Neobrokers – Trading Fractions
Reinventing Retail Ownership & Challenging Regulation

A BETTER FINANCE Focused Paper on Fractional Investing

BETTER FINANCE
The European Federation of Investors and Financial Services Users
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Neobrokers – Trading Fractions

A BETTER FINANCE Focus Series Paper | Digital Investing Models

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Contact: policy@betterfinance.eu

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Neobrokers are reshaping retail investing through digital, intuitive, and low-cost execution-only brokerage and securities trading services, typically marketed as zero- or low-commission. Defined by their mobile-first ('app'-based) orientation, these platforms are designed for self-directed users, enabling seamless access to financial markets without the formalities of investment advice, under minimal appropriateness assessments, and simplify market technical market information. Undeniably, neobrokers' combination of slashed transaction fees and the rapid digital shift triggered by the COVID-19 pandemic have attracted a new wave of retail participants – particularly first-timers and younger demographics – into capital markets. By streamlining onboarding, lowering investment thresholds, and embedding features such as recurring savings plans, neobrokers have positioned themselves as catalysts for financial democratisation. While their service offering remains relatively narrow and curated, it typically revolves around listed equities (often limited to blue-chip, high-volume, or retail-facing stocks in US and EU national markets) alongside exchange-traded funds (ETFs) and usually provide simple, automated investment tools. As neobrokers platforms are designed to be highly accessible, they are behaviourally intuitive and frictionless, often prioritising ease of use and instant execution over depth of information or product diversity. In doing so, neobrokers not only challenge traditional financial intermediaries in terms of cost structure and user experience but also contribute to a broader redefinition of how retail investors access, navigate, and engage with financial markets in the digital age.

By disrupting traditional pricing models and establishing new, direct-to-investor distribution channels for securities, neobrokers introduce significant opportunities alongside risks, prompting ongoing scrutiny from EU and international regulators. As financial firms operating inherently across borders in the digital investing realm, their novel operational models – including revenue-generating schemes and platform features – have raised singular questions in terms of investor protection, market transparency, and the adequacy of existing regulatory frameworks to fully capture these evolving dynamics. Unlike conventional brokers reliant on explicit commissions and legacy infrastructure, neobrokers leverage technological efficiencies to scale rapidly through leaner, and often more implicit, monetisation strategies. While reducing visible costs for investors, these platforms increasingly rely on indirect and less transparent sources of income—typically combining several streams, such as spread capture or mark-ups on execution, currency conversion margins, and inducements from product providers. Among these, the most notable has been the reliance on payment for order flow (PFOF), a practice that EU regulators have decided to fully ban by 2026. As the PFOF ban approaches, many neobrokers are shifting toward alternative revenue models, including new forms of spread enhancement and the expansion of securities lending programmes. Originally a background mechanism in institutional investing, securities lending is now also gradually evolving into a fully-fledged component for some neobrokers, creating new retail-facing service features that monetise client-held assets. In parallel, fractional investing—while primarily aimed at expanding accessibility to high-priced securities—often relies on the internal pooling and matching of client orders within platforms. This approach reduces dependence on external execution venues and creates additional opportunities for spread capture and internal execution control. While these developments open new profitability channels for platforms, they also raise broader concerns regarding the clarity of ownership structures, the safeguarding of investor rights, the handling and distribution of income derived from client assets, and the overall transparency and operational resilience of the models being offered to retail investors.

New Tools, Old Gaps

Therefore, beyond offering new access channels, neobrokers have made fractional investing a defining innovation and a new business model component, using it not only to democratise market entry, but also to reshape how securities are held, traded, and monetised within platform-driven ecosystems. By allowing investors to acquire parts of a stock or ETF – sometimes as little as one euro's worth – fractionalisation has made market participation accessible to smaller investors and enabled the integration of automated savings plans and recurring investment features. Fractional investing is now central to the neobrokers value proposition, often bundled into tools that nudge users toward long-term, passive strategies. But the way fractional shares are structured and recorded – typically outside central securities depositories – raises unresolved issues. These include the legal nature of the underlying entitlement, the absence of direct shareholder rights, unclear tax treatment, and serious limitations in asset portability and protection in the event of insolvency. Despite its widespread adoption, no harmonised classification of fractional instruments exists under EU financial regulation, leaving significant interpretative and supervisory gaps.

