All about Non Fungible Tokens

Why in news?

According to market data tracker DappRadar data analytics, the sales of NFTs surged 25 billion dollars in 2021 as the crypto asset exploded in popularity, fuelled by the rising interest of celebrities and tech evangelists.

What are NFTs?

- Anything that can be converted into a digital form can be an NFT.
- Everything from the drawings, photos, videos, GIF, music, in-game items, selfies, and even a tweet can be turned into an NFT, which can then be traded online using cryptocurrency.
- What makes NFTs unique from other digital forms is that it is backed by Blockchain technology.

  Blockchain is a distributed ledger where all transactions are recorded. It is like a bank passbook, except all the transactions are transparent and can be seen by anyone and cannot be changed or modified once recorded.

- NFTs are gaining massive popularity now because they are becoming an increasingly popular way to showcase and sell your digital artwork.
- NFT's inception dates back to 2015 and Terra Nulius was the first NFT on Ethereum Blockchain, although this project was merely an idea which only allowed to customise a short message which was then recorded on blockchain.
- Then came Curio Cards, CryptoPunks and CryptoCats in 2017 and then expanding into mainstream adoption in early 2021.
- **Prerequisite to purchase an NFT**- Anyone who holds a cryptocurrency wallet can buy an NFT and they don't need any KYC documents.
- NFT marketplace is where NFTs can be bought and sold.

What is the significance of NFTs?

- NFT works on blockchain as it gives users complete ownership of a digital asset which cannot be edited or modified by anyone, including the marketplace owner.
- NFTs provides exclusive owner rights i.e. NFTs can have only one owner at a time.
- NFT owners can also digitally sign their artwork and store specific information in their NFTs metadata which will be only viewable to the individual who bought the NFT.
- NFTs afford artists and content creators a unique opportunity to monetize their wares where artists can sell their art directly to the consumer.
- In addition, artists can program in royalties so they'll receive a percentage of sales whenever their art is sold to a new owner.

How is an NFT different from cryptocurrency?

- **Similiarity**- Both are built on Blockchain.
- **Difference**- Cryptocurrency is a currency and is fungible, meaning that it is interchangeable.
- But NFTs are non-fungible, which means the value of one NFT is not equal to another.

What are the risks associated with buying NFTs?

- Emergence of fake marketplaces
- Unverified sellers often impersonating real artists and selling copies of their artworks for half prices
- Sharing potential phishing link during the sale to drain the participant's crypto wallets.
- Hacking the NFT collections
- Fees and gas money can result in artists losing money
- Technology issues like non attachment of a purchased item to the NFT, global chip shortage, etc.
- Ownership issues like losing the login credential might result in permanent loss of owned works
- Validation of transactions require crypto mining, which requires high powered computers that run at a very high capacity, affecting the environment

Budget 2022-23 has proposed for the introduction of a taxation regime for virtual digital assets that include evolving manifestations of cryptocurrencies, codes and non-fungible tokens.

References

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