Metaverse IP Considerations

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Maintained

This practice note examines intellectual property considerations in relation to the metaverse, a possible iteration of the Internet as a virtual world. Specifically, this practice note inspects how the laws of copyrights, trademarks, patents, industrial designs and advertising may influence and shape the metaverse and, conversely, how the metaverse may impact these various aspects of intellectual property.

For information on the various types of intellectual property discussed in this document, see the practice notes: *Copyright Fundamentals*, *Trademark Fundamentals*, *Patent Fundamentals*, *Industrial Design Fundamentals* and *Online Advertising*.

Brands are Plugging in and Cashing in - Protecting Trademarks and Copyright in Virtual Goods and Services

Trying to understand the current buzz around the "metaverse"? The trick is conceptualizing something that is in the process of becoming, and that has no one single meaning. To be meta about it, there are as many definitions of "The Metaverse" as there are applications in the metaverse.

What, if any, steps brand owners and creators should be taking now to protect their valuable intellectual property in this new frontier? Regardless of whether you're a ready player, one reality that can't be denied is that we live in a world where the right to claim a .JPG of an ape as your own can sell for over a million dollars. With the metaverse market projected to hit double-digit growth in the coming years, reaching $800 billion by 2024, it is not surprising that there is a growing list of Fortune 500 companies now taking real steps to protect their intellectual property in the metaverse. Intangible rights in an intangible world.

For consumer-facing brands and content creators, copyright and trademark are proving to be two of the most important areas of development in this emerging area. An explorable digital universe opens new avenues for branded spaces and experiences. Digital technologies facilitate potentially infinite reproduction with minimal degradation—the millionth image of a digital butterfly will appear as good as the first. How does one assess whether a digital visual work (whether art, an avatar's clothing, or virtual restaurant) is "authorized" or "unauthorized" by the rights holder? What if that work is branded? Has a "real world" counterpart? How could rights holders balance the need to control the character and quality of their digital goods (if they are even "goods" at all) with the reality of user interactivity? Is there even a "doctrine of exhaustion" in the metaverse?

With the frenzy and semantic baggage attached to the metaverse, it can be easy to forget that, from a macro perspective, everything online could be considered a "metaverse". The term itself is trendy and sexy — but to an extent, it's everything we are already doing in online digital environments. There is a collective reflex to reference online videos games that have existed since at the early 2000's to help frame the current thinking about the metaverse. Consider Second Life, The Sims, World of Warcraft, Pokemon Go, and Minecraft—all part of a multi-billion-dollar industry that existed before this recent surge of interest in the metaverse. Game developers and brands are familiar with product placement, branding, partnerships, licensing, and trademark infringement within this context. What has changed in the digital landscape? Why are companies like Nike, Balenciaga, Dolce &

Gabbana, Gucci, Louis Vuitton, Converse, Coca-Cola, Hyundai, Lamborghini and Wendy's taking steps to position themselves at the forefront of branding and trademark protection in different applications of the metaverse?

The metaverse is being shaped now from the primordial soup of the existing internet. No VR headset can show us the final product. The path forward may be clearer for digitally native brands—like Facebook re-branding as Meta and making acquisitions to position themselves at the forefront of this new industry. But it is just as important for trademark owners in traditional industries to consider their position within the metaverse—their potential opportunities, and the related risks associated with "sitting back" and getting in early. Like any emerging industry, the first movers always have the advantage of shaping mass thinking. The first companies to think about the role of branding in a virtual world and take concrete steps will likely have the loudest voices and biggest opportunities in the metaverse. We are already seeing companies across industries keeping pace with new monetization strategies, expansion of brand portfolios, and thinking proactively about trademark protection in an NFT marketplace.

Still unclear as to what is actually being bought and sold in the metaverse? Sticking with the example of online games in the early 2000's, players in those virtual worlds could buy or earn items for their character (or "avatar")—a sword, a car, an outfit. Twenty years ago, the value of that good only existed within the game: players have traditionally "purchased" items within the game via points earned through play or have paid real funds to convert into usable tokens within the game—for example, "Linden Dollars" in Second Life. Now, technology has evolved to remove the "middle-person". Players can purchase items directly with state-backed fiat currencies or blockchain-based cryptocurrencies (like Bitcoin and Ethereum), with ownership recorded on the blockchain, including as an NFT. Plus, more and more goods are branded!

One common misconception is that ownership of an NFT gives the holder the right to do anything with the tokenized "thing"—whether an item, a work of literature, or an art piece. It doesn't. Like traditional media, copyright and NFT ownership remain separate rights. Likewise, simply having physical ownership of an item does not grant a right to convert that "item" into a saleable NFT. Traditional intellectual property rights remain. For example, in early 2021, an NFT of a drawing by the artist Jean-Michel Basquiat was pulled from auction after his estate confirmed the entity selling the NFT, although it may have owned the physical work, did not have a license to reproduce or otherwise deal with copies of the work.

We are already seeing high-profile brand owners taking enforcement action against "metaverse" infringers. For example, Hermès International and Hermès of Paris, Inc. ("Hermès") the French luxury brand has brought an action for trademark infringement and trademark dilution against Mason Rothschild, a California-based digital artist that created and sold the "MetaBirkin", a collection of 100 NFT's depicting faux-fur iterations of the iconic Birkin bag. Physical Birkin bags can easily retail for six figures. The "MetaBirkin" NFTs were sold on digital marketplaces for between USD$13,000 - $65,000. In its claim, Hermes asserted that Rothschild's "MetaBirkins" constitute unauthorized use of "Hermès federally registered trademarks", including the "globally recognized" BIRKIN word mark and trade dress.

