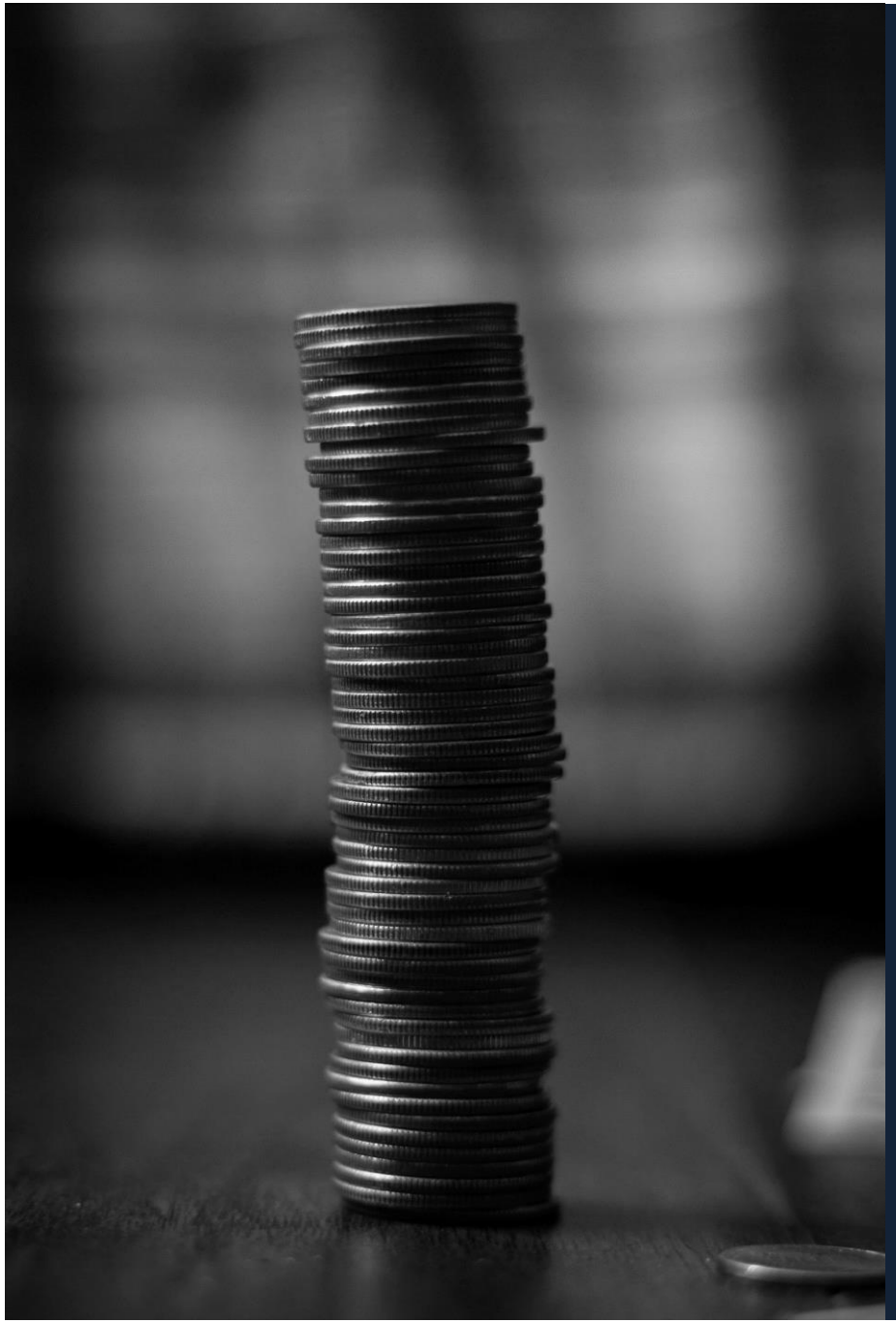
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The State of Crypto Trading Fees

July 2020



Data provided by Digital Assets Data



Introduction

Exchanges are in a unique position in the crypto industry. They enjoy a constant flow of revenue from trading fees and are more or less indifferent of how the bitcoin price behaves. Investors and traders, on the other hand, bet on the price while seeking to minimize their fees, all else equal. As a result, there is a trade-off for exchanges, the higher they set the fees, the less attractive they become… or?

How can Coinbase be one of the most popular exchanges, and at the same have the highest fee level for new customers? And why is Binance giving new customers 80% lower fees than both Coinbase and Bitstamp? Some exchanges even pay you to place a trade on their exchange.

In this report, we dive into the trading fee structures on the spot exchanges*. We discuss the difference between maker and taker fees, how these have changed over the past year and why there are such large differences in fees for new customers on the different exchanges.

We fully acknowledge that customers face several other costs related to cryptocurrency trading, but this report is dedicated to trading fees alone.

*Based on Bitwise's real volume exchanges

Summary

Significant differences

- Coinbase and Bitstamp have by far the highest trading fees.
- Most exchanges have either reduced their fees or kept them unchanged over the past year.
- Coinbase and Bitstamp have done the opposite.

A clear pattern

- The higher the volume, the lower the fees
- The difference in fees across exchanges is way higher at lower trading volumes

Battle for market shares

- Binance US is underbidding the fees of their competitors as a newcomer strategy
- ItBit is attracting customers with trading rebates
- Exchange tokens is increasingly being used to give discount

Maker and taker fees, why do they differ?

