

September 30, 2014

**VIA MESSENGER**

The Honorable William J. Baer  
Assistant Attorney General  
U.S. Department of Justice  
950 Pennsylvania Avenue NW  
Washington DC 20530

Re: IEEE Request for Business Review Letter

Dear Mr. Baer:

The last several years have shown wide divergence between the owners of standards-essential patents (SEPs) and the implementers of standards, particularly over the meaning of "reasonable rates" for potential SEP licenses. Global antitrust enforcers have taken note, and they have invited standards development organizations (SDOs) to clarify their patent policies to help address this issue.

The Institute of Electrical and Electronics Engineers, Incorporated (IEEE) and its Standards Association (IEEE-SA) are considering an update of the IEEE-SA's Patent Policy to address issues where, based on institutional experience in developing standards that include essential patents, greater clarity is warranted. IEEE believes that this proposed patent policy complies with all applicable antitrust and competition laws. IEEE respectfully requests a Business Review Letter concerning the proposed IEEE-SA Patent Policy under 28 C.F.R. § 50.6. Exhibit A contains the current policy. Exhibit B contains the proposed updated policy. Exhibit C is a redline of Exhibits A and B. This letter explains the specific provisions of the proposed updated patent policy, the process used to develop the policy, and the rationale for the policy. This letter also restates some of the background that IEEE provided about itself and its standards development activity in requesting the Business Review Letter that Assistant Attorney General Thomas O. Barnett issued on April 30, 2007 regarding IEEE-SA's patent policy that became effective on May 1, 2007.

**I. IEEE Background and Governance**

IEEE is a New York not-for-profit organization as described in section 501(c)(3) of the Internal Revenue Code of 1986, and it is the world's leading professional organization engaged in the advancement of technology for

humanity. IEEE has well over 400,000 members in over 160 countries across the globe. IEEE is governed by a President and a board of directors, most of whose 33 members are elected directly by IEEE members.

#### **A. IEEE Standards Association**

IEEE-SA is an operating unit of IEEE,<sup>1</sup> and it is a leading developer of global industry standards in a broad range of electro-technical subjects, including power and energy, biomedical and healthcare, information technology, telecommunications, transportation, nanotechnology, and information assurance. For over a century,<sup>2</sup> IEEE-SA has offered an established standards development program that permits interested parties to develop standards in accordance with the principles of due process, openness, consensus, balance, and right of appeal. IEEE-SA is accredited by the American National Standards Institute (ANSI). IEEE-SA has regularly filed reports, under the National Cooperative Research & Production Act (NCRPA), on the standards that it has under development since the Standards Development Organization Advancement Act (SDOAA) of 2004 permitted SDOs to do so.<sup>3</sup>

#### **B. IEEE-SA Governance**

IEEE-SA is governed by the IEEE-SA Board of Governors. The Board of Governors establishes policy and provides financial oversight for IEEE-SA. The Board of Governors also has the authority to establish and appoint boards and committees as needed to carry on the work of the IEEE-SA. Each year, two members of the Board of Governors are elected by the individual members of IEEE-SA, and another two members are appointed by the existing Board of Governors. These eight members serve two-year terms.<sup>4</sup>

The IEEE-SA President serves as the chair of the Board of Governors and is elected by the individual members of IEEE-SA (who are also members of the IEEE) to a one-year term as president-elect, followed by a two-year term as

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<sup>1</sup> IEEE-SA as it now exists was formed circa 1998, but the standards activities that it oversees have been conducted under IEEE auspices for many years. For convenience, this letter will use "IEEE-SA" to refer to all IEEE standards activities.

<sup>2</sup> A brief history of IEEE's standards development activity is available at [http://www.ieeeeghn.org/wiki/index.php/IEEE\\_Standards\\_Association\\_History](http://www.ieeeeghn.org/wiki/index.php/IEEE_Standards_Association_History).

<sup>3</sup> Notice of IEEE's original report is available at 69 FR 64105 (Nov. 3, 2004). Examples of notices of subsequent reports are available at 75 FR 8115 (Feb. 23, 2010) and 79 FR 24450 (Apr. 30, 2014).

<sup>4</sup> Further information about Board of Governors membership can be found in section I-303.6 of the IEEE Bylaws, available at [http://www.ieee.org/documents/ieee\\_constitution\\_and\\_bylaws.pdf](http://www.ieee.org/documents/ieee_constitution_and_bylaws.pdf).

President. The IEEE-SA President also serves on the Board of Directors of IEEE during his or her two-year term.

## **1. Standards Board**

The Board of Governors has established the IEEE-SA Standards Board (SASB), which is responsible for coordinating the development of IEEE standards and for reviewing all proposed IEEE standards to determine whether the proposed standards conform to IEEE-SA's requirements (including whether consensus for approval of the standard has been achieved). The Standards Board chair and the Standards Board members are appointed by the Board of Governors for one-year terms. The Vice Chair is elected by the Standards Board. Only individuals who are members of both IEEE and IEEE-SA can serve as members of the Standards Board.

## **2. PatCom**

The Standards Board uses a committee structure to study issues and make recommendations for Standards Board action. One of these committees is the Patent Committee (PatCom), which is responsible for providing oversight of the use of patents in the development of IEEE standards. For example, PatCom was responsible for the development of the patent policy that was reviewed in the 2007 Business Review Letter, and it was responsible for the development of the proposed patent policy described in this letter.<sup>5</sup> PatCom consists of at least four but not more than six voting members, including a chair. The PatCom chair and other members are appointed by the Standards Board Chair for a term of one year. PatCom members must be voting members of the IEEE-SA Standards Board or the IEEE-SA Board of Governors.

