Neobrokers' Securities Lending Programmes

Extra Income or Hidden Trade-offs for Investors?

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Executive Summary

By prioritising app-based onboarding, frictionless trading and low entry thresholds, neobrokers have broadened retail engagement—especially among younger and first-time investors. They also expand access to asset classes and "modern" digital functionality. This ease of access can improve outcomes through lower explicit costs and, in some cases, revenue sharing; but it can also create new risk channels, behavioural frictions and conduct challenges.

As the EU phases out Payment for Order Flow (PFOF) from 2026, attention is shifting to how online brokers will replace or supplement execution-linked income; likely accelerating diversification and re-bundling around ancillary services and operational practices that can materially shape retail outcomes.

A prominent example is the recent "retailisation" of securities lending: programmes offered to individuals and embedded as an in-app "passive income" feature, typically via simplified (more or less explicit) opt-in/opt-out flows. On one hand, this can return part of the value generated from client assets to retail investors. On the other, it can function as a substitute or complement to other monetisation, raising questions about incentives, transparency, and how risks and rewards are allocated between clients and firms.

This represents a meaningful departure from legacy brokerage, where securities lending often sat in the back office: client instruments could be on-lent under general terms rather than explicit, decision-point consent, and revenues were rarely clearly attributed to, or shared with, the client (relying on as a "service enhancement" through custody efficiency or lower operating costs argument). Neobrokers, by contrast, can introduce a welcome degree of explicit revenue sharing and greater transparency, making participation more legible as an opt-in feature rather than a silent balance-sheet practice.

Yet transparency does not eliminate complexity. Even when packaged as a retail "programme", securities lending can create conflicts of interest and shift the retail investor from owner to creditor, with exposure to collateral management, counterparty and operational risks, and shareholder-rights frictions (including recall-to-vote and constraints on transferability). These trade-offs are most acute in stress scenarios and in intermediary failure or asset-segregation questions, where retail expectations about "safeguards" may not align with how protections operate in practice.

Against this backdrop, retailisation should be used to bring securities-lending into clear, retail-fit rules; so non-professional investors can understand the service, benefit from it, and not absorb hidden risks or conflicts. Our initial review already shows wide divergence in consent design, decision-point disclosures and revenue attribution. And the promise of "extra yield" can mask that securities lending is a complex arrangement: beyond safeguards and disclosure, supervisors should consider whether appropriateness/suitability expectations should apply, and ensure investors grasp that modest income may come with new (and asymmetric) risks.

The following policy and market considerations should be central for retail securities-lending programmes:

1. **MiFID II classification:** treat retail securities lending as a distinct complex market practice (not as a mere ancillary nor custody-like feature) and consider a harmonised appropriateness approach.
2. **Clarify opt-in requirements:** require standalone consent at onboarding and differentiate from marketing; require (i) plain-language, point-of-decision disclosure and (ii) a specific, digitally recorded agreement.
3. **Harmonised disclosure, protection and tax awareness:** Standardise minimal onboarding and consider risk warnings on complex services by clarifying Investor Compensation Schemes (ICS) may not apply as assets are on loan. Flag tax impacts upfront, notably reporting/withholding impact of manufactured ("in-lieu") dividends resulting from programmes.
4. **Fee & revenue transparency ("value for money"):** Set expectations for "fair compensation" and revenue splits, and require clear gross-to-net disclosures so investors can see what typical "50/50 net" arrangements translate into in terms of returns.
5. **Preserve tradability & shareholder rights:** Enforce a friction-free recall-to-vote standard and ensure lending status does not impede selling, transferring, or portfolio portability (mitigate lock-in/settlement frictions).
6. **Conflicts of interest oversight:** Further scrutinise incentives (including short-selling facilitation) and require mitigation where revenue motives may undermine "best interest" outcomes for retail clients.
7. **Empower investors to limit exposure and monitor risks**: Provide meaningful visibility and control beyond a binary opt-in/opt-out by requiring exposure limits and monitoring of assets are on loan, how collateral coverage compares to the current value of lent securities, and require events affecting recalls or settlement.

Introduction

Setting the Stage – A look into Neobrokers

As a sub-set of broker-dealers, neobrokers offer predominantly digital-first, low-cost execution-only investment services. (often marketed as zero- or low-commission). Neobroker leverage on a mobile-first (app-based) platforms' architecture that prioritises self-directed access to capital markets, typically removing human intermediation. Emerging over the past decade as disruptive actors,[1] they pursue a strategy of accessibility, bypassing legacy brokers and traditional advisory channels by relying instead on simplified user interfaces, streamlined disclosures, and execution-only models where regulatory appropriateness assessments are reduced to their minimum legal scope. This accessibility is reinforced by streamlined onboarding processes, low investment thresholds (with no minimum capital requirements) often embedding new and innovative features and services such as recurring savings plans, notably by developing fractional investing. Together, these elements have materially broadened retail participation in capital markets.[2]

Neobrokers' low fees and the pandemic-driven digital shift have introduced a new cohort of younger, first-time investors to capital markets. In the EU, total client assets held by neobrokers grew from a modest base of €10 billion in 2018 to nearly €150 billion by the end of 2023. While the neobroker model is more mature in the US with account penetration of 20% of adults by 2023, the EU has seen a swifter relative surge, with usage doubling up to nearly 10% of its population in the five years since 2018.[3] By prioritising frictionless, behaviourally intuitive interfaces over information density, neobrokers have reshaped how retail investors engage with markets. This digital-first model has effectively challenged traditional intermediaries: by 2022, around 18% of Europeans aged 25-34 were active on neobroker platforms, signalling a structural shift in the region's investment gateway. This shift is also reflected in portfolio size, with median holdings on neobroker platforms sitting around €460 as opposed to several thousand euros at traditional brokers. As a result, the European e-brokerage market has reached a tipping point, with discount and digital platforms now accounting for over 54% of market share, as younger investors increasingly appear to bypass legacy institutions and traditional intermediated investment models.[4]

At the same time, the range and complexity of instruments offered varies widely across neobrokers. While many focus on traditional trading in securities such as shares and ETFs (often with relatively limited product diversity), others extend their offerings to contracts

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[1] Founded in the US in 2013, Robinhood is regarded as the first "neobroker" for pioneering commission-free mobile trading; in the subsequent years, EU-based platforms iterated on this model.

[2] https://betterfinance.eu/publication/the-new-investing-environment-for-retail-investors-expectations-and-challenges-ahead/

[3] European Securities and Markets Authority., "Neo-Brokers in the EU: Developments, Benefits and Risks.," Publications Office, 2024, https://data.europa.eu/doi/10.2856/256807.

[4] https://www.mordorintelligence.com/industry-reports/europe-e-brokerages-market

for difference (CFDs) and leveraged instruments, or provide access to higher-risk or less familiar markets for retail investors, including foreign exchange and commodities, as well as newer asset classes such as crypto-assets.

