" rating.[139] The Board noted that the VA Rating Schedule provides ratings up to 100% for hearing loss, so the Rating Schedule stood ready to rate any worsened hearing loss.[140]

The *King* majority purported to hold[141] that the fact that there are higher Rating Schedule criteria available to rate the disability is "irrelevant"[142] to an *extra*-schedular referral analysis, so the higher Rating Schedule criteria must be *ignored* by the VA adjudicator in "extra-schedular"[143] referral questions. The effect of directing VA adjudicators to *ignore* some of the Rating Schedule criteria is to remove disability ratings from the Rating Schedule compensation, and create a dual track "extra-schedular" compensation system that will then compete with the VA Rating Schedule.[144]

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134 *See* King v. Shulkin, 29 Vet. App.174, 180–81 (2017) ("we affirmatively hold now that [*Doucette's* statement of functional effects outside the Rating Schedule] was not" *dicta*).

135 *See id. See generally*, Rossy v. Shulkin, 29 Vet. App. 142, 144 (2017) (noting that the majority holding in *Doucette* had left "open the possibility that extraschedular consideration for hearing loss might be warranted by *other* symptoms or functional effects.").

136 29 Vet. App. 174 (2017)

137 *See id.* at 174.

138 *See* 38 C.F.R. § 4.85 (2019).

139 *See King*, 29 Vet. App. at 177.

140 *See id.*

141 *See id.* at 180. This was stated in *dicta*, based on an inserted hypothetical unrelated to the facts of the case, but vehemently declared to be the Court's holding in *King*, who also defended *Doucette's dicta* as holding. *See also* Doucette v. Shulkin, 28 Vet. App. 366, 373 (dictum).

142 *See King*, 29 Vet. App. at 176.

143 *See id*. at 181.

144 For a more detailed analysis of the implications of how ignoring higher Rating Schedule criteria is inconsistent with the larger VA disability rating scheme and creates a problematic dual track rating system. *See* Parker, *supra* note 3, at 230–34.

In *Petermann v. Wilkie*,[145] the veteran had a 40% disability rating under Diagnostic Code 7913 for his service-related diabetes.[146] The evidence showed some symptoms, but not all the requirements, for a 60% rating under Diagnostic Code 7913. The Board found that the Rating Schedule criteria were adequate to rate the diabetes.[147]

The Veterans Court took from *King* the "universal principle" of ignoring higher Rating Schedule criteria and applied it to "successive" ratings such as diabetes (Diagnostic Code 7913).[148] Successive ratings require that *all* the criteria listed at the lower percentage must be met before the veteran can step up to the ladder to higher compensation. As the veteran in the case had only some, but not all, of the higher 60% Rating Schedule criteria, the Rating Schedule was not available for the veteran to get the next higher 60% rating.[149] While *Petermann* was expanding "extra-schedular" ratings by declaring off limits some of the higher Rating Schedule criteria under Diagnostic Code 7913, the unintended effect was to block VA adjudicators from granting the next higher ratings under the Rating Schedule criteria when only some of the higher criteria are met.

Petermann alters the Rating Schedule by removing pro-claimant prefatory regulation provisions[150] from successive ratings. This Rating Schedule alteration will have the unforeseen and unintended consequences of forcing VA adjudicators to not grant a higher rating where the disability is at a degree that it is between rating percentages, as it raises the bar to compensation by strictly requiring that *all* the higher level Rating Schedule criteria be met in order to get the higher compensation.

Conclusion

As analyzed in this Article, the premise that the Veterans Court has always only permissibly "interpreted" meanings of Diagnostic Codes does not

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[145] 30 Vet. App. 150 (2018).

[146] *See id.* at 152–53.

[147] *See id.* at 152.

[148] *See id.* at 154 (holding that the hypothetical quoted in *King* "is nearly identical to the facts presented here").

[149] *See id.* at 153 (citing court precedent to say that "a claimant may not attain a higher rating by more nearly approximating that rating under DC 7913 because of its successive criteria").

[150] *See* 38 C.F.R. § 4.7 (2019) (directing the higher rating is to be applied where there is a question as to which of two ratings should apply "if the disability picture more nearly approximates the criteria required for that rating."); 38 C.F.R. § 4.21 (2019) (not strictly requiring all Rating Schedule criteria be met: "it is not expected . . . that all cases will show all the findings specified.").

withstand a close inspection. While the vast majority of Veterans Court cases permissibly interpret the meaning of language in the VA Rating Schedule, Federal Circuit cases have signaled when the Veterans Court has prohibitively "reviewed" the content of the VA Rating Schedule. This Article has identified other Veterans Court precedents that engaged in a prohibited "review" of the Rating Schedule—by overreliance on dictionaries, making what is plain ambiguous, proxy review through Board reasons and bases, novel academic distinctions, or by adding to or ignoring some of the content of the Rating Schedule.

Both VA and the Veterans Court bear in mind the veterans of service as the ultimate beneficiary of a fair system that decides disability compensation—a system that determines both who gets compensated and, with use of the VA Rating Schedule, the amount of compensation. The Court and VA play distinct roles. VA has the responsibility to create and update a wholistic benefits system, which includes implementing regulations that include a comprehensive Rating Schedule, apply the laws and Rating Schedule to individual cases, and pay disability compensation. The Veterans Court is to ensure that VA correctly reads the law, provides due process, and makes fair and reasoned compensation decision that are free of clear errors.

The Veterans Court should be aware of, and earnestly try to avoid, even the mildest forms of statutorily prohibited "review," even if—or especially when—the VA Rating Schedule appears to be in dire need of improvement. Inserting into a decision a declaration that the Veterans Court is not reviewing, and even citing to solid legal authority that the Rating Schedule *should* not be reviewed, does not inoculate against actual review of the Rating Schedule. The Veterans Court should reinforce its guard against the various temptations to ever so subtly *improve* the Rating Schedule—by finding plain language meanings amid ambiguity (especially when at variance with the VA Secretary's own meanings), creating a back door review via Board reasons and bases requirements, by selective use of legal authorities, and by associating its own list of disorders with the Rating Schedule.

"Review" of the Rating Schedule by the Veterans Court injects an element of uncertainty into Veterans Law, as any part of the Rating Schedule may be infused with changed or additional meaning at any time. While certainty in Veterans Law is arguably a virtue that ranks well below other pro-veteran policies, failure to respect the Veterans Court's own precedents undercuts one of the very pillars of appellate jurisdiction, stare decisis, and by doing so invites diminished respect for its 30-year corpus of Veterans Court precedents.

A "review" of the Rating Schedule risks the integrity of the Veterans Court's VA oversight function by moving the court closer to the Executive branch function of amending the Rating Schedule. The Veterans Court has a legitimate role in identifying Rating Schedule deficiencies for the other branches of government to fix. Once the Rating Schedule deficiency is discovered, however, the Veterans Court may not itself make the improvement; rather, the court must rely on the strength of its logic and legal reasoning, and its earned respect as an appellate court, to persuade the VA Secretary or the Congress to change the perceived deficiency in the Rating Schedule. The fact that the court is jurisdictionally limited from reviewing the Rating Schedule, coupled with its own authority both as an appellate body and by power of legal reasoning, raises the bar of accountability for the VA Secretary to timely amend identified deficiencies in the Rating Schedule.

Perhaps in response to Federal Circuit decisions holding that the Veterans Court engaged in prohibited "review" of the VA Rating Schedule, there are some relatively recent Veterans Court precedents such as *Marcelino* and *Langdon* that, at least when the question of review is raised by one of the parties before the Veterans Court, show not only a consciousness against review, but provide models of permissible interpretations of Rating Schedule terms. All appellate courts, including the Veterans Court, should construe its own subject matter jurisdiction narrowly.[151]

The Veterans Court should apply this same consciousness of its subject matter jurisdictional limitations to all disability rating cases it hears, even when the court's subject matter jurisdiction in disability rating cases is not challenged on the basis of 38 U.S.C. § 7252(b) "review." Even when jurisdiction is not raised,[152] when the court perceives a deficiency in the Rating Schedule, the court should question whether its dive into the terms of a particular Diagnostic Code or prefatory rating regulation leans too heavily toward *improvement* so as to be "review."

[151] *See* Andre v. Principi, 301 F.3d 1354, 1358 (Fed. Cir. 2002) ("The Veterans Court's jurisdictional statute is to be construed "narrowly and with precision and with fidelity to the terms by which Congress has expressed its wishes.") (quoting *Bailey v. West*, 160 F.3d 1360, 1363 (Fed. Cir. 1998)) (internal quotation marks omitted).

[152] *See* Arbaugh v. Y & H Corp., 546 U.S. 500, 514 (2006) (All courts have an "independent obligation to determine whether subject-matter jurisdiction exists, even in the absence of a challenge from any party.") (citing Ruhgras AG v. Marathon Oil Co., 526 U.S. 574, 583 (1999)).

Passive Takings Theory Post *St. Bernard Parish*: Is There a Future for Takings Claims Before the Federal Circuit Based on Government Inaction?

John Antishin*

Introduction

In August of 2005, Hurricane Katrina devastated the New Orleans area. Among the destruction wrought by the storm, no area suffered as much as St. Bernard Parish and the Lower Ninth Ward.[1] One former resident of the Parish lamented, "Katrina flooded all but a half-dozen of its 24,000 homes and left 67,000 people homeless. It was the only parish in the state almost completely submerged."[2] Over ten years after the hurricane, inhabitants continued to suffer. By 2015, just around a third of the residents of the Lower Ninth Ward had returned.[3] The issues these individuals faced were dishonest

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[1] Parishes in Louisiana are roughly equivalent to counties in other states. *See Parish Government Structure*, Police Jury Ass'n of LA., https://www.lpgov.org/page/ParishGovStructure [https://perma.cc/29J2-B8SJ].

[2] Julie Landry Laviolette, *Hell & High Water: How Hurricane Katrina transformed St. Bernard*, Miami Herald (Aug. 28, 2015, 1:35 PM), https://www.miamiherald.com/news/weather/hurricane/article32639868.html [https://perma.cc/YLM3-J22V].

[3] *See* Greg Allen, *Ghosts Of Katrina Still Haunt New Orleans' Shattered Lower Ninth Ward*, NPR (Aug. 3, 2015, 3:52 AM), https://www.npr.org/2015/08/03/427844717/ghosts-of-katrina-still-haunt-new-orleans-shattered-lower-ninth-ward [https://perma.cc/W69G-GHPE]. Residents of New Orleans areas as a whole were vastly displaced by Katrina. *See* Narayan Sastry & Jesse Gregory, *The Location of Displaced New Orleans Residents in the Year After Hurricane Katrina*, 51 Demography 753, 762–63 (2014). Sastry and Gregory found that,

> [M]ore than one-half (53 %) of pre–Hurricane Katrina adult residents of New Orleans had returned to—or remained in—the New Orleans metropolitan area in the year after the hurricane, with just under one-third of the total returning to the dwelling in which they resided prior to Hurricane Katrina. One-quarter of those who returned to Orleans Parish (13 % of the total) did so to a different dwelling, and the remainder

contractors, lower property values due to the decimated population, substandard infrastructure, and little access to basic needs such as groceries.[4] It is against this backdrop that one must consider the case of *St. Bernard Parish Government v. United States*.[5] There, former occupants of the Parish and the Ward sought compensation from the federal government for the damage caused by the hurricane on a takings theory of liability.

What makes *St. Bernard Parish* particularly notable is the Federal Circuit's characterization of the property owners's claim as an assertion that the government faced takings liability not only for its actions, but its inaction.[6] Briefly, the property owners claimed that the government's ill-maintenance of a channel it constructed in the 1960s drastically exacerbated the flooding caused by the hurricane and that this constituted a taking.[7] Ultimately, the Federal Circuit decided, "[t]akings liability must be premised on affirmative government acts. The failure of the government to properly maintain the . . . channel or to modify the channel cannot be the basis of takings liability."[8] In light of this holding, this Note explores two inquiries. First, whether the Federal Circuit in *St. Bernard Parish* was correct in stating that inaction cannot be the basis of takings liability; and second, whether litigants may successfully argue takings claims based on government inaction.

Such an investigation is highly relevant in a country that witnesses daily the effects of climate change on a local and national basis.[9] Scientists attribute a variety of natural disasters in the United States to climate change.[10]

(15 % of the returned; 8 % of the total) resided in a different dwelling in the metropolitan area outside Orleans Parish.

Id.

[4] *See* Allen, *supra* note 3.

[5] 887 F.3d 1354 (Fed. Cir. 2018), *cert. denied*, 139 S. Ct. 796 (2019) (mem.).

[6] *See St. Bernard Par.*, 887 F.3d at 1357.

[7] *See id.* at 1357–58.

[8] *Id.* at 1362.

[9] *See generally* Umair Irfan, *It's Not Your Imagination. Allergy Season Gets Worse Every Year.*, Vox (May 7, 2020 4:00 PM), https://www.vox.com/2019/4/8/18300342/pollen-season-2019-allergies-climate-change [https://perma.cc/TA8S-NBP2] ("Pollen, an allergy trigger for one in five Americans, is surging year after year. And a major driver behind this increase is climate change."); Dana Nuccitelli, *Climate Change Poses Security Risks, According to Decades of Intelligence Reports,* Yale Climate Connections (Apr. 8, 2019), https://www.yaleclimateconnections.org/2019/04/the-long-history-of-climate-change-security-risks [https://perma.cc/4UFR-ENR3] (stating that intelligence agencies such as the CIA and FBI have recognized in official reports the dangers of climate change in regard to national security).

[10] *See e.g.*, Rebecca Hersher, *Climate Change Drives Bigger, Wetter Storms — Storms Like Florence*, NPR (Sept. 11, 2018 5:00 AM), https://www.npr.org/2018/09/11/646313648/climate-change-drives-bigger-wetter-storms-storms-like-florence [https://perma.

In addition to the largely unquantifiable human suffering caused by these disasters is hundreds of billions of dollars of structural damage.[11] Along the coastal regions, this trend is particularly apparent.[12]

The government's response to climate change leaves much to be desired by those who advocate for action. On one hand, congressional leaders are beginning to recognize that the government cannot sit by while millions are threatened by this current and worsening crisis.[13] On the other hand, legislation combatting climate change has been met with at least as much criticism as activism.[14] Accordingly, in light of the political controversy surrounding climate change, one might ponder whether those affected by human-made environmental degradation may seek recourse through the courts. This question is implicitly addressed in this Note's analysis of the *St. Bernard Parish* case.[15]

An additional focus of this Note is whether takings claims based on government inaction can be successful. Aiding this analysis are Professor Christopher Serkin's ideas on "passive takings," a theory he puts forward in his article

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cc/7KDN-373N]; Kendra Pierre-Louis & Nadja Popovich, *Climate Change Is Fueling Wildfires Nationwide, New Report Warns*, New York Times (Nov. 27, 2018), https://www.nytimes.com/interactive/2018/11/27/climate/wildfire-global-warming.html [https://perma.cc/T8M7-45K8].

[11] *See* Niall McCarthy, *The Cost Of Climate-Related Disasters Has Soared In The 21st Century [Infographic*], Forbes (Oct. 12, 2018, 7:49 AM), https://www.forbes.com/sites/niallmccarthy/2018/10/12/the-cost-of-climate-related-disasters-soared-in-the-21st-century-infographic/#3963b1a79760 [https://perma.cc/T93W-JV7N].

[12] *See* Sarah Adams-Schoen, *Sink or Swim: In Search of a Model for Coastal City Climate Resilience*, 40 Colum. J. Envtl. L. 433, 435 (2015). Adams states,

> Global temperatures are increasing and the rate of increase is accelerating—with corresponding increases in sea levels, acidification of oceans, and losses of flood-mitigating wetlands. Storms and other extreme weather events are increasing in frequency and severity. As a result, coastal communities are already experiencing rising sea levels, eroding shores, more massive storm surges, more severe storms, salt water intrusion, loss of land and changes in marine resources.

Id. (footnotes omitted).

[13] *See* Recognizing the duty of the Federal Government to create a Green New Deal, H.R. Res. 109, 116th Cong. § 1 (2019).

[14] *See* Tom DiChristopher, *GOP stacks Green New Deal forum with climate deniers and industry groups*, CNBC (Feb 26, 2019 4:12 PM), https://www.cnbc.com/2019/02/26/gop-stacks-green-new-deal-forum-with-climate-deniers-industry-groups.html [https://perma.cc/N2PX-Q8XK] (quoting Arizona Republican, Congressman Paul Gosar, "'The Green New Deal is another climate change, socialist pipedream [sic] that attacks American jobs and our way of life.'") (alteration in original).

[15] *See infra* § II.

Passive Takings: The State's Affirmative Duty to Protect Private Property.[16] Serkin asserts that the Fifth Amendment's Takings Clause does not only provide negative liberties (i.e., prohibit certain government actions), but that it also compels the government to protect property.[17] Accordingly, he argues that "property owners could be constitutionally entitled either to governmental intervention on their behalf or to compensation if the government fails to act."[18] Most significantly, Serkin illustrates the passive takings concept through the example of sea-level rise.[19]

Accordingly, this Note is set upon the following trajectory. Part I will address the background of takings jurisprudence. Such consideration is warranted as any assertions pertaining to "new" theories of takings liability must acknowledge existing precedent. In Part II, Serkin's passive takings theory will be unpacked. His ideas are relevant to a situation like that of the *St. Bernard Parish* case and it is therefore necessary to understand his theory in order to apply it to the case. Last, in Part III, this Note will break down the specific facts of the *St. Bernard Parish* case and the rationale behind the Federal Circuit's decision. This author concludes that the Federal Circuit's decision in *St. Bernard's Parish*—inaction cannot be the basis for a taking—by no means rests on unshakable grounds and that future litigants may overtly assert takings claims based on inaction by attacking ambiguities in the decision.

