FROM *STATE STREET* TO *BILSKI*:
PATENT PROTECTION IN THE FINANCIAL INDUSTRY

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Abstract

In the last few years a renewed interest in the validity of patenting business methods has emerged. The issues appeared to have been settled in 1998 with the *State Street* decision. However, recently the Federal Circuit, following the more restrictive approach toward the patent system adopted by the Supreme Court, has questioned the soundness of the policy of extending patent protection to this type of subject matter.

This new scenario occurred explicitly in *In re Bilski* when the Federal Circuit decided to rehear the case en banc and reconsider the conclusions previously reached in *State Street*. In so doing, the court significantly restricted the ability of inventors to obtain patents in certain fields. Indeed, to secure a patent on a process, it is no longer sufficient to show that an invention produces "a useful, concrete and tangible result." Now, an applicant also needs to demonstrate that her invention is either tied to a machine or transforms an article into a different state or thing.

In June 2009, the Supreme Court decided to granted certiorari on *In re Bilski*, and the resulting decision is expected to shed light on the proper way to deal with the many questions that this case raises. Ultimately, the issues under consideration revolve around the empirical question of whether the patent system in the specific sector is "doing its job" or, in other words, whether that patent system is fostering the creation of additional business methods. To answer this question, I conducted a two parts empirical investigation of financial methods, as a subset of business methods. Specifically, I studied the innovative types of securities that emerged between 1980 and 2007. Then, I analyzed the patent applications submitted and the patents issued for different types of securities after 1998. Finally, I conducted structured interviews with market participants about the production and consumption of financial methods.

The collected results indicate that after 2004 creators of new types of securities have shown less interest in the patent system. Nevertheless, the rate of innovation in this field has remained constant. The structured interviews revile that market participants are ambivalent about the benefits that both the financial market and their companies can derive from having exclusive rights on their inventions. They also provide a description of the financial market and of its dynamics that does not fit well with the patents system's mechanisms. Thus, serious doubts emerge that in the ten years between *State Street* and *In re Bilski* patent protection had any impact on innovation in the financial industry.

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