



Meta Notary

Make crypto-deals and tokenized content provable

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In the light of the rapid development of the NFT segment in the VA market, its stakeholders are facing the correlative to such development problems, one of them, the growing of which will increase due to regulatory trends in the VA market in general, and NFT in particular, is possible infringement of IP Rights in the process of creating, publishing, transfer and distribution of NFTs.

It should be stressed that this “bottleneck” has already drawn the attention of the WIPO, which stated in its publication “Non-fungible tokens (NFTs) and copyright” that:

“Nonetheless, the nature of the market, and the incentive for large returns, still mean that the NFT space may generate a good number of copyright disputes. These are the early days of a potentially disruptive technology, so it will be interesting to see how dispute and ownership claims develop.”¹

Also, some respected art magazines mentioned this problem:

“There are at least two problems with this. First, creating the NFT in the first place may be copyright infringement.”²

It is now clearly visible that the VA market is beginning to stumble upon the need for interaction, systematization, historization and verification of not only technical information, which has always been its main aspect and has been quite successfully solved, but also legal, in particular, information on the IP Rights, which is a distinctive feature of the NFT segment. Understanding the problem, marketplaces try to solve it through the creation of their own moderation and verification mechanisms³, but they are rather superficial and, therefore, insufficient.

Such a solution only partially resolves the issue of a concrete marketplace, while not solving the problems of the entire segment at all, and in some cases - exacerbating them. The solution could be the creation of an independent universal verification and information system that may offer the digital world the traditional mechanisms of unified databases in the field of IP, formed by the ecosystem participants themselves, in cooperation with professional review and verification services. Such a solution could be MetaNotary – the first usable and simple bridge between the world of VA and complicated “old-school” regulation.

¹https://www.wipo.int/wipo_magazine/en/2021/04/article_0007.html

²<https://www.apollo-magazine.com/basquiat-nft-intellectual-property-copyright/>

³<https://support.opensea.io/hc/en-us/articles/360063519133-What-is-a-verified-account-or-collection->

Glossary

- **"B2B"**, also called business-to-business, means a business that is conducted between companies, rather than between a company and individual consumer.
- **"B2C"**, also called business-to-consumer, means the process of selling products and services directly between a business and consumers.
- **"IP Rights"** means intellectual property rights.
- **"NFT"** means a non-fungible token.
- **"OTC"**, also called out-of-counter, means trading that is not made on a formal exchange.
- **"VA"** means a virtual asset.
- **"WIPO"** means the World Intellectual Property Organization.

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1. Introduction

The world of VA has been created by enthusiasts and Blockchain technology has provided an entry to the new reality, based on the concept of freedom, unity and anonymity. Due to the fact that this world has established for the purposes of “uberization⁴” of the most bureaucratic spheres of our life: financial sector, sphere of legal services, investment banking, etc., people here do not pathologically perceive any strict regulation or bureaucratic burdens and any external attempts to do so, for example, by governmental authorities or regulators, are met unfriendly from the community side.

But nowadays we understand that the other side of such rapid development of the VA market is potential inconsistencies between the rules of this new world and “books” of regulations of the old world in connection with the immobility of such old world, on the one hand, and lack of desire of new world’s community to deep into the tons of “paper” laws.

Such discrepancies we could notice especially in the NFT sphere where any person may, for example, issue the NFT reflecting some artwork without an authorization from the author’s part. Similar potential infringements were alleged earlier⁵. As for now, this issue is not escalated crucially taking into account the indefinite legal nature of the NFT: experts are arguing whether the NFT is a derivative work or string of numbers that have been generated in relation to a work and, therefore, could not be considered a reproduction or even an adaptation of the work⁷. Pursuant to the information from the WIPO, for infringement to take place, three requirements must be met. First, the infringer will have taken advantage of one of the exclusive rights of the author without authorization. Second, there will be a causal connection between the NFT and the original artwork, in other words, the potentially infringing work has to have been created directly from the original. And third, the work as a whole, or a substantial part of it, will have been copied. It is difficult to see how an NFT would meet these requirements, but this will clearly be a point of contention in the future. Even now we could watch for litigations based on alleged copyright infringement. Take, for example, production company Miramax’s lawsuit against film director Quentin Tarantino for trademark and copyright infringement, and breach of contract, over his plan to sell NFTs based on his film Pulp Fiction⁸. In such circumstances we understand that in the near future the market will face the necessity of verification and certification of NFTs and along with the value growth of the NFT segment of the VA market, the mentioned above problem will increase together with other classical problems, such as theft, fraud, and lack of cybersecurity.

