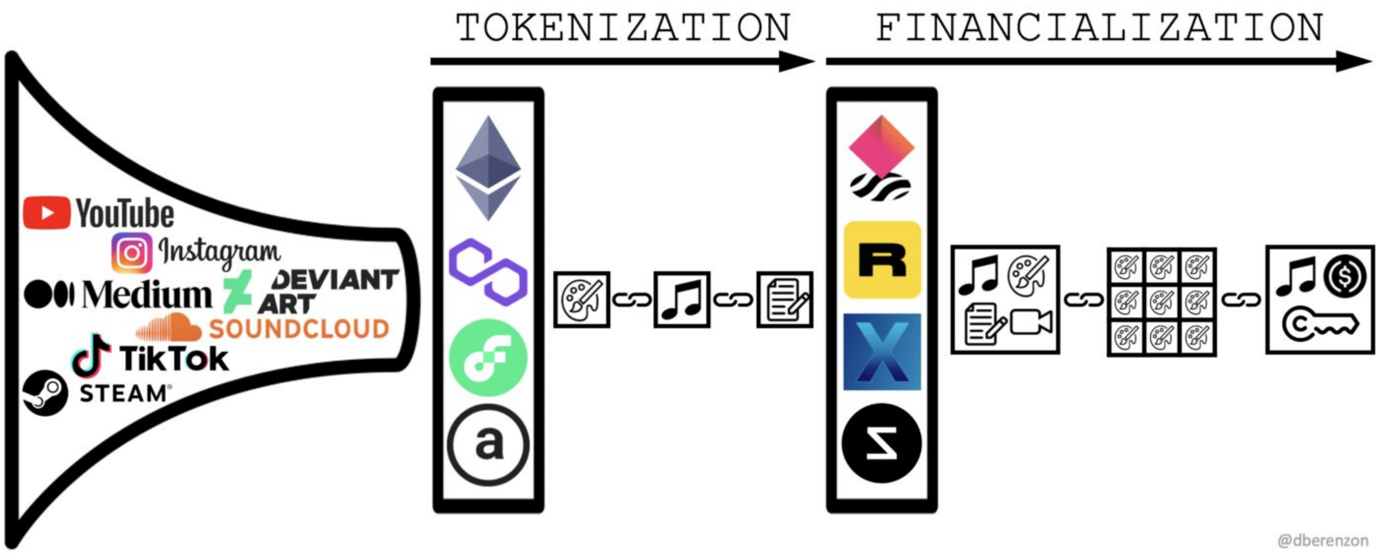
Fungible Non-fungibles: The Financialization of NFTs



In this piece, I will discuss why **DeFi** protocols benefit **NFTs**, outline several financial use-cases leveraging **NFTs**, and explore what the future of **NFT** assets might look like:

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Credit: **Dmitriy Berenzon**

DeFi is rocket fuel for NFTs

“Financializing” NFTs via DeFi protocols addresses many of the issues that NFTs face today, specifically:

- **Accessibility**
- **Liquidity**
- **Utility**

DeFi and NFT synergies

Collateral: Accepting **NFTs** as collateral in lending protocols increases the utility of the **NFTs** for the owner while increasing the economic activity of the protocol; **it is a win-win**.

Crowdfunding: ICOs were the first killer app on Ethereum because the platform is ideal for global capital formation & distribution; this use case applies to **NFTs** as well.

Users from around the world **could invest in creative works** at different stages of their lifecycle, which could lead to a renaissance in digital art and enable a new business model for a variety of content creators.

