



AN NFT JOURNEY

MERITS AND MISCONCEPTIONS

Stuart Levi, Eve-Christie Vermynck, Jonathan Stephenson and Alistair Ho of Skadden, Arps, Slate, Meagher & Flom (UK) LLP identify some of the key considerations around the creation and use of non-fungible tokens in English law.

Non-fungible tokens (NFTs) provide an innovative means to establish ownership of digital goods and tangible assets. As can be expected with such a popular topic, there are also an increasing number of misconceptions around NFTs and their associated legal issues; for example, there is a common assumption that an NFT buyer automatically receives full ownership of the intellectual property (IP) rights (IPR) in the underlying asset, including unrestricted rights to use or otherwise exploit it as they wish.

The legal landscape around NFTs continues to evolve as developers create new use cases, and courts and regulators adapt to address novel legal issues. While this presents many opportunities for the commercially savvy, it is important for stakeholders to remain mindful of the many legal issues that may need to be addressed when working with NFTs, especially the minting and commercialisation of those NFTs.

This article identifies some key considerations for individuals working with NFTs, including owners or creators of underlying assets, such as global brands or individual creators, those looking to mint NFTs, marketplaces, potential NFT buyers, and entities considering new and novel use cases for NFTs. It looks at the nature of NFTs and their uses, their regulatory status, underlying asset rights, issues around minting NFTs, sales and distribution, and how to protect and enforce property rights.

While the use and governance, if any, of NFTs is a global consideration, this article focuses on how English law has affected this area.

THE NATURE OF NFTS

NFTs are, in essence, an immutable proof of title to a unique underlying asset but there are limits to the rights that come with them. They have certain characteristics that distinguish

them from other digital assets or real property (see box "Key definitions").

Key characteristics

There are three characteristics that distinguish NFTs.

Unique nature. NFTs represent proof of title to the underlying asset. Unlike cryptocurrencies, which are fungible and interchangeable, each NFT is unique, that is, non-fungible.

Generated by smart contracts. A smart contract is used to generate NFTs and can automate the performance of various contractual obligations between the relevant parties; for example, a smart contract can include a function which, when an NFT is sold by its then-current owner, will automatically send a portion of the sale proceeds to the appropriate third party, commonly the original creator of the underlying asset. This allows for a revolutionary new form of IP monetisation

that provides underlying asset creators with the ability to profit automatically from their work, beyond its initial sale.

Associated with underlying assets. The underlying asset associated with an NFT is generally not stored on-chain. For tangible underlying assets, NFTs can show proof of title; that is, a digital certificate of authenticity or proof of ownership. In the case of intangible, often digital, underlying assets, NFTs will typically include a pointer to the underlying asset that is stored off-chain (see “Choice of digital asset storage” below). Most NFTs have a token uniform resource identifier (URI), stored on-chain as part of the NFT’s metadata, that contains a link to an object stored on the web, and which object contains a link to where the digital content associated with the NFT is stored.

Ownership of an NFT

In the absence of more traditional forms of proof of ownership over the underlying asset, the buyer of an NFT can only be assumed to own the token itself. The NFT buyer has no ownership rights to the underlying IPR unless those rights have been explicitly conferred (see “NFTs and IPR” below). Generally, the owner of an NFT will not, for example, own any copyright in the underlying asset. Instead, the buyer will be granted a limited licence to use the IPR in the underlying asset within specified parameters.

NFTs do not prevent copying

While the owner of an NFT can establish that they own an original of a digital work, as a technical matter, nothing prevents someone else from minting another NFT of that same work, including on the same blockchain. NFT issuers and owners must still rely on traditional forms of legal enforcement to prevent such activity (see “Protection and enforcement” below).

Use cases

There are a variety of use cases for NFTs.

Creative works. As noted above, NFTs provide a unique method for identifying ownership of, or access to, creative works, such as art and music. This allows the creator class to engage more directly with their fan base.

Events. NFTs can be used as a form of electronic ticket, which can also unlock benefits and fan privileges, such as store discounts and giveaways. These events could be real-world events or events taking place in

Key definitions

NFTs. The blockchain-based non-fungible tokens (NFTs) created and minted by the underlying asset owner or a third party that link to the underlying asset.

Underlying asset. The work to which the NFT will point, including its subsisting intellectual property rights, such as artwork or other forms of content.

