Forex Brokers 101 Cheat Sheet

Six questions to ask before you deposit money with a forex broker

babypips.com
School of Pipsology

Six Questions to Ask About Your Broker

Question	Short answer	How to check
1. Who are you trading with?	Your broker, a dealer on the other side of every trade	Company records, a support test, and the regulator's register
2. What are you trading?	A contract that tracks the exchange rate, not real currency	A CFD, or a rolling spot contract in the U.S.
3. Where are you trading?	In your broker's own market, not the interbank market	Your customer agreement names the broker as your counterparty
4. How does it manage risk?	It offsets, hedges, or keeps the risk from your trades	Its written hedging policy
5. Are its prices fair?	Usually LP quotes plus a markup, but no rule makes them follow the market	Compare with an independent price source; ask for its pricing policy
6. How good is its execution?	Quick fills, with price changes passed on in both directions	Its order execution policy and execution stats

Red Flags Before You Deposit

Check	Red flag
Company	No legal name, or on a regulator's warning list
Office	Empty lot, or an address shared with hundreds of firms
Owners	Owners and managers kept hidden
Support	No human to reach, or an "account manager" on WhatsApp
Your money	Unclear where it's kept, or crypto-only deposits
License	Not on the register, or details don't match (clone firm)
Your account	Opened with an offshore company under the same brand
Offers	Very high leverage or deposit bonuses

Test Drive Your Broker

1. Make a **small** deposit.
2. Open and close a couple of **small** trades.
3. Ask to withdraw your **whole balance**.
4. Confirm the money arrived.

Be careful if withdrawals are crypto-only, if you have to ask more than once to get your withdrawal paid, or if the broker calls to push you to deposit more.

If Your Broker Goes Bust

It depends on who regulates your broker. **Segregated accounts help, but aren't a guarantee.** UK: the FSCS can pay up to £85,000 per person, per firm. U.S.: retail forex deposits don't get the bankruptcy protection futures traders get. Unregulated: nothing to fall back on.

UK, EU, and Australian brokers must offer retail traders negative balance protection. U.S. brokers can't guarantee this, so you could owe more than you deposited.

How Your Broker Can Handle Your Trade

Method	What your broker does	What it means for you
Internalization	Offsets your trade against other customers' trades, then hedges what's left or takes on that risk itself	It doesn't profit from your loss on the part that offsets
A-Book	Fills your order first, then hedges it with an LP	It makes money from its markup or commission whether you win or lose
STP	Trades with an LP first, then fills your order	Like A-Book, but slower fills with more slippage
B-Book	Doesn't hedge, so it takes on all the market risk	Your loss is its gain
Partial hedge	Hedges part of your trade, but not the rest	Your loss is its gain on the unhedged part
Overhedge	Hedges more than 100% of your trade	It's betting that you'll win
Reverse hedge	Trades with an LP that bets against your trade too	It makes more when you lose than it would by B-Booking
Hybrid	Picks a method by trade size, your trading history, and its current risk	Its gain depends on whether it hedges your trade or not

"C-Book" is a loose term for the partial hedge, overhedge, and reverse hedge. Your account statement won't show which method your broker used.

Broker Labels Decoded

DD, NDD, Market Maker	Marketing labels. Your broker is still your counterparty.
STP	Hedges with an LP before it fills you.
ECN or raw spread	A spread near the LP's, plus a commission.
Standard account	Markup built into a wider spread.
"Straight to the market"	Your order stays with your broker.
"Interbank access"	Red flag. Retail traders can't trade there.
Big bank logos	Often reached through a PoP, not directly.

Documents to Ask For

- **Customer agreement.** Confirms your broker is the other side of your trades.
- **Order execution policy.** How it fills orders and handles conflicts of interest.
- **Execution stats.** Spreads, speed, and how often orders slip.
- **Hedging policy.** How it manages risk and who it hedges with.
- **Pricing policy.** Where its prices come from and how it adds its markup.

If a broker won't share these, ask why.