In particular, fractional investing is supporting new retail asset preferences; illustrated by the European ETF market's 40% growth in 2024, alongside the expansion of neobroker-led savings plans.[5] Estimates suggest that roughly half online brokerage platforms now offer fractional investing, which is a defining feature of neobrokerage models as it is largely absent from traditional European retail banking despite it has become a key entry appeal.[6] Ultimately, neobrokers uptake both democratised finance but also new vulnerabilities. Their modern interface can enhance portfolio visibility and trading convenience, while simultaneously exacerbating behavioural risks coined as the gamification of finance, where "fingertip investing" can favour over-trading activities.[7]

New approaches to brokerage business models, PFOF Ban, SL programmes

As introduced, neo-brokers appeared disruptive in the face of traditional brokerage models, leveraging new distribution channels through leaner operating structures and alternative source of income. Their developments are regularly prompting regulators to assess business conduct alignment with retail clients' interests and the adequacy of existing frameworks in addressing digital-first financial services and product access[8]. This challenge is compounded by the inherently cross-border nature of neo-brokerage, where services and business practices can diffuse rapidly across jurisdictions.[9]

Specifically, unlike most conventional brokers, which rely on explicit commissions and legacy infrastructures, neobrokers leverage technological efficiencies to scale rapidly. The core debate lies in how successful in reducing visible (explicit) trade execution costs for retail investors, lowering barriers to market access and improving user experience. At the same time, these cost reductions have been accompanied by a shift towards indirect (implicit) monetisation strategies, which are often deemed less transparent to end-

[5] The ETF Savings Plan Market in Continental Europe, iShare, BlackRock (2024).
[6] BETTER FINANCE, Neobrokers: Trading Fractions, Reinventing Retail Ownership," *Focused Paper*, March 2024.
[7] Online brokerage one-click trading can increase individual trade frequency by over 20% and novice investors entering retail brokerage in 2020 tend to have smaller account balances and to trade more frequently. See: "Investing 2020: New Accounts and the People Who Opened Them", FINRA Foundation and NORC at the University of Chicago, 2021; The effects of trading apps on investment behavior over time. *The European Journal of Finance*, 1–25. https://doi.org/10.1080/1351847X.2024.2401604 https://www.tandfonline.com/doi/full/10.1080/1351847X.2024.2401604
[8] See for example: ESMA, Neo-brokers in the EU: Developments, benefits and risks, March 2025, https://www.esma.europa.eu/sites/default/files/2024-07/ESMA50-524821-3402_TRV_Article_Neo-brokers_in_the_EU.pdf
[9] See: IOSCO, Consultation report on Neobrokers, March 2025, https://www.iosco.org/library/pubdocs/pdf/IOSCOPD790.pdf

investors. [10] Rather than charging systematically for execution, neobrokers increasingly rely on a combination of alternative (third-party revenues) income streams, next to spread capture or execution mark-ups, currency conversion margins, inducements from product providers, and revenues linked to the holding and use of client assets (notably securities lending). Some models are complemented by "freemium" structures, where basic trading is offered at no cost while specific order types or premium or ancillary services are subject to (subscription) fees. Consistent with this, IOSCO has observed that many neo-brokers generate limited direct trading revenue and instead rely predominantly on income linked to client assets or third-party arrangements[11], including inducements from product issuers, interest on cash balances, margin lending, securities lending, and subscription-based pricing models.

Notably, the practice of payment for order flow (PFOF) – where orders are routed to the third party offering the highest rebate rather than the venue providing the best execution price – has prompted a total EU ban effective in 2026[12], driven by concerns over inherent conflicts of interest and risks to execution quality. Given that PFOF previously accounted for between 3–5%[13] and sometimes over 30%[14] of annual brokerage revenues for some (neo)brokerage platforms in the EU, its prohibition illustrates the importance of intensifying alternative income sources, particularly for neobrokers.

A final consideration is that, while neobrokers present themselves as agile FinTech challengers deploying innovative monetisation and engagement strategies[15], they remain embedded in traditional market infrastructures and incentive structures, and as regulatory and competitive pressures further constrain visible revenues, value extraction increasingly shifts to less visible layers of the investment chain; most notably the use of client-held assets. In parallel, frictionless access and low perceived costs normalise high-frequency participation, creating conditions in which securities-lending programmes evolve from a peripheral feature into a core component of neobroker revenue diversification.

[10] BaFin, The promises neo-brokers make – and the ones they keep, 2021, https://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Fachartikel/2021/fa_bj_2106_Neo_Broker_en.html

[11] IOSCO, Consultation report on Neobrokers, March 2025.

[12] Regulation (EU) 2024/791 of the European Parliament and of the Council of 28 February 2024 Amending Regulation (EU) No 600/2014 as Regards Enhancing Data Transparency, Removing Obstacles to the Emergence of Consolidated Tapes, Optimising the Trading Obligations and Prohibiting Receiving Payment for Order Flow.

[13] Maximilian Biesenbach, "Ban on Payment for Order Flow Threatens Revenue: Four Tips for Online Brokers | Simon-Kucher", 2021, https://www.simon-kucher.com/en/insights/ban-payment-order-flow-threatens-revenue-four-tips-online-brokers.

[14] Olaf Storbeck, "European Robinhood Rival Trade Republic Reports First Profit," Retail Trading, *Financial Times*, January, 2024, https://www.ft.com/content/0d120704-56f6-44fb-9c67-4547ab717763.

[15] https://unitedfintech.com/blog/pay-attention-to-neobrokers/

Securities lending: An introduction

What is Securities lending?

Securities lending (SL) is a type of securities financing transaction (SFT) often described as part of the market "plumbing": a parallel layer of market infrastructure, predominantly over-the-counter (OTC), that operates alongside trading venues and supports several market participants' activity in the secondary market. Its core usages are short selling (and related hedging), supporting market making, and improving settlement efficiency (settlement fails management). Securities lending can have systemic impact as interconnectedness and scale increase, and as margining/collateral calls amplify stress during market disruptions.[16]

Typically, securities lending differs from trading (buy/sell) in that it is a temporary transfer-and-return arrangement[17]: the lender (often an investment fund or firm acting on behalf of clients) transfers securities to a borrower for a defined period, against collateral (securities or cash) and a lending fee, with the borrower obliged to return equivalent securities at the end of the loan (or upon recall). Where cash collateral is provided, the lender may also pay the borrower a rebate rate on that cash, so the lender's net return depends on the lending fee and any return (mines cost) from managing it.

Although the core agreement is between lender and borrower, transactions are often intermediated by:

- an agent lender, acting for the lender to arrange and manage loans;
- a custodian/depositary, supporting safekeeping and settlement; and/or
- a collateral/tri-party agent, administering collateral, margining and substitutions.

