



**Course II:**

# **DeFi Primitives**

## **2. Supply and Ownership**

**(i) Custody**

# Custody

## *Escrow*

- A critical DeFi primitive is the ability to escrow or custody funds directly in a smart contract.
- This is different from the situation in ERC-20 when operators are approved to transfer a user's balance. In that case, the user still retains custody of his funds and could transfer the balance at any time or revoke the contract's approval.

# Custody

## *Escrow opens up new capabilities*

- Additional primitives are possible:
  - Retaining fees and disbursing incentives
  - Facilitation of token swaps
  - Market making of a bonding curve
  - Collateralized Loans
  - Auctions
  - Insurance funds

# Custody

## *Escrow opens up new risks*

- Users must exercise caution when sending tokens to contracts because the tokens could become permanently custodied if the contract has no encoded mechanism for releasing the funds of that particular token.