To increase the liquidity on the platform, most exchanges charge a lower fee on maker orders (limit orders)

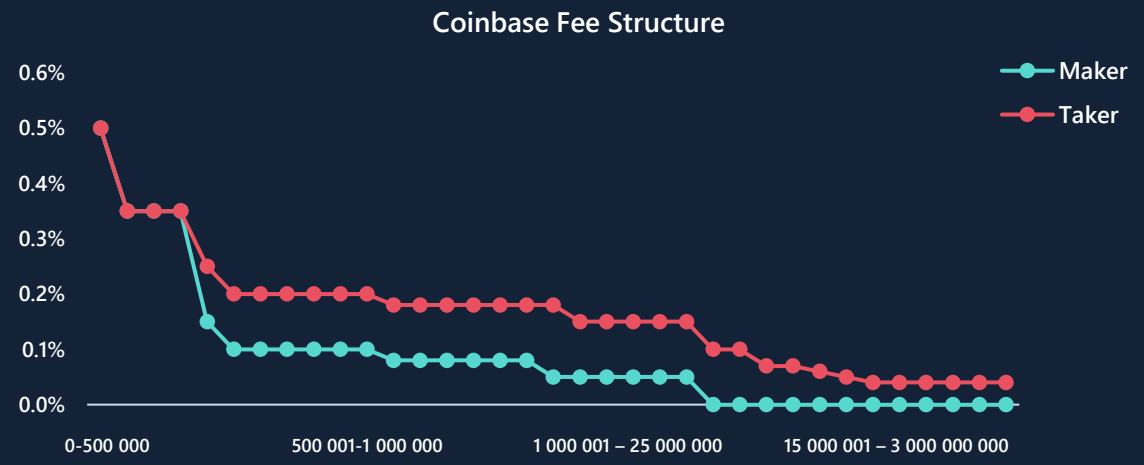
The model is based on offering different fees for the two types of traders:

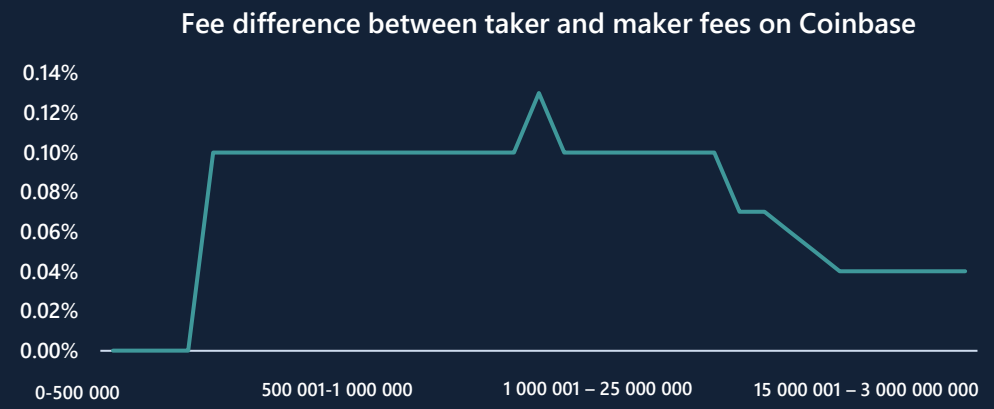
a) **The maker** – Places limit orders and provides liquidity to the order book

b) **The taker** – Initiates market orders and consumes booked liquidity by consuming orders from order book

- The maker-taker model most often offers the maker a fee rebate compared to the taker, due to the liquidity costs affiliated with placing a maker order. These costs include opportunity costs, time value of money and the fact that the market has to move against the trader in order for the trader to get his order filled as a maker.
- However, establishing an optimal maker rebate might be a demanding task for any exchange as the maker-taker difference involves a trade-off. If the difference is too large, there will be fewer takers, and as a result little trading/matching, as every order must have one maker and one taker.

In the following slides, we focus on the taker fees, for simplicity. In addition, for many retail traders, it is the taker fees that are most relevant, as the use of maker orders typically involves more advanced trading strategies.





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Taker fees

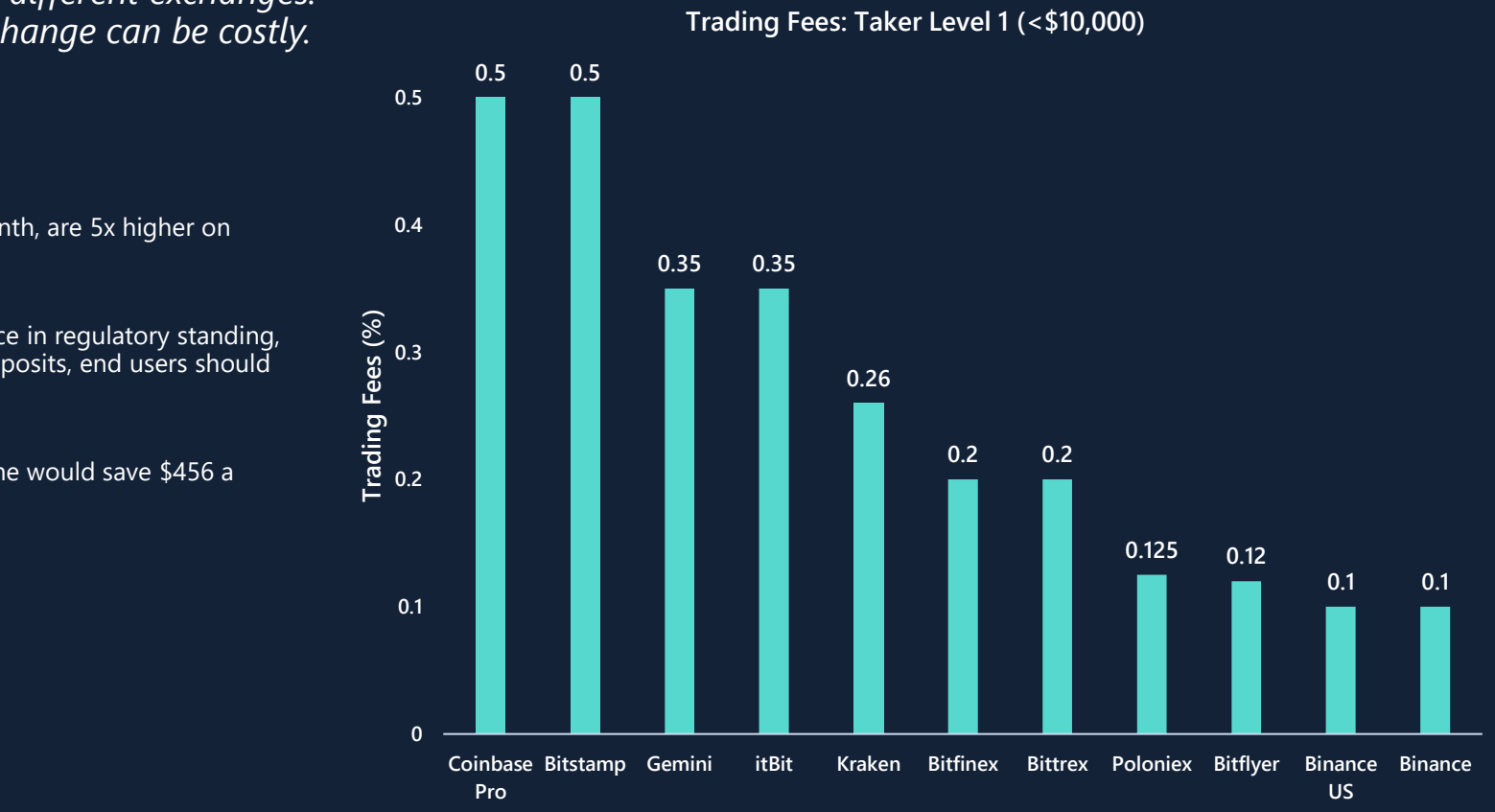
A comparison between the leading exchanges

