KPMG

Intellectual Property newsletter

Edition 3 | 2023

Contents

1 Introduction p. 03

IT 2 Image right protection for Michelangelo's David p. 04

CZ 3 New EU Unitary Patent and Unified Patent Court p. 05

CH 4 Switzerland's road to a driverless future p. 07

VN 5 Overview of franchising in Vietnam p. 10

DE 6 Media companies and the metaverse p. 13

ES 7 Developments on private copying levy p. 18

ES 8 Calculation of dies a quo on infringements p. 19

1 Introduction

Welcome to the new edition of the KPMG Intellectual Property newsletter on developments in the world of copyright, patents, trademarks, designs, domains and other Intellectual Property rights ("IPRs").

We have compiled a number of interesting articles from around the world that provide insights into new developments. KPMG firms are proud of their global network of IP lawyers, business advisors and other IP experts enabling KPMG professionals to offer an international service to clients in this area.

In this edition, we take a closer look at the cultural heritage, which is often used for economic and advertising purposes. We report on efforts which aim at protecting image rights of cultural goods in Italy.

Then we explore the future of transportation. Autonomous driving is one of the hot topics and we analyze the latest developments in Switzerland.

We also provide some insights on legal frameworks. In the field of patents, the Unified Patent Court has finally started its work, putting a temporary end to a long development. The European Unitary Patent is expected to simplify patent protection in the EU, and we explain what this means to you.

Furthermore, we examine the franchising framework in Vietnam which offers lots of business opportunities for foreign investors.

The metaverse provides lots of opportunities, but also challenges. We analyze what this means for media companies. In addition, we consider some recent developments in Spain and inform you about the Spanish Royal Decree 209/2023 and a ruling on liability for trademark infringement.

We hope you enjoy reading.

Dr. Anna-Kristine Wipper
Partner
KPMG Law Rechtsanwaltsgesellschaft mbH
T +49 30 53019-9731
awipper@kpmg-law.com

Madlen Müllensiefen
IP Portfolio Management
KPMG Law Rechtsanwaltsgesellschaft mbH
T +49 69 95119-5641
madlenmuellensiefen@kpmg-law.com

2

Image right protection for Michelangelo's David

IT

Always more frequently in Italy, cultural heritage goods belonging to visual and sculptural arts are exploited for advertising campaigns and, in general, for economic purposes.

The Court of Florence recently dealt with this issue in 2022, ruling on the case of a well-known company active in the haute couture sector that had shared online an advertising campaign concerning a reproduction of Michelangelo's David wearing a sartorial dress. Consequently, the Italian Ministry of Cultural Heritage undertook an urgent proceeding against the fashion company, asking, among others, for an injunction against the economic exploitation of David's image.

In this regard, Articles 107 and 108 of the Italian Code of Cultural Heritage and Landscape (Legislative Decree No. 42 of 2004, the "Code") set out a mandatory authorization regime for the reproduction of any national cultural heritage good that – as provided under Section 10 of the Code – have artistic, historical, archaeological, ethno-anthropological, archival, and bibliographical value as "testimonies of civilization".

Based on these provisions, the Court of Florence confirmed that the Code provides a general prohibition on reproducing cultural properties for exploitation purposes without prior authorization of the entitled Italian public entity. Moreover, following the judges' reasoning, fee payment is insufficient to legally reproduce a cultural heritage good. The prior consent given by the relevant administration is always indispensable regardless of the kind of commercial use of the cultural property, as the public administration "*has the role of assessing the compatibility of the requested use with the cultural destination and the historical-artistic character of the asset*".

The Court also acknowledged that Italian law recognizes "*a full and effective right to the image of cultural heritage deriving under Articles 107 and 108 of Legislative Decree No. 42 of 2004*". Consequently, the unauthorized use or reproduction by third parties of a cultural good for any purpose may entail the infringement of the image right of that good, which can be judicially enforceable.

This principle was recently reaffirmed by the Court of Florence in 2023 in a subsequent dispute concerning the unauthorized reproduction of Michelangelo's David on the cover of a well-known magazine, with a morphing effect[(a)] that approximated it to a famous Italian model.

Once more, not only did the Court recognize a violation of Articles 107 and 108 of the Code, but it also held that heritage goods such as Michelangelo's David can be entitled to image rights protection as well as image rights of a person provided for under Article 10 of the Italian Civil Code. Such right also finds its regulatory basis under Article 9 of the Italian Constitution, protecting the Nation's landscape and historical and artistic heritage.

The image right of cultural goods derives from the principle that cultural goods have a 'collective value' identified "*in their destination to be enjoyed in a culturally qualified manner and free of charge by the entire community, in ways that lead to the development of culture and the promotion of knowledge, by the public, of the historical and artistic heritage of the Nation*".

Therefore, David's reproduction was found to be in violation of the abovementioned provision for the following reason:

- entitled Italian public entity did not give consent to the reproduction, and no reproduction fee was paid;
- the manner of reproduction is equally illicit, as it alters the image of David, which is juxtaposed, and indeed confused, with the image of an iconic model from the world of fashion, for purely advertising purposes.

In the 2023 decision, the David is not only considered a work of absolute artistic value but is even raised to symbolize the entire Italian cultural heritage and, ultimately, Italian genius.

Both rulings follow the line of previous pronouncements that acknowledge and emphasize specific rights of protection pertaining to cultural assets, essential in enhancing and preserving the value of Italy's cultural heritage. Such decisions consolidate the interpretative orientation of the Italian Courts that entrust exclusive rights for the economic exploitation of cultural assets to the Italian public entities entitled to those goods and the consequently required consent for exploitation of the same by third parties.

Note: (a) This consists of the fluid, gradual and seamless transformation between two images of different shapes.