Another brand owner, Nike, recently launched its own metaverse-related lawsuit for trademark infringement and dilution. Nike's action is against StockX, an online resale marketplace that previously sold only physical goods, Nike claims that StockX created (or "minted") NTFs of shoes that prominently display Nike's trademarks without Nike's authorization. The NFT's are then sold at "heavily inflated prices to unsuspecting consumers who believe or are likely to believe that those "investible digital assets" (as StockX calls them) are, in fact, authorized by Nike, when they are not." Nike alleges that while StockX's physical good business caters to buyers and sellers of goods originating from various companies, nearly all of the NFT's minted to date are Nike-branded (see *Nike, Inc. v. StockX LLC*, 1:22-cv-00983 (SDNY)).

Both the Hermès and Nike cases raise novel questions with respect to trademark law in virtual environments. For example, how might the purely virtual nature of the goods at issue impact the "likelihood of confusion" test used to assess trademark infringement? How does one assess "the hurried consumer" in a strictly digital realm? Who is the

"average consumer" of these digital assets? Can brand owners rely on trademark registrations that do not strictly cover NFTs, blockchain, or digital assets to enforce their rights in the metaverse? Will courts treat NFT's as inseparable from the "thing" to which it is tied, or will they simply be treated as mere "titles", with intellectual property rights remaining separate and subject to a traditional consideration of chain of title / licensing from the owner? Adding to the complexity is that NFTs are sold on the open market, through auction houses and specialty websites/platforms. The value of an NFT is readily realizable for sellers. In March 2022, an NFT of a digital artwork by Beeple, "Everyday: The First 5,000 Days", sold at auction for USD$69 million, the highest price paid to date for an NFT.

Companies are recognizing that the metaverse represents a new frontier for commerce, much like the internet in the early 2000s. Luxury clothing brands, fast food chains, real estate corporations and auctions houses are all eager to partner with existing metaverse-operative platforms or are looking create their own. Nike is currently building its own metaverse, Nikeland, through a partnership with Roblox, an online gaming platform with over 50 million daily users and over $1.3 billion generated in revenue over the last four quarters, and recently acquired RTFKT, a digital design studio that creates digital sneakers. Brands are also taking steps to expand their trademark portfolios to capture their metaverse-related goods and services. For example, McDonald's has filed a series of trademarks for a virtual restaurant that will deliver food in person and online.

What remedies will be available to brand owners and rights holders dealing with counterfeit digital goods connected to NFTs is also an emerging area. Injunctions may well play a part in preventing the sale of unauthorized NFTs on marketplace platforms. There is also a real possibility that the parties subject to liability, and thus who would pay damages, could be expanded. Traditionally, it has been difficult to trace ownership of goods to their source. NFTs hosted on the blockchain theoretically make chain of title traceable—they function as an ownership ledger and cannot be destroyed, although they can be sent to a "burn" address to remove it from circulation. NFT sale transactions are thus easily accessible, making it easier to calculate the total transaction value associated with that NFT over the course of its existence. Should damages be based on total resale value of the unauthorized NFT? Should each subsequent owner be subject to liability? How will courts apportion liability between creators/minters, sale platforms, and purchasers?

On the flipside, the traceability of NFT ownerships also opens potential new revenue streams for creators and artists and have the potential to simply royalty calculations when works are used. For example, NFTs can be programmed so that the creator receives a royalty every time it's sold.

The metaverse represents a new frontier for brand owners and creators to explore and exploit. The anticipated purely virtual and highly interactive nature of this next iteration of the internet puts new gloss on age old questions about the purpose and reach of copyright and trademark, further highlighting the centrality of these intangible rights within an intangible world. Practical minded players are already taking steps to position themselves within this new realm—filing for expanded trademark rights and monitoring for unauthorized use and reproduction of their works and brands. Many are also exploring what role blockchain technologies may play in ensuring the character and quality of their digital goods and tracking chain of title in the works they sell and make available. While what is the "metaverse" remains to be seen, there is no doubt that it will have a significant impact on commerce.

For more information on copyright, see the practice notes: *Copyright Fundamentals*, *Copyright and Other Intellectual Property Rights Comparison* and *Copyright Infringement Analysis*. For more information on trademarks, see the practice notes: *Trademark Fundamentals*, *Definition and Types of Trademarks*, *Unconventional Trademarks*, *Trademark Disputes* and *Intellectual Property Protection Options*. For more information on cryptocurrencies, see the practice note: *Cryptocurrency Fundamentals*.

Patent Considerations

Overview

The metaverse is considered the internet's next frontier and, accordingly, related patent filings for technologies are on the rise. While there is no generally accepted definition of "the metaverse", *one apt description* reads "a perpetual and persistent multiuser environment merging physical reality with digital virtuality… based on the convergence of technologies that enable multisensory interactions with virtual environments, digital objects and people…"

Suitably, metaverse-related patent filings generally cover technologies related to *augmented reality (AR), mixed reality (MR), and virtual reality (VR)*. These technologies seek to blur the line between the physical and digital domains, non-interactively and interactively integrate digital content into the real world, and create a fully immersive digital world existing entirely apart from the real world. A significant number of patent filings are directed to software and hardware innovations that facilitate the transfer of digital content to the real world and real content to the digital world to allow a real-world person to engage with digital content through their digital "avatar".