Smart contracts. Self-executing code, the terms of which are deployed directly on a blockchain. The code is automatically executed in accordance with predetermined rules without the intervention of a third party.

Minting. The process of generating the NFT that links to the underlying asset and records it on-chain.

Marketplace. A digital platform that allows users to market, sell and buy NFTs.

virtual worlds such as a metaverse (see feature article “The metaverse: far from the wild west”, www.practicallaw.com/w-036-5862).

Gaming. Game manufacturers are looking at NFTs as a means to allow players to own in-game digital assets, such as character skins or add-ons, allowing them to be traded and potentially used across different game platforms.

Marketing. Brands are increasingly using NFTs as a means to increase consumer engagement by providing a means for brands to continuously interact with customers.

Tokenised assets. NFTs can also be used as a means to “tokenise” tangible assets or certifications, such as land ownership or university degrees.

NFT REGULATORY STATUS

Under English law, there is no standardised regulatory framework or treatment of NFTs and current regulatory guidance suggests that most NFTs will be unregulated. However, in the event that an issuer creates an NFT with characteristics that are substantially similar to security tokens or e-money tokens, those NFTs may be subject to UK regulation. Identifying whether an NFT has these characteristics depends on the intrinsic structure of the NFT, the rights attaching to it, and how the NFT is used in practice.

Security tokens

NFTs that are classified as security tokens fall within the scope of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544) as a

“specified investment”. These are tokens with specific characteristics that provide rights and obligations that are akin to specified investments, such as a share or a debt instrument, including ownership rights over the specified investment or the entitlement to a share in future profits.

In addition, NFTs may be classified as transferable securities or other financial instruments under the EU’s recast Markets in Financial Instruments Directive II (2014/65/EU).

E-money tokens

NFTs that are classified as e-money tokens will be subject to the Electronic Money Regulations 2011 (SI 2011/99) (2011 Regulations) and certain activities may further be classified as a regulated activity and require authorisation from the Financial Conduct Authority (FCA). Whether a token is classified as an e-money token will be determined on the basis of whether it meets the definition of “e-money”; namely, monetary value as represented by a claim on the issuer which is:

- Stored electronically, including magnetically.
- Issued on receipt of funds.
- Used for the purposes of making payment transactions.
- Accepted as a means of payment by persons other than the issuer.
- Not otherwise excluded by the 2011 Regulations. Relevant exclusions may

include where monetary value stored on payment instruments may only be used in a limited way and where monetary value is used to make certain payment transactions resulting from services provided by electronic communications network providers.

UNDERLYING ASSET

When creating an underlying asset it is fundamental to determine what rights the potential issuer has to mint an NFT of that underlying asset.

NFTs and IPR

Given the broad types of underlying assets, the NFT-related IPR that may arise are varied, but primarily are:

- Copyright and moral rights, which are automatically protected in the UK.
- Trade mark and patent rights, which require registration.

Copyright, which protects the form of expression of ideas, as opposed to the ideas themselves, and might include original literary, dramatic, musical or artistic works, is intended to protect the economic rights of an author (*sections 3-8, Copyright, Designs and Patents Act 1988*) (CDPA). Under English law, and in contrast to certain other jurisdictions, copyright is not a registrable right as it arises automatically on creation and affords economic rights to the author of a work, or its assignees, for a protection period of 70 years from the end of the calendar year of the author's death. Indeed, in contrast to jurisdictions like the US, there is not an option to register a copyright in the UK.

In addition, as part of copyright, moral rights protect the author's non-economic interests in the use of their work, including the right to attribution, the right to object to derogatory treatment of their work, the right to object to false attribution and the right to privacy in any photographs or films for private and domestic purposes to prevent them from being made available to the public. Although moral rights may be expressly waived in the UK, they otherwise apply whether or not the author still owns the work, subject to certain exceptions; for example, the right to be properly identified does not apply to computer programs. Moral rights last for the same period of time as economic rights, except for the right to prevent false attribution

Tax and the commercialisation of image rights

Those including images in non-fungible tokens (NFTs) need to be mindful of any tax implications. There have been a few image rights tax cases in the UK. HM Revenue & Customs (HMRC) lost *Sports Club plc and others v CIR*, which it regards as non-binding, where it argued that the income from image rights exploitation was employment income for the relevant sportsperson(s) ([2000] STC (SCD) 443; www.practicallaw.com/0-101-3129).

