

Tokenizing Professional Sports Franchises

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The National Basketball Association ("NBA") is currently considering a proposal that could provide liquidity to minority owners in the league and enable a broader range of investors to secure an ownership interest in a professional sports team. This proposal, scheduled for discussion at the NBA's upcoming board of governors meeting in April 2020, represents a timely and unique opportunity to design and implement a model for tokenizing economic interests in professional teams.

The concept of tokenization is simple: it is the process of creating a digital version of your interest in an asset such as a professional sports team. In other words, tokenization allows a traditional asset—such as commercial real estate, works of art, or rights held in a sports team—to be transformed into a liquid, tradable digital contract. These digital contracts are referred to as tokens, and are kept and transferred from user to user on a designated blockchain platform.

Creating a digital version of an interest in an asset effectively 'pegs' the value of the tokens to the value of the underlying asset—for example, a particular percentage of an NBA franchise. By 'pegging' the token value, the token becomes both a mechanism for securing liquidity and a 'currency' that enables the buyer/holder of the token to realize that value in actual currency at the buyer/holder's discretion.

This approach addresses the concerns of many NBA minority owners regarding the illiquidity of their ownership. Currently, the team ownership model in many professional sports franchises is highly centralized, illiquid, and the province of a select few with the capital and net worth necessary to acquire some or all of a team. This model—as the NBA is currently experiencing—is inefficient, cost-prohibitive, and economically punitive to sellers, particularly with respect to the sale of minority interests.

Tokenization enables fans, sponsors, communities, and other interested parties to participate in the growth, development, and value derived from professional sports franchises. As the tokenization process gains mainstream acceptance, and interests in professional sports franchises become increasingly tokenized, both access to these tokenized assets and the liquidity associated with them will create new economic opportunities, re-write valuation models, and activate an increase in global wealth creation and distribution for all participants.

Tokenizing professional sports franchises, however, does more than enable a team's fan base to participate in the economic benefits of their favorite sports team. Tokenizing team ownership democratizes access to economic benefits associated with alternative asset classes, and creates liquidity for both minority and majority owners by allowing market participants to buy and sell team tokens. From the franchise's perspective, tokenization provides teams with a mechanism to reward a loyal local fan base by programming bonus features into their team tokens. These 'reward tokens' enable teams to extend their brand globally, as token buyers/holders in countries

on the opposite side of the world will be able to participate in team activities, both economically and with regard to team governance.

Tokenization also represents a sustainable model for broadening economic access to and increasing levels of fan engagement in professional sports franchises. Given the economic concerns and realities the NBA seeks to address, the growing global interest in this asset class, and the technological capabilities available today, it is time that the ownership of, and economic benefits associated with, professional sports franchises become more readily accessible, affordable, and transferrable. The current exclusive ownership model and the corresponding illiquid asset is outdated. Professional sports franchises, starting with the NBA, can lead the way in decentralizing ownership and transferring over value to those who generate it, thereby enabling them to participate in its appreciation.

About the Author.

David M. Otto is the Co-Founder, President, and General Counsel of CounterPointe Sports Group, Inc. Mr. Otto has 33 years of experience in finance and corporate law, mergers & acquisitions, securities, and corporate governance. He is currently the Founder and Managing Partner of the law firm Martin Davis, PLLC, the private equity firm Otto Capital, LLC, and the venture capital firm CounterPointe Ventures, LLC, and a thought leader on decentralized business models, token economics and, capital markets and securities regulatory compliance. Mr. Otto holds a B.A. from Harvard University and a J.D. from Fordham University School of Law.