Marina Lanfranconi
Principal
Studio Associato
Consulenza legale e tributaria
T +39 02 6764-4308
mlanfranconi@kpmg.it

Francesca Leoni
Senior Associate
Studio Associato
Consulenza legale e tributaria
T +39 02 6764-4740
fleoni@kpmg.it

3

New EU Unitary Patent and Unified Patent Court

CZ

This year has brought one of the biggest changes to intellectual property law in decades. As of 1 June 2023, the Unitary Patent came into force and the Unified Patent Court started its operations. With the introduction of the Unitary Patent and a new judicial institution, the EU expects the protection of intellectual property to become more convenient, easier and effective.

It has taken quite a long time for the Unitary Patent (UP) to become a reality. The Regulation (EU) 1254/2012 which led to the creation of unitary patent protection itself dates back to 2012. However, for the patent to be granted, an enforcement mechanism had to be put in place. The establishment of the Unitary Patent Court (UPC) had to deal with several obstacles that slowed down the whole process of launching the UP. Except for Spain, Croatia and Poland, which decided not to participate, the UP should be valid in all EU member states. At the moment, 17 member states are already participating in the UP and the UPC (Austria, Belgium, Bulgaria, Denmark, Estonia, Finland, France, Germany, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovenia, and Sweden). The other member states have already signed the UPC agreement but have not yet ratified it so their joining can be expected in the near future.

Unitary Patent

Before the UP was launched, an inventor could protect his invention in Europe with a national patent or a European patent (i.e., several individual national patents applied for with a single European application). However, this procedure is quite time-consuming and expensive. Even if the inventor chooses the European patent, the

3 New EU Unitary Patent and Unified Patent Court

CZ

patent still must be validated and maintained individually in each country. This leads to a heavy administrative burden. The UP significantly eliminates this burden. With a single application it is now possible to obtain protection for an invention automatically in all participating states. However, this does not mean that from now on all patents will automatically be UP. The UP merely provides another way to protect intellectual property and the applicant still has the option of choosing to proceed with national patents or the European patent. The implementation of the UP has brought many advantages, but the biggest one is undoubtedly the savings on renewal fees. Renewal fees for the UP are collected collectively by the European Patent Office and the amount of the renewal fees in the first 10 years of the patent should not exceed € 5.000.

Unified Patent Court

The infringement and validity of European patents are currently decided by national courts and authorities. This situation is far from ideal because in the worst-case scenario it can lead to situations where the authorities decide on the same dispute completely differently. Not to mention the high costs of running several parallel court/administrative proceedings.

These issues should be eliminated by introducing the UPC. The UPC is a supranational court established by the Agreement on the Unified Patent Court (UPCA). This new court enables holders of UP and European patents to enforce their rights in all member states that have ratified the UPCA. The UPC consists of the Court of First Instance (Paris and Munich), the Court of Appeal (Luxembourg) and the Registry.

Interestingly, the jurisdiction of the UPC also covers European patents granted before 1 June 2023. However, if holders of the European patent wish to avoid litigation before the UPC, they can “opt-out” and remain under the jurisdiction of national courts during the seven-year “transitional period”. The opt-out can be done at any time during this transitional period and it is possible to subsequently request its revocation. Several European patent holders have already applied for the opt-out and many more are considering it.

The submission to the jurisdiction of the UPC has also its pros and cons. One of the significant disadvantages is the legal uncertainty because the UPC has no stable decision-making practice yet and its decisions may be unexpected at the beginning. Furthermore, the effect of the UPC´s decision will be far reaching – for example if the UPC decides to revoke the patent, this single decision will result in the revocation of protection in all the participating countries. In this light, it is not very surprising that there are many opt-outs already present because the patent holders see a lower financial risk in opting-out than in exposing themselves to the UPC's jurisdiction.

The introduction of the UP and the establishment of the UPC mark an important milestone in European patent law. It will therefore be very interesting to monitor their further development, in particular the decision-making practice of the UPC. Despite some uncertainties, we can conclude that from today's perspective the advantages of the introduction of the UP and the UPC prevail.

Martin Čapek
Associate
KPMG Legal s.r.o., advokátní kancelář
T +420 222 12-3967
mcapek@kpmg.cz

Eliška Houdková
Junior Lawyer
KPMG Legal s.r.o., advokátní kancelář
T +420 222 12-3808
ehoudkova@kpmg.cz

4 Switzerland's road to a driverless future

CH

The emergence of autonomous vehicles ("**AVs**") has captivated the world, offering a glimpse into the exciting future of transportation. With the promise of numerous benefits, automated driving undoubtedly holds tremendous potential: imagine a world where commuting becomes more comfortable, transportation infrastructure is utilized more efficiently, mobility-related emissions are reduced, road safety is enhanced, and ecological impacts are minimized.

