

# PUBLICATION

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## Don't Forget About NFTs! USPTO and USCO Issue Joint Study on the Interplay Between NFTs and Intellectual Property

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**Non-fungible tokens (NFTs) have reshaped our socio-legal understanding of "property." Prior to the launch of NFTs, laypersons and lawyers alike evaluated tangible and intangible assets in the context of physical (*real*) space. NFTs, however, have played a major role in shifting our valuation of assets beyond the physical realm, extending instead to the recognition of *digital* property rights in the non-physical (*cyber*) space.**

This alert references the [report](#) "Non-Fungible Tokens and Intellectual Property (2024)," issued by the U.S. Copyright Office and the U.S. Patent and Trademark Office.

Despite this appreciable shift, the marketplace surrounding NFTs has largely dwindled since their rise in 2021 (source: [Forbes](#)). In September 2022, just a year after the launch of the NFTs, the trading volume of NFTs dropped by 97 percent, experiencing a crash as part of the wider wipeout of cryptocurrency (source: [Frontline](#)). Around eight months ago, it was reported that 95 percent were adjudged to have a market value of \$0.00 (source: [The Guardian](#)).

Even with the overall downturn in marketplace activity for NFTs, the reality is that NFTs are not going anywhere any time soon. By 2028, the number of NFT users is expected to reach 19.71 million, and the revenue in the NFT market is expected to reach nearly \$2.4 billion this year (2024) (source: [STATISTA](#)).

Recognizing that NFTs are expected to remain a fixture in the digital marketplace, the U.S. Copyright Office (USCO) and the U.S. Patent and Trademark Office (USPTO) (together, the Offices) teamed up to conduct a joint study on the topic of NFTs and intellectual property. Unfortunately, by the time the Offices' report was released, the public's attention and much of public discourse had shifted to artificial intelligence (AI) technologies, and in particular, generative AI technologies. Consequently, lawyers and laypersons alike, overlooked the findings of the joint study, along with practical takeaways and considerations for protecting and enforcing intellectual property rights in the context of NFTs.

### Non-Fungible Tokens: A Brief Primer

An NFT is a "token" that is non-fungible. But, what does this exactly mean? The term "token" derives from the action of "tokenization" and means the conversion of a physical or virtual asset into a digital unit that is transferable. In creating a token, a unique identifier, such as a cryptographic hash, is assigned to the token, such that the asset may comprise singular, source-identifying information. The term "non-fungible" means that the tokenized asset is uniquely identifiable – i.e., it is distinguishable from other assets. NFTs are tracked and maintained under the same technologies as Bitcoin and other cryptocurrencies, which use distributed ledgers such as blockchain technology. Ownership of the token is recorded in a blockchain. The blockchain stores the data of NFT transactions in "blocks" of data that are linked together; each group of transactions and each block gets its own unique identifier. Blockchains are immutable, preventing changes to previously recorded blocks. In other words, the distributed ledger provides an accounting of ownership and history of transaction information

for a tokenized asset, which can be reviewed, validated, and/or confirmed by those seeking to engage in a transfer or conveyance of the tokenized asset.

When a new NFT is created, or "minted," a smart contract is usually incorporated that can determine the name of the NFT, restrict how it can be sold or transferred, and control which digital files are associated with it. Notably, the token itself is distinct from the associated asset or entitlement, so an NFT holder does not necessarily hold any IP rights in the associated asset or entitlement, which can create confusion among sellers and consumers.

## The Joint Study

The Offices published the joint study in March 2024, ultimately concluding that "changes to IP laws are not currently necessary to address the use of NFTs." This study was performed in response to a request on June 9, 2022, by Senator Patrick Leahy and Senator Thom Tillis (Chair and Ranking Member of the Senate Judiciary Committee's Subcommittee on Intellectual Property, respectively) to study IP law and policy issues associated with NFTs. With NFT technology changing so rapidly, the Offices concluded that new laws would be premature, particularly because NFT transactions do not present new legal issues, only new factual circumstances. The Offices also deemed that proposals for using NFT or blockchain technology to improve their registration or recordation practices are premature, but they will "continue to explore potential uses of emerging technologies to enhance agency operations as needed."

Common benefits of using NFT technology in conjunction with IP management include improving the Offices' recordkeeping systems by providing an immutable record of a trademark's first use, a patent's first filing, or a copyright's registration, and providing more extensive control over transfers of IP rights through smart contracts, which can help collect remuneration on subsequent sales and allow underrepresented creators direct access to markets. However, certain aspects of NFTs make it more difficult to manage and enforce IP rights: the immutability of blockchains makes it almost impossible to correct inaccurate entries; NFT marketplaces generally do not require personal identification or authentication of assets or entitlements associated with a new NFT; blockchain relies on decentralized storage systems; and smart contracts do not operate across different blockchains or marketplaces. Despite these concerns about consumer confusion and enforcement of IP rights in NFT marketplaces, the Offices concluded that education and consumer protection efforts and a potential clarification in contract law regarding smart contracts are better able to address these concerns than changes in IP law.

The joint report breaks down the impact of NFTs on the three federally recognized forms of IP: copyrights, trademarks, and patents. This article explores takeaways from each of the foregoing "Big Three" of IP.

### Copyright

The report concludes that the copyright issues raised by NFTs are not new even though the technology is. Most of the comments by the study participants focus on challenges regarding consumer confusion and contracts, not copyright law, and they recommend public education, greater transparency, and standardization regarding licenses. There are many benefits to using NFTs with copyrighted works, including documenting the provenance of creative works, facilitating "resale royalties" for subsequent sales, and aiding digital rights management (DRM) to control the terms on which consumers can access and use the copyrighted works. However, there are still issues of incorrect or fraudulent information permanently remaining on the blockchain and difficulties enforcing the collection of fees.

