Jonney Liu: Just imagine that coin “Z” right? So exchange “Z” decides to do trans-fee mining. Suddenly they were printing $100 million dollars in volume, and suddenly they're printing $10 billion in volume just to say that. So 99% is something that is not sustainable. When you use that words, maybe someone’s wash trading because people are just going in there to try to pick up the tokens as much as possible, but only 1% is actual real organic volume.

So in the case of a logic models where they only take 80%, right? If you think about it, if majority is just people will just trading just to try to get the coin but nobody trading to stay there, then at some point this cycle of starting with you trade for or you spend 1000 transaction fee, but actually you get back 80 cents. And this magic everyone is doing it for the reason just to get to 80 cents, but then your 80 cents become 64 cents and keeps depreciating. So it's very much like I'm going to say that word out there. Let's go. It's pretty much like a hypothesis.

Obviously there has to be a base number field training and people stay on the top. I'm not saying that everyone is doing trans-mining fee is doing ponzi schemes, but if everyone just goes on just to trade just to get the dividend and using trans-mining fee mechanism to do so, and then no one actually stays to do that. Then the person who loses out is the last person holding the coins.

Nate Tsang: What's up CoinFi fans? Welcome back to another Episode of the CoinFi podcast. Thanks so much for joining us. Today we're taking a closer look at a novel token model. This model is either a huge investment opportunity or a giant scam depending on who you ask. In any case, it's proven to be a brilliant user acquisition model for the exchanges that were early to adopt it. With the most famous or infamous, depending on who you ask being the Chinese exchange FCoin. Yes, we're talking about the trans-fee mining model.

Today you'll learn why a bunch of exchanges you never heard of are jumping to number one on CoinMarketCap’s 24-hour volume charts. How new exchanges are competing for users in an increasingly crowded space and why there is so much controversy surrounding the trans-fee mining model.

With us today are Alex our Chief Data Scientist, Jonney our Head of Crypto Research, and Eugene an experienced algo developer and our Head of Quant Analytics. So what exactly is trans-fee mining and why should the listeners care?

Jonney Liu: Well, Nate, a few weeks back I read an article about this because FCoin suddenly shot to the top with volume and now other exchanges have adopted this model.

So what are is that when you trade you normally pay if your transaction fees like 10 BPS or sometimes 20 BPS and other Bitcoin and what the exchange does is the exchange reimburses you the same dollar amount in their native token and in theory if they provide some change very much you actually have free tradings.

So you are actually exchanging your other Bitcoin in transaction fees and you're getting the token back, which then you can either sell or you can use for other purposes.

Nate Tsang: So what is the difference then between trans-fee mining and ICO if you're just basically exchanging your trading fees and Bitcoin and other into the token?

Jonney Liu: There is pretty much no difference. If you think about the actual transactional the transactions that are involved. The only difference is that it's actually helped drive a lot of trading volumes onto the exchanges. And that's why it's become quite a popular form of model for exchanges to adopt. Because they're suddenly getting a lot of volume because people want to mine by trading a lot on their exchange.

Alex Svanevik: Yeah, so you could say that it's similar to an ICO in the sense that you exchanging money for this new token that they are issuing, but in the case of trans-fee mining , you're actually, that's money that you're spending to do something which is trade right in this example.

So that's kind of one difference and the other difference is that in most ICO's. There's not actually a real product yet that you can use the token for right, but with this trans-fee mining exchanges you're actually use the token typically in connection with the trading that's happening on them.

Nate Tsang: So give me an example of one that they use.

Alex Svanevik: And the more traditional like exchange tokens with Binance and so on you would use the token to actually get discounts. I think the one we mentioned is FCoin. You don't actually use the token on the platform itself, right? It's just for pretty much you receive revenue, right?

Nate Tsang: Yeah. Don't you think that that model is a little bit broken or because just people know a lot of these trans-fee mining models. It doesn't go forever. It's not like FCoin issues, continues issuing coins and you get free transaction fees for the rest of your life. They issue up to a certain amount usually 40 or 50%. In FCoin cases 51%. I think for BitForex it's not like 40% ?

So at some point this free trading expires and actually talking about free trading. I mean a lot of people think it's free, but actually it's not free because you're assuming that as soon as you receive the token after you did the transaction you can sell at the exactly the same price that you receive it at. And that might not be the case right? As you know the crypto volatility is very high and these tokens are no different.

Alex Svanevik: Yeah. So do you think most traders that actually gets the FTCoin in the case of FCoin in this instance? You think they hold down to them or do they basically just dump it by the way so they can do the free trading?