The Market Dynamics Relevance

In terms of markets, a focus on global securities lending revenues points to a strengthening of the market over time. Despite uneven dynamics, securities lending consolidates its role as a structurally important income stream within global capital markets. Following a sharp post-pandemic rebound from 2020 into 2021 (+21%, $9.28 billion)[18] and continued expansion in 2022 (+6.6%, $9.89 billion)[19], revenues reached a $10.74 billion in 2023 (+8.6%), a record high attributed to elevated market volatility,

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[16] https://www.esrb.europa.eu/pub/pdf/reports/esrb.report_200109_mitigating_procyclicality_margins_haricuts~0f3e9f9e48.en.pdf?utm_source=chatgpt.com

[17] Securities lending can be seen as a "misnomer", since title to the securities is typically transferred to the borrower (not merely "lent"), see: Mark C. Faulkner, An Introduction to Securities Lending: First Canadian Edition (2006) Spitalfields Advisors Limited, p. 21, https://www.canseclend.com/wp-content/uploads/2016/02/Introduction_to_Securities_Lending_Canada.pdf

[18] https://equilend.com/insight/press-releases/datalend-securities-lending-markets-up-21-in-2021-generating-9-28-billion-in-revenue/

[19] https://datalend.com/datalend-2022-securities-lending-revenue-up-6-6-percent-yoy-to-9-89-billion/

meme-stock activity, and a surge in corporate bond lending.[20] An interim consolidation appears to have occurred in 2024, with reported revenues declining -10.3% to $9.64 billion, likely reflecting a cooling of high-fee equity "specials" amid stable index performance.[21] In 2025, securities lending rebounded decisively, with revenues surging 58.7% year-on-year to reach a new record of $15.3 billion, driven by stronger demand for technology and AI-related securities, renewed M&A activity, and accelerated growth in Asia-Pacific markets where reforms reopened short-selling and securities lending activity.[22]

Comparing 2021 to 2025, reported annual global securities-lending revenues increased by 65%, underscoring the practice's shift into a strategic revenue channel. This evolution helps explain its growing prominence in brokerage and neobroker business models seeking to diversify income, particularly as traditional execution-based revenues come under sustained structural pressure.

2023 projections from a third-party securities-lending solutions provider suggest online brokers may capture around 55 bps on lendable client assets[23] an attractive revenue stream that scales with AUM and is largely independent of trading volumes. In some business models, securities lending is reported to account for up to 20% of total broker-dealer revenues, independently of clients direct trading activity. On client penetration, one rollout example suggests up to 72% of targeted retail clients opted in within five weeks, showing how quickly participation can scale once securities lending is embedded as a platform feature.

Finally, US neobrokers' disclosures show how fast securities lending is scaling. Over a period of less than a year, brokers more than doubled reported quarterly securities-lending income, rising from $72 million in Q4 2024 to $183 million in Q3 2025, with comparable trajectories observed at Robinhood and Interactive Brokers[24]. Developments therefore suggest that securities lending is no longer merely a marginal product strategy or a broker-led discretionary back-office practice, but an increasingly important client-facing feature and revenue engine, benefiting from scale effects. Finally, similar dynamics are now beginning to be mirrored across EMEA markets and neobroker models.

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[20] https://equilend.com/insight/press-releases/datalend-securities-lending-revenue-in-2023-reached-modern-record-of-10-7-billion-up-8-6-percent-over-2022/

[21] https://vir.com.vn/datalend-2024-securities-lending-revenue-down-10pc-yoy-to-964-billion-120708.html&link=autochanger#:~:text=Equity%20lending%20revenues%20in%20APAC,a%2014%25%20growth%20in%20balances.

[22] https://equilend.com/insight/press-releases/equilend-securities-lending-revenue-soars-to-all-time-highs-of-15-3-billion/#:~:text=Hong%20Kong%2C%20Japan%2C%20Taiwan%2C,energy%2C%20and%20an%20exchange%20offer.

[23] https://sharegain.com/wp-content/uploads/2023/08/Sharegain-Online-Brokers-Case-Study-5.pdf

[24] https://sharegain.com/how-much-online-brokers-made-from-securities-lending/

The securities lending case for (neo)brokers

As noted, traditionally a background mechanism in institutional markets, securities lending is now being repackaged as a retail-facing service that monetises client-held assets. This evolution raises important questions around ownership structures, the safeguarding of investor rights, the handling and distribution of income derived from client assets, and the transparency and operational resilience of the models offered to retail investors. Two elements are particularly salient: the reconfiguration of brokerage revenue models (underlying monetisation) and platform features (new services and design). Securities lending revenue is illustrative of both, and retail programmes appear well-positioned to become a more central revenue-making service for online platforms, particularly as neobrokers diversify income sources.

Box – What are fully-paid retail securities-lending programmes?

Retail securities-lending programmes allow a broker to lend securities held in a retail client's account (typically stocks or ETFs) to third parties, against collateral and lending fees that may be shared with the client and partially accrue to the portfolio. In the neobroker context, these programmes are offered as optional income-generation features, often marketed as "fully paid securities lending", "stock yield enhancement", "interest on securities", or "passive income on stocks" – among similar terminologies.

They can be seen as a hybrid service, positioned between revenue generation for the broker and income sharing with the client. Compared with legacy brokerage practices (where lending revenues typically accrued solely to the broker) these programmes introduce greater visibility and, in some cases, income sharing, but also constitute new complex services, bringing (new) trade-offs and risks related to ownership and voting rights, income allocation and transparency, and conflicts of interest.

Investor Protection Framework for Retail Securities Lending: Rules, Expectations and Gaps

The growing uptake of securities lending among non-professional investors has sparked both policy debate and regulatory attention. A short stocktake is therefore useful before turning to neobroker programmes. While the EU framework sets core principles on safeguarding client assets, consent and fair treatment, stakeholder discussions highlight persistent tensions when an institutional practice is repackaged as an in-app "extra yield" feature.[25] In particular, the debate points to recurring fault lines around conflicts of interest, the allocation of risks and rewards, and whether disclosures and controls are sufficiently decision-useful for retail users (as we illustrate in the next section). Here, we briefly review the applicable investor-protection rules and their limits, before assessing

[25] 'Retail securities lending: New players in the game' https://www.securitiesfinancetimes.com/specialistfeatures/specialistfeature.php?specialist_id=843

how neobroker securities-lending programmes translate these expectations into practice.

Transparency and reporting (SFTR)

SFTR is the EU's main market transparency regime for securities financing transactions (including securities lending). It primarily operates as a reporting framework to help regulators map activity and reuse chains—not to set a retail conduct regime or a best-interest duty. Importantly, SFTR's investor-facing disclosures focus primarily on funds (UCITS): pre-contractual prospectus disclosures on SFT use and revenue-sharing policies, and periodic reporting of SFT returns and costs. However, for direct retail brokerage programmes, this leaves a clear gap: SFTR does not impose decision-useful, client-level reporting or controls. In practice, SFTR while improve system-level visibility it effectively may be leaving retail investors dependent on firm-designed disclosures to understand what changes once their assets are lent (rights and frictions, risk allocation, and the economics of the programme).

