We thank you for your time spent taking this survey.
Your response has been recorded.

Foreword

The Board of the International Organization of Securities Commissions (IOSCO) is seeking comments on this Consultation Report on Neo-brokers

Important: All comments will be made available publicly, unless anonymity is specifically requested. Comments will be converted to PDF format and posted on the IOSCO website. Personal identifying information will not be edited from submissions

If you have questions about the report or the consultation, please contact Alp Eroglu (a. eroglu@iosco.org), Flavio Bongiovanni (f.bongiovanni@iosco.org) and Devid Mazzonetto (d.mazzonetto@iosco.org).

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1. Do commenters agree with the current definition of neo-brokers as set out in this report? Please, elaborate.

BETTER FINANCE broadly agrees with IOSCO's functional definition of neo-brokers as a subset of (digital) brokerage, typically characterised by a low-cost structure, mobile-first interfaces (often app-based), and execution-only investment services. This framing captures core technological and operational features that distinguish neo-brokers from traditional brokers. However, we believe the current definition could go further in recognising the structural and behavioural evolution these platforms represent. Neo-brokers are not merely digital brokers operating with reduced fees; they leverage technological advancements to streamline investment services and scale cost-efficiency. Their model increasingly reshapes how investment services are accessed, monetised, and experienced by retail clients. Several defining functional characteristics are central: simplified onboarding flows, the near-ubiquitous use of fractional trading, and restricted access to execution venues (often limited to internalised routing or third-party partnerships) — are central to neo-brokers' market proposition but remain underrepresented in the current framing. These operational choices have direct implications for best execution, ownership models, and price transparency. Moreover, the definition would benefit from explicitly acknowledging how interface design, automation, and behavioural nudges shape investor decisions. Neo-broker platforms commonly integrate features such as default investment settings, recurring contribution prompts, gamified interfaces, and simplified risk warnings. While such tools improve accessibility, they can also limit investor engagement with key product information and challenge the regulatory boundary between execution-only services and implicit advice. In some cases, automated or guided flows may nudge users toward particular behaviours or product categories without triggering appropriateness or suitability safeguards. For these reasons, BETTER FINANCE encourages IOSCO to further elaborate its definition by incorporating these key common / emerging features particularly behavioural design elements, internalised execution practices, and ownership implications of fractionalisation — to reflect the full spectrum of how neo-brokers operate and interact with retail investors.

2. Do commenters agree with the proposed characteristics of the neo-brokers' business model? If not, please explain. Does the neo-broker business model merit specific focus and evaluation relative to other broker-dealers? If so, why?

BETTER FINANCE agrees that the IOSCO report captures several core features of the neo-broker model. Their reliance on low-cost access is coupled with a growing dependence on alternative revenue streams. In particular, we stress recognising the increasing tension between explicit fee reductions and the rise of implicit costs, which are often less visible to investors. However, we believe the report underestimates the centrality (and potential reliance) on specific monetisation schemes (such as new inducement arrangements with product issuers) and securities lending (as fully fledged programmes or indirect monetisation trends). While simplified interfaces enhance ease of use and accessibility, they also obscure key layers of information generating revenue, such as execution venue, FX conversion costs, or the legal structure of fractional holdings. Again, execution is often internalised or routed through a limited set of venues, frequently via preferred trading partners, which reduces price transparency and makes it more difficult for investors — and supervisors — to assess whether best execution obligations are being met. Moreover, certain neo-brokerage models integrated by neobanks can rely on "trading-as-a-service" arrangements (or white-labelled execution infrastructure), where execution discretion is delegated to external broker-venues. This adds a new layer of intermediation, potentially weakening the accountability chain and obscuring who holds responsibility for execution quality and client outcomes. More importantly, neo-brokers are embedding a new generation of services, many of which can qualify as complex and go beyond the general understanding of 'product complexity'. These include round-up investing, payment-linked trades, and automated flows that mimic savings or banking-like features. Unlike traditional one-off trading instructions, these mechanisms embed investment decisions into everyday financial behaviour. We reiterate that securities lending (both as a source of platform revenue and a new client-facing service) warrants particular attention. Interestingly, we note that some neo-brokers have introduced improved transparency practices compared to traditional players, such as toggled participation, income dashboards, and clearer opt-in flows. At the same time, the underlying risks remain significant: counterparty exposure, loss of shareholder voting rights, lack of recall functionality, and unclear collateral terms. This practice should be explicitly treated as a complex service, with appropriate baseline safeguards — including mandatory opt-in, transparent income attribution, and mechanisms to enable vote recall in alignment with shareholder engagement. The perception of “zero-cost” trading is closely linked to the broader issue of implicit versus explicit costs. While visible fees may appear minimal, investors often incur indirect costs through widened spreads, FX mark-ups, or monetised order flow. Additionally, some neo-brokers enter into commercial agreements with product issuers — for example, ETF or structured product providers — that subsidise trades or reimburse execution costs, particularly in the context of automated savings plans. While these arrangements reduce upfront costs for users, they are often opaque and may introduce product selection bias or shift trading costs into the product structure itself (e.g., via the total expense ratio). This may result in cost mutualisation across all clients or incentivise platforms to promote frequent trading to generate revenue. Despite their potential impact, such costs are rarely disclosed in a clear, comparable, or standardised format — limiting investor understanding and market transparency. Moreover, oversimplification is not only reflected in pricing but also in incomplete trading information. We stress that investors are often unaware of the share class they are purchasing or that the trading currency may differ from the underlying asset denomination; exposing them to currency risk without upfront clarity. In sum, the neo-broker model is not merely a leaner-cost digital variant of traditional brokerage. It represents a structurally distinct approach to investment intermediation, marked by hybridisation, behavioural steering, and complex monetisation strategies (often link to issuance of new complex services).

