



The Complete Guide to Understanding Commissions

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Overview

- What Are Commissions/Trading Fees
- Deciding on a Broker
- Broker Fees
- 3rd Party Fees
- Examples
- Determining the Best Commission Structure for Your Trading Style



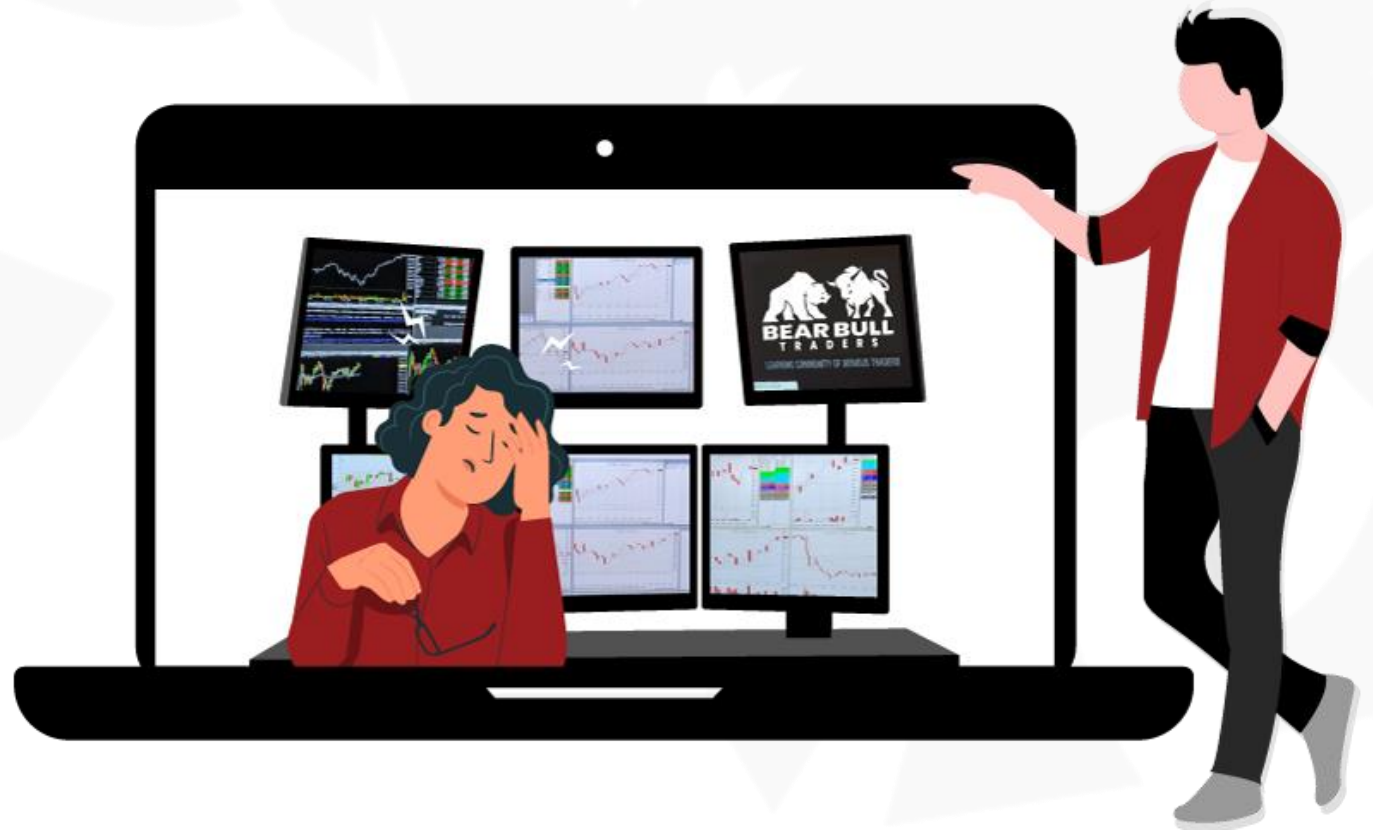
What are Commissions/Trading Fees?