Conflicts of interest and fair treatment (MiFID II and Delegated Directive)

For retail investors, the main protection layer is MiFID II conduct of business, but also and safeguarding rules, complemented by the MiFID II Delegated Directive on client asset protection and the use of client instruments ((notably the requirements on prior express consent and evidencing). Together, they anchor three core expectations in the context of securities lending:

1. **Express, decision-point consent** before client instruments are used (not merely implied through general account terms);
2. **Conflicts management** where firms monetise client assets and may have incentives to maximise lending volumes, steer take-up, or retain value through opaque fee structures; and
3. **Fair, clear and not misleading information**, meaning the "yield" framing should not underplay the real trade-offs.

While these rules are strong on 'high-level principles' of consent and fair treatment, they do not standardise what investors must receive at the decision point to make consent meaningful. Moreover, comparable across platforms: revenue composition and deductions (what is "net" and what is retained), collateral valuation and liquidation mechanics (including timing/shortfall risk), recall constraints (including recall-to-vote and corporate actions), and stress/failure outcomes (asset segregation and operational continuity). This helps explain why programmes can all be "opt-in", yet still diverge materially in what retail investors actually understand, can compare, and can control.

In addition, in principle, the client's custody/asset statement should clearly show (i) the extent to which the client's instruments were used in securities financing transactions, and (ii) the benefit accrued to the client and the basis on which that benefit was generated. Any fees, deductions or retained spreads linked to the lending feature should also be captured within MiFID's ex-ante/ex-post costs and charges framework to support comparability and fair treatment.

Regulatory Reaction: Reflection on ESMA's Statement

The ESMA's 12 July 2023 Statement usefully translates the above MiFID II principles into explicit supervisory expectations for securities lending to retail clients[26]. It highlights that "*using retail client instruments to generate additional revenues for the firm may conflict with acting in the client's best interests*", and that "*revenues from securities lending should accrue to the retail client net of '<u>normal compensation</u>'*'", while calling for express prior consent not be buried in general terms and conditions; as generally observed. Moreover, it reminds that ex-ante and ex-post information must be made available.

BETTER FINANCE agrees with these principles, yet highlights structural weaknesses. First, the Statement's specifications are not binding as such, beyond clarifying supervisory expectations derived from MiFID II. Second, it maintains a divide whereby retail investors may end up less protected when holding securities directly than when investing via a UCITS fund. Under ESMA's UCITS Guidelines on ETFs and other UCITS issues, para. 29 requires that all revenues from efficient portfolio management techniques (including securities lending), net of direct and indirect operational costs, are returned to the UCITS. By contrast, ESMA's retail statement allows "normal compensation" to include not only costs but also a "fair and proportionate fee" for the broker, meaning the same beneficial owner can receive a smaller share of lending value when investing directly.

This matters even more because "fair and proportionate" is inherently vague and therefore difficult to enforce consistently. Where ex-ante cost/benefit statements are not presented in a standardised way, firms retain discretion over how they itemise gross income, net income, and "operational" costs, thereby reducing comparability. BETTER FINANCE has already identified an enforcement challenge: even under UCITS-style guidance, there can be wide dispersion in revenue retention (e.g., one market leader retaining 32.5% versus others retaining 5%), reflecting variation in how gross income is defined, how "operational" costs are applied, and how value is shared.

> BETTER FINANCE would thus suggest ESMA and regulatory review to to clarify and strengthen:
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> - that the Statement's scope (retail client financial instruments; and, by extension, retail securities-lending programmes) is clearly delineated from fund holdings;
> - the legal nature and supervisory weight of a "Statement" versus binding "Guidelines";
> - why investor protection appears weaker for direct holdings than via UCITS;

[26] https://www.esma.europa.eu/press-news/esma-news/esma-highlights-risks-arising-securities-lending-retail-investors

- how ESMA intends to supervise and evidence the "fair and proportionate fee" concept; and whether loopholes persists.

Overall, the applicable rules remain fragmented and largely indirect: retail securities lending is mainly captured through general MiFID duties (consent, conflicts management, fair information and costs transparency) and SFTR's system-level reporting architecture, without a dedicated, retail-fit programme standard. Therefore, is precisely why disclosure and disclaimer practices at onboarding (ex-ante) become so decisive in practice: they shape whether investors can understand the service, compare programmes, and make an informed choice.

Against this backdrop, our next section therefore turns to how platforms present securities lending "as a service" to retail clients; what is made salient or downplayed in app flows, how risks and frictions are framed, and whether investors are given practical tools to navigate participation.

The 'retailisation' of securities lending

As we saw, despite being advertised as an easy way to make "*your shares work for you*", the retailisation of securities lending entails more complex aspects that are often overlooked by neobrokers advertising it for clients. Loss of voting rights, counterparty exposure, unclear collateral terms, lack of informed consent and conflicts of interest are some of the issues consumers run into when engaging with shares lending offered by neobrokers.

Typical operational features across programmes

With regards to the execution of Securities lending, there is a general lack of harmonisation in the delivery of the service, but some of its aspects are common to all neobrokers. To begin with, all of them receive an income thanks to the borrowing and lending of assets. In the vast majority of cases, neobrokers execute the lending in house: after hand-picking the securities from users' portfolios whose demand for borrowing is the highest, they act as intermediator and lend them to third parties. From a user standpoint, the underlying security is lent to the platform at an often-undisclosed rate — at least before the monthly revenue report that most neobrokers provide. The SL contract also entails the deposit of a collateral (usually cash or government bonds) whose value ranges from 100% to 105% of the lent security. The terms and conditions of the transaction often vary from one platform to the other but neobrokers earn a portion of the interest income generated by the securities lent and a further interest on the collateral deposited for the loan.

Said issues are more likely than not underplayed by online platforms in their terms and conditions or Q&A sections. The seriousness of such issues, in all fairness, varies from one neobroker to the other and sparks a deeper reflection on Securities lending market practices, that also pertain to retail investors beyond the simple conditions their online broker of choice might impose.

Are investors' behaviourally vulnerable?

As introduced above, neobrokers ground their business model on accessibility, fast execution and target a mostly unbanked and underbanked population. This strategy, while broadening the access to finance and making it more inclusive, is also cause for concern as it is directed towards a mostly financially uneducated demographic - vulnerable to the appealing promise of commission-free trading. [27] Behavioural research highlights that, while financial literacy – often initially low – grows over time, so do risk tolerance and trading frequency. The tendency to look for short-term gains rather than planning in the long run is, indeed, harnessed to incentivise high frequency trading and overlook, for instance, high execution costs that benefit the platform rather than the investor[28]. Therefore, while neobrokers effectively make finance more approachable to the larger public and to a certain degree improve financial literacy over time, simultaneously they must be approached cautiously.