3. Are there any other types of activities engaged in by neo-brokers, that are not covered in this report? Please explain, providing examples and describing their impact on retail investors.

The activities discussed here build directly on the business model characteristics outlined in Question 2. Neo-brokers are no longer limited to simplified execution interfaces. They increasingly offer a wide range of complex services (including payment-linked investing, recurring micro-investments, securities lending schemes, and fractional share arrangements). Developments also mark a shift toward hybrid business models that blend brokerage, banking, and payments – a transformation that remains underdeveloped in the IOSCO report. Specifically, ongoing platformisation creates new risks linked to service complexity, indirect monetisation, and cost opacity / cross-selling. While IOSCO refers to such offerings as “ancillary services,” this label significantly understates their centrality to today’s neo-broker business models. These services are often framed as simple or user-friendly, but in practice introduce financial exposure or entrenched without sufficient contextual explanation or safeguards. Again, many platforms now embed financial products in everyday interfaces, such as “save-and-invest” wallets or interest-bearing accounts that invest in capital markets (MMF). Others offer white-labelled advisory tools or maintain commercial partnerships with ETF and structured product issuers that influence product visibility, pricing, and platform rankings. These arrangements may lead to unrecognised conflicts of interest or selection bias, especially when not clearly disclosed. In BETTER FINANCE’s view, these embedded and hybrid services should not be treated as peripheral additions but as central features that redefine the investor experience. IOSCO should further assess how this evolution affects regulatory categorisation, duty of care, and the design of investor protection measures, particularly around investor education.

4. Do commenters believe that certain characteristics are substantially different between neobrokers and other broker-dealers? If so, identify the characteristics of the business model of neo-brokers that differ substantially from that of traditional brokers.

The business models of neo-brokers differ substantially from those of traditional brokers — not only in pricing and interface, but in their infrastructure, investor journey, and regulatory implications. Neo-brokers operate through fully digital infrastructure, often relying on internalised execution, trading-as-a-service integrations, and third-party or white-labelled execution partners. This allows for cost efficiency and rapid scaling, but also introduces challenges: reduced price transparency, fragmented accountability, and weaker oversight of execution quality — especially when discretion is delegated to external venues. These models may blur liability chains and complicate redress. At the product level, fractional investing is a defining innovation. While it enhances access and diversification for retail clients, most structures are contractual or synthetic, not conferring full legal ownership. This raises issues particularly around voting rights, dividend treatment, and portability across platforms – all of which vary in operations. New custody models — particularly those used for fractional shares — often rely on pooled omnibus accounts. While this approach can offer operational efficiency, it may also restrict shareholder engagement and complicate asset transfers, especially when clients are not individually registered at the central securities depository level. These challenges are compounded by underdeveloped portability frameworks. Although some neo-brokers are working on backend integrations to facilitate smoother account transfers, progress remains uneven and is not supported by common technical or regulatory standards. Onboarding and appropriateness processes also diverge. Many platforms rely on simplified questionnaires or static warnings, with limited adjustment to the complexity of services offered — such as securities lending or leveraged products. Disconnect is observed between information obligations and their actual implementation in app-based environments. That said, neo-brokers also present important opportunities. Their platforms attract large numbers of first-time investors, offering a chance to embed digital financial literacy tools and contextual explanations throughout the investor journey. Done well, this could transform onboarding into a more meaningful empowerment process — reinforcing rather than replacing investor protection standards.