- Commissions = Fees Charged to Execute a Trade
- Cost of Operating a Trading Business
- These fees can include:
 - The broker's service fee (generally marketed as *commissions*)
 - Market fees (ECN, routing fees, clearing fees, etc.)
 - Regulatory fees (SEC, FINRA, TAF, etc.)
- Every Broker is Different
 - Break them out
 - Bundle them together



Deciding on a Broker

- When picking a broker, considerations beyond fees:
 - Cost of trading platform?
 - 3rd party trading platform you use?
 - Short inventory availability?
 - Execution speed?
 - Emergency backup access points?
- Call the broker directly.



Deciding on a Broker

- There are many brokers to choose from, but few are suitable for active day trading.
- Common Brokers for Day Trading:



Broker Fees

- **Part 1 of 2:** Broker charges you for the service of buying or selling shares
- A.K.A Commissions
- Two main types of commission structures:

Variable Rate

Broker Y \$.0035/Trade

# of Shares	Calculation	Broker Fee
100	$100 * .0035 =$	\$.35
450	$450 * .0035 =$	\$1.57
1213	$1213 * .0035 =$	\$4.24
3609	$3609 * .0035 =$	\$12.63

Flat Rate


Broker X \$2.95/Trade

# of Shares	Broker Fee
100	\$2.95
450	\$2.95
1213	\$2.95
3609	\$2.95

Starting rates shown. Rates decrease with volume discounts and on request
Trade minimums on Per Share range between \$.35-\$1.00/trade
Brokers have a max number of shares allowed for Per Trade commission structures

Broker Fees



 United States			
Monthly Volume (shares) ^{1,7}	IBKR Pro - Tiered	IBKR Pro - Fixed	IBKR Lite
≤ 300,000	USD 0.0035	USD 0.005	USD 0.00 ²
300,001 - 3,000,000	USD 0.0020		
3,000,001 - 20,000,000	USD 0.0015		
20,000,001 - 100,000,000	USD 0.0010		
> 100,000,000	USD 0.0005		
Minimum per order	USD 0.35	USD 1.00	USD 0.00 ³
Maximum per order	1% of Trade Value ^{4,8}	1% of Trade Value ^{4,8}	USD 0.00
IB SmartRouting SM	✓	✓	✗
Eligibility	All	All	US Residents Only
Third Party Fees	<ul style="list-style-type: none"> Regulatory Fees Exchange Fees Clearing Fees Pass-Through Fees 	<ul style="list-style-type: none"> Regulatory Fees 	<ul style="list-style-type: none"> Regulatory Fees

Prices as of 4/6/2022

Broker Fees



- Two main types of **variable rate** structures: Prices as of 4/6/2022

Tiered Commission

\$.0035/Share with \$.35/Trade Minimum + Routing Fees

Fixed Commission

\$.05/share with \$1.00/Trade Minimum, NO Routing Fees

Which Is Better?

Depends on Your Trading Style

Broker Fees

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Commission fees

Active

Standard

Enhanced

COMMISSION FEE

\$2.95/tkt

\$0 per trade

Call for details

Prices as of 4/6/2022

Broker Fees

- True or False: Broker Fee/Commission equals the Total Cost of a Trade?

False

- Broker Fees a.k.a Commissions are what brokers advertise to new clients to attract business and compete against other brokers.
- There are many other trade specific fees that the trader will pay on every trade

3rd Party Fees

- Part 2 of 2: 3rd Party Fees
- Some types of 3rd Party Fees:
 - Routing (ECN) Fees
 - Regulatory Fees
 - Clearing Fees
 - Other Fees



