

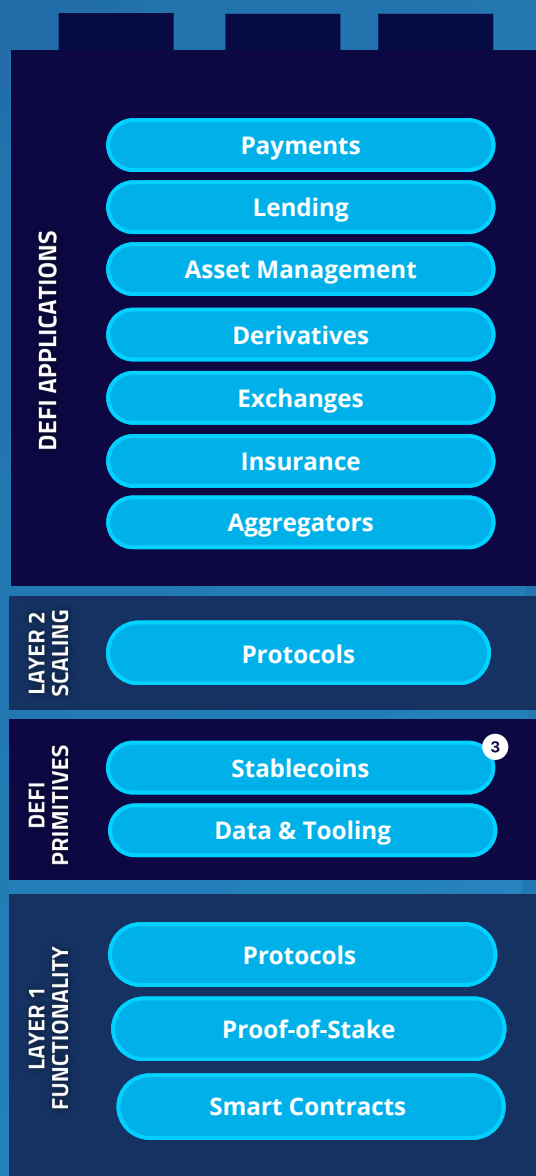


WHAT IS DECENTRALIZED FINANCE (DeFi)? #1

DeFi commonly refers to the provision of financial products, services, activities, and arrangements that use distributed ledger technology (DLT), including self-executing code referred to as **smart contracts**. **DeFi** aims to operate in a disintermediated and decentralized manner, eliminating some traditional financial intermediaries and centralized institutions, and enabling certain direct investment activities²

DECENTRALIZED: No single point of failure, source of truth, or authority capable of or responsible for changes
FINANCE: Traditional financial services activities using tokenized assets represented onchain

TECH STACK



KEY FEATURES

Composable financial primitives to build products with a plug and play architecture



Protocols

Define sets of common rules for each financial function

Liquidity Pools

Combine deposits of digital assets to enable trading

Automated Market Makers (AMM)

Provide liquidity management and asset pricing mechanisms

Flash Loans

Enable borrowing and returning funds within a single automated transaction

Proof-of-Stake

Is generally the consensus mechanism to process transactions effected on the protocol

Total Value Locked (TVL)

Is the total value of digital assets deposited into DeFi protocols, indicating liquidity, user engagement, and market sentiment

DeFi terms and definitions are still evolving. GBBC compiled a DeFi Taxonomy here (filter category to "DeFi"):
<https://www.gbbs.io/taxonomy>

¹ This fact card is based on the GSMI 5.0 report, "Decentralized Finance (DeFi): Opportunities, Risk Considerations, and Key Principles for Growth"

