

Blockchain



WHAT IS A CENTRALIZED EXCHANGE: **FULL COMPARISON** **GUIDE**



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INTRODUCTION

The cryptocurrency industry has become more popular than ever in the last few years. However, trading cryptocurrencies is not without risks, and traders need to know what they are doing. Prices can rise and fall at lightning speed. The high risk is the reason why some people stay away from cryptocurrencies, while others actively engage in them.

In order to trade cryptocurrencies, you will need an account on a cryptocurrency exchange. There are two types of trading platforms: create centralized crypto exchange (CEX) and decentralized exchanges (DEX). In this guide, we will explain what a centralized exchange is and how it works. But we will also touch on DEX, explain what it is and how it differs from centralized exchanges.



WHAT IS A CENTRALIZED EXCHANGE?

A centralized crypto exchange, or CEX, is an online platform for trading cryptocurrencies. As the name suggests, this type of trading platform is centralized. It has a centralized governing body – usually the company that created it. Centralized exchanges were the first type of crypto exchange.

Initially, CEXs were anonymous and did not require traders to reveal their identity. However, as more and more people started using these exchanges, global financial regulators became concerned about the anonymity of the exchanges, and so the situation has now changed. Now, users must verify their identity in order to trade.

Centralized exchanges are known for offering a wide range of orders for better trading. CEXs offer limit orders , stop losses , stop-limit orders , margin trading , and leveraged trading . Most exchanges store most of their assets in cold storage. This means that the assets are not connected to the internet and cannot be stolen. The only thing that can be stolen is the funds stored in so-called “hot” wallets.





HOW DOES CEX WORK?

CEX is quite easy to use and uses similar registration methods to those used on traditional financial platforms. To register, you need to create an account, verify your identity, and deposit some money. Once this process is completed, you can trade freely. For example, you can place a market order, which will be placed in the platform's order book.

As soon as a sell order appears in the order book that matches your buy order, they are matched and the trade is executed. Just like traditional finance, where there are maker fees and taker fees, crypto trading also has transaction fees. Transaction fees are the main source of income for centralized exchanges.



WHAT SERVICES DOES A CENTRALIZED EXCHANGE OFFER?

CEX serves several functions in crypto trading. These include order matching, custody services for user assets, and clearing counterparty functions.

We have already discussed how order matching works. So, when you want to buy cryptocurrency, you place a buy order. If you want to sell cryptocurrency, you place a sell order. The orders are stored in the order book, where they wait to be matched. If someone wants to sell the same amount that you are buying, the system will match your orders. For its services, the exchange charges a transaction fee. So, you are not buying cryptocurrency from the exchange, but from another trader. The exchange simply acts as an intermediary.

Now let's discuss the role of the exchange as a clearing counterparty. This feature helps protect the privacy/personal data of users by matching orders with the order book. As stated above, technically, users are buying cryptocurrency from other users. However, to protect the user's identity, the transaction is conducted on behalf of the exchange, not the user.

ADVANTAGES OF CENTRALIZED EXCHANGES

Centralized crypto exchanges have many advantages, which is why they are still extremely popular. For example, they are very easy to use, although this was not always the case. As centralized exchanges gained popularity, their user interface was simplified. Today, the CEX user interface is so simple that even a novice user can easily understand it.

Exchanges also offer support and protection, which is extremely important for less experienced traders. Users can trade on exchanges knowing that their funds are safe. It is also worth noting that if the platform is hacked and funds are stolen, the exchanges will cover your losses.

Additionally, CEX offers a wide range of products and services in one place, making it easier for users to manage their assets. Some platforms offer staking, NFT marketplaces, huge liquidity, launchpads, P2P exchanges, and more.



ARE THERE ALTERNATIVES TO **CENTRALIZED CRYPTO EXCHANGES?**

Members of the crypto community are increasingly frustrated by certain aspects of cryptocurrency exchange development. Centralization itself is contrary to the values and philosophy of cryptocurrencies and blockchain technology. So developers decided to create a new alternative - a decentralized exchange. At first, these attempts were largely unsuccessful, with the main problem being the lack of liquidity.

DEXs had very limited liquidity, so no one wanted to use them. Then automated market maker (AMM) technology came along, and DEXs changed dramatically. Today, these platforms allow users to stake their coins and tokens. They get rewarded for doing so, and the platform creates a liquidity pool that it can use.



WHICH IS BETTER - DEX OR CEX?

The final answer to this question is up to you. centralized vs decentralized crypto exchange have their own advantages and disadvantages. CEXs may be easier to use, while DEXs are more decentralized and offer more freedom and security. Over time, they will likely become more convenient and easier to use, but for now, CEXs dominate the space.



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