Caging the Bored Ape: How the FTC's Expanded Anti-Monopoly Authority Can Tame "NFTS" for Web 3.0

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CAGING THE BORED APE: HOW THE FTC’S EXPANDED ANTI-MONOPOLY AUTHORITY CAN TAME “NFTS” FOR WEB 3.0

J. SCOTT COLESANTI*

ABSTRACT

Non-Fungible Tokens, or “NFTs,” ballooned into a 40-billion-dollar industry in under a decade. Their creators include artists, corporations, entrepreneurs, fraudsters—and even Donald Trump. While NFT owners and traders could be any of us, the parties running the marketplaces are hidden. NFT regulators have yet to be identified. Most alarmingly, the dominant NFT marketplaces are dangerously centralized. Accordingly, the publicized tales of exorbitant or manipulated NFT prices and frequent related scams abound. Meanwhile cryptocurrency—the technology enabling the life of an NFT—remains beset with, at best, theoretical models for effective regulation a full generation after its emergence.

To propose a rational start to NFT regulation, the author—a former regulator—tackles the basics: NFT design, “minting,” opening for purchase and trading, and ultimate repose in the digital wallets of purchasers. Specific legal ills occasioned by each step of the process are described. In turn, the apparent choices for NFT regulator are examined. To be sure, the eager lethargy exhibited by investment regulators confronting virtual currencies has proven rule adoption to be a quixotic dream. Thus, the author suggests that the storied FTC, the agency with the heart and the mission, be chosen as the force to slow market consolidation and counter anti-competitive practices cementing in the country’s vastest NFT marketplaces. Such remedy (enabled by the FTC’s revision of its antitrust mission late last year) would temper the rampant loosing of NFTs on all unbridled marketplaces until more ill

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ramifications can be catalogued and comprehended. Further, the proposed resolution of “trust-busting type” oversight is not only amply supported by the recent FTC successes but also greatly aligned with the idyllic hopes of the budding “WEB 3.0” world. Namely, if the latest incarnation of interactive cyberspace is to truly “shatter the monopolies on who controls information”, the first step is to ensure that the interrupter itself is not a monopoly.
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INTRODUCTION: EVEN MORE TOKENS WITHOUT TURNSTILES

A. The Unwelcome Present

“WEB 3.0” reimagines the range of activity on a state-of-the-art internet. The latest incarnation of cyberspace promises entrepreneurs more freedom from regulators and broader connectivity between similarly minded individuals. Users everywhere have the ability, through Web 3.0, to eagerly dabble in the Pandora’s box that is decentralized finance. Indeed, the pursuit of the limitless dream spawned a generation ago by the anonymous founder(s) of “Bitcoin” remains vibrant. Meanwhile, internet fraud and cybersecurity concerns continue to plague sophisticated economies, which, in turn, struggle with gauging the ideal amount of oversight for cryptocurrency.


2 See id.; John Bogna, What Is Web3 and How Will It Work?, PCMag (Feb. 15, 2022), https://www.pcmag.com/how-to/what-is-web3-and-how-will-it-work [https://perma.cc/2VZW-U9T9] (describing “WEB 3.0” as the trendy adaptation of the Internet, having succeeded earlier iterations, “WEB 1” (i.e., information displaying) and “WEB 2” (i.e., an interactive Internet)). Significantly, the parties defining WEB 3.0 often stand to benefit financially from further adoption of WEB 3.0; in this case, Gavin Wood, a co-founder of the Ethereum cryptocurrency.

3 See Bogna, supra note 2; Merav Ozair, Decentralized Finance (DeFi) is the Future, NASDAQ (Nov. 9, 2022), https://www.nasdaq.com/articles/decentralized-finance-defi-is-the-future [https://perma.cc/95Z8-ACTG].


5 See Ozair, supra note 3.

Concurrently, a vast, worldwide market has blossomed for crypto’s attractive but sometimes lewd cousin: Non-Fungible Tokens (“NFTs”). Rumored to be expensive, nearly inscrutable, and most definitely ubiquitous, NFTs pose a novel twist on consumer and investor threats. Specifically, the curious (and sometimes outright humorous) digital asset can manifest as a collectible, investment, logo, or simply as a conduit to online gaming and other digital activities. Less whimsical is the consumer threat, as thefts of NFTs have harmed the sophisticated and unsophisticated alike.

NFTs are often individually owned digital images or recordings, such as a series of drawings by an artist. Like other emerging digital trends over the past 15 years, NFTs stress peer-to-peer business relationships and leverage a decentralized ledger to produce novel, metaphorical coins and tokens. Like many other alt-currencies, NFTs are not tangible goods and are made possible through Blockchain technology.
with the cyber-centric times, these techno savvy products—whether intended for personal enjoyment or financial turnover, or a little of both—are initially auctioned off on internet marketplaces in completely unregulated fashion.\textsuperscript{14}

The unique and singular nature of NFTs complicates the inevitable questions informing adequate regulation; whereas many people can own a digital currency (such as Bitcoin), the appeal of an NFT is its sole ownership.\textsuperscript{15} Like cryptocurrency, NFTs are not tied to any fiat currency.\textsuperscript{16} These products lure many through their apparent uniqueness, although third parties often create similar alternatives and forgers sell copies of the original.\textsuperscript{17} If the industry seems hopelessly oxymoronic, it has at least been consistent, as paradoxes have attended NFTs since their creation.\textsuperscript{18}

\textbf{B. Brief History and Breadth}

The first NFT was created and transferred in 2014.\textsuperscript{19} By the end of 2021, the market was valued at over $41 billion.\textsuperscript{20}

\begin{itemize}
  \item \textsuperscript{14} See Araya, supra note 6; James Howell, \textit{How Do Auctions Work For NFTS?}, 101 BLOCKCHAINS (Jan. 5, 2023), https://101blockchains.com/how-do-nft-auctions-work/ [https://perma.cc/R5TL-S2N5].
  \item \textsuperscript{15} See Frye, supra note 12, at 113–14; see Sharma, supra note 11.
  \item \textsuperscript{17} See Ade Hennis, \textit{How to Verify NFT Authenticity—Fake NFT Sold for More Than $300,000}, MARKET REALIST (Sept. 1, 2021), https://marketrealist.com/p/how-to-verify-nft-authenticity/ [https://perma.cc/382M-ZNPM] (suggesting that the NFT purchaser’s sole means of discovering a fake is to check the seller’s social media profiles and other marketplaces for advertised offers).
Given their ease of creation, popularity, and varied uses, it is difficult to precisely number how many NFTs exist, but a ballpark accounting across 15 marketplaces indicates there are millions of transactions between market participants each month. While there is no single centralized or government-endorsed marketplace, OpenSea has consistently been the leading marketer platform for listing NFTs and facilitating transactions. OpenSea’s historically dominant market share has only recently declined, but the platform still consistently handles in excess of 35% of all NFT trading volume.

At one end of the creative spectrum, ersatz collectibles from established companies garner popular attention in conventional forums. Nike is selling pictures of its products, and


See Dedezade, supra note 7 (describing OpenSea as “the original peer-to-peer NFT marketplace, and far away the largest . . . [I]t has a total trading volume of over $6.5 billion.”); Quigley & Gilbert, supra note 23 (stating that OpenSea is the “largest [NFT] marketplace, with more than a million registered users”); see also Andrew Hayward, Did Blur Really Crash the NFT Market?, YAHOO FIN. (July 5, 2023), https://finance.yahoo.com/news/did-blur-really-crash-the-nft-market-221940765.html [https://perma.cc/9ME2-UKUX] (noting certain new marketplaces have occasionally taken over the lead in terms of trading volume, but such incursions have tended to end disastrously); Julia Ng, Top NFT Marketplaces by Market Share & Trading Volume, COINGECKO, https://www.coingecko.com/research/publications/market-share-nft-marketplaces [https://perma.cc/H37L-WAFZ] (detailing markets shares as of May 29, 2023).


Mattel is offering digital versions of famed toys. Social issues such as the war in the Ukraine have inspired semi-charitable NFTs. Politicians have found a market for NFTs, with Donald Trump successfully completing an NFT money grab of nearly $4 million in just a few days.

At the other end of the spectrum are often tawdry creations that attract online financial speculators. This specific variation of the craze can be said to have largely prodded the NFT movement. In response, startup entrepreneurs seeing an opportunity to raise capital pay middlemen to quickly and easily create NFTs for the entity to gain exposure through the latest digital asset fad.

The digital cartoons pervasive across the NFT marketplaces were popularized by a series of images comprising the “Bored Ape Yacht Club.” More extreme NFTs have followed,
featuring obscure drawings of man or beast, attracting attention as though at the fore of an art revolution; sadly, the names of these obtuse creations often bely any form of skill or purpose and are often downright offensive.34

Regardless of their common stylistic manifestations or unlikely social utility, NFTs have grabbed the attention of both journalists and scholars because of their outlandish prices and spectacular attendant disasters.35 For example, pop singer and omnipresent celebrity Justin Bieber is routinely mocked for his “investment” in one of the seminal “Bored Ape” images; the purchase subsequently plummeted 95% in price, to the seeming delight of many.36 Moreover, the rapid rise of NFTs has lured hackers and thieves, separately generating noteworthy headlines of enormous thefts from laymen and industry influencers alike.37
Thus, perhaps predictably, legal observers have foreseen the unavoidable plea for government intervention—\cite{38}—and although the technology itself is still morphing, even its staunchest practitioners face a steep learning curve.\cite{39}

\section*{C. The Troubled Start to Oversight}

To be sure, promoters of NFTs never promised more than a modicum of transparency.\cite{40} Further, even before the “crypto winter” of mid-2022, the NFT marketplace was loudly questioned and troubled.\cite{41} Add to these daunting truisms an innate dependency upon the continued health of the larger cryptocurrency phenomena and one sees an industry that is hazardously volatile at best.\cite{42}

By mid-2023, transactions between those sophisticated enough to “trade” on the NFT market had slowed.\cite{43} In turn among unsophisticated, laymen purchasers, the results have

\begin{footnotesize}
\begin{itemize}
\item \cite{38} See Matt Levine, \textit{Don’t Insider Trade NFTs}, BLOOMBERG (June 2, 2022, 12:30 PM), \url{https://www.bloomberg.com/opinion/articles/2022-06-02/don-t-insider-trade-nfts#xj4y7vzkg}; see also Araya, \textit{supra} note 6.
\item \cite{39} See Bogna, \textit{supra} note 2.
\item \cite{40} See Jesselyn Cook, \textit{Celebrity-Endorsed NFTs Leave Investors Financially Crippled}, NBC NEWS (May 22, 2022, 6:00 AM), \url{https://www.nbcnews.com/business/business-news/celebrity-endorsed-nfts-leave-investors-financially-crippled-rcna27705}.
\item \cite{41} See Robert Baggs, \textit{The OpenSea Debacle: Why NFT Creators and Collectors Must Demand Better}, NFT INSIDER (Feb. 22, 2022), \url{https://nftinsider.io/opensea-debacle/}.
\item \cite{42} See Hayward, \textit{supra} note 24 (detailing how the emergence of Blur, an alternative platform to OpenSea, has highlighted the interrelationship between broader trends in the crypto and NFT markets).
\end{itemize}
\end{footnotesize}
been devastating and well-publicized.\textsuperscript{44} Most significantly, the everyman dream of instant entry into the thrilling WEB 3.0 world\textsuperscript{45} is now guarded by a monopoly still writing the rules of the realm.\textsuperscript{46} One marketplace and several of its imitators have dominated the market for NFT transactions, and their stewardship has seen the nascent business riddled with losses and suspicion.\textsuperscript{47} Further, there also persists a robust academic debate on the fundamental questions of what exactly ownership of an NFT actually grants.\textsuperscript{48}

\textsuperscript{44} See Cook, supra note 40 (“With little regulation, some influencers are stepping in to call out their peers.”) (The referenced minimal regulation refers to generic FTC rules encouraging influencer disclosures); see also Disclosures 101 for Social Media Influencers, FTC (Nov. 2019), https://www.ftc.gov/business-guidance/resources/disclosures-101-social-media-influencers [https://perma.cc/D3BW-NFK8].

