Market Talks
EDUCATION CENTER

FOREX · BEGINNER · LESSON 14 OF 15

Choosing a Forex Broker Safely

How to check that a broker is properly regulated, what protections you should get, what trading really costs, and the warning signs of a scam

13 min read 8 quiz questions with answer key

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Choosing a Forex Broker Safely

IN ONE SENTENCE

Your broker holds your money and fills every order you place, so choosing one is the most important decision you make before you trade. A good broker is licensed by a strong regulator, keeps client money separate, protects you from losing more than you deposit and is clear about its costs. This lesson shows how to check all of that yourself, and how to spot the fake and offshore firms that target new traders.

Why the broker matters so much

In the earlier lessons you learned how prices, pips, leverage and orders work. All of that happens on your broker's platform. The broker shows you the prices, fills your orders, holds your deposit, calculates your margin and pays out your profits. If the broker is unreliable, even a good trading plan can fail.

Forex is also one of the most common areas for investment fraud. Regulators around the world publish long lists of unlicensed firms and fake websites every week. Many of them look professional, offer friendly support and show profits on screen, but the money can never be withdrawn.

The good news is that checking a broker takes about ten minutes, and you can do it yourself for free. The rest of this lesson shows you how.

Regulation comes first

A regulator is a government body that licenses brokers, sets rules for how they treat clients and can fine them or close them down. A broker licensed by a strong regulator has to meet capital requirements, keep records, report to the regulator and follow strict rules on client money and marketing.

These are some of the best known regulators for retail forex and CFD brokers. Each one has a free public register where you can look up any firm.

Regulator	Country or region	Where to check a firm
FCA (Financial Conduct Authority)	United Kingdom	Financial Services Register
CySEC (Cyprus Securities and Exchange Commission)	Cyprus, serving clients across the EU	CySEC list of regulated entities
BaFin	Germany	BaFin company database
CFTC and NFA	United States	NFA BASIC search
ASIC (Australian Securities and Investments Commission)	Australia	ASIC professional register
FSA (Financial Services Agency)	Japan	FSA list of registered firms
MAS (Monetary Authority of Singapore)	Singapore	MAS Financial Institutions Directory

Inside the EU, a firm licensed in one country such as Cyprus can usually serve clients in the other EU countries under the same rules. In the United States, the rules are stricter: retail forex brokers must be registered with the CFTC and be members of the NFA, and leverage is capped at 50:1 on major pairs.

Many countries also have their own regulators, so check which one covers your country. If a broker is not licensed where you live, or is licensed only somewhere with weak rules, you have little protection if something goes wrong.

How to check a license yourself

Never rely on a logo or a claim on the broker's website. Anyone can copy a regulator's logo. Check the license directly, in four steps:

1. **Find the license number and the legal company name.** Regulated brokers show them at the bottom of their website, usually in small print.
2. **Search the regulator's own register.** Type the regulator's web address yourself or find it through a search engine. Do not use a link the broker sends you, because fake register pages exist too.
3. **Match the details.** The register lists the firm's official website, email addresses and phone numbers. They must match the ones you are using.
4. **Check which company will open your account.** Big brands often run several companies under different licenses. Make sure the one in your account agreement is the regulated one.

Step 3 is the most important one, because of **clone firms**. A clone firm copies the name, address and license number of a real, regulated broker, then contacts people from a different website, email

or phone number. Everything looks correct on the register, except the contact details. The UK's FCA warns about new clone firms almost every day.



Figure 1. Checking a broker's license takes four steps. Step 3 is what catches clone firms.

EXAMPLE: ANNA CHECKS A BROKER

Anna gets a friendly call from someone at a broker that says it is regulated by the FCA. The caller gives her a firm name and an FCA number. She finds the firm on the FCA register: the name and number are real. But the website the caller sent her is not the one listed on the register, and neither is the phone number. That is a clone firm. Anna ends the conversation, deposits nothing and reports the call to the FCA.

