

## 5 Top NFT Questions Attys Want IP Agencies To Explore

By **Tiffany Hu**

*Law360 (August 16, 2022, 9:03 PM EDT)* -- The U.S. Patent and Trademark Office and U.S. Copyright Office's decision to study the impact of intellectual property rights on non-fungible tokens is a welcome move, with attorneys telling Law360 there are key questions they want answers to, including what the definitions of basic terms are and how clients' assets can best be protected.

In July, the agencies said they were launching a joint study on NFTs — which are unique digital assets that are stored on a blockchain and represent ownership of an item — following a request from lawmakers saying it was "imperative" to understand their effect on IP rights in light of their rapid global growth since their "relatively recent introduction."

Sens. Patrick Leahy, D-Vt., and Thom Tillis, R-N.C., had asked whether there would be IP challenges with future applications of NFTs, how transferring an NFT affects the rights associated with that asset, how licensing rights and infringement work, and what IP protections are given to an NFT creator. They also requested the study be completed by June 2023.

NFTs are still in their early days, and as that world evolves, IP agencies have their work cut out for them, attorneys told Law360. Still, most said the study provides a chance for the government to offer some clarity in the meantime.

Here are the top questions that attorneys told Law360 they're hoping will be addressed:

### **What Exactly Are NFTs (And Other Key Terms)?**

Although they've existed for nearly a decade, NFTs have recently become something of a cultural phenomenon, with celebrities and influencers promoting their potential. NFTs purport to be unique and virtually impossible to replicate or replace — but the lawsuits and controversies that have also followed indicate that NFTs aren't quite that simple from a legal perspective.

For instance, the Bored Ape Yacht Club NFTs skyrocketed in popularity last spring when celebrities like musician Justin Bieber and TV host Jimmy Fallon purchased one. Copycats then began appearing online, prompting Yuga Labs — the company behind the Bored Ape NFTs — to file a lawsuit in June against self-styled conceptual artist Ryder Ripps for trademark infringement. But Ripps, for his part, maintains that the case is a "baseless effort to silence [his] artistic criticism."

NFTs involve difficult, technical concepts, and while anyone can "read purported basic explanations

about them from various sources, fully understanding them is a real challenge," said Morgan Lewis & Bockius LLP partner Ron N. Dreben. As such, the agencies' report "may start with an attempt to create standard definitions and examples of these concepts," he said.

"The challenge we have all faced in this space from the beginning: understanding exactly what is an NFT. What is a token? How does the blockchain work? Why are there different blockchains? What is a digital wallet?" Dreben said.

The agencies could also clarify what constitutes infringement in the metaverse, according to practitioners. Specifically, the Copyright Office could confirm that "minting and marketing of an NFT that points to copyrightable subject matter without authorization of the copyright owner constitutes copyright infringement," Dreben said.

"Some defendants may try to argue that NFTs do not infringe, because 'they are just code' and not the image [or] video that we all think of as the NFT," Dreben said. "The Copyright Office could give its view on this."

### **Do NFTs Have Rights In Themselves?**

Typically, NFTs do not automatically confer intellectual property rights in the associated work. But those unfamiliar with how IP rights are defined may assume that acquiring an NFT gives them the right to commercialize the underlying asset however they want — which isn't the case if the NFT did not come with the rights to the underlying asset, Carolyn S. Toto of Pillsbury Winthrop Shaw Pittman LLP said.

It would be "interesting to get more clarity on how the agencies see that issue," Toto said, noting that a New York federal judge in May seemed to suggest that NFTs could be separated from the underlying asset when he refused to dismiss Hermes' accusations that a designer's MetaBirkins NFT series ripped off the design of the French luxury brand's iconic Birkin bag.

In describing NFTs, U.S. District Judge Jed S. Rakoff had noted that NFTs and smart contracts — self-executing contracts that are memorialized in code — are stored on the blockchain, so they can be traced. However, the "digital media files to which the NFTs point are stored separately, usually on either a single central server or a decentralized network," the judge said.