\textsuperscript{45} A challenge for researcher and student alike is the dependence upon assertive proponents of the internet and its latest updates. For example, an industry trade group perhaps quixotically defines WEB 3.0 as “[A] decentralized blockchain protocol . . . will enable individuals to connect to an internet where they can own and be properly compensated for their time and data, eclipsing an exploitative and unjust web, where giant, centralized repositories are the only ones that own and profit from it.” Charles Silver, What Is Web 3.0?, FORBES (Jan. 6, 2020, 1:00 PM), https://www.forbes.com/sites/forbstechno/2020/01/06/what-is-web-3-0/?sh=55839d5e58df [https://perma.cc/D69S-23F7].


Still, the specter of an enormous market collapse keeps the regulatory debate alive. While some commentators have noted the dangers and rushed to suggest the application of existing regulatory frameworks to NFTs, and several regulators have even announced inquiries into NFT issues, it has been aptly noted that definitive legal guidance is still a long way off. Likewise, cybersecurity for non-fungible tokens seems theoretical at best.

The cost of designing and creating a digital asset available as an NFT races lower everyday. While the often vulgar nature of many NFTs prompts some to relegate the budding industry to a juvenile, fad status, this market still demands attention. Stated bluntly, while it may be hard to stir public alarm and regulatory

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50 See Levine, supra note 38.


55 See, e.g., Hayward, supra note 30.
attention for an industry that boasts overpriced products named “Cryptopunks”\(^{56}\) or “Cat Town Official,”\(^{57}\) it is necessary.

\(\text{D. The Best Lit Path Ahead}\)

As the saying goes, the greatest trick the devil ever pulled was convincing us that he does not exist.\(^{58}\) If rational minds can agree that this curious phenomenon poses a threat, sooner or later some government agency will have to step up.\(^{59}\) The usual short list of commercial regulators seems helpful; however, the Securities and Exchange Commission (“SEC”) is locked in a pitched battle over the crypto industry as a whole,\(^{60}\) and the Commodity Futures Trading Commission (“CFTC”) has proven to possess competing commitments to growing and containing digital assetization.\(^{61}\) Separately, states appear poised only to mimic federal regulation,\(^{62}\) and busy criminal authorities (although possessing powerful tools for extreme cases of deliberate malfeasance) cannot possibly singularly contain a market measured in billions of dollars.\(^{63}\)


\(^{58}\) THE USUAL SUSPECTS (Polygram 1995) (quoting the fictional yet notoriously villainous Keyser Soze, as he—spoiler alert—dups a police detective seeking the whereabouts of none other than Keyser Soze).

\(^{59}\) See U.S. GOV’T ACCOUNTABILITY OFF., GAO-23-105346, BLOCKCHAIN IN FINANCE: LEGISLATIVE AND REGULATORY ACTIONS ARE NEEDED TO ENSURE COMPREHENSIVE OVERSIGHT OF CRYPTO ASSETS 1–2 (2023).


\(^{61}\) See, e.g., A CFTC Primer on Virtual Currencies, supra note 6 (noting that “[r]esponsible innovation is market-enhancing.”).


\(^{63}\) See Shane T. Stansbury, Cryptocurrency and the Limits of Criminal Prosecution, DUKE FIN. ECON. CRT.: FINREG BLOG (Apr. 6, 2022), https://sites.duke.edu/thefinregblog/2022/04/06/cryptocurrency-and-the-limits-of-criminal-prosecution%EF%BF%BC/ [https://perma.cc/6TZH-XJXX]; see also Understanding the Role of Digital Assets in Illicit Finance: Hearing Before the S.
The Federal Trade Commission (“FTC”) thus emerges as the regulator of choice. Over 100 years old, the agency benefits from a clear enabling act and a rich body of precedent. As of mid-2023, the FTC is enjoying newfound popularity as the most intrepid federal watchdog. The increasingly suspicious workings of NFTs and their decentralized, novel, and unregulated marketplaces may soon come to light as court rulings expose controversies constructed by the cyber architects of WEB 3.0.

Fortuitously, the FTC reasserted its anti-monopoly authority in 2022, underscoring the choice of that storied agency as the champion in this battle. That reiteration focuses more upon...
entities hindering entrance to a field than highlighting consumer
decception or potentially harmful mergers. Thus, to make the case
for such immediate government regulation enabled and enforced
by the Federal Trade Commission, this Article includes the sub-
sequent three parts.

Part I addresses the practical aspects of the creation and
sale of NFTs. After dividing the NFT market into three discern-
ible groups, the origination and trading processes are shown to
be both largely clandestine and highly lucrative.69

Thereafter, Part II examines the existing regulatory frame-
work, which regrettably does little to prevent fraud or other
forms of abuse. The “victims” perhaps most requiring more gov-
erned disclosures are partners on NFT platforms and creation
vehicles who could not possibly understand the complete finan-
cial picture in the terra incognita of NFT creation.70 Surprisingly,
a good deal of law potentially governs an industry straddling the
application of trademark, copyright, securities, and other mar-
ket regulations. However, sporadic civil litigation and a lack of
regulatory initiative have not proven to be up to the task of
matching apples to apples.71

All of which indicates a need for government regulatory
leadership.72 Accordingly, Part III proposes that a sole federal
agency, the FTC, adopt the cause of ensuring competitive com-
petition in the NFT marketplace—in part to spare the weight
from the other federal agencies locked in internecine warfare
over the regulation of the larger universe of cryptocurrency.73
Further, the FTC is encouraged to utilize its anti-monopoly au-
thority (as opposed to its equally important consumer protection
mission) because of the broad latitude unquestionably accorded

69 See infra Sections I.B.1–3 & Section I.C.
70 See supra notes 43–46 and accompanying text; see also infra Part II
(discussing how the lack of NFT regulations hurts victims of NFT-related
crimes).
71 See infra Part II.
72 See infra Part III.
73 See infra Part III.
regulation of anti-competitive practices.\textsuperscript{74} This application of its anti-monopoly oversight follows the agency’s decision to broaden and reassert its enforcement authority late in 2022.\textsuperscript{75}

The Article concludes with a summary analysis of the market dynamics and limited regulatory response to the growth of the NFT industry. It suggests specific steps necessary to counter the unbearable heaviness of being in the NFT age.

Overall, the Article surveys laws and markets up through the fall of 2023 to explain NFTs, summarizes developing legal issues, and suggests the FTC serve as the seminal regulator. In turn, that storied federal agency is urged to take on a very specific role in view of its expanded anti-monopoly authority.

I. BACKGROUND: “AUTHENTICATING” CREATIONS, AND THE HOTSPOT OF CHOICE

A. A Departure From Crypto

NFTs are similar to cryptocurrency, except when they are not.\textsuperscript{76} For example, both crypto\textsuperscript{77} and NFTs are decentralized

\textsuperscript{74} See infra Part III.

\textsuperscript{75} See, e.g., John Wilkerson, With the FTC’s More Expansive Approach, PBMs Are in the Crosshairs, STATNEWS (Jan. 13, 2023), https://www.statnews.com/2023/01/13/ftc-more-expansive-approach-pbm-crosshairs/ [https://perma.cc/Z5AS-HTUA] (“The FTC has for years allowed mergers and business tactics that lower prices for consumers, even if they put small companies out of business. Now, under Chair Lina Khan, the agency is focused more on protecting competitors, especially small and medium businesses.”).


\textsuperscript{77} As used in this Article, “crypto” (short for “cryptocurrency”) denotes open source, public alt-currency that has manifested in thousands of digital coins or tokens. Cryptocurrency as a concept belies universal definition; one sturdy description of its synonym “virtual currency” provides as follows:

[A] digital representation of value that can be digitally traded and functions as: (1) a medium of exchange; and/or (2) a unit of account; and/or (3) a store of value, but does not have legal tender status (i.e., when tendered to a creditor, is a valid and legal offer of payment) in any jurisdiction. It is not issued or guaranteed by any jurisdiction, and fulfills the above functions only by agreement within the community of users of the virtual currency. Virtual currency is distinguished from fiat currency
and beyond government control, and grew from the technology underpinning the emergence of a non-fiat currency: Bitcoin. The groundbreaking token’s prominence was tied to a theoretical payment system idealistically designed to bypass nations and banks. To effectuate this utopia, Bitcoins were “mined” by its creator, at


Crypto remains an investment phenomena, belying its original mission of serving as an alt-currency. See SEC Chairman Gary Gensler, Remarks Before the Aspen Forum, SEC (Aug. 3, 2021), https://www.sec.gov/news/speech/gensler-aspen-security-forum-2021-08-03 [https://perma.cc/7CU7-CZRA] (“We also haven’t seen crypto used much as a medium of exchange. To the extent that it is used as such, it’s often to skirt our laws with respect to anti-money laundering, sanctions, and tax collection.”). Cryptocurrency has long been subject to speculation as fodder for Congressional action, but no final measure has been adopted by the national legislature. See, e.g., Jason Brett, Congress Has Now Introduced 32 Crypto and Blockchain Bills, FORBES (Apr. 28, 2020, 12:03 AM), https://www.forbes.com/sites/jasonbrett/2020/04/28/congress-has-introduced-32-crypto-and-blockchain-bills-for-consideration-in-2019-2020/ [https://perma.cc/RX77-MN3U].

Closely related is the notion of Blockchain, which serves as the digital ledger enabling the creation, trading, and recording of digital transactions. Blockchain is easier to define: “Blockchain is a shared, immutable ledger that facilitates the process of recording transactions and tracking assets in a business network. An asset can be tangible (a house, car, cash, land) or intangible (intellectual property, patents, copyrights, branding).” What Is Blockchain Technology?, IBM, https://www.ibm.com/topics/blockchain [https://perma.cc/2B3F-8B7J]. In the battle between entrepreneur and regulator, Blockchain is neutral; further, as a public record of trading, it can actually enhance regulatory efforts. See, e.g., Complaint at 5, SEC v. Braga, NO. 2:22-CV-01563 (W.D. Wash. Nov. 3, 2022), https://www.sec.gov/files/litigation/complaints/2022/comp-pr2002-201-braga.pdf [https://perma.cc/F8B6-T27G] (“Among other evidence, blockchain analysis reveals that, in reality, Trade Coin Club operated in a manner consistent with a Ponzi scheme . . . .”).

78 See supra note 77.
79 See Nakomoto, supra note 4.
least to the tally of approximately 5% of the maximum envisioned; and when other technocrats took up the devastatingly difficult process, a secondary market emerged. Over time, Wall Street bought in, and the price of an individual Bitcoin skyrocketed. Other coins followed in imitation, but very few enjoyed parallel success. Nonetheless, the allure of cryptocurrency remains its democratic market: anyone can either “mine” or alternatively buy Bitcoin or other cryptocurrencies via “exchanges” or “brokers” who operate in cyberspace every second of the year.

Conversely, NFTs manifest unique purchase opportunities of individualized assets. They have been described by experts as “digitized scarcity,” and likened to owning one’s own cyber copy of a priceless work of art.

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85 See Conti, supra note 20 (quoting Arvy Yu, chairman of a Blockchain council).

