



NFTs and Intellectual Property: What IP Owners and NFT Creators Need to Know

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Everything is being tokenized these days, including art, games, collectibles and much more. The record prices being fetched have created an NFT frenzy. This distribution model has created a new channel for monetization of creative IP. Given some of the unique aspects of NFTs, IP owners need to rethink their IP protection and licensing strategies. IP protection strategies should include specific protection relating to NFTs. Due to some of the unique aspects of NFTs, various new considerations need to be addressed when licensing IP. NFT creators need to be mindful of potential infringement issues when using third party IP and should also consider IP protection for their original creations.

Many NFTs have incorporated third party IP in their NFTs without permission. In some cases, NFTs have included third party IP as part of the content. In other cases, third party IP alone has been the content. IP owners, whose content is being used in NFTs without permission, are taking note and ramping up their enforcement efforts.

One well known IP owner, DC Comics, has fired a shot across the bow. After an artist made \$1.85 million by selling NFTs, including characters he used to draw for DC (e.g. Wonder Woman and others), DC Comics sent a stern [warning](#) to the creative teams and freelancers employed by DC that unlicensed use of NFTs is a no-go!

Specifically DC stated:

As DC examines the complexities of the NFT marketplace, and we work on a reasonable and fair solution for all parties involved, including fans and collectors, please note that the offering for sale of any digital images featuring DC's intellectual property with or without NFTs, whether rendered for DC's publications or rendered outside the scope of one's contractual engagement with DC, is not permitted.

Considerations for IP Owners

The IP owners impacted by NFTs can include:

- brands that have famous trademarks, logos, and other brand identifiers;
- game companies that have unique characters or game art
- book, movie and other publishers that have unique characters and other IP;
- artists who created have physical or digital works;
- other IP owners

IP owners grant licenses to their IP for many uses. Often they license specific uses (e.g., rights to a specific distribution channel) and at times they license broad use and reserve specific rights. Historically, however, most IP owners have not considered NFTs in their license deals. Nor have most IP owners considered NFTs in connection with their IP protection strategies.

License Considerations

IP owners can license their IP to developers in the blockchain space in order to reap the benefits of this emerging and very lucrative market. Strategic licensing for this channel can increase the profile, goodwill, and revenue, of IP that are interested in taking this step. However, various additional considerations arise with these opportunities to protect your IP and avoid other legal liability.

IP owners who grant licenses to third parties for use of their IP need to factor NFTs into the scope of that license. Unless specifically licensing the work for use in NFTs, it may be wise to expressly preclude the licensee from creating NFTs based on the licensed work.

When expressly licensing rights to NFTs, it is important to be clear what is and what is not being licensed. When licensing IP for use in an NFT, the scope of the license should be limited to that purpose and other restrictions should be considered. Typically, the license will reserve all other rights to the IP owner. For example, a creator may grant rights to create a limited number of NFTs associated with a copyrighted work, in order to maintain the scarcity (and associated value) of the NFT based on such work. As another example, a licensor may choose to expressly prohibit, or impose restrictions on the right of the licensee to make modifications associated with the licensed work for purposes of the NFT. This is particularly important given the growing prevalence of layered art, programmable art and generative art. Each of these techniques can cause your IP to be used with other IP or to be modified in ways that you may not desire.

Capture Unique Revenue Models

IP owners who grant rights to create NFTs based on their IP may wish to clearly address revenue share issues for both the sale and resale of any NFTs. Many NFTs are structured such that the NFT “creator” gets paid on the initial sale, but also (via smart contracts) on any resale. Licensors can ensure their cut of NFT resale revenue with well-drafted license agreements.

IP Protection Strategies for Brands

As brands become more aggressive in creating their own tokenized assets during this early stage of the NFT boom, they would be prudent to consider rethinking their IP protection strategy. For example, brand owners should consider extending their trademark registrations to cover trademark uses and classifications that include NFTs. They may also choose to associate certain designs or trade dress with their brand.

Design patents should also be considered, where appropriate. Design patent are particularly valuable since profits from the sale and resale of NFTs can be significant. And unlike trademark, trade dress and copyright protection, the owner of a design patent can be entitled to all of an infringer’s profits, not just the portion of profits attributable to the use of the design.

Considerations for NFT creators

While opportunities for tokenized content abound, it is important for NFT creators to be cautious about incorporating third party IP in their NFT content. Despite any misperceptions that may exist about traditional law not applying to decentralized blockchain technology, the fact is that third party IP rights, including trademark, copyright and design patent can be asserted, and are being asserted, against NFT creators who have not obtained a license or other legal rights to IP included in their NFTs.

Early Consideration of IP Rights Can Save Time and Expense Down the Road

Creators of tokenized content should think twice about using a brand name, logo, famous character, picture, video, music or other third party IP without permission. Creators would be wise to seek legal counsel before using third party IP in their NFTs. Just because an IP owner has not yet enforced their IP against creators in the blockchain space, does not mean that they will not do so in the future, especially as more money pours into this space. Seeking advice early can help save significant expense and hassle in the future.

Early Registration Helps With Enforcement

Creators of original content for NFTs (and other blockchain use cases) should seek legal advice regarding which aspects of your creations you can register with the United States and Trademark Office or with the Copyright Office. While registration of rights, for example, in trademarks, trade dress, and copyrights are not necessary to obtain IP protection for your creations, securing a registration provides significant (and cost saving) legal and practical benefits to enforcing your intellectual property rights against infringers, either through take-down notices, cease and desist letters, or if necessary, through the courts. In some cases, the benefits can include being entitled to attorneys' fees and/or additional forms of damages against infringers.

Policing of Infringement

Another important IP consideration for both NFT creators and IP owners is to develop a policing strategy to catch any infringement early. Timing is of the essence. Due to the immutable nature of blockchain transactions, combined with the pseudo anonymous nature of NFT ownership, it can be difficult to enforce IP rights against a buyer once an NFT is sold. Typically, an NFT is associated with a digital wallet address, but the identity of the wallet owner may be difficult to discern without sophisticated computer forensics. The time to enforce your IP rights is when it a token using your IP is listed on an exchange, but before it is sold.

It is prudent for content owners to set up a watch service to identify unauthorized uses of your content. Legal counsel who specializes in intellectual property and understands the space can help you monitor (and stop) unauthorized use of your intellectual property through services that are provided to law firms at discounted rates.

If your content is subject to copyright, aggressive (but proper) use of DMCA take down notices may prevent a sale of the NFT in the first place. However, be mindful that improper DMCA take down notices can subject you to liability, so consult with counsel first.

The ideas above are only a few of the things to consider as more creators and brands inevitably jump into the NFT game and use NFTs in their own marketing and advertising campaigns. Many other new uses of NFTs will likely be envisioned and with that will come other legal considerations.

Sheppard Mullin's Blockchain Team includes intellectual property lawyers who focus on helping NFT creators and IP owners protect their intellectual property, avoid claims of infringement and enforce rights when infringement is found.

To further assist those dealing in NFTs, Sheppard Mullin has offered free webinars on NFTs and Entertainment. We covered NFTs and games on February 4. A link to that webinar is [here](#). On March 10 we covered, NFTs and digital art (a day before Christie's [fetched](#) a whopping \$69 million for Beeple's iconic piece of digital art). That webinar can be found [here](#). For an overview of some of other legal issues in these areas, see our articles on [art](#), [games](#) and [collectibles](#). Sign up [here](#) for our Law of the Ledger blog to automatically receive updates on these issues.

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