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NFTs: what they are, what most people think they are, and why those people are wrong.

A panel of speakers from industry, the US and the UK will de-crypt the field of “**non-fungible tokens**” from a technical and commercial perspective, and highlight some of the problems they create (or don’t create) under UK and US law.

Webinar, 6pm, 3 March 2022

Our Panel

- **Anthony Macey:** Expert in blockchain and distributed ledger technology, Anthony has been the Blockchain Strategy lead in Barclays Bank and BNY Mellon and most recently has been the Head of Risk and Security at global cryptocurrency and NFT exchange, crypto.com.
- **Gabriella Bornstein:** Gabriella Bornstein is an intellectual property litigator in the London office of Kirkland & Ellis International LLP and is qualified in science (maths) and law. Gabriella is recognised as a Rising Star by Managing Intellectual Property IP Stars.
- **Sam Kilb:** intellectual property attorney at Epstein Drangel LLP in New York City, passionate about all this NFT, and previously Trademark Counsel at adidas
- **[Jeff Ostrow:** US attorney, Ostrow LLP, recently Simpson Thacher and Bartlett, Chair of IP Group. Visiting Professor at UC Berkeley where he lectures on the Business of IP.]

What are NFTs

- The tech
- The business
- The market

Anthony Macey



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Gabriella Borstein
Kirkland & Ellis International LLP

The UK Legal Framework

NFTs, Ownership and Copyright

Let's start with an example...

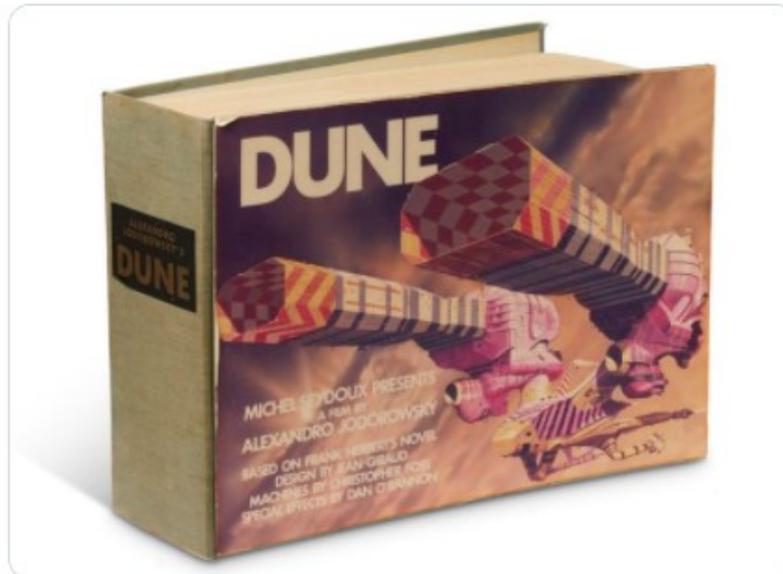


Spice DAO
@TheSpiceDAO

...

We won the auction for €2.66M. Now our mission is to:

1. Make the book public (to the extent permitted by law)
2. Produce an original animated limited series inspired by the book and sell it to a streaming service
3. Support derivative projects from the community



5:28 PM · Jan 15, 2022 · Twitter for iPhone

1,675 Retweets 6,205 Quote Tweets 10K Likes



I bought a painting - what did I buy?

- You bought that particular embodiment of the work
- Without a separate transaction agreement transferring the work's copyright, you did not buy (and do not own), the work as an intangible good
- If the artist wants to transfer the copyright (and you want to buy it), any such agreement must be in writing (s90(4) *CDPA 1988*)

I bought an NFT of the same painting - what did I buy?

- The NFT is not the work itself
- The work itself (i.e., code from which the artwork can be rendered by a computer) is almost never part of the NFT's code (which contains a hash of the work)
- One cannot ordinarily reproduce the work from the code contained in the NFT itself.

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English Copyright Law

Returning to the Basics (i) – authors and owners

- Copyright protects the expression of an idea not the idea itself.
- Copyright arises automatically when the work is created.
- The author is the one who creates the work (s9 CDPA 1988)

(1) In this Part “author”, in relation to a work, means the person who creates it.