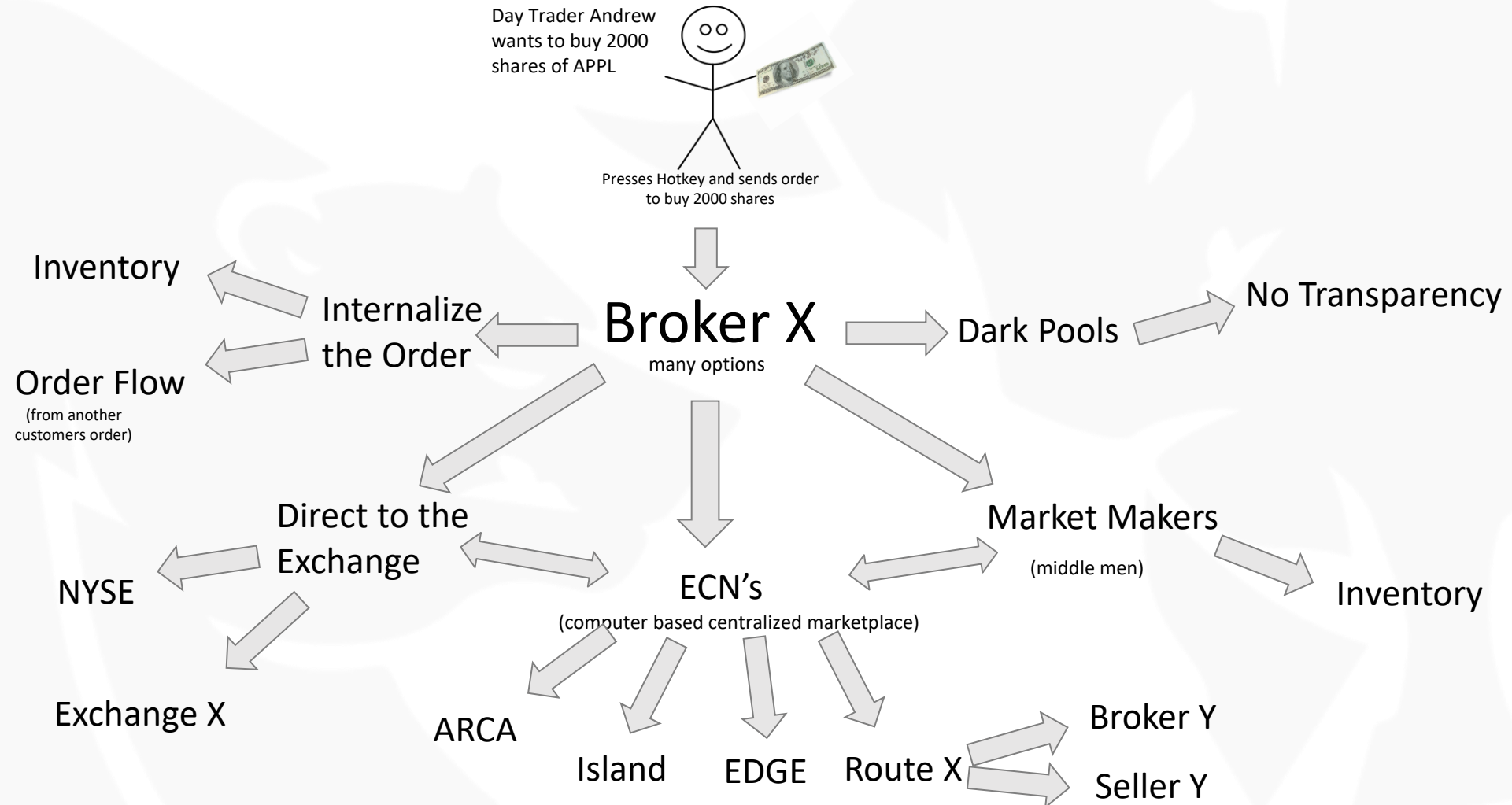
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3rd Party Fees

- **1 of 4: Routing (ECN) Fees** - Electronic Communication Networks or also known as Exchange Fees.
- There is A LOT to understand about Routing (ECN) fees, but for now we want to focus only on the basics.
 - Almost all market or **Marketable Limit Orders** will be charged a routing fee
 - Most **Limit Orders** will either have no fee, or a potential routing rebate
 - Fees will vary based on the route, and the broker used
 - Different brokers might charge different amounts for the same route

