

# State Street Bank & Trust v. Signature Financial

## **The Patentability of Business Claims**



## The patent in spotlight

On March 9, 1993, Signature Financial Group, Inc. was granted U.S. Patent No. 5,193,056 titled "Data Processing System for Hub and Spoke Financial Services Configuration", which claimed "a data processing system for managing a financial services configuration of a portfolio established as a partnership". This system (known as the "Hub and Spoke") tracked and processed the data required for maintaining a partnership portfolio and partner fund financial services configuration.

## State Street Bank & Trust Co appeals against Signature Financial Group, Inc.

State Street Bank & Trust Co (hereinafter, State Street) was in talks with Signature Financial Group to obtain the license for its '056 patent but the discussion fell through. State Street then brought a declaratory judgment action (and thereafter filed a motion) challenging the validity and enforceability of Signature Financial's '056 patent.

State Street asserted that a claimed invention could be considered for patent protection only if it involved any

practical application. In other words "if it produces a useful, concrete and tangible result."

At trial, the district court granted State Street's motion for partial summary judgment and held the '056 patent as invalid, finding that its claims did not cover statutory subject matter under federal patent law. This judgement was based on the prevalent principle at the time that business systems or plans are not patentable.

## Signature Financial Group, Inc. Wins Appeal

Following the district court's verdict, the Federal Circuit, however, reversed the judgment and stated:

*"The transformation of data, representing discrete dollar amounts, by a machine through a series of mathematical calculations into a final share price, constitutes a practical application of a mathematical algorithm, formula, or calculation because it produces a useful, concrete and tangible result."*

This ruling supplanted the notion held at that time that "methods of doing business" were not eligible for patent grants. Also, the verdict led to a considerable increase in business methods and software patents. To cite

evidence of the same, in 1991, software-related patents represented about 20 percent of the yearly total; by 2011 they accounted for about 50 percent. Also, the total number of software patents rose from about 25,000 per year to 125,000 per year in this period!

## **The Aftermath: Supreme Court Invalidates Federal Circuit's Decision**

In a turn of events in 2008, while evaluating *Bilski v. Kappos* (In re *Bilski*), the Federal Circuit decided to reconsider *State Street's* original appeal and opined whether the decision of allowing the '056 patent should be overruled. The question was "whether the court should reconsider *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*", where the court had held that business methods could be patented. A judge in the matter also stated "the consensus . . . appears to be that patents should not be issued for new business methods."

For *Bilski v. Kappos*, the Supreme Court held *Bilski's* patent ineligible and rejected the claims that involved a method of hedging risks in commodities trading (business method

claims). The Supreme Court's subsequent decisions on other lawsuit cases (*Mayo v. Prometheus* and *Alice v. CLS Bank*) led to establishing a two-step inquiry for evaluating any claim related to a business method.

Within the purview of this inquiry:

1. the court evaluates whether a claimed invention is directed to an abstract idea or natural principle, and
2. if it is, the court must determine whether the claimed invention implements the abstract idea either inventively or in a routine/conventional manner.

In other words, any claimed invention is to be held ineligible unless its abstract idea's implementation or application represents an "inventive concept".

In light of this development, Federal Circuit's decision on *Signature Financial Group's* '056 patent was overruled.

In addition, many of the business method patents that were granted because of Federal Circuit's original decision backing the '056 patent were also invalidated.

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