Tokenization of the Future

I. Introduction

In a world that has become rife with competition across every fathomable domain, ensuring the next generations are ready for a formidable future remains one of the most precious prizes that can be sought after; be it at the individual level, societal level or national level. The future is an ever-elusive concept which, owing to its very definition, can neither be contained nor guaranteed. It can only be planned for and invested in. In our survival game, the fittest has become the most competent not the strongest; and I would argue that the ones who will be competent in the future will be the ones whose precursors, not only were visionaries but also have decisively acted upon their visions. It is incumbent upon us to convert our fear of the future into impetus that propels us forward. Strategic roadmaps, ventures and expeditions are examples of decisive actions that governments around the world employ to plan for the future and set out to explore its potential.

In the business world, corporations use similar approaches to demonstrate that they are in control of their destiny and thus competent and able to drive perpetual growth. This gives their shareholders the confidence to continue to invest in them and fuel their journey into the future. If we project the same concept onto the innovative scene, the typical start-up trajectory, for instance, is fraught with many challenges, not the least of which is assuring the confidence of its investors, whose primary interest remains future returns. The same applies to research endeavours for which more serious funds can only be committed if the commercialization potential is well-articulated and visualized.

At the heart of all the above examples is a bet on an idea for the future. The idea is a view of what an element of the future may look like, be it the realization of a government initiative, a profitable annual report, a high-value acquisition or a tangible research outcome. I would argue that the more participants bet on an idea, the higher the chances of success. This is provided of course that the idea is sensibly valid; i.e., theoretically sound and potentially implementable. Simply put, the more the bets, the more the resources, financial or otherwise.

On this basis, there's merit in democratizing the investment in the future. This will of course require that regulated financial instruments can be designed and made available to facilitate such democratization. This paper recommends that NFT tokens backed by sensibly valid ideas be used as those financial instruments; hence the term, Tokenization of the Future.

II. Sensibly Valid Ideas

The Merriam-Webster dictionary defines an idea as a formulated thought or opinion. By this definition, a plan for improving the quality of education or healthcare, the potential for a mining venture, the vision of a real estate project, a research topic or a high-level business concept all qualify as ideas. For the purposes of this paper, a sensibly valid idea is defined as a formulated thought or opinion that is theoretically sound and potentially implementable.

Theoretically sound in the above context means that the idea should feature the following:

1) A defined community of participating actors, for example, national constituents, retail consumers or corporate stakeholders;
2) A target outcome that can be visualized, for example, a quantifiable impact on society in terms of improvement in healthcare or education or a profitable operation in case of a business venture; and,
3) Discrete mechanisms that can realize the logical connection between the actors and the target outcome, for example, an education plan, a marketplace, a computer algorithm or an IP patent.

For example, it is theoretically sound to say that individually tailored education plans help students choose higher education studies that they will better enjoy and where they will be more likely to succeed. The community of actors in this case includes students, schools, universities, academic advisors, parents and education authorities. The target outcome of better enjoyment and likelihood of success can be translated into measurable KPIs and can be tracked accordingly. The discrete mechanisms may include an AI assisted education platform, a student lifecycle management system and a wide array of advisory academic services.

Potentially implementable in the same context means the following:

1) It is practically possible to assemble and energize a community of actors that can partake in the realization of the idea;
2) The methods, techniques, technologies and regulations to define and measure the outcome are either readily deployable or can be developed as part of the realization of the idea; and,
3) The discrete mechanisms that underpin the idea can also be realized through readily available methods and technologies or via systematic research.

Using our above education example, whilst the idea is theoretically sound, a good deal of effort needs to be put in place to make it happen; which is why determining whether an idea is potentially implementable or not requires adequate due diligence and viability assessment. In many cases, an extensive business case coupled with a detailed cost-benefit analysis is an important determining factor to assess whether an idea is potentially implementable or not.

Pursuant to the above, I would argue that a sensibly valid idea can be construed as a virtual asset. A virtual asset, in turn, can be tokenized in whole or in part. For instance, an idea can be mapped to one hundred tokens with each token representing a share equivalent to one percent of the idea. Making these shares or tokens available for acquisition and exchange is one way for democratizing the investment in the idea, and by extension the investment in the future.

III. Betting on the Future

Tokenization of the Future is enabling investors to make bets on sensibly valid ideas of their choice, thus invest in such ideas and help realize them in anticipation of reaping financial benefits. The target investor community can be open to all willing participants or limited to a select group of investors and should in all cases be subjected to the prevailing compliance rules and regulations. The proposition for betting on the future is underpinned by the following tenets:

1) Sustainable Investment

   Prior to the initial offering of the token, an initial monetary value should be assigned to the virtual asset and its fractional tokens by extension. This valuation should be based on the business case analysis and be derived in line with an established methodology (for instance, cost, discounted cashflow, etc.). The timeline and value for potential dividends (ideally in the form of royalties on profit) should also be disclosed to the investors as part of the initial token sale. The funds raised from the initial token sale will go to the initiator / owner of the idea to be used for its realization in line with the applicable regulations.