*...
(3) In the case of a literary, dramatic, musical or artistic work which is computer-generated, the author shall be taken to be the person by whom the arrangements necessary for the creation of the work are undertaken.*

- The author is also usually the first owner (s11 CDPA 1988)

Returning to the Basics (ii) – subsistence

- Originality
 - “author’s own intellectual creation” (*Infopaq International v. Danske Dagblades Forening* [2009] ECDR 16 (Case C-5/08))
 - “skill and labour or intellectual creation” (*The Newspaper Licensing Agency Ltd and others v Meltwater* [2011] EWCA Civ 890)
 - must originate from the author

What is protected?

16 The acts restricted by copyright in a work

(1) The owner of the copyright in a work has, in accordance with the following provisions of this Chapter, the exclusive right to do the following acts in the United Kingdom—

- (a) to copy the work (see section 17);*
- (b) to issue copies of the work to the public (see section 18);*
- (ba) to rent or lend the work to the public (see section 18A);*
- (c) to perform, show or play the work in public (see section 19);*
- (d) to communicate the work to the public (see section 20);*
- (e) to make an adaptation of the work or do any of the above in relation to an adaptation (see section 21);*

and those acts are referred to in this Part as the “acts restricted by the copyright”.

(2) Copyright in a work is infringed by a person who without the licence of the copyright owner does, or authorises another to do, any of the acts restricted by the copyright.

(3) References in this Part to the doing of an act restricted by the copyright in a work are to the doing of it—

- (a) in relation to the work as a whole or any substantial part of it, and*
- (b) either directly or indirectly;*

and it is immaterial whether any intervening acts themselves infringe copyright.

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What about
derivative works?

Nothing to add?

- Copyright may subsist in a work even though it infringes copyright in another work (*ZYX Music GmbH v King* [1995] FSR 566).
- But, “minting” does not meet the originality threshold. There has not been sufficient skill or labour *or* can we say it is the author’s own creation...

A further right to think about

56 Transfers of copies of works in electronic form

(1) This section applies where a copy of a work in electronic form has been purchased on terms which, expressly or impliedly or by virtue of any rule of law, allow the purchaser to copy the work, or to adapt it or make copies of an adaptation, in connection with his use of it.

(2) If there are no express terms—

(a) prohibiting the transfer of the copy by the purchaser, imposing obligations which continue after a transfer, prohibiting the assignment of any licence or terminating any licence on a transfer, or

(b) providing for the terms on which a transferee may do the things which the purchaser was permitted to do,

anything which the purchaser was allowed to do may also be done without infringement of copyright by a transferee; but any copy, adaptation or copy of an adaptation made by the purchaser which is not also transferred shall be treated as an infringing copy for all purposes after the transfer.

(3) The same applies where the original purchased copy is no longer usable and what is transferred is a further copy used in its place.

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Defences / exemptions?

Fair dealing?

- Fair dealing exemptions are quite narrow, need to consider both the fair dealing aspect and the specific point
 - s 29. Research and private study.
 - s 29A. Copies for text and data analysis for non-commercial research
 - s 30. Criticism, review, quotation and news reporting.
 - s 30A. Caricature, parody or pastiche

Implications

- When someone buys an NFT from the creator, they obtain ownership in the sense that it becomes their property. An NFT is a digital certificate of ownership representing the purchase of a digital asset, traceable on the blockchain.
- Unless the terms expressly allow it, buyers will only have a limited ability to share the creative work on public platforms or to reproduce it and make it available for others.
- This aligns with similar points in traditional art (s 63 *CDPA 1988*).



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*Sam Kilb
Epstein Drangel*

A View from the US

US Copyright Law

17 USC §106. Exclusive rights in copyrighted works

Subject to sections 107 through 122, the owner of copyright...has the exclusive rights to do and to authorize any of the following:

- (1) *to reproduce the copyrighted work in copies* or phonorecords;
- (2) to prepare derivative works based upon the copyrighted work;
- (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
- (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
- (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to *display the copyrighted work publicly*; and
- (6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

Display Rights

- 17 U.S. Code § 109(c):
 - Notwithstanding the provisions of section 106(5), *the owner of a particular copy lawfully made under this title, or any person authorized by such owner, is entitled*, without the authority of the copyright owner, *to display that copy publicly*, either directly or by the projection of no more than one image at a time, to viewers present at the place where the copy is located.

I Bought a Painting - What Did I Buy?

