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APPLICATION NO.	FILING DATE	FIRST NAMED INVENTOR	ATTORNEY DOCKET NO.	CONFIRMATION NO.
12/545,953	08/24/2009	Thomas E. Faust, JR.	1216.009	2513

25779 7590 09/26/2018
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ART UNIT	PAPER NUMBER
3695	

NOTIFICATION DATE	DELIVERY MODE
09/26/2018	ELECTRONIC

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UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE PATENT TRIAL AND APPEAL BOARD

Ex parte THOMAS E. FAUST JR.

Appeal 2017-004352
Application 12/545,953
Technology Center 3600

Before ELENI MANTIS MERCADER, ERIC S. FRAHM, and JASON M. REPKO, *Administrative Patent Judges*.

MANTIS MERCADER, *Administrative Patent Judge*.

DECISION ON APPEAL

STATEMENT OF THE CASE

Appellant[1] appeals under 35 U.S.C. § 134 from a rejection of claims 1–33. We have jurisdiction under 35 U.S.C. § 6(b).

We affirm.

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[1] The real party in interest Eaton Vance Management. App. Br. 1.

CLAIMED SUBJECT MATTER

The claims are directed to a closed-end fund with a hedging portfolio. Claim 1, reproduced below, is illustrative of the claimed subject matter:

> 1. A computer implemented method of administering a closed-end-fund (CEF), the method comprising:
> (a) Configuring, by a computer, the CEF:
> to have a plurality of units available for sale, the plurality of units being configured for trading on one or more secondary markets;
> to be capable of holding derivatives;
> to have a fund maturity date;
> to redeem the plurality of units, wherein the CEF is configured to redeem the plurality of units at the fund maturity date while not being required to allow for redemptions on a daily basis;
> (b) Identifying, by a computer, a fund portfolio of assets, wherein the assets are liquidatable at a time coinciding with the fund maturity date, and wherein the fund portfolio of assets has a portfolio monetary value;
> (c) Purchasing and holding within the fund the fund portfolio of assets, by a computer;
> (d) Identifying, by a computer, a hedge portfolio configured to offset financial risk associated with the fund; and
> (e) Publishing, by a computer, the hedge portfolio.

REFERENCES

The prior art relied upon by the Examiner in rejecting the claims on appeal is:

Roberts	US 4,839,804	June 13, 1989
Nations	US 2002/0138299 A1	Sept. 26, 2002
Feldman	US 2005/0216407 A1	Sept. 29, 2005
Tull	US 2005/0262010 A1	Nov. 24, 2005
Huber	US 2007/0112657 A1	May 17, 2007
Hawkes	US 2007/0118450 A1	May 24, 2007
Present	US 2009/0063363 A1	Mar. 5, 2009

REJECTIONS

Claims 1–33 stand rejected under 35 U.S.C. § 112 second paragraph as being indefinite.

Claims 1–33 stand rejected under 35 U.S.C. § 101 as being directed to non-statutory subject matter.

Claims 1, 9–12, 16, 17, and 25–28 stand rejected under 35 U.S.C. § 103(a) as being unpatentable over Tull, in view of Huber, Present, and Feldman and further in view of Official Notice.

OPINION

Claims 1–33 rejected under 35 U.S.C. § 112 second paragraph

The Examiner rejected claims 1–33 under 35 U.S.C. § 112 second paragraph as being indefinite for reciting the term "redeem" which contradicts with how a CEF works (by definition, a Closed-End Fund (CEF) does not issue redeemable shares and that is why it is called a closed-end fund and not open-end fund). Final Act. 3.

We do not agree with the Examiner's finding because as discussed *infra* with respect to the Examiner's obviousness rejection, the prior art of Tull teaches an example of a modified CEF with allows for redemption of shares. In other words, one skilled in the art would be able to understand that a modified CEF allowing for redeemable shares does not contradict the definition of CEF.

The Examiner made a § 112 second paragraph rejection regarding the limitation of "'redeem the plurality of units at the fund maturity date <u>while not being required to allow for redemptions on a daily basis</u>'" because "[i]t is unclear whether 1) it is not required to allow redemption on a daily basis including fund maturity date 2) it is not required to allow for redemption on the days other than fund maturity date." (Ans. 21).

We agree with the Examiner that this limitation is confusing because it is not clear whether the redemptions are at maturity or also on a daily basis. Where, as here, a claim is "amenable to two or more plausible claim constructions, the [Examiner] is justified in requiring the applicant to more precisely define the metes and bounds of the claimed invention by holding the claim unpatentable under 35 U.S.C. § 112, second paragraph, as indefinite." *Ex parte Miyazaki*, 89 USPQ2d 1207, 1211–12 (BPAI 2008) (precedential); *see also In re Morris*, 127 F.3d 1048, 1056 (Fed. Cir. 1997) (it "is the applicants' burden to precisely define the invention, not the PTO's"). Accordingly, we sustain the Examiner's rejection of independent claims 1–33 under 35 U.S.C. § 112, second paragraph as indefinite.