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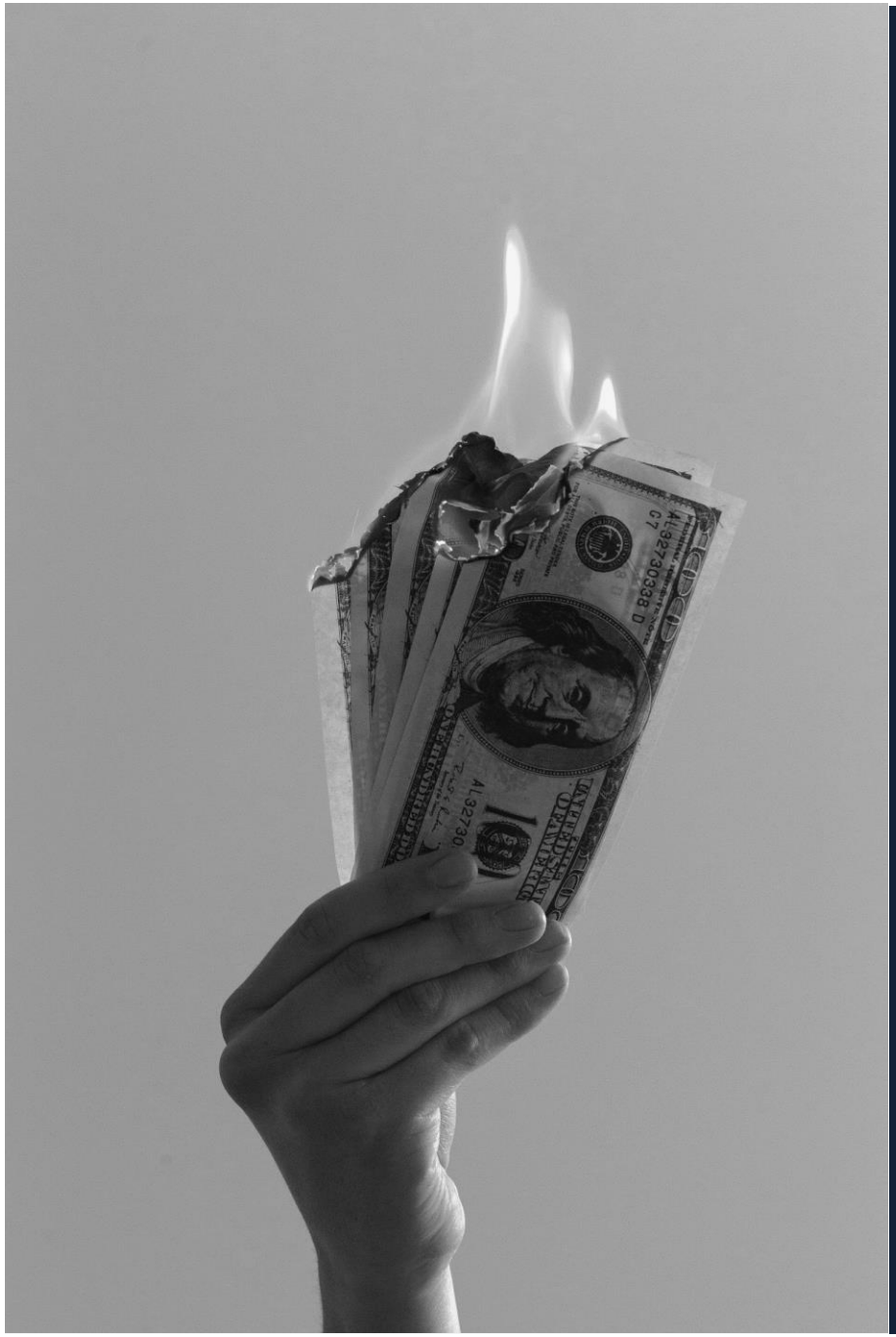
Coinbase and Bitstamp have by far the highest trading fees

There are big differences in the fees charged by different exchanges. As a small retail trader, choosing the wrong exchange can be costly.