Minting and marketing NFTs in NFT marketplaces may implicate a copyright owner's reproduction, public display, and public performance rights. When a seller mints a new NFT, the process sometimes creates a copy

of the associated asset or entitlement, and sellers often include a thumbnail image or phonorecording when marketing their NFTs. As a result, the NFT seller who does not have reproduction, public display, or public performance rights may be liable for infringement, but courts have not addressed whether the NFT marketplace itself would be liable.

In addition, NFT transactions create difficulties for the transfer and licensing of copyright ownership and use. A separate written agreement is ordinarily needed for the transfer of any copyright in conjunction with the NFT transaction, and courts have not yet ruled whether a smart contract can satisfy this requirement. On the other hand, a license could accompany an NFT through a smart contract, but these agreements may not be binding on subsequent purchasers and may be revocable. It is also unclear whether the first sale doctrine (allowing the owner of a particular copy of a work to sell or dispose of that copy without the copyright owner's consent) applies to NFT transactions. The doctrine usually does not apply to the distribution of digital works because those transmissions usually involve making new copies, but as some NFTs are only references to a storage location, the doctrine may apply to those transactions.

In terms of copyright enforcement, NFTs present similar issues to other content on the internet. With no requirement for users to provide a real name, identifying infringers is difficult. There are also jurisdictional challenges because infringers may be outside the U.S. Removing infringing content is complicated by decentralized storage systems and the immutability of the blockchain, which keeps a record of content even after it is removed. Similar to other internet content, removing a particular infringing copy does not necessarily remove it from every location. Notwithstanding these limitations, the Offices assert that existing laws are generally adequate to enforce copyrights against NFT-related infringements because the Digital Millennium Copyright Act includes a notice-and-takedown system that copyright owners have successfully used to ask NFT marketplaces to take down NFTs associated with infringing assets.

## Trademark

The joint study concludes that changes to existing trademark laws are not mandatory; instead, the Offices recommend further guidance about identifications, classifications, specimens of use, and "likelihood of confusion" analysis. The USPTO has already worked towards providing training and guidance for NFT-related goods. Additionally, the USPTO has successfully advocated to the Nice Committee of Experts in 2023 for more uniform classification policies for goods and services associated with NFTs in the Nice Classification system, which the USPTO follows. As a result, the USPTO has pledged to continue to work with industry stakeholders to identify additional measures to ensure that the trademark registration process accounts for NFTs and other emerging technologies.

Aside from the USPTO's commitment to training and guidance for NFT-related goods and services, the USPTO has found that NFT technology provides many benefits to trademark management, including provenance recordkeeping and opportunities for brand owners to strengthen their brand identity. Trademark misappropriation and infringement are very common problems on NFT platforms, especially with blockchain-based domain names. However, with this opportunity has come uncertainty as to whether physical goods in other markets are sufficiently similar to digital versions of those goods associated with NFTs or whether brand owners must expand the scope of their IP portfolios to include digital assets associated with NFTs. It is unclear how the "likelihood of confusion" analysis used by USPTO's examining attorneys to determine whether an application is sufficiently similar to an existing mark will distinguish NFT and real-world assets.

Courts have addressed the issue of a "likelihood" confusion in two recent cases, *Hermès International v. Rothschild* and *Nike, Inc. v. StockX*, which may provide clarification. The *Hermès* Court permanently enjoined the defendant from using "MetaBirkin" to label his NFTs, upholding the jury's verdict that he intentionally sought to confuse consumers into believing that his NFTs were associated with the "Birkin" trademark owned

by Hermès. *Nike* is an ongoing case regarding Nike's trademark infringement claim alleging that the defendant's digital sneaker assets associated with NFTs are an unauthorized use of its trademark.

Notwithstanding the unresolved analysis on the "likelihood of confusion," the USPTO concluded in the joint study that no changes in trademark law are yet required, but it will continue expanding its training and guidance to clarify certain areas where NFT technology creates confusion.

## Patent

The USPTO concluded that patent law need not be updated because existing patent laws are applicable to NFT-related inventions. While the joint study does suggest the need for further guidance as to whether NFT-related inventions satisfy the requirements of subject-matter eligibility for utility and design patent applications, novelty and non-obviousness, and inventorship, the Offices state that existing frameworks may be equipped to analyze the statutory hurdles to applying for patentable protection over NFT-adjacent inventions.

Despite the concerns highlighted above, NFTs could provide substantial benefits to patent owners by attaching relevant legal terms and agreements to patented inventions, creating an immutable record of licensing and assignment documentation, tracking and controlling the distribution of royalties, and fractionalizing patent ownership to increase liquidity in the market. In short, the USPTO appears not to consider the NFT-related issues problematic enough at this time to change patent law.

## Conclusion

Ultimately, the Offices do not propose changes to IP law to adjust for NFT technology. Accordingly, stakeholders and participants in the NFT industry are not required by law to satisfy any additional requirements specific to NFTs when registering or enforcing IP rights. However, they should continue to monitor developments in how copyright, trademark, and patent laws are applied in the NFT context in order to manage their IP portfolios effectively and avoid liability for infringement.

If you have questions or would like assistance reviewing your intellectual property portfolio, reach out to [Dominic Rota](#), [Scott M. Douglass](#), or any member of [Baker Donelson's Intellectual Property Team](#).

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