



UNIVERSITY *of* NICOSIA

Session 6

Key Considerations in the NFT Space

META-511: Non-Fungible Tokens (NFTs) and the Metaverse

We are here

1. What is an NFT?
2. Copyright and Provenance in NFTs
3. PFPs
4. Art NFTs
5. Generative art
- 6. Key considerations in the NFT space**
7. Gaming NFTs
8. What is a metaverse?
9. Trends in visualization technology
10. Financing models for NFTs and the metaverse
11. Off-chain objects and the broader environment
12. A vision for the future

Week 6 →

Today we will introduce certain key topic areas

- This purpose of this session is to introduce some key topic areas in the NFT space as context for the guest session
- Collectibles and Art in the NFT field
- Aesthetics and Rarity in the NFT field
- NFT-Fi: Decentralized Finance and NFTs

This is an educational course only

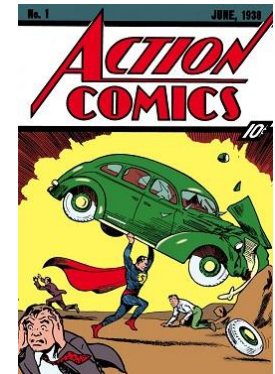
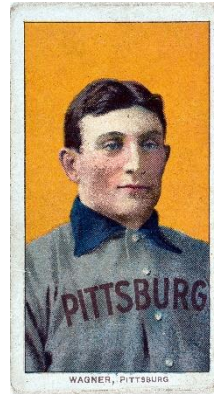
- We will discuss various projects, individuals or NFTs in this course
- These projects, tokens or the individuals associated with them, are only referenced for educational purposes
- Nothing in this course should be taken as a recommendation to buy or sell an NFT or token or any other financial instrument or security
- More generally, cryptoassets are extraordinarily volatile investments. Please take care if you are buying cryptoassets
- The information provided during this session does not, and is not intended to, constitute legal advice.
- Instead, all information, content, and materials made available is intended for general educational purposes only.

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1. Collectibles

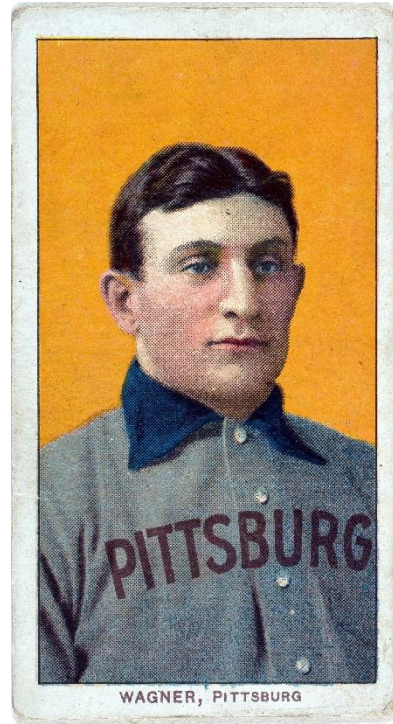
Collectibles

All of the below are unambiguously collectibles



Value largely driven by rarity, assuming the category is considered valuable

Is this a collectible?



Honus Wagner Baseball Card, 1909



Nakamoto Pepe, 2016

Is this a collectible?



Trumpet, 1984, Jean-Michel Basquiat



PepeBasquiat, 2017, Luca

Is this a collectible?



Is this fine art?



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2. Aesthetics vs Rarity

The more collectible like, the more rarity matters

Rarity Matters More

Aesthetics Matters More



PFPs

Generative Art

1/1s

Approximately all the most valuable punks are aliens



But what about 8348?



CryptoPunk 8348

One of 6039 **Male** punks.

The Tulip is not a statistically rare fidenza, but it is aesthetically rare



Token rarity

Traits for all tokens have arrived, rarity values are now final.