Another Standards Board committee is the Procedures Committee (ProCom), which is responsible for recommending improvements and changes in IEEE-SA's bylaws, procedures, and manuals to promote efficient discharge of responsibilities by the IEEE-SA Standards Board and its committees.<sup>6</sup> IEEE's bylaws provide that proposed modifications to the bylaws "may be submitted" to ProCom but does not require that they be submitted to ProCom or that ProCom

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<sup>5</sup> Although PatCom developed the draft policy using the rigorous process described later in this letter, PatCom does not determine the final policy.

<sup>6</sup> IEEE-SA Standards Board Bylaws § 4.2.1.1 ("This committee shall be responsible for recommending to the IEEE-SA Standards Board improvements and changes in its bylaws, procedures, and manuals to promote efficient discharge of responsibilities by the IEEE-SA Standards Board and its committees.").

then consider the proposed modification.<sup>7</sup> As in 2007, the proposed patent policy was developed in PatCom, with no ProCom involvement.<sup>8</sup>

### 3. Affiliations and Fiduciary Obligations

Only individuals (not companies or other entities) can serve as members of the Board of Governors, the Standards Board, and the Standards Board's committees. These governance members are asked to disclose their employers or other affiliations (for transparency and for identification of potential conflicts of interest), but they serve in their individual capacities, and not as representatives of their employers or other companies with whom they may be affiliated.

Members of the Board of Governors, the Standards Board, and their committees owe a fiduciary duty to IEEE in their exercise of governance responsibilities, and these members are periodically provided with training on their responsibilities. Throughout the development of the proposed patent policy, members were reminded of their fiduciary responsibilities, including both the duty of care and the duty of loyalty, i.e., to act in the best interest of IEEE.

## II. Standards Development at IEEE-SA

IEEE-SA is a neutral forum for the development of standards, guides, and recommended practices within the broad range of IEEE members' areas of expertise. From its Ethernet and wireless communications standards for computers and smartphones to its recommended practices for electric power distribution, IEEE-SA promotes innovation, enables the creation and expansion of international markets, and helps protect health and public safety. Collectively, the work of IEEE-SA and its more than 20,000 standards-development participants and members drives the functionality, capabilities, and interoperability of a wide range of products and services that transform the way people live, work, and communicate.

IEEE-SA develops standards under two basic types of standards-development processes. First, IEEE-SA has traditionally operated an individual-based process. In this program, the entire process is open to any individual who wants to participate, and the process works on the principle of one-person / one-vote. Second, for the last ten years IEEE-SA has also operated an entity-based program. Standards development groups in this program operate on the principle of one-entity / one-vote and are open to materially interested

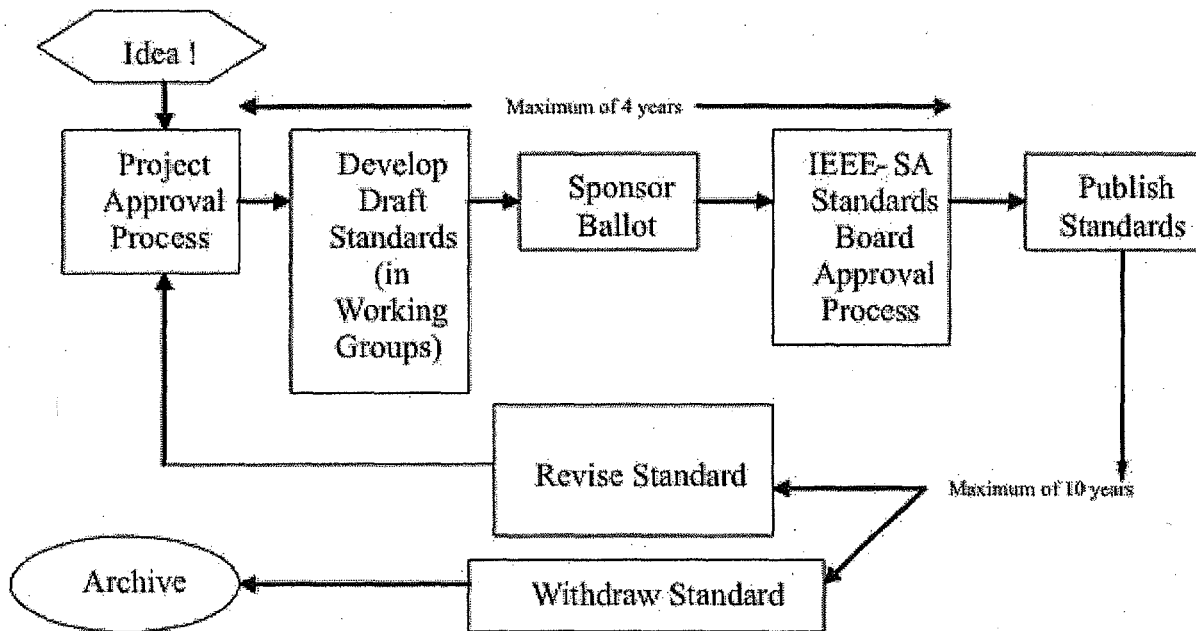
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<sup>7</sup> IEEE-SA Standards Board Bylaws § 8 ("Proposed modifications to these bylaws may be submitted to the IEEE-SA Standards Board Procedures Committee (ProCom) for its consideration.").

<sup>8</sup> Although ProCom itself was not involved, the chair of ProCom in 2013 also served as a member of PatCom in both 2013 and 2014. These materials are discussed in footnote 18 below.

corporations and other entities, e.g., educational institutions and government agencies.<sup>9</sup>

IEEE standards follow a well-defined path from concept to completion, guided by a set of five basic principles: due process, openness, consensus, balance, and right of appeal.<sup>10</sup> The process is visually summarized in this chart:



### A. Authorization of a Standard Development Project

Standards projects are commenced when there is a need for an idea or concept to be standardized. The idea or concept can be broad or very specific. However, no standard is developed by one person alone; development of a standard requires group collaboration and consensus, which in turn require a process and neutral supervision.

Within the standards development work at IEEE, a sub-unit of IEEE (known as a "Sponsor") assumes responsibility for a particular standards idea.