I. Traditional Takings Liability and Serkin's Expansive Theory

A. Traditional Takings Clause Foundations

The ultimate source of takings liability is often referred to as the Takings Clause of the Constitution: "private property [shall not] be taken for public use, without just compensation."[20] Overall, "[t]he guarantee of the Takings Clause was designed to bar the government from forcing some people alone to bear public burdens that, in all fairness and justice, should be borne by the public as a whole."[21] As with many areas of the Constitution, this short clause leaves much to be desired in the way of clarity. A series of Supreme Court

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[16] *See* Christopher Serkin, *Passive Takings: The State's Affirmative Duty to Protect Private Property*, 113 Mich. L. Rev. 345, 356–57 (2014).

[17] *See id.* at 346.

[18] *Id.* at 346.

[19] *See id.* at 346–47.

[20] U.S. Const. amend. V.

[21] Ann K. Wooster, Annotation, *What Constitutes Taking of Property Requiring Compensation Under Takings Clause of Fifth Amendment to United States Constitution—Supreme Court Cases*, §2, 10 A.L.R. Fed. 2d. 231, 231 (2006) (citations omitted).

decisions set out to resolve ambiguities in the clause such as what constitutes a taking and what is considered just compensation. In resolving the ambiguities of the Takings Clause, the Supreme Court has distinguished several different kinds of takings that require separate analyses.[22]

1. Regulatory Takings

It is perhaps easiest to understand the operation of the Takings Clause when the government physically seizes a piece of private land for public use: "[P]rivate property [shall not] be taken for public use, without just compensation."[23] However, the Supreme Court has expanded the operation of the Takings Clause beyond mere physical takings. One expansion is in the area of regulatory takings. Broadly, regulatory takings doctrine holds that the government's issuance of a regulation that prohibits certain uses of land may create takings liability for any reduction in land value caused by the regulation.[24]

The seminal case for regulatory takings is *Pennsylvania Coal Co. v. Mahon*.[25] In *Mahon*, the Pennsylvania Coal Company owned mining rights to the subsurface of a particular piece of property.[26] The Pennsylvania government enacted a statute that prevented the coal company from mining pillars of coal which might compromise surface integrity where homes were located.[27] While the statute did not call for the Pennsylvania Coal Company to turn over any of their property to the government, the Supreme Court noted that it effectively destroyed some of the Company's property rights by limiting use of the land.[28] Accordingly, the Supreme Court announced that "while property may be regulated to a certain extent, if regulation goes too far it will be recognized as a taking."[29]

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[22] As an up-front matter, it is important to note that the takings clause was incorporated in 1896, and thus binds the actions of state governments as well as the federal government. *See* Chicago, Burlington & Quincy R.R. Co. v. Chicago, 166 U.S. 226, 241 (1896) ("[A] judgment of a state court, even if it be authorized by statute, whereby private property is taken for the State or under its direction for public use, without compensation made or secured to the owner, is, upon principle and authority, wanting in the due process of law required by the Fourteenth Amendment of the constitution of the United States . . . .").

[23] U.S. Const. amend. V.

[24] *See* Frank B. Cross, 2 Fed. Envir. Reg. of Real Estate § 5:34 (2020) (discussing regulatory takings in the wetlands context).

[25] 260 U.S. 393 (1922).

[26] *See id.* at 412.

[27] *See id.* at 412–413.

[28] *See id.* at 413.

[29] *Id.* at 415.

The Supreme Court, however, was careful to limit the scope of its approach to takings liability. It stated that the "[g]overnment could hardly go on if to some extent values incident to property could not be diminished without paying for every such change . . . ."[30] A rule requiring governmental compensation for every incidental diminution property value would either freeze all action or leave the government bankrupt in a very short period of time.[31] On the other hand, it acknowledged that the government's power to decrease the value of property through its actions is not unlimited.[32]

Accordingly, the Supreme Court listed three considerations in determining whether the government is required to compensate for regulatory action. First, courts must consider the "extent of the diminution" of the value of the property concerned, which depends on the specific facts of the case.[33] Second, courts must consider the public interest in the government's action.[34] Lastly, courts should ponder the "average reciprocity of advantage" the government action creates.[35]

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[30] *Id* at 413.

[31] *See* John E. Fee, *The Takings Clause as a Comparative Right*, 76 S. Cal L. Rev. 1003, 1015–16 (2003). Criticizing a closely analogous view proposed by Professor Richard Epstein which Fee describes as "the economic status quo theory of takings," Fee remarks,

> Such a rule for regulatory takings would be equivalent to a constitutional requirement that all laws be Pareto-optimal for those that are regulated; that is, government would have no power to change the rules of society unless it ensured (through cash compensation, if necessary) that no single owner of property was left economically disadvantaged by the change.

Id. at 1016–17 (citations omitted).

[32] *See Mahon*, at 413.

[33] *See id*. Professor Epstein notes that this first consideration leaves the government broad latitude in seizing property if the "extent" is considered a percentage rather than a dollar amount. *See* Richard A. Epstein, Pennsylvania Coal v. Mahon*: The Erratic Takings Jurisprudence of Justice Holmes*, 86 Geo. L.J. 875, 893 (1998). Noting that, today, "extent" is interpreted in this way, he argues this creates "perverse incentives . . .[that encourage] government to enact extensive systems of regulation that do not quite reach the percentage limit established by the Court, but that cause massive dislocations of assets nonetheless." *Id.*

[34] *See Mahon*, 260 U.S. at 413–14.

[35] *Id.*; Lynda J. Oswald, *Role of the "Harm/Benefit" and "Average Reciprocity of Advantage" Rules in a Comprehensive Takings Analysis*, 50 Vand. L. Rev. 1447, 1489 (1997) (summarizing the rule as requiring that "a land use regulation that resulted in benefits to *regulated landowners* roughly equal to the burdens imposed on them [does] not violate the United States Constitution."); *see also* Raymond R. Coletta, *Reciprocity of Advantage and Regulatory Takings: Toward a New Theory of Takings Jurisprudence*, 40 Am. U. L. Rev. 297, 302 (1990). Professor Coletta explains that the reciprocity of advantage concept,

> lay[s] in the presumption that mutual restrictions on property use can enhance the total welfare of the affected landowners. Governmental regulation of land use is thereby

2. Categorical/Per se Takings

Categorial, or *per se*, takings cases are similar to regulatory takings cases in that they arise when government action devalues property. However, categorical takings are distinguished from regulatory takings in that the government actually physically invades the property. The bounds of this concept are explained in *Loretto v. Teleprompter Manhattan CATV Corp*.[36] In *Loretto,* a New York law required a property owner to allow a cable company to install its equipment on the owner's property.[37] Although the state government was not actually taking any part of the landlord's property and its invasion was relatively minor, the Supreme Court held that a "permanent physical invasion of a property" constitutes a taking requiring compensation.[38]

In *Loretto*, the Supreme Court analyzed several cases relevant to this Note. Specifically, in these cases it was not the government's action itself, but the *indirect effects* of its action, that constituted a taking requiring compensation.[39] In this way, these series of cases support the case for premising takings liability on inaction.

For example, the case of *Pumpelly v. Green Bay Co*.[40] suggests that the government may be subject to takings liability for its imprudent actions that cause a diminution in the value of property. There, a dam constructed by the defendants and authorized by the state of Wisconsin caused severe flooding which greatly damaged the plaintiff's property.[41] It was not entirely destroyed, but the flooding irreparably changed the face of his land.[42] Even though the plaintiff possessed his property at the end of the flooding, the Supreme Court still found a taking.[43] It held that the effective destruction and impairment of the plaintiff's property was a taking.[44] In essence, the government's approval

> justified by the reciprocal benefits that accrue to the burdened individuals. Such ordinances do not give rise to a takings challenge either because it is thought that benefits outweigh burdens and the regulations are, therefore, within the penumbra of substantive due process, or, alternatively, that the benefits that accrue from the regulations provide the necessary compensation to satisfy fifth amendment guarantees.

Id. (citations omitted).

[36] 458 U.S. 419 (1982).

[37] *See id.* at 421.

[38] *Id.* at 441.

[39] *See generally* United States v. Causby, 328 U.S. 256 (1946); Pumpelly v. Green Bay Co., 80 U.S. 166 (1872).

[40] 80 U.S. 166 (1872).

[41] *See id.* at 167.

[42] *See id.*

[43] *See id.* at 181.

[44] *See id.*

of the dam, which ultimately caused the flooding of the plaintiff's property, constituted an invasion for the purposes of the 5th Amendment.[45]

United States v. Causby[46] further illustrates the concept that the mere negative effects of government action, absent physical occupation, may create takings liability under the Fifth Amendment. In *Causby*, the respondents challenged the government's operation of a runway near their chicken farm as a taking requiring compensation.[47] While there was no actual physical occupation of respondents' property, the noise generated from the aircrafts landing and taking off terrified the chickens so much that they flew into the walls of their coop and perished.[48] Accordingly, respondents' could no longer operate their commercial chicken farm while the flights continued.[49]

The Supreme Court initially recognized the right of the government to utilize the airspace over the respondents' property.[50] However, it stated that, "[i]t is the owner's loss, not the taker's gain, which is the measure of the value of the property taken."[51] Addressing the facts directly, the Supreme Court proclaimed:

> If, by reason of the frequency and altitude of the flights, respondents could not use this land for any purpose, their loss would be complete . . . .
>
> The fact that the planes never touched the surface would be [irrelevant] . . . . The owner's right to possess and exploit the land-that is to say, his beneficial ownership of it-would be destroyed.[52]

While the government did not completely destroy the land, because it had other viable uses, the Supreme Court did not find this fact to be controlling.[53] The low-level flights were a "direct and immediate cause," of the decrease in value of the respondents' property and, accordingly, it found a servitude had been placed upon the land.[54] Again, a categorical taking was found where the indirect effects of the government's actions caused a reduction in property value.

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[45] *See id.* ("[W]here real estate is actually invaded by superinduced additions of water, earth, sand, or other material, or by having any artificial structure placed on it, so as to effectually destroy or impair its usefulness, it is a taking, within the meaning of the Constitution . . . .").

[46] 328 U.S. 256 (1946).

[47] *See id.* at 258.

[48] *See id.* at 259.

[49] *See id.*

[50] *See id.* at 261.

[51] *Id.* (citing United States v. Miller, 317 U.S. 369 (1943)).

[52] *Id.* at 261–62 (footnote omitted).

[53] *See id.* at 262.

[54] *Id.* at 267.

3. Ad-Hoc Test of Takings Liability

As demonstrated above, a variety of scenarios may lead to a court finding the government liable for a taking. As such, it has been difficult to establish a black and white test for determining whether the Takings Clause requires compensation. Accordingly, the Supreme Court in *Penn Central Transportation Co. v. New York City* put forward an "ad-hoc" test to guide courts in finding takings liability.[55]

Penn Central concerned a restriction the city of New York implemented on the use of property designated as historical landmarks.[56] The city ordinance required those who owned property so designated to perform maintenance tasks on the properties and to receive city approval before making any alterations to the historical structures.[57]

Noting that the existing jurisprudence provided no cohesive set of clearly delineated rules for finding a taking, the Supreme Court "identified several factors that have particular significance," amongst the "ad hoc, factual inquiries" it had carried out in the past: the economic impact of the regulation, the extent to which the regulation interferes with investment backed expectations, and the character of the government action.[58] The Supreme Court's acknowledgement that takings liability is a fact-intensive inquiry and its use of the phrase "ad hoc" suggest that these factors are not totally dispositive in any Takings Clause claim.[59] Nevertheless, these factors and the spirit of this *ad hoc* analysis must be respected in considerations of passive takings liability.

B. Passive Takings Theory

With an understanding of the background regarding traditional takings principles, Professor Christopher Serkin's novel expansion of takings jurisprudence may be considered. In his article Passive Takings: *The State's Affirmative Duty to Protect Property*, Serkin's overall thesis is that "[s]table legal rules coupled with ecological change can interfere with property owners's expectations," and this should constitute a taking requiring just compensation by the Fifth Amendment.[60] To be sure, this is quite the departure from traditional understandings of the Takings Clause. While acknowledging the contentious scope of the clause, Serkin states that traditional takings jurisprudence boils down

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[55] *See generally* Penn Centr. Transp. Co. v. New York City, 438 U.S. 104, 124 (1978).

[56] *See id.* at 107 ("Specifically, we must decide whether the application of New York City's Landmarks Preservation Law to the parcel of land occupied by Grand Central Terminal has 'taken' its owners' property in violation of the Fifth and Fourteenth Amendments.").

[57] *See id.* at 111–12.

[58] *Id.* at 124.

[59] *See id.*

[60] Serkin, *supra* note 16, at 360–61.

to protecting property owners's reasonable expectations regarding the use of their property.[61] Indeed, for Serkin, this concept is at the heart of the *Penn Central* ad hoc balancing test, a case which is the "polestar for regulatory takings liability."[62] While this observation, alone, is not at odds with Serkin's thesis, he emphasizes that the Takings Clause's protection of property values and expectations revolves around *legal* changes which are "at the heart of traditional takings claims."[63]

Serkin's generalization that traditional takings jurisprudence revolves around legal changes is consistent with the seminal takings cases discussed *supra*. Serkin's novel contribution to takings analyses is his assertion that legal stasis amid ecological transitions pose the same threats to property owner's reasonable expectations of property value as legal changes. He states:

> Governmental interference with settled expectations does not . . . depend on the government's changing the law. A stable legal rule combined with a change in the world –an "ecological change"—can interfere with owners' expectations just as much as an explicit legal transition.[64]

While Serkin acknowledges that ecological changes are not limited to those in the environment, he focuses in on climate change (namely, sea-level rise) as "the clearest real-world example" illustrating his assertion.[65]

As a concrete example, Serkin applies his theory to the situation of many beachfront properties and their owners. Regulations in place since the 1970s prevent owners of these properties from constructing sea walls in order to preserve aesthetic uniformity along the shoreline.[66] At the time they were put in place, these restrictions probably caused an incidental diminution in value in preventing property owners from limiting beachfront erosion.[67] Nevertheless, sea-level rise—an ecological change—now threatens the very existence of beachfront property owners's land, especially since regulations prevent such property owners from buttressing their shoreline.[68] Serkin argues that, in such situations where the law remains consistent but changing *ecological* conditions alter its effect on property values, "if the hardship is severe enough, a property owner has a doctrinally plausible takings claim despite—and indeed because of—the fact that the law has not changed."[69] Distinct

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[61] *See id.* at 349–50.
[62] *Id.* at 350.
[63] *Id.* at 352.
[64] *Id.*
[65] *Id.*
[66] *See id.*
[67] *See id.* at 352–53.
[68] *See id.* at 353.
[69] *Id.*

from traditional takings cases, Serkin asserts the government's *failure* to act—specifically, through adjusting regulations—creates takings liability.

In addition to arguing that "leading theories animating traditional takings jurisprudence also support passive takings,"[70] Serkin highlights that his support for liability based on inaction is not a novel concept within the law.[71] As examples backing this statement, Serkin lists the Administrative Procedure Act's provision for judicial review of agency inaction,[72] and classic instances of liability in tort and criminal law based on inaction.[73] Serkin summarizes the law's recognition for liability on the basis of inaction, stating, "[t]he overarching intuition about the hazy boundary between acts and omissions is that liability should depend on the extent of the defendant's entanglement with the conditions giving rise to the injury."[74]

With a broad understanding of the basis for passive takings, it is further necessary to establish how the theory is applied. Serkin states, "passive takings claims should arise when: (1) The state has effective control over the injury-causing condition; or (2) The state has rendered the property especially susceptible to adverse changes in the world."[75] With regard to the first possible condition, Serkin lists the example of the government releasing flood waters from a dam that cause damage to property owners's land.[76] Regarding the second condition, Serkin hypothesizes a situation where, via regulation, the government disables self-help and renders property owners vulnerable to dangerous conditions they might otherwise have been able to ameliorate.[77] Once a plaintiff has established one of these conditions, Serkin states that the plaintiff may then proceed in making her passive takings case by resorting to traditional takings arguments and showing how the government's failure to act rises to the level of a taking.[78]

II. Passive Takings Applied to *St. Bernard Parish*

More than providing an intriguing perspective on the Takings Clause, Serkin's passive takings theory provides an avenue of relief for property owners

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[70] *Id.* at 360. For a discussion of these leading theories and how they align with passive takings, see Part II of Serkin's article.

[71] *See id.* at 372.

[72] *See id.* at 372–73.

[73] *See id.* at 378.

[74] *Id.* at 375 (citing Arthur Leavens, *A Causation Approach to Criminal Omissions*, 76 Calif. L. Rev. 547, 557–59 (1988)).

[75] *Id.* at 378.

[76] *See id.* at 378–79.

[77] *See id.* at 380.

[78] *See id.* at 382.

who are harmed when the government fails to take on obligations or remedy neglected regulatory schemes that it ought to have. This means of compensation has the potential to especially serve property owners located in vulnerable locations such as along coastlines. This Note proceeds by examining the case of such vulnerable property owners through the lens of *St. Bernard Parish*. Two claims are advanced. First, the Federal Circuit's reasoning for denying the property owners's claim does not rest on solid ground. Second, Serkin's passive takings theory significantly lends itself to the facts of the case. What follows is a summary of the facts of the case, the arguments put forward in the property owners's brief, and the decision of Federal Circuit.