Nate Tsang: I mean, I don't know what other people do it's hard to measure because it's all within the exchange so we can exactly look in the blockchain before moving it around. My personal preference is to actually get rid of it, because in the case of a lot of changes you can expect the volume to sustain at that really insane high levels.

BitForex did it today, today's August 2nd or did it yesterday and their trading definitely number one trading two billion, four billion in volume. That is not going to last forever. Well trans-mining fee is very nice for a trader you have to ask yourself how sustainable it is.

Jonney Liu: Yeah, so to the question like why should people care one answer is well, this is why you see suddenly these new exchanges pop up on the top of CoinMarketCap's volume list, right?. One of the reasons why I mean like, you know.

Nate Tsang: Exactly I mean, that's why you should care because suddenly what was the number one exchange is no longer number one.

Or what was the number 20th exchange and suddenly the number one exchange and they're staying there for five days or 10 days until someone else does it right? I mean for me, what do you think as a model for exchange if you had an exchange would you adopt this model?

Eugene Khaimson: I would change Well, I think I would probably definitely adopt the model right? I think that's a very Innovative way to do the initial customer acquisition basically right?

Nate Tsang: I totally agree with that.

Eugene Khaimson: Giving customers basically incentive to trade with you because they will receive those tokens back and especially with the new incentive of paying both the 80% or whatever percent of dividend. You turn those customers immediately into shareholders of your company. They have a vested interest in the success of that exchange, right? So that kind of I think is extremely efficient way to very quickly grow the network right and the business.

Nate Tsang: And it's pretty much a free because I mean these tokens were worth noting for exchange to-

Eugene Khaimson: They're not free if you distribute dividend to the holders then they are not free for the exchange but you ready to distribute the dividend in order to quickly gain the critical mass of liquidity.

Nate Tsang: It's like a cycle right? You only get dividends because they say that you can get dividends and because people come on to trade. So it's like a little circle right?

Actually maybe step back and explain that because the trans-fee mining model itself is basically getting tokens in exchange for your trading fee. But then we're talking about the.

Eugene Khaimson: Dividends.

Nate Tsang: Exactly a lot of these models also come with a dividend model which is the primary token utility, which is that you basically get a share the revenue of the exchange which is what makes people interested.

Alex Svanevik: Yeah and you can try to decouple the two like the kind of utility model and the actual trans-fee mining. But I think in reality you need to have an incentive to hold on to the token.

That's why you have in the case of FT. You have some kind of dividend model, right? And in theory, you could have I guess transfer mining happening with other token utilities other utility models. But there should be a way or a reason for people to hold on to the tokens that they receive instead of just dumping them back into the market. Right, like you were saying earlier. In theory people can just dump that.

Jonney Liu: So here's the reason for the way I see it and I might be the minority and goes back to question about whether it is a sustainable not and you guys can challenge me here on my subjects. Right?Just imagine that coin "Z" right? So exchange "Z" decides to do trans-fee mining. Suddenly they were printing $100 million dollars in volume, and suddenly they're printing $10 billion in volume just to say that. So 99% is something that is not sustainable. When you use that words, maybe someone's wash trading because people are just going in there to try to pick up the tokens as much as possible, but only 1% is actual real, organic volume.

So in the case of a logic models where they only take 80%, right? If you think about it, if majority is just people will just trading just to try to get the coin but nobody trading to stay there, then at some point this cycle of starting with you trade for or you spend 1000 transaction fee, but actually you get back 80 cents. And this magic everyone is doing it for the reason just to get to 80 cents, but then your 80 cents become 64 cents and keeps depreciating. So it's very much like I'm going to say that word out there. Let's go. It's pretty much like a hypothesis.

Obviously there has to be a base number field training and people stay on the top. I'm not saying that everyone is doing trans-mining fee is doing ponzi schemes, but if everyone just goes on just to trade just to get the dividend and using trans-mining fee mechanism to do so, and then no one actually stays to do that. Then the person who loses out is the last person holding the coins. For me, I think goes back to Eugene's point, is that it's a great way to start and light a fire but I don't think it's sustainable. It's not sustainable because after 50% of tokens are gone or said then there's no more crypto money for you.

Alex Svanevik: Yeah, I think the big question here is like how much is the volume is still cannot be there after they stop doing trans-fee mining. Like after they've stopped issuing these tokens. That's the big question.

Eugene Khaimson: And that would be basically there are two factors would be affecting that one is the liquidity and basically the ultimate price you're getting on exchange, right? Which is based on how many other people are trading current exchange and provide liquidity and the cost of provision of liquidity.