   The investors should be able to trade their tokens in line with the market dynamics; therefore, the tokens should be made available for trade through an established exchange. As the investors are buying into the potential of realizing the idea, the progress of realization should be published regularly (for instance quarterly) and made available to all participating investors. This will allow the investors to acquire additional shares or sell their shares subject to market dynamics, which in turn, will affect the value of the token. It will also give the investors the flexibility to recycle their investments across multiple ideas.

   Should the realization of the idea succeed, investors will make money both from dividends and the appreciation of the value of their tokens. Should the realization of the idea falter, the associated virtual asset can be potentially licensed for another venture in order to maintain some value. The risk profile of the virtual asset (probability of success, potential for recycling, etc.) should be determined as part of the business case analysis and disclosed to the investors accordingly. It should also be regularly monitored and reported on as part of the regular (for instance quarterly) performance disclosure. Ideally, high-risk virtual assets could be fractionalized into a higher volume of tokens as a way to attract more investors.

I would argue that from an investor's perspective, the ability to continually re-assess your bets as well as the ability to recycle your investment is what makes your investment sustainable.

2) Inclusive Disruption

The Tokenization of the Future is in and of itself an idea that bets on the future by disrupting the ecosystem of fund raising for commercial initiatives, be it government projects, ventures, start-ups, research or otherwise. A commercially viable platform will need to be constructed to operate this process and it should mainly feature a fractional tokenization platform, a register of virtual assets and a performance dashboard to regularly report on the progress of realization. However, for the concept to work, it is imperative that a comprehensive ecosystem be onboarded which should include, among other entities, the following:

a. Advisory firms that can perform the required due diligence, the business case analysis and the valuation of ideas.
b. The regulatory functions in charge of virtual assets, trade, financial transactions and financial markets.
c. The financial market or exchange that will facilitate the initial offering, the trading of tokens and the associated compliance functions.
d. The investment bank that will operate the trading wallets and run the associated compliance functions.
e. The audit firms that will review the progress of realization and publish the regular performance reports.
f. The marketing firms that will promote the virtual asset and the anticipated potential benefits.
g. Any other relevant licensing authority, legal advisory firm or government function.

Inclusive disruption is about introducing a new way of doing things whilst incorporating the pre-existing ecosystem. To increase the chances of success, it is important that the said ecosystem entities realize a positive impact on their business by embracing the new approach, so that the bet on the future has enough tail winds to accelerate.

3) Investing in the Potential

To assure the confidence in betting on the future, the vision behind the idea and by extension the virtual asset should be clear. This is precisely why this paper introduces the concept of a sensibly valid idea. The are two important dimensions to consider while inviting investors to partake in placing bets on the future:

The first is the ability to tailor an initial offering that suits the risk appetite of target investors. For instance, if the target is a wide community, a higher volume of tokens with lower initial value per token might be the more suitable approach especially for high-risk high-potential virtual assets. Conversely, if commercial investors in a specific industry are the target, lower volume of tokens with a higher value per token can be more suitable especially if such investors are poised to reap high rewards when the idea is realized, such as in the case of pharmaceutical research.

The second is to disclose as many details as possible in the initial offering phase in order to clearly illustrate the potential so that the target community can fully visualize it. This will require the participation of support functions in the ecosystem such as the marketing firms and other relevant entities as well as authorities.

It remains to be noted that investing in the potential is based on conviction and goodwill, both on the investors' as well as the promoter's sides. This is why it's key that competent authorities and renowned entities are engaged in the ecosystem from the start. This is also why it's important that the initial use cases are highly scrutinized for their success potential and speed of value realization. It's almost paradoxical to claim that investing in the future requires the validation of the present; however, this is merely a syndrome of the fierce competition for competence.

IV. Conclusion

The steps to realize the Tokenization of the Future concept are the following:

- Secure the sponsorship and endorsement of the Government.
- Promote and onboard the ecosystem constituents including the regulatory and commercial entities as described above.
- Set up a commercially viable platform to operate the ecosystem as described above.
- Select an initial use case (e.g., start-up funding, research funding or otherwise) and onboard an initial community of potential investors.
- Test the system based on the initial use case, adjust and improve as applicable.

Once the system has been tested on an initial case and its viability has been proven, it can be rolled out horizontally to other ideas / virtual assets within the same use case category or vertically to other use cases. It remains key that all participants in the ecosystem (including the platform) are able to operate profitably in order that the realization of this concept remains sustainable.

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