B. St. Bernard Parish Fact Summary

The relevant facts of *St. Bernard Parish* began in the 1950's when the Army Corps of Engineers created the Mississippi River Gulf Outlet ("MRGO" or "MR-GO"), a channel that was intended to facilitate trade and navigation "between the port of New Orleans and the Gulf of Mexico."[79] During this time, the Army Corps of Engineers was certainly aware of the dangers of flooding in the area, as evidenced by their work on the Lake Pontchartrain and Vicinity Hurricane Protection Project.[80]

Even before Hurricane Katrina, the MRGO had severe negative effects on the environment.[81] The property owners asserted that the creation of the MRGO itself allowed salt water from the gulf to damage vegetation surrounding the channel that has served as a natural bulwark against hurricanes.[82] Additionally, they stated that the use of the of the MRGO eroded the channel.[83] Amidst all of this, the property owners claimed that the government was

[79] *See* St. Bernard Par. Gov't v. United States., 887 F.3d 1354, 1357 (Fed. Cir. 2018), *cert denied*, 139 S. Ct. 796 (2019).

[80] *See* U.S. Gov't Accountability Off., GAO-05-1050T, Army Corps of Engineers: Lake Pontchartrain and Vicinity Hurricane Protection Project 1 (2005) ("This project, first authorized in 1965, was designed to protect the lowlands in the Lake Pontchartrain tidal basin within the greater New Orleans metropolitan area from flooding by hurricane-induced sea surges and rainfall."); *see also* Gary P. Shaffer et. al., *The MRGO Navigation Project: A Massive Human-Induced Environmental, Economic, and Storm Disaster*, 54 J. Coastal Research 206, 210 (2009) ("Both the U.S. Fish and Wildlife Service (USFWS) and the Louisiana Department of Wildlife and Fisheries warned the USACE that construction of the MRGO could have detrimental effects on the surrounding flora and fauna.").

[81] *See* Shaffer et. al., *supra* note 157, at 210 (detailing an Army Corps of Engineers report from 1976 which acknowledged, among other effects, loss of marshland acreage, negative effects on aquatic species, and exposure of chemicals to local plant and animal life).

[82] *See* Appellees' Corrected Principal and Response Brief at 7, St. Bernard Par. Gov't v. United States, 887 F.3d 1354 (Fed. Cir. 2018) (Nos. 16-2301, 16-2373) (citations omitted).

[83] *See id.*

aware of these negative effects from the time of construction to the date of the hurricane, yet chose to largely ignore them.[84] In August of 2005, Hurricane Katrina struck the New Orleans metro area.[85] The St. Bernard Parish was one of the areas most catastrophically damaged by flooding.[86]

1. Court of Federal Claims

The property owners filed their complaint in the Court of Federal Claims, alleging the actions of the Army Corps of Engineers relating to the MRGO constituted a temporary taking under the Takings Clause of the Fifth Amendment.[87] They based their case on three assertions. First, the channel caused an increase in the salinity of the water surrounding the channel which destroyed the marshlands, which were crucial natural barriers to flooding.[88] Second, the failure of the Army Corps to maintain the banks of the channel increased erosion and allowed more water from the storm to pass through the channel.[89] The property owners asserted that, because the erosion to the MRGO made the channel so wide, waves were able to form and destroy the levees along the channel more quickly than the levees in other areas.[90] Lastly, the channel created a "funnel effect" which concentrated the storm surge that flooded the appellees' property.[91]

At the Court of Federal Claims, the Government argued that the property owners's takings claim should fail because they were aware of flooding risks, and, therefore, their investment backed expectations were unreasonable.[92] Once the MRGO project began, the Government contended that the property owners immediately realized the ecological risks associated with the project, but continued to reside or keep their businesses in the area.[93] The

[84] *See id.* at 10.

[85] *See* Joseph B. Treaster & Kate Zernike, *Hurricane Katrina Slams into Gulf Coast, Dozens are Dead*, N.Y. Times (Aug. 30, 2005), https://www.nytimes.com/2005/08/30/us/hurricane-katrina-slams-into-gulf-coast-dozens-are-dead.html [https://perma.cc/ZK3T-BRTX].

[86] *See* Landry Laviolette, *supra* note 2.

[87] *See* St. Bernard Par. Gov't v. United States, 121 Fed. Cl. 687, 690, 718 (2015) (reversed St. Bernard Par. Gov't v. United States, 887 F.3d 1354, 1358 (Fed. Cir. 2018), *cert. denied*, 139 S. Ct. 796 (2019) (mem.).

[88] *See* St. Bernard Par. Gov't v. United States, 887 F.3d 1354, 1357–58 (Fed. Cir. 2018); *see also* Appellees' Corrected Principal and Response Brief at 1, 12, St. Bernard Par. Gov't v. United States, 887 F.3d 1354 (2018) (Nos. 16–2301, 16–2373).

[89] *See St. Bernard Par.*, 887 F.3d at 1358.

[90] *See* Appellees' Corrected Principal and Response Brief at 11, St. Bernard Par. Gov't v. United States, 887 F.3d 1354 (2018) (Nos. 16–2301, 16–2373) (citation omitted).

[91] *See St. Bernard Par.*, 887 F.3d at 1358.

[92] *See St. Bernard Par.*, 121 Fed. Cl. at 719 (citation omitted).

[93] *See id.*

Court of Federal Claims took issue with this argument on two grounds. First, it stated that the owners's decision to remain in the area was based on the Government's provision of incomplete or dated analyses regarding flooding risks.[94] Second, it pointed out that the relevant measure, and precipitating event giving rise to the takings claim at issue, was the flooding experienced in the wake of Hurricane Katrina which was not comparable with the flooding the area had experienced in the past.[95]

Additionally, the Court of Federal Claims noted that the foreseeable consequences of the Government's actions are a relevant inquiry in considering whether a taking has occurred.[96] It held that, for many of the reasons asserted by the property owners, "it was foreseeable to the Army Corps that the construction, expansions, operation, and failure to maintain the MR–GO would increase salinity, increase habitat/land loss, increase erosion, and increase storm surge that could be exacerbated by a 'funnel effect.'"[97] Furthermore, and equally necessary, the owners established a causal link between these foreseeable consequences and the Government's "construction, expansions, operation, and failure to maintain the MR–GO."[98]

Based on these findings, the Court of Federal Claims found the Government liable for a taking requiring compensation and scheduled further proceedings to discuss appropriate compensation.[99] However, as discussed below, the Federal Circuit overturned this finding of government liability.

2. Federal Circuit

On appeal, the Federal Circuit reviewed the Court of Federal Claims's decision de novo and its fact findings for clear error.[100] It rejected the Court of Federal Claims's decision, holding, "the government cannot be liable on a takings theory for inaction and that the government action in constructing and operating MRGO was not shown to have been the cause of the flooding."[101]

The Federal Circuit considered the property owners's takings claim as resting on two grounds. The more conventional ground concerned the action the government took in creating the channel, which resulted in the diminished value of their property due to the flooding from the storm.[102] However, the

[94] *See id.* at 720 (citation omitted).

[95] *See id.* (citation omitted).

[96] *See id.* at 720 (citations omitted).

[97] *Id.* at 723 (citation omitted).

[98] *See id.* at 724–38.

[99] *See id*. at 747.

[100] *See* St. Bernard Par. Gov't v. United States, 887 F.3d 1354, 1359 (Fed. Cir. 2018), *cert denied*, 139 S. Ct. 796 (2019) (mem.).

[101] *Id.* at 1357.

[102] *See id.* at 1363–64.

court held that the owners had not addressed enough relevant Government actions concerning this argument. It stated that the they "failed to take into account" the totality of the Government's actions pertaining to flooding—"risk-increasing" and "risk-decreasing"—and therefore voided liability on this basis.[103]

The other ground concerned the Government's inaction regarding the channel. In rejecting the property owners's claim on this ground, the Federal Circuit explained that in order to state a takings claim, the property loss must be the direct result of authorized government action.[104] This action must be affirmative, or in other words, not simply a failure to act.[105] The Federal Circuit equated the Army Corps failure to maintain with a duty of care which is only the basis of liability in tort.[106] The court asserted that these requirements hold true for both regulatory takings and physical takings.[107]

The Federal Circuit made this holding on the basis of a few illustrative cases. The Supreme Court found a taking was relating to flooding property in *Arkansas Game and Fish Commission v. United States*, where the government released floodwater from a dam that flooded the plaintiff's property.[108] Additionally, the Federal Circuit allowed a takings claim to proceed in *Ridge Line Inc. v. United States* where the building of a U.S. Post Office caused damage to a plaintiff's property via runoff.[109] Referring to a case of government inaction, the Federal Circuit referenced *United States v. Sponenbarger*, where the Supreme Court found no taking based on the government's building of an inadequate flood protection system.[110] Lastly, the Federal Circuit referenced *Georgia Power Co. v. United States*, where the plaintiff asserted their power line easement was taken because the government did not regulate the height of sailboat masts.[111] The Court of Federal Claims in *Georgia*

[103] *See id.*

[104] *See id.* at 1360 (citing Sanguinetti v. United States, 264 U.S. 146, 149–50 (1925); Ridge Line, Inc. v. United States, 346 F.3d 1346, 1355 (Fed. Cir. 2003)).

[105] *See St. Bernard Par.*, 887 F.3d at 1360.

[106] *See id.* (citing Moden v. United States, 400 F.3d 1335, 1345 (Fed. Cir. 2005)).

[107] *See id.* at 1360–61.

[108] *See id.* at 1361 (citing Ark. Game & Fish Comm'n v. United States, 586 U.S. 23, 27–28 (2012)).

[109] *See id.* at 1361 (citing Ridge Line, Inc. v. United States, 346 F.3d 1346, 1351 (Fed. Cir. 2003)).

[110] *See id.* (citing United States v. Sponenbarger, et al., 308 U.S. 256, 265 (1939)).

[111] *See id.* at 1361–62 (citing Georgia Power Co. v. United States, 633 F.2d 554 (Ct. Cl. 1980)).

Power found that the issue presented was a "discretionary inaction."[112] Absent an affirmative duty, the court refused to find a taking had occurred.[113]

In the conclusion of *St. Bernard Parish*, the Federal Circuit issued a statement that is perhaps the most damaging to any future claim brought before the court specifically based on passive takings liability. It asserted that "the allegations of government inaction do not state a takings claim."[114] If any future takings claims are based on a passive takings theory, this statement of the Federal Circuit must be controverted. At the highest level, the validity of this reasoning remains in question as the Supreme Court later denied the Respondents petition for certiorari.[115]

B. St. Bernard Parish from a Passive Takings Perspective

It is worthwhile to consider how one could attack head on the Federal Circuit's holding that inaction cannot be the basis of a takings claim and how one could successfully make a passive takings claim. Accordingly, through the lens of *St. Bernard's Parish*, this section presents the argument that takings claims based on inaction *are not* precluded by prior decisions and that passive takings claims fit within the existing jurisprudence cited by the Federal Circuit. After examination of the arguments put forward by the appellees at the Federal Circuit and the analysis of both the Court of Federal Claims and the Federal Circuit, it does not appear as though any involved party addressed this perspective. Therefore, this argument may be considered in an original light.

Admittedly, the analysis the Court of Federal Claims provided in its holding did not clearly state whether it classified the Army Corps's failure to maintain the MRGO as an overt action or inaction. Still, it appears from the property owners's brief, submitted to the Federal Circuit, that this was one of the hotly contested issues on appeal.[116] The owners asserted, "[c]ontrary to the Government's suggestion, the Court of Federal Claims did not base its analysis on the Corps's supposed *failure to take action* such as closing MRGO or armoring MRGO's banks."[117] They classified the original claim as consisting of only affirmative acts: "design, construction, operation, and maintenance."[118]

[112] *See* Georgia Power Co. v. United States, 633 F.2d 554, 557 (Ct. Cl. 1980),.

[113] *See id.* at 558.

[114] *See* St. Bernard Par. Gov't v. United States, 887 F.3d 1354, 1368 (Fed. Cir. 2018).

[115] *See id.*, *cert denied*, 139 S. Ct. 796 (2019) (mem.).

[116] *See* Appellees' Corrected Principal Response and Brief at 37, St. Bernard Par. Gov't v. United States, 887 F.3d 1354, 1368 (Fed. Cir. 2018) (Nos. 16–2301, 16–2373).

[117] *Id.* (emphasis added).

[118] *See id.*

They disagreed entirely with any classification of their claim as being based on "discretionary inaction."[119]

As summarized in Part II(A)(2), the Federal Circuit did not accept these assertions.[120] With the Supreme Court denying *certiorari*, any analysis of how the Supreme Court would have addressed the claim is pure conjecture. At least at the Federal Circuit, the viability of the property owners's claim seemed to hinge on characterizing the government action as an act or omission. As mentioned, it appears that the owners chose to resist characterizing their argument as one based on government inaction, rather than directly challenging whether government inaction may be the basis of a takings claim. A few likely explanations for this choice come to mind.

For one, takings claims based on government inaction are relatively untested; Serkin's article discussing this idea was written in 2014, and it does not appear to have been examined in a court opinion.[121] Thus, the litigants may have decided that they stood on firmer ground trying to argue their case within the framework of traditional Takings Clause cases, and they did not want to give the Federal Circuit a chance to shut down their case by attacking a novel theory.

While the result described above is unfortunate for the litigants, it provides the opportunity for a fresh analysis of the viability of a passive takings argument on the facts of the *St. Bernard Parish* case. In order to conduct this analysis, one must examine the basis of the Federal Circuit's statement "the government cannot be liable for failure to act, but only for affirmative acts by the government,"[122] as this is where passive takings liability faces the most implicit attack within the opinion. The Federal Circuit cited no direct authority in making this statement; rather, it drew support from an analysis of past takings cases which only found liability on affirmative government action.[123] Accordingly, these cases must be consulted to determine whether they truly preclude takings based on inaction.

The first case the Federal Circuit discussed in support of its assertion that inaction cannot be the basis of a takings claim was *Moden v. United States*.[124]

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[119] *See id.*

[120] *See* St. Bernard Par. Gov't v. United States, 887 F.3d 1354, 1360 (Fed. Cir. 2018).

[121] At the time of writing, a Westlaw and Lexis search of "passive takings" yielded zero results for discussion in court opinions. Serkin's article was mentioned in a "see also" cite in an amicus brief in the *St. Bernard Parish* case presented to the Supreme Court as part of the petition for a writ of *certiorari*. *See* Brief Amicus Curiae of Pac. Legal Found. in Support of Petitioners at 15, St. Bernard Par. Gov't v. United States, 139 S. Ct. 796 (2019) (No. 18–359), 2018 WL 5279146, at *15.

[122] *St. Bernard Par.*, 887 F.3d at 1360.

[123] See *id.*

[124] *See id.*

Citing *Moden*, the court stated "[t]he government's liability for a taking does not turn, as it would in tort, on its level of care."[125] However, upon a closer examination of *Moden*, the Federal Circuit only cited half of the sentence. The full quotation reads, "[w]hile we agree that the government's liability for a taking does not turn, as it would in tort, on its level of care . . . *Pashley* confirms that foreseeability of injury is a relevant consideration."[126] This quotation in full does not substantiate the Federal Circuit's assertion that a valid takings claim *requires* an affirmative action. In fact, the rest of the quotation, which discusses foreseeability, cuts against this claim, because foreseeability is relevant to a decision to not act as well as any affirmative action.[127]

The additional cases discussed following the Federal Circuit's statement that a takings claim requires affirmative action do not substantiate its assertion any more than *Moden*. The Federal Circuit, citing *Ridge Line Inc. v. United States*, stated that "takings liability arises from an 'authorized activity.'"[128] Here, again, this is a partial quotation. Visiting *Ridge Line*, the full quote reads, "[f]irst, a property loss compensable as a taking only results when the government intends to invade a protected property interest *or* the asserted invasion is the 'direct, natural, or probable result of an authorized activity and not the incidental or consequential injury inflicted by the action.'"[129] Once more, this excerpt does not appear to preclude liability for inaction but stresses that addressing the foreseeable consequences of a decision is key to any assessment of takings liability.

In the next part of the opinion, the Federal Circuit states, "[i]n both physical takings and regulatory takings, government liability has uniformly been based on affirmative acts by the government or its agent."[130] Certainly, this

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[125] *Id.* at 1360 (quoting Moden v. United States, 404 F.3d 1335, 1345 (Fed. Cir. 2005)).

[126] Moden v. United States, 404 F.3d 1335, 1345 (Fed. Cir. 2005) (citing Pashley v. United States, 156 F. Supp. 737, 738 (Ct. Cl. 1957)). In *Pashley*, the plaintiffs asserted that construction of a dam, which eventually burst, led to the flooding of their property and they were due compensation as a result. *See Pashley*, 156 F. Supp at 737. The CFC stated that, because flooding of the plaintiffs' property was a foreseeable consequence of the construction of the dam, a taking had occurred. *See Pashley*, 156 F. Supp at 738 ("Defendant's liability depends not on its want of care, but on the fact of taking as the natural consequence of defendant's acts.").

[127] *See Moden*, 404 F.3d at 1345 (citing *Pashley*, 156 F Supp. at 738).

[128] *St. Bernard Par.*, 887 F.3d at 1360 (quoting Ridge Line, Inc. v. United States, 346 F.3d 1346, 1355 (Fed. Cir. 2003)).

[129] Ridge Line, Inc. v. United States, 346 F.3d 1346, 1355 (Fed. Cir. 2003) (emphasis added) (quoting Columbia Basin Orchard v. United States, 132 F. Supp. 707, 709 (1955)).

