

AIPLA

American Intellectual Property Law Association

The Honorable Katherine K. Vidal
Under Secretary of Commerce for Intellectual Property
and Director of the United States Patent and Trademark Office
P.O. Box 1450
Alexandria, VA 22313-1450

The Honorable Shira Perlmutter
Register of Copyrights and Director
U.S. Copyright Office
101 Independence Avenue, SE
Washington, DC 20559-6000

Re: Comments in response to the Request for Comments on the *Joint Study on Non-Fungible Tokens and Intellectual Property* (Vol. 87, No. 255 *Federal Register*, Wednesday, November 23, 2022, Request for Comments) Docket No.: PTO-C-2022-0035

Dear Director Vidal and Register Perlmutter:

The American Intellectual Property Law Association is pleased to offer its comments to the United States Patent and Trademark Office (“USPTO”) and the United States Copyright Office (“USCO”) (collectively, the “Offices”) regarding the joint study on issues of intellectual property law and policy associated with non-fungible tokens.

Founded in 1897, the American Intellectual Property Law Association (the “AIPLA”) is a national voluntary bar association of approximately 7,000 members who are engaged in private or corporate practice, in government service, and in the academic community. AIPLA members represent a wide and diverse spectrum of individuals, companies, and institutions involved directly or indirectly in the practice of patent, trademark, copyright, trade secret, and unfair competition law, as well as other fields of law affecting intellectual property (“IP”). Our members represent both owners and users of IP. Our mission includes helping establish and maintain fair and effective laws and policies that stimulate and reward invention while balancing the public’s interest in healthy competition, reasonable costs, and basic fairness.

AIPLA appreciates the USPTO’s and USCO’s efforts and interest in seeking public comments on the matters elaborated below to assist in their work on IP policy related to non-fungible tokens (“NFTs”) and in conducting the study. We believe this to be a very interesting, emerging area of policy and appreciate the opportunity to assist in this consideration by providing the responses below.

Definition of NFT

Note Regarding the Use of the Term “NFT”: Merriam-Webster defines “non-fungible token” and “NFT” as “a unique digital identifier that cannot be copied, substituted, or subdivided, that is recorded in a blockchain, and that is used to certify authenticity and ownership (as of a

specific digital asset and specific rights relating to it.)” (1) The terms “NFT” and “NFTs” in the questions below should be read consistently with this general definition. Accordingly, for purposes of the questions below, the terms “NFT” and “NFTs” do not refer to the underlying asset, (2) but rather to the unique identifier. To the extent that your responses contemplate a definition different from the Merriam-Webster definition, please provide your definition before answering the questions, and explain how it is relevant to your answers.

Comment

The AIPLA recommends reconsidering this definition for at least the following reasons.

1. NFTs do not necessarily *authenticate* an asset. Many NFTs are based on an infringing use of a digital asset. If the original minting of the NFT was performed using third-party IP without a license, then the NFT does not certify authenticity. In order to certify authenticity, there needs to be some validation that the entity minting the NFT owns or has the relevant rights to the asset associated with the NFT. Most minting platforms do not follow this practice.
2. NFTs do not necessarily represent *ownership* of the IP rights in an asset. With NFTs, often the purchaser owns the token and can resell or otherwise transfer the token. However, in many cases the NFT only grants the purchaser a limited license to the IP in the asset associated with the NFT. Ideally, the rights granted are set forth in an NFT Owner Agreement. For example, many NFTs which represent digital assets only permit the purchaser to display the digital asset for personal, noncommercial purposes and the issuer retains all IP rights not expressly granted.
3. Further consideration should be given to whether the definition is complete or whether additional elements should be included. For example, NFTs typically are minted via a *smart contract* which controls subsequent sale of the NFT. A smart contract is a misnomer as it is typically computer code, but may not necessarily be a legal contract. When an NFT is minted, there is often various *metadata* associated with the NFT. The metadata can specify, for example, the asset associated with the NFT and a location (e.g., uniform resource identifier, “URI”) of the asset. Often, if an NFT represents a digital asset, the digital asset is not stored on the blockchain but somewhere else. The URI or other location identifier can provide the location. Many NFTs specify a resale royalty in the metadata. The resale royalty is an amount which may be payable to the issuer (or other specified entity) each time the NFT is resold. Often the resale royalty is programmed into the smart contract.
4. The portion of the definition which states that an NFT “cannot be copied, substituted, or subdivided” may not be accurate in all cases. We recommend that it be reconsidered. The types of NFTs that exist are evolving. One type of NFT that has emerged is known as a dynamic NFT. As the name implies, dynamic NFTs can change properties over time. With dynamic NFTs, the metadata and what the token represents can change over time. For example, an NFT can be programmed so that the associated image changes from night to day, or from a sword in a game to another weapon.
5. Additionally, in some dynamic NFT implementations, the tokens are designed to be combined or subdivided over time. For example, in a famous project called the *Merge*, the tokens are interactive and dynamic NFTs. They have an unconventional smart contract that gives them a merging power. Each token represents a circle having a mass

