The Global Center of Innovation for the i2M Standards

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i2M Standards: Protecting Art as an Investment

The Financial Services Sector’s Challenge

As the art industry has become globalized, it has taken on financial market-like characteristics. As well as being valued for its own sake, art is increasingly being recognized, and invested in, as a financial asset. Indeed, investment now outweighs passion as the reason why people buy, sell and collect art.

At the same time, art is becoming increasingly susceptible to money laundering and, as a result, financial industry regulators today face a variety of complex challenges around art, collectibles and cultural objects.

In investment terms, art is often considered as an “alternative asset”, which is a newer type of asset that has not been traditionally considered part of an investment portfolio. There are various regulations which cover alternative assets and regulators must ensure that valuations, financial results and reporting relating to art objects are accurate under these rules.

Regulatory bodies in the US, the EU and across the globe must ensure that brokers and dealers involved with art investment comply with risk disclosure regulations. This need is increasing as new investment structures emerge, reflecting the growing trend in art investment.

Banks and professional intermediaries must be able to demonstrate compliance with domestic and international anti-money laundering laws in art lending, art investments and related operations. But the opaque way in which the art industry operates makes it very difficult for banks and others to meet all compliance and risk mitigation requirements.

External auditors must also confirm that financial results from art market transactions are accurate particularly with regard to the regulatory reporting obligations that are created. Correct valuations are crucial in this regard and unqualified auditing is almost impossible in the current art market.

As we saw with the collapse of the financial markets in 2008, a lack of regulation and unaddressed systemic risk can have devastating effects. If, however, art can be fully authenticated, then assets can be properly secured, and all financial requirements met.

The industry’s lack of transparency creates legal and financial risks which cost money and constrain growth. Recent research has found that there is a rising trend in all forms of criminal activity around art, including counterfeiting. Reflecting the global nature of the industry,
art crime is spreading across the world, transcending borders, types of art and individual artists. The media is likewise also reporting that art crime is on the rise.

**The i2M Standards Solution**

Since the problem of art integrity affects all industry stakeholders, it requires a systemic solution. ARIS Title Insurance Corporation as sponsor, together with the State University of New York (SUNY) at Albany, have established a Global Center of Innovation to bring together technology, art industry knowledge and legal regulatory expertise to create an ecosystem of labelling, data storage and standardization to authenticate all forms of art, now and for the future.

The name of the initiative is i2M – which is the reference for the standards, for the Center of Innovation and for the standards-supported technologies. A key component of the i2M initiative is independently developed, advanced encrypted bioengineered DNA as well as other advanced and encrypted security technologies in which the DNA can be embedded into any art object to ensure its correct identification at the point of manufacture or discovery. Supported by these advanced marking technologies – that are i2M-compliant – the initiative will be the first of its kind to address the challenge of faked, forged and stolen art.

Underpinning the marking technology, are new specific, peer-reviewed and scientific, legal i2M standards that will govern how all art objects will invisibly and permanently be marked throughout their existence. The new standards will drive innovation, laying the groundwork for an ever-evolving technology-driven solution to art’s authenticity challenge. Over time, as more and more objects are marked, the number of authenticity disputes will decrease significantly to none.

Other compatible technologies can, and should, be developed by independent third parties. But all technologies must meet the rigorous i2M standards laid out by the Global Center of Innovation. To do that, the technologies must have zero-physical impact on the art, mark it permanently through encryption and authenticate both primary and secondary market artworks.

The markings will embed art and collectibles with unique identification data relating to authenticity, title, conservation, exhibition history, sales records etc. Akin to the VIN numbering system of the global automotive industry, this information will remove future questions about whether the object is or is not an original, authentic work by the attributed artist or the same work earlier considered authentic by the consensus of authority. The data, which will be electronically secured on a military-grade security platform as well as compliant with stringent domestic data security and privacy laws, will be connected to the physical object. The entire ecosystem of embedded data and global standards is aimed at creating a legally conclusive proof of authenticity or confirmed consensus of authority.

i2M provides an ecosystem-wide solution, that is, a framework for independent, third-parties to develop compatible technologies that meet its standards. This paradigm will give stakeholders confidence in the initiative because they know that it will be equally supported by
their colleagues and other industry players, is technically sound by today’s standards and will remain relevant in the future adapting to later technological developments.

i2M marks the dawn of a new art world, in which the identification and provenance of an art object can never again be questioned; a world in which artists’ legacies are protected alongside the reputations of dealers, museums and galleries; a world in which the data that describes a piece of art not only assures its authenticity forever, but also adds value to the object itself; and, most important of all, it’s a world in which the criminal activity that results from faked, forged and stolen art is finally brought to an end.

**THE BENEFICIARIES**

i2M will benefit financial institutions involved in the art industry, including those banks, corporations and other institutions which hold art as an asset for a third party. By securing the integrity of the authenticity of art objects, the valuation of art and collectible assets becomes more accurate and less challengeable. As the accuracy of reporting increases, so too will investor confidence. This will enable banks and other financial institutions to expand their product offerings around art, while at the same time being better protected against liability and risk.

The auditors charged with creating certainty and confidence in the underlying assets will be able to do so, providing unqualified valuation reports because of their ability to rely on the marked data.

Confirmed object authenticity and much greater levels of transparency will enable banks to manage more effectively anti-corruption, anti-money laundering (AML) and anti-terrorism financing (CFT) compliance. Banks which implement protocols requiring all art objects (owned by its clients or under bank control) to be marked will be recognized as innovators in the banking industry and may be seen as offering enhanced compliance for customers.

For the regulators charged with policing this space, easier monitoring of the art market with more cost effective and accurate identification of wrong doing and prosecution will become a reality.

i2M will support the growth of the art lending sector. Today, relatively few loans are taken out against art; roughly 10% ($10 billion) of the estimated potential market. The solution will support art lending since it will allow lenders to be more confident that they can confirm art valuations, authenticity and title. This is likely to mean that lenders will become increasingly comfortable offering more and larger asset-backed art loans.

The solution will likewise enable the growth of art and alternative asset funds since the marking is relatively cheap (estimated to cost $150/per object), which will mean that money once reserved for authenticity challenges can be reinvested in art and collectibles.

The integrity of funds’ art assets – secured through the i2M technologies – will help funds attract institutional investors, money which has to-date been largely reluctant to invest in
the art and alternative fund market given the challenges in securing the integrity of art authenticity.

**SUMMARY**

Financial Services are on the front line of art’s authenticity crisis with the most invested in terms of reputation and money in an industry where an estimated 40% of assets are now feared to be fake and linked to money laundering and criminality. i2M creates a much needed solution providing a bio-engineered digital key that can be embedded into any art object to ensure its correct identification at the point of manufacture or discovery. Unqualified asset valuation in art and confidence in authenticity is becoming a reality with i2M and the game-changing assurance that it creates for those investing in and regulating the global art market.