



Precision in **terminology is the only way to evaluate liquidity, regulatory safety, and systemic risk.**

This guide is my attempt to give you a more technical roadmap to the key concepts, roles, and mechanisms that underpin stablecoin systems.

There's so much to know.
Let's start with the basics.

Inside this glossary:

- Clear definitions of the core concepts, roles, and mechanisms that underpin stablecoin systems
- Some examples

Enjoy the reading.





Behind the Peg
Stablecoin Insider's Series

Algorithmic Stablecoin

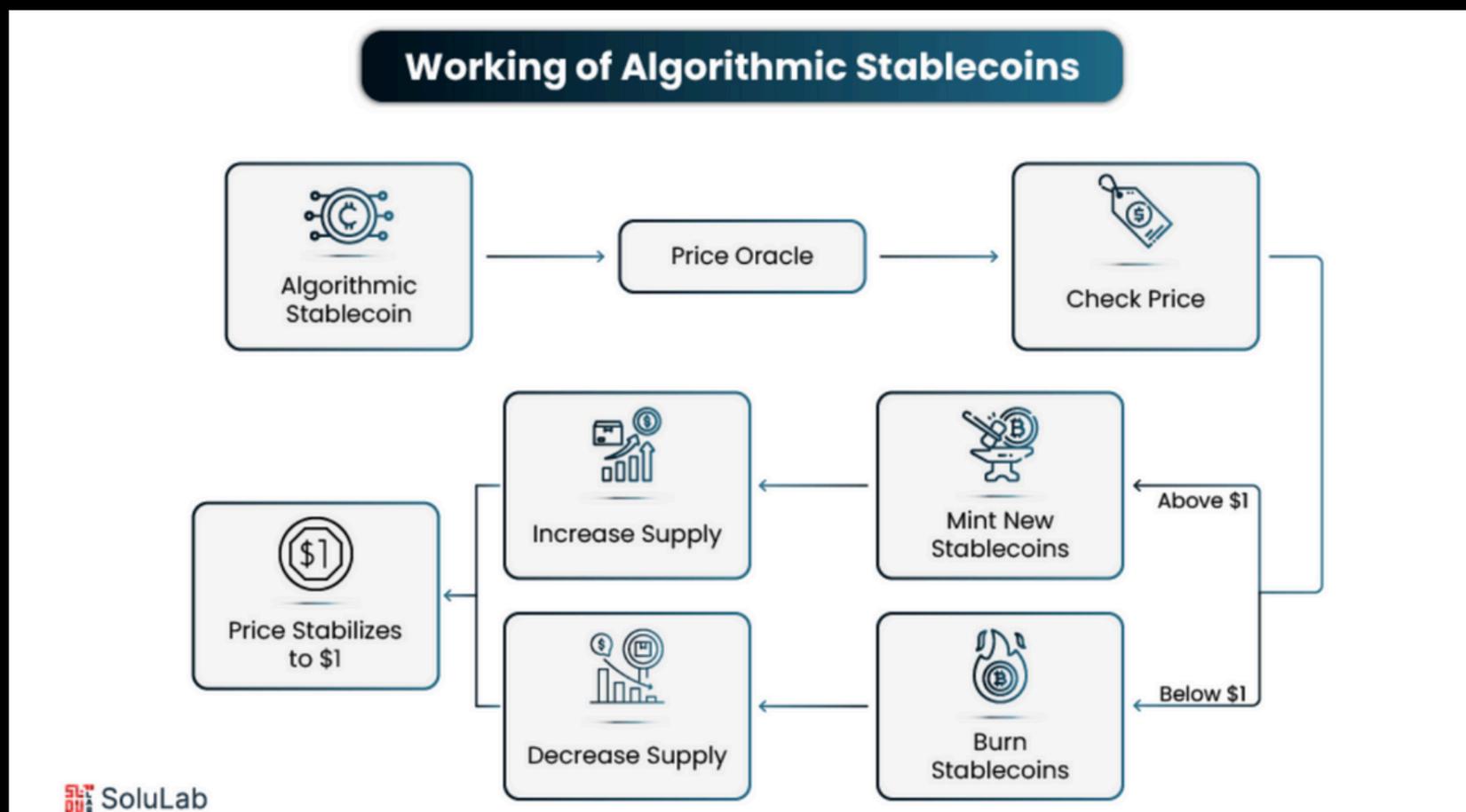
The Stablecoin Glossary





Algorithmic Stablecoin

= a **stablecoin** that attempts to maintain its **peg** through **supply-and-demand algorithms** rather than direct collateral.



<https://www.solulab.com/algorithmic-stablecoins-in-defi/>





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Attestation

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Attestation

= a formal report issued by a third-party accounting firm to verify that an issuer's reserve claims are accurate.

Unlike a full audit, an attestation is a "snapshot" of the reserves at a specific moment in time.

- *Example: Circle (USDC) and Tether (USDT) provide periodic attestations to prove they hold enough cash and treasuries to back their tokens.*





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Blacklist / Freeze Function

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Blacklist / Freeze Function

= a **security feature in the smart contract** of many centralised stablecoins that allows the issuer

to block specific wallet addresses from sending or receiving the token, often used for legal compliance or after a hack.

- Example: Tether has blacklisted hundreds of addresses associated with illicit activity, rendering the USDT in those wallets permanently unmovable.





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Burning





Burning

= the process of permanently removing tokens from circulation.

In the context of stablecoins, this usually happens when a user redeems their stablecoin for the underlying collateral.

- Example: When you trade 100 USDC for \$100 USD, the issuer "burns" those 100 digital tokens.





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Card-Linked Stablecoin

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Card-Linked Stablecoin

= A **stablecoin** balance connected to a **debit** or **credit card** for everyday consumer spending.





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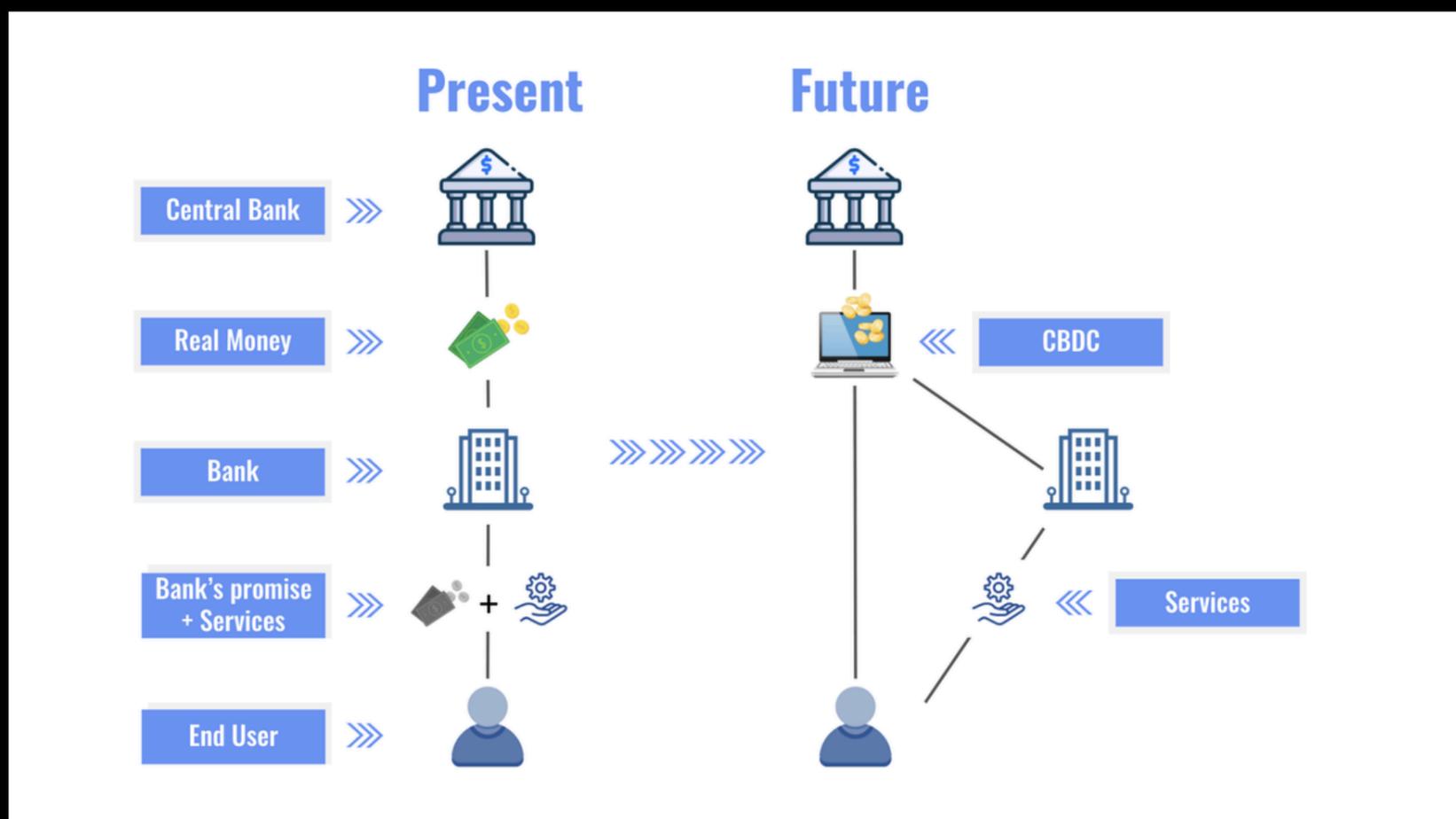
Central Bank Digital Currency (CBDC)





Central Bank Digital Currency (CBDC)

= A digital form of central bank money issued directly by a central bank. While functionally similar to stablecoins, CBDCs are sovereign liabilities and are not classified as stablecoins.



<https://sdk.finance/blog/central-bank-digital-currency-cbdc-explained-simply-pros-cons-and-real-world-examples/>





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Collateral Asset

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Collateral asset

= an asset that acts as a reserve of value that backs the digital coin.