- You've bought that particular embodiment of the work
 - And you can display it
- Absent a separate transaction agreement transferring the work's copyright, you did not buy (and do not own), the work as an intangible good
 - If the artist wants to transfer the copyright (and you want to buy it), any such agreement must be in writing

I Bought an NFT of the Same Painting - What Did I Buy?

- The NFT is not the work itself
 - The work itself (*i.e.*, code from which the artwork can be rendered by a computer) is almost never part of the NFT's code (which contains a hash of the work)
 - So, one cannot ordinarily reproduce the work from the code contained in the NFT itself
 - Like purchasing a digital print of the painting with tokenized proof of authenticity on the blockchain
 - Terms and conditions govern

An Example

Christie's Auction of "Everydays: First 5000 Days"

Beeple (b. 1981)

EVERYDAYS: THE FIRST 5000 DAYS

token ID: 40913

wallet address: 0xc6b0562605D35eE710138402B878ffe6F2E23807

smart contract address: 0x2a46f2ffd99e19a89476e2f62270e0a35bbf0756

non-fungible token (jpg)

21,069 x 21,069 pixels (319,168,313 bytes)

Minted on 16 February 2021. This work is unique.

<https://onlineonly.christies.com/s/beeple-first-5000-days/beeple-b-1981-1/112924>



Christie's "Conditions of Sale"

4. Copyright We own the copyright in all images, illustrations and written material produced by or for us relating to a lot (including the contents of our Sale Particulars). You cannot use them without our prior written permission. **We do not offer any guarantee that you will gain any copyright or other reproduction rights to the lot.**

5. Buyer's Acknowledgements and Representations for NFTs **(a) You acknowledge that ownership of an NFT carries no rights, express or implied, other than property rights for the lot (specifically, digital artwork tokenized by the NFT).** You understand and accept that NFTs are issued by third parties, and not by Christie's itself.

<https://www.christies.com/pdf/onlineonly/ECOMMERCE%20CONDITIONS%20OF%20SALE%20-%20NEW%20YORK-6Feb22.pdf> (emphasis mine)

Beeple Teaches Us About Copyright

“I think that people don’t understand that when you buy, you have the token [NFT]. You can display the token and show you own the token, but, you don’t own the copyright to the art that is represented by the token...if you buy a [physical] painting, you just bought the painting. You did not buy the copyright to that picture. And so, it’s very similar with these tokens.”

Mike Winkelmann (<https://www.cnn.com/2021/03/26/digital-artist-beeple-common-misunderstanding-about-nfts.html>)

Does the NFT Itself Qualify for Copyright Protection?

- There is nothing creative involved in minting the NFT itself
- Closest Analogy I Could Come up With:
 - Exact photographic copies of public domain images could not be protected by copyright in the US because the copies lack originality.
 - *Bridgeman Art Library v. Corel Corp.*, 36 F. Supp. 2d 191 (S.D.N.Y. 1999)
 - Here, the NFT is not even a copy but takes advantage of a copy made during minting.

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Copying

Where is the “Copying” in the Minting of an NFT?

- Did you find or create the image?
 - **Maybe you saved it locally**
- Did you modify the file?
 - Traditional “Fair Use” analysis re original but no bearing on NFT’s © issues
- Upload File (to OpenSea, perhaps)
 - **You almost certainly made a copy** (unless you create it solely via link)
- NFT created
- Share Something (link may result in **possible copying of the work**, depending on how it is done)

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Transformative?

What Copying are We Talking About?

- We are almost always really talking about the copy that was made during the minting process
 - Presumably, that is an exact copy of the work

Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569 (1994)

US Supreme Court articulated a four factor test to evaluate fair use:

1. the purpose and character of your use
2. the nature of the copyrighted work
3. the amount and substantiality of the portion taken, and
4. the effect of the use upon the potential market.

These factors are only guidelines that courts are free to adapt to particular situations on a case-by-case basis.

The “Transformative” Factor: The Purpose and Character of Your Use

- When thinking about Factor 1, ask yourself the following questions:
 - Has the material you have taken from the original work been transformed by adding new expression or meaning?
 - Was value added to the original by creating new information, new aesthetics, new insights, and understandings?

(<https://fairuse.stanford.edu/overview/fair-use/four-factors/>)

- The “transformation” of the creative work into a NFT is not a creative endeavor

NFT for Work you Don't Own

- Unauthorized third-party minting does not necessarily involve copying, distributing, or displaying a copy of the artwork itself
- NFT contains only a hash of the work, and perhaps also a link to it

What are We Really Asking?

