Commissions, and the free that isn't

> **PAYMENT FOR ORDER FLOW**
>
> A broker selling its customers' orders to a market maker for execution, earning per order what it forgoes in commission. The retail order still pays - through execution a shade inside the quote instead of at the best price competition might find - and the model is banned in some jurisdictions, including the UK, while built into commission-free brokerage in others.

Three tracks have taught that 'free' relocates the charge. Equities is where the relocation became an industry, and the mechanics deserve naming.

The visible stack

Where commissions are charged, the stack is simple: a flat or per-share dealing fee, exchange and settlement micro-fees usually bundled, and FX conversion charges when buying foreign names - the quiet one, often the largest, priced as a spread on the currency leg. Itemise once per broker, per market, and the visible stack holds no surprises; the commodities habit transfers unchanged.

The invisible stack

Commission-free via order flow: where permitted, the broker routes orders to a paying market maker; execution is legal-best-or-better, but the improvement competition might have won goes partly to the arrangement. The cost per trade is small and real, and scales with activity - the CFD spread lesson, wearing equity clothes.Commission-free via spread: other free models simply quote wider - the commodities lesson verbatim.Jurisdiction decides which model you meet: order-flow payment is prohibited in some markets, including for UK brokers, and standard in others - a structural fact about your broker worth knowing, stated here as description, not advice.

Comparing honestly

The comparison unit is the all-in round trip at your size: spread plus commission plus FX drag, in money. A £5 commission with a tight spread routinely beats free with a wide one at any meaningful size - and reverses for tiny positions, which is exactly why the answer is arithmetic, not allegiance. The module's standing rule, third track running: a visible fee is not a larger fee, and an invisible one is not smaller.

Check your understanding

1. How does a commission-free broker earn from a customer's order under payment for order flow?

a. It charges the exchange instead
b. It sells the order to a market maker, and the execution - legal but a shade inside what competition might find - carries the cost
c. It lends customer cash overnight

Answer: b. The market maker pays for uninformed retail flow and earns the spread against it. The customer's cost is the improvement not received - small per trade, real, and scaling with activity.

2. A £5-commission broker with tight spreads against a free broker with wide ones: which is cheaper?

a. The free broker, by definition
b. It is arithmetic at your size: all-in round trip in money - the fee model names where you pay, not how much
c. The commission broker, always

Answer: b. Position size times spread difference against the flat fee: the crossover is computable and flips with size. Three tracks of the same rule - itemise, then compare.