

APRIL 2024

DEVOTED TO  
LEADERS IN THE  
INTELLECTUAL  
PROPERTY AND  
ENTERTAINMENT  
COMMUNITY

VOLUME 44 NUMBER 4

THE *Licensing*  
*Journal*®

*Edited by Gregory J. Battersby and Charles W. Grimes*

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# *The USPTO and USCO Deliver Report to Congress on IP Issues with NFTs Maintaining Existing IP Regime*

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The United States Patent and Trademark Office (USPTO) and the United States Copyright Office (USCO) delivered a report to Congress entitled *Non-Fungible Tokens and Intellectual Property* on March 12, 2024 (Report).<sup>1</sup> While the Report is comprehensive, it does not recommend any new action to address IP issues with NFTs.

The Report looked at: i) current and future applications of non-fungible tokens (NFTs); ii) how intellectual property laws apply to NFTs and assets associated with NFTs; iii) intellectual property-related challenges arising from the use of NFTs; and iv) potential ways to use NFTs to secure and manage intellectual property rights. The offices sought written input and held listening sessions to receive comments from interested groups.

Some of the key takeaways from the Report include the following:

- While many stakeholders raised concerns about copyright and trademark infringement associated with NFTs, most believed that current intellectual property laws are adequate to deal with infringement. Moreover, many expressed concern that NFT-specific legislation would be premature at this time and could impede the development of new NFT applications, given the evolving nature of the technology. The Offices agreed with these assessments and did not believe that changes to intellectual property laws, or to the Offices' registration and recordation practices, are necessary or advisable at this time.
- The most common concern raised about NFTs, however, was the prevalence of consumer confusion about the IP rights implicated in their creation or transfer. Unsophisticated consumers may conflate the purchase of an NFT associated with a digital good with ownership of IP rights in that

good. Even sophisticated consumers may struggle to ascertain what rights accompany a particular NFT, because there are few marketplace standards for clear disclosure by NFT sellers. As we have previously addressed on numerous occasions this can best be addressed via NFT owner agreements as further addressed below.

## **Copyright Issues**

The Report discussed in section II: (i) how the creation, storage, marketing, and transfer of NFTs implicate copyright law; (ii) how rightsholders may enforce copyright against NFT-related infringement; and (iii) what roles NFTs could play in the copyright ecosystem, such as documenting authorship, provenance, and ownership of creative works, enhancing copyright registration and recordation, facilitating payment of "resale royalties," and enabling digital rights management.

The Offices found:

- To the extent that an NFT is associated with a copyrightable work, the creation, storage, marketing, or transfer of that NFT may implicate copyright owners' exclusive rights. Some features of NFTs—such as typically pseudonymous ownership and decentralized storage—can raise challenges to enforcing a copyright, but these are not new problems in the online space, and some commenters reported they have had success using existing laws.
- Proposals to use NFTs to replace or supplement copyright recordkeeping did not demonstrate added value. As a replacement for current recordation practices, the immutability of blockchain technology leaves NFTs vulnerable to perpetuating inaccurate records.
- NFTs may offer opportunities for U.S. artists to obtain remuneration from downstream resales of their works (a.k.a. resale royalties). As U.S.

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copyright law does not expressly provide for such remuneration, these opportunities depend on the code underlying the NFTs and the rules of the platforms on which they're sold rather than any statutory entitlement.

*In other words, this is more of a contractual issue than statutory issue in the US.*

## Trademark Issues

The Report discussed in section III: (i) opportunities NFT technology presents for brand owners; (ii) concerns associated with obtaining trademark registrations for NFT-related goods and services; (iii) uncertainty regarding whether a trademark registration for traditional goods or services can be used to prevent uses and registration of the same mark in connection with similar digital goods or services tied to NFTs, and vice versa; and (iv) the prevalence of trademark infringement, and the enforcement challenges, associated with NFTs and NFT platforms.

