CRYPTOCURRENCY EXCHANGE

Our definitive guide to cryptocurrency exchanges

COIN RIVET

Independent British blockchain and crypto news

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WHAT IS A CRYPTOCURRENCY EXCHANGE?

If you've dabbled with investing in one form or another, you're probably familiar with the concept of an exchange. Entities such as stock exchanges and foreign currency exchanges allow customers to trade their stock or currency for other assets.

On stock exchanges, you typically have the opportunity to convert between shares of stock and fiat money. Through foreign currency exchanges, you can convert your money from one nation's fiat currency to another. A cryptocurrency exchange works in a similar way. A cryptocurrency exchange, or digital currency exchange (DCE), is an online platform that allows you to buy and trade cryptocurrency or digital currency, then sell it to convert it back to fiat money. These exchanges will either take a commission or simply charge usage fees for their service.

How an exchange works

A cryptocurrency exchange is usually programmed to accept your digital buy and sell orders (along with price and quantity), waits for your order to be met by a buyer or seller on the other end, completes the trade, and then updates your on-exchange holdings. This is all achieved without human brokers.

Another of the unique aspects of cryptocurrency exchanges is the ability to exchange one cryptocurrency directly with another. This is something you can't do with stocks, where you'd need to liquidate shares to fiat money before using those funds to buy new stock shares. Be aware though that you won't necessarily be able to trade one cryptocurrency with all other cryptocurrencies under the sun.

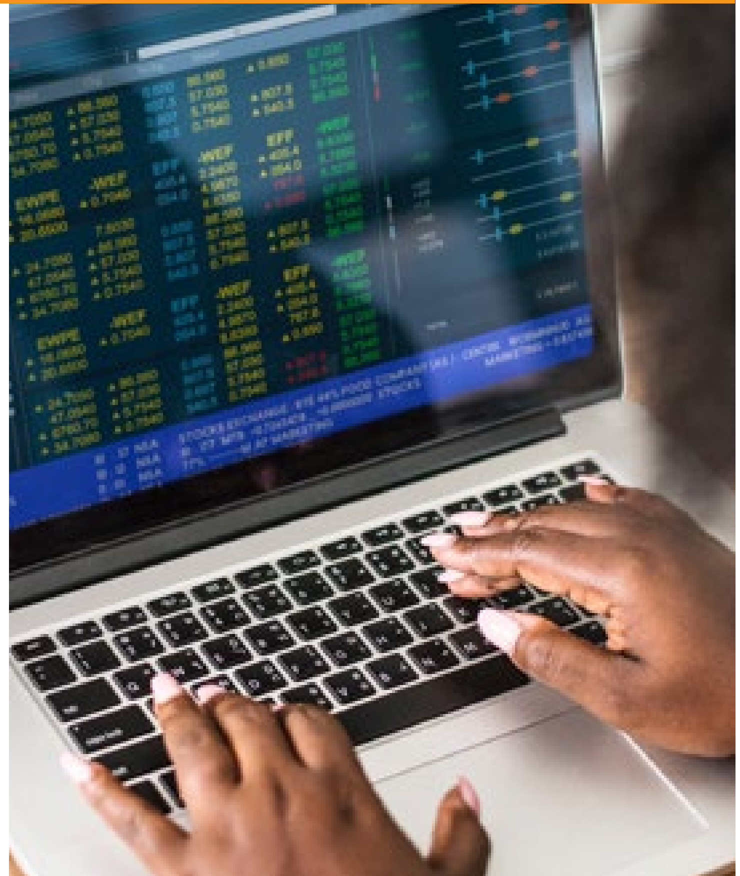
Typical pairings available on cryptocurrency exchanges

The types of conversions possible all come down to what pairings are available on the exchange you're using. An exchange may have multiple trading pairs for Bitcoin (BTC) such as:

- BTC to US dollars (BTC/USD)
- BTC to Ethereum (BTC/ETH)
- BTC to several other altcoins

If you currently hold BTC, but actually want ETH, you can trade directly from BTC to ETH via the BTC/ETH pairing. This is more efficient and less costly than trading from BTC to fiat money to ETH.

