

# Protocol Layer

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**Protocol Layer**, in [Decentralized Finance \(DeFi\)](#), are the Software protocols which are standards and rules written to govern specific tasks or activities. In parallel with real-world institutions, this would be a set of principles and rules that all participants in a given industry have agreed to follow as a prerequisite to operating in the industry. DeFi protocols are interoperable, meaning they can be used by multiple entities at the same time to build a service or an app. The protocol layer provides [Liquidity](#) to the DeFi ecosystem. One example of a DeFi protocol is Synthetix, a derivatives trading protocol on [Ethereum](#). It is used to create synthetic versions of real-world assets.<sup>1)</sup>

Source: <https://www.investopedia.com/decentralized-finance-defi-5113835>

<sup>1)</sup>

Rakesh Sharma, Investopedia, 24 March 2021, [Decentralized Finance \(DeFi\) Definition](#), Accessed 24 May 2021, <https://www.investopedia.com/decentralized-finance-defi-5113835>

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