In the light of the foregoing, for solving of the listed issues, it was decided to create a qualitatively new instrument, which could serve for community as a bridge between the old world’s concepts and new world’s technologies and inject the best practices of the old world without the worst ones, such as extraordinary bureaucratic and regulation burdens, so that the stakeholders of the market would be both legally and technically protected. This instrument was named MetaNotary.

2. Disclaimer

This document presents the current status and future plans for the project. The sole purpose of this document is to provide information, and is not to provide a precise description on future plans. Unless explicitly stated otherwise, the project is still under development and its developers do not provide a statement of quality assurance or affidavit for the successful development or execution of the project.

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⁴<https://dictionary.cambridge.org/dictionary/english/uberization>

⁵<https://twitter.com/WeirdUndead/status/1369210982518693888>

⁶<https://www.theguardian.com/global/2022/jan/29/huge-mess-of-theft-artists-sound-alarm-theft-nfts-proliferates>

⁷https://www.wipo.int/wipo_magazine/en/2021/04/article_0007.html

⁸https://www.wipo.int/wipo_magazine/en/2021/04/article_0007.html

the sole responsibility of evaluating the merits and risks associated with the access to, or use of the project, before making any decisions based on the information contained in this document.

3. Why Are We Making MetaNotary?

It was decided to launch MetaNotary upon deep analysis of the NFT market. We refined the extending problems of the market and tried to propose the comfortable for the community resolution with engaging both classical and modern attitudes.

3.1. Issues with NFT segment

As briefly mentioned above, the following problems could be reflected taking into account the current state of the NFT market:

- weak system of verification and systematization of the processes of creating, publishing, transfer and distribution of NFTs and their compliance with applicable legislation. Marketplaces have failed to provide the community with a scalable way to validate NFT collections and, therefore, protect their users and rights of such users. Instead, they rely on a fragmented centralized semi-automated verification process in the “vacuum” of a single marketplace. This process leads to headaches and verification delays for these platforms and, moreover, does not solve the problem of the legal security of stakeholders of the market as a whole, because there is no guarantees that a user who has passed fragmentary verification on one of the marketplaces does not violate the rights of other users of the entire ecosystem.

For the NFT community, the verification process can be opaque and differ from platform to platform (Rarible, OpenSea, Twitter, etc.). On some marketplaces, this procedure is also not available for small projects (for example, for verification in OpenSea, a trading volume of 100 Eth is required, which practically eliminates the aims of verification⁹). Moreover, the requirements of verification processes are vague and could not protect the user from legal risks. All this leads to the lack of uniform and reliable information and, subsequently, the use of this “bottleneck” for violations of the rights of ecosystem stakeholders and its possible discrediting in general.

Moreover, renowned persons in the visual arts (artists, designers, photographers, sculptors, etc.) who want to experiment with NFTs do not have direct access to the effective process of enforcement of their rights because their community is unaware of cryptography.

In the light of the above, we can single out a growing problem that affects absolutely all members of the NFT community: the lack of a universal and scalable tool for collecting, systematizing, and historizing legal information about NFT with its possible subsequent verification by professionals, which would meet the industry trends: simplicity, technological effectiveness and public control.

