

Nuts and Bolts of an NFT Deal

Your Legal Guide to NFTs, the Metaverse, and Web3

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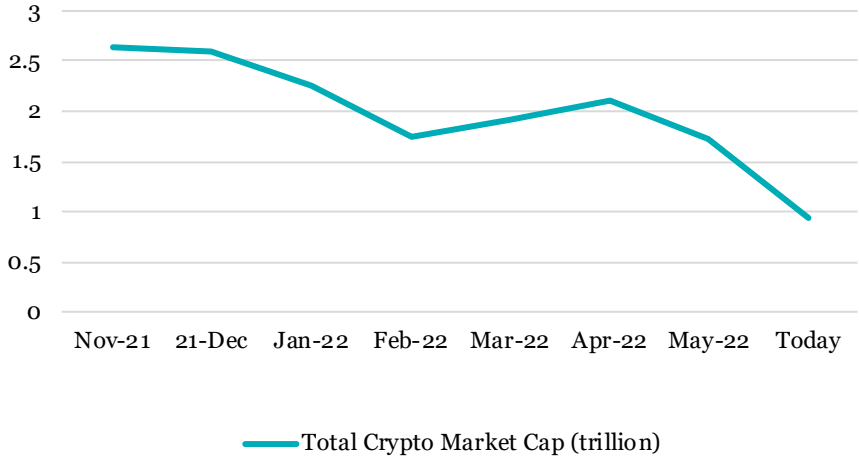
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Today's Agenda

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

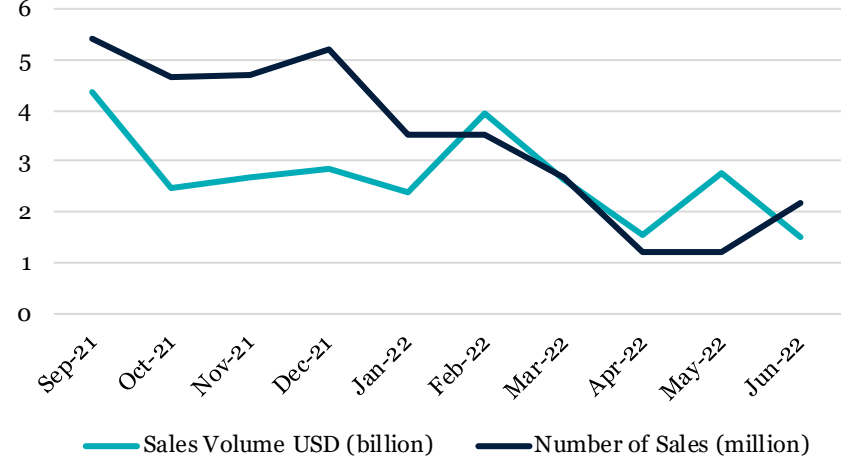
The Elephant in the Room

Total Crypto Market Cap (trillion)



Source: tradingview.com

NFT Volume



Source: nonfungible.com

A major correction was overdue for the NFT and crypto markets.

- Crypto market down 54% from 2021 peak (2.8 to 1.3 trillion)
- NFT sales volume down 41% from 2021 peak (4.52 to 2.67 billion)

Zoom Out

- Total crypto market up 35% from 2017/2018 peak
- Bitcoin market cap up 36% from 2017/2018 peak

