



## **What Does It Mean to “Fork” a DeFi Protocol?**

To fork a DeFi protocol is to take the source code of the original protocol and launch a modified version on the blockchain. There are two kinds of forks to distinguish: a hard fork and a soft fork.

A hard fork occurs when there are more drastic changes to the protocol that require users to no longer accept the previous version. Whereas a soft fork is more of a moderate upgrade and remains compatible with the previous version.

DeFi forks are made possible by the open-source code of DeFi protocols. Open source code allows for anyone to audit the source code and ensure that the protocol is operating as its developers say it is. But it also opens the door to fork a protocol's code and launch a comparable DeFi service with some modifications.

Forking creates an incredibly low barrier to entry in DeFi. All someone needs to do to launch their own DeFi protocol is copy existing code. The knowledge that anyone could fork your code at any time creates a strong incentive for DeFi protocols to maximize user experience and reduce user costs. If the users think that the protocol is compensating the token holder's too highly or passing costs of running the protocol onto the users, they can simply fork the source code and run their own protocol without the governance policies they disagree with.

Forking creates a perfectly competitive market, which ultimately makes transacting on DeFi protocols cheaper and more efficient for the users.