- The taker fees for traders, trading for less than $10,000 a month, are 5x higher on Coinbase Pro and Bitstamp than on Binance.
- While some of this difference could be defended by difference in regulatory standing, track record, perceived security and direct support for fiat deposits, end users should pay attention to the fees to make sure they don't overpay.
- As an example: A trader with a $9,500 monthly trading volume would save $456 a year by switching from Coinbase Pro or Bitstamp to Binance.



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Why aren't fees the same across the exchanges?

Bitcoin is a homogeneous product exposed to a global market with relatively low barriers to entry. As a result, one could expect that competition would ensure that "the law of one price" would prevail. Yet, we see vastly different fee structures across most of the exchanges as bitcoin and cryptocurrency trading, unlike bitcoin itself, is not a homogenous product.

- **Counterparty risk:** Traders are willing to pay a premium in order to trade on esteemed exchanges with long track records
- **Flexibility:** Exchanges without fiat-pairs are less influenced by regulatory scrutiny. This makes alternative income streams more feasible and available, such as listings of new cryptocurrencies, leveraged products and derivatives trading.
- **Liquidity:** Traders are willing to pay a premium in order to trade on exchanges with deep order books and tight spreads as it leads to less friction and slippage

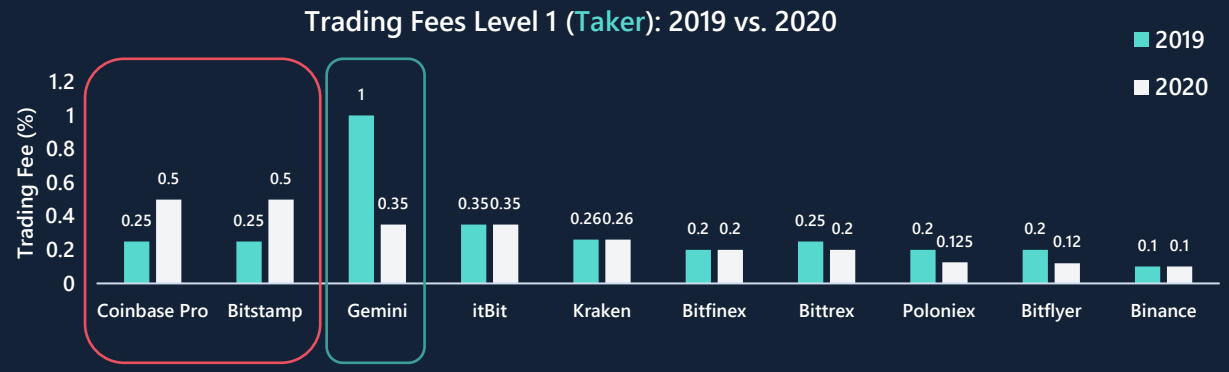
As the trading volume grows, we expect lower and more similar fees across the exchanges. Competition between exchanges will intensify, and the battle for liquidity will lead exchanges to reduce their margins in order to attract new customers. Over time we might move towards "fee-free" exchanges as seen in traditional finance. However, the "fee-free" exchanges might carry a hidden cost, where exchanges sell their order flow to market makers.

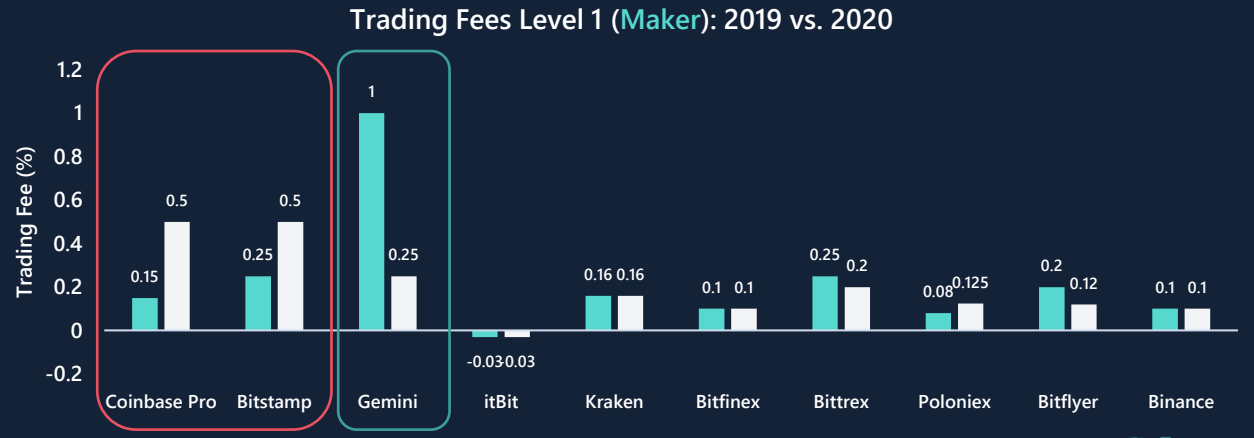
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Gemini has cut its fees with 65 pp over the past year

Most exchanges have either reduced their fees or kept them unchanged over the past year. Coinbase and Bitstamp have done the opposite.

- As shown in the charts to the right, only three exchanges have changed their fees substantially over the past year.
- Most notably, Gemini has sliced their taker and maker fees from 1% to 0.35% and 0.25%, respectively.
- At the same time, Coinbase Pro and Bitstamp has doubled both their taker and maker fees
    - Coinbase Pro has actually more than doubled its maker fees, setting them up from 0.15% to 0.5%.
- These shifts have made Coinbase Pro and Bitstamp the most expensive exchanges for smaller traders
    - In the short run, inertia may result in traders staying with Coinbase and Bitstamp, despite the price increase, and drive revenue for the companies. However, over the longer term, there is a reputational risk, especially for Coinbase that has been getting a lot of heat for other activities lately.

