Wrapped NFTs: Different flavors of wrapped tokens

Part 2 of a 3-part series on wrapped tokens

kaigani Sep 28, 2020 · 3 min read

In Part 1 of this series, I wrote about the exciting new developments in wrapped NFTs. However, there are various projects that describe 'wrapped' tokens, so I thought it would be useful to give an overview.

To simplify the tech-jargon, I'll refer to the different token standards as follows:

- *Currency — e.g. ERC-20, interchangeable or fungible tokens. This is commonly thought of as cryptocurrency, such as DAI*
- *NFTs — e.g. ERC-721, non-fungible tokens, such as CryptoKitties*
- *Editions — e.g. ERC-1155, semi-fungible tokens. Analogous to a limited edition print, where you might own 1 of 10 identical prints issued, such as this limited edition Pranksy*

Wrapping Currency for Currency

So you might remember my working definition for 'wrapping' is:

> Wrapping a token is exchanging one set of standards for token interaction with another set of standards.

This is also true if you're talking about interacting with tokens across blockchains.

Ethereum and Bitcoin are two separate blockchains, with different protocols, so if you want to use Bitcoin in an Ethereum smart contract, you need a kind of a proxy. To make that possible, we need **Wrapped Bitcoin (WBTC)**

Wrapped Bitcoin is essentially an alias, or a reference that represents real Bitcoin being held in escrow. For every 1 BTC held in escrow, 1 WBTC is generated to be used on Ethereum.

Confusingly, we also have ETH as a wrapped currency called **W-ETH**. This is because ETH is the native currency of the Ethereum blockchain, not itself a token created using a smart contract on Ethereum, like every other ERC-20 token. So if you want to interact with ETH in the same way as other tokens, it needs to be wrapped into that protocol, and adhere to the same standards.

Wrapping Tokens for Currency

This is the type of wrapping described in Part 1. Allowing you to store NFTs in a wallet, exchangeable in multiples. It also allows for base liquidity to be

established in exchange for other tokens, such as WCK/ETH on the Uniswap exchange.

Wrapping Tokens for Tokens

Not all NFTs adhere to the same standards. Each defines its own 'API' for interacting with it — creating a token, sending a token, displaying metadata. The most common standard, ERC-721, was defined with CryptoKitties and was used as a template for projects that followed. However other popular tokenized collectibles, such as CryptoPunks and Rare Pepes pre-date the established standard, or are on a different blockchain, and can't be interacted with in the same way, or listed on open marketplaces like OpenSea.

Wrapped Cryptopunks allow for CryptoPunks to be listed outside of their original marketplace on the website. Once listed on Rarible these NFTs found a new audience and command a premium price.

On Sharding & Lending — Tokens for Currency

Although it's not 'wrapping' as such, there are other forms of converting NFTs into currency.

Sharding — On NIFTEX it's possible to take a high-value NFT and divide it up amongst multiple owners. Shares of this fractional ownership are issued as a currency, such as $COZOM which represents shares of a CryptoPunk dubbed the 'covid zombie'.

Lending — NFTfi takes NFTs as collateral for loans, which is also an exchange for currency in a kind of wrapper, however the wrapper is an escrow to be released to the lender if the borrower defaults on their loan.

> To be continued in Part 3 — enough preamble, it's time to talk about the hackathon.

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