Its purpose is to guarantee that the stablecoin can always be exchanged for something of value, which is what keeps its price stable (usually at \$1.00)

Type of Collateral	Description	Examples
Fiat Currency	Real-world cash (USD, EUR) held in traditional bank accounts.	USDC, USDT (Tether)
Government Bonds	Short-term U.S. Treasury bills which are highly liquid and earn interest.	USDC, PYUSD (PayPal)
Cryptocurrencies	Other digital assets like Ethereum (ETH) or Bitcoin (BTC) locked in smart contracts.	DAI
Commodities	Physical assets like gold or silver stored in professional vaults.	PAXG (Gold), XAUT





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Collateralized Debt Position (CDP)

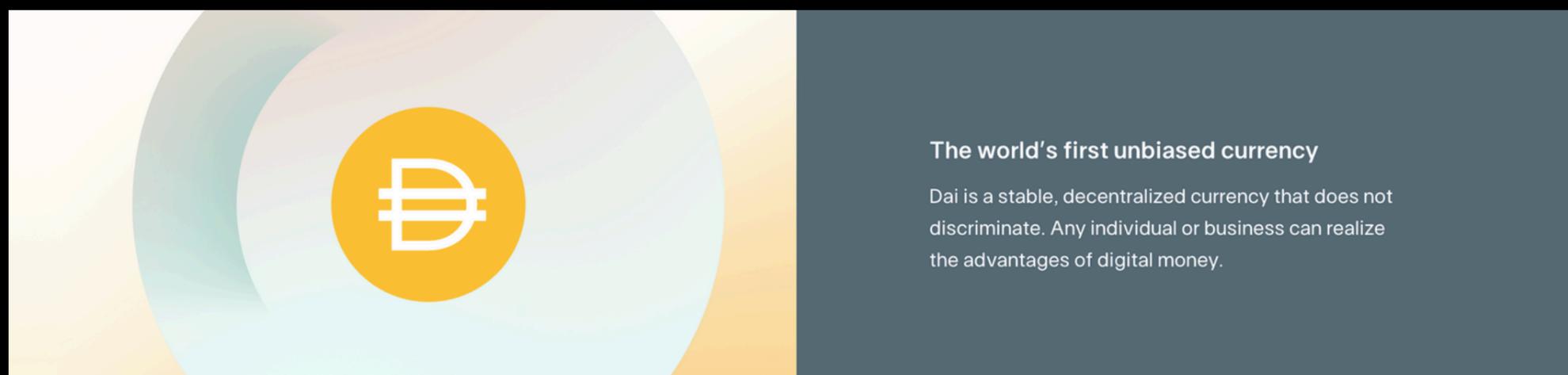




Collateralized Debt Position (CDP)

= A system where a user locks up an asset (like ETH) in a smart contract as collateral to generate (mint) a stablecoin.

- Example: Locking Ethereum in MakerDAO to mint DAI.





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Compliance Layer

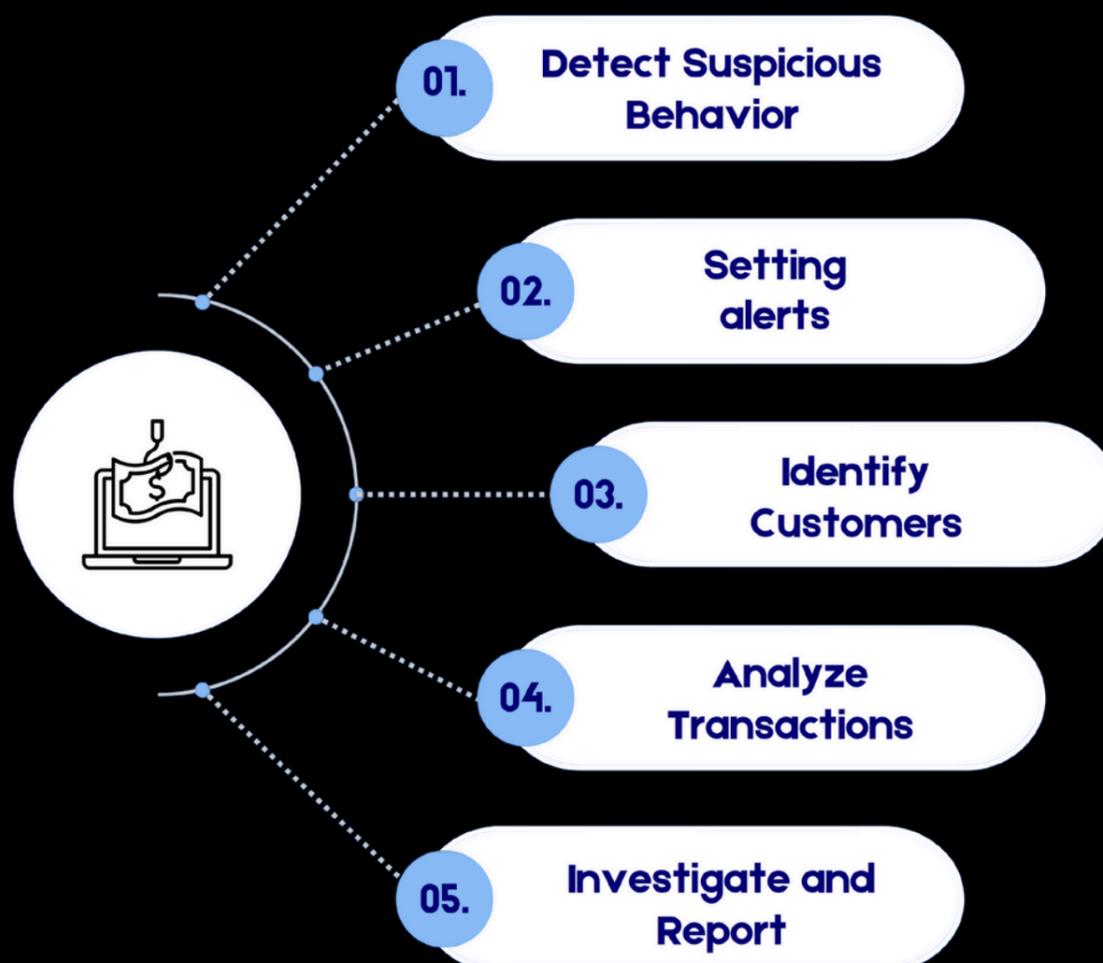
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Compliance Layer

= **Controls** such as KYC, AML, sanctions screening, and transaction monitoring applied to **stablecoin usage**.





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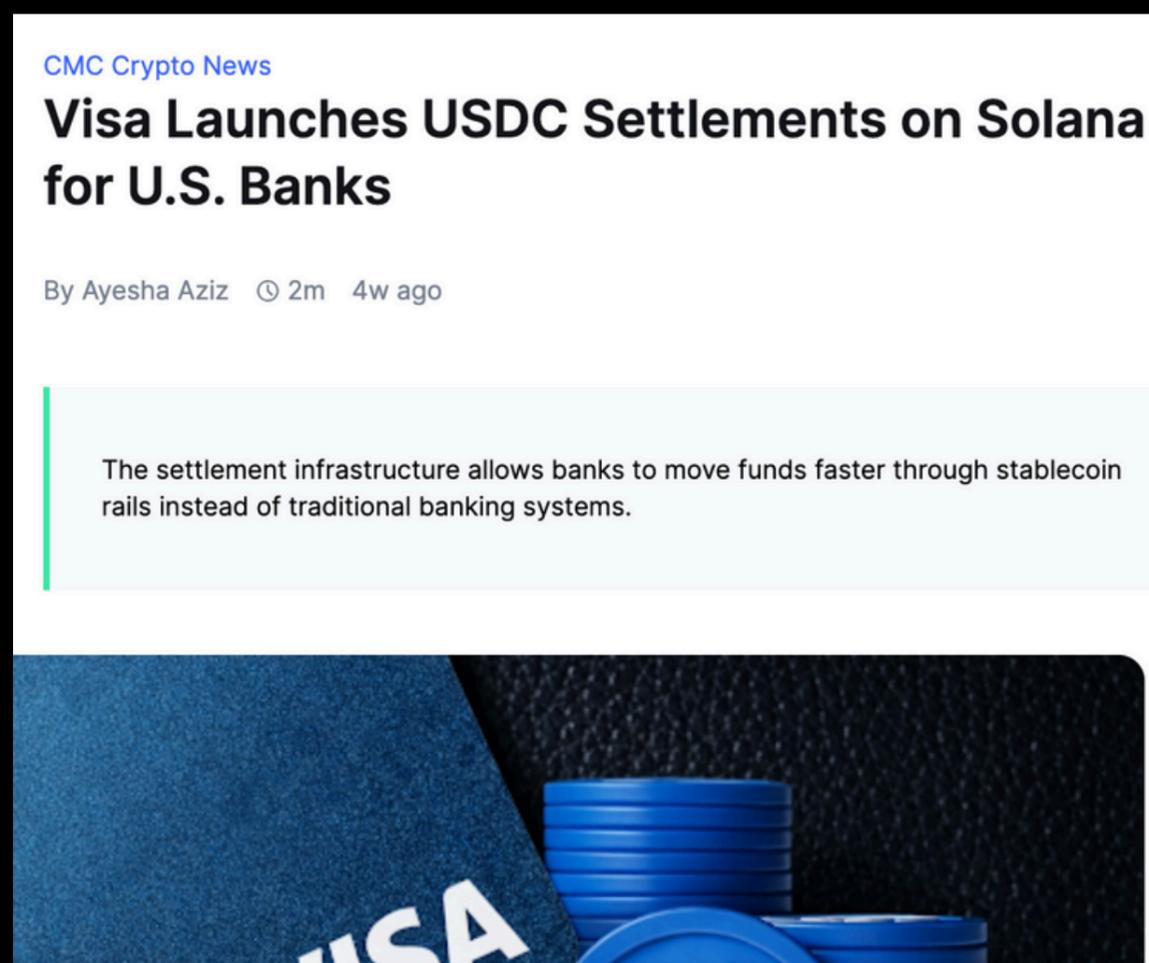
Cross-Border Settlement





Cross-Border Settlement

= The **transfer of value** between parties in different countries using stablecoins to reduce time, cost, and reliance on correspondent banks.





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Custodian

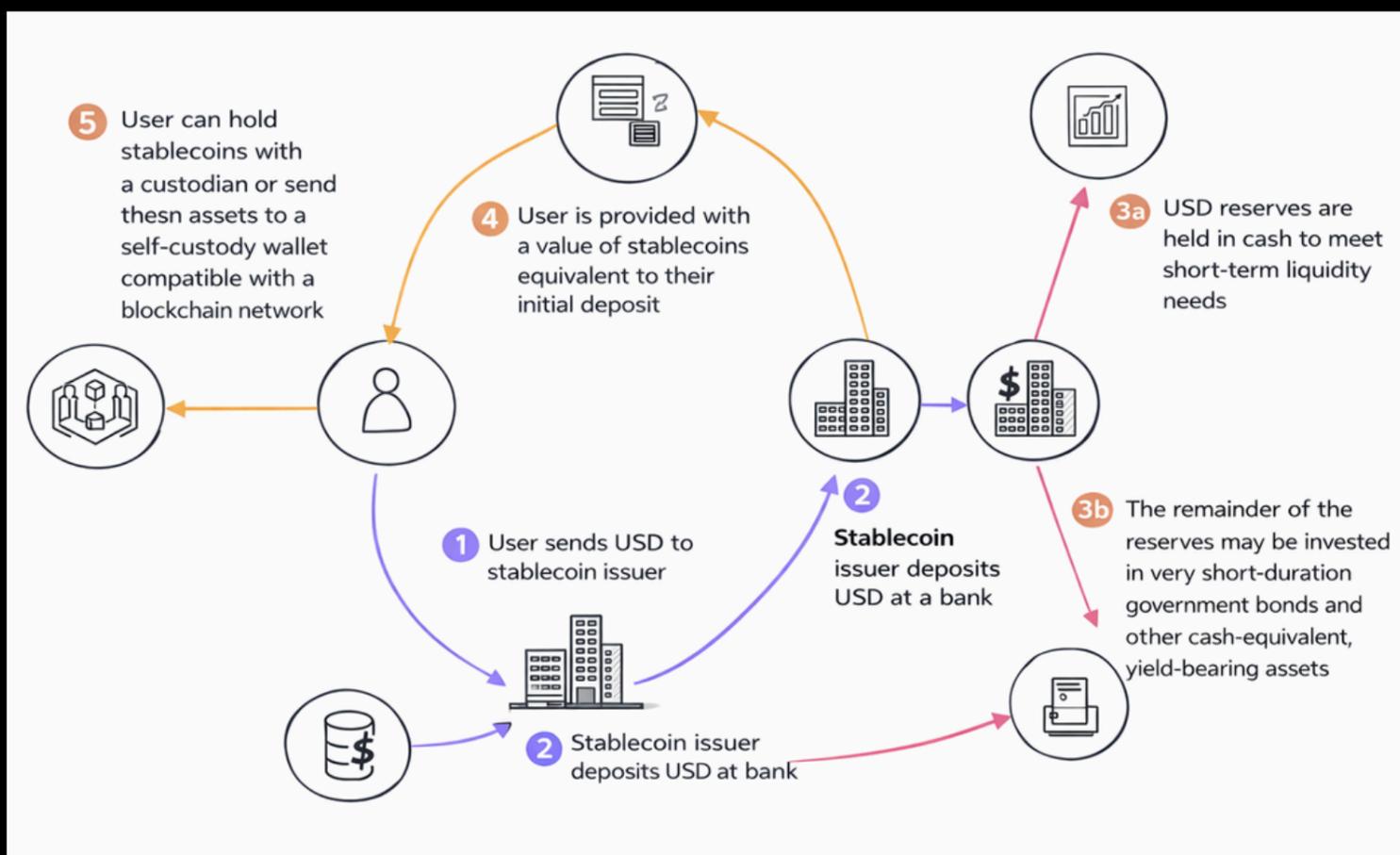
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Custodian