The Industry

Many high-profile technology companies are filing patent applications for technologies directed at the metaverse, including Roblox, Nvidia, Epic Games, Microsoft, IBM, Unity, and Apple. Of course, no list of companies actively seeking patent protection related to the metaverse would be complete without including Meta (formerly Facebook), the recent name change no doubt being an attempt to make the company synonymous with "the metaverse".

However, each of these companies has their own unique perspective as to what the metaverse is or ought to be.

Epic Games is focused on building connected social experiences through technologies in gaming and in the digital entertainment industry. Epic Games introduced *one such social experience* in 2019 when artist Marshmello performed the first-ever live virtual concert inside of Fortnite, an online video game developed by Epic Games, with millions of users in attendance.

Microsoft's efforts in the metaverse are directed to facilitating MR collaborative and immersive remote/hybrid work experiences, regardless of the different physical locations of team members. For example, Microsoft envisions having meetings or coffee breaks that take place in virtual rooms amongst user-generated avatars. Further, in future video meetings over Microsoft Teams, users will have the option to *overlay their avatar*, where the avatar mirrors the user, allowing the user to provide a sense of presence and to be expressive even when they do not wish to be on camera.

Patents

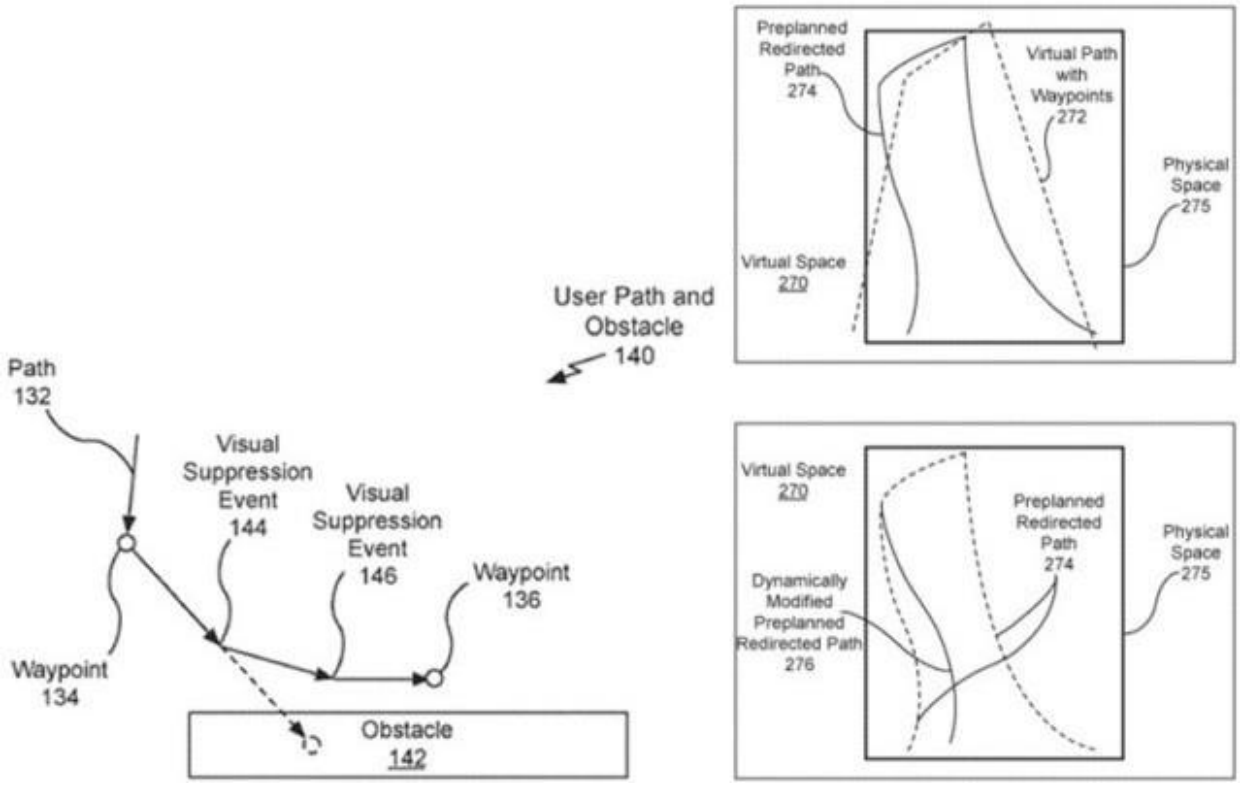
With the metaverse remaining a fluid concept, a review of recently granted patents and patent applications reveals that companies are pursuing patent protection for hardware and software of AR/MR/VR applications directed at shaping the union of physical and digital domains according to their particular vision.

Accordingly, similar to the discussion with respect to trademarks above, it is important for companies to consider their position within the metaverse—their potential opportunities, and the related risks associated with "sitting back" and getting in early. Like any emerging industry, the first movers always have the advantage of shaping mass thinking. The first companies to think about the form and applications of the metaverse and take concrete steps toward making that vision a "reality" will likely have the loudest voices and biggest opportunities in the metaverse.