In the exercise of shareholders' rights, lent out shares are removing ownership to voting participation. To ensure shareholder rights, shareholder should be fully aware of record dates and have full control over the lending of shares in their portfolio - which is not the case since most neobrokers manage SL for users, not allowing them to select which shares are going to be lent out. While it is arguable that shareholder activism is a delicate subject regardless, as the "anonymity" - along with the volatility - in the market often invalidates the possibility to enforce a passing of voting instructions, evidence shows that the current trend is positive and investors are increasingly seeking involvement[29].

This calls for clarity on services offered should be paramount and some neobrokers are still lagging. However, institutions are catching up and targeting unlawful practices that constitute an external influence on retail investors' funds allocation. For instance, at the beginning of the year, a neobroker was fined for paying finfluencers for acquiring new clients in a marketing stunt that where referrals were deemed under a material conflict of interest potentially misleading unexperienced investors and encouraging unresponsible investing[30].

Despite the majority of neobrokers' marketing strategies stay grounded on the narrative of zero commission investing and turning small investments into profits, some of them

[27] Turgay Geçer and Vedat Akgiray, "Novelties in FinTech," in *The Financial Technology Revolution: Theory, Innovation, and Revenue Streams*, ed. Turgay Geçer and Vedat Akgiray (Springer Nature Switzerland, 2025), https://doi.org/10.1007/978-3-031-92048-6_6.
[28] Jonas Freibauer et al., "The Effects of Trading Apps on Investment Behavior over Time," *The European Journal of Finance*, September 12, 2024, 1–25, https://doi.org/10.1080/1351847X.2024.2401604.
[29] Louise Van Marcke, *Securities Lending as a Barrier to (or an Instrument for) Shareholder Activism and the Role of Intermediaries as Lending Agents*, 2022, https://financiallawinstitute.ugent.be/index.php/wps/securities-lending-as-a-barrier-to-or-an-instrument-for-shareholder-activism-and-the-role-of-intermediaries-as-lending-agents/.
[30] See for example: BUX Fine for Violation of Commission Ban, 24/10568, ECLI:NL:RBROT:2025:3081 (Rb. Rotterdam March 11, 2025), https://deeplink.rechtspraak.nl/uitspraak?id=ECLI:NL:RBROT:2025:3081.

have recently made efforts to provide educative content to combine products and services they offer to users.

Market Dynamics: a structural conflict for retail investors?

Neobrokers often present securities lending as a neutral or ancillary custody feature. In practice, it operates as a distinct, decentralised market running in parallel to equity trading venues, in which the availability of shares to borrow—and the price of borrowing them—is continuously shaped by supply and demand. For retail investors, this market remains largely invisible, even though it can influence trading conditions, volatility, and price formation in the underlying shares they hold.

A core tension lies in the divergence of objectives. Retail investors typically hold shares with a long-term value or ownership perspective. By contrast, a substantial share of borrowing demand arises from short selling or short-term trading strategies that benefit from price declines, increased volatility, or both. Securities lending thus enables market practices whose economic incentives are not necessarily aligned with those of long-term retail shareholders.

Market structure matters. Where lending supply is concentrated—often through platforms or agent lenders pooling large retail inventories—borrowing fees may reflect scarcity and bargaining power rather than fully competitive conditions. In such cases, high demand to short a stock can translate into elevated lending fees. While this may increase gross lending revenue, it simultaneously expands the capacity for short positioning in the very shares held by retail investors. Retail participants therefore finance, often unknowingly, a market mechanism that can amplify price pressure or volatility in specific market conditions.

Importantly, these dynamics play out off-venue. Securities lending does not generate transparent price or volume signals comparable to those available on trading venues. As a result, retail investors are exposed to the *effects* of lending activity (such as heightened sensitivity around corporate events or crowded trades), without visibility into the underlying borrowing conditions that shape those outcomes

Box | GameStop case: what it showed about securities lending

In January 2021, GameStop's share price surged after a heavy short selling met intense buying pressure (including via call options). When a stock is heavily shorted, rising prices force short sellers to buy back shares to cap losses and meet margin calls - forced buying can itself push prices higher, creating a "short squeeze" effect. This dynamic was described explicitly as retail-driven buying pressure amplified by forced buying from short sellers/options.

The episode also illustrated the securities lending complexity (*plumbing risk*): extreme volatility of lent shares triggered larger collateral/margin demands in clearing markets, as retail-driven buying pressure amplified against borrowers (the shorters). The AMF[31] and ESMA noted that some US and EU broker platforms restricted retail trading because affiliated parties could no longer meet clearing house margin calls, i.e., they faced a sudden funding/collateral requirement during stress.[32]

This case illustrates typical securities lending risks clashing with investor interest:

-**Conflict / incentive misalignment:** retail securities lending expands share-borrow supply for short selling; in crowded trades this can amplify price dislocations, while intermediaries monetise lending fees and end-investors absorb volatility and execution frictions.

- **Collateral limits under stress:** over-collateralisation and daily MTM reduce *expected* loss, but do not remove **liquidity/timing risk** as margin/collateral calls can spike in fast markets and collateral liquidation can be imperfect, leaving scope for collateral shortfalls in such an extreme scenarios.

- **Market access asymmetry:** stress can trigger trading restrictions at some retail-facing intermediaries (often linked to clearing/margin pressures), constraining execution precisely when volatility peaks.

- **Information/coordination asymmetry:** episodes like GameStop show how online coordination can accelerate herding and volatility; retail-facing "simple" UX can obscure that the underlying dynamic is a complex, reflexive market feedback loop

Snapshot of Retail Securities-Lending Programmes

By analysing the information made available by neobrokers concerning the execution practices of SL, the conditions, collaterals, opt-ins and -outs, voting rights, income sharing and more, it appears that — despite the different levels of disclosure - there is an overarching lack of clarity and harmonisation when it comes to the delivery of the Securities lending service.

Practices in (neo)brokers' securities lending programmes

The table below gathers information on how different neobrokers handle Securities lending operations and how this affects their users. All the insights presented in the comparative table are publicly accessible but are not always user friendly or easy to gather. The overview showcases, in short:

- Income sharing: how the income generated by the lending operation is shared between the user and the platform;

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[31] https://www.amf-france.org/en/news-publications/news/gamestop-mania-look-back-over-market-phenomenon

[32] "PR-GameStop-Highlights-Discrimination-of-Non-Professional-Investors-in-Stock-Markets-04032021.Pdf," accessed November 18, 2025, https://betterfinance.eu/wp-content/uploads/PR-GameStop-highlights-Discrimination-of-Non-professional-Investors-in-Stock-Markets-04032021.pdf.

- Collateral guarantees: what the platform provides (or requires the borrower to provide) as collateral and who holds it;
- Opt-in/Opt-out: how users sign up for SL programs, whether the app opts them in automatically or not and whether they can opt out and how;
- Client disclosure / transparency level: how users can find information on the platform's general handling of SL;
- Share recall (voting rights): how share recall is suggested, and if voting rights are retained or lost by the user while the share is lent out;
- Lending operational model (in-house vs third party agent): how the platform handles SL and whether it outsources it or manages it in-house mainly to understand whether the user lends its assets either to the platform, or directly to a third party.