Altcoins typically have fewer trading pairs than the most popular cryptocurrencies, but this level of flexibility is still one to consider when choosing a cryptocurrency exchange to use.



DECENTRALISED VS CENTRALISED CRYPTO EXCHANGES

All cryptocurrency exchanges involve the exchange of some type of fiat currency into cryptocurrency (and vice versa). Some exchanges are compatible with different fiat currencies and cryptocurrencies, and others vary by language, transaction limits, or fees.

There are two types of exchanges: centralised and decentralised.

Centralised exchanges explained

A cryptocurrency exchange is usually programmed to accept your digital buy and sell orders (along with price and quantity), waits for your order to be met by a buyer or seller on the other end, completes the trade, and then updates your on-exchange holdings. This is all achieved without human brokers.

If you have any experience in this area, you're probably much more familiar with centralised exchanges than decentralised ones. The most popular cryptocurrency exchanges in use today are centralised exchanges such as Coinbase, Gemini and Binance.

When using a centralised exchange, your funds are held in a wallet until your trade order is complete. You can place buy or sell orders and these orders are matched by the exchange before funds are transferred. On a centralised exchange each of these transactions occurs seemingly instantaneously, but there is no blockchain-based record of their occurrence. Everything is kept off-chain and within the exchange itself.

Similarly, the private key for your wallet is kept on the exchange. The exchange takes control of your funds while adjusting your account balance to reflect any trades, deposits, or withdrawals. On a centralised exchange, you trust the exchange to protect your funds and accurately represent your account balance.

Decentralised exchanges explained

Decentralised cryptocurrency exchanges can **reduce transaction fees and unite willing buyers and sellers** by taking power from the hands of large, for-profit entities. Instead, control and privacy is put in your hands, and the hands of all other users.

Decentralised exchanges run on a blockchain. Instead of syndicating buy and sell orders to match willing buyers and sellers in a non-transparent, off-chain system, a truly decentralised exchange settles orders in a transparent, on-chain manner that enables more secure, peer-to-peer (P2P) transactions. The exchange simply serves as a routing layer. Trades happen directly between traders' wallets and the exchange never touches your crypto assets.

Limitations of a decentralised exchange

It may seem like decentralised exchanges are the obvious frontrunners for your cryptocurrency trading needs, but they still lag behind centralised exchanges in terms of usage and functionality. Before we get to a point of total decentralised exchange adoption there are a few issues that need to be resolved, including usability, functionality and trading volume.

One of the **first hurdles to decentralised exchange adoption** is usability. Decentralised exchanges are unlike anything most of us have ever used, whereas centralised exchanges provide familiar experiences with their account-based structure. The exchanges require users to manage their own private keys and navigate unintuitive, limited user interfaces. As a result, beginners and new investors are opting for centralised exchanges as they're familiar and easier to use.

Since they offer significantly less functionality and trade volume at this time, decentralised exchanges are not yet the right fit for many traders. Buy and sell orders are notoriously limited on these types of exchanges, so you may face liquidity issues and low transaction volume.

As time goes on, however, we can expect decentralised exchanges to become more simple and clean-cut, rising in popularity. After all, cryptocurrency has been designed to be fully decentralised. While centralised exchanges may be winning today's exchange popularity contest, decentralised exchanges are the future.

ARE EXCHANGES SAFE TO USE?

One of the most critical blockchain features is the ability to take your fate into your own hands and control everything you own. This was the intention of the original cryptocurrency, Bitcoin.

However, by using a centralised exchange, you give away the privileges of privacy and control as a third party can access your private key.

As a trader using a centralised exchange, you must rely on the exchange to act as a middleman when handling your assets – much like a bank acts as a middleman when holding your money and carrying out transactions.

Storing your coins on a centralised exchange revokes any security benefits you'd gain by using cryptocurrency. If you choose to store your coins on a centralised exchange, you'll need to place full faith in your exchange of choice to keep your private key safe and make sure your crypto assets don't disappear.