Claims 1–33 rejected under 35 U.S.C. § 101

Appellant argues that the claims are not directed to an abstract idea, nor are they attempting to preempt all forms of configuring a fund, identifying fund portfolio of assets, purchasing and holding assets and identifying and publishing portfolio and data. App. Br. 12–14. Appellant argues that the instant claims are similar to *PNC Bank et al. v. Secure Axcess, LLC.*, CBM 2014-00100, slip op. at 23 (PTAB Sept. 9, 2014) (Paper 10)), because when viewed as a whole, relate to a computer-implemented method to transform data in a particular manner—in this case to configure and administer a new type of closed-end-fund (CEF). App. Br. 14. Appellant asserts that the instant claims as a whole are not directed to any fundamental economic practice long prevalent in our system of commerce.

Id.

Appellant directs us to the claims reciting the elements or functions including:

> - the fund and its assets having maturity dates that substantially coincide with one another;
> - publishing . . . the hedge portfolio;
> - the CEF being configured to redeem the plurality of units at the fund maturity date while not being required to allow for redemptions on a daily basis;
>
> and
> - the CEF being capable of holding derivatives.

App. Br. 16–17.

Appellant asserts that "[b]ecause these additional 'elements or functions' may be viewed as the points of novelty relative to any analog or digital art, they must be 'beyond those recognized in the art or by the courts as being well-understood, routine or conventional.'" *Id.* at 17. Appellant further asserts that these elements or functions amount to significantly more than an abstract idea itself. *Id.* at 18–19. Appellant further asserts that the Examiner's cited prior art are also more than an abstract idea itself and since the claimed invention distinguishes over the prior art then it is "significantly more" than the abstract idea. *Id.* Appellant also asserts that *Alice* does not impose a new technical test, and thus, does not bar non-technical disciplines. *Id.* at 19–20.

We are not persuaded by Appellant's argument. While we adopt the Examiner's findings in the Answer (Ans. 19–20) we also add the following for emphasis. Whether an invention is patent-eligible is an issue of law, which we also review *de novo*. An invention is patent-eligible if it claims a "new and useful process, machine, manufacture, or composition of matter." 35 U.S.C. § 101. The Supreme Court, however, has long interpreted § 101 to include implicit exceptions: "[l]aws of nature, natural phenomena, and abstract ideas" are not patentable. *See Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347, 2354 (2014).

In determining whether a claim falls within the excluded category of abstract ideas, we are guided in our analysis by the Supreme Court's two-step framework, described in *Mayo* and *Alice*. *Id*. at 2355 (citing *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 566 U.S. 66, 75–79 (2012)). We must first determine whether claim 1 is "directed to" a patent-ineligible abstract idea. *See Alice*, 134 S. Ct. at 2356 ("On their face, the claims before us are drawn to the concept of intermediated settlement, *i.e.*, the use of a third party to mitigate settlement risk."); *Bilski v. Kappos*, 561 U.S. 593, 611 (2010) ("Claims 1 and 4 in petitioners' application explain the basic concept of hedging, or protecting against risk."); *Parker v. Flook*, 437 U.S. 584, 594–595 (1978) ("Respondent's application simply provides a new and presumably better method for calculating alarm limit values").

Examples of patent-ineligible subject matter include fundamental economic practices (*Alice*, 134 S. Ct. at 2357; *Bilski*, 561 U.S. at 611), mathematical formulas (*Flook*, 437 U.S. at 594–95) and basic tools of scientific and technological work (*Gottschalk v. Benson*, 409 U.S. 63, 69 (1972)).

Appellant's claim 1 is directed to a computer-implemented process for administering a closed-end-fund (CEF). With regard to the first step in *Alice,* Appellant's elements or functions of the fund and its assets having maturity dates that substantially coincide with one another; publishing the hedge portfolio; the CEF being configured to redeem the plurality of units at the fund maturity date while not being required to allow for redemptions on a daily basis; and the CEF being capable of holding derivatives (App. Br. 16–17), amount to nothing more than a computer implemented fundamental economic practice similar to *Bilski* pertaining to protecting against risk. *See Bilski*, 561 U.S. at 611. Alternatively, the computer implemented method substitutes for the mental processes of managing a closed-end-fund.

Therefore, since claim 1 is "directed to" a patent-ineligible abstract idea, we then consider the elements of the claim—both individually and as an ordered combination—to assess whether the additional elements transform the nature of the claim into a patent-eligible application of the abstract idea as required by step two of *Alice*. *Alice*, 134 S. Ct. at 2355. This is a search for an "inventive concept"—an element or combination of elements sufficient to ensure that the claim amounts to "significantly more" than the abstract idea itself. *Id.* "[T]he relevant question is whether the claims here do more than simply instruct the practitioner to implement the abstract idea . . . on a generic computer." *Alice*, 134 S. Ct. at 2359. We conclude that they do not.