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Cooperatives

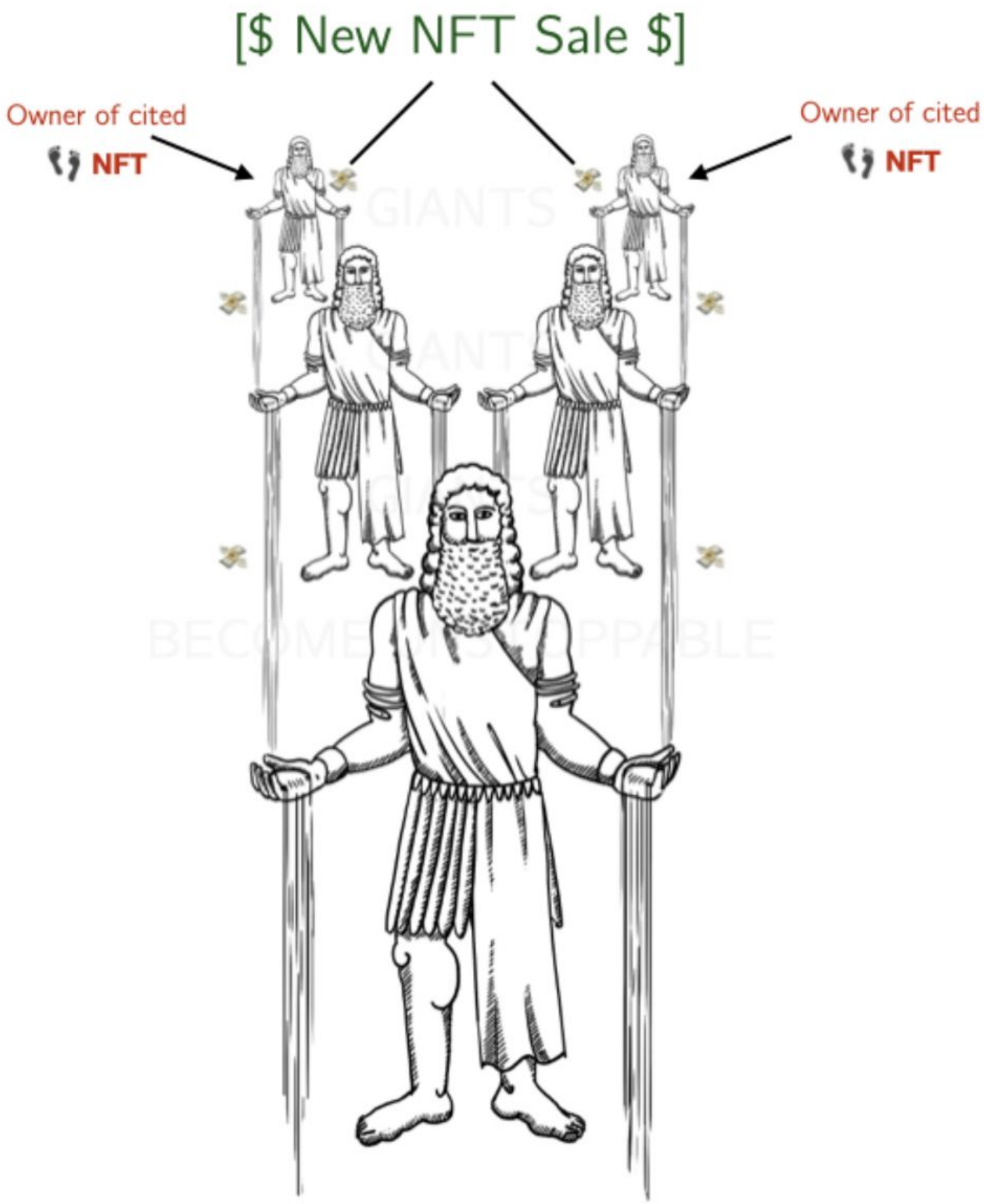
In the traditional business world, a cooperative is a corporation that is owned by its members, who are usually required to make a financial contribution to join. **DAOs** are the crypto-native analogy for this and have become the standard way to govern DeFi protocols.

DAOs will be even more important for NFTs because there will be an order of magnitude more assets and communities forming around them.

Economic Attribution

An open record of provenance enables use-cases that were previously impossible or difficult to enforce, such as **royalties for art and other assets** sold in secondary markets.

Economic attribution could also be programmatically distributed across multiple and specific **NFT** owners.



AKA funds to giants who stand on the shoulders of giants who stand on the shoulders....