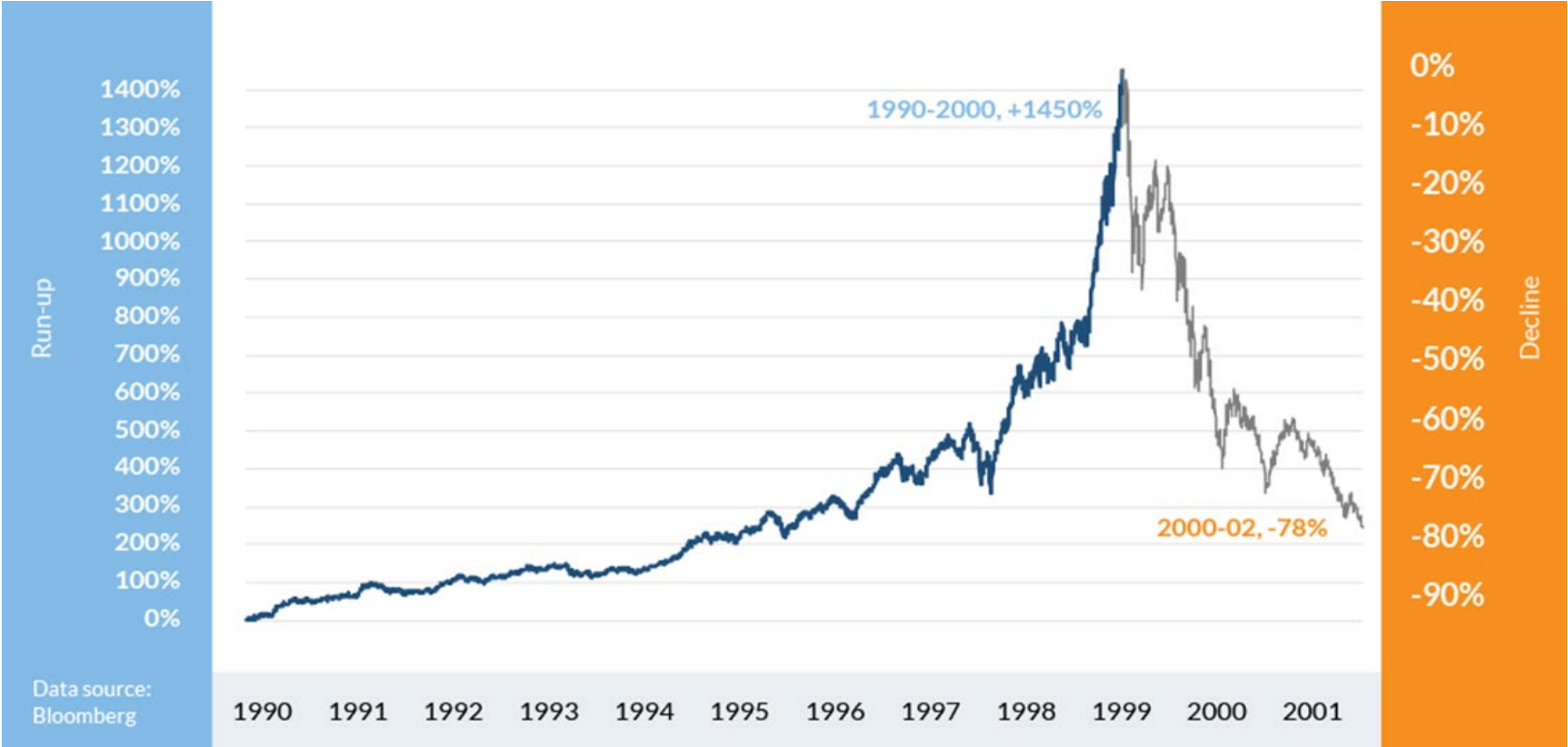
Crypto Market Cap 2017 – Present



Source: tradingview.com

Parallels to Dot Com Crash?

NASDAQ, 1990-2002



Source Image Credit: dailyfx.com

NFT Basics

- An NFT, or “**N**on-**F**ungible **T**oken,” is simply a blockchain-based token, like a cryptocurrency, with additional information, such as a digital image (or a link to it)
 - Proof of ownership is achieved through a blockchain, allowing the purchase and sale of unique digital assets
- NFTs can be applied to all manner of collectibles, including in-game characters, videos, digital trading cards, digital artwork, tweets, and even sports highlights
- NFTs can be traded or purchased through native blockchain applications or purchased through traditional payment channels
 - The holder of the NFT is its indisputable owner, but rarely does this include underlying transfer of IP rights (i.e., you own the NFT, not the art)

What Advantages Do NFTs Offer?

- NFTs are supposed to:
 - Be unforgeable
 - Provide an incorruptible record of authorship
 - Provide an incorruptible 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)?

Why NFTs?

