

# DeFi terminology

A comprehensive list of common DeFi terms and phrases

As you begin (or continue) your journey through Decentralized Finance (DeFi), you will notice that there is no shortage of new terminology.

Here are some terms you may encounter:

[712 - signed approval](#) : An abstraction method for ERC20 tokens that allows transaction fees to be paid using the token itself rather than ETH, and permits approvals in a single transaction (instead of two consecutive transactions).

**Airdrop:** A distribution of tokens to various users of a network, often with the sole intent of on-boarding and/or providing existing users with value or governance voting rights.

**Anti-money Laundering (AML):** A set of practices or policies that centralized entities use to comply with local and federal laws and regulations. These procedures are designed to identify, report, and prevent illicit financial activity.

**Annual Percentage Yield (APY):** The compounded annual rate of return on capital locked within a protocol. (i.e. liquidity pools or 1inch liquidity mining program)

The APY for 1inch liquidity pools can be calculated by the formula:

$(\text{current\_liquidity} / (\text{current\_liquidity} - \text{profit\_last\_24\_hours}))^{365}$

[Approval:](#) The act of giving permission to the 1inch smart contract to spend your assets. The miners of the network are compensated with a gas fee (paid by you) to record this action on the blockchain.

**Arbitrage:** The act of buying the same asset in one market to sell in another, with the goal of profiting from the price difference of both markets.

**Automated Market Maker (AMM) :** A decentralized pricing mechanism that uses mathematical formulas (most commonly  $x*y=k$ ) to regulate the supply of assets within a liquidity pool.

[Binance Smart Chain \(BEP20\)](#) : An independent blockchain built by Binance that is designed to be faster, gas efficient, and compatible with the Ethereum Virtual Machine. BEP20 is the standard that binds all tokens on the Binance Smart Chain to the same rules when interacting with each other and smart contracts.

Check out the [BNB Chain Block Explorer](#)

**Block Explorer:** A tool for searching and exploring all publicly available information on a particular blockchain.

**Block Reward:**

Newly minted tokens or coins that are distributed to a miner/validator in exchange for verifying transactions within a block (on a blockchain). Block rewards are implemented within all mainstream consensus mechanisms.

**Bridge:** A decentralized connection protocol that allows tokens with the same contract addresses on different blockchains to be converted from one network to another.

See: <https://www.binance.org/en/bridge> and <https://zapper.xyz/bridge>

**Chi gastoken (CHI) - ([DEPRECATED](#))**: CHI both an ERC20 and BEP20 token aimed to help reduce 1inch users' transaction fees. CHI is available on both Ethereum and BNB Chain, and is pegged to the Ethereum and BNB Chain network's gas price respectively. \*\*\*Please note: Due to the EIP1559 hard fork, CHI no longer works as a gas token.

**Coinbase:** The first transaction in a block. It is a new unspent transaction output (UTXO) containing the miner's reward for mining (or validating) the following transaction within the same block.

**Cold Wallet:** A digital asset wallet that is maintained offline. Also known as "Cold Storage" this method can consist of storing the private key on physical paper (paper wallet) on a secure hardware device (such as a [Ledger](#) or [Trezor](#) ), or even through memorization of the key or recovery phrase!

**Consensus:** The moment that is achieved when all nodes on a network come to agreement in about the verification and order of transactions within a block.

**Custom token:** Any ERC20, BEP20, or MRC20 token that is not [whitelisted](#) on 1inch Network.

**Decentralized Autonomous Organization (DAO):** A decentralized system of governance that enables 1INCH stakers and community members to vote for key protocol parameters and assume responsibility for network implementation.

**Decentralized Application dApp:** A computer application that runs on top of a distributed network, providing an interface for users to interact with blockchains and associated smart contracts.

**Decentralized Exchange (DEX):** A blockchain-based, peer-to-peer trading platform that allows users to exchange value with each other in an open, permissionless environment.

**Derivative:** A derivative is a secondary asset whose value is derived from a primary asset or basket of assets. In DeFi this can refer to synthetic futures, options, prediction markets etc.