Rarity rank #341 / 999

Rarity score 45.65

Traits normalization

Trait count

Traits weighting

Single trait rarity rank #275 / 999

Statistical rarity rank #359 / 999

[Learn more about rarity](#)

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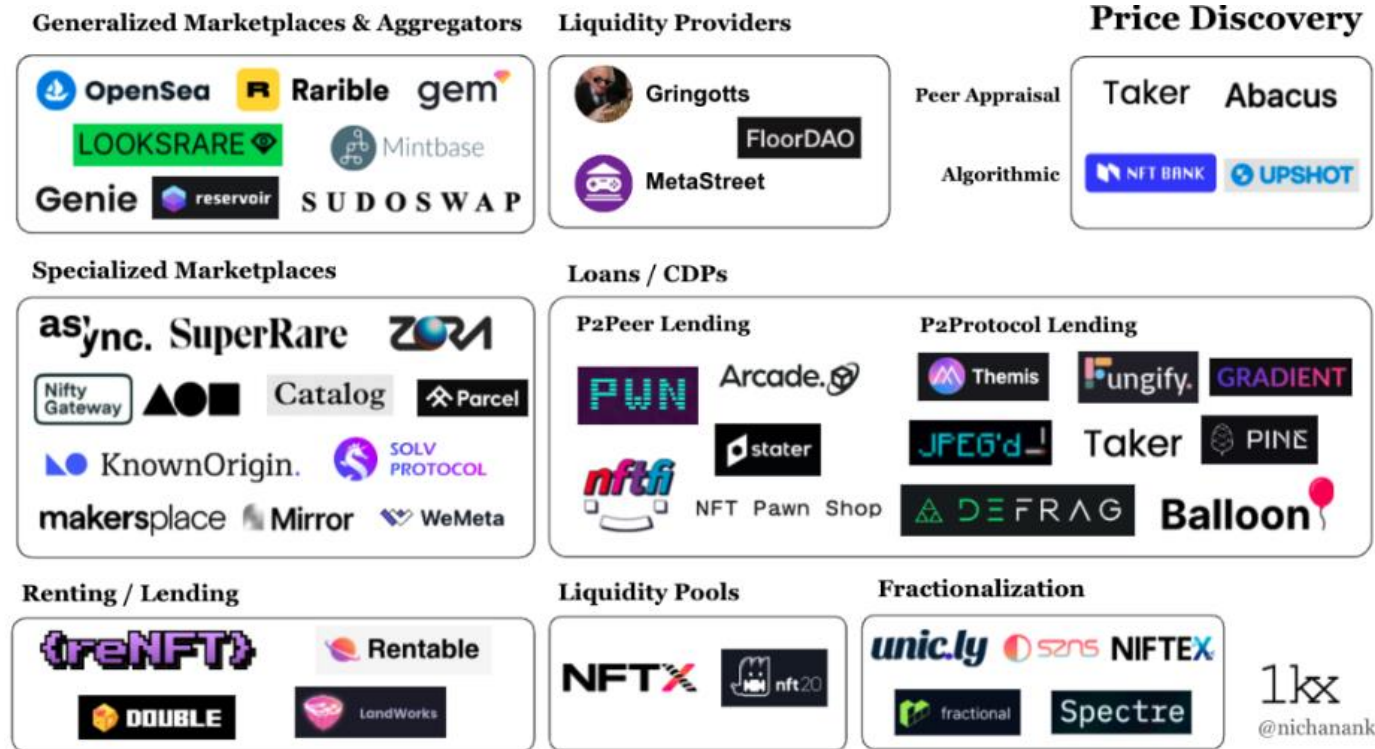
3. NFT-Fi: Financialization of NFTs

How do NFTs become composable in DeFi? Should they?

