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## NEWSLETTER #3 – JUNE 2022

### –NFT–

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**A** non-fungible token (NFT) is essentially a tradeable code attached to metadata about a real-world event, object, or transaction. A secure network of computers records the sale of an NFT on a digital ledger (a blockchain), giving the buyer proof of both authenticity and ownership.

NFTs, compared to crypto coins or tokens, are unique iterations of code that cannot be reproduced. NFTs are being leveraged today in several ways: as an art form, as collectibles on exchanges, and as indelible records of memorable events. Since catching the public's eye in March 2021, NFT marketplaces have attracted over **\$37 billion of sales in the first four months of 2022**.

In the articles reviewed below, the authors discuss the use cases for NFT, in art, fashion, entertainment and health. These contributions detail the factors that have contributed to successful projects, and the challenges that impact the long-term prospects of the market.

Beyond the hype, these experts point out the utility of NFTs in ensuring the coherence and integrity of the high fashion universe, the utility of the technology in protecting the confidentiality and control of personal medical data, and their ability to securely value, purchase and exchange digital art. This said, the commentators pinpoint the risks that these investments entail, the need for clearer legal and fiscal frameworks, and the internal and external factors that determine the short and long-term prospects of the market.

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Enjoy reading!

- [How AI will revolutionize the practice of law](#) — [The Brookings Institution](#)

In this commentary for the Brookings Institute, John Villasenor argues that law firms that leverage AI technologies will be able to offer services at lower cost, higher efficiency, and with more favorable outcomes in litigation.

He suggests that such technological innovation will spur the creation of new legal tech companies, as well as new opportunities to use AI for more fully automated provision of legal services.

He concludes, however, that while AI will fundamentally reshape the landscape of legal services, by leveling the playing field, it will underscore the importance of the human element in the practice of law.

- [What are NFTs and why are people paying millions of them?](#) —**The Conversation**

Laleh Samarbakhsh argues that the explosive market of crypto-collectibles and crypto-art is far from a joke.

In explaining why, the author first defines NFTs, fungibility, and distinguishes bitcoins from NFTs.

She then underlines the importance of NFTs in providing the ability to securely value, purchase and exchange digital art using a digital ledger and that digital assets and blockchain technology are changing the future of trade.

The article concludes nonetheless that the true potential hasn't yet been uncovered.

- [Art: What are NFTs \(non-fungible tokens\)?](#) —**The Conversation**

Non-fungible tokens are used in two distinct use scenarios in the art industry.

The first case creates a unique digital copy of a work of art. The second encompasses a smart contract (a license) to use under certain conditions.

Beyond the legal issues of NFTs there are a couple of other challenges for developers to consider.

On one hand, the technology lacks maturity which may lead to unintended consequences for investors.

On the other hand, the creation of NFTs raises questions about the electricity they consume and the CO2 that they generate.

- [Why NFT projects fail](#)—**Inevitable**

NFT District argues that the decisive factor in determining the “value” of an NFT is the amount of hype that surrounds it. Successful projects are clear about what the product is, and disrupt norms in a noticeable way.

Exclusivity, aka rarity, is also a key factor. Importantly, investors invest in an NFT because they feel confident about the production team.

Inversely, to avoid being a victim, investors should consider the realism of the team's roadmap.

A sign of a bad project is an inflated community and artificially high numbers. You should always pay attention to the quality and status of the influencers who promote and mention the project.

Finally, the distribution of tokens among the community is a critical indicator of the project's long-term prospects.

- [What are NFTs and why are people paying millions of them?](#) —**Science Daily**

In Science Daily, a group of researchers from the Baylor College of Medicine suggest that NFTs could be used to control access to medical records and protect personal privacy.

With the use of NFTs, patients would be able to authorize which medical specialists could consult their records and medical information could be consulted.

They propose that the use of NFTs will allow patients to maintain effective control of their medical data.

