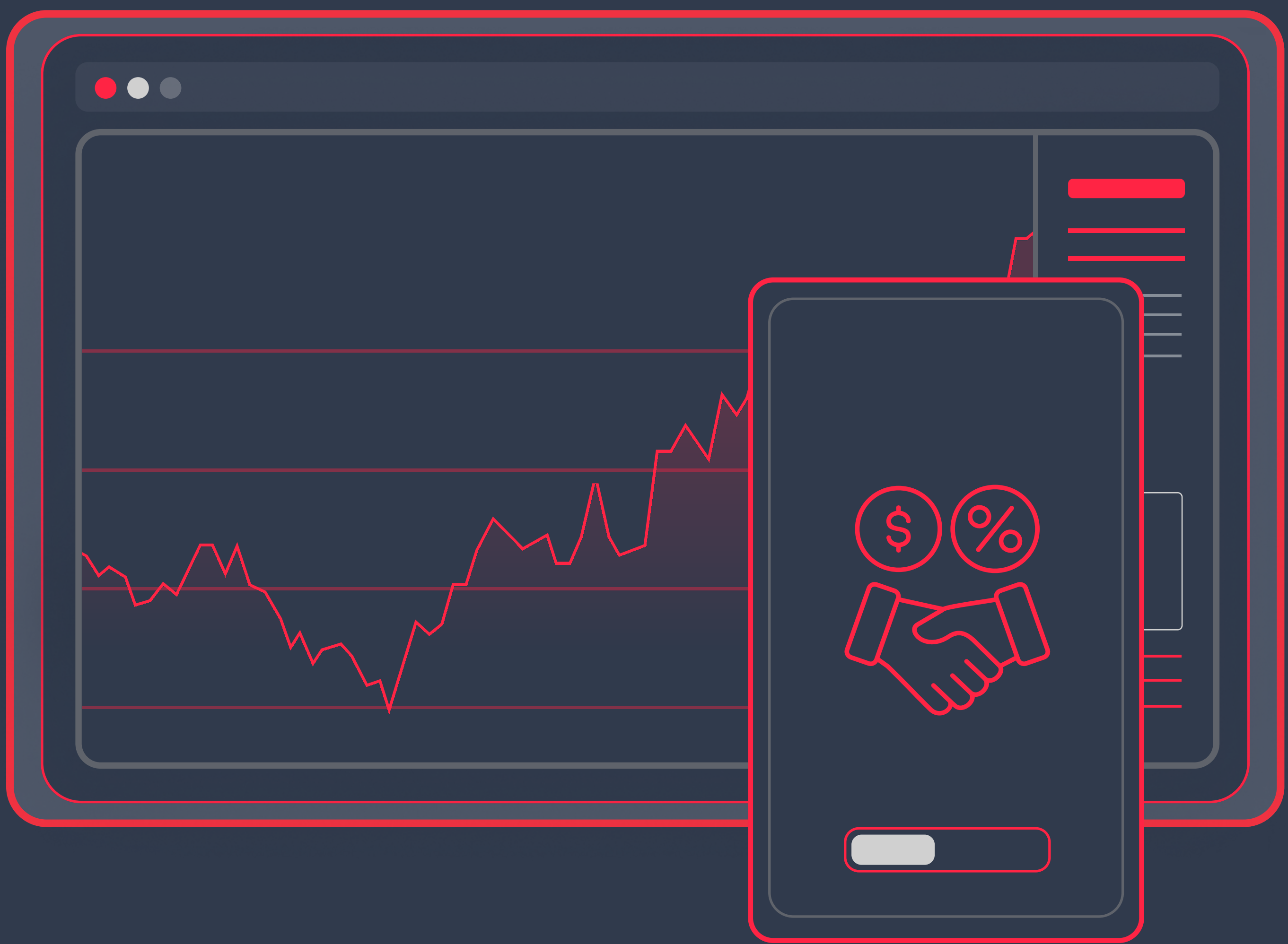
How Do Crypto Asset Exchanges Make Money?



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Introduction

Digital assets like cryptocurrencies have significantly reshaped our financial system for the better. By enhancing transparency and removing traditional barriers to entry, digital assets can improve access to essential financial services. At the same time, centralized crypto exchanges have also become critical parts of this constantly evolving ecosystem.

There are more than 23,000 cryptocurrencies available in the world, and crypto exchanges are essential for facilitating their transactions. However, as the market grows, so too will the need for even more crypto exchanges.