- NFTs are permissionless tokens and, as such, can be "composed" (integrated) with a wide range of DeFi (Decentralized Finance) protocols
- This area is still in its infancy. NFT valuations and financial regulations are the main hurdles to further development
- DeFi projects have already begun implementing NFTs in staking pools, governance, and loan collateralization.
- Other NFT-Fi protocols include: Auctions, Aggregators, Liquidity Pools, Fractionalization, Renting/Lending

How to make them useful in DeFi protocols?

- Marketplaces
- Liquidity providers
- Price discovery
- Specialized Marketplaces
- Loans /CDPs
- P2Protocol lending
- Renting
- Liquidity pool
- Fractionalization



Source: <https://medium.com/1kxnetwork/show-me-the-liquidity-evaluating-nft-financialization-methods-f3c30bf8f08c>

Financial Products as NFTs

- Uniswap v3 liquidity positions are now represented as NFTs
- V3 positions are now equipped with custom liquidity ranges, meaning that each position is subject to a distinct and customizable set of parameters that determines its value and rewards.
- Liquidity providers are now able to concentrate and deploy their liquidity within whichever price range they choose.
- Whereas liquidity providers in previous versions of Uniswap were awarded with fungible LP tokens for holding a position, Uniswap v3 position holders now see all fees generated held directly within the NFT itself.



Uniswap v3 NFT representing a USDT/DAI position

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4. Conclusions

What did we learn?

Takeaways from week 6

- Both collectives and art are long-standing parts of the global economy and address key human needs
- Certain NFTs are clearly collectives, certain NFTs are clear art, but many NFTs bridge the two areas
- Aesthetics and rarity are the two main factors driving NFT valuations
- Art-oriented NFTs are more highly driven by aesthetics; Collectible-oriented NFTs are more driven by rarity. The appeal of most NFTs is driven by both factors to some degree
- NFTs are "composable" with various DeFi protocols for trading, lending/borrowing and fractionalization. This area of "NFT-Fi" is still in its infancy

Where can I find out more?

Further reading

- [Art and collectibles](#): Ancient collectors that inspired fads
- [On Collecting](#): An Investigation into Collecting in the European Tradition
- [Pret, T., Shaw, E., & Drakopoulou Dodd, S. \(2016\). Painting the full picture](#): The conversion of economic, cultural, social and symbolic capital. *International Small Business Journal*, 34(8), 1004–1027.
- [Famous antiquities collectors](#): This article explores nine of the most interesting collectors of antiquities, from Renaissance noblemen to Hollywood actresses.
- [The market of symbolic goods](#): Autonomation of intellectual and artistic production
- [Botto](#): Botto is a combination of AI algorithms including Stable Diffusion, VQGAN + CLIP, GPT-3, and a number of custom augmentations. It uses the community's votes to decide what to make each week, and mints the most popular weekly image as an NFT for auction on SuperRare.

Where can I find out more?

Further reading

- [NFT aesthetics](#): Georg Bak traces a brief history of NFTs back to the conceptual and computer art of the 1960s
- [Ranking rarity](#): Understanding Rarity Calculation Methods
- [Artwork and the subjective theory of value](#): An article explaining the subjective theory of value
- [Cryptography and Steganography in NFTs](#): An article describing the usage of steganography in NFTs as a new standard
- [Developing an index for NFT valuations](#): An overview of the mechanisms that drive token valuations
- [Bringing NFTs to the DeFi world](#): There's more to NFTs than collectible artworks and creations. Learn how NFTs can store a variety of values on blockchains beyond their typical use cases.
- [NFT Needs a Pricing Revolution](#)[Financialization of NFTs](#): The pricing revolution NFT needs may not be a complete reversal of refactoring, but a steady stream of imaginative proposals to improve the efficiency of price discovery.
- [NFT Financialization-Trends and Opportunities](#): Thinking about the financial layer of NFTs
- [The Financialization of NFTs](#): Thinking about the financial layer of NFTs
- [NFT Collateralized Lending](#): An article presenting a new paradigm for NFT collateralized lending
- [Tax perspective](#): Assessing in game assets from a tax perspective



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Questions?

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