

Will Business methods soon be patentable?

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Business methods, it seems, are now patentable in the US, and might soon be in Canada. Soon there might be a whole new category of patents: financial patents.

Patents have traditionally been the preserve of technical boffins such as engineers, scientists and tinkerers, rather than mainstream business people. Now accountants, banks, insurance companies, brokerage houses and other financial institutions might have to become familiar with the patent system.

All this arises from a recent US case. In *State Street Bank & Trust v. Signature Financial Group*, 47 USPQ2d 1596, released July 23, 1998, the U.S. Court of Appeals, Federal Circuit, overturned a lower court ruling ruling a patent invalid. The patent, titled "Data processing system for Hub and Spoke Financial Services Configuration" was granted to a Signature Financial Group, a company that administers mutual funds. The patent claimed a data processing system used to operate an investment structure, known under the proprietary name Hub and Spoke.

Under the investment structure, mutual funds ("Spokes") pooled their assets in an investment portfolio (the "Hub"), organized as a partnership. This arrangement offered tax advantages and economies of scale. The patent was not on the investment structure itself, but on a system for using computer software to calculate the value of the mutual funds in the scheme at any given time.

The lower court had found that the patent was invalid, invoking a judge-made "business method" exception to patentability. The Federal Court of Appeals overturned, and stomped vigorously on the business exception: "we take this opportunity to lay this ill-conceived exception to rest," wrote the court. Whether a patent claims patentable subject matter should not depend on whether the invention "does 'business' instead of something else."

There is an area of patent law dealing with what kinds of things can be patented i.e. what is "patentable subject matter". Both in Canada and the US, an invention, to be

patentable, must be "a process, machine, manufacture, or composition of matter" or an improvement to one of these. A mere mathematical algorithm cannot be patented. Canada's Patent Act provides, at s. 27(8), "No patent shall be granted for any mere scientific principle or abstract theorem." Business patents have not traditionally been regarded as patentable subject matter, although there is a lack of authority on the point in Canada.

The court found the Hub and Spoke patent fell within the four classes of patentable material (i.e. process, machine, manufacture, composition) because the claims were drafted as "machine" claims (method claims had been applied for, but disallowed by the US patent office). The patent claimed a data processing system consisting of a machine, namely, an ordinary computer, running software doing the calculations necessary to operate the Hub and Spoke business scheme.

The key issue was whether the invention had "practical utility," said the court. It was irrelevant whether that utility was for a business purpose. On the facts before the court, the system was useful. The software allowed mutual fund values to be calculated quickly, which was essential to the business scheme. Therefore, the court said, it was patentable.

The Signature decision has opened the door to many kinds of potential patents relating to accounting methods, franchising arrangements, insurance schemes, tax loopholes, business structures, methods of beating the stock market, and on and on. There has been a deluge of patent applications to the US Patent Office as a result.

Depending on how the case law develops, banks and brokerage companies and other financial organizations in the US may have to start thinking about patents all the time. Not only will there be the possibility of patenting new business schemes (or old schemes dressed up as new ones); there will also be the danger of getting sued for patent infringement for adopting some new business strategy. Managers and accountants might have to start doing patent searches.

How this will affect Canada is unclear. Under current practice, the Hub and Spoke application would be objected to by our Patent Office as being for a computer program (currently considered a "scientific principle or abstract theorem" unless operating on a novel apparatus), and for being directed towards a scheme or plan of doing business (not permitted under the Patent Office's manual, there is little case law on point). The equivalent patent in fact was applied for in Canada (No. 02072904, application date: July 2, 1992; laid open: January 3, 1994), according to the Canadian patent office's database.

The Canadian patent office is probably going to be receiving many business-patent applications. Sooner or later our courts will have to decide whether to allow business patents or not.