That's why, in this whitepaper, we're exploring how these billion-dollar revenue-generating crypto-asset exchanges make money. Using anonymized data from AlphaPoint's customer base and data from leading brands, this whitepaper is your essential resource to learn the hidden workings of this business model.

What The Marketplace Platforms Make

How Traditional Exchanges Make Money

Traditional financial exchanges such as Nasdaq and the New York Stock Exchange (NYSE) make their money through a variety of mechanisms. Transaction & listing fees are at the heart of their income and are charged for each trade executed or listed on their platforms. For the NYSE, in particular, these fees are comprised of an application fee, an initial listing fee, and annual fees.

NASDAQ & NYSE Fee Comparison

Exchange	Listing Fee	Application Fee	Annual Fees
NASDAQ	$270,000 - $290,000	$25,000	$52,500 - $182,500 [1]
NYSE	$300,000	$25,000	$80,000 - $500,000 [2]

For many exchanges, trading and listing fees are typically structured based on the volume of the transactions, providing a steady income stream for the exchange as the company continues trading.

[1] Up to 10 million shares: $52,500
10+ to 50 million shares: $65,500
50+ to 75 million shares: $85,000
75+ to 100 million shares: $113,500
100+ to 125 million shares: $141,500
125+ to 150 million shares: $157,500
Over 150 million shares: $182,500
Source: NASDAQ-5900 series rulebook

[2] Indicates the total fees that may be billed in a calendar year
Source: Baker McKenzie: Cross-Border Listings Guide.

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NASDAQ Q4 - 2023 Results						
(US$ millions, except per share)	Q4-23	Change (YoY)	Organic Change (YoY)	2023	Change (YoY)	Organic Change (YoY)
Solutions Revenues	$860	32.3%	8.9%	$2,869	12.7%	6.8%
Market Services Net Revenues	$247	0.8%	0.4%	$987	(0.1)%	0.3%
Net Revenues	$1,117	23.3%	6.5%	$3,895	8.7%	5.0%
ARR	$2,585	29.2%	5.8%	$2,585	29.2%	5.8%
GAAP Diluted EPS	$0.36	(25.0)%		$2.08	(8.0)%	
Non-GAAP Diluted EPS	$0.72	12.5%		$2.82	6.0%	

Source: NASDAQ

Coinbase Fourth Quarter and Full-Year 2023 Results							
Total Revenue ($M)	Q4-22	Q1-23	Q2-23	Q3-23	Q4-23	FULL YEAR 2022	2023
Transaction Revenues							
Consumer, net	308.8	352.4	310.0	274.5	492.5	2,236.9	1,429.5
Institutional, net	13.4	22.3	17.1	14.1	36.7	119.3	90.2
Total transaction revenue	**322.1**	**374.7**	**327.1**	**288.6**	**529.3**	**2,356.2**	**1,519.7**
Subscription and Serivces Revenue							
Stablecoin revenue	145.7	198.9	151.4	172.4	171.6	245.7	694.2
Blockchain rewards	62.4	73.7	87.6	74.5	95.1	275.5	330.9
Interest income	36.5	41.9	50.0	39.5	42.6	81.2	173.9
Custodial fee revenue	11.4	17.0	17.0	15.8	19.7	79.8	69.5
Other subscription and services revenue	26.7	30.1	29.4	32.3	46.5	110.3	138.3
Total subscription and services revenue	**282.8**	**361.7**	**335.4**	**334.4**	**375.4**	**792.6**	**1,406.9**

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Net Revenue	**604.9**	**736.4**	**662.5**	**623.0**	**904.6**	**3,148.8**	**2,926.5**
Corporate interest and other income	24.2	36.1	45.4	51.1	49.2	45.4	181.8
Total revenue	629.1	772.5	707.9	674.1	953.8	3,194.2	3,108.4

Source: Coinbase Shareholder Letter: Q4-2023

Full-Year and Fourth Quarter Results for the Intercontinental Exchange (parent company of NYSE)						
$ (in millions)	Net Revenue	Op Margin	Adj Op Margin	Net Revenue	Op Margin	Adj Op Margin
	Full Year 2023			4Q23		
Exchanges	$4,440	71%	73%	$1,136	70%	72%
Fixed Income and Data Services	$2,231	36%	44%	$563	36%	43%
Mortgage Technology	$1,317	(21)%	39%	$502	(15)%	39%
Consolidated	**$7,988**	**46%**	**59%**	**$2,201**	**42%**	**57%**
	FY23	**FY22**	**%Chg**	**4Q23**	**4Q22**	**%Chg**
Recurring Revenue	$4,138	$3,721	11%	$1,199	$940	28%
Transaction Revenue, net	$3,850	$3,571	8%	$1,002	$828	21%

Source: Intercontinental Exchange Full Year 2023 Results

In addition to the transaction and listing fees, traditional exchanges also sell market data and analytics to traders, investors, and other financial institutions.
Data has become an increasingly lucrative commodity in recent years with the rise of algorithmic trading and the growing demand for real-time data.

