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Swiss IP News We provide you with updates on new decisions, the relevant legislative process and other trends in the fields of intellectual property and unfair competition law from a Swiss perspective.

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Nice Classification Will Include NFTs – What Does This Mean for Your Trademarks?

On 1 January 2023, the 12th edition of the Nice Classification will enter into force. As usual, the new edition of the Nice Classification will include new items. In the 12th edition “downloadable digital files authenticated by non-fungible tokens [NFTs]” will, among others, be incorporated into class 9 of the Nice Classification. But what are NFTs, why are they important and what role do they play for your trademarks?

Background

In October 2021 the metaverse became known to the broader public and intellectual property offices all over the world – including the Swiss Federal Institute of Intellectual Property (“**Swiss IPO**”) – noticed a trend in trademark applications for virtual goods and NFT trademarks. In order to provide a sense of ownership in a digital world – the metaverse – NFTs are intended to authenticate ownership of virtual goods and to serve as a certificate thereof. As trademark applications in this field are rather a new phenomenon, careful consideration is required as various questions remain unanswered.

The Rise of the Metaverse

One year after the widespread introduction of the metaverse, it is still unclear what the metaverse really is and what it will someday be. It does not exist yet. The numerous definitions of the metaverse focus on different aspects. What we know is that the metaverse is supposed to be the next stage of the Internet as we know it today. The European Union Intellectual Property Office (“**EUIPO**”) has described the metaverse as an “immersive and constant virtual 3D world where people may interact through an avatar”. Instead of one virtual 3D world, there will rather be multiple virtual platforms that are simultaneously connected with each other, raising ques-

tions of interoperability. Other aspects of the metaverse are the technologies that are developed around it, like the devices to access the metaverse, different blockchains or virtual and augmented reality, where patents may play an important role.

In the metaverse you are supposed to immersively experience virtual worlds with your avatar. You will be able to configure your avatar at your discretion and dress it with virtual clothes or interact with other virtual goods you have bought. Some of these virtual goods might be branded with trademarks. Companies will be able to set up virtual shops or showrooms in the metaverse and sell virtual goods or provide virtual services under their trademarks.

With the progressing development of the metaverse more companies start to generate revenue there and the importance of virtual goods (and services) as well as of trademarks is increasing. For consumers the question arises as to who will have ownership of virtual goods in virtual worlds. That is when non-fungible tokens come into play.

Non-Fungible Tokens – NFTs

In the physical world, control over an object, e.g. a book, is exercised through possession which usually implies ownership. Holding shares in a company represents ownership of that company.

Now, what non-fungible tokens or NFTs are for is to show ownership of virtual goods. The goal is to certify ownership in the digital world, to prove that the virtual goods you have purchased on the Internet or in the metaverse are truly yours and to enable trade with virtual goods.

NFTs can be described as data units that are stored on a digital ledger, usually a blockchain – a decentralized digital chain of blocks where each block contains information of settled prior transactions. For NFTs the Ethereum blockchain with its token standard ERC 721 is generally used. An NFT is non-fungible because it is unique and not replaceable with another token. In contrast, tokens of cryptocurrencies or currencies in general are fungible. A CHF 10 bill can be exchanged with another CHF 10 bill without any change to its value. This is not possible with an NFT since its uniqueness stems from a combination of technical elements contained in the token itself. Due to this specific combination, there exists only one such token on the blockchain.

Finally, one important aspect of NFTs is that in general the virtual good that is referenced in a specific NFT is not part of the NFT itself and is not uploaded to the blockchain. The NFT is distinct from the virtual good it represents. The NFT usually only consists of a link to the location where the tokenized virtual good is deposited. This is the reason why the new Nice Classification includes in class 9 “*downloadable digital files authenticated by non-fungible tokens [NFTs]*”. The virtual good itself must be distinguished from the certificate thereof, namely the NFT as an entry on the blockchain.

How Does This Affect Your Trademarks?

Digital economies are on the rise with an estimated more than 100 billion US dollar having been spent on virtual goods in 2021. There are voices claiming that the economy of the metaverse might overtake the economy of the physical world.

If you are considering generating revenue from digital economies and selling virtual goods or showcasing your physical goods in a virtual environment, it might be wise to apply for trademarks that reflect that. However, in that regard, numerous issues remain unanswered.

Trademarks distinguish the goods and services of your company from those of other companies. If you own a trademark, you may prohibit others from using a younger sign that is identical or similar and intended for the same or similar goods or services. Regarding the metaverse, the question arises from a trademark law perspective as to whether physical and virtual goods are similar. If you own a trademark for physical goods, it is not clear whether such a trademark automatically grants protection for virtual goods. Pursuant to Swiss trademark law, if physical and virtual goods are considered dissimilar, a trademark holder whose trademark only claims protection for physical goods can generally not prohibit the use of the same or a similar sign used for virtual goods. Other legal remedies, like unfair competition law, might however be of assistance. Risks associated with this uncertainty can be mitigated if trademarks are specifically registered for virtual goods and the NFTs thereof.

If you are eager to develop business activities in the metaverse, it is recommended to file trademark applications as soon as possible to obtain a trademark right suited to protect (virtual) goods and services in the metaverse as well. One of the first companies to file trademark applications associated with virtual goods was Nike in October 2021. Thereafter, numerous companies, e.g. Louis Vuitton, Gucci, Tommy Hilfiger, etc., followed Nike's example and filed applications for such trademarks. The United States Patent and Trademark Office (“USPTO”) reported that while it only received 20 applications in 2020 associated with NFTs, such applications surpassed 1,400 in 2021.

The new edition of the Nice Classification allocates “*downloadable digital files authenticated by non-fungible tokens [NFTs]*” in class 9. Nevertheless, when it comes to the classification of virtual goods and NFT trademarks within the Nice Classification, various intellectual property offices appear to take different approaches. The Swiss IPO takes the view that virtual goods are per se not goods of the Nice Classification and thus cannot be classified in class 9. It only seems to accept the term in class 9 as defined in the new edition of the Nice Classification or as “*software that can virtually represent goods*” and, in class 35, as “*marketing through product placement in online games or in virtual environments*”. As virtual goods and NFTs provide some sort of entertainment, it seems also conceivable to claim such services in class 41 (e.g. “*Entertainment services, namely, providing online, non-downloadable virtual [...]*”). In accordance with the Swiss IPO, the EUIPO considers the terms “*virtual goods*” and “*non-fungible token*” on their own to be lacking clarity and precision and requiring specification by stating the content to which the virtual goods relate (e.g. “*downloadable virtual goods, namely, virtual clothing*”) and by determining the digital good authenticated by the NFT. Whereas the EUIPO invited stakeholders to comment on its approach until 3 October 2022, the USPTO and the Copyright Office seek public comments on “issues of intellectual property law and policy associated with non-fungible tokens (“NFTs”)” until 9 January 2023. The Swiss IPO has not yet invited the public to comment on its approach to virtual goods and NFT trademarks but seems to closely monitor current developments.

The Walder Wyss Newsletter provides comments on new developments and significant issues of Swiss law. These comments are not intended to provide legal advice. Before taking action or relying on the comments and the information given, addressees of this Newsletter should seek specific advice on the matters which concern them.