- How are brands using NFTs?
 - Digital merchandise and collectibles
 - Event tickets and access to online communities
 - Games
 - Music distribution
 - Charity fundraisers
 - Sweepstakes and contest promotions
- Why are brands using NFTs?
 - Brand engagement
 - Revenue stream

NFT Marketplaces

- Allow creators to sell original NFT artwork and consumers to purchase NFTs.
- Examples:
 - OpenSea
 - Rarible
 - AtomicMarket

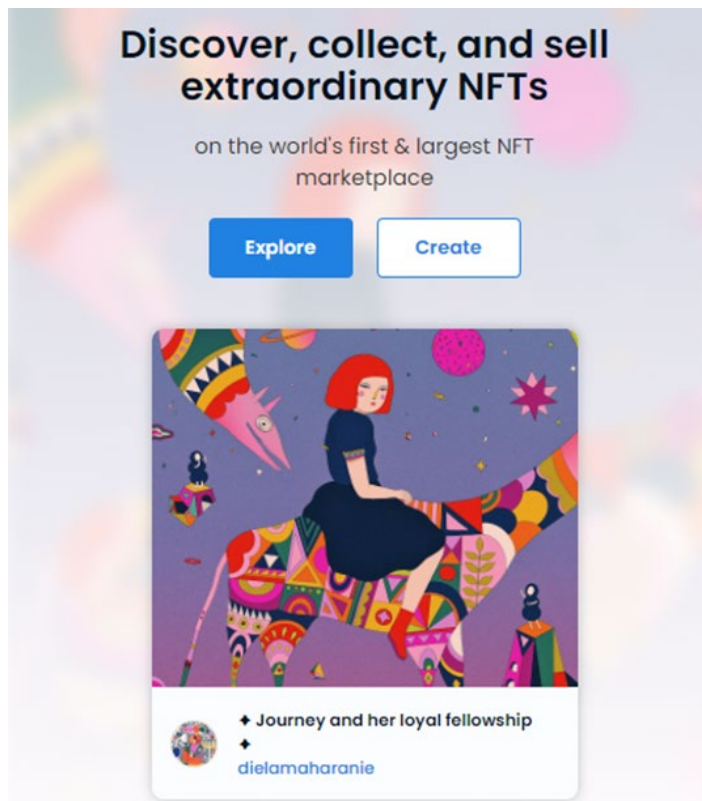


Image Credit – OpenSea

NFTs in Games

- NFTs in games often take the form of trading cards, avatars, or other collectibles
 - An NFT can represent a pet that players can breed, battle, and trade
 - NFT “deeds” for land ownership in the virtual world
- NFT games may allow players to “earn money”
 - Token distribution rights
 - Sell/trade NFTs to other players
- NFT platforms may allow items to cross over between games
 - An NFT sword purchased in one game can be used in another, cross-compatible game
- **NFT “play to earn” models may raise securities issues**



Image credit – Pet Pals

Legal Issues

Securities Issues – Are NFTs securities?

Deal Issues – How do the business terms play out?

Intellectual Property Issues – How do you protect the brand?

Regulatory – Are there money transmission regulation risks?

Consumer Protection Issues – What consumer harm is lurking?

Litigation – What issues are driving litigation trends?

Securities Issues

- A digital asset, depending on its characteristics, may be a “security” under federal securities laws. The Supreme Court set the standard in **Howey** (1946):
 - An investment of money, in a common enterprise, with an expectation of profit, from the efforts of others
- NFT in its “classic” form is probably **not** a security. The purchaser acquires a finished work, of intrinsic value. The future efforts of the management team are not so important
 - An NFT is more like a collectible or an artwork
 - Most likely a digital commodity, lightly regulated if at all, by the CFTC
- BUT a more esoteric NFT (e.g., fractionalized ownership, coupled with other rights) could be a security

