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**Information Technology / Intellectual
Property**

**IP challenges in the heyday of NFTs:
What should IP rights-holders know**

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IP challenges in the heyday of NFTs: What should IP rights-holders know

Over the past year, the popularity of non-fungible tokens ('NFTs') has seen an unprecedented surge. Big brands have already made significant investments in the NFT market, and a growing number of companies is entering the industry, with a view of promoting their brand and capitalising from the potential digital assets may offer. The soaring interest in NFTs is unequivocally evidenced by the fact that an increasing number of companies is rushing to register their trademarks in relation to NFTs.

In fact, in the US alone in 2021 more than 1,200 NFT-related trademark applications have been filed to the United States Patent and Trademark Office, representing a 421-fold growth compared to the number of NFT-related applications filed in the preceding year.¹ Nevertheless, engaging in emerging technologies does not come without risks and several IP concerns are raised in this respect. Companies intending to integrate NFTs in their business portfolio should be aware of the risk inherent to the acquisition of NFTs, as well as align their IP strategy to effectively address the challenges deriving from the prevailing digital environment.

A brief overview: what are NFTs?

NFTs are cryptographic assets created (or 'minted' in NFT jargon) and managed on a blockchain platform,² such as Ethereum, or with the use of other distributed ledger technology. They constitute digital certificates, providing a proof of authenticity and ownership. What differentiates NFTs from 'fungible tokens', like cryptocurrencies, (e.g. Bitcoin), is their non-interchangeability: unlike cryptocurrencies, where each individual unit is indistinguishable from another unit of the same cryptocurrency, each NFT is a unique and distinguishable unit ('**token**'). NFTs are composed of software code linking

¹ Justinas Baltrusaitis, U.S. NFT trademarks applications skyrocketed 400x in 2021 with 15 registrations daily in 2022 (*Finbold*) <<https://finbold.com/u-s-nft-trademarks-applications-skyrocketed-400x-in-2021-with-15-registrations-daily-in-2022/>>.

² For more about blockchain, see our blog entry on *Blockchain basics* [here](#).

them to underlying, physical or digital, assets they represent. Said software code (**'smart contract'**)³ lays down the details associated with the NFT and may include, *inter alia*, the IP rights associated with the particular NFT, royalties to the creator on all secondary sales, etc.

What is being sold through NFTs?

Before analysing the challenges that NFTs may pose to IP rights, it is vital to understand what rights buyers acquire when they purchase NFTs. In principle, the purchase of an NFT, i.e. of the unique token on the blockchain, is not equated with the automatic transfer of ownership or rights associated with the underlying asset it represents. Unless otherwise provided, IP rightsholders generally retain their full rights, since such a transfer of rights to the purchaser of the NFT presupposes the conclusion of a license agreement—embedded within the smart contract—whereby the transfer of IP rights is expressly set forth.

While no specific and comprehensive typology exists regarding the bundle of rights transferred with the purchase of NFTs, as they depend on the agreement concluded between the transacting parties, a threefold approach can be observed: **(i)** usually, the purchase of NFTs does not involve any transfer of IP rights. As it is the case with the purchase of a physical object protected under copyright or trademark, said acquisition does not result to the transfer of any right to commercially exploit the object protected by copyright or trademark. **(ii)** According to a middle-ground approach, the acquisition of an NFT may result to the licensing of certain right to the buyer. **(iii)** Less frequently, the purchaser of the NFT is granted full rights in the underlying IP.

IP challenges raised

Inevitably, a plethora of legal challenges is raised in the emerging NFT market, many of which remain largely uncharted, including a number of risks posed in relation to IP rights.

³ According to Investopedia, a smart contract is “a self-executing contract with the terms of the agreement between buyer and seller being directly written into lines of code. The code and the agreements contained therein exist across a distributed, decentralized blockchain network. The code controls the execution, and transactions are trackable and irreversible.”

Copyright. Given that one of the main use cases of NTFs is linked to digital artwork, the risk of copyright infringement is rather apparent and intrinsic in this regard. The issue is further perplexed as NFTs cannot be classified as “work” within the traditional meaning of copyright law, but, as mentioned above, they constitute digital receipts of ownership of an underlying work. In case where an NFT is minted and is linked to an underlying work protected under copyright for which the NFT seller does not own IP rights or where the underlying work reproduces or copies the copyrighted work, IP infringements may arise. In such cases, IP rightsholders may issue a take-down notice and bring actions against the infringing sellers and the NFT marketplace hosting the unauthorized content, offering it for sale or auction.

Trademarks. Regarding trademarks, it is not uncommon that they are reproduced in NFTs without proper licensing. A trademark is infringed in case an unauthorised third party uses an identical or similar sign for similar or identical goods or services associated with the metaverse, digital art, collectibles and other relevant categories. Nevertheless, since NFTs have recently started to gain traction, many brands and trademark owners have not yet proceeded with the registration of their trademarks for the aforesaid goods or services, rendering their trademarks susceptible to unauthorized use. The above consideration does not apply for well-known marks, which are protected irrespective of the similarity of good and/or services the infringing sign is used for. Yet, in turn, in case of possible actions brought against such infringing signs, the trademark holders will have to face the evidentiary problem of establishing the well-known character of the trademark in question. Further implications are raised as to whether the fair use doctrine can be applied in relation to NFTs, when the incorporation of a trademark is not used to suggest sponsorship or endorsement by the trademark owner.

Certain high-profile cases are currently pending before US courts, as Nike and Hermès have both filed lawsuits challenging the creation, marketing and sale of NFTs incorporating their trademarks. The outcome in the above cases will undoubtedly provide useful guidance on the application of IP rights in the virtual world and will certainly influence the way brand owners and IP rightsholders alike will be shielded from the risks the digital environment entails.

Key considerations for brands and IP rightsholders

Given that the NFTs remain for the moment virtually unregulated, brands and IP rightsholders need to remain vigilant and make sure that the protection of their IP rights from the newly emerged risks related to NFTs forms part of their IP strategy. Even if hopping on the NFT world is not among their short-term plans, it is recommended that trademark holders register their key trademarks to include virtual goods and services linked to NFTs, and, thus, enhancing the ambit of their protection against infringement related to the use of NFTs, as well as ensuring their exclusive use if and when they decide to actively engage in the NFT market. Furthermore, it is advised that they include monitoring of NFT marketplaces in their enforcement strategy, to take action against unlicensed creators, sellers, as well NFT platforms where the infringing content is sold. It is noted that some NFT platforms have already established formal processes for submitting takedown requests for IP infringement. However, the large number of platforms available where infringement may occur, the relative ease of minting new NFTs and the anonymity offered on the blockchain, further exacerbate the enforcement process, rendering it a cumbersome task.

It is evident from the above that the potential of NFTs can help brands expand their business in the digital economy and avail of the new opportunities Web3 may offer. However, the challenges posed to IP rights are various and the legal landscape still unclear on how they are to be protected from infringements taking place in the NFT market.

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