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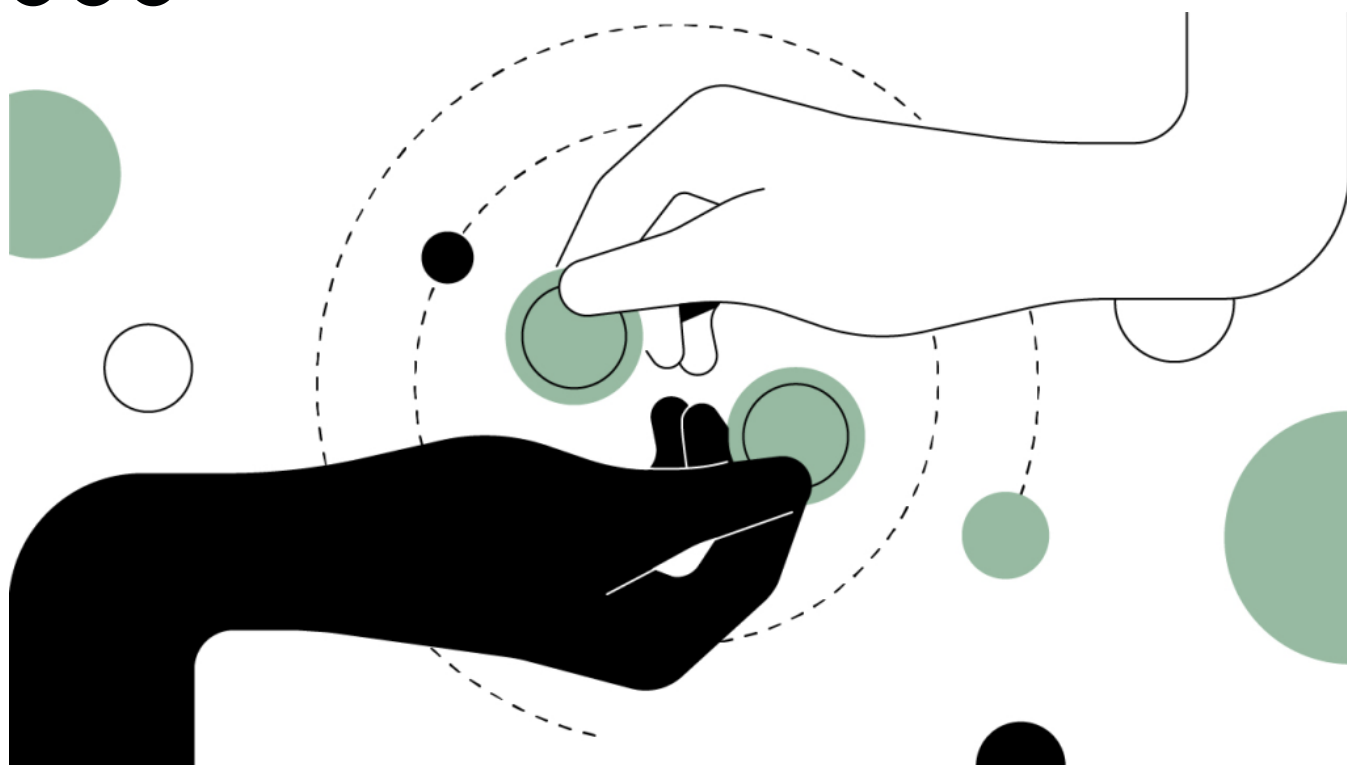
Trading/Investing &gt; Crypto Exchanges

## What Are Crypto Exchange Tokens?

Crypto exchange tokens can fulfill multiple purposes, ranging from increasing liquidity and lowering trading fees to governing entire blockchain platforms.

