The Banker's Guide to Digital Asset Terms

Digital assets have moved quickly from niche technology to mainstream conversation, leaving many in the banking community overwhelmed by the volume of new terminology. As discussions expand to include stablecoins, tokenized deposits, blockchain, and potential future forms of digital money, community financial institutions are encountering unfamiliar concepts that sound similar but carry very different meanings, risks, and regulatory considerations.

This guide brings clarity to those terms. It distills the vocabulary most frequently appearing in industry updates, vendor pitches, legislative conversations, and customer inquiries. The goal is not to advocate for or against any specific technology, but to provide clear, accurate language to help facilitate conversations, evaluate opportunities, and understand how emerging digital tools may affect traditional financial services.

What follows is a practical reference — written for busy executives, frontline staff, product teams, and anyone fielding questions about digital assets. It covers foundational definitions, explains how various stablecoin models differ from bank-issued products, and highlights distinctions between decentralized finance, traditional finance, and the tokenized solutions regulated institutions may explore in the future.

Foundational Terms

Digital asset
Any asset represented and transferred electronically. This can include cryptocurrencies, stablecoins, tokenized deposits, tokenized real-world assets, and certain forms of digital currency. Digital assets may or may not use blockchain or distributed ledger technology.

Digital currency
Money that exists only in digital form. This broad category includes cryptocurrencies, stablecoins, and central bank digital currencies. Digital currencies can be issued by private entities or by governments.

Cryptocurrency
A type of digital currency secured by cryptography and typically recorded on a blockchain. Many cryptocurrencies are designed to be decentralized, meaning no single entity controls the network. Their prices generally float based on market supply and demand.

Altcoin
Any cryptocurrency other than Bitcoin. Many altcoins serve specialized purposes, such as enabling smart contracts, enhancing privacy features, or supporting decentralized applications.

Fiat-based (or fiat-pegged)
Describes a digital asset whose value is linked to a government-issued currency, such as the US dollar. Stablecoins and certain tokenized bank or credit union deposits fall into this category when their value is pegged to fiat money.

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Blockchain and Related Concepts

Blockchain
A shared digital ledger that records transactions in chronological "blocks" linked together. Copies of the ledger are held by many participants, making past data difficult (though not impossible) to alter. Blockchains are the foundation for most digital asset activity.

On chain
Describes transactions or actions recorded directly on a blockchain. Once written, these records are extremely hard to change and typically require broad network consensus to modify or reverse.

Smart contract
Self-executing code stored on a blockchain. When preset conditions are met, the contract automatically performs an action — such as transferring funds. Smart contracts can reduce or replace the need for traditional intermediaries in certain use cases.

Tokenization
The process of creating a digital token on a blockchain to represent a real-world or financial asset. Tokenized assets can often be traded more easily, transferred more quickly, and sometimes split into fractional pieces. Tokenization can also automate functions like interest payments, redemptions, or voting rights.

Stablecoins and Variants

Stablecoin
A digital asset designed to maintain a stable value, usually pegged to a reference asset such as the US dollar. Stablecoins are issued by specialized private entities (including bank or credit union affiliates where permitted) and are **not** insured deposits or shares.

Stablecoins do not pay interest as deposits do, though their market value can still fluctuate based on supply, demand, and perceived risk.

Three common models exist:

- **Fiat-backed:** Tokens are backed by cash or cash-like reserves (for example, bank deposits, T-bills, and repos).
- **Crypto-collateralized:** Tokens are backed by other crypto assets held as over-collateralized reserves and governed by smart contracts.
- **Algorithmic / uncollateralized:** The peg is maintained primarily through code-driven supply adjustments rather than reserves; these designs have historically been more fragile.

Governance
Stablecoins in the US are subject to a combination of state money-transmitter or chartering regimes, new federal standards for "payment stablecoin" issuers, and ongoing rulemaking and guidance from federal regulators.

Bitcoin, Ethereum: Not stablecoins
Bitcoin and Ethereum (ETH) are volatile cryptocurrencies, not stablecoins. They are not designed to remain at a fixed value. ETH also powers smart contracts and decentralized applications.

USDC
A well-known fiat-backed stablecoin pegged to the US dollar. It is issued privately by regulated companies that hold reserves primarily in cash, short-dated U.S. Treasuries, and similar cash-equivalent instruments in dedicated reserve structures. USDC is not a government currency and is not an insured deposit or share.

Tokenized Banking Concepts

Tokenized deposit

A digital representation of a traditional deposit liability issued by a regulated depository institution. Each token is fully backed by a corresponding deposit on the issuing institution's balance sheet. Tokenized deposits remain subject to existing capital, liquidity, deposit insurance (where applicable), and BSA/AML/KYC requirements.

- They differ from stablecoins in several ways:
- Only regulated depository institutions can issue them.
- They are deposits (or insured shares), not standalone digital assets.
- They can earn interest like traditional deposits.
- They are governed under the existing prudential and payments regulatory framework.

Tokenized deposits use blockchain or similar ledger technology to improve transfer speed, settlement, and programmability while retaining the legal and regulatory characteristics of conventional deposits.

CBDC (Central Bank Digital Currency)
A digital form of a country's fiat currency, issued directly by its central bank. A U.S. retail CBDC does not exist today. CBDCs differ from stablecoins in that they are government-issued legal tender rather than privately issued digital tokens.

Wallet Concepts

Custodial wallet
A digital wallet where a third party — such as an exchange, fintech, or financial institution — holds and manages the private keys on behalf of the user. The provider controls most security, backup, and recovery processes, and users typically access assets through the provider's interface (app or website).

Self-custody (self-directed) wallet
A wallet where individuals control their own private keys, usually through software, hardware devices, or secure storage methods. If the private keys (or recovery phrase) are lost or compromised, access to the assets can be permanently lost, as there is no third party that can restore control.

Decentralized vs Traditional Finance

DeFi (decentralized finance)
A system of financial applications running on public blockchains with limited or no traditional intermediaries. Activities such as trading, lending, or borrowing occur via smart contracts, often directly from a user's wallet. Access is generally open to anyone with an internet connection and compatible wallet.

TradFi (traditional finance)
The regulated financial system operated by banks, credit unions, brokerages, exchanges, and other intermediaries. TradFi relies on centralized oversight, compliance systems, and established governance frameworks for activities such as deposits, payments, lending, and securities trading.

Consumer and Data Concepts

CPD (consumer permissioned data)
Data that consumers explicitly allow a company to access or use, typically via digital consent. In the digital asset and banking context, CPD can support identity, onboarding, credit decisioning, or personalized services, but must be collected, stored, and used in line with privacy, data security, and other regulatory expectations.

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