Beyond product expansion, neobrokers promote a form of "fingertip investing" – frictionless access to markets that is optimised for speed, convenience, and mobile interaction. Many platforms blur the boundary between commercial and educational content, offering curated asset suggestions or "featured stocks" alongside trade execution tools. These design choices are not neutral. "Attractiveness by design" is a defining feature of mobile brokerage platforms, where behavioural cues, notifications, and simplified portfolio visualisations may encourage impulsive decision-making or frequent trading – particularly among inexperienced users. In mobile-first environments, key risk disclosures are frequently buried, raising questions under MiFID II's "clear, fair, and not misleading" information standard.

At the same time, access to instruments remains selective, reflecting relationships with trading venues, custodians, or product issuers. As a result, investors may be steered toward a limited set of products or markets, potentially constraining diversification or long-term portfolio goals. Neobrokers are also deeply embedded within a broader financial infrastructure, relying on third-party custodians, market makers, and OTC venues – adding complexity to post-trade processes and supervisory oversight.

When supported by robust conduct rules, neobrokers can unlock better return potential compared to costly, commission-driven distribution models. By lowering entry thresholds, streamlining execution, and promoting access to diversified products – particularly through ETF-based and automated savings plans – they offer an alternative to the high-fee structures that have long dominated retail investment. Yet design choices, incentive structures, and limited transparency can quietly distort outcomes, raising the need for stronger standards of accountability, comparability, and investor empowerment in digital environments.

This focus paper, part of BETTER FINANCE topical series on neobrokers, examines fractional investing as a recent and defining development reshaping the meaning of ownership and financial market access for retail investors. It explores how this platform-led innovation is reconfiguring the foundations of retail investment models, and why these shifts warrant closer scrutiny and targeted regulatory attention as the EU re-evaluates its core principles of retail investor protection.

Focus Area – Fractional Shares

Fractional Investing: Innovations

Fractional investing has emerged as a significant innovation in retail finance, particularly within execution-only environments offered by neobrokers. Initially popularised by U.S. fintech platforms around 2019, the model gained substantial traction across Europe from 2022 onwards. As noted, it aims at enabling individuals to invest specific monetary amounts (sometimes as little as EUR[1]) rather than purchasing whole units of said security. This method has effectively lowered entry barriers to high-priced assets, thereby expanding participation for self-directed investors, further challenging traditional brokerage models through the seamless integration of fractionalisation features into retail trading platforms.

While the concept of fractional ownership predates modern platforms, its traditional use was confined to professionally managed vehicles such as mutual funds (UCITS), offering only indirect exposure. Exchange-traded funds (ETFs) extended this logic by enabling investors to hold a fractional share of a diversified portfolio through a single, listed instrument. Building on this foundation, robo-advisors employed fractional allocations in automated ETF portfolios to enhance diversification, rebalancing, and cost efficiency within client accounts.

Today's neobrokers mark a major shift in retail investing, integrating direct, real-time fractional trading into user-controlled, mobile-first interfaces. Initially focused on equities and ETFs, this model enables investing in amounts below issuer-set minimums, effectively removing structural cost barriers. It is now extending to high-denomination asset classes like government and corporate bonds, further broadening retail access.

Beyond access, fractional investing acts as a behavioural gateway, particularly for first-time or younger investors. Offered through automated features – such as round-ups or recurring monthly contributions – it supports strategies like euro-/dollar-cost averaging and encourages regular, goal-based investing. This model fosters a passive, personalised investment experience, allowing users to gradually build diversified portfolios with modest capital and minimal market intervention. The combination of accessibility, automation, and behavioural nudging has fuelled its rapid adoption across EU neobrokers platforms.

Overall, the convergence of accessibility, automation, and personalisation has fuelled the rapid adoption of fractional investing across neobrokers platforms. ESMA has recently states fractional trades accounted for over 10%[1] of all reported transactions in 2023-2024, highlighting their growing market relevance. This aligns with industry evidence showing that through fractionalisation[2], many users engage in recurring, customisable investment plans, reinforcing fractional trading's role in lowering structural barriers and adapting digital investing tools to the evolving preferences of retail investors[3].

Behavioural and Risk Implication

We noted that from a behavioural standpoint, fractional trading – especially when paired with systematic ETF investment plans – can foster sustainable savings habits by reducing emotional responses to market volatility and enabling the gradual accumulation of diversified, long-term positions, independent of a security's full-unit price. However, the removal of investment thresholds also introduces behavioural risks, particularly by distorting risk perception. High-priced or trending stocks may appear more "accessible", leading investors to pursue branding, momentum narratives, or so-called "meme stocks" without adequately assessing their underlying value. This dynamic can also incentivise portfolio cluttering – accumulating small positions across numerous companies without a coherent strategy, weakening diversification benefits and complicating portfolio oversight.