The threat of cybercrime

Multiple centralised exchanges have been hacked in the past (**and the cryptocurrency equivalent of billions of dollars have been stolen**), so the bottom line is that storing your cryptocurrency on a centralised exchange can't be considered 100% safe.

It's worth noting however that more established centralised exchanges are taking steps to increase security, with Coinbase offering insurance of up to £250,000 in the event of a hack. This increased security does come with higher transaction costs, but if you're particularly concerned about security you may think it's worth it for peace of mind.

Centralised exchanges have huge targets on their back due to the value stored on their platforms. Cyber criminals are on standby to hack exchanges, an activity that has caused monumental losses for many investors.

Should you hold your cryptocurrency on an exchange?

With so many stories in the news about 51% attacks, hacks and glitches, you'd be right to ask whether you should **hold your crypto assets on an exchange at all**. With safer alternatives to exchanges such as hard wallets and cold storage, some people argue that you should keep your cryptocurrency off exchanges to achieve maximum security.

Education and research is the key to choosing the right type of exchange for your requirements. And it's not all bad news when it comes to exchanges. Cryptocurrency exchanges based in the UK, for example, have been deemed low risk.

TOP FIVE CRYPTOCURRENCY EXCHANGES

With a wealth of competitors in the space it can be a daunting task to choose which cryptocurrency exchange is best for you. It's always important to consider market fees, volume, liquidity and the security protocol at each specific exchange. Below, we outline the top five exchanges you could use.

Bitfinex

Starting off the list is **Bitfinex**, who have cemented themselves as one of the leading Bitcoin and cryptocurrency exchanges over the past six years, offering high-liquidity to both retail and institutional investors. Their slick user interface complements their spot and margin trading platform, which facilitates an average of between $2.5 billion and $10 billion weekly volume.

It's also worth noting that there is a $10,000 minimum deposit to open an account at Bitfinex, but that can be withdrawn without losing access to the exchange.

Gemini

The Winklevoss twins launched the US-based digital asset exchange Gemini in 2015, earning plaudits from industry peers after becoming the first licensed Ethereum exchanged based in the United States. Gemini continued to abide by the Securities and Exchange Commission's rule book, with Reuters reporting that they would be utilising NASDAQ's SMARTS technology to monitor trades, combatting price manipulation and fraudulent activity.

Gemini is open to both retail and institutional investors, offering Bitcoin, Ethereum and Zcash pairs with USD, which can be deposited and withdrawn on the site.

Binance

Binance CEO Changpeng Zhao rose to cryptocurrency stardom in 2017, rapidly growing the Hong Kong-based exchange to a point where a couple of million new users were signing up every week. The exchange has a broad range of cryptocurrency pairs available to trade, boasting over 380 pairs as well as $32 million backed stablecoin TrueUSD.

Bitmex

Bitmex is a derivatives market that offers perpetual swap and Bitcoin futures that can be traded with up to 100x leverage. Because of their high leverage offerings, Bitmex regularly tops the list of exchanges for highest daily volume, with their total rarely dropping below $1 billion. Bitmex is designed for predominately retail investors and should be approached with a degree of caution as there is a chance of having an account liquidated if price-action goes the wrong way.

Coinbase

San Francisco-based exchange **Coinbase** offers a user-friendly approach with an easy-to-use app. It's quickly become a firm favourite among retail investors. Coinbase offer GBP, EUR and USD deposit and withdrawal features as well as an internal wallet that allows their users to store their cryptocurrency portfolio on the app.

One notable downside of Coinbase is their high fees as they charge users 1.49% for every time they buy or sell cryptocurrencies.

CONCLUSION

Cryptocurrency exchanges, whether centralised or decentralised, make it easy for you buy and sell your crypto assets. Whether you've been in the cryptocurrency community for years or whether you're brand new, there will be an exchange for your requirements.

We encourage you to carry out your research, **keep on top of the latest news**, and keep a watchful eye out for any inclines in cyber criminality. Afterall, some exchanges are better than others but none of them can claim to be entirely secure.

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