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Topic: Non-fungible tokens (NFTs)

One might wonder what the merchants of Venice, who instituted the first public bank in 1587[1] and established the foundation of our current finance and banking system, would think about the growing cryptocurrency industry and its reliance on complex algorithms to track purchases and store assets in a digital universe. Those merchants might think an invisible ledger of transactions using currency that can't be seen or touched as impossible, and terms such as blockchain and non-fungible tokens (NFTs) as confusing. And they are not alone. While most people today have a general understanding of cryptocurrency and how it works, what is less understood are NFTs and how an item in a digital universe can hold value. To understand NFTs, let's start with some basic definitions.

Venetian bankers in the 16th century relied heavily on ledgers to record and manage transactions as it was their single source of truth that currency was exchanged between them and a customer. This is essentially what a **blockchain** is, an encrypted ledger (or a database) of transactions by participants, called **nodes,** that can be viewed by all as a form of transparency. There are well-known blockchains on public networks such as Bitcoin and Ethereum; blockchains on private networks for fintech and banking; and hybrid blockchains[2]. If you want to "buy in", you need to purchase **tokens**, which are "units of value stored on a blockchain"[3] and they can be used as an investment that stays on the blockchain to grow in value like shares of stock or used in the form of cryptocurrency to purchase **non-fungible** goods and services at such businesses as Adidas and Amtrak.

There's that word…non-fungible. To find out what non-fungible is, let's explore what **fungible** means. A simple definition is a good or an asset that can be readily exchanged for another good or asset of equal value[4]. An example of fungibility would be swapping one U.S. dollar for another or purchasing commodities or cryptocurrency. Therefore, non-fungible means the exact opposite: Goods or assets that ***can't*** be exchanged for another item of equal value. For instance, you can't exchange one house for another of equal value because of the way the housing market works. So, if a token represents a unit of value that can be used to purchase goods, and non-fungible means a good or service that can't be exchanged for something of equal value, then *a non-fungible token represents a unit of value that can't be exchanged for something of equal value*.

Normally stored on the Ethereum blockchain and bought with cryptocurrency, NFTs can take the form of original digital creations of art and photographs; sports memorabilia and videos; trading cards; music; a membership to unlock special benefits[5] like the ubiquitous Bored Ape Yacht Club; or as a utility to purchase bundle packages that would include items of various value[3]. For example, William Shatner, best known as Captain James Tiberius Kirk of Star Trek fame, sold his personal and professional photographic memorabilia from his 60+ year career in the form of NFT trading cards. Ten thousand of his "Admiral Packs," that totaled 125,000 digital assets at a cost of $250 a pack, sold out in 9 minutes[6]. There are instances where the purchase of an NFT crosses over into the real world, however. Mike Winklemann, known as the artist Beeple, sold his piece, "Everydays: The First 5000 Days," a digital composite of 5,000 daily drawings, at Christie's Auction House for $69.3 million[7].

The allure of NFTs and what contributes to its value is the ownership of an original piece of work that is verified as authentic through the blockchain, giving the everyday buyer bragging rights. Think of it as the ability to buy a Caravaggio immediately after it's completed and signed by the artist. And even though the creation is available for public viewing and if in the form of a JPEG can easily be copied[3], like Louis Armstrong once said: "A lotta cats copy the Mona Lisa, but people still line up to see the original"[10]. Creating an NFT involves creating a new block on a chain through "minting", recording the NFT on a blockchain with a unique identity that is linked to the blockchain address where it lives[5]. The seller then undergoes a marketing campaign to entice buyers on marketplaces such as Open Sea or Nifty's[8] that post NFTs for sale. It's also worth noting that any sale of NFTs, classified as collectibles by the Internal Revenue Service, is subject to capital gains tax of up to 28%[9].

Perceptions of banking and the accumulation of wealth have advanced significantly since 16th century Venetian bankers. There's no doubt that NFTs have influenced how certain assets such as digital art are valued, consumed, stored, and managed. The quest to redefine what it means to buy and sell using a technology-based, transparent banking structure is still in its infancy, but with time and better understanding of the world of cryptocurrency and how goods can be acquired within that world, the existence of NFTs may become the norm and not the exception.

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