of a given size. These NFTs are programmed so that one wallet address can only have one Merge token at a time. If a wallet already owns a token having a mass $m(1)$ and buys a second token having a mass $m(2)$, both these mass units will be fused into one, making a new mass $m(3)$. Their masses will add up, and the circle will expand. When two masses are merged, the previous token is burned, and a new and bigger unit emerges. Once mass is merged, it cannot be broken into smaller pieces.

6. Other NFTs use a reverse process and subdivide a token representing a larger unit into two tokens representing smaller units.
7. Given the likely continued evolution of NFTs, it is likely other NFT smart contracts may be programmed to substitute and/or subdivide tokens or what they represent. The definition of NFTs should be broad enough to cover these evolving implementations.

1. Please describe:

a. The current uses of NFTs in your field or industry, including the types of assets associated with NFTs (e.g., digital assets, physical goods, services);

NFTs can be used to represent ownership of or rights in any physical or digital asset or entitlements across all industries.

b. Potential future applications of NFTs in your field or industry, including the types of assets that could be associated with NFTs (e.g., digital assets, physical goods, services).

Within the legal field NFTs can represent title (or other rights) to replace many paper title certificates that exist today (e.g., title to a car or real estate). Other examples include:

- NFTs can represent title to IP such as patent, trademark or copyright registrations.
- NFTS could be used to represent licenses or other rights to IP.
- NFTs could be used to represent ownership of copyrighted works (e.g., music) to facilitate automated payment of royalties to the owners.
- In each case the state of title or license rights can be evidenced on a public blockchain.
- NFTs can be used to represent healthcare data or personal data that can be shared for other purposes, for example, for insurance purposes.
- NFTs can be used to represent product data (including, in the case of food, source farm and factory information) for supply chain management.

A type of NFT known as a soulbound token (which is not tradeable and can only be associated with a specific user's digital wallet) can be used to represent identity, credentials or achievement of a specific user. For example, a soulbound token can be used to represent:

- A user's credentials (e.g., Patent Bar registration number).
- Evidence of completion of a course (e.g., certificate of completion of a CLE program).
- An advantage of this is that these tokens can be used by an application that used to verify the user's identity, credentials or achievements and these can be tracked on a blockchain.

See https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4105763 for the Soulbound token white paper.

2. Please describe any IP-related challenges or opportunities associated with NFTs or NFT markets.

NFT Owner Agreements

Oftentimes, it is not clear what IP rights, if any, are conferred to the owner of an NFT. For example, an acquirer may own the token, but only have limited rights to use (e.g., display) the asset(s) associated with the NFT.

An effective way to establish the scope of rights to an asset associated with an NFT is through an “NFT Owner Agreement,” which can specify the rights and/or restrictions that apply to the asset(s) (e.g., IP rights in and to the asset), and other entitlements associated with the NFT.