And second one would be stability of the platform technology, goal stability the risk of the Enterprise et cetera. Now, I think both of them are getting significant improvement once the company moves to the trans-mining because by interest mining even if it's a temporary spike in the volume, you get a lot of influx of new customers who open the account, transfer the funds.

Jonney Liu: And the goal is number one on the list as well so you see.

Eugene Khaimson: Even if you say you drop from number one, but you say you have 100,000 accounts before and after like six months of distribution that of your coins in trans-fee mining. You have a million clients who are actively been trading. Those clients already have funds they have a market data fees. They have connectivity et cetera. So you probably will get better liquidity after six months.

Even if there is no other incentive to trade because just more people are connected and they would be quoting on that exchange while before they didn't quote to that exchange. So here's you get better prices there better liquidity. But in terms of stability as you said correctly that exchange gets all the money, right because the coins that are issued are actually free for the exchange right?

So exchange gets the money so they have actually opportunity to invest much better into that technological platform if they are smart enough, right? So I guess gives an exchange opportunity not necessary will, but opportunity to actually improve your, I mean significantly increase liquidity and number of active customers and improve your technological platform.

Chance of survival, chance of action being successful change.

Jonney Liu: That's true. I guess for example, if you are a no-one exchange, number 100 exchange, I mean in order to get that spike you might as well do it right now. I'm just in general skeptical about the model because the economics doesn't make sense and the volume spike relative to the sustain future model as Alex said it seems unproportional.

If it was the case that this coin was this exchange in chain in billion dollars and suddenly got two billion dollars then it makes sense because you have extra 1 billion people, 1 billion dollars of trans-fee mining trying to share the other 50%.

Eugene Khaimson: Yeah. So we're talking if you think about maintainability or like how maintainable that volume is once let's say all the tokens are mined.

Now. Let's say you get 80% distribution of the dividends right? I think the situation is similar like if I bought like, I don't know $10,000 of Nike stocks right. Now I'm going to the shop and I see two pairs of sneakers one Nike one Adidas and if decide which one to buy. I probably would buy Nike given here, you know the others Nike we in Russia will call it Nike.

I would buy Nike for that one because I'm kind of invested in this right so and I feel like a little part of the money I paid for that Nike will come back to me through the dividends of the Nike. Right? So the same way the people who already have a stake in those exchange coins, they would be more incentivized to trade on that exchange versus an exchange where they don't have coins and they have to pay. Again given the same prices the same commission rates et cetera. Of course.

Alex Svanevik: Yeah, I think in this sense, it's quite similar to ICO's because you see these very strong communities being created around ICO's around projects that do ICO's where basically the people invested in them become kind of proponent for the brand or that particular product.

So the same as an ICO but it's even stronger because these people have actually used your product before.

Jonney Liu: Let me put back on that because like a lot of people when they hear trans-fee mining, there's actually a lot of negative connotations. And I think I agree with the customer acquisition strategy and the sticking the customer with the coin. But actually some people on the twitter and Telegram and various forms and stuff when they hear trans-fee mining they go. Oh, it's not real like so what do you guys think about that?

Alex Svanevik: Well, I mean that's not too different from ICO's. Right? When I sales from you or actually still there, frowned upon right there, that negative kind of connotation, but there are still people doing it and we still see billions of dollars flowing into ICO's every month. So yeah, I agree. There's probably a negative connotation, but you have that with a lot of new things in the crypto space.

So who knows in a year from now, maybe it's totally normal to do trans-fee mining. We don't really know yet.

Jonney Liu: It is kind of normal now. I mean, I don't know you use it to list how many encountering have done the trans-fee mining in some shape or form?

Alex Svanevik: I think we saw at least five exchanges that are either doing this or considering doing it.

Eugene Khaimson: That's like in the last two months only right?

Jonney Liu: No, less than last two months. Yeah. I think this last month is five last week three or four.

Nate Tsang: Yeah this brings up an interesting question. Like you guys said like all these new exchanges are popping up to number one and coin market cap using this model. And it's only been up for a few months. Like when Binance came out and they introduced the BNB token, that was sort of a revolutionary model that allowed Binance to skyrocket and become the number one exchange. Do you guys think that this growth hack, this user acquisition model called trans-fee mining was going to sort of produce the next Binance?

Alex Svanevik: Yeah, that's a great question. Just to mention that the CEO of Binance C.Zhao has been quite negative about this model. Maybe that's actually a good sign for the model that it's perceived as threatening.