<sup>9</sup> A given IEEE-SA standard will be developed under only one of these two processes. For example, the 802.11 standard (indeed, the entire family of 802 standards) has been developed under the individual method. The 1901-2010 Standard for *Broadband over Power Line Networks: Medium Access Control and Physical Layer Specifications* was developed under the entity method.

<sup>10</sup> Material in this section is largely drawn from IEEE Standards Ass'n, *Develop Standards*, IEEE.org, available at <http://standards.ieee.org/develop/index.html>.

The Sponsor provides technical oversight for the standard and determines the scope and nature of the technical content. Sponsors for IEEE standards are traditionally IEEE Societies and Committees, each of which specializes in a specific technology, industry sector, or other related interest. Projects can also be sponsored by Standards Coordinating Committees (SCCs, which are typically created when more than one Society is interested in the subject matter) or the IEEE-SA Corporate Advisory Group.

A standards project does not formally exist until the SASB approves a Project Authorization Request (PAR). A PAR is a concise, structured, and highly detailed document that essentially states the reason why the project exists and what it intends to do. Often the members of a potential Working Group will have gathered to work on a PAR and to gain the support of their potential Sponsor. This type of gathering, known as a study group, can exist for up to six months before a PAR needs to be submitted. (New PARs can also be developed by existing Working Groups as additional projects.)

When presented with a PAR, the SASB determines whether the proposed standard development project falls within the technical scope of IEEE and the assigned Sponsor, whether the project appears to fulfill a technical and/or market need, and whether the project is likely to attract enough volunteers to develop the standard.

## **B. Working Group**

With PAR approval, the study group or other proposer that requested the project authorization forms a Working Group. Working Groups are open to participation by anyone.<sup>11</sup> Overall, Working Groups strive for broad representation of all interested parties and encourage global participation.

Working Groups must operate in compliance with the IEEE-SA requirements,<sup>12</sup> the Sponsor's Policy & Procedures (P&P), and the Working Group's own P&P. Some Sponsors allow each Working Group to develop its own P&P, which are subject to Sponsor review and approval and are subject to audit by the SASB. Other Sponsors develop a single Working Group P&P for each project type (individual or entity) that each Working Group of that type must

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<sup>11</sup> In standards projects based on the individual method, participation does not require membership in IEEE or IEEE-SA. In entity-based projects, the entity participant must be a member of IEEE-SA.

<sup>12</sup> These are generally set forth in the IEEE-SA Standards Board Bylaws, *available at* [http://standards.ieee.org/develop/policies/bylaws/sb\\_bylaws.pdf](http://standards.ieee.org/develop/policies/bylaws/sb_bylaws.pdf), and the IEEE-SA Standards Board Operations Manual, *available at* [http://standards.ieee.org/develop/policies/opman/sb\\_om.pdf](http://standards.ieee.org/develop/policies/opman/sb_om.pdf).

adopt and follow. The IEEE-SA provides baseline P&Ps for Sponsors and Working Groups.<sup>13</sup>

A Working Group usually has a hierarchy of officers (typically a chair, a vice-chair, and a secretary) to ensure that the work proceeds smoothly. The chair's role is to provide leadership and guidance during the standards development process, helping move a draft standard toward completion. The chair will plan the meetings and organize the work. Agendas for Working Group meetings are distributed beforehand, and the results of the group's deliberations are publicly available, usually through meeting minutes.

The Working Group does the detailed work of writing the draft standard. Typically, the group will identify the different sections that the draft standard will require. First, a scope and purpose statement is prepared based on the PAR information. Next, an outline is created. Often, this outline will serve as the structure for the standard as well, with the subjects in the outline becoming the clauses and subclauses in the document. Then the Working Group splits up the drafting work among Working Group members. Draft sections are primarily written outside the formal Working Group meetings and are then brought back to the Working Group to resolve problematic areas. The Working Group will have a technical editor who compiles the group's work into a single document.

Not everyone in a Working Group will agree on the best method for accomplishing an objective within a standard. Sometimes Working Group members will disagree on technical issues or on phrasing, but sometimes they will disagree on fundamental technology approaches. At a minimum, consensus in a Working Group means that a majority of the voting members of the Working Group must agree on an issue. The Working Group's and/or the Sponsor's P&P will define the levels of approval (e.g., simple majority or super-majority) that are required for approval of a draft standard.

A draft standard can go through multiple drafts within the Working Group before it is ready to proceed to the next stage. With each draft, the Working Group tries to narrow the differences among its members, through persuasion and compromise. Voting can be conducted at meetings or through "Working Group ballots" (not to be confused with the next step in the approval process, which is the "Sponsor ballot," discussed in the next section). In a Working Group ballot, Working Group members can vote *Approve*, *Do Not Approve*, or *Abstain*. Members can also offer comments on the draft and propose changes to address

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<sup>13</sup> See IEEE Standards Association, Audit Committee (Audcom) Baseline Operating Procedures, available at <http://standards.ieee.org/about/sasb/audcom/bops.html>.

their comments, indicating whether resolution of the comment is necessary to change the member's vote.<sup>14</sup>

### C. Sponsor Balloting

Formal consensus balloting begins when the Sponsor decides that the draft of the developing standard (written by the Working Group) is stable. The Sponsor forms a balloting group of persons interested in the standard, and participation is open to anyone (with no requirement of having participated in the Working Group). While anyone can contribute comments, the only votes that count toward approval are those of the eligible members of the balloting group. IEEE-SA's rules require that a balloting group be balanced among interest categories. Balloters usually fall into one of several interest categories (e.g., manufacturers, users, academic, government, or general interest). No interest category can comprise over one-third of the balloting group.<sup>15</sup>

A standard will not pass unless at least 75 percent of all ballots from a balloting group are returned and at least 75 percent of the returned ballots (excluding "Abstentions") bear an "Approve" vote. Reaching consensus also includes receiving and resolving comments. A ballot resolution group prepares responses to all comments received within the balloting period, whether submitted from within or outside of the balloting group.<sup>16</sup> Changes to the standard based on technical comments are recirculated to the Sponsor ballot group.<sup>17</sup>

### D. SASB Review

The SASB approves or disapproves standards based on the recommendation of its Standards Review Committee (RevCom). This committee

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<sup>14</sup> Procedures can vary by Sponsor and by Working Group within a Sponsor.