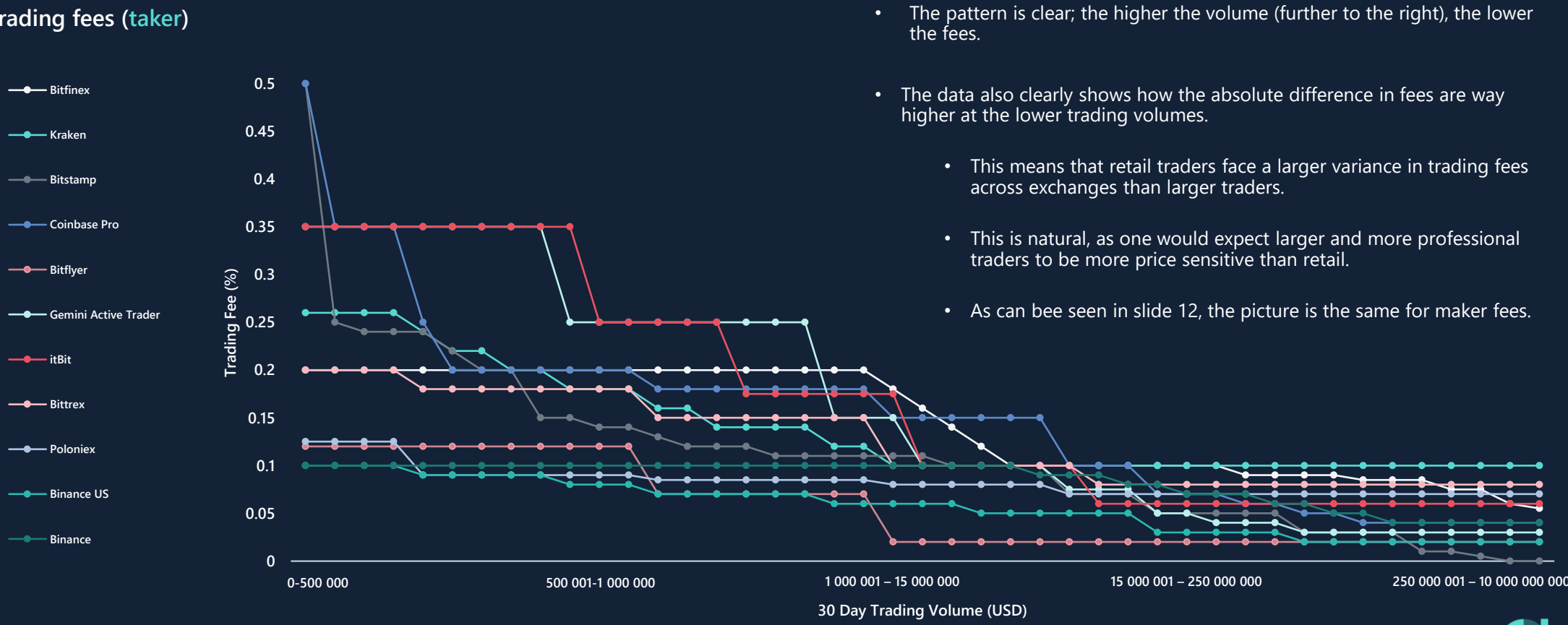




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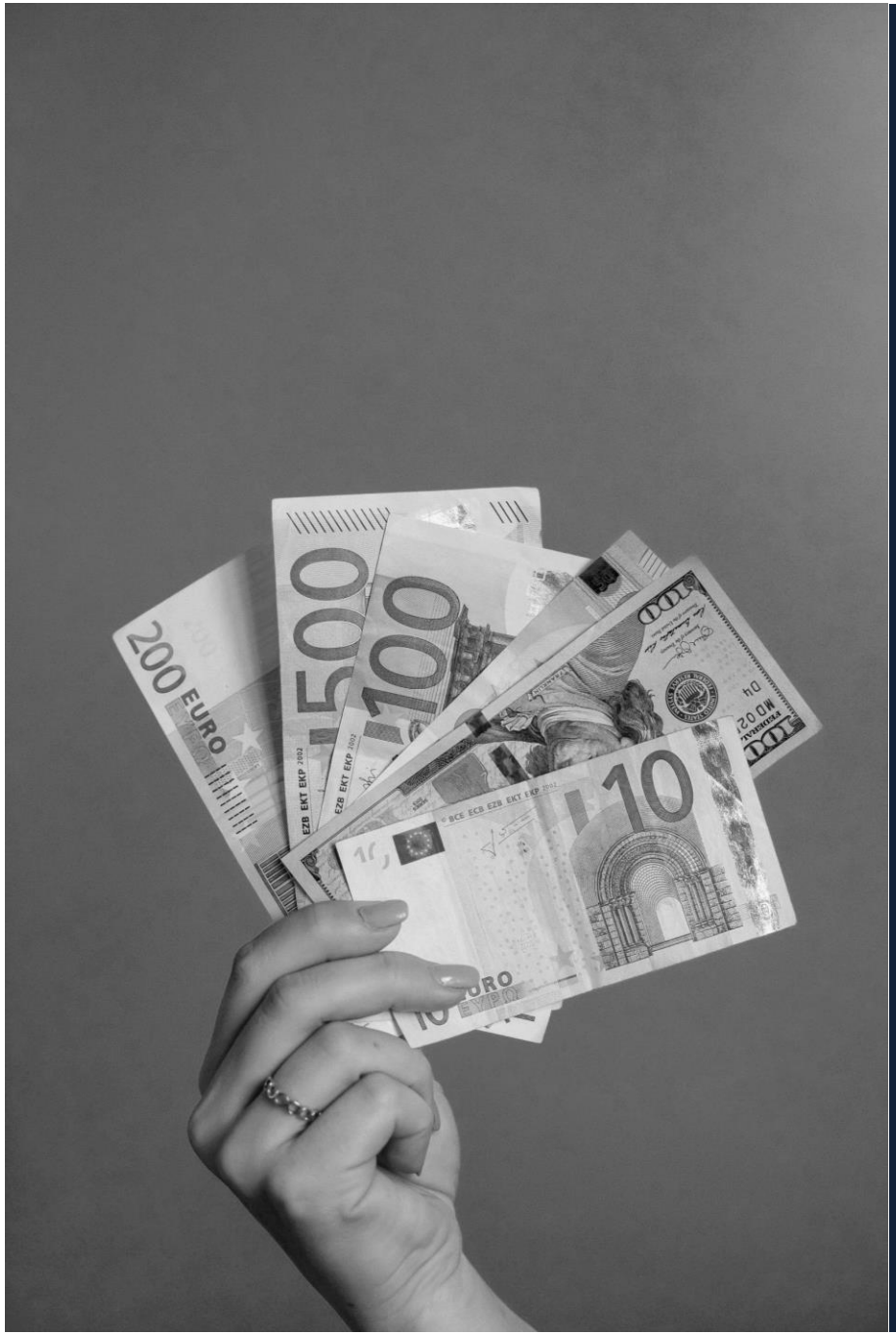
The difference in fees across exchanges is largest for the smallest traders