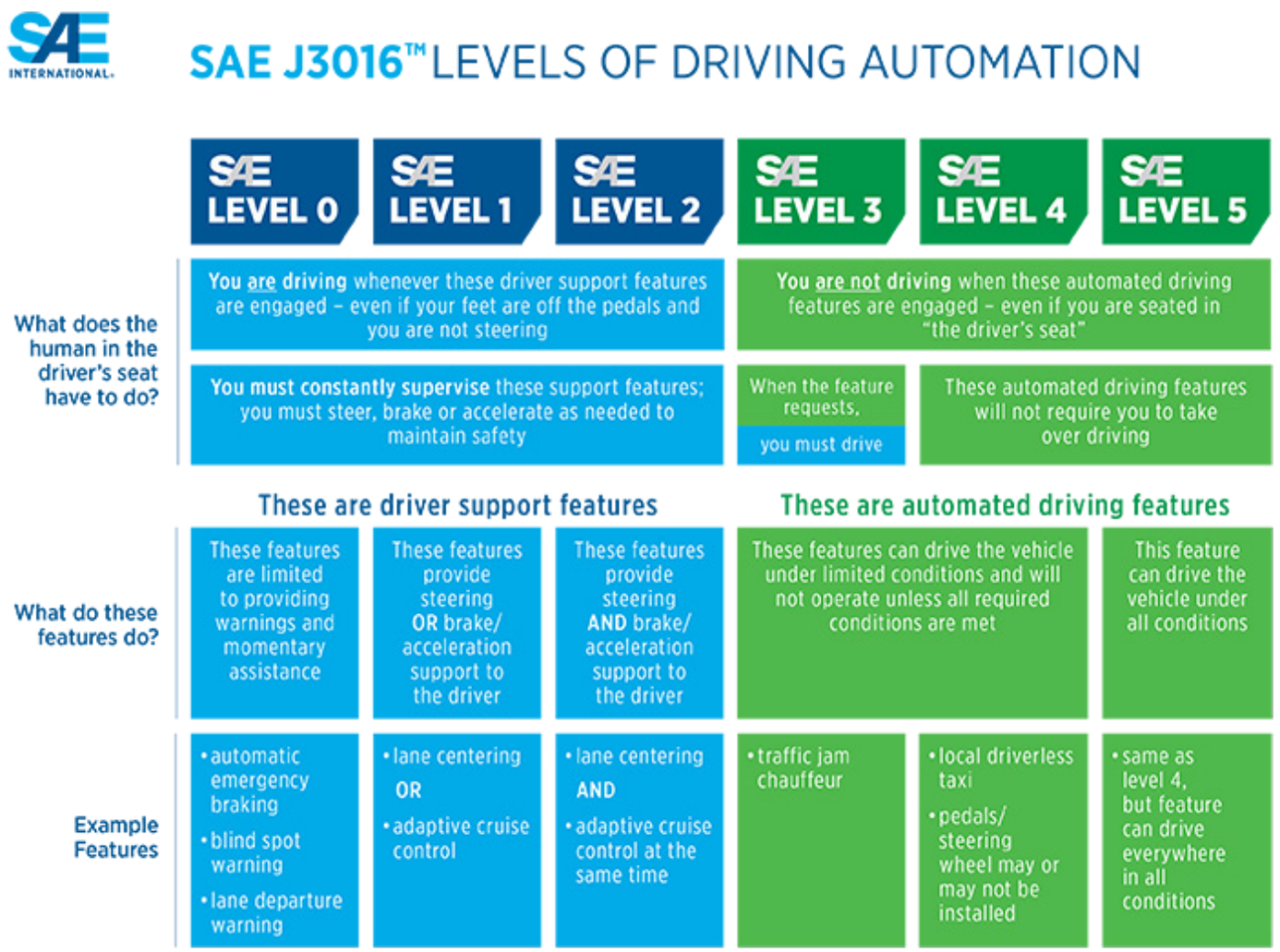
Despite this rosy outlook, Switzerland is still in the early stages of embracing autonomous driving in road traffic, trailing behind international standards. Change, however, is imminent. With the revision of the Federal Road Traffic Act ("**RTA**"), Switzerland is actively addressing the shortcomings of the existing legislation and paving the way for an environment that favors and promotes innovation in the field of autonomous driving.

The revised RTA and the associated ordinance, which has yet to be drafted, are expected to enter into force at the beginning of 2025.

What are AVs?

AVs, as defined in the SAE J3016 standard ("**SAE**"), are vehicles that can drive in whole or in part without human intervention. AVs can perform driving tasks and functions such as acceleration, braking, steering, and monitoring the environment, using a combination of sensors, computing systems, and advanced algorithms.

According to the SAE, AVs are categorized into six levels, ranging from Level 0 (no automation) to Level 5 (full automation), based on the degree of human involvement and the vehicle's ability to handle various driving scenarios autonomously.



Source: Figure 1: SAE International, SAE J3016 Levels of Driving Automation, retrieved from https://www.sae.org/blog/sae-j3016-update (26 June 2023).

4 Switzerland's road to a driverless future

CH

Current restrictions for AVs of SAE level 3-5 on public roads

In Switzerland, the use of AVs is governed by both international standards (e.g., Vienna Convention on Road Traffic) and national legislation, including the RTA.

These regulations stipulate two fundamental requirements for a vehicle to be admitted to traffic: (i) the vehicle must be operated by a driver and (ii) the driver must be able to control the vehicle at all times.

AVs with driver support features (SAE levels 0-2) meet these requirements and are eligible for traffic approval in Switzerland. However, AVs with automated driving features (SAE level 3-5) contradict the concept of driver control, as the driver does not always maintain unrestricted control over the vehicle and cannot override the system at any given moment. Consequently, the current regulations do not permit the use of AVs of SAE-levels 3-5 on public roads.

However, the Federal Council, acting through the Federal Roads Office ("**FEDRO**"), has the authority to grant special authorizations for trials involving AVs of SAE levels 3-5. These special authorizations are issued when the trials are deemed necessary to obtain new insights into technology advancements or the use of AVs and related systems. The current authorization practice requires the organizers of the trial to grant the FEDRO full access to all data gathered during the tests, allowing the FEDRO to have comprehensive information for future regulatory considerations.

As of February 2023, there were 13 completed and 3 ongoing pilot trials. Most of the trials were conducted by group companies of the Swiss Post and involved, among other things, the use of package delivery and luggage transport robots as well as autonomous shuttles on public roads.

4 Switzerland's road to a driverless future

CH

New regulatory framework for AVs with automation systems

The revised RTA introduces new regulations for vehicles with an automation system. This update aims at providing the necessary framework for addressing upcoming international developments regarding technical requirements, usage of AVs, and the associated implications on driver responsibilities.

