

# A QUESTION OF VALUE



## ASSETS IN THE METAVERSE

Authored by: Pascale Leymin (Director) and Daniel Ryan (Managing Director) - BRG

The metaverse, a 3D-enabled virtual realm in which users can interact, blurring physical and digital, is expected to be a crucial aspect of Web 3.0, the decentralised iteration of the internet. Coined “the successor to the mobile internet” by Mark Zuckerberg, it presents astonishing commercial potential; a study funded by Meta suggested that it could contribute over \$3 trillion to global GDP by 2031, while McKinsey estimated that it may generate up to \$5 trillion in value by 2030.

***However, with these opportunities come risks, including legal challenges regarding the ownership of digital assets and protection of intellectual property (IP) in a borderless online world.***

BRG is exploring asset valuation in the metaverse and its legal, economic, and social implications. The first report

in a series on the subject, A Question of Value: Assets in the Metaverse, was released this summer, and further reports will focus on areas such as virtual real estate, the consumer sector, and commercial and legal considerations across the metaverse. The goal is to advance industry understanding and foster a broader debate on this evolving topic.

The metaverse is rapidly gaining media attention and popularity and is becoming a focal point for various industries. However, with its increasing prominence, new threats are arising, especially in the legal and economic realms.



Litigation related to metaverse activities and assets is already on the rise and can be expected to increase as the marketplace matures. Regulation in this field is still catching up, with discussions among legal firms, market regulators and courts about protecting asset owners in the metaverse already underway. Challenges include overseeing IP rights, handling the anonymity of participants, and determining the applicable jurisdiction.

Indeed, defining jurisdiction and applicable laws for contracts in the metaverse is one of the primary challenges faced by legal professionals, as, unlike in the physical world, where disputes are often resolved based on international rules related to the location of the transaction, the online nature of most metaverse transactions makes locating parties difficult. Additionally, the decentralised nature of blockchain-based transactions further complicates the issue, as no central party may have a complete overview of the information. Factors like the registered seat of the company or the location of its servers

can be considered, but these may not always be applicable in decentralised environments without a central server controlling all blockchain nodes. Experts have suggested that an international convention to harmonise rules could be beneficial, but achieving such an agreement may be challenging.



Legal experts agree that existing copyright and trademark laws to some extent apply to assets in the metaverse. The ownership of digital assets is often stipulated in license agreements between users and service providers. This can create challenges as participants might not truly own the assets that they think they do. Platform providers may also change license terms overnight, leaving users to look to protection of their rights in court. Disputes related to alleged infringements of IP originating from the physical world have also begun, as illustrated by the recent landmark case win of French luxury brand Hermès against the creator of the MetaBirkin.

Another issue posed is that the economic models for valuing assets in the metaverse have not yet been fully theorised, as traditional economic thinking will not entirely translate to this virtual environment. For example, the application of the law of supply and demand, a fundamental principle in the physical world affecting the prices of assets (such as real estate assets in prime location), could be challenged in the metaverse, where platform operators can alter (unbound by the laws of physics) and increase the supply of assets, theoretically to an infinite level.

***Additionally, the metaverse is increasingly being used as a marketing tool by brands, affecting the value of both physical and digital assets by encouraging consumer engagement and therefore creating exposure for the brand.***



Sociological considerations also play a role in metaverse economics, with a significant number of people expected to engage with the metaverse regularly in the coming years. User behaviour, such as psychological ownership and the endowment effect – by which individuals attribute greater value to things they own over things they do not, either tangible or virtual - will influence how people perceive the value of their digital assets.

In the long term, ensuring interoperability and achieving critical user mass will be significant drivers of the metaverse's sustained growth.

***The value of the metaverse and its assets can be expected to increase with growing user participation.***

Consolidation of platform providers may be expected in the short to mid-term, but issues surrounding the transfer of assets and the protection of ownership rights will arise if platforms fail, making interoperability crucial for asset movement between platforms.

As the metaverse evolves, legal considerations will remain at the core of its development. Regulatory frameworks are rapidly evolving, and the ability to understand the dynamics of dematerialised assets will be crucial for asset valuation. With consolidation expected in the metaverse industry, platform operators that prioritise protecting user investments and IP assets are more likely to succeed.

The future of the metaverse remains uncertain, but its increasing adoption and potential for value creation are undeniable. The establishment of appropriate regulatory frameworks, high adoption rates, and increasingly mature digital markets will be important factors in the metaverse's success, and the road ahead will involve navigating legal complexities, economic challenges, and social dynamics to unlock its full potential. As the metaverse continues to evolve, its impact on various industries and the global economy will undoubtedly be a fascinating journey to observe.