The chart below show the complete taker fee structure at different levels of trading activity.



- The pattern is clear; the higher the volume (further to the right), the lower the fees.
- The data also clearly shows how the absolute difference in fees are way higher at the lower trading volumes.
  - This means that retail traders face a larger variance in trading fees across exchanges than larger traders.
  - This is natural, as one would expect larger and more professional traders to be more price sensitive than retail.
  - As can bee seen in slide 12, the picture is the same for maker fees.

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Taker Overview

The trading fee structure varies across the exchanges. The fee structure may help reveal how the market perceives the various exchanges and the overall exchange strategies in terms of which type of clients the exchanges seek.

Large volume exchanges with fiat-pairs

- Coinbase and Bitstamp offers the highest initial taker fees of all the exchanges. However, at larger trading volumes the fees offered is on par with the other competitors. These exchanges offers wired fiat transfers, has a long track record and enjoys a loyal user base, which, at least in the short term, allows the high initial fees.

- Kraken left their fees unchanged, as Coinbase and Bitstamp increased their fees coming into 2020. This has led to Kraken offering the lowest taker fees (0.26%) of the three largest fiat spot exchanges, for small traders. For large traders, on the other hand, Kraken offers the least favorable taker fees of all the exchanges examined in this report.

Lower volume exchanges with fiat-pairs

- Binance US and BitFlyer offers the lowest initial taker fees among the fiat-supported exchanges at 0.1% and 0.12%. This is significantly lower than the other exchanges, but both exchanges carries a larger additional bid/ask spread than some of the competitors.

- The Gemini and ItBit fees are on the higher end of the fee spectrum. A flat rate of 0.35% in taker fees are offered up until the monthly trading volume reaches $400.000. The fees also remain relatively high in the volume tiers following $400.000.

Exchanges without fiat-pairs

- Binance and Poloniex holds some of the lowest initial fees at 0.125% and 0.1%. Being strictly based on stablecoin pairs is an advantage due to less regulatory friction, faster trade executions and lower custodial costs. This helps making the low fees sustainable. It might also be needed to attract customers that would need to set up with another exchange as their fiat-on-ramp.

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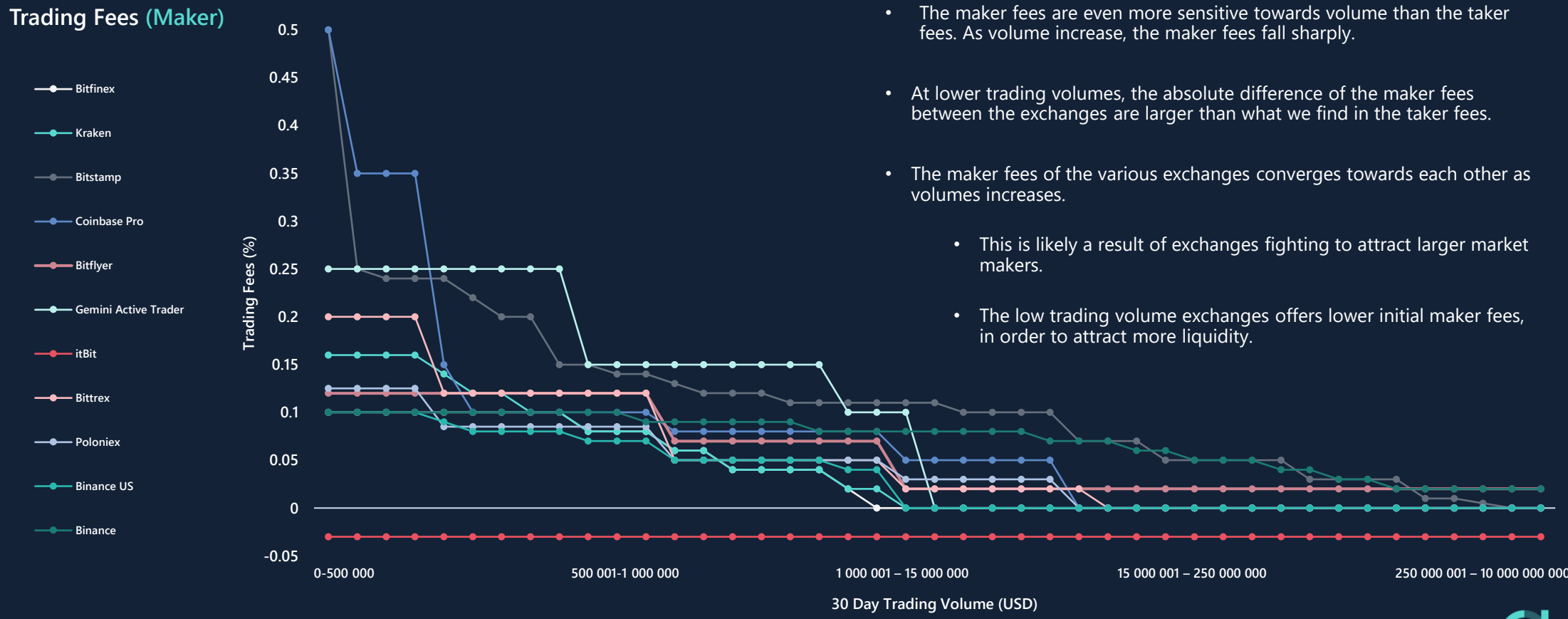
Maker fees

