

IP Hotline

February 04, 2022

NFTS THROUGH THE IPR LENS

Non-fungible tokens a.k.a. NFTs have taken the media industry by storm. From Big B- Amitabh Bachchan to the one and only Bhai- Salman Khan to singers like Sonu Nigam to cricketer-cum-celebrities Yuvraj Singh, and production houses like Viacom, there are now enough and many examples of the media industry foraying into this space. There is no dearth of variety either. Drawings, cartoons, caricatures, and posters (artistic works), songs and tunes (musical works), scripts and dialogues (literary works) and films themselves (cinematographic work) are being sold as NFTs. Options are limitless. Our Indian film industry is fully aware of this. Hence, the need to understand the issues related to rights in NFTs.

CREATING NFTS FROM EXISTING WORKS

The (Indian) Copyright Act, 1957, like most copyright legislations around the world, defines copyright widely. All modes and mediums of exploitation of a work are considered as "rights". Due to the wide definition, copyright is considered a bundle of rights and each right within the bundle is capable of separate ownership or license. Creating of NFTs in relation to copyrighted works is also one of the rights from this bundle.

Thus far, media contracts were not negotiated to specifically call out the right to create and sell NFTs. This is changing. Now stakeholders are starting to negotiate NFTs as a specific right. It would be interesting to see how existing contracts get interpreted i.e. who will be considered to have that right. E.g. if a producer has granted digital right to a streaming platform, would such streaming platform have a right to create NFT as well because NFT could be construed as falling within definition of digital rights. This will depend upon the manner in which the definitions and clauses are drafted.

It is therefore important to review chain of title documents carefully to determine what rights have been given to which party, to avoid legal actions. Quentin Tarantino's legal dispute with Miramax over Pulp Fiction is an interesting precedence in this space.¹

When a NFT is made of a video clip where a performer or sports personality is included, the agreement with such individuals should also be examined. E.g. usually, performers grant a right to use their attributes, caricature, voice, etc. in relation to the working which their performance will be used such as the film, web series, interview, etc. Hence, separate permission may not be required from the performer. However, if the performer has reserved some rights (example, gamification or merchandising rights) then the use of NFT has to be seen to evaluate if a permission is needed or not. The performer may also ask for share of consideration received from the sale of the NFT, including subsequent sales of that NFTs. If the NFT is used to endorse a product or brand that may lead to separate commercial negotiations.

If you are not the owner of the original work, but want to create a NFT based on a work that you have identified (say a poster of a film), then you need to approach the appropriate right holder for permission to create the NFT. Else, you could be infringing someone's copyright and heading for a dispute.

BUYERS RIGHTS

Buyer has limited rights in the NFT. Comparing this to a real world scenario, a buyer of a prized painting typically has the right to say he/she own it (bragging rights), display or exhibit it, and to even sell it onwards. The buyer does not get the right to make copies of the painting, or monetize it in other mediums-such as printing it on tshirts etc. The same logic applies to NFTs as well since it is nothing more than a digital copy of a work.

Newer models are developing quickly in this space and sometimes the buyer may also get the right to earn from the investment made in the NFTs. An example is of the Blockchain-based music investment platform Royal will let fans invest in hip-hop legend Nas music on the platform.² Investees in NFTs issued for the song will receive a share from royalties every time the music is streamed. Thus, they are stakeholders in money earned from exploitation of the song, though not the owners of the IP in the song. This is similar to investing in mutual funds. The fund invests your money in various securities and pay earnings to you. It does not make you the owner of the security in which the money is invested.

TRADEMARKS AND NFTS

NFTs are a product offering. They can have a name – which could be a trademark. They can also incorporate a trademark -for instance a film, image, or song may include a brand name in it. If such use of trademark or brand is unauthorized, then it could result in exposure to a trademark infringement or passing off suit. There is already precedence in the west on unauthorized trademark usage in NFTs.³ Brand building is a time and capital intensive

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exercise. Many organizations take protection of their brands very seriously. Hence, it is important to clear use of trademark before incorporating or using it for a NFT.

LEGAL ACTION

A claim will lie against the creator of the infringing NFT at the first instance, especially if the creator retains the intellectual property ("IP") rights in the NFT. At times, ell the NFT platform may be impleaded as well (for facilitation such infringement) in a legal action. Since most NFT platforms are marketplaces which are only providing a platform for sale and purchase of NFTs, they are likely to qualify as intermediaries under the Information Technology Act, 2000. As such, they will be able to take safe harbour and defend a liability as long as they take down the infringing content upon receipt of actual knowledge by way of a government authority or court's order.

A WORD OF ADVICE

NFTs are a new medium of exploitation of work. Hence, a through diligence of chain of title documents is important to ascertain that the NFT seller has the rights to create, and sell the NFT. IP centric representation, and indemnities should also be built in the smart contracts meant for sale of NFTs from a buyer protection perspective. Blockchain will make the examination of chain of title easier for subsequent sales but won't rescue at the listing stage. Hence the need for diligence, else there could be several IP related claims which would in turn have a negative impact on NFTs overall.

— Aparna Gaur, Aarushi Jain & Gowree Gokhale

You can direct your queries or comments to the authors

¹ See [Miramax Sues Quentin Tarantino Over Pulp Fiction NFTs | Time](#)

² See <https://www.lexology.com/library/detail.aspx?g=92d81306-ca86-47ca-b570-34ad16483039>

³ <https://indianexpress.com/article/explained/hermes-lawsuit-metabirkins-mason-rothschild-nft-7736973/>

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