- [Mapping the NFT revolution: market trends, trade networks, and visual features](#)—**Nature Briefing**

According to this study published in the scientific journal Nature of 6.1 million trades of 4.7 million Non Fungible Tokens **between June 23, 2017, and April 27, 2021, 85% of the transactions were initiated by 10%** of active brokers.

Regarding the NFT market, the art market represents 71%. And that 20% of NFTs are resold at least once.

The authors suggest that these figures indicate that the hype cycle is being driven by fairly closely knit social networks, and that the NFT market in art is largely dependent on the work of a limited number of influencers.

Finally, it appears that the transactional price seems to be strongly correlated with the previous sale history and visual features present in each work.

- [The metaverse is money and crypto is king—Why you'll be on a blockchain when your virtual world hopping](#)—**The Conversation**

Metaverse and NFTs are linked, as NFTs allow the ownership of immaterial goods. It can be said that they are the missing link between the real world and the virtual world (metaverse).

As in the real world, money is needed to live in a virtual world.

This means buying things, attending shows and having fun. But also to store contacts and identify oneself. Metaverse and NFT will be a new way of consuming and working.

- **Why the global fashion industry needs NFTs—Inevitable**

In making the case for why the global fashion industry needs NFTs, the author discusses a number of current market challenges.

In 2019, counterfeiting accounted for 70% of the \$4.5 trillion market for luxury fashion.

Beyond the loss of sales, counterfeit goods reduce customer trust and tarnish the brand's reputation.

Finally, fake products can pose risks to consumer safety and health while ignoring the brand's commitment to corporate social responsibility and sustainability.

If the major fashion designers, led by Dolce and Gabbana and RFKT Studios, were initially interested in the metaverse to target the younger audience, NFTs together with the blockchain, can guarantee the integrity and the conformity of the brand, its universe, and the customer journey.

- **When you buy an NFT, you don't completely own it—here's why—The Conversation**

In March 2021, a digital collage by the artist Beeple sold for US\$69 million.

Dinusha Mendis suggests that NFTs are essentially tradeable jpegs or gifs, and explores in her article what buyers truly own from a legal perspective.

First of all, the work of art, except on a screen, is not a physical representation (such as a painting on canvas). The artwork (drawing, music...) is created on a computer by an artist or an artist's collective.

Under UK copyright law, an NFT holder only becomes the owner of the work with a digital ownership certificate.

Beyond this he or she has no rights to display it publicly or reproduce the work unless specifically stated.

This suggests that NFTs are neither a guarantee that the work purchased is "authentic" nor what exactly you are getting for your money.

- **NFT: the tax headache—Usine Digitale**

How should national governments tax the capital gains generated from the trading of non-fungible tokens? Should they be considered as crypto assets? Or should they be taxed on the basis of their core assets?

Raphaële Karayan suggests that French legislation concerning taxation and regulation of capital gains from NFTs is confusing at best.

She argues that there are two main reasons for this:

The fact that NFTs have no legal status and that there are several interpretations of what constitutes an NFT.

The author notes that the current debate on these questions in the French Assembly has led to an amendment to the 2022 Finance Bill.

- **Why the NFT Market Will Collapse—Project Syndicate**

Patrick Reinmoeller and Karl Schmedders predicted the collapse of the NFT market evoking a number of reasons. Not, as many believed, but because of environmental concerns; but because the current NFT boom is built on very shaky foundations.

NFTs offer ownership of a digital asset, but not the right to prevent others from using its digital copies identifying illegitimate use, and pursuing and prosecuting infringement makes it nearly impossible to enforce the copyright or deter misuse. The price volatility of the cryptocurrencies underpinning the NFT market is a central issue as well.

NFTs are being made and sold with infant technologies, blockchains and cryptocurrencies, and the value of NFTs may well evaporate if the next wave of more advanced technologies that supersedes crypto or blockchain is incompatible with secure NFT ownership.

Finally, as we have seen in recent months, changing macroeconomic conditions negatively affect the price of alternative assets including NFTs.

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