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Blockchain and the Tokenization of Everything

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Blockchain's momentum is not slowing down and its potential continues to expand as investors and technologists develop new and revolutionary applications. Among the most compelling applications for blockchain's immutable, distributed ledger is the ability to tokenize the economy. Tokenization is the process of creating a digital representation, or "token," of the rights to an asset. Tokens can represent ownership rights in both digital and physical assets. Bitcoin and other cryptocurrencies only exist as tokens representing digital assets with no physical counterpart. The same is true for the coins issued in initial coin offerings ("ICOs"). The very nature of these assets as digital tokens built on a blockchain makes them liquid and transferable peer-to-peer around the world, day or night.

Real-world, physical assets can also be tokenized on a blockchain, rendering the process of trading physical assets as frictionless as trading cryptocurrencies on an online exchange. For example, ownership interests in real property can be tokenized on a blockchain such that transferring ownership of real property assets is executed peer-to-peer on online exchanges. Currently, transferring ownership of real property requires recording transactions in paper records administered by local governments at county courthouses or other physical locations. The time and expense of a real property transaction make real property assets illiquid and expensive to trade. Tokenizing real property ownership offers liquidity to the real estate market, recently valued globally at over \$200 trillion, and allows for fractional ownership interests of real property to be traded peer-to-peer on a blockchain in near real-time.

Within the world of tokenized assets, the most developed is the security token. A security token is a digital token representing a traditional equity or debt security of a company. Although most security trading now happens electronically and there are relatively few physical stock certificates in circulation anymore, shares of a company are traditional physical assets. Security tokens provide the holder with the same ownership rights and control rights associated with traditional equity securities. Distinct from traditional securities, however, the rights associated with owning a company's security token are coded into the token itself, rather than existing on paper in the company's corporate governance documents. Security tokens may help mitigate legal risks sometimes associated with the tokens issued in ICOs, which despite being classified as securities by regulators in most cases, typically do not give the holder a share of the profits or ownership of the company.

In addition to benefiting from the power of blockchain, security tokens can be coded to include limitless ownership features, including dividend rights, voting rights or restrictions on transfer. Being able to

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control the transferability of a security token has important implications for private securities markets, in which only certain types of investors are qualified to participate. Verifying the identity of purchasers and executing trades of private securities is expensive and time consuming. By coding a security token and the blockchain within which it is traded to only allow trades between pre-authorized, qualified investors, security tokens have the potential to provide liquidity for such securities, resulting in increased capital for new and growing businesses.

A fully tokenized economy must overcome roadblocks like the scalability of blockchain technology and the regulatory and legal landscape, which was developed only with physical securities in mind. There are also important problems to address related to the relationship between tokens and the physical assets they represent. For example, how does one alert the market when an underlying physical asset trading in tokenized form is damaged, lost or stolen? Despite these challenges, enthusiasm for blockchain and tokenization remains high and companies are actively developing tokenizing units of energy, tokenizing assets in traditional commodities markets and even tokenizing the ownership and production of movies and other media.

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