**Dex Aggregator:** A decentralized network protocol that gives users access to liquidity across many DEXes, all in one simple interface. Through efficient routing, a DEX aggregator can effectively reduce slippage, swap fees, and token prices for users.

**Ethereum (ERC20):** Ethereum is an open-source, smart contract compatible blockchain designed by Vitalik Buterin. ERC20 is the standard that binds all tokens on Ethereum to the same rules when interacting with each other and smart contracts.

Check out the [Ethereum Block Explorer](#)

**Fiat Currency:** Any currency whose value is backed solely by decree and mandated to be legal tender by a nation-state or government. Examples of fiat currencies are: the United States Dollar, the European Euro, the Mexican Peso and the Chinese Yuan.

**FOMO:** An acronym for “Fear of Missing Out”, FOMO is a feeling that novice traders get when the price of an asset (that they don’t hold) increases.

**Gas Fees :** A blockchain transaction fee that compensates validators for their computational and/or capital costs of verifying transactions and adding blocks to the network.

**Gas Limit:** The maximum amount in blockchain gas fees a user is willing to pay for an individual transaction. This amount can be [custom tailored within the 1inch Wallet](#).

**Governance Staking :** A form of staking where community members can lock up their 1inch tokens in exchange for the right to vote on various parameters of DeFi protocols. (Note: 1inch Network does not issue governance staking rewards)

**Governance Token:** A governance token is a token specifically designed to act as a unit of legislation. These tokens are used by “stakeholders” to vote on the direction of a protocol’s development. While some people speculate on governance token values and trade them on open markets, these tokens have no utility aside from legislation and voting rights.

**Hardware Wallet:** A piece of secure hardware that is capable of storing digital assets and can be completely disconnected from the internet. Hardware wallets are considered to be one of the most secure methods for storing assets.

**HODL:** An acronym for “Hold on for Dear Life!”, which is primarily used amongst token holders as the price of their assets decreases significantly.

**Honeypot:** A common type of scam token, where the contract creator places elaborate traps within the contract code to prevent speculators from selling their recently purchased token.

**Impermanent Loss:** The temporary reduction of a liquidity provider’s funds due to an imbalance of supply within a liquidity pool. This imbalance is caused by volatility between the pair of tokens provided.

**Internal Commission:** A token’s built-in fee structure that automatically redirects a portion of tokens during transfer. Oftentimes, internal commission is sent to a burn address, development fund, or distributed to a community of token holders.

**KYC:** An acronym for “Know Your Customer”, KYC is the process in which a financial institution requires a customer/user to provide multiple levels of identification in order to participate in offered services.

**Limit Order :** A limit order is an order to buy or sell tokens at a specified price.

**Liquidity:** The amount of money that can be moved in or out of a market relative to the [price impact](#) it has with such market.

**Liquidity Pool :** A smart contract designed to hold a supply of tokens for trading, which is regulated by an automated market maker (AMM). Each trade/swap through the pool generates a small fee which is distributed to Liquidity Providers as an incentive for providing liquidity.

**Liquidity Provider (LP):** A token holder who provides liquidity (in equal amounts of a pair of tokens) to a pool, with the intention of receiving a portion of trading fees as a reward.

**Liquidity Source:** A source of liquidity for a swap, these can include native liquidity pools, decentralized exchanges, centralized financial institutions, and private market makers.

**LP Tokens:** Also known as “Liquidity Provider Tokens”, these tokens are minted and distributed to a liquidity provider as a

“placeholder” for their liquidity. To help offset impermanent loss, LP tokens can be used to generate additional rewards in various liquidity mining programs.

**Market Order:** An order to buy or sell tokens at the current market price.

**Maximal Extractable Value (MEV):** Previously known as “Miner Extractable Value”, this term represents the activity of blockchain validators manipulating transactions within a block to extract maximum value from a sender/receiver.

**Multi-signature Wallet:** A highly secure digital asset wallet that requires multiple parties to electronically sign every transaction occurring within the wallet.

**Non-fungible Token (NFT):** A blockchain-based digital asset that represents a single unit which cannot be replicated or interchanged with any other asset. Most commonly tied to items like art, music, and content, NFTs open the door of possibility to connect the value of any real world item to a blockchain network.

