



# SEC

OFFICE of INVESTOR  
EDUCATION and ADVOCACY

## Investor Bulletin: How to Read Confirmation Statements

*The SEC's Office of Investor Education and Advocacy is issuing this Investor Bulletin to provide you with guidance on how to read confirmation statements.*

### What is a Confirmation Statement?

Under SEC rules, whenever you purchase or sell a security, the broker-dealer through whom you bought or sold the security is generally required to give or send you a written notification – or confirmation – with information about the transaction. The confirmation statement contains basic information about the transaction, such as the identity of the security, the amount of securities you purchased or sold, and the price that you paid or received. The confirmation statement serves a basic investor protection function by:

- Containing information that allows you – the investor – to verify the terms of your transactions;
- Alerting you to potential conflicts of interest with your broker-dealer;
- Acting as a safeguard against fraud by informing you of the activities in your account; and
- Providing you a means by which to evaluate the costs of your transaction and the quality of your broker-dealer's execution.

When you receive a confirmation statement, you should verify that the information is correct.

**If you have questions, spot any errors, or see transactions that you did not make or authorize, you should contact your broker-dealer immediately.** It also is a good idea to compare confirmation statements with periodic account statements for any discrepancies.

### Format of the Confirmation

While the SEC's confirmation rule identifies the information that a broker-dealer is required to disclose to you when you purchase or sell a security, the rule does not require that the information be presented in any particular format. A confirmation statement may not always look the same across broker-dealers. Some broker-dealers, for example, may use alphanumeric codes on the front of the confirmation statement with information about what each code means located on the back of the confirmation statement. Often times, the back of a confirmation statement will contain lots of additional information that may not be directly relevant to your transaction. **If your broker-dealer uses alphanumeric codes in its confirmation statements, or if you have questions about information that is on the back of a confirmation statement, you should contact your broker-dealer.**

## A Broker-Dealer's "Capacity" and Compensation

In addition to information about the security you purchased or sold, the confirmation statement also tells you the "capacity" your broker-dealer acted in when effecting your transaction. The term capacity, in general, refers to whether your broker-dealer acts as your agent, on your behalf, in the transaction; or whether your broker-dealer acts as a principal, for its own account, in the transaction. Illustrated below is the difference between a broker-dealer acting as an agent and a broker-dealer acting as principal, and how a broker-dealer's capacity often will determine whether and how a broker-dealer's compensation is disclosed on the confirmation statement. When you engage in a securities transaction, whether you buy or sell the security, you will generally incur a transaction charge, which is the way you compensate the broker-dealer. When the broker-dealer acts as your agent, the charge will be called a commission; when the broker-dealer acts as a principal (as the opposite party to you in the transaction), the charge is called the "mark-up" or "mark-down" (described more below).

**Agent** – Suppose that you want to buy 100 shares of ABC stock. In this very simple illustration, your broker-dealer executes your order through the facilities of a stock exchange, buying it from a third party through the exchange. In doing so, your broker-dealer acts as your agent and probably charges you a commission. You can find the amount of the commission on the confirmation statement.

A broker-dealer also may act as an agent for both you and someone else. In that case, the broker-dealer acts as a dual agent. This is similar to a real estate agent who has one client who wants to buy a house and a second client who is selling that house. In some cases, if you want to buy a security in a mutual fund through your broker, the broker may act as your agent and the mutual fund's distribution agent (i.e., the mutual fund's selling agent).

**Principal** – Let's suppose again that you want to buy 100 shares of ABC stock and that your broker-dealer has, in its inventory, enough shares of ABC stock to fulfill your order. The broker-dealer sells you the shares out of its inventory. In this case, the broker-dealer acts as a principal in the transaction (that is, selling to you directly, as an opposite party). When acting in a principal capacity, the broker-dealer generally will not charge you a commission, but rather, is compensated for executing the transaction by charging you the "mark-up" or "mark-down" on the market price of the security being bought or sold by you.

A mark-up is the difference in price between the current market price for the security and what the broker-dealer charged you for executing your security transaction. Conversely, if you place a sell order, the broker-dealer may buy your security to place into its inventory. The broker-dealer, acting as principal, may buy the security from you at the current market price and charge you for executing the transaction, thereby reducing your sales proceeds. This difference, or execution charge, is called a mark-down. For example, broker-dealers typically mark-up (or mark-down) the price when they buy (or sell) bonds from (to) investors.

Confirmation statements disclose mark-ups and mark-downs only for exchange-traded stock trades. For over-the-counter security transactions, such as bond trades, confirmations only show the price you paid; they do not break out any mark-up/mark-down. For example, if you buy or sell a bond with the broker-dealer acting as a principal, the confirmation statement will show only the price you paid (i.e., the net price), which includes the cost of the mark-up or mark-down and does not break it out separately.

In some instances, the broker-dealer may enter the marketplace to purchase the security for itself and then turn around and sell you the security. The broker-dealer may choose to sell you the security at the same price for which it purchased the security, plus a mark-up. This is generally called a riskless principal transaction. It is called riskless because the broker-

dealer, when purchasing the security, already knows that it can sell it to you at a certain price.

**Payment for Order Flow** – The transaction confirmation statement also must disclose whether the broker-dealer receives payment from third parties for “order flow.” Exchanges and market makers sometimes pay broker-dealers as an incentive to encourage the broker-dealers to route their customer orders to them, which is referred to as paying for order flow. For “order flow,” the confirmation statement must say that the source and nature of the compensation received by the broker-dealer in connection with the particular transaction are available to the customer upon written request.

## SIPC Coverage

The confirmation statement generally will tell you whether your broker-dealer is a member of the Securities Investor Protection Corporation (SIPC). This information is important to you, because SIPC coverage may provide you some financial protection if a brokerage firm goes bankrupt or if your securities are lost or stolen. If that happens and your brokerage firm is a member of SIPC, then your cash and securities held by the brokerage firm may be protected up to \$500,000, including a \$250,000 limit for cash. SIPC covers most types of securities, such as stocks, bonds, and mutual funds. SIPC does not protect you, however, against losses caused by a decline in the market value of your securities. In addition, certain mutual fund broker-dealers are not required to disclose whether they are a SIPC member.

## Related Information

The Financial Industry Regulatory Authority's [It Pays to Understand Your Brokerage Account Statements and Trade Confirmations](#)

[The Securities Investor Protection Corporation's website](#)

Our educational materials provide tips on how investors can invest wisely. Investors can order our free publications by calling (800) SEC-0330, or access them on the Internet through the SEC's [Investor.gov](#) website. For additional educational information for investors, see the SEC's [Investor.gov](#) website, the [Office of Investor Education and Advocacy's homepage](#), and [www.sec.gov](#).

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