Under the revised RTA, 'vehicles with an automation system' are defined as vehicles capable of permanently and comprehensively taking over driving tasks from the driver, subject to specific conditions. Hence, the new regulations apply primarily to AVs of SAE levels 3-5, in which the automation system partially replaces the driver.

(1) Regulatory competences of the Federal Council

With the revised RTA, the Federal Council is granted the authority to enact regulations for AVs of SAE levels 3-4 by ordinance. This regulatory authority includes, among other things, the following use cases of automated driving:

- Exemption of the driver from his or her control obligations when the automation system is activated (e.g., using a traffic jam pilot on highways);
- Driverless parking in designated parking areas (so-called 'automated valet parking');
- Authorization of (i) driverless vehicles on individually approved routes (e.g., shuttles) and (ii) small-sized, low-speed driverless vehicles on any route (e.g., delivery robots). Driverless vehicles must be supervised by an operator who can take control of the vehicle if necessary. The operator can be located outside the field of vision of the vehicle (e.g., in an operations center) and is authorized to supervise several vehicles simultaneously.

To evaluate and monitor system functionality and its impact on road safety, as well as to determine the criminal and civil responsibilities of the vehicle's manufacturer, owner, and driver, the revised RTA requires that vehicles with an automation system be equipped with a drive mode memory that allows certain driving events to be tracked retroactively. The revised RTA specifies the technical requirements for the drive mode memory, the data to be stored (e.g., activation of the automation system), and the associated data access rights.

The revised RTA assigns several responsibilities and powers to the Cantons, granting them authority in managing various aspects of driverless vehicles. This includes tasks such as checking driverless vehicles for technical requirements, approving them for traffic, authorizing regional trials, and designating routes and conditions for their operation.

(2) Trials for vehicles with an automation system

In addition, the revised RTA empowers the FEDRO to grant approval for trials involving AVs (including AVs of SAE level 5) that may not fully adhere to all applicable technical regulations and traffic rules. This authority allows for the exploration of AV technologies and their functionalities, even when they deviate from certain regulatory requirements.

As with the current regime, all data generated in connection with such trials must be fully disclosed to FEDRO.

Conclusion

The revision of the RTA in Switzerland represents a significant milestone in aligning with global standards and unlocking innovative advancements in the field of AVs and self-driving technology.

As mentioned above, in addition to substantial changes, the revision also brings about a notable transfer of regulatory responsibilities, with a considerable delegation of powers to individual Cantons. This empowers the Cantons to explore and experiment with new forms of mobility, allowing them to gain a deeper understanding of the implications of these technologies and effectively plan for future developments in traffic.

However, to fully leverage these newfound authorities, the Cantons will need to enhance their skills and implement new processes. It remains to be seen to what extent the Cantons are ready to fully embrace and capitalize on these new capabilities.

Nando Lappert
Head Technology Law & Legal Operations
KPMG Law in Switzerland
T +41 58 249 52-23
nlappert@kpmg.com

Lukas Walter
Lawyer (BLE)
Technology Law & Legal Operations
KPMG Law in Switzerland
T +41 58 249 23-01
lwalter1@kpmg.com

5

Overview of franchising in Vietnam

VN

Vietnam has established itself as a thriving destination for franchising, presenting a promising landscape for both domestic and international businesses. With its rapid economic growth, dynamic consumer market, and favorable investment climate, Vietnam offers an abundance of opportunities in several sectors for foreign investors looking to expand their businesses and brand reach through use of the franchising model, notably including food and beverage, hotel and catering, clothing, accessories, etc. This article will provide an overview of the legal franchising framework in Vietnam, highlighting its key factors for aspiring franchisors and franchisees alike.

Type of franchising model

In Vietnam, franchising is classified as either outbound, inbound and domestic franchising, each with its own set of considerations and requirements.[(a)] However, this article will mainly focus on inbound and domestic franchising, which are the most suitable options for foreign investors.

- Inbound franchising is the practice of a foreign franchisor granting franchise rights to a Vietnamese franchisee from outside Vietnam. This type of franchising allows international brands to enter into the Vietnamese market without creating a physical presence in the country. The Vietnamese franchisee is normally in charge of the business' establishment, operations, and marketing activities within Vietnam, while the franchisor offers assistance, training, and continuous direction from overseas.

Note: (a) Article 17 Decree No. 35/2006/ND-CP detailing implementation of Law No.36/2005/QH11 on Commercial passed by the National Assembly on 14 June 2005 ("Commercial Law") regarding franchising issued by the Government on 31 March 2006 ("Decree No. 35/2006/ND-CP") supplemented by Article 17a Decree No. 120/2021/ND-CP amending and supplementing administrative procedures provided in a number of decrees detailing the Commercial Law issued by the Government on 16 December 2021 ("Decree No. 120/2021/ND-CP").

5

Overview of franchising in Vietnam

VN

Domestic franchising is the practice of franchising among Vietnamese legal business entities. That also means that a legal business entity set up through direct foreign investment or joint ventures can also run and extend the domestic franchise throughout Vietnam. Accordingly, the franchisor can offer direct assistance, training and supervision of their partners' business activities.