Since then, HMRC has won other cases linking the payments to employment of the sportsperson by their sports clubs, but equally has helpfully set out parameters for successfully moving image rights into a special purpose vehicle or image rights company as part of a hive-down of assets, and that company being instead taxed on its profits other than under the employment code.

Given that fairly well-trodden path between HMRC and taxpayers, the latter need to be careful in drafting and negotiating the rights that the image rights company has and is exploiting through an NFT by obtaining payments from the relevant sports club, in order to avoid a default employment taxation result for the relevant sportsperson.

which expires 20 years after the author's death.

Trade marks are indicators of origin; that is, signs or marks used by companies to differentiate their goods within specified classes of goods or services (*section 1, Trade Marks Act 1994*) (TMA). The UK trade mark system operates on a "first-to-file" basis. Use of the trade mark is not a pre-condition for filing an application, although an applicant must have a bona fide intention to use the trade mark. It is best, therefore, to file a trade mark as early as possible, such as at the development stage of the NFT.

The appropriate Nice Class (the international classification of goods and services for the purpose of registering marks) for NFTs linked to digital files is class 9 virtual goods (*The Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks (1957)*). A recent EU Intellectual Property Office press release confirmed that class 9 will, in the 12th edition of the Nice Classification, be updated to expressly incorporate "downloadable digital files authenticated by non-fungible tokens" (https://euipo.europa.eu/ohimportal/en/news-newsflash/-/asset_publisher/JLOyNNwVxGDF/content/pt-virtual-goods-non-fungible-tokens-and-the-metaverse;www.wipo.int/classifications/nice/nclpub/en/fr/?class_number=9&explanatory_). However, using the term NFT in an application will not suffice on its own. The type of digital item authenticated by the NFT, such as virtual clothing, must be specified. In the future,

brands with existing trade marks may file new applications in class 9. Other classes may also be considered depending on the business and products envisioned; for instance, a retailer creating virtual goods may want to file trade mark applications in class 35 in relation to "retail store services featuring virtual goods".

The manner in which NFTs are used might also be the subject of patent protection where the process that it facilitates is new, involves an inventive step and is capable of industrial application (*section 1(1), Patents Act 1977*) (1977 Act).

NFTs sometimes incorporate, without permission, images or names of celebrities or other public personalities. In the UK, there is no specific legal concept of an image right or right to publicity (*see feature article "Commercialising image rights: reaching for the stars", www.practicallaw.com/3-626-0207*). What may be often referred to as an image right is likely to depend on a bundle of different rights that may include, for example, contractual rights, registered trade marks, goodwill or copyright. When looking to protect their image, an individual will need to look to actions such as passing off, defamation, misuse of private information and breach of confidence, and trade mark infringement (*see box "Tax and the commercialisation of image rights"*).

Ownership of the underlying asset

Any IPR in the underlying asset are usually owned by the author of the work. Under English law, generally, IPR created by employees

during the course of their employment will be owned by the employer (see feature article “Employee inventor compensation: a multi-jurisdictional perspective”, www.practicallaw.com/w-035-2039). However, consultants or contractors who are engaged to create certain deliverables during the course of their engagement will retain ownership of the IPR that they create or contribute to. Therefore, those looking to mint NFTs using works created by a consultant or contractor should seek an assignment of those rights.

Where the consultant or contractor does not want to assign the IPR in the underlying asset, such as where they may want to use the IPR in other projects, it is important to obtain a broad and irrevocable licence to use the IPR for the NFT project. The licence should also prohibit the consultant or contractor from using the work in other NFT projects.

In the absence of an assignment or licence of the IPR, under English law a company that has hired a consultant to create IPR may enjoy only a narrow implied licence as required to use the IPR for the purposes contemplated by the parties at the effective date of the relevant agreement. Given that this scope will likely be narrow in order to mint an NFT, it is therefore fundamental that any contracts that envision the creation of IPR for NFTs include the necessary provisions to vest, assign or licence the IPR in the underlying asset to the contracting party.

Multiple parties may contribute to the IPR in the underlying asset, either as co-developers, with each contributing specific and distinguishable IP, or joint contributors creating the underlying asset together and unable to distinguish their contributions. Co-developers will retain ownership of the IPR in their respective contributions while joint developers will jointly own the IPR in the relevant underlying asset.

