BLOCKCHAIN, CRYPTOCURRENCY, AND NFTS: OVERVIEW AND RECENT DEVELOPMENTS

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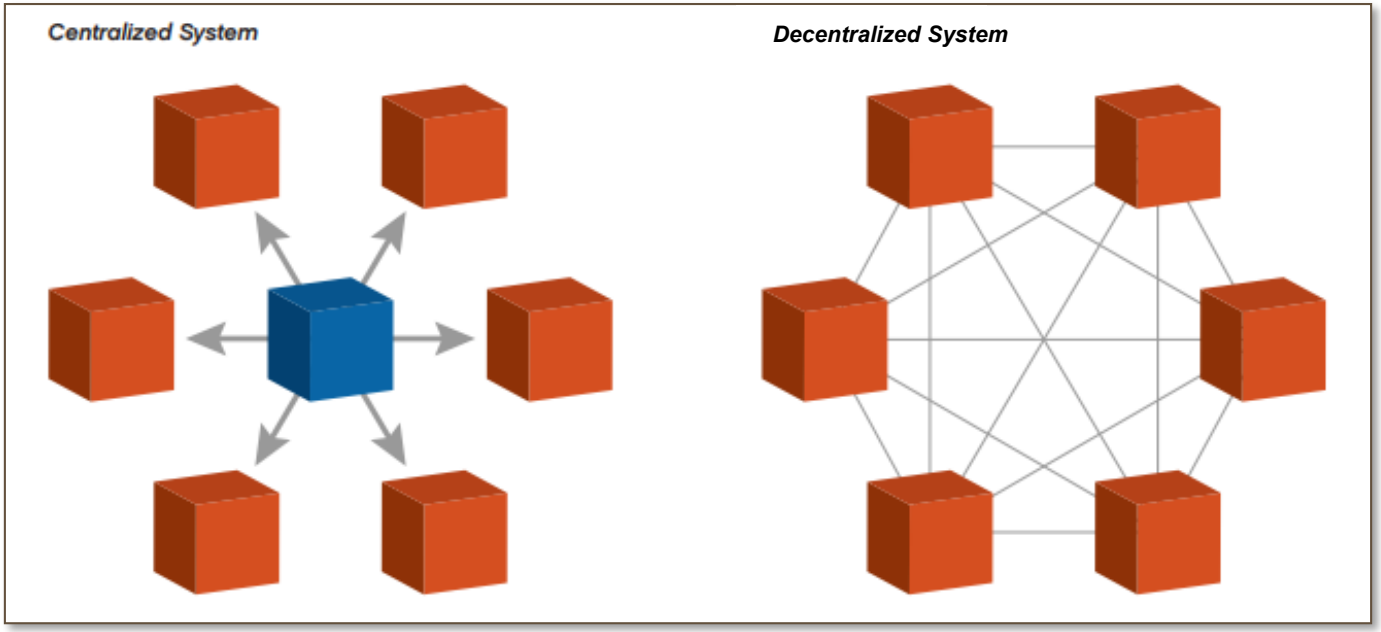
Blockchain Technology

BLOCKCHAIN TECHNOLOGY

- What is a Blockchain?
  - A digital ledger of transactions that is duplicated and distributed across the entire network of computer systems (“nodes”) on the blockchain.
- Key characteristics:
  - Distributed across peer-to-peer network with no central record keeper
  - Permanent record of transactions secured through cryptography
  - “Trustless” mechanism to keep the ledgers synchronized

CENTRALIZED V. DECENTRALIZED SYSTEMS



COMPARATIVE STRENGTHS OF BLOCKCHAIN TECHNOLOGY

Blockchain System		Centralized Database
✓	Tamper-Proof Record	
✓	Permanent Audit Trail	
✓	One Version of Truth	
✓	Reduction of Errors	
✓	No Trusted Third Party	
✓	Multiple Writers	
✓	Automation	✓
✓	Speed*	✓
	Confidentiality*	✓

SMART CONTRACTS

Smart Code	Computer programming or script that can automatically execute when certain events happen on a blockchain and that can perform additional functions, such creating or validating other transactions
Smart Contracts	Smart code that, in conjunction with any other written documentation and applicable user interface, meets the requirements of an enforceable contract under applicable law

Cryptoassets

TYPES OF CRYPTOASSETS

- Blockchain technology has enabled the development of different types of cryptoassets, including:
  - Cryptocurrencies
  - Digital Securities/Tokens
  - Stablecoins
  - Central Banking Digital Currencies (CBDC)
  - Non-fungible tokens (NFTs); utility tokens; and other cryptoassets
- No universal taxonomy, but common elements are transfer via DLT/Blockchain and use of cryptography to secure

CRYPTOCURRENCIES

- What are they? Digital representations of value, secured by cryptography, transferred and recorded on a blockchain
- What are they used for? Cryptocurrencies generally are traded on an exchange (e.g., Coinbase) and are intended to function as a medium of exchange, store of value or investment, or to power applications
- Characterized by significant volatility
- Estimated to be more than 6,500 different cryptocurrencies

STABLECOINS

- Intended to minimize volatility in the larger cryptoasset system
- Designed to track the price of an underlying asset, including fiat or a basket of currencies. Stablecoins can be backed by fiat money or other crypto assets
- Multiple structures / differing collateralization requirements, including fiat-backed stablecoins; crypto-backed stablecoins; and algorithmic stablecoins
- Structured as bearer instrument, giving holder right to redeem in pegged currency

DIGITAL SECURITIES

- Native securities – created on a blockchain network
- Security tokens – A cryptoasset that is a security, including digital forms of traditional equity or fixed income securities, or assets deemed to be a security based on characterization as an investment contract or note
- Underpinned by smart contracts and protocols to document and govern exchanges

CENTRAL BANK DIGITAL CURRENCIES (CBDC)

- CBDCs are a digital form of fiat currency, issued by central banks, that represent a “third” form of central bank money, in addition to bank notes/physical cash and reserves
- Potential models vary, but could include a wholesale-only CBDC, or a CBDC that includes retail participation
- Use of blockchain technology offers increased efficiency, particularly in cross-border payments, traceability, and the potential for greater financial inclusion

NFTS, UTILITY TOKENS, AND OTHER CRYPTOASSETS

- An NFT is a digital asset, based on computer code and recorded on a blockchain ledger to prove ownership and authenticity of a unique asset.
- Almost anything can be represented by an NFT, including:
  - real property titles, cars, houses, and other merchandise, as well as digital assets such as images, music, documents, videos, and tweets.
- Utility Tokens – currency (crypto- or fiat-currency) exchanged for tokens to access services within a given network

KEY LEGAL CONSIDERATIONS FOR CRYPTOASSETS

- Securities law considerations
- Commodities law considerations
- Anti-money laundering and sanctions
- Cybersecurity & consumer protection

TECHNOLOGY RISKS

- Interoperability and platforms
- Scaling, Maturity of technology platforms
- Design features:
  - Privacy of transaction data
  - Cybersecurity
  - AML/KYC
  - Liability framework
- Performance during periods of market stress and impacts to system

QUESTIONS?

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