<sup>15</sup> See IEEE-SA Standards Board Operations Manual § 5.4.1, *available at* <http://standards.ieee.org/develop/policies/opman/sect5.html#5.4.3>.

<sup>16</sup> The procedures for creation of a ballot resolution group vary from sponsor to sponsor within IEEE. IEEE-SA has provided baseline procedures that (within certain limits) sponsors can tailor to the needs of their standards development activity, but creation of a ballot resolution group requires approval of the sponsor. See § 5.5 of these baseline procedures, *available at* <http://standards.ieee.org/about/sasb/audcom/bops.html>. For an example of sponsor procedures, see IEEE Communications Society Standards Development Board, Policies and Procedures for Standards Development § 5.5 (March 6, 2013), *available at* <http://standards.ieee.org/about/sasb/audcom/pnp/ComSoc.pdf>; IEEE 802 LAN/MAN Standards Committee (LMSC), Policies and Procedures § 5.6 (Jun 12, 2014), *available at* <http://standards.ieee.org/about/sasb/audcom/pnp/LMSC.pdf>.

<sup>17</sup> Editorial changes are not required to be recirculated, although they will often be included in a draft that is otherwise being recirculated.



makes sure that Sponsors follow all procedures and guiding principles in drafting and balloting a standard. As with PARs, completed draft standards come before the SASB seven times a year. After approval, the standard is edited (nonsubstantively) by an IEEE-SA staff editor, given a final review by the members of the Working Group, and published.

### III. IEEE-SA and Its Patent Policy

IEEE-SA seeks to produce standards that any willing implementer can use and that will become widely adopted. With the increasing prevalence and scope of patents and the potential for their inclusion in standards, a number of years ago IEEE-SA modified its patent policy to explicitly permit the inclusion of patented technology in certain circumstances. IEEE-SA seeks to become aware of potentially essential patents through inquiry to all participants in its working groups. At the beginning of each and every working group meeting, the chair states IEEE-SA's patent policy,<sup>18</sup> and he or she invites every participant to identify or disclose the holders of patents that the Working Group participant believes may be essential for the use of the standard under development. IEEE-SA expects that Working Group participants will act in good faith and disclose any patents held by themselves and/or their affiliated entities that potentially might prove essential or identify any other persons who might hold potentially essential patents.<sup>19</sup>

Once a Working Group participant discloses a potentially essential patent or identifies a possible holder of such patent, the Working Group chair will ask the holder about the holder's intentions. IEEE-SA policy currently permits the known use of essential patents (and patent applications), but only if IEEE receives the patent holder's or applicant's assurance that either (a) the patent holder or applicant will not enforce any of its present or future essential patent(s) against any person complying with the standard; or (b) the patent holder or applicant will make available a license for such implementation without compensation or under reasonable rates, with reasonable terms and conditions that are demonstrably free of any unfair discrimination (RAND). This assurance is irrevocable once submitted and accepted and shall apply, at a minimum, from the date of the standard's approval to the date of the standard's withdrawal.

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<sup>18</sup> Exhibit D contains the current slide set that IEEE provides for this purpose. This slide set also reminds participants that "All IEEE-SA standards meetings shall be conducted in compliance with all applicable laws, including antitrust and competition laws," provides further specific guidance, and directs participants to the additional information in *Promoting Competition and Innovation: What You Need to Know about the IEEE Standards Association's Antitrust and Competition Policy*, available at <http://standards.ieee.org/develop/policies/antitrust.pdf>.

<sup>19</sup> Participants can also ask a potential essential-patent holder to submit a Letter of Assurance to IEEE.

Although IEEE-SA cannot compel a patent holder to provide an assurance (or indeed even to respond to the request), the absence of an assurance is a factor that IEEE-SA will take into account when considering whether to approve the draft standard.

#### **IV. Experience with the 2007 IEEE Patent Policy**

In 2007, IEEE-SA adopted a patent policy that expressly permitted (but did not require) a patent holder to disclose its proposed maximum rates and other terms. As IEEE explained in its 2006 business review letter request, IEEE adopted this policy because:

The difficulty with the [pre-2007] policy is that a RAND commitment is inherently vague. It can lead to expensive litigation whose cost and risk can impede the adoption of a socially valuable standard. Even where a license negotiation does not result in litigation, the ex post negotiation of license terms (that is, negotiations occurring after a technology's inclusion in a standard has increased the patent-holder's market power, potentially to the point of monopoly) can lead to higher royalty payments and ultimately higher prices to consumers.<sup>20</sup>

The 2007 patent policy was intended to provide a mechanism for reducing the inherent vagueness of a RAND commitment, including the meaning of "reasonable rate."

Practical experience with the 2007 policy has taught that, though useful, the 2007 policy is insufficient to deal with the broad problem of uncertainty over the meaning of "reasonable rates" for SEPs. IEEE-SA has received approximately 40 Letters of Assurance that disclose proposed license terms, but only two that disclose maximum rates. (To be clear, the availability of this voluntary process for disclosure of maximum rates may still be useful in certain cases, e.g., in breaking logjams between directly competing technologies.)

Since 2007, implementers and patent holders have continued to take widely divergent positions on the meaning of "reasonable rates" for SEPs relating to IEEE standards. For example, in two cases relating to IEEE's 802.11 standard, the patent holder and the implementer were several orders of magnitude apart in their respective valuations of the reasonable rate for essential patent claims for which the patent holders (or their predecessors) had provided Letters of Assurance to IEEE.<sup>21</sup> The breadth of these differing valuations

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<sup>20</sup> IEEE Request for Business Review Letter (November 29, 2006) (footnote omitted), available at <http://www.justice.gov/atr/public/busreview/request-letters/302148.pdf>.

