BETTER FINANCE
The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers

betterfinance.eu

Are **Neobrokers** Too Good to Be True for EU Investors?

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While neobrokers advertise a zero-commission model, this can be misleading due to both implicit and explicit costs.

tangible expenses that are disclosed to investors, such as subscription fees or transaction charges.

indirect expenses often related to the bid-ask spreads of trade.

They may go unnoticed or be undisclosed, potentially affecting investor awareness and the overall impact on their investments.

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Neobrokers receive compensation for directing retail orders to specific market makers or trading venues.

Payment for Order Flow (PFOF) and rebates from ETF providers are key financial incentives for neobrokers.

ETF providers and asset managers may pay premiums for product listings.

Inducements or financial subsidies often form a significant part of neobrokers' revenue, helping to keep ETF costs low.

However, such practices can raise concerns about **investor choice** and **market transparency.**

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lending clients' securities and reinvesting the collateral

Neobrokers engage in **securities lending** to generate additional revenue.

While this practice can increase their income, it also introduces risks for retail clients, including counterparty risk and collateral shortfall risk.

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The innovative nature of neobrokers challenges existing regulatory frameworks and requires continuous adaptation to ensure investor protection and market integrity.

Transparent Marketing:

Implement strategies that clearly disclose the risks involved.

Retail Investment Strategy

Consider partial bans on inducements.

Regulation of Marketing:

Address marketing practices, gamification tactics, and behavioural prompts that may mislead investors.

PFOF Ban

The MiFID/R regulations aim to address and potentially prohibit Payment for Order Flow (PFOF) practices.

Enhance Investor Awareness

Improve understanding of high-risk options and closely examine the ecosystem of digital platforms.

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Is an integrated financial platform the solution?

Neobrokers are merging brokerage services with banking and payment options (also known as platformisation), which introduces challenges such as:

- **Increased Complexity:** Integrated platforms can make it difficult for clients to grasp the full scope of services.
- **Gamification Risks:** Digital engagement tactics, like gamification and nudges, may lead to excessive trading or risky behaviour.
- **Regulatory Hurdles:** Careful regulatory oversight is needed to ensure compliance, protect investors, and maintain market integrity.
- **Risk Management:** Users should understand the compounded risks of integrated services.
- **Transparent Communication:** Neobrokers must clearly explain the risks, costs, and benefits of combined services so that users can make informed choices.

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For More Information, Check **Neobrokers** Inception Paper in Our Website.