The Offices found:

- NFT technology and blockchain networks present new opportunities for trademark owners to build their brands, reach new consumers with interactive products and services, document the provenance of products, and manage trademark rights. However, some features of these technologies also pose challenges for trademark owners, including the fact that records stored on blockchain networks are theoretically immutable, which can complicate efforts to remove inaccurate or fraudulent records.
- Trademark infringement is prevalent on NFT marketplaces, and trademark enforcement efforts are complicated by the decentralized and anonymous nature of NFT platforms, and the decentralized nature of the blockchain networks on which NFTs are stored. While some NFT platforms have developed protocols to help trademark owners enforce their rights, there is no central authority that requires all platforms to do so, nor is there a cross-platform mechanism to settle trademark-related disputes involving blockchain-based domain names.
- Nevertheless, most commenters disfavored new, NFT-specific laws to address trademark infringement both because NFT technology is still evolving rapidly and because many federal court cases involving these issues are still pending and will

likely provide answers regarding whether existing trademark laws are sufficient.

- Trademark applicants, registrants, and practitioners need guidance regarding obtaining and enforcing trademark registrations in the context of NFTs. The USPTO has provided guidance on these issues and will continue to work with stakeholders to identify additional needs.

## Patents

The Report discussed in section IV: (i) the use of NFTs to manage registration, ownership, and licensing of patents; and (ii) how current patent laws apply to NFT-related inventions.

The Offices found:

- While blockchain technology and NFTs can play a role in supporting management, transfer, and licensing of patent rights, commenters' concerns regarding the difficulty of identifying bad actors on NFT platforms and of correcting inaccurate or fraudulent information stored on blockchain networks also apply in the context of patent rights.
- Commenters provided a variety of views regarding how current patent laws and requirements apply to inventions related to NFTs and blockchain technology. Patent applicants and practitioners could benefit from guidance regarding obtaining patents in the context of NFTs. The USPTO has provided guidance on these issues and will continue to work with stakeholders to identify additional needs.

## Overall Conclusions

In Section V, the Report concludes that changes to IP laws are not currently necessary to address the use of NFTs as the unique aspects of the technology generally do not raise new IP problems. The challenges they do raise, such as concerns about the legal status of smart contracts or consumer confusion over what rights accompany the purchase of an NFT, are better addressed through other means.

For now, not much will change from a legislative perspective. We do anticipate seeing additional guidance from the Offices on some of these issues. Additionally, one key takeaway from the Report is that resale royalties and the rights associated with an NFT are best addressed through other means such

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as via contract. We have stressed on numerous occasions, that issuers of NFTs are strongly encouraged to use NFT owner agreements that are clearly drafted to address these issues. We also recommend that issuers ensure that there is a valid contract by requiring some form of affirmative acceptance by the purchasers.

One of the issues I really hoped the Copyright Office would have addressed is the complexities of implementing effective DMCA takedown notices with NFTs. I personally submitted comments on this (and other issues). One of the issues I raised is that

with many NFTs, the associated digital asset may be stored on a decentralized storage system, such as the Interplanetary File System. This makes effective DMCA takedowns more difficult. While the report cites to my comments (Report, pages 29-31) and recognizes the issues, it did not deem changes necessary to address them.

Overall, the Report is well done and for most issues addressed, I agree with the conclusion that no legislative changes are currently needed to address the IP issues with NFTs.

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1. See [https://www.uspto.gov/sites/default/files/documents/Joint-USPTO-USCO-Report-on-NFTs-and-Intellectual-Property.pdf?utm\\_campaign=subscriptioncenter&utm\\_content=&utm\\_medium=email&utm\\_name=&utm\\_source=govdelivery&utm\\_term=.](https://www.uspto.gov/sites/default/files/documents/Joint-USPTO-USCO-Report-on-NFTs-and-Intellectual-Property.pdf?utm_campaign=subscriptioncenter&utm_content=&utm_medium=email&utm_name=&utm_source=govdelivery&utm_term=)

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