When considering claims purportedly directed to an improvement of computer functionality, the inquiry becomes "whether the focus of the claims is on the specific asserted improvement in computer capabilities . . . or, instead, on a process that qualifies as an 'abstract idea' for which computers are invoked merely as a tool." *Enfish, LLC v. Microsoft Corp.*, 822 F.3d 1327, 1335–36 (Fed. Cir. 2016). In the instant claim 1, the computer implemented method is merely used as a tool to execute a fundamental economic practice.

With regard to Appellant's argument that the pending claims are patent eligible because there are novel (*see* App. Br. 17–20), Appellant improperly conflates the requirements for eligible subject matter (§ 101) with the independent requirements of novelty (§ 102) and non-obviousness (§ 103). "The 'novelty' of any element or steps in a process, or even of the process itself, is of no relevance in determining whether the subject matter of a claim falls within the § 101 categories of possibly patentable subject matter." *Diamond v. Diehr*, 450 U.S. 175, 188–89 (1981); *see also Genetic Techs. Ltd. v. Merial L.L.C.*, 818 F.3d 1369, 1376 (Fed. Cir. 2016) (stating that, "under the *Mayo*/*Alice* framework, a claim directed to a newly discovered law of nature (or natural phenomenon or abstract idea) cannot rely on the novelty of that discovery for the inventive concept necessary for patent eligibility").

Finally, Appellant's assertion regarding pre-emption is unpersuasive, because "[w]hile preemption may signal patent ineligible subject matter, the absence of complete preemption does not demonstrate patent eligibility. . . . Where a patent's claims are deemed only to disclose patent ineligible subject matter under the *Mayo* framework, as they are in this case, preemption concerns are fully addressed and made moot." *Ariosa Diagnostics, Inc. v. Sequenom, Inc.*, 788 F.3d 1371, 1379 (Fed. Cir. 2015); *see also OIP Techs., Inc. v. Amazon.com, Inc.*, 788 F.3d 1359, 1362–63 (Fed. Cir. 2015) (holding "that the claims do not preempt all price optimization or may be limited to price optimization in the e-commerce setting do not make them any less abstract").

Accordingly, we affirm the Examiner's rejection of claim 1 and for the same reasons the rejections of claims 2–33 under 35 U.S.C. § 101 as being directed to patent-ineligible subject matter.

Claims 1–33 rejected under 35 U.S.C. § 103(a)

Appellant argues that, contrary to the Examiner's finding, the ability to redeem a closed-end fund (CEF) does not somehow disqualify it from being a closed-end fund. *See* App. Br. 22. Rather, Appellant asserts that CEFs, as understood by those skilled in the art and as defined by the applicable regulatory framework, are not prohibited from redeeming their shares, but are simply not "required" to redeem. *Id.* According to Appellant this realization led to counter-intuitively provide a CEF that not only redeems it shares, but does so at a particular time (e.g., at a maturity date). *Id.* at 23. Furthermore, Appellant configured the CEF to hold a portfolio of assets that are specifically selected to be liquidatable at a particular time, i.e., coinciding with the maturity date. *Id.*

Appellant further argues that the combination of Tull and Present does not teach or suggest a Hedging Portfolio for a CEF nor does it teach publishing a Hedging Portfolio. App. Br. 27. Appellant further traverses the official notice regarding CEF being able to redeem funds upon maturity. *Id.* at 30. Appellant further asserts that Huber teaches an open-end ETF wherein funds are liquidatable upon maturity, not a closed-end. *Id.* at 31.

We are not persuaded by Appellant's argument. The Examiner clarifies that the disputed limitation recited from the claim is "'identifying a hedge portfolio configured to offset financial risk associated with the fund and publishing the hedge portfolio.'" Ans. 22. The Examiner relies on Tull for teaching a CEF and information comprising hedging portfolio provided to facilitate trading. *Id.* citing para. 30 *also see* Final Act. 5 citing paras. 9 and 19. The Examiner then relies on Present for teaching publishing a hedge portfolio "(hedge funds that publish . . . a periodic net asset value or total return, such as a daily or monthly net asset values)." Ans. 22 citing para. 25. We note in passing that Tull in essence teaches a modified CEF (*see* at least paras. 16–17) to have certain exchange-traded funds ETF attributes and this supports the Examiner's position that a CEF could be modified consistent with Appellant's own invention.