Comparative Overview | Retail securities Lending Programmes of Retail (Neo)brokers

Platforms / website & terms	Income sharing (ex-ante)	Collateral guarantees / Market to Market	Opt-in/Opt-out	Client disclosure and transparency	Share recall (vote)	Lending operations
Neobroker #1	**32%-50%** (**Website) tied to asset type and account tier**	**105% of lent value**, marked to market daily (held by **Firm's commercial foundation**).	**Opt-in required** via separate agreement. Clients can **opt out at any time**.	Stock Lending Handbook provided; website explanation	Not mentioned.	**Firms coordinate** (collateral and operational functions supported by external parties).
Neobroker #2	**50/50 split** of platform-defined net lending income rate	**102% of lent value**, MTM daily (US treasuries).	**Opt-In required** via platform & test.	FAQ share info. Users see which stocks are lent, interest earned, and collateral. Limited risks explanation.	Not mentioned.	**Likely handled in-house** (no explicitt mention of third-party agent).
Neobroker #3	**50/50 split** of platform-defined net lending income rate	100-105% collateral, MTM daily; collateral in cash or HQLA; held through 'reputable' third party	**Opt-in required** via account settings. Clients can **opt out at any time**.	FAQ and help centre. Users can track lent stocks and earnings. Risks and taxation clearly explained	Mentioned as an option solely as to the selling of a lent share.	**Lending via third-party lending agent**; borrower is third-party institution; custody/collateral handling involves third parties).
Neobroker #4	**50/50 split** of platform-defined net lending income rate.	**105% of lent value**, MTM daily; in-house structure management (held by firms' securities services)	**Opt-In required** via platform & test. **Unclear Opt-out conditions in T&C** (service limitations)	**Limited transparency**, unclear information. Clients do not know which shares/stocks are lent.	Recall under 5-day notice period; no specifics on voting.	**Handled in-house** (operates lending under its custody model).
Neobroker #5	**50/50 split** of net market-based rate (paid monthly).	**Up to 102% of lent value**, marked to market daily, in-house (held	**Opt-in required** via Client Portal (conditioned	Detailed disclosures and FAQ. Clients do not decide which	Mentioned as an option but only in reference to	**Handled in-house** (firms internalises the programme, acts as

		by firms' securities services)	to liquidity threshold)	stocks are lent but can track them.	the selling of a lent share.	borrower/principal vis-à-vis clients and lends onward).
Online Broker#6	**50/50 split** of net market-based rate (paid monthly).	**~102% (varies by asset class/market) ; MTM daily** (no third-party precision)	**Opt-In required** via platform.	FAQ with information.	Mentioned as an option but referred to the selling of a lent share.	**Handled in-house** (Firm operates programme directly; typically acts as borrower/principal).
Online Broker#7	**Exact split undisclosed (no precise fixed ratio)**	Collateral commonly ~105% (under 'with tri-party arrangements') .	Enabled **by default** (T&C), but users can **opt out anytime**	Detailed disclosures and FAQ. Clients do not decide which stocks are lent, but can track them	Mentioned as an option but referred to the selling of a lent share	**Handled in-house** (Firm acts as borrower/principal).

Across the retail securities-lending programmes reviewed, differences lie less in whether income is shared than in how that sharing is disclosed ex-ante, its basis thereof. A clear gap emerges between website messaging (which often emphasises simple "50/50" splits or predictable extra income) and terms and programme documentation, where the economic basis of remuneration is often more limited – or even left undefined contractually.

In most cases, headline sharing ratios apply only to platform-defined net income, calculated after deductions that are neither standardised nor itemised. As a result, retail investors typically receive a materially lower share of gross lending revenues than implied by marketing claims, without being able to assess how much value is absorbed by operational costs, agent fees, or internal margins. This opacity is further concerning where lending operations are internalised by the platform, since it then has discretion over the level and allocation of operational charges. Further, we find that only a minority of programmes clearly state the gross borrower rate and the investor's participation in it: cost deductions remain aggregated and variable, limiting investors' ability to judge cost efficiency or compare effective income yields across platforms.

By contrast, most disclosures prioritise collateralisation levels and mark-to-market practices, reinforcing a "low-risk extra income" narrative while diverting attention from the economic substance of value creation and allocation.

Finally, although voting rights are generally stated to be suspended while securities are on loan, recall mechanisms are rarely presented as an actionable shareholder right. In practice, recall is typically triggered only by a sale of the position or exit from the programme, not by corporate-action or governance considerations. This places an unrealistic burden on retail investors to monitor record dates and market events in execution-only, app-based environments.

Overall, disclosures show that income is shared, but not how much is created and retained (gross vs net), what risks and frictions are transferred to the investor (especially in stress), or how platform incentives and discretion shape lending, pricing, and recall.

Ex-ante Disclosure Scenarios of Gross-to-Net Revenue Split

Mechanics of income attribution

• Scenario 1 | Net split after undisclosed deductions

One neobroker states that retail investors receive 50% of net securities-lending income. In practice, gross lending revenues are first reduced by a range of operational and third-party costs (including securities-lending agent fees and internal programme costs), with the remaining net amount then split equally between the platform and the investor.

Based on the platform's disclosed illustrative outcomes, this structure results in retail investors receiving approximately 20-25% of gross securities-lending revenue, while 75-80% is retained upstream, covering both:

- the platform's contractual share of net income, and
- unspecified operational, agent, and internal cost deductions applied prior to the split.

From a retail-investor perspective, the key limitation is that disclosures do not clarify how much of the retained portion corresponds to genuine third-party costs versus internal margins, nor how such costs are calculated or benchmarked. As a result, investors cannot assess whether the allocation reflects actual costs incurred, despite the apparent simplicity of a "50/50" split.

• Scenario 2 | Two-step fixed fee, then split

One neobroker applies a two-step structure. First, a fixed facilitation or maintenance fee (e.g. 15% of gross securities-lending revenue) is deducted to cover operational and agent-related services. Second, the remaining 85% of gross revenue is split equally between the platform and the investor.

Under this structure, retail investors would receive approximately 42.5% of gross securities-lending revenue. Compared to Scenario 1, the gross-to-net transformation is more explicit, but only allowing investors only to infer approximate share of gross. Moreover, because the fee is set as a percentage of gross revenue, the platform's remuneration is insulated from cost efficiency: higher operational costs or less efficient lending arrangements do not reduce the platform's share but instead lower the investor's residual return. This weakens the alignment between the platform's incentives and the investor's interest in cost-efficient execution. In addition, participation in such programmes may be restricted to clients meeting certain asset thresholds, limiting accessibility and reducing comparability across the broader retail investor base.

• Scenario 3 | Share of internally reported net interest

One neobroker states that retail investors receive a fixed percentage (typically 50%) of the net income retained by the platform from securities lending, often framed as interest or net yield. This share is calculated solely on the basis of internally reported net revenue, without disclosure of:

- gross securities-lending income, or
- deductions applied prior to determining the net amount (including agent fees, operational costs, or internal cost allocations).