How Crypto Exchanges Make Money

As described by Smart Valor — the only European cryptocurrency exchange listed on NASDAQ — cryptocurrency exchanges are platforms where buyers and sellers meet to exchange crypto. Much like in traditional finance (TradFi) institutions, crypto exchanges make money from charging users fees for their services. At the very least, exchanges will charge marker and taker fees depending on transaction volumes eloquently.

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Some exchanges will also provide additional services that enable users to access real-time market insights or migrate/transact across different blockchains, as well as many other services and solutions. For example, in Q2 2023, Coinbase generated $17m USD in custodial fees, $87.6m from blockchain rewards, $29.4m in additional subscription/services revenues, and $201.4m in interest from its assets.

Cryptocurrency exchanges are pivotal in facilitating digital asset transactions and employing diverse strategies to generate revenue. Below are some of the ways that crypto exchanges make money:

Trading fees:

Also known as "maker and taker fees", trading fees constitute a significant portion of an exchange's income. Exchanges use trading volume to create different tiers and charges for makers and takers based on their trading volume and the transaction type. While both the maker and taker pay fees for their transactions, makers tend to pay less as they are the party responsible for creating the market.

Cryptocurrency trading platforms structure their fee schedules to incentivize high-frequency trading and significant transaction volumes, often surpassing thousands of dollars. As a trader's trading volume over a 30-day period rises, the applicable fees typically reduce.

Taking Coinbase as an instance, traders with a monthly trading volume below $10,000 are subject to maker and taker fees of 0.60% and 0.40%, respectively. Conversely, for trading volumes exceeding $10,000, the fees diminish progressively in accordance with the trader's volume.

The initial four fee tiers provided by Coinbase are detailed as follows:

- For trading volumes ranging from $0 to $10K, the taker fee is 0.60%, and the maker fee is 0.40%.
- Trading volumes between $10K and $50K are charged a taker fee of 0.40% and a maker fee of 0.25%.
- Those between $50K and $100K incur a taker fee of 0.25% and a maker fee of 0.15%.
- For volumes between $100K and $1M, the taker fee is 0.20%, and the maker fee is 0.10%.

Traders contributing as makers pay reduced fees in higher tiers, owing to their role in enhancing market liquidity, which is critical for the continuous operation of exchanges. Although some platforms may still implement a per-transaction fee, the majority, including Coinbase, have adopted a mixed fee structure that adjusts based on trading volume.

Withdrawal fees:

A critical revenue stream, withdrawal fees are imposed when users move assets out of the exchange, reflecting the cost of blockchain network transactions.

Listing fees:

New cryptocurrencies seeing exposure and liquidity through listing on an exchange may be required to pay a listing fee. These fees can vary widely depending on the exchange's market prominence, the potential trading volume of the new currency, and the value that the coin offers to the exchange's ecosystem.

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Market Making:

Some exchanges engage in market making, providing liquidity to their order books by placing buy and sell orders. This activity allows exchanges to profit from the bid-ask spread.

Staking and lending:

This service allows users to earn interest on the crypto holdings through proof-of-stake mechanisms or by lending their assets to other traders. The exchange earns money by taking a portion of the interest paid.

Custody fee:

A custody fee is a charge for holding and safeguarding investment assets. Crypto exchanges charge custody fees to cover the operational and security costs associated with the storage of crypto.

Rate Arbitrage:

Also known as rate arbitrage, this refers to the practice of profiting from price discrepancies of the same cryptocurrency across different exchanges. Exchanges themselves can (and often do) engage in arbitrage to earn profits directly, generating revenue through the trading fees associated with the increased volume.

Fiat Conversion fees:

For exchanges that facilitate the conversion of fiat currencies (e.g., USD, EUR, or JPY) and cryptocurrencies, fees are often charged for depositing, withdrawing, or converting funds.