With respect to Appellant's argument regarding official notice, the Examiner explains that Tull teaches configuring a fund to selectively redeem the plurality of units, (*see at least* para. 38 (a portion of the CEF shares have been converted to AMETF shares; redeeming the AMETF shares)), but fails explicitly to disclose wherein the CEF is configured to redeem the plurality of units at the fund maturity date while not being required to allow for redemptions on a daily basis. Ans. 23.

> The Official Notice was provided to show that it was old and well known to configure a fund to redeem units at fund maturity date and refuse redemption at dates prior to fund maturity date (as evidenced by Mercier US 2008/0301035 Al, *see at least* [para. 363] "the participant may have to wait until the holder fund's maturity date to collect own shares; and Starr (US 2006/0080205 Al, *see at least* [para. 26] (fund . . . shares would be redeemed by the trust itself, and only at maturity and para. 36 not typically redeem investor shares prior to maturity).

Id. (emphasis added). The Examiner concluded that since

> it is old and well known to configure a fund to redeem units at fund maturity date and refuse redemption at dates prior to fund maturity date and that the primary reference teaches a fund (close-end fund), it would have been obvious to configure Tull's fund to redeem units at fund maturity date and refuse redemption at dates prior to fund maturity date.

Ans. 23.

The test for obviousness is not whether the claimed invention is expressly suggested in any one or all of the references, but whether the claimed subject matter would have been obvious to those of ordinary skill in the art in light of the *combined teachings* of those references. *See In re Keller*, 642 F.2d 413, 425 (CCPA 1981). Nonobviousness cannot be established by attacking the references individually when the rejection is predicated upon a combination of prior art disclosures. *See In re Merck & Co.*, 800 F.2d 1091, 1097 (Fed. Cir. 1986). While Appellant argues that the cited references of Mercier and Starr do not address a CEF (App. Br. 28), we note that the Examiner relied on Tull for a CEF configured for redeeming funds and while Tull stops short of stating when those funds could be redeemed the Examiner relied on official notice that is old and well known that funds can be redeemed at maturity. *See* Ans. 23. Furthermore, when there is a finite or limited number of solutions, such as redeeming at various times or at a predetermined time such as maturity, ordinary artisans would have had good reason to pursue all these options within their technical grasp. *See KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 421 (2007)). Additionally, to adequately traverse the Examiner's reliance on Official Notice, Appellant must specifically point out the supposed errors in the Examiner's action, *which would include stating why the noticed fact is not considered to be* *common knowledge or well-known in the art*. *See* MPEP § 2144.03. Here, Appellant has not stated in the record why the noticed fact of redeeming funds upon maturity is not considered to be common knowledge or well-known in the art.

Appellant further argues that the combination of Tull and Feldman does not teach or suggest a CEF which is either configured to hold, or which actually holds derivatives. App. Br. 31–32.

We are not persuaded by Appellant's argument. We agree with the Examiner's finding that Feldman

> teaches a CEF capable of holding derivatives, see at least Claims 66 of Feldman (a closed end fund; the distribution of shares of the fund . . . wherein the shares of the fund have a net asset value based on a combination of prices of the one or more currencies from a plurality of sources) and claim 69 (closed end fund wherein one or more of the sources is a derivative price) and claim 70 (closed end fund of claim 69 wherein the derivative price is a futures price).

Final Act. 7. Thus, we agree with the Examiner's assertion that it would have been obvious for one of ordinary skill in the art at the time the invention was made to modify Tull's teachings with a CEF capable of holding derivatives for the benefit of allowing the fund to base its total value on derivative prices. *Id.*

Accordingly, we affirm the Examiner's rejections of claims 1–33.[2]

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[2] The Leahy-Smith America Invents Act (AIA), Public Law 112-29, sec. 14, 125 Stat. 284 (Sept. 16, 2011) ("AIA § 14") states that "For purposes of evaluating an invention under section 102 or 103 of title 35, United States Code, any strategy for reducing, avoiding, or deferring tax liability, whether known or unknown at the time of the invention or application for patent,

DECISION

The Examiner's rejection of claims 1–33 is affirmed.

No time period for taking any subsequent action in connection with this appeal may be extended under 37 C.F.R. § 1.136(a). *See* 37 C.F.R. § 1.136(a)(1)(iv).

AFFIRMED

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shall be deemed insufficient to differentiate a claimed invention from the prior art."

Here, we note that the Specification explains that the disclosed embodiment "provides tax efficiency/tax deferral by helping to ensure that in various embodiments there is little or no income to pass through to investors prior to the fund maturity date." Spec. 17:16-19. Furthermore, claim 13 recites "[t]he method of claim 2, wherein said configuring (g) comprises configuring the plurality of derivatives *to qualify for at least one of long term capital gain and long term capital loss under U.S. Federal income tax laws*."

We leave to the Examiner to determine whether and to what extent AIA § 14 applies here. *See* MPEP 2124.01 ("Tax Strategies Deemed Within the Prior Art.").