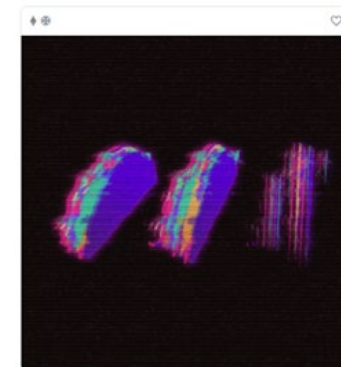
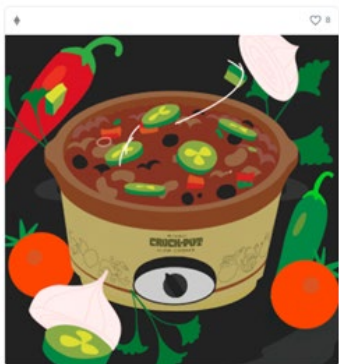
Deal Issues

- **Key Contracting Considerations**

- Clearing IP Rights
- IP Ownership and Protection in the Deal
- Royalties and Payments on Primary and Secondary Sales
- Related Marketing Efforts
- Enforcement of Terms

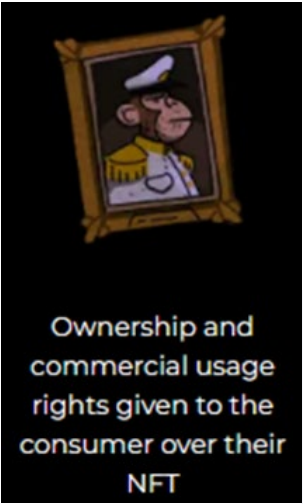
Creating NFTs – IP Clearance and Protection

- Rights and Clearance
 - Trademark, Copyright, Right of Publicity
- Confirm/Expand Existing Rights to Enable Enforcement Actions, if Required
 - Copyrights, Trademarks
 - Trademarks - Consider New Registrations, New Classes



NFTs – Transfer of IP Rights

- Scope of IP rights transferred in an NFT is none or limited
 - Think of it as a painting
 - Exceptions include Bored Ape Yacht Club, granting a commercial license to use the artwork in the NFT



✔ Contract Source Code Verified (Exact Match)

Contract Name: **BoredApeYachtClub**
Compiler Version: **v0.7.0+commit.9e61f92b**

Price	USD Price	Floor Difference	Expiration	From
75.01 WETH	\$200,111.68	10% below	about 1 hour	KJ_13
68.6258 WETH	\$183,079.91	17% below	about 1 hour	685027
6.64 WETH	\$17,714.19	92% below	6 months	EDE96D

Optimization Enabled: **No with 200 runs**

Other Settings: **default evmVersion, MIT license**



Description

Buyer acknowledges and agrees that Campbell Soup Company ("Sponsor") owns all legal right, title and interest in and to any art, design, drawings and/or other content included in and/or associated with the Artwork including without limitation the limited-edition work of Campbell's Soup Inspired Artwork contained in the NFT (collectively, "Content"), including, without limitation, all copyrights and other intellectual property rights therein.

Each Buyer's right to use the Content is limited to the ability

About AmeriCANa: Campbell's x Sophia Chang

Details

Contract Address	0x495f...7b5e
Token ID	1132728320299479...
Token Standard	ERC-1155
Blockchain	Ethereum
Metadata	Frozen

AmeriCANa: Campbell's x Sophia Chang

AmeriCANa: Campbell's x Sophia Chang - Limited Editions

73 owners 100 total 84 favorites

Sale ends March 7, 2022 at 5:03pm EST

Current price

0.99 (\$2,662.88)

