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Tokens and coins: how cryptocurrencies differ from each other

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According to coinmarketcap.com, the total market of cryptocurrencies has exceeded the USD 1,000bn threshold. Although the website lists more than 8,000 cryptocurrencies (CCs), Bitcoin and Ethereum make up 85% of total capitalisation. The USD 1,000 bn threshold was exceeded once the two flagships of the crypto scene had extended their gains yet again. Before looking at the rise in Bitcoin prices, let us quickly talk about the high number of CCs.

First of all, it is important to understand that the more than 8,000 constitute a vast array of different projects and that the term “currency” does not always hit the mark. The term “digital token” applies more neatly, and we can slot them into the following categories:

Payment tokens:

This form of token was created for payment. They all have in common that they apply cryptographic forms of encryption and are based on a decentralised blockchain structure. The issuer does not have to be known, as is the case for the main protagonist, Bitcoin. Other examples of payment tokens are Bitcoin Cash or Litecoin.

Stable coins (EU term: asset reference tokens):

Tether is the third on the list of [coinmarketcap](https://coinmarketcap.com). The value of stable coins is tethered to a specific asset – in the case of Tether, to the US dollar (1 Tether = USD 1). The plans of facebook to issue a token falls into his category. One Libra (or the new name, Diem) is supposed to represent the value of a basket consisting of various currencies and bonds. According to the proposal from the EU Commission, stable coins will soon be regulated in the EU.

The European Banking Authority (EBA) will decide on whether stable coins will be admissible for the EU. The decision will be based on the question if the tokens would foil the goals of the ECB, i.e. if they were to assume a certain degree of system relevance.

Platform tokens:

Some projects allow the development of decentralised applications that are based on blockchain. These require so-called smart contracts that are used in coding (technically speaking, these are “IF – THEN” protocols). Ethereum and Polkadot, the numbers 2 and 4 by capitalisation, are prominent members of this group.

Ethereum has its own currency (Ether) that is needed to operate applications. Many applications belong to the category of decentralised finances (DeFi), which are currently going through a boom phase. In the list of coinmarketcap, some of these DeFi projects are featured with their own coins, such as e.g. Wrapped Bitcoin, Uniswap, and Aave. If you are interested in more information on this topic, you can find the most important applications on the website [defipulse](https://defipulse.com).

Utility tokens

Utility tokens are a form of vouchers or admission licences stored on a blockchain. They grant the holder access to a product or a service. They should only be bought if you actually want to claim said product or service. These tokens are not suitable for investment (Ripple being one of them).

Within the framework of the crypto asset regulation (MiCA), the EU will regulate this form of tokens, largely to protect retail investors; during the last bull run of 2017 many of them bought these tokens without knowing what was behind this product or whether this was even a reputable project. A large part of the (more than) 8,000 CCs belong to this category, and there is no reason to scrutinise them for investment purposes.

Central Bank Digital Currencies (CBDC)

Many central banks are currently experimenting with issuing CBDCs. There are two different approaches. First, a central bank can issue digital tokens that the user holds in a wallet and can pay with. The second form of digital tokens is called "account-based". Here, a user has an account directly with the central bank. At present, it is not clear which form will prevail.

The pioneer in this field is China with the issue of the digital yuan. This form of currency is currently being tested. Also far advanced is the Riksbank in Sweden with its e-Krona. The ECB is currently still in the testing phase.

Although CBDC are repeatedly compared with CC, this form of digital currency does not necessarily have to be built on a decentralized blockchain. A so-called permissioned (not publicly accessible) blockchain operated by commercial banks is conceivable.

Unlike stable coins, the issuer is a central bank and not a company. CBDCs are also a claim against a central bank and are considered a "legal tender" (i.e., you can use them to pay taxes and debts).

Important legal information:

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