U.S. Publication No. 2020/0160590, entitled "Saccadic Redirection for Virtual Reality Locomotion", currently assigned to Nvidia Corporation.

This US patent application is generally directed to a method, computer-readable medium, and system for

redirecting a user's movement through a physical space while the user views a virtual environment. While wearing a VR headset, a user's path is conventionally redirected only when the user's head rotates. According to the teachings of the application, in addition to the conventional method, naturally occurring visual suppression events (i.e., when the user's eyes move rapidly relative to their head) can be detected, providing the system with more opportunities to imperceptibly redirect the user's path. In this way, the user may safely navigate through a defined physical space while wearing a VR headset even when the physical space does not align with the virtual environment that they are viewing, without colliding with real-world obstacles such as walls or furniture.



U.S. Publication No. 2022/0068007, entitled "3D Asset Generation from 2D Images", currently assigned to Roblox Corporation.

This US patent application discloses methods, systems, and computer-readable media to generate 3D assets from one or more 2D images. Online virtual experience platforms support use of virtual objects that mimic physical objects in a virtual environment, such as cars, structures, or toys, with which users may interact, observe, or create. The application teaches techniques for the use of a homeomorphic template mesh as a single parametrization within a machine learning model framework to generate 3D assets based on deformation of template 3D meshes. In this way, operators of online virtual experience platforms can accurately, quickly, and efficiently generate 3D object representations within a virtual environment.