5. Do commenters agree with the envisaged potential benefits and risks stemming from the neo-broker business model, as identified in this consultation report? Do you think there are additional benefits and risks that should be considered? Do you think these potential benefits and risks also apply to broker-dealers in general? Does the existing regulatory framework sufficiently address the potential risks or are new regulatory measures needed? Please explain.

BETTER FINANCE recognises the significant benefits brought by neo-brokers, including lower barriers to entry, reduced visible transaction costs, and a broader reach to first-time retail investors. However, we believe the IOSCO report underplays several critical risks that are either unique to or amplified by the neo-brokerage model — especially in light of platform design, monetisation structure, and emerging service bundling. First, the behavioural impact of platform design deserves greater attention. Neo-brokers combine simplified interfaces with default automation, nudging mechanisms, and social trading features that can significantly influence retail behaviour. These features — from round-up investing and push notifications to influencer-linked rankings — may encourage frequent or guided trading while bypassing traditional safeguards such as suitability assessments. We encourage IOSCO to develop a typology of digital engagement practices that can be used to assess when design crosses into the realm of implicit advice or inducement. Second, cost transparency in neo-brokerage environments remains a core challenge. While many platforms market "zero-commission" trading, this often conceals implicit costs borne by users through widened spreads, FX mark-ups, or monetised order routing. In some cases, platforms enter into commercial arrangements with product issuers — for instance, ETF providers — to subsidise transactions or reimburse execution costs for automated plans. These relationships may influence product visibility or availability, yet are rarely disclosed in a standardised, user-friendly manner. IOSCO should consider promoting layered cost disclosures that clarify the full cost of a trade — including indirect pricing components — at the point of decision. Third, fractional investing deserves more detailed treatment. While it supports financial inclusion and diversification, current implementations vary widely in legal structure and investor entitlements. Most fractional models are synthetic or pooled, leaving investors with a contractual exposure rather than direct ownership. As a result, voting rights, dividend distributions, and transferability may not apply or may be inconsistently applied across platforms. These models also rely on back-end

IT infrastructure for asset segregation and position tracking, which, while efficient and democratising access, may create operational risks if not properly governed or monitored. IOSCO could assess whether minimum transparency and operational standards are needed, looking into best practices. Fourth, securities lending (as discussed, increasingly offered at the retail level) may require a more nuanced regulatory response. Although some platforms provide improved tools (e.g. dashboards, opt-ins), the core risks persist: counterparty exposure, unclear recall mechanisms, and loss of control over shareholder rights. We reiterate our view that this activity should be classified as a complex service, requiring explicit consent, income attribution clarity, and investor-oriented safeguards. Lastly, the interaction between bundled services and investor understanding remains underdeveloped. Again, neo-brokers increasingly operate as integrated platforms, offering execution alongside payment tools, cash management features, and product selection services. These blurred lines call for a functional approach to regulation — focused on investor outcomes, not only service labels.

6. How should neo-brokers best address potential conflicts of interests? What should the best practices be in this respect? Are any of these potential conflicts of interest unique to neobrokers? Please explain by highlighting the areas of conflicts of interests and how they can best be addressed. Does the existing regulatory framework sufficiently address the potential conflicts of interest or are new regulatory measures needed? Please explain.

Neo-brokers present a number of potential conflicts of interest, stemming from their distinctive digital infrastructures and platform-based revenue models. While some of these are shared with traditional brokers, others are more embedded in the design of neo-brokerage ecosystems, and thus merit targeted attention. One key area involves commercial arrangements with product providers, such as ETF or structured product issuers. These may involve subsidising trading fees or promoting product visibility through curated menus or featured placements. While they can reduce upfront costs for users, such arrangements introduce risks of product selection bias and shelf distortion, particularly when not clearly disclosed. Investors should be made aware when platform design is influenced by underlying commercial relationships. Securities lending also involves asymmetrical incentives. While some platforms now offer greater transparency (such as income dashboards or opt-in toggles) platforms often retain a significant portion of the lending revenue, while retail clients assume the associated risks (e.g., counterparty exposure, voting rights limitations). Without clear and plain disclosures, this creates a conflict between client interests and platform profitability. Best practices should include clear disclosures of platform-level revenues (including income-sharing arrangements, and structural risks) – to foster comparison, structured conflict mapping for digital engagement features, and safeguards around product placement and promotional influence. These should be coupled with a broader duty of care that ensures no harm to the client — aligning best interest principles with investor awareness, literacy, and sound outcome objectives.

