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# Digital Licensing

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## Introduction to the Metaverse: Regulatory Outlook in China and Singapore

“Metaverse” is generally used to describe any virtual world where users can interact using digital avatars. There are seven layers to any metaverse: infrastructure, human interface, decentralization, spatial computing, creator economy, discovery, and experience (such as games, social interactions, esports, theater, and shopping). Users create an avatar and can then enter existing metaverses through a virtual reality headset or from a computer, tablet, or phone.

As part of our 2022 Asia Technology Innovation Series (<https://www.morganlewis.com/events/asia-technology-innovation-series-2022>), the international team at Morgan, Lewis & Bockius LLP provides an overview of the metaverse, takes a look at how it is being regulated in China and Singapore, and highlights key considerations for engaging with and stepping into the metaverse.

## China’s Regulatory Outlook

Like many jurisdictions globally, China recognizes the importance of developing its digital economy amid rapid developments around the

world. Although it does not reference the metaverse directly, China’s Plan for Development of the Digital Economy includes terms and covers concepts that are key to the metaverse, such as blockchain and virtual reality. However, there are significant policy concerns regarding money laundering and the potential impact of the metaverse on China’s financial markets, its currency stability, and foreign exchange, among other areas. For these reasons, China has a particularly robust stance on cryptocurrencies, which have been effectively banned in China since September 2021.

China’s Banking Association, Securities Association and Internet Financial Association issued a set of guidelines for the non-fungible token (NFT) industry, which include stating that underlying assets of NFTs should not include bonds, insurance, securities, precious metals, or other financial assets, and obligations for platforms to verify identities on NFT issuance, sale, and purchase, among others. Despite restrictions, certain NFT markets remain strong, such as the digital art collectibles market, which operates on permissioned blockchains, with transactions conducted in Chinese Yuan and not any cryptocurrencies. With many new digital collectible platforms launching every month since early 2021, the buoyant trend has continued well into 2022.

## Singapore Regulatory Outlook

We have yet to see any targeted legislation addressing the metaverse; however, there are some regulations that would affect offerings made therein. For example, Singapore’s Remote Gambling Act explicitly prohibits online gambling. If online gambling operators set up a casino in the metaverse, they will need to consider steps to disable access by Singapore users to avoid contravening the law.

With the explosion of cryptocurrency offerings, some casino games in the metaverse may conduct these games with utility tokens for rewards. If these tokens are not considered “monies worth,” then the Singapore law will not treat those as gambling activities. However, if these tokens are exchangeable for fiat currency or other “monies-worth” items, these would be prohibited.

Separately, operators who offer tokens exchanges on the metaverse may be conducting digital payment token services, and these activities are regulated under the Payment Services Act and the Financial Services and Markets Act of Singapore. Again, those operators in this space may need to explore restricting access from Singapore users to adhere to the laws.

## Looking Ahead in Asia

In five to 10 years, it is very likely that we will see additional legislation from the region relating to the metaverse and a possible convergence of approaches as we learn more from what the

metaverse has to offer and how it operates. It is also worth noting that “real-world” regulation, particularly in the financial services space, would likely be sought to be replicated in the virtual metaverse space.

## Key Things to Consider When Stepping into the Metaverse

- **Register, monitor, and enforce IP assets:** Whether you want to engage in the metaverse or not, if you have any intellectual property assets, see what their scope is with respect to digital goods. You may also want to register existing marks to cover digital assets. Companies should expand IP monitoring and enforcement to popular metaverse platforms
- **Impact on current and future license agreements:** Consider express provisions in current and future IP license agreements to cover the use of IP in virtual worlds (e.g., digital goods and services)
- **Dive into a metaverse:** Consider your target audience and which platform is the best to reach that audience. Acquire digital assets, including acquiring a digital wallet, purchasing cryptocurrency or coin of that metaverse, or acquiring virtual land.
- **Reach out to virtual world architects:** Consult a virtual world architect regarding virtual land and buildings, how you want to present your brand, and what sort of interaction you want to have with users.

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