= A **regulated entity** that holds reserve assets backing a stablecoin on behalf of the issuer.



<https://www.fintechwrapup.com/p/how-crypto-can-evolve-consumer-to>





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Death Spiral

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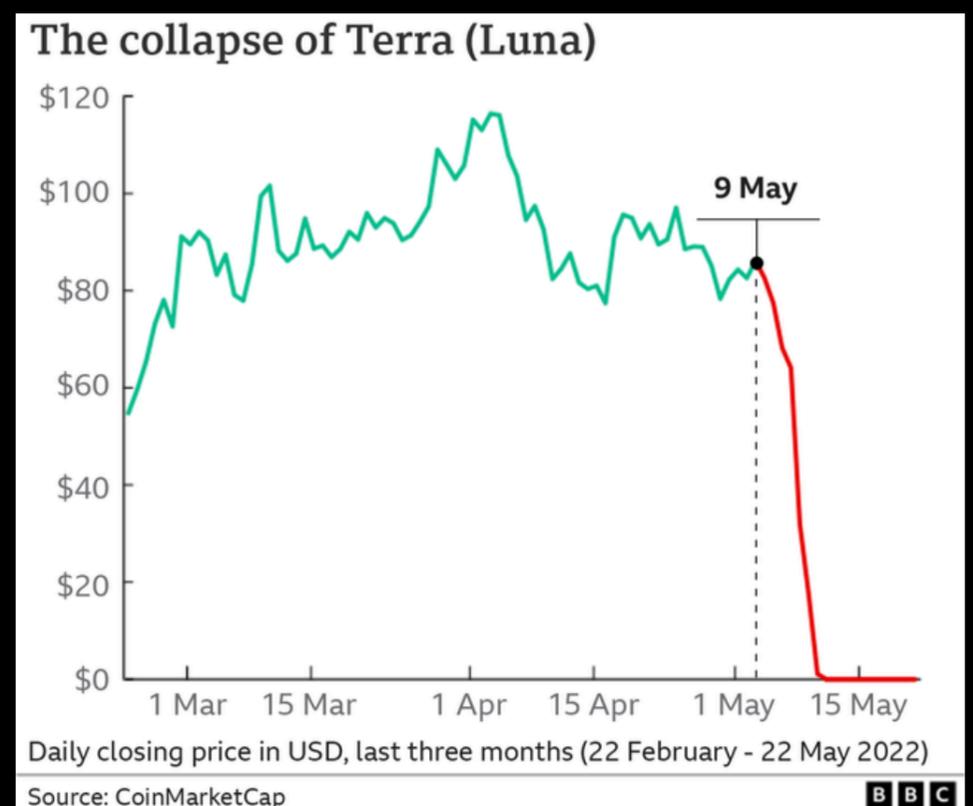




Death Spiral

= A **self-reinforcing collapse mechanism** in which a stablecoin's loss of peg triggers actions that further erode its stability, accelerating price decline and loss of confidence.

This typically occurs when falling prices force increased token minting, collateral liquidation, or secondary-token issuance, which dilutes value, intensifies sell pressure, and ultimately renders peg recovery impossible.





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DeFi Protocol

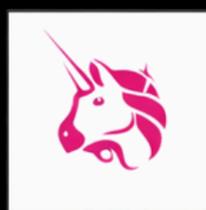
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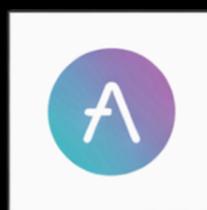


DeFi Protocol

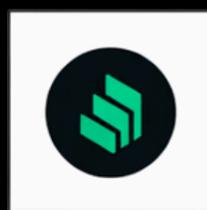
= An **on-chain protocol** that uses stablecoins for lending, trading, payments, or derivatives.



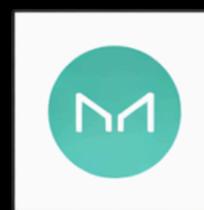
Uniswap



Aave



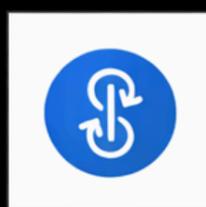
Compound



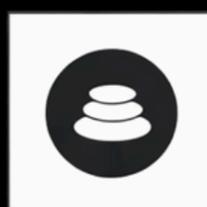
MakerDAO



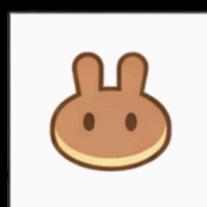
Synthetix



Yearn.finance



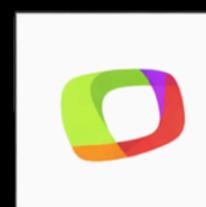
Balancer



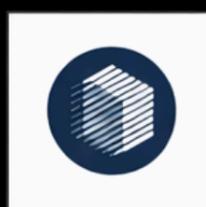
PancakeSwap



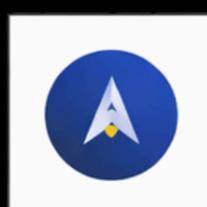
Curve Finance



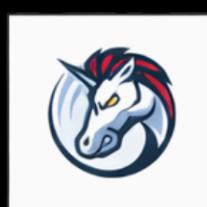
Terra



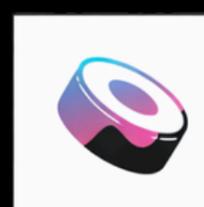
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Alpha Finance



1inch



SushiSwap



Bancor





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De-Peg Event

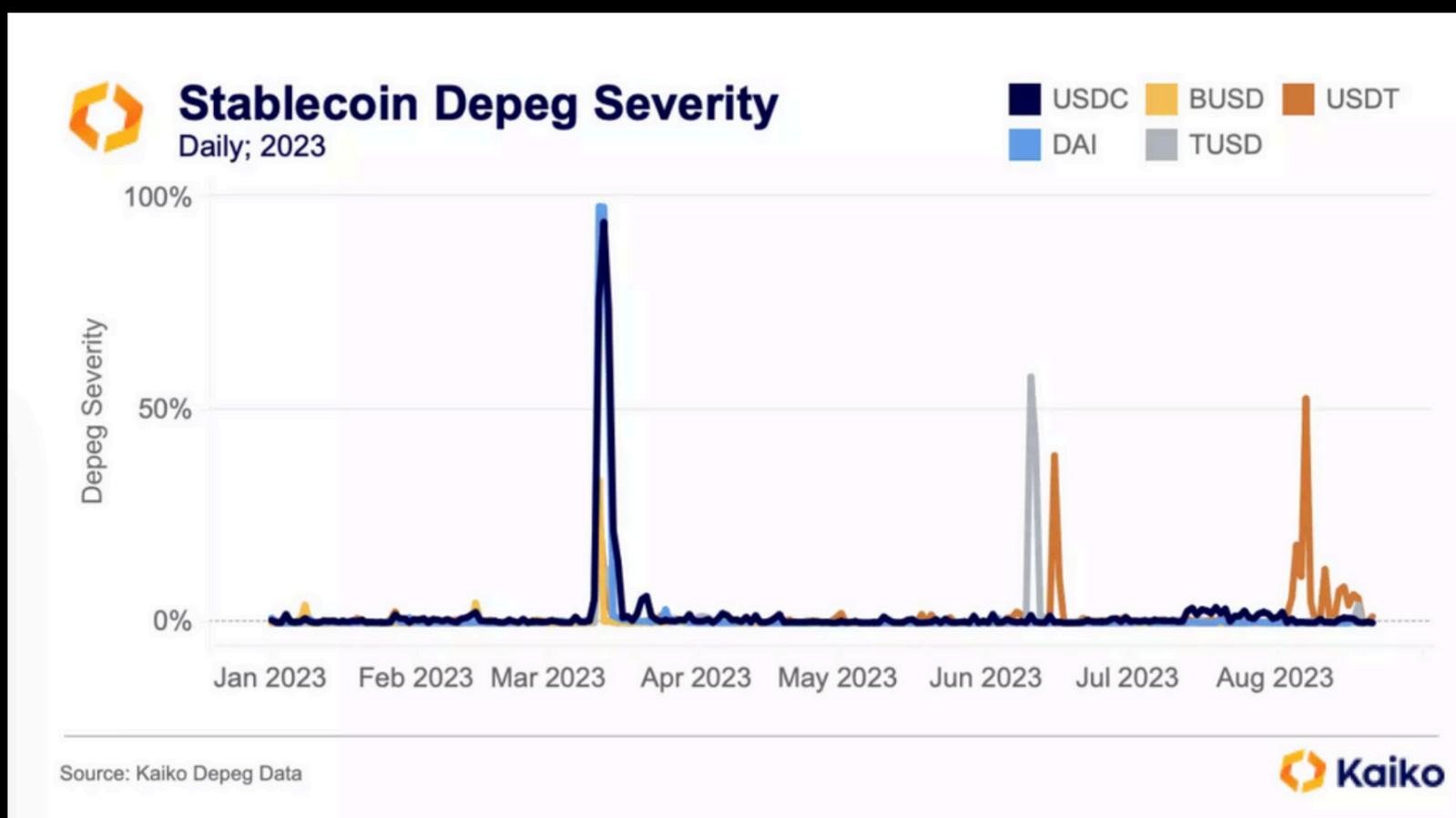
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De-Peg Event

= A situation where a **stablecoin** trades away (lower) from its intended **reference value**.





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Fiat- Collateralized Stablecoin

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Fiat-Collateralized Stablecoin

= A stablecoin backed by traditional currency reserves held off-chain.