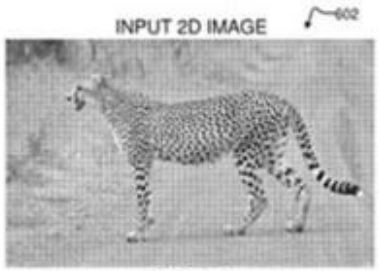


FIG. 6A

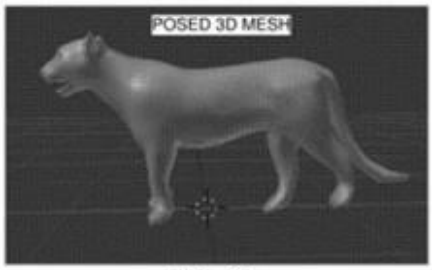


FIG. 6C

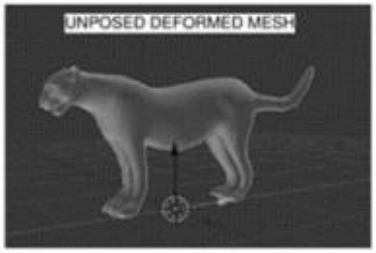


FIG. 6E

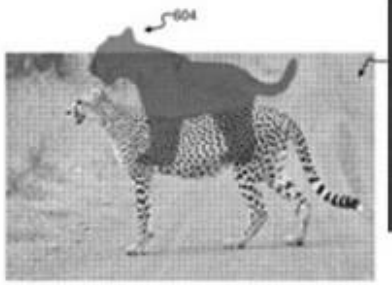


FIG. 6B

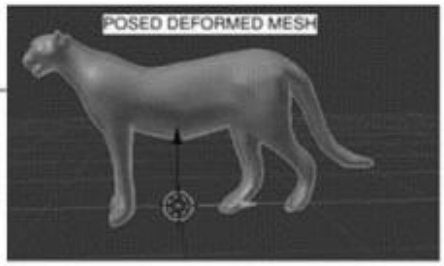


FIG. 6D

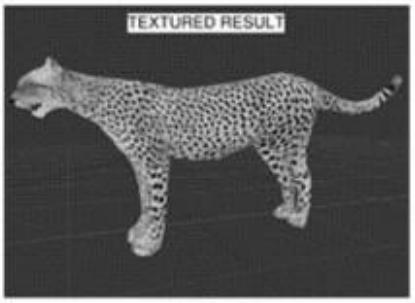
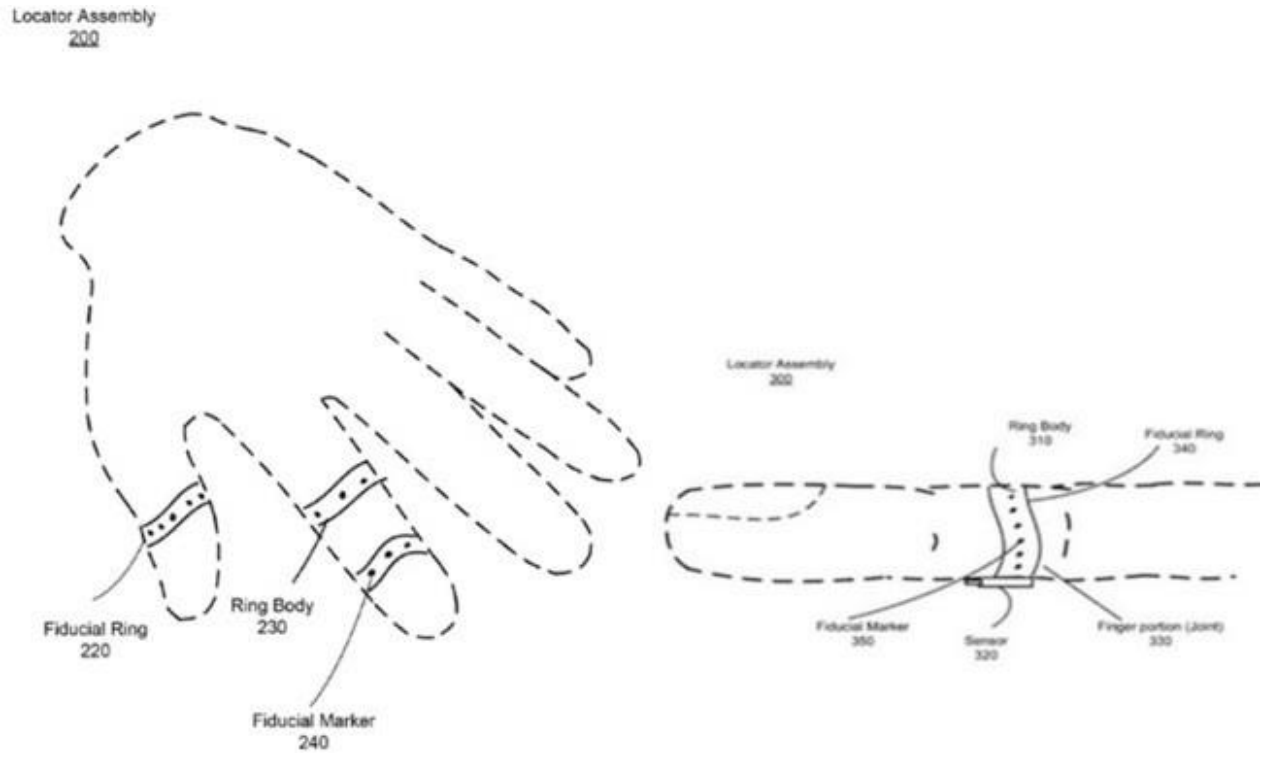


FIG. 6F

The systems and methods taught in this US patent application are exemplified using the above 2D image of a cheetah as an input target image. Based upon the target image, a 3D mesh representative of a class of objects of interest (e.g., mammal) is obtained, which is then posed and deformed to match the 2D image. Subsequently the trained neural network maps a texture extracted from the 2D image to the deformed 3D mesh to create the finished 3D asset.

U.S. Patent No. 11,068,057, entitled "Wearable Device with Fiducial Markers in Virtual Reality", currently held by Facebook Technologies, LLC.

This US patent teaches a virtual reality system including a fiducial ring, an imaging device, and a console, that enables a user to interact with virtual objects. The one or more fiducial rings include fiducial markers that correspond to a different location on the ring body. The VR console may receive an image of the fiducial markers on each of the fiducial rings, based upon which the VR console may determine the position of the user's fingers in the virtual space.



Further, based on the determined position, a virtual touch event may be sent to the VR system prompting the system to provide haptic feedback to the user that includes perception of touch of a virtual object in the VR system. For example, the haptic apparatus may restrict the movement of a user's finger as a perception of virtual touch in the virtual space. Haptic feedback may be visual (e.g., light pattern on the rings) or sensory (e.g., vibration, inflating/deflating a portion of the ring).

Conclusion

The future of the metaverse remains to be seen. This is an exciting time in the history of the internet, and it is likely that metaverse-related patent filings will increase as companies seek to not only stake their claim in the metaverse but to contribute to shaping the future of both the internet and the human experience of it.

For more information on patents, see the practice notes: *Patent Fundamentals*, *Patentability Requirements*, *Patent Filing and Prosecution*, *Patent Infringement Analysis*, *Patent Ownership and Employment Issues* and *IP Ownership in Employment*.

Industrial Design Protection in the Metaverse

A major developing area of technology is the so-called metaverse. The exact form that the "metaverse" will take is currently unclear, since development is at an early stage. One of the unknowns is whether there will be a single, "unified metaverse", or whether several metaverses will emerge as walled gardens implemented on competing technology platforms.

It is more clear that the metaverse will likely incorporate Virtual Reality (VR) and/or Augmented Reality (AR) to create virtual spaces for users to interact. Users in these spaces may adorn an avatar with virtual assets such as clothes or accessories, and may interact in many different ways such as purchasing virtual assets or trading these virtual assets with other users.

While widespread adoption of the metaverse is still some time away, intellectual property (IP) owners are already concerned about protecting their IP rights from unauthorized use by third parties in the metaverse. As mentioned previously, a number of brand owners are already expanding their trademark portfolios to cover goods and services associated with the metaverse. IP owners are also considering whether other IP rights can provide protection for virtual versions of their goods. One of these IP rights may be industrial design rights.

An industrial design (referred to as a design patent in the US) is a type of IP that provides an exclusive right in novel aspects of the appearance of an article. The statutory regime that creates this IP right recognizes the public policy benefit of providing protection for ornamental aspects of articles, including their shape, configuration, colour, or pattern. The public policy objective of the industrial design rights regime recognizes that articles may have aesthetic value that is expensive to create, but easy to copy.