86 See Gargi Chaudhuri & James Masella, *Are NFTs Securities? Analysis of the NBA Top Shot Litigation and Other NFT-Related Actions*, JD SUPRA
Even obscure NFTs can occasionally come to the market at remarkably high prices.\textsuperscript{87} As a class, their sheer volume and versatile uses result in an estimated average worth of (at best) approximately $900 each.\textsuperscript{88} With no officially designated marketplace, NFTs are simply considered to be a personal asset capable of transfer.\textsuperscript{89}

While crypto purchasers have fallen neatly into two camps, investors and users of the alt-currency,\textsuperscript{90} NFT users and purchasers have evidenced at least five rationales: (1) artists seeking to expand viewership; (2) traders seeking to earn profits from “flipping”; (3) established businesses availing a new advertising market; (4) gamers utilizing the unique tokens to enhance the experience; and (5) conspicuous consumers/celebrities purchasing for reasons that are dubious.\textsuperscript{91} These five rationales have met with varying ebbs and flows.\textsuperscript{92}

For example, the NFT art market perhaps reached an early crescendo in its history in the fall of 2021.\textsuperscript{93} At that time, the famed Christie’s Auction House announced that its sales of NFTs had surpassed $100 million, including a prior sale of a single collection of digital artwork for $69 million (from a digital artist whose prior collection sold for approximately $770,000).\textsuperscript{94}

\textsuperscript{87} See Danielle Letenyei, 10 Super Weird NFTs You Have to See to Believe, FIN. BUZZ (APR. 3, 2003), https://financebuzz.com/weird-nfts [https://perma.cc/HJ5U-TQH4] (“Many analogize it to fine art collecting; each piece of art is an asset that can be tied to some amount of monetary value. But no two pieces of art are the same.”).


\textsuperscript{89} See Clark, supra note 13.

\textsuperscript{90} See Gensler, supra note 77.

\textsuperscript{91} See Fairfield, supra note 48, at 1268–78.


\textsuperscript{93} Ryan Browne, Trading in NFTs Spiked 21,000% to More Than $17 billion in 2021, Report Says, CNBC (Mar. 10, 2022, 1:00 PM), https://www.cnbc.com/2022/03/10/trading-in-nfts-spiked-21000percent-to-top-17-billion-in-2021-report.html [https://perma.cc/CT35-ZXWM].

\textsuperscript{94} See Press Release, Christie’s, Christie’s Surpasses $100 Million In NFT Sales (September 28, 2021), https://www.christies.com/presscenter/pdf/10210
In other sectors, toy manufacturers recognized the potential value in digitally assetizing and memorializing popular childhood play-things.\textsuperscript{95} And the ubiquitous “metaverse”—an alternative life awaiting all of us in cyberspace\textsuperscript{96}—swiftly emerged as another home for NFTs and fuels the growing desire for all to join the craze.\textsuperscript{97} While the future uses of NFTs may be difficult to predict, at least its journey from idea to market can be catalogued.\textsuperscript{98}

\textbf{B. The NFT Process, From A to Z}

The originator (and putative first owner) of an NFT must initially create a unique design.\textsuperscript{99} This step alone invites controversy,


as it is not yet clear if such craftsmanship requires protection traditionally attending intellectual property.\textsuperscript{100} As stated earlier, designs can range from money grabs for existing images to truly unique art,\textsuperscript{101} and vary from the elegant to the solely commercial,\textsuperscript{102} to the just plain puerile.\textsuperscript{103} Fortunately, the process of an NFT traveling from inspiration to public purchase and trading is mercifully susceptible to a three-part analysis.\textsuperscript{104}

1. The Creators (“Minters”)

First, NFTs must be designed by individuals with, at the very least, a bare bones knowledge of digitalization (e.g., possessing a design, some crypto, and a digital wallet).\textsuperscript{105} These

\textsuperscript{100}See Michael D. Murray, \textit{NFT Ownership and Copyrights}, 56 IND. L. REV. 367, 379–85 (2023); see, e.g., Shanti Escalante-De Mattei, \textit{Yuga Labs Says It Does Not Have Copyright Registration of Bored Ape Images, in New Court Documents}, ARTNEWS (Jan. 26, 2023), https://www.artnews.com/art-news/news/yuga-labs-copyright-registration-bored-ape-yacht-club-nfts-1234655279/ [https://perma.cc/WM9W-XWU6]. \textit{But see} Andy Warhol Found. for Visual Arts, Inc. v. Goldsmith, 143 S. Ct. 1258, 1272 (2023) (holding that a noneducational use of an allegedly “transformed” image nonetheless violated the Copyright Act, and thus paving the way for copyright suits against NFT creators utilizing copyrighted works) (“Although new expression may be relevant to whether a copying use has a sufficiently distinct purpose or character, it is not, without more, dispositive of the [commercial use] factor.”).


\textsuperscript{102}See, e.g., \textit{Hot Wheels}, https://hotwheelsnftg.io/ [https://perma.cc/MP9C-YPKH] (creating NFTs representing Mattel toy race cars from its past).


\textsuperscript{104}See Conti, supra note 20.

designers—either on their own or with the help of commonly advertised middlemen—“mint” the image or sound, converting the image to a token capable of residing on and being accounted for on a Blockchain. Collectively, the designers and converters form a group called “Minters.” The Minters essentially prepare the NFT, ensuring a unique identifier on the digital ledger is associated with and other code is applied to the prior form of a picture or recording, for inclusion in the cyberworld.

The creation of an NFT simultaneously spawns a revenue stream that continues in perpetuity. More specifically, in designing the unique code identifying an NFT, Minters include “royalties” triggered by successive sales. These royalties are enabled via “smart contracts” built into the unique code. Hence the eagerness to create an NFT as a successful token shall provide some form of compensation for the Minters each and every time it subsequently is traded. Sadly for lawyers and law students, that problems from custody nonetheless arise when crypto providers or lenders in bankruptcy assert possession of the digital wallet).


107 See OPENSEA, supra note 57, A Blockchain is a decentralized digital ledger that enables crypto and NFTs and related digitized products. See also Nico, How to Make an NFT in 14 Lines of Code, FREECODECAMP (Oct. 14, 2021), https://www.freecodecamp.org/news/how-to-make-an-nft/ [https://perma.cc/6WLM-LBGE] (positing that while such coding of “meta data” sounds formidable, the process is becoming amazingly accessible to computer beginners).

108 See Becker, supra note 106.

109 See id.


111 “Smart contracts” enable the rapid sale and recordation of digital assets. The technological advance is defined as “self-executing contract[s] with the terms of the agreement between buyer and seller being directly written into lines of code. The code and the agreements contained therein exist across a distributed, decentralized blockchain network. The code controls the execution, and transactions are trackable and irreversible.” Jake Frankenfeld, What are Smart Contracts on the Blockchain and How They Work, INVESTOPEDIA, https://www.investopedia.com/terms/s/smart-contracts.asp [https://perma.cc/7LYG-RJUQ] (updated May 31, 2023).

112 See Gomez, supra note 110.
the notions of royalty termination (and even NFT termination, for that matter) are still a far way off in this budding revenue-sharing process. However, the spreading practicalities of profit generation are solidly empirical.

2. The Marketers

Minters next seek to place the NFT on a public marketplace, run by “Marketers.” In common parlance, the Marketer “authenticates” that an NFT’s code of origination is unique through its acceptance of metadata. To be sure, the “uniqueness” is oxymoronic: copies of the individually owned NFT are often plastered in many public spots, and even when hidden by the owner, NFTs are often part of vast sets of similar images. Most importantly, the Marketer does not, and perhaps cannot, assure anyone that this unique NFT has not been authenticated elsewhere (i.e., on another Blockchain). Further, the Marketplace can add its own stamp to the equation by including metadata that triggers payment to the marketplace every time the NFT is traded. Accordingly, unlike other examples of commerce in

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113 “NFTs use links to direct you to somewhere else where the art and any details about it are being stored. And as anyone who has browsed the internet before should know, links can and do die. So what happens if your NFT breaks down and points to nothing?” Jacob Kastrenakes, Your Million-Dollar NFT Can Break Tomorrow if You’re Not Careful, THE VERGE (Mar. 25, 2021, 11:55 AM), https://www.theverge.com/2021/3/25/22349242/nft-metadata-explained-art -crypto -urls-links-ipfs [https://perma.cc/8DG4-XUDK].
115 See Becker, supra note 106.
116 See Kastrenakes, supra note 113. Some Marketplaces can also assist creators with Minting.
118 See Van Boom, supra note 33 and accompanying text.
120 See Nitesh Kumar, How Do NFT Marketplaces Make Money? The Ultimate Guide, ANALYTICS INSIGHT (June 10, 2023), https://www.analyticsinsight
creative design, NFTs provide royalties to two distinct groups: the Minters and the Marketers.\textsuperscript{121}

Over the last few years, a very short list of Marketers has emerged.\textsuperscript{122} Atop that list is OpenSea, self-described as the world’s largest NFT marketplace.\textsuperscript{123} Open and accessible every day and every hour, OpenSea serves as the gold standard for an incessant NFT auction market amidst growing user unrest.\textsuperscript{124} Indeed, this kingpin marketplace itself provides the most enduring explanation of the entire process.\textsuperscript{125}


\textsuperscript{123} See What Is an NFT?, OPENSEA (Sept. 8, 2023) [hereinafter What Is an NFT?], https://opensea.io/learn/what-are-nfts [https://perma.cc/KGX5-VFS4].

\textsuperscript{124} See id.

\textsuperscript{125} OpenSea provides educational materials for learning about how NFTs operate and describe how blockchains preserve records of ownership and authenticity:

When someone creates, transfers, buys, sells, or otherwise does something with an NFT, that all gets recorded on the blockchain. This is what enables authentication.

This record serves as a permanent statement of authenticity that can be viewed or accessed by anyone. Today, when you buy a piece of art or a collector’s item, it typically comes with a paper certificate of authenticity, which you must then keep track of forever. It is easily forgotten, lost or destroyed, creating a very fragile system for authenticity. Blockchain’s offer a simple and more secure solution to this long-standing issue of proving authenticity.

Let’s say you want to buy a piece of artwork from [online artist] Tyler Hobbs. With NFTs, you can see the entire history of that piece, all the past owners, every sale, all the way back to Hobbs’ original creation of the piece. Without NFTs, you wouldn’t know if you were buying the real piece or just a really good fake.

\textit{Id.}
Most importantly, OpenSea and its chief rival, by requiring all listed NFTs to be based upon the Ethereum Blockchain, influence the Ether market.\textsuperscript{126} That influence is considerable.\textsuperscript{127} Additionally, the Marketer not only sets a participating royalty rate, but also imposes “gas fees”\textsuperscript{128} and singularly “holds” the NFT once it is listed for auction.\textsuperscript{129}

As NFT trading has expanded, the process of allocating royalties and fees has continued to evolve in ways that continue to limit transparency and Minter access to complete transaction information.\textsuperscript{130} In short, Marketers may or may not share their own royalties with Minters, and different Marketers waver on that distributive decision.\textsuperscript{131} What is certain is that the Minters using Marketers are unhappy because specific marketplaces are or are not wed to a royalty model, and royalties are being set without input.\textsuperscript{132}


\textsuperscript{127} See Andrew Hayward, OpenSea Hits Record $5B in Monthly Sales as Ethereum NFT Market Swells, DECRYPT (Feb. 1, 2022), https://decrypt.co/91748/opensea-record-5b-ethereum-nft-market-swells [https://perma.cc/P7ED-8YZ3] (showing OpenSea’s performance is tied to Ethereum performance).

\textsuperscript{128} “Gas fees,” mystically attributed to the Blockchain, are rarely disclosed upfront and can be considerable. In short, after an NFT changes hands, a cost is deducted from the transaction for use of the Blockchain. “Gas fees” can be thought of as (hidden) charges for using a Blockchain of choice. See David Schwartz, What Are Gas Fees?, COINMARKETCAP (2021), https://coinmarketcap.com/alexandria/article/what-are-gas-fees [https://perma.cc/99JM-6TSA].


