

Using data leaked by hackers from a major Bitcoin exchange, we find that more than 2% and up to 33% of all transactions are wash trades, a type of market manipulation in which traders clear their own limit orders to “cook” transaction records. Our finding provides direct evidence for the widely-suspected “fake volume” allegation against cryptocurrency exchanges, which are so far only backed by indirect inference in the literature. While wash trades do not incur a significant impact on Bitcoin prices, they do increase the fees collected on transactions and thus the exchange’s revenue. We hypothesize that the exchange insiders themselves engage in wash trading – not to manipulate price but to inflate apparent trading volume so as to look more attractive to deceived customers and boost exchange revenue. We find consistent evidence from the involvement of wash trading perpetrators who are exchange insiders previously exposed in another price manipulation. We further use our direct evidence to evaluate the indirect inference techniques proposed in the literature.