Same brand, different protection

Many large brokers operate through several companies in different countries. For example, a brand may have one company licensed in the UK, one in Cyprus, one in Australia and one in an offshore location. Your protection depends on which of these companies opens your account, not on the brand name.

Offshore companies often offer things that strong regulators no longer allow, such as leverage of 500:1 or more, or deposit bonuses. This can look attractive, but it usually means fewer protections: no compensation scheme, no strict rules on client money, and no ombudsman to complain to. Some offshore regulators say openly that they do not license or supervise forex brokers at all. St Vincent and the Grenadines, where many brokers have been registered, is a well known example.

Before you open an account, read the account agreement and check the company name and its license. If you live in a country with a strong regulator and a broker offers to move you to its offshore company for higher leverage, think carefully about what you would give up.

How brokers handle your orders

When you place a trade, the broker can handle it in two main ways:

- **Market maker (dealing desk).** The broker itself takes the other side of your trade. If you buy EUR/USD, the broker sells it to you. Market makers often offer fixed or simple spreads and no

commission. Because the broker can profit when clients lose, there is a conflict of interest, so regulators require market makers to manage it and to give clients fair prices.

- **STP or ECN (agency).** The broker passes your order on to banks and other liquidity providers, who take the other side. These brokers usually earn a small mark-up on the spread, or charge a commission on very tight raw spreads.

Many brokers use a mix of both. Neither model is automatically good or bad. For a beginner, what matters more is that the broker is well regulated, fills orders at fair prices, and does not slip prices against you more often than in your favor.



Figure 2. The two main ways a broker handles your order. Many brokers use a mix of both.

Protections you should get

A broker licensed by a strong regulator has to give retail clients a set of protections. These are the most important ones:

- **Segregated client money.** Your deposit is kept in separate bank accounts, apart from the broker's own money. If the broker fails, its creditors should not be able to take client funds.
- **Negative balance protection.** In the EU, the UK and Australia, a retail client cannot lose more than the money in the account, even after a sudden price gap.
- **Margin close-out.** In the same regions, positions are closed automatically when your equity falls to 50% of the required margin (Lesson 10), so a losing trade cannot take your whole account in one move.
- **A compensation scheme.** If a regulated firm fails and client money is missing, a scheme may pay you back up to a limit. In the UK, the FSCS covers investment firms up to £85,000 per person per firm. In Cyprus, the Investor Compensation Fund covers up to €20,000. There is no such scheme for retail forex in the United States.

- **A complaints route.** If you have a dispute, you can complain to the broker first and then to an independent ombudsman, such as the Financial Ombudsman Service in the UK or AFCA in Australia, at no cost.

A compensation scheme does not pay you back for trading losses. It only helps if the broker itself fails and your money is missing.



Figure 3. Protections that strong regulators require for retail clients. Details differ by country.

What trading really costs

Brokers usually advertise their lowest spread. The real cost of trading is the total of several fees, and it is different for every trader:

- **Spread**, paid on every trade (Lesson 3). Check typical spreads, not only the minimum, and how they widen at rollover and on news days (Lesson 9).
- **Commission**, a fixed fee per lot on raw-spread accounts.
- **Swap**, charged or paid each night a position stays open (Lesson 5).
- **Currency conversion**, if you deposit in one currency and your account is in another.
- **Deposit and withdrawal fees**, for bank transfers, cards or e-wallets.
- **Inactivity fees**, charged monthly by some brokers if you do not trade for several months.

Also look at the trading platform. The most common ones are MetaTrader 4 (MT4), MetaTrader 5 (MT5), cTrader and TradingView, and many brokers also have their own platform and mobile app. Choose one that is stable, clear and easy for you to use. Lesson 15 shows how to practice on it.



Figure 4. The six costs to compare between brokers. The first three apply to every trade.