\textsuperscript{130} See Alex Gomez, How to Check NFT Royalties on Opensea In 2023 (3 Quick Steps), CYBER SCRILLA (Feb. 27, 2023), https://cyberscrilla.com/check-nft-royalty-fees-opensea/[https://perma.cc/8GBL-JAZP].


It is axiomatic that unregulated promises of royalties are a fragile business model, at best. While the industry has come to accept a division of royalties between the Minter and the Marketer, that division is too opaque to inspire a hunt among experts. Most importantly, the unfettered use of the present legal “blank slate” by the leading marketplaces often inures benefits to all those affiliated with Ethereum (i.e., the Blockchain mainly used to record NFTs). That dominance is so overwhelming as to inspire envy from the greatest robber barons in history.

3. The Traders

Finally, the “Traders,” those buying and selling NFTs comprise the third and final group within the schematic. These actors work from fluctuating prices listed by the Marketers.

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134 Christian Heidorn, *Solved: How to See Royalties on OpenSea Easily*, Tokenized (Jan. 5, 2023), https://tokenizedhq.com/how-to-see-royalties-on-opensea/ [https://perma.cc/WQ8P-H2K8] (“Perhaps you’ve searched all over OpenSea already and simply can’t figure out how to see royalties on OpenSea? No need to worry, because you’re clearly not alone with this problem and OpenSea hasn’t bothered to make it easy for us.”).

135 Chugani et al., *supra* note 52; see also *NFT’s Street*, *supra* note 126.


much in the same way a stock exchange lists stocks. At present, while multiple Marketers exist, one entity effectively controls the trading industry and sets the standards; rare is the occasion when a Minter seeks to control both the creation and trading process.

Of course, once purchased, the tales of NFT cybertheft are legion. Additionally, disclosures of touting by celebrities, who received payment to tout, inevitably tarnish the deal. Consumer groups loudly comment on the issue that laymen greatly resent not knowing of paid endorsements. Significantly, the

139 See What Is an NFT?, supra note 123.
link between NFT fraud and overarching cryptocurrency fraud is seamless.144

C. Scorecard of Resultant Ills

Nevertheless, despite spreading news of legal uncertainties, monopoly, theft, and losses, creators145 and purchasers keep lining up.146 One would be hard-pressed to find someone who is not captivated by the different interests, values, and assets available through NFT ownership.147 Collectively, the headlines disclose a trio of significant threats occasioned by an unregulated NFT market: (1) the hoodwinking of the ill-informed; (2) the unjust and unequal enrichment of collaborative entrepreneurs; and (3) the de facto dominance of the market by one or more exchange-like platforms.148

These vulnerabilities have been well-cataloged.149 Indeed, the media’s coverage of even sophisticated minters and collectors suffering catastrophic thefts and mishaps have become commonplace.150 There are also notoriously hidden charges (e.g., “gas fees”) for all Minters apart from costs associated with joining a marketplace.151 Even if transferring or holding the NFT can be

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146 See Mendes, supra note 35.
148 See Mendes, supra note 35.
149 Black, supra note 142; Heidorn, supra note 136.
151 Schwartz, supra note 128.
done without incident or undisclosed surcharge, the uncertainty surrounding royalties displays that this group serves as the most likely victims of uninformed commerce.\textsuperscript{152}

Additionally, concerned parties all yield to the standards and dominance of a short list of Marketers.\textsuperscript{153} The exorbitant market share alone, maintained by the leading Marketers, calls out for reform.\textsuperscript{154} Further, fledgling Marketers seeking a share of the industry lead will predictably decrease incentives and revenues by avoiding royalties altogether.\textsuperscript{155}

Finally, the Traders take unacceptable risks in trading on unregulated marketplaces.\textsuperscript{156} To wit, a Marketer cannot guarantee uniqueness; simply put, while a Marketer such as OpenSea requires a unique code for its “authentication” process, such requirement merely ensures that a product is distinct from others of its included assets.\textsuperscript{157} More noteworthy still is the extreme volatility of novel NFTs. This is demonstrated by the now commonplace tales of tokens coming to market at inscrutably high prices only to plummet.\textsuperscript{158} One NFT trading platform may simply be a part of another, and be the potential for price fixing, manipulation, and insider trading abound.\textsuperscript{159}

In sum, ironically, originality inspires the NFT asset, destined to become part of a marketplace governed by a sole Marketer.\textsuperscript{160} As everyone from aspiring artists to tech entrepreneurs

\textsuperscript{152} Heidorn, supra note 134.

\textsuperscript{153} Id. See also Hayward, supra note 24.

\textsuperscript{154} Id.

\textsuperscript{155} See Hayward, supra note 132. But see Cryptoslav, supra note 137.

\textsuperscript{156} Mendes, supra note 35; Marcus, supra note 137; Rachel Greene, Across Real Life, the Metaverse, and the Blockchain, Theft Will Not Prevail as the Legal Community Encompasses New Technology, 60 HOUS. LAWYER 18 (2022).

\textsuperscript{157} Tiffany Behnam, How Are NFTs Authenticated?, PASTEL (Jan. 4, 2022), https://pastel.network/how-are-nfts-authenticated/ [https://perma.cc/Y74R-9TZZ] (“OpenSea, the largest NFT marketplace, offers no assurances that an NFT is original. The buyer must do their own research.”).


\textsuperscript{159} See supra notes 98–101 and accompanying text.

\textsuperscript{160} Cryptoslav, supra note 137.
have raced to join the NFT industry, the horror of NFTs incontrovertibly resides in its unimpeded pathways to non-disclosure and fraud.

Amidst this cauldron of NFT woes, the season’s leading Marketer in the nascent NFT marketplace possesses a de facto monopoly that inures foremost to Marketer benefit; to a lesser and unpredictable extent, that showrunner benefits Minters and Traders. Accordingly, the prevalence of NFTs has translated into more Marketers seeking to operate “exchanges,” but these platforms remain hot spots for predatory practices and inequality. Simply put, Minters are herded towards an extremely short list of consistently profitable Marketers; in turn, these Marketers unilaterally set royalty rates and fees in processes that are opaque and clandestine. Accordingly, these platforms appear to be the best location for initial regulation and thus inform the ensuing legal discussion of where and when the means to realize market parity shall arrive.

II. CORRESPONDING LEGAL ISSUES: ALL ROADS POINT TO THE MOST FEARLESS AGENCY

The dual bonanza of accessible NFT creation and speculative trading has spawned a wide variety of legal issues. Minters,

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164 Hayward, supra note 132.

165 See Houser & Holde, supra note 35, at 893–95; see also Dep’t of Treasury, Study of the Facilitation of Money Laundering and Terror Finance Through
Marketers, and Traders must navigate an unregulated maze without any accompanying hints of legal resolution. Congress has not legislated in the NFT field, and no federal agency has proposed rules. The IRS has essentially equated NFTs with collectibles, thus ensuring that profits from transactions therein do not avoid reporting (i.e., the capital gains regulations apply). The Treasury Department, through its enforcement arm of FINCen, has repeatedly focused upon warnings about the likelihood of NFTs playing a role in money laundering.

Many existing legal regimes theoretically apply to NFT market activity, and a short list of civil cases serves as a harbinger of battles to come. Yet, as leading legal observers note (from their research on NFT creation, royalties, and trading) despite all

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166 See Castro, supra note 7, at 9–17.
169 Dep’t of Treasury, supra note 165; see also Fondo et al., supra note 162 (noting the government’s warning that NFTs—which are often overvalued—are susceptible to money laundering).
the new vocabulary, one term is conspicuously absent: “owner.” Stated otherwise, while theories and lawsuits may abound, no one is sure if creating an NFT, minting an NFT, or purchasing an NFT creates ownership. This obscurity (intentional or not) initially clouds any legal analysis of the proper legal fit for the abuses occasioned by the NFT craze. Upon closer inspection, most earmarked solutions still fail, as is discussed below.

A. The Intellectual Property Fix

Perhaps nowhere is a body of law more readily misapplied than in rewarding the urge to overlap trademark or copyright law with budding NFT regulation. Where people mint trademarked logos or copyrighted creations without authorization, a strong case for damages appears logical. However, whether the act of minting an original NFT creates protection by trademark or copyright law has yet to receive appellate court review. Further,

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171 See Marinotti, Law Professor Explains, supra note 167; Fairfield, supra note 48, at 1290–93.
172 See Marinotti, Law Professor Explains, supra note 167.
173 Id. See also Marinotti, Possessing Intangibles, supra note 48, at 1234–36.
175 See Poritz, supra note 174. The case, in which a digital artist defended under the First Amendment his NFTs picturing famed handbags, was called “the first NFT trademark case.” A Manhattan jury found in favor of the trademark holder against the NFT creator, who had digitized pictures of the famed handbags. Yet, the civil case for damages (which was grounded in trademark dilution and Internet “squatting”) answers but a fraction of the questions remaining (e.g., whether the trademark must be registered; whether all Circuits agree; whether transformative uses removes liability). See Hermes Int’l v. Rothschild, No. 22-CV-384 (JSR), 2023 WL 4145518 (S.D.N.Y. June 23, 2023) (appeal filed).
176 Poritz, supra note 174.
neither the trademark nor copyright area of law readily applies as long as ownership of digital wallets is up for debate.\footnote{Marinotti, \textit{Law Professor Explains}, supra note 167.} Moreover, it is nearly impossible to conclude whether the artist who creates both a traditional piece of art and its NFT counterpart creates one asset or two, leading some reputable artisans to solve the quandary in a personal and dramatic fashion.\footnote{Trisha Sengupta, \textit{Artist Damien Hirst Burns Thousands of His Paintings. Here’s Why}, HINDUSTAN TIMES (Oct. 13, 2022, 2:21 PM), https://www.hindustantimes.com/trending/artist-damien-hirst-burns-thousands-of-his-paintings-here-s-why-101665647755053.html [https://perma.cc/3A5Q-S23T].}

In 2023, the Supreme Court resolved a number of cases centering on the potential infringement where a protected work is altered by a second party for commercial purposes.\footnote{See generally Jennifer M. Mikulina & Eleanor B. Atkins, 2023 IP Outlook: Trademark and Copyright Supreme Court Update, MCDERMOTT WILL & EMERY (Feb. 2, 2023), https://www.mwe.com/insights/2023-ip-outlook-trademark-and-copyright-supreme-court-update/ [https://perma.cc/DQW9-HLW5].} These cases centered on, among other things, the varied uses of a trademarked item as a “parody.”\footnote{Jack Daniel's Props., Inc. v. VIP Prods. LLC, 599 U.S. 140 (2023) (weighing a First Amendment parody defense where a dog toy company sold “Silly Squeakers” fashioned after the Jack Daniels whiskey bottle). See Mikulina & Atkins, \textit{supra} note 179, at 3 (“[T]his case may help clarify whether NFTs (and other types of digital art) are independent works protected via the fair use doctrine or if they require a license from the original copyright holder.”).} As appealing as a determination from the high court appears, the express issue of NFT formation was not under consideration.\footnote{See Mikulina & Atkins, \textit{supra} note 179.} Further, even the strictest of rulings for the trademark or copyright owner would only serve as deterrence to a small fraction of NFT Minters; likewise, whether potential liability would extend to Marketers, those who list or advertise NFTs created by others, has yet to be plumbed.\footnote{Isaiah Poritz, \textit{’A Lot of Gray’ for NFT Artists Despite MetaBirkins Jury Verdict}, BLOOMBERG LAW (Feb. 10, 2023, 4:55 AM), https://news.bloomberglaw.com/ip-law/a-lot-of-gray-for-nft-artists-despite-metabirkins-jury-verdict [https://perma.cc/PF7W-888B].}

Moreover, while some Minters have gone the extra mile and trademarked their creations, this conservatism is not the rule; the Bored Ape originators who helped spur the NFT craze have publicly confessed that they do not hold copyright registrations
for their minted works, and the intellectual property (“IP”) protection such a step might afford. The cure for this IP uncertainty seems to be the holder of a copyright or trademark simply creating their own marketplace. It bears noting that there is scant evidence of NFT creators having the means to take their NFT from creation to market on their own, once again raising the question of whether the cementing creation process shall continue to divide royalties and call true ownership into question. Therefore, for a number of reasons, the IP fix, while provocative in a karmic sense, does little to remedy the ills discussed in this Article.