[130] *See St. Bernard Par.*, 887 F.3d at 1361 (citations omitted). A brief summary of some of these cases are discussed *supra* Section II(A).

would give weight to finding takings only where affirmative actions are concerned. But, to the contrary this is not explicitly true. Serkin notes:

> Certain strands of takings cases have, in fact, implicitly rejected a firm line between governmental action and inaction, although in ways that have largely gone unnoticed. In the zoning context, in particular, a planning commission's rejection of a request for a rezoning is conventionally cognizable as a taking and is treated by courts as conceptually indistinguishable from a zoning change.[131]

Put in the *St. Bernard Parish* context, the Government's decision to not maintain the banks along the MRGO is analogous to a zoning commission's rejection of a request for rezoning. Although a "failure to maintain" involves no active participation, it is nevertheless an active choice. The Federal Circuit may not have it both ways. Either deciding to not act *is* an affirmative action, for which the court accepts there may be takings liability, or the case law is *not* uniform, and inaction may, in fact, be a basis of liability under the Takings Clause.

On the other hand, the Federal Circuit tried to highlight past decisions that "establish that takings liability does not arise from government inaction or failure to act."[132] In one of the cases the Federal Circuit cited, *United States v. Sponenbarger*, where the Supreme Court found no liability when the government failed to build an adequate flood protection system and the plaintiff's property was flooded.[133] In another case, *Georgia Power Co. v. United States*, the Federal Circuit rejected a takings claim based on the government failing to regulate the height of sailboat masts interfering with a powerline easement.[134] In discussing *St. Bernard Parish*, the Federal Circuit highlighted the Court of Federal Claims' finding that, "issuance of such regulations is merely a discretionary act, and a taking may not result from this discretionary inaction' absent a duty to act."[135]

Neither of these cases would damage an argument for liability based on passive takings theory. Briefly, the language in *Georgia Power Co.*—including, "*such* regulations," and "a taking may not result from *this* discretionary act,"—is sufficiently narrow to not have an effect on the facts of *St. Bernard Parish*.[136] Addressing *Sponenbarger*, the Supreme Court in that case was probably correct to not find liability for the government inaction because, as Serkin

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[131] *See* Serkin, *supra* note 16, at 376 (citing Exec. 100, Inc. v. Martin Cnty., 922 F.2d 1536, 1540 (11th Cir. 1991); Jack v. City of Olathe, 781 P.2d 1069 (Kan. 1989); Taub v. City of Deer Park, 882 S.W.2d 824, 826 (Tex. 1994) (quotations omitted)).

[132] *See St. Bernard Par.*, 887 F.3d at 1361. Some of these cases are also summarized *supra* Section (III)(A).

[133] *See id.* (citing United States v. Sponenbarger et al., 308 U.S. 256, 260 (1939)).

[134] *See* Georgia Power Co. v. United States, 633 F.2d 544, 556 (Fed. Cir. 1980).

[135] *St. Bernard Par.*, 887 F. 3d at 1362 (citing *Georgia Power Co.*, 633 F.2d at 557).

[136] *Georgia Power Co.*, 633 F.2d at 557 (emphasis added).

states, "the government is not an insurer of last resort whenever property is threatened."[137] Passive takings theory only purports to impose liability when the government is somehow caught up in the harm that the plaintiff suffers.[138]

In addition to the fact that the cases the Federal Circuit cited do not definitively cut against any decisions finding liability based on a failure to act, a case the Federal Circuit has previously decided may be construed to stand for this very proposition. In *Lost Tree Village Corp. v. United States*, the Federal Circuit affirmed a Court of Federal Claims decision finding a taking when the government denied the appellants a permit, effectively depriving their property all viable economic use.[139] Without much difficulty, distinctions can be drawn between *Lost Tree* and *St. Bernard Parish*. For example, denial of a permit is not the same as declining to maintain a public works project. It is not apparent, however, that such a distinction is meaningful. Absent some serious straining of language, the government's involvement in both cases can be fairly categorized as inaction. The same core activity is involved in deciding to not issue a permit as deciding to not undergo maintenance activity. Construed accordingly, it could be argued that *Lost Tree* is an example within Federal Circuit precedent that inaction may be the basis for takings liability.

Considering the above analysis, the Federal Circuit's decision in *St. Bernard Parish* does not appear to stand on unshakable ground. In *Sponenbarger*, the barriers the government erected failed to protect the plaintiff's property.[140] In *St. Bernard Parish*, the MRGO was intended to facilitate navigation, not prevent flooding.[141] The property owners did not suggest that flooding barriers built by the government were *per se* inadequate, but that the failure to maintain the channel in spite of an awareness of the danger of erosion worsened the damage to their property.[142] This narrowly construed allegation lines up neatly with passive takings theory.

The *Lost Tree* case suggests that the Federal Circuit may be receptive to arguments that takings liability may be based on inaction without considering any groundbreaking doctrine. Still, a quote from Serkin's article captures quite well why *St. Bernard Parish* may have come out differently if the litigants directly addressed the viability of passive takings liability:

> [W]here the content of state-defined rights and obligations exposes property to harm, the government should not necessarily be able to avoid liability by claiming inaction. By defining the content of property, the government is analogous to the driver who

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137 Serkin, *supra* note 16, at 347.

138 *See id.* at 377.

139 *See* Lost Tree Village Corp. v. United States, 787 F.3d 1111, 1113 (Fed. Cir. 2015).

140 *See* United States v. Sponenbarger et al., 308 U.S. 256, 260 (1939).

141 *See* St. Bernard Par. Gov't v. United States, 887 F.3d 1354, 1357 (Fed. Cir. 2018).

142 *See id.* at 1358.

> sets the car in motion. The government cannot later claim that it did not act when that definition of property comes crashing into some new reality.[143]

The Government decided to build the MRGO and then chose not to address the erosion of the channel in *St. Bernard Parish*, which is analogous to "the driver who sets the car in motion."[144] Granted, a simple "but for" analysis of the government's inaction here does not lead to a conclusion that the litigants' property would have been free from harm. However, this does not preclude liability from a passive takings standpoint in this case or similar cases where such uncertainty is involved.

Conclusion

Considering *St. Bernard Parish* alongside Serkin's article on passive takings has yielded two significant findings. First, the analysis of the Federal Circuit's assertion that liability under the Takings Clause cannot be found in instances of government inaction reveals that this holding is not unassailable for potential claimants who wish to assert liability on the basis of a passive taking. Second, the analysis of how passive takings theory lines up with this case provides useful insight for litigants who may bring forward claims in similar contexts. Unfortunately, it is likely that, in the future, property owners will suffer damage in similar ways as those in the *St. Bernard Parish* case. Regrettably, the Federal Circuit does not appear to be open to compensating these litigants based on traditional theories of takings or tort. Accordingly, the analysis of this Note will hopefully provide an example of a viable means for a passive takings argument to be brought before the Federal Circuit.

143 Serkin, *supra* note 16, at 378.

144 *Id.*

Shattering the Looking Glass: How a Section 101 Revision Could Save FinTech From *Alice*

Jordan Nimitz*

Introduction

The last decade has witnessed an age of innovation dubbed by many historians as the Fourth Industrial Revolution.[1] Digitization and a wave of innovations, including artificial intelligence, the "internet of things", and smart technologies, are blurring the lines between the physical and digital worlds and are transforming the economy and the operation of business and finance.[2] In almost every industry, mobile devices, cloud computing, and the "internet of things" have shifted power from established brands and institutions to consumers, who have gained more knowledge, leverage, and choices in evaluating products and services than in the past.[3] The increasingly savvy consumer demands a digitally engaged customer experience and immediate smart phone access to customer service providers.[4] Simultaneously, companies

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* Jordan Nimitz is a May 2020 graduate from the George Washington University Law School. She graduated during a global pandemic as a Thurgood Marshall Scholar and a Senior Staff member of the Federal Circuit Bar Journal. She would like to thank Professor James Hughes and Katherine Boatman for their guidance and advice, and her mother Debbie Nimitz and Professor Robert Tuttle for their encouragement during the drafting process.

[1] *See* Irving Wladawsky-Berger, *Digital Disruptors of the World Unite: Interpreting the Fourth Industrial Revolution*, Wall St. J.: CIO J. (Dec. 15, 2017, 2:47 PM), https://blogs.wsj.com/cio/2017/12/15/digital-disruptors-of-the-world-unite-interpreting-the-fourth-industrial-revolution/ [https://perma.cc/X789-A6CC].

[2] *See* Elizabeth Schulze, *Everything You Need to Know About the Fourth Industrial Revolution*, CNBC (Jan. 17, 2019 1:17 AM), https://www.cnbc.com/2019/01/16/fourth-industrial-revolution-explained-davos-2019.html [https://perma.cc/QN44-38XT].

[3] *See* Irving Wladawsky-Berger, C*ustomer Service and Trust in the Internet Economy*, Irving Wladawsky-Berger (May 05, 2015, 05:51 AM), https://blog.irvingwb.com/blog/2015/05/trust-and-reputation-.html [https://perma.cc/CF3D-F6XE].

[4] *See generally*, *id.* (discussing shifting power dynamics between consumer and company in the Internet-Age); Craig Borowski, *What a Great Digital Customer Experience Actually Looks Like*, Harv. Bus. Rev. (Nov. 9, 2015), https://hbr.org/2015/11/what-a-great-digital-customer-experience-actually-looks-like [https://perma.cc/E2HP-WT76] (discussing how digital customer experience has evolved and consumer expectations of digital customer service).

across all industries face challenges from newcomers offering transparency, specially customized services, and other superior experiences at cheaper rates.[5] Established, incumbent businesses face the challenge to innovate or perish.[6]

In response to this digital revolution, the financial services industry has developed a new field of innovation called financial technology ("FinTech") that operates at the intersection of the financial service and technology industries.[7] FinTech includes any technological delivery of financial services for businesses or individuals to transact and manage their finances.[8] In the second half of the 20th century, technologies, such as credit cards, Automatic Teller Machines ("ATM"), and online commercial platforms, enhanced bank and financial service firms by streamlining and refining their infrastructure and service provision.[9] The digital evolution of FinTech in the 21st century, however, is rapidly revolutionizing the financial service industry by producing new technologies that allow consumers to independently manage their own finances without the inefficiency of using institutional intermediaries. New technologies, such as mobile wallets like ApplePay, automated investment management like Wealthfront's robo-advisor, and equity-based crowdfunding platforms like CircleUp, compete with and threaten to replace established institutional players.[10]

Fintech is economically revolutionary, providing the everyday individual with broader access to financial services, breaking barriers to entry, and completely changing how finance works.[11] The growing investment in Fintech companies reflects the industry's revolutionary character, with global funding rising to a record setting $112 billion in 2019.[12] Given FinTech's potential

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5 *See* Wladawsky-Berger, *supra* note 1; Irving Wladawsky-Berger, *The Digitization of the Economy*, Irving Wladawksy-Berger (Feb 04, 2013, 6:00 AM), https://blog.irvingwb.com/blog/2013/02/the-digitization-of-the-economy.html [https://perma.cc/435F-KK8T].

6 *See* Klaus Schwab, *The Fourth Industrial Revolution: What It Means, How to Respond*, World Economic Forum (Jan 14, 2016), https://www.weforum.org/agenda/2016/01/the-fourth-industrial-revolution-what-it-means-and-how-to-respond [https://perma.cc/WB73-WNXS].

7 *See Blurred Lines: How FinTech is Shaping Financial Services*, Global FinTech Report (PwC) at 3 (2016), https://www.pwc.de/de/newsletter/finanzdienstleistung/assets/insurance-inside-ausgabe-4-maerz-2016.pdf [https://perma.cc/553B-QK4C].

8 *See id.*

9 *See* Falguni Desai, *The Evolution of FinTech,* Forbes (Dec 13, 2015, 05:35 AM), https://www.forbes.com/sites/falgunidesai/2015/12/13/the-evolution-of-fintech/#70cdbe677175 [https://perma.cc/K7Q2-F2NP].

10 *See id.*

11 *See* William Magnuson, *Regulating Fintech*, 71 Vand. L. Rev. 1167, 1174 (2018).

12 *See Global FinTech Investment more than Doubled to $112 Billion*, Consultancy.EU (Feb 21, 2019), https://www.consultancy.eu/news/2390/

to improve the financial security and transaction-efficiency of millions of people, protecting innovations in this arena offers a high potential value.[13] The United States protects innovation with Article 1, Section 8 of the United States Constitution, which delegates to Congress the power to "promote the Progress of Science and useful Arts by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." These exclusive use rights serve the policy purpose of incentivizing innovation by rewarding innovators for the costs and labor of research and development.[14] Congress executed its mission to promote discovery by passing the Patent Act, which codified the qualifications and requirements an invention must meet to receive exclusive use rights.[15] Congress established the United States Patent and Trademark Office ("USPTO") to review and grant patent applications according to the bounds of the Patent Act.[16]

Because FinTech companies tend to be small, often with only one product and a small staff, they are especially vulnerable to market fluctuations and systemic shocks.[17] Patent rights provide significant benefits to and encourage innovation in FinTech companies, who can use patent protection to increase the value of their companies, protect a market segment from competitors, or extract licensing revenue, thus encouraging innovation.[18]

However, the U.S. Supreme Court severely constrained patent protection for FinTech products by placing stringent limitations on the bounds of patent eligibility, excluding hundreds of FinTech innovations from the benefits of patent protection.[19] 35 U.S.C. § 101 of the Patent Act ("Section 101") governs the threshold inquiry of what kind of subject matter can be patent eligible. Section 101 broadly provides that "any new and useful [1] process, [2] machine, [3] manufacture, or [4] composition of matter or any

global-fintech-investment-more-than-doubled-to-112-billion [https://perma.cc/C3NW-U4HY].

[13] *See* Kate Gaudry & Thomas Franklin, *Patent Trends Study Part Three: FinTech Industry*, IP Watchdog (May 3, 2019), https://www.ipwatchdog.com/2019/05/03/patent-trend-study-part-two-fintech-industry/id=108770/ [https://perma.cc/76NR-L6UJ].

[14] *See* Gregory Kirsch & Brett Lockwood, *The FinTech Challenge*, Smith, Gambrell & Russell, LLP (2016), https://www.sgrlaw.com/ttl-articles/the-fintech-challenge/ [https://perma.cc/S3AL-AT7R].

[15] *See General Information Concerning Patents*, U.S. Pat. and Trademark Off. (Oct. 2015), https://www.uspto.gov/patents-getting-started/general-information-concerning-patents [https://perma.cc/Q3TW-CVBY].

[16] *See id.*

[17] *See* Magnuson, *supra* note 11, at 1200.

[18] *See* Kirsch & Lockwood, *supra* note 14.

[19] *See* Kevin J. Hickey, Cong. Research Serv., R45918, Patent-Eligible Subject Matter Reform in the 116th Congress 25, 18, 20 (2019).

new or useful improvement thereof" may obtain a patent.[20] A patent that facially falls within the four patent eligible inventions may still be invalid if it qualifies as one of the three judicially created exceptions to subject matter eligibility: (1) law of nature; (2) natural phenomenon; and (3) abstract idea.[21]

For a decade, FinTech innovators enjoyed broad patent rights, but from 2010-2014, the Supreme Court heard a series of subject matter eligibility cases and incrementally constrained the bounds of what inventions were patent eligible.[22] The most recent case, *Alice Corp. v. CLS Bank Int'l* imposed ambiguous and stringent requirements to satisfy the abstract idea exception with the two-prong *Alice/Mayo* test. The *Alice/Mayo* test is described as the ultimate "death sentence" for FinTech patent protection because it makes it harder to receive a patent and easier to challenge and invalidate patents after they have been granted.[23] The difficulty arises from confusion of what qualifies as an "abstract idea" and how to apply the *Alice/Mayo* test.

Part I discusses the background and explosion of FinTech in the digital age and the corresponding need for patent rights to protect these innovations. Part II discusses the challenges businesses face in patenting Fintech by delving into the subject matter requirement of patent eligibility and a chronological examination of the abstract idea exception within the context of business methods. Part III argues that the *Alice/Mayo* test should be liberalized to make patent eligibility more accessible because: (1) the Supreme Court's interpretation contravenes the language and purpose of Section 101; (2) FinTech needs broad patent eligibility to incentivize innovation; and (3) that *Alice* has damaged the United States standing as a global leader in patent protection and holds the country back from global competition. Part IV discusses the need for Congress to revise Section 101 and specifically argues that a proposal by the Intellectual Property Law Association of Chicago ("IPLAC") is the best revision for the FinTech industry.

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20 *Id.* at 4.

21 *See id.* at 11.

22 *See, e.g.*, Alice Corp. v. CLS Bank Int'l, 573 U.S. 208, 227 (2014); Ass'n for Molecular Pathology v. Myriad Genetics, Inc., 569 U.S. 576, 596 (2013); Mayo Collaborative Servs. v. Prometheus Lab'ys., Inc., 566 U.S. 66, 88–90 (2012); Bilski v. Kappos, 561 U.S. 593, 660 (2010).

23 *See* John V. Biernacki, et. al., *Alice Corp. v. CLS Bank: Did the Supreme Court Sign the Warrant for the "Death of Hundreds of Thousands of Patents"?*, Jones Day (June 2014), https://www.jonesday.com/files/Publication/a0e82e3b-1fa5-4164-a90e-98d1bf635bbe/Presentation/PublicationAttachment/230bb63a-b8b2-4bca-894e-c7c39b1effdb/Alice%20Corp%20v%20CLS%20Bank.pdf [https://perma.cc/3TER-NFW5]; *see also Alice Corp.*, 573 U.S. at 226–27.

