

NFT and Art Finance in Hong Kong: Overview and New Opportunities

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Abstract

As the traditional art market faces the challenge of transformation under the wave of digitization, Hong Kong's role as a “super-connector” will continue to play a significant role in the era of fully embracing virtual assets. Utilizing both documentary and empirical research methods, the article reviews the history and connection between NFT and art finance events, aiming to explore the possibility of their mutual empowerment and the future outlook of their synergistic development in Hong Kong.

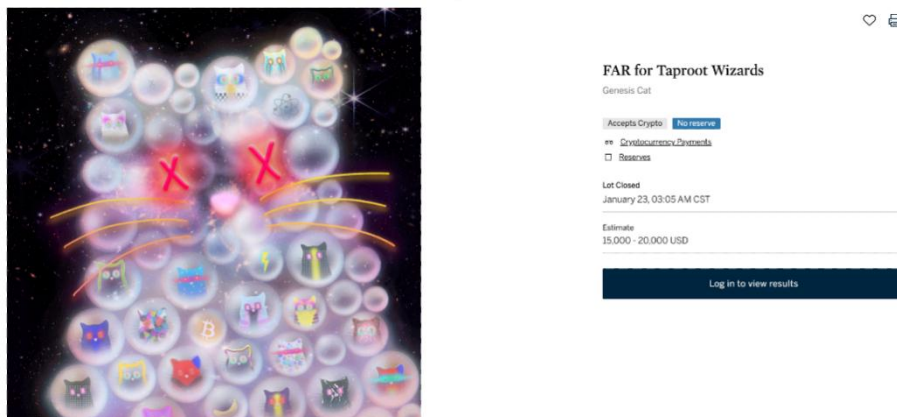
Keywords

NFT, art finance, art market, Hong Kong, digital economy

1. Introduction

On January 22nd of this year, the NFT, named Genesis Cat (Fig. 1), sold for \$254,000 at Sotheby's, a price that was more than 12 times the lot's \$15,000 to \$20,000 estimate.

Figure 1: Genesis Cat



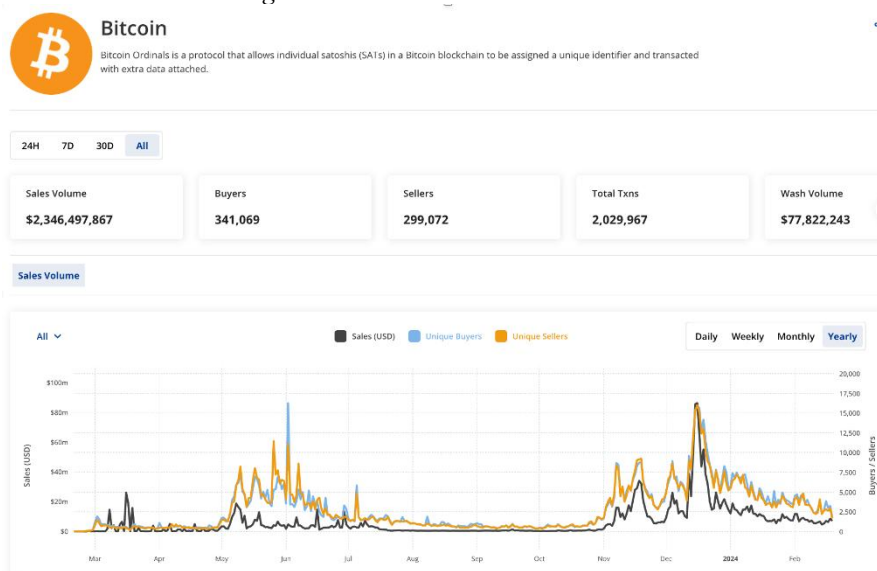
Source: Sotheby's

The NFT was created on the Bitcoin blockchain network by visual arts and technology artist/engineer FAR (Francisco Alarcon), and the Genesis Cat is a single piece of digital art from the Quantum Cat NFT

series. Quantum Cat, on the other hand, will be the first NFT series released by Taproot Wizards, the development team of the Bitcoin Ordinals protocol, and consists of 3,333 cat-image Bitcoin NFTs.

Bitcoin NFTs inscribed using the Ordinals protocol are hitting the market at an unprecedented rate as digital artwork created by Ordinals protocol development team Taproot Wizards hits Sotheby's. Cryptoslam data (Fig. 2) shows that as of February 19th of this year, in just over 200 days of the emergence of the Bitcoin NFT market, Bitcoin NFT sales have reached \$2.346 billion, with a total of over 2.02 million transactions. With Sotheby's shifting some of its business focus to NFT and emerging markets, the art market is bound to see new vigor.

Figure 2: Bitcoin NFT's Transaction Data



Source: Cryptoslam

At the same time, Hong Kong, as one of the international financial centers, has been promoting the development of the digital economy and has adopted a series of policies and measures to support innovation and growth in this area. In June 2022, the Securities and Futures Commission (2022) issued a circular highlighting the risks associated with NFTs and clarifying when NFTs might be considered “securities” under Hong Kong's regulatory framework. This includes situations where NFTs could be part of a collective investment scheme. The circular also reminds stakeholders of the licensing and authorization requirements that could apply to NFT transactions. This regulatory approach underscores Hong Kong's effort to balance innovation with investor protection in the evolving NFT market.