In any event, a co-development or joint development agreement, as applicable, should be entered into to ensure certainty in relation to the ownership and use of any contributed or created IPR, the allocation of risk and liabilities, and the responsibilities for protection and enforcement of those IPR. Although the commercialisation of jointly owned IPR is provided for by operation of law in the absence of an express agreement, the specific rights and obligations of each owner varies according to the type of IPR and may result in outcomes that are far

Data protection considerations

In the future, non-fungible tokens (NFTs) may be associated with assets that contain personal data, such as a university certification or an identity profile. Under EU data protection laws, “personal data” includes any data relating to any individual that can be directly or indirectly identified. The individual or entity in charge of collecting and further processing that data will need to comply with the applicable data protection law requirements.

Given the broad definition of personal data, which includes information that could be used to identify an individual, wallet addresses and even token identifiers that lead to personal data stored off-chain could be deemed to be personal data. For example, a token identifier could be deemed to be personal data where the token identifier points to the underlying asset which contains personal data, or where the NFT owner is otherwise identifiable, such as where the NFT creator, marketplace, or another third party has a record of the NFT owner’s identity. This is often the case for marketplaces that require sellers or buyers to register accounts, which include their name, address and other personal data.

The General Data Protection Regulation (2016/679/EU) (EU GDPR) and the retained EU law version of the GDPR (UK GDPR) are currently aligned. However, following Brexit, the UK is undergoing data protection reform which may result in significant departure from some of the EU GDPR concepts. One should consider carefully the data protection laws that apply to personal data contained in the NFT.

Privacy by design

Where NFTs may involve personal data as noted above, issuers should build and implement a privacy-by-design procedure to ensure that data protection issues are considered at each stage of an NFT project’s lifecycle (see feature article “Data protection: privacy by (re)design”, www.practicallaw.com/w-018-6087). NFTs are likely to be considered to be innovative technologies by data protection authorities in many of their novel use cases, particularly ones that involve novel forms of data collection and use. These may, therefore, require a data protection impact assessment (DPIA) to be undertaken before any processing takes place. Undertaking a DPIA should assist with identifying and minimising the overall risk level and establishing whether the processing can lawfully proceed, taking into account the desired benefits.

from certain or even contrary to the original intention of the parties. This may affect a joint owner’s ability to commercialise and protect the NFT, and any underlying IPR, as the assignment, licensing and enforcement of co-owned IPR would generally require the agreement of all owners. Equally, where a co-owner is able to assign their portion of the IPR in the NFT’s underlying asset, this would result in fragmented ownership, which may affect the value of the IPR and therefore the NFT itself.

Real property rights

An NFT may itself carry property rights in certain jurisdictions, with recent cases in the UK and Singapore granting proprietary injunctions in cases of alleged NFT theft and commercial dispute respectively (see “Protection and enforcement” below).

However, there has been no landmark case law to give guidance on this point and it remains to be seen whether future case law or regulation will clarify whether NFTs should be considered legal property or should be differentiated based on their intrinsic properties and uses.

On 28 July 2022, the Law Commission of England and Wales published a consultation paper containing provisional law reform proposals to ensure that the law recognises and protects digital assets (www.lawcom.gov.uk/project/digital-assets/). Notably, it suggested creating a third category of personal property beyond choses in possession, that is, physical property, and choses in action, that is, contractual rights, called “data objects”. Data objects would encompass anything that:

- Is composed of data represented in an electronic medium, such as code, electronic, digital or analogue signals.
- Exists independently of persons and the legal system.
- Is rivalrous, that is, cannot be used by others in an equivalent way simultaneously.

This consultation remains open until 4 November 2022, and any resulting law reforms could have important repercussions for NFTs.

Given these distinctions and the uncertainty, one should consider carefully the terms agreed respectively by those involved in the creation of the underlying asset, those minting NFTs and the marketplace (see box “Data protection considerations”).