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Stablecoin Institutional Rail

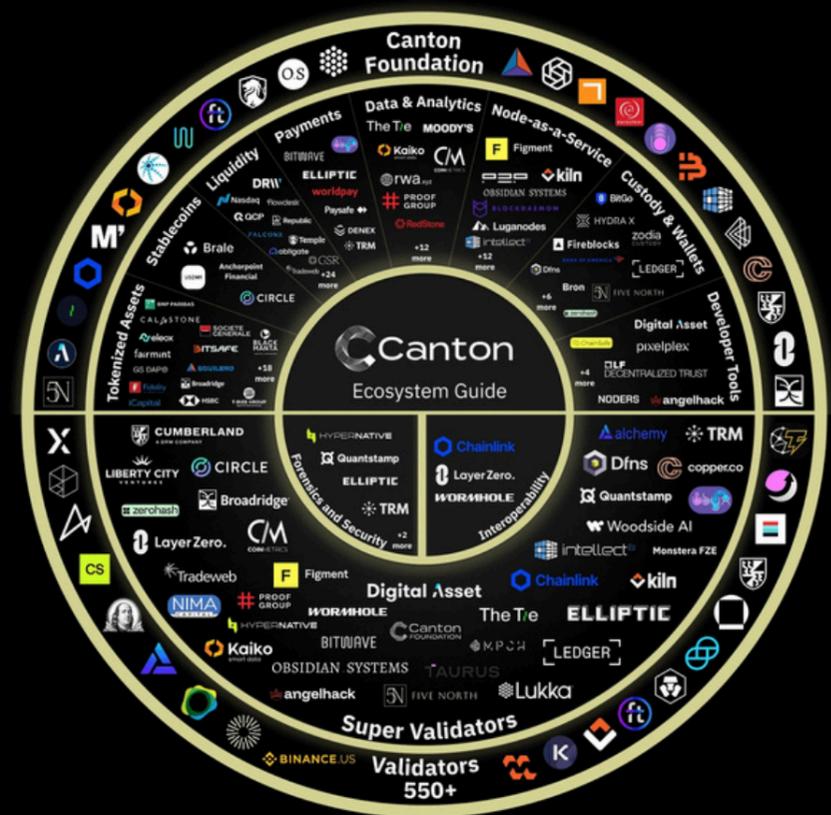
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Stablecoin Institutional Rail

= **Stablecoin infrastructure** designed for banks, enterprises, and large-scale settlement use.





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Issuer

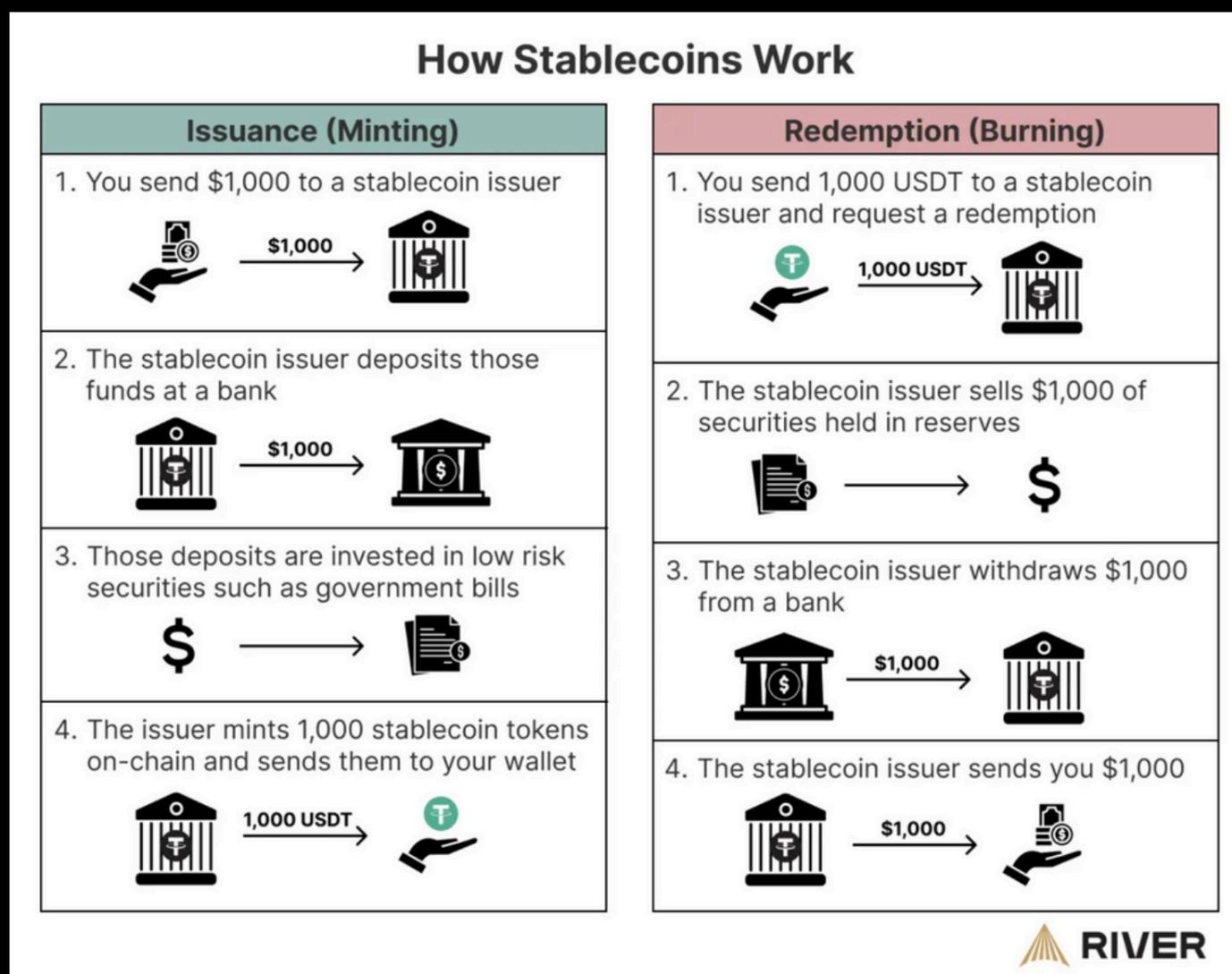
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Issuer

= The **entity** that creates, redeems, and manages a stablecoin.





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Liquidity Pool

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Liquidity Pool

= A **smart-contract-based pool** of stablecoins and other assets used to facilitate trading and lending.

Pools			
#	Pool	Volume 24H	Volume 7D
1	 USDC/ETH	\$257.22m	\$1.49b
2	 DAI/USDC	\$6.24m	\$54.70m
3	 USDC/ETH	\$9.01m	\$70.30m
4	 FRAX/USDC	\$10.68k	\$326.71k
5	 USDC/USDT	\$35.41m	\$364.47m





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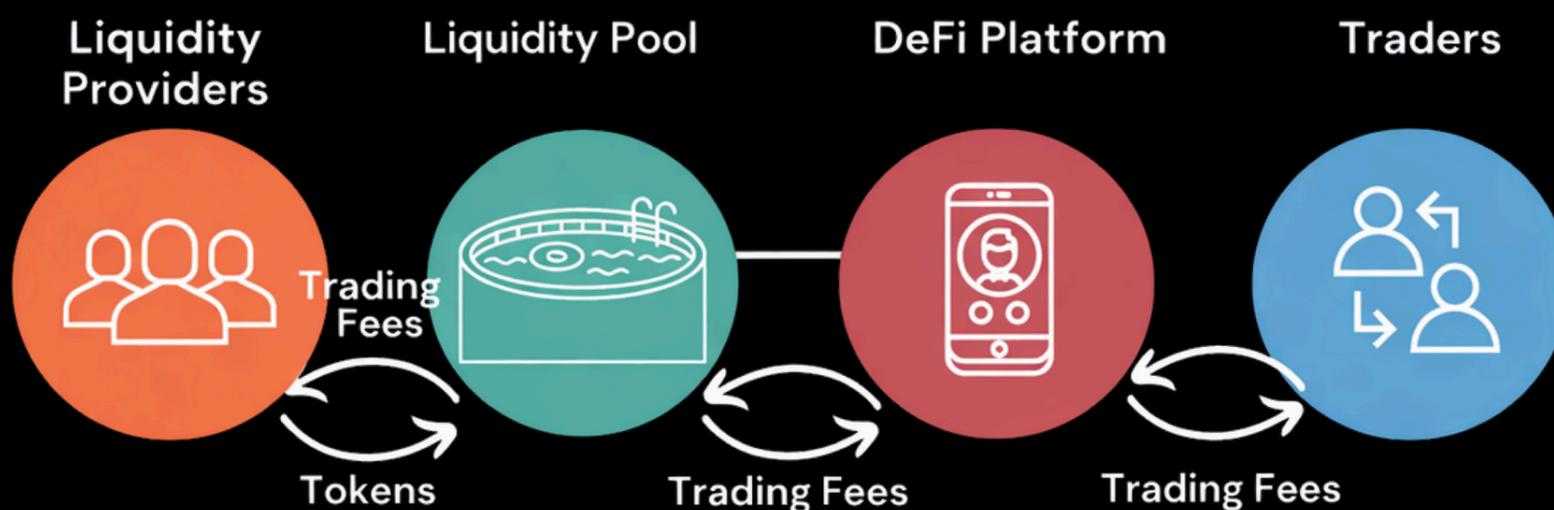
Liquidity Provider (LP)





Liquidity Provider (LP)

= A **participant** that **supplies stablecoins** to liquidity pools in exchange for fees or yield.





