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# How do Forex brokers work? STP vs. ECN + A-Book, B-Book, and C-Book Brokers

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Article Level: Intermediate 




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Modified: Jul 12, 2025

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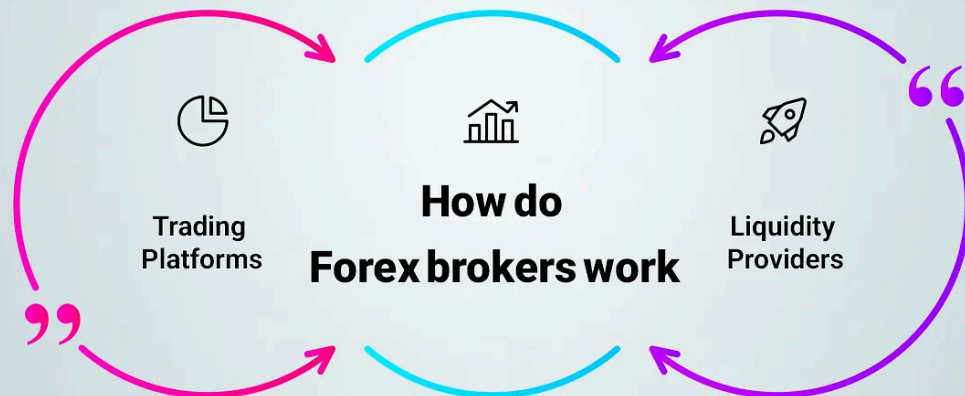
 11 Min

**Forex brokers** act as financial intermediaries, granting **retail traders** access to the global foreign exchange market.

These companies offer **trading platforms, real-time currency pair quotes, analytical tools, and execution features**, serving as a bridge between traders and the market.



## How do Forex brokers work?



Types of Forex brokers and how they execute orders

## How Forex Brokers Work?

**Forex brokers** connect traders to the global currency market by receiving live quotes from **liquidity providers** or the **interbank market** and delivering them through **trading platforms**.

Order execution is handled either via direct models (**STP/ECN**), where trades are sent to the real market, or through **market maker models**, where the broker becomes the counterparty to the trade.

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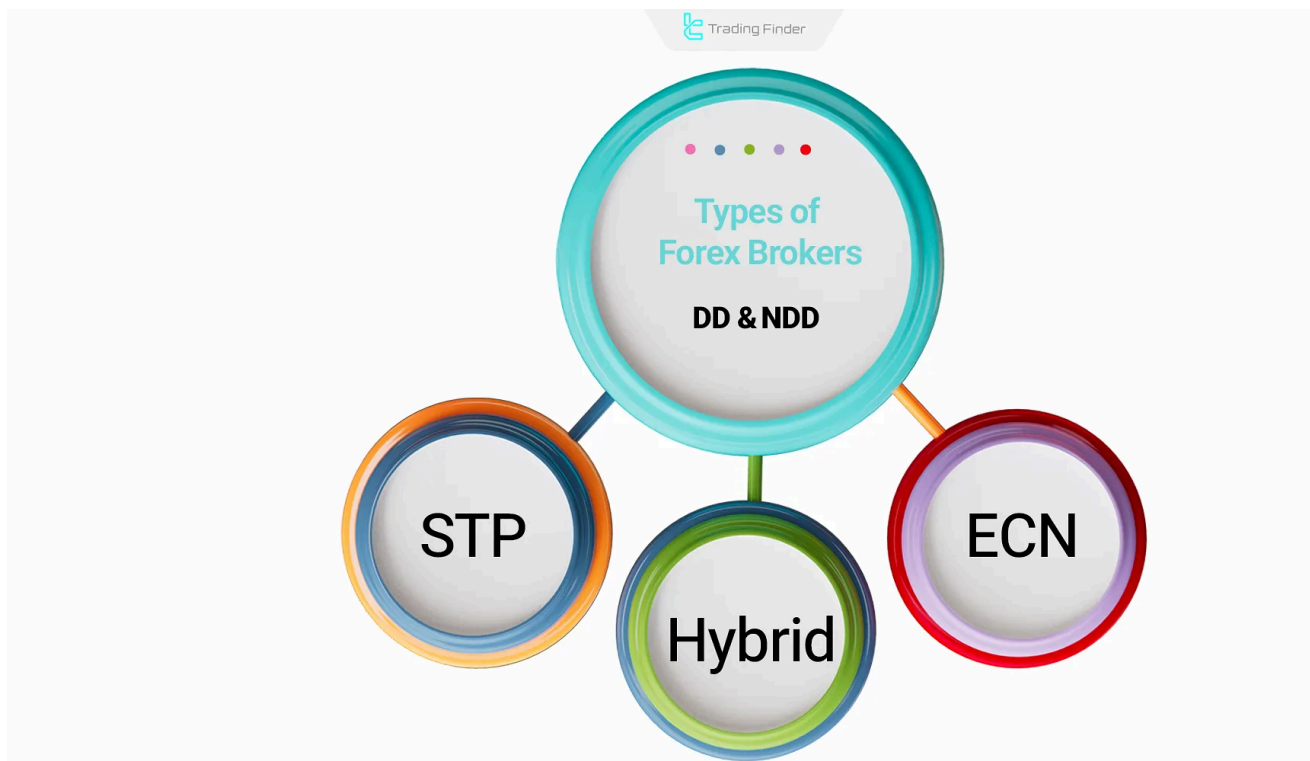
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Key criteria to evaluate **how Forex brokers work** include liquidity management, pricing transparency, and adherence to **regulatory compliance**.