² <https://www.iosco.org/library/pubdocs/pdf/ioscopd754.pdf>

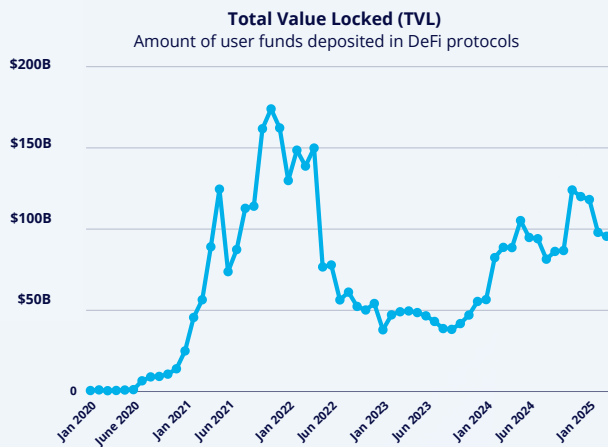
³ View GBBC's Fact Card on Stablecoins for more information

WHAT IS DECENTRALIZED FINANCE (DeFi)? #2

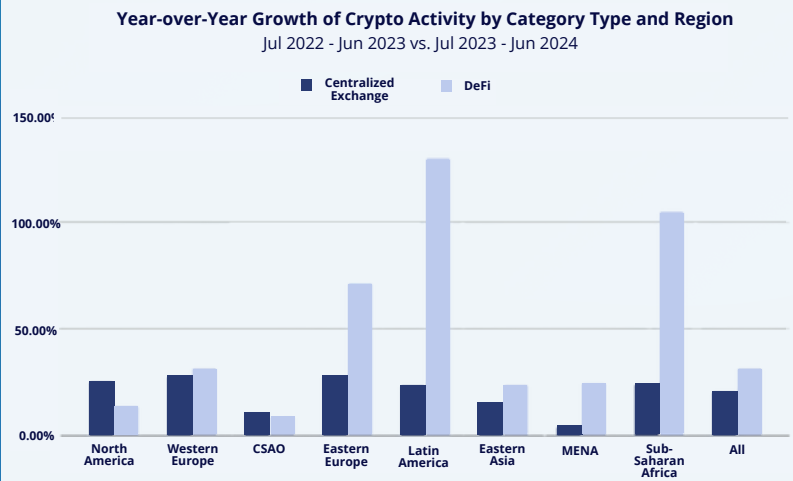
KEY TAKEAWAYS

- **Decentralized blockchain networks remove intermediaries**, but do not preclude intermediary participation, nor necessity
- **DeFi is global & accessible to anyone with an internet connection**; yet sovereign laws, standards, and expectations may overlook or conflict with local laws and regulations
- Regulation traditionally focuses on intermediaries; **DeFi requires rethinking long-held legal & regulatory concepts**
- Reliance on autonomous software requires **responsible coding, testing, and best practices**
- As **DeFi continues to evolve**, so will efforts toward harmonized regulations and requirements for DeFi activities

HOW BIG IS DeFi?



GLOBAL DeFi GROWTH



GOVERNANCE



Largely determined at Layer 1 level



Community-driven decision making



Delegation mechanisms to validator nodes with monetary rewards



Governance tokens, voting & polling to ensure stability & efficiency

LAYER 1 PROTOCOLS

- Responsible governance and environmental accountability at the Layer 1 level can have trickle down effects throughout the DeFi ecosystem
- Regulatory developments are in development and imperative for credibility and scale

OPPORTUNITIES

Democratize access to finance

- ★ Low cost
- ★ Inclusive
- ★ Transparent
- ★ Censorship Resistant
- ★ Programmable



MLESTONES

Security

Functionality

Governance

UI/UX Frictions

On/Off Ramps

Smart Contract & Technical Risks

Scalability & High Transaction Fees

Smart Contract & Functional Risks

Privacy & Security

Lack of Identification/Credit Scoring

Regulatory Uncertainty

Standards

Decentralized Governance

⁴ <https://defillama.com> (March 13, 2025).

⁵ <https://www.chainalysis.com/blog/2024-global-crypto-adoption-index/>