To be legally binding and enforceable, the NFT Owner Agreement generally needs to be presented to a potential purchaser prior to purchase and the purchaser must take some affirmative action to indicate their acceptance of its terms. If the NFT is later resold, subsequent purchasers should also affirmatively accept the NFT Owner Agreement so that the NFT Owner Agreement is binding on them as well.

However, not all NFT minting platforms or marketplaces provide a mechanism, much less an easy mechanism, to present and obtain affirmative acceptance of an NFT Owner Agreement. Further, resales or other transfers of NFTs may be done peer-to-peer, or outside of traditional NFT marketplaces or platforms, which also presents challenges in ensuring subsequent purchasers are presented with and accept the NFT Owner Agreement.

Various companies are working on solutions to this problem (e.g., MINTangible (<https://mintangible.io>) and Monax Labs (<https://monaxlabs.io/>)). The study should evaluate and consider ways to support technology solutions to help address these issues.

IP Infringement

Many NFTs are minted and/or sold by users that do not own the rights to the IP contained in the asset associated with the NFT. One of the largest NFT marketplaces acknowledged that up to 80% of the NFTs were unauthorized. Methods to assist IP owners with cost-effective enforcement of their rights against NFT-based infringement should be considered.

The Digital Millennium Copyright Act (DMCA) may be helpful in some cases but is not necessarily helpful in all situations (e.g., where a digital asset associated with an NFT is stored on a decentralized storage system that is not under control of a single entity, or where multiples copies of the digital asset are stored at different nodes, the server provider which receives the DMCA notice may not be able to effectively “take down” the digital asset, or prevent it from being accessed by third parties).

The study should consider enhancements to the DMCA to address these issues. Many NFTs include unauthorized use of trademarks (“TMs”) or other brand identifiers. Cost-

effective enforcement methods to address these types of infringements should be considered.

Blockchain technology makes it very easy for foreign nationals to sell NFTs to US citizens. Because the infringers are located abroad and many times anonymous (only identifiable through a wallet address), it can be hard to track them down. Even when they are tracked down, it is not feasible to try to get jurisdiction over them in the US, making the enforcement more burdensome. The jurisdictional issues for enforcing TM and copyrights should be considered in light of the easy access blockchain technology provides to US consumers.

Blockchain domains, such as “.ENS”, are not subject to ICANN or other centralized procedures for cancelling or transferring domains. The only way for the brand owner to obtain custody of the blockchain domain using its TM may be to track down the owner of the NFT associated with the blockchain domain and negotiate with the owner. This can be very difficult and also incentivizes squatters to purchase infringing domains so they can charge the brand owner unreasonable prices. Blockchain domains can be particularly dangerous in the hands of an infringer because they can link directly to a wallet that can be used to steal consumer funds by imitating the brand owner.

3. Please describe how NFT markets affect the production of materials subject to IP protection.

The existence of NFT markets provides opportunities for infringers to profit from the sale of NFTs based on infringing IP. However, sales can be made in a peer-to-peer manner as well. Nevertheless, because infringers have options to sell their infringing goods, they have a profit motive to do so. Some, but not all, NFT markets also permit users to mint NFTs. Many marketplaces and minting platforms adopt a terms of service that prohibits minting or sale of NFTs unless the entity minting or selling has the rights necessary to do so. However, most marketplaces and minting platforms do not go through the verification process.

Further, NFT marketplaces allow for the distribution of productions of AI-generated art, which are often trained using copyright-protected materials and may generate infringing materials. NFT marketplaces may also allow multiple IP owners to combine/contribute their IP to produce materials, for example, with respect to artwork and music.

4. Please describe whether, how, and to what extent NFTs are used by or could be used by IP rights holders (including those who hold trademarks, patents, and/or copyrights) to:

a. Document the authenticity of an asset;

As noted above, currently, NFTs typically do not *authenticate* assets. A mechanism is needed to ensure that the NFT is actually minted by or on behalf of the IP owner. If the initial minting or sale can authenticate an asset, subsequent sales of the NFT can be tracked via the blockchain to establish authenticity.

b. Document the seller's ownership of or authority to sell an asset;

Currently, NFTs typically do not document a seller's ownership of or authority to sell an asset. A mechanism is needed to ensure that the NFT is actually minted by or on behalf of the owner or licensee of the rights therein. If the initial minting or sale can

document the seller's ownership of or authority to sell or license an asset, subsequent sales of the NFT can be tracked via the blockchain to establish subsequent ownership.