I. Damsel in Distress: Laying Out the Scope of FinTech and Its Need for Patent Protection

The term "FinTech" creates a glamourized image of mobile applications and Silicon Valley.[24] Some industry leaders have argued that FinTech's importance is overblown because the presence of new technologies and companies in financial service does not differ from the utilization of technology by traditional finance firms.[25] For example, the introduction of the ATM in 1967 could be analogized to FinTech because like many FinTech innovations replace the third party delivery of a service by bank or other established financial institutions, the ATM was also a consumer-facing finance technology that replaced the need for tellers and branches to deposit and withdraw money.[26] Customers could withdraw or deposit cash at any time with the ATM, thus having more control over their finances through access to this technology.

For all the discussion surrounding FinTech, no comprehensive definition precisely details its nature and scope. "FinTech" has been used interchangeably to describe both the wave of new technologies that have transformed the provision of financial services and the industry of small start-ups and venture capital-backed companies that have broken into the finance industry.[27] To add further confusion, industry experts have contradictory definitions of the FinTech industry. Some use the term to reference only the new small, technology-enabled entities, while others use it to reference the entire industry of organizations that combine technology and finance, including large technology firms (e.g., Apple with Apple Pay) and traditional finance firms with increased technology usage.[28]

Because patent protection is particularly important for encouraging innovation amongst the smaller, new entrants into the finance industry, the term "FinTech" in this Note will be used to address only the part of the industry

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[24] *See* Desai, *supra* note 9.

[25] *See, e.g.*, Leslie Picker, *'Fintech' Loses Some of Its Attraction for Investors,* N.Y Times: The DealBook (April 6, 2016), https://www.nytimes.com/2016/04/07/business/dealbook/fintech-loses-some-of-its-attraction-for-investors.html [https://perma.cc/6XVM-L8UU].

[26] *See* Desai, *supra* note 9.

[27] *See* Magnuson, *supra* note 11, at 1173–74.

[28] *Compare* World Econ. Forum, *Beyond Fintech: A Pragmatic Assessment of Disruptive Potential in Financial Services*, Future of Financial Services Series Report at 8 (Aug. 2017), http://www3.weforum.org/docs/Beyond_Fintech_A_Pragmatic_Assessment_of_Disruptive_Potential_in_Financial_Services.pdf [https://perma.cc/38G2-U5CF], *with* EY, *EY FinTech Adoption Index 2017: The Rapid Emergence of FinTech* at 5 (2017), http://www3.weforum.org/docs/Beyond_Fintech_-_A_Pragmatic_Assessment_of_Disruptive_Potential_in_Financial_Services.pdf [https://perma.cc/TL28-KD2L].

that is comprised of new entrants. When the specific technologies are being discussed, they will be referenced as "financial technology." To appreciate the necessity of protection for this class of financial innovation, it is important to parse out the differences between FinTech and other uses of technology in the financial industry, and to distinguish the two uses of the term.

A. What is FinTech?

At its most general conceptualization, FinTech broadly encompasses "the application of technology to finance."[29] However, the application of technology in the financial services industry alone is not a novel concept because technology has always interacted with finance.[30]

Since the late 19th century, finance and technology have interacted and reinforced each other's development.[31] Before World War I, a wave of technological innovations such as the telegraph, telephone, steamships, and railroads connected disparate parts the globe and opened the door to for rapid, cross border financial transactions, communication of information, and payments.[32] Personal finance technology such as credit cards in 1950 and the ATM in 1967 increased the accessibility of financial services in much the same way that FinTech does today.[33] In those ways, the industry has long benefited from innovations that improved the efficiency and accessibility in delivery of services.

Later, the advent of the internet in the mid 1990's laid the foundations for the digital revolution and for FinTech with the computerization of financial services.[34] For example, Wells Fargo first introduced online consumer banking in 1995, providing customers with online access to their accounts, online brokerage, bill pay, and other services.[35] The internet-based, digital platform through which consumers access their financial services makes FinTech distinguishable from previous eras.[36]

FinTech includes any technology (i.e., new software, applications, processes or business models) that operates exclusively online to provide financial

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[29] Douglas W. Arner, Janos Barberis & Ross P. Buckley, *The Evolution of FinTech: A New Post-Crisis Paradigm?*, 47 Geo. J. Int'l L. 1271, 1274 (2016).

[30] *See id.* at 1274, 1276.

[31] *See id*.

[32] *See id*. at 1278.

[33] *See id*. at 1278–79.

[34] *See id*. at 1278–79.

[35] *See* Jim Smith, *20 Years of Internet Banking 1995–2015,* Wells Fargo https://www.wellsfargohistory.com/internet-banking/ (last visited Feb. 9, 2020).

[36] *See* Arner, Barberis & Buckley, *supra* note 29, at 1280–83; *see also* Rory Van Loo, *Making Innovation More Competitive: The Case of Fintech*, 65 UCLA L. Rev. 232, 239 (2018).

services.[37] The services broadly fall into five categories: (1) money transfer and payments; (2) financial planning; (3) savings; investments; (4) borrowing; and (5) insurance.[38] Now that most people have a mini computer in their pockets at all times, consumers can directly connect to almost any financial service through digital products that are operated exclusively through applications, mobile, or online platforms.[39]

B. The FinTech Industry: Differentiating Between Start-ups and Traditional Finance Firms

The most striking disruptions in the finance industry, however, have not been made by the new technological tools, but rather by the companies themselves that create and provide the technologies. FinTech companies are characterized as small, technology-enabled entities that disrupt the finance industry by developing a data-driven, automated technological solution to a specialized financial service and using the technology to directly connect consumers to that service with mobile applications or online platforms.[40] In doing so, these entrants directly compete with traditional finance firms with the goal of completely replacing their services.[41] Where big banks and other financial institutions were once necessary evils to access capital fundraising services, loan transfers, or wealth management advice, now a large variety of small FinTech companies can compete to satisfy those needs.[42]

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[37] *See* Lucas Mearian, *What is FinTech (And How Has it Evolved)?*, Computerworld (Sept 18, 2017 12:03 PM PT), https://www.computerworld.com/article/3225515/financial-it/what-is-fintech-and-how-has-it-evolved.html [https://perma.cc/PC7P-7Y8E].

[38] *See* EY, *EY FinTech Adoption Index 2017: The Rapid Emergence of FinTech*, at 6 (2017), http://www3.weforum.org/docs/Beyond_Fintech_-_A_Pragmatic_Assessment_of_Disruptive_Potential_in_Financial_Services.pdf [https://perma.cc/TL28-KD2L].

[39] *See Blurred Lines: How FinTech is Shaping Financial Services*, PwC: Global FinTech Report 11–12 (Mar. 2016), https://www.pwc.de/de/newsletter/finanzdienstleistung/assets/insurance-insude-ausgave-4-maerz-2016.pdf [https://perma.cc/553B-QK4C].

[40] *See* Magnuson, *supra* note 11, at 1174; *see also* Liz Moyer, *From Wall Street Banking, a New Wave of Fintech Investors*, N.Y. Times: DealBook (Apr. 6, 2016), https://www.nytimes.com/2016/04/07/business/dealbook/from-wallstreet-banking-a-new-wave-of-fintech-investors [https://perma.cc/SBJ7-EFTQ].

[41] *See* Desai, *supra* note 9.

[42] *See* Tom C.W. Lin, *Infinite Financial Intermediation,* 50 Wake Forest. L. Rev. 643, at 653–54 (2015). The author stated:

> Automated money management companies, like Wealthfront, have billions of dollars under management and are fundamentally changing the wealth management business once dominated by financial advisors. Online platforms, like SecondMarket and SharesPost, have made it easier for people to trade securities of privately held companies. Crowdfunding entities, like Kiva and Kickstarter, have made it possible for people

The increasingly diverse FinTech market has the potential to equalize the finance market for the average consumer by providing "broader access to capital, fairer lending standards, better investment advice, and more secure transactions."[43] Consumers gravitate towards FinTech instead of traditional finance firms due to the more accessible, transparent, personalized. and faster experiences and the customizable choices that traditional financial services have struggled to provide.[44] A global online survey of 22,000 consumers estimated that in 2017, 33% of the U.S. population had adopted two or more FinTech services within the past six months.[45] This was an increase from 17% in 2015 and is projected to rise to 52% in the future.[46] The World Economic Forum and Deloitte have commented that FinTech companies have "defined the direction, shape, and pace of change across almost every financial services subsector," elaborating that "[c]ustomers now expect seamless digital onboarding, rapid loan approvals, and free person-to-person payments- all innovations that fintechs (sic) made popular. And while they may not dominate the industry today, fintechs have succeeded both as standalone businesses and vital links in the financial services value chain."[47]

II. Overview of Subject Matter Eligibility

To be eligible to receive a patent, an invention must meet two subject matter eligibility requirements. First, it must qualify as one of the four Section 101 categories: (1) process; (2) machine; (3) manufacture; or (4) composition of matter.[48] Second, it cannot claim one of the three judicially created exceptions to subject matter eligibility: (1) law of nature; (2) natural phenomenon; or (3) abstract idea.[49] Determining whether an invention claims one of these

> in big cities and small villages around the world to gain access to capital like never before. Peer-to-peer lending sites, like Prosper and LendingClub, present a legitimate alternative to traditional banking intermediaries by connecting lenders and borrowers. Apple Pay, Square, Stripe, and Venmo have changed the intermediation of payment systems. And the advent of Bitcoin has created an entirely new currency for transactions devoid of traditional banking intermediaries.

Id. (internal citations omitted).

43 Magnuson, *supra* note 11, at 1169.

44 *See* World Econ. Forum, *supra* note 28, at 40.

45 *See* EY, *supra* note 28, at 6.

46 *See id*. at 6–7.

47 *Beyond FinTech: Eight forces that are shifting the competitive landscape*, Deloitte Consulting LLP, at 3 (2017), https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Financial-Services/gx-fsi-beyond-fintech-summary.pdf [https://perma.cc/A4X3-KU6C].

48 *See* 35 U.S.C. § 101 (2018).

49 *See* Diamond v. Diehr, 450 U.S. 175, 185 (1981).

exceptions to patent-eligible subject matter is difficult because the judiciary created these exceptions through two hundred years of common law adjudication, and the courts did not provide clear parameters for qualification as one of the exceptions.[50] The parameters have ebbed and flowed with the judiciary over time, seemingly due to altered economic circumstances and the creation of new types of technology.[51] The abstract idea exception, in particular, has caused much consternation and confusion within the FinTech community due to the most recent subject matter eligibility case, *Alice v. CLS Bank*. This section describes (1) where Section 101 fits within the patent system and how it interacts with FinTech and business method patents and (2) the caselaw trajectory of the subject matter eligibility of business methods, describing how business method innovators once enjoyed broad patent protection rights and how *Alice* later made it harder to protect innovation.

A. Overview of Section 101: Where Business Methods Fit

Patent rights arise from Article I, Section 8 of the Constitution, which declares that "[Congress shall have the power] to promote the Progress of Science and useful Arts by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."[52] In doing so, the Constitution's drafters declared a national policy of rewarding innovation with temporary rights of exclusion, and Congress chose the patent as the tool to implement that policy with the Patent Act of 1790 and evinced an overall dedication to the rights of inventors.[53]

According to the U.S. Patent Act, technological innovations must satisfy five elements to be patentable: (1) proper subject matter; (2) utility; (3) novelty; (4) non-obviousness; and (5) disclosure.[54] Proper subject matter presents the initial threshold question of patent eligibility, asking "[w]hat type of subject matter must an invention comprise in order to be eligible for patent protection."[55] This initial determination of subject matter eligibility must be made at the outset, before and independently of any considerations

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[50] *See* Hickey, *supra* note 19, at 12.

[51] *See* Brian Lawrence, Note, *Clarifying Patent Law's Role in Financial Service: Time to Settle the Billski*, 22 Fed. Cir. B.J. 319, 322 (2012).

[52] Brief for SHFL Entertainment, Inc. as Amicus Curiae in Support of Neither Party at 2, Alice Corp. v. CLS Bank Intl, 573 U.S. 208 (2014) (No. 13-298) (quoting U.S. Const. art I, § 8).

[53] *See id.*

[54] *See* Megan M. La Belle & Heidi Mandanis Schooner, *Big Banks and Business Method Patents*, 16 U. Pa. J. Bus. L. 431, 442 n. 50 (2014).

[55] *See* Kenneth R. Adamo, Douglass H. Pearson & John V. Biernacki, *Patent-Eligible Subject Matter Revisited: In re Bilski*, Jones Day: Insights (Nov. 2008), https://www.jonesday.

of utility or novelty.[56] Because this determination is made before any other element and because of the ambiguous subject matter analysis promulgated by the judiciary, subject matter eligibility presents the highest barrier to patenting FinTech innovations.

Section 101 establishes four categories of patent eligible subject matter, stating that "any new and useful [1] process, [2] machine, [3] manufacture, or [4] composition of matter or any new or useful improvement thereof may obtain a patent."[57] Section 101 permits patenting in several technological fields, including pharmaceuticals, biotechnology, computer hardware and software, etc.[58] Because FinTech innovations tend to be computer implemented inventions like mobile applications or online platforms, they are not physical products constructed through human effort like machines, manufactures, or compositions of matter.[59] Therefore, they are typically evaluated as processes, which Section 100(b) further defines as a "process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material."[60] However, even if an invention appears to fit within one of the four Section 101 categories, it will not be subject matter eligible for patenting if it is "directed towards one of the three judicially created subject matter exceptions: (1) law of nature, (2) natural phenomenon, or (3) abstract idea.[61] A series of Supreme Court cases during the 20th century carved out these exceptions, following the notion that the exceptions are fundamental scientific principles that are "open to all"[62] and that patent rights for these principles would create monopolies on "the building blocks" of ingenuity[63] and prohibit innovations using the "basic tools of scientific and technological work."[64]

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com/en/insights/2008/11/patent-eligible-subject-matter-revisited-iin-re-bilskii [https://perma.cc/T53K-3QZ3].

[56] *See id.*

[57] 35 U.S.C. § 101 (2018).

[58] *See* Hickey, *supra* note 19, at 1.

[59] *See Creating Effective Fintech IP Strategy*, Managing IP Magazine (Sep. 05, 2018), https://www.inhousecommunity.com/article/creating-effective-fintech-ip-strategy/ [https://perma.cc/W74L-B3WK]; Brief for the United States as Amicus Curiae at 3, Hikma Pharmaceuticals USA Inc., v. Vanda Pharmaceuticals Inc., 140 S.Ct. 911 (2020) (No. 18-817), (indicating that "machine" and "manufacture" require some human effort).

[60] 35 U.S.C. § 100(b) (2018).

[61] *See* Adamo, Pearson & Biernacki, *supra* note 55.

[62] Benjamin W. Hattenbach & Rosalyn M Kautz, *Concrete Thoughts about Abstract Ideas: Why a Nebulous Exception to Patentability Should Not Swallow Computer Software*, 58 Santa Clara L. Rev. 261, 265 (2018).

[63] *Id*. at 262.

[64] Hickey, *supra* note 19, at 11.

The "abstract ideas" exception, in particular, creates a high barrier of entry for FinTech in the patent system because the judiciary has not clearly defined "abstract ideas" despite multiple opportunities to do so.[65] When examining patent applications, the USPTO divides patents within examining technology centers ("TCs") by common subject matter.[66] While FinTech innovations are evaluated in many TCs, they are predominantly examined within TC 3600 as business methods, which are characterized as "innovative ways of doing business, often, though not always, utilizing a computer driven by software."[67] Section 101's language of "any new and useful *process*" broadly allowed software-based business methods in the past, but since 2010, judicial manipulations of the abstract idea exception inject uncertainty that FinTech innovations qualify as patent eligible subject matter.[68]

B. The Road So Far: The Trajectory of Business Methods Patents

Courts have failed to establish a concrete standard for defining "abstract ideas," leading to significant uncertainty as to whether an invention is patent eligible.[69] Ambiguous case law from the Supreme Court and the Federal Circuit dragged the financial industry on a rollercoaster of unpredictability by initially granting wide patentability for financial business methods with *State Street*, then pulling back in the reins of patent eligibility with *Bilski,* and since then by inconsistently tweaking the abstract idea exception to an unworkable framework with no objective criteria.[70] This section chronologi-

[65] *See* John Duffy, *The Uncertain Expansion of Judge-made Exceptions to Patentability*, SCOTUSBlog (Jun. 20, 2014, 12:46 PM), https://www.scotusblog.com/2014/06/opinion-analysis-the-uncertain-expansion-of-judge-made-exceptions-to-patentability/ [https://perma.cc/ZKU6-58KN].

[66] *See Functions of the USPTO*, Schwartz Law Firm, P.C., https://www.schwartz-iplaw.com/Functions-Of-The-United-States-Patent-and-Trademark-Office.shtml [https://perma.cc/J8DX-5UT3]; *see also* Gene Quinn, *Business Methods by the Numbers: A Look Inside PTO Class 705*, IPWatchdog (Jan. 22, 2012), https://www.ipwatchdog.com/2012/01/22/business-methods-by-the-numbers-a-look-inside-pto-class-705/id=21892/ [https://perma.cc/ZNA8-73XJ].

[67] Adamo, Pearson & Biernacki, *supra* note 55, at 3; *see* James Cosgrove, *The Most Likely Art Units for Alice Rejections* (Dec. 14, 2015), https://www.ipwatchdog.com/2015/12/14/the-most-likely-art-units-for-alice-rejections/id=63829/ [https://perma.cc/FK5M-QFQX].

[68] *See* La Belle & Schooner, *supra* note 54, at 442, 443–46.

[69] *See* Hickey, *supra* note 19, at 21.