Duty of care

English courts are currently tackling the issue of whether blockchain developers owe a duty of care or fiduciary duties to the owners of digital assets, including NFTs, and if so, what is the nature and scope of those duties. In *Tulip Trading Limited v Bitcoin Association for Bitcoin SV (BSV) & Others*, the High Court held that no blockchain developer duty of care or fiduciary duty was owed to an individual user whose bitcoin was stolen from their wallet because, on the facts of that case, there was:

- No tortious duty of care. The court was concerned that the potential class of individual users to whom such a duty would be owed would be so vast that it would open the floodgates to this type of claim, which would not be “fair, just or reasonable”.
- No fiduciary duty. The individual could not be described as entrusting their property to an identifiable group of developers which in the blockchain context is “fluctuating, and unidentified” ([2022] EWHC 667 (Ch); see *News brief “Cryptoassets: the scope of blockchain developers’ duties”*, www.practicallaw.com/w-035-6623).

However, the Court of Appeal has granted an appeal to revisit the decision in *Tulip Trading* with a view to developing some principles around this issue of “considerable importance”.

Anti-money laundering considerations for marketplaces

In certain cases, non-fungible token (NFT) marketplaces may be considered to be within the scope of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (SI 2017/692), as amended (2017 Regulations) as either a:

- “Cryptoasset exchange provider”, which is broadly defined under the 2017 Regulations as firms or sole practitioners, who by way of business, provide services for the exchange of, or arranging or making arrangements for the exchange of, cryptoassets, whether for fiat currency or other cryptoassets. “Cryptoassets” are also broadly defined under the 2017 Regulations as a cryptographically secured digital representation of value or contractual rights that uses a form of distributed ledger technology, and which can be transferred, stored or traded electronically.
- “Custodian wallet provider”, which captures firms that provide services to safeguard, or to safeguard and administer, cryptoassets on behalf of customers, or private cryptographic keys on behalf of customers in order to hold, store and transfer cryptoassets. These therefore may capture providers whose custody wallets contain NFTs.

Where a marketplace is carrying out business in the UK by, for example, having an office or activities in the UK, and falls within these definitions, the relevant provider will fall within scope of the 2017 Regulations and will need to register with the Financial Conduct Authority. In-scope businesses are required to comply with the ongoing requirements, including obligations relating to know-your-customer and customer due diligence, record retention, ongoing monitoring of customers, staff training, and appointing a nominated officer responsible for reporting suspicious activity.

MINTING, SALE AND DISTRIBUTION

Minting refers to the process of generating an NFT that links it to the underlying asset and records it on-chain. This is done through a smart contract that generates a digital token linked to a specified digital asset. NFTs can be generated as a one-off or as part of a series where the smart contract is generated, for example, 10,000 NFTs in a series.

Choice of digital asset storage

Where the underlying asset is a digital file, this is typically stored separately, off-chain. The underlying asset may be stored on a private server or a decentralised storage system. Wherever the underlying asset is stored, consideration should be given to who will be responsible for maintaining it. If a private server is being used, key issues include whose server it will be, where it is, for how long are they obliged to host the file, and what security measures will be maintained (see “Services and distribution agreements” below).

Marketplaces and sales

Once an NFT is minted, it can be offered for sale through various NFT marketplaces,

although some marketplaces affirmatively sweep in any NFTs that were minted on certain blockchains. Some marketplaces are open to anyone who has minted an NFT on a specific blockchain, while others are curated, and decide which NFTs will be listed. Some marketplaces are open, allowing NFTs that are listed to be transferred out of the marketplace, while some are closed and allow the NFT to be bought and sold only within that marketplace.

As the volume of trade of NFTs increases, regulators continue to focus on potential money laundering activities (see box “Anti-money laundering considerations for marketplaces”) and consumer protection, in particular the way in which cryptoassets, including NFTs, are advertised to consumers (see box “Advertising NFTs”).

Assignment and license of IPRs

Buying an NFT rarely comes with ownership of the IPR in the underlying asset. Rather, the NFT owner is granted a licence to the IPR. This is not dissimilar to traditional mediums; for example, the buyer of a paperback book does not receive any copyright ownership in the written work.

The scope of rights that an NFT owner has with respect to the underlying asset is typically set forth in an IPR licence that is included in the terms and conditions for the NFT. These IPR licences can vary greatly in scope and will be specific to each NFT project. At its most restrictive, a licence may limit the owner of the NFT to displaying the digital content for their own personal use or for resale purposes. In other cases, the IPR licence may grant the NFT owner a broad licence to commercialise and exploit the underlying asset, including the creation of derivative works.

Some NFT projects release the underlying asset into the public domain under a creative commons licence, which waives all copyright and related rights.

