

## EXPLAINED

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NFTs are digital assets whose ownership is verified through transaction records stored on blockchains. | Photo Credit: Getty Images

**The story so far:** The writing is on the wall for the crypto market. Popular cryptocurrencies have nosedived after a meteoric rise last year. Several crypto exchanges laid off a significant portion of their employees and lending platforms are struggling to remain solvent. Being part of this ecosystem, non-fungible tokens, or NFTs also took a hit as a result of the crypto fallout.

NFTs are digital assets whose ownership is verified through transaction records stored on blockchains. Art work, digital avatars and accessorised monkeys are some of the most commonly traded NFTs. OpenSea is said to be one of the largest NFT marketplaces in existence. Earlier this year, the platform was valued at over \$13 billion after raising around \$300 million in venture capital. By August 2022, based on Ethereum blockchain data, OpenSea was used by two million traders who transacted at least once on the network.

OpenSea was built on the Ethereum blockchain to trade NFTs. The digital goods sales on the platform jumped in August 2021, according to analytics platform Dune Analytics. In November, Bitcoin and Ether hit their all-time high as the market reached a state of ecstasy. OpenSea monthly volumes soared between December 2021 and January 2022. In January OpenSea's monthly volumes for Ethereum shot over \$4.8 billion. In February and March, monthly transactions plunged before rising again in April. That recovery was brief as the collapse of TerraUSD [UST] stablecoin and its partner coin LUNA wiped billions of dollars in shareholder wealth off the market in May 2022. As a result, both Bitcoin and Ether fell and more than halved in value during the first six months of 2022. Daily transactions on OpenSea have been gradually declining since then.

OpenSea's June trade volume dropped to about \$695 million. It further dropped about 30% in July to \$528 million. Adding to the heavy loss in volume, the number of NFTs sold (Ethereum blockchain) have also been declining since January 2022, which saw the sale of more than two million NFTs. July 2022 saw around 1,702,302 NFTs sold at the time of writing. However, this followed increases in May and June 2022. But NFT trades on OpenSea for the Polygon blockchain show even fewer transactions. Monthly volumes fell to about \$6.4 million from nearly \$80 million between January and July 2022.

While proponents of NFTs laud these assets as a way to revolutionise the art scene or explore new models of proving ownership, OpenSea users complain of excessive downtime on the platform. There have also been reports of breaches and security vulnerabilities. In one such instance, an employee of the platform's email delivery vendor had caused the security breach.

"We recently learned that an employee of Customer.io, our email delivery vendor, misused their employee access to download and share email addresses — provided by OpenSea users and subscribers to our newsletter — with an unauthorised external party. If you have shared your email with OpenSea in the past, you should assume you were impacted. We are working with Customer.io in their ongoing investigation, and we have reported this incident to law enforcement," said OpenSea on June 29.

In late February 2022, at least 17 OpenSea users were targeted by an alleged phishing attempt. There are also ethics-related issues. A number of artists have complained that OpenSea users

frequently steal their work, mint them as NFTs, and begin profiting from them without their consent. These artists have lambasted the NFT platform for not doing enough to combat art theft and also making the stolen art takedown process troublesome for non-crypto users.

Celebrities played a key role in boosting NFT sales, either by buying their own such assets or minting them and putting them up for sale on platforms like OpenSea. One of the best known OpenSea collections was musician Shawn Mendes' collaboration with Genies to offer NFT versions of himself, and virtual accessories such as his guitar, a shirt, and even a decorative vest. One such NFT was priced at 5.5 ETH (over \$10,000 on August 19). But its last sale was 0.6942 ETH (less than \$2,000 on August 19). Coming to mainstream fame, OpenSea and Twitter Blue partnered in order to let Twitter users upload their Ethereum-minted NFTs and have them verified with a special hexagonal frame. In a matter of days, if not hours, Twitter evolved to show which celebrities and influencers were still firmly behind the NFT boom.

Yet while celebrity endorsement or digital collectibles of celebrities may lead to brief surges in popularity, they are far from what is needed to keep the industry financially viable.

Perhaps no development can better encapsulate the rise and fall of OpenSea than the incident which took place on July 14.

The crypto bull run and the NFT boom of 2021 saw Web3 companies launching into a hiring spree in order to scale operations at a rapid pace. However, as Bitcoin and Ether more than halved in value after the May 2022 crash, a long list of global crypto companies began firing huge sections of their workforce.

On July 14, OpenSea co-founder and CEO Devin Finzer announced that it was a "hard day" for the company, which was firing 20% of its team.

"Nevertheless, the reality is that we have entered an unprecedented combination of crypto winter and broad macroeconomic instability, and we need to prepare the company for the possibility of a prolonged downturn," he said in a message shared on Twitter.

Mr. Finzer stressed on OpenSea's strong balance sheet and its ability to survive the ongoing crypto winter with the available runway. He claimed OpenSea to be in "an even better position to capture what will soon become the largest market on the planet."

While many might conclude that the era of NFTs is over and it's time to exit their positions and give up their creations, there are always others in the world of crypto who believe that panic sellers are giving them generous discounts.

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