To illustrate these trends, empirical findings based on US-based neobrokers data show that stock splits triggered a sharp increase in trading activity before fractional shares were available. Once fractional investing was introduced, this effect disappeared, indicating that affordability, rather than nominal price illusion, had been a key constraint to access to high-priced stocks[4]. Moreover, the introduction of fractional shares appears to have reduced trading heterogeneity among users over time, suggesting a stabilising influence on retail behaviour. As accessibility becomes standardised, the appeal of "momentary price-driven opportunities" diminishes. While short-term spikes in activity still occur; those are deemed to be rather triggered by in-app alerts or platform design elements. Therefore, the broader effect of fractionalisation brought upon by neobrokers can offer consistent, long-term investing patterns.

[1] See: ESMA, 'ESMA Chair Verena Ross, Letter on the Qualification of Fractional Shares under MiFID I, Addressed to Commissioner Maria Luís Albuquerque, DG FISMA', April 2025, https://www.esma.europa.eu/sites/default/files/2025-04/ESMA75-1505669078-7105_Letter_to_the_EC_on_the_classification_of_fractional_shares.pdf.
[2] See: 'BUX Becomes the First Broker in Europe to Offer Fractional European ETFs in Partnership with ABN AMRO Clearing Bank', BUX newsroom, 11 April 2022, https://press.getbux.com/213089-bux-becomes-the-first-broker-in-europe-to-offer-fractional-european-etfs-in-partnership-with-abn-amro-clearing-bank; Kate Rooney, 'Robinhood Joins a Wave of Fractional Stock-Trading Offers to Bring Investing to the Masses', CNBC, 12 December 2019, https://www.cnbc.com/2019/12/12/robinhood-joins-a-wave-of-fractional-stock-trading-offers.html.
[3] Extra ETF and iShares (BlackRock), 'The ETF Savings Plan Market in Continental Europe 2024', 2024, https://cdn.extraetf.com/downloads/research/2024/study/European_Saving_Plan_Study_CH_XETF-19112024-en.pdf.
[4] For example, an early assessment of US-based Robinhood show that after the introduction of fractional trading in December 2019, ownership of high-priced stocks (above $100) increased 53% compared to lower-priced ones. Stocks like Berkshire Hathaway Class A and Amazon seeing ownership gains of up to 2,600%. Variability in user trading shows declining trend frequency by about 15%, see: Steven L. Schwarcz and Robert Bourret, 'Fractionalizing Investment Securities: Using FinTech to Expand Financial Inclusion', *SSRN Electronic Journal*, 2023, https://doi.org/10.2139/ssrn.4391083.

Legal Models and Structural Frameworks

Beyond behavioural considerations, fractional investing raises important legal and structural questions; chiefly concerning the operational frameworks underpinning client holdings: either 'co-ownership' entitlements or derivative-based instruments used to provide exposure to corporate shares. Neobrokers typically implement in-house or proprietary custody models, where fractional holdings may not be individually registered with a central securities depository (CSD). Instead, assets are pooled in specific omnibus accounts and fractional entitlements are administered internally by the broker or a partner custodian, without formal entry in the official share register. Eventually, the legal nature of a client's holding depends on the structure adopted by the firm:

- In **derivative-based structures** (e.g. structured product or bilateral contractual exposure), the investor holds a synthetic exposure to a security through a contractual instrument (such as a structured note or bilateral agreement). The investor's claim is defined entirely by the terms of the derivative, often without any underlying asset being held on their behalf.
- In **non-derivative models** (such as co-ownership, trust/omnibus-based, or nominee arrangements), the investor typically acquires a proportional, beneficial interest in the underlying asset held by the broker or its custodian, though not registered in their own name.

In either case, fractional holdings are typically **non-transferable across platforms**, as they rely on the proprietary infrastructure and legal framework of the originating broker (i.e. structured product, internalisation, or in-house custody model). Redemptions or transfers generally require liquidation of the fractional position or derivative contract through the same platform. This can limit exit options, raising concerns around **interoperability, portability, and investor mobility**.

Investor Implications: Rights, Risks, and Portability

The choice of legal structure directly determines the extent to which shareholder rights can be exercised. In derivative-based models, investors typically do not have access to shareholder rights such as voting at general meetings or participation in corporate actions. Dividend entitlements, where applicable, are defined contractually and may be passed through at the discretion of the broker or issuing counterparty, subject to variation in calculation methods, netting practices, and distribution policies. In some cases, dividends may be aggregated, delayed, adjusted for service fees, or not forwarded in full, depending on the platform's internal rules.