Jonney Liu: In some ways he's obviously been negative because he doesn't want to do it.

Alex Svanevik: Yeah, exactly. So I mean that's one aspect. I think it is pretty much like user acquisition on steroids, right?

It's a way to really bootstrap liquidity is super fast, so in that sense, yeah, maybe it could produce the next Binance, but at the same time we have yet to see that this is a sustainable model for issuing new tokens for instance, and I think as I said before, the big question is like how much of that volume is going to stick around after they had stopped supplying this token into circulation?

Jonney Liu: So basically, like if exchange decides to trans-fee mining, I think the ultimate question we always ask is how can they parlay that initial volume spike into consistent volume later on such that they unseat Binance. Or they move people away from Binance who is sitting on top of that pretty much and stay on their platform. Right? I mean, yeah, but I do kind of agree with Eugene in the sense that it doesn't hurt to try it is a very novel way.

Eugene Khaimson: Yeah. The question is, let's say it doesn't make sense to buy now once, let's say FCoin for example, mined all their tokens, wouldn't make sense to what would make sense to, because would there be a market for the FTCoin? What will be the price? How are we going to basically evaluate the price or value of the coin and would it make any sense to hold that coin for example or.

Alex Svenvik: Maybe I can just give kind of a layman's gut feeling response to that. Because the first time I heard about the FT FCoin. I felt like why would anyone buy this coin? Because like people are just getting it for free in a way from doing exchanges. Wouldn't it be better if I then move my trades over to FCoin and just execute whatever trades I want to do on an exchange there and then I the coin for free.

I didn't really understand why anyone would buy it or pay for the token. Right? But I think you guys maybe can push back on that view because there are some economic reasons. I guess why you want to buy it.

Jonney Liu: So it moves away a little bit from trans-fee mining, but a lot of these trans-fee mining models also, like Nate said earlier, have sort of revenue distribution tax. Usually quite high, like excessively high, 80%, 60% some of them. That's the first thing. The second thing is that a lot of them also on top of their revenue distribution also have used a certain amount of profit to go back as well.

So they're really, I mean it's almost like it's either you can either say it's a ponzi scheme because the economics didn't work or it's like a Robin Hood. Where you just disbursing everything's to the people right?, So there is a natural demand for people who wanted to share in that profit because right now you buy BNB, there's utility. But you don't own any piece of the company. But like you said earlier, you buy a FT and it does well. You own the piece of the revenue just in essence of like a non-voting share.

Alex Svanevik: And it's 80%. That's huge when you think about it. Like what other avenue? Yeah. What other industries can promise to giveaway 80% of revenue? That's kind of remarkable when you think about it.

Nate Tsang: Well, I think we know actually C.Z.'s opinion on it would be that this is not sustainable and that if you're giving away that much your profit than a lot of these exchanges are basically they're really going to make money by manipulating a token price. Now that C.Z.'s view is a very biased view, but I guess the ultimate question is really like, is this sustainable when you're giving away 80% in FCoin's token model. 80% of your revenue, is that sustainable?

Can you keep growing that way? Right? And the interesting thing is that's actually separate from trans-fee mining, right? And that you can have an ICO for an exchange like the traditional ICO and say our token model. Because we're giving away 80% of the profits. Does that change anything?

Alex Svanevik: Yeah. I think from just the business perspective or high level strategic perspective, let's say you've two companies and one company has promised to give away 80% of their revenues in the future. There are clearly at a disadvantage, right?

If you want to be investing back into technology back into the company, so on. Of course you could make the other argument that they have FT tokens themselves, which they can put into circulation and thereby raise more capital. But I think just the fact that you're giving away 80% of your revenue, it might be an advantage now to bootstrap user acquisition, but it's actually a liability like in the future.

Jonney Liu: I mean, yeah, I was going to say at that point actually that allow these exchanges hold a lot their coins, so they're giving 80% of revenue away, but I mean they're getting some back because in their own company accounts or whatever, they actually hold those coins.

Eugene Khaimson: Yeah. I think the point here is that they don't just give it the way they give it to their customers who would be incentivized to keep trading with them and keep maintaining the business. That's different is just giving 80% or let's say investors who will not buying your service. In that case, yes, you're losing 80% of revenue.

But if I give it to the traders who have an account on my exchange and those people incentivize to trade on my exchange then, maybe 20% of 1 billion is actually better than 100% of 50 million. Right? Because I'm still retaining. identity.

Jonney Liu: Is that fair to say that you are more pro to this model than the rest of us or?

