

IP dimension of NFTs

Mamta Rani Jha looks at NFTs through the prism of intellectual property and discusses possible issues that may arise when dealing with them

One of the most discussed applications of blockchain today is the non-fungible token (NFT), a crypto-asset that is increasingly used by creators and rights holders to take control of their IP in the digital sphere. Unlike physical art and tangible forms of expression, in which the original is clearly distinct from its copies, copies of digital art are identical to one another. In such cases, it is very simple to replicate the art, dilute ownership and consequently, reduce its value.

To own an NFT means having exclusive rights to a unique hash on a blockchain comprising the entire transactional record of the digital file, and a link to access the work contained there. NFTs are “non-fungible”, that is each has a unique existence, which makes it impossible for NFTs to be exchanged for, or to be equal to one another. Against this background, the allure of NFTs is undeniable – they provide an unimpeachable record of the creation of the digital art, and affirm that the copy owned by a person is in fact, the original. Further, the creator has the option of minting a number of “originals” at his discretion, thus allowing them control over the demand and therefore the value of the art. Additionally, the technology may be used to substantiate the date of generation of the IP, which is a critical fact, particularly in infringement claims.

Another appealing facet of NFTs lies in the fact that the token can be embedded with smart contracts that execute automatic commands. Creators and rights-holders employ smart contracts to automatically deduct commissions on onward or secondary transfers, which assists in tracking royalties.

NFTs also open a new avenue for rights holders to exploit their tangible works. For instance, NBA Top Shot is the NBA's marketplace for trading “moments” in

basketball history, that is, existing clips. NFT marketplaces are therefore thriving, with buyers hoping to discover the next “Beeple”.

However, the IP implications of NFTs are less understood, given that it is a largely unregulated sector. There are very few judicial precedents concerning either the treatment of crypto-assets themselves or the application of conventional laws to crypto-assets.

TREATMENT OF NFTS

Although much excitement has been generated with regard to NFTs, they must be clearly understood for what they are. Put at its simplest, an NFT is an electronic record of a digital art, and such a right is already well-recognised within copyright law. For instance, section 14 of the Copyright Act, 1957, confers on an owner the exclusive right “to reproduce the work in any material form including the storing of it in any medium by electronic means”. It is arguable that an NFT is simply a mode of storage, and therefore, its creation is simply a manifestation of existing rights in an electronic medium.

However, the treatment of an NFT as a medium or mode of exploitation raises another important consideration. Under copyright law, an assignment shall “not be applied to any medium or mode of exploitation of the work which did not exist or was not in commercial use at the time when the assignment was made, unless the assignment specifically referred to such medium or mode of exploitation of the work”. Therefore, it begs the question whether an author of a tangible work, which has been assigned conventionally in the past, can claim that their assignment of ownership of copyright did not envisage NFTs as a commercial medium or mode of exploitation, and therefore, they could not have assigned

any rights therein. This is an important consideration for rights holders in India wishing to utilise their existing intangible IP through the medium of NFTs. Accordingly, it is extremely important that the holders of IP examine their existing agreements and ensure that clauses for future modes and media are well-drafted.

SCOPE OF RIGHTS

Another important aspect to be understood is that buying an NFT does not of itself imply that the buyer has IP ownership of the art therein. For instance, buying a print of an artwork does not grant the buyer any rights over the underlying artwork. Similarly, buying an NFT does not automatically grant any IP in the underlying work. The digital work within the NFT was not created at the request of any person (that is, it was not a commissioned work), and therefore, the artist is the first owner of the rights, and the scope and extent of any transfer of rights is determined by the terms set by the seller or artist of the NFT. Such terms have to be made in writing according to legal requirements. These terms may be incorporated by separate click-wrap agreements, the default terms of the marketplace, the descriptions of the NFT or even smart embedded contracts. The buyer is well within their rights to transfer or assign the IP rights, but these rights are subject to the terms of any parol or accompanying agreements.

For instance, the terms of the NBA Top Shots marketplace explicitly state that the purchase of an NBA moment does not confer any rights or licenses in the copyright or IP, and only a limited licence is granted to use, copy, and display the art for personal or non-commercial use, or for onward sale. It is therefore imperative to read the digital agreements

of marketplaces and sellers to understand exactly what buyers are receiving in their purchases.

IP PROTECTION

Just as an NFT does not automatically pass any rights to the buyer, it does not protect the creator from a claim of IP infringement. Any third-party IP within an NFT must be used only after consent, failing which the creator is vulnerable to a claim of infringement. This has recently been seen in the US dispute *Roc-A-Fella Records Inc. v Dash* where the plaintiff company was successful in obtaining a temporary injunction against the defendant, a former partner who attempted to auction an NFT of an album for which the company owned copyright.

Most NFT marketplaces follow the DMCA (Digital Millennium Copyright Act) process and take down infringing listings. Thus, IP rights holders must adequately safeguard their IP by proactively monitoring marketplaces. Similarly, buyers should also conduct due diligence to guard against the inadvertent purchase of infringing NFTs. It cannot be overstated that the only way to permanently efface an NFT is to burn it. However, it is also expected that fair use and nominative use principles will have equal applicability.

Insofar as trademark rights are concerned, the use of trademarks within NFTs and the use of trademarks as titles of NFTs may invite trademark complaints. India's Tata Group recently sued for infringement of its house mark TATA by the creators of a cryptocurrency using the same name. While the suit is currently pending consideration of the issue of jurisdiction, trademark proprietors would do well to secure protection for core marks with a focus on NFT services and products in the specification, in order to guard against abuses of trademarks.

MORAL AND PERSONALITY RIGHTS

Personality rights are common law rights vested in a person to own, control and exploit their image or likeness and to prevent unauthorised use thereof by third-parties. Personality rights are violated when there is any unauthorised

use of the identity of the person for a commercial purpose. However, this does not bar authorised and consensual use pursuant to a contract. Accordingly, it is the contractual terms and their interpretation that ultimately govern the scope of the rights of the owner over the subject. Similarly, the moral rights of authors are also liable to be enforced. Therefore, the scope of the agreement regarding the underlying works between the subject or author and owner or creator is critical.

BEST PRACTICES

The challenge with regard to NFTs is the lack of awareness of IP issues among sellers and buyers, as well as unregulated marketplaces without uniformity of procedure. Recently, the artist Banksy fell victim to a scam in which NFTs of fake Banksy works were sold for EUR244,000 (USD275,000). Participants must proceed cautiously and examine NFTs with the same diligence as with any conventional IP. Fundamental best practices include:

- i. **Securing digital marketplaces:** Due diligence must be thoroughly conducted on the marketplace where the NFT is to be created, so as to prevent consumer fraud.
- ii. **Contractual due diligence:** Assignments of any IP must include clauses for complete assignment of rights over any mode or media, including NFTs. For buyers, contracts must be examined with regard to the duration of copyright as well as the value of the IP, which will be impacted once it enters public domain. Therefore, smart contracts for royalties must adequately account for this.
- iii. **Licensing:** NFTs must be listed with prominently displayed documentation, written licence agreements and conditions that clearly set out the scope and limitations of their purchase.
- iv. **Proactive monitoring and swift legal recourse:** Rights holders must undertake frequent cyber checks against fake NFTs in their name and take swift and stringent legal action to create a deterrent. They may also secure trademark registrations with a crypto-focus in the specifications.



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