In co-ownership or (sub-)nominee structures, certain shareholder rights may be preserved, but typically only in respect of full shareholdings aggregated across clients. Proportional voting rights corresponding to fractional holdings are often unfeasible or unsupported, as operational complexities and cost considerations deter platforms from facilitating such processes. Shareholder identification under these structures is particularly challenging, requiring multiple layers of omnibus or sub-omnibus processing to trace beneficial owners back to the individual retail client level, often inhibiting the exercise of direct rights under SRD II. For corporate actions, dividend entitlements are usually not paid directly by issuers to investors but are processed and distributed by brokers on a cash-equivalent basis, pro rata to fractional holdings, and according to internal policies regarding timing, aggregation, and potential fees.

These structural discrepancies—combined with the absence of direct legal title—can lead to significant mismatches between investor expectations and legal reality. Retail clients may assume that holding a fractional share grants the same rights and entitlements as owning a full share, when in fact the economic, governance, and corporate action treatment can diverge considerably depending on the underlying legal model and the internal operational handling by neobrokers. In many cases, these divergences are not fully disclosed or clearly explained at the point of sale, exacerbating information asymmetry and investor misunderstanding.

Additionally, heightened operational and counterparty risks are inherent to fractionalization models. Since client assets and associated rights exist only within the broker's internal systems (rather than being held directly in the client's name or at the CSD level) the enforceability of claims, particularly in the event of broker insolvency, can be ambiguous. These risks are further amplified by factors such as increased risks of inadequate segregation of client assets, opaque or poorly disclosed contractual terms, and the additional complexities introduced by cross-border operations under diverging investor protection or classification regimes.

Market Functionality: Execution, Transparency & Liquidity

We noted that fractionalisation introduces significant operational and transparency challenges, this is all the truer in relation to execution quality, price formation, and market integrity. Typically, neobrokers execute fractional orders off-venue, using internalised systems or over-the-counter (OTC) arrangements – often via third-party 'Trading-as-a-Service' providers. These setups rely on proprietary matching engines rather than regulated trading venues, meaning that fractional orders do not benefit from pre-trade transparency or competitive price discovery in public order books. This model often results in 'dual routing', where the fractional portion of an order is executed internally, while any corresponding full-share quantity is routed to an external venue. Alongside inventory-based internal matching, this execution fragmentation may result in inconsistent pricing, especially when real-time reference values are not published. Prices are typically set using internal models or partner feeds that are opaque to end users, making it difficult to assess execution fairness. This undermines price discovery and complicates compliance with MiFID II best execution obligations, which require firms to take "all sufficient steps" to obtain the best possible result for retail clients.

These structural features also increase dependence on proprietary systems, reinforcing a broader liquidity and infrastructure disconnect (referred to as fragmentation). Even when the underlying whole securities are traded on deep, regulated markets, their fractional units remain confined within platform-specific environments. The consequences are manifold: they are non-transferable, ineligible for external custody or clearing, and generally unsuitable for trading on secondary markets. During periods of market stress, outages, or broker failure, this can severely limit investors' ability to exit positions and exposes them to liquidity, counterparty, and operational risks. Fractional holders cannot rely on the broader safeguards available to full-share investors (e.g. venue-level liquidity, CSD settlement, or third-party custody). The absence of interoperability or external fallback mechanisms underscores the growing importance of operational resilience and contingency planning for neobrokers platforms – particularly where client assets are concentrated in internalised environments beyond standard market protections.

Regulatory Considerations in the EU

From a regulatory standpoint, **fractional investing remains only partially addressed** within the current EU financial services framework. As "non-standard" instruments, fractional shares are assessed under MiFID II or PRIIPs – depending on their structural form and marketing – where applicable. However, supervisory practices diverge significantly across Member States, leading to 'fragmented fractionalisation' rule applications, legal uncertainty, and inconsistent treatment of investor rights, client asset classification, and tax implications. This regulatory divergence undermines investor protection and **prevents a level playing field for cross-border retail offerings**.

EU-level regulators have taken note. In its 2023 public statement, **ESMA clarified 'expectations'**[5] **that derivative-based fractional models** clearly fall within the MiFID II and PRIIPs regulatory perimeter, and should thus trigger obligations related to product governance, cost transparency, and the need to provide a Key Information Document (KID). At the national level, **Belgium's FSMA** has taken a stricter approach, requiring **prospectus-level documentation** for certain complex or derivative-based fractional products[6]. In contrast, **CySEC (Cyprus)** has acknowledged that trust-based arrangements yielding beneficial co-ownership – if recorded internally and adequately safeguarded – may align with MiFID II principles on client assets[7]. However, CySEC equally warned that, in the absence of robust structures, firms must not **misrepresent fractional exposure as equivalent to direct shareholding**.

Therefore, BETTER FINANCE supports ESMA's assessment requiring a harmonised EU regulatory framework under securities law is urgently needed to clearly distinguish between the two primary ownership models currently in use: derivative or synthetic exposure versus beneficial co-ownership (e.g., nominee or trust-based structures). These models carry fundamentally different implications for investor rights, asset portability, and risk exposure. To ensure transparency and fair treatment, regulators should establish consistent requirements for the recording, segregation, and disclosure of fractional positions. Achieving a coherent EU-wide approach under securities law is essential not only to prevent regulatory arbitrage, but also to provide legal certainty for firms scaling up fractional services, while upholding effective investor protection across the internal market.

[5] ESMA, 'Public Statement on Derivatives on Fractions of Shares', 30 May 2023, https://www.esma.europa.eu/sites/default/files/2023-03/ESMA35-43-3547_Public_Statement_on_fractional_shares.pdf.
[6] FSMA, 'Classification of Fractional Investments as Investment Instruments', 30 March 2023, https://www.fsma.be/sites/default/files/media/files/2023-03/fsma_2023_06_en.pdf.
[7] CySEC, 'Circular (No. C659) on Fractionalisation of Shares', 26 September 2024, https://www.cysec.gov.cy/CMSPages/GetFile.aspx?guid=e60dfefe-aacb-4da9-b2f6-7ebbc1e2fd43.

Outlook

The rise of fractional investing reflects a fundamental shift in how EU retail investors interact with capital markets; via digital platforms, automated investment plans, and models decoupled from full-share ownership. This trend has broadened participation and improved accessibility, particularly among younger investors, while also raising new regulatory questions around execution quality, asset portability, and product design. As fractional models are scaling up, so is investor's reliance on proprietary systems for execution, custody, and pricing. This underscores the importance of operational resilience and transparency safeguards. Behaviourally, these models can foster regular saving but also risk reinforcing momentum-driven trading and risk misperception when not supported by adequate disclosures and user interface framing. Looking ahead, a clear EU-level framework is needed to balance innovation with investor trust. This includes recognising co-ownership as the preferred legal structure, ensuring derivative-based offerings are clearly labelled and governed under MiFID II, and aligning market infrastructure reforms with the realities of digital investing. Done right, regulation of fractional investing can support a more inclusive, transparent, and competitive Single Market for retail investment.

RECOMMENDATION: Harmonised EU Framework for Fractional Investing

To protect retail investors and support the sound growth of fractional investing, the EU should adopt a harmonised framework that ensures legal clarity, consistent rights, and transparent execution across Member States. This includes measures to enhance liquidity access and price transparency by favouring the routing of fractional orders through regulated markets or multilateral trading venues, rather than relying solely on internalised or proprietary systems – thereby improving price formation and supporting best execution under MiFID II. The framework should:

- Define the legal classification of *fractional instruments* under MiFID II, including whether and when they qualify as transferable securities under Article 4(1)(44)(a) – and consequently:
    - Prohibit the marketing of derivative-based exposures as "fractional shares";
    - Recognise co-ownership structures as share-equivalent only where they replicate key shareholder features (e.g. economic rights, continuity, underlying asset exposure);
    - Ensure consistent classification across Member States to support supervisory convergence and investor confidence.
- Mandate transparent, mobile-native disclosures, requiring brokers to clearly communicate legal status, tax treatment, and transferability limitations, especially in cross-border contexts.
- Ensure internal execution and trade-splitting mechanisms are fully subject to MiFID II best execution and transparency obligations, with supervisory monitoring to guarantee that retail investors are not disadvantaged in dual routing off-venue fractional executions, which becomes a normalised practice.
- Support future-proof infrastructure by advancing DLT-based and tokenised models through the DLT Pilot Regime and related initiatives (e.g. Post-trade CMU Agenda, T2S Modernisation). This should aim to enable integrated, secure, and scalable post-trade solutions for fractional instruments, while also enhancing liquidity access by welcoming routing through regulated markets and other trading venues, scaling up portability, rather than relying solely on proprietary or internalised systems.

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