## Types of Forex Brokers and Operating Models

The operational models of **Forex brokers** depend on how they **manage** client orders and **connect** to the market. Generally, there are three main models:

- ⚡ **Market Maker/Dealing Desk (DD)**
- ⚡ **No Dealing Desk (NDD)** including **ECN** (Electronic Communication Network) and **STP** (Straight Through Processing)
- ⚡ **Hybrid Broker**



Different operational models of Forex brokers including Hybrid, ECN, and STP

### Market Makers/Dealing Desk (DD)

**Market Maker brokers** directly act as the counterparty to the trader's order. In other words, when a trader buys a currency pair, the broker sells it, and vice versa. This model involves the following:

- ⚡ Trades are not sent to the **interbank market** and are instead executed internally;

- ⚡ Prices are aggregated from various sources and shown to the trader with **either fixed** or variable **spreads**;
- ⚡ The **broker's profit** comes from the **spread** or, in some cases, from the **trader's losses**.

This model enables brokers with internal liquidity or large client volumes to execute orders swiftly; however, it may also create a **conflict of interest**, as the broker profits from client losses.

## No Dealing Desk Brokers (NDD)

NDD brokers act as **transparent intermediaries**, transmitting orders directly to the market or liquidity providers without taking the opposite side of the trade.

This model is divided into two main subtypes:

### STP (Straight Through Processing)

Orders are sent directly to a pool of **liquidity providers** such as banks and financial institutions:

- ⚡ Broker revenue is earned via **spreads** or **fixed** commissions;
- ⚡ There's no manual intervention in execution, reducing the risk of **slippage** or **delays**.

### ECN (Electronic Communication Network)

Traders are connected to an **electronic network of banks, institutions, and other traders**:

- ⚡ Spreads are typically **very tight or near zero**;
- ⚡ Brokers charge a separate **commission per trade** for this access;
- ⚡ **Full transparency, competitive pricing, and market depth** are key benefits.

STP and ECN models are perfect for professional traders because they **eliminate conflicts of interest, enable fast execution**, and provide **real market access**.

## Hybrid Brokers

In this structure, **how Forex brokers work** involves a combination of **Market Maker** and **STP/ECN** models. Some orders are processed internally (**B-Book**) while others are passed to the real market or **liquidity providers (A-Book)**. Most modern brokers operate under this **hybrid** model.

## Understanding A-Book, B-Book, and C-Book Models

The classification into **A-Book** and **B-Book** depends on how client orders are handled:

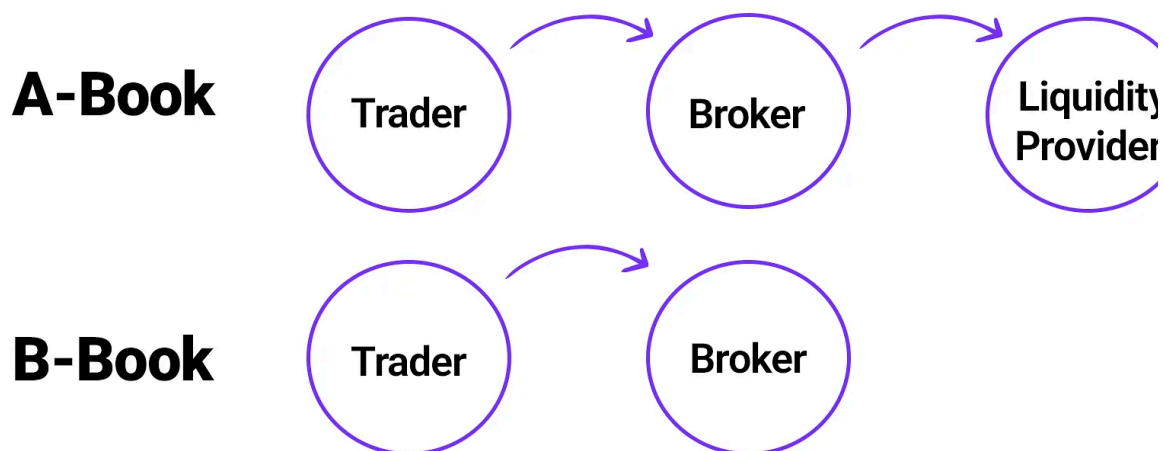
### A-Book Broker (Agency Model)

Orders are transmitted directly to **liquidity providers** or the **interbank market**, with the broker acting merely as an intermediary. The broker's profit is independent of the trader's **gain** or **loss**.

### B-Book Broker (Dealing Desk Model)

Orders are processed internally and are not routed to the real market. The broker becomes the counterparty, meaning **trader losses equal broker profits**, and vice versa.

**While riskier**, this model can be highly profitable for **brokers** with proper risk management.



The operational concept of A-Book and B-Book brokers in the Forex market

## C-Book Broker (Client Book or Customized Book)

**C-Book** is not officially recognized in global Forex regulations but appears in some industry literature.

It typically refers to a broker's **internal management** of a specific group of clients, where all trades are settled internally with no **market exposure**.

Regulatory bodies like the **FCA** or **ASIC** do not acknowledge the term **C-Book** in their frameworks.

## Order Execution Methods by Forex Brokers

Order execution in **forex brokers** depends on their operational model, and the quality of execution is influenced by factors such as **speed**, **slippage**, and the **likelihood of order rejection**.

### Types of Order Execution Models in Brokers:

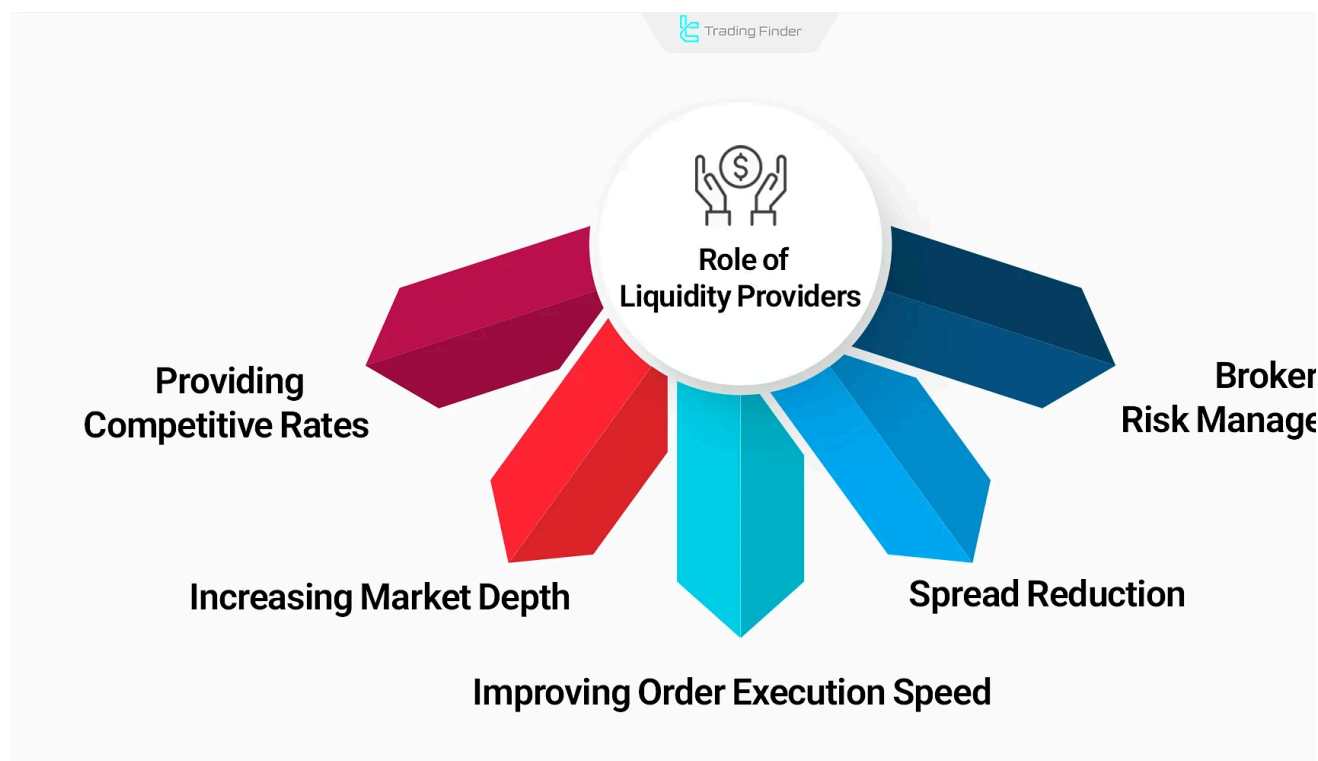
- ⚡ **Dealing Desk/Market Maker:** Orders are processed internally with the broker as counterparty. Pricing is broker-defined and may involve a conflict of interest;
- ⚡ **No Dealing Desk - STP/ECN:** Orders are routed directly to the market or liquidity providers. In STP, the broker selects from the best available prices. In ECN, orders are matched within a network of market participants.