EXAMPLE: COMPARING TWO ACCOUNTS

Anna compares two accounts for trading EUR/USD. Account A has a typical spread of 1.2 pips and no commission. Account B has a raw spread of 0.2 pips plus a commission of $7 per lot for the round trip. On a 1 lot trade, where 1 pip is worth $10 (Lesson 4):

- Account A: 1.2 × $10 = **$12**
- Account B: 0.2 × $10 + $7 = **$9**

Account B is cheaper here, even though its advertised commission looked like an extra cost. The best choice depends on how often and how much you trade.

Red flags of a bad broker or a scam

Most forex scams follow the same patterns. Walk away if you see any of these:

- **Guaranteed or very high returns.** No real broker can promise profits. Trading always carries the risk of loss.
- **Pressure to deposit quickly**, repeated calls, or a special offer that ends today.
- **An account manager who trades for you.** A broker that wants to manage your money needs a separate license for that, and genuine brokers do not push it on beginners.
- **Deposit bonuses with conditions.** They are banned for retail CFD clients in the EU and the UK, and their conditions often stop you from withdrawing.
- **No license, or only an offshore one** that you cannot check.

- **Withdrawal problems**, such as long delays, new taxes or fees you must pay first, or requests to deposit more before you can withdraw.
- **Payments in crypto or to a personal bank account** instead of the broker's own company account.
- **First contact on social media, a messaging app or a dating app**, often from someone who becomes a friend first and then talks about trading.

Be careful after a loss to a scam too. Fake **recovery services** contact victims and promise to get their money back for a fee. Report scams to your regulator and the police instead.

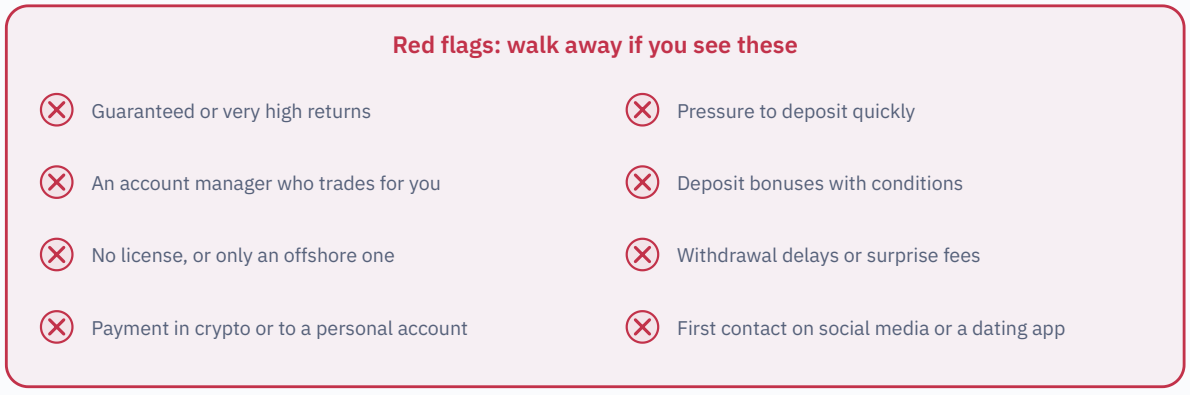


Figure 5. Common warning signs of a bad broker or a scam.

Why this matters for traders

- **Check the license yourself before you deposit anything.** Use the regulator's own register and match the website, email and phone number.
- **Know which company holds your account.** The same brand can give you very different protection depending on the license.
- **Compare the full cost, not the advertised spread.** Add commission, swaps and fees for the way you actually trade.
- **Test withdrawals early.** After your first deposit, make a small withdrawal to see how the process works.
- **If something feels wrong, stop.** A real broker will still be there tomorrow. A scam depends on you acting quickly.