Key statutory requirements for franchising in Vietnam

- **Prerequisite requirements for franchisors:** Regardless of type of franchising model, the franchisor can only grant a franchise in Vietnam when the intended franchise model has been in operation for at least 1 year.[(b)]
- **Registration/Notification obligations:** Subject to the type of franchising model, the franchisor is obliged to comply with the registration or notification requirements with the competent authorities. In case of inbound franchising, franchisors are required to register their franchise activities with Ministry of Industry and Trade ("**MOIT**") before commencing franchising operations in Vietnam. For domestic franchising, the franchisor is only required to notify with the provincial Department of Industry and Trade ("**DOIT**").[(c)] This notification requirement helps DOIT keep track of franchising activities and ensure compliance with the law.
- **Disclosure Requirements:** Franchisors are obliged to provide the franchise agreement samples and introductory documents of their franchising activities to potential franchisees at least 15 days prior to the engagement of the franchise agreements.[(d)] These documents normally include essential information about the franchisor, its business system, goods/services bearing the registered trademarks associating with the business system, sample of the franchise agreement, and any other relevant details. This aims to ensure transparency and informed decision-making for franchisees.
- **Franchise Agreement:** The regulations specify that franchisors and franchisees must have an agreement in written or other forms of equivalent legal validity.[(e)] The franchise agreement should include provisions related to contents of commercial rights; rights and obligations of the franchisor and franchisee; price, recurring franchise fee and payment method; validity period of the agreement and agreement extension, termination and dispute settlement.[(f)]
- **Training and Assistance:** Franchisors are required to provide franchisees with initial and ongoing training and assistance.[(g)] In practice, through this process, there may be demand for technology transfer, so it is recommended to put the regulations on technology transfer into consideration. This ensures that franchisees are adequately equipped with the necessary skills and knowledge to operate the business system effectively.
- **Intellectual property (IP):** IP registration is not a mandatory condition for franchisor when engaging in franchising in Vietnam. However, franchisors must hold legitimate IP rights in Vietnam for the franchise system and grant the franchisee the rights to use and exploit these IP assets. Normally, in practice, due to the purpose of a uniform IP management portfolio and business strategy, the franchisor may have several entities, in which there is an entity to solely own the IP rights against their IP assets and an entity to operate and manage the franchise business system. Do note that this may require a license agreement between such entities prior to sub-licensing to the potential franchisees. Although the regulations in franchising allow for the assignment of IP rights within the franchising agreement, it is worth mentioning that subject to the type of IP assets, it is compulsory to register the license with the Intellectual Property Office of Vietnam to be valid and enforceable (e.g., license of patents or industrial designs).[(h)] In such case, the franchisor may need to consider structuring the franchise agreements which ensure both the fulfillment of registration compulsory under the prevailing IP Law and the content requirements of franchising agreements as mentioned above. This reflects the importance of ensuring the validity of licensing IP rights throughout the franchising relationship as prescribed in Article 287.4 Commercial Law.

Note:
(b) Article 5 Decree No. 35/2006/ND-CP amended by Article 8 Decree No. 08/2018/ND-CP on amendments to certain decrees related to business conditions under state management of the ministry of industry and trade issued by the Government on 15 January 2018 ("**Decree No. 08/2018/ND-CP**")
(c) Article 17 Decree No. 35/2006/ND-CP supplemented by Article 17a Decree No. 120/2021/ND-CP
(d) Article 8.1 Decree No. 35/2006/ND-CP
(e) Article 285 Commercial Law
(f) Article 11 Decree No. 35/2006/ND-CP
(g) Article 287.2 Commercial Law
(h) Article 148 Law No. 50/2005/QH11 on Intellectual Property passed by the National Assembly on 29 November 2005 ("IP Law 2005") amended by Article 2.9 Law No. 42/2019/QH14 on amendments to some articles of Law No. 24/2000/QH10 on insurance business passed by the National Assembly on 24 November 2010 ("Insurance Business Law") and IP Law 2005 passed by the National Assembly on 14 June 2019

5 Overview of franchising in Vietnam

VN

- **Notification of changes of the registered franchising commercial activities:** Franchisors must notify any change(s) of their commercial franchising activities to the registered competent authorities i.e. MOIT or DOIT within 30 days since the date of change(s).(i)

Given that the nature of a franchise is a combination of not only regulatory matters such as IP and technology transfer, but also commercial considerations, it is crucial for foreign franchisors to have a sound understanding of the franchise and other relevant legal frameworks and stay updated with the latest regulations. The above key points aim to provide you with a brief overview of the legal framework and can be utilized alongside professional advice to make informed business decisions, protect your IP rights and leverage their value throughout the implementation of the franchising model.

Note: (i) Section III, Circular No. 09/2006/TT-BTM guiding the commercial franchising registration issued by the Government on 25 May 2006 ("**Circular No. 09/2006/TT-BTM**")

Nguyen Thi Nhat Nguyet
Director, Attorney-at-law, Certified IP Agent
KPMG Law in Vietnam and Cambodia
T +84 28 3821-9266
nguyetnnguyen@kpmg.com.vn

Ly Thien Lan Thi
Associate
KPMG Law in Vietnam and Cambodia
T +84 28 3821-9266
thily@kpmg.com.vn

6 Media companies and the metaverse

DE

The transition to the metaverse brings new opportunities and also challenges for media companies in terms of their economic activities, taxes and legal issues.

The metaverse, one of the largest tech trends, has caught the attention of numerous companies as they are considering a presence in the virtual world. Media companies, in particular, stand to gain significant potential and encounter new challenges within this digital landscape.

The metaverse offers media companies an enormous potential for engaging storytelling and entirely fresh avenues for reaching their target audiences. By seamlessly integrating their brands into the virtual world of the metaverse, companies can appeal to younger demographics in an authentic manner. Additionally, the sale of products like non-fungible tokens (NFTs) presents media companies with the opportunity to explore new revenue streams. Furthermore, the metaverse has the potential to evolve into a thriving hub for a new generation of creators.

Within the world of film and television, various approaches are being explored to merge content with virtual metaverse worlds. Alongside streaming visual content within these virtual environments, entire film and series universes have already been seamlessly integrated into the metaverse. Artists and performers can also benefit greatly from exploring virtual concerts as an alternative platform for their creative expressions.

