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STP Execution Model: Routing Trade Orders Directly to Liquidity Providers

Categories: Forex Education Brokers Education

Article Level: Intermediate

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In the **Straight Through Processing (STP)** model, the broker routes the client's order to a **Liquidity Provider (LP)** without internal dealing desk intervention.

Before executing the order, an equivalent transaction is arranged with the LP hence, this method is known as "**pre-trade hedging.**"



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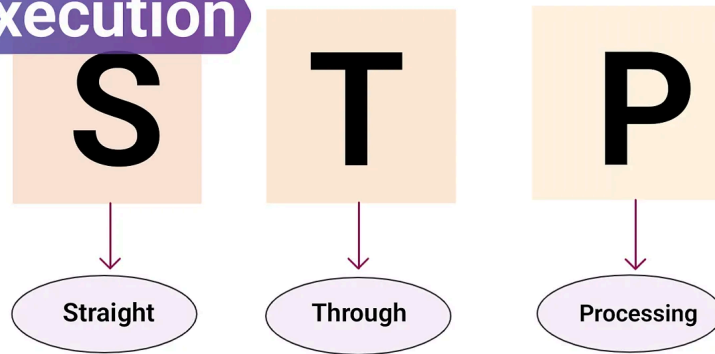
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and **high execution speed.**



STP Execution

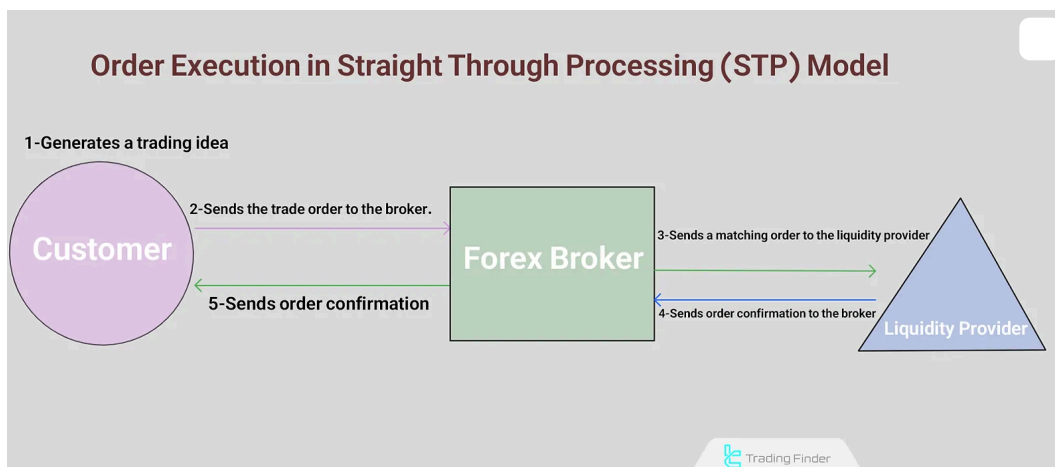


STP execution model in the Forex market

What Are STP Brokers?

The term **Straight Through Processing (STP)** refers to the **fully automated order execution** without human intervention.

In the **STP Execution Model**, the broker coordinates the client's order with a **Liquidity Provider** before executing it. This approach allows the broker to avoid risk, though it may result in **slower execution** and **higher slippage**.



How STP steps are executed by the client, broker, and LP

Comparison of STP and A-Book Execution Models

In the **A-Book model**, the broker first executes the client's order, then hedges the risk afterward with a Liquidity Provider.

In contrast, the **STP model** hedges the risk before executing the order. Therefore, the two models are referred to as **post-trade hedging** and **pre-trade hedging**, respectively. **Comparison of STP and A-Book Models:**

Feature	Pre-Trade Hedging (STP)	Post-Trade Hedging (A-Book)
Execution Speed	Slower	Faster

Slippage Probability	Higher	Lower
Market Risk for Broker	Minimal	Maximum
Price Transparency	High	High
Revenue Model	Commission or Markup	Commission or Markup

Top STP Brokers

Here are four examples of top **STP Brokers**:

- ↗ **Axiory Broker**
- ↗ **InstaForex Broker**
- ↗ **FxGlory Broker**
- ↗ **FXOpen Broker**

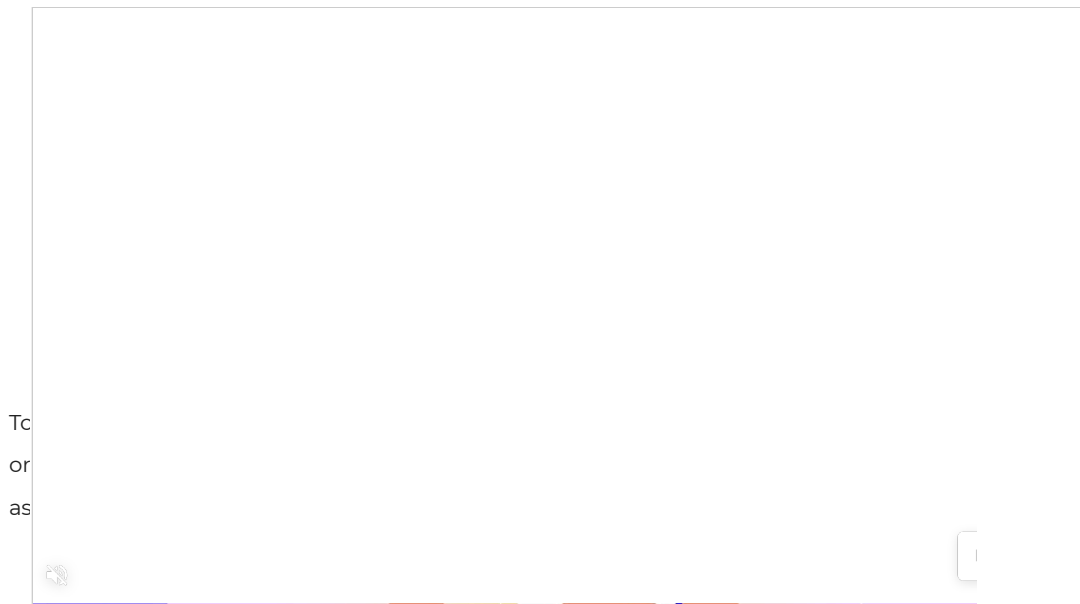


List of top STP brokers including InstaForex and Axiory

Why Use Straight Through Processing (STP) Brokers?

The key benefit of **STP execution** for brokers is the elimination of **slippage risk** between the client's order and the broker's hedge order.

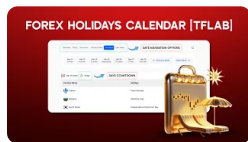
Note:Slippage refers to the difference between the price the trader expects and the price at which the order is actually executed. It can work in the trader's favor or against them.



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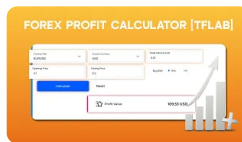
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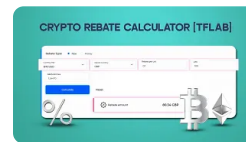
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STP A Zero-Risk Model

In **Straight Through Processing (STP)**, the broker transfers trading risk to the LP. Thus, this model is known as "**riskless principal trading**":

1. The broker first buys from the Liquidity Provider (acts as the counterparty);
2. Records the transaction in its books;
3. Immediately sells the same asset to the trader at the same price plus a **markup or commission**.

Two transactions are created:

- ⚡ One between the client and the broker (as counterparty);
- ⚡ One between the broker and the LP (as a hedge trade).

Agent Broker vs. Principal Broker

When executing orders, a broker can act in two ways:

- ⚡ As an **Agent**, simply routing orders without taking a trading position;
- ⚡ As a **Principal**, directly entering into trades with the client.

In the **STP Execution Model**, although the broker is technically the counterparty, it **immediately hedges the order** with an LP effectively taking on the **agent role** without market risk.

How Do STP Brokers Earn Revenue?