In the absence of an express assignment or licence, the narrow licence implied by English law is likely to be interpreted as a mere licence to use and display the underlying asset (see *"Ownership of underlying asset"* above). Therefore, those seeking to grant broader rights must do so through an explicit licence.

Understanding the scope of the rights that are being bought is critical. A decentralised autonomous organisation, Spice DAO, vastly overbid at auction for a rare copy of Alejandro Jodorowsky's production book for Frank Herbert's science fiction novel, *Dune*, thinking that they were acquiring the IPR in the book, only to find out that was not the case.

Services and distribution agreements

Many NFT issuers use third-party providers to handle the technical aspects of the NFT minting and issuance process. There are some common provisions in these services and distribution agreements.

Roles of the parties. It is important to set out which party will design, develop, mint, issue, sell, market, promote and distribute the NFTs that are associated with, and linked to, the licensed IP.

Licence grant. As with any standard licensing arrangement, the underlying asset IP owner will need to grant the third party the right to use and exploit the licensed IP for the purpose of the services and distribution agreements.

Approvals. Businesses will typically seek to have the right to review and approve all uses of the licensed IP, including any derivative

Advertising NFTs

Individuals or businesses that actively market non-fungible tokens (NFT) in the UK need to ensure that any public advertising complies with the rules of the UK Advertising Standards Authority, which apply to all unregulated cryptoassets, including NFTs. This includes ensuring that the advert:

- Clearly and prominently states that cryptoassets are not regulated by the Financial Conduct Authority (FCA) or protected by financial compensation schemes.
- Does not take advantage of consumers' inexperience or credulity.
- Includes all material information.

The FCA has recently consulted, and issued a policy statement, on key changes proposed to the rules under the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (SI 2005/1529) (see News brief *"Cryptoasset promotion: clamping down on marketing high-risk products"*, www.practicallaw.com/w-034-5146). Further, there is a prohibition on communicating an invitation or inducement to engage in investment activity in the UK, or in a way which may have an effect in the UK, unless the person making the promotion is authorised by the FCA or exempt.

Although the Treasury has confirmed that the government intends to introduce legislation to bring qualifying cryptoassets into the scope of the UK's financial promotion regime as controlled investments, as most NFTs are not fungible, they would not fall within this definition. However, if an NFT were to amount to a security or e-money token or a unit in a collective investment scheme, then the current financial promotion rules would apply (see *"E-money tokens"* in the main text).

works from the underlying asset, any material and promotional materials related to the NFTs, all matters relating to the distribution of the NFTs, the smart contract that is used to mint the NFTs, and the terms and conditions applicable to the NFTs.

Fees and royalties. The royalties to be allocated to the party minting the NFT or the service provider, and the manner in which those royalties will be paid, such as through the smart contract or manually, needs to be set out, including any crypto-to-fiat or fiat-to-crypto conversions that may be required. Any royalty payment for future sale will often continue for perpetuity, outlasting the term of the services and distribution agreements.

Security. The underlying asset owner will want to be informed of any cyber incident that could, or is likely to, adversely affect the NFT itself or the underlying smart contract.

Storage. The third party may offer storage of the underlying asset. The parties will need to agree the determination of the storage medium, any ability to modify the underlying asset, and the term and cost.

Tax

There is currently no HM Revenue & Customs (HMRC) tax guidance dedicated to NFTs in the UK, although HMRC has confirmed that it is working on this area. For now, the Cryptoassets Manual is the closest indication of HMRC thinking, as it does cover tokens more generally, but the need for specificity is becoming increasingly important as the use of tokens expands (www.gov.uk/hmrc-internal-manuals/cryptoassets-manual).

Separately, work is also being undertaken to see if offshore funds can trade in NFTs and claim the usual fund management exemption from tax should they use UK managers.

For now, NFTs will be treated much like any other chargeable asset. Therefore, they will be taxable on disposal if they are both capable of being owned and have a value that can be realised. Similarly, their transfer is likely to be subject to VAT, although there is a debate on whether this is a supply of goods or services.

To the extent that the NFTs are not themselves marketable securities or drafted as beneficial interests in any other asset,

they are unlikely to attract any stamp duty or similar taxes on their creation, transfer or agreement for sale, but this will need a case-by-case analysis. Care is needed on their creation by any written instrument reflecting the smart contract, if the contract can be construed as an option to acquire underlying securities or similar assets. HMRC is clear that a written instrument creating an option over marketable securities can be subject to stamp duty, if the option itself (here, the NFT) is a marketable security. There is no clear guidance as yet on this point.

