

# THE INTERSECTION OF NFTS AND TRANSACTIONAL IP

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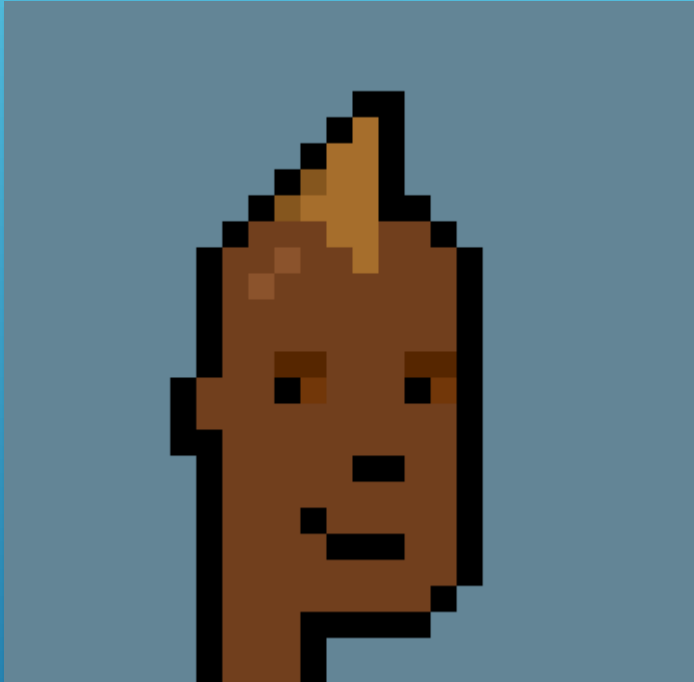
# TODAY'S AGENDA

- What are NFTs?
- What IP rights underlie NFTs?
- What advantages do NFTs offer when conducting IP transfers?
- How are NFT transactions conducted?
- What potential liability may arise from NFT transactions?

# WHAT ARE NFTS?

- A **N**on-**F**ungible **T**oken that exists on a blockchain
  - Code that can do anything the parties intend
  - Like paper (which can be used to make currency, stock certificates, artwork, contracts, *etc.*)
  - Generated by algorithm, not authored by a human
- A signifier of rights
  - Rights can be to anything
  - But primary use case is for ownership of **digital goods** (e.g. digital artwork, in-game items, video clips, audio clips)
- Many but not all NFTs reside on the Ethereum blockchain
  - Tezos and Polygon blockchains are gaining on Ethereum

# WHAT ARE NFTS?



▶ “Cryptopunk”  
(digital collectible)



▶ “MetaBirkins”  
(virtual Birkin bags)



▶ Video clip of  
LeBron dunking

# WHAT ARE NFTS?

```
JSON Raw Data Headers
Save Copy Collapse All Expand All Filter JSON
name: "Grumpy Cat"
description: "We present this original remastered Grumpy Cat photographic image. This singular keepsake is available as a 1/1 authenticated edition NFT.\n\nArguably the planet's most famous feline, Grumpy Cat is a New York Times best selling author, the star of her own Lifetime Christmas movie, and the first cat in history to be honored with a Madame Tussaud's wax figure. Grumpy became a pop cultural icon on September 23, 2012, after her frowning photo was posted to Reddit.\n\n1626 x 1957 pixels.\n\nWorst NFT Ever."
image: "ipfs://ipfs/QmfHtxAM2qwXrEXXVoosaArD8rR12qL78CuD2B4Tqe5R8Bz/nft.jpg"
```