- While there may be nothing in the IP regimes preventing the minting of an NFT related to work about which you have no rights, why would anyone buy one?
- And if the question really is: “Can I make a digital work that uses someone else’s work?” then traditional fair use principles would govern that inquiry

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Trademark

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Nike



USPTO TRADEMARK APPLICATION



SERIAL #: 97096945

FILING DATE: OCT. 28, 2021

OWNER: NIKE, INC

IC 009: Downloadable virtual goods, namely, computer programs featuring footwear, clothing, headwear, eyewear, bags, sports bags, backpacks, sports equipment, art, toys and accessories for use online and in online virtual worlds

IC 035: Retail store services featuring virtual goods, namely, footwear, clothing, headwear, eyewear sports bags, backpacks, sports equipment, art, toys and accessories for use online; on-line retail store services featuring virtual merchandise, namely, footwear, clothing, headwear, eyewear, bags, sports bags, backpacks, sports equipment, art, toys and accessories

IC 041: Entertainment services, namely, providing on-line, non-downloadable virtual footwear, clothing, headwear, eyewear, bags, sports bags, backpacks, sports equipment, art, toys and accessories for use in virtual environments

Nike v. StockX (SDNY DKT 22-00983) – Filed Feb 3, 2022

Nike is suing StockX, a reseller of sneakers.

StockX launched NFTs linked with physical Nikes and promised that the NFTs can be redeemed for the physical items but also can be traded as digital goods.

Nike alleges that the NFTs constitute trademark infringement, false designation of origin, and trademark dilution, among other things.

The case hinges on whether the NFTs are an extension of its normal reselling process (like a digital receipt of ownership) or whether they are products in their own right.

Main Issue

Under the first sale doctrine, marketplaces can typically resell goods — and display images of those goods that include trademarks — without an intellectual property holder's permission.

StockX is essentially asserting that the NFTs stands in for the physical shoes.

Nike says that the NFTs are a separate product taking advantage of its branding.

[Home](#) / [Sneakers](#) / [Nike](#) / [Dunk](#) / [Low](#) / [Nike Dunk Low Retro White Black \(2021\)](#)



Nike Dunk Low

Retro White Black (2021)

100% Authentic

Condition: New



Size: US M 10

Buy or Bid

Lowest Ask
\$297

Buy Now Starting at \$29/mo with [affirm](#). [Prequalify Now](#)

Sell or Ask

Highest Bid
\$272

Last Sale:

\$282

▲ \$25 (9.5%)

[View Asks](#)

[View Bids](#)

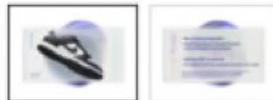
[View Sales](#)

Nike Dunk Low Retro White Black (Vault NFT)

US M 10



NFT 100% Authentic Edition of 100



Buy or Bid

Lowest Ask
\$739

Sell or Ask

Highest Bid
\$655

Last Sale:

\$620

▼ -\$50 (-7.5%)

[View Asks](#)

[View Bids](#)

[View Sales](#)

StockX Vault NFT Nike Dunk Low Retro White Black - US M 10

A StockX token representing ownership of a physical pair.



NFT StockX Verified Edition of 100



Buy or Bid

Lowest Ask
\$460

Sell or Ask

Highest Bid
\$410

Last Sale:

\$450

▼ -\$50 (-10%)

