

Neobrokers & Securities Lending: Understanding the Trade-offs

An illustration of a person sitting on a laptop, surrounded by floating coins and data points, symbolizing digital finance or neobanking. The person is wearing a blue shirt and black pants, and the laptop is open. Several gold coins are floating around the person, and there are small orange and yellow dots connected by lines, representing data or network connections.

Based on BETTER FINANCE research

SWIPE

What Are Neobrokers?

App-based brokers with low entry thresholds, frictionless trading and easy onboarding have broadened retail investor access, especially for younger and first-time investors.



Why Securities Lending Matters

- Securities lending is becoming a new revenue stream for neobrokers as traditional income sources (like PFOF) are phased out across the EU. It's often presented as "passive income" for investors.



How It Works (Simplified)

- Investors' holdings can be lent out to third parties (e.g. for short selling)
- Neobrokers may share part of that income with investors, usually through an opt-in feature.



Potential Benefits

- Can return some value generated from client assets back to investors.
- Features are more transparent and explicit than in legacy brokerage.



Key Risks to Consider

- *Loss of ownership rights:* Lending can shift your position to creditor status and temporarily affect voting rights.
- *Counterparty & collateral risks:* Borrowers may default or collateral may be insufficient.
- **Trading/transferability constraints:** Some arrangements can limit selling or moving assets.



Complexity Doesn't Disappear with Opt-In

- Even with consent and disclosures, securities lending remains complex: modest extra yield may come with asymmetric risks that investors don't fully appreciate without robust guidance.



What Investors Should Ask

Do you fully understand:

- how revenue splits are calculated?
- what happens under market stress or broker insolvency?
- whether investor compensation schemes apply when shares are on loan?



Regulatory & Safety Considerations

BETTER FINANCE calls for:

- Clear, standalone consent with plain-language disclosures
- Harmonised risk warnings and tax clarity
- Preserving tradability & voting rights
- Oversight of conflicts of interest (e.g. short selling incentives)



Takeaway

Extra income sounds attractive, but it's important to balance benefits with new forms of risk. Informed decision-making remains central to long-term investment success.

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