[70] *See* U.S. Pat. and Trademark Off., *Patent Eligible Subject Matter Report on Views and Recommendations from the Public*, 23, 29–30 (2017), https://www.uspto.gov/sites/default/files/documents/101-Report_FINAL.pdf [https://perma.cc/V885-LHFJ]; *see also* Elizabeth Bestoso, *Financial Business Method Patents: the Trend toward Invalidity under Section 101*, 86 Temp. L. Rev. 369, 372–373 (2014).

cally reviews Supreme Court and Federal Circuit case law for the trajectory of the patent eligibility of business methods and FinTech over past three decades, paying close attention to how the definition of "abstract idea" has been incrementally defined.

1. The Golden Years: Pre-Alice Era of Patent Eligibility

From 1998–2010, FinTech enjoyed broad patent eligibility within the business methods category after the Federal Circuit clarified that business methods were as patent eligible as any other process in its decision in *State Street Bank & Trust Co. v. Signature Finan. Grp., Inc.*.[71] Prior to this decision, a "business method exception" was assumed to categorically exclude business method inventions from the patent system.[72] Therefore, they relied on trade secrets and other means to protect their financial innovations.[73] By disposing of the "business method exception," *State Street* triggered an explosive boom of financial patents as a new class of financial innovators, including business managers, sales personnel, stockbrokers, and others, moved to protect their technology.[74]

The business method at issue in *State Street* was a computerized data processing system that valued mutual fund assets by accounting and distributing costs, expenses, profits, and other assets among related investments.[75] The USPTO issued a patent to Signature Financial Group ("Signature") for the financial process on March 1993.[76] After negotiations for its use in a licensing arrangement with State Street Bank & Trust Co. ("State Street") fell through, State Street filed a declaratory judgment action claiming that Signature's patent on the financial system was invalid.[77] State Street argued that the data processing system did not fall within an appropriately patentable subject matter under Section 101 because it was: (1) a business method and (2) a software that used a mathematical algorithm.[78] At that time, courts cate-

[71] *See* Bestoso, *supra* note 70, at 372.

[72] *See id*. at 372, n. 33.

[73] *See* Douglas L Price, *Assessing the Patentability of Financial Services and Products*, 3 J. High Tech. L. 141, 153 (2004).

[74] *See* Bestoso *supra* note 70 at 372–73, n. 24–25. *See also* Adamo, Pearson & Biernacki, *supra* note 55.

[75] *See* State St. Bank & Tr. Co. v. Signature Fin. Grp., Inc., 149 F.3d 1368, 1370 (Fed. Cir. 1998), *abrogated by* In re Bilski, 545 F.3d 943 (Fed. Cir. 2008); *see also* La Belle & Schooner, *supra* note 54, at 445.

[76] *See State St. Bank*, 149 F.3d at 1370.

[77] *See id*.

[78] *See id*. at 1368.

gorically viewed mathematical algorithms and business methods as "abstract ideas" and thus ineligible subject matter for patents.[79]

The Federal Circuit, however, rejected the concept of a "business method exception" of patent eligibility on the grounds that the use of the word "any" in Section 101 indicated that Congress had not intended to reject categories of innovation per se.[80] The court established a new standard for abstract ideas where an abstract idea could become patent eligible if applied in such a way as to produce "useful, concrete and tangible results."[81] As applied to the financial process at issue, the court held that the application of the mathematical algorithm to financial data produced a final share price that was a "useful, concrete and tangible" result, and therefore was patent-eligible.[82]

State Street eliminated any doubt about the patent eligibility of business methods. For almost a decade, the Federal Circuit held that "there should really never be a § 101 rejection of these applications so long as data transformation is present and the invention produces the requisite useful, concrete, and tangible result."[83] In 1998, *State Street*'s arrival coincided with the beginning of the Dot Com boom, as new developments in computer software and e-commerce emerged.[84] Waves of the business method patents applications flooded into the USPTO, rising from 925 applications the year before the State Street decision, to 7,500 in 2000.[85] The number of business method patents awarded by the USPTO also increased after State Street, with the USPTO's granting about 1,000 business method patents in 2000 as compared to 205 in 1997.[86] Where financial firms once tolerated open copying of their products and practices by their competitors, *State Street* incentivized innovation by protecting the fruits of their research and development.[87]

2. The Ultimate Disruptor: Enter Alice v. CLS Bank

After a decade of flexible patent eligibility under *State Street*, some courts began to incrementally tighten the reins on the patent eligibility of FinTech in response to the negative side effects accompanying *State Street*.[88] Entities

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79 *See* Lawrence, *supra* note 51, at 325.

80 *See State St. Bank*, 149 F.3d at 1373; Bestoso *supra* note 70, at 372.

81 *See State St. Bank*, 149 F.3d at 1373.

82 *See id.*

83 Stefania Fusco, *Is the Use of Patents Promoting the Creation of New Types of Securities*, 25 Santa Clara Computer & High Tech. L.J. 243, 251 (2008).

84 *See* Price, *supra* note 73, at 156.

85 *See id.* at 155.

86 *See id.* at 155–56.

87 *See* Bestoso, *supra* note 70, at 387.

88 *See* Antonio M. DiNizo, Jr., *From Alice to Bob: The Patent Eligibility of Blockchain in a post CLS Bank World*, 9 Case W. Res. J.L. Tech. & Internet 1, 18–21 (2018).

called patent trolls bought up patents but did not actually use the invention, rather leveraging the patent for licensing fees and threatening to bring patent infringement suits against anyone using the technology.[89] In response, the Supreme Court entered the fray, deciding four patent-eligible subject matter cases within five years.[90] The most recent case, *Alice Corp. v. CLS Bank Int'l*, established the two-step *Alice/Mayo* test for subject matter eligibility, which imposes stringent requirements to satisfy the abstract idea exception and is described as the ultimate "death sentence" for business method and software patents. [91]

In *Alice*, the innovation at issue had the purpose of acting as a third party "supervisory institution" to mitigate settlement risk, the risk that one party in a transaction of stock or foreign currency would fail to perform its agreed financial obligations in a contract.[92] Alice's "innovative trading platform" utilized a computer process to operate an escrow account by creating "shadow accounts" to track the balance of each party's credit and debit accounts.[93] At the end of the day, the system would give the go-ahead to the parties' respective financial institutions to execute the agreed financial transaction, thus removing either party's ability to renege on the transaction.[94] The invention was protected by four patents.[95] In 2007, CLS Bank filed for declaratory judgment that the patents were invalid and unenforceable due to a lack of patent subject matter eligibility.[96] Alice counterclaimed that CLS Bank was infringing on the patents in question.[97]

The Court applied the two-prong test set forth in *Mayo Collaborative Servs. v. Prometheus Lab'ys, Inc.*, resulting in the *Alice/Mayo* test of patent eligibility.[98] The first *Alice/Mayo* prong inquires whether the patent claim was "directed" towards a law of nature, a natural phenomenon, or an abstract

[89] *See* Bestoso, *supra* note 70, at 387.

[90] *See* Alice Corp. v. CLS Bank Int'l, 573 U.S. 208 (2014); Ass'n for Molecular Pathology v. Myriad Genetics, Inc., 569 U.S. 576 (2013); Mayo Collaborative Servs. v. Prometheus Lab'ys., Inc., 566 U.S. 66 (2012); Bilski v. Kappos, 561 U.S. 593 (2010).

[91] *See* Biernacki, et. al., *supra* note 23; *Alice Corp.*, 573 U.S. at 214.

[92] *See* CLS Bank Int'l v. Alice Corp., 768 F. Supp. 2d 221, 224 (D.D.C. 2011).

[93] *See id*. at 223–25.

[94] *See Alice Corp.*, 573 U.S. at 212–14; Stephen T. Schreiner & Brendan McCommas, *The Patentability of Financial Processes after the Supreme Court's Alice Decision*, 131 Banking L.J. 777, 779 (2014).

[95] *See Alice Corp*., 573 U.S. at 212–14.

[96] *See id.* at 214.

[97] *See id.*

[98] *See id*. 217–18; Mayo Collaborative Servs. v. Prometheus Lab'ys., Inc., 566 U.S. 66, 1296–97 (2012).

idea.[99] Inventions that are not directed towards those three judicial exceptions are eligible pass the first prong and are patent eligible.[100]

If the patent claim is directed towards one of those ineligible subject matters, the patent's eligibility can still be redeemed with the second *Alice/Mayo* prong, which asks whether the claims contain an "inventive concept" that transforms the invention from an abstract idea into a patent-eligible innovation.[101] An applicant can show an inventive concept by demonstrating the invention contains additional elements that amount to "significantly more" than "well-understood, routine, [and] conventional activities previously known to the industry."[102]

The Court's application of this test resulted in a unanimous conclusion on the invalidity of Alice's patents. Justice Thomas wrote the opinion of the Court, comparing the nature of the patents and their underlying function of third-party mediated settlement to other cases finding ineligible subject matter.[103] The Court agreed with the district court's evaluation of the patents as "directed to the abstract idea of employing a neutral intermediary to facilitate simultaneous exchange of obligations in order to minimize risk."[104] Determining that the technology did not satisfy the first prong of the *Mayo* test, the Court proceeded to the second prong to determine whether the claims contained an inventive concept that redeemed the financial process's patent eligibility. [105]

The Court ultimately rejected the patent's subject matter eligibility because no "inventive concept" provided additional elements to transform the claims beyond being the computer application of mediated settlement risk.[106] In viewing each claim separately and as an ordered combination, the Court determined that the steps to maintain shadow accounts, obtain data, adjust account balances, and issue automated instructions were all purely conventional, generic computer functions.[107] These features simply connected the abstract idea of intermediated settlement to computer functions that were

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99 *See Alice Corp.*, 573 U.S. at 217.

100 *See id.*

101 *See id.*, at 217–18.

102 *Id.* at 217–18, 225 (quoting Mayo Collaborative Servs. v. Prometheus Lab'ys, 566 U.S. 66, 73 (2012)); Karam Saab, *Overcoming Subject Matter Rejections: The Berkheimer Shift*, Law 360 (August 6, 2018), https://www.kilpatricktownsend.com/-/media/Feature/Insights/Publication/KARAM-SAAB-LAW-360.ashx [https://perma.cc/YE4Y-P3G3].

103 *See Alice Corp.*, 573 U.S. at 219.

104 *Id*. at 214, 219; *see als*o CLS Bank v. Alice Corp., 768 F. Supp. 2d 221, 252 (D.D.C 2011).

105 *See Alice Corp.*, 573 U.S. at 221; DiNizo, *supra* note 88, at 19.

106 *See Alice Corp.*, 573 U.S. at 222, 225–26.

107 *See id*. at 225.

previously known the industry.[108] In distinguishing Alice's software from previously granted computer-implemented processes, the Court said that the "mere recitation of a generic computer cannot transform a patent-eligible idea into a patent eligible invention."[109] Simply implementing an abstract idea on a computer or generally linking a particular method to a piece of technology does not demonstrate inventive concept, and without something more to improve technology or process, the invention is ineligible for patent protection.[110] Because many financial technologies involve the implementation of financial services on a digital platform, the *Alice* holding has been called a death sentence for patent protection.[111]

3. The Continued Evolution of the Abstract Exception Post-Alice

In the aftermath of *Alice*, the test for determining what constitutes a patent eligible claim continues to evolve and create uncertainty for the hundreds of granted and pending patents. The *Alice* decision analyzed an "abstract idea" by comparing the patent at issue to past cases, but the decision still did not provide a clear definition for "abstract idea."[112] As a result, critics of the *Alice* decision deem the determination of patent eligibility as an "I know it when I see it" test because of the uncertainty created by the subjective and results-oriented analysis.[113] Almost any innovation can be reduced to an abstract idea if judges dig deep enough, as the Federal Circuit dissent of *Alice* noted.[114]

The *Alice* decision could have effectively precluded the patent eligibility of software and FinTech as a whole, but the Supreme Court suggested that claims "purport[ing] to improve the functioning of the computer itself," or "effect[ing] an improvement in any . . . technology or technical field" could rescue a software or business method patent's subject matter eligibility.[115] *Alice* stopped short of elaborating or providing a clear definitions of "directed to" or "inventive concept" and left development of the subject matter eligibility test to the lower courts, leading to incorrect and inconsistent application.[116]

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[108] *See id.* at 225–26.

[109] *Id*. at 223.

[110] *See* DiNizo, *supra* note 88, at 19.

[111] *See id.* at 18.

[112] *See* Schreiner & McCommas, *supra* note 94, at 783.

[113] *See* Hattenbach & Kautz, *supra* note 62, at 279; Schreiner & McCommas, *supra* note 94, at 783.

[114] *See* CLS Bank Int'l v. Alice Corp., 717 F.3d 1269, 1298 (Fed. Cir. 2013); Schreiner & McCommas, *supra* note 94, at 783; Ryan Davis, *Kappos Calls for Abolition of Section 101 of Patent Act*, Law 360 (April 12, 2016, 4:32 PM EDT).

[115] *See* Alice Corp. v. CLS Bank Int'l, 573 U.S. 208, 225–26; Schreiner & McCommas, *supra* note 94, at 786.

[116] *See* Schreiner & McCommas, *supra* note 94, at 786.

Developers of computer-implemented inventions may retain some hope for patent eligibility in light of the most recent Federal Circuit decision on subject matter eligibility, *Berkheimer v. HP Inc.*[117] The representative patent at issue used a computer processing system to digitally process and archive documents and graphical items.[118] The system analyzed and parsed files into smaller components by identifying searchable information tags within the components, creating relationships based on the tag information, and reassembling and storing the components based on those relationships.[119] The system "eliminates redundant storage of common text and graphical elements, which improves system operating efficiency and reduces storage costs."[120] In the infringement suit's momentous holding, the court provided much needed clarity on the second prong of the *Alice* test. The court held that while the overall issue of whether a claim contains patent-eligible subject matter remains a question of law, the legal determination depends on the resolution of other facts, including whether a claim describes an unconventional inventive concept.[121] The opinion states "[t]he question of whether [something] is well-understood, routine, and conventional to a skilled artisan in the relevant field is a question of fact" and must be proven with clear and convincing evidence before it can be invalidated under summary judgment.[122] The court further elaborated that a claim is not well-understood, routine, and conventional just because it has been previously disclosed in a prior art.[123] Therefore, the public availability of technology does not foreclose a claim's patent eligibility.[124] In applying the new standard to the claims, the court reversed the summary judgment ruling because there was a genuine question of fact as to whether the specific method of archiving documents improves computer functionality.[125] As a result, the court made it more difficult to invalidate patents on motions to dismiss or during the summary judgment stage on abstract idea grounds.[126]

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[117] *See* Berkheimer v. HP Inc., 881 F.3d 1360 (Fed Cir. 2018), *cert. denied* 140 S.Ct. 911 (2020); Michael Borella, *Berkheimer v. HP Inc. (Fed. Cir. 2018)*, Patent Docs (February 8, 2018), https://www.patentdocs.org/2018/02/berkheimer-v-hp-inc-fed-cir-2018.html [https://perma.cc/P6RD-6PTH]. Case citation?

[118] *Berkheimer*, 881 F.3d at 1366.

[119] *See id.*; Borella, *supra* note 117.

[120] *Berkheimer*, 881 F.3d at 1362–63.

[121] *See id.* at 1369.

[122] *See id.* at 1368

[123] *See id.* at 1369.

[124] *See id.*; Symposium, *Meeting the Challenges to America's Economic Future: Charting the Course in U.S. Intellectual Property & Innovation Policy*, 67 Cath. U. L. Rev. 605, 619–20 (2018).

[125] *See Berkheimer*, 881 F.3d at 1370.

[126] *See Meeting the Challenges to America's Economic Future*, *supra* note 124, at 620.

The *Berkheimer* decision signals a positive step forward for patent holders because it delays some subject matter eligibility determinations for later in litigation, making summary judgment more difficult for infringers and providing patentees with better odds to uphold the eligibility of their patents.[127] Before this case, an infringer or the USPTO could argue that a patent infringement claim was well-understood, routine, and conventional without providing any evidence to support that argument, and the court would address such a claim as a matter of law.[128] After *Berkheimer*, district courts evaluating motions to dismiss must accept statements that assert a claim's inventive contribution under the second *Alice* prong as true, and infringers will have to provide evidence otherwise to substantiate an ineligibility defense.[129] Therefore, the abstract idea issue of subject matter ineligibility no longer forecloses a patent holder's day in court at the motion to dismiss stage.[130]

Thus far, *Berkheimer*'s impact on patent application process has leaned applicant friendly. The USPTO responded to the decision by releasing a memorandum providing guidance about a higher burden of proof that examiners must satisfy in order to reject a patent application on abstract idea grounds.[131] When analyzing whether an additional element represents a well-understood, routine, or conventional activity for the *Alice/Mayo* "inventive concept" prong, examiners now must establish a factual basis for rejecting a patent as well-understood, routine and conventional.[132] The factual determination must specifically cite to either an express statement made by the applicant, a court decision, or a publication that demonstrates the well-understood, routine and conventional nature of the additional elements.[133] Without a specific citation, the examiner cannot reject the patent unless the examiner makes a statement taking official notice that the additional elements are well-understood, routine, or conventional, which is a route of rejection that is rare and must be "judiciously applied."[134] Since the decision, the USPTO's Patent Trial and Appeal Board ("PTAB") has been leaning more pro-patent eligibility by significantly increasingly reversing the number of patent rejections for subject matter eligibility from 10.8% to 33.3%.[135] For TC 3600 patents, which

[127] *See id.* at 619–20.

[128] *See* Borella, *supra* note 117.

[129] *See* Quinn, *supra* note 66.

[130] *See Meeting the Challenges to America's Economic Future*, *supra* note 124, at 620.

