

# IP Issues in the World of NFTs: The More Things Change, The More They Stay the Same

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# Quick Intros

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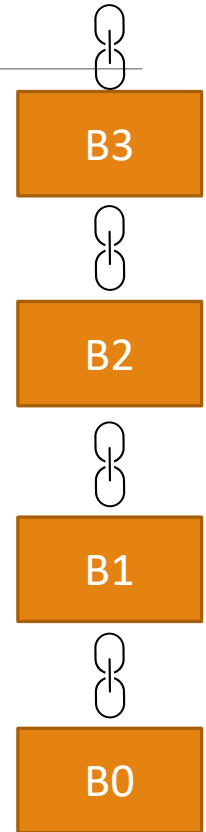
# Quick Poll

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- 1) Do you know what a blockchain is?
- 2) Are you familiar with what an NFT is?
- 3) Has anyone bought or sold an NFT?

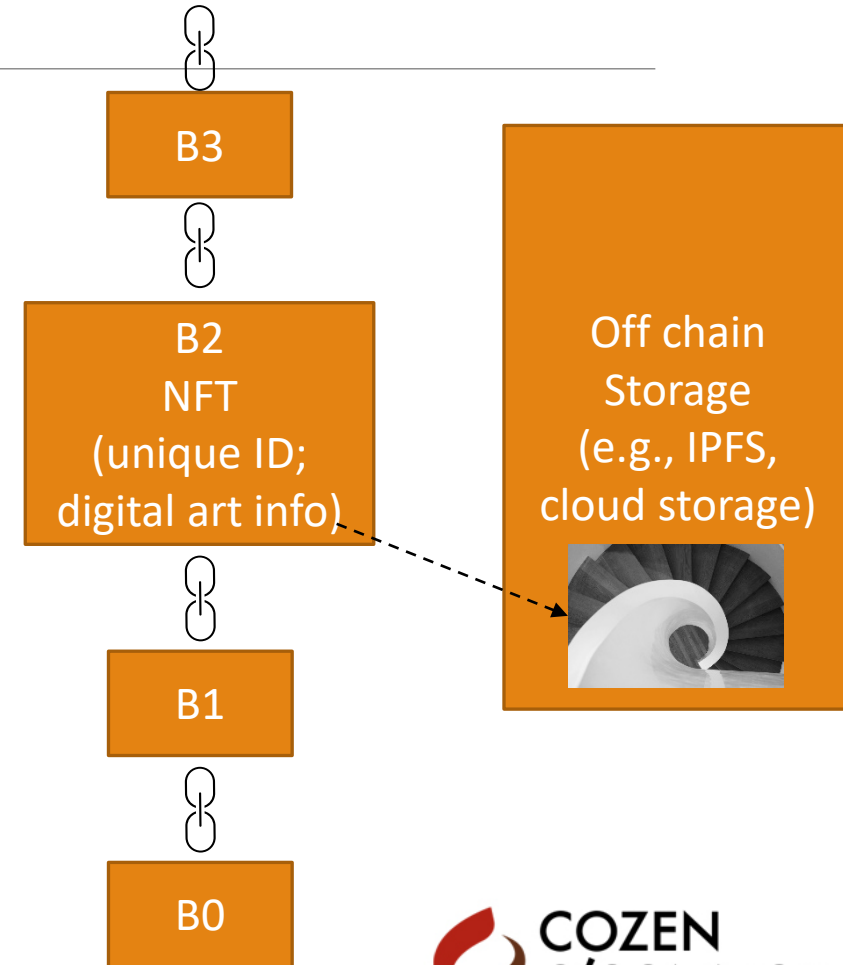
# What is a blockchain?

- Blockchain is a technology that stores data in blocks. The blocks are built on top of each other to form a chain.
- In order to add data blocks to the blockchain, multiple parties (called nodes) verify the data and then need to agree (by at least 51%) that the data should be added – this is called a consensus mechanism. Sometimes the nodes are rewarded with a cryptocurrency for performing the work.
- In many applications, the blockchain is used as a virtual ledger that can be publicly accessed and is stored, maintained, and distributed across multiple computer sites at different locations using peer-to-peer networking (also called decentralization).
- Cryptocurrency and NFTs are maintained on a blockchain.
- There is not only one blockchain – rather, there are multiple blockchains in existence.



# What is an NFT?

- An NFT is a non-fungible token, each token having a unique ID linked to an underlying digital or physical asset.
- An NFT is created or “minted” by executing software code in the form of a “smart contract” that assigns ownership and manages the transferability of the NFT.
- The NFT is stored on a blockchain and contains detail of the underlying asset to which NFT relates.
- Sometimes the underlying asset itself is stored on the blockchain with the NFT, other times the NFT includes a pointer to an off-chain storage location.





# Why the Hype?

- Athletes, celebrities, sports leagues are getting in on the action to enhance their brands – Tom Brady, LeBron James, MLB, NBA, NFL
- Record prices – Beeple’s First 5000 Days sold for \$69.3m; Jack Dorsey’s first tweet sold for \$2.9m
- Financial investment; status in owning a unique collectible; sentimental value; creates relationship between collector and creator
- Beyond the physical world, NFTs are used in the metaverse to permit buying and selling of digital assets, like virtual land, virtual goods in a virtual store your company sets up in the metaverse



# What are the rights and obligations with NFTs?

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- Who has the right to mint and sell NFTs? Apply traditional rules of rights ownership
- What rights are being sold, licensed or transferred?
  - (i) Rights depend on the smart contract and may be different from platform to platform, asset to asset, artist to artist
  - (ii) Usually, sale of an NFT does not include sale of the underlying asset or the IP rights that vest in it, meaning that the copyright rights are still owned by the rights owner and you don't own the right to display the NFT or use it for commercial purposes
  - (iii) Usually, seller licenses the IP rights in the underlying asset to the NFT purchaser for certain purposes (e.g., Bored Ape Yacht Club, Seth Green TV show, BAYC burger restaurant; license for personal and commercial use and no transfer of ownership of the artwork)
  - (iv) NFT seller *could* transfer the IP rights to the buyer, but an assignment must be in writing.
  - (v) Some circumstances where the NFT is sold together with underlying asset (financial services sector)

# The Risks with NFTs

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- Copyright infringement (*Miramax, LLC v. Tarantino*, 2021 WL 5359414 (C.D. Cal.))
- Trademark infringement/False designation of origin/Dilution/Unfair competition (*Hermes Int'l v. Rothschild*, No. 22-cv-384-JSR, 2022 WL 1564597 (S.D.N.Y. May 18, 2022); *Nike, Inc. v. StockX LLC*, 1:22-cv-00983-VEC (S.D.N.Y.))
- Design patent infringement
- Right of publicity violation (*McCollum v. Opulous*, 2021 WL 6707492 (C.D. Cal.))
- What if NFT platforms shuts down? Who has responsibility for hosting and maintaining digital file and what happens if digital file is unavailable?



# Monitoring and Enforcement of NFTs

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- Monitor NFT marketplaces for infringement or other claims (e.g., minters who are not authorized to mint NFTs; platforms where NFTs are available for sale; purchasers of NFTs)
- Issue DMCA takedown notices, cease and desist letters; participate in programs offered by platforms to locate infringements
- Register your NFT brand as a trademark
- Use vendors that can help track infringement online or block NFT spammers from stealing works
- Train employees that unlicensed use of NFTs, just like with other forms of IP, is not allowed

# Questions?

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