## ► JSON for “Grumpy Cat” image

```
23
24 contract Fade is ERC721, Ownable {
25
26     using Strings for uint256;
27     using ABDKMath64x64 for int128;
28
29     uint256 private _creationTimestamp;
30     uint256 private _completionTimestamp;
31
32     string constant private _RADIUS_TAG = '<RADIUS>';
33     string constant private _HUE1_TAG = '<HUE1>';
34     string constant private _SATURATION1_TAG = '<SATURATION1>';
35     string constant private _LIGHTNESS1_TAG = '<LIGHTNESS1>';
36     string constant private _HUE2_TAG = '<HUE2>';
37     string constant private _SATURATION2_TAG = '<SATURATION2>';
38     string constant private _LIGHTNESS2_TAG = '<LIGHTNESS2>';
39
40     string[] private _imageParts;
41
42
43     constructor() ERC721("Fade", "FADE") {
44         _imageParts.push("data:image/svg+xml;utf8,");
45         _imageParts.push("<svg xmlns='http://www.w3.org/2000/svg' xmlns:xlink='http://www.w3.org/1999/xlink' id='fade' width='1000' height='1000' viewBox='-0.5 -0.5 1 1'>");
46         _imageParts.push("<defs><linearGradient id='g' x1='0' x2='0' y1='0' y2='1'><stop offset='0%' stop-color='hsl(");
47         _imageParts.push(_HUE1_TAG);
```

## ► Snippet of Etherscan smart contract

<https://etherscan.io/address/0x62F5418d9Edbc13b7E07A15e095D7228cD9386c5#code>

# WHAT IP RIGHTS UNDERLIE NFTS?

- All traditional forms of IP?
  - Copyrights
  - Trademarks
  - Rights of publicity and privacy
  - Moral rights/VARA rights
- Do NFTs create any new IP rights?
  - Bored Ape Yacht Club (licensing commercial rights) approach versus traditional art approach (personal display rights only)

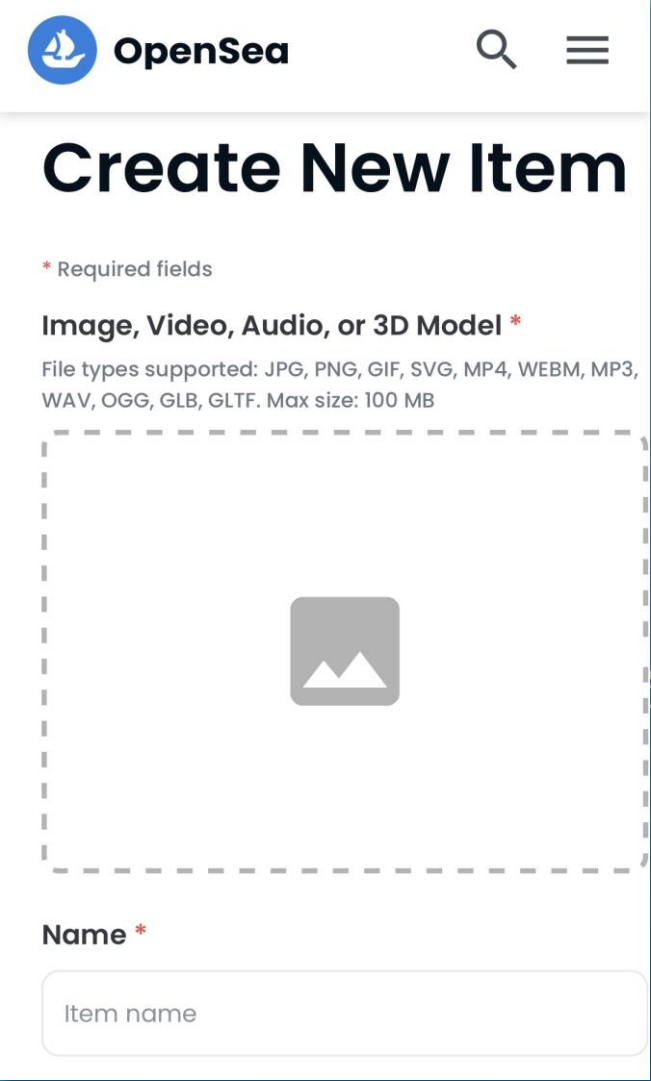
# WHAT ADVANTAGES DO NFTS OFFER?

- NFTs are supposed to:
  - Be unforgeable
  - Provide an uncorruptible record of authorship
  - Provide an uncorruptible record of provenance and transfers
  - Reduce transactional friction associated with traditional IP transfers
  - Improve enforcement of contractual terms (embedded in metadata)
  - Allow authors/artists to track (and potentially be compensated for) resales
- Have these advantages been realized in practice?
  - OpenSea phishing attack
- From an IP perspective, how do NFTs differ from prior “disruptive” new media (e.g., VHS, e-books, streaming audio and video)?