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### Summary

*A crypto exchange token is a digital asset that is native to a cryptocurrency exchange. A crypto exchange may launch its own token for a variety of reasons, and exchange owners often give tokens to users as incentives. Generally speaking, most exchange tokens are designed to increase an exchange's liquidity, incentivize trading activity, or facilitate an exchange's community governance process.*

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## Cryptocurrency Exchange Tokens: The Basics

Cryptocurrency exchanges are platforms for buying, selling, and exchanging cryptocurrencies, and are an integral aspect of the ever-expanding blockchain ecosystem. Exchanges offer a user-friendly interface that is similar to what you would expect from most traditional online financial exchanges or brokerage accounts, but offer access to a spectrum of digital assets. As the blockchain industry matures, crypto exchanges have adapted to the evolving needs of their customers — both in terms of expanded trading options and platform features. Crypto exchange tokens are one such innovation.

Crypto exchange tokens are digital assets that are native to a cryptocurrency exchange. Generally speaking, there are three primary use cases for exchange tokens that directly benefit both traders and an exchange itself:

- **Multi-party trust:** A crypto exchange token like the Gemini dollar (GUSD), which is the world's first fully regulated stablecoin, combines the creditworthiness and price stability of the U.S. dollar, the technological advantages of cryptocurrency, and the protections of U.S. regulatory oversight. Given the important role stablecoins play in bridging the gap between traditional finance and blockchain-enabled ecosystems, this type of crypto exchange token can help establish trust with users and regulators.
- **Enhanced liquidity:** Liquidity refers to the availability of trading activity that can be relied upon in a financial market. Markets that have more liquidity operate more smoothly and assets that are more liquid can be more easily exchanged without substantial price shifts, known as slippage. In lieu of traditional market makers, crypto exchanges can use native tokens as an incentive for traders to bring more activity, thus liquidity, into crypto markets. One way of rewarding traders for increased productivity would be for the project to offer them exchange tokens proportional to their total trading volume, or through designated staking programs.
- **Fee discounts:** Crypto exchanges generally require traders to pay a marginal fee when executing an order — even community-run decentralized exchanges (DEXs). In order to incentivize trades and build customer loyalty, many exchanges offer fee discounts via a crypto exchange token. In most cases, users receive a discount when paying their fees by using the exchange's token, though some exchanges also offer tiered fee discounts based on how much of an exchange's tokens a user holds in their account wallet. Both approaches incentivize users to allocate additional funds to an exchange's ecosystem in order to accrue future benefits and directly increase demand for their native token — be it a centralized or decentralized exchange token.
- **Governance:** Not all cryptocurrency exchange tokens are designed to serve as an optional benefit to platform users. Several crypto exchanges have distributed native tokens that are meant to serve as a governance mechanism for the exchange's future development. Exchange

tokens designed for this purpose typically offer their holders voting rights or exclusive privileges. While this use case is not as common as others, decentralized exchange tokens — also called governance tokens — have become an increasingly important priority for DEXs that intend to transition into fully community-run operations.

Despite offering the benefits cited above, not every reputable crypto exchange has its own native token because some exchanges might launch a native crypto token only if it aligns with their strategic focus and user needs.

## How to Get Cryptocurrency Exchange Tokens: IEOs and Airdrops

Most cryptocurrency exchange tokens are initially distributed through an Initial Exchange Offering (IEO), which is a specific type of Initial Coin Offering (ICO). In addition to IEOs, crypto exchange users may occasionally obtain exchange tokens through an airdrop — i.e., when a project sends crypto tokens directly to the wallets of a crypto community, either for free, or in exchange for a simple promotional assignment like creating a social media post. The U.S. Securities and Exchange Commission (SEC) has released guidance recommending caution when investing in an IEO — warning that IEOs might violate the federal securities laws and may lack many of the investor protections of registered securities.

Once an exchange token has been sold through an IEO or distributed via an airdrop, it can be traded and sold just like any other cryptocurrency. However, token holders should not transfer their exchange tokens to an external wallet unless they're certain the wallet is compatible with the exchange token's tokenization standard.

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