## Role of Liquidity Providers in How Forex Brokers Work

**Liquidity providers (LPs)** are institutions that offer **bid and ask prices** for currency pairs and enhance the performance of **forex brokers** by executing orders instantly.

### The Role of Liquidity Providers (LPs) in Brokers:

- ⚡ Competitive pricing
- ⚡ Increased **market depth**
- ⚡ Faster execution
- ⚡ Tighter **spreads**
- ⚡ Risk management for brokers



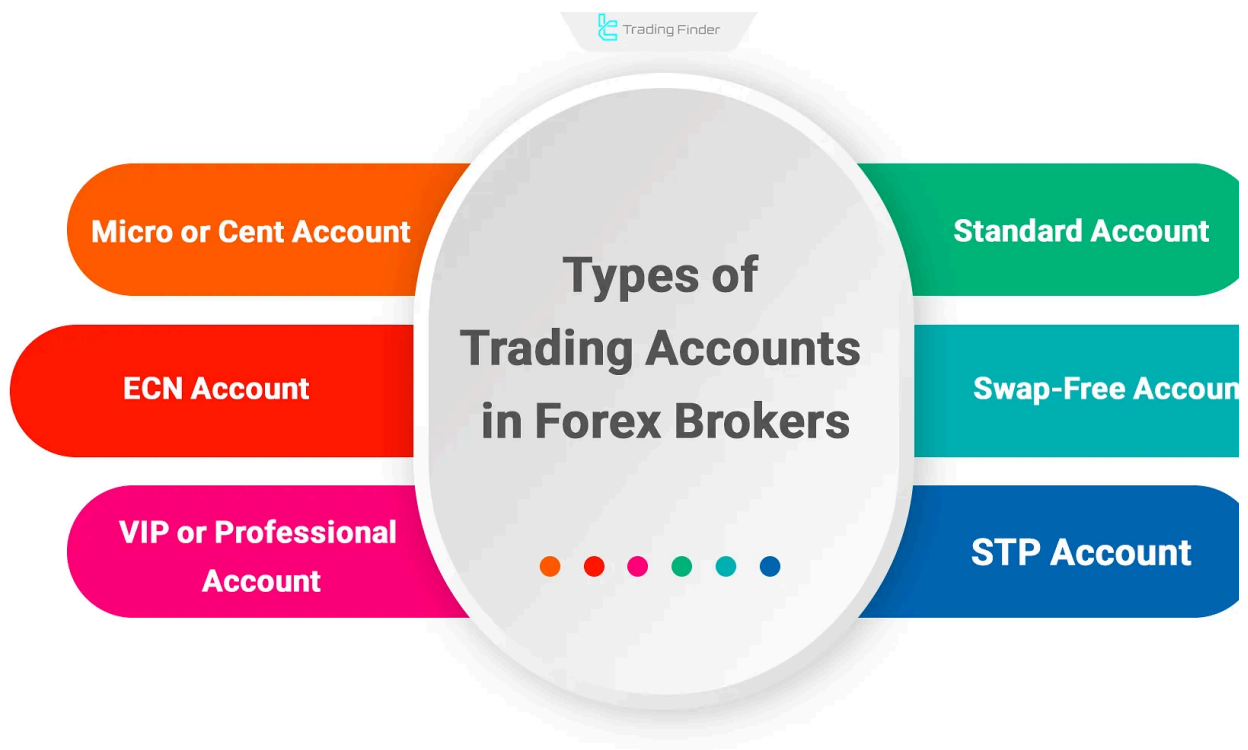
How liquidity providers enhance Forex broker performance for traders