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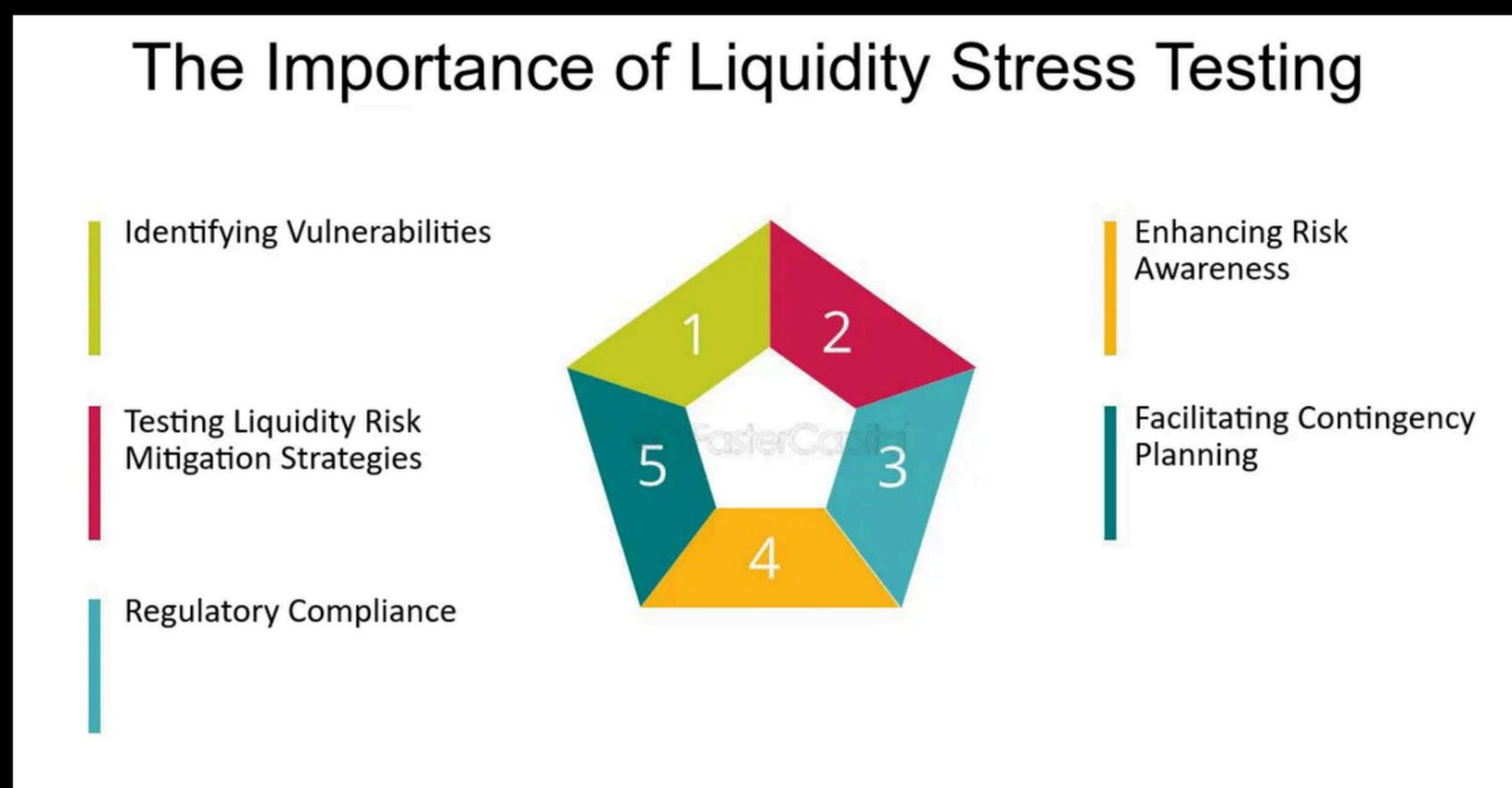
Liquidity Stress





Liquidity Stress

= Conditions where redemption demand or transaction volume challenges stablecoin stability.





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Minting

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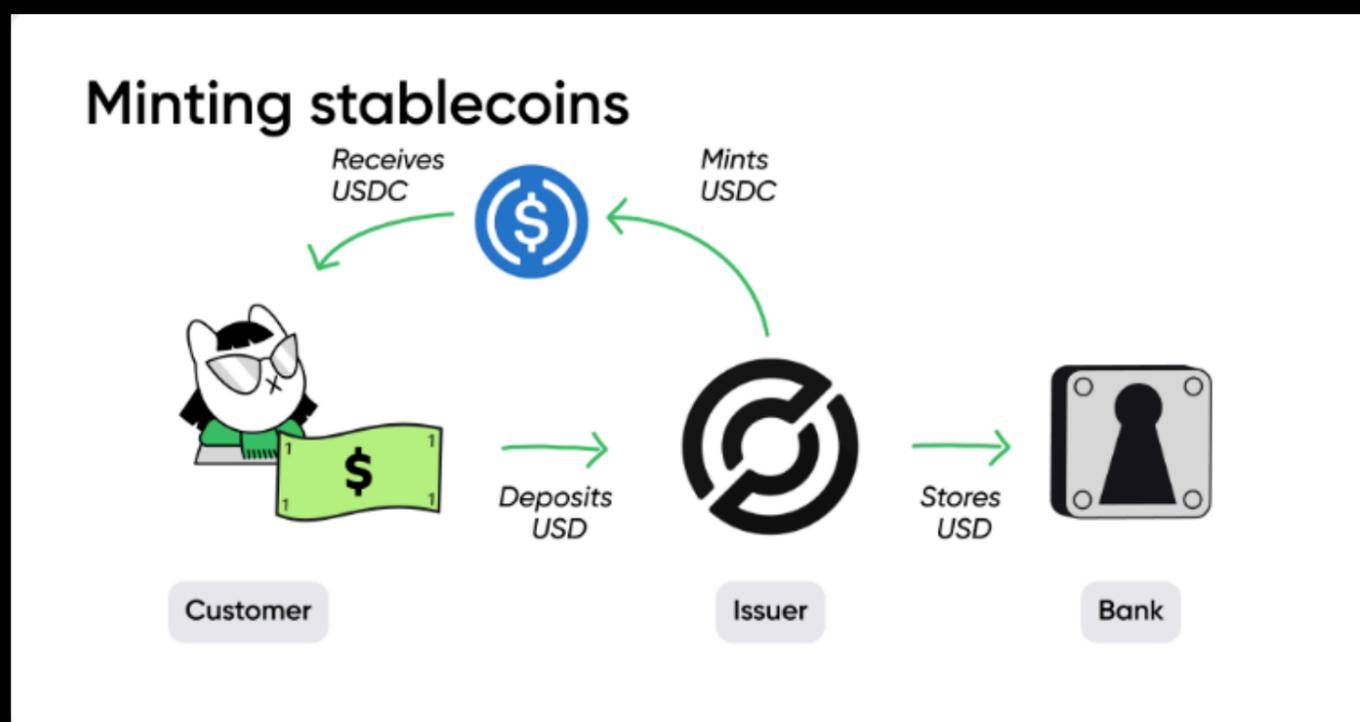




Minting

= The creation of new stablecoin tokens. This occurs when a user deposits collateral with an issuer or into a smart contract.

- Example: Depositing \$1,000 with Circle to receive 1,000 USDC.



<https://blog.matcha.xyz/article/what-is-a-stablecoin>





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On-Chain payment

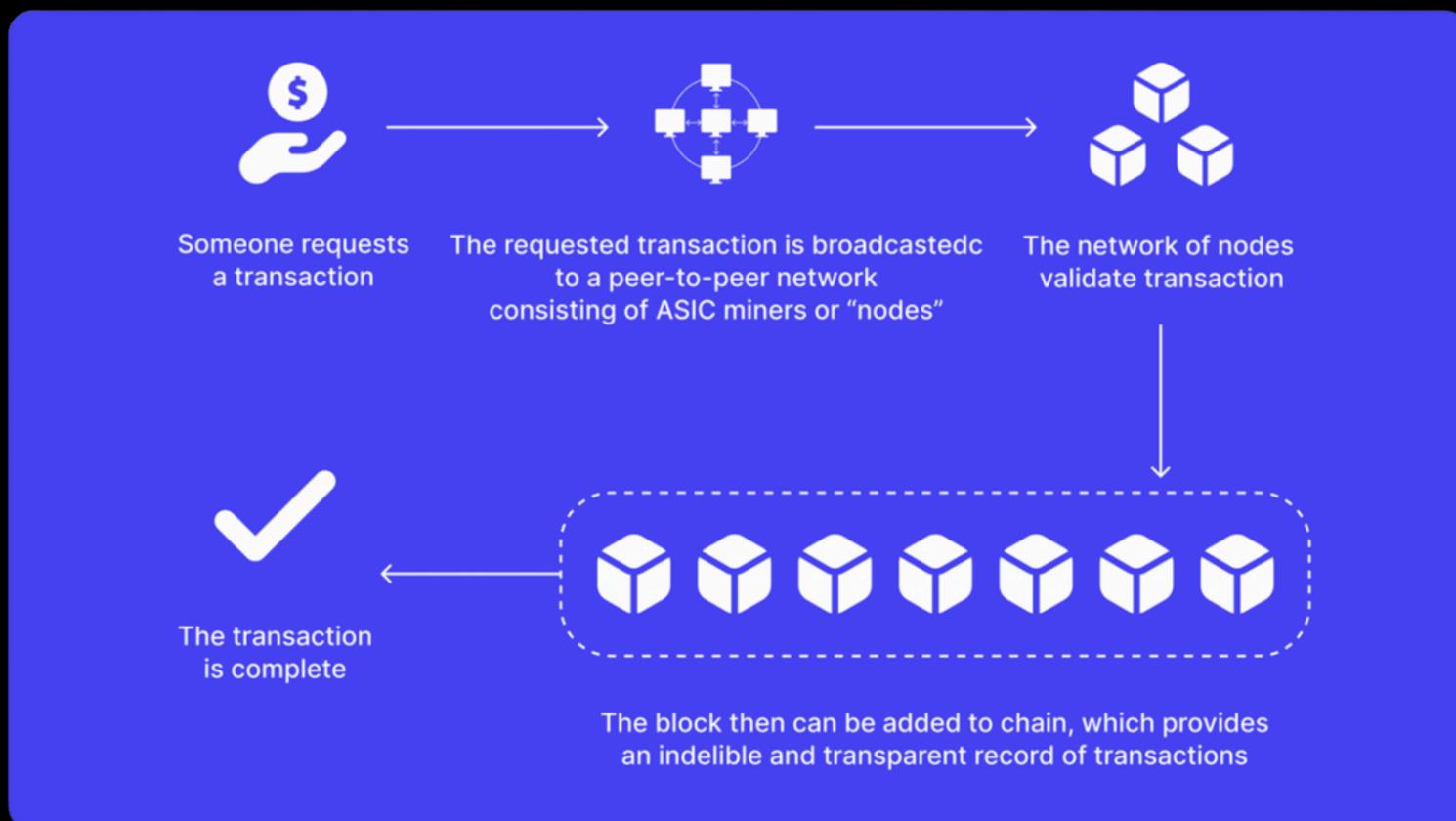
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On-Chain Payment

= A payment executed directly on a blockchain using stablecoins without traditional banking intermediaries.



<https://b2binpay.com/en/news/on-chain-vs-off-chain-transactions-beginners-guide>





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Over collateralization





Overcollateralization

= Locking collateral worth more than the **stablecoins** issued to manage volatility risk.