Buy now

Make offer

Price History

All Time

All Time Avg. Price
0.1011



Listings

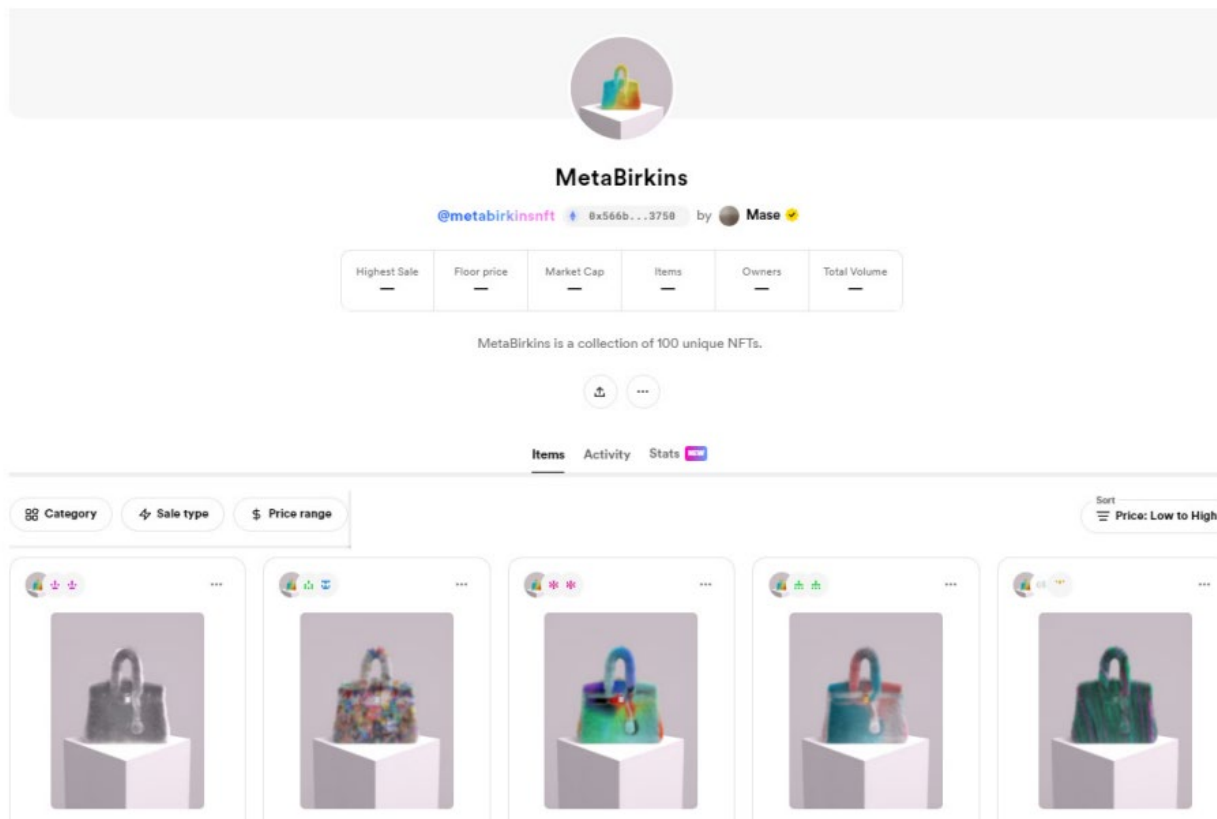
Unit Price	USD Unit Price	Quantity	Expiration	From	
0.99 ETH	\$2,662.88	1	3 days	JPEGHODL	Buy
4.2069 ETH	\$11,315.64	1	5 months	KingKitega	Buy

How Are NFT Transactions Conducted?

- Are there any unusual, NFT-specific contractual provisions?
 - Most are in the form of disclaimers and limits 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

Infringing NFTs – IP Protection and Enforcement

- Enforcement
 - NFT marketplaces
 - Social media
 - Digital wallet
 - Litigation
 - Criminal investigation



Missing – Have You Seen This NFT?



Fred Simian
Bored Ape #8398

If found, please contact Seth Green!

Image credit: Bored Ape Yacht Club, Yuga Labs

Seth Green's Stolen Bored Ape NFT

- Last month, actor Seth Green announced on Twitter he fell victim to a phishing scam, resulting in the theft of four of his NFTs
- One of the NFTs, Bored Ape #8398, was set to star in a new show Green was developing called White Horse Tavern
 - Blockchain transactions indicate that a collector going by the name DarkWing84 purchased the stolen NFT for \$200,000
- The show is now on hold as questions swirl over whether Green has the rights to complete the show
- What exactly did Green lose?