## Types of Trading Accounts Offered by Forex Brokers

**Forex brokers** offer multiple account types to cater to various trader profiles:

- ⚡ **Standard Account:** Common account with fixed or variable spreads, suited for intermediate to professional traders;
- ⚡ **ECN Account:** Direct access to interbank markets, tight spreads, and per-trade commission;
- ⚡ **STP Account:** Direct order routing to liquidity providers, often with variable spreads and no commission;

- ⚡ **Micro/Cent Account:** Smaller lot sizes for risk control or practice with limited capital;
- ⚡ **Islamic (Swap-Free) Account:** Interest-free accounts aligned with Islamic laws;
- ⚡ **VIP/Professional Account:** Lower spreads, minimal commissions, and premium services for high-volume traders.



Account types and features offered by Forex brokers

## Forex Broker Regulatory Oversight

Licensing by top-tier regulators like **FCA**, **ASIC**, or **BaFin** indicates transparency, fund safety, and international compliance.

Next, we will examine the **regulation of brokers**. The table below outlines the regulatory bodies and their key features:

Regulator	Country	Key Feature
FCA (Financial Conduct Authority)	UK	Strict capital protection rules

ASIC	Australia	Transparent reporting and leverage restrictions
CySEC	Cyprus	Trader protection and licensing rules
NFA & CFTC	USA	Rigorous compliance for brokers and investment banks
BaFin	Germany	Strong legal frameworks
FINMA	Switzerland	Strong supervision for global markets
FSCA	South Africa	High-level regulations in emerging markets

## Differences Between Regulated and Unregulated Brokers

Whether a broker is regulated or not reflects its level of **transparency, security, and reliability**.

These two categories of brokers differ significantly in several key areas.

### Differences Between Regulated and Unregulated Brokers:

Regulated Broker	Unregulated Broker
Segregated client funds	Weak or no supervision
Mandatory transparent reporting	No guarantee of fund safety
Legal complaint mechanisms	No legal protection for traders

Standardized trading conditions	Arbitrary changes to trading terms
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Regulated brokers offer greater fund security and legal protection compared to **unregulated brokers**, where traders may face elevated risks.

## Liquidity Management by Forex Brokers

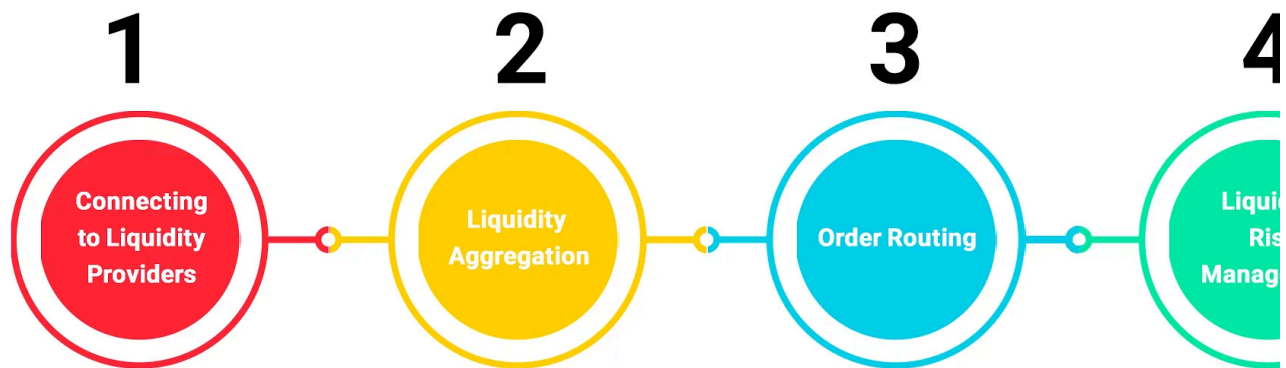
**Forex brokers** ensure efficient execution by sourcing liquidity from **Tier-1 banks** and financial institutions.

