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Blockchain Bites: Chainalysis releases 2021 NFT Market Report, FTX Releases Key Principles for Market Regulators

Michael Bacina, Sally Fetouh and Luke Misthos of the Piper Alderman Blockchain Group bring you the latest legal, regulatory and project updates in Blockchain and Digital Law.

Chainalysis releases 2021 NFT Market Report

Chainalysis has released their 2021 Non-Fungible Token (**NFT**) Market Report (**report**) detailing the current trends and investment tactics that has followed the market this year. The report comes after the most successful year for NFTs in terms of popularity and volume of transactions.

Chainalysis reports that USD$26.9 billion worth of cryptocurrencies have been transacted in relation to the NFTs created using the leading Ethereum smart contract standards for NFT collections, ERC-721 and ERC-1155.

The growth of NFTs has been shown in the increase in both total value sent and average transactions size, suggesting that NFTs as an asset are gaining value as they grow in popularity. Most users are buying NFTs on dedicated marketplaces with the largest marketplaces eclipsing USD$16 billion worth of volume so far in 2021.

The report breaks down a handful of popular NFTs based on weekly transaction volume. The most popular, boasting over USD$400,000,000 of volume in October is the Mutant Ape Yacht Club drop.

Notwithstanding the success of some of the NFTs below, the report finds only few collections that enjoy sustained success, such as CryptoPunks which has seen more than USD$3 billion volume since March this year.

The report also shows data that suggests people are spending more and more money on NFTs as larger transactions are becoming more common. At the beginning of March 2021, 'NFT collector-sized transactions' (between USD$10,000 and $100,000) accounted for 6% of transactions, it has now risen to just under 20% of all transactions as of 31 October 2021.

Also, the report outlines that, similar to cryptocurrencies, no one country has more than 40% of monthly web visits since March 2021. The numbers suggest NFTs have adopted global popularity with North America and Central and Southern Asia leading the web traffic of NFT marketplaces.

The report provides insights into what makes a successful NFT investor with supported statistics outlining volume, quantity and tactics. One thing that is clear from the report is that the popularity of NFTs is not built on hype, they are being traded by serious investors around the world.

FTX Releases Key Principles for Market Regulators

Cryptocurrency exchange FTX has identified ten key principles they suggest should guide policy makers and regulators responsible for building out the regulatory framework for spot and derivative cryptocurrency markets.

The FTX Research team has released the following ten principles and proposals:

1. Proposing One Primary Market Regulator with One Rule Book for Spot and Derivatives Listings.

2. Full-Stack Infrastructure Providers and Maintaining Market-Structure Neutrality.
3. Custody of Crypto Assets – Key Functional and Disclosure Requirements.
4. Full-Stack Market Infrastructure Providers and the Lifecycle of a Trade – Addressing Risk Related to Token Issuance and Asset Servicing, Orderly Markets and Settlement of Trades, Cross Margining and Risk Management of Positions.
5. Trading Platform Providers – Ensuring Regulatory and Market Reporting.
6. Ensuring Customer Protections.
7. Ensuring Financial Responsibilities are Met.
8. Ensuring Stable Coins Used on Platform Meet Appropriate Standards.
9. Full-Stack Infrastructure Providers – Ensuring Appropriate Cybersecurity Safeguards are Kept.
10. Full-Stack Infrastructure Providers – Ensuring Anti-Money Laundering and Know Your Customer Compliance.

While many of the principles are analogous to traditional market structure principles, FTX believes some reflect the market-structure choices made by cryptocurrency platform operators. The suggestions are focused on the US market but the principles are likely applicable in other jurisdictions and we discuss some below.

Similar to Recommendation 2 from the Senate Report into Australia as a Technology and Financial Centre, FTX suggests key functional and disclosure requirements for the custody of crypto assets. In particular, Principle 3 suggests requirements for third-party providers of data centres as well as custodial providers to cover the evolving nature of crypto storage.

FTX also considers the importance of regulatory market reporting to mitigate the risk of market manipulation in Principle 5. While market visibility is a primary consideration, FTX also suggests an API (Application Programming Interface) allow market supervisors realtime access the data directly from a platform, rather than requiring a separate entity to do so.

Principle 9 suggests cybersecurity safeguards for market providers and that policy makers should apply the existing framework already in place for exchanges, or require that platform providers develop and disclose to market participants policies and procedures addressing cybersecurity safeguards. In an era where the value of a hack of an exchange is increasing, and ransomware saw a jump in popularity, this is a key issue to be addressed in the industry.

With the regulatory landscape regarding crypto-assets continuing to rapidly evolve and develop, principles to educate these are a glimpse through the lens of crypto-asset exchanges and the discussion of regulation encourages conversation and growth.