- As per the old joke: “Cowboy Joe is uncatchable because nobody cares about him”. The NFT market has been passing the long way from cents to millions and now, with USD 17.6 billion of total sales¹⁰, this market is becoming facing unlawful activity with the purpose of illegal acquisition of third party’s high value NFTs. It may be reflected in hacker attacks¹¹ on marketplaces or personal means of NFT storage and fraud within the OTC transactions.
- With rapid growth of the NFT market, the number of marketplace service providers is growing correlatively. Each such serviceprovider is established in a certain jurisdiction with its own applicable to the NFT matters regulation. Moreover, each marketplace has its own internal rules and principles with respect to systematization, historization and verification of NFT’s origin and transactions with them. Such circumstances may lead to inconsistencies of information about the history of certain NFT and transactions with it and rise the problems of unlawful activity, including IP Rights infringement, money laundering¹² and terrorist financing.

⁹[https://support.opensea.io/hc/en-us/articles/360063519133-What-is-a-verified-account-or-collection-](https://support.opensea.io/hc/en-us/articles/360063519133-What-is-a-verified-account-or-collection)

¹⁰<https://fortune.com/2022/03/10/bored-apes-cryptopunks-jolt-nft-market-to-billions-in-sales/#:~:text=According%20to%20Thursday%27s%20NonFungible.com,from%20%2482.5%20million%20in%202020>.

¹¹<https://www.theverge.com/2022/2/20/22943228/opensea-phishing-hack-smart-contract-bug-stolen-nft>

¹²<https://english.alarabiya.net/features/2022/04/06/NFT-fraud-Money-laundering-and-wash-trading-on-the-rise-expert-warns#:~:text=NFTs%20are%20run%20by%20smart,of%20cryptocurrency%2C%20Grauer%20explained>.

- On issues with valuation of NFTs many experts paid attention. As stated in the Journal of Accountancy:

“Because of their nature and relatively new use, valuation of NFTs is an evolving and challenging area. What makes NFTs popular also makes their valuation more difficult. Value is based on perceptions of owners and buyers, scarcity, access, and the distribution channel. There are no physical limitations on NFTs, and they have broader visibility and liquidity because they can be accessed and distributed across a global landscape in an instant.

There are different valuation considerations for the creator, purchasers, and owners of NFTs at the beginning of their existence and on an ongoing basis as these assets are included on balance sheets and subject to financial statement audits. At the time of its creation, the value of an NFT may be dependent on the characteristics of its creator and of the NFT itself, among other things.¹³”

In its turn, in Forbs the following is mentioned:

“Valuation of NFTs is one big unknown. There are no cases on how an NFT should be valued, and its closest analogy, that of valuation of Art, is rather murky. What is clear is that an NFT requires a new methodology for valuation, and a better means of managing the digital asset associated with the NFT to maintain that value.”

3.2. Solution offered by MetaNotary

As an instrument to solve the above outstanding issues of the NFT market, we intend to develop and launch the complex project, which aims to create a new community-friendly platform that will serve as a bridge between the “old-school” regulation and NFT market stakeholders.

At MetaNotary we want to propose to our society the way passing which the users will be secured from legal risks and market will be provided with the systemized information about NFT, its history and transactions with it, which push the NFT segment to the quality new level of legality without any new additional regulation burdens. Each listed problem will be distincted in a separate direction with a highly personified attitude to its resolution.

4. Our Services

4.1. What do we propose (design principles)?

We were guided by the list of key principles in design, development and enhancement of MetaNotary. Those principles were generated as the result of cooperation with the community stakeholders and reflekt the problems of the NFT market, mentioned above.

- Less additional bureaucratic burdens - better result. As stated above, our community has been growing on the precept of freedom and we do not want to hurt it.
- Legality and legitimacy. It is crucial for us that any initiative in our society should be both in line with applicable law and supported by the community in whole.
- Necessity. It is understood that any innovation in our sphere should be motivated by necessity.
- Usability and simplicity. From our point of view, any service in the world of VA should be seamless to use for its users, from one side, and as simple as possible for the purposes of achieving its primary destination.
- Decentralization. Any platform in our sphere should encourage decentralization promoting community governance and interests.