Future solutions should allow for licensing rights that come with the digital asset linked to the NFT to be programmed into the metadata that runs with the NFT and accessible through a popup or some other reliable, automated, simple measure.

c. Document the seller's authority to transfer any relevant or necessary IP rights associated with an asset; and

See response to subsections a. and b. of this section above.

d. Document any limitations related to IP rights surrounding the sale, or the purchaser's use, of an asset.

See response above regarding NFT Owner Agreements.

5. Please describe whether, how, and to what extent NFTs present challenges for IP rights holders, or those who sell assets using NFTs, with respect to the activities described in Question 4 above.

See responses provided above.

6. Please describe whether, how, and to what extent NFTs are used by, could be used by, or present challenges or opportunities for IP rights holders (including those who hold trademarks, patents, and/or copyrights) to:

- a. Obtain their IP rights;
- b. Transfer or license their IP rights;
- c. Exercise overall control and management of their IP rights (e.g., digital rights management tools, mechanisms to facilitate the payment of royalties, etc.); and
- d. Enforce their IP rights, including any mechanisms that could mitigate infringement or help ensure compliance with contractual terms associated with the sale of an asset.

As described above, it can be difficult for TM owners to enforce their rights against holders of blockchain domains and for both TM and copyright owners to enforce their rights against assets that are stored via decentralized storage that cannot be feasibly deleted. Further, *see response above regarding NFT Owner Agreements.*

7. Please describe how and to what extent copyrights, trademarks, and patents are relied on, or anticipated to be relied on, in your field or industry to:

- a. Protect assets that are associated with NFTs;

An NFT typically references an asset associated with the NFT. The asset(s) associated with an NFT often include materials that are subject to copyrights, trademarks, and patents. As noted above, if an NFT represents a digital asset, all of the typical IP protections for digital assets are relevant.

IP owners have used trademark and copyright applications and registrations to broaden their IP portfolios to expressly cover uses with NFTs and to enforce those rights against others' use with NFTs.

- b. Combat infringement associated with NFT-related assets offered by third parties; and

An NFT typically references an asset associated with the NFT. The asset(s) associated with an NFT often include materials that are subject to copyrights, trademarks, and patents. As noted above, if an NFT represents a digital asset, all of the typical IP protections for digital assets are relevant. If a third party creates an NFT based on an infringing asset, all of the typical IP infringement enforcement tools are relevant.

IP Owners have used trademark and copyright applications and registrations, as well as common law rights, to enforce against infringing uses of their IP by unlicensed, counterfeit, or otherwise infringing NFTs. IP owners have worked with third-party technology providers to track infringing and counterfeit NFTs that make unauthorized use of their copyrights, trademarks, and trade dress.

IP owners have used, and can use, the DMCA process with U.S.-based marketplaces and other platforms to take down the infringing NFT, but this does not necessarily eliminate the NFT or the infringing asset associated with the NFT. It only removes the display of the NFT from the marketplace. The owner can continue to sell or distribute the infringing NFTs on other platforms (i.e., those hosted abroad) or peer-to-peer. And the digital asset remains stored at its storage location. Thus, the DMCA is only partially effective to abate copyright infringement with NFTs.

c. **Ensure the availability of appropriate reuse of NFT-related assets.**

In order to ensure that an NFT asset can be used for other purposes if desired, the NFT issues should clearly set forth the rights and benefits that are granted and the rights that are reserved for the associated asset in a license or assignment agreement. Otherwise, there is uncertainty as to who has what rights.

The applicability of the first sale doctrine to NFTs has been debated. Some courts have not extended the first sale doctrine to digital assets. In part, this is because, typically, to transfer digital assets, a copy must be made. Also, in many cases, digital assets are licensed, not sold.