B. The Securities Regulation Fix

The instinct among some regulators and legal observers is to lump NFTs together with cryptocurrency. Indeed, such categorization is appealing because both are relatively new, exist in cyberspace, integrate equally novel decentralized ledgers, and attract millions of the uninitiated. Even their creation seems to stem from the same WEB 3.0 vocabulary.

Further, as is the case with digital tokens and coins, the SEC reach shall be enhanced by its tried-and-true mechanism of disciplining securities “marketers” (i.e., exchanges). This angle


184 Id.


186 See Marinotti, Law Professor Explains, supra note 167.


188 Id.

189 Compare State of Missouri, Order to Cease and Desist and Show Cause Why Restitution, Civil Penalties, and Costs Should Not Be Imposed, In re Virtual Mining, Corp., No. AP-14-09, at 3 (discussing “minting”), with Becker, supra note 106 (discussing “minting”).

is immeasurably aided by the salient nature of any NFT collapse.\textsuperscript{191} Separately, the potential for manipulation and “insider trading” of NFTs is alarmingly boundless.\textsuperscript{192} Legal experts have well chronicled the errs of sales timed to game the public’s awareness of relevant NFT information.\textsuperscript{193} Accordingly, the federal securities laws are part of many discussions of what regulation befits NFTs.\textsuperscript{194}

The SEC, which cannot seem to be able to say “no” to a new challenge, has already announced its intention to investigate NFT sales as possible securities transactions.\textsuperscript{195} Buoyed by the interlocking nature of NFTs, sponsored digital coins, and Blockchain-enabled assets, this initiative could possibly gain in traction.\textsuperscript{196} Predictably, the battle shall ebb and flow with the

\textsuperscript{191} Hayward, \textit{supra} note 36.


\textsuperscript{193} \textit{Id.}

\textsuperscript{194} See Andrea Gordon et al., \textit{How to Keep Up With DOJ and SEC Regulation of NFTs}, EVERSHEDS SUTHERLAND (Nov. 21, 2022), https://us.eversheds-sutherland.com/NewsCommentary/Articles/254808/How-to-Keep-Up-With-DOJ-and-SEC-Regulation-of-NFTs [https://perma.cc/64X2-KAPM].

\textsuperscript{195} \textit{See SEC Targets Bored Ape NFTs as Possible Securities}, PYMNTS (Oct. 11, 2022), https://www.asmart.com/nfts/2022/sec-targets-bored-ape-nfts-as-possible-securities/ [https://perma.cc/R347-TXWT]; SEC, STRATEGIC PLAN FOR FISCAL YEARS 2022–2026, at 11 (detailing the SEC’s most recent strategic plan, which references only the most bland of outcomes regarding newer digital assets). Specifically, “future market volatility driven by market or external events such as the pandemic, the evolution of markets without subsequent strengthening of agency authorities, and the rapid growth in crypto assets all represent evolutionary risks.” \textit{Id.}

predispositions of the Commissioners.\(^{197}\) Still one could still argue that the Securities and Exchange Commission is more poised to implement regulation over NFTs.\(^{198}\) The Commission has brought dozens of digital asset cases in the past decade, and its Chairman (who taught crypto classes at MIT) possesses an unwavering commitment to reigning in crypto excesses.\(^{199}\) Moreover, the specific ill of celebrity endorsement of securities for fees without disclosure is routinely punished by the SEC to eye-catching results.\(^{200}\)

1. Complicated Remedy

However, upon inspection, SEC actions against both pre-eminent and ersatz crypto “exchanges” have been enabled either through the promoter’s registering of the arrangement with the SEC, or in the presence of a specific SEC Rule.\(^{201}\) Broader SEC regulation of crypto arrangements in general, has proceeded in discretionary and unscripted fashion.\(^{202}\) Pivotal to all of these cases is the allegation of the presence of a “security” in an arrangement involving crypto.\(^{203}\)

To achieve jurisdiction over novel, widely varying crypto arrangements, the world’s most active securities regulator relies upon a 77-year-old case in which the Supreme Court first interpreted

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\(^{198}\) See Palma & Temple-West, supra note 196.

\(^{199}\) See Biography: Chair Gary Gensler, SEC, https://www.sec.gov/about/commissioners/gary-gensler [https://perma.cc/W6MG-5LNY].


the statutory term of “investment contract.” That analysis famously evaluates the passivity of the putative investor and has often found securities law a good fit for unconventional arrangements. The continuing, eponymous “Howey Test” consistently examines transactions using the means of interstate commerce for the presence of four facts: (1) an investment of money (2) in a common enterprise (3) with the expectation of profits (4) derived from the significant efforts of others. With the nearly unflagging


206 See, e.g., Turner, 474 F.2d at 481. These four factual determinations can, on occasion, be phrased as three. E.g., S.E.C v. Life Partners, 102 F.3d 587, 588 (D.C. Cir. 1996).
support of federal courts, this elastic standard has brought countless unconventional financial arrangements within the reach of the federal securities laws. Likewise, since 2015, dozens of crypto arrangements have been formally branded “securities” for purposes of SEC jurisdiction.

Such a standard would ostensibly ensnare a few NFT arrangements as “securities,” thus opening the door for SEC jurisdiction, and, in turn, opening up the panoply of securities laws remedies for the aggrieved NFT market participant. For example, the *Howey* Test is ostensibly met whenever Traders pay money to purchase NFTs, as part of a Minter’s ongoing enterprise, with the expectation of profits to be generated (at least in part) by the efforts of the Minter and the Marketer. And meeting the *Howey* Test triggers registration with the SEC and the attendant preparation of disclosure documents. Nonetheless, further analysis poses problems.

2. Unlikely Investment Contracts

Even the expansive *Howey* Test has been qualified on occasion in significant manner, notably in the context of other crypto offerings. Stated in the most general of terms, to raise the *Howey* Test question is to almost presume that the putative “investor” is passive and in need of regulatory assistance. The parties to an NFT transaction bely such uniform classification and exhibit motivations that range wildly (as well as an expertise

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210 Id.


213 Id. at 13.
few of us possess).\(^{214}\) For these reasons alone, the SEC expansion of its aggressive crypto jurisdiction seems ill advised.\(^{215}\)

In terms of more specific application of the Howey Test, element two (i.e., common enterprise), requires that the arrangement as offered require the efforts of promoter and investor (i.e., the Minter and Trader) to rise and fall together; if the Promoter makes money when the Trader does not, such “broad vertical commonality” fails in many jurisdictions.\(^{216}\)

Likewise, problematic element four of the Howey Test (i.e., requiring that the promoter provide the dominant efforts in the financial arrangement) is very difficult to establish where “investments” such as crypto or NFTs rise and fall unpredictably as the result of market fluctuations.\(^ {217}\) Simply put, NFTs—which incarnate in varied forms and are purchased for varied reasons—are alternatively valued in the hundreds of thousands of dollars or pennies for reasons unknown, thus belying any steerage by an alleged promoter or Minter.\(^ {218}\)

Moreover, the SEC claim for crypto jurisdiction—openly eschewing Congressional intervention\(^ {219}\)—has primarily resulted


\(^{215}\) See, e.g., SEC v. Ripple Labs, No. 20 CIV. 10832 (AT), 2023 WL 4507900, at *2 (S.D.N.Y. July 13, 2023) (granting summary judgment in favor of the crypto issuer after applying Howey to “programmatic” sales of digital coins through platforms to retail consumers).


\(^{218}\) Id.

\(^{219}\) Compare Chelsea Cox, Cryptocurrency Firms Need to ‘Come into Compliance’ With Existing Rules, SEC Chair Gary Gensler Says, CNBC (Dec. 7, 2022, 3:09 PM), https://www.cnbc.com/2022/12/07/sec-chair-gary-gensler-crypt
One case, involving a well-heeled defendant possessing the proceeds of an online offering that garnered over a billion dollars in proceeds resulted in protracted litigation for over two years. The resolution of that case this past summer was equally dissatisfying to both the SEC and the crypto issuer, as the split decision of a District Court branded one digital coin arrangement a “security” for purposes of the federal securities laws and its three companion arrangements beyond the reach of the Commission.

See supra note 214 (detailing scores of actions filed against crypto issuers for selling unregistered securities, nearly all of which were settled without trial). When the SEC has trained its sights on NFT issuers, with recent enforcement actions resulting in settlements in August and September 2023, the Commission has failed to achieve a consensus in its approach towards Minters, let alone Marketers. See Comm’rs Hester M. Peirce & Mark T. Uyeda, Collecting Enforcement Actions: Statement on Stoner Cats 2, LLC, SEC (Sept. 13, 2023) (“We respectfully dissent from the Commission’s second non-fungible token (NFT) settlement, as we did from the first.”).
Finally, a primary challenge in overlaying securities law lies in the tendency for securities regulations to turn a blind eye to sophisticated buyers. Indeed, whole bodies of precedent have grown around exemptions from securities regulation intended to keep the securities laws focused upon sheepish victims (as opposed to the well-heeled). Simply put, it gains little to initially require registration of all NFTs as securities if appreciable duties of registration can be nullified by exemptions in cases of offerings aimed at the affluent.

Most importantly, the fundamental issue of whether the SEC should assert jurisdiction over digital products has not been resolved despite nearly a decade debate. Strikingly, one of the five Commissioners of that intrepid agency has consistently lobbied against such exercises and extensions of jurisdiction, contributing in part to the continuing stalemate. Finally, the application of SEC jurisdiction would place the costly and timely burden of registration of NFTs upon the Minters, the parties least culpable in the status quo structuring of the NFT market. Fear that “any attempt to use this enforcement action as precedent [will be] fraught with difficulty.” Comm’rs. Hester M. Peirce & Mark T. Uyeda, NFTs and the SEC: Statement on Impact Theory, LLC, SEC (Aug. 28, 2023).

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224 See, e.g., Regulation D, SEC Rule 501, 17 C.F.R. § 230.501(a)(2022) (defining “accredited investors”—primarily based upon them holding more than $1 million in assets—for the purpose of exempting securities issuers from the obligation to deliver written information on an offering of securities).

225 Id.


C. The Commodities Regulation Fix

Separately, the Commodity Futures Trading Commission, may facially present a solid choice to regulate the market for NFTs.\(^{230}\) Noteworthy here is the 2015 *Cabbage Tech* decision, in which a federal judge declared Bitcoin to be a commodity, and thus squarely within the jurisdictional reach of the CFTC.\(^{231}\) However, the agency empowered as the chief commodities regulator has moved slowly to pursue further enforcement action targeting digital assets.\(^{232}\) The agency has instead adopted a “wait and see” approach, emphasizing information gathering while embracing the tone and message crypto entrepreneurs rather than the concern of regulators and victims.\(^{233}\)

More pointedly, the CFTC has come under fire for its cozy relationship with Sam Bankman-Fried, a notorious crypto industry leader, casting doubt upon its independence.\(^{234}\) Namely, as FTX’s collapse has played out, critics have openly questioned

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\(^{230}\) Comm’r Caroline D. Pham, *Keynote Address by Commissioner Caroline D. Pham at the 18th NASDAQ Technology of the Future Conference—Reimagining Tomorrow’s Markets*, CFTC (June 28, 2022).