Under the US statutory regime, valid design patents require compliance with the article of manufacture requirement. There are similar requirements in Canada and other major jurisdictions. To comply with this requirement, applicants must show the design as applied to, or embodied in, an article of manufacture. Industrial design laws have long recognized that software-based objects, including graphical user interfaces (GUIs) can be protected by these rights.

A notable example of design patents being used to enforce rights in software-generated graphical objects is the lawsuit by Apple against Samsung for infringement of Apple's *design patents* for its iOS home screen design. In the decision of *Apple Inc v Samsung Elecs Co*, 786 F (3d) 983 (Fed Cir 2015), the Federal Circuit upheld a jury award which included a significant damages award against Samsung for design infringement. Other examples of protectable ornamental designs in software products include *fonts*, and icons.

In jurisdictions with an article of manufacture requirement, design protection must be limited to the protection of the GUIs, fonts, icons and other virtual objects as displayed on a screen of a computing device. This requirement limits design protection and its usefulness for protection of virtual objects.

The metaverse, and the virtual objects that will populate it, thus present a challenge for the current industrial design laws and practices because effective protection requires recognition of virtual objects as articles to which industrial design protection can apply (i.e., without limiting protection to these objects displayed on a two-dimensional screen). To address this challenge, the IP offices of several jurisdictions have been looking at amending their practices to better protect virtual goods and other virtual objects.

Article of Manufacture Requirement – United States

In the United States, 35 USC § 171 provides protection for designs and requires that "[w]hoever invents any new, original and ornamental design or an article of manufacture may obtain a patent therefor." To comply with the article of manufacture requirement, the USPTO has required design patent applicants to show the design applied to or embodied in an article of manufacture.

As part of its consideration of providing design protection for virtual assets, the USPTO has conducted public *consultations* on this requirement. In this review, the USPTO considered positions from the public on the protection of "designs for projections, holograms, and virtual and augmented reality" (PHVAR). Such PHVAR designs are clearly relevant to effective industrial design protection for virtual assets in the metaverse.

The supporters of PHVAR design protections recognize that these virtual assets are new forms of ornamental software-generated objects analogous to GUIs, fonts, and logos, which have been protected for decades. The requirement that the article be "tangible" is not an explicit requirement found in 35 USC § 171. Proponents argue that removing the requirement for a computer-generated icon to be illustrated on a screen in the design patent

application would be an important step to protecting new and emerging technologies (and would support a design protection scheme that is technologically neutral).

Opponents to PHVAR design protections argue that virtual assets are not fundamentally new types of designs, and in many cases are simply the virtual representation of a physical asset. Furthermore, maintaining a connection to the article of manufacture (i.e., screen) serves as notice and helps distinguish ornamental aspects from those that are functional. They argue that this provides an efficient distinction between what is protected and what is prior art. On the subject of prior at, opponents have raised concerns about a lack of prior art related to PHVAR in the US. The implication is that allowing design patent applications for PHVAR may lead to issuance of a large number of design patents of questionable validity, which in turn could stifle innovation in the metaverse.

It is unclear if the USPTO consultations will lead to legislative changes related to the article of manufacture requirement. What is clear is that many US companies are making significant investments in developing metaverse technologies. In the long run, there will be pressure for IP laws to support these investments in order to prevent unauthorized copying and encourage innovation.

Article of Manufacture Requirement – Worldwide

Around the world, several key design jurisdictions have modified their design patent/industrial design legislation to allow more protection for virtual assets, which could include protection of these assets in the metaverse.

In April of 2020, Japan revised their *Design Act* to protect graphic images which are not stored on a physical device. These changes allow for protection of images without the requirement of their depiction on a display screen. The changes also provide design protection to images projected on non-display devices such as walls or floors, opening the possibility for improved PHVAR protection for devices that provide VR/AR functionality in a particular room or space. The graphical images however must be used in the operation of a device or displayed as a result of a device performing its function.

Similarly, Korea added graphic images to the definition of design under their *Design Patent Act* in October 2021. These images can be protected without including a display screen in the drawings. Much like Japan, the images must be used in the operation of a device or exhibit some sort of function.

European Union *Registered Community Designs (RCD's)* recognize graphic symbols and two-dimensional designs as products. This means that hardware such as screens and physical devices do not need to be illustrated in application drawings for digital designs. Though RCD's must name the category of products to which they are applied, this is purely for classification purposes and *should not limit the scope of protection*.

China enacted design patent legislation to bring it in line with other major jurisdictions. This includes providing protection to partial products, such as a computer-generated images and GUI's when shown on a display screen. In addition to requiring a display screen in the drawings, the category of physical devices with which the images are to be used must still be exhaustively listed in the application. One sign that Chinese courts are moving away from the connection to a physical device is a recent GUI design case by the Beijing Intellectual Property Court which was decided based on the overall visual effect of software and not specifically the physical device which the software is used in.

Article of Manufacture Requirement – Canada

The Canadian *Industrial Design Act* requires that a registrable design must be applied to a "*finished article*". This has posed problems for protecting digital designs which may not relate to or be displayed on any one physical object. It is not clear whether a PHVAR design (such as a hologram or a digital avatar) would be considered a "finished article" under the Act. The Canadian Industrial Design Manual issued by the Canadian Intellectual

Property Office (CIPO) adds further uncertainty by requiring any design application relating to an electronic icon or other virtual object to include the words "Display Screen" in the name the article which is the subject of the application.