7. Bearing in mind that for the purpose of this consultation report neo-brokers only provide services and offer products online and do not have physical operating branches, is better coordination by global regulators across jurisdictions necessary? If so, (1) how can regulators better coordinate across jurisdictions where different regulatory standards apply? (2) what mechanisms could enhance global regulatory coordination? and (3) would this coordination be different for neo-brokers than for broker-dealers in general that may operate across jurisdictions? Please explain.

Stronger cross-border coordination is essential, and IOSCO's initiative in this area is highly welcome. Neo-brokers operate on an online-only basis and can scale rapidly across jurisdictions, often without physical presence or host-country supervision. This creates specific regulatory challenges — particularly in areas such as inducements, securities lending, and digital engagement — where divergent national rules have enabled supervisory arbitrage. Moreover, the digital and cross-border nature of neo-brokerage means that novel service features, business models, or revenue schemes can be rapidly deployed and replicated across markets. This reinforces the need for coordinated supervision and early-warning mechanisms to anticipate and address emerging risks before they become systemic. To address these challenges, IOSCO should promote common supervisory standards, shared disclosure benchmarks, and coordination mechanisms; including joint thematic reviews and enforcement alerts. These measures would benefit both regulators and investors, who currently face inconsistent protections depending on the broker's licensing jurisdiction.

8. Do commenters agree with the consultation report and the proposed recommendations as guidance? Does the report miss any key recommendations for regulators and for market intermediaries to consider? Does the report accurately describe issues related to neobrokers as opposed to broker-dealers more generally? Are there any significant issues, gaps, or emerging risks that should be further explored in the report? Please explain.

BETTER FINANCE welcomes the consultation report as a valuable step toward better understanding the evolving risks and opportunities presented by neo-brokers. The report correctly identifies key business model traits — including low-cost access, alternative monetisation models, and digital-first distribution, but we outlined several critical dimensions require further development to ensure comprehensive supervisory guidance. First, the report would benefit from a clearer distinction between neo-brokers and traditional brokers, not only in terms of cost structures, but also in 'operational architecture'. Practices such as internalised execution, pooled omnibus custody, and fractionalisation (through derivative-based or c-ownership-based) structures have implications for investor protection; particularly regarding legal ownership, post-trade transparency, voting rights, and securities portability. Those are not yet fully addressed. Second, we encourage IOSCO to expand its focus on digital conduct and interface design. Behavioural nudges, gamification, and reward-based engagement mechanisms can influence trading behaviour in ways that challenge the traditional distinction between execution-only and (implicit) advisory models. Third, disclosure standards should be modernised. Current practices often rely on static or PDF-based disclosures that are not suited to mobile-first trading journeys. As we observe varying practices across platforms, key product data — such as total expense ratios (TERs) of ETFs, should be presented contextually at the point of decision-making, using layered and mobile-native formats. This would enhance transparency on both explicit and implicit costs, particularly in business models reliant on spreads or securities lending. Fourth, the report should examine more closely the structural opacity in white-labelled execution chains and trading-as-a-service models. These setups, often involving multiple intermediaries across jurisdictions, can blur accountability for execution quality, custody, and investor outcomes. IOSCO should consider promoting clearer governance expectations and liability frameworks when such arrangements are used. Finally, we see an opportunity for IOSCO to promote digital investor education and engagement. Platforms should be encouraged (or required) to integrate contextual alerts, onboarding explanations, and personalised dashboards to help retail clients better navigate complex products and services. These tools can support not only informed decision-making but also long-term financial resilience. To build and extend its recommendation, IOSCO could expand its four key areas: (1) ownership models and investor entitlements; (2) digital conduct, including the behavioural dimension and the emergence of new complex services; (3) mobile-native and contextualised disclosures (including product cost) and comparability; and (4) governance of outsourced and white-labelled execution models. A forward-looking regulatory approach should ensure that digital innovation is balanced with transparency, accountability, and strong investor protection, grounded in both outcomes and user experience.