Eugene Khaimson: Well somebody has to pay devil's advocate. But I think we can take ourselves some task of maybe working out the quantitative metrics actually for each exchange coin in seeing what it's worth because I see it as actually once you mine it, once the mining finish. Then that's just it. So your 80% dividends, stake and revenues. This is very much like a high yield stock.

Jonney Liu: The first stocker right?

Eugene Khaimson: Like the first stock or high yield bonds, like a junk bond basically. Right? you look at the yield, you look at the risk projected revenues and you can value it in some reasonable objective way that might help us and basing our customers to value of those tokens because they become a big part of the market valuation. Right? So somebody can invest and make actually very good with a chance on those right. Or maybe should not invest in those because we are against the market. Maybe over values them. Right?

Alex Svanevik: Yeah. This makes me wonder if maybe someone in this room has attempted doing that?

Jonney Liu: We might have.

Eugene Khaimson: I think we will, but I think what's interesting about those points is that there might be some reasonably straightforward quantitative models that will help us to evaluate the value versus the other ICO tokens which are very difficult to evaluate the value, the price of the token. Right? So yeah.

Jonney Liu: Yeah I mean it would definitely painted perpetuity. Then there's formulas out there that's relatively but the hardest part that you said it's projecting, right? Because I mean to be honest, about a year ago, more than a year ago, maybe a year and a half ago, who would've known that Binance would be at the top, right? And maybe a year and a half later they might not be there anymore. So projecting that part is actually the hardest part.

Eugene Khaimson: Yeah, but then it's like implied volatility, right? You can actually calculate implied projection on volume based on the current value of FT and say like, do I agree with it?

Jonney Liu: Yes. That's a very good model way of looking at that. Maybe we should look backwards and say I like that one.

Nate Tsang: Since we have plans to run these numbers but we aren't run them yet. I'm going to put you guys on the spot and ask you a question then. Do you guys think it's worth time investing your time and money into trading at an exchange that offers trans-fee mining? Do you see a future in this model?

Eugene Khaimson: Basically the fact that there is a trans-fee running on a specific exchange for specific pair is just the part of the overall transaction fees that investors or traders should take into account when they decide to trade or not trade on that exchange. So when we basically traded on multiple exchanges, we don't trade on exchanges that offer the best price and often the exchange that offers the best adjusted price which is adjusted for the cost of trading which is commission or any other cost of transferring the funds, et cetera.

So in case, let's say we're trading on an exchange which offers trans mining, trans mining becomes the part of basically commission, right? It's like a negative commission that you receive when you're trading. So you'd take this into account and then the adjusted price on that exchange is better than price of other exchanges. We should take it. Right? There's a simple one. It's just the numbers. If it's worse than another exchange though, we should not take it. Right?

Alex Svanevik: Yeah I think also more generally I would say that it's a mistake to just ignore or laugh off the whole trans-fee mining concept. So in that sense I probably disagreement with the C.Z. who is kind of saying this is just a fraud or a scam or doesn't really make sense. I think with most things in crypto, you should at least be curious about it and test it out and test out their platform and see how it works and play around with it.

Definitely not like put all your savings into FT. Right? That's one thing we can generally say. Of course it's going to be funny in a couple of years listening to this podcast, if it's the next bitcoin, I personally don't think so, but it's worth keeping an open mind and exploring it.

Jonney Liu: So like I know I was critical about the trans-fee mining model because I don't think it's sustainable because of the math behind it. But as a trader, if someone's giving you something free, right? If you're going to trade anyways, why wouldn't you go for some of that cheapest? If people are handing out hot dogs and you want a hot dog, then why don't you go pick it up. Right?

I mean it's just common sense to me that you will do it. It's not like you're married to Binance or OKex whatever. You have to go where you have the best economics and this case that you're not bothered to then sure. That's a different question. But if you are saying, hey, I want to make money while doing trading, why don't you stand up and do it? It doesn't cost you anything.

Nate Tsang: All right guys, thanks for taking the time to talk about transfer mining. We'll talk again next time.

Thanks for listening everyone. We hope you got something out of this conversation, looking at the trans-fee mining model and the future of exchange tokens. If you enjoyed this conversation, you'll also want to check out episode four of the CoinFi podcast where we take a closer look at exchange tokens like BNB and examine why they're interesting to you as an investor.

You can find the show notes for this episode at coinfi.com/podcast. Thanks to Alex, Jonney, and Eugene for taking time out of their busy day to share their thoughts. Be sure to hit subscribe and we'll catch you guys next time on the CoinFi Podcast.

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