From a retail-investor perspective, this structure offers limited ex-ante verifiability. Investors have no reference point to assess how much value is generated by lending their securities, what proportion is retained upstream, or whether their remuneration bears any relationship to gross lending revenues. Importantly, similar sharing percentages can therefore correspond to very different underlying economic outcomes.

What income is shared

While the scenarios above describe how income is mechanically shared, they do not in themselves clarify what economic value retail investors can yield from. Examining what income is shared is therefore necessary to assess whether remuneration can be meaningfully related to value creation, cost drivers, and risk allocation in securities lending. The categories below reflect illustrative, non-exhaustive disclosure patterns observed in the programmes analysed. They focus on the economic substance identified in disclosures, rather than on the mechanics of the split. The categories below reflect illustrative, non-exhaustive disclosure patterns observed in the programmes analysed.

Pattern A | Borrow fees explicitly identified (highest clarity)

Some programmes clearly link investor remuneration to borrow (securities-lending) fees paid by third-party borrowers. Even where deductions apply, the lending fee is identified as the underlying revenue source, allowing investors to relate income to observable drivers (e.g., demand, scarcity, loan duration). What often remains unclear is whether investors share only in borrow fees net of costs, or whether collateral-related returns (notably where cash collateral is reinvested) or other lending-related benefits are generated and retained outside the disclosed sharing mechanism.

Pattern B | Borrow fees with a fixed deduction (partial transparency)

Other programmes disclose that gross borrow fees are generated, then apply a fixed deduction before sharing the remainder. This lets investors identify the income source and approximate their participation in gross value creation. However, the deduction is rarely decomposed (third-party costs vs internal margin), and disclosures typically do not clarify whether additional lending-related revenues (including potential collateral income) exist beyond the stated framework.

Pattern C | Share of platform-defined net lending income (opaque netting)

In a further set of programmes, remuneration is framed as a share of “net securities-lending income” or “net interest” without disclosure of gross borrower rates, spreads, or itemised deductions. Borrow fees, operational costs, agent fees, internal margins—and potentially other income streams—are bundled into a single net figure defined by the platform. Investors can see that income is shared, but cannot trace which cashflows drive it or how it relates to underlying value creation.

Pattern D | Undifferentiated “income/benefits/returns” (lowest clarity)

Finally, some programmes refer only to broad “income”, “benefits”, or “returns” from securities lending without specifying whether they stem from borrow fees, collateral returns, or a blended pool of those. Under such disclosures, investors cannot determine what activities generate remuneration or whether the terms reflect genuine pass-through economics versus platform-defined allocations.

General Observations

Across all observed patterns, disclosures stating that income is shared often fail to be easy to understand and to provide clear operational costs of the programmes. Further, there is a need to clarify which *components* of securities-lending value creation retail investors participate in. In particular, end investors can rarely determine whether they share in the primary value-generating component (borrow fees) or only in a downstream residual after costs and internal margins have been applied. Without ex-post itemisation, it is nto possible ex ante to assess whether platforms retain additional securities-lending-related profits beyond the income explicitly shared. The key issue is therefore not whether income is shared, but whether the income shared is economically identifiable and fair. Where remuneration can be traced to identifiable lending revenues, investors can relate outcomes to value creation. Where remuneration is tied to internally defined net figures or undefined “returns”, the economic basis of investor remuneration remains opaque, limiting comparability, proportionality assessment, and informed decision-making at the point of consent.

Eventually, we also identify a sharp contrast exists between self-directed retail securities lending programs and institutional rules under UCITS ‘Efficient Portfolio Management’ (EPM) which mandates all securities lending income to be attributed to the fund “net of operational costs”. While BETTER FINANCE showed[33] these costs vary significantly (ranging from 2% to 40% split across asset managers and their agents) the aggregate average sees the fund (and thus the beneficial owner) retain ~64% of the gross income as

[33] BETTER FINANCE SL study

net profit. Conversely, retail programmes lack both regulatory condition. While (neo)brokers typically disclose split net profits 50/50 with clients, which may often results in only ~20% to 40% of the gross lending revenue effectively accruing to the retail client.

Considerations on operational risk

Reflecting on the mapping above where retail securities-lending programmes are often presented as comprehensive safety arrangements, centred on collateralisation and daily margining. While these mechanisms materially reduce expected losses, they do not remove risk altogether. Lending exposes retail investors to counterparty, liquidity, and operational risks that differ from those associated with straightforward share ownership.

First, counterparty and collateral risk remains. Collateral values are based on recent prices and adjusted periodically. In fast or discontinuous markets, collateral calls can lag price movements, and liquidation may occur under adverse conditions. In extreme scenarios, this can result in shortfalls between the value of the lent shares and the collateral realised.

Second, there is a gap with investor compensation schemes. Investor Compensation Schemes (ICS) are designed to protect clients when firms cannot return assets due to insolvency, within capped limits (often around EUR 20,000, depending on jurisdiction). They do not cover losses classified as market losses or contractual outcomes of securities-lending arrangements. Retail investors may therefore assume a level of protection that does not, in fact, apply to lending-related losses.

Third, securities lending can have tax and income implications, notably through “in-lieu-of” dividend payments, which may be taxed differently from ordinary dividends and are not always clearly explained to retail investors.

Finally, retail lending programmes typically offer limited investor control. Appropriateness checks are often absent, even though securities lending is effectively a complex service with credit and collateral risk. This creates a clear tension: programmes are marketed as a retail-facing feature, yet remain largely discretionary and broker-managed, even though the risks sit with the client. In most cases, investors face an all-or-nothing choice (“join or opt out”), while the broker decides which securities are lent on the client’s behalf and how lending is allocated across portfolios and the wider client base – thereby shaping who is put on loan, in what proportions, and at what effective exposure. This also raises questions about how income and risk are distributed in practice, and whether certain client profiles face asymmetric outcomes.

Conclusion

Our initial scoping of neobrokers practices shows that the retailisation of securities lending is advancing investor choice, but emerge as complex and fragmented than as a standardised and coherent retail service. This results in a patchwork of securities-lending programmes that diverge materially along several critical dimensions.

First, income attribution varies widely. Platforms apply markedly different approaches to sharing gross lending revenues, resulting in uneven and often opaque outcomes for retail investors. Beyond differences in the revenue split between firms and individual investors, the underlying revenue base itself is not consistently defined: income received from borrowers may derive from securities-lending fees, interest earned on collateral, or a combination of both – when this is disclosed at all. In practice, these components are marketed under an "umbrella" notion of lending revenue.