A comparison between the leading exchanges

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Overview of maker fees on the different exchanges

The chart below show the complete maker fee structure at different levels of trading activity.



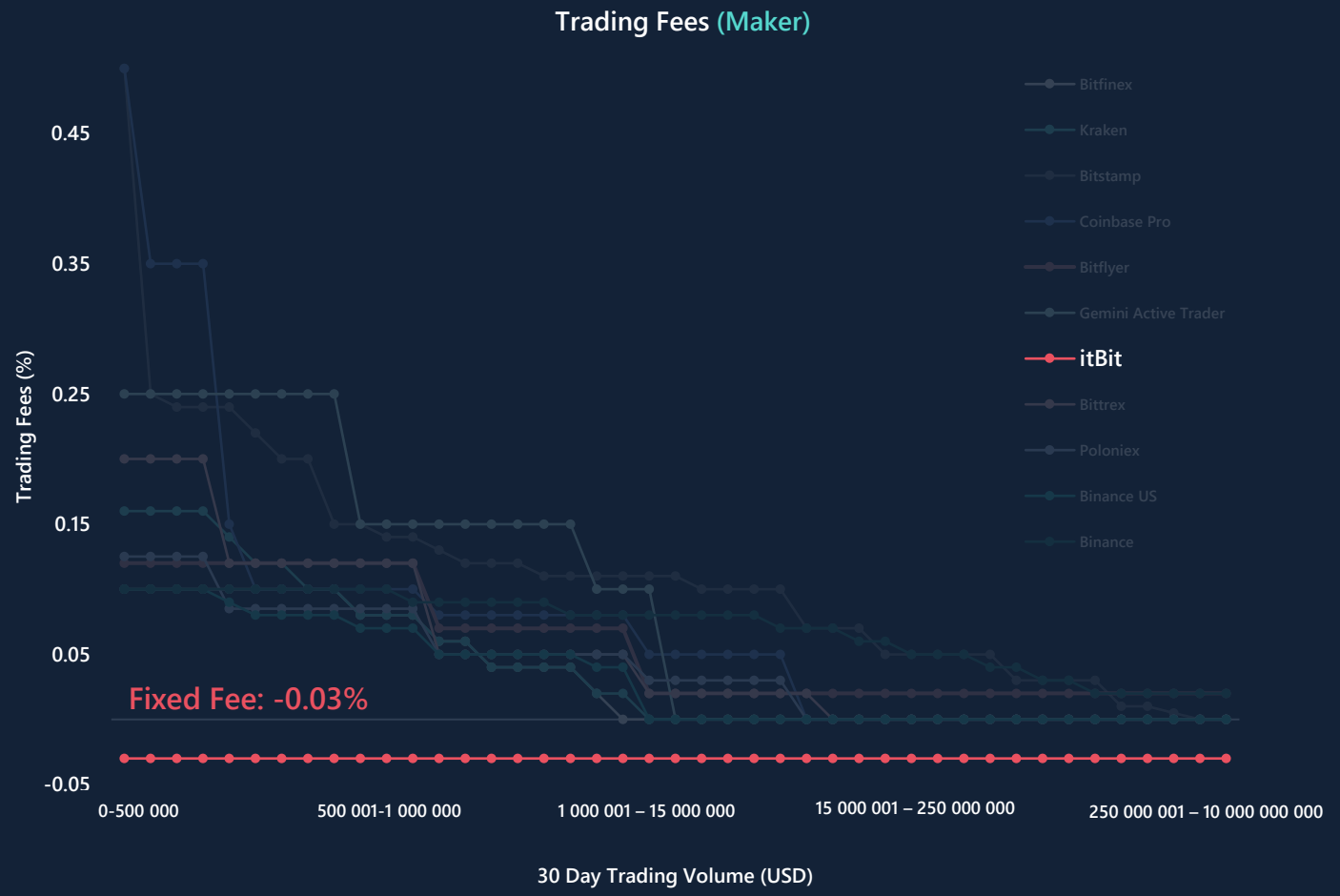
- The maker fees are even more sensitive towards volume than the taker fees. As volume increase, the maker fees fall sharply.
- At lower trading volumes, the absolute difference of the maker fees between the exchanges are larger than what we find in the taker fees.
- The maker fees of the various exchanges converges towards each other as volumes increases.
    - This is likely a result of exchanges fighting to attract larger market makers.
    - The low trading volume exchanges offers lower initial maker fees, in order to attract more liquidity.

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Attracting customers with trading rebates

***ItBit** is the only exchange that offers negative maker fees and essentially pays customers to place trades and fill up the order book.*
Any users – from individuals to institutions – can take advantage of the same rebates.