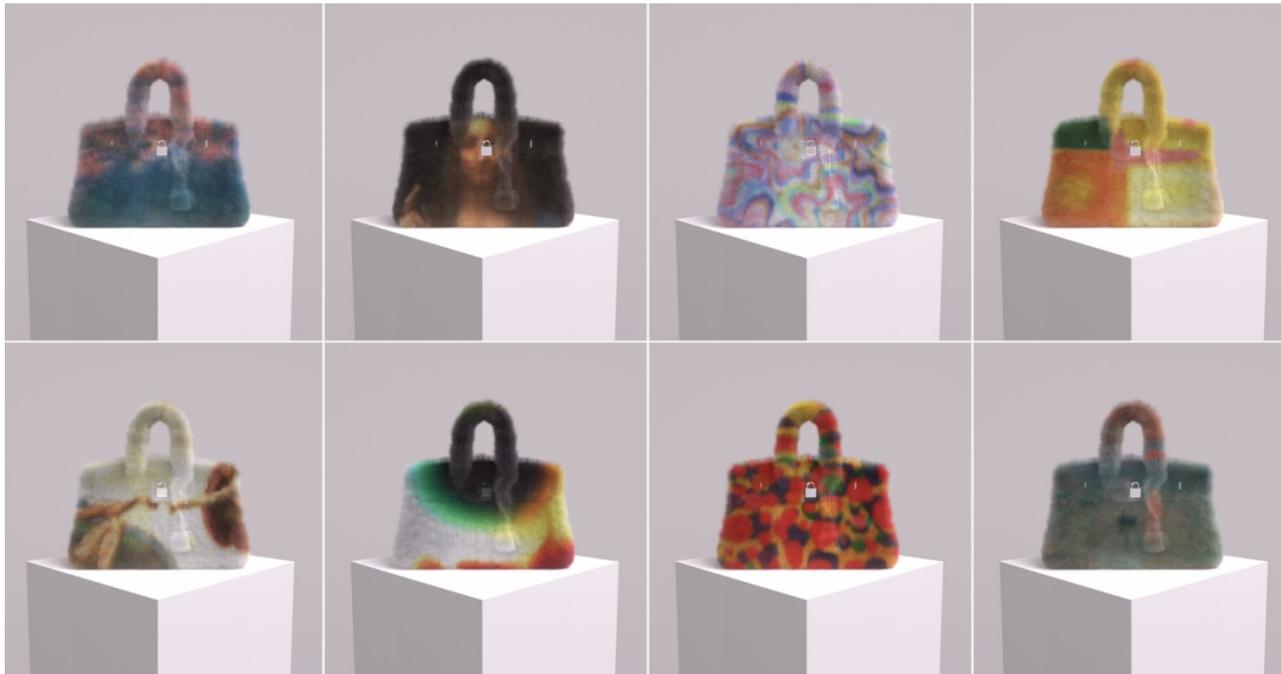
[View Asks](#)

[View Bids](#)

[View Sales](#)



Hermes



Balancing Trademark Rights with the First Amendment

Hermès International, et al. v. Mason Rothschild, 1:22-cv-00384 (SDNY)

- Allegations
 - Birkin Bags trademarks infringed
 - Defendant proclaims that he is “solely an artist... The title of “artist” does not confer a license to use an equivalent to the famous BIRKIN trademark in a manner calculated to mislead consumers and undermine the ability of that mark to identify Hermès as the unique source of goods sold under the BIRKIN mark.” (Complaint para 5)

Balancing Trademark Rights with the First Amendment

Hermès International, et al. v. Mason Rothschild, 1:22-cv-00384 (SDNY)

- Defense: First Amendment via *Rogers v. Grimaldi*, 875 F.2d 994 (2d Cir. 1989)
 - *Rogers* test: the use of a trademark in an artistic work is actionable only if the use of the mark: (1) has no artistic relevance to the underlying work, or (2) explicitly misleads as to the source or content of the work.
 - “*Rogers* gives Rothschild the right to identify his depictions of Birkin bags as “MetaBirkins”— a name that both refers to the context in which he makes the art available (i.e., the online, virtual environment popularly dubbed the “Metaverse”) and alludes to his artwork’s “meta” commentary on the Birkin bag and the fashion industry more generally.” (MTD p. 1)
 - “While Rothschild’s art is made with pixels and exists only online, the images he creates depict the bags as fur covered—in contrast to actual Birkin handbags, which are made from the tanned hides of slaughtered animals.” (MTD p.3)
 - “The First Amendment guarantees his right to respond in the marketplace of ideas to the inescapable corporate brand messages by which we are bombarded every day, virtually everywhere we look.” (MTD p. 1)

NFT Angle

“As Hermès’ complaint inconsistently acknowledges, the NFT is not the digital artwork: it is code that points to a place where the associated digital image can be found, and that authenticates that image. Rothschild’s use of NFTs to sell his artworks here thus is no different than selling limited edition prints...Using an NFT to authenticate an artwork no more makes the artwork a “commodity” unprotected by the First Amendment...than does selling numbered copies of physical paintings make those paintings commodities for purposes of Rogers.” (MTD p. 19)

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Questions

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NFT for Sale

Jeff's NFT



- [AIPPI People](#)

Jeff says: *“Come get me”*



Thank you