¹³<https://www.journalofaccountancy.com/news/2021/jul/nft-nonfungible-token-valuation-challenges.html>

4.2. Why is it so designed and now it generally works?

On the basis of the principles laid down above and taking into account the listed here problems, it was decided to launch four distinct segments at MetaNotary:

- Unified Database of Verified Assets.
- NFT Custody & Escrow.
- NFT Verification & Certification.
- NFT Research & Valuation.

Our understanding is that such a structure of our project is the best fit for ensuring all outstanding issues, discussed in this document.

4.3. Unified Database of Verified Assets

B2B and B2C solution for collection, systematization and historization of legal information about NFTs. The information will be collected from both marketplaces and users by automated means and universal procedures and included in one unified worldwide database so that each user will have access to the comprehensive legal data about the relevant NFT. The world best practices were used in the process of implementation of this destination, for example, the Global Brand Database of the WIPO.

4.3.1. Benefits for the community

The systematic and universal database of legal information about NFTs will be available to all participants of the ecosystem, which will result in a greater security and systematization of the ecosystem and decrease in abuse by its participants.

4.3.2. Benefits for users

Access to this system for NFT segment participants will allow, on the one hand, the marketplace or seller (issuer) to enter a universal set of data in relation to NFT, which will enable a unified approach to legal information about NFT for all members of community and subsequent simplification of the legal protection of such information, and on the other hand, to check such legal information by any market participant, which will make it possible to draw more reasoned conclusions regarding investment and legal risks.

4.4. NFT Custody & Escrow

Recently, there has been a rapid increase in the prices of NFTs¹⁴. We propose to the market the services of custodial storage of especially valuable exemplars of NFTs, as well as escrow services during transactions with them (in the case of an OTC transaction directly between the seller and the buyer, without the use of intermediaries such as marketplaces, we offer a tripartite agreement with clearly defined transfer conditions of NFT from the escrow agent to the buyer or seller, depending on the fulfillment of such conditions). At the same time, three-level protection of NFTs located in escrow is provided: technical (using the best world standards for safe storage of NFTs), legal (insurance) and physical (hard access restrictions). The client will have the opportunity to transfer the original NFT to custodian releasing a “wrapped” version containing an indication and a link to the original.

4.4.1. Benefits for the community

Establishment of the new standards for conducting transactions and storing exclusive NFTs, which meets the latest trends in the segment.

¹⁴<https://decrypt.co/62898/most-expensive-nfts-ever-sold>

4.4.2. Benefits for users

Reducing the risks of storage and criminal activities: having a third party that takes the role of either a custodian (in the case of custodial services) or a trusted third party who temporarily holds the NFT until the terms of the transaction are fulfilled (in the case of escrow services), which uses the best technical capabilities and whose safety and liability is insured.

4.5. NFT Verification & Certification

Enabling NFT market participants to choose a professional to verify the rights to NFT and confirm the absence of violations during its issuance and sale. We propose verification of the technical aspect of the issue, verification of the current owner (identification) and previous owners, history of listing and previous transactions with NFT, identification of possible cases of money laundering and terrorism financing using NFT. Based on the results of the verification, relevant persons will be able to receive a certificate.

4.5.1. Benefits for the community

Formation of a single universal approach and standards for the industry. Cleaning up the market from “unscrupulous projects”.

4.5.2. Benefits for users

Obtaining legal guarantees of the legality of the lifecycle of the NFT: its generation, selling, buying and holding.

4.6. NFT Research & Valuation

Professional study and research of the NFT segment, its main trends, based on available market data. The result of the services will be the provision of reports on the results of research, as well as the systematization of market data, including compiling various indices and developing coefficients. It is also possible to provide professional NFT valuation services based on market data.

4.6.1. Benefits for the community

A very important layer of scientific and statistical data.

4.6.2. Benefits for users

Obtaining grounded data for a more correct assessment of market trends and risks.