

Online currency-trading brokerage FOREX.com asked me to create a whitepaper defending their business model vs. "the other guys". They were getting lots of flack and needed to convince retail traders their model was legit, transparent and put their clients' interests first. This example shows how I can take a highly technical subject and boil it down to benefits-driven essentials.

Know Your Counterparty: How Forex Trading Execution Works

There's loud debate these days among forex traders about the merits of "dealing desk" brokers versus "no dealing desk brokers"—including myths and half-truths.

We'd like to set the record straight to help you make an informed, fact-based decision about the trading model you choose. Fact is, not all currency brokerages execute trades the same way – and it's critical that you understand the differences.

How does *your* broker handle your trades? Is your brokerage regulated? Does it provide 24/7 customer service, in your language? Does your broker get you the *very best* price available for your trade – with the stats to prove it? How do their clients' trading profits stack up with clients at other firms?

FOREX.com is regulated in the 6 global jurisdictions in which we operate. We're proud to act as a dealing desk broker, and we offer unparalleled transparency as why our model offers traders like you a fairer deal. Read on – what you learn may surprise you.

Why Using a Regulated Broker Is So Important

Don't believe everything you hear about no dealing desk brokers participating in price manipulation or re-quoting. These practices are strictly illegal in regulated jurisdictions.

Choosing a regulated forex broker should be your priority #1.

The forex industry has been infiltrated of late by non-regulated, offshore forex brokerages. Avoid them – trading with these shady firms is fraught with risks.

FOREX.com is a regulated, publically traded brokerage firm. We operate in 6 regulated jurisdictions, complying with strict standards. In the U.S., for example, the National Futures Association (NFA) monitors all trade activity from U.S.-regulated firms, looking for price anomalies and off-market trade executions. Any irregularities are immediately stamped out. Brokers who are found to have manipulated price or execution are subject to substantial financial penalties and/or loss of license.

Don't be fooled. Non-regulated brokers that operate outside of regulated markets can engage in all sorts of shady practices. When you try to get your money out, you may be left with all sorts of empty promises.

Why Liquidity Matters

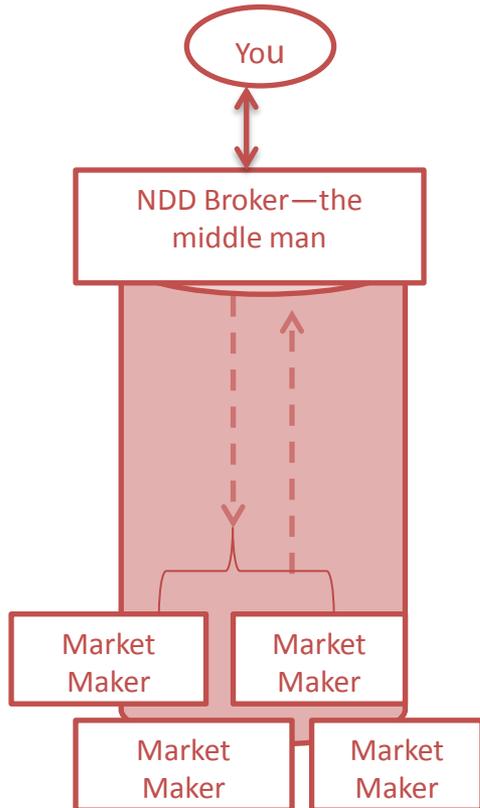
Liquidity is the lifeblood of the forex market. “Liquidity” simply means lots of buyers and sellers are directly competing to trade, driving price spreaders tighter and reducing gaps.

If markets are like engines, liquidity providers like FOREX.com keep them smoothly oiled and humming along. We keep markets running efficiently by dealing directly, offering competitive bid and ask prices ourselves, and matching buyers and sellers within fractions of a second.

Currency markets include liquidity *providers* who actually execute trades, and liquidity *takers*, who either suck liquidity from the system or simply play the middleman. Take away liquidity providers, and you literally take away the market.