Image credit: White Horse Tavern

The Trouble with Vague Licensing Terms

- Yuga Labs, the company that owns Bored Ape Yacht Club, owns the Bored Ape IP
- The company's Terms give "purchasers" a license to make derivative works for commercial use
 - "When you purchase an NFT . . . Yuga Labs LLC grants you an unlimited, worldwide license to use, copy, and display the purchased Art for the purpose of creating derivative works based upon the Art ('Commercial Use')."
- The Terms do not carve out exceptions for stolen NFTs
 - "Users are entirely responsible for the safety and management of their own private Ethereum wallets . . . there is no ability to undo, reverse, or restore any transactions."
- Is DarkWing84 a purchaser?
 - Could DarkWing84 take legal action against Green if he uses the Bored Ape?
 - Could Yuga Labs?
- **Good Ending? – Last week, Green bought back his Bored Ape for \$300,000**

Targeted Intellectual Property Solutions

- Identify and leverage legacy registered intellectual property rights and online assets to be used in the NFT offering
- Protect new source identifiers and online assets to be used in NFT offerings
- Leverage all legacy presence (on social media, through websites, on chat rooms, and throughout each platform related to the NFT offering) and be aware of T&Cs of each platform prior to launching the NFT offering
- Create strategies to harmonize flagship rights with new source identifiers to best safeguard intellectual property and maximize enforcement opportunities
- Capitalize on knowledge of, and experience with, third-party platforms and law enforcement to create multidimensional enforcement strategy
- Utilize national ex parte litigation expertise to obtain injunctive relief, asset freezes, and discovery remedies to shut down fraud

Money Transmission Risk / AML

- Is the transmission of an NFT subject to money transmission regulation?
 - Generally, NFTs are not considered “monetary value” or a “substitute for monetary value,” and therefore are not subject to money transmission regulation
 - Typical or classic NFTs are more like collectibles or works of art
 - However, NFTs that are used and/or behave like cryptocurrencies (i.e., are actually fungible) could fall within federal or state definitions of monetary value
 - Platforms that permit users to trade NFTs for cryptocurrencies may be engaging in money transmission, depending on how the platform handles the cryptocurrency transactions



Consumer Protection

- Lay out facts concerning authentic NFT offerings
 - Link to official NFT website, official social media handles
 - Alert consumers to scams through well-known, authorized channels
 - Disclose rarity or intent to issue more in a collection
 - Disclose network fees
- Be aware of specific use cases that may cause consumer harm
 - NFTs sold in packs (loot box-style distribution)
 - Trading cards or other collectibles with unlockable content and add-ons (tickets, membership ben
- Prize promotions (sweepstakes, contests, etc.)
 - Provide accurate description of NFT prizes
 - Disclose NFT mechanics (royalties, lock-up period, unlockable content)
 - Games of chance introduce potential gambling/lottery issues

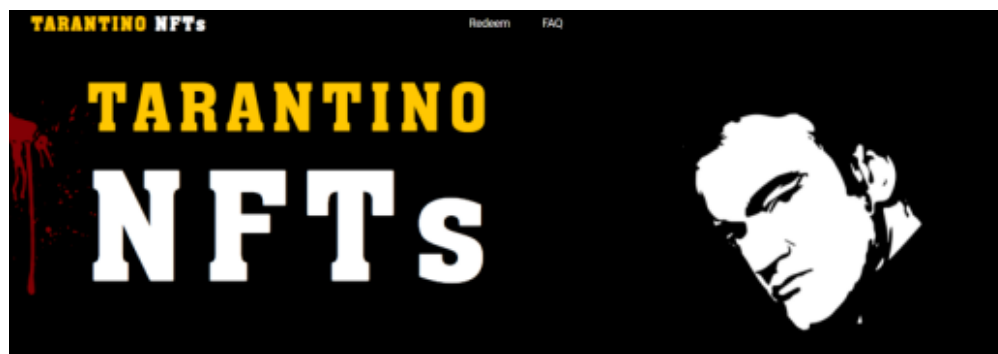


Litigation Trends

- Is an NFT a security subject to securities law?
 - NBA “Top Shot” Litigation
- Removal of unauthorized and infringing NFTs offered by third parties by leveraging underlying property rights
 - Playboy Enterprises Int’l Inc. v. Playboyrabbittars.app (S.D.N.Y. Nov. 13, 2021)
- Platform’s enforcement of its commercial terms
- Jurisdictional questions; international issues

Litigation Trends

- 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 containing images of script pages from Pulp Fiction exceed the rights he reserved to himself upon transferring all rights in the film to Miramax



Litigation Trends

- 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



- **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?