Using **Liquidity Aggregation Systems**, brokers consolidate pricing from multiple sources to offer optimal market prices. **Order routing** then determines the execution path.

During volatility or liquidity shortages, brokers use **liquidity risk management strategies** such as volume limits, spread adjustments, or provider switches.

### Steps in broker liquidity management:

1. **Connecting to LPs** for deeper markets and better pricing
2. **Liquidity aggregation** from multiple providers
3. **Order routing** based on order volume, market speed, and internal policies
4. **Liquidity risk management** using volume caps or spread changes



Steps in managing liquidity by Forex brokers

## Modern Technology Used by Forex Brokers

**Modern brokers** use advanced **technologies** for better speed, security, and performance:

- ⚡ **ECN Connectivity** for direct, intermediary-free trading
- ⚡ **Liquidity Aggregation Systems** to offer the best bid/ask prices
- ⚡ **VPS (Virtual Private Servers)** for ultra-fast, uninterrupted execution
- ⚡ **FIX API** for fast execution and bot connectivity
- ⚡ **AI and Machine Learning** for data analysis, pattern detection, and forecasting
- ⚡ **Advanced platforms** like **MetaTrader 5** and **cTrader**
- ⚡ **Cybersecurity** tools such as **SSL encryption** and **IDS/IPS systems**

## Conclusion

**Forex brokers** act as intermediaries between traders and the global currency market using models such as **Market Maker**, **STP**, and **ECN**.

Key evaluation points include **order handling**, **liquidity sourcing**, **applied technologies**, and **regulatory structure**.

To understand **how Forex brokers work**, one must explore:

- ⚡ The A-Book vs. B-Book models
- ⚡ Regulated vs. unregulated brokers
- ⚡ Trading account types
- ⚡ Role of liquidity providers

Ultimately, modern brokers leverage **advanced technology** and **strict compliance** to deliver a fast, safe, and transparent trading environment.

## FAQs

What exactly does a Forex broker do? ▼

Forex brokers provide access to the global currency market and execute trades via trading platforms.

What is the difference between a Market Maker and ECN broker? ▼

Market Makers handle orders internally and may be the counterparty. ECN brokers route orders to liquidity networks and act solely as intermediaries.

Where do Forex brokers earn their revenue? ▼

They typically earn through **spreads, commissions**, and **swap fees**.

Why is regulation important? ▼

It ensures brokers follow strict rules that protect client funds and maintain transparency.

What's the difference between STP and ECN accounts? ▼

STP routes to selected liquidity providers; ECN matches orders in a participant network.

What are A-Book and B-Book models? ▼

A-Book sends orders to the real market; B-Book processes them internally.

How do Hybrid brokers work? ▼

They route some trades internally and others to the real market, depending on order type.

What role do liquidity providers play? ▼

They offer competitive quotes, deepen the market, and enhance execution quality.

Can unregulated brokers be trusted? ▼

They pose higher risks due to weak or no legal oversight and lack of fund protection.

▼

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How do brokers manage liquidity?



Through connectivity, price aggregation, order routing, and risk control systems.

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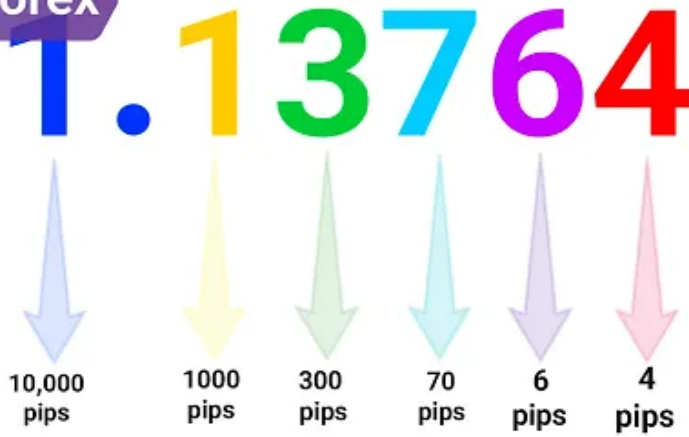
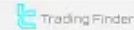
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