<sup>21</sup> *In re Innovatio IP Ventures, LLC Patent Litig.*, No. 11-C-9308, 2013 WL 5593609, at \*12 (N.D. Ill. Oct. 3, 2013) (patent holder's proposed valuation would have resulted in royalties on average of approximately \$3.39 per access point, \$4.72 per laptop, up to

suggests that IEEE-SA has not provided sufficient clarity in its policy – regardless of which party's valuation is in fact closer to a reasonable rate.<sup>22</sup>

The burden of disputes over SEPs is borne not just by implementers and SEP owners, but by consumers and other users of products that implement IEEE standards. For example, the National Retail Federation stated in a comment submitted to the Standards Board:

[S]ome of our retail members have recently become involved in disputes concerning the licensing of patents that are claimed to be required to implement IEEE standards. Our members' networks are important parts of their business infrastructures, so the issuance of an injunction or exclusion order that limits their use of their networks would have a serious impact on our members' businesses.

We also welcome the effort to further define what licensing terms are consistent with the requirement that owners of patents required to implement IEEE standards grant licenses on reasonable and non-discriminatory terms. Some of our members have received grossly excessive licensing demands from patent trolls that have acquired patents that they claim our members infringe by implementing IEEE standards. The proposed revisions closely track the reasoning of judges in recent court cases and will help our members and their suppliers in licensing negotiations by clarifying what RAND means.

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\$16.17 per tablet, and up to \$36.90 per bar code scanner or other inventory tracking device; implementer's valuation would have resulted in royalties of between .72 cents and 3.09 cents per chip); *Microsoft Corp. v. Motorola, Inc.*, No. C10-1823, 2013 WL 2111217, at \*87, \*99 (W.D. Wash. April 25, 2013) (patent holder's proposed valuation would have resulted in royalties of between \$6.00 and \$8.00 per unit; implementer's valuation would have resulted in royalties of between 3 cents and 6.5 cents per unit); see also *Ericsson Inc. v. D-Link Sys., Inc.*, No. 6:10-CV-473, 2013 WL 4046225, at \*18 (E.D. Tex. Aug. 6, 2013) (patent holder proposed a \$0.50 per unit royalty; implementer argued that a proper RAND rate would be "pennies or fractions thereof" per unit (citation omitted) (internal quotation marks omitted)); *Apple Inc. v. Motorola Mobility, Inc.*, No. 11-CV-178-bbc, 2012 WL 7989412, at \*2 (W.D. Wis. Nov. 8, 2012) (patent holder proposed a royalty rate of 2.25% per unit; implementer responded that it would be willing to pay a rate of no more than \$1 for each Apple device).

<sup>22</sup> See, e.g., *Ericsson*, 2013 WL 4046225, at \*25 ("The paradox of RAND licensing is that it requires a patent holder to offer licenses on reasonable terms, but it offers no guidance over what is reasonable."); *Microsoft Corp.*, 2013 WL 2111217, at \*10 (noting that IEEE's 2007 patent policy does not clarify "what constitutes a reasonable royalty rate or what other terms and conditions are reasonable or nondiscriminatory for any license between interested parties").

The process (described below) that IEEE-SA used to develop the proposed patent policy confirmed the need for policy clarification. In addition to expressing differing views on how the policy should define “reasonable rate,” commenters on the draft policy expressed a range of views on whether anyone other than the maker of an end-use product is entitled to a license and whether an essential-patent holder can seek an injunction or exclusion order (and use the possibility of such an order in negotiations over reasonable rates). Finally, antitrust enforcers have also commented on the uncertainties in current SDO policies. For example:

- In October 2012, Deputy Assistant Attorney General Renata Hesse delivered a speech entitled *Six “Small” Proposals for SSOs Before Lunch* (“*Six Proposals*”), suggesting that SDOs consider taking steps to “eliminate some of the ambiguity that requires difficult ex post deciphering of the scope of a F/RAND commitment.”<sup>23</sup> This echoed other commentary that Antitrust Division representatives have offered over the years.<sup>24</sup>
- The Federal Trade Commission has also called for greater clarity. For example, just this month, FTC Chair Edith Ramirez stated that “additional clarity on a framework for determining FRAND royalties would benefit industry stakeholders and consumers alike. . . . Greater clarity on the terms of a FRAND license is likely to facilitate private negotiations and limit the need to seek a third-party determination of a FRAND rate.”<sup>25</sup>
- Joaquín Almunia (Vice President for Competition Policy, European Commission) noted that “there is a growing consensus on both sides of the Atlantic on the damage that the misuse of standard-essential patents can do to competition” and that the European Commission’s

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<sup>23</sup> The speech is available at <http://www.justice.gov/atr/public/speeches/287855.pdf>.

<sup>24</sup> See, e.g., Christine A. Varney, Assistant Att’y Gen., Antitrust Div., U.S. Dep’t of Justice, “Promoting Innovation Through Patent and Antitrust Law and Policy,” Remarks as Prepared for the Joint Workshop of the U.S. Patent and Trademark Office, the Federal Trade Comm’n, and the Dep’t of Justice on the Intersection of Patent Policy and Competition Policy: Implications for Promoting Innovation 8 (May 26, 2010), *available at* <http://www.justice.gov/atr/public/speeches/260101.htm> (“Clarity alone does not eliminate the possibility of hold-up . . . but it is a step in the right direction.”).