Concluding Thoughts

- NFTs appear to be the first “killer app” of Blockchain
- NFTs, the Metaverse and Web3 present rich new legal issues, as all are built on intellectual property and agreements. We are excited to assist clients as they build and inhabit this next digital frontier

Further Information

Links to Venable Articles and Presentations

- [“Are You Guys Into Crypto????”: Celebrities Promoting Cryptocurrencies Become Class Action Targets](#)
- [You Asked, We Answered: NFTs and Virtual Currency in Games: Compliance Issues and Legal Risks](#)
- [NFTs Promise Digital Scarcity Through the Blockchain for Artists, Athletes, and Celebrities – and an Abundance of New Legal Issues](#)
- [A JPG File Sells for \\$69 Million and Historic Tweets up for Auction as Blockchain and NFTs Explode](#)
- [When NFTs Go to Market: Preventing Fraud and Theft of Digital Currency](#)
- [NFT and Virtual Currency in Games: Compliance Issues and Legal Risks](#)
- [A \(Crypto\) Tale of Two \(Capital\) Cities: Beijing and Washington Grapple with a Growing Industry in Their Own Unique Fashions](#)
- [Beijing and Washington Grapple with Crypto in Their Own Unique Fashions](#)
- [Disney Patents Blockchain-based Anti-piracy Movie Distribution System](#)
- [Federal Reserve Dives Deep into Central Bank Digital Currencies](#)
- [Who Is Investing in Cryptocurrencies?](#)

Further Information

Links to Venable Articles and Presentations

- [BSA Alchemy: While Lowering the Recordkeeping and Travel Threshold, FinCEN and the Fed Turn Virtual Currency into Real Money](#)
- [Crypto Custody: OCC Confirms That National Banks Can Provide Custody Services for Cryptocurrency](#)
- [Improving upon the SEC's Blockchain "Framework": Toward a Reasonable Regulation of Digital Tokens](#)
- [SEC Clarifies Application of Securities Regulation to Blockchain Tokens, ICOs](#)
- [Texas-Sized Initial Coin Offering Faces Multiple Allegations in SEC Lawsuit](#)
- [IBM Partners with Credit Unions to Build Blockchain Solutions](#)
- [SEC's first crypto-exchange enforcement action dodges a key question](#)
- [Is the FTC the Federal Fintech Regulator to Watch?](#)
- [GDPR's Impact on the Use of Blockchain to Facilitate International Trade](#)
- [Intellectual Property Law Considerations in the Brave New World of Blockchain](#)
- [The FTC Formed a Blockchain Working Group \(and Maybe That's a Good Thing\)](#)

Further Information

Links to Venable Articles and Presentations

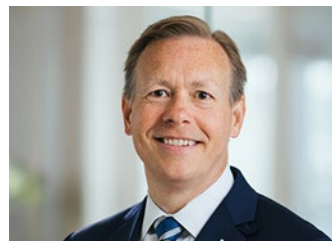
- [SEC Addresses Cryptocurrency Holdings by Registered Funds](#)
- [Cryptocurrency Addresses on OFAC Sanctions List](#)
- [House Subcommittee on Capital Markets, Securities, and Investment Holds Hearing Examining Cryptocurrencies and ICOs](#)
- [SEC Issues “Scores” of Subpoenas in Sweeping ICO Probe](#)
- [Senate Banking Committee Holds Hearing on Virtual Currencies – Warns of Celebrity Endorsements](#)
- [Blockchain, Tokenization, & ICOs: What's the Hype?](#)
- [Mastercard to Directly Support Cryptocurrencies on Its Payment Network – But Not Bitcoin](#)
- [Purchased Bitcoin in 2020? IRS Might \(or Might Not\) Require Reporting on Your Tax Return](#)

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