3rd Party Fees



3rd Party Fees

- 1 of 4: Routing (ECN) Fees: Prices as of 4/6/2022



NASDAQ BX Exchange Fees			
	Exchange Fees	REMOVE LIQUIDITY ¹	ADD LIQUIDITY ²
ETF >= \$1.00	AMEX	USD 0.0007 ⁴	USD 0.0030 ^{3,6}
ETF < \$1.00	ARCA	Trade Value * 0.0010	USD 0.0000
NASDAQ >= \$1.00		USD 0.0007 ⁴	USD 0.0030 ^{3,6}
NASDAQ < \$1.00	B-Trade	Trade Value * 0.0010	USD 0.0000
AMEX >= \$1.00		USD 0.0007 ⁴	USD 0.0030 ^{3,6}
AMEX < \$1.00		Trade Value * 0.0010	USD 0.0000
NYSE >= \$1.00		USD 0.0007 ⁴	USD 0.0030 ^{3,6}
NYSE < \$1.00		Trade Value * 0.0010	USD 0.0000
Retail Order / removes RPI liquidity ⁵		USD (0.0021)	N/A
Retail Order / removes liquidity on NASDAQ BX book ⁴		USD (0.0017) ⁴	N/A
RPI Order ⁵		N/A	USD 0.0025

ARCA Exchange Fees			
		REMOVE LIQUIDITY ¹	ADD LIQUIDITY ²
NASDAQ >= \$1.00 per share		USD 0.0030	USD (0.0020)
NASDAQ < \$1.00 per share		Trade Value * 0.003	USD 0.0000
NYSE >= \$1.00 per share		USD 0.0030	USD (0.0020)
NYSE < \$1.00 per share		Trade Value * 0.003	USD 0.0000
AMEX >= \$1.00 per share		USD 0.0030	USD (0.0020)
AMEX < \$1.00 per share		Trade Value * 0.003	USD 0.0000
Cross Orders		USD 0.0000	USD 0.0000
At the Close >= \$1		USD 0.0012	USD 0.0012
At the Close < \$1		Trade Value * .001	Trade Value * .001
At the Open >= \$1		USD 0.0015	USD 0.0015
At the Open < \$1		Trade Value * .001	Trade Value * .001
Auction Orders		USD 0.0006	USD 0.0006

NYSE Exchange Fees			
		REMOVE LIQUIDITY ¹	ADD LIQUIDITY ²
Hidden >= \$1.00 per share		USD 0.0030	USD (0.0000)
Tape A All Other >= \$1.00 per share		USD 0.0030	USD (0.0012)
Tape B All Other >= \$1.00 per share		USD 0.0030	USD (0.0020)
Tape C All Other >= \$1.00 per share		USD 0.0030	USD (0.0020)
All >= \$1.00 per share Add MPL		N/A	USD (0.0010)
Cross Orders		USD 0.0000	USD 0.0000
All < \$1.00		Trade Value * .003	USD 0.0000
All >= \$1.00 Market-on-open OR Limit-on-open		USD 0.0010	USD 0.0010
All < \$1.00 Market-on-open OR Limit-on-open		Trade Value * .003	Trade Value * .003
All >= \$1.00 Limit-on-close		USD 0.0011	USD 0.0011
All >= \$1.00 Market-on-close		USD 0.0010	USD 0.0010
Retail Order / removes RPI liquidity ³		(USD 0.00)	N/A
RPI (Retail Price Improvement) Orders ³		N/A	USD 0.0003
Retail Order/Mid-Point Passive Liquidity		USD 0.0010	N/A

- This fee only applies to Interactive Brokers tiered commission structure, not fixed

3rd Party Fees

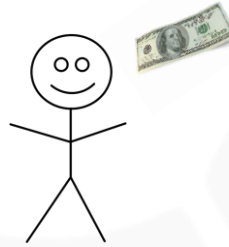
- 1 of 4: Routing (ECN) Fees: Prices as of 4/6/2022