<sup>25</sup> “Standard-Essential Patents and Licensing: An Antitrust Enforcement Perspective,” 8th Annual Global Antitrust Enforcement Symposium, Georgetown University Law Center, Washington, DC (Sept. 10, 2014) (“SEPs & Licensing”), *available at* [http://www.ftc.gov/system/files/documents/public\\_statements/582451/140915georgetow nlaw.pdf](http://www.ftc.gov/system/files/documents/public_statements/582451/140915georgetow nlaw.pdf).

receipt of "many complaints related to standards-essential patents also shows that there is a great need for guidance."<sup>26</sup>

## V. Process for Developing Proposed 2014 Patent Policy

IEEE-SA's consideration of an update to its patent policy began in early 2013. At its regular March 2013 meeting, the IEEE-SA PatCom discussed the six suggestions made in the *Six Proposals* speech. The PatCom chair appointed an Ad Hoc committee (Ad Hoc)<sup>27</sup> and asked it to review the six suggestions and to provide recommendations to PatCom. The Ad Hoc reported back at PatCom's regularly scheduled June 2013 meeting. The Ad Hoc recommended that some updates to the patent policy would be appropriate in light of the *Six Proposals*. The Ad Hoc also noted that some of the suggestions (such as mandatory arbitration as a mechanism of dispute resolution managed or recommended by a standards development organization) were not appropriate for IEEE. In addition to hearing the Ad Hoc committee's report, members of PatCom and the Standards Board also participated in an IEEE-SA Patent Forum, which included remarks from representatives of the European Patent Office and several multinational corporations.<sup>28</sup> The PatCom chair re-chartered the Ad Hoc for further work.

Over the course of the following 15 months, the Ad Hoc proceeded to develop a draft policy update.<sup>29</sup> The Ad Hoc used a drafting subcommittee to

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<sup>26</sup> "Competition Enforcement in the Knowledge Economy," Fordham University/ New York City, 20 September 2012, available at [http://europa.eu/rapid/press-release\\_SPEECH-12-629\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-12-629_en.htm). See also Thomas Kramler (Deputy Head of Unit, DG Competition, European Commission), "FRAND Commitments and EU Competition Law," Remarks at ITU Patent Roundtable, October 2012 ("By threatening to use injunctions, holders of standard-essential patents could make demands that their commercial partners would not accept under normal circumstances."), available at [https://www.google.com/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=5&ved=0CDoQFjAE&url=https%3A%2F%2Fwww.itu.int%2Fdms\\_pub%2Fitu-t%2Foth%2F06%2F5B%2FT065B0000360016PPTE.ppt&ei=tNkiVI6LJsmbYATVq4G4DQ&usq=AFQjCNGUaLDRzQeHrSwOXOjkO4Sy2GE4wQ&bvm=bv.75775273,d.aVw](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=5&ved=0CDoQFjAE&url=https%3A%2F%2Fwww.itu.int%2Fdms_pub%2Fitu-t%2Foth%2F06%2F5B%2FT065B0000360016PPTE.ppt&ei=tNkiVI6LJsmbYATVq4G4DQ&usq=AFQjCNGUaLDRzQeHrSwOXOjkO4Sy2GE4wQ&bvm=bv.75775273,d.aVw).

<sup>27</sup> The members consisted of all the members of the 2013 PatCom, along with a former PatCom chair who was a member of the 2013 Board of Governors and who had served on PatCom during the 2007 policy update (as chair in 2005 and 2006, and as member in 2007).

<sup>28</sup> Presentations from this meeting are available at [http://grouper.ieee.org/groups/pp-dialog/patent\\_forum/index.html](http://grouper.ieee.org/groups/pp-dialog/patent_forum/index.html).

<sup>29</sup> Membership on the Standards Board and its standing committees is for renewable one-year terms, and the Standards Board Chair reviews all committee memberships, including PatCom membership, at the end of each year. As a result of this review in late 2013, three 2013 members rotated off PatCom, and three new members rotated on, but the PatCom chair remained the same. After these PatCom membership changes, the

prepare drafts for review and revision by the full Ad Hoc. Early in the process, IEEE-SA created a public website where drafts were published for public review and comment, once the Ad Hoc was satisfied with a draft. The Ad Hoc released a total of four public review drafts. Interested parties were asked to make comments using a comment tool, which permitted the Ad Hoc to review, sort, process, and act on comments more efficiently. (The Ad Hoc received and reviewed 680 comments and prepared written responses to 547 of them.<sup>30</sup>) IEEE-SA also re-opened the Patent Policy Dialog (PP-Dialog) email reflector to enable public dialog during the process.<sup>31</sup> In addition, PatCom invited comments on each of the four public review drafts at its public meetings held over the 15-month period.

On 10 June 2014, PatCom approved a revised version of the fourth public draft and forwarded this draft to the Standards Board for consideration.<sup>32</sup> At its June meeting, the Standards Board decided to defer consideration of the policy until its next regularly scheduled meeting in order to allow Standards Board members sufficient time to review and consider the proposed policy.

On 20-21 August 2014, the Standards Board held an open session to hear a presentation on the patent policy and to receive additional and direct public input. Fourteen members of the public spoke at the meeting, in addition to the 15 written comments that the Standards Board had received from 23 companies or individuals. The Standards Board discussed the proposed policy, both in open session and in executive session. The Standards Board then voted by paper ballot in open session on a resolution to accept the PatCom report (from June 2014), to approve the proposed policy as received from PatCom, and to

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PatCom chair reconstituted the Ad Hoc membership, which was now identical to the PatCom membership. (The 2013 Ad Hoc member who had not been on PatCom was one of the three who rotated onto PatCom.)

<sup>30</sup> The majority of comments on the fourth public review draft were repetitive of comments on the previous drafts, and the Ad Hoc decided not to expend the substantial effort of preparing written comment responses. Members of the Ad Hoc did review all fourth-round comments, however, and considered additional changes to the draft policy update as a result.