# HOW ARE NFT TRANSACTIONS CONDUCTED?

- **OpenSea Model**
  - Decentralized, automated marketplace
- **Standard Auction House Model**
  - Consignment Agreement
  - Conditions of Business for Buyers
  - Listing Terms (optional) – see LFC Heroes Club NFT Terms & Conditions
- **Private Sale**
- **Other Options?**



The image shows a screenshot of the OpenSea website's 'Create New Item' form. At the top, the OpenSea logo and navigation icons are visible. The main heading is 'Create New Item'. Below this, there is a section for 'Required fields' with the label 'Image, Video, Audio, or 3D Model \*'. A list of supported file types is provided: JPG, PNG, GIF, SVG, MP4, WEBM, MP3, WAV, OGG, GLB, GLTF, with a maximum size of 100 MB. A large dashed box contains a placeholder image icon. Below the image area is a 'Name \*' label and a text input field with the placeholder text 'Item name'.

# HOW ARE NFT TRANSACTIONS CONDUCTED?

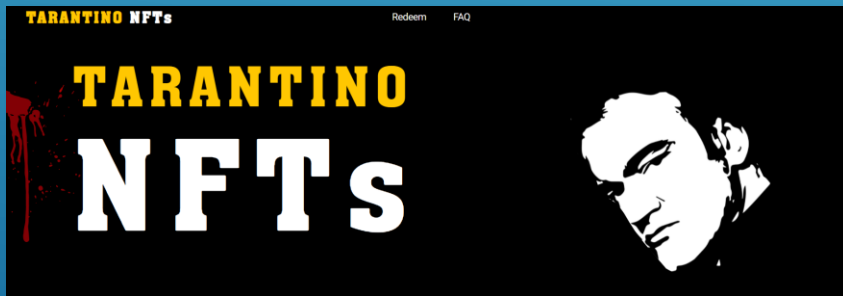
- Are there any unusual, NFT-specific contractual provisions?
  - Most are in the form of disclaimers and limitations on warranty/survivability provisions, e.g.,
    - NFT sold as-is
    - No liability for modification/substitution of work represented by NFT
    - No liability for loss of NFT
    - No liability for acts of future owners
    - No liability for third-party IP claims

# WHAT POTENTIAL LIABILITY DO NFTS RAISE?

- Actual NFT-related case law is scant.
- A recent Lexis search returned only **two** reported decisions dealing with NFTs:
  - *Notorious B.I.G. LLC v. Yes. Snowboards et al.*, No. 19-cv-1946-JAK, 2021 U.S. Dist. LEXIS 252735 (C.D. Cal. Dec. 22, 2021) (magistrate decision recommending granting attorneys' fees for defendant's failure to produce discovery; defendant was accused of selling products, including NFTs, commercializing Biggie's publicity rights)
  - *Playboy Enters. Int'l v. www.playboyrabbitars.app*, 21-cv-8932-VM, 2021 U.S. Dist. LEXIS 222422 (S.D.N.Y. Nov. 13, 2021) (granting Playboy a preliminary injunction on Lanham Act and state trademark and unfair competition claims; defendant is accused of counterfeiting Playboy's marks in connection with the sale of fake Rabbitars NFTs)
- Both cases are still pending.

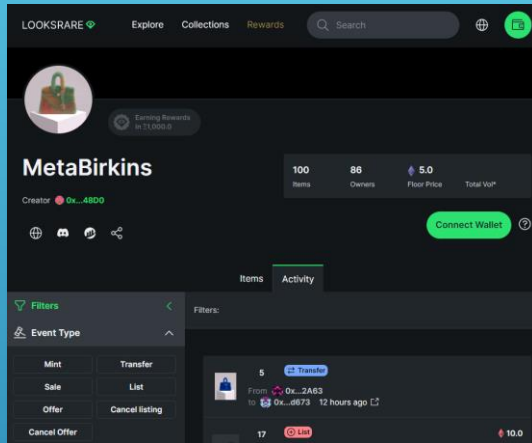
# WHAT POTENTIAL LIABILITY DO NFTS RAISE?

