INTRODUCING NON-FUNGIBLE TOKENS ("NFTS") – PART 1 OF 3

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This is the first CNPupdate article in a series of three CNPupdate articles on non-fungible tokens ("NFTs") and related trademark issues that may arise. Our first article provides an explanation of what NFTs are and their uses.

On 11 March 2021, Beeple's collage titled "EVERYDAYS: THE FIRST 5000 DAYS", a piece of digital artwork, was sold for US$69 million by Christie's. In that same month, Jack Dorsey's (Twitter's then-CEO) first tweet sold as an NFT for US$2,915,835.47. Subsequently, in September 2021, UNXD set a US$6 million record for fashion NFTs when it auctioned a nine-piece virtual/physical collection by Dolce & Gabbana for 1885.719 Ethereum, the equivalent then of US$6 million. In the metaverse, Nikeland represents Nike's first foray into the Roblox metaverse, where visitors can customise their avatars and have their avatars dressed in Nike branded gear by buying digitised Nike gear, such as NFT sneakers. NFTs have gained increasing prominence and commercial viability in the digital space, the metaverse and the physical realm.

An NFT is a data unit stored on a blockchain ledger based on distributed ledger technology. Unlike digital tokens used in cryptocurrencies, where one is regarded as being interchangeable as another and can be readily exchanged, NFTs are considered unique and not mutually interchangeable, i.e. not fungible, because each NFT consists of a unique token identifier, which is mapped to an owner identifier and stored inside a smart contract.

Smart contracts are, in turn, governed by token standards. Token standards are rules that define smart contracts and, consequentially, the features that the tokens stored within the smart contracts have, such as the tokens' fungibility. Cryptocurrencies and NFTs adopt different token standards owing to their respective fungible and non-fungible nature. NFTs issued on the Ethereum blockchain typically adopt the ERC-721 token standard, which enables the tokens to be non-fungible and priced independently. In contrast, fungible tokens that function as regular cryptocurrencies (e.g. fiat currencies, financial assets, reward points, and commodities) usually adopt the ERC-20 token standard in the Ethereum ecosystem.

An NFT's uniqueness and usefulness lies in its non-fungible nature, which enables it to represent ownership and evidence authenticity (and provenance) of an underlying asset. An NFT operates as a unique digital token evidencing the owner's title to their specific copy of that piece of asset or, in some cases, represent title to a physical asset in the real world.

We hope you enjoyed reading our introductory article on NFTs. Please look out for our forthcoming second article which will discuss issues that may arise when registering NFTs *as trademarks.*

https://onlineonly.christies.com/s/beeple-first-5000-days/beeple-b-1981-1/112924

https://www.reuters.com/article/idUSKBN2BE2KJ/

https://www.vogue.it/news/article/dolce-gabbana-asta-6-milioni-collezione-genesi-nft