\(^{233}\) See, e.g., Pham, supra note 230 (“Some foresee the Metaverse, Web3, crypto assets, non-fungible tokens (NFTs), and portable digital identity and ownership enabling a seamless convergence of our physical and digital lives—creating unified, virtual communities where people can work, play, relax, transact, and socialize.”).

whether the agency is too willing to engage with the crypto industry leaders and its eager lobbyists.\textsuperscript{235}

Further, when it comes to crypto, the CFTC has delayed both rule-making and precise admonition.\textsuperscript{236} Also noteworthy is that the CFTC enabling statute expressly states that the CFTC’s reach must not “supersede or limit” SEC jurisdiction.\textsuperscript{237} Simply put, the CFTC may need the SEC to engage in rule-making first. Consequentially, while occasional CFTC headlines trumpet fraud cases against Bitcoin titans,\textsuperscript{238} the agency appears to carve an identity focused upon a lighter touch for the modern “investor”\textsuperscript{239}—such distinction would leave unprotected the royalty seekers and other victims of under-competitive and exploitative NFT marketers.\textsuperscript{240}

\textbf{D. The Criminal Law Fix}

As the tales of bold cybertheft proliferate, there is undoubtedly the temptation to push any NFT problem under the watchful eyes and into the arresting hands of the mightiest criminal regulator.\textsuperscript{241} Such cause gains luster as tales of crime

\begin{footnotesize}
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\item \textsuperscript{237} 7 U.S.C. § 2(a)(1)(A).
\item \textsuperscript{238} See, e.g., Robert Crea et al., \textit{Cryptocurrency Exchange Traded Products: If, When and How}, 25 INV. LAW. 5, 9 (2018).
\item \textsuperscript{240} See BUSCH, \textit{supra} note 167, at 18.
\end{itemize}
\end{footnotesize}
abound in the wild WEB 3.0 world. Moreover, sometimes NFTs are simply created and marketed to traders, with the minters never having the intention of sustaining the promoted project, a fraudulent scheme known in the industry as a “rug pull.” And, to their credit, federal prosecutors have responded.

More specifically, the Department of Justice has acted upon evidence of outright deception enabled by the mere utterance of “NFTs”. Such actions readily respond to violations of the mail and wire fraud statutes. As summarized by a U.S. Attorney in a publicized 2022 case:

NFTs have been around for several years, but recently mainstream interest has skyrocketed. Where there is money to be made, fraudsters will look for ways to steal it. As we allege, [defendants] promised investors the benefits of the Frosties NFTs, but when it sold out, they pulled the rug out from under the victims, almost immediately shutting down the website and transferring the money. Our job as prosecutors and law enforcement is to protect investors from swindlers looking for a payday.


Yet, the criminal law response is, at best, derivative; DOJ cases—as impressive as they may be—rely upon generalized statutes fashioned long ago, which are only starting to be re-evaluated in the context of digital assets.247 Any attempt to expand such already broad reach relies upon notions of particularized fraud reworked by federal administrative agencies.248 Thus, the comfort gleaned from the U.S. Attorney adapting to confront fraud and theft in yet another pocket of cyberspace is a cautionary reminder that government agency appointees need to be the pioneers in maintaining order in any cyber field.249

Further, criminal enforcement—while persistently capturing national headlines—is by necessity spread over areas of drug-related offenses, violent crimes, unique violations, and white-collar transgressions; such a limitless scope ensures that no single market or goal will be routinely surveyed.250 Of greatest

significance, the Biden administration has implemented a policy emphasizing both lenity and conservation of resources via reliance upon administrative and other alternatives.251

E. The State Law Fix

The 2022 version of the Uniform Commercial Code (“UCC”) potentially addresses one of the problems of the status quo NFT market.252 Namely, proposed Section 12-105 provides the means by which ownership of NFT transactions is legitimized.253 The influential Code has sought to proactively address commerce in digital assets and has responded quickly to the budding industry.254

251 The Garland Memo states in relevant part as follows:
In determining whether adequate alternatives to federal prosecution are available, the prosecutor should consider whether the person is subject to effective prosecution by state, local, territorial, or Tribal authorities, [Justice department Manual cite omitted], or whether there exists an adequate non-criminal alternative to prosecution . . . . The latter may include federal or state civil or administrative remedies, or pretrial diversion . . . . Every district should develop an appropriate pretrial diversion policy.


254 See NFTs and Other Digital Assets: States Begin to Adopt UCC Amendments That Will Enable Transactions in Developing Technologies, COVINGTON & BURLING LLP (Nov. 1, 2022), https://www.cov.com/en/news-and-insights/insights/2022/11/nfts-and-other-digital-assets-states-begin-to-adopt-ucc-amendments-that-will-enable-transactions-in-developing-technologies [https://perma.cc/U3MW-792P] (“Recognizing the imperfect fit between existing law [sic] and the new technologies, the Uniform Commercial Code . . . has been updated to expressly address transactions involving digital assets like NFTs. These changes are expected to provide greater certainty and enable the growth of commercial transactions involving digital assets.”).
Indeed, guidance for the states is necessary, as many local governments have already recognized the marketing potential of a soft touch for digital asset transactions. However, the proposed UCC amendment—which does not expressly mention NFTs or the digital record of a transaction (e.g., a digital wallet in sole possession of a holder)—creates more questions than it answers. As the bankruptcies of mid-2022 involving “crypto lenders” have demonstrated, custody of a digital asset held in a digital wallet is in the eyes of the beholder. The amended UCC fails to remedy the deleterious conflicts between Minter and Marketer implicated in these custodial disputes. Additionally, state regulators, although occasionally obtaining impressive outcomes, are continually beset by lack of resources and often compelled to separate jurisdictions to join forces.

Overall, whether it be due to the difficulties in pinpointing NFT ownership or otherwise, the scorecard of potential regulators is actually thin. The SEC’s intervention—premised upon litigation—is somewhat unpredictable and glaringly resisted from


256 In fact, proposed UCC Section 12-105 arguably excludes NFTs by referencing exclusive control of “virtual currency.” Rein, supra note 253.

257 See id.


259 See id.

260 See, e.g., Paige Tortorelli et al., Five U.S. States Order Halt to NFT Sales by Metaverse Casino With Russia Ties, CNBC (May 11, 2022, 10:58 AM), https://www.cnbc.com/2022/05/11/five-us-states-order-halt-to-nft-sales-by-metaverse-casino-with-alleged-russia-ties.html [https://perma.cc/4FQ4-HDML] (noting both a steep learning curve for state regulators and the concomitant expectation that such authorities will continue to evolve their approach to align with that of their federal counterparts).

within. The CFTC is focused on serving a technology-driven market. The DOJ does what it can when it can, and the states seek further guidance from federal agencies. The result, at times, is an NFT market that even established businesses crave to join and then leave. Such reality means that the largest and most reputable NFT Minters are incentivized to enter the maze, find the game not worth the candle, and depart.

Fraud and deception permeate a vast NFT market. The heavy lifting for Marketers, it would thus appear, would be prioritizing transparency on their marketplaces to entice reputable Minters to join forums at reasonable cost and with an expectation of fairness. Concomitantly, the heavy lifting for the regulators

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268 Naveen Joshi, *7 Risks Investors Need to Know Before Jumping Head-first Into the NFT Bandwagon*, FORBES (Apr. 24, 2022, 8:30 PM), https://www.forbes.com/sites/naveenjoshi/2022/04/24/7-risks-investors-need-to-know-be
would appear to be overseeing Marketers across the NFT industry while curtailing their monopolistic impulses. One such agency, the FTC, is poised for such seminal work, for a strong variety of rationales.

III. PROPOSED RESOLUTION: ACTIONS BY THE STORIED AGENCY WITH THE WILL AND THE TOOLS

The undeniable inclination is to wait until the NFT bonanza reaches epic proportions, thus triggering a response from Congress. Indeed, such eager lethargy has characterized the nation’s approach to cryptocurrency since 2015. Further, the pro-crypto lobby has proven to be formidably equipped to stall any uniform, federal response to the oversight of digital assetization. There is no reason to believe that Congress could adopt statutes thwarting NFT practices without encountering similar deeply pocketed and entrenched opposition. It is readily


See BUSCH, supra note 167, at 12–13.


Cryptocurrency has long been subject to speculation as fodder for Congressional action, but no final measure has been adopted by the national legislature. See, e.g., Jason Brett, Congress Has Now Introduced 32 Crypto and Blockchain Bills, FORBES (Apr. 28, 2020, 12:03 AM), https://www.forbes.com/sites/jasonbrett/2020/04/28/congress-has-introduced-32-crypto-and-blockchain-bills-for-consideration-in-2019-2020/?sh=784af9e21d61 [https://perma.cc/SZ43-7PAE] (describing a variety of Bills largely aimed at shielding the industry from the SEC).

See Hailey Fuchs, NFTs Move to Influence Congress, Even if Lawmakers Have No Clue What They Are, POLITICO (Jan. 5, 2022, 10:25 AM), https://
observed that the calls for the federal government to stay on the sidelines and watch WEB 3.0 grow have proven to be peculiarly varied and steadfast—even including academia in the lobbying efforts.275

And yet, the fact remains that billions of dollars and a million digital products are being actively herded into either a single or very short list of marketplaces.276 Those marketplaces are new, seemingly boundless, minimally understood, and growing in unchecked fashion.277 To the extent that marketplace data can be studied, it supports a de facto monopoly.278 For over a hundred years, one independent regulatory commission has been tasked with halting monopolies.279 Moreover, such agency’s recent agenda is strikingly bold and activist.280

A. FTC: Tradition and Weapons

The Federal Trade Commission was created in 1914 at the reported insistence of President Woodrow Wilson.281 Its enabling
Act authorizes actions both in federal court and of an administrative nature. The Commission opened its doors in 1915; it has long advertised its dual mission to protect consumers (“Consumer Mission”) and to promote fair competition (“Fair Competition Mission;” collectively, “the Missions”).

Similar to other New Deal creations, five Commissioners govern the agency, with no more than three from either of the political parties. One could theorize that the agency was designed for consistency; since its creation, Commissioners have been appointed to seven-year terms; by comparison, the SEC Commissioners serve five-year terms. Since 1989, only 27 people have served as FTC Commissioners.

At year-end of 2022, the FTC boasted 13 offices and approximately 1,100 employees. In recent times, the agency has admirably wed itself to a five-year plan that expressly foresees issues with digital products. In terms of rule-making, the FTC


285 See id.

286 See id.


288 See FTC, STRATEGIC PLAN, supra note 280. (Effective since 1946, the Administrative Procedure Act (“APA”) sets minimal standards for federal agencies; 5 U.S.C. ch. 5, subch. I § 500 et seq. (2018). For example, Section 553 (which governs rule-making), mandates that agencies proposing new
would appear as active a “legislative” body as any party could imagine. While currently possessing a modest budget of approximately $430 million, the agency was selected by the White House in 2021 to partner with the DOJ in combating unfair labor practices and to stir employment.

The White House directive was not ignored, and in late 2022, the FTC shocked businesses, announcing its intention to ban employee “non-compete clauses” nationally. The unprecedented move from the seemingly fearless agency, if brought to fruition, would affect an estimated 30 million employees.

B. Weapon of Choice: Section 5 of the Enabling Act

The FTC’s enabling statute created options not provided by the prior antitrust laws:

Unlike the Sherman and Clayton acts, the [Federal Trade Commission Act] allows an accused party to enter into a consent agreement with the FTC in which the party does not admit guilt but agrees never to engage in the questionable behavior in the future. The [Act] also gives the FTC the regulations “notice” the public at large and provide for at least a 30-day “comment period” for informal responses from anyone.