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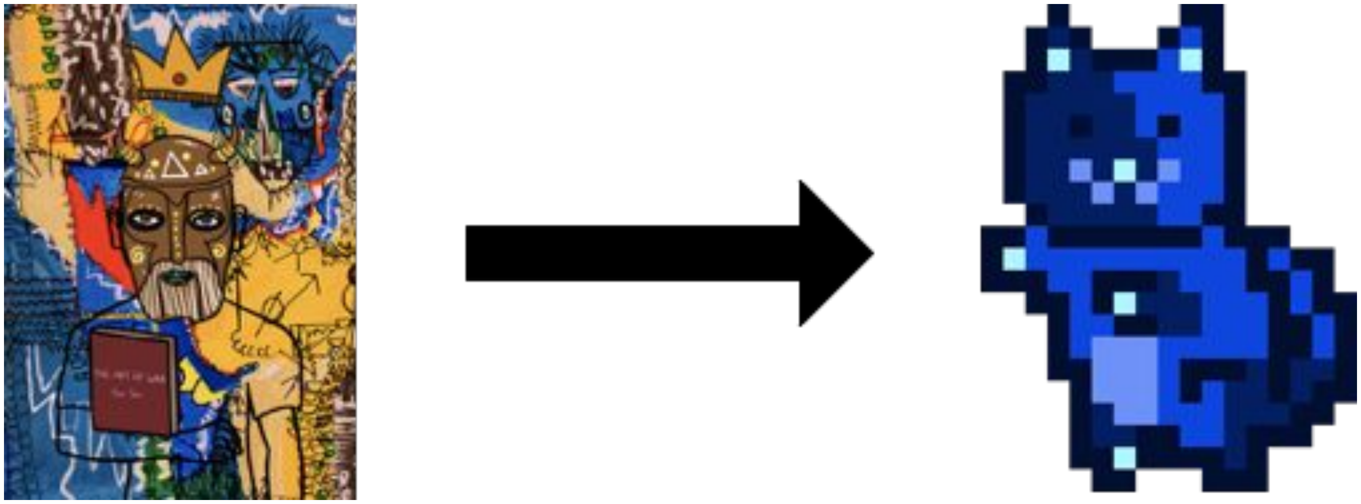
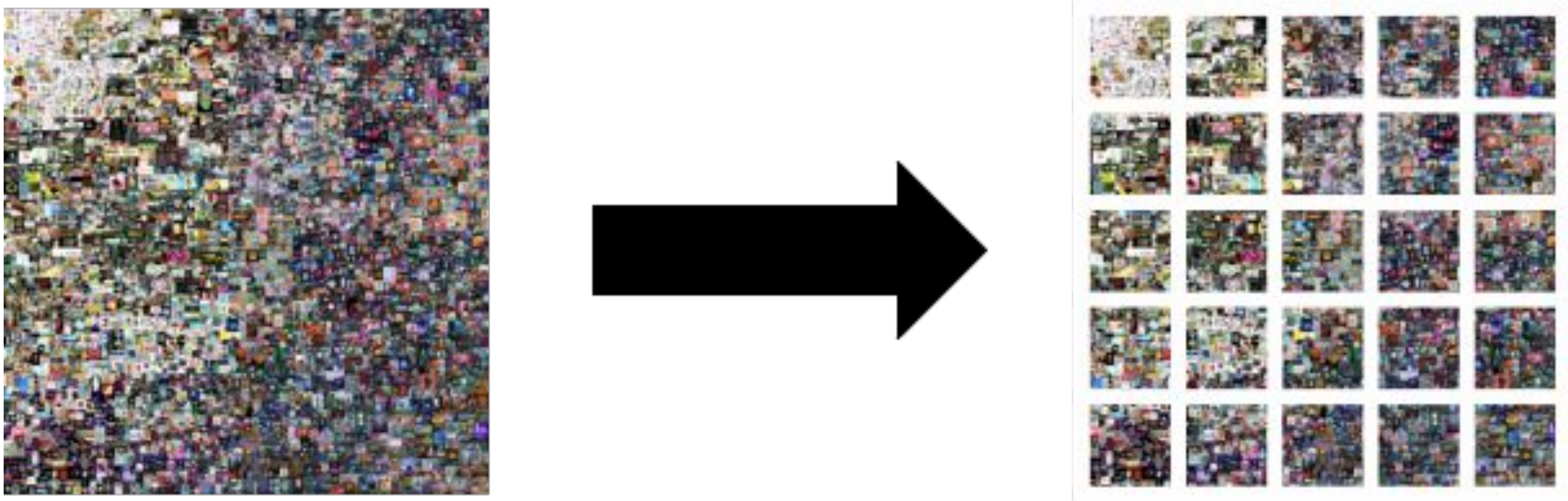
Exchange