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Margin and Derivative lending:

Through this service, crypto exchanges allow traders to borrow money or crypto to engage in leveraged trading. Exchanges make money from this form of lending from the interest on the loans and fees associated with these services, thereby increasing liquidity and trading activity on their platform, which in turn can lead to higher overall trading fees.

Primary Issuance fees:

Many crypto exchanges will offer or mandate insurance coverage for assets on their platform. Typically, this fee will be used to cover insurance premiums, which in turn provides an additional layer of financial security against losses due to operational risks (hacking, fraud, etc).

Complementary Services:

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In essence, cryptocurrency exchanges have crafted a comprehensive revenue model that leverages the multifaceted nature of digital asset trading and management, ensuring their growth and sustainability in the rapidly evolving cryptocurrency market.

Key Takeaways

- Similar to TradFi institutions, cryptocurrency, and other digital asset exchanges make money by charging fees to customers who use their services.
- While the charges vary between platforms, exchanges will charge marker and taker fees depending on transaction volumes.
- Users may also incur additional fees from services or products centered on improving their access to market news, traders, or alternative financial services organizations. These additional services can act as a vital USP between exchanges while also surpassing revenues from exchanges' core business functions.

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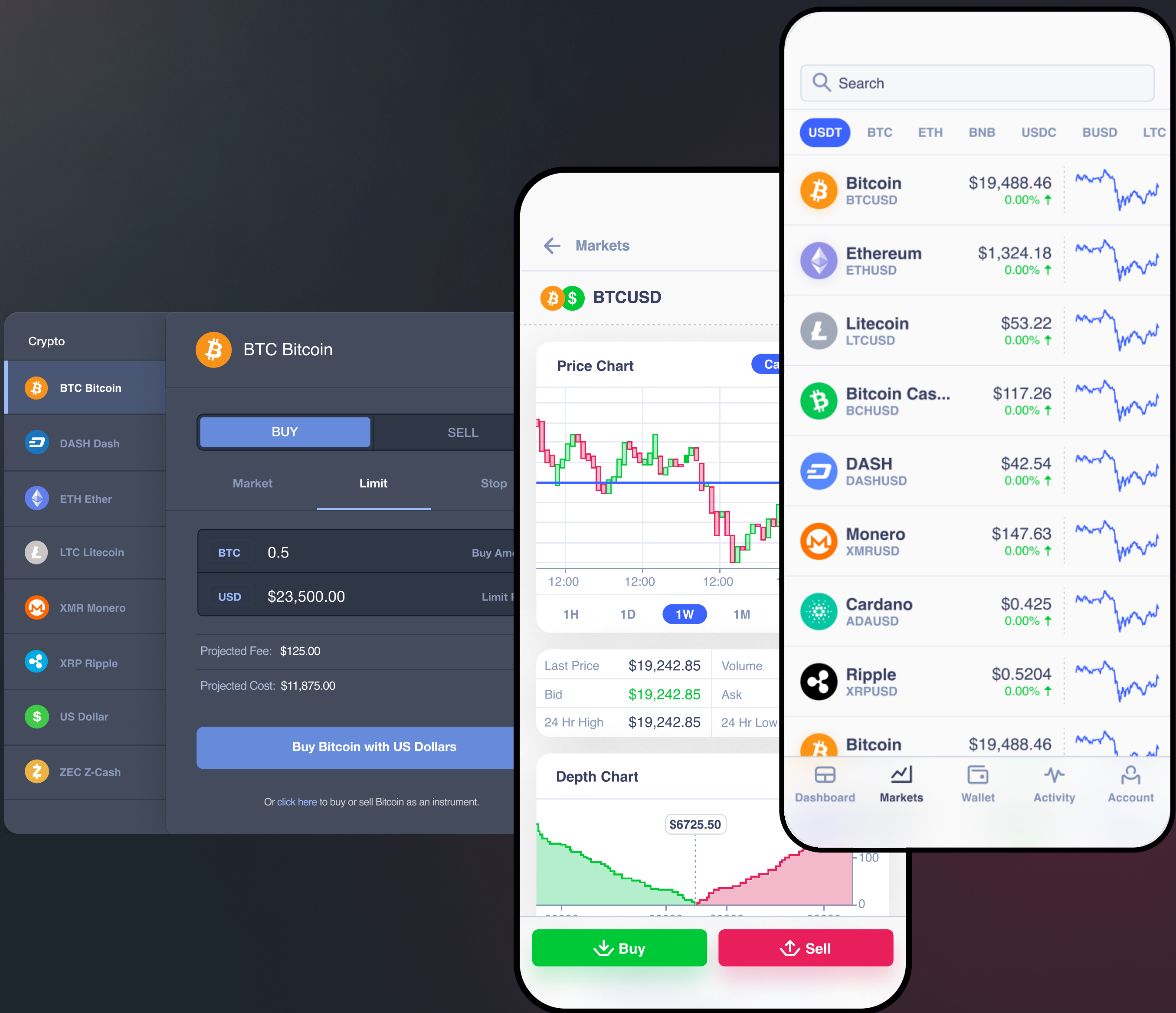