**Off-Chain:** Any external system or process that occurs separately from a blockchain.

**On-Chain:** Any external system or process that occurs directly on a blockchain, and can be publicly viewed on a block explorer.

**Oracle:** An external data source that conveys information (i.e. price) to a protocol.

**[Over the Counter \(OTC\)](#) :** A decentralized broker-dealer network through which market participants can trade currencies, stocks, securities or other financial products directly, without the need for a centralized exchange.

**Partial Fill:** A 1inch swap setting that allows an order to partially fill when the rate changes beyond the allotted slippage tolerance.

**Permissionless:** The state of an open source blockchain that allows any participant to create an address and partake in activities of the network.

**[Polygon \(MRC20\)](#) :** A layer 2 blockchain that is designed to be scalable, gas efficient, and compatible with the Ethereum Virtual Machine. MRC20 is the standard that binds all tokens on the Polygon chain to the same rules when interacting with each other and smart contracts.

**[Price Impact](#) :** Price impact is the influence that a trade has over the market price of the underlying asset pair. It is directly correlated with the amount of liquidity/volume in the pool.

**Price Slippage:** Slippage is the difference in prices between the time a market order is placed, and the time it completes on the blockchain or is filled. Slippage can either be positive or negative, depending on the direction of price change.

**Private Key:** A unique and random string of 64 hex characters that is used to access funds with a wallet. Similar to a recovery phrase, funds within a wallet cannot be moved without the private key. *NEVER SHARE YOUR PRIVATE KEY WITH ANYONE!\**

**Public / Receive Address:** A public address consisting of 42 random characters that is used by a sender to transfer funds to. The public address can be shared with anyone, and commonly found in a QR code format.

**[Referral Reward:](#)** A reward that is given to users who refer others to use the 1inch Liquidity Protocol. This reward amount is voted upon by the community, and is distributed to users on a weekly basis. If a trade was routed through other protocols (Liquidity Sources), referrers may also receive a part of the spread surplus if available.

**Rug Pull:** A very common scam tactic, where an initial liquidity provider (or token creator) suddenly withdraws a majority of their liquidity from the pool, effectively stealing funds from speculators who bought the now worthless token.

**Sandwich attack:** A variation of front-running, where an attacker sees a sizable transaction waiting in the mempool, then places a significantly larger transaction (with the same tokens) directly before and after the victim’s transaction. This drives the rate of the victim’s transaction up, effectively allowing the front runner to extract the difference in value.

**[Slippage Tolerance](#) :** The amount of slippage, in % terms, that you are willing to allow for a trade.

**Smart Contract:** A blockchain-based mechanism that executes specific actions when predetermined conditions are met.

**Sniper Bot:** A bot used by speculators that automatically buys newly added tokens immediately as the initial liquidity is added to their pool.

**Stablecoin:** A token that is designed to be stable in relation to the price of another currency or asset.

**[Swap](#) :** The act of transferring one asset in return for another at a designated rate.

**Swap Fee:** A small fee associated with each swap that is distributed to and voted upon by governance stakers on 1inch Network.

**Synthetic Token:** A type of derivative token that represents value from underlying collateral.

**Tokenomics:** The economics of a token, which commonly include, circulating supply, distribution amounts and schedules, mint and burn mechanics, internal commission, and more.

**Total Value Locked (TVL):** Also known as “Gross Value Locked”. The amount of value locked or staked into a specific protocol, typically expressed in USD or fiat terms.

**Wallet:** The place where users store, send, and receive tokens or other forms of value (such as NFTs)

[Whitelisted token](#) : A token that has passed the rigorous process of review by the 1inch Foundation. All non-whitelisted tokens are considered “custom tokens” and are to be traded at the users’ own risk.

[Yield Farm](#) : Also known as a liquidity mining program, a yield farm is a program that allows liquidity providers to stake their LP tokens and earn additional rewards. These rewards act as an incentive to liquidity providers to keep their liquidity in the pool by minimizing the impact of impermanent loss and leveraging their existing capital. [Edit this page](#) [Previous 1INCH Token](#) [Next What is 1inch "Fusion" and how does it work?](#)