



January 14, 2022

## WHAT YOU NEED TO KNOW ABOUT NFTs

### PRO POINTS

• **Non-fungible tokens, NFTs, are unique digital assets that are sold and traded on blockchain services like those powering cryptocurrencies.** Sales of the tokens, which often represent images, video or audio clips, climbed to more than \$44 billion last year.

• **While regulators have yet to offer formal guidance, SEC Commissioner Hester Peirce has indicated that sales of fractionalized NFTs — where buyers can purchase a portion of a specific token — could fall under securities laws.**

• **Political figures are jumping in on the boom.** Congressional candidates in Arizona and California are selling NFTs to fundraise for their primary campaigns. Former first lady Melania Trump recently sold an NFT depicting a watercolor of her eyes on the Solana blockchain.

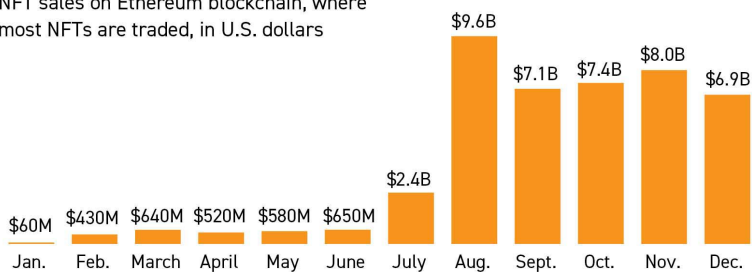
### HOW WE GOT HERE

Mainstream adoption of cryptocurrencies accelerated during the Covid-19 pandemic as consumers poured billions of dollars into digital assets. In the process, NFTs took a leap from niche digital collectibles into a pop culture phenomenon.

NFTs are typically traded using “smart contracts,” which are self-executing agreements written in code. NFTs typically don’t include a physical item or work of art. Buyers earn the right to own and display a digital asset, and creators can maintain copyright control over the associated work. In some respects, it’s similar to purchasing a limited edition art print or a rare trading card.

### NFT sales shot up in the second half of 2021

NFT sales on Ethereum blockchain, where most NFTs are traded, in U.S. dollars



Source: Chainalysis

The NFT market saw an explosion of interest in March 2021 when the internet artist known as Beeple sold an NFT of one of his works for \$69 million at the Christie’s auction house. More artists and celebrities soon followed with their own offerings. Traffic on OpenSea, the most popular NFT marketplace by sales volume, spiked in July as hundreds of new collections were put up for auction.

Venture capital interest surged last year. Investment in NFT-focused startups ballooned from \$88 million in 2020 to roughly \$3.6 billion through the first 11 months of 2021, according to the private markets data provider PitchBook. Sales of the tokens climbed to more than \$44 billion last year as artists, sports leagues and collectible companies launched their own collections of digital tokens, according to the cryptocurrency research firm Chainalysis.



## WHAT'S NEXT

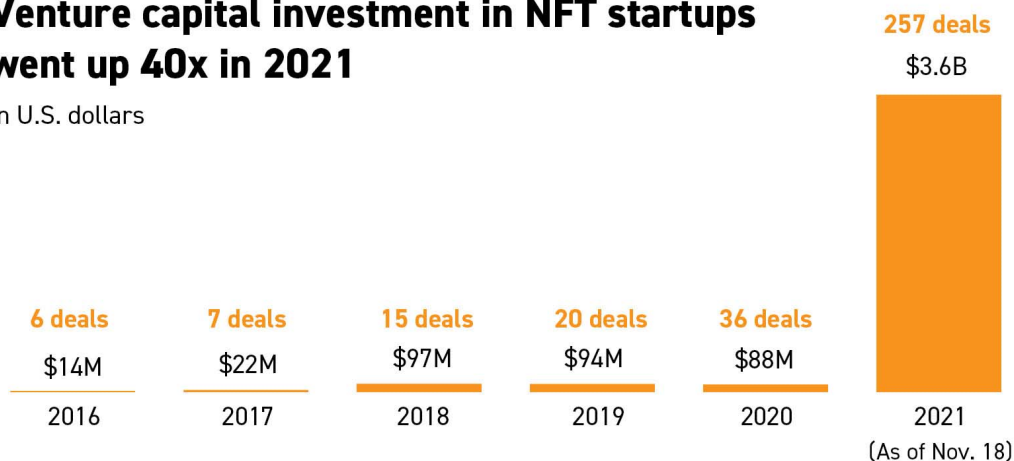
Washington is taking notice as policymakers try to set new rules for the crypto boom, and NFT players are gearing up for new scrutiny.

Dapper Labs, the Canadian company behind the NBA's Top Shot NFT platform, became the first company registered to lobby around issues pertaining to NFTs earlier this year. Andreessen Horowitz, a powerhouse venture firm and an early investor in Dapper Labs, blitzed Capitol Hill last year to sway lawmakers on crypto regulations as it became a major investor in dozens of NFT startups.

Developers and corporations are still coming up with commercial uses, which will affect how policymakers view NFTs in the long term. Real-world applications could include ticketing for concerts or other live events.

### Venture capital investment in NFT startups went up 40x in 2021

In U.S. dollars



Source: PitchBook

Certain NFTs could be regulated as investment products by the Securities and Exchange Commission — a possibility raised by SEC Commissioner Hester Peirce, who is seen as friendly to the industry.

NFTs could also face scrutiny for their potential use in money laundering, similar to traditional art.

NFTs are also raising questions around campaign finance rules, as congressional candidates from both parties begin selling NFTs to raise money for their campaigns. The digital campaign swag has been used to give supporters private access to candidates, party invitations and policy previews.



## POWER PLAYERS

- **Andreessen Horowitz:** The Silicon Valley firm deployed at least \$1.2 billion in NFT startups last year, emerging as an investor in roughly 40 percent of the NFT companies that held fundraising rounds. The firm has hired former regulators and Obama administration officials to shape crypto policy.
- **Devin Finzer:** Finzer is the co-founder and CEO of OpenSea, the largest online marketplace for NFTs. The platform received more than \$16 billion in cryptocurrency through the first 10 months of 2021 as interest in the digital assets exploded.
- **Blake Masters:** The Arizona Republican raised more than \$550,000 for his Senate campaign selling NFTs that depict early cover art of a book he co-wrote with Peter Thiel. Masters is an executive at the GOP megadonor's investment firm and private foundation.