<sup>31</sup> The PP-Dialog reflector had been used during the 2007 patent policy update, but the listing was five or more years out of date. IEEE-SA staff sent a notice to the reflector inviting "subscribers" to "re-subscribe" to the reflector, because "PatCom intends to utilize this list again, now in 2013." (Although the process is called a "subscription, there was no charge and no membership requirement to "subscribe" to the reflector.) The 2007 reflector subscription list was then discarded in favor of the new subscription list. The reflector subscription list had reached a total of 50 by December 2013 and ultimately included more than 60 individuals from more than 30 companies and four government agencies on three continents.

<sup>32</sup> PatCom decisions are made by simple majority. The vote on the motion to forward the draft to the Standards Board was 3-2, with the chair not voting.

recommend that the Board of Governors approve the policy, with such modifications as the Board of Governors deemed necessary, advisable, and/or appropriate, and subject to the receipt of a favorable Business Review Letter from the United States Department of Justice. The motion required a vote of two-thirds of the voting members present and not recused. The motion carried on a vote of 14-5.

The Board of Governors will consider the proposed patent policy at its December 2014 meeting. If the policy is approved at that meeting, then under the current timetable the policy would go into effect on January 1, 2015.

## **VI. Substance of Proposed Patent Policy**

The purpose of the policy revision is to provide greater clarity on issues that have divided SEP owners and standards implementers in recent years. As Deputy Assistant Attorney General Hesse stated in *Six Proposals*, "It would seem to be in the interests of all for firms that benefit from standards to seize the opportunity to eliminate some of the ambiguity that requires difficult ex post deciphering of the scope of a F/RAND commitment. Clarifying or modifying existing intellectual property policies increases the likelihood that the standards you set will continue to promote incentives to innovate."<sup>33</sup>

The proposed policy includes four key elements, which are discussed below.

### **A. Greater Clarity of Meaning on "Reasonable" Rate**

In the last several years, SEP owners and standards implementers have litigated over patent demands that were several orders of magnitude apart. The fact that parties can be that far apart in their views of reasonable rates suggests that the IEEE-SA patent policy may not provide sufficient clarity. The proposed policy therefore provides, for Essential Patent Claims for which IEEE has an Accepted Letter of Assurance, a definition of "Reasonable Rate" as "appropriate compensation to the patent holder for the practice of an Essential Patent Claim excluding the value, if any, resulting from the inclusion of that Essential Patent Claim's technology in the IEEE Standard." In addition, the policy provides three factors that should be considered (among others that the parties may choose to consider) in determining a reasonable rate:

- The value that the functionality of the claimed invention or inventive feature within the Essential Patent Claim contributes to the value of

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<sup>33</sup> IEEE has publicly stated that it does not seek to amend retroactively the terms of any previously submitted Letter of Assurance, and that in adopting the policy IEEE-SA expresses no view as to whether any specific provision in the draft policy does, or does not, represent a substantive change from the current policy.

the relevant functionality of the smallest saleable Compliant Implementation that practices the Essential Patent Claim.

- The value that the Essential Patent Claim contributes to the smallest saleable Compliant Implementation that practices that claim, in light of the value contributed by all Essential Patent Claims for the same IEEE Standard practiced in that Compliant Implementation.
- Existing licenses covering use of the Essential Patent Claim, where such licenses were not obtained under the explicit or implicit threat of a Prohibitive Order, and where the circumstances and resulting licenses are otherwise sufficiently comparable to the circumstances of the contemplated license.

IEEE has not attempted to determine the royalty rate that any Essential Patent Claim should receive – that is rightly left to the parties' negotiations. Instead, the definition and factors provide a framework that IEEE believes will better enable parties to reach agreement on Reasonable Rates (or, failing agreement, better enable courts to make that determination).

#### **B. Greater Clarity on Nondiscrimination (Through Definition of “Compliant Implementation”)**

Some implementers of IEEE standards make an end-use product, while other implementers make components or sub-assemblies that are incorporated into an end-use product. Each of these is an implementation of an IEEE standard. The proposed policy makes clear that each of these implementers can invoke the benefits of an applicable Letter of Assurance. The proposed policy does this by introducing a definition of “Compliant Implementation” as “any product (e.g., component, sub-assembly, or end-product) or service that conforms to any mandatory or optional portion of a normative clause of an IEEE Standard” and providing that the requested licensing assurance shall extend to “any Compliant Implementation that practices the Essential Patent Claims for use in conforming with the IEEE Standard.”<sup>34</sup>

#### **C. Greater Clarity of Availability of “Prohibitive Orders”**

SEP owners and standards implementers have also litigated over the availability of injunctions and exclusion orders, which the proposed policy includes under the defined term “Prohibitive Order.” When a SEP owner can seek a Prohibitive Order without any limitation, the negotiation can become a negotiation over the cost to the implementer of being excluded from implementing the standard, rather than the value that the particular SEP

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<sup>34</sup> Exhibit A at lines 92-93 and 98-99.



contributes to the implementation. The proposed draft reflects the belief that negotiations between a voluntary submitter of a patent letter of assurance to the IEEE and a potential licensee should attempt to value the contribution of the Essential Patent Claim without considering the possibility of a Prohibitive Order.<sup>35</sup> Consequently, the proposed policy provides that the submitter (or its successor) of a Letter of Assurance is not permitted to seek a Prohibitive Order unless the implementer “fails to participate in, or to comply with the outcome of, an adjudication, including an affirming first-level appellate review, if sought by any party within applicable deadlines, in that jurisdiction by one or more courts that have the authority to: determine Reasonable Rates and other reasonable terms and conditions; adjudicate patent validity, enforceability, essentiality, and infringement; award monetary damages; and resolve any defenses and counterclaims.”

#### **D. Greater Clarity on Permissible Demands for Reciprocal Licenses**

SEP holders sometimes seek to negotiate a cross-license with a potential licensee. The proposed policy makes clear that, where a Submitter’s Accepted Letter of Assurance has indicated “reciprocity,” a potential licensee cannot both receive the benefit of the Submitter’s Letter of Assurance *and* refuse to license to that Submitter the licensee’s own Essential Patent Claims on the same standard.<sup>36</sup> Moreover, although a Submitter cannot insist upon receiving a cross-license to non-essential patents, the parties are free to negotiate any kind of cross-license or portfolio licenses that they wish to negotiate.