[131] *See* U.S. Pat. And Trademark Off., *Changes in Examination Procedure Pertaining to Subject Matter Eligibility, Recent Subject Matter Eligibility Decision (Berkheimer v. HP. Inc.)* at 1, April 19, 2018.

[132] *See id*. at 3.

[133] *See id*. at 3–4.

[134] *See id*. at 3.

[135] *See* Saab, *supra* note 102.

accounts of 55% of the FinTech classifications, the reversal rate has increased from 6.8% to 30.2%.[136]

This is good news for patent holders, but they are cautioned to restrain their optimism as the Federal Circuit has limited its holding in *Berkheimer* to the finding of a genuine issue of material fact and made sure to clarify that it did not make a determination on whether the claims at issue were patent eligible, leaving FinTech innovators uncertain about patent eligibility.[137] With many ineffective attempts to improve the clarity and application of *Alice/Mayo* test, FinTech developers remain uncertain of whether their innovations will receive patent protections.

III. The Abstract Idea Exception Should be More Liberally Applied

A. *Alice* Goes Against the Language, History, and Purpose of Section 101

Much of the critique for *Alice* arises from arguments that the decision contravenes the language and purpose of Section 101. By attaching a harsh, subjective test to Section 101, the Supreme Court deviated from its pro-patent statutory language and created limitations that contradict Section 101's legislative purpose of broadening patent subject matter eligibility.[138]

Section 101 was added to the Patent Act in 1870 to define what subject matter makes an innovation eligible for a patent. Section 101 states: "[w]hoever invents or discovers *any* new and useful process, machine, manufacture, or composition of matter, or *any* new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title."[139] Until the *Mayo* decision in 2012, both Congress and the Supreme Court construed this provision broadly, and the USPTO "'rarely'" rejected patents under Section 101.[140] The *only* qualification to eligibility, the "subject to the conditions and requirements of this title" clause, refers to the requirements of novelty and non-obviousness, as governed by Sections 102

[136] *See id*. at 98; Jeffrey A. Berkowitz & Elliot C. Cook, *Trends for FinTech Patents at the PTAB,* Law 360 (Feb. 12, 2016), https://www.finnegan.com/en/insights/trends-for-fintech-patents-at-the-ptab.html [https://perma.cc/9Y9H-NWRB].

[137] *See* Berkheimer v. HP Inc., 881 F.3d 1360, 1370 (Fed. Cir. 2018).

[138] *See* CLS Bank Int'l v. Alice Corp., 717 F.3d 1295, 1295–97 (Fed. Cir. 2013) (Rader, J., concurring in part).

[139] 35 U.S.C. § 101 (2012).

[140] Hickey, *supra* note 19, at n.184 (quoting Jeffrey A. Lefstin et al., *Final Report of the Berkeley Center for Law & Technology Section 101 Workshop: Addressing Patent Eligibility Challenges*, 33 Berkeley Tech. L.J. 551, 555–59 (2018)).

and 103 respectively.[141] Read plainly, the statutory text provides for a broad application of subject matter eligibility.

The legislative interpretation of Section 101 also supports a broad interpretation of subject matter eligibility. The Supreme Court noted that Congress intended to give a broad scope to patent-eligible subject matter when it amended the prior law with the Patent Act of 1952 (the 1952 Act) to include more expansive terms.[142] The Supreme Court turned to Section 101's language, which uses "such expansive terms as 'manufacture' and 'composition of matter,' modified by the comprehensive 'any.'"[143] The Supreme Court inferred that by drafting Section 101 as such, "Congress plainly contemplated that the patent laws would be given wide scope" with the aim of embodying "[Thomas] Jefferson's philosophy that 'ingenuity should receive a liberal encouragement.'"[144] Further, Congress replaced the word "act" with the word "process" and added Section 100(b), which defines "process" as "includ[ing] a new use of a known process, machine, manufacture, composition of matter, or material."[145] Adding Section 100(b) and specifying the inclusion of "new uses" clarified the patentability of a new use of an old machine when there was doubt about the validity of such patents, thereby broadening the scope of patent eligibility for processes.[146] The Committee Reports accompanying the 1952 Act underscore the federal government's support of a broader Section 101, stating that Congress intended to expand the scope of Section 101 patent eligibility to "include anything under the sun that is made by man."[147]

The *Alice* decision contravened Section 101's purpose to broaden patent eligibility when it imposed stringent limitations on what can be considered patentable. By requiring a patent holder to demonstrate an "innovative concept," the *Alice* court violated the plain meaning and legislative purpose of Section 101's statutory text by constraining the breadth of "*any* new and useful process . . . [or] improvement thereof" with a judicially created

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[141] Brief for SHFL Entertainment, Inc. as Amicus Curiae in Support of Neither Party, 4–5, Alice Corp. v. CLS Bank Int'l, 573 U.S. 208 (2014) (No. 13-298); *Alice Corp.*, 717 F.3d at 1280 (Lourie, J., concurring in part).

[142] *See* Diamond v. Chakrabarty, 447 U.S. 303, 309 (1980).

[143] *Id.* at 308.

[144] *Id.* at 308–09 (quoting Writings of Thomas Jefferson 75–76 (Washington ed., 1871)).

[145] *Id.*; *Alice Corp.*, 717 F.3d at 1294 (Radar, J., concurring in part) (citing P.J. Federico, *Commentary on the New Patent Act*, *reprinted in* 75 J. Pat. & Trademark Off. Soc'y 161, 177 (1993)).

[146] *See Alice Corp.*, 717 F.3d at 1294–95 (Rader, J., concurring in part) (citing Federico, *supra* note 145, at 177).

[147] S. Rep. No. 1979, 82d Cong., 2d Sess., 5 (1952); H.R. Rep. No. 1923, 82d Cong., 2d Sess., 6.

bright-line test.[148] First, nowhere in the language of Section 101 does Congress expressly provide for the three judicially created limitations of laws of nature, natural phenomena, and abstract ideas.[149] The Supreme Court acknowledged that these exceptions deviated from the statutory text.[150] However, the Court defended them on the ground that the exceptions protect the entire preemption of basic scientific principles and concepts.[151] The Court also cautioned that it " has not indicated that the existence of these well-established exceptions gives the Judiciary carte blanche to impose other limitations that are inconsistent with the text and the statute's purpose and design."[152]

By requiring patent holders to prove an inventive concept, *Alice* conflates the statute with Section 102's novelty and Section 103's non-obviousness requirements. Under the plain reading of the statute, the concept of "inventive" in the second *Alice* prong does not raise a Section 101 issue.[153] Judge Rader noted in his *Alice* concurrence in part that "the Supreme Court long ago held that Section 101 is not 'condition of patentability.'"[154]

The legislative history supports this principle, with the Senate Report for the Patent Act of 1952 stating that

> Section 101 sets forth the subject matter that can be patented, 'subject to the conditions and requirements of this title' . . . Section 102, in general, may be said to describe the statutory novelty required for patentability, and includes, in effect, an amplification and definition of 'new' in Section 101. Section 103 . . . provides a condition . . . [that] [a]n invention which has been made, and which is new in the sense that the same thing has not been made before, may still not be patentable if the difference between the new thing and what was known before is not considered sufficiently great to warrant a patent.[155]

Sections 102's novelty requirements definitely govern the concept of "new" within the patent system, while Section 103 provides for non-obviousness and acts as the 1952 Act's "explicit statement" of the "holding of patents invalid by the courts [ ] on the ground of lack of invention."[156] In fact, the

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148 35 U.S.C. § 101 (2018) (emphasis added).

149 *See* Bilski v. Kappos, 561 U.S. 593, 625 (2010) (Stevens, J. concurring).

150 *See* Parker v. Flook, 437 U.S. 584, 588–89 (1978).

151 *See id.* at 589 (citing Gottschalk v. Benson, 409 I.S. 63, 71–72 (1972)).

152 *Bilski*, 561 U.S. at 603.

153 *See* CLS Bank Int'l v. Alice Corp., 717 F.3d 1269, 1302 (Fed. Cir. 2013) (Rader, J., concurring in part).

154 *Id.* (citing Diamond v. Diehr, 450 U.S. 175, 189 (1981)); *see also* Diamond v. Diehr, 450 U.S. 175, 189 (1981) (noting that "Section 101 . . . is a general statement of the type of subject matter that is eligible for patent protection.").

155 S. Rep. No. 82–1979, at 4–5 (1952), *as reprinted in* 1952 U.S.C.C.A.N. 2394, 2399.

156 *Alice Corp.*, 717 F.3d at 1296, 1320; S. Rep. No. 82–1979, at 4, 15. Full cite—five footnote rule? No See FNs 153 and 155.

1952 Act deliberately delegated inventiveness to Section 103 because at the time, courts utilized a subjective "invention" requirement for patentability that did not have a clear definition.[157] Like today's judges create wildly disparate tests for the "'inventive faculty'" prong of *Alice/Mayo*, pre-1952 judges "'did whatever they felt like doing'" in misguided judicial attempts to define "'inventiveness.'"[158] The judicially created uncertainty spurred Congress to eliminate "unmeasurable" inquiries into "inventiveness" in their entirety replace it with objective test for "obviousness" in Section 103.[159] *Alice/Mayo*'s inventive concept step conflates subject matter eligibility with novelty and non-obviousness, creating confusion and contravening Congress's clear intentions of broad eligibility and its requirements.

B. *Alice* Harms Innovation by Undermining the Patent System

The *Alice* two-step framework undermines the foundational tenement of patent law by limiting the incentive for the inventors to innovate and disclose their innovation. A core feature of the patent system is that innovators engage in a quid pro quo with society by producing information on how to make and use their inventions in exchange for time-limited, exclusive rights to use that invention thereafter.[160] This reward of exclusivity motivates inventors to undertake the costs of research and development, and thus, patents benefit society by encouraging creative innovation and making those innovations available to the public.[161] When access to patent protection is limited, inventors are less likely to invest in inventive research and development and are more likely to use trade secrets to receive the return on their investment, thus depriving the public of the disclosure benefit.[162]

By expanding the reach of abstract ideas and constraining patent protection in FinTech, *Alice*'s two-step test has undermined the quid pro quo process and deterred the release of information in the FinTech industry. FinTech innovators are wary of the patent system due to the risk that their patents will be invalidated by the federal courts or the USPTO.[163] Patent infringement actions,

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157 *Alice Corp.*, 717 F.3d at 1296.

158 *Id.* at 1295 (citing George M. Srilla, *35 U.S.C. 103: From Hotchkiss to Hand to Rich, the Obvious Patent Law Hall of Famers*, 32 J. Marshall L.J. 437, 501 (1999) (quotation of Judge Giles S. Rich)).

159 *See id.* at 1296.

160 *See* Brief of the Intell. Prop. Law Ass'n of Chi. as Amicus Curie in Support of Neither Party, at 16–17, Alice Corp. v. CLS Bank Int'l, 573 U.S. 208 (2014) (No. 13-298).

161 *See id.*

162 *See id.*

163 *See* Nam Kim, *Software and Business Method Innovations after* Alice, Sheppard Mullin Intellectual Property Law Blog (Sept. 23, 2016), https://www.intellectualpropertylawblog.

which are the patent holder's primary enforcement mechanism, declined significantly after *Alice*, with federal courts in technology-dependent California experiencing a 30% drop in patent infringement suits in 2014.[164] Experts credit *Alice* for the reluctance to enforce patent rights, as patent infringers defend themselves by challenging the validity of business method and software patents under Section 101.[165] Summary judgment motions to invalidate a patent infringement action's relevant patents for subject matter eligibility rose sharply after *Alice,* placing hundreds of granted and pending patents under jeopardy.[166] Thus far, these challenges have found broad success.[167] Before *Alice*, motions for summary judgment under Section 101 succeeded 28.6% of the time, but from 2014-2015, the success rate jumped to 67%.[168] Of these challenges, the courts determined 78% of business methods and 65% of software patents as invalid.[169] Software holders are also abandoning their patents at a much higher rate than before *Alice*, with a 72-83% increase in the number of abandoned patents between June 2014 and February 2017.[170] The inverse correlation of higher invalidity rates with FinTech's decreasing enforcement and maintenance of its technology rights indicates a rejection of the patent system.[171] If patent eligibility does not adjust to override *Alice*, the unfriendly, pro-patent infringer movement in the patent system will push FinTech companies away, and deprive the public of the benefit of the most important inventions of our time.

C. The *Alice/Mayo* Framework Harms America's Global Competitiveness

The restrictive interpretations of patent eligibility have affected the United States' position as an international leader of innovation and global competitiveness. For the first time, the United States' innovation environment struggles to maintain pace with global competitors in terms of patent

com/archives/software-and-business-method-inventions-after-alice [https://perma.cc/4LGT-TS3X].

[164] *See* David Newman, *FinTech Sector at Risk From Attack on Patentable Subject Matter,* FinTech Weekly (Sept. 7, 2016), https://www.fintechweekly.com/magazine/articles/fintech-sector-at-risk-from-attack-on-patentable-subject-matter [https://perma.cc/43RJ-H5CL].

[165] *See id.*

[166] *See id.*

[167] *See id.*

[168] *See id.*

[169] *See* Kim, *supra* note 163.

[170] *See* James E. Daily, *Alice's Aftermath: Changes in Patentee Behavior since* Alice v. CLS Bank, 23 B.U. J. Sci. & Tech. L. 284, 293 (2017).

[171] *See id.*

strength.[172] For the first time ever, the Bloomberg Innovation Index reported that the United States has fallen out of the top 10 most innovative countries.[173] The U.S. Chamber of Commerce's annual Global IP Index for 2018 noted that while the United States made it to the top of the 2018 Overall International Intellectual Property Index Rankings, it has fallen successively in the Patents, Related Rights, and Limitations Category from the number one system in the world to number 10 in 2017, and number 12 in 2018.[174] With this patent protection score decrease, the United States has fallen out of step with other first-world countries like Canada, South Korea, and the United Kingdom that improved their patent protection score between 2017 and 2018.[175] Even China, where rights holders face enormous challenges like a patent system that favors local entities and invalidates patents at a high rate due to its lack of substantive review process, raised its score and made concrete progress developing its intellectual property landscape.[176]

The report specifically attributes the United States ranking drop to *Alice* and other decisions on patent eligibility.[177] It notes that court decisions, their inconsistent application, and the USPTO's corresponding guidance have made patents unreliable for many innovators and created uncertainty for patent holders.[178] The report states, "[t]here is considerable uncertainty for innovators and the legal community, as well as an overly cautious and restrictive approach to determining eligibility for patentable subject matter . . . This seriously undermines the longstanding world-class innovation environment in the United States and threatens the nation's global competitiveness."[179]

Because *Alice* makes it easier to challenge and invalidate patents after they have been granted, the United States now maintains a space favoring "bad faith actors" that freely infringe upon their competitors patents.[180] David Kappos, the former director of the USPTO, has suggested that Section 101

[172] *See* Quinn, *supra* note 66; *Press Release, Innovation Alliance, Innovation Alliance Statement on U.S. Falling to 12th Place in U.S. Chamber of Commerce International Ranking of Patent System Strength* (Feb. 8, 2018), https://innovationalliance.net/from-the-alliance/innovation-alliance-statement-u-s-falling-12th-place-u-s-chamber-commerce-international-ranking-patent-system-strength/ [https://perma.cc/9CB8-A5MS].

[173] *See* Quinn, *supra* note 66.

[174] *See* U.S. Chamber of Commerce, U.S. Chamber International IP Index, 7–8 (6th ed. Feb. 2018), https://www.theglobalipcenter.com/wp-content/uploads/2018/02/GIPC_IP_Index_2018.pdf [https://perma.cc/EGC9-3EVL].

[175] *See id.* at 35–36.

[176] *See id.* at 10, 22.

[177] *See id.* at 8.

[178] *See id.*

[179] *Id.*

[180] *See id.* at 8–9.

has provided significant advantages for foreign innovators at the expense of domestic patent seekers, due to the risk of a judge invalidating their patents under the abstract idea exception."[181] Some experts in the field, including David Kappos, have even begun to advise clients to go to other countries and continents, like China or Europe, to pursue software and business methods.[182] He reasons that patent protections in these patent systems may be stronger because they do not have the uncertainty of the abstract idea exception.[183]

In order to maintain the United States' international stronghold in intellectual property and maintain competitiveness with global competitors, the abstract idea exception needs to be reconceptualized into a more liberal interpretation. Unless the courts or Congress redefine patent eligibility, the United States risks falling behind other countries like China, who are working to strengthen their IP protections processes.[184] In a keynote address, the current USPTO Director, Andrei Iancu stated, "we are at an inflection point with respect to the patent system. As a nation, we cannot continue down the same path if we want to maintain our global economic leadership."[185] His speech continued to explain that the lack of predictability negatively affects innovation, investment, and job creation.[186] In response, he declared a new policy objective to increase the reliability of the patent grant.[187] While the USPTO must apply the Supreme Court decisions, the office actively searches for solutions that will clarify the eligibility analysis while maintaining high quality patents.[188]

IV. Shattering *Alice*: Intellectual Property Law Association of Chicago's Proposed Revision to Section 101

Despite the clear need to clarify and provide a workable standard for patent eligibility, the Supreme Court has been unwilling to reconsider the *Alice/Mayo* test. In a recent opportunity to clarify *Alice*'s inventive concept step, the Court

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181 *See* Davis, *supra* note 114.

