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USPTO Updated Guidance on Discretionary Denial of AIA Institutions Adds Consideration of U.S.-Based Operation

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On March 11, 2026, the United States Patent and Trademark Office issued a memorandum from Director John A. Squires entitled “Additional Discretionary Institution Considerations—U.S. Manufacturing and Small Business Use of AIA Proceedings.”

This memorandum effectively broadens the USPTO’s discretionary framework, introducing new factors that prioritize U.S.-based manufacturing for the Director to consider when determining whether to institute inter partes review (IPR) and post-grant review (PGR) proceedings under the America Invents Act (AIA). The March 2026 memorandum builds upon several previous USPTO policy changes from 2025, which vastly increased the Patent Trial and Appeal Board’s (PTAB or Board) use of discretionary denial, resulting in fewer petitions being instituted than in previous years.

A Brief History of the PTAB and Discretionary Denials

IPRs and PGRs, both introduced in 2012 after the enactment of the AIA, are adversarial proceedings for challenging the validity of an issued patent before the PTAB. Once a petition for IPR or PGR is filed with the Board, the patent owner has three months to submit a preliminary response, and then



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three Administrative Patent Judges (APJs) have three additional months to determine whether to “institute” IPR or PGR proceedings.

Institution leads to litigation-like proceedings before the Board involving additional briefing, limited discovery, a hearing, and a final decision on the patentability of the claims at issue. Since their introduction, IPRs have been extremely popular with petitioners defending against patent litigation claims in parallel district court proceedings, serving as a cost-effective and expedient way to try to invalidate asserted patents.

The USPTO Director is permitted to institute IPRs under 35 U.S.C. §314(a) if there is a “reasonable likelihood that the petitioner would prevail with respect to at least one of the claims challenged in the petition.” However, the AIA does not set forth

circumstances in which the director *must* institute an IPR, leaving the ultimate authority to the director's discretion. In the absence of explicit statutory guidelines, traditional standards for discretionary denials were set forth in precedential decisions by the board. Most notably, the Board commonly applied a six-factor test for discretionary denials called the *Fintiv* Factors:

1. whether the court granted a stay or evidence exists that one may be granted if an *Inter Partes* proceeding is instituted;
2. proximity of the court's trial date to the Board's projected statutory deadline for a final written decision;
3. the investment in the parallel proceeding by the court and the parties;
4. overlap between issues raised in the petition for *Inter Partes* review the parallel Federal Court proceeding;
5. whether the petitioner and the defendant in the parallel proceeding are the same party; and
6. other circumstances that impact the Board's exercise of discretion, including the merits.

In June 2022, former USPTO Director Katherine Vidal issued a memorandum adopting the use of "*Sotera* stipulations," in which a petitioner could avoid discretionary denial under the *Fintiv* Factors by filing a stipulation in a parallel district court proceeding stating that if IPR is instituted, petitioner would not pursue in the district court action any ground raised or that could have been reasonably raised in an IPR. The board's use of the *Fintiv* factors and petitioners' ability to avoid their application using *Sotera* stipulations provided a predictable, albeit formulaic framework for analyzing one's chances of discretionary denial before the board.

Discretionary Denial Overhaul in 2025

Since early 2025, the USPTO has reoriented its approach to discretionary denials of IPRs and PGRs, particularly in cases involving parallel district court litigation. In February 2025, then Acting Director Coke Morgan Stewart formally rescinded former Director Vidal's June 2022 memorandum regarding the use of *Sotera* stipulations.

With that rescission and a followon memo in March 2025 from the Chief Administrative Patent

Judge Scott R. Boalick, the USPTO shifted to a holistic, flexible application of the PTAB's discretionary denial precedent, in which the *Fintiv* factors and timely-filed *Sotera* stipulations were considered "highly relevant" but "*not dispositive*." Thus, impacting the predictability of the previous *Fintiv* factor and *Sotera* framework.

At the same time, the USPTO centralized discretionary denials at the Director level. On March 26, 2025, then Acting Director Stewart issued a memorandum titled "Interim Processes for PTAB Workload Management," which bifurcated discretionary factors from merits analysis, with parties invited to submit targeted discretionary briefing. Notably, the director himself, not the PTAB panel, would now render all final discretionary denial decisions.

