



# What is a broker-dealer?

A broker is any person engaged in the business of buying or selling securities for the account of others. A dealer is any person engaged in the business of buying or selling securities, but for their own account. Identifying when a person is acting as a broker or a dealer is important because generally broker-dealers must register with the SEC.

Someone who trades securities for others could be a broker. In addition, other activities could require someone to register as a broker-dealer, including but not limited to:



Finding investors for companies or for funding rounds



Finding buyers and sellers of businesses



Operating a platform enabling trading of securities



Providing support services to registered broker-dealers

To determine whether someone is a broker, consider, for example, whether they:



Participate in important parts of the transaction, like solicitation, negotiation, or execution



Receive commissions or compensation based on the outcome or size of the transaction



Engage in the business of facilitating the buying and selling of securities



Handle securities or funds of others in connection with securities transactions

If so, they likely are acting as a broker and would have to register with the SEC.

## When do small businesses use a registered broker-dealer?

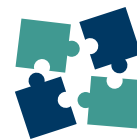
Early-stage businesses may encounter challenges connecting with investors. Broker-dealers may be able to help bridge the gap between small businesses and potential investors. A person or firm may need to be registered as a broker-dealer if a company intends to pay them transaction-related compensation to help with transactions like the following:



Raise capital from investors



Sell the company



Engage in another type of liquidity transaction

## If a company sells its own securities, would that make it a broker-dealer?



### Issuer

A company issuing its own securities, sometimes called an issuer, generally is not acting as a broker because it is selling securities for its own account and not for the account of others.

An issuer generally is not considered a dealer because it does not buy and sell its securities for its own account as part of its regular business.

An issuer whose activities go beyond selling its securities, however, such as purchasing its securities from investors or effectively operating a market in its own securities, should consider whether it would need to register as a broker-dealer.



### Associated Persons

Employees and other associated persons of an issuer may be exempt from registration as brokers for certain limited work selling the issuer's securities. Sometimes called the "issuer's exemption," this exemption does not apply to the personnel of a company who routinely engage in the business of buying and selling securities for the company, especially if they are paid for selling these securities or have few other duties.

Employees and other associated persons of an issuer whose capital-raising activities go beyond selling the issuer's securities, also should consider whether they would need to register as a broker-dealer.

## What happens if a company uses an unregistered broker?

A company or its personnel who do not comply with the requirements for broker-dealer registration and other securities laws could be subject to legal repercussions, including:



Civil or criminal lawsuit



Rescission



Future capital raising challenges

## How do I find out if my broker-dealer is registered?

Brokers generally must register with the SEC and become members of the [Financial Industry Regulatory Authority \(FINRA\)](#). Find out if your broker or investment professional is licensed and registered using this [free search tool](#) available on [Investor.gov](#). Always check out both the person as well as the firm. You can also visit [FINRA's BrokerCheck program](#) and/or your [state securities regulator](#).

For more detail about the issuer's exemption and associated persons of issuers, and to learn more about [broker-dealer registration](#), including limited exemptions for certain activities, please review the [Broker-Dealer Registration Guide](#).

Have suggestions on additional educational resources? Email [smallbusiness@sec.gov](mailto:smallbusiness@sec.gov).

Although this resource highlights certain provisions of the federal securities laws and SEC rules, it is not comprehensive. Brokers and dealers, and their associated persons, must comply with all applicable requirements, including those of the SEC, as well as the requirements of any self-regulatory organizations to which the brokers and dealers belong.

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