However, it is crucial for media companies to acknowledge that these advancements require a reevaluation of existing business models and an adaptation to the new landscape. Formats must be developed further to suit the metaverse, enabling multimedia presentation of content. Embracing and acclimating to new technologies is imperative, and media companies must establish a compelling presence within the metaverse to justify their relevance in this evolving digital environment.

The emergence of the metaverse has brought about a multitude of legal and tax challenges, leaving many unanswered questions.

Challenges in protecting and enforcing IP in the metaverse

Trademarks and design rights are crucial instruments for companies to protect their products from imitation, both nationally and internationally. However, the question of what protection a registered trademark can claim in the metaverse is more complex than it initially appears. Trademark rights are territorially limited, meaning that the protection of a trademark is confined to the country where it is registered. In a purely virtual world like the metaverse, determining the specific national affiliation of a trademark becomes challenging.

Moreover, further complications arise when a trademark is protected for physical products, such as cars, but is used in the metaverse for digital products like NFTs based on real cars. In such cases, the question arises as to whether trademark protection automatically extends to the digital product. As more well-known brands become involved in the metaverse, these types of questions will become increasingly significant. Consequently, companies are starting to register trademarks for "virtual goods," such as virtual clothing, to bolster their protection beyond existing trademark rights.

Design rights, too, are territorially limited and only provide protection in the countries where they are registered or have acquired protection through mechanisms like the unregistered Community design in the European Union. However, design protection applies to the external appearance of a product, regardless of its nature.

Possible pitfalls regarding the use of copyrighted works

Regarding the use of copyrighted works in the metaverse, several aspects need to be considered. Digital versions of copyrighted works are often used in the metaverse, potentially serving as the basis for creating new digital works. However, if the copyright holder of the original work has not explicitly granted permission for such usage, it may constitute copyright infringement.

6 Media companies and the metaverse

DE

In the creation of NFTs, the so-called "minting," the question arises as to whether it involves reproduction, adaptation or making available to the public of the underlying work, necessitating prior consent from the copyright holder and enabling them to claim remuneration. Additionally, it is essential to consider the rights granted to the initial purchaser of an NFT and subsequent individuals in the transaction chain. As an example from the analog world, acquiring a copyright-protected painting does not automatically grant the purchaser permission to publicly display or reproduce the artwork; such rights must be granted by the copyright holder. These copyright-related usage and exploitation rights are not automatically included in the ownership of the artwork. Sometimes people are not aware of this, and the same rules apply in virtual space. In most legal systems, copyright arises automatically and does not require registration, making copyright searches a potentially laborious process. Therefore, artists, creators, and individuals holding rights to copyrighted works should document the creation details, rights transfers, and ownership information to effectively address copyright infringements.

Navigating the tax landscape

Another key concern is the tax treatment of economic activities within this new world. As companies increasingly engage in business transactions and generate profits in the metaverse, it becomes crucial to understand the potential risks and opportunities from a tax perspective.

When it comes to taxing economic activities in the metaverse, the first question is whether and how they should be taxed. Given the diversity of business activities in the metaverse, the answer to the "whether" question is likely generally affirmative, as both Germany and other countries are likely to have an interest in participating in the profits generated in or related to the metaverse.

However, implementing this taxation is likely to be accompanied by a range of challenges. A fundamental question is where the taxation of virtual activities in the real world should take place. For example, if a company provides its services in the metaverse and has its place of management and/or registered office in Germany, would it be subject to German corporate and trade tax? Or would the tax be imposed at the residence or registered office of the respective customer?

In an increasingly digitized world, established procedural principles from the analog world are being questioned and may need to be redefined. At the same time, physical presence is losing significance in digital value creation. The shift of economic activities into the metaverse is likely to accelerate this process and lead to further discussions at the political level, raising new or additional considerations.

So far, neither the legislation nor the tax authorities in Germany have explicitly commented on tax issues in the metaverse. Therefore, the tax classification must be made provisionally based on existing laws and jurisprudence. In a world where the metaverse blurs the lines between physical and virtual, navigating the tax landscape requires careful consideration and assessment of the current legal tax framework.

To prepare for potential risks and opportunities, companies should closely monitor legal and regulatory developments related to the taxation of metaverse activities. As the metaverse evolves, it is crucial for companies to stay informed and adapt their tax strategies accordingly. Seeking professional advice from tax experts familiar with the metaverse and its tax implications can also help companies navigate this complex terrain.

Recent court decisions and future challenges of transactions in the metaverse

The recent decisions of the Cologne Finance Court and the Federal Fiscal Court regarding the treatment of virtual worlds in the context of an online game could provide initial indications for the tax assessment of transactions in the metaverse. The Cologne Finance Court classified the rental of virtual land as subject to value-added tax, while the Federal Fiscal Court rejected this view and emphasized that participation in a game cannot be equated with real economic activities. However, the Federal Fiscal Court acknowledged that there is an exchange of services within the meaning of VAT law when exchanging the virtual currency through the game operator's exchange.

At first glance, one could conclude from the judgment that there is only exceptional value-added tax liability in the metaverse as long as the "transactions" occur solely within the virtual world and among the game participants. However, it would be premature, in our view, to assume a general exemption from value-added tax for activities in the metaverse as a result of the Federal Fiscal Court's judgment. The specific circumstances of each case may offer possibilities for a different assessment than what the Federal Fiscal Court made in the decided case.

It is also unclear whether the transfer of digital land in the metaverse could trigger real estate transfer tax in the future. Currently, such transfers that exclusively occur on the blockchain are likely not covered by the Real Estate Transfer Tax Act, as they do not involve domestic property. However, it remains to be seen how legislation will classify these virtual business transactions in the future.

