Non Fungible Tokens (NFTs)

Why in news?

A crypto gambling platform dappGambl, concluded that most of the researched NFT collections were worth close to nothing.

What is Non Fungible Tokens?

> *Block chain 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.*

- **Non-fungible tokens** - NFTs are *blockchain-based tokens* that each represent a unique asset like a piece of art, digital content, or media.
- Essentially, NFTs are like physical collector's items, only digital.
- They can represent individual's identities, property rights and more.
- Non-fungible tokens (NFTs) are designed to be
  - cryptographically verifiable
  - unique or scarce and
  - easily transferable

- **Creation of NFTs** - NFTs are created through a process called ***minting***, in which the information of the NFT is recorded on a blockchain.

What Are NFTs Used For?

- **Reduction in fraud** -Turning files into NFTs helps secure them via blockchain to make buying, selling and trading efficient, reducing fraud considerably.
- **Ownership rights**- They provide exclusive ownership rights.
- Non-fungible tokens are also excellent for identity management.
- **Monetize artists** - Blockchain technology and NFTs afford artists and content creators a unique opportunity to monetize their wares.
- Artists can sell the art directly to the consumer as an NFT, which also lets them keep more of the profits.
- Artists can program in royalties so they'll receive a percentage of sales whenever their art is sold to a new owner.
- **Democratise investing** - NFTs can also democratise investing by fractionalising physical assets like real estate. It is much easier to divide a digital real estate asset

among multiple owners than a physical one.
- By enabling digital representations of physical assets, NFTs are a step forward in the reinvention of this infrastructure.

Fractional NFTs (F-NFTs)

F-NFTs are a new type of NFT that allows multiple people to own a piece of the same asset by dividing the NFT into smaller fractions, each of which can be purchased individually.

Benefits of F-NFTs

- **Accessibility**- F-NFTs make it possible for more people to invest in NFTs, as they can be purchased for a fraction of the price of a whole NFT.
- **Liquidity**- F-NFTs are more liquid than traditional NFTs, as they can be traded more easily.
- **Price discovery**- F-NFTs help to improve price discovery in the NFT market because they provide a more accurate reflection of the value of an NFT, as they are based on the collective opinion of multiple buyers and sellers.

What are the criticisms against NFTs?

- **High volatility**- Due to its high volatility in the market, the investors are not protected in case of a loss or legal action against the founders.
- **Unregulated assets**- Financial regulators have warned that NFTs are unregulated assets which are part of a highly volatile market.
- **Piracy-** Artists have complained that many of the NFTs being sold on centralised marketplaces are actually pirated versions of their own paintings.
- **Irregularities-** Some artists had to plead with NFT marketplaces or Google to take down stolen works, while others decided to stop posting their art online for safety reasons.
- **Environmental cost-** Ethereum blockchain is the high demand NFTs with greater power consumption and carbon footprint.

  World Wildlife Fund tried to mint NFTs to raise funds using the more eco-friendly blockchain Polygon. However, Polygon is still linked to Ethereum and so WWF was criticized for its NFT debut.

- **Worthless NFTs-** dappGambl's report found most of the NFTs are worthless and more than 1600 of the top NFTs were dead.
- **Price drop-** The prices of crypto assets change wildly based on real world occurrences and technical factors across borders, so it is almost impossible to pinpoint a single reason for the NFT crash.
    - Terra cryptocurrency collapsed in 2022 despite its top 10 market cap, it destroyed billions of dollars in value and triggered a liquidity crunch across

crypto exchanges.

- **Lack of incentive**- Due to NFT crash, there is not much incentive to play in crypto metaverses which depend on NFTs and their accompanying tokens also fell.

Will the NFT market recover in the future?

- **Volatile economy**- The crypto economy is extremely volatile so it is difficult to predict whether the NFT sector will recover.
- **Rise in cryptocurrency**- While rising Bitcoin and Ether prices could give NFTs an opportunity, the two cryptocurrencies are also maintaining price ranges far below their 2021 record highs.

References

1. The Hindu- Are NFTs still valuables as they used to be
2. Investopedia- Non fungible tokens

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