The ability to exchange one **NFT** for another is important because it improves liquidity and price discovery by opening up the universe of potential trading pairs, but this is difficult to implement due to the illiquid-by-design nature of **NFTs**.

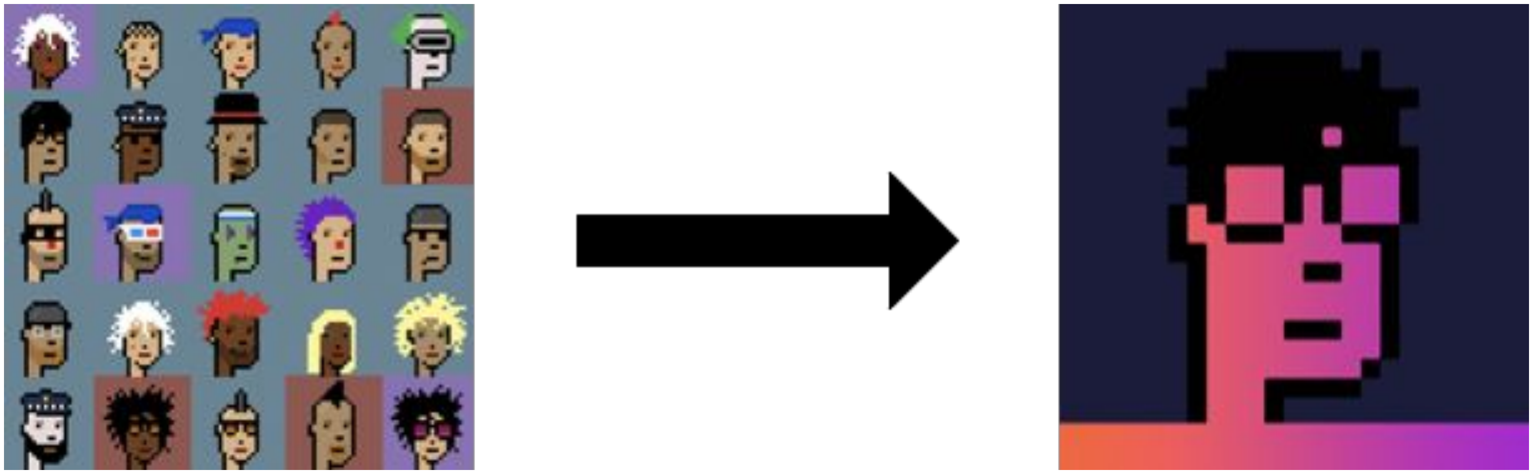


For example, if there is a **MASK20/ETH** pool and an **MCAT20/ETH** pool, a user is able to instantly trade MASK for MCAT on **Uniswap**. This solution works particularly well for collectibles that have a small number of valuable assets and a long-tail of lower value assets with a well-understood floor price.



Fractionalization

Fractional ownership is an effective way to democratize access to assets and has historically been used for **high-value assets**, such as vacation properties.



Index Funds

Index-based investing in traditional financial markets has surged in popularity over the past decade because it provides a transparent and low-cost way to achieve diversified exposure across a variety of markets. Similarly, **NFT-focused index funds** could give investors exposure to a particular class of **NFTs** without requiring them to appraise a specific **NFT**.