6 Media companies and the metaverse

DE

Again, it would be premature to assume that all transactions in the metaverse are generally exempt from real estate transfer tax.

Taxation and accounting treatment of tokens in the metaverse

The taxation and accounting treatment of tokens in the metaverse depend on the specific type of token involved, requiring a case-by-case analysis. Tokens, in general, are digital units of value that can represent claims or rights and are issued as compensation for services or as part of initial coin offerings. Tokens can be either "fungible" (interchangeable) or "non-fungible" (not interchangeable). Non-fungible tokens (NFTs) refer to unique digital assets that cannot be directly exchanged for another.

It's important to note that there are various types of tokens. *Payment tokens*, commonly referred to as cryptocurrencies like Bitcoin or Ether, share some characteristics with fiat currency but lack centralized authority, regular legal tender status, and legal claims against counterparties. *Security tokens* resemble traditional securities and represent ownership in crypto assets.

Asset tokens, on the other hand, represent ownership of physical assets such as gold or oil. *Utility tokens* serve the purpose of granting access to existing or future products/services on a blockchain-based network or contributing to the network's functionality. These tokens play a crucial role in platform adoption and attracting potential customers and network participants, aligning the interests of users and platform owners.

In the context of a media company, utility tokens can be integrated into the business model in several ways. For instance, media companies can offer subscription models where utility tokens serve as payment for access to specific content or services. These tokens can also act as rewards for customers who regularly consume content or actively engage in the community. Additionally, utility tokens can be utilized as advertising platforms or as incentives to drive user behavior. Overall, utility tokens provide media companies with opportunities to enhance their services, provide added value to customers, and foster user engagement.

The tax treatment and accounting of tokens depend on their nature and purpose.

6 Media companies and the metaverse

DE

For payment tokens, any gains or income derived from their sale, use, or mining can be subject to taxation. If held as business assets, the increase in value may be taxed as business income. If held as private assets, the sale of payment tokens may trigger a taxable speculative gain, subject to a one-year holding period.

The complexity of taxing NFTs

Regarding NFTs, specific tax regulations are still developing due to their relatively recent emergence. Minting NFTs can be considered from a German tax perspective as artistic activity or commercial activity, depending on the individual case and the nature of the NFT. For artists creating digital artworks as NFTs, income from artistic activities might apply. Commercial activity may apply when minting NFTs with a profit-seeking intent. The distinction between private and commercial trading of NFTs also plays a role in determining the applicable tax regulations.

Regarding value-added tax (VAT), the treatment of NFT transactions is still evolving. NFT transactions could be classified as either a supply of services or a delivery of goods, depending on the specific circumstances. Further guidance from tax authorities and legal decisions will shape the precise VAT treatment of NFT transactions.

All in all, as the metaverse continues to evolve, tax authorities and legislators will need to address the unique challenges posed by these virtual environments. The decisions made here can provide some insights, but they may not necessarily be determinative for all metaverse activities. Companies operating in the metaverse should closely monitor legal developments, seek professional advice, and ensure compliance with relevant tax laws to manage their tax obligations and risks effectively.

Regulations regarding cryptocurrencies and banking services

An intriguing aspect of the metaverse pertains to cryptocurrencies, banking regulations, and money laundering. When providing traditional banking services in the metaverse, companies must adhere to supervisory

6 Media companies and the metaverse

DE

regulations. Lending money, conducting stock market transactions, or safeguarding funds require compliance with national and international requirements, particularly in terms of statutory permission requirements. Additionally, stringent measures exist to prevent money laundering and terrorist financing. Thus, banking regulations hold significance in the metaverse.

In the world of cryptocurrencies, there are certain peculiarities. According to the German Federal Financial Supervisory Authority's perspective, the mere usage of cryptocurrencies does not require a permission. However, once engaging in commercial activities involving cryptocurrencies, banking regulatory requirements must be fulfilled, necessitating permission under the Credit Institutions Act.

Business transactions and smart contracts

Smart contracts, which automate transaction processes embedded in blockchains, play a vital role in the metaverse. First of all, they are initially merely self-executing computer programs. One can envision them as comparable to vending machines, where selecting a desired snack or beverage and inserting coins automatically dispenses and transfers ownership without any further declaration of intent. For example, authors can utilize smart contracts to mint NFTs and ensure that they receive a portion of the proceeds automatically with every subsequent sale of their NFTs, guaranteeing fair compensation.

Similarly, consumer protection is essential in the virtual world, as it is in the analog world. When designing terms and conditions for business transactions in the metaverse, consumer protection considerations may come into play. The applicable legal framework is crucial in this regard, and companies should pay particular attention to this when crafting their terms and conditions. In Germany, the German Civil Code (BGB) Sections 327 et seq. apply, stipulating that companies are obliged to provide defect-free digital products and granting consumers warranty rights.

Future developments

Regulatory changes are expected in the field of virtual currencies and tokens. Proposed measures include comprehensive recording and documentation requirements for transactions involving virtual currencies and tokens. The aim is to ensure transparency and facilitate tax compliance. Furthermore, international initiatives, such as the Crypto Asset Reporting Framework (CARF), are being developed to establish reporting obligations for companies engaged in significant cryptocurrency transactions. The implementation of these regulatory changes is anticipated in the coming years, with the goal of enhancing transparency and addressing tax-related concerns in the cryptocurrency ecosystem.

In conclusion, with respect to economic activities in the metaverse, there remain numerous tax and legal issues that require clarification. Therefore, companies should stay updated on developments and cultivate awareness of business operations in the metaverse. Collaborating closely between tax and legal departments with business, product, development, and other functional teams (accounting, regulatory, treasury) is advisable to identify tax and legal considerations and risks in the metaverse. It is also essential to establish clear legal arrangements and assess the tax implications of performance relationships in the metaverse. Comprehensive and ongoing documentation of performance relationships in the metaverse is recommended.