- Several high-profile NFT lawsuits have recently been filed, e.g.
  - *Miramax, LLC v. Tarantino*, 21-cv-8979 (C.D. Cal. Nov. 16, 2021)
  - *Hermes Int'l v. Rothschild*, 22-cv-384 (S.D.N.Y. Jan. 14, 2022)
  - *Nike v. StockX*, 22-cv-983 (S.D.N.Y. Feb. 3, 2022)



- The *Miramax* suit alleges that Quentin Tarantino's sale of NFTs to scenes from his "Pulp Fiction" script exceed the rights he reserved to himself upon transferring all rights in the film to *Miramax*
- The *Miramax* suit includes copyright and trademark infringement, breach of contract and unfair competition claims

# WHAT POTENTIAL LIABILITY DO NFTS RAISE?



- Both the *Hermes and Nike* suits raise traditional trademark causes of action (infringement, false designation of origin, dilution, state misappropriation and unfair competition)
- The *Hermes* suit also includes a 15 U.S.C. § 1125(d) anti-cybersquatting claim
- The *Hermes* suit is currently the subject of a **motion to dismiss** based on *Rogers v. Grimaldi*, 875 F.2d 994 (2d Cir. 1989) (use of a trademark in noncommercial speech is not actionable unless it is (1) not artistically relevant to the work; or (2) misleading as to the source or content of the work)
- Hermes on Apr. 4, 2022 filed its responsive brief asserting that *Rogers* would not shield Rothschild's activities if he were selling physical handbags, and there is no need to treat virtual handbags differently. S.D.N.Y. 22-384, D.I. 31.

# WHAT POTENTIAL LIABILITY DO NFTS RAISE?

- The *Nike* suit illustrates divergent views over what the StockX NFTs at issue are:
  - Unauthorized digital collectibles (as Nike contends) **OR**
  - A mere “receipt” for the sale of authorized Nike goods. See StockX’s Mar. 31, 2022 Answer, S.D.N.Y. 22-cv-983, D.I. 21 (“StockX Vault NFTs **are absolutely not** ‘virtual products’ or digital sneakers. Rather, each Vault NFT is tied to a specific physical good that has already been authenticated by StockX.”) (emphasis in original)



- **Who is right?**
- Will “terms and conditions” such as StockX’s (which assert that its NFTs merely track ownership of physical Nike shoes stored in its vault) ward off potential liability?

# WHAT POTENTIAL LIABILITY DO NFTS RAISE?

- How do NFTs affect potential monetary remedies?
  - How should an NFT be valued relative to the underlying IP? Should damages be based on the value of an NFT or the underlying IP?
  - Does an IP owner have to compete in the market for virtual goods to recover or maximize damages against an unauthorized NFT seller?
- How do NFTs affect injunctive remedies?
  - Because NFTs (purportedly) cannot be destroyed, how can their prejudicial effects upon IP owners' goodwill, reputations, *etc.* be mitigated?
  - Because authorship cannot be separated from an NFT, are certain moral rights unavailable to the authors of NFTs (e.g., disavowal)?

# WHAT POTENTIAL LIABILITY DO NFTS RAISE?

- How can parties to an NFT transaction shield themselves from liability from IP lawsuits?
  - What sort of indemnification provisions are being negotiated in connection with NFTs? Are they NFT-specific?
  - Do NFT transactions carry with them any implied IP releases, assignments *etc.*?
  - Do traditional limitations on IP enforcement (first sale, exhaustion) apply?
  - To what extent are NFT transactions covered by traditional UCC or Restatement of Contract principles?



# WHAT POTENTIAL LIABILITY DO NFTS RAISE?

- Do NFT transactions give rise to other potential causes of action?
  - Violations of securities laws
  - Illegal gambling or lotteries
  - Violations of gift card statutes and escheatment laws
  - Consumer protection laws
  - Anti-Money Laundering/Know Your Customer laws
  - Data privacy

**QUESTIONS?**