Since 2019, the FTC has published approximately 250 rules for Comment, and drawn nearly 100,000 Comments in response. See REGULATIONS.GOV, https://www.regulations.gov/search/docket [https://perma.cc/WB3Y-H56M].


White House, Statement, FACT SHEET: Executive Order on Promoting Competition in the American Economy (July 9, 2021), https://www.whitehouse.gov/briefing-room/statements-releases/2021/07/09/fact-sheet-executive-order-on-promoting-competition-in-the-american-economy/ [https://perma.cc/L43Y-DRWT]. That Order also called upon the FTC “to enforce the antitrust laws vigorously” amidst recognition that “the law allows them to challenge prior bad mergers that past Administrations did not previously challenge . . . .” Id.


power to issue cease-and-desist orders, which are enforceable by petition to a U.S. appellate court. Failure by a defendant party to act in accordance with the consent decree or cease-and-desist order can result in a finding of contempt and criminal referral to the U.S. Department of Justice . . .

Noteworthy in this regard is the FTC’s effectively unlimited statutory authority to investigate any person or corporation. A possible “golden age” for the government’s regulation of monopolies may have manifested between 1950–1980. As these seminal cases evidence, the regulation of anti-competitive practices in America is divided between enforcement by the DOJ, enforcement by private citizens, and enforcement by the FTC. Nonetheless, in the past two years, the FTC has proven to be an active regulator of anti-competitive behavior all by itself.

C. Present State

In 2023, it is readily apparent that the FTC is dauntless in creatively pursuing unpopular wrongdoers. To be sure, the

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297 See, e.g., United States v. Am. Tel. & Tel. Co., 524 F. Supp. 1336, 1344 (D.D.C. 1981) (refusing to dismiss the government’s landmark case while utilizing a standard examining for (1) the possession of monopoly power and (2) the maintenance of that power). Previously, the DOJ had succeeded in charging Standard Oil based upon a showing that the Sherman Act was violated where a de facto monopoly resulted due to ownership of “a substantial number of outlets and a substantial amount of products, whether considered comparatively or not.” Standard Oil Co. of California v. United States, 337 U.S. 293, 298 (1949).
298 See Standard Oil Co., 337 U.S. at 294.
299 See, e.g., Nat’l Collegiate Athletic Ass’n v. Alston, 141 S. Ct. 2141, 2147 (2021) (striking down a number of NCAA rules on college student “amateurism”).
302 See FTC, FTC BUREAU OF CONSUMER PROTECTION ISSUES CRIMINAL LIAISON UNIT REPORT DETAILING EFFORTS TO ENSURE WRONGDOERS FACE
FTC can readily settle for undisclosed fees by online merchants under its Consumer Mission.\textsuperscript{303} Whatever the precise charge, the FTC flies where angels dare not tread.\textsuperscript{304} More practically, the FTC uses its Section 5 authority to advance both Missions, matching case facts to the statutory standards as the need may arise.\textsuperscript{305} Simply put, the FTC can effortlessly intertwine its Consumer and Competition Missions to address alarming facts; the court (either internal or external) is then asked to find “uncompetitive practices” in fulfilment of the statute.\textsuperscript{306} Such methodology avoids the requirements of matching antitrust behavior to the dictates of specific rules.\textsuperscript{307}

An emblematic example is the November 2022 case of DK Automation.\textsuperscript{308} There, the agency charged promoters of passive, online Amazon business ventures with numerous Section 5 violations.\textsuperscript{309} One charge (“Count Two”) simply alleged “unfairness”

\textsuperscript{303} See, e.g., Complaint at 23, FTC v. LendingClub Corp. (N.D. Cal. April 25, 2018) (No. 3:18-cv-02454), https://www.ftc.gov/system/files/documents/cases/lending_club_complaint.pdf [https://perma.cc/BYF2-D486]. Although Defendant tells consumers that its loans contain “No hidden fees,” Defendant nevertheless charges consumers an up-front fee that is not clearly and conspicuously disclosed. This fee is calculated as a percentage—on average, approximately 5 percent—of the consumer’s requested loan amount, and often amounts to more than a thousand dollars.


\textsuperscript{305} See id.

\textsuperscript{306} See id.

\textsuperscript{307} Other agencies are not so unencumbered. The SEC, for example, similarly enabled by a statute promising “fairness” and outlawing “fraud,” needs to satisfy the evolving, common law elements of Rule 10b-5 to prove insider trading in most cases. See Securities Exchange Act § 10(b), 15 U.S.C. § 78j(b); 17 C.F.R. § 240.10b-5; United States v. O’Hagan, 521 U.S. 642, 650–52 (1997).


\textsuperscript{309} Id. at 2.
to both consumers and competition.\textsuperscript{310} A larger survey of litigation initiated since 2020 readily earns the agency the label of a successfully active enforcer of both of the Missions:

- In 2020, the agency used its “anti-monopoly” power (i.e., Fair Competition Mission) to ensnare perhaps the most hated entrepreneur in America when it successfully charged drug company CEO Martin Shkreli.\textsuperscript{311}
- In 2021, the FTC sued Meta (i.e., the new incarnation of Facebook) for uncompetitive behavior. In its Complaint, the FTC made use of the Sherman Act to seek the halt of, inter alia, business practices at the popular social media platform. That Complaint highlighted user constraints implemented by Facebook in efforts to “deter and suppress competitive threats” as delineated below:

  Anticompetitive Conditioning. In addition to its strategy of acquiring competitive threats to its personal social networking monopoly, Facebook has, over many years, announced and enforced anticompetitive conditions on access to its valuable platform interconnections, such as the application programming interfaces (“APIs”) that it makes available to third-party software applications.\textsuperscript{312}

Of course, the more daring action against Meta lodged by the FTC sought to block its acquisition of a popular exercise app.\textsuperscript{313}

\textsuperscript{310} Id. at 32.
\textsuperscript{312} Complaint for Injunctive and Other Equitable Relief at 7, FTC v. Facebook, Inc. (D.D.C. 2021) (No.: 1:20-cv-03590), https://www.ftc.gov/system/files/documents/cases/051_2021.01.21_revised_partially_redacted_complaint.pdf [https://perma.cc/N33B-W7QW].
\textsuperscript{313} Complaint for a Temporary Restraining Order and Preliminary Injunction Pursuant to Section 13(b) of the Federal Trade Commission Act at 14,
To wit, in July 2022, the FTC sued Meta to halt its merger with the Peloton holding company. The FTC relied upon Section 13(b) of the FTC Act, which authorizes the pursuit of a preliminary injunction; the substantive law flowed from both Section 5 of the FTC Act and Section 7 of the Clayton Act, which outlaws mergers where the result “may be substantially to lessen competition or tend to create a monopoly.” Tellingly, the ambitious case (seeking an injunction of a merger from a federal court judge) was described by the Commission as follows:

Meta is a potential entrant in the virtual reality dedicated fitness app market with the required resources and a reasonable probability of building its own virtual reality app to compete in the space. But instead of entering, it chose to try buying Supernatural. Meta’s independent entry would increase consumer choice, increase innovation, spur additional competition to attract the best employees, and yield other competitive benefits. Meta’s acquisition of Within, on the other hand, would eliminate the prospect of such entry, dampening future innovation and competitive rivalry.

Commentators applauded the FTC’s prospective action to block a monopoly before it cemented.


314 Id. at 2.
Also in 2022, the FTC successfully targeted “bait-and-switch” practices in the automotive industry, and the agency announced new standards which shall warn companies bereft of protocols for data breaches.

These actions by the present, intrepid FTC, signaled both a variety of concerns and a willingness to join the Missions. Concurrently, the Fair Competition Mission would get even stronger.

**D. End of Year 2022 Reinvigoration**

In late 2022 the FTC leapt forward when it rescinded its 2015 guidance which had restricted the agency’s exercise of its authority to challenge anti-competitive business practices. FTC Commissioner Slaughter announced, “[W]e want to send a signal that today’s FTC is ready to take on the challenge of the modern economy.” The bold revision was seen as promising more aggressive enforcement efforts that would expand notions potentially limited by “classic” antitrust law.

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321 See supra note 283 and accompanying text.

322 See id.


325 See id.
Subsequently, in December 2022, the activist FTC issued its replacement guidance. The new principles clarified three key points: (1) unfair practices may be present without proof of actual injury; (2) unfair practices as envisioned under the FTC Act could exist outside the context of a merger; and (3) the new guidance was supported by at least a dozen Supreme Court cases. Thus, the present FTC principles governing fair competition outlaw conduct as follows:

- Conduct that violates the spirit of the antitrust laws. This includes conduct that tends to cause potential harm similar to an antitrust violation, but that may or may not be covered by the literal language of the antitrust laws or that may or may not fall into a “gap” in those laws;

- Fraudulent and inequitable practices that undermine the standard-setting process or that interfere with the Patent Office’s full examination of patent applications;

- De facto tying, bundling, exclusive dealing, or loyalty rebates that use market power in one market to entrench that power or impede competition in the same or a related market; and

- Conduct by a respondent that is undertaken with other acts and practices that cumulatively may tend to undermine competitive conditions in the market.

Additionally, the updated guidance clarified that the antitrust laws do not ordinarily support private causes of action (i.e., strengthening the need for an active FTC) and that “[i]n crafting Section 5, Congress recognized that unfair methods of competition

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327 Id.

328 Id. at 13–14.
may take myriad forms and hence that different types of evidence can demonstrate a tendency to interfere with competitive conditions.”

Separately, the agency has often anticipated a role in WEB 3.0, as is stated early and repeatedly in the FTC’s most recent five-year plan:

To fulfill its goal of protecting the public, the FTC must identify consumer protection issues and trends in the fast-changing, increasingly global marketplace. The agency strives to understand the issues affecting the public, including any newly emerging methods of fraud, so that it can target its enforcement, education, and advocacy on those areas where the public suffers the most harm.

Accordingly, given the FTC’s activist approach, support from the White House, public backing, applicable statutory tools, recent revision of its anti-competitive authority, and the truisms of the digital economy, the FTC stands as the

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329 Id. at 9.
330 See id. at 12–13 (defending consumers as commensurate with its legislative mission).
332 Diego Lasarte, The FTC May Ban Non-Compete Clauses. Here’s What Workers Think About That, QUARTZ (Jan. 19, 2023), https://qz.com/public-comment-on-the-ftc-non-compete-ban-1850005519 [https://perma.cc/7Q5K-AFTS] (noting public support for the proposed ban: “In the meantime, the FTC’s website has posted public submissions from American workers explaining what the ban would mean to them. A selection of the responses so far makes pretty clear where workers stand on the issue.”).
335 See Terrell McSweeney, FTC 2.0: Keeping Pace With Online Platforms, 32 BERKELEY TECH. L.J. 1028, 1041–42 (2017) (discussing the role and power of platforms in the digital economy); see also Tom Wheeler, Are the FTC’s
regulator of choice to monitor, oversee, and impose rules on the unwieldy NFT market. In turn, for reasons discussed earlier, such regulation should target both market education and anti-competitive practices by dominant Marketers. Indeed, courts consistently approve FTC enforcement actions pursuant to its Unfair Competition authority under the Sherman Act. To provide even more notice to the nascent NFT industry, two initial steps under the FTC’s newly reasserted anti-monopoly authority are thus proposed below.

E. Two-Prong Solution

In view of its indomitable will and specific new authority, the FTC is poised to prevent the calamity of an NFT market collapse affecting millions. Such prevention can best be offered through dual actions: (1) a consumer advisory for marketplace entrants, and (2) a cease-and-desist order against dominant marketplaces.

