

NFTs, Cryptocurrency & the Metaverse

A new dimension for IP

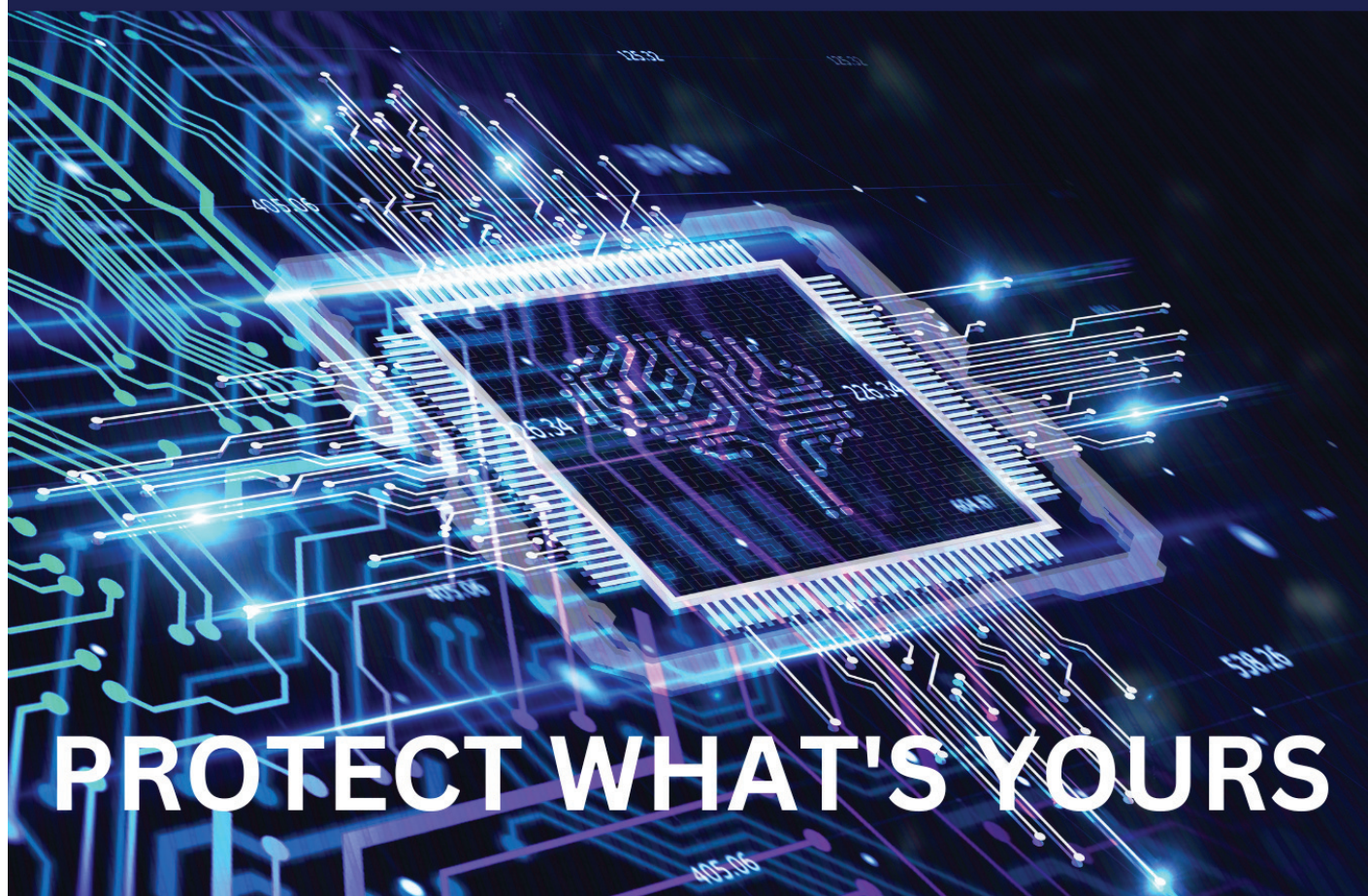
**Protect your
brand on the
blockchain**

**The new digital
world and the IP
risks involved**

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Enforcement in the Metaverse

Michelle Ciotola and David Kincaid of Cantor Colburn evaluate the hurdles created by the metaverse when it comes to enforcing IP rights, including jurisdictional and issuance questions.

The metaverse, broadly speaking, is a virtual environment or "world" in which users can digitally interact using different types of technology. Technology can range from traditional computing platforms like PCs or smartphones to higher-tech devices such as virtual reality headsets, like the Oculus headset. And while electronic games, such as *Fortnite* and *Second Life*, have long used metaverse-like environments, we are now beginning to see metaverse technology applied to other non-gaming uses. For example, Meta Platforms (formerly Facebook) offers a social metaverse experience known as *Horizon Worlds*, which allows users to navigate the world using the Oculus virtual reality headset and hand-held motion controllers. Consumer and luxury brands, like Nike, Louis Vuitton, and Gucci, are adopting

the metaverse as another channel to reach their customers. Within the metaverse, users can interact, conduct business, transfer digital assets, buy virtual property, and more. Many of these interactions are analogous to their real-world counterparts. Just like the real-world, many of these interactions may raise legal issues relating to intellectual property (IP) infringement and enforcement.