182 *See id.*

183 *See id.*

184 *See id.*; Andrei Iancu, Dir. of the U.S. Pat. and Trademark Off., *Role of U.S. Patent Policy in Domestic Innovation and Potential Impacts on Investment*, Keynote Address at the U.S. Chamber of Commerce Patent Policy Conference (Apr. 11, 2018) (transcript available at https://www.uspto.gov/about-us/news-updates/remarks-director-andrei-iancu-us-chamber-commerce-patent-policy-conference [https://perma.cc/SE85-6NR3]); U.S. Chamber of Commerce, *supra* note 174, at 8.

185 Iancu, *supra* note 184.

186 *See generally*, *id*.

187 *See id*.

188 *See id*.

refused to grant certiorari to appellants in *Ariosa Diagnostics v. Sequenom* in 2016.[189] There, Sequenom, Inc. invented a prenatal diagnostic method that detected paternally inherited cffDNA from maternal plasma, thus replacing the risky method of sampling from the fetus or placenta by using waste material.[190] Despite the invention's dramatic benefits, the Federal Circuit invalidated the patent on *Alice* Step 2 grounds, stating that "[b]ecause the method steps were well-understood, conventional and routine, the method of detecting paternally inherited cffDNA is not new and useful."[191] On appeal, the patent community cried out in support for the Court to grant certiorari, with twenty-two amicus briefs and even the Federal Circuit judges requesting more guidance for patent eligibility.[192] However, the Supreme Court refused to hear the case without even following the common practice of requesting the Solicitor General's view.[193] This, in addition to the Court's reliance on stare decisis in resolving the Section 101 cases it has heard, indicates the Court's unwillingness to resolve the problems in patent eligibility and that Congress should implement legislative reform.[194]

Indications of congressional interest in revising Section 101 have arisen in recent months. USPTO Director Iancu released the new 2019 Revised Patent Subject Matter Eligibility Guidance, on January 7, 2019, clarifying step 1 of *Alice* by explaining to patent examiners how to categorize the judicial exceptions to patent eligibility and how to more predictably make Section 101 determinations.[195] After almost 12 years of dormancy, the Senate Subcommittee on Intellectual Property was revived on February 7, 2019.[196] The Subcommittee on Intellectual Property Chairmen, Senator Coons (D-Del), and Ranking Member Thom Tillis (R-N.C.) released draft legislative proposals to revise Section 101 to circumvent the *Alice/Mayo* test.[197]

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[189] *See* Ariosa Diagnostics, Inc. v. Sequenom, Inc., 788 F.3d 1371, 1379 (Fed. Cir. 2015), *cert. denied*, 136 S. Ct. 2511 (Mem.) (2016).

[190] *See id.* at 1373.

[191] *Id*. at 1377–78.

[192] *See* David Taylor, *Amending Patent Eligibility*, 50 U.C.D.L. Rev. 2149, 2163 (2017).

[193] *See id*.

[194] *See id.* at 2151–52.

[195] *See generally*, 84 Fed. Reg. 50, 50 (Jan. 7, 2019).

[196] *See* Malathi Nayak, *Senate Judiciary Revives Intellectual Property Panel*, Bloomberg L. (Feb. 7, 2019, 5:24 PM), https://news.bloomberglaw.com/ip-law/senate-judiciary-revives-intellectual-property-panel [https://perma.cc/V7TC-PVNG].

[197] *See* Eileen McDermott, *Draft Text of Proposed New Section 101 Reflects Patent Owner Input*, IPWatchdog (May 22, 2019), https://www.ipwatchdog.com/2019/05/22/draft-text-proposed-new-section-101-reflects-patent-owner-input/id=109498/ [https://perma.cc/5XJ5-CTLY].

Various bar associations and interest groups have submitted proposals for Section 101. Some parties include the IPLAC, the American Bar Association's Intellectual Property law section, the Intellectual Property Owner's Association ("IPOA"), and the American Intellectual Property Law Association ("AIPLA").[198] This section begins by summarizing and describing IPLAC's proposed changes to Section 101. It then describes in detail how those changes benefit FinTech innovation by (1) providing for broad eligibility; (2) flexible application; (3) constraining the judiciary's interpretation of subject matter eligibility by limiting its analysis to the language of the statute; and (4) eliminating *Alice*'s second step inventive concept analysis.

A. Summary of IPLAC Changes

IPLAC's Section 101 revision proposal, presented in March 2017, provides the following:

> 101(a) Eligible Subject Matter: Whoever invents or discovers, *and claims as an invention*, any useful process, machine, manufacture, composition of matter, or any useful improvement thereto, shall be entitled to a patent for a claimed invention thereof, subject only to the exceptions, conditions, and requirements set forth in this Title.
>
> 101(b) Sole Exceptions of Subject Matter Eligibility: A claimed invention is ineligible under subsection (a) if and only if the claimed invention as a whole exists in nature independently of and prior to any human activity, or exists solely in the human mind. In determining eligibility, each claimed invention shall be considered as a whole.
>
> 101(c) Sole Eligibility Standard: The eligibility of a claimed invention under subsections (a) and (b) shall be determined without regard to (i) the requirements or conditions of sections 102, 103, and 112 of this Title, (ii) the manner in which the claimed invention was made or discovered, or (iii) the claimed invention's inventive concept.[199]

These recommended changes have garnered support among several respected intellectual property law associations.[200]

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[198] *See* Malathi Nayak, *House, Senate Lawmakers Focus on Patent Eligibility Changes,* Bloomberg L. (Feb. 26, 2019, 4:45 AM), https://news.bloomberglaw.com/pharma-and-life-sciences/house-senate-lawmakers-focus-on-patent-eligibility-changes [https://perma.cc/ZJE6-J7PG]; Donald Zuhn, IPLAC Offers § 101 Revision That Attempts to Harmonize IPO and AIPLA Proposals, Pat. Docs (Apr. 30, 2018), https://www.patentdocs.org/2018/04/iplac-offers-101-revision-that-attempts-to-harmonize-ipo-and-aipla-proposals.html [https://perma.cc/4432-GG5M].

[199] Intell. Prop. Law Ass'n of Chi., IPLAC 35 U.S.C. § 101 Language Reform Resolution, at 1–3 (2018), https://iplac.memberclicks.net/assets/docs/Briefs/Amicus_Briefs/IPLAC%20101%20Resolution%20Comparisons%20and%20Annotation%202018-04.pdf [https://perma.cc/8ZQS-DL86].

[200] *See* Letter from Paul R. Kitch, President, Intell. Prop. Law Ass'n Chi. To Andrei Iancu, Dir., U.S. Pat. and Trademark Off., at 1–2 (Apr. 9, 2018) (IPLAC believes that the

B. Desirable Characteristics in a Section 101 Revision

As Congress considers how to revise Section 101, there are a number of characteristics it should focus on to best facilitate innovation, especially in financial technology. IPLAC's proposal combines the language suggested from the IPOA and AIPLA stating in its letter to Director Iancu that the proposals from IPOA and AIPLA were the "most straightforward and comprehensive revisions to Section 101."[201] In doing so, the proposal changes the current iteration of Section 101 to the benefit of the FinTech industry by (1) broadening and making eligibility more flexible to FinTech; (2) giving companies more confidence in the protection of their products by constraining the judiciary's ability to alter the eligibility standard; and (3) simplifying the eligibility analysis by removing the "innovative concept" requirement from the eligibility determination. .

1. IPLAC's Proposal Broadens Eligibility and Makes it More Flexible

Given the constitutional goal of promoting discovery and the congressional intent of broad patentability in the Patent Act, any revision to Section 101 needs to mirror those aims by providing for a broad and flexible eligibility standard.[202] The FinTech industry requires breadth and flexibility in patenting financial technology because FinTech firms are often small, only have one product or service, and have very few staff.[203] The singular service model serves as a major strength of FinTech companies because the model results in a low overhead cost.[204] However, this model also places these companies in a high-risk situation where the entire company may face instability if the market or product experiences a downturn.[205] Furthermore, FinTech firms fail at such a high rate because they only occupy a small portion of the market and act in short-term ways to receive immediate benefits, which makes them less likely to invest in their future welfare or expand their innovation.[206]

If FinTech companies could be confident at the outset that their inventions would receive patent protection and the long-term benefits associated

revisions to 35 U.S.C. § 101 that have been proposed by the Intellectual Property Owners Association (IPO) and American Intellectual Property Law Association (AIPLA) represent the most straightforward and comprehensive revisions to Section 101.").

[201] *Id*. at 2.

[202] *See* Taylor, *supra* note 192, at 2189–91, 2197.

[203] *See* Magnuson, *supra* note 11, at 1200. For example, Magnuson explains that Robo-advisor Betterment only has 200 staff members and only provides investment advice, "eschewing other means for generating revenue." *Id*.

[204] *See id*. at 1200–01.

[205] *See id.*

[206] *See id*. at 1212–13.

with patenting their technologies, they would be more likely to invest in research and development.[207] A broad patent eligibility standard would further the aims of patent law in the FinTech field by encouraging innovators to take on the risks of future-oriented investments.[208] A broader standard will also encourage investors to direct their funds toward American entrepreneurs rather than more patent-friendly countries, bolstering the American FinTech industry to be competitive against advancing FinTech in other countries.[209]

Additionally, the standard needs to be flexible enough to accommodate future inventions. Without a meaningful guideline as to what constitutes an abstract idea, courts after *Alice* have more strictly scrutinized computer implemented innovations.[210] This analysis is problematic in the digital age, where code, computer algorithms, and mathematical expressions have changed the nature of innovation and technology.[211] By refusing to acknowledge that the implementation of a generic concept with a computer can be inventive, courts create an outdated, impractical barrier to patenting future technologies that precludes some of today's most significant innovations.[212] In the current *Alice/Mayo* analytic framework, innovation and patent eligibility will continue to clash. With the emergence of new technologies, Section 101 needs to be flexible enough to be applied to unimagined digital innovations. Therefore, subject matter eligibility needs to be a strict threshold test that will allow new types of financial technology inventions to receive patents, while reserving the "innovative concept" question for the novelty and obviousness analyses.[213]

The IPLAC proposal provides a broad and flexible framework for subject matter eligibility through its Section 101(b) Sole Exceptions to Subject Matter Eligibility provision. The section reinterprets and codifies the three judicially created exceptions by consolidating them into two.[214] The first, "exists in nature independently of and prior to any human activity," is directed to

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[207] *Cf.* Hattenbach & Kautz, *supra* note 62, at 262, 278–79, 292 (explaining the current "widespread confusion and uncertainty," among patent seekers given the current state of the law).

[208] *See id*. at 284, 292 (explaining that Section 101 "was purposefully given a broad scope subject to only a few, narrow exceptions.").

[209] *Cf. id*. at 275, 292 (explaining the negative effects of *Alice* for patent seekers and their industries and the corresponding decreases in investment); Kristen Osenga, *Institutional Design for Innovation: A Radical Proposal for Addressing § 101 Patent-Eligible Subject Matter*, 68 Am. U. L. Rev. 1191, 1193–94 (2019).

[210] *See* Hattenbach & Kautz, *supra* note 62, at 276.

[211] *See id.* at 277.

[212] *See id*. at 278.

[213] *See* Taylor, *supra* note 192, at 2197.

[214] *See* IPLAC 35 U.S.C. § 101, supra note 199, at 2, n. 3–4.

the laws of nature and natural phenomena exceptions.[215] The second, "exists solely within the human mind," is directed towards the abstract idea exception and effectively broadens the patentability of financial technology by removing the subjectivity of "I-know-it-when-I-see-it" analysis.[216] Something that "exists solely within the human mind" is broad because the standard accepts any claim that "requires some external involvement with the physical world or any representation thereof."[217] IPLAC provides the example of "data on a computer" as a patent eligible claim that satisfactorily requires some external involvement, making the proposed 101(b) framework very friendly to FinTech.[218] If Congress accepts the "solely within the human mind" interpretation of abstract idea, IPLAC's proposal will further Congress's legislative intent of broad eligibility, affording sufficient flexibility to protect innovations that will develop in FinTech.[219]

2. IPLAC Constrains Judicial Intervention

A strong Section 101 proposal will prevent the courts from treating patent eligibility as a modifiable common law doctrine by strictly confining the Court to adhere to the statute. The judiciary muddled congressional intent and application of Section 101 by creating the three judicial exceptions and the *Alice/Mayo* test. The ambiguity in the statute's interpretation remained despite the four times the Court has reconsidered this issue since 2014.[220] The approach of courts, post-*Alice*, has boiled down to little more than an "I know it when I see it" analysis.[221] This has resulted in a series of ever changing standards that have produced contradictory results, especially in computer implemented technology.[222] Even the USPTO has struggled to apply the *Alice* framework, releasing several guidance documents over the years as the courts manipulated and tweaked the eligibility standards.[223] In light of this, industries like FinTech would benefit significantly if Congress protected innovators by asserting and limiting the courts to a specific interpretation of patent eligibility.

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215 *Id.*

216 *Id.* at n. 4.

217 *Id.*

218 *See id.*

219 *See id.*

220 *See* Lefstin et al., *supra* note 140, at 556–57.

221 *See id.* at 592 (acknowledging the view "that the *Alice* decision has allowed defendants to get particularly weak patent cases dismissed early in the litigation process, resulting in substantial savings and effectively eliminating many dubious patents from the system.").

222 *See* Hattenbach & Kautz, *supra* note 62, at 281–83.

223 Lefstin et al., *supra* note 140, at 555–56. [Replace with full cite]

IPLAC's proposed Section 101(a) Eligible Subject Matter provision first satisfactorily constrains courts to the statute by replacing "may obtain a patent" from the current statute with "*shall be entitled to* a patent" and by adding "subject only to the exceptions, conditions and requirements set forth in this Title" to Section 101.[224] The replacement of "may obtain" with "*shall be entitled to*" precludes the judiciary from inferring any discretion in patentability determinations when an application meets the statutory requirements.[225] Restricting the court to "*only*" the limitations "*set forth* in this title" clarifies that the only requirements of patentability are those expressly provided in the statute.[226] Following this proposal, the judiciary must adhere to the limitations provided in the statute and cannot modify or add additional requirements or limitations in the disorganized, piecemeal way the courts had previously applied patent eligibility standards.[227] Congress would specifically take back control of eligibility by incorporating IPLAC's addition of exceptions.[228] By doing so, Congress specifically directs the court to look to the statute and removes the three judicially created exceptions from eligibility consideration. With these IPLAC incorporations into the statute, Congress can maintain its vision of broad eligibility and implement patent law's predictability for innovators.

3. IPLAC Removes the "Inventive Concept" Step

The ideal patent eligibility statute for FinTech will remove the Alice "inventive concept" step from the analysis. By requiring demonstration of an inventive concept, the Court misunderstood the innovative characteristics and impact of financial technology and precluded the patentability of creative, unconventional applications of what the Court considers abstract ideas.[229] FinTech's technology are not just "a method of doing or conducting business" or computer implemented applications of generic concepts.[230] These technologies are economically revolutionary, providing the everyday individual with broader access to financial services, breaking barriers to entry, and completely changing how finance works.[231] Just as *Ariosa* screened out ground breaking innovation from patent protection because of a judicially confined, narrow understanding of what makes an innovation "inventive," so too is financial technology narrowly judged and excluded for its computer delivery method.

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224 *See* IPLAC 35 U.S.C. § 101, *supra* note 199, at 1, n. 2.

225 *See id.*

226 *Id.*

227 *Id.*

228 *See id.*

229 *See* Lefstin et al., *supra* note 140, at 555.

230 *See* Bilski v. Kappos, 561 U.S. 593, 614 (2010) (Stevens, J., concurring in judgment); *see also* Alice Corp. v. CLS Bank Int'l, 573 U.S. 208, 212 (2014).

231 *See* Magnuson, *supra* note 11, at 1174.

The IPLAC proposal satisfactorily removes the "inventive concept" analysis by deleting the word "new" from the current Section 101 language in the proposed Section 101(a). Removing "new" from Section 101 isolates any considerations of inventiveness to the novelty and obviousness requirements, thus resolving the confusion and conflation of novelty and eligibility *Alice*'s inventiveness step caused.[232] Adding the Section 101(c) Sole Eligibility Standard solidifies this isolation by requiring that the USPTO and courts determine eligibility without regard to novelty and non-obviousness.[233] The prohibition against consideration of the claimed invention's inventive concept is especially good for financial technology because it *explicitly* and unambiguously overrules *Alice*'s second step analysis.[234] This alteration would adhere to Congress's initial intent that Section 101 function as only a threshold requirement of patentability, further innovation by eliminating the confusion of a subjective inventive concept analysis, and promote America's innovation friendly goals.

Conclusion

As digitization and the increased technological integration of the physical and digital worlds have transformed the economy and means by which people access services, the financial industry has followed suit. Today, financial technology is revolutionizing the way in which people handle money and finances, but the patent system does not currently reflect that impact due to the confusion and inconsistency application of the *Alice/Mayo* subject matter eligibility standard. The judicially created abstract idea exception and the "innovative concept" prong has spurred confusion across the industry, resulting in a patent unfriendly environment that contravenes the statutory intent of the Patent Act and the fundamental motivations of the patent system, as well as America's backslide in global competition. The *Alice/Mayo* patent eligibility analysis is no longer functional in the context of today's most important digital innovations. Therefore, Congress must restore confidence in American innovation through legislative reform of Section 101. The solution that best suits the needs of Fintech is IPLAC's proposed Section 101 revisions, which create a broad and flexible standard for patent eligibility, constrains judicial intervention, and removes the "inventive concept" prong in an explicit rejection of *Alice.* If Congress adopts IPLAC's proposal, the patent system will finally adapt to the current trajectory of innovation, thus fulfilling its goals.

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232 *See* IPLAC 35 U.S.C. § 101, *supra* note 199, at 1.

233 *See id.* at 3, n. 6.

234 *See id.*

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