PROTECTION AND ENFORCEMENT

Claims of IP infringement are likely to be the most common route of enforcement against NFTs. The manner of how to enforce rights will depend on the type of IP in question.

Enforcing against infringement

Despite their novel concept and uses, NFT issuers and owners still need to use traditional forms of legal enforcement to prevent infringement or other misuse of their property.

Copyright and moral rights. Copyright infringement occurs where a party uses the whole or a substantial part of a work without the copyright owner's permission and one of the exceptions to copyright does not apply (*Chapter IV, CDPA; www.gov.uk/guidance/exceptions-to-copyright*).

The broad protection of moral rights in the UK creates another important avenue for creators who do not want their works to be used as NFTs. Infringement of moral rights, specifically the right to attribution, may occur in cases of copyminting or copyfraud, that is, where an individual who is not the author of the relevant underlying asset in which the IPRs subsist, mints an NFT and misrepresents that they are the author of that underlying asset, or falsely represents that the NFT is authorised by the author.

Even where the owner of a work has the appropriate economic rights to a work to mint an NFT, a creator may still object to the incorporation of their work into an NFT on the basis of their right to object to derogatory treatment of their work. Derogatory treatment is defined broadly as any addition, deletion, alteration or adaptation to the work which amounts to distortion or mutilation of the work or is otherwise prejudicial to the honour or reputation of the author (*section 80, CDPA*).

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Trade marks. Under English law, trade mark infringement arises where an unauthorised third party uses a mark that is:

- Identical to a registered trade mark in relation to identical goods and services.
- Identical to a registered trade mark on similar goods or services, or a similar trade mark on identical goods or services, so as to create a likelihood of confusion as to the origin of the goods or services, or an association being made between the two marks.
- Identical or similar to a registered trade mark on goods or services that are not similar, such that it damages or takes

unfair advantage of the reputation of the earlier trademark (*section 10, TMA*).

In cases where a party has minted an NFT using a trade mark without permission, the above claims would be available. Unless brands have filed trade mark applications accounting for NFT-related use cases, such as in Nice Class 9, brands with existing trade marks will likely need to rely on limbs 2 or 3, or both, when claiming trademark infringement (*see "NFTs and IPR" above*).

Patents. At a high level, patents may be infringed where an unauthorised party directly or indirectly creates or uses a patented product or process, offers that product or patent for use knowing (or it is obvious to a

reasonable person in the circumstances) that its use without the consent of the proprietor would be an infringement of the patent, or, where the invention is a process, that the unauthorised party uses or offers for use, any product obtained by means of that process (section 60, 1977 Act).

Remedies

English case law on NFTs has not yet reached the volume or level for the court to demarcate a general position on remedies where there has been an infringement.

In *Osbourne v Ozone Networks Inc and others*, the High Court recognised two “Boss Beauties” NFTs that had allegedly been stolen from Ms Osbourne’s Metamask wallet as legal property, distinct from the digital portraits that they represented, and granted an injunction to:

- Freeze the NFTs until the end of the proceedings to prevent any further dissipation.

- Compel Ozone Networks Inc to provide the contact information of the individuals controlling the traced NFT wallets, known as a Bankers Trust disclosure order ([2022] EWHC 1021 (Comm)). (See Briefing “Information orders against third parties: new jurisdictional gateway”, this issue.)

Shortly thereafter, the Singaporean High Court took a similar decision to grant a worldwide proprietary injunction to freeze the sale and ownership of a Bored Ape Yacht Club NFT, listed by a defendant on a marketplace, OpenSea, on behalf of a Singaporean investor (*Janesh s/o Rajkumar v Unknown Person HC/OC 41/2022*). Notably, the Singaporean case can be differentiated as it was in a purely commercial context; that is, the NFT had not been stolen but rather there was a dispute over a commercial finance arrangement related to the NFT. It was also an action taken against a known defendant.

Whether the view that NFTs should be considered legal property will be confirmed in future cases, or whether certain NFTs will be differentiated based on their properties and uses, remains to be seen. However, the ability to obtain an injunction, and in particular a Bankers Trust disclosure order compelling marketplaces to disclose the identity of its users, is a direction of travel that will likely give NFT holders some comfort.

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