Securing IP rights, such as patents, trademarks, or copyrights, related to the metaverse is often very similar (if not the same as) securing non-metaverse IP rights. Patents dealing with the metaverse generally fall into one of two categories: hardware for interacting with the metaverse, such as a heads-up display for viewing virtual reality, or software that provides the virtual world in which users immerse themselves.

Obtaining metaverse-related patents requires clearing the same hurdles as non-metaverse patents, namely satisfying the patent eligible subject matter, sufficiency of disclosure, novelty, and non-obviousness requirements of Title 35 of the U.S. Code. Although obtaining software-related patents can be more challenging than obtaining hardware-related patents, especially regarding subject matter eligibility, these challenges are not particular to the metaverse. A patent applicant can be successful in obtaining metaverse-related software patents using conventional approaches, such as showing how an invention improves computer functionality or another technology.

Copyright protects original works of authorship fixed in a tangible medium of expression. Many non-fungible tokens (NFTs) meet the threshold requirements for copyright protection and are often associated with or used in the metaverse. When considering NFTs, copyrights, and the metaverse, it is important to remember that copyright grants the author or owner of the copyright a bundle of rights, including the rights to reproduce the copyrighted work, to prepare derivative works, to distribute the work, and others. A party acquiring an NFT that is the subject of a copyrighted work should consider the rights obtained and the limitation of those rights. The possession of an NFT does not mean that the recipient has the rights to make copies of the underlying work.

Trademark rights for use in the metaverse are obtained through the United States Patent and Trademark Office (USPTO) or other trademark

offices worldwide. Having a trademark registration in hand will likely be vital to a brand owners' ability to enforce its trademark rights in the metaverse. But as we are seeing with pending applications, there are certain challenges to obtaining registration. Metaverse-related trademark filings are covering virtual goods, retail store services featuring virtual goods, and entertainment featuring online non-downloadable virtual goods. While handling an identification issue with a pending application can be fairly straightforward in response to an office action, brand owners seeking trademark registration for trademarks in the metaverse are beginning to face issues with proving use or what has been deemed "premature use" by one USPTO examiner. Finally, the USPTO has already issued refusals for metaverse/virtual goods trademarks based on a likelihood of confusion with marks for physical goods, which is encouraging to brand owners. But the importance of obtaining a trademark registration for metaverse trademarks should not be minimized. It is expected that holding a metaverse- applicable trademark registration will become crucial to enforcing rights in the metaverse.

Once a rights holder obtains IP, the rights holder may wish (or be required) to enforce their rights. The key question is how do conventional judicial rights hold up when the underlying IP is related to the Metaverse? For patent enforcement, traditional judicial approaches may hold up well, but copyright and trademark enforcement may face challenges unique to the metaverse.

When a rights holder files suit, several



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Résumés

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Michelle Ciotola counsels clients on protecting and enforcing their trademark, trade dress, copyright, and related IP rights, including unfair competition, Internet, advertising, and promotions law. She counsels clients in developing and exploiting their trademark and copyright portfolios, including clearance; prosecution; and identifying important overseas jurisdiction and filing or coordinating with local counsel overseas. Michelle develops strategies for the enforcement of her clients' IP rights. She also develops strategies for enforcement of her clients' intellectual property rights online, including handling Uniform Domain Name Dispute Resolution Policy proceedings. Michelle attends and speaks at International Trademark Association (INTA), MARQUES, European Communities Trade Mark Association (ECTA) and the Asociación Interamericana de la Propiedad Intelectual (ASIPI). She is an Adjunct Professor reaching copyright Law at Western New England University School of Law. *Michelle's Email:* mciotola@cantorcolburn.com

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David Kincaid concentrates on assisting clients in solving IP problems and protecting their investments in product development and has significant experience protecting inventions related to or incorporating artificial intelligence (AI), augmented reality (AR), virtual reality (VR), cloud computing, and other emerging technologies. David has prepared and prosecuted patent applications about: artificial neural network architectures and algorithms for image processing, natural language processing, and the like across various industries; reinforcement learning for autonomous driving; AR for 3D data visualization; VR user feedback systems; and cloud architecture and infrastructure management systems. David is a thought leader in the AI technology space being active in the Intellectual Property Owners Association committees on Software Related Inventions and AI & New *Emerging Technologies*. *David's Email:* dkincaid@cantorcolburn.com



threshold issues must be addressed, such as personal jurisdiction, venue, and service of process, among others. Some of these issues may require special consideration when the rights that sought to be enforced relate to the metaverse.