- While most exchanges have special agreements with market makers to provide liquidity and ensure a well-working trading environment for customers, ItBit has gone for a rather unusual approach by inviting anyone to participate.
- ItBit says that this ensures a deep liquidity pool but has also stated that the initiative was started to attract new business and increase their market share.
- Yet, the taker fees for this exchange are definitely among the highest together with Gemini, charging 0.25% all the way up to the $3 million/month level.
- While the trading rebates have grown Itbit's market share and volume according to their general manager, the exchange is currently the spot exchange in this analysis with the lowest daily trading volume, struggling to gain market shares.



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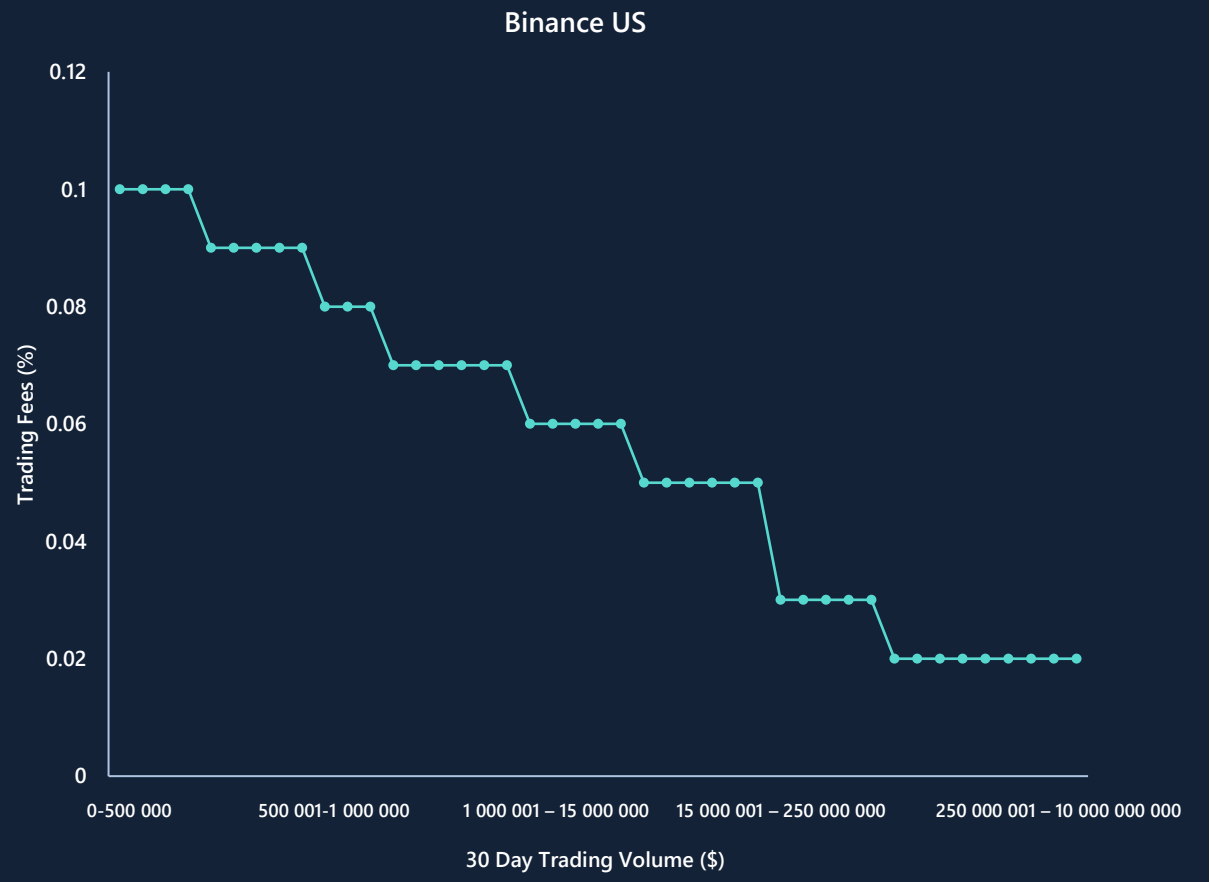
Price competition and exchange tokens

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Chasing market shares by underbidding competitors

Arriving late to the party, Binance US seeks to win market shares through competitive pricing.

- Binance has been the leading exchange in terms of trading volume the last year, but due to regulatory difficulties they have failed to establish themselves on the American market. In September 2019 Binance launched a US trading platform enabling US customers to trade crypto for fiat through Binance US.
- In order to win market shares Binance US has been forced to run an aggressive pricing strategy, offering low trading fees in hopes of gaining new investors.
- Binance US is by far the cheapest fiat platform in terms of maker-taker fees in the industry. With its initial taker fees at 0.1%.
- The bid/ask spread however is significantly higher on Binance US than its US competitors. If Binance US succeeds in attracting new investors this spread should tighten.



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Exchange tokens gaining traction

Several leading exchanges have launched their own utility token. Customers receive a favorable discount when these tokens are used to pay for trading fees.

- The tokens are structured to increase in value as the exchanges see more demand, with repeating token burns. Binance's BNB token is the largest one today, giving customers a 25% discount on trading fees from the first trade.
- BNB Token was created by Binance in 2017 and has completed quarterly token burns since October 2017, with the last one burning BNB tokens worth approx. $50 million. The token started as an ERC-20 token but moved to the Binance Chain after the launch in April 2019.
- Shortly after BNB's launch, Bitfinex followed suit with their UNUS SED LEO token. This gives a 15% to 25% discount depending on the amount of tokens the user holds, along with the type of trade executed on Bitfinex.
- Poloniex is another exchange that operates with a fee discount from token usage, as Tron's TRX token was introduced as a fee payment option recently. This is likely a result of Justin Sun's involvement, as he is the founder of Tron and was a part of the investor group that acquired Poloniex from fintech firm Circle last year.

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