### **VII. Analysis**

IEEE believes that its proposed policy fully complies with all applicable antitrust and competition laws. Nevertheless, some of the comments that IEEE-SA received during the policy development process have voiced either vague or specific antitrust concerns about the proposed policy. Moreover, some stakeholders have requested that IEEE seek a Business Review Letter. IEEE determined that it would be appropriate to do so.

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<sup>35</sup> See Ramirez, *SEPs & Licensing* (“But a dispute with a willing licensee over royalty terms that does not take place under the threat of an injunction is not likely to create the undue leverage that is the source of the competitive problem in the standard-setting context.”).

<sup>36</sup> If both parties’ patents for Essential Patent Claims on a standard are covered by Accepted LOAs for that standard, then this is a non-issue. The issue arises only if a potential licensee holds Essential Patent Claims that are not subject to an Accepted LOA. Where a Submitter has excluded any of its affiliates (who are otherwise bound by the LOA), the Submitter cannot simultaneously require reciprocity while excluding affiliates. See Exhibit A at lines 106-109.

The only specific antitrust theory that has been articulated in the comments is that the attempt to provide greater clarity to the term “reasonable rate” (and otherwise provide clear answers to the questions that courts must confront today) could amount to “buyer-side price-fixing.”<sup>37</sup>

IEEE certainly acknowledges that the antitrust laws apply to buyers as well as to sellers<sup>38</sup> (although IEEE is not itself either a buyer or a seller). Nevertheless, the claim of “buyer-side price-fixing” is simply wrong.

1. The proposed policy does not set a maximum royalty, either for a specific patent or for a group of all patents essential to a particular standard. It generally defines the term “reasonable rate” and recommends (but does not require) additional factors for consideration in determining an appropriate rate. The proposed policy does not prevent parties from discussing any other factors that they believe appropriate.
2. The proposed policy recommends that where either party believes licensing is appropriate, SEP owners and standards-implementers should engage in good-faith negotiations and should do so without unreasonable delay. IEEE believes that the proposed policy’s greater clarity will foster more efficient negotiations and reduce the incidence and scope of litigation over patents essential to IEEE standards – and thus facilitate the adoption of those standards.
3. The negotiations should be based on the value of the patent, not the value of excluding an implementer from implementing the standard. IEEE expects that the proposed policy’s description of the circumstances in which a submitter of a Letter of Assurance agrees that it will not seek a Prohibitive Order will also facilitate good-faith negotiations over a Reasonable Rate. Nevertheless, the policy does not preclude either party from beginning litigation if it is dissatisfied with the other party’s timing or reasonableness.
4. This clarity is precisely what antitrust and competition enforcers in the United States and Europe have been encouraging. The specific

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<sup>37</sup> See, e.g., Comments 2/42 (Kallay/Ericsson), 2/51 (Kallay/Ericsson), 2/102 (Fröhlich/BlackBerry). This shorthand reference provides the “round” number and comment number. (For example, “Comment 2/42” refers to comment 42 in the second round of comments.) For convenience, we have also identified the individual submitter and his or her affiliated company. All comments submitted during the four rounds of public review were posted and remain available at [http://grouper.ieee.org/groups/pp-dialog/drafts\\_comments/index.html](http://grouper.ieee.org/groups/pp-dialog/drafts_comments/index.html).

<sup>38</sup> See, e.g., Amended Complaint, *United States v. eBay, Inc.*, File No. No. 12-CV-05869 (N.D. Cal. June 4, 2013).

proposals for providing clarity are within the boundaries of what regulators have discussed. If litigation becomes necessary, then the proposed policy should assist courts in conducting the litigation more efficiently.

5. Submission of Letters of Assurance is entirely voluntary. The proposed policy will continue to provide that "IEEE shall request this assurance without coercion."
6. The proposed policy does not retroactively amend previously Accepted Letters of Assurance.<sup>39</sup> Patent owners who do not wish to submit a Letter of Assurance under the proposed policy are free not to do so.
7. The proposed policy will apply to all Submitters of Letters of Assurance, regardless of whether the Submitter is also an implementer. The policy does not single out non-implementers (that is, patent holders who do not produce compliant implementations of the relevant standard) for different treatment.
8. The policy applies only to Essential Patent Claims. A Submitter's other patents are not affected by the proposed policy.
9. The process by which the policy has been developed has been transparent, as well as consistent with the established role that IEEE has fulfilled in the global standards development process. The opportunity to review and comment on the proposed policy was open to all stakeholders, and the proposed policy updates were significantly modified in light of the comments.

### VIII. Conclusion

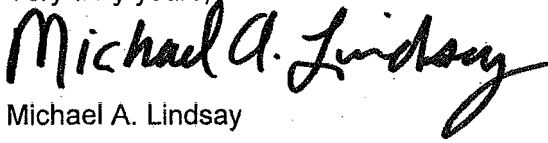
IEEE believes that its proposed policy is certainly within the range of lawful conduct for a standards development organization. IEEE respectfully requests a Business Review Letter confirming that the Justice Department would not bring action against IEEE under any antitrust theory based on IEEE's adoption and implementation of the proposed patent policy. We will be happy to

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<sup>39</sup> Even some of the commenters who voiced the "buyer-side price-fixing" concern appear to acknowledge that the absence of retroactive amendment of Accepted Letters of Assurance eliminates this concern. See, e.g., Comment 2/38 (Kallay/Ericsson).

provide any further information that you might find useful, and we look forward to your statement of the Justice Department's enforcement intentions.

Very truly yours,



Michael A. Lindsay

Enclosures (Exhibits A through D)