Currently, there is no indication that CIPO has made any significant progress toward clarifying whether industrial design protection for PHVAR designs can be obtained in Canada. Changing CIPO practices to explicitly permit industrial design applications for PHVAR designs would be very helpful in supporting Canadian innovators working on making the metaverse a reality (pun ironically intended).

For more information on industrial designs, see the practice note: *Industrial Design Fundamentals*.

Pitching Metaverse Advertising in Canada – Opportunities and Legal Considerations

In this section, we explore the opportunities and legal challenges Canadian brand owners and advertisers may face when advertising and promoting within the metaverse.

Introduction

The idea of the metaverse has moved from being purely conceptual to a "virtual" reality. As mentioned previously, the metaverse is still being shaped. However, like any emerging consumer industry, the first movers usually have the advantage of building brand recognition and attracting customer loyalty. According to a March 2022 *report* from Metaversed, there are 400 million monthly active users across different metaverse platforms. Acumen Research and Consulting *predicts* that the global metaverse market will surpass $1.3 trillion by 2030. The fact that more individuals (and not just your kids) are choosing to "plug in" to the metaverse means that immersive, hyper-realistic virtual worlds present significant "real" world opportunities for companies to increase brand awareness and generate revenue from new marketing channels. Inevitably, companies are exploring how to engage users through virtual advertising, but they may not be fully aware of potential legal issues that may ensue in the virtual world.

Opportunities

Some of the largest or most popular metaverse platforms include Meta's Horizon World, Minecraft, Fortnite, Roblox, Decentraland and Sandbox. On most platforms, brand owners and advertisers have the opportunity to create their own branded immersive environments or brand-specific play spaces, "mini games", stores, products, billboards or signs within pre-built game worlds. NIKE, Inc. for example, launched NIKELAND in November 2021, an interactive, sports-focused virtual world hosted on Roblox. Users not only had a chance to play sports-themed mini games within the NIKELAND virtual community, but their avatars could be outfitted with Nike-branded gear that resembled those found in the real world. Millions of users have visited NIKELAND since its launch.

Chipotle Mexican Grill introduced a mini game on Roblox called "Burrito Builder" earlier this year wherein players were challenged to "roll up" digital burritos within a virtual Chipotle restaurant and earn virtual currencies called "Burrito Bucks". The first 100,000 Roblox players in the U.S. and Canada to successfully roll a burrito were eligible to exchange their Burrito Bucks for a code to redeem actual food at participating Chipotle restaurants. Top leaderboard players could *win* free burritos for a year.

Luxury fashion brands Dolce & Gabbana, Philipp Plein and Etro have all hosted virtual fashion shows and offered in-game avatars a chance to try on and purchase branded virtual apparel. Electronics giant Samsung and auction house Sotheby's have built replicas of their flagship stores and art galleries within the Decentraland metaverse where guests can purchase collectible NFTs using cryptocurrencies. On the same platform, Proximo Spirits opened a Jose Cuervo-branded virtual distillery that took players through the tequila-making process and served them virtual cocktails through a Jose Cuervo digital bartender. Rapper Travis Scott grossed $20 million after performing a 10-minute virtual concert on Fortnite that attracted 27 million attendees. It's no surprise that virtual concerts, events and interactive experiences within the metaverse present huge opportunities for advertisers, brand owners and

celebrities to engage with consumers in a fun and meaningful way without having to deal with on-site event logistical nightmares.

Legal Issues

While the marketing possibilities within the virtual world seem endless, the regulation of these advertising efforts still appears to fall back on establishing principles from the real world. When it comes to regulation, companies advertising in the metaverse should be aware of federal and local competition laws, advertising rules and guidelines from self-regulating bodies. Regulators in the EU, U.K. and U.S. have started to call for more stringent regulation of advertising content in the metaverse, but we have yet to hear similar news from the Canadian Competition Bureau. As the popularity of the metaverse continues to grow, discussing the challenges and "reality" of enforcing acceptable advertising practices rules in immersive, virtual environments will become unavoidable. In the meantime, Canadian advertisers should continue to follow the rules of the deceptive marketing practices provisions of the *Competition Act* as they apply to anyone promoting a product, service, or any business interest by any means.

Marketers should also become familiar with policies, terms of service and user agreements of the metaverse platforms they intend to advertise on. These agreements outline acceptable advertising and marketing practices and govern user activities within the metaverse space. User penalties for violation of these terms may include banishment from the platform and seizure of in-world assets.

False or Misleading Advertising

Under the Canadian *Competition Act*, brand owners must ensure that all advertising is not materially false or misleading. The interactive and immersive nature of the metaverse will require companies and advertisers to consider three-dimensional, auditory, visual and performance aspects of claims made to players. Given that some ads within the metaverse depict actual products found in the real world, it may be difficult to distinguish whether a performance claim relates to a virtual good, or the actual product in real life. If the average consumer is more likely to believe that it applies to the latter, that performance claim must be *based on adequate and proper testing* (paragraph 74.01(1)(b) of the *Competition Act*).

All advertising must also be presented in a way that avoids deception and provides clear disclosure as to whether content is entertainment or advertisement. As outlined in the Competition Bureau's guide on *Influencer marketing and the Competition Act*, it's misleading if it's not clear that online content is actually advertisement. When virtual influencers are used however, it's often difficult to tell the difference.