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Payment Rail

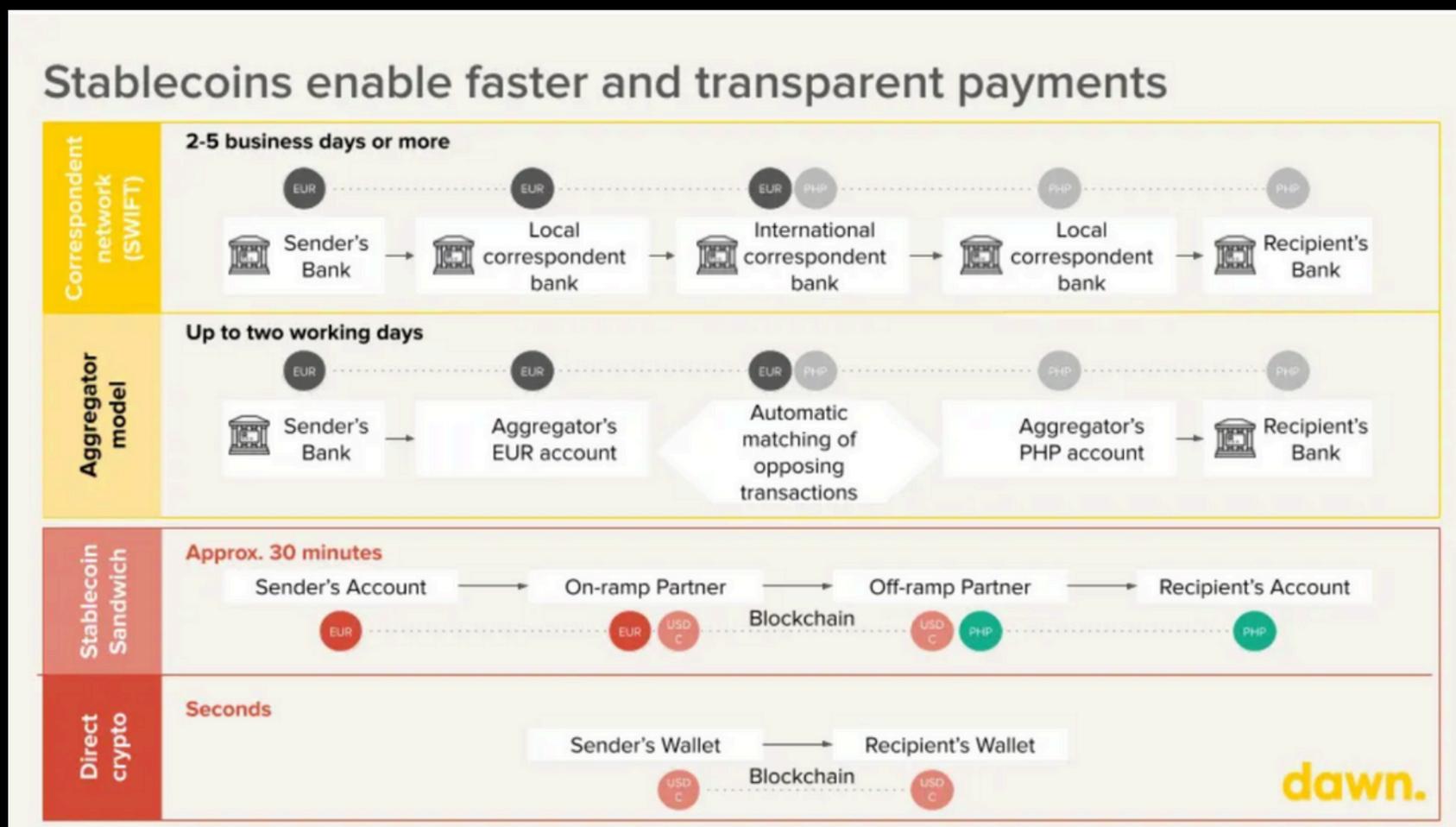
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Payment Rail

= The underlying **infrastructure** used to move money. Stablecoins function as alternative **digital payment rails**. (they run on blockchain)



<https://medium.com/embrlabs/deep-dive-what-are-payment-rails-10b3bb896b65>





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Peg

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Peg

= a fixed exchange rate that ties a digital token's value to an external, more stable asset.

It serves as an anchor, ensuring that, regardless of market volatility, the stablecoin maintains a constant price relative to its target.





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Peg Stability

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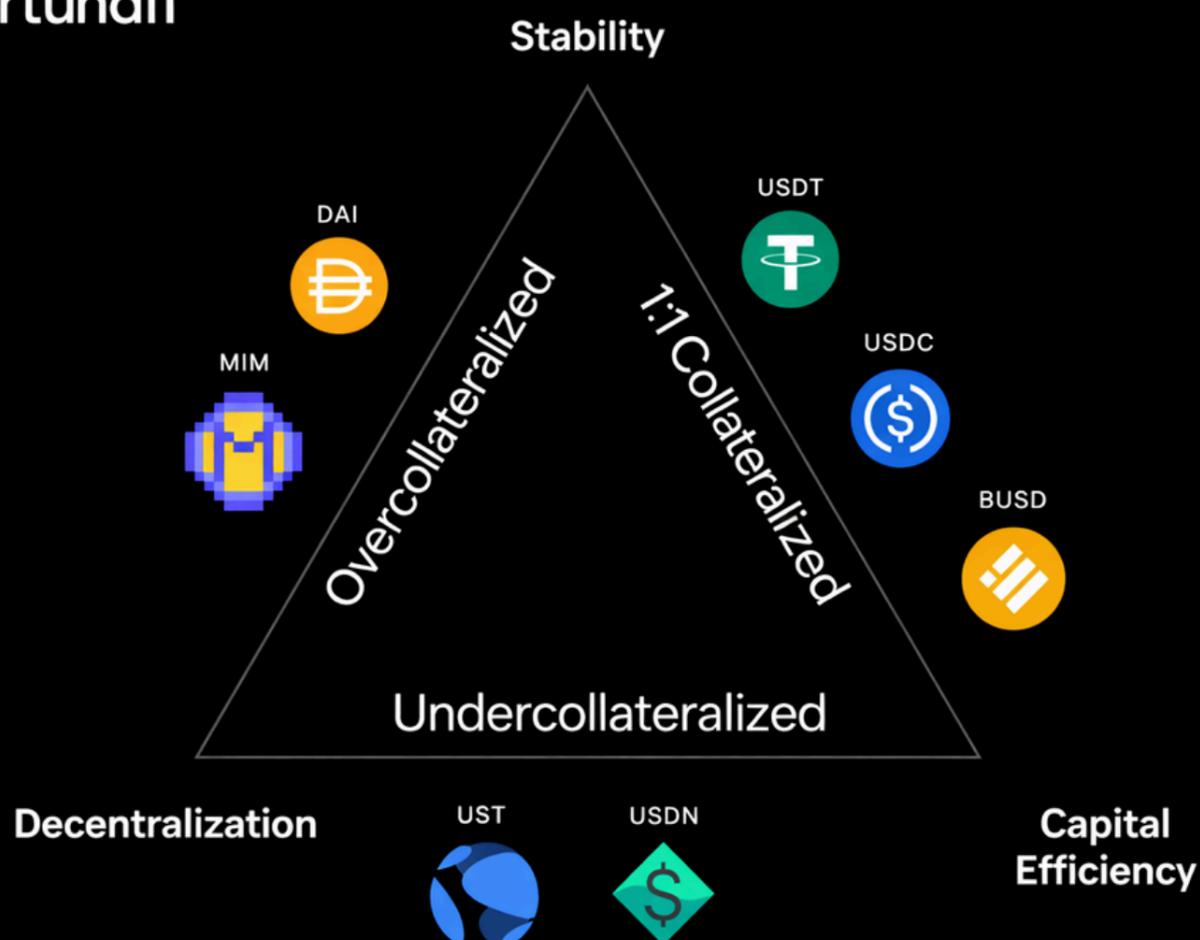




Peg Stability

= The effectiveness with which a stablecoin maintains its **target value** during active use.

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Programmable Money

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Programmable Money

= Stablecoins that can be embedded into **smart contracts** to automate payments, compliance, or conditions.





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Redemption Mechanism





Redemption Mechanism

= The process that allows users to **exchange stablecoins** for fiat or underlying assets.





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Remittance

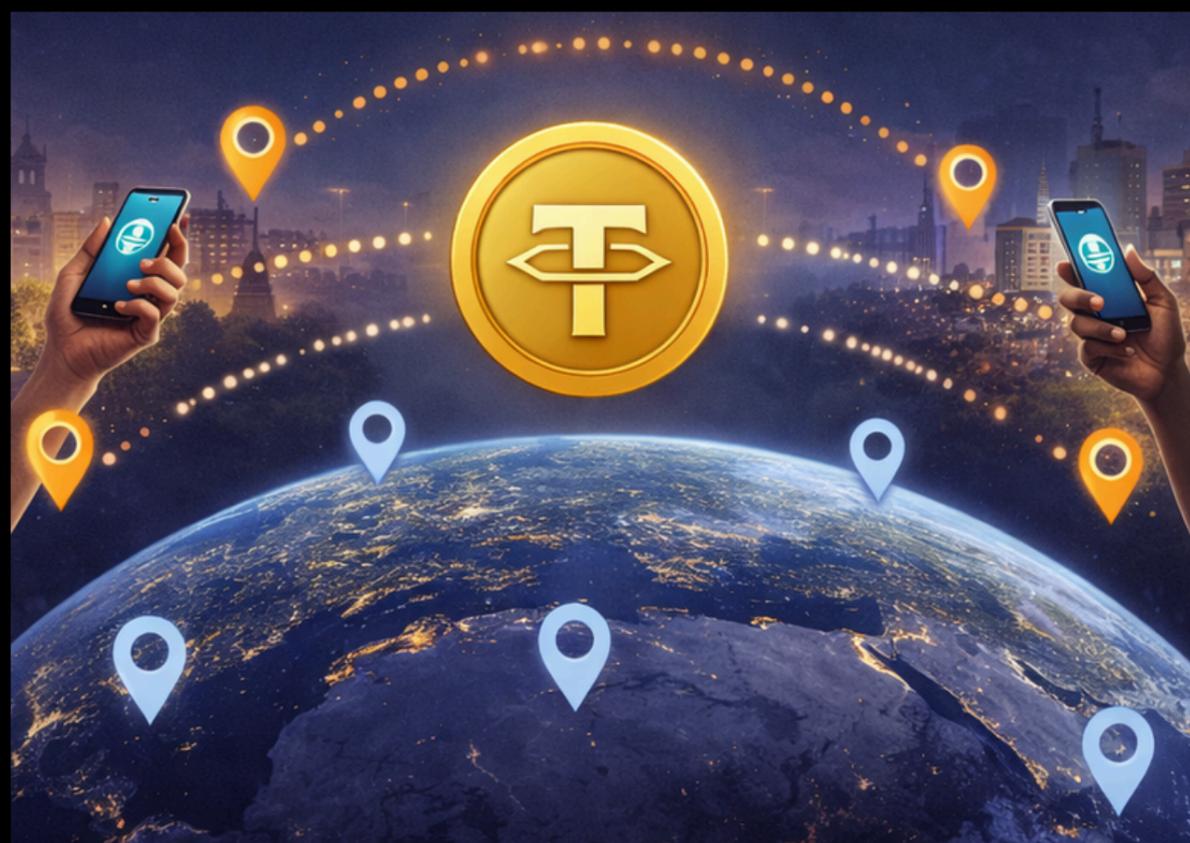
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Remittance

= A person-to-person transfer of funds, often internationally, where stablecoins replace traditional money transfer services.