1. Consumer Advisory

A potential advisory opinion for the FTC website could look like this:


See supra note 301 and accompanying text.


See, e.g., FTC v. Surescripts, LLC, 2023 WL 2707866 (D.C. Cir. March 30, 2023) (granting partial summary judgment for the FTC on its claim against a health information technology company of monopolization under the Sherman Act while noting that dominance of 60% of the market can suffice within the jurisdiction).


First-time creators and purchasers of NFTs should note that the phenomena presents novel challenges and risks, including, but not limited to, those detailed below:

- NFTs are not backed by a central bank and are not insured;
- NFTs are dependent upon virtual currencies, which are highly volatile;
- NFTs can be hacked or stolen with little or no recourse;
- There is no way to reverse a virtual currency transaction;
- Undisclosed “gas fees” and “royalty payments” (which can continue into perpetuity) often attend dealings with NFT marketplaces; and
- NFT marketplaces are not recognized or regulated exchanges.\[^{341}\]

Such public statement would be a start to more formal guidance and rule-making while signaling that the FTC has taken up the cause.\[^{342}\]

2. **Cease-and-Desist Action**

Additionally, given the glaring consolidation of the NFT industry, litigation is needed.\[^{343}\] Recall that OpenSea alone lists over one million NFTs, with only a small fraction of those

\[^{341}\text{See STATE OF MISSOURI, supra note 189. These bullet points were largely inspired by a Complaint brought against a virtual Bitcoin mining company by the Missouri Secretary of State in 2014.}\]

\[^{342}\text{Chugani et al., supra note 52.}\]

\[^{343}\text{See generally Cryptocurrency Suits Could Provide Road Map for Litigation Against NFT Marketplaces Exchanges, MAYER BROWN (May 11, 2022), https://www.mayerbrown.com/en/news/2022/05/cryptocurrency-suits-could-provide-road-map-for-litigation-against-nft-marketplaces-exchanges [https://perma.cc/L45S-PNRT] (discussing how suits against cryptocurrencies can help provide a roadmap for attorneys with clients dealing with NFTs).}\]
reflected in its “rankings.” Further, that marketplace is steadily characterized as hosting the largest discernible percentage of trading volume (even when conservatively estimated in the vicinity of storied dominance figures).

Moreover, internet marketers offer assistance in designing a new NFT for under $100 (with more complete “launches”, including a website ranging up to $10,000). Further, OpenSea shields details on the royalty process, imposes vague “gas fees,” and feeds one Blockchain and its accompanying coin to the detriment of competitors.

The FTC leveraged the tried-and-true legal basis found in Section 5 of the FTC Act in its attempt to preserve competition, limit Meta’s expansion towards dominance in VR, and halt its 2022 acquisition of Within. The agency’s Complaint expressly stated:

As Meta fully recognizes, network effects on a digital platform can cause the platform to become more powerful—and its rivals weaker and less able to seriously compete as it gains more user, contents, and developers. The acquisition of new users, content and developers each feed into one another, creating a self-reinforcing style that extends the company’s early lead.

Certainly many of the concerns about consolidation and anti-competitive practices that informed the Agency’s recent action targeting Meta, are seen in the dominance of certain NFT Marketeters, and should attract the regulator’s attention. OpenSea (or its replacement as top Marketer), with its (1) grossly consolidated market share, (2) exclusion of NFTs not wed to Ether, (3) hidden “gas fees,” and (4) uncertain royalties, presents a similar case for

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348 See supra note 128 and accompanying text.
350 Id. at 4.
the lawyers in the FTC’s famed Anti-Competition Unit.351 Certainly, enterprises as consolidated as the present Marketers have been sued by the FTC for far less.352 Regardless if the agency should win or lose, a case brought under the broad dictates of Section 5 of the FTC Act ensures that unsavory practices will be halted, or at least dragged into the light.353

Accordingly, in view of the FTC’s activist approach and enhanced anti-competitive guidance, the request for an injunction—against whatever Marketer enjoys the monopoly at the moment—could use the following language:

[MARKETPLACE] has attained dominance of the market, denied entry to persons seeking basic knowledge about such entry, and unilaterally set standards for royalties. Further, [MARKETPLACE] has set and imposed hidden fees of an incalculable nature which are made clear and borne only after upon entrance into the NFT market through [MARKETPLACE]. Such practices violate the spirit of the antitrust laws by causing potential harm similar to an antitrust violation, if not by literal transgressions, by falling into a “gap” in those laws. Further, such conduct in conjunction with other acts and practices cumulatively may tend to undermine competitive conditions in the market.

The FTC’s enhanced authority to advance its Fair Competition Mission justifies pursuing cease-and-desist orders targeting NFT marketers on the internet. Indeed, any FTC case would likely only become stronger upon formal investigation and service of subpoenas. Stated more globally, the FTC is presently the most fearless policy maker among the independent regulatory commissions. A brief survey of the litigation pursued, policies proposed and regulations adopted by the agency since 2020 readily demonstrates its reputation as an intrepid government watchdog.354 In view of the FTC’s restatement of its guiding principles, it is

351 See Schwartz, supra note 128 and accompanying text; see supra note 163 and accompanying text; see also supra note 190.
353 See supra note 328 and accompanying text.
354 See supra notes 302–30 and accompanying text.
submitted that the agency is the best choice for cabining the ills documented already in the eccentric, yet opaque, field of NFT creation and purveyance.

CONCLUSION: OF APES, CAGES, AND THE MIXED BLESSING THAT IS WEB 3.0

A. The Recap

The barriers to entry in the budding NFT industry are virtually nonexistent.355 Even enthusiastic participants in the new Web 3.0 world have sounded the alarm, albeit in generic fashion.356 Before NFT practices become further entrenched, some customary standards on competition must be reiterated.357

The Introduction herein presented a new conundrum thriving in 2023: the lure of NFTs as an unregulated industry taking root as its overarching industry (i.e., cryptocurrency) still evades meaningful regulation.358

Part I more specifically addressed the status quo. The NFT industry, while troubled by infighting,359 is not departing.360 Indeed, with each new mishap, more intermediaries appear to be poised to enter the fray.361

355 See supra notes 19–39 and accompanying text (explaining how the barrier to entry in the NFT field is virtually nonexistent).
357 See supra note 328 and accompanying text (reviewing how the FTC can reinforce customary standards on competition).
358 See supra notes 7–18 and accompanying text (detailing the lure of NFTs).
Part II raised and refuted a number of potential agencies and legal authorities as rational champions of NFT regulatory enforcement, while also stressing the futility of assigning NFTs to dogma (i.e., the UCC) or criminal authorities (i.e., the DOJ). First and foremost, the SEC seems a proper fit.\textsuperscript{362} However, many NFTs lack the elemental features of securities, are not utilized as investments, and the stock market regulator’s position on cryptocurrency regulation has not found sturdy legal footing.\textsuperscript{363} Meanwhile, the CFTC has much explaining to do for its apparent willing acquiescence to the policy priorities of crypto lenders and exchanges before certain market leaders’ epic downfall in the summer of 2022.\textsuperscript{364} As federal agencies circle the wagons, the states are awaiting clear cues from an agency with issue expertise, budget resources, and subpoena power.

To be sure, WEB 3.0 has already fulfilled a promise of accessibility.\textsuperscript{365} Yet, the layman is being misled by new entrepreneurs encouraging purchases of the supposed unique NFT assets, and regulators have noticed.\textsuperscript{366} Accordingly, Part III of this Article selected the Federal Trade Commission as the watchdog of choice. Apart from the dangers of continued regulatory inaction, the FTC has seen a rebirth as the regulator of the moment.\textsuperscript{367} The agency with roots to trust-busting times has been peerless in the past 24 months, consistently embracing challenges under both

\textsuperscript{362} See supra Section II.B.

\textsuperscript{363} See Au, supra note 211.

\textsuperscript{364} See Newmyer & Whoriskey, supra note 234.

\textsuperscript{365} See Silver, supra note 45.


\textsuperscript{367} See 1933–1953, FED. TRADE COMM’N, https://www.ftc.gov/reports/ftc100-bibliography/1933-1953 [https://perma.cc/K4RT-2B6Y] (noting that the FTC, which predated the creation of the SEC by a year, actually served as the nation’s first federal securities regulator); see also supra notes 334–36 and accompanying text.
its consumer protection and anti-monopoly authority. Notably, the FTC is succeeding at enforcing antitrust statutes while concomitantly persisting in protecting consumers; further, the FTC fears not treading on turf arguably owned by its ally agencies.

B. The Paradoxical Bored Ape

Like the swelled digital assets that came before, any downturn in NFT usage shall succeed mainly in prompting new NFT players and markets. While the crypto winter of mid-2022 amply demonstrated that all digital assets are interrelated, that crisis did not end the Leviathan industry; so shall the NFT industry (earning, during one recent time period, by conservative estimate, $50 million a month) learn to adapt. Moreover,


369 See Deiter Holger, FTC Weighs Stiff Penalties on Deceptive ‘Green’ Marketing, WALL ST. J. (Jan. 12, 2023, 12:03 PM), https://www.wsj.com/articles/ftc-weighs-stiff-penalties-on-deceptive-green-marketing-11673485112 [https://perma.cc/G3QB-52WZ] (noting that the agency is “seeking comment on potential revisions to its guidelines on environmental marketing claims” even as the SEC is proposing that public companies and hedge funds drastically enhance environmental reporting to investors).


while the victims of the specific crime of NFT theft range from the uninitiated to the titans themselves, the public’s appetite for NFTs is likely to persist and even grow. Further, with aplomb and ease, the art world itself may simply incorporate notable “tokens” into its worldwide collection. Stated otherwise, the reports of the demise of NFTs are premature.

Additionally, the well-funded NFT lobby is savvy enough to distinguish the faddish elements of NFTs from its more durable utilities, thus ensuring that the industry shall survive. Meanwhile, NFTs are used by some established businesses as just another means of delivery, further enhancing the need for rules and business certainty. Inevitably, the industry’s defenders

\[\text{Note: The text refers to various sources and specific events related to NFT theft and its impact.} \]
will embrace charity and social works, a public relations strategy utilized so very well by Wall Street for decades. Un-doubtedly, the ills will begin to spread as basic questions like, “Who may terminate the NFT?”, and such inquiries will come back to haunt.

It bears noting that the remedy proposed herein may be the measured alternative to what some states are already considering, namely, an outright ban of public NFT sales. Instilling fear of the FTC’s anti-monopoly authority in the NFT market can push back against the ambitions and anti-competitive intuitions of the industry’s entrepreneurs and architects. Further, that fear directly inspires dominant players towards compromising and coordinating with regulators. The European blueprint already exists. The storied FTC in recent times has


379 See Nick Baumann, Apparently We’ve Forgotten Who the Milken’s Are, MOTHER JONES (Aug. 18, 2011), https://www.motherjones.com/politics/2011/08/lowell-milken-institute-ucla/ [https://perma.cc/F7D4-PEEN] (using the example of Lowell Milken, who was banned for life from the securities industry last century and is now perhaps best known for the ethics institute bearing his name on the campus of UCLA).


succeeded in preserving prior victories,\(^{384}\) blazing new law to the delight of the citizenry,\(^{385}\) displaying political savvy,\(^{386}\) and arguably showing itself to be above the politicking that has cast doubt upon the resolve of other federal regulatory agencies.\(^{387}\)

As for technology, the proponents of the latest incarnation of the Internet-dubbed “Web 3.0” have promised unprecedented artistic and commercial freedom. When it comes to NFTs, thus far a monopoly has served as a portal to this brave new world.\(^{388}\) The Federal Trade Commission, with its glorious past and active present, is the sheriff of choice for this third incarnation of a beastly Internet we cannot seem to instinctively live within or without.