Virtual influencers have been described as computer-generated photorealistic "AI robots". Large luxury retailers such as Gucci and Chanel have used virtual influencers such as Lil Miquela on digital billboards within the metaverse, but these influencers can be seen donning brand names on social media as well. To the average consumer, these influencers may seem human given life-like appearances and portrayals within social media and ad campaigns. To avoid deceiving consumers, advertisers using these virtual influencers should consider fully disclosing that the influencers are computer generated and any reviews or testimonials from them are not based on "actual experience".

In the United States, the courts have addressed the concept of false advertising within the metaverse, blockchain, and related NFTs but Canada has yet to hear a single case. As mentioned in the trademark discussion previously, Nike launched its own metaverse-related lawsuit (see *Nike, Inc. v. StockX LLC*, 1:22-cv-00983 (SDNY)) for trademark infringement and dilution. Nike claimed that StockX created NFTs of shoes that prominently display Nike's trademarks without Nike's authorization. On May 25, 2022, Nike filed an amended complaint to include claims of counterfeiting and false advertising alleging that StockX knowingly deceived consumers with false and/or

misleading statements about the authenticity of the virtual goods for sale on its platform to attract consumers and induce purchase of supposedly authentic Nike goods. A decision has not yet been rendered.

Contests / Sweepstakes / Giveaway

The Chipotle "Burrito Builder" Roblox mini game example above relates to a giveaway contest opened to U.S. residents aged 13 years old and older. Participants in the leadership board challenge were eligible to win free burritos for a year, and the details of the giveaway were found on the Chipotle website. Should a contest within the metaverse be open to Canadian residents, sponsors must comply with the promotional contest provisions of the *Competition Act*. Those provisions state that adequate and proper disclosures of contest rules must be made in a reasonably conspicuous manner prior to the potential entrant being inconvenienced in some way or committed to the advertiser's product or to the contest. Within the metaverse, there are several creative ways to meet this criteria without having to inconvenience a player to visit an outside website. This includes programming a non-player character (NPC) to "explain" the rules to contest entrants within the mini game or including short "mini" rules within accessible notification buttons on the player's screen. To avoid offending the *Criminal Code*, participants should not be required to purchase any digital currencies as a condition of entry. This includes exchanging in-game currencies such as "Robux" or "Minecoins" for contest eligibility. Many platforms do not allow developers to sponsor contests, games or sweepstakes on the platform that offer in-game currencies as a prize.

Advertising to Children

Children are some of the earliest adopters of metaverse platforms, and an *estimated* 67% of Roblox users are under the age of 16. The market research firm SuperData *reported* that in 2019, 26% of all 7-12 year old's play Fortnite whereas 24% play Minecraft. Currently, there are no separate laws for advertising to children within the metaverse in Canada but we should be guided by real world rules including the *Broadcast Code for Advertising to Children* (Children's Code) and *Canadian Code of Advertising Standards* (Ad Code). Both are published and administered by Ad Standards, Canada's ad industry self-regulatory body. The *Interpretation Guidelines* to the Ad Code include several prohibitions relating to children's advertising including using content that might result in harm to children, showing products being used in an unsafe or dangerous manner and advertising products not intended for use by children. It goes without saying that virtual environments, mini games and digital goods sponsored by alcohol, tobacco, cannabis or gambling companies should not be shown nor made available to any player considered too young to consume those products. For other types of goods, creating age-appropriate content protects both advertisers and younger audiences. This may include blocking the use of swear words or inappropriate slang, never showing NPCs or avatars with unhealthy habits (such as smoking, using drugs or alcohol) and avoiding the use of visuals that portray realistic violence or gore. Targeting children under the age of 13 with advertising is usually prohibited in any case. The province of Quebec does not permit any commercial advertising to children.

In the United States, the BBB National Programs' Children's Advertising Review Unit (CARU) issued a "*Compliance Warning*" putting advertisers and brand owners on notice that CARU's *Self-Regulatory Guidelines for Children's Advertising* applies to children under the age of 13 in the metaverse. The warning draws parallels between marketing in virtual worlds and advertising in digital spaces such as smartphone apps and social media. Some warnings overlap with those set out in the *Influencer marketing and the Competition Act* guideline above, but also advise against the use of "dark patterns", described by the Federal Trade Commission as a range of potentially deceptive or unfair user interface designs used on websites and mobile apps to manipulate consumers into buying products or services.

Final Comments

To some brand owners, retailers, advertisers and legal practitioners, navigating the metaverse may seem confusing, and a fad some hope would just go away. However, given that over half of U.S. children play Roblox today (Canadian figures are likely comparable), the next generation of consumers are already familiar with the

concept of digital products and in-game shopping experiences such that they may expect advertising to continue within their virtual worlds as adults. Realizing the possibilities and limitations of the metaverse becomes more important than ever now for companies who want to develop long-last relationships and brand recognition with younger clientele. For those readers who seem apprehensive of the metaverse, you may want to start paying attention to, or even step into, the virtual world.

For further information on advertising, see the practice notes: *Online Advertising*, *Online Behavioural Advertising and Use of Cookies and Other Technologies*, *Misleading Advertising and Deceptive Marketing*, *Native Advertising*, *Internet Linking and Framing* and *Advertising Claims Substantiation*.

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