Personal jurisdiction gives a court authority over the parties in suit and the ability to enforce a judgment against the parties. In the United States, following *International Shoe*, a defendant must have sufficient "minimum contacts" within a jurisdiction to establish personal jurisdiction over that defendant. To the extent infringement of metaverse-related patents occurs, conventional approaches to determining minimum contacts may largely be sufficient. For example, because most metaverse-related patents are to the underlying technology enabling the metaverse, it will likely be easy to identify infringers and evaluate their contacts within a jurisdiction (e.g., does the infringer host servers within the jurisdiction, does the infringer sell products such as VR heads up displays within the jurisdiction, etc.). Establishing personal jurisdiction over copyright or trademark infringers may not be as straight forward. For example, often the infringers may be individuals instead of organizations. Infringers may also hide behind the relative anonymity that the metaverse platforms may provide. It may be unclear where

these parties are located and what contacts, if any, an infringer has in certain jurisdictions.

Venue is the location in which a lawsuit can be heard as set forth in 28 U.S.C. § 1391. Venue is often tied closely to personal jurisdiction and accordingly may face some of the similar issues for enforcing metaverse-related IP.

Service of process, or simply "service", is the procedure used to give notice of a legal action to the opposing party (e.g., defendant). Conventional approaches to service include service by mail, personal service, waiver of service. However, these approaches may not be suitable for metaverse-related infringement. For example, an accused infringer may not be contactable outside the metaverse because the correlation between a virtual party/participant in the metaverse and a real-world party/individual may be unclear. At least one court has considered this issue of service regarding counterfeiting of a trademark used in the alleged unauthorized sale of NFTs. In *Playboy Enterprises Int'l, Inc. v. www.playboybunnies.app*, the court found that "alternative service" was appropriate. "Given the online nature of Defendants' conduct, email service is most likely to give Defendants' notice of the filings pertaining to this lawsuit." (*Playboy Enters.*, 21 Civ. 08932 (VM) at 5 (S.D.N.Y. Nov. 13, 2021)). Conceivably, email service or another electronic service method may be the only

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practical means for serving an opposing party when enforcing metaverse-related IP rights.

When a rights holder is investing in enforcing their metaverse-related IP rights, the rights-holder should be aware of and consider these issues early in the process of preparing and filing a lawsuit because these issues may be ripe for challenge by a defendant. Similarly, accused infringers should be ready to challenge these issues where appropriate.

In some cases, conventional judicial approaches to enforcing metaverse-related IP rights may not be practical. A seemingly viable alternative for infringement occurring in the metaverse is utilizing the hosting platform's takedown procedures where available and feasible.

For instances of copyright infringement in the metaverse, the Digital Millennium Copyright Act (DMCA) offers a cost-effective and expeditious first step to removal of the materials. The DMCA provides a safe harbor for online platforms to remove infringing content. Where a copyright owner believes their copyright has been infringed, they can submit an online form and the material is generally taken down quickly (sometimes automated takedown software performs takedowns proactively).

The DMCA does not apply to trademark infringement, resulting in often less robust procedures that vary from platform to platform. While there may be a similar process for submitting a complaint form with the platform, the result and timing can vary. Policies for takedowns are constantly evolving and vary greatly by platform – making the decision whether to pursue an often more cost-effective takedown request versus seeking a more formal judicial remedy dependent on the platform and policies in place at the time of the request.

For example, in the virtual world *The Sandbox* ("TSB"), a decentralized gaming platform allows users to build, own, and monetize assets and gaming experiences using the Ethereum blockchain. According to the Terms of Use, "TSB does not permit the infringement of intellectual property rights on the Services, and will remove Assets and/or Games from the Services if property notified that such Assets and/or Games infringe on another's intellectual property rights." The actual takedown procedure however provides the following:

Our advice is to issue a DMCA notice to the individual politely requesting the removal of the alleged infringing content.

Another platform, *Decentraland*, a 3D world virtual browser-based platform, provides a "Notice and Procedure for Making Claims of Copyright Infringement" similar to the DMCA. It requires the following information be provided:

- an electronic or physical signature of the person authorized to act on behalf of the owner of the Intellectual Property Right;
- A description of the Intellectual Property Right that you claim has been infringed;
- A description of where the material that you claim is infringing is located on the Tools;
- Your address, telephone number, and email address;
- A statement by you that you have a good faith belief that the disputed use is not authorized by the owner of the Intellectual Property Right, its agent, or the law;
- A statement by you, made under penalty of perjury, that the above information in your Notice is accurate and that you are Intellectual Property owner or authorized to act on the owner's behalf.

But includes the caveat "to the extent possible, the [Decentraland] Foundation may try to reach the would-be infringing party to forward your concerns. The Foundation is not in a position to assess the legal merits of the claims."

The metaverse continues to develop and expand, we will face new challenges in protecting and enforcing intellectual property. As the legal ramifications and challenges of enforcement in the virtual world are still developing, best practices will continue to evolve.

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