DeFi on Concordium

What is Defi?

Decentralized Finance (DeFi) is an umbrella term, covering all activities related to financial transactions on a decentralised network.

Such activities range from simple exchange services, for example changing Bitcoin (BTC) or Ethereum (ETH) into Concordium (CCD), over prediction products, and online betting to more advanced services, such as lending and mortgaging. As an overview the following areas are currently covered by the term, but the list is growing daily.

- Stablecoins
- Lending Platforms
- Decentralised Exchanges (DEXs)
- Wrapped Assets (WBTC)
- Prediction products - Oracles
- Non-Fungible Tokens (NFTs)
- Mix of the above

These are similar services to those provided by existing organisations. The major difference with DeFi is that the products don't rely on financial intermediaries such as banks, clearinghouses or brokers. Instead, the combination of permissionless participation and programmable (Smart) contracts enable direct and automated processes to deliver these services without the middle-men.

The DeFi concept stretches far into regulated activities, where rules are in place to ensure that the products marketed follow legal norms and are scrutinised to ensure that participants are protected. Decentralised finance means that there is no intermediary, or 'manager', and thus many of these manual protections cannot be used; they are replaced by algorithmic protections.

So, why DeFi? There are many sources for a complete explanation, but since products simply depend on code, they can be launched very quickly, and with no cost. Financial products that we cannot imagine today will be created, helping enable the dream of a new Financial Future.

DeFi on Concordium

Concordium's Smart Contract environment supports all current DeFi activities. The Concordium ecosystem features basic building blocks for DeFi, such as wrapped CCD tokens, NFT marketplaces, an Ethereum token bridge, and a decentralized exchange (ConcorDEX).

Further, our *shielded transfers* provide security and privacy of transfers to others and thereby *de facto* knowledge of detailed transfer intent and activity.

Building DeFi projects on Concordium brings more than a private and secure environment. The Concordium *Identity Layer* changes the way DeFi projects can be organized, enabling the classification of participants in a way which brings trust and as a result will attract larger participation.

The Concordium Identity Object consists of a number of attributes of a real-world identity that can be attested by an Identity Provider. These include personal attributes, such as a name, date of birth, country of residence, etc. Upcoming Web3 ID support will feature *verifiable credentials* allowing for a wider range of attributes to be attested, such as work experience, education, or credit history. The combination of these features enables the designing of DeFi projects where only the right mix of users are accepted.

This could be used to ensure that only participants with the right experience, training, and means are partaking. From a project point of view this means greater trust from the participants, who will be willing to place bigger investments. Conversely, it also means that the participants without the necessary qualifications to participate or the means to support a margin call will not be able to.

The ID layer also means that the user who has deployed and initialized the DeFi smart contract can be identified, should this be required, using the Anonymity Revocation mechanism. For more information, see the separate *Concordium ID* document.

This all means that Concordium has the required capabilities for building regulation-friendly DeFi applications.