In **STP Execution**, brokers operate as **riskless counterparties** or **matched principal brokers**. Unlike **B-Book models**, they do not benefit from client losses. Their income is generated transparently through the following:

Markup

The broker **slightly increases** the price quoted by the LP. For example, if the LP offers EUR/USD at 1.1000, the broker may show 1.1002 to the client. The 2-pip spread is the broker's profit.

Commission

In some accounts, brokers charge a fixed **commission per trade** instead of or in addition to markup. This is common in **ECN/STP accounts** and offers higher transparency.

No Profit from Client Losses

Since STP brokers immediately hedge client orders with LPs, they do not take on a risk position — meaning client losses do not impact their earnings.

Reduced Conflict of Interest

STP brokers earn directly from trade execution. Therefore, **the more successful the trader**, the more trades are placed, benefiting the broker. The broker's incentives are aligned with the trader's success.

Conclusion

The **STP Execution Model** is a transparent **Forex brokerage** structure designed to eliminate market risk and minimize conflict of interest.

In this model, the broker only executes the client's order **after pre-hedging with a Liquidity Provider (LP)**, so client profits or losses do not affect the broker's earnings. Revenue is solely from **markup or commission**.

FAQs

- | | |
|---|---|
| How does an STP broker execute an order? | ∨ |
| The STP broker first arranges a matching trade with a Liquidity Provider to eliminate risk, then finalizes the client's order. | |
| What's the main difference between STP and A-Book? | ∨ |
| The difference lies in risk coverage timing: STP covers the risk <i>before</i> execution, and A-Book does it <i>after</i> . | |
| Does an STP broker profit from trader losses? | ∨ |
| No; since client orders are hedged with LPs, the trader's profit or loss does not affect the broker's revenue. | |
| Does STP send orders to the market? | ∨ |
| No, the trader's order is matched with an LP, not sent to the market. The broker is still the counterparty but hedges its risk immediately. | |
| What is the main advantage of STP for traders? | ∨ |
| High transparency, reduced conflict of interest, and a revenue model based on markup or commission, all in the trader's favor. | |
| Is STP execution slower? | ∨ |

Usually yes; since the broker needs to coordinate with the LP before confirming the order, slight delays and potential slippage may occur.

How do STP brokers earn revenue?



From **markup** (small increase on LP price) or **fixed commissions** per trade.

How can you verify if a broker is truly STP?



Check the broker's business model registration with regulatory bodies like **FCA** or **ASIC** — see if they are listed as "**Matched Principal.**"

Can STP broker reject orders?



Possibly — in high volatility situations, rapid price changes between client and LP may lead to rejections and slippage.



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Is STP suitable for scalping or short-term trading?



Depends on the broker's infrastructure. If robust, **STP can support scalping** effectively.



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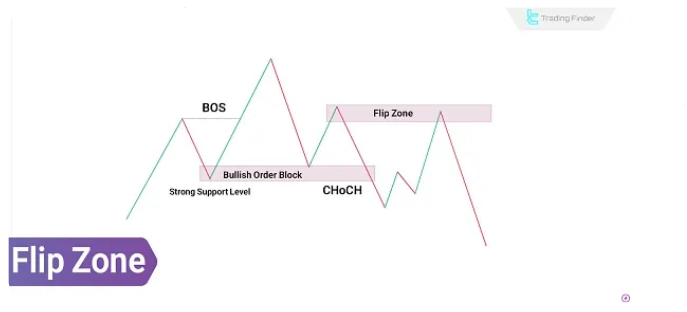
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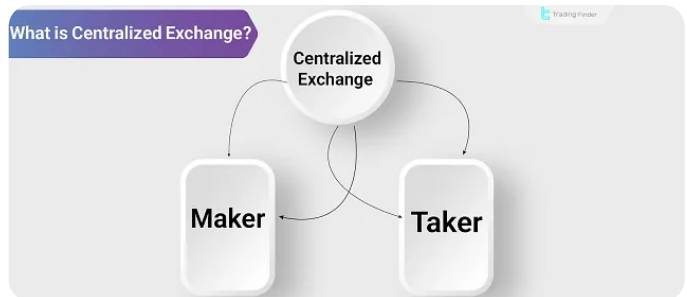
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