The study should consider the applicability of the first sale doctrine to NFTs. With many NFTs, the token can be sold without making a copy of the associated digital asset.

8. **Are current IP laws adequate to address the protection and enforcement of IP in the context of NFTs? If not, please explain why, including any gaps in current IP laws, and describe any legislation you believe should be considered to address these issues.**

To the extent that an NFT references an asset associated with the NFT, the asset(s) associated with an NFT often include materials that are subject to copyrights, trademarks, and patents. All of the existing IP laws are relevant.

Where platforms display NFTs (with infringing content) at the direction of users, the DMCA may be helpful for the IP owner to seek a DMCA takedown. However, this is not necessarily helpful in all situations. For example, where a digital asset associated with an NFT is stored on a decentralized storage system that is not under control of a single entity, a DMCA take down may not be feasible. We recommend that the study should consider enhancements to the DMCA to address these issues.

Many NFTs include unauthorized use of TMs or other brand identifiers. Cost-effective enforcement methods to address these types of infringements should be considered.

Blockchain domains, such as ENS, are not subject to ICANN or other centralized procedures for cancelling or transferring domains. The only way for the brand owner to obtain custody of the blockchain domain using its TM may be to track down the owner of the NFT associated with the blockchain domain and negotiate with the owner. This can be very difficult and also incentivizes squatters to purchase infringing domains so they can charge the brand owner unreasonable prices. Blockchain domains can be particularly dangerous in the hands of an infringer because they can link directly to a wallet that can be used to steal consumer funds by imitating the brand owner.

As discussed above, the extraterritorial nature of NFT sales should be considered in determining enhancements to allow for the enforcement of IP against overseas infringers who sell to US customers.

As an example, a squatter purchased from ENS a blockchain domain (NFT) using a company's brand name. That squatter was selling that NFT – BRANDNAME.eth – on OpenSea for over \$50,000. OpenSea was able to remove the display of the NFT pursuant to a DMCA request, but that did not resolve the issue because the squatter was still free to use that NFT (for example, to link to a counterfeit website and provide an address for payment of goods or services under the company's brand name). The company was able to track down the identity of the person who owned the wallet for the infringing NFT through his social media accounts (which is not always possible when the infringer takes action to remain anonymous). The infringer lived in Korea so the company had to engage counsel in Korea to negotiate a sale of the NFT back to the company. Fortunately, the infringer agreed to sell the NFT back to the company, but this process involved multiple steps and luck. Nothing prevents another infringer from purchasing another blockchain domain using a company's brand name.

9. Please describe any IP-related impacts those in your field or industry have experienced in connection with actual or intended uses of NFTs. When relevant, please describe any legal disputes that have arisen in the following contexts, and the outcome of such disputes, including citations to any relevant judicial proceedings:

a. The relationship between the transfer of an NFT and the ownership of IP rights in the associated asset;

See response provided above related to NFT Owner Agreements.

b. The licensing of IP rights in the asset associated with an NFT;

See legal dispute in *Yuga Labs v. Ryder Ripps*.

c. Infringement claims when either (i) an NFT is associated with an asset in which another party holds IP rights, or (ii) IP rights in the asset associated with an NFT are owned by the NFT creator;

See, for example:

- *Nike v. StockX* – whether StockX NFTs are merely a digital certificate of authenticity or a separate product -- and in a broader legal sense whether StockX Vault NFTs of Nike products are likely to create confusion in the marketplace or excused by fair use.

- *Hermès v. Rothschild* – whether NFTs of Hermès’ iconic Birkin handbags advertised and marketed as “MetaBirkins” are infringing works or expressive works of art that are protected under the First Amendment under *Rogers v. Grimaldi*.
- *Yuga Labs v. Ryder Ripps* – whether Ryder Ripps is infringing Yuga’s IP and whether Yuga actually has any copyright protection due to the ape images allegedly “having been generated by an automated computer algorithm where no humans were involved in determining which of the 10,000 BAYC Images were selected.”
- *Lil Yachty v. Opulous* – dispute over Opulous’ allegedly unauthorized use of artist’s name, trademark, and likeness in launching Opulous’ NFT collections.