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ECN fees			
ECN FEES	Active	Standard	Enhanced
	SMART / \$0.0025	SMART / \$0.003	Call for details
	NYSE / \$0.0030		
	NASDAQ / \$0.0030		
	ARCA / \$0.0030		

3rd Party Fees

Day Trader Andrew
wants to buy 2000
shares of AAPL



Presses Hotkey and sends order
to buy 2000 shares



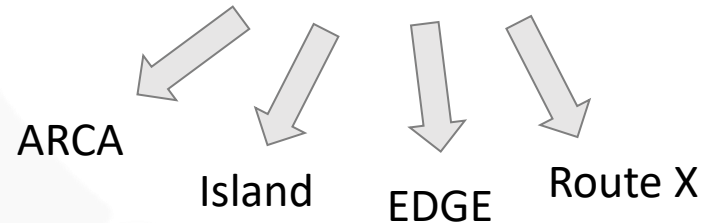
Broker X

Many options



ECN

(computer based centralized marketplace)



1. Broker sends the order to the ECN
2. Different routes in the ECN compete for the brokers order
3. Why? Because the routes charge a fee for fulfilling the order
4. Let's assume ARCA finds 2000 shares of AAPL at the best price and Broker X agrees to buy the shares
5. ARCA charges \$.003/share for this service of finding the shares
6. Total fee through the ARCA route is $$.003 * 2000 = \6
7. Who pays the \$6.00 fee?
8. I'll give you two guesses, but you will only need one . . .
9. Broker passes the \$6.00 ECN routing fee onto you, the trader

Cost of buying 2000 shares of AAPL
Assume Per Trade broker at \$2.95/trade
Assume Per Share broker at \$.0035/share

	Per Trade	Per Share
Broker Fe	\$2.95	2000*.0035= \$7.00
ECN FEE	2000*.003= \$6.00	2000*.003= \$6.00
Broker+ECN Fee	<u>\$8.95</u>	<u>\$13.00</u>

3rd Party Fees

- **2 of 4: Regulatory Fees** - Government mandated fees that are required on certain order types. These fees are passed onto the trader, and are collected to help regulate the brokerage industry.
- 2 Primary Government Fees: Prices as of 4/6/2022
 - SEC Transaction Fee **\$0.0000051** x Total Value of Trade
 - FINRA Trading Activity Fee **\$0.00013** x Quantity Sold
- Only Applies to Short/Sell Orders (All Brokers)



- All funds collected are transferred to the related governmental agency.

3rd Party Fees

- 2 of 4: Regulatory Fees Example:

Sell or Short 455 Shares of AAPL @ \$191.24

FINRA TAF FEE: $\$0.00013 \times 455 = \0.59

(Finra Rate) (# of shares) (FINRA FEE)

SEC FEE: $\$191.24 \times 455 = \$87,014.20 \times \$0.0000051 = \0.44

(Stock Price) (# of shares) (Total Value of Sales) (SEC Rate) (SEC fee)

Buy 455 shares of AAPL @ \$191.24

FINRA TAF FEE: N/A

SEC FEE: N/A

3rd Party Fees

- **3 of 4: Clearing Fees** - Clearing House's charge fees to help a broker facilitate the process of exchanging shares for money, to complete a buy or sell transaction
- Not All Brokers Charge Clearing Fees



Prices as of 4/6/2022

Clearing Fees
NSCC, DTC Fees: USD **0.00020** per share⁶

Max .05%
of Trade
Value

Buy 455 shares of \$APPL

Clearing Fee: $\$0.00020 \times 455 = \mathbf{\$.091}$

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N/A

- This fee only applies to Interactive Brokers tiered commission structure, not fixed.

