



What is NFT?

NFT stands for non-fungible token.

"Non-fungible" means that it's unique and can't be replaced with something else. For example, a bitcoin is fungible – trade one for another bitcoin, and you'll have exactly the same thing. A one-of-a-kind trading card, however, is non-fungible. If you traded it for a different card, you'd have something completely different.

To understand what a token is, you should clearly understand how blockchain technology works. In most transactions, the process of verifying the purchase and sale and money transfers is centralised – we trust banks to do this. Employees and algorithms check our account data and decide whether our current balance allows us to make this or that transaction.



How do NFTs work?

At a very high level, most NFTs are part of the Ethereum blockchain. Ethereum is a cryptocurrency, like bitcoin or dogecoin, but its blockchain also supports these NFTs, which store extra information that makes them work differently from, say, an ETH coin. NFTs shift the crypto paradigm by making each token unique and irreplaceable, thereby making it impossible for one non-fungible token to be equal to another. They are digital representations of assets and have been likened to digital passports because each token contains a unique, non-transferable identity to distinguish it from other tokens. They are also extensible, meaning you can combine one NFT with another to "breed" a third, unique NFT.

Just like Bitcoin, NFTs also contain ownership details for easy identification and transfer between token holders. Owners can also add metadata or attributes pertaining to the asset in NFTs.

Total transparency and publication of data on all transactions without exception provides an increased value of NFT. You declare your "acquisition" of the same gif with a cat to the whole world and, once published, this information cannot be changed in any way.

When buying a funny animation using blockchain technology, you forever leave evidence of your unique right to it in the digital space – as a result of each successful operation, you receive the very token that contains data about the transaction, the seller, the buyer and the amount that was spent on goods.

The most important thing in transactions using NFT is the ability to claim an indisputable right to use. At least, we are already accustomed to think so, but more on that below.

The decision on the transaction is made by a legal entity – a bank, which directly carries out the transaction on our behalf. Blockchain technology excludes banking structures from this chain – the load on money transfer calculations is transferred to hundreds of thousands of computing systems scattered around the world, but included in a single network.

Each of these computers registers transactions and publishes transaction data in the public domain. Absolutely every person can enter the network and, knowing the buyer's data, trace the entire history of his transactions from the moment of registration in the network.

Most non-fungible tokens operate on the ERC-1155, ERC-20 and ERC-721 standards of the Ethereum blockchain. ERC-721 was originally created specifically for NFT and contained unique identifiers that made it possible to track all transactions involving the token, all its owners from the moment of creation, and the objects that are attached to it. After the resounding success of NFTs such as CryptoPunks and CryptoKitties, it has become the most popular format for registering new tokens.



What's worth picking up at the NFT supermarket?

Thus, NFTs can perform several functions at once: a means for claiming rights to a digital object or work, an object of exchange and speculative trade, as well as a kind of virtual exhibit – a digital token, due to its properties, can store data about a work of art indefinitely and acquire additional value over time. NFTs can really be anything digital (such as drawings, music, your brain downloaded and turned into an AI), but a lot of the current excitement is around using the tech to sell digital art.

One of the obvious benefits of buying art is it lets you financially support artists you like, and that's true with NFTs (which are way trendier than, like, Telegram stickers).

Buying an NFT also usually gets you some basic usage rights, like being able to post the image online or set it as your profile picture. Plus, of course, there are bragging rights that you own the art, with a blockchain entry to back it up.