Other suits have been settled including:

- *Roc-A-Fella Records, Inc. v. Damon Dash* – dispute over whether business partner had the right to sell an NFT.
- *Miramax v. Quentin Tarantino* dispute over whether filmmaker (Quentin Tarantino) or studio (Miramax) has right to create NFTs based on the digital images of portions of the handwritten version of the PULP FICTION screenplay.
- *TamarindArt, LLC v. Husain* – dispute over whether purchaser of \$400,000 mural, which allegedly included an “exclusive, royalty free, worldwide license to display, market, reproduce and resell all or any part of the Artwork, on all digital and off-line media, had the right to mint and sell NFTs based on the mural.”

Other Issues that have arisen and that may lead to lawsuits include:

- Whether NFTs that represent a digital image of a celebrity impact right of publicity
- The applicability of the first sale doctrine to digital assets associated with NFTs and the impact on resale royalties.
- [Seth Green](#) incident – status of ownership of and rights in NFT when NFT granting commercial rights is hacked; do rights follow entity who possesses the NFT even if unlawfully obtained?

d. The type and/or scope of IP protection afforded to the NFT creator, including when that party is not the creator of the associated asset; and

See, for example,

- *Roc-A-Fella Records, Inc. v. Damon Dash*
- *Miramax, LLC v. Quentin Tarantino, et al.*
- *TamarindArt, LLC v. Husain*

e. The application of one or more of the exclusive rights under 17 U.S.C. 106 to transactions involving NFTs.

10. Please describe any instances you have observed in which a party has sent or received:

a. A notification of claimed copyright infringement, counternotice or material misrepresentation, pursuant to 17 U.S.C. 512, in connection with an NFT; and

See above; companies have sent several DMCA notices to many of the NFT marketplaces for removal of infringing NFTs. The NFTs typically were removed.

b. Other IP-related legal claims seeking the removal or reinstatement of NFT-associated materials.

For each such instance, please describe the nature and outcome of this claim or process, including whether the material was ultimately removed, and if so, whether the material subsequently reappeared. If an infringement or 17 U.S.C. 512(f) action was filed, please provide citations to the court docket and any relevant judicial decisions.

DMCA takedown notices sent to NFT marketplaces have resulted in the NFTs being removed from the marketplace. In the situations of which we are aware, the material did not reappear on the same marketplace.

11. Please describe the extent to which adjustments are being made to IP portfolio planning and management in light of the emergence of NFTs.

Companies that sell physical goods are protecting their trademarks for digital assets to cover unauthorized use of such assets with NFTs. Companies licensing their TMs and copyrights need to consider whether the scope of the license should cover NFTs. IP owners are using TM monitoring services not only for infringement in web2 but also for detecting on-chain infringement in web3.

12. Please describe any experiences in seeking IP protection for, or use of, assets associated with NFTs in foreign jurisdictions.

Companies have filed international trademark applications in many different jurisdictions to cover use of their trademarks with NFTs. They have also filed for copyright applications to cover unique designs related to their NFTs.

13. Please identify any additional IP issues associated with NFTs that you believe the Offices should consider in conducting this study.

NFTs can implicate a variety of other legal issues that fall under the jurisdiction of agencies such as the SEC, CFTC, FinCEN, FTC, OFAC, and others. We recommend that the Offices coordinate with these and other agencies to the extent and potential regulatory issues or guidance by those agencies might overlap with or impact IP issues.

Conclusion

AIPLA gratefully acknowledges the efforts of the Offices regarding this comprehensive study. We thank you for the opportunity to provide such comments and are please to discuss further.

Sincerely,

A handwritten signature in blue ink, appearing to read "B. Batzli", with a large, sweeping flourish extending to the right.

Sincerely,

Brian H. Batzli
President
American Intellectual Property Law Association