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Reserve

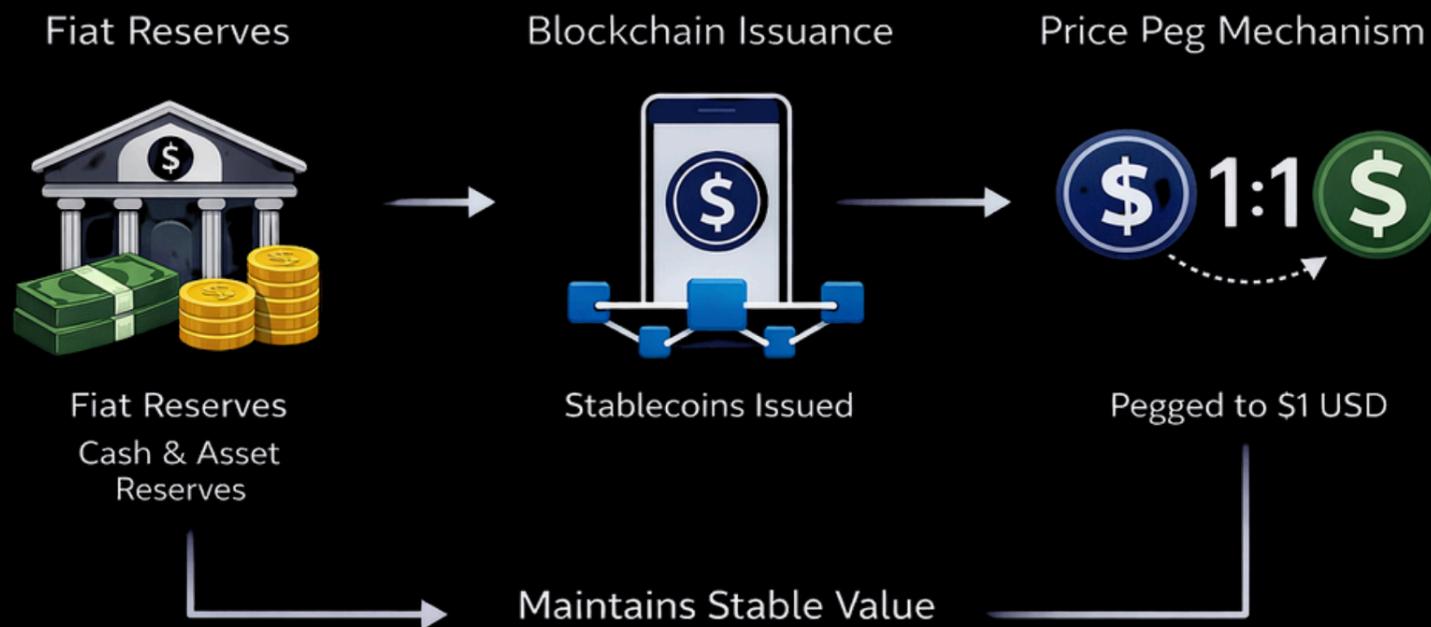
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Reserve

= Assets held to **support** the value and redeemability of a stablecoin.





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Retail Use Case

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Retail Use Case

= Stablecoin applications focused on individual consumers, such as payments or savings.





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Seigniorage

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Seigniorage

= the profit made by issuing a currency.

In the stablecoin context, "Seigniorage Shares" often refers to a model where the protocol burns or mints a secondary token to stabilize the price of the main stablecoin.

How Does Crypto Seigniorage Work?

Seigniorage stablecoins do not have reserves held in smart contracts, but instead rely on seigniorage shares system to alter the token's circulating supply. Dependent on supply and demand, these stablecoins will leverage advanced mathematical equations to deploy monetary policies that protect the token's value. The profits obtained from purchasing and selling the shares when protecting the stablecoin's price are referred to as "seigniorage".

<https://zerocap.com/insights/articles/what-is-crypto-seigniorage/>





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Settlement Finality

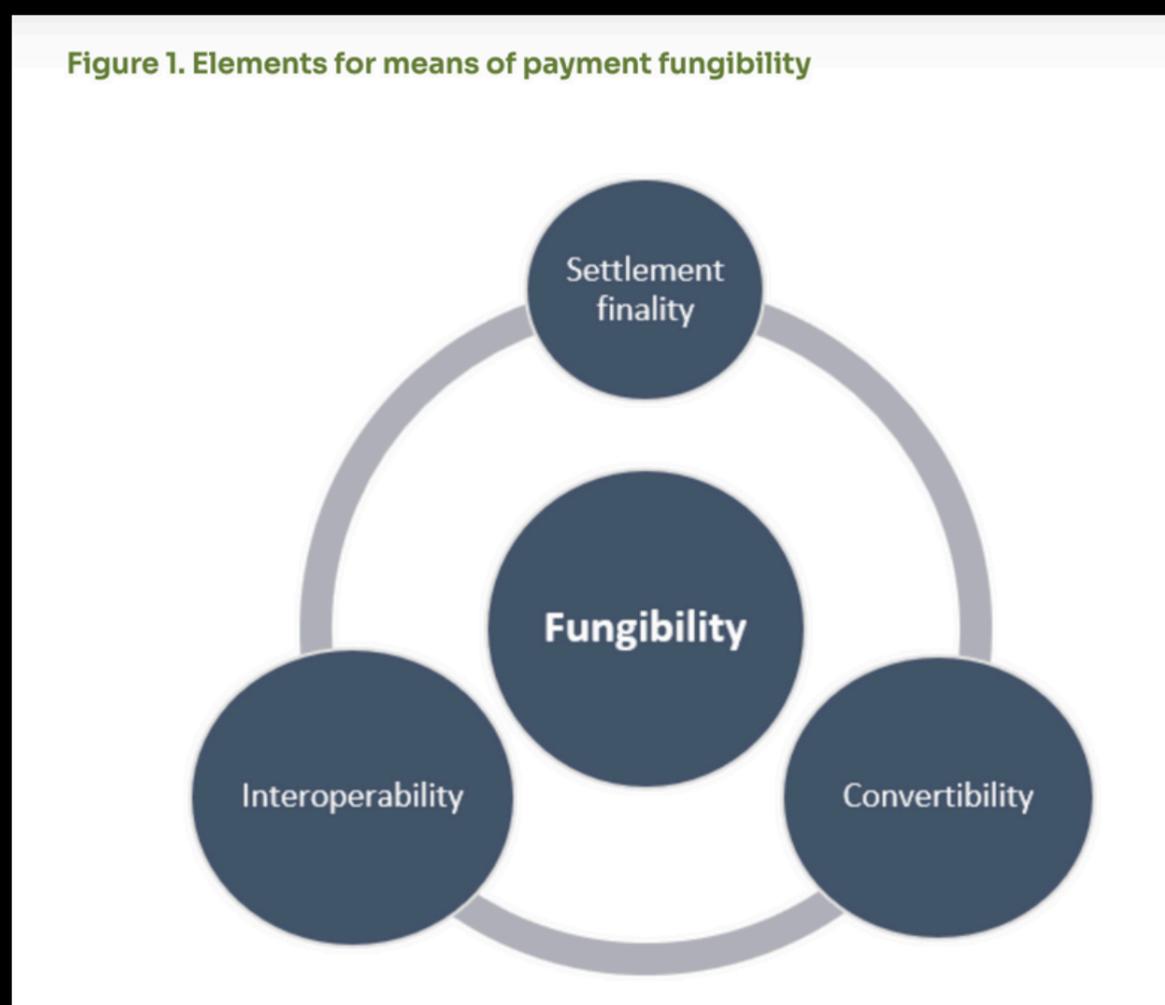
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Settlement Finality

= The point at which a **stablecoin transaction is irreversible** on the blockchain.



<https://www.suerf.org/publications/suerf-policy-notes-and-briefs/are-stablecoins-fungible-money/>





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Settlement Layer

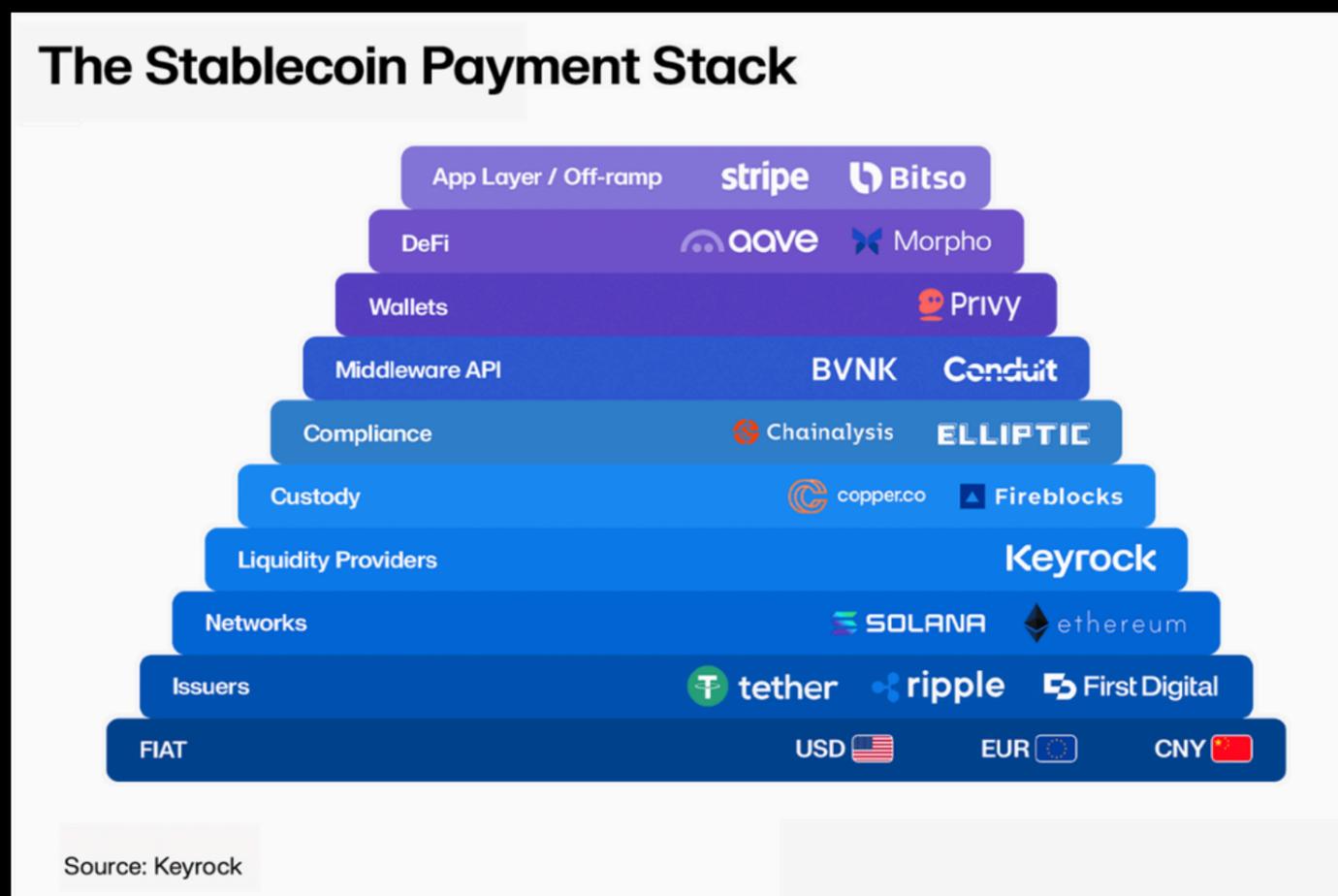
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Settlement Layer

= The blockchain network on which stablecoin transactions are recorded and finalized.