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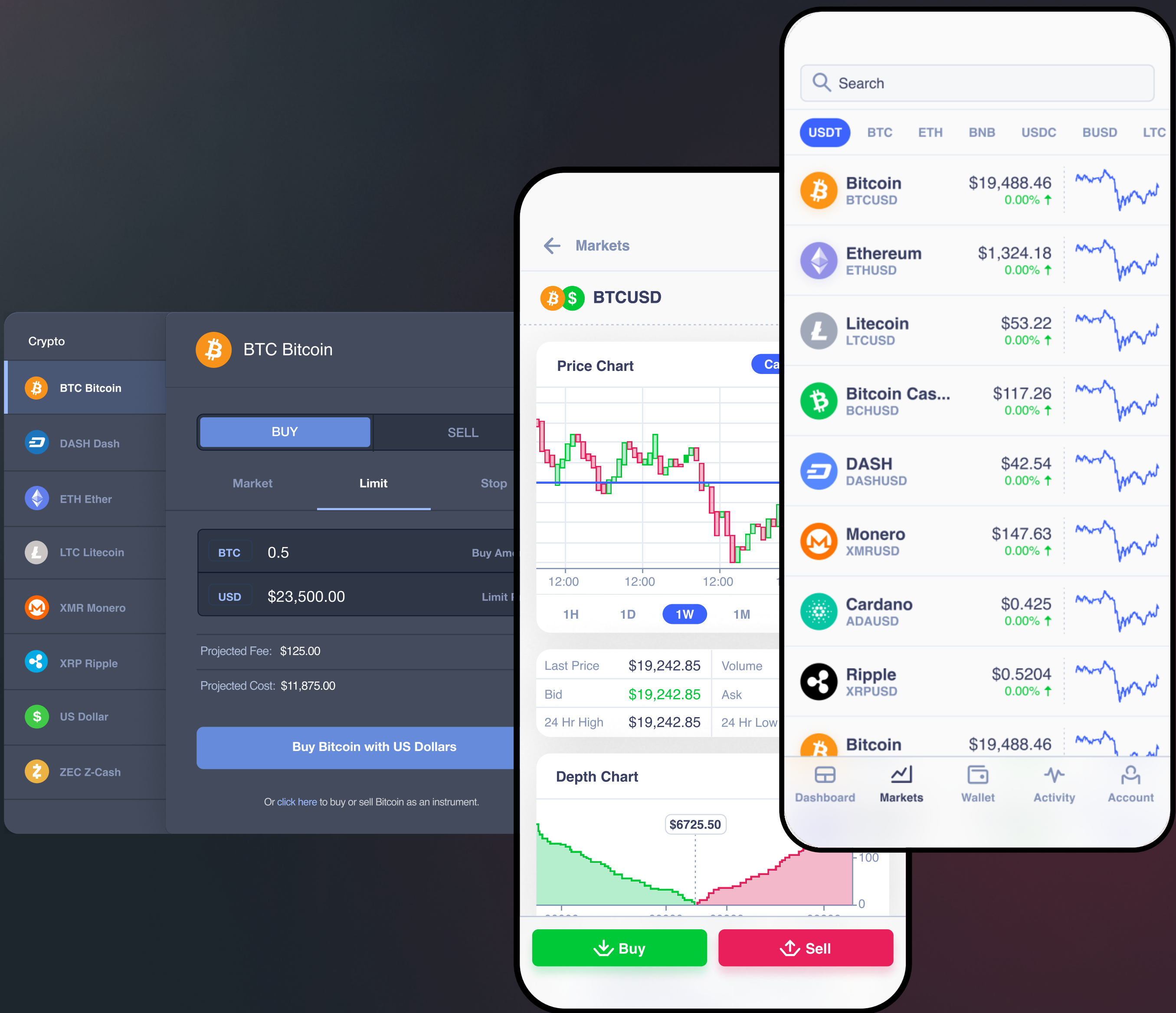

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