How Forex Trading Works

No Dealing Desk Brokers



- **No firm pricing.** Rates are based on moving prices at the many market-maker partners
- **Increased risk of price slippage** leads to wider spreads
- **No guarantees of execution speed or quality,** or even of continuous spreads. It's simply “out of their hands”
- **Try finding execution stats!**

FOREX.com, a Dealing Desk



- **Real prices.** Every price is good for \$5 million of liquidity per click. No “indicative” prices, no waiting for third-party confirmation
- **Over 99.5% of trades are executed** in less than 1 sec
- **Price improvement.** 65.7% of limit orders get a better price than you asked for.
- **24-hour customer service,** in your language
- **We never engage in proprietary trading - period.** 97% of our volume is either offset with one of our wholesale trading partners, or matched to another customer order

What This Means for Your Trading Profitability

What should you look for in a forex brokerage to maximize your odds of success?

1. A regulated, responsible firm.

2. Tight price spreads. Dealing desk brokers provide liquidity – and with liquidity, you get instantaneous fills, reduced slippage, price improvement, and tighter spreads. Our prices are consistently tighter than most NDD brokers:

FOREX.com vs. FXCM.com typical spreads **April** 2012 taken from FOREX.com and FXCM.com

<u>Product</u>	<u>FOREX</u>	<u>FXCM</u>		<u>Product</u>	<u>FOREX</u>	<u>FXCM</u>		<u>Product</u>	<u>FOREX</u>	<u>FXCM</u>
EUR/USD	1.9	2.5	.6	USD/JPY	1.6	2.3	.7	AUD/USD	1.7	2.5
EUR/JPY	2.3	2.3	-	USD/CHF	2.1	2.7	.6	GBP/JPY	4.5	4.3
USD/CAD	2.6	2.8	.2	NZD/USD	2.3	3.2	.9	GBP/USD	2.5	2.8
EUR/GBP	2.9	2.7	.2	EUR/CHF	2.4	3.3	.9			

What This Means for Your Trading Profitability

What should you look for in a forex brokerage to maximize your odds of success?

3. Great customer service. Your trade fills should be fast and excellently priced. Go with a broker who stands behind their execution quality, deals with you fairly and honestly, and provides outstanding service.

4. Transparency. FOREX.com offers unparalleled transparency into our trade executions quality, speed and competitiveness. Most brokers don't share "bestex" stats publicly. Why not? What are they hiding? You deserve nothing less.

FOREX.com

vs.

No Dealing Desk Brokers

- **As a regulated dealing-desk broker, FOREX.com takes responsibility** for your trade quality. If you ever have a problem with a trade, we're a chat or phone call away, 24 hours a day when markets are open.
- **Our prices are real.** Every price we publish is good for \$5 million of liquidity per click. No "indicative" prices, no waiting for third-party confirmation.
- **We seek price improvement** on all order types – 65.7% of limit orders are price improved.
- **We provide market liquidity.** Over 99.5% of our trades are successfully executed in less than 1 second.
- **No dealing desk brokers take no responsibility** for trade execution or slippage. As middlemen, it's out of their hands.
- **No dealing desk brokers make you wait** for confirmation from a third party market maker, and they take whatever price they get.
- **NDD brokers never seek price improvement**, because they don't control the trade.
- **No dealing desk brokers depend on market makers** - the liquidity providers they use - to actually execute trades. Any delays can cost you money.

The reality is clear

True market transparency means letting your clients check their trade execution quality and speed against global benchmarks – so you're confident *every time* that your trade fill was outstanding.

It means responding to client challenges when that quality standard isn't met. It means sharing hard numbers to prove our claims – and forcing our competitors to match the high standards we set.

FOREX.com leads the industry in providing an unprecedented level of market transparency for our clients. [Our Trade Execution Scorecard](#) makes it crystal-clear how we compare on pricing, of trade quality, and against our competitors.

Your trades deserve the very best. Make sure you're getting it from *your* forex broker.