Intellectual Property Considerations of NFTs

By:Sean D. Detweiler
May 16, 2022



As a business owner, you might be wondering how intellectual property rights apply to NFTs and whether you should have them on your radar.

Intro to NFTs

NFTs (non-fungible tokens) have somewhat varied definitions, but essentially, they are a unique digital certificate, registered in a blockchain, that is used to record the ownership of an asset. The unique digital certificate is typically in the form of a link to a unit of data. The link is stored on a particular blockchain platform. Blockchain refers to a decentralized digital ledger that stores data in blocks connected in a chronological chain stored in a large network of computers. Whenever a block is added, the data is verified, and stored in the network of computers so that everyone in the network has a copy of the chain of data and no one can alter the record of the chain. The NFT is stored in the blockchain to record an asset, such as collectibles, tickets to an event, photos, videos, GIFs, audio recordings, e.g., anything that can be digitized. Each NFT for an asset is unique. There is only one, just like there is only one original painting. In short, an NFT is an electronic address or link to a unique digital asset stored in a database on a particular virtual platform.

The NFTs are minted (i.e., created) on one of the available platforms, such as OpenSea or Nifty, which allow NFTs to be uploaded, stored, and mapped to a token stored on a blockchain like Bitcoin or Ethereum. If the NFT asset needs to be transferred to someone else, it is done as a recorded transaction in the blockchain, which records the transaction and provides a record of current ownership. Typically, the transfer of ownership of NFTs on platforms is handled via a smart contract, which is a digital contract where the terms of the agreement between users are presented and executed by code. The smart contract contains information about the NFT that is the subject of the contract.

How do Intellectual Property Rights Apply to NFTs?

This is an area of law that is unsettled. Conventional intellectual property law not involving NFTs is the current guidance, but there are some open and unsettled questions on how some of those existing intellectual property conventions would be implemented in an NFT.

One question that has surfaced is whether owners of copyrighted works or trademarks have the exclusive right to mint NFTs of those copyrighted works or trademarks. The reason for this question is in part because existing companies with existing portfolios of copyrighted works and/or brands are worried about the race to mint NFTs on the available digital platforms and whether they need to rush to mint NFT versions of their existing intellectual property to maintain ownership of it and not lose it to someone else.

For copyrighted material, so far there seems to be a consensus on some of the main issues. One

question that comes up is who owns what rights? The exclusive rights enjoyed by the creator of a work under conventional copyright law include its reproduction, adaptation, distribution, public performance, and public display. If the work is completely original, not incorporating any work of others, then the creator of that work likely owns the full complement of copyrights. If the creator of the work also creates an NFT of that work, then they would own the NFT (which is the token) as well as the underlying full set of copyrights to the creative aspects of the work because they were the original creator.

If that creator and full copyright holder decides to sell the NFT, the buyer is only getting the NFT (specifically, they are only getting the unique electronic token) and nothing else unless it is specified in the smart contract that is part of the purchase transaction. Many NFT platforms seem to be including the right to publicly display the NFTs that are purchased on the platform. If a buyer of an NFT also acquires the right to publicly display the NFT then they would be able to, e.g., place the NFT asset on the homepage of a website, or use it as an avatar in their Twitter account. If the smart contract does not include the right to publicly display it, then the buyer would not be able to display the NFT asset anywhere that is publicly accessible.

However, if the creator of the NFT incorporated the creative works of others into their work and ultimately their NFT, then there may be an infringement of the works of others that were incorporated into the NFT. In such an instance, even the creator of the NFT and work may not have the full complement of rights, including not having the right to publicly display the work or the NFT. In such instances, they would not be able to sell the NFT along with a right to publicly display the NFT without violation of others' copyrights.

In most cases the purchaser of the NFT receives a token, however, they may or may not receive the corresponding right to display the NFT asset. But more importantly, purchasers of NFTs almost never receive any of the other copyrights such as the reproduction, adaptation, distribution, or public performance of the NFT, unless specifically assigned in writing. Said differently, if you purchase the NFT of a cartoon image asset, unless otherwise specified in the smart contract that goes with the purchase, most likely you do not have the ability to reproduce that cartoon image on t-shirts or the right to make copies of the NFT and re-sell them or distribute them, etc.

For trademark material, it is even more complicated. Trademark rights are acquired either through the use of the mark under common law or through registration of the mark or a combination thereof. If a trademark owner has the rights to their trademark for shoes, does that include virtual images of shoes in a virtual world? Are those shoes, or just digital depictions of shoes? Even if they are not "real" shoes, is there a case that can be made that it would lead to customer confusion if someone other than the shoe company were to use the trademark on a virtual image of a shoe in a virtual world? It is likely that this would be deemed to cause customer confusion and therefore perhaps the shoe company owner of the trademark registration for the mark for shoes might be able to extend their rights to prevent others from using the mark on digital versions of shoes in a virtual world. This is not settled law but seems reasonable.

What happens if someone uses the shoe company's trademark on a virtual basketball in a virtual world? The owner of the shoe company has only used the trademark on shoes and has only registered the mark for shoes. Would that translate to protection against such use by someone else on a virtual basketball in a virtual world? It probably depends in part on whether the mark is famous or not. If it is famous, then perhaps the shoe company owner would be able to stop someone else from using the trademark on a virtual basketball. If it is not a famous mark, then perhaps not. Again, this is unsettled in the context of NFTs.

Should You Have NFTs on Your Radar?

The reality is that the interpretation of intellectual property rights as they relate to NFTs is in part straightforward and in part unsettled in terms of the law. Some rights may operate the same with NFTs as they have with other articles before NFTs existed. Some rights may operate

differently.

Yes, you should have NFTs on your radar. From a business perspective, there is some potential to leverage NFTs and their use in virtual worlds or other digital forms. Minting NFTs and selling them may generate revenue for your company and may further your brand recognition.

However, should you rush to the Trademark Office or the Copyright Office to register your NFT versions of your existing trademarks and copyrights? Currently, the general view is there is no need to rush to register these NFT variations unless there are clear business cases for revenue associated with NFT implementations. The caveat is that there are some companies that have filed applications for registration of NFT versions of their copyrights or trademarks, but they tend to be heavily consumer-product-focused and famous brands. They have a lot of resources (i.e., funding) to spend on registering the NFT versions of their rights, and so it likely makes sense for them to do so until proven otherwise by case law developments.

If you are somewhere in-between, then you should continue to monitor the situation. If there are opportunities that present themselves to mint NFTs and/or file to register your copyrights or trademark rights for NFTs because there is also a business or marketing benefit as well to the implementation, then consider diving into the NFT space. If there are no obvious ways in which NFTs would benefit you or your business, and you have limited resources, then stay on the sidelines for now and see how some of the case law develops.

If you have questions related to intellectual property rights related to NFTs or otherwise, please contact Sean Detweiler.