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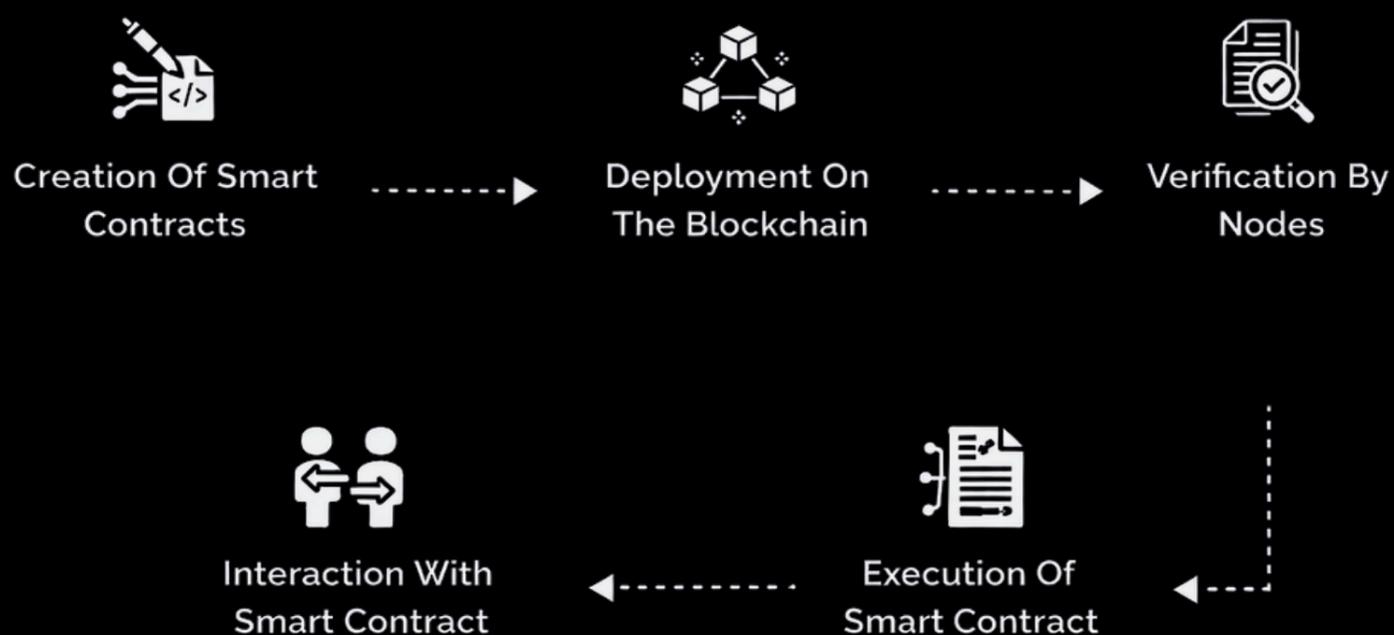
Smart Contract





Smart Contract

= Self-executing code on a blockchain that enforces rules for stablecoin issuance or use.





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Stablecoin

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Stablecoin

= A cryptocurrency designed to **maintain a stable value** relative to a reference asset.





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Transaction Throughput





Transaction Throughput

= The volume of stablecoin transactions processed over a given period.





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Treasury Management

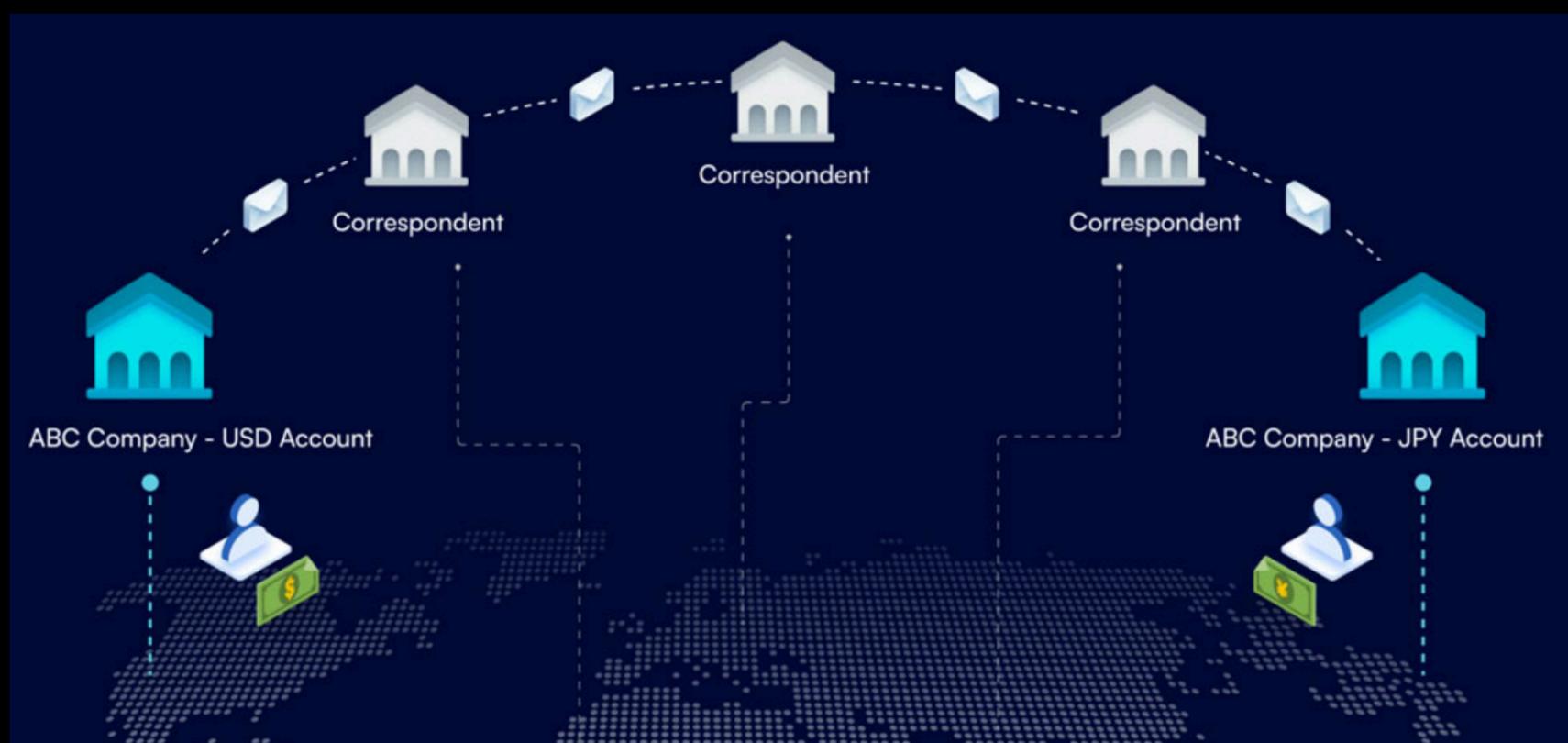
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Treasury Management

= The use of stablecoins by businesses to manage liquidity, payments, and settlement on-chain.





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Wholesale Use Case

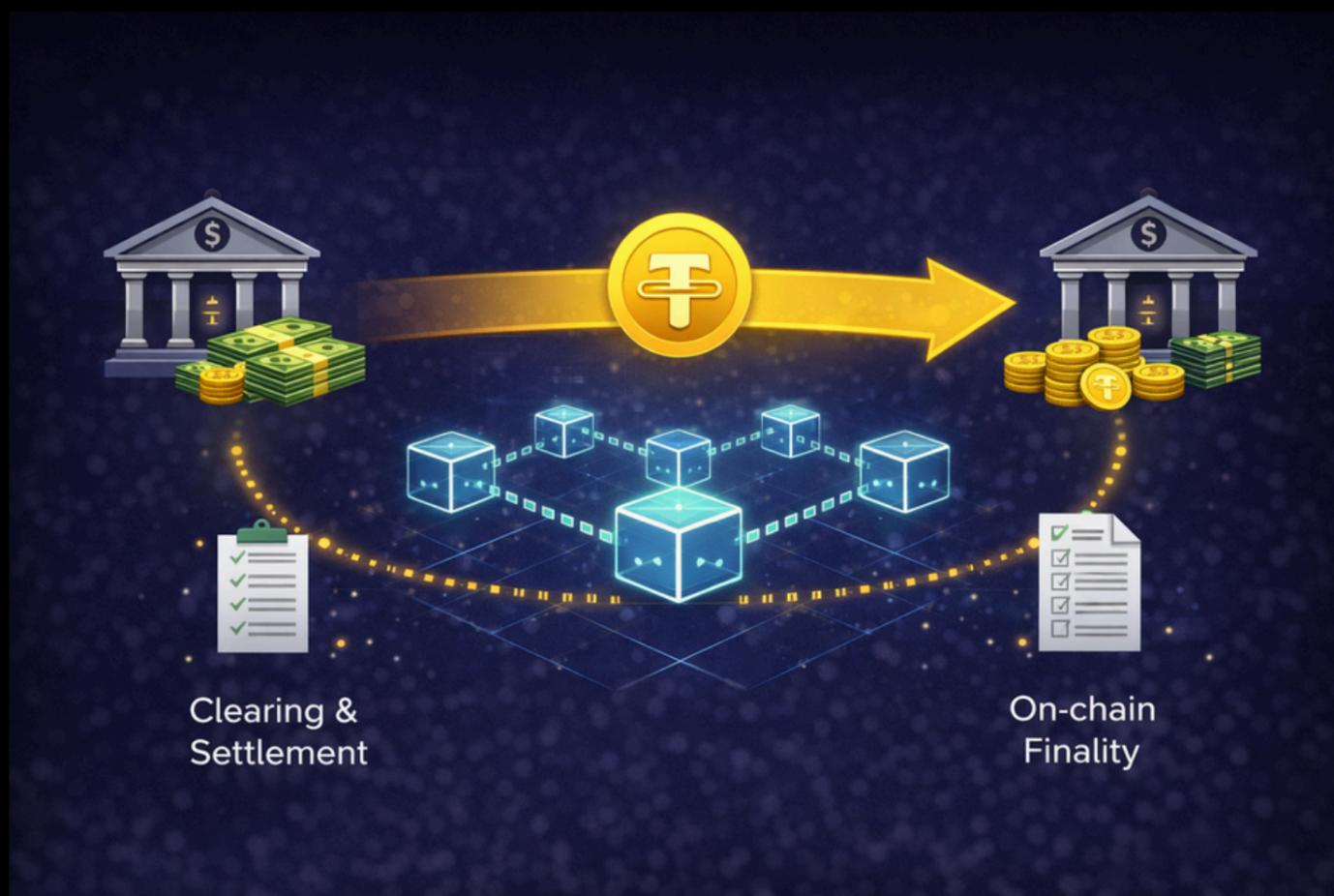
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Wholesale Use Case

= Stablecoin usage by institutions for large-value transfers, clearing, and settlement.





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Yield-Bearing Stablecoin

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Yield-Bearing Stablecoin

= A stablecoin whose design embeds **yield accrual** directly into the token (like via rebasing or underlying yield-generating assets), rather than yield obtained through external deployment.





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Good

knowledge is built together.

Feel free to send me feedback, ideas, topics you would like to read more, or directly collaborate with me on the next post.

Share if you find this valuable.



Chiara Munaretto