If the director determines that he will exercise discretionary denial in a particular IPR or PGR, institution is denied prior to the projected date for the institution decision on the merits. The March 26, 2025 memorandum also introduced new factors to the discretionary denial inquiry, including the "settled expectations of the parties," which traditionally favored non-institution for patents that had been granted for some time.

Reinforcing these recent changes, the Federal Circuit recently confirmed that the director's instructions to the Board regarding discretionary denial decisions are an exercise of unreviewable executive discretion. Specifically, the Federal Circuit held that the director's instructions governing discretionary denials are nonbinding policy statements exempt from the Administrative Procedures Act notice-and-comment rulemaking procedures.

March 2026 Guidance on US-Based Manufacturing

Under the March 2026 memorandum, the director will consider three new factors when determining whether to institute IPR and PGR proceedings:

- (1) the extent to which any products accused of infringement in a parallel proceeding are manufactured in the United States or are related to investments in American manufacturing operations;
- (2) the extent to which any products made, sold, or licensed by the patent owner that compete

with the accused products are manufactured in the United States; and

- (3) whether the petitioner is a small business that has been sued for infringement of the patent at issue.

The memo also states that when evaluating domestic manufacturing, the USPTO will look beyond final assembly to consider the extent to which components of a product are made in the United States and whether U.S.-made products are sent abroad for further processing.

For method claims, the relevant products are the devices used to carry out the method. Small business status will be assessed based on all relevant facts, including the Small Business Administration's size standards and USPTO fee eligibility requirements. The new guidance applies to all IPRs and PGRs in which the due date for a patent owner discretionary brief has not yet elapsed.

The USPTO's Rationale For Weighing U.S.-Based Manufacturing

In setting forth standards for IPR and PGR institution decisions, the AIA requires the director to consider their effect on "the economy, the integrity of the patent system, the efficient administration of the office, and the ability of the office to timely complete proceedings." See 35 U.S.C. §§316(b), 326(b).

The March 2026 memorandum relies on this statutory authority and also cites extensive offshoring of U.S. manufacturing, "particularly in the electronics and computer industries," as well as recent studies from the Departments of Commerce and Homeland Security documenting the economic and national security damage caused by these trends. According to the memorandum, the loss of domestic manufacturing "bear[s] directly on the director's statutory obligation to consider the effect of institution standards on the economy and the integrity of the patent system."

The memorandum also noted that despite the potential for IPRs and PGRs to protect American businesses, the most frequent users of these proceedings are "large companies that have stated in public financial disclosures that they do not have a

significant, existing manufacturing presence in the United States, nor are they taking concrete steps to invest in American manufacturing." Thus, the memorandum frames the new discretionary factors as useful for "gathering data" about the extent to which AIA proceedings give a "tactical advantage" to companies not committed to U.S.-based manufacturing.

Potential Impacts of the Updated Guidance

The USPTO's new guidance may give an advantage for domestic manufacturers at the PTAB, whether they be arguing for or against institution. In particular, small U.S.-based businesses facing patent infringement suits in district court may receive more favorable consideration when petitioning for IPR or PGR, providing an alternative to costly years-long patent litigation in district court.

It remains to be seen what effect this new guidance will have on patents owned by Non-Practicing Entities (NPEs)—parties that obtain patents for the primary purpose of assertion and licensing, rather than practicing the patents themselves. Many IPR and PGR petitions are filed by large companies who are targeted by NPEs for patent infringement suits in district court. By their nature, NPEs have no manufacturing operations in or outside of the U.S. The March 2026 memorandum focused on preventing preferential treatment for large companies that have shifted their manufacturing overseas, but was silent on entities like NPEs that have never had a manufacturing presence

Parties may now be motivated to develop and present detailed evidence regarding manufacturing locations, component sourcing, and supply chain arrangements in discretionary briefing. While the USPTO's new guidance has not established U.S.-based manufacturing as an express requirement for institution, the practical effect may be front-loaded evidentiary submissions on manufacturing footprint and investment in discretionary briefing.

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