1.1 NFT

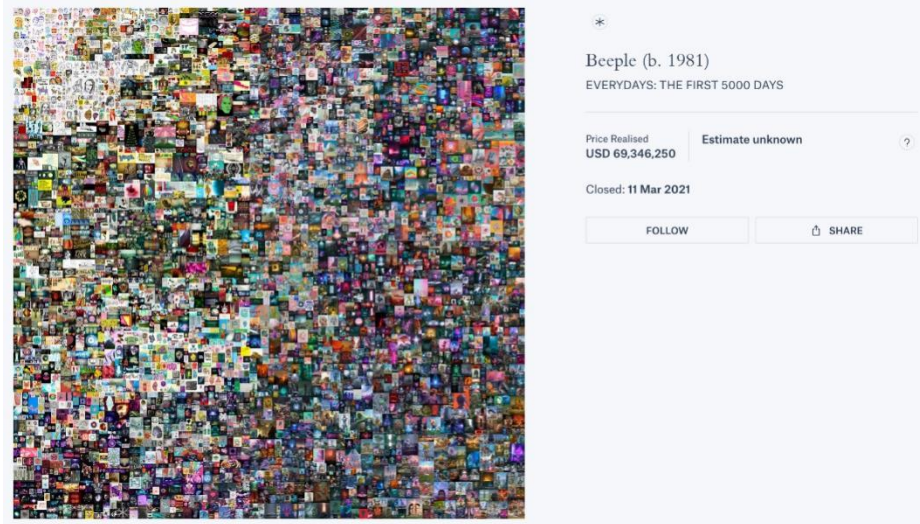
NFT, short for non-fungible token, has now become an emerging application scenario under blockchain technology. Unlike fungible tokens Bitcoin, NFT represents the ownership of specific assets, such as images, audio, etc., and is expressed as a set of time-stamped metadata on the blockchain. Up to now, the creation and transaction of NFT cannot be separated from the application of smart contracts, such as the standard smart contracts ERC-721 and ERC-1155 on the Ethereum. Full-history tradability, deep liquidity, and convenient interoperability enable NFT to become a promising intellectual property (IP)-protection solution (Wang et al., 2021).

1.2 Art Finance

Art finance involves the intersection of the art market with financial products and services, focusing on the monetization, investment, and economic aspects of art. It covers art valuation, art as collateral for loans, investment funds that focus on art, and the financial mechanisms that facilitate buying, selling, and owning art.

The famous NFT deal for the JPG image file “Everydays: The First 5000 Days (Fig. 3)” created by cutting edge artist Beeple. The image is a collage of 5,000 of Beeple's daily drawings, and the NFT of the work sold for a whopping \$69 million through Christie's, making him the third richest living artist in the world.

Figure 3: *Everydays: The First 5000 Days*



Source: Christie's

2. New Opportunities

2.1 NFT Empowers Art Market

World Economic Forum (2023) released the “Evolution of Non-Convertible Tokens Insight Report.” The report states that NFTs can help enhance the digital creator economy without intermediaries. In the traditional art market, artworks and their secondary markets cannot be traded without galleries, intermediaries or agents. The development of non-homogenized tokens provides an alternative way of communicating digital art, creating a direct bridge between the artist or creator and the audience. Artists can connect seamlessly with their fans and therefore build personal influence and good fan community interaction. NFT can be easily traced back, which to some extent ensures that the ownership of artists and museums in the process of digitizing their assets is protected, and also greatly stimulates the creative enthusiasm of artists.

Furthermore, there are several academic literatures that provide a positive outlook on the role of NFT in the art market. “The emergence and rapid rise of the digital art market in Hong Kong, have the potential to turn Hong Kong into a hub for digital art, in particular digital tokens and crypto art” (Poposki & Leung, 2022).

In 2021, the Digital Art Fair Asia was established, and as a result, Hong Kong has the first virtual art fair entity focused on immersive art and non-fungible token art. “Hong Kong has a unique proposition, in terms of its financial infrastructure, being a gateway to China and Asia, having the technology, having free internet, and cryptocurrency is legal and without restrictions in Hong Kong. All of this makes NFT and digital art very easy to trade in Hong Kong”, said Gillian Howard, cofounder and director of the Digital Art Fair Asia (Howard, 2022, Digital Art Fair Asia, Hong Kong. Personal communication).

Additionally, contrary to other mature art markets around the world, where the focus is on auction houses and to a lesser extent local blue-chip international galleries, the introduction of NFT also helps to improve Hong Kong's top-heavy art ecosystem by enabling artist-led studios or project spaces to emerge in the market with a more active presence.

2.2 Art Finance Guides NFT

Data suggests that Google search activity on the topics of “non-homogenized tokens” and “non-homogenized tokens” is positively correlated with major cryptocurrency returns, and that the previous week's Bitcoin returns were a notable driver of interest in NFT (Pinto-Gutiérrez et al., 2022). Similar to the traditional art market, there is speculation in the NFT market, which cannot be separated from the volatility of the value of cryptocurrencies themselves.

To the art agency, the history of financialization of art has already been established, and the rich practice of the industry will be a good guide to the corresponding regulation and investment advice for NFT. And the arts finance portfolio will also inspire the NFT.

3. Conclusion

Challenges and opportunities co-exist, NFT accompanied by speculation risk, policy regulatory risk and new technology substitution risk. The process of art financialization is also accompanied by the risk of art value assessment. NFT 2.0 will also provide greater flexibility, creativity and functionality for creators and owners, and contribute to the wider adoption and use of NFT across industries and applications (Guidi & Michienzi, 2023). Relying on Hong Kong's open and compatible attitude towards virtual assets and its encouragement of financial innovation, the process of art financialization in Hong Kong will also further unleash the potential of NFT.

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Conflicts of Interest

The authors declare no conflict of interest.

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