# What Parents & Carers Need to Know about

# NFTs
## (NON-FUNGIBLE TOKENS)

A non-fungible token, or NFT, is a unique digital record of a particular file – such as an image, audio track or video (non-fungible meaning it can't be replaced by an identical item). NFTs let digital content producers like artists and designers control how their work is distributed and monetised. The offline equivalent would be owning a limited-edition art print, signed by the artist, with a certificate of authentication. The value of the tokens is incredibly volatile, unregulated and very much based on hype, publicity and marketing. These digital assets – typically collectibles, avatars for social media profiles or character add-ons for online games – are traded in specialised marketplaces using cryptocurrency.

## WHAT ARE THE RISKS?

### FAKE COLLECTIONS

When searching for a particular collection of NFTs, it is common for fake versions to display alongside the originals, which can easily fool a less experienced buyer. Larger projects will be verified, but small ones will not, so check the volume that has been traded and check the activity to verify authenticity – fake collections will have almost no trading history.

### LACK OF CLARITY

Buying a limited-edition print of a painting isn't the same thing as owning the original. Likewise, when someone buys an NFT, they're not acquiring ownership rights to an original work. Some buyers don't realise that – since many NFTs are publicly on view – purchasing one doesn't stop other people from making their own copies of your NFT (by saving a screenshot of it, for example). Sneak peeks of NFTs can also falsely advertise what the purchaser is investing in, leaving buyers disappointed in what they actually receive, and as they are unregulated, there isn't a procedure for returns and refunds.

### IP THEFT & "WASHTRADING"

Many online thieves steal NFTs to sell, while another common scam is "washtrading". Here, an unscrupulous trader creates aliases to buy the same NFT multiple times at increasing prices (so A sells to B for 10, who sells to C for 100, who then sells to D for 300 – except A, B, and C are actually all the same person). The goal is to lure in naïve speculators with the illusion of a juicy opportunity.

### STORAGE ISSUES

An NFT is cryptocurrency which is linked to an additional file containing a digital asset. Due to the cost of storing data on a blockchain, it's typical for a project founder to store only the NFT's transaction record "on chain" to prove ownership – with the accompanying asset stored "off chain". Whether that storage is in the cloud or on a personal server, it must be permanently secure or the asset could be lost. So in a large number of cases, the NFT contains a link that points to the image data: it is not the image data itself.

### TRANSACTION COSTS

Issuing an NFT requires "minting" it and any future sales require updating a blockchain ledger to transfer ownership. The cost of this – depending on the blockchain and market conditions – can vary wildly, based on supply and demand of "block space". In 2021, the fees paid for NFT transactions on one blockchain regularly cost *more* than the value of the asset itself, often by hundreds of US dollars.

### PHISHING EMAILS & REPLICA SITES

There have been instances of messages being sent advertising the availability of new NFTs with a link to a fake website with a very similar URL to an authentic site. Users then link their cryptowallet to the site, are able to 'mint' the fake NFT, and once you press 'confirm', the cryptocurrency leaves your wallet and you are left without the NFT you were promised, and very much out of pocket.

## Advice for Parents & Carers

### CHECK AUTHORSHIP

Don't buy NFTs from unknown sources, and be wary of trading outside of official marketplaces. Branded NFTs, like those sold by sports franchises, are typically available via a platform that's easy to authenticate. However, NFTs sold by individual artists can be harder to verify. Research their online reputation to ensure they have a consistent track record of authorship and a recognised cryptocurrency wallet before you send a payment.

### WALLET SECURITY

Wallet security can be the difference between keeping NFTs secure and having them stolen. There are two primary types: a hot wallet (such as metamask) is used for minting NFTs and general day-to-day interactions with third-party sites. A cold wallet (or 'vault') is for storing high-value assets, as interactions can't take place without physical confirmation on the hardware. Only buy these from official sites and not from third-party sellers (including Amazon).

### DON'T GAMBLE

Beginners should avoid investing significant sums of money and gambling on future NFT prices. Anyone can create NFTs: this potentially infinite supply of "limited-edition" collections means that, eventually, 99% of NFTs will likely be worth nothing. The market is largely based around building hype and making people believe that the next project will be the one that makes them rich. Take time over your decision and ensure you fully understand a project before getting involved.

### SPOT THE SCAMS

Learn what type of message a hacker will leave. They'll often try to create the illusion that you're one of a select few who has this incredible, limited-time opportunity. These can appear on official pages via hacking, so be wary of this pressure-buying tactic. Hackers also send links outside official channels, such as on message boards and private messages. Turn off direct messaging from the server when you join, and never click links that aren't on a project's official page.

### RESEARCH THE SPACE

If you're interested in NFTs and you've learned the basics of cryptocurrency, talk to people who are already involved in the space (like an NFT alpha group) on authentic marketplaces. Research the projects you're considering investing in to avoid scams: follow the project on Twitter or Discord and review the work they've done before – avoid artists and teams who insist on remaining anonymous.

## Meet Our Expert

JP Vergne is Associate Professor at the UCL School of Management and a researcher at the UCL Centre for Blockchain Technologies. His award-winning research on technology and organisation has been published in leading academic journals as well as in two books. JP is also a speaker and startup advisor. He tweets at @PirateOrg.

Sources: Bloomberg Quicktake Documentary, 'From Bitcoin to DeFi (in 12 Short Years): https://www.youtube.com/watch?v=dM8DAIAx124

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