The Fed - Decentralized Finance (DeFi) Transformative Potential & Associated Risks

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Decentralized Finance (DeFi): Transformative Potential & Associated Risks  
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Abstract: Decentralized finance (DeFi) refers to a set of newly emerging financial products and services that operate on decentralized platforms using blockchains to record and share data. DeFi products and services are conducted without a trusted central intermediary such as a bank, and they include payments, lending and borrowing, trading and investments, capital raising (crowdfunding), and insurance. An important innovation that allowed for the development of DeFi was the growth of programming capability on blockchains. This innovation allows for the creation of computer code called smart contracts that can be invoked by users without going through a centralized intermediary. DeFi may pose financial stability risks, that are exacerbated by the fact that both are currently largely outside the prudential regulatory perimeter, which we discuss.  
Keywords: Blockchain, Crypto, DeFi, Financial stability and risk  
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