3rd Party Fees

- **4 of 4: Other Fees** - Each broker might have other fees that they charge on either a per share or per trade basis. These fees might be completely different depending on your broker.
- Not All Brokers Charge Clearing Fees



Prices as of 4/6/2022

Pass Through Fees
NYSE Pass Through Fees: Commissions * 0.000175
FINRA Pass Through Fees: Commissions * 0.00056⁵

Max \$6.49 per ticket

Buy 425 shares of \$APPL		
Commission:	425 x \$0.0035	= \$1.4875
NYSE Pass Through Fee:	\$1.4875 x \$0.000175	= \$0.0003
FINRA Pass Through Fee:	\$1.4875 x \$0.00056	= \$0.0008



N/A

- These two fees only apply to Interactive Brokers **TIERED** commission structure, not fixed.
- These fees are not related to the more common FINRA TAF and SEC fees

Examples

\$BA

Buy 100 Shares @ \$175.72

	Interactive Brokers	CMEG
Broker Fee	\$.35/\$1.00	\$2.95
Routing (ECN) Fee	\$.30/\$0	\$.30
Regulatory Fee	N/A	N/A
Clearing Fee	\$.02/\$0	N/A
Other Fee	\$.0001/\$0	N/A
Total Cost Per Trade	\$.67/\$1.00	\$3.25

Examples

\$BILI Short 500 Shares @ \$25.30

	Interactive Brokers	CMEG
Broker Fee	\$1.75/\$2.50	\$2.95
Routing (ECN) Fee	\$1.50/\$0	\$1.50
Regulatory Fee	\$.22/\$.22	\$.22
Clearing Fee	\$.1/\$0	N/A
Other Fee	\$.001/\$0	N/A
Total Cost Per Trade	\$3.57/\$2.72	\$4.67

Examples

\$UAL
Sell 1000 Shares @ \$43.32

	Interactive Brokers	CMEG
Broker Fee	\$3.5/\$5.00	\$2.95
Routing (ECN) Fee	\$3.00/\$0	\$3.00
Regulatory Fee	\$.68/\$.68	\$.68
Clearing Fee	\$.20/\$0	N/A
Other Fee	\$.002/\$0	N/A
Total Cost Per Trade	\$7.38/\$5.68	\$6.63

Examples

\$UBER Short 4000 Shares @ \$25.30

	Interactive Brokers	CMEG
Broker Fee	\$14/\$20	\$2.95
Routing (ECN) Fee	\$12/\$0	\$12
Regulatory Fee	\$.70/\$.70	\$.70
Clearing Fee	\$.8/\$0	N/A
Other Fee	\$.01/\$0	N/A
Total Cost Per Trade	\$27.51/\$20.70	\$15.65

Best Commission Structure for You

# of Shares	<u><100</u>	<u>100-200</u>	<u>200-500</u>	<u>500-800</u>	<u>800-1000</u>	<u>1000+</u>
Per Trade	No	No	No	No	Sometimes (DOP)	Sometimes (DOP)
Per Share (tiered)	<u>YES</u>	If Paritaling in or out	DOP	DOP	Rarely (DOP)	Rarely (DOP)
Per Share (fixed)	Never	If 1 entry & 1 exit	DOP	DOP	Fixed over Tiered (DOP)	Fixed over Tiered (DOP)

DOP = Depending on Partial

Tiered - assume \$.0035/share w/ minimum broker fee of \$.35 + ECN fees

Fixed - assume \$.005/share w/ minimum broker fee of \$1.00 no ECN fees

Note - The more times you partial in and out with small share size 100 or less always benefits tiered

Best Commission Structure for You

Per Trade - Best with large or extra large size (1,000-5,000 shares) and minimal partials

Why?

Flat rate is better than variable rate above 1000 shares assuming variable rate of \$.0035/share and flat rate of \$3.5

Per Share Tiered - Best for new traders at 100 shares or less and small-medium (100-750) share size and many partials

Why?

Low minimum of \$.35 is better than per share fixed and per trade when taking a partial at 100 shares or less multiple times

Per Share Fixed - Best with medium size (no partials or minimal partials)

Why?

No Routing (ECN) fee means smaller variable cost

*** Please remember these are just guidelines and fees will vary depending on how you specifically partial in and out of trades.



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