



# 10 DIGITAL ASSET TERMS YOU SHOULD KNOW

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Before investing in digital assets, it's critical to understand the technology and differences between them. Here are 10 key terms to help get you started:

## 1. Bitcoin

Bitcoin is a digital asset that uses encryption and blockchain technology to record transactions on a global distributed ledger. Created in 2008 as a peer-to-peer payment system, today it is the largest digital asset by market share, but it is not backed by any government, central bank, or physical asset.

## 2. Blockchain

A blockchain is a method of structuring and securing data into unchangeable blocks of transactions. Any attempt to make changes to an earlier block in the chain would change all the subsequent blocks and alert the network to the attempted change. Once a transaction is entered on the blockchain, it cannot be undone.

## 3. DeFi or decentralized finance

“DeFi” broadly refers to a variety of financial products, services, activities, and arrangements supported by smart-contract technology and designed to exist without intermediaries or third parties such as banks, brokers, or clearinghouses. But the degree of decentralization across DeFi applications can differ widely. In some cases, despite claims of decentralization, operations and activities can be highly concentrated in a small group of developers or investors.

## 4. Digital wallet

A digital wallet safely stores a digital asset owner's private key—needed to use or spend the digital asset—and public keys, which is how the owner is identified on the blockchain. The private key serves as a digital signature unique to you and must be carefully protected. If your private key is lost or stolen, you will not be able to access your digital assets. There are many kinds of digital wallets including:

- **Custodial wallets** hosted and secured by third-party custodians, such as a trading platform. Custodians will let you buy or trade from your trading account, but they hold the private keys. Customer funds are not federally insured or segregated. Your assets may be mixed with others and used to pay for operational and other costs of the platform. Custodians are also rich targets for hackers.
- **Noncustodial wallets**, which are software that can run on mobile phones or other devices. With noncustodial wallets, digital asset owners generate their own private and public keys, giving them complete control and responsibility over their assets.
- **Hardware wallets**, which are specially designed noncustodial storage devices that do not connect to the Internet.



## 5. Distributed ledger

A ledger is a record used to track money coming in and money going out, like your monthly bank statement. A distributed ledger is a public database that runs on many computers around the world. Instead of being centralized—at your bank, for example—a distributed ledger is shared and synchronized among the network participants so there is no single point of failure.

## 6. Mining

Just like there are gold, silver, and copper mines, there are digital mines as well. Mining is the process of receiving a reward of newly minted digital assets and transaction fees for the work of validating transactions and adding blocks to the blockchain. Miners also maintain copies of the distributed ledger.

## 7. Money service business

A money service business (MSB) is a nonbank company that transmits money, offers currency exchange, or that issues or redeems travelers checks or money orders. Currently, digital asset exchanges offering service to customers in the U.S. are required to register as MSBs with the Financial Crimes Enforcement Center (FinCEN) and many states. Registration as an MSB won't protect you from fraud or other problems, but most fraud is committed by unregistered entities. Visit [fincen.gov/msb-registrant-search](https://fincen.gov/msb-registrant-search) and [nmlsconsumeraccess.org](https://nmlsconsumeraccess.org) to check registrations.

## 8. Non-fungible token (NFT)

A non-fungible token, or NFT, is a one-of-a-kind digital asset. It is a proof of ownership of a unique asset that is recorded on a blockchain. No NFT is exactly like another, so they cannot be traded one-for-one like virtual currency or other types of tokens.

## 9. Smart contract

A computer program that is stored and runs on a blockchain. They may incorporate the elements of a binding contract or run only under certain conditions.

## 10. Stablecoin

Stablecoins are digital assets that are designed to maintain a stable value relative to a national currency, a commodity, such as gold, or other reference assets.

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