Dr. Anna-Kristine Wipper
Partner
KPMG Law Rechtsanwaltsgesellschaft mbH
T +49 30 53019-9731
awipper@kpmg-law.com

Christina Maria Rester
Senior Manager/Certified Tax Advisor
KPMG AG Wirtschaftsprüfungsgesellschaft
T +49 89 9282-1385
crester@kpmg.com

7 Developments on private copying levy

ES

On March 28, the Council of Ministers, at the proposal of the Minister of Culture and Sport and the Vice-President for Economic Affairs and Digital Transformation, approved the "*Royal Decree 209/2023, which establishes the list of final equipment, devices and material supports subject to payment of fair compensation for private copying, the amounts applicable to each of them and the distribution between the different types of reproduction, provided for in article 25 of the revised text of the Law on Intellectual Property, approved by Royal Legislative Decree 1/1996, of 12 April*".

The purpose of this Royal Decree is to establish, on a non-transitory basis, the final list of reproduction equipment, devices and material supports subject to payment of fair compensation for private copying, the amounts applicable to each of them and the distribution between the different types of reproduction provided for in article 25 of the revised text of the Intellectual Property Law, approved by Royal Legislative Decree 1/1996, of 12 April. Consequently, this Royal Decree revokes the provisional list of equipment, devices and material supports subject to private copying levy laid down by previous Royal Decree 12/2017.

In accordance with the provisions of Directive 2001/29/CE of the European Parliament and of the Council on the harmonization of certain aspects of copyright and related rights in the information society (hereinafter, the "**Directive 2001/29/CE**"), Spain regulates the private copying limit in article 31.2 of the revised text of the Law on Intellectual Property, and fair compensation for private copying is established in article 25 of the same law.

Article 2 of the Royal Decree 209/2023, defines debtor subjects as the manufacturers in Spain, in so far as they act as commercial distributors, as well as purchasers outside Spanish territory, for commercial distribution or use within Spanish territory, of equipment, apparatus and tangible media

On the other hand, Articles 3, 4 and 5 establish the list of equipment, apparatus and material supports for reproduction subject to the payment of fair compensation and the determination of the compensation, respectively, and these are established in the annex which establishes the amounts applicable to the equipment, apparatus and supports such as tablets, smartphones, smartwatches, PC and laptops or USB memories, defining and establishing the amounts to be paid, as well as the distribution of the amounts among the different types of reproduction.

Finally, article 6 obliges Spanish government to review the list of equipment, devices and material supports subject to fair compensation for private copying, at least, every 3 years as well as, at any time, depending on the technological progress, market conditions and the damaged caused to titleholders for the existence of the private copying limit.

With the approval of this Royal Decree by the Spanish government which is applicable as of 1 July 2023 ends the adaptation of the Spanish fair compensation for private copying system to the requirements laid down by EU law 7 years after that the European Court of Justice ruled on its judgement in case C-470/14 dated on 9 June 2016 that the previous Spanish system which financed the compensation from the General State Budget was against the Directive 2001/29/EC.

Eric Romero
Senior Manager
KPMG in Spain
T +34 93 253-2900
ericromero@kpmg.es

Javier García
Junior Lawyer
KPMG in Spain
T +34 91 456-3400
jgarcia14@kpmg.es

8 Calculation of dies a quo on infringements

ES

On 7 March, the Spanish Supreme Court handed down a ruling clarifying the *dies a quo* regarding compensation for both objective and subjective liability for trademark infringement, as set out in article 42 of the Spanish Trademark Law.

The ruling was made in the context of a trademark dispute between two entities before the Barcelona courts, following the filing of a lawsuit requesting nullity and revocation of the trademarks on the part of the plaintiff, and a counterclaim on the part of the defendant. The Barcelona court dismissed the claim, but nevertheless upheld the counterclaim, and the judgment was appealed and subsequently the Provincial Court upheld the Barcelona court's order to pay compensation for trademark infringement.

Following this, the condemned party lodged an appeal in cassation before the Spanish Supreme Court, alleging infringement of article 42.2 of the Trademark Law, relating to the determination of the dies a quo to be taken as a basis for the calculation of damages, arguing that damages should only be paid for those acts of infringement carried out after receipt of the first notice to cease by the other party and not, without the five-year period provided for in article 45.2 of said Act being applicable.

In its ruling, the Spanish Supreme Court recalls that, in order to determine the dies a quo, a distinction must be made between objective liability and subjective liability in trademark infringement. In this regard, the court recalls that, in cases of objective liability, trademark infringement gives rise to the right to compensation for damages, without it being necessary to prove the fault of the infringer, applying the 5-year period for the computation of the compensation. On the other hand, in cases of subjective liability, the right to compensation is subject to the infringer having been previously requested to cease the infringing conduct or to the infringer having acted with fault or negligence or the trademark being notorious, with the date on which said request was made determining the dies a quo for the computation of the compensation.

Finally, the Spanish Supreme Court argues that, as the defendant had used the infringing trademarks in the first marketing of the services, the requirements for the application of objective liability are met and, therefore, the time limit relating to the receipt of the cease-and-desist injunction would not apply, with the defendant being liable for all the infringing acts carried out.

Mireia Paricio
Senior Associate
KPMG in Spain
T +34 91 456-3400
mparicio@kpmg.es

Blanca López
Junior Lawyer
KPMG in Spain
T +34 93 253-2900
blancalopez1@kpmg.es

kpmg.com/socialmedia

kpmg.com