"In terms of IP rights, I don't know how you can divorce the two," Toto said. "I'd be interested to see what information and opinions come out of these studies as to the interrelation between the token itself, the code and the underlying asset."

### **How Should Attorneys Handle NFT-Related TM Applications?**

As the USPTO is already processing thousands of NFT and metaverse-related trademark applications, companies have been seeking clarity on how to proceed, attorneys say.

In particular, there's an "imminent need for guidance" from the USPTO on the appropriate specimens of use for NFTs, according to Jonathan Menkes of Knobbe Martens. A specimen is a real-world example of how a trademark is being used for the goods or services in the application, such as point-of-sale displays or packaging that features the mark.

Michael R. Justus of Katten Muchin Rosenman LLP said it would also be helpful for the USPTO to clarify

the meaning of "bona fide intent to use" under the Lanham Act and how it applies to applications that cover NFT-related products and services.

Absent actual use, there must be a bona fide intent to use the mark for the covered products or services, and third parties can challenge trademark applications and registrations as void if there's no bona fide intent to use the mark for those products or services, Justus said.

"Given the 'gold rush' of NFT trademark filings, and the novelty and unique challenges of entering the NFT ecosystem, it seems likely that intent-to-use challenges will follow," he said. "It would be helpful for the USPTO to clarify the evidentiary standards that it will apply to such challenges."

### **How Should Attorneys Address Infringement On NFT Platforms?**

Traditionally, the Digital Millennium Copyright Act protects online service providers from liability for copyright infringement caused by their users, as long as the providers meet certain conditions, including implementing notice-and-takedown systems.

But it's not immediately clear whether the DMCA is available and can apply to NFTs, and whether any changes are necessary to handle infringing content on NFT marketplaces, according to Megan Bannigan of Debevoise & Plimpton LLP.

More broadly, Preetha Chakrabarti of Crowell & Moring LLP said that she hopes that "the report provides some guidance on how, for example, existing legal frameworks — DMCA, Lanham Act protections, etc. — will apply to NFTs and their marketplaces."

If done right, the report could provide insight into whether agency or legislative action is necessary, according to Bannigan, who noted that the Trademark Modernization Act in 2020 — which made it easier to get rid of fraudulent or unused trademarks — "took steps to address deadwood on the trademark registry following congressional hearings."

### **How Does Fair Use Apply To NFTs?**

Fair use has been a common defense in NFT-related disputes, including from movie director Quentin Tarantino in Miramax's lawsuit against him over "Pulp Fiction" NFTs, as well as StockX in Nike's lawsuit against the sneaker resale marketplace over its Vault NFT collection.

The doctrine of fair use generally allows the use of a trademark or copyrighted image without liability in certain cases. StockX, in the lawsuit against it, claimed that its Vault NFTs were inextricably linked to the physical Nike sneakers and that its use of images of Nike sneakers for the NFTs was "nominative fair use" because they referred to the physical products.

It would be helpful for the agencies to provide guidance on fair use and NFTs, but they may hold off in light of a major fair use case already before the U.S. Supreme Court, Morgan Lewis' Dreben said.

The high court is set to hear oral arguments Oct. 12 in *The Andy Warhol Foundation v. Goldsmith*, a dispute over whether artist Andy Warhol's prints of the music icon Prince was a "transformative" fair use of a copyrighted photograph of the musician. If the ruling doesn't come out before the study is complete, there's a chance that the study might not "venture too far" into fair use and NFTs, according to Dreben.

"While [the Warhol case] is not about NFTs, but rather whether Warhol's silkscreens of Prince photographs are fair use, the court's decision in that case could be relevant to fair use and NFTs," Dreben said.

A representative for the Copyright Office declined to comment. A representative for the USPTO did not immediately return a request for comment.

--Editing by Orlando Lorenzo.

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