Key terms

Regulator	A government body that licenses financial firms, sets rules for them and can punish them for breaking those rules.
Register	The regulator's public database of firms it has licensed, with their official names, numbers and contact details.
Clone firm	A fraud that copies the name and details of a real regulated firm, but uses different contact details to take people's money.
Offshore broker	A broker licensed in a location with weak rules and little supervision, often with higher leverage and fewer protections.
Market maker	A broker that takes the other side of its clients' trades itself.
STP / ECN	A broker that passes client orders on to banks and other liquidity providers instead of taking the other side itself.
Segregated funds	Client money kept in separate accounts, apart from the broker's own money.
Negative balance protection	A rule that a retail client cannot lose more than the money in the account.
Compensation scheme	A fund that pays clients back, up to a limit, if a regulated firm fails and client money is missing. It does not cover trading losses.
Ombudsman	An independent service that settles disputes between clients and financial firms, free of charge for the client.

Key takeaways

1. Choose a broker licensed by a strong regulator in your region, such as the FCA, CySEC, BaFin, CFTC and NFA, ASIC, the Japan FSA or MAS.
2. Check the license on the regulator's own register, and make sure the website, email and phone number match. Clone firms copy everything else.
3. Your protection depends on which company in a broker group opens your account. Offshore companies offer high leverage but few protections.
4. Strong regulators require segregated funds, negative balance protection and a complaints route, and some offer compensation if the broker fails.

5. Compare the full cost of trading and watch for red flags: guaranteed profits, pressure, bonuses, account managers and withdrawal problems.

Test yourself

Circle one answer for each question. The answer key with explanations is on the next page. You can also take this quiz online at markettalks.info and see your score instantly.

1. Where should you check whether a broker is licensed?

A. On the broker's own website
B. On the regulator's own public register
C. In online reviews
D. By asking the broker's support team

2. A firm's name and license number are real on the register, but its website and phone number are different. What is it most likely to be?

A. A new branch of the firm
B. A market maker
C. A clone firm
D. An ECN broker

3. What does negative balance protection mean?

A. The broker guarantees you will not lose money
B. You cannot lose more than the money in your account
C. Your spread can never widen
D. Your swaps are always positive

4. In the UK, up to how much does the FSCS cover per person if an investment firm fails?

A. £20,000
B. £50,000
C. £85,000
D. There is no limit

5. What does a market maker broker do?

A. Takes the other side of your trade itself
B. Only sends orders to a stock exchange
C. Manages your money for you
D. Sets the official exchange rate

6. Account A: 1.2 pip spread, no commission. Account B: 0.2 pip spread plus $7 commission per lot. With $10 per pip, which is cheaper on a 1 lot trade?

A. Account A, $12
B. Account B, $9
C. They cost the same
D. It cannot be calculated

7. Which of these is a red flag?

A. A license you can find on the regulator's register
B. A clear list of fees
C. A promise of guaranteed monthly profits
D. Negative balance protection

8. Why can opening an account with a brand's offshore company be risky?

A. Offshore spreads are always wider
B. It usually comes with fewer protections, such as no compensation scheme
C. Offshore accounts cannot trade gold
D. Offshore companies do not offer leverage

Answer key

1 B

On the regulator's own public register

Only the regulator's own register is reliable. Logos and claims on a broker's website can be copied.

2 C

A clone firm

Clone firms copy the details of a real regulated firm but use their own contact details. The contact details must match the register.

3 B

You cannot lose more than the money in your account

In the EU, the UK and Australia, a retail client's losses cannot go beyond the account balance, even after a price gap.

4 C

£85,000

The FSCS covers up to £85,000 per person per investment firm. It does not cover trading losses.

5 A

Takes the other side of your trade itself

A market maker is the counterparty to your trades. STP and ECN brokers pass orders on to liquidity providers instead.

6 B

Account B, $9

Account A costs 1.2 × $10 = $12. Account B costs 0.2 × $10 + $7 = $9.

7 C

A promise of guaranteed monthly profits

No genuine broker can guarantee profits. Promises like this are a classic sign of a scam.

8 B

It usually comes with fewer protections, such as no compensation scheme

Offshore companies may offer higher leverage and bonuses, but usually without strict client money rules, compensation or an ombudsman.

SOURCES

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Up next: Lesson 15 Getting Started: Demo Account, Platform and Trading Plan

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