Renting

This model could be applied to **NFTs** such as art and digital land as well. ReNFT is attempting to do this today with a peer-to-peer marketplace for **NFT** rentals. As with most DeFi protocols in crypto — this is currently an over-collateralized solution; a borrower is able to rent an **NFT** by depositing collateral equal to the market value of that **NFT**, **along with an additional rental fee**.

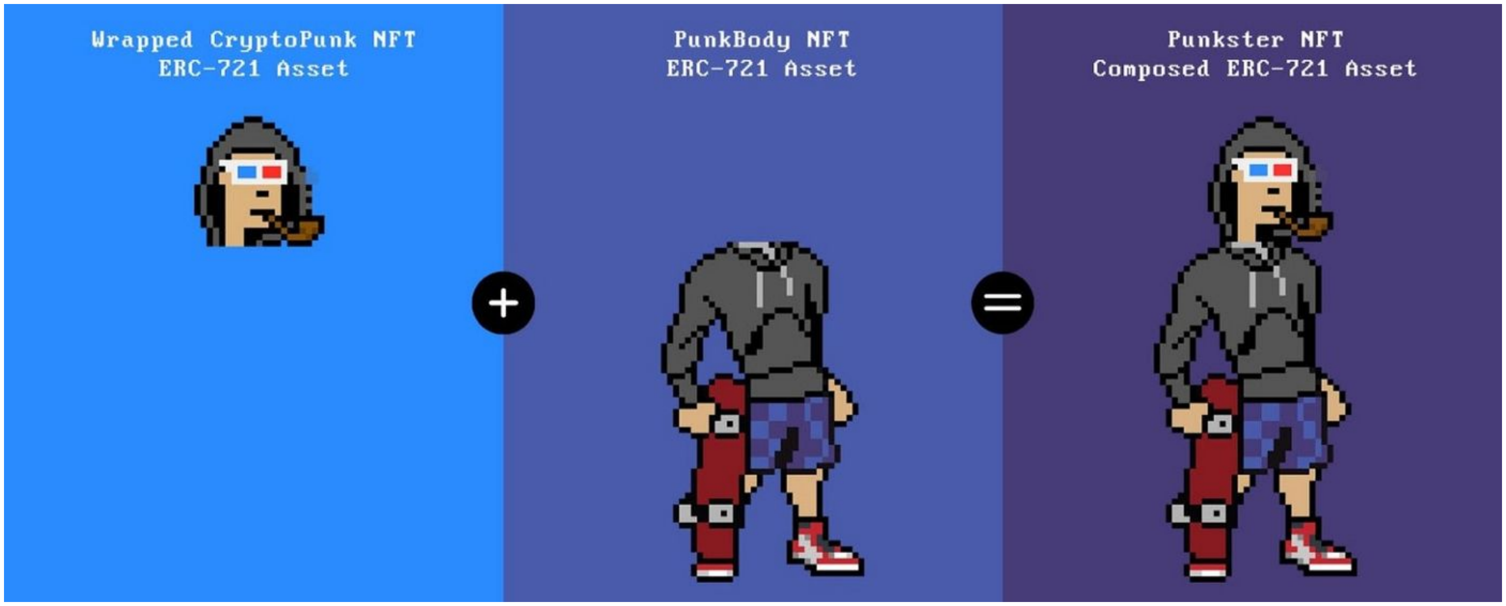
Synthetics

A synthetic asset is a financial instrument that simulates other instruments. While most **NFTs** today **are not really financial instruments** in the traditional sense of the word, the concept could still be applied to enhance liquidity and market access for these NFTs.

The Future of NFTs

Over time, we will see more unique, complex, and interconnected cryptomedia that will **leverage multiple DeFi protocols** to enable value propositions and use-cases that were not possible in the traditional world. The design patterns here could be, but are not limited to:

- **Bundling²**
- **Fractionalizing+Bundling**
- **Composing**



The next few years will see a flurry of experimentation around these concepts and it will be exciting to see how developers, creators, and communities will work together to bring them to life.

If you are building something at the intersection of DeFi and NFTs, please reach out!

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