Second, while some neobrokers provide clear opt-in mechanisms and basic reporting, others rely on default enrolment and limited disclosures. Third, risk visibility and conflicts of interest persist as structural weaknesses. Collateral is frequently presented as a comprehensive safety net, yet its quality, valuation, reinvestment, and counterparty exposure are rarely explained in a way that allows retail investors to assess residual risk. Default risk is therefore often framed as remote or purely theoretical, despite being an inherent feature of securities-lending arrangements. These limitations are compounded by conflicts of interest embedded in the model, notably the borrower's use of securities for short selling and the platform's central role in structuring and managing lending agreements.

Finally, shareholder disenfranchisement remains a largely unresolved issue. Share-recall mechanisms are too often treated as an afterthought, with lending continuity prioritised over voting record dates. In practice, recall may be delayed, operationally burdensome, or unavailable altogether. As highlighted in previous BETTER FINANCE work, many (neo)brokers remain ill-equipped to support effective voting, whether due to operational limitations or the structural constraints of securities lending itself. This undermines the practical exercise of shareholder rights under SRD II and weakens retail participation in corporate governance.

On the revenue aspect, within the UCITS framework, securities lending has long been recognised and regulated as an efficient portfolio management (EPM) technique, based on the principle that lending revenues should accrue to the fund and ultimately to investors. BETTER FINANCE's research has nevertheless shown that this principle has often been weakened in practice by securities-lending agent fees and opaque revenue-sharing structures, resulting in poor attribution of net benefits to retail investors.

In parallel, under traditional self-directed brokerage models, client securities could be lent at the discretion of intermediaries, with limited transparency and with most economic benefits retained by the broker. Neobrokers do not simply replicate this model: they explicitly transfer the decision to lend to the retail investor, while introducing income-sharing mechanisms.

Yet, this shift is not without merit: it can bring a previously under-explained practice into the open and – when designed well – can improve transparency and allow retail investors to share in revenues.

Profit sharing is therefore welcome, but not at all costs. Where retail investors are invited to opt into securities lending – and to bear counterparty, operational and shareholder-rights risks – such participation must be supported by meaningful transparency, fair income attribution and appropriate safeguards. Retail securities lending can therefore no longer be treated as an ancillary custody feature but should be recognised as a complex service embedded in the retail investment journey.

Therefore, while a subset of neobrokers has brought retail securities lending into greater visibility through profit-sharing arrangements and opt-in mechanisms, the wide variation observed reflects supervisory blind spots across EU regulatory frameworks, creating scope for regulatory arbitrage and uneven levels of investor understanding across those programmes.

Finally, EU frameworks address securities lending in pieces, and therefore, retail programmes sit in a "grey zone": while consent *may* be obtained, arrangement may also be treated as an "ancillary" feature, diluting safeguards. The real risks stem from the lending arrangement itself, while existing regimes do not translate into retail-usable disclosures that support informed decision-making. Moreover, value-for-money lens is essential for revenues extracted from client assets through lending schemes – especially when presented as "shared income" between firm and client. This points to the need for targeted EU-level measures to harmonise consent, disclosures, protections, and supervisory expectation.

Recommendations

To ensure that securities lending evolves into a fair and well-understood mechanism for retail participation, BETTER FINANCE recommends the following EU-level actions:

1. Clarify the MiFID II treatment of retail securities lending as a complex service

Securities lending involving retail investors – whether embedded as a traditional back-office practice by incumbent brokers or offered through direct opt-in retail securities-lending programmes by digital platforms – should be explicitly recognised as a distinct and complex market practice under MiFID II. At present, securities lending is often treated as an ancillary custody function, with unspecified duty of care; regardless of whether the practice is invisible to clients (traditional brokers) or presented as an extra in-app "toggle" (neobrokers). Regulatory ambiguity results in both an uneven playing field and inconsistent outcomes across business models. Supervisors should therefore assess the need for a harmonised MiFID II treatment (including an appropriateness requirement) to ensure that retail clients understand the suitability of mechanics, risks, and consequences of securities lending.

2. Mandate standalone and explicit opt-in consent in all cases

Consent to securities lending must be unbundled from general terms and conditions and cannot be embedded in the account-opening process by default. A specific opt-in should be required in all cases, irrespective of whether lending is presented as part of a revenue-sharing or yield-enhancement programme. To ensure genuine informed consent, firms should implement a "double-gate" mechanism: first, a standalone plain-language disclosure demystifying the mechanics and consequences; second, a specific, digitally recorded agreement.

3. Harmonise risk disclosures and clarify retail protections in stress, insolvency, and tax treatment: EU-level guidance should mandate standardised, decision-point disclosures enabling informed choice and comparability across platforms. Disclosures should clearly set out all material risks (including market, counterparty, collateral, recall, operational constraints, and impacts on shareholder rights) and avoid presenting collateralisation as a sufficient safeguard in itself. Regulators should also clarify asset-segregation and recovery arrangements, require firms to provide a warning as per the limits of Investor Compensation Schemes (ICS) situations where assets are on loan and title or segregation protections may not operate as retail investors expect. In addition, tax implications should be prominently disclosed, notably the risk of receiving “in-lieu” or manufactured dividends that may be subject to different or less favourable tax treatment than ordinary dividends.

4. Ensure fair revenue distribution (“value for money”): Platforms should be explicitly required to disclose ex ante cost efficiency records, and provide ex-post itemise gross lending revenues, operational and intermediary costs, and the net amount accruing to clients, allowing investors to assess whether their participation delivers fair value. Supervisors should give substance to the currently vague notion of “fair compensation” by addressing the clear imbalance between UCITS securities-lending standards (where income net of operational costs accrues to fund investors) and direct retail securities-lending programmes, where income attribution and transparency deviates and remain inconsistent.

5. Safeguard tradability, portability, and shareholder rights (recall-to-vote): Yield generation must not come at the expense of shareholder engagement or asset mobility. A strict recall-to-vote standard should be introduced, requiring platforms to offer automated, friction-free mechanisms for clients to recall shares ahead of general meetings and corporate actions, without penalties or loss of accrued income. In parallel, best practices should ensure that a security’s “lent” status does not impede tradability or portfolio transfer, preventing lock-in effects, settlement frictions, or barriers to switching providers.

6. Assess conflicts of interest against retail exposure risks: Regulators should explicitly assess the structural conflict of interest inherent in retail securities lending, where a broker’s duty of care may clash with revenues derived from facilitating short selling. Targeted supervisory scrutiny is needed to manage the tension between monetising lending activity and enabling speculative strategies that may amplify volatility (including short-squeeze dynamics), collateral stress, and counterparty risk borne by retail investors.

7. Empower investors to limit exposure and monitor key securities-lending risks: Retail investors should be granted meaningful, ongoing control over their participation in securities-lending programmes, beyond a binary opt-in or opt-out. Platforms should allow clients to set proportional exposure limits (e.g. by security, portfolio share, or time horizon) and to adjust or withdraw participation without penalty as market conditions evolve. To support informed monitoring, platforms should also provide accessible tools enabling investors to track whether assets are on loan and to understand